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# TRANSNATIONAL CORPORATIONS IN THE WORLD ECONOMY AND TRENDS IN FOREIGN DIRECT INVESTMENT TO DEVELOPING COUNTRIES IN PARTICULAR, INCLUDING THE INTERRELATIONSHIP OF INVESTMENT, TRADE, TECHNOLOGY AND DEVELOPMENT

## Trends in foreign direct investment

Report by the UNCTAD secretariat

SUMMARY

The universe of transnational corporations in the early 1990s was composed of at least 37,000 parent firms and 200,000 foreign affiliates. The activities of transnational corporations are concentrated among the 100 largest firms. Despite unfavourable world economic conditions, the top 100 transnational corporations continued to pursue international production opportunities, as seen in the increased proportion of their assets located abroad. Indeed, foreign-direct-investment (FDI) flows into developing countries continued to increase in 1992, in contrast to a decline in investment inflows into developed countries. Major factors behind these differing trends include recession or slow growth in developed countries and the decline of international mergers and acquisitions, contrasting with good economic performance, the implementation of privatization programmes and the emergence of open equity markets, which increased the opportunities for transnational corporations in developing countries. Investment inflows to developing countries increased further in 1993. The growth of FDI to developing countries is likely to be sustained in light of their economic conditions favourable to private sector development, combined with efforts of transnational corporations to obtain cost-competitive locations for production and new markets. The continuation of the foreign-direct-investment liberalization process will provide an overall enabling framework for the activities of transnational corporations in the 1990s.

* E/C.10/1994/1.

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## INTRODUCTION

1. At its nineteenth session, the Commission on Transnational Corporations requested the Secretary-General to prepare a report on trends in foreign direct investment (FDI) (see E/1993/30, chap. II, para. 19). The present report, prepared by the Programme on Transnational Corporations, is in response to that request. Chapter I examines recent trends in FDI and transnational corporations (TNCs) at the global level, including the activities of the largest 100 firms. The major factors behind recent trends are analysed in chapter II. The decline in world-wide investment flows and inflows to developed countries is explained in the context of the declining mergers-and-acquisitions activities by TNCs, while much of the continued growth of inflows to developing countries and those in Central and Eastern Europe is due to privatization programmes that have expanded the opportunities for FDI in these countries. Still another factor explaining the growth of inflows to developing countries is the emergence of capital markets that provide an additional source of finance for FDI in these countries, including finance induced through the privatization of State-owned enterprises. The sustainability of FDI flows to developing countries is examined in chapter III.

## I. GLOBAL TRENDS

### A. Foreign direct investment

2. The outstanding feature of FDI flows in 1992 and 1993 was their sustained increase into developing countries, to reach record levels of nearly $50 billion in 1992 and about $70 billion in 1993. Inflows grew by almost 20 per cent between 1991 and 1992 - a rate of growth that is not quite as high as the 24 per cent growth observed between 1990 and 1991 - but comparable to the rate of growth (18 per cent) achieved in the period 1986-1990. 1/ As a result, developing countries are accounting for a growing share of world-wide inflows: 31 per cent in 1992, a share unsurpassed in the period since 1970 except for 1982. 2/ In fact, the level of inflows in developing countries in 1993 was about the same level of inflows in developed countries in 1986. This increasing significance of developing countries as host countries for FDI occurred while investment flows into developed countries declined further (table 1). The regions of Asia and the Pacific and Latin America and the Caribbean - but not Africa - participated in the increase. The attractiveness of developing countries as a whole as host countries can largely be explained by the economic performance of many developing countries, contrasting with lingering recession or slow growth in developed countries, efforts of TNCs to find cost-efficient locations for international production and new dynamic markets, combined with the ongoing relaxation of investment restrictions, including the liberalization of capital markets and the implementation of privatization programmes open to foreign participation. Some of the more significant highlights by region are: 3/

Table 1. Inflows and outflows of foreign direct investment, 1981-1993 a/

| | 1981-1985 | 1986-1990 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 b/ | 1981-1985 | 1986-1990 | 1991 | 1992 | 1981-1985 | 1986-1990 | 1991 | 1992 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (Billions of United States dollars) | | | | | | | | Share in total (Percentage) | | | | Growth rate (Percentage) | | | |
| Developed countries | | | | | | | | | | | | | | | | |
| Inflows | 37 | 129 | 130 | 167 | 173 | 120 | 101 | .. | 74 | 84 | 74 | 66 | 2 | 23 | -31 | -16 |
| Outflows | 47 | 162 | 162 | 204 | 225 | 182 | 162 | 167 | 98 | 96 | 96 | 95 | 3 | 24 | -19 | -11 |
| Developing countries | | | | | | | | | | | | | | | | |
| Inflows | 13 | 25 | 28 | 27 | 32 | 39 | 47 | 70 | 26 | 16 | 24 | 31 | -4 | 18 | 24 | 19 |
| Outflows | 1 | 6 | 6 | 10 | 10 | 7 | 9 | 9 | 2 | 4 | 4 | 5 | 33 | 49 | -28 | 34 |
| Central and Eastern Europe | | | | | | | | | | | | | | | | |
| Inflows | 0.02 | 0.1 | 0.015 | 0.3 | 0.3 | 2 | 4 | .. | 0.04 | 0.1 | 1 | 3 | 1 | 90 | 716 | 85 |
| Outflows | 0.004 | 0.02 | 0.02 | 0.02 | 0.04 | 0.01 | 0.03 | .. | 0.01 | 0.01 | 0.01 | 0.02 | -11 | 19 | -73 | 161 |
| All countries | | | | | | | | | | | | | | | | |
| Inflows | 50 | 154 | 158 | 195 | 205 | 162 | 152 | .. | 100 | 100 | 100 | 100 | 0.1 | 22 | -21 | -6 |
| Outflows | 48 | 168 | 168 | 214 | 235 | 189 | 171 | 176 | 100 | 100 | 100 | 100 | 3 | 24 | -19 | -10 |

Source: United Nations Conference on Trade and Development, Programme on Transnational Corporations, based on United Nations Centre on Transnational Corporations, World Investment Directory 1992, vol. I, Asia and the Pacific (United Nations publication, Sales No. E.92.II.A.11); United Nations, Transnational Corporations and Management Division, World Investment Directory 1992, vol. II, Central and Eastern Europe (United Nations publication, Sales No. E.93.II.A.1); vol. III, Developed Countries (United Nations publication, Sales No. E.93.II.A.9); UNCTAD, Programme on Transnational Corporations, World Investment Directory 1992, vol. IV, Latin America and the Caribbean, vol. V, Africa and Western Asia, vol. VI, Global Volume (United Nations publication, forthcoming); International Monetary Fund, balance-of-payments tape, retrieved on 13 December 1993, and Organisation for Economic Cooperation and Development estimates.

a/ Annual average for the period 1981-1985 and 1986-1990.

b/ Based on preliminary estimates.

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

(a) Asia and the Pacific: Vibrant economies, flourishing domestic markets and low production costs combined with high productivity encouraged investments to flow to East and South-East Asia. China has emerged, with over $11.1 billion inflows, as the largest developing country recipient of investment flows in 1992, accounting for almost one quarter of total inflows to all developing countries. In 1993, investments in that country reached about $26 billion. The region accounted for 61 per cent of total inflows to developing countries in 1992.

(b) Latin America and the Caribbean: Economic reform leading to improved economic performance in, especially, Argentina, Chile, Mexico, Uruguay and Venezuela, together with continued efforts to attract TNCs through a further liberalization of investment regulations (including privatization programmes), contributed significantly to the re-emergence of the region as a major recipient of FDI. The region accounted for 31 per cent of total inflows to developing countries in 1992.

(c) Africa: Foreign direct investment in Africa as a whole, after a relatively good performance during the second half of the 1980s, ceased to grow noticeably during the early 1990s. As a result, the region's share in the total inflows of developing countries declined from 12 per cent to 7 per cent between these two periods. The average for the region masks a stagnation or decline of investments in many countries of sub-Saharan Africa, counterbalanced by the growth of investments in North African and oil-exporting countries.

3. The growth of FDI to developing countries has been unevenly distributed not only among regions but even more so among individual host countries. In fact, a further concentration of investments flows to developing countries can be observed for 1992: the 10 largest host countries received more than 81 per cent of all inflows (table 2), compared to 71 per cent in 1991 and an average of 68 per cent during 1981-1991. 4/ Even the exclusion of China shows the increasing geographical concentration of FDI within developing countries over the same time period: the 10 largest host developing countries (excluding China) accounted for 78 per cent of all inflows in 1992, compared to 67 per cent during 1981-1991. This implies that the largest host developing countries succeeded in attracting a disproportionally larger share of FDI inflows, underlining in particular the importance of large markets as well as growing economies. On the other hand, flows of investment to the least developed countries declined by 15 per cent in 1992, to $276 million (about the size of inflows to Pakistan), and their share of total inflows to developing countries declined from 0.8 per cent in 1991 to 0.6 per cent in 1992.

4. The countries of Central and Eastern Europe continued to attract an increasing amount of investment in the 1990s, despite a deceleration in the pace of such growth in 1991 and 1992, due to the economic slowdown in that region as well as recessionary conditions or slow growth in the home countries of the major investors. Potentially large domestic markets (when growth resumes and more progress has been made in the transition to market economies), proximity to Western European markets, low wages, low production costs, natural resources (in some countries) and the privatization of State-owned enterprises are factors that have induced investment in the region, and are likely to do so in the

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future. Central and Eastern Europe accounted for almost three per cent of world-wide inflows of FDI in 1992. However, investment flows are unevenly distributed among the countries of the region, reflecting, among other things, different levels of development and different rates of progress in the establishment of market economies and the institutions needed to sustain them.

Table 2. The 10 largest host developing economies to foreign-direct-investment flows, 1981-1991 and 1992

(Millions of United States dollars and percentage)

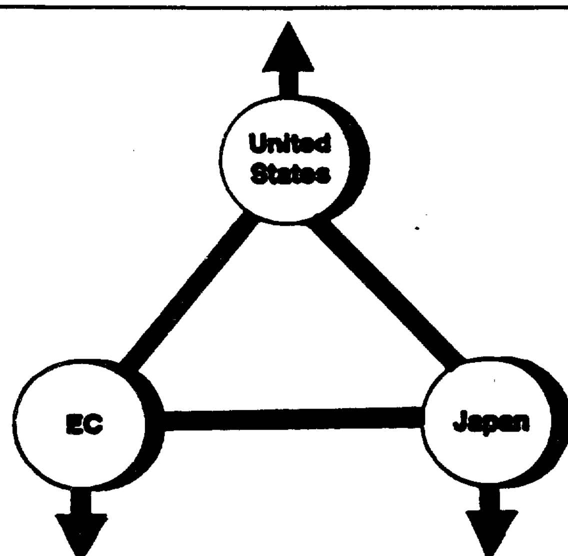
| Host economy | 1981-1991 (annual average) | Host economy | 1992 |
|---|---|---|---|
| Singapore | 2 489 | China | 11 156 |
| Mexico | 2 148 | Singapore | 5 635 |
| China | 2 080 | Mexico | 5 366 |
| Brazil | 1 599 | Argentina | 4 179 |
| Malaysia | 1 374 | Malaysia | 4 118 |
| Hong Kong | 1 275 | Thailand | 2 116 |
| Argentina | 858 | Indonesia | 1 774 |
| Thailand | 850 | Brazil | 1 454 |
| Egypt | 821 | Hong Kong | 1 282 |
| Taiwan Province of China | 650 | Nigeria | 897 |
| All developing economies | 20 868 | | 46 786 |
| Percentage share of total inflows to developing countries | 68 | | 81 |

Source: United Nations Conference on Trade and Development, Programme on Transnational Corporations, based on International Monetary Fund, balance-of-payments tape, retrieved on 13 December 1993, and Organisation for Economic Cooperation and Development estimates.

5. The Triad continues to dominate the inward FDI of the developing regions and Central and Eastern Europe; hence the cluster pattern noted in the World Investment Report 1991 continued to be observed in the early 1990s (figure 1). The United States remained the major investor in most of Latin America and a few Asian and Pacific countries. The European Community retained dominance in

**Figure 1. Foreign-direct-investment clusters of Triad members, 1991**
(Economies in which a Triad member dominates
inward foreign-direct-investment stocks and/or flows)

| *Latin America and Caribbean* | | *Asia and the Pacific* | *Africa and West Asia* |
|---|---|---|---|
| Argentina [b] | El Salvador [ab] | Bangladesh [a] | Egypt [b] |
| Bolivia [ab] | Honduras [b] | India [a] | Ghana [b] |
| Chile [ab] | Mexico [ab] | Pakistan [a] | Nigeria [a] |
| Colombia [ab] | Panama [b] | Philippines [ab] | Saudi Arabia [ab] |
| Dominican Republic [b] | Peru [b] | Taiwan Province of China [b] | |
| Ecuador [b] | Venezuela [ab] | Papua New Guinea [ab] | |




| *Central and Eastern Europe* | *Africa and West Asia* |
|---|---|
| USSR [ab] | Egypt [a] |
| Czechoslovakia [ab] | Ghana [a] |
| Hungary [ab] | Kenya [ab] |
| Poland [ab] | Morocco [ab] |
| Slovenia [b] | Nigeria [b] |
| Yugoslavia [ab] | Tunisia [ab] |
| | Zambia [a] |
| | Jordan [b] |
| ***Latin America and Caribbean*** | ***Asia and the Pacific*** |
| Brazil [ab] | Bangladesh [b] |
| Paraguay [ab] | India [b] |
| Uruguay [ab] | Sri Lanka [b] |

| *Asia and the Pacific* |
|---|
| Hong Kong [a] |
| Malaysia [a] |
| Republic of Korea [ab] |
| Singapore [a] |
| Sri Lanka [a] |
| Taiwan Province of China [a] |
| Thailand [a] |
| Fiji [a] |

*Source:* UNCTAD Programme on Transnational Corporations, foreign-direct-investment database.

a In terms of average inward FDI flows, 1987-1991.
b In terms of inward FDI stock for 1991.

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Central and Eastern Europe, Africa and West Asia and in a few countries in Latin America and South Asia. A majority of the inward FDI of a number of countries of the Asia-Pacific region (including the fastest-growing newly-industrializing economies) are accounted for by Japan.

6. Inflows to developed countries continued to decline in 1992, although at a less steep pace (16 per cent) than the rate of decline observed in 1991 (31 per cent). The decline in FDI flows in developed countries in the 1990s is mostly a consequence of poor economic performance resulting from a cyclical downswing in economic activity. The main highlights are the following:

(a) North America: Sluggish economic growth at the beginning of the 1990s discouraged TNCs from investing in the United States. A low profitability of investments in the United States and economic problems in Japan were factors contributing to the dramatic fall (63 per cent) of Japanese investment flows into the United States in 1992. 5/ In addition, mergers and acquisitions have declined drastically in the United States in the period since 1990. As a result, inflows to the United States in 1992 - at $2.4 billion - were less than 10 per cent of the level in 1991.

(b) Western Europe: In contrast to the 27 per cent decline in inflows experienced by the European Community in 1991, inflows grew at 8 per cent in 1992, to reach more than $78 billion. France experienced the strongest growth of inflows in 1992, while Belgium and Luxembourg had modest growth. In addition, after a more than 62 per cent and 50 per cent decline in inflows in 1991 to Italy and the United Kingdom, respectively, inflows recovered strongly in the case of Italy and modestly in the case of the United Kingdom in 1992. However, other Western European countries experienced a large decline in inflows which was due almost solely to the situation in Sweden. Western Europe as a whole accounted for more than 81 per cent of total inflows to developed countries in 1992.

(c) Japan: The country received over $2.7 billion inflows in 1992, a near-doubling from 1991. Despite this growth, however, Japan accounted for less than 3 per cent of total inflows to developed countries in 1992.

(d) Other developed countries: The overall level of inflows to these countries declined in 1992, owing largely to a sharp decline of inflows to New Zealand. Other developed countries accounted for 6 per cent of total inflows to developed countries in 1992.

7. The further decline in world-wide outflows of FDI in 1992 to $171 billion, from a level of $235 billion in 1990 and $189 billion in 1991, represents the second consecutive downturn since 1982. The decline in 1992, although at a slower pace than in 1991, resulted from continued recessionary or slow-growth conditions in major home countries (see sect. II). Large decreases in outflows took place for the second consecutive year in Japan (which accounted for 74 per cent of the world-wide decline and a substantial proportion of the decline from the five major home countries), Germany, Sweden and, to a lesser extent, the Netherlands and the United Kingdom. A number of other home countries (Australia, Canada, Norway, Spain and Switzerland) also registered a significant decrease of outflows in 1992, in marked contrast with 1991 when

these countries experienced growing outflows. 6/ By contrast, the United States experienced a significant increase in its outflows in 1992 over 1991, when the country's level of outflows just matched that of 1990. As a result, the level of outflows from the five major home countries declined less steeply at 7 per cent in 1992 (compared to 23 per cent decline in 1991), to reach $113 billion. Notwithstanding the recent trends, these countries continue to account for two thirds of world-wide outflows - a share not significantly different from their share during the 1980s. Preliminary estimates for 1993 show that the level of outflows from the five major home countries may have increased slightly: their outflows in that year are estimated to have been in the region of $119 billion (table 3).

8. Outflows from developing countries recovered in 1992 after their decline in 1991, to reach $9 billion, a level close to that attained in 1989 and 1990 (table 1). However, almost 90 per cent of these outflows are accounted for by the four Asian newly-industrializing economies and China. As a result, the share of developing countries in world investment outflows in 1992 increased to 5 per cent, compared to 2 per cent in 1981-1985 and 4 per cent in the period 1986-1991.

9. The trend towards the increasing importance of the services sector in FDI continued in the early 1990s. 7/ Data on the outward FDI stock of the five major home countries are indicative of this trend (table 4). Clearly, the services sector is the largest FDI sector of the five major home countries, accounting for between 46 per cent and 66 per cent at the beginning of the 1990s, compared to between 35 per cent and 53 per cent in the mid-1980s. A considerable proportion of FDI in recent years has been undertaken by financial affiliates of TNCs in manufacturing or trading. 8/

10. As long as FDI flows are positive, the world-wide FDI stock - a measure of the productive capacity of TNCs - continues to increase; it reached $2.2 trillion in estimated book value in 1993 (table 5). The rate of growth of world-wide FDI stock in 1992 was three times that of world-wide exports of goods and non-factor services, and about twice that of world-wide gross domestic product, gross domestic investment and receipts for technology payments (table 6). 9/ Foreign-direct-investment inflows in developing countries have begun to grow significantly faster than exports of goods and non-factor services, at 18 per cent versus 13 per cent in 1986-1990, and 24 per cent versus 4 per cent in 1991. Furthermore, foreign affiliates of TNCs generated world-wide sales of more than $4.8 trillion in 1991, compared to world exports of goods and non-factor services of $4.5 trillion ($3 trillion, excluding intra-firm trade). 10/ Thus, the relative importance of FDI in the world economy continues to increase.

11. The above comparison of the relative importance of FDI to exports does not take into account the fact that TNCs account for a significant proportion of world trade - not only through arms-length trade but also through intra-firm trade. In addition, a large proportion of total receipts and payments for technology are accounted for by TNCs. In fact, the increasing importance of cross-border technology receipts and payments by TNCs is evidence that, in the development of technologies, firms cannot rely solely on their home markets. 11/

Table 3. Outflows of foreign direct investment from the five major home countries, 1981 - 1993 a/

| Country | 1981-1985 | 1986-1990 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 b/ | 1981-1985 | 1986-1990 | 1991 | 1992 | 1993 | 1981-1985 | 1986-1990 | 1991 | 1992 | 1993 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (Billions of dollars) | | | | | | | | Share in total (Percentage) | | | | | Growth rate (Percentage) | | | | |
| France c/ | 3 | 17 | 14 | 19 | 35 | 24 | 31 | 25 d/ | 6 | 10 | 13 | 18 | 14 | - 17 | 45 | - 31 | 29 | - 19 |
| Germany | 4 | 16 | 13 | 18 | 29 | 22 | 16 | 14 e/ | 9 | 9 | 12 | 9 | 8 | 13 | 27 | - 22 | - 29 | - 12 |
| Japan c/ | 5 | 32 | 34 | 44 | 48 | 31 | 17 | 14 f/ | 11 | 19 | 16 | 10 | 8 | 8 | 32 | - 36 | - 4 | - 17 |
| United Kingdom | 9 | 28 | 37 | 35 | 18 | 16 | 15 | 25 d/ | 19 | 17 | 9 | 9 | 14 | - 2 | 2 | - 7 | - 11 | 67 |
| United States g/ | 11 | 22 | 14 | 26 | 29 | 29 | 35 | 40 e/ | 23 | 13 | 15 | 20 | 22 | - 4 | 16 | - 0.4 | 19 | 9 |
| Total h/ | 32 | 114 | 113 | 143 | 159 | 123 | 113 | 119 | 67 | 68 | 65 | 66 | 66 | .01 | 23 | - 23 | - 7 | 3 |

Source: United Nations Conference on Trade and Development, Programme on Transnational Corporations, based on United Nations, Transnational Corporations and Management Division, World Investment Directory 1992, vol. III, Developed Countries (United Nations publication, Sales No. E.93.II.A.9); IMF, balance-of-payments tape, retrieved on 13 December 1993.

a/ Annual average for the period 1981-1985 and 1986-1990.
b/ Based on preliminary estimates.
c/ Not including reinvested earnings. In the case of France, reinvested earnings are not reported after 1982.
d/ Estimates based on outflows in the first quarter of 1993.
e/ Estimates based on outflows in the first three quarters of 1993.
f/ Estimates based on outflows in the first half of 1993.
g/ Excluding outflows to the finance (except banking), insurance and real estate industries of the Netherlands Antilles. Also excludes currency-translation adjustments.
h/ Totals may not add up, due to rounding.

**Table 4. Sectoral composition of outward foreign-direct-investment stock of the major home countries, 1985-1992**

(Percentage)

| Home country | Year | Primary sector | Secondary sector | Tertiary sector | Total |
|---|---|---|---|---|---|
| France | 1991 | 9 | 44 | 47 | 100 |
| | 1987 | 4 | 50 | 46 | 100 |
| Germany | 1991 | 2 | 42 | 56 | 100 |
| | 1985 | 4 | 43 | 53 | 100 |
| Japan | 1991 | 6 | 27 | 66 | 100 b/ |
| | 1985 | 17 | 29 | 52 | 100 b/ |
| United Kingdom | 1991 | 18 | 36 | 46 | 100 |
| | 1984 | 33 | 32 | 35 | 100 |
| United States a/ | 1992 | 7 | 42 | 51 | 100 |
| | 1985 | 15 | 44 | 41 | 100 |

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

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

b/ Includes unallocated industries.

**Table 5. Stock of foreign direct investment, by country and region, 1988-1993**

(Billions of United States dollars)

| Region/country | Year | | | | | |
|---|---|---|---|---|---|---|
| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 a/ |
| A. Outward | | | | | | |
| France b/ | 51 | 75 | 110 | 130 | 161 | 186 |
| Germany | 104 | 121 | 152 | 171 | 187 | 201 |
| Japan b/ | 112 | 156 | 204 | 235 | 252 | 266 |
| United Kingdom | 184 | 204 | 229 | 237 | 252 | 277 |
| United States c/ | 346 | 390 | 432 | 467 | 489 | 529 |
| World | 1 179 | 1 393 | 1 628 | 1 817 | 1 988 | 2 165 |
| B. Inward | | | | | | |
| Developed countries | 909 | 1 093 | 1 291 | 1 432 | 1 545 | .. |
| Western Europe | 412 | 509 | 634 | 729 | 821 | - |
| North America | 401 | 478 | 538 | 574 | 586 | - |
| Other developed countries | 96 | 106 | 119 | 128 | 138 | .. |
| Developing economies | 245 | 275 | 311 | 357 | 410 | .. |
| Africa | 25 | 30 | 33 | 36 | 39 | - |
| Latin America and the Caribbean | 98 | 105 | 115 | 132 | 149 | .. |
| East, South and South-East Asia | 123 | 140 | 163 | 187 | 219 | .. |
| Central and Eastern Europe | - | - | - | - | - | - |
| World | 1 154 | 1 368 | 1 603 | 1 792 | 1 963 | .. |

Source: United Nations Conference on Trade and Development, Programme on Transnational Corporations, World Investment Directory, volume VI, Global Volume (Geneva, United Nations, forthcoming).

a/ Estimated.

b/ Not including reinvested earnings.

c/ Excluding outward FDI to the finance (except banking), insurance and real estate industries of the Netherlands Antilles.

Table 6. World-wide foreign direct investment and selected economic indicators, 1992, and growth rates for 1981-1985, 1986-1990, 1991 and 1992

| Indicator | Value at current prices, 1992 (Billions of United States dollars) | Annual growth rate (Percentage) | | | |
|---|---|---|---|---|---|
| | | 1981-1985 | 1986-1990 | 1991 | 1992 |
| Foreign-direct-investment outflows | 171 | 3 | 24 | -19 | -10 |
| Foreign-direct-investment stock | 2 200 | 5 | 11 | 12 | 9 |
| Sales of foreign affiliates of transnational corporations a/ | 4 800 b/ | 2 c/ | 15 | -13 | .. |
| Current gross domestic product at factor cost | 23 300 | 2 | 9 | 4 | 5 |
| Gross domestic investment | 5 120 | 0.4 | 10 | 4 | 5 |
| Exports of goods and non-factor services | 4 500 b/ | -0.2 | 13 | 3 | .. |
| Royalties and fees receipts | 37 | 0.1 | 19 | 8 | 5 |

Source: UNCTAD, Programme on Transnational Corporations, based on IMF, balance-of-payments tape, retrieved on 13 December 1993; UNCTAD, Programme on Transnational Corporations, World Investment Directory, volume VI, Global Volume (Geneva, United Nations, forthcoming); and unpublished data provided by the World Bank, International Economics Department.

a/ Estimated by extrapolating the sales of foreign affiliates of TNCs from Germany, Japan and the United States on the basis of the relative importance of these countries in world-wide outward FDI stock.

b/ For 1991.

c/ For 1982-1985.

The pivotal role of TNCs in FDI, trade and technology underscores the interrelationships that exist between these types of international economic transactions.

## B. Transnational corporations

### 1. Size and characteristics

12. The world-wide networks of TNCs provide another indication of the importance of FDI. In the early 1990s, the universe of TNCs was composed of at least 37,000 parent firms and some 200,000 foreign affiliates (table 7). Over 90 per cent of the parent firms are based in the developed countries - a finding broadly comparable to their share of outward FDI flows. On the other hand, developing countries accounted for under half of the number of foreign affiliates located in host countries, a proportion significantly higher than their share of world-wide investment inflows. This finding may be explained by the different orders of magnitude of investments relative to the number of foreign affiliates in developed and developing countries; generally, the relative size of investments in developed countries is higher than that in developing countries.

13. Despite the wide span of the global networks of TNCs, the top 100 firms continue to account for an overwhelming proportion of the world-wide activities of the universe of TNCs. The importance of these 100 largest TNCs, ranked by the size of their foreign assets, is examined in the next section.

**Table 7. Number of parent transnational corporations and foreign affiliates, by area and country, early 1990s**

| Area/economy | Parent corporations based in country | Foreign affiliates located in country a/ | Year |
|---|---|---|---|
| **Developed countries** | 33 878 | 84 468 | |
| Australia | 1 036 | 695 | 1992 |
| Austria | 679 | 2 221 | 1990 |
| Belgium and Luxembourg | 96 | 1 121 | 1978 |
| Canada | 1 396 | 5 874 | 1991 |
| Denmark | 800 | 647 b/ | 1992 |
| Finland | 1 300 | 1 300 | 1993 |
| France | 2 218 | 7 610 | 1991 |
| Germany | 7 095 | 11 869 | 1991 |
| Greece | .. | 798 | 1981 |
| Iceland | 14 c/ | 28 | 1991 |
| Ireland | 36 | 1 007 | 1991 |
| Italy | 263 | 1 438 | 1992 |
| Japan | 3 640 d/ | 3 125 e/ | 1992 |
| Netherlands | 1 608 f/ | 2 259 f/ | 1993 |
| New Zealand | 201 | 1 078 | 1991 |
| Norway | 1 100 g/ | 2 700 | 1992 |
| Portugal | 684 | 6 680 | 1992 |
| South Africa | .. | 1 884 | 1978 |
| Spain | 744 | 6 232 | 1992 |
| Sweden | 3 529 | 2 400 | 1991 |
| Switzerland | 3 000 | 4 000 | 1985 |
| Turkey | .. | 267 | 1989 |
| United Kingdom | 1 467 h/ | 3 894 i/ | 1992 |
| United States | 2 972 j/ | 15 341 k/ | 1991 |
| **Developing economies** | 2 850 | 95 888 | |
| Brazil | 566 | 8 576 | 1992 |
| China | 379 c/ | 45 000 | 1993 |
| Colombia | .. | 1 041 | 1987 |
| Hong Kong | 500 | 2 828 | 1991 |
| India | 187 | 926 l/ | 1991 |
| Indonesia | .. | 1 064 | 1988 |
| Mexico | .. | 6 978 | 1992 |

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| Area/economy | Parent corporations based in country | Foreign affiliates located in country a/ | Year |
|---|---|---|---|
| Oman | .. | 1 489 | 1989 |
| Pakistan | 57 | 560 m/ | 1988 |
| Philippines | .. | 1 952 | 1987 |
| Republic of Korea | 1 049 | 3 671 | 1991 |
| Saudi Arabia | .. | 1 461 | 1989 |
| Singapore | .. | 10 709 | 1986 |
| Taiwan Province of China | .. | 5 733 | 1990 |
| Former Yugoslavia | 112 | 3 900 | 1991 |
| **Central and Eastern Europe n/** | 400 | 21 800 | |
| Bulgaria | 26 | 114 o/ | 1991 |
| Commonwealth of Independent States p/ | 68 g/ | 3 900 | 1992 |
| Former Czechoslovakia | 26 g/ | 800 | 1992 |
| Hungary | 66 g/ | 2 400 | 1992 |
| Poland | 58 g/ | 3 800 | 1992 |
| Romania | 20 g/ | 6 900 | 1992 |
| Others | 136 | 3 886 | 1992 |
| **World** | 37 128 | 202 156 | |

Source: United Nations Conference on Trade and Development, Programme on Transnational Corporations, based on United Nations Centre on Transnational Corporations, World Investment Directory 1992, vol. I, Asia and the Pacific (United Nations publication, Sales No. E.92.II.A.11); United Nations, Transnational Corporations and Management Division, World Investment Directory 1992, vol. II, Central and Eastern Europe (United Nations publication, Sales No. E.93.II.A.1); vol. III, Developed Countries (United Nations publication, Sales No. E.93.II.A.9); and national official and secondary sources.

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

b/ For 1986.

c/ For 1989.

d/ As of October 1992.

e/ As of November 1992.

f/ As of October.

g/ For 1991.

h/ Represents a total of 24 bank parents and 1,443 non-bank parents in 1991.

i/ Represents 518 foreign affiliates in banking in 1992 and 3,376 non-bank foreign affiliates in 1991.

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

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

l/ For 1988.

m/ For 1987.

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

o/ For 1990.

p/ Relates to the whole of the economic territory of the former Union of Soviet Socialist Republics.

## 2. The top 100 transnational corporations

14. Despite the large and growing number of TNCs and affiliates, ownership and the control of assets abroad tend to be concentrated in TNCs from the five major home countries. The world's largest TNCs exercise a considerable impact on output, demand patterns, employment, technology and industry structure. In absolute terms alone. the largest 100 TNCs (excluding those in banking and finance) controlled $3.3 trillion in global assets in 1991, of which an estimated $1.3 trillion were outside their respective home countries (table 8). These companies are estimated to account for about a third of the combined outward FDI stock of their countries in recent years.

15. Overall growth in the early 1990s has been constrained by unfavourable world economic conditions. However, the largest companies have actively been seeking international production opportunities, locating a substantial proportion of their activities outside of their home countries. The top 100 TNCs had, on average, 40 per cent (36 per cent in 1990) of their assets located abroad in 1991. For the largest TNCs (in terms of assets), this ratio tends to be higher: for the top 10, foreign assets represented over 54 per cent of total assets.

16. In 1991, foreign assets showed a nominal increase of 6 per cent over the previous year, while total assets rose nominally by 3 per cent. 12/ It should be noted, however, that a comparison of the value of assets between different years is made difficult by the changing membership of firms in the list. In fact, between 1989 to 1991, no fewer than 10 companies exited the list. 13/ This volatility in the ranking is consistent with annual rankings reported in other publications. For example, approximately 40 per cent of the Fortune 500 companies exited the list during the 1980s. In the case of the present ranking, these changes are mostly attributable to mergers, acquisitions and divestitures.

17. The growth of foreign assets among the top 100 has also been uneven (table 9). For the firms for which foreign assets declined, this process has been accompanied by a parallel reduction of total assets, mainly reflecting divestitures and reduced production in response to weak demand world wide. By the same token, the growth of foreign assets appears to be correlated with increasing foreign sales at the company level. However, the share of foreign sales in total sales is generally higher than the share of foreign assets in total assets. The share of foreign assets in total assets varies both across countries and industries.

18. As shown in figure 2, all of the world's 100 largest TNCs are based in developed countries. A total of 53 are based in Western Europe, 27 in the United States, 14 in Japan, and the remaining in Australia, Canada or New Zealand. Transnational corporations from the five major home countries controlled the largest assets abroad. However, firms from smaller economies, such as Belgium, the Netherlands, Sweden and Switzerland, have a larger share of their assets in foreign countries, as their limited domestic markets constitute a far greater incentive to expand abroad. For example, the group Solvay (Belgium) located 90 per cent of total assets abroad, and employed there 90 per cent of its total 45,000 employees.

Table 8. The top 100 transnational corporations ranked by foreign assets, 1991

| Rank | Corporation | Country | Industry a/ | Foreign assets | Total assets | Foreign sales | Total sales | Foreign employ-ment | Total employ-ment |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (Billions of dollars and thousands of employees) | | | | | |
| 1 | Royal Dutch Shell b/ | United Kingdom/Netherlands | Petroleum refining | 69.8 | 105.5 | 13.1 | 19.1 | 96.0 | 133.0 |
| 2 | Exxon | United States | Petroleum refining | 51.1 | 87.6 | 90.8 | 115.1 | 61.0 | 101.0 |
| 3 | IBM | United States | Computers | 51.1 | 92.5 | 40.4 | 64.8 | 167.9 | 373.8 |
| 4 | Ford | United States | Motor vehicles and parts | 46.9 | 174.4 | 33.1 | 88.3 | 180.9 | 332.7 |
| 5 | General Motors | United States | Motor vehicles and parts | 41.1 | 184.3 | 39.1 | 123.1 | 270.0 | 756.0 |
| 6 | British Petroleum | United Kingdom | Petroleum refining | 38.1 | 59.5 | 24.2 | 30.5 | 87.2 | 118.0 |
| 7 | Alcatel Alsthom | France | Electronics | 31.4 | 44.6 | 19.3 | 28.4 | 92.5 | 205.5 |
| 8 | Matsushita Electric | Japan | Electronics | 29.1 | 67.8 | 27.0 | 56.0 | 92.2 | 242.2 |
| 9 | Nestle c/ | Switzerland | Food | .. | 28.9 | 34.5 | 35.2 | 192.1 | 201.1 |
| 10 | Asea Brown Boveri | Switzerland | Industrial and farm equipment | 24.9 | 28.1 | 28.1 | 28.9 | 199.8 | 214.4 |
| 11 | Siemens c/ | Germany | Electronics | .. | 45.7 | 25.4 | 44.0 | 160.0 | 402.0 |
| 12 | Philips Electronics | Netherlands | Electronics | 23.3 | 29.1 | 28.8 | 30.5 | 217.1 | 272.0 |
| 13 | Mobil | United States | Petroleum refining | 21.7 | 42.2 | 41.7 | 56.0 | 27.6 | 67.5 |
| 14 | Unilever | United Kingdom/Netherlands | Food | 20.3 | 25.4 | 32.6 | 40.8 | 252.2 | 292.2 |
| 15 | Bayer | Germany | Chemicals | 19.6 | 25.0 | 20.0 | 25.6 | .. | 164.2 |
| 16 | Fiat | Italy | Motor vehicles and parts | 19.5 | 69.7 | 21.0 | 45.5 | 66.7 | 288.0 |
| 17 | Volkswagen | Germany | Motor vehicles and parts | 19.2 | 46.2 | 24.1 | 45.9 | 110.0 | 265.6 |
| 18 | Sony | Japan | Electronics | 19.1 | 34.6 | 18.2 | 27.4 | 65.5 | 119.0 |
| 19 | General Electric | United States | Electronics | 19.0 | 166.5 | 8.7 | 59.4 | 63.0 | 284.0 |
| 20 | Mitsubishi c/ | Japan | Trading | .. | 89.6 | 33.8 | 146.4 | .. | 32.4 |
| 21 | Elf Aquitaine d/ | France | Petroleum refining | .. | 46.6 | 11.4 | 35.7 | 34.0 | 86.9 |
| 22 | Du Pont b/ | United States | Chemicals | 16.0 | 38.9 | 17.5 | 37.8 | 36.4 | 124.9 |
| 23 | Toyota | Japan | Motor vehicles and parts | 16.0 | 65.1 | 19.8 | 71.4 | 13.9 | 102.4 |
| 24 | Michelin c/ | France | Rubber and plastics | .. | 21.1 | 9.7 | 12.0 | 87.0 | 124.0 |

/...

| Rank | Corporation | Country | Industry a/ | Foreign assets | Total assets | Foreign sales | Total sales | Foreign employ-ment | Total employ-ment |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (Billions of dollars and thousands of employees) | | | | | |
| 25 | Hitachi c/, d/ | Japan | Electronics | .. | 66.6 | 13.8 | 58.4 | .. | 331.5 |
| 26 | BASF c/ | Germany | Chemicals | .. | 24.7 | .. | 12.3 | 29.3 | 128.1 |
| 27 | News Corporation b/ | Australia | Publishing and printing | 14.6 | 20.7 | 4.6 | 5.7 | .. | 38.4 |
| 28 | Ciba-Geigy c/ | Switzerland | Chemicals | .. | 21.1 | 8.2 | 14.7 | 69.0 | 91.7 |
| 29 | Rhone-Poulenc | France | Chemical and pharmaceutical | 13.4 | 21.8 | 12.5 | 16.1 | 41.7 | 83.3 |
| 30 | Chrysler c/ | United States | Motor vehicles and parts | .. | 43.1 | 9.6 | 29.4 | 30.7 | 99.9 |
| 31 | B.A.T. Industries | United Kingdom | Tobacco | 13.1 | 41.2 | 24.3 | 31.3 | 190.1 | 205.6 |
| 32 | Nissan Motor | Japan | Motor vehicles and parts | 12.7 | 53.2 | 22.8 | 48.3 | 34.5 | 143.9 |
| 33 | Philip Morris | United States | Food | 12.1 | 47.4 | 18.6 | 56.5 | 68.0 | 166.0 |
| 34 | Sandoz | Switzerland | Pharmaceuticals | 11.0 | 12.5 | 8.9 | 9.3 | 45.8 | 53.4 |
| 35 | Dow Chemical | United States | Chemicals. | 10.9 | 24.7 | 9.7 | 18.8 | 28.3 | 62.2 |
| 36 | Total c/, d/ | France | Petroleum refining | .. | 22.0 | 16.7 | 25.3 | 23.8 | 49.4 |
| 37 | ICI d/ | United Kingdom | Chemicals | .. | 20.8 | 17.7 | 23.0 | 78.4 | 132.1 |
| 38 | Volvo | Sweden | Motor vehicles and parts | 10.5 | 19.3 | 11.0 | 12.8 | 20.6 | 63.6 |
| 39 | Grand Metropolitan d/ | United Kingdom | Food | .. | 17.2 | 7.8 | 15.5 | .. | 138.1 |
| 40 | Procter & Gamble | United States | Soaps and cosmetics | 10.4 | 24.0 | 14.5 | 29.4 | 58.6 | 106.2 |
| 41 | Daimler-Benz c/ | Germany | Transport and communication | .. | 53.8 | 33.3 | 57.3 | 73.4 | 381.5 |
| 42 | Itochu Corporation | Japan | Trading | 10.3 | 42.8 | 4.4 | 151.1 | 3.3 | 7.3 |
| 43 | Eastman Kodak c/ | United States | Scientific and photo. equipment | .. | 24.2 | 6.0 | 19.4 | 56.3 | 133.2 |
| 44 | Hanson c/ | United Kingdom | Building materials | .. | 31.0 | 6.8 | 13.6 | 54.0 | 75.0 |
| 45 | Saint-Bogain d/ | France | Building materials | 9.9 | 17.6 | 7.8 | 12.7 | 69.7 | 105.0 |
| 46 | Xerox c/ | United States | Scientific and photo. equipment | .. | 32.3 | 8.0 | 17.7 | .. | 109.4 |

/...

| Rank | Corporation | Country | Industry a/ | Foreign assets | Total assets | Foreign sales | Total sales | Foreign employ-ment | Total employ-ment |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (Billions of dollars and thousands of employees) | | | | | |
| 47 | Amoco | United States | Petroleum refining | 9.7 | 30.5 | 8.1 | 25.3 | 9.9 | 54.1 |
| 48 | Honda c/ | Japan | Motor vehicles and parts | .. | 22.2 | 20.4 | 31.9 | .. | 90.9 |
| 49 | Hoechst | Germany | Chemicals | 9.1 | 23.6 | 21.4 | 28.4 | 89.8 | 179.3 |
| 50 | Bridgestone c/ | Japan | Rubber and plastics | .. | 14.5 | 7.6 | 14.1 | 52.0 | 83.1 |
| 51 | ENI c/ | Italy | Petroleum refining | .. | 64.0 | 16.0 | 44.2 | 23.1 | 131.2 |
| 52 | NEC Corporation | Japan | Electronics | 9.0 | 29.5 | 6.4 | 27.5 | 0.0 | 118.0 |
| 53 | Generale Des Eaux f/ | France | Construction | 8.9 | 32.8 | 6.5 | 23.9 | 68.5 | 198.6 |
| 54 | Texaco | United States | Petroleum refining | 8.8 | 26.2 | 16.6 | 37.3 | 14.0 | 40.2 |
| 56 | RTZ | United Kingdom | Mining and crude-oil production | 8.4 | 9.1 | 6.9 | 8.7 | 59.4 | 73.5 |
| 57 | Stora | Sweden | Forestry products | 8.4 | 15.0 | 9.4 | 11.6 | 46.4 | 66.8 |
| 58 | Toshiba c/ | Japan | Electronics | .. | 43.0 | 10.2 | 35.1 | 28.0 | 168.0 |
| 59 | Petrofina c/ | Belgium | Petroleum refining | .. | 11.5 | 4.3 | 19.1 | 11.5 | 17.1 |
| 60 | Electrolux c/, d/ | Sweden | Electronics | .. | 11.3 | 11.7 | 13.1 | 116.2 | 134.2 |
| 61 | Chevron | United States | Petroleum refining | 7.9 | 34.6 | 15.5 | 36.5 | 9.9 | 55.1 |
| 62 | Thomson Corporation | Canada | Publishing and printing | 7.7 | 8.2 | 5.0 | 5.6 | 39.4 | 45.8 |
| 63 | Solvay | Belgium | Chemicals | 7.6 | 8.6 | 7.4 | 7.9 | 40.5 | 45.6 |
| 64 | ITT d/ | United States | Diversified services | .. | 49.0 | 6.5 | 20.6 | .. | 114.0 |
| 65 | Tenneco | United States | Industrial and farm equipment | 7.2 | 26.0 | 4.1 | 13.7 | .. | 89.0 |
| 66 | Marubeni | Japan | Trading | 7.1 | 65.9 | 40.8 | 138.8 | .. | 9.9 |
| 67 | Seagram | Canada | Beverages | 7.0 | 11.9 | 6.2 | 6.3 | .. | 16.8 |
| 68 | Digital Equipment | United States | Computers | 6.8 | 11.9 | 8.4 | 13.9 | 60.1 | 121.0 |
| 69 | Alcan Aluminum | Canada | Metal products | 6.7 | 10.8 | 4.9 | 7.8 | 39.0 | 54.0 |
| 70 | Holderbank | Switzerland | Building materials | 6.6 | 7.1 | 4.4 | 4.8 | 30.1 | 32.2 |
| 71 | Roche Holdings | Switzerland | Pharmaceuticals | 6.6 | 18.6 | 7.7 | 8.0 | 44.3 | 55.1 |

| Rank | Corporation | Country | Industry a/ | Foreign assets | Total assets | Foreign sales | Total sales | Foreign employ-ment | Total employ-ment |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (Billions of dollars and thousands of employees) | | | | | |
| 72 | Thomson | France | Electronics | 6.6 | 20.2 | 8.6 | 12.6 | 57.1 | 105.2 |
| 73 | Mitsui | Japan | Trading | 6.6 | 69.8 | 32.3 | 147.9 | .. | 11.5 |
| 74 | Hewlett-Packard | United States | Computers | 6.5 | 12.0 | 8.2 | 14.7 | .. | 89.0 |
| 75 | Cable and Wireless c/ | United Kingdom | Telecommunications | .. | 9.1 | 4.2 | 5.6 | 28.3 | 38.8 |
| 76 | Usinor-Sacilor | France | Metals | 6.2 | 18.6 | 11.3 | 17.2 | 32.3 | 97.8 |
| 77 | Pechiney | France | Metals | 6.1 | 13.8 | 8.1 | 13.2 | 31.1 | 70.7 |
| 78 | Glaxo Holdings | United Kingdom | Pharmaceuticals | 6.1 | 9.3 | 5.6 | 6.3 | 23.2 | 35.6 |
| 79 | Lonrho | United Kingdom | Mining | 6.0 | 6.6 | 5.2 | 8.6 | 137.7 | 151.2 |
| 80 | Atlantic Richfield | United States | Petroleum refining | 5.9 | 24.5 | 4.2 | 17.0 | .. | 26.8 |
| 81 | Peugeot | France | Motor vehicles and parts | 5.8 | 23.5 | 15.8 | 28.4 | 29.7 | 156.8 |
| 82 | Veba | Germany | Trading | 5.7 | 31.8 | 9.1 | 35.9 | 15.2 | 117.0 |
| 83 | BHP | Australia | Metals | 5.7 | 17.9 | 3.4 | 10.9 | 14.1 | 49.0 |
| 84 | Nissho Iwai a/ | Japan | Trading | 5.4 | 37.1 | 25.5 | 85.1 | 2.1 | 7.4 |
| 85 | Fletcher Challenge b/ | New Zealand | Forestry products | 5.3 | 11.7 | 3.4 | 7.6 | 21.8 | 34.0 |
| 86 | Akzo | Netherlands | Chemicals | 5.2 | 7.9 | 6.0 | 9.0 | 44.7 | 65.2 |
| 87 | GTE | United States | Telecommunications | 5.2 | 42.4 | 2.3 | 20.0 | 35.2 | 161.6 |
| 88 | McDonald's | United States | Restaurants | 5.2 | 11.3 | 3.0 | 6.7 | .. | 168.0 |
| 89 | Norsk Hydro | Norway | Chemicals | 5.0 | 12.1 | 5.7 | 9.3 | 18.1 | 35.0 |
| 90 | Ericsson c/ | Sweden | Telecommunication | .. | 8.9 | 6.7 | 7.6 | 40.0 | 71. 2 |
| 91 | SKF | Sweden | Metal products | 5.0 | 5.9 | 4.2 | 4.3 | 40.8 | 45.3 |
| 92 | Alcoa d/ | United States | Metals | 4.8 | 11.2 | 4.2 | 9.9 | 29.4 | 65.6 |
| 93 | Robert Bosch c/ | Germany | Motor vehicles and parts | .. | 16.0 | 7.3 | 20.2 | 47.6 | 181.5 |
| 94 | Smithkline Beecham | United Kingdom | Pharmaceuticals | 4.8 | 7.3 | 7.4 | 8.3 | 42.9 | 54.0 |
| 95 | Johnson & Johnson | United States | Pharmaceuticals | 4.8 | 10.5 | 5.2 | 12.4 | 43.4 | 82.6 |

/...

| Rank | Corporation | Country | Industry a/ | Foreign assets | Total assets | Foreign sales | Total sales | Foreign employment | Total employment |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (Billions of dollars and thousands of employees) | | | | | |
| 96 | 3M d/ | United States | Scientific and photo. equipment | 4.7 | 11.1 | 6.2 | 13.0 | 39.0 | 89.6 |
| 97 | United Technologies | United States | Aerospace | 4.6 | 16.0 | 8.0 | 21.3 | 87.1 | 185.1 |
| 98 | Pilkington | United Kingdom | Glass | 4.3 | 5.3 | 3.7 | 4.6 | 43.8 | 53.8 |
| 99 | Olivetti | Italy | Computers | 4.3 | 11.5 | 4.3 | 6.9 | 24.0 | 46.5 |
| 100 | LVMH Moet-Hennessy | France | Beverages | 4.2 | 8.8 | 2.6 | 3.7 | .. | 14.3 |

Source: UNCTAD Programme on Transnational Corporations database.

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

b/ Data on foreign assets exclude other European countries.

c/ Data on foreign assets not available, ranking according to foreign assets estimated on the basis of the ratio of foreign to total employment, foreign to total fixed assets.

d/ Provisional data based on estimates.

e/ Company's own estimate.

f/ For 1993, previous data not available.

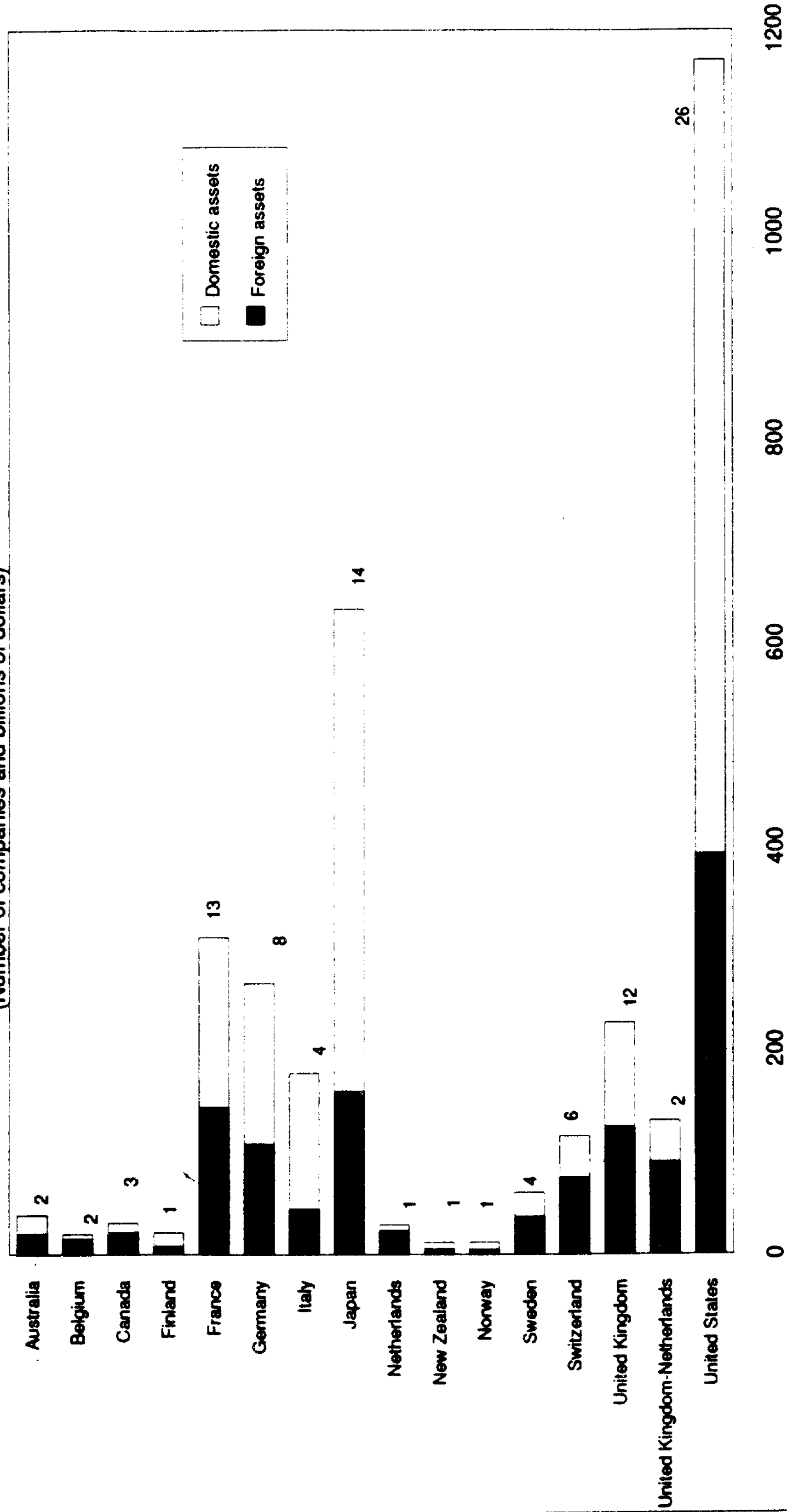
Table 9. The top 100 transnational corporations, by rate of growth of foreign assets, 1990-1991

| | |
|---|---|
| Rapid growth (more than 10 per cent) | Alcatel-Asthom, Matsushita, Siemens, Bayer, General Electric, Mitsubishi, Toyota, Michelin, Hitachi, BASF, Chrysler, Nissan, Procter & Gamble, Daimler-Benz, Kodak, Xerox, Honda, Sandoz, Bridgestone, ENI, Renault, Smithkline Beecham, Tenneco, Seagram, Digital, Hewlett-Packard, Cable and Wireless, Atlantic Richfield, Peugeot, Veba, BHP, Norsk Hydro. |
| Strong growth (5 to 10 per cent) | British Petroleum, Ciba-Geigy, Volvo, Stora, Usinor-Sacilor, McDonald's, Johnson & Johnson. |
| Average growth (from 3 to 5 per cent) | Volkswagen, Elf Aquitaine, Thomson Corporation, Marubeni, Akzo, Alcoa, GTE, Robert Bosch, United Technologies, General Motors. |
| Stable | Royal Dutch Shell, Philips, Fiat, Sony, Du Pont, News Corporation, Rhone Poulenc, Dow Chemical, Total, ICI, Grand Metropolitan, Saint Gobain, NEC, RTZ, Electrolux, ITT, Lonrho, Ericsson, 3M, Pilkington, LVMH Moët-Hennessy, Nestlé. |
| Decline | Exxon, Ford, Asea Brown Boveri, Mobil, Unilever, BAT, Philip Morris, Itochu, Hanson, Amoco, Hoechst, Generale des Eaux, Petrofina, Chevron, Texaco, Solvay, Alcan, Holderbank, Roche, Thomson, Mitsui, Pechiney, Glaxo, Nissho Iwai, SKF, Olivetti. |

Source: UNCTAD, Programme on Transnational Corporations.

**Figure 2. The top 100 transnational corporations: number of companies and assets, by home country, 1991**

(Number of companies and billions of dollars)




Source: UNCTAD Programme on Transnational Corporations.

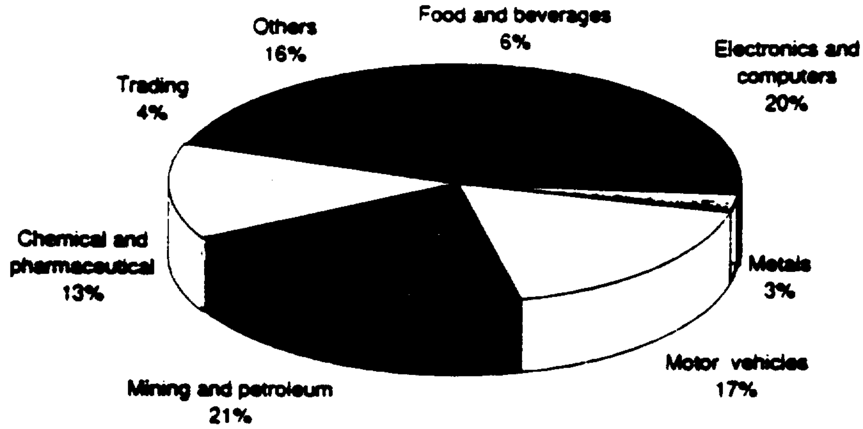
/...

19. In terms of industries, the most important ones are petroleum refining, electronics, chemicals and pharmaceutical and motor-vehicles (figure 3). Three of the top 10 companies are in the oil industry, one is a computer manufacturer, two are diversified electronics producers, two are automobile manufacturers, one is in food, and one in industrial and farm equipment (box 1).

20. In 1991, employment in the top 100 TNCs was estimated at about 12 million people, of whom about 40 per cent worked in their affiliates abroad. This ratio has basically remained unchanged since 1990. Within the group of TNCs for which data are available for the past decade, the growth of foreign employment is modest compared to the growth of assets abroad. A large number of firms among the top 100 is concentrated in capital-intensive industries that have relatively low employment-to-assets ratios. Furthermore, a number of TNCs have reduced the total number of their employees.

**Figure 3. The top 100 transnational corporations: distribution of foreign assets by industry, 1991**

(Percentage)




Source: UNCTAD Programme on Transnational Corporations.

### Box 1. The largest transnational corporations and their industries

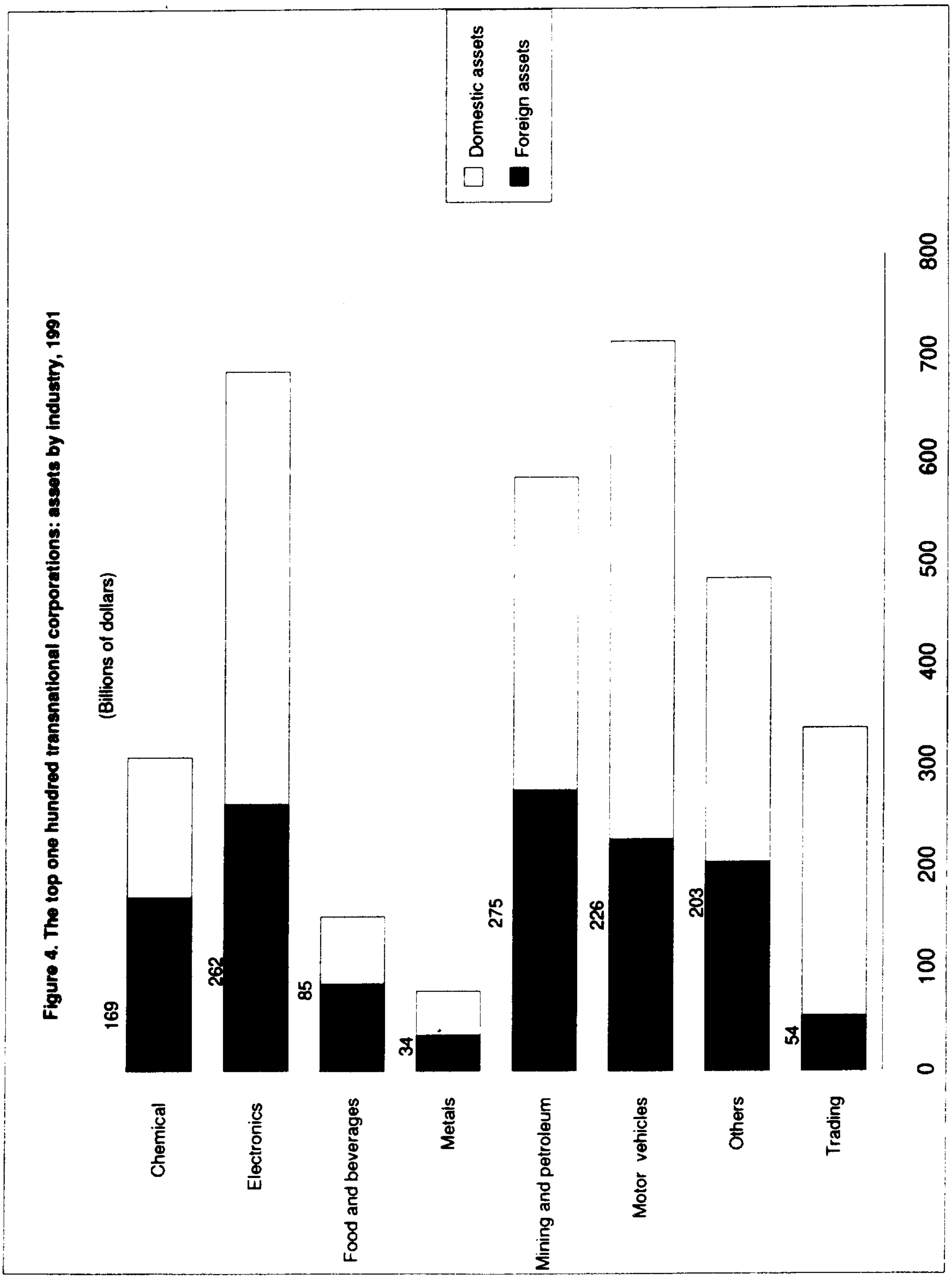
The world's oil industry remains the dominating industry among the top 100 TNCs due to the prior globalization of their parent firms' activities and the capital intensity of their assets. Integrated oil companies with operations in refining and retailing, like Royal Dutch Shell and Exxon, performed better in 1991 than those specializing in exploration and production. Due to declining oil prices and falling demand, the latter group of firms showed weak growth, and their ranking generally declined.

The highest growth of foreign assets in terms of their absolute value and as a percentage of total assets was registered among the electronics firms: they increased their foreign assets from $215 billion in 1990 to $262 billion in 1991 (figure 4). In 1991, the largest companies in that industry -- pushed by rapidly changing technologies and increasing market segmentation -- either undertook large investments or made major acquisitions. Japanese electronics producers maintained their lead in the industry, despite the overall slower demand for semiconductors and consumer products and the downward trend of Japanese FDI abroad. In 1991, 5 of the 11 electronics groups among the top 100 were Japanese: Matsushita Industrial Co., the Sony Corporation, the Toshiba Corporation, Hitachi Co. and NEC. With total sales of $204 billion, of which about 40 per cent were abroad, they have a large share of the world's market. Japanese electronics manufacturers diversified abroad by making in 1991 major acquisitions in the United States, including Columbia Pictures Entertainment Inc. (by Sony) and MCA Inc. (by Matsushita); Toshiba and Itochu Corporation formed a large capital and business partnership with the world's largest film and information enterprise, Time Warner. Among European firms, the highest growth of assets abroad was registered by the group Alcatel-Alsthom, which ranked sixth in 1991, moving up from its twenty-first position in 1990. In 1991, the French-based electronics group diversified into telecommunications, engineering and transport. A number of acquisitions pushed the group to a top global leadership position in the transmission and telecommunications markets. Alcatel is also one of the most internationally-oriented business groups, with a management base in Paris, a financial base in the Netherlands, a joint venture with GEC of the United Kingdom and three quarters of its sales outside France. Siemens and Philips, among other European electronics firms, consolidated their positions abroad through acquisitions and joint-ventures.

Major car manufacturers maintained their positions in the top 100. However, planned rationalizations and other cost-cutting measures have resulted in decreases in both their total and foreign assets, and similar decreases in sales and employment. Partnership arrangements and even mergers have been actively explored in view of the large unused excess capacity of car manufacturers -- especially in Europe -- under conditions of stagnant demand.

Among chemical and pharmaceutical firms, those from Europe and the United States continued to maintain their positions as world-wide leaders. Among the top 100 in the chemical and pharmaceutical industries were 12 firms from Europe and 4 from the United States. Japanese manufacturers have lagged behind others in this industry, with none ranking among the top 100, although they have recently made some significant acquisitions in the United States and in Europe.

Figure 4. The top one hundred transnational corporations: assets by industry, 1991




Source: UNCTAD Programme on Transnational Corporations

## II. MAJOR FACTORS BEHIND RECENT TRENDS

21. Since the growth of world-wide FDI flows is closely associated with growth of output, the recent decline in world-wide investment outflows can be explained by the continuing economic recession or slow growth in the developed countries, the major sources of FDI in the world economy (table 10). 14/ An economic slowdown of home or host countries, especially when it brings to the fore structural problems, tends to decrease profits and therefore limits the availability of investible funds and, in turn, the capacity of TNCs to engage in FDI expansion. At the same time, recession shrinks markets and hence profitable investment opportunities while increasing competitive pressures. Instead of investing, firms often respond with internal restructuring to lower costs and increase efficiency. Thus, in periods of economic downturn, TNCs maintain a cautious stance and their planned investment expenditures are often lower than in periods of economic upswing. This trend is evident particularly for manufacturing firms from Germany 15/ and Japan whose recent priorities in their overseas investments are geared towards the attainment of lower costs of production or the assembly of components. Owing to falling earnings both in Japan and in major host countries, as well as rising capital costs at home, Japanese firms have become more careful in their choice of investment locations. 16/ Finally, the shift towards more internationally integrated production strategies (as discussed in World Investment Report 1993) may also have led to a certain concentration on internal restructuring, which, furthermore, is partly reflected in a decline of crossborder mergers and acquisitions.

22. However, the considerably higher rates of economic growth attained by developing countries in general in the early 1990s (including exceptionally high growth rates in China), by comparison to developed countries, have enabled a number of these countries to become more important, both as a destination and, in some cases, as a source of FDI. The recent inflows of FDI to these countries have also been encouraged by privatization programmes and the emergence of capital markets, both of which have created opportunities for TNC expansion. As discussed further below, these factors, acting singly and in some cases in combination with one another, are important determinants of the levels and patterns of FDI.

Table 10. Growth rates of real gross domestic product, 1991 and 1992

(Percentage)

| Region | Year | |
|---|---|---|
| | 1991 | 1992 |
| Developed countries | 0.7 | 1.5 a/ |
| Developing countries | 3.4 | 4.9 |

Source: United Nations, World Economic Survey (United Nations publication, Sales No. E.93.II.C.1), annex tables A2 and A4.

a/ Estimate.

## A. Mergers and acquisitions

23. Apart from rapid economic growth and one-time policy changes, the surge in crossborder mergers and acquisitions was a significant short-term factor in the growth of FDI in the 1980s. World-wide crossborder acquisitions accounted for approximately 57 per cent of the FDI outflows of the developed countries during the period 1986-1990; this share was significantly higher in the peak years 1988 and 1989, at between 64 and 68 per cent (table 11). 17/ Crossborder acquisitions declined by 7 per cent in 1990 and 55 per cent in 1991, in tandem with comparable declines in world-wide investment flows. Indeed, growth and decline in world-wide investment flows have seemed to coincide broadly with the boom and decline of crossborder acquisitions.

24. The boom and decline in mergers and acquisitions can also be seen from the perspective of FDI inflows for selected host countries such as the United States and the United Kingdom. Indeed, the increase in FDI inflows during the late 1980s is associated with rising foreign acquisitions, and the lower levels of inflows since 1990 coincided with the end of the mergers-and-acquisitions boom. In the United States, in particular, the rapid growth in the value of foreign acquisitions between 1986 and 1989 (at an annual average rate of 26 per cent) was associated with rapid growth in FDI inflows (at an annual average rate of 19 per cent) (figure 5). Conversely, the drastic decline in the value of foreign acquisitions (at an annual average rate of 85 per cent) in the period 1990-1992 has been associated with an even more drastic decline in FDI inflows (at an annual average rate of over 147 per cent). 18/ Similar trends are evident in the United Kingdom, when comparing growth rates in the value of foreign acquisitions and FDI inflows in the period 1985-1989 and 1990-1992 (figure 6). 19/ The strong correlation between crossborder acquisitions and FDI inflows can also be expected in other countries of the European Community where foreign acquisitions account for a significant proportion of inflows. Over the period 1990-1992, foreign acquisitions accounted for 37 per cent, 73 per cent, 85 per cent and 53 per cent of FDI inflows of France, Germany, the Netherlands and Spain, respectively. 20/

/...

Table 11. Value of world-wide crossborder acquisitions and outflows of foreign direct investment from the developed countries, 1986-1990

| Item | Year | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
| World-wide crossborder acquisitions (billions of United States dollars) | 39 | 71 | 113 | 122 | 113 | 51 | 41 a/ |
| Foreign-direct-investment outflows of the developed countries (billions of United States dollars) | 86 | 132 | 162 | 204 | 225 | 182 | 162 |
| Share of crossborder mergers and acquisitions in foreign-direct-investment outflows of the developed countries (percentage) | 45 | 54 | 68 | 64 | 51 | 28 | .. |

Source: United Nations Conference on Trade and Development, Programme on Transnational Corporations, based on Rolf Jungnickel, "Recent trends in foreign direct investment", in P. Bailey, A. Parisotto and G. Renshaw, eds., Multinationals and Employment (Geneva, International Labour Office, 1993); and KPMG, "Cross-border M & A recovers: survey", Dealwatch 1992: The KPMG Report on International Mergers and Acquisitions (Amsterdam, KPMG, 1992).

a/ First half of the year only.

Figure 5. Foreign acquisitions and foreign-direct-investment inflows in the United States, 1986-1992

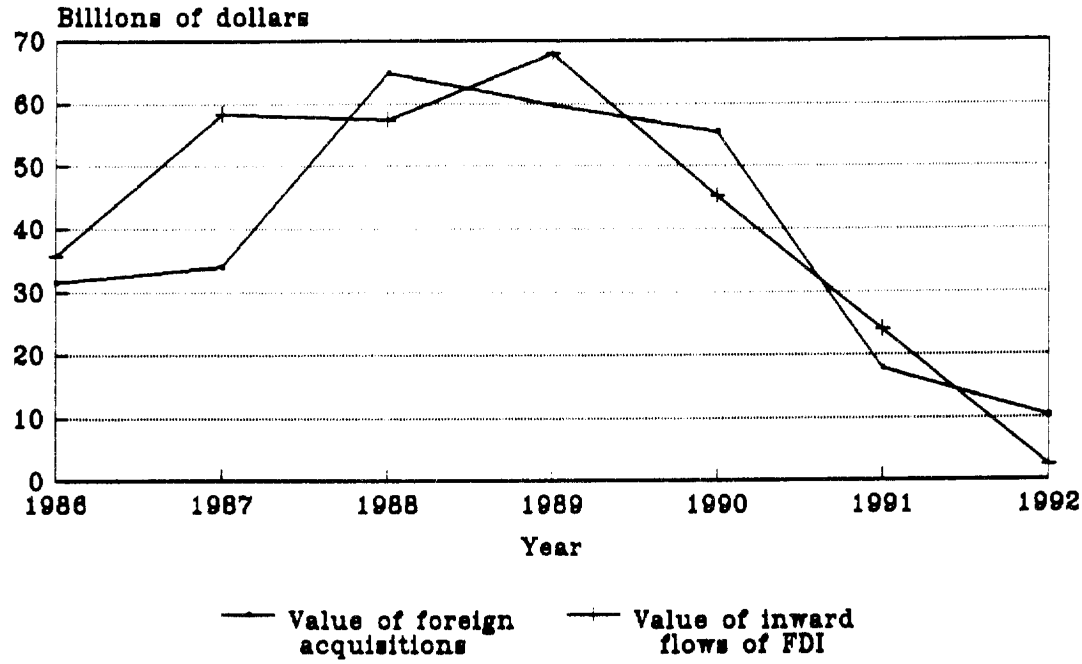
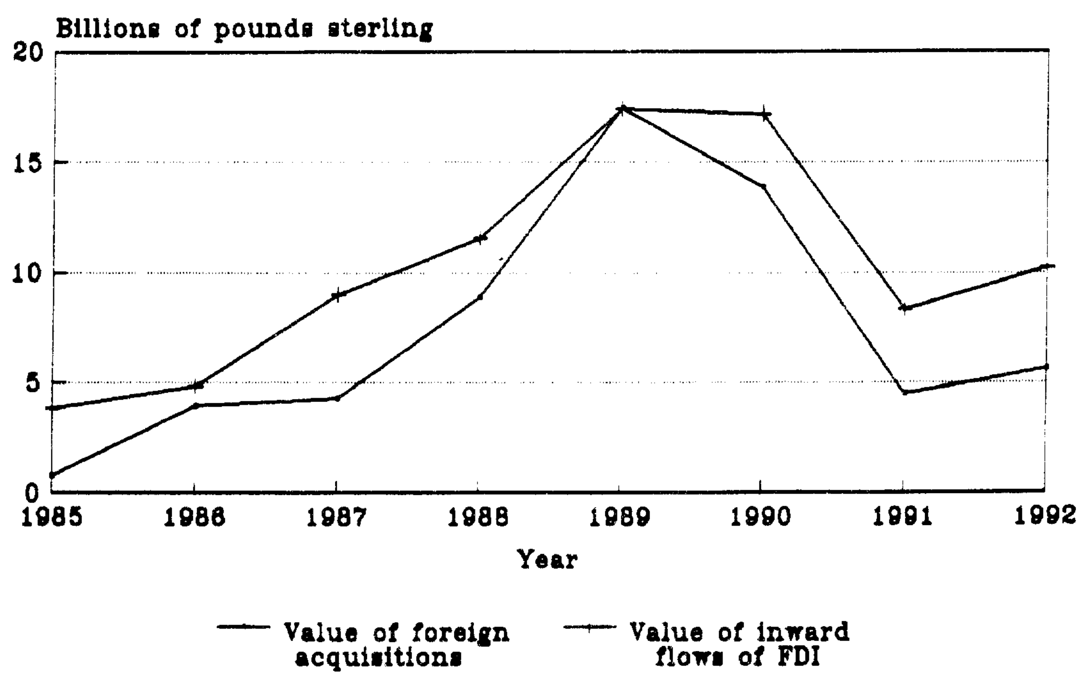



Figure 6. Foreign acquisitions and foreign-direct-investment inflows in the United Kingdom, 1985-1992




/...

25. The decline in the importance of crossborder acquisitions in 1990 and 1991 has also been accompanied by a changing geographical orientation. The period from the mid-to-late 1980s was a period of rapid growth in the number and value of foreign acquisitions in the United States. Foreign companies acquired 3,643 United States firms between 1986 and 1990, valued in excess of $245 billion, and the bulk of these acquisitions took place in the period 1988 through 1990. 21/ The period since 1990 has seen dramatically reduced foreign acquisition activity in the United States. By contrast, the period since 1989 has seen the European Community as a significant recipient of crossborder acquisitions as companies attempted to strengthen product and market positions prior to the advent of the Single Market. There were 6,486 foreign acquisitions in the European Community between 1989 and 1992, valued at over 113 billion pounds sterling, over 40 per cent of which were accounted for by the foreign takeover of companies in the United Kingdom. The pace at which these mergers and acquisitions has taken place in the European Community, however, has slowed down when comparing both the number and value of these transactions between 1989-1990 and 1991-1992. In the former period, there were 3,450 foreign acquisitions valued at close to 65 billion pounds; in the latter period, that number was reduced to 3,036, and its value declined significantly to over 48 billion pounds. 22/

26. The boom in crossborder mergers and acquisitions in the late 1980s is best viewed as a strategic and economic response of TNCs to their international business environment. There are at least seven elements of the international business environment in the 1980s that contributed to the boom: globalization, competition, technology, government policy, the Single Market, finance and economic growth. The first three can be considered as structural factors that are likely to influence positively the continuation of crossborder mergers and acquisitions over the longer term. The last four can be described as short-term factors that help to explain the bulge in FDI flows in the late 1980s. Each of their specific effects on crossborder mergers-and-acquisitions activities is outlined in table 12.

27. The slower pace of world-wide crossborder acquisitions in 1990 and 1991 can partly be explained by changes in the short-term elements of the international business environment. Slower economic growth and lower profitability combined with tighter credit and increasing capital costs have dampened crossborder acquisitions in the early 1990s. Higher rates of interest in Europe, as a result of tight monetary policy in some countries, have led to slower economic growth and constrained the borrowing capacity of firms. The losses experienced in all major financial centres and, in the case of Japan, the decline of the stock market have also restricted the lending capacity of banks. 23/ There are also signs that the wave of mergers and acquisitions due to regional restructuring in the European Community is slowing down as TNCs consolidate their positions and concentrate on ensuring the efficiency of their newly reorganized networks. 24/ However, the continued impact of the structural factors is likely to ensure the importance of crossborder mergers and acquisitions as a mode of FDI in the future. Preliminary data for the first half of 1992 show signs of recovery: there were 1,024 crossborder acquisitions world wide, with a value of over $41 billion, compared to 1,003 transactions with a value of $24.5 billion in the first half of 1991. 25/

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

| Elements of the international business environment | Justification for crossborder mergers and acquisitions |
|---|---|
| Globalization | To increase size and market share, firms build a strong portfolio of global products (brands) and achieve rapid internationalization and geographical market diversification. |
| Competition | To achieve scale economies and synergies in value-chain activities, firms build integrated international networks aimed at improving efficiency and the elimination of competitors through acquisition or collaboration. |
| Technology | To gain access to new technology or to share the risks and costs associated with technology development. |
| Government policy | To take advantage of fairly liberal merger-control policy. |
| European Community 1992 | To strengthen products (brands) and extend European market coverage prior to the removal of internal trade barriers or to overcome the fear of "Fortress Europe". Closer economic integration within Europe also encouraged mergers and acquisitions between firms in the European Community aimed at improving global as well as market competitiveness. |
| Finance | To take advantage of the substantial growth in the availability of credit, innovations in corporate finance and the valuation of many companies below break-up values. |
| Economic growth | To take advantage of favourable economic opportunities to expand into new markets of activities. Periods of economic growth are also associated with a greater availability of investible funds from corporate profits or loans to finance mergers and acquisitions. |

Source: United Nations Conference on Trade and Development, Programme on Transnational Corporations, based on J. Hamill, "Crossborder mergers, acquisitions and strategic alliances", in P. Bailey, A. Parisotto and G. Renshaw, eds., The Global Economy of the 1990s (Geneva, International Labour Office, 1993).

## B. Privatization programmes

28. The adoption of more market-friendly policies in the 1980s, combined with burdensome public-sector debts, continued poor performance on the part of many State-owned firms and the desire to attract FDI, has led to the implementation of privatization programmes in many parts of the world. 26/ The number of privatized enterprises world wide has grown in a significant way in recent years; over the period 1988 to 1992, the realized value for privatization sales amounted to at least $185 billion. 27/ These programmes have led to expanded opportunities for FDI, particularly in developing countries and Central and Eastern Europe, where the number of transactions involving privatization surpassed that in developed countries during the period 1988-1992, and where in 1992 the total sales volume involving privatization exceeded that in developed countries for the first time. 28/

29. Although developed countries had started to pursue privatization programmes much earlier than developing countries, the boom in these programmes since the late 1980s has been in the developing world and in the transitional economies of Central and Eastern Europe. To the extent that privatizations have taken place in developed countries, only a few involved complete sales to foreign investors; in certain cases, a portion of the shares of privatized companies (typically in the range of 15 to 20 per cent) was offered for sale in equity markets abroad. 29/ As a result, the relative importance of privatization-induced FDI in developed countries is likely to be smaller compared to developing countries, particularly also when considering the large amounts of FDI that the former countries receive. Nevertheless, more privatizations are expected to be undertaken in the developed countries in the future. Proposed sales of State-owned enterprises in Western Europe alone could amount to $150 billion by 1998, with most of the largest transactions in the next two years taking place in France and Italy. Some of the State-owned enterprises to be privatized include oil, steel, air transport, telecommunications and utilities companies. Many of the State-owned enterprises slated for privatization are expected to be open to foreign participation, at least to a certain extent. 30/

30. Among all regions of the world, privatization has had the largest impact on FDI in Central and Eastern Europe. Over the period 1988-1992, FDI from privatization amounted to over $5.2 billion or 43 per cent of total FDI inflows to Central and Eastern Europe and in the peak year, 1991, the share was 51 per cent. 31/ Indeed, the share of privatization-induced FDI to total FDI inflows in Central and Eastern Europe has been highest among all regions of the world. 32/

31. The privatization of over 400 medium- and large-sized State-owned enterprises in developing countries in the period 1988-1992 generated over $49 billion in sales. Of this, FDI accounted for $8.7 billion or over 17 per cent. Such investments most frequently involved small- and medium-sized transactions. Foreign direct investment through privatization accounted for about 7 per cent of total FDI inflows in developing countries over the period, with marked regional variations (table 13). Of all developing regions, Latin America and the Caribbean experienced during 1988-1992 the largest inflows of FDI through privatization, acquiring 16 per cent of total FDI inflows, with much higher shares (about one quarter) recorded in 1990 and 1991. Other regions had

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**Table 13. Foreign direct investment from privatization in developing countries, 1988-1992**
(Millions of dollars and percentage of total FDI inflows)

| Region | Year | | | | | |
|---|---|---|---|---|---|---|
| | 1988 | 1989 | 1990 | 1991 | 1992 | 1988-1992 |
| **North Africa and Middle East** | | | | | | |
| Foreign direct investment from privatization | - | 1 | - | 3 | 22 | 27 |
| Share of total foreign-direct-investment inflows | - | 0.1 | - | 0.45 | 1 | 0.4 |
| **Sub-Saharan Africa** | | | | | | |
| Foreign direct investment from privatization | - | 14 | 38 | 3 | 44 | 99 |
| Share of total foreign-direct-investment inflows | - | 0.6 | 6 | 0.15 | 3 | 1 |
| **East Asia and the Pacific** | | | | | | |
| Foreign direct investment from privatization | - | - | - | 75 | 302 | 377 |
| Share of total foreign-direct-investment inflows | - | - | - | 0.6 | 2 | 0.7 |
| **South Asia** | | | | | | |
| Foreign direct investment from privatization | - | 0.1 | 11 | 4 | 37 | 52 |
| Share of total foreign-direct-investment inflows | - | 0.04 | 4 | 1 | 9 | 3 |
| **Latin America and the Caribbean** | | | | | | |
| Foreign direct investment from privatization | 214 | 157 | 2 136 | 3 300 | 2 312 | 8 119 |
| Share of total foreign-direct-investment inflows | 3 | 2 | 28 | 26 | 17 | 16 |
| **All developing regions** | | | | | | |
| Foreign direct investment from privatization | 214 | 172 | 2 185 | 3 385 | 2 717 | 8 673 |
| Share of total foreign-direct-investment inflows | 1 | 1 | 10 | 11 | 7 | 7 |
| **Memorandum:** | | | | | | |
| **Central and Eastern Europe** | | | | | | |
| Foreign direct investment from privatization | - | 422 | 489 | 1 917 | 2 411 | 5 238 |
| Share of total foreign-direct-investment inflows | - | 39 | 34 | 51 | 41 | 43 |

Source: Frank Sader, "Privatization and foreign investment in the developing world: 1988-1992", World Bank PRE Working Paper No. 1202, October 1993, and additional information provided by the author.

considerably less privatization activity and also considerably lower shares of privatization-associated FDI flows as a percentage of total FDI inflows. Generally, where countries have implemented privatization programmes, the relative importance of FDI induced through them has been determined largely by the value of the assets being privatized, the level of restrictions on foreign participation in privatization programmes, the overall investment climate of the country and, of course, the attractiveness of the assets involved. However, the absolute size of FDI inflows and the presence of fairly-developed capital markets in host countries also play a role.

32. Beyond bringing in FDI directly (even if, sometimes, through subsidization, i.e., by selling assets at below-market values or through debt-equity swaps), acquisitions by foreign firms in the context of privatization programmes often also entail commitments by TNCs to invest, typically over time, additional capital in the assets acquired. Beyond that, by acting as a signalling device to foreign investors of the commitment of host-country Governments to economic reform and, in particular, to the role of the private sector in domestic economic activity, privatization programmes can help to attract a continued flow of investments even after the completion of a particular programme. Furthermore, a less restrictive regulatory environment and increased profitability - due to expected efficiency gains from the transfer of State-owned enterprises to private sector hands, as well as greater competition - are likely to have a positive impact on the investment climate and the sustainability of FDI in the longer term. Finally, to the extent that FDI through privatization takes place in infrastructural services and the financial sectors in developing countries, it is likely to improve conditions for other firms contemplating investments in these countries.

33. From a host country perspective, the participation of TNCs in privatization programmes is beneficial not only in terms of attracting capital flows but also in terms of increasing the number of potential buyers and thus the potential price at which assets can be sold. 33/ In addition, and perhaps more importantly, it enables countries to benefit from the managerial, technological, marketing and other resources that TNCs have, particularly in large-scale industries, intermediate-goods industries and strategic industries previously subjected to nationalization where privatization-induced FDI has taken place. 34/

34. Governments need to consider that the presence of restrictions to foreign participation in privatization programmes may discourage foreign interests under certain circumstances. 35/ Restrictions to foreign participation may not be a feasible option, in any event, particularly in countries where there is a limited number of potential domestic buyers of privatized companies or which have no or inadequate local capital markets. In particular, the state of local capital markets not only influences to a certain extent the need for foreign investment (whether direct or portfolio) but also, and more importantly, the way these investments can be financed. The emergence of capital markets in developing countries that are open to foreign participation is thus an important conduit to the growth of FDI and portfolio investments. This topic is discussed in the next section.

## C. Emergence of capital markets

35. The rapid growth of FDI inflows to developing countries was accompanied, during the late 1980s and early 1990s, by a rapid increase of foreign portfolio investment (box 2 and table 14), a development that was triggered by the establishment and growth of capital markets in developing countries open to foreign participation. Portfolio equity investment, in particular, which barely existed in the developing countries in the early 1980s, reached $13 billion in 1992. 36/ While some projections expect these flows to attain at least the same level in 1993, 37/ others foresee a level of $20 billion. 38/ In fact, this investment, together with FDI, accounted for a sizeable proportion of recent aggregate net long-term resource flows to developing countries (table 14). The geographical pattern of portfolio equity flows to developing countries, moreover, has a profound similarity to that of FDI. The 10 largest developing country recipients of FDI over the period 1981-1991 are also those that have fairly well-developed capital markets that allow foreign participation and are also major recipients of portfolio investment flows.

36. The size of foreign portfolio investment flows, if compared with the size of emerging capital markets, is still small: the combined market capitalization of these markets was $710 billion as of June 1993. 39/ Also, a single transaction - the privatization of Telmex (Mexico), with $80 million raised through American Depository Receipts and $1.6 billion through the issuance of (non-voting) "L" shares - accounted for about 13 per cent of foreign equity investment in stock markets of developing countries in 1992. 40/

37. The direct impact of emerging stock markets on FDI flows to developing countries is still small (box 3). (There are no data on the amount of FDI capital raised in local stock markets.) This can be attributed to a number of factors, including restrictions on foreign participation. These can take several forms, including ceilings on foreign ownership and limitations on the types of shares available for sale and industries in which investments can be made. For example, prior approval is often required for the purchasing of shares that carry voting rights (which could be an instrument for the acquisition by TNCs of control over the management of a company and, thus, become FDI). The amount of FDI that can be channelled through the local stock markets is also limited by the small number of domestic companies listed in some stock markets (e.g., Nepal, Barbados and countries in sub-Saharan Africa). Although the number of domestic companies listed in stock markets varies greatly among countries, in some emerging markets only a handful are listed. 41/ Potentially, however, as developing countries are interested in expanding their stock markets and continue to relax ownership and other restrictions on foreign investment 42/ (e.g., the Republic of Korea has recently lifted the ceiling on foreign ownership for some companies from 10 to 25 per cent), and as more domestic companies are listed in the stock market, the amount of FDI via this route could be expected to rise.

Box 2. Types of portfolio investment

Portfolio investment consists of debt instruments and equity instruments. Debt instruments include bond financing, certificates of deposit and commercial paper. Equity investment consists mainly of country funds, American Depository Receipts (ADRs), Global Depository Receipts (GDRs) and foreign investment through direct purchases in local stock markets. Country funds (closed-ended or open-ended) allow foreigners to invest in emerging markets through diversified portfolios managed by professional managers. Closed-end country (or regional) funds issue shares at the time of offering and then invest in emerging markets, while open-end country funds can continue to offer shares even after having invested in emerging markets. American Depository Receipts are equity instruments that are publicly traded in the United States. Global Depository Receipts are similar to ADRs, but they are issued simultaneously in stock markets world-wide. Bond financing enables privately-owned companies from developing countries to raise funds in international markets. Cemex (Mexico), for example, borrowed $150 million by issuing international bonds in October 1989, the first company from a developing country to do so after the debt crisis eased. It appears that domestically-issued debt instruments have been increasingly attractive to foreign investors in recent years.

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Source: UNCTAD, "Foreign portfolio equity investment in developing countries: current issues and prospects", TD/B/WG.1/11, 26 October 1993, paras. 31-36.

Table 14. Aggregate net long-term resource flows to developing countries, 1986-1993

(Billions of United States dollars)

| Item | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 a/ |
|---|---|---|---|---|---|---|---|---|
| Foreign direct investment b/ | 10.1 | 14.5 | 21.2 | 24.7 | 26.3 | 36.9 | 47.3 | 56.3 |
| Portfolio investments | | | | | | | | |
| Equity a/ | 0.6 | 0.8 | 1.1 | 3.5 | 3.8 | 7.6 | 13.1 | 13.2 |
| Bonds | 0.8 | 1.0 | 2.9 | 4.2 | 2.3 | 7.4 | 6.3 | .. |
| Loans | | | | | | | | |
| Official loans (net) | 27.9 | 27.2 | 22.5 | 22.1 | 30.7 | 30.0 | 20.1 | 27.9 |
| Commercial banks | 1.8 | 1.1 | 7.9 | 3.9 | -2.5 | 5.4 | 18.5 | .. |
| Other private | 6.7 | 6.4 | 0.2 | 2.0 | 13.1 | 0.9 | 16.8 | .. |
| Official grants | 16.0 | 16.7 | 18.3 | 19.0 | 28.5 | 32.9 | 34.5 | 35.5 |
| Aggregate net long-term resource flows | 63.9 | 67.8 | 74.0 | 79.5 | 102.1 | 121.1 | 156.6 | 176.7 c/ |

Source: World Bank, World Debt Tables 1993-94 (Washington, D.C., The World Bank, 1993).

a/ Estimate.

b/ Data on FDI to developing countries reported by the World Bank differ from those of the UNCTAD Programme on Transnational Corporations owing to differences in country coverage.

c/ Including $43.7 billion for private loans (net) and bonds.

Box 3. Emerging stock markets and the recording of foreign direct and portfolio investment

The boundary between foreign direct and portfolio equity investments is a matter of definition. According to internationally accepted definitions, a/ the acquisition of 10 per cent or more of a firm's voting shares qualifies an investment as direct, because it is assumed that this gives the foreign investor control over the investment; however, control can also be gained at lower levels and mechanisms other than equity, meaning that an investment would then be classified as FDI. This implies that certain foreign investments, including investments undertaken through the stock market, could be recorded as direct investments.

In practice, ceilings on equity participation in emerging stock markets of developing countries, as well as on the types of shares that can be purchased by TNCs still facilitate differentiation between portfolio equity and direct investment because countries limit the possibility of taking over a domestic company through the stock market. In Mexico, for example, foreign ownership of shares listed in the stock market is permitted only for "B" types of shares which carry only limited voting rights. Voting shares ("A" type) may be purchased only through participation certificates issued by the Mexican Development Bank, and even those shares carry limited voting rights. In this context, liberalizing regulations pertaining to the participation of foreign investors in emerging markets (e.g., by abolishing ceilings on foreign equity participation and by allowing them to purchase voting shares) could complicate the measurement of foreign direct and portfolio investments.

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a/ International Monetary Fund, Balance of Payments Manual, Fifth Edition (Washington, D.C., IMF, 1993).

38. The role of emerging stock markets in sustaining the flow of FDI to developing countries could become more important in the future in various other ways. Open equity markets can help to increase the FDI stock in host countries by allowing TNCs that wish to invest in the host country (or expand existing investments) the choice of raising funds locally in addition to raising equity or loan capital from abroad. 43/ Data on the sources of external finance of majority-owned non-bank foreign affiliates of non-bank United States parent firms show the importance of local sources of finance: more than 51 per cent of total funds generated outside of the affiliates (or over $498 billion) as of 1991 were sourced from the affiliates' host country. Over 90 per cent of this amount represented current liabilities and long-term debt and the balance was accounted for by owners' equity (including equity raised in local capital markets). 44/ Furthermore, a series of portfolio equity investments can eventually result in a FDI stake (box 2). Equally, local capital markets can provide a source of finance for domestic firms that wish to expand their investments abroad. 45/ The emergence of capital markets can encourage further FDI by providing a vehicle through which the privatization of state-owned enterprises can take place. 46/ In addition, stock markets facilitate mergers and acquisitions of listed domestic companies by TNCs, including through the provision of more widely accessible information on listed companies. 47/ As a result, TNCs, including small and medium-sized firms with fewer resources, may be in a better position to make well-informed investment decisions than in the absence of stock markets, although this will also depend on the quality of regulatory and accounting systems. Freer capital markets also facilitate the financial management of TNCs through global diversification of the processes of both investment and the raising of funds. Concerns have, however, been expressed regarding the impact of foreign portfolio investment on emerging markets' volatility, and the need has been emphasized for gradual opening of domestic stock markets to FDI. 48/

## III. SUSTAINABILITY OF FLOWS TO DEVELOPING COUNTRIES

39. Whether or not FDI flows to developing countries can be maintained at current levels, or even be increased, will depend on a number of factors (table 15). They involve, in particular, a number of economic factors as well as policies of host countries that are likely to affect FDI in developing countries in general. The most important of them are the following: 49/

(a) To a large extent, the prospects for FDI growth in developing countries depend on the economic performance of these countries, which, overall, are considered to be good in the immediate future. 50/ It must be recognized, however, that economic performance itself is partly dependent on FDI inflows, the more so since FDI has become the most important component of net external financial resource inflows to Asia and Latin America and the Caribbean. Market-seeking FDI, in particular, is attracted by economic growth. Economic growth, of course, typically translates into higher earnings for firms which, in turn, increases the potential for further FDI expansion.

Table 15. General factors related to the sustainability of foreign-direct-investment flows to developing countries

| Factor | Mechanism |
|---|---|
| Economic factors | High rates of economic growth in developing countries. |
| | Locational advantages of developing countries: the availability of relatively low-cost and skilled labour, low-cost raw materials, improving infrastructure etc. |
| | Establishment of international integrated production networks. |
| | Strategies of TNCs to search for more cost-competitive locations of production in response to growing international competition, structural changes in the world economy and economic conditions in home and/or host countries. |
| Policy factors | Regional economic integration |
| | Further liberalizations of FDI policies and commitment towards economic reform consistent with market-friendly objectives. |
| | The opening of more capital markets to foreign participation and the liberalization of existing capital markets. |
| | The implementation of debt-equity swap and privatization programmes. |

Source: UNCTAD Programme on Transnational Corporations.

(b) The availability of relatively low-cost and skilled labour, as well as raw materials, in developing countries will continue to be important for world-market oriented FDI. 51/ The movement of TNCs towards the establishment of internationally integrated production networks, and the fact that every part of the value-added chain is now potentially subject to FDI, is of particular importance as it gives developing countries new opportunities to seek and obtain FDI, including high value-added FDI. The increased tradability of services is also likely to open new investment opportunities for countries with high-skilled but relatively cheap labour.

(c) To the extent that developing countries succeed in creating larger economic areas through regional economic integration, either among themselves or together with developed countries, they also create larger markets that, typically, are more conducive to the internationally integrated production strategies increasingly adopted by TNCs.

/...

(d) The continued liberalization of FDI, trade and technology frameworks is of particular importance in a world in which these various components of international economic transactions are increasingly becoming interdependent and a precondition of integrated international production. Governments can directly influence the extent to which current liberalization efforts continue. While liberalization has, to a certain extent, a one-off character, the response to a liberalized framework will continue to determine FDI flows into the future.

(e) In this context, the growth, deepening and further opening of capital markets in developing countries may constitute, as discussed earlier, a not unimportant development encouraging FDI flows in the longer run. 52/

(f) The continued use of debt-equity swaps and, in particular, the further implementation of privatization programmes are likely to contribute, at least in the short run, to increased FDI flows to developing countries. While these, too, have a one-off character, some of the foreign investment facilitated by them is likely to be associated with additional capital inflows, and most of it is likely to give rise to reinvested earnings.

The extent to which these factors occur and the degree of their importance are likely to vary significantly across developing regions, depending on their configuration within each regional setting (table 16).

40. It is, of course, difficult to predict how and to what extent these factors will materialize, individually or interrelatedly, especially since some of them have a certain one-off character. In addition, the economic performance of the developed countries - which, after all, continue to be the principal sources of FDI - will exercise considerable influence on future FDI flows. At the same time, however, to the extent that the investments made in developing countries create a growing stock of FDI geared either to the domestic market or, in the context of integrated international production, towards regional or global markets, stable ties with host developing countries are established which have, to a certain extent, a self-perpetuating nature, e.g., through reinvested earnings. The absorption potential for FDI in developing countries is highlighted by the fact that, in the great majority of those countries, annual flows are small in relation to domestic investment and certainly do not reach the shares known from a number of developed countries and some developing countries; for instance, the share of FDI in gross domestic investment is 16 per cent in Belgium and Luxembourg, 15 per cent in Argentina, 14 per cent in the United Kingdom, 12 per cent in the Netherlands and 10 per cent in Malaysia. 53/ In fact, if FDI inflows in gross domestic investment in developing countries in 1993 had reached 10 per cent, total FDI flows to these countries would have been $85 billion in 1993. 54/ Host-country Governments will, to some extent, influence whether this potential will be realized, particularly through the pursuit of pro-market, pro-private sector policies.

**Table 16. Regional-specific factors influencing the sustainability of foreign-direct-investment flows to developing countries**

| Region | Factor | Mechanism |
|---|---|---|
| Africa | Economic | Uncertain growth prospects, depending, especially for the least developed countries of that continent, to a certain extent on official development assistance. |
| | | Plentiful natural resources and tourist attractions; relatively low-cost labour. |
| | | Geographical proximity to Western Europe. |
| | Policy | Considerable room for regional integration. |
| | | The continued liberalization of FDI, trade and technology policies, as well as improvements in macroeconomic policies are possible. |
| | | Credible privatization programmes are possible, and local capital markets can be strengthened. |
| Asia and the Pacific | Economic | High rates of economic growth and expansion of domestic markets. |
| | | The availability of relatively low-cost and skilled labour and raw materials; the presence of a fairly well-developed infrastructure. |
| | | The further development of TNC-led regional integration, facilitated by geographical proximity to Japan. |
| | Policy | Continued liberalization of FDI, trade and technology policies, as well as credible macroeconomic policies. |
| | | The growth, deepening and further liberalization of capital markets. |
| | | Implementation of privatization programmes. |
| Latin America and the Caribbean | Economic | Relatively high rates of economic growth, at least for the next few years. |
| | | The presence of large and expanding domestic markets in a number of countries. |
| | | Geographical proximity to North America encourages the establishment of integrated international production networks. |
| | Policy | The North American Free Trade Agreement is likely to continue to influence further growth of FDI flows to Mexico. Many TNCs have established facilities in that country to secure access to the North American market, while taking advantage of low production costs. Regional integration efforts in other parts of the region (provided that they are more successful in creating integrated markets than in the past), may also be an important factor in determining future FDI flows to the region. |
| | | The continued liberalization of FDI, trade and technology policies and further improvements in macroeconomic policies. |
| | | The growth, deepening and further liberalization of capital markets. |
| | | The continued use of debt-equity swaps and privatization programmes. |

Source: UNCTAD, Programme on Transnational Corporations.

## Notes

1/ In fact, between 1986 (the beginning of the latest FDI upswing) and 1993, investment inflows in developing countries increased almost five-fold.

2/ Over half of the growth of inflows to developing countries in 1992 was accounted for by China whose inflows that year, at almost $11.2 billion, increased more than two-and-one-half times over their 1991 level. But even the exclusion of China in FDI inflows to developing countries in 1991 and 1992 shows growth of FDI inflows in developing countries of almost 14 per cent between these two years.

3/ For a further discussion of recent FDI trends in developing regions, see the reports to the twentieth session of the Commission on Transnational Corporations on "Foreign direct investment in Africa" (E/C.10/1994/5) and "Foreign direct investment to least developed countries and other developing countries outside Africa" (E/C.10/1994/6).

4/ The large increase in the share of the 10 largest host developing countries in 1992 is largely accounted for by China. See note 2 above.

5/ See also "How Japan got burned in the U.S.A.", Fortune, 15 June 1992; "Japanese wary on U.S. operations", Wall Street Journal, 9 June 1992.

6/ In fact, the level of outflows from Australia and Canada grew by 120 per cent and 58 per cent, respectively, in the period between 1990 and 1991, while that from Norway and Spain grew between 21 and 22 per cent.

7/ Foreign direct investment predominated in the primary sector and resource-based manufacturing during the 1950s; since that time, manufacturing became important until the 1980s when services became a more important FDI sector. See UNCTAD, Programme on Transnational Corporations, World Investment Report 1993: Transnational Corporations and Integrated International Production (United Nations publication, Sales No. E.93.II.A.14).

8/ These TNCs include International Business Machines, General Motors, Matshushita and Mitsubishi. See "The non-global firm", The Economist, 27 March 1993.

9/ The growth rate of world-wide exports of goods and non-factor services refers to 1991. In SDR terms, the rate of annual growth of world-wide outflows, gross domestic product, gross domestic investment, exports of goods and non-factor services, sales of TNCs and royalty-and-fees receipts during the period 1986-1990 were 21 per cent, 6 per cent, 7 per cent, 9 per cent, 12 per cent and 16 per cent, respectively. Hence, in SDR terms, world-wide outflows increased more than twice as fast as world-wide exports of goods and non-factor services, more than three times as fast as world-wide gross domestic product and gross domestic investment, and considerably faster than royalties and fees receipts. World-wide sales of TNCs grew twice as fast as world-wide gross domestic product and gross domestic investment, and one third as fast as world-wide exports of goods and non-factor services.

10/ In World Investment Report 1993, it was noted that the world-wide sales of foreign affiliates of TNCs in 1990 was $5,500 billion. The fact that world-wide sales of foreign affiliates of TNCs declined to $4,800 billion in 1991, despite the increasing productive capacity of TNCs as shown by FDI stock, can be explained by economic recession or slow growth in the developed countries, the major host countries for FDI, which resulted in significantly lower sales by foreign affiliates of TNCs.

11/ See United Nations, Transnational Corporations and Management Division, World Investment Directory 1992, vol. III, Developed Countries (United Nations publication, Sales No. E.93.II.A.9).

12/ This variation may be caused by fluctuations of the exchange rate as well as by other factors. In 1990, the United States dollar had fallen sharply against major European currencies and the Japanese yen, thus boosting the dollar value of assets and sales denominated in those currencies. In 1991, by contrast, the dollar was more stable against those currencies. Furthermore, data for 47 companies presented in this list are provisional estimates.

13/ They were: Allied-Lyons, Ferruzzi-Montedison, SCA, Mannesmann, L'Air Liquide, Ahold Hoogovens, Pirelli, Asarco, Abbott Laboratories, Ajinomoto, Asahi, B. Elliott and Tangelmann. Among the new entrants: Pilkington, Hanson, Ericsson, Olivetti, Roche, ENI, Petrofina, Usinor-Sacilor and Holderbank.

14/ The growth of cumulative outflows of the five major home countries over 1970-1991 has been found to be explained largely by growth of their domestic output over the same period, as seen in the estimated regression equation FDI = -55.5 + 4.2 (GNP) ($R^2$ = 0.89). The impact of business cycles on FDI on both the demand and supply side is further explained in UNCTAD, Programme on Transnational Corporations, World Investment Report 1993, op. cit.

15/ According to a survey of 10,000 large and medium-sized firms in western Germany, the overriding objective of German firms in order to remain competitive in global markets is to reduce total costs of production by 20 to 30 per cent. See Ariane Genillard, "Cost savings of relocation lure German companies", Financial Times, 9 November 1993.

16/ See Robert Thompson, "Japanese investors forced to watch bottom line", Financial Times, 9 December 1992.

17/ Data on crossborder acquisitions reported here include all investments that result in the investor, located in one country, holding more than 50 per cent of the outstanding voting securities of a business located in another country. Only broad comparisons can be made between crossborder acquisitions and FDI flows. Direct comparisons between the two (i.e., taking the share of crossborder acquisitions in FDI flows) can be misleading for at least two reasons. First, data on the value of crossborder acquisitions reported here do not include FDI through reinvested earnings in a host country, nor do they include crossborder acquisitions that lead to minority stakes and joint ventures. In this case, since there is the under-reporting of the value of crossborder mergers and acquisitions, taking them as a share of FDI could lead to an underestimation. The second case arises where crossborder

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acquisitions or takeovers proceed in incremental stages and do not lead initially to the threshold equity share of 10 per cent required for FDI and are thus recorded as portfolio investments. However, subsequent investments that may lead to the attainment of the threshold value may not be recorded as FDI. In this case, since there is the under-reporting of actual FDI, taking the value of crossborder acquisitions as a share of FDI could lead to an overestimation.

18/ The fact that the rates of growth (or decline) of crossborder acquisitions and FDI inflows are not equal in orders of magnitude is indicative of the fact that there are other determinants that influence level of FDI inflows. This suggests that an analysis of the association between crossborder acquisitions and FDI flows is useful only to the extent that one discusses general directions of change, i.e., periods of growth (decline) in the former coinciding with periods of growth (decline) in the latter.

19/ Rapid growth in the value of foreign acquisitions in the United Kingdom between 1985 and 1989 (at an annual average rate of 70 per cent) was associated with rapid growth in FDI inflows (at an annual average rate of 39 per cent). Conversely, the significant decline in the value of foreign acquisitions (at an annual average rate of 45 per cent) in the period 1990-1992 has been associated with a decline in FDI inflows, but at a less steep pace (at an annual average rate of 26 per cent).

20/ These figures were calculated on the basis of acquisition data obtained from various issues of Acquisitions Monthly denominated in United Kingdom pounds sterling and converted to United States dollars on the basis of average exchange rates between the United Kingdom pound sterling and the United States dollar in each year.

21/ United States, Department of Commerce, Survey of Current Business, 73 (May 1993), p. 113.

22/ Data obtained from Acquisitions Monthly, various issues.

23/ KPMG, "Cross-border M & A recovers: survey", Dealwatch 1992: The KPMG Report on International Mergers and Acquisitions (Amsterdam, KPMG, 1992).

24/ UNCTAD, Programme on Transnational Corporations, World Investment Report 1993, op. cit.

25/ KPMG, "Cross-border M & A recovers", op. cit. There are also preliminary indications that crossborder acquisitions have picked up in 1993, at least for British firms. British firms spent $7.4 billion acquiring European firms in a surge of outward investments in the first 10 months of 1993 - an amount that was two thirds higher than the same period in 1992. The increase in crossborder acquisition activities by British firms is largely due to their strengthened financial positions, combined with a gradual recovery of the United Kingdom economy from recession and facilitated by lingering recession in most countries of the European Community and even in North America, despite the dollar's recent strength. See Michael Cassell, "UK spending on takeovers in EC surges", Financial Times, 8 November 1993.

26/ See also UNCTAD, Report of the Ad Hoc Working Group on Comparative Experiences with Privatization on Its Second Session, TD/B/40(1)/11; UNCTAD, Report of the Ad Hoc Working Group on Comparative Experiences with Privatization on Its Third Session, TD/B/40(2)/5; UNCTAD, "Design, implementation and results of privatization programmes: a cross-country review of national experiences", TD/B/WG.3/7/Rev.2/ and Add.1, January 1994. See also, UNCTAD, "Elaboration of basic elements for consideration in formulating privatization programmes and plans", TD/B/WG.3/14, January 1994.

27/ Not included are privatizations in the former German Democratic Republic, which generated a sales volume of $25 billion and an additional $106 billion in investment commitments between 1990 and end-1992. See Frank Sader, "Privatization and foreign investment in the developing world: 1988-1992", World Bank PRE Working Paper No. 1202, October 1993.

28/ Africa is the only region where privatization has hardly begun. See Frank Sader, "Selling the state", The Economist, 21 August 1993.

29/ Such was the case with the privatization of British Telecommunications PLC, where a minority of the shares was offered in the equity markets of Canada, Japan and the United States. See Maurice Odle, "Foreign direct investment as part of the privatization process", Transnational Corporations, 2, No. 2 (August 1993), pp. 7-34.

30/ "Selling the state", The Economist, op. cit.

31/ The main findings on Central and Eastern Europe and developing countries elaborated here have been drawn from Sader, op. cit.

32/ See also OECD, Financial Market Trends (Paris, OECD, 1993).

33/ This is an important consideration, particularly where there are no local buyers or local capital markets are undeveloped or inadequate.

34/ Odle, op. cit.

35/ Sader, op. cit.

36/ The World Bank, World Debt Tables 1993-94 (Washington, D.C., The World Bank, 1993).

37/ Ibid.

38/ Estimates obtained from Baring Securities.

39/ World Bank, World Debt Tables 1993-94, op. cit.

40/ The share has been calculated based on the World Bank estimate of portfolio equity investment in developing countries of $13.1 billion in 1992.

41/ See UNCTAD, "Foreign portfolio equity investment in developing countries: current issues and prospects", TD/B/WG.1/11, 26 October 1993, table 2.

42/ See Sudarshan Gooptu, "Portfolio investment flows to emerging markets", The World Bank, International Economics Department, Policy Research Working Paper No. 1117 (March 1993). Despite the ongoing liberalization and removal of restrictions on foreign ownership, several developing countries (e.g., Taiwan Province of China) still impose strict limits on foreign participation in domestic stock markets, as well as on the repatriation of dividends.

43/ Foreign direct investment financed through the local capital market is not recorded in data on FDI inflows of the host country since the investment did not cross national barriers. The emergence of capital markets can, of course, increase the amount of FDI flows in the case where funds raised in such markets are used to finance investments abroad.

44/ United States, Department of Commerce, United States Direct Investment Abroad: Operations of US Parent Companies and Their Foreign Affiliates: Preliminary 1991 Estimates (Washington, D.C., Government Printing Office, 1993).

45/ Chilean electricity companies have raised over $100 million on Santiago's capital markets to buy large stakes in Argentina's privatized utility companies. See Leslie Crawford, "Chile woos multinationals to the market", Financial Times, 11 December 1992.

46/ This is the case in the privatization of Telmex (Mexico) which was facilitated by the emergence of capital markets: $80 million was raised through American Depositary Receipts (ADRs) and $1.6 billion was raised through the issuance of non-voting "L" shares.

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

48/ See UNCTAD, Report of the Ad Hoc Working Group on Investment and Financial Flows: Non-Debt-Creating Finance for Development; New Mechanisms for Increasing Investment and Financial Flows on its Third Session, TD/B/40(2)/12, 10-14 January 1994, paras. 12-14.

49/ For a review of the literature on the determinants of FDI flows, see United Nations Centre on Transnational Corporations, The Determinants of Foreign Direct Investment: A Survey of the Evidence (United Nations publication, Sales No. E.92.II.A.2).

50/ See UNCTAD, Trade and Development Report, 1993 (United Nations publication, Sales No. E.93.II.D.10) for a discussion of economic growth in developing countries.

51/ For instance, according to a survey of 10,000 large and medium-sized firms in the western part of Germany, about 36 per cent of firms intend to transfer part of their production outside Germany in the next three years, primarily to reduce total costs of production and to remain competitive in global markets. See Genillard, op. cit. Similarly, investments in Asia are considered "survival investment" for labour-intensive Japanese industries as well as for Japanese firms that are burdened with rising costs of capitalization and disappointing performance of their earlier acquisitions and investments in the United States. See Robert Thomson, "New discipline imposed", Financial Times, 21 December 1992.

52/ The share of emerging markets in global stockmarket value was about 6 per cent in the late 1980s. However, the ratio of emerging market gross domestic product to global gross domestic product is roughly 13 per cent. Hence the potential exists for the share of emerging markets in global stockmarket value to approach their share in global gross domestic product. See "Until the next drought", The Economist, 25 September 1993.

53/ Data pertain to the period 1986-1991 and based on UNCTAD, Programme on Transnational Corporations FDI database.

54/ See "Until the next drought", op. cit.

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