REVIEW ARTICLE

Whither *WIR* ?

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The *World Investment Report 1995: Transnational Corporations and Competitiveness* (UNCTAD-DTCI 1995), hereinafter referred to as *WIR95*, is the fifth volume in the *World Investment Report* (*WIR*) series issued by UNCTAD's Division on Transnational Corporations and Investment (DTCI). In this review, we first provide a general overview of the *World Investment Report* series, turn to an analysis of *WIR95*, and lastly address the question of the contribution of these reports to scholarly work on transnational corporations (TNCs), that is, ''whither *WIR?*''.

The first five years

A review of *WIR95* cannot be complete without centering it in relation to its earlier siblings since each builds upon the other and they all have a common structure. In addition, since there are now five volumes in print, it is appropriate to look at them as one set of work and to assess briefly their group contribution to scholarly research on the TNCs. I have been fortunate to have all five volumes on my shelf, and to have read and used all five for teaching purposes in my graduate course on TNCs.

Each of the five volumes follows a similar pattern: (1) recent trends at the global and regional levels in FDI stocks and flows; (2) a ''theme'' section; and (3) policy implications for inward and outward foreign direct investment (FDI). The reports were prepared by a team of DTCI staff headed by Karl P. Sauvant with input from various TNC experts. Each report is designed to provide a ''comprehensive analysis and policy discussion of international investment issues'' (*WIR95*, p. v). A comparison of the five volumes shows the range of topics which have been addressed:

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- *WIR91: The Triad in Foreign Direct Investment*
- *WIR92: Transnational Corporations as Engines of Growth*
- *WIR93: Transnational Corporations and Integrated International Production*
- *WIR94: Transnational Corporations, Employment and the Workplace*
- *WIR95: Transnational Corporations and Competitiveness*

Each volume builds on the earlier reports. *WIR91* focused on the role of the United States, the European Community and Japan as the Triad economies: home to the majority of the world's TNCs and the location of most of the world's outward and inward FDI. Each Triad member was seen as the centre of a regional investment cluster of countries, closely tied together through TNC trade and investment linkages.

WIR92 had a more traditional focus, treating FDI as a package of capital, technology and managerial skills, and assessing its impacts on economic growth and development in host countries. While *WIR91* only briefly introduced the concepts of investment-led and policy-led integration, the topic was developed in much more depth in *WIR92* (pp. 34-49).

WIR93, probably the most innovative of the five volumes, introduced and developed the concept of "integrated international production" (IIP), in which the TNC was seen as a network of value-adding activities, creating an intricate web of vertically and horizontally integrated production sites, bound together through two-way intra-firm trade flows in goods, services and intangibles.

WIR94 expanded on this theme, developing the theory of IIP in more detail and concentrating on the impacts of integrated international production on employment, the workplace and labour relations. While *WIR91* briefly mentioned the concept of shallow versus deep integration, *WIR94* devoted several pages to its analysis (pp. 126-146).

WIR95 brings together materials from *WIR92* (FDI as a package of value-adding assets) and *WIR93* and *WIR94* (integrated international production) to examine their implications for firm competitiveness and the performance of home and host countries. Transnational corporations are seen as a system providing countries with access to TNC resources (capital, technology, management skills), expanding market access, and aiding in economic restructuring, each of which can improve firm competitiveness and country performance.

Throughout the five volumes the "imprint" of John Dunning's guiding hand, as Senior Economic Advisor to the reports, on the themes and content of the reports is evident. A few examples will suffice. John Dunning's interest and research on transnational corporations and regional integration, both in terms of the impact of regional integration schemes on TNC organization and location choices (policy-led integration), and in terms of the impact of TNC trade and investment activities on the speed of regional integration (investment-led integration), is reflected in volumes 1, 3 and 4. His concept of the TNC as a network of value-adding activities, with complex organizational (equity and non-equity based) and locational (vertical and horizontal) linkages, underlies the theory of integrated international production developed in volumes 3 and 4, and leads to the new term used throughout *WIR95* of a "TNC system". The typology of FDI as resource or market seeking, efficiency enhancing or strategic asset acquiring, found in the most recent volumes, was developed by Dunning (1993). The proactive policy emphasis in the reports is mirrored in Dunning's own work, i.e., seeing TNC-Government relations as a cooperative partnership rather than as conflictual adversaries and developing FDI policies that are competitiveness enhancing instead of simply restrictive.

While the first report was scarcely 100 pages in length, the volumes have become successively larger. This newest volume is the largest, almost 500 pages including a 51 page overview, 356 pages of main text, 27 pages of references and lists of publications, and 55 pages of annex tables and technical notes. However, any primary school child will tell you that the correspondence between quantity and quality is not necessarily one-to-one. How is the quality of the reports? Has the quality improved over time in parallel with the weight of the volumes? Let us come back to these questions after a brief review of *WIR95*.

World Investment Report 1995

The main text, as in earlier volumes, decomposes into three parts: two chapters of statistics on FDI and TNCs, three chapters on the theme of competitiveness and TNCs, and two chapters on policy implications. We examine each in turn.

Statistical trends in FDI

This section of the report deals with global and regional trends in FDI. According to table I.2, there are now 38,541 TNCs (85 per cent located in developed countries), and 251,450 foreign affiliates (40 per cent located in developing countries). While the numbers are likely to be inaccurate,[1] they still suggest that TNCs are growing in number and in geographic diversity.

In addition to simple descriptive FDI statistics, the report provides new sources of FDI information. First, privatization-based FDI (FDI in response to privatization of State-owned firms) is a new topic. A statistical analysis of privatization-based FDI as percentage of all FDI in developing countries, makes the point that this form of FDI is now the primary source of FDI in Sub-Saharan Africa and Central and Eastern Europe. Analyses of post-privatization FDI in Latin America and in the former Soviet Union suggest that this form of FDI can be the first stage of a string of new FDI.

Second, a new index of transnationality (IOT)[2] is used to measure the relative importance of international activities for the top 100 TNCs (as measured by size of foreign assets). Royal Dutch Shell, the largest TNC falls to twenty-second place on the IOT list, while Nestlé moves from eleventh to first place. A third innovation is a list of 50 small and medium-sized [TNC] enterprises. Twenty-four of the SMEs are headquartered in Japan, 8 in the United States and 3 in Sweden. The next is a list of the 50 largest TNCs in developing countries (10 in Brazil, 9 in the Republic of Korea, 7 each in Hong Kong and Taiwan Province of China).

Lastly, the potential for FDI in various African countries is assessed by grouping countries according to their GDP (proxying size of the domestic market) and GDP per capita (level of income), and then comparing their FDI/GDP ratio to the average FDI/GDP for all developing countries. Countries with a low FDI/GDP ratio relative to the average, are said to have

[1] The statistics show China with 45,000 foreign affiliates. This means that China has almost as many foreign affiliates as all the rest of the developing countries put together, and almost one fifth of the world total. Chinese FDI statistics are notoriously poor. First, the FDI statistics measure planned/approved rather than actual FDI (as do those for Japan and Mexico). In addition, round tripping and overvaluation overstate the numbers (*WIR95*, p. 59). Thus the total number, and developing country share, of foreign affiliates are likely to be significantly overstated.

[2] $IOT = 1/3\,(FA/TA + FS/TS + FE/TE)$ where F = foreign, T = total, A = assets, S = sales and E = employment. There is no discussion of *why* this index was chosen. See, in contrast, the long discussion in Sullivan (1996) and its bibliography.

unexploited FDI potential. The slow privatization rate is seen as one reason for the large number of African countries with significant FDI potential.

The theme of competitiveness

Competitiveness is ''the'' controversial buzzword of the 1990s. Since the publication of Michael Porter's *The Competitive Advantage of Nations* (1990) with its diamond of competitive advantage,[3] management consulting firms, including Porter's own firm Monitor, have been brought in by governments to assess the strength of individual country and/or industry ''diamonds'' and to provide policy advice on how to strengthen these diamonds. Porter's analysis has not gone without criticism. Dunning (1992) has argued that Porter's diamond ignores the TNC, and developed a new model showing how the TNC can influence each corner of the diamond. Chang Moon, Rugman and Verbeke (1990) have argued that the competitiveness of TNCs located in small countries comes from ''double diamonds'' e.g., Canada's competitive advantage comes from a combination of the Canadian and United States diamonds. Paul Krugman (1994), going even further, has argued that the focus on competitiveness is misplaced, that what matters is per capita income, not exports or sales figures.

Thus, for UNCTAD to tackle the issue of TNCs and competitiveness is in itself a brave act. There were various routes that could have been chosen. The historically ''most travelled'' route would be to treat FDI as a package of capital, technology and management skills and to focus on the impacts of this package on the competitiveness of host and home countries, since the effects of FDI on home and host countries is one of the oldest topics in the TNCs field. A less travelled route would be TNCs and their microeconomic impacts on market competition and efficiency, along the lines of the literature review in chapter four of Richard Caves (1982, 1996). A third alternative would be some version of the diamond analysis in Porter (1990), i.e., the impacts of TNCs on the four components: demand and factor conditions, related and supporting industries, and firm strategy, structure and rivalry.

[3] The four components of the diamond are demand conditions, factor (basic and created) conditions, related and supporting industries, and firm strategy, structure and rivalry (Porter, 1990).

In fact, the report most closely follows a blend of the first and second methods. Corporate systems are seen as a "system for the efficient allocation of a firm's resources" (*WIR95*, p. 127). The presence of TNC systems in a country increases competitive pressures on existing firms, but also offers linkages and spillover effects. The impact on country performance then depends on the "level of development, economic structure and resource endowments" (ibid), where performance is measured as income per capita. TNCs see their competitiveness coming both from their home-based activities, and their FDI and cross-border strategic alliances (pp. 128-130). Members of a TNC system have "privileged" access to the firm's resources and markets, while other firms can have "advantageous" access through linkages and spillovers. To maintain competitiveness over time, each TNC must match its rivals' gains in terms of three sources of efficiency: firm specific advantages (O), locational assets (L), and managerial expertise (M).[4] Corporate systems can have three impacts on firm competitiveness and country performance: TNCs can provide access to TNC resources, expand market access, and aid in economic restructuring.

In putting this theoretical model into practice, the volume then splits into three chapters, paralleling the topics: resources, market access, and aid in restructuring. In the first two cases, resource and market access, *WIR95* approaches the topic through answering the following general questions:

- How important is the resource (market) for competitiveness?
- How is the resource (market) developed and transferred within TNC systems?
- What are the resource spillovers (markets) and linkages outside the TNC system?
- What are the implications of the above for economic performance of countries?
    - What are the implications of inward FDI?
    - What are the implications of outward FDI?

[4] This latter point is a noticeable (but not discussed) change from Dunning's OLI model of foreign direct investment. The O and L advantages of TNCs are clearly the same as in the OLI model, but I (internationalization) and M (organizational and management skills) are conceptually distinct. One could speculate that perhaps the shift from OLI to OLM comes from attempting to incorporate the strategic management literature into the FDI framework?

The resource chapter deals individually with each component of the TNC package: capital, technology and management skills. The analysis is somewhat similar to that of *WIR92* where the focus was on the impact of the FDI package on growth and development; here the focus is on the package and competitiveness. Since competitiveness is seen as encouraging growth, the overlap is not surprising. Of the three, the section on organizational and management practices is the most interesting (see, e.g., table III.6, listing various management practices under mass and lean production and their impacts on competitiveness).

The market access chapter looks first at the internal market in intra-firm trade created by TNCs, providing estimates on the size of intra-firm trade in country trade, and then at arm's length, trade by TNC systems both in terms of sourcing inputs and selling outputs. Here, competitiveness is measured as sales and export performance (in spite of Krugman's critique). The rationale provided is that access strengthens TNCs through economies of scale, specialization, and learning effects which then diffuse to other firms through backward and forward linkages and spillovers.

The statistics in this chapter, as in several other chapters, are primarily from the United States, Japan and Sweden, presumably because these are the best sources of TNC-home country data. Otherwise why would Sweden be chosen as the third example instead of, for example, Germany, which has twice as many TNCs (*WIR95*, p. 8), six times the inward FDI stock (p. 401) and four times the outward FDI stock (p. 407)?[5]

The third impact, economic restructuring, recognizes that restructuring can occur between sectors (e.g., from primary to secondary), within a sector (labour intensive to technology intensive), or within an industry (low to high value added goods). Transnational corporations, through their package of resources and access to markets (i.e., the first two impacts), can aid the restructuring process in each of these cases. The examples provided are

[5] An interesting question, one that cannot be addressed in this limited space, is to what extent are the examples of the United States, Japan and Sweden typical—or atypical— of the FDI experience and impacts of other countries? That is, to what extent are the statistics on these three countries, which are used regularly as examples in all the five reports, *meaningful benchmarks* in the sense of being either representative of the "average" home country, or as extreme outliers that delimit the range of home country experiences? A supplementary question: would it be more useful to include statistics on a "traditional" host country such as Canada rather than on three home countries? (Although Canada may no longer be a good example since the statistics on pages 101 and 107 suggest Canada's inward and outward stocks reached an (improbable) exact balance in 1994.)

primarily Asian: the manufacturing sector in Japan,[6] the automobile industry in Japan, the textile and apparel industries in the Asian newly industrializing economies, the electronics industry in the Republic of Korea and Taiwan Province of China.

The theoretical base in this chapter is a mixture of the United Kingdom and Japanese schools, that is, Dunning's investment development path and Kojima's pro-trade theory of Japanese FDI, as synthesized and developed by Terutomo Ozawa.[7] Kojima's "flying geese" model suggests that TNCs, through aiding the restructuring process, can reduce the time it takes latecomer countries to catch up with the lead countries along the investment development path (*WIR95*, pp. 258-260). Dunning's investment-development path ties this to the net inflow of FDI in a country: the more developed the country, the more likely is the historical net inflow of FDI to be offset by matching FDI outflows as the country matures and develops its own TNCs (*WIR95*, pp. 237-238).

The restructuring examples focus only on the positive contributions made by TNCs (which the report admits on page 256). The lessons from these examples suggest TNCs can aid restructuring when: the countries are able to restructure continuously, there is a favourable investment climate and market demand, the countries are at different levels of development, and the restructuring process is in line with comparative advantage. The report notes, however, that the Asian experience is one of intervention. Governments did not sit idly by while TNCs restructured their economies but actively engaged in restrictive policies that may not be available in any real sense in today's liberal market-based policy environment. Thus the market, not effective industrial policies, must be the key motivation of TNC-assisted restructuring in the late 1990s.

Policy implications

The last third of the theme section of the book, on policy implications, is organized as in previous reports in terms of policies towards inward FDI

[6] Mexico and the United Kingdom are also discussed. However, there is no discussion in this chapter of TNCs and economic restructuring going on in other major areas (e.g., the former Soviet Union). In effect, this is a chapter on lessons from "the Asian experience with TNC-assisted restructuring" and the chapter admits this (*WIR95*, p. 262).

[7] Ozawa is thanked in the acknowledgements and his influence on this chapter is clear. For a more detailed analysis see Ozawa (1992, 1994) and the citations for Ozawa, Dunning and Kojima in the *WIR95* bibliography.

and outward FDI. Steven Guisinger and John Kline were important resource persons for this section. The report first lists recent changes in FDI regulations by country. As in previous years, the trend is toward liberalization of national FDI regimes.

In terms of inward FDI, the focus of *WIR95* is in two parts: (1) a general discussion of how host country policies are and can be "fine tuned" in terms of their effects on accessing TNC resources and markets; and (2) a nicely done analysis of the increasing range of fiscal incentives available in different countries. The chapter concludes that countries have a range of options on incentives in terms of the level (national, bilateral, regional, multilateral) and strength (voluntary, non-binding, binding).

The chapter on FDI policies in home countries splits into an analysis of policies in developed countries (Finland, Turkey and Japan are highlighted, along with the Overseas Private Investment Corporation) and developing economies (Taiwan Province of China, China, Chile, Hungary, the former Yugoslavia, and the Multilateral Investment Guarantee Agency are discussed in some detail). The end of the main text of the book stops here, without a conclusions section or chapter.

However, it is at this point that the "Overview" chapter becomes most useful, since it summarizes the main points in all the chapters, and is actually clearer about the policy implications than the policy chapters. The Overview argues that governments do need to target promotion efforts and to provide after-investment services to retain and/or upgrade their inward FDI stocks. In addition, the various components of FDI should be treated as part of a package. Excessive incentive competition should be curtailed through national and international approaches. Outward FDI also needs attention by policy makers; however, since there are a variety of approaches, but no single model, for liberalizing an outward FDI regime, each government must determine the approach that best fits its circumstances.

Whither *WIR*?

The initial *World Investment Report* was a slim volume of under 100 pages. The current volume is almost five times as large. *WIR91* primarily provided FDI stock and flow statistics, together with a discussion of what the Triad was and its role in world FDI. *WIR95* tackles the much more difficult topic of TNCs and competitiveness, and introduces several new topics along the way: the index of transnationality, intra-firm trade statistics, privileged versus advantageous access to TNC systems, privatization-based FDI, the top 50 SMEs, the shift from OLI to OLM, the flying geese model of FDI-aided restructuring, and so on. Thus the quantity and difficulty of the material has increased over the past five years.

What about the quality of the reports? Has it also improved? My overall assessment is that the current report is very good and a significant advance over the first report. I offer four reasons for this view.

First, while individual experts on TNCs (or MNEs, as they are usually called outside the United Nations) may quarrel with particular points in the reports (e.g., the poor FDI data on China, the excessively positive attitude towards FDI and TNCs in general, the over-emphasis—at least until the UNCTC (now DTCI) moved to Geneva—on the United States), I think all would recognize the value of the sustained contribution the reports have made to our knowledge base. The series provides annual, detailed information on TNCs and FDI policies that is unmatched in breadth by any other publication outlet.

Second, given the underfunding and small staff of the DTCI, the reports by necessity must rely on the volunteer services of groups of academics and officials to supply information, critique sections of the reports, and so on. This two-way flow is essential to maintain the academic quality and the policy relevance of the topics and materials in the reports. It also provides a way by which journal articles, scholarly books, and other academic works can be rewritten to make them understandable and thus brought into the mainstream of TNC readership. The spillover benefits are therefore bi-directional, with both academics and the DTCI benefitting from the interaction.

Third, the *WIR* series is, by design, more visual, readable and less technical than any journal article, and also reaches a much larger audience. The reports can be read by the general public, undergraduate and graduate students in many fields, TNC managers, government policy makers, as well as academics. Thus the series has a dissemination effect in terms of providing timely information in an easily accessible format to a broad audience.

Related to the second and third points is the policy impacts of the reports. The general shift from protectionist, tight regulatory FDI regimes to market-based, liberalized FDI policies was not only tracked by the *World Investment Reports*, but in some small measure the reports, providing information on and assessments of other countries' changing policies, may be contributing to the rapidity with which governments in developing countries are moving to dismantle their FDI regulations.

In summary, this fifth volume of the *World Investment Report* series is the largest, most detailed and most sophisticated volume so far. In bringing together policy debates and academic discourse, the reports are valuable contributions to the literature on TNCs.

Whither *WIR*? On course, full steam ahead. ■

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