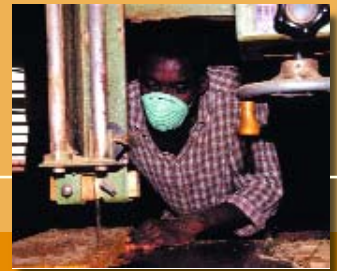


3

Transnational corporations and foreign affiliates



3.1 Transnational corporations

3.2 Foreign affiliates



3.1 Transnational corporations

OVERVIEW

After years of expansion, the foreign operations of the top 50 non-financial **transnational corporations (TNCs)** worldwide (as measured by foreign **assets, sales and employment**) stagnated in 2001. Despite the bursting of the information and communication technology bubble, the industrial composition of the top 50 did not change significantly compared to earlier years. Petroleum and automobile companies remain high on the list, led in 2001 by Vodafone, a telecommunications company. In general, the top 50 span a wide range of industries covering all major sectors. Owing to privatization programmes in many developed and developing countries, the list has in recent years included an increasing number of TNCs involved in telecommunications and utilities.

Most TNCs are headquartered in the United States, the European Union or Japan – the so-called Triad, which also accounts for the largest share of foreign direct investment worldwide. The United States is home to the largest number of TNCs (11), followed by France (8), Germany (8), the United Kingdom (7) and Japan (4). The list also includes numerous TNCs from smaller countries such as Switzerland, Finland and the Netherlands, demonstrating that a large home market is not an indispensable precondition for the emergence of large TNCs.

In recent years, the number of developing-country TNCs on the top-100 list has increased. In 2001, the list included four companies from developing countries – Hutchinson Whampoa, Singtel, Cemex and LG Electronics. This trend is expected to continue as companies from developing countries (especially in Asia) increasingly internationalize their operations, not just within the region but also worldwide.

DEFINITIONS

- A **transnational corporation (TNC)** is an enterprise that controls assets of other entities in economies other than its home economy, usually by owning a certain equity capital stake. An equity capital stake of 10% or more of the ordinary shares or voting power for an incorporated enterprise, or the equivalent for an unincorporated enterprise, is normally considered a threshold for the control of assets.
- **Total assets** may be tangible (having physical substance, such as land and buildings) or intangible (without physical substance, such as patents and rights granted by a government). The assets of a direct investment enterprise include all the assets on the enterprise's balance sheet, regardless of how they are financed – whether by the direct investors or from other non-resident or resident sources.
- **Sales** consist of all goods and services invoiced by an enterprise during the reporting period. They also include all other charges passed on to the customer (for example, for transportation or packaging). Sales should be measured exclusive of consumption and sales taxes on consumers and value-added taxes. The figure used for sales should be that remaining after any price reductions, discounts and rebates, and credits for returned packaging.
- **Employment** should include full- and part-time employees on the payroll, but not contract and temporary employees. Ideally, figures for part-time employees should be reported on a full-time equivalent basis.

DATA SOURCES

[1] UNCTAD/ERASMUS database (based on data obtained from the companies themselves as well as secondary sources).

UNCTAD, *World Investment Report 2003*.

Industry classification for companies follows the United States Standard Industrial Classification as used by the United States Securities and Exchange Commission.

In its annual **World Investment Report**, UNCTAD in collaboration with Erasmus University (Rotterdam) compiles key data on TNCs. The *Report* focuses on the largest TNCs from developed, developing and Central and Eastern European countries, analysing recent trends in their internationalization strategies. The UNCTAD/ERASMUS database includes data about these companies' foreign assets, total assets, foreign sales, total sales, and foreign and total employment. Based on the key variables, a Transnationality Index (TNI) is calculated. The data, which go back to 1996 (and for some companies more than a decade), can be accessed via www.unctad.org/fdistatistics. More detailed and customized information, as well as information on the methodology used for data compilation, can be obtained at statfdi@unctad.org.

World's top 50 non-financial TNCs in 2001 [1]

Million US\$ and number of employees

| Corporation (home economy) | Industry | Foreign assets | Total | | |
|--------------------------------------|-------------------------------------|----------------|---------|---------|-----------|
| | | | assets | sales | employees |
| 1 Vodafone (UK) | Telecommunications | 187 792 | 207 458 | 32 744 | 67 178 |
| 2 General Electric (US) | Electrical and electronic equipment | 180 031 | 495 210 | 125 913 | 310 000 |
| 3 BP (UK) | Petroleum expl./ref./distr. | 111 207 | 141 158 | 175 389 | 110 150 |
| 4 Vivendi Universal (FR) | Diversified | 91 120 | 123 156 | 51 423 | 381 504 |
| 5 Deutsche Telekom AG (GE) | Telecommunications | 90 657 | 145 802 | 43 309 | 257 058 |
| 6 Exxonmobil Corporation (US) | Petroleum expl./ref./distr. | 89 426 | 143 174 | 209 417 | 97 900 |
| 7 Ford Motor Company (US) | Motor vehicles | 81 169 | 276 543 | 162 412 | 354 431 |
| 8 General Motors (US) | Motor vehicles | 75 379 | 323 969 | 177 260 | 365 000 |
| 9 Royal Dutch/Shell Group (UK/NL) | Petroleum expl./ref./distr. | 73 492 | 111 543 | 135 211 | 89 939 |
| 10 Total Fina Elf (FR) | Petroleum expl./ref./distr. | 70 030 | 78 500 | 94 418 | 122 025 |
| 11 Suez (FR) | Electricity, gas and water | 69 345 | 79 280 | 37 975 | 188 050 |
| 12 Toyota Motor Corporation (JP) | Motor vehicles | 68 400 | 144 793 | 108 808 | 246 702 |
| 13 Fiat Spa (ITA) | Motor vehicles | 48 749 | 89 264 | 52 002 | 198 764 |
| 14 Telefonica SA (SP) | Telecommunications | 48 122 | 77 011 | 27 775 | 161 527 |
| 15 Volkswagen Group (GE) | Motor vehicles | 47 480 | 92 520 | 79 376 | 324 413 |
| 16 ChevronTexaco Corp. (US) | Petroleum expl./ref./distr. | 44 943 | 77 572 | 104 409 | 67 569 |
| 17 Hutchison Whampoa Ltd. (HK) | Diversified | 40 989 | 55 281 | 11 415 | 77 253 |
| 18 News Corporation (AUS) | Media | 35 650 | 40 007 | 15 087 | 33 800 |
| 19 Honda Motor Co., Ltd. (JP) | Motor vehicles | 35 257 | 52 056 | 55 955 | 120 600 |
| 20 E.On (GE) | Electricity, gas and water | 33 990 | 87 755 | 71 419 | 151 953 |
| 21 Nestlé SA (CH) | Food and beverages | 33 065 | 55 821 | 50 717 | 229 765 |
| 22 RWE Group (GE) | Electricity, gas and water | 32 809 | 81 024 | 58 039 | 155 634 |
| 23 IBM (US) | Electrical and electronic equipment | 32 800 | 88 313 | 85 866 | 319 876 |
| 24 ABB (CH) | Machinery and equipment | 30 586 | 32 305 | 19 382 | 156 865 |
| 25 Unilever (UK/NL) | Diversified | 30 529 | 46 922 | 46 803 | 279 000 |
| 26 ENI Group (ITA) | Petroleum expl./ref./distr. | 29 935 | 55 584 | 43 861 | 80 178 |
| 27 BMW AG (GE) | Motor vehicles | 29 901 | 45 415 | 34 482 | 97 275 |
| 28 Philips Electronics (NL) | Electrical and electronic equipment | 29 416 | 34 070 | 28 992 | 188 643 |
| 29 Carrefour SA (FR) | Retail | 29 342 | 41 172 | 62 294 | 358 501 |
| 30 Electricité de France (FR) | Electricity, gas and water | 28 141 | 120 124 | 36 502 | 162 491 |
| 31 Repsol YPF SA (SP) | Petroleum expl./ref./distr. | 27 028 | 45 575 | 39 135 | 35 452 |
| 32 Sony Corporation (JP) | Electrical and electronic equipment | 26 930 | 61 393 | 57 595 | 168 000 |
| 33 Aventis SA (FR) | Pharmaceuticals | 26 368 | 34 761 | 20 567 | 91 729 |
| 34 Wal-Mart Stores (US) | Retail | 26 324 | 83 451 | 217 799 | 1 383 000 |
| 35 DaimlerChrysler AG (GE/US) | Motor vehicles | 25 795 | 183 765 | 137 051 | 372 470 |
| 36 Lafarge SA (FR) | Construction materials | 24 906 | 26 493 | 12 280 | 82 892 |
| 37 Nissan Motor Co., Ltd. (JP) | Motor vehicles | 24 382 | 54 113 | 47 091 | 125 099 |
| 38 AES Corporation (US) | Electricity, gas and water | 23 902 | 36 736 | 9 327 | 38 000 |
| 39 Roche Group (CH) | Pharmaceuticals | 22 794 | 25 289 | 17 463 | 63 717 |
| 40 BASF AG (GE) | Chemicals | 20 872 | 32 671 | 29 136 | 92 545 |
| 41 Deutsche Post AG (GE) | Transport and storage | 20 840 | 138 837 | 29 924 | 276 235 |
| 42 Bayer AG (GE) | Pharmaceuticals/chemicals | 20 297 | 32 817 | 27 142 | 116 900 |
| 43 GlaxoSmithkline Plc (UK) | Pharmaceuticals | 20 295 | 31 758 | 29 689 | 107 470 |
| 44 Royal Ahold NV (NL) | Retail | 19 967 | 28 562 | 59 701 | 270 739 |
| 45 Compagnie de Saint-Gobain SA (FR) | Construction materials | 19 961 | 28 478 | 27 245 | 173 329 |
| 46 BHP Billiton Group (AUS) | Mining and quarrying | 19 898 | 29 552 | 17 778 | 51 037 |
| 47 Diageo Plc (UK) | Food and beverages | 19 731 | 26 260 | 16 020 | 62 124 |
| 48 Conoco Inc. (US) | Petroleum expl./ref./distr. | 19 383 | 27 904 | 38 737 | 20 033 |
| 49 Philip Morris Companies Inc. (US) | Diversified | 19 339 | 84 968 | 89 924 | 175 000 |
| 50 National Grid Transco (UK) | Electricity, gas and water | 19 080 | 24 839 | 6 308 | 13 236 |

3.1 Transnational corporations

OVERVIEW

The picture of the 50 largest non-financial **transnational corporations (TNCs)** from developing economies and Central and Eastern European countries is more complex than that of the top 50 worldwide. Owing to the economic downturn, both total and foreign **sales** declined in 2001. Total **assets** and **employment** also fell. Like many of the largest 50 TNCs, the companies in question underwent restructuring in order to remain competitive in a difficult economic environment.

However, these TNCs continued to expand their production capacities abroad, as is shown by increases in foreign assets and employment. The ranking remains fairly stable and, like the worldwide top-50 list, covers a wide range of industries. Hutchison Whampoa and Singtel, two companies with major interests in telecommunications, head the list. Industries prominent on the list include electrical and electronic equipment and petroleum.

Most of the companies on the list are headquartered in Asia. The region's predominance as a source of foreign direct investment reflects its economic importance and dynamism. Among the Asian companies, Chinese firms from Hong Kong (China), Singapore, Taiwan Province of China and, of course, mainland China feature prominently. Malaysia has also emerged as an important home country for TNCs. Except for five companies from South Africa, the remaining firms hail from Latin America, particularly Brazil and Mexico. Only two companies from Central and Eastern Europe appear in the top 50. With foreign assets of more than \$5.8 billion, Lukoil, the largest Russian TNC, is comparable to the top 10 developing-country TNCs. The lack of Central and Eastern European TNCs on the list can be attributed largely to accounting and reporting practices in these countries, and to the fact that many companies are not publicly listed.

DEFINITIONS

For definitions, refer to 3.1A.

DATA SOURCES

- [1] UNCTAD/ERASMUS database (based on data obtained from the companies themselves as well as secondary sources).
UNCTAD, *World Investment Report 2003*.
Industry classification for companies follows the United States Standard Industrial Classification as used by following the United States Securities and Exchange Commission.

In its annual **World Investment Report**, UNCTAD in collaboration with Erasmus University (Rotterdam) compiles key data on TNCs. The *Report* focuses on the largest TNCs from developed, developing and Central and Eastern European countries, analysing recent trends in their internationalization strategies. The UNCTAD/ERASMUS database includes data about these companies' foreign assets, total assets, foreign sales, total sales, and foreign and total employment. Based on the key variables, a Transnationality Index (TNI) is calculated. The data, which go back to 1996 (and for some companies more than a decade), can be accessed via www.unctad.org/fdistatistics. More detailed and customized information, as well as information on the methodology used for data compilation, can be obtained at statfdi@unctad.org.

Top 50 non-financial TNCs from developing countries and Central and Eastern Europe in 2001 [1]

Million US\$ and number of employees

| Corporation (home economy) | Industry | Foreign assets | Total | | |
|--|-------------------------------------|----------------|--------|-----------|-----------|
| | | | assets | sales | employees |
| 1 Hutchison Whampoa Ltd. (HK) | Diversified | 40 989 | 55 281 | 11 415 | 77 253 |
| 2 Singtel Ltd. (SG) | Telecommunications | 15 594 | 19 108 | 4 054 | 21 535 |
| 3 Cemex S.A. (MEX) | Non-metallic mineral products | 12 645 | 16 282 | 6 730 | 25 519 |
| 4 LG Electronics Inc. (KOR) | Electrical and electronic equipment | 11 561 | 20 304 | 22 528 | 42 512 |
| 5 Petróleos de Venezuela (VEN) | Petroleum expl./ref./distr. | 7 964 | 57 542 | 46 250 | 46 425 |
| 6 Petronas – Petrolim Nasional Berhad (MY) | Petroleum expl./ref./distr. | 7 877 | 37 933 | 17 681 | 25 724 |
| 7 Lukoil Oil Co. (RU) | Petroleum and natural gas | 5 830 | 15 859 | 14 892 | 140 000 |
| 8 New World Development Co., Ltd. (HK) | Diversified | 4 715 | 16 253 | 2 933 | 26 100 |
| 9 Neptune Orient Lines Ltd. (SG) | Transport and storage | 4 674 | 4 951 | 4 737 | 11 777 |
| 10 Citic Pacific Ltd. (HK) | Diversified | 4 184 | 7 798 | 2 212 | 11 733 |
| 11 Jardine Matheson Holdings Ltd. (HK) | Diversified | 4 080 | 7 166 | 9 413 | 110 000 |
| 12 Samsung Electronics Co., Ltd. (KOR) | Electrical and electronic equipment | 3 840 | 41 692 | 37 155 | 73 682 |
| 13 Guangdong Investment Ltd. (HK) | Diversified | 3 694 | 4 042 | 932 | 7 641 |
| 14 Shangri-La Asia Ltd. (HK) | Hotels and motels | 3 606 | 4 565 | 560 | 16 500 |
| 15 Sappi Ltd. (SA) | Paper | 3 463 | 4 504 | 4 184 | 18 231 |
| 16 Hyundai Motor Company (KOR) | Motor vehicles | 3 210 | 33 216 | 33 199 | 91 958 |
| 17 Flextronics International Ltd. (SG) | Electrical and electronic equipment | 2 983 | 4 115 | 6 691 | 70 000 |
| 18 City Developments Ltd. (SG) | Hotels | 2 870 | 6 454 | 1 302 | 14 337 |
| 19 Samsung Corporation (KOR) | Electrical and electronic equipment | 2 800 | 9 400 | 32 300 | 4 164 |
| 20 China National Chemicals, Imp. & Exp. Corp. (CN) | Diversified | 2 788 | 4 928 | 16 165 | 7 950 |
| 21 South African Breweries Plc (SA) | Food and beverages | 2 785 | 4 399 | 4 364 | 33 230 |
| 22 América Móvil (MEX) | Telecommunications | 2 323 | 10 137 | 4 385 | 14 786 |
| 23 Perez Companc (ARG) | Petroleum expl./ref./distr. | 2 154 | 6 244 | 1 655 | 3 427 |
| 24 Guangzhou Investment Company Ltd. (HK) | Paper | 2 129 | 2 559 | 433 | 13 120 |
| 25 Taiwan Semiconductor Manufacturing Co., Ltd. (TW) | Computer and related activities | 2 033 | 10 446 | 3 751 | 13 669 |
| 26 First Pacific Company Ltd. (HK) | Electrical and electronic equipment | 2 007 | 2 046 | 1 852 | 48 046 |
| 27 Petroleo Brasileiro S.A. - Petrobras (BRA) | Petroleum expl./ref./distr. | 1 715 | 36 864 | 24 549 | 38 483 |
| 28 Acer Inc. (TW) | Electrical and electronic equipment | 1 686 | 3 344 | 3 754 | 4 480 |
| 29 Posco (KOR) | Metal and metal products | 1 589 | 18 164 | 10 497 | 28 619 |
| 30 San Miguel Corporation (PH) | Food and beverages | 1 584 | 3 203 | 2 384 | 26 697 |
| 31 CLP Holdings (HK) | Electricity, gas and water | 1 559 | 6 798 | 3 205 | 4 085 |
| 32 Panamco (MEX) | Food and beverages | 1 549 | 2 693 | 2 651 | 26 000 |
| 33 Metalurgica Gerdau S.A. (BRA) | Metal and metal products | 1 488 | 4 379 | 2 495 | 16 000 |
| 34 United Microelectronics Corporation (TW) | Electrical and electronic equipment | 1 462 | 9 140 | 2 081 543 | |
| 35 Keppel Corporation Ltd. (SG) | Diversified | 1 422 | 6 332 | 3 283 | 16 223 |
| 36 Barloworld Ltd. (SA) | Diversified | 1 409 | 2 403 | 3 521 | 23 233 |
| 37 Fraser & Neave Ltd. (SG) | Food and beverages | 1 229 | 4 282 | 1 660 | 11 455 |
| 38 Sime Darby Berhad (MY) | Diversified | 1 225 | 3 290 | 3 174 | 26 384 |
| 39 Orient Overseas International Ltd. (HK) | Transport and storage | 1 170 | 2 136 | 2 379 | 4 686 |
| 40 Gruma S.A. de C.V. (MEX) | Food and beverages | 1 118 | 1 828 | 1 889 | 15 585 |
| 41 Novoship Co. (RU) | Transport | 999 | 1 134 | 392 | 6 976 |
| 42 Naspers Ltd. (SA) | Media | 979 | 1 470 | 1 059 | 10 706 |
| 43 Copec – Compania de Petroleos de Chile (CL) | Petroleum expl./ref./distr. | 969 | 6 432 | 3 577 | 8 367 |
| 44 Savia SA de CV (MEX) | Diversified | 961 | 1 585 | 683 | 8 085 |
| 45 Amsteel Corporation Berhad (MY) | Diversified | 959 | 3 171 | 1 480 | 26 745 |
| 46 Johnnic Holdings Ltd. (SA) | Telecommunications | 839 | 2 606 | 1 687 | 9 408 |
| 47 Grupo Imsa (MEX) | Metal and metal products | 828 | 3 041 | 2 233 | 16 373 |
| 48 Great Eagle Holdings Ltd. (HK) | Business services | 781 | 3 721 | 343 | 2 656 |
| 49 Delta Electronics Inc. (TW) | Electrical and electronic equipment | 774 | 1 510 | 1 273 | 11 480 |
| 50 Genting Berhad (MY) | Hotels | 740 | 2 690 | 829 | 15 200 |

3.2 Foreign affiliates

OVERVIEW

As international production systems play an increasingly important economic role, it also becomes more important to measure the extent and impact of the activities of **transnational corporations (TNCs)** and their **foreign affiliates**. There are now about 64,000 TNCs engaged in international production, with about 866,000 affiliates located abroad.

Foreign affiliates also raise investment funds from sources other than their parent firms. Their production capacity, not sufficiently reflected by the value of foreign direct investment (FDI) flows, can be illustrated by the ratio of FDI inward stock to total **assets**, which is only about one to four. The number of employees in foreign affiliates worldwide, a measure of the **employment** capacity of TNCs, has grown dramatically: it reached 53 million in 2002, up from 19 million two decades ago. Also, in a number of developing countries, the share of employment in foreign affiliates compared to total employment rose during the past two decades. **Sales** by foreign affiliates grew about sevenfold during the same period. This share varies among host countries; for example, in 1999 it was 28% for China and 81% for Singapore.

Foreign affiliates tend to have higher labour productivity (expressed as value added per employee) than domestic firms. Their innovative activity in some developing and transition economies is also significant: for example, in Hungary and Taiwan Province of China the share in total research and development is over 50%.

Developed countries, specifically in the European Union, still host the largest number of TNCs. Developing economies are home to less than one quarter of TNCs, while they host more than half of the foreign affiliates worldwide. Most of these affiliates are in Asia, followed by Latin America and the Caribbean.

DEFINITIONS

- A **foreign affiliate** or **direct investment enterprise** is an incorporated or unincorporated enterprise in which a foreign direct investor, resident in another economy, owns a stake that permits a lasting interest in the management of that enterprise (an equity stake of 10% for an incorporated enterprise or its equivalent for an unincorporated enterprise).

For other definitions, refer to 3.1A.

DATA SOURCES

- [1] UNCTAD, *World Investment Report and World Investment Directory series* (various issues).

In its **World Investment Directory** series, UNCTAD provides statistics on FDI and the activities of TNCs worldwide. Each volume contains FDI country profiles for a particular region. The individual FDI country profiles are accessible online at www.unctad.org/fdistatistics. UNCTAD's FDI/TNC databases contain data on inward and outward flows and stocks of FDI as well as the operations of TNCs and their foreign affiliates, based on national data sources. More detailed and customized information, as well as information on the methodology used for data compilation, can be obtained at statfdi@unctad.org.

Selected indicators of international production, 1982 – 2002 [1]

In % and billion US\$

| Production indicator | Average annual growth rate | | | | Value at current prices (billion US\$) | |
|--|----------------------------|-----------|-----------|------|--|--------|
| | 1986–1990 | 1991–1995 | 1996–2000 | 2001 | 2002 | 2002 |
| Sales of foreign affiliates | 16.0 | 10.1 | 10.9 | 9.2 | 7.4 | 17 685 |
| Gross product of foreign affiliates | 17.3 | 6.7 | 7.9 | 14.7 | 6.7 | 3 437 |
| Total assets of foreign affiliates | 18.8 | 13.9 | 19.2 | 4.5 | 8.3 | 26 543 |
| Exports of foreign affiliates | 13.5 | 7.6 | 9.6 | -3.3 | 4.2 | 2 613 |
| Employment of foreign affiliates (thousands) | 5.5 | 2.9 | 14.2 | -1.5 | 5.7 | 53 094 |
| Gross fixed capital formation | 13.4 | 4.2 | 1.0 | -3.9 | 1.3 | 6 422 |
| Royalties and licences fees receipts | 21.3 | 14.3 | 6.2 | -3.1 | .. | 72 |
| Export of goods and non-factor services | 15.6 | 5.4 | 3.4 | -3.3 | 4.2 | 7 838 |

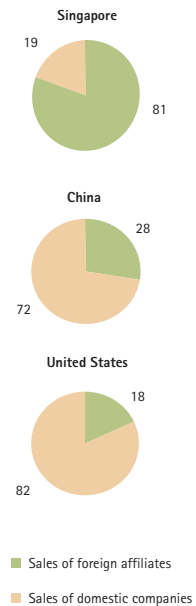
Parent corporations and foreign affiliates [1]

Number for latest year available

| Region | Parent corporations | Foreign affiliates |
|--|---------------------|--------------------|
| World | 63 834 | 866 119 |
| Developing countries | 13 936 | 517 611 |
| Africa | 1 202 | 7 049 |
| Africa less South Africa | 261 | 5 005 |
| Latin America and the Caribbean | 2 022 | 45 383 |
| Asia | 10 685 | 464 631 |
| West Asia | 751 | 11 672 |
| Central Asia | - | 7 687 |
| South, East and South-East Asia | 9 934 | 445 272 |
| South, East and South-East Asia less China | 9 584 | 81 387 |
| Oceania | 27 | 548 |
| Countries in Central and Eastern Europe | 850 | 242 678 |
| Developed countries | 49 048 | 105 830 |
| North America | 4 674 | 19 437 |
| Europe | 39 715 | 79 546 |
| Others | 4 659 | 6 847 |
| <i>Memorandum</i> | | |
| Developing countries less China | 13 586 | 153 726 |
| Least developed countries | 38 | 1 363 |

Shares of foreign affiliates in sales of selected countries [1]

(in %)



Significance of value added of foreign affiliates in manufacturing [1]

(in %)

