



World Investment Report 2002

Transnational Corporations and Export Competitiveness



UNCTAD

Karl P. Sauvant

Director

UNCTAD-DITE

Phone: +41 22 907 5707; Fax: +41 22 907 04 98

karl.sauvant@unctad.org

Briefing at the Trade and Development Board

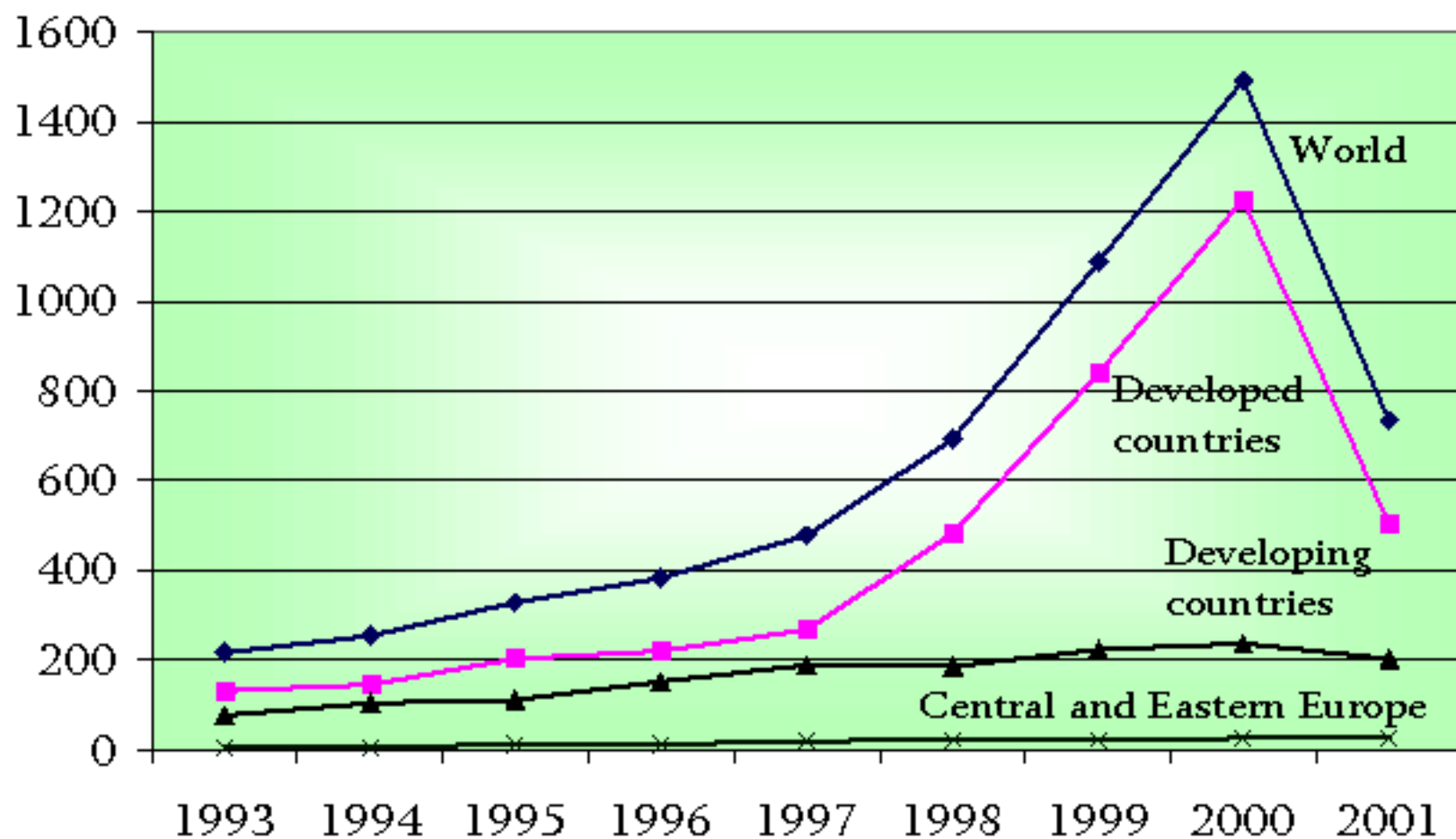
UNCTAD

Geneva, 11 October 2002



Global inflows of FDI

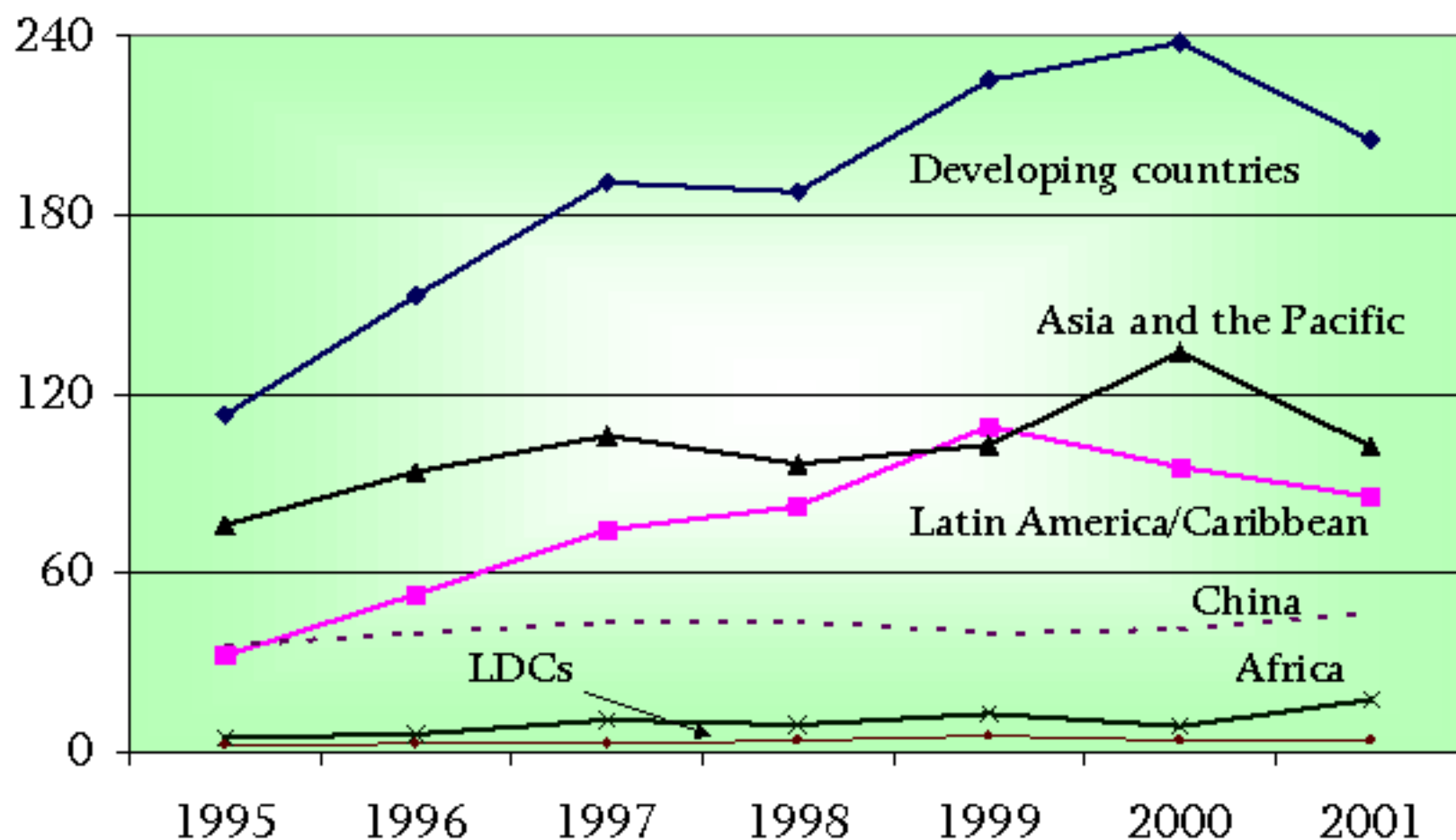
1993-2001, USD billions, by group of countries



Source: UNCTAD

Inflows of FDI to developing countries

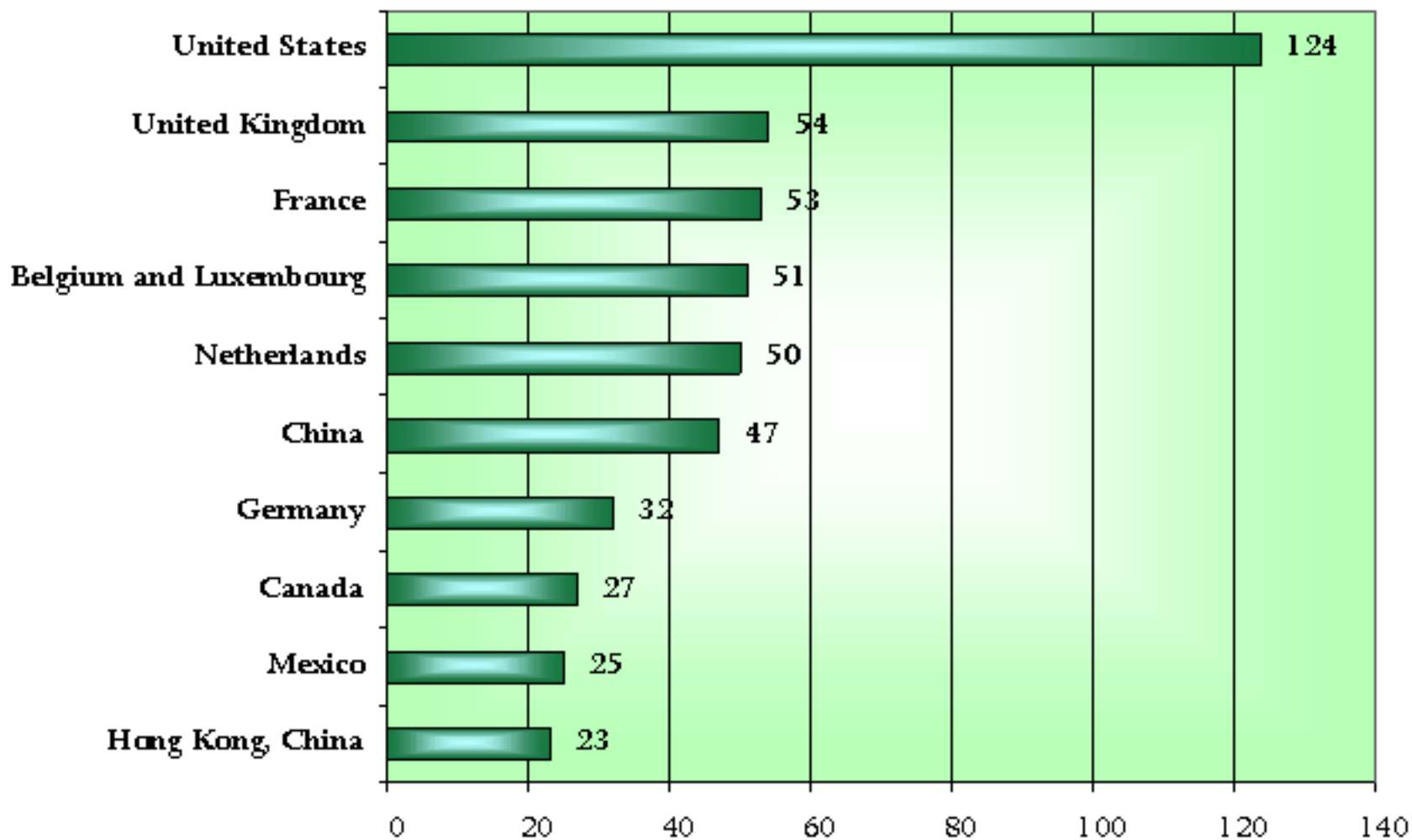
1995-2001, USD billions, by region



Source: UNCTAD

10 largest FDI destinations

2001, USD billions

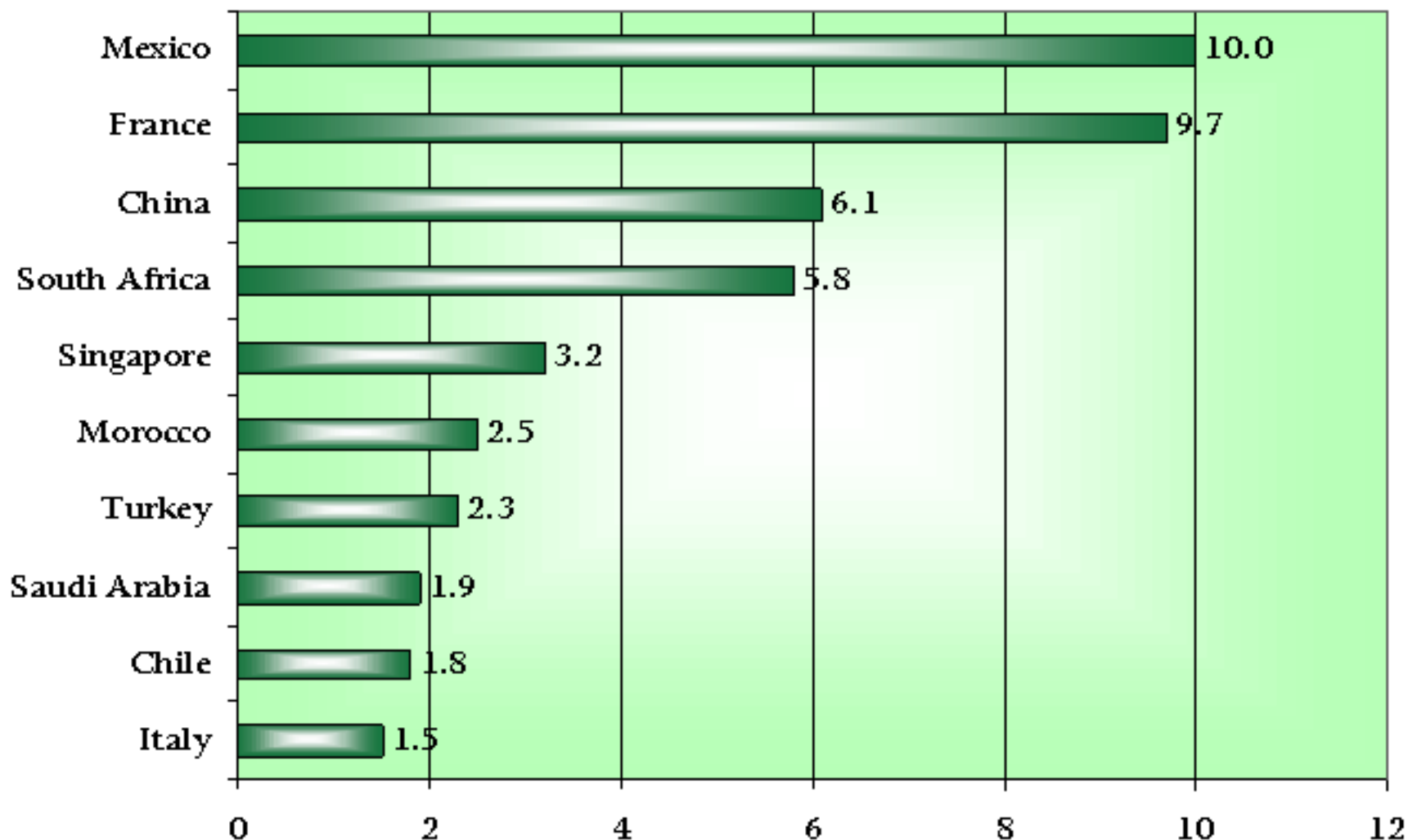


Source: UNCTAD

World Investment Report 2002: Transnational Corporations and Export

The 10 largest increases of inward FDI

2001, USD billions



Source: UNCTAD

Indicators of FDI and international production

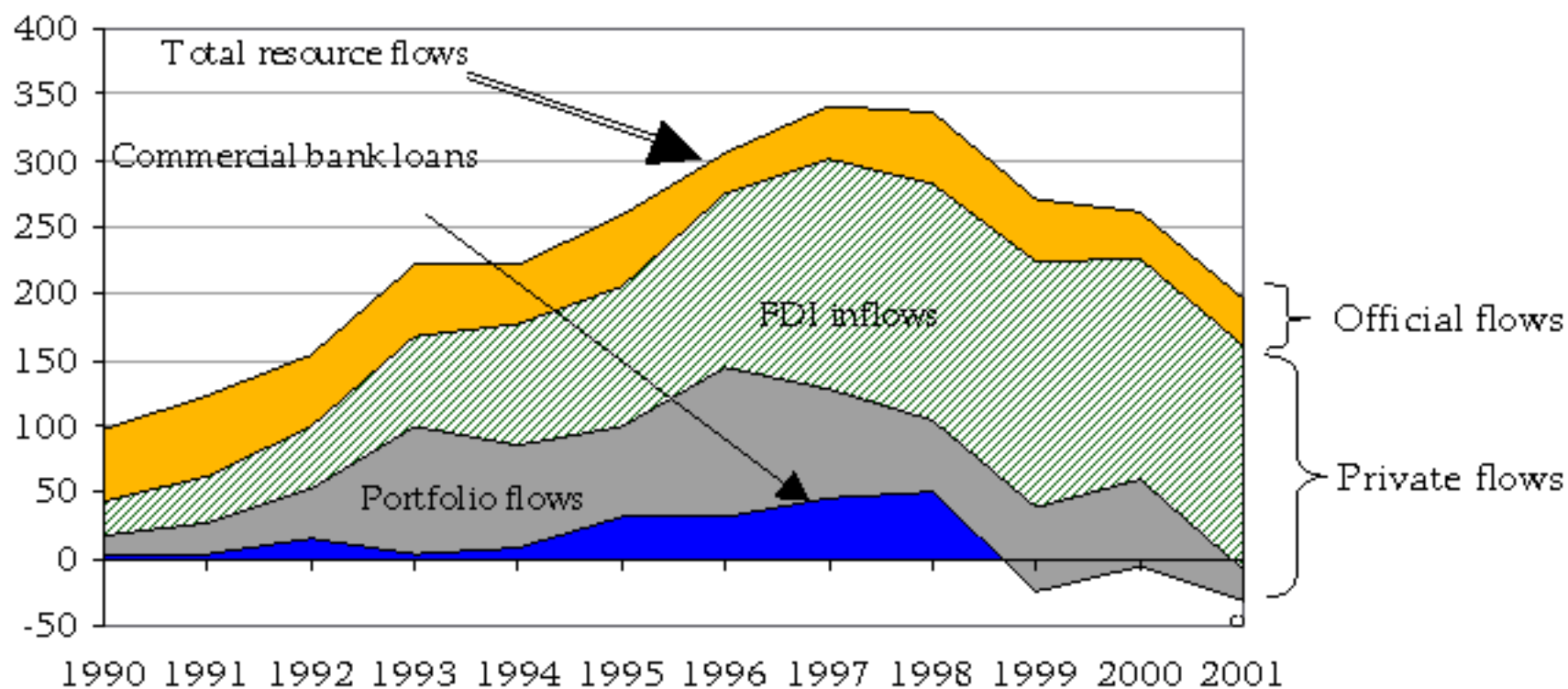
1982-2001, USD billions, current prices

Item	1982	1990	2001
FDI inflows	59	203	735
FDI outflows	28	233	621
FDI inward stock	734	1 874	6 846
FDI outward stock	552	1 721	6 582
Cross border M&As a	..	151	601
Sales of foreign affiliates	2 541	5 479	18 517
Gross product of foreign affiliates	594	1 423	3 495
Total assets of foreign affiliates	1 959	8 759	24 952
Exports of foreign affiliates	670	1 169	2 600
Employment of foreign affiliates (thousands)	17 987	23 858	53 581

Source: UNCTAD

Total resource flows to developing countries

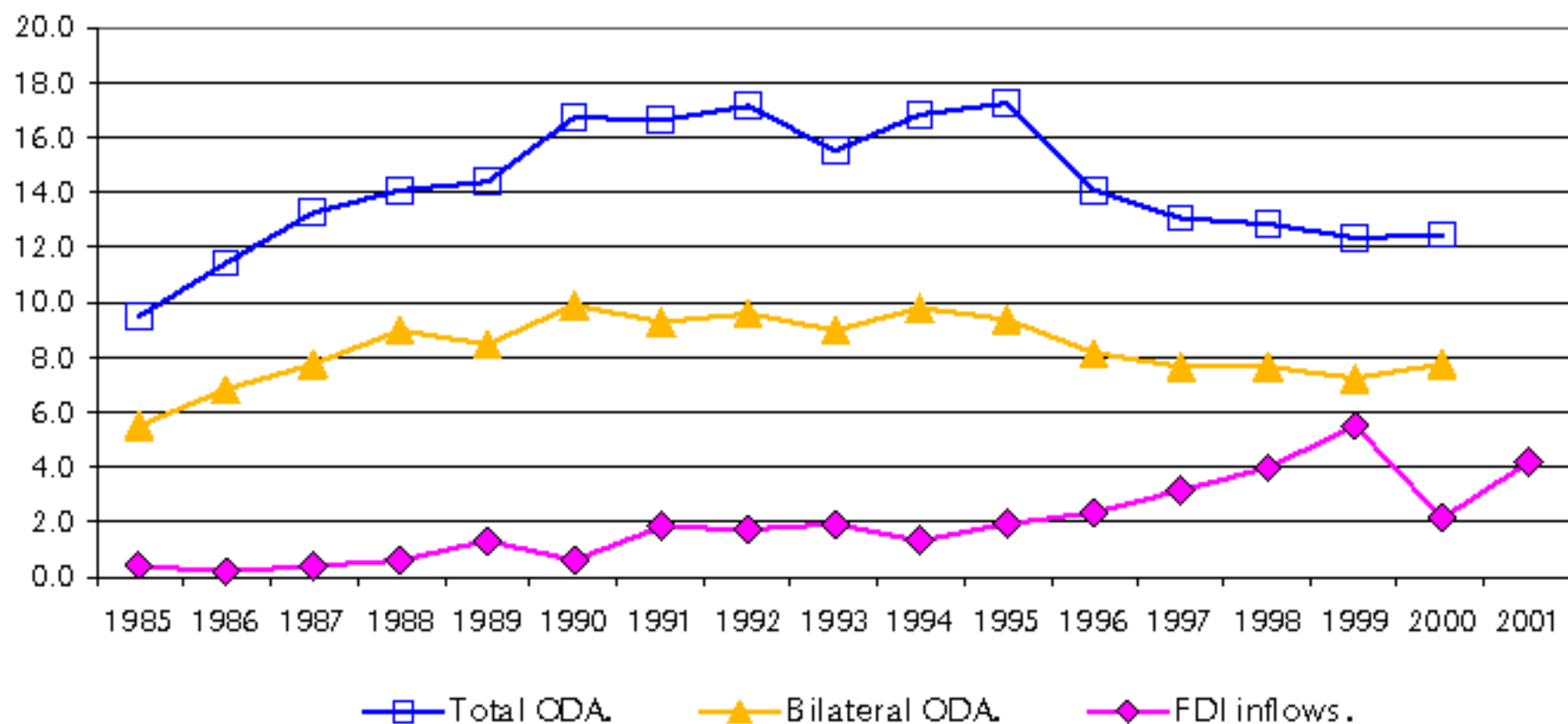
by type of flow, 1990-2001, USD billions



Source: UNCTAD

World Investment Report 2002: Transnational Corporations and Export

FDI inflows and ODA flows to LDCs, 1985-2001, USD billions



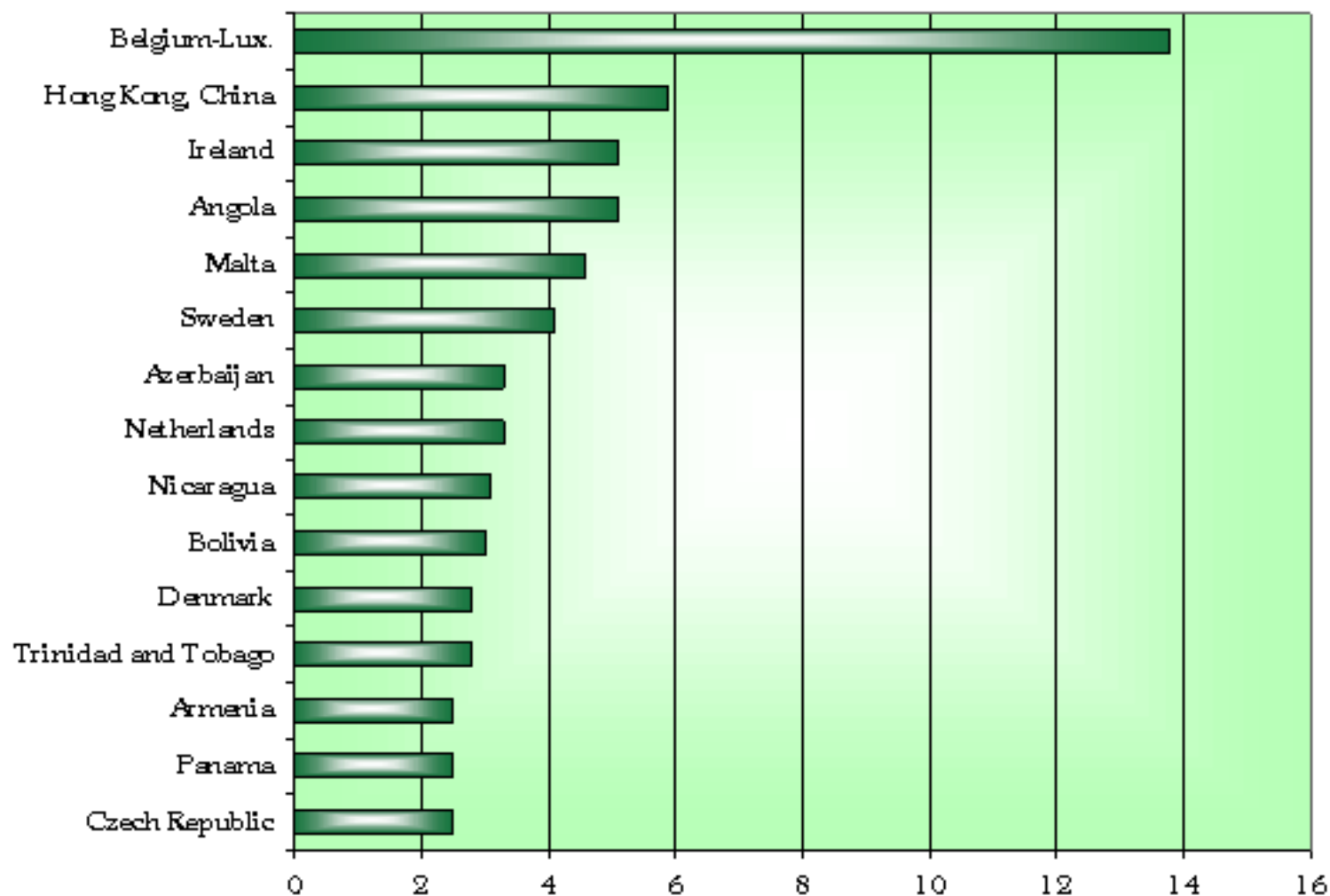
Source: UNCTAD

Types of changes in FDI laws and regulations 1991-2001

Item	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
No. of countries that introduced changes in investment regimes	35	43	57	49	64	65	76	60	63	69	72
No. of changes <i>of which:</i>	82	79	102	110	112	114	151	145	140	150	208
More favourable to FDI	80	79	101	108	106	98	135	136	131	147	186
Less favourable to FDI	2	-	1	2	6	16	16	9	9	3	22

Source: UNCTAD

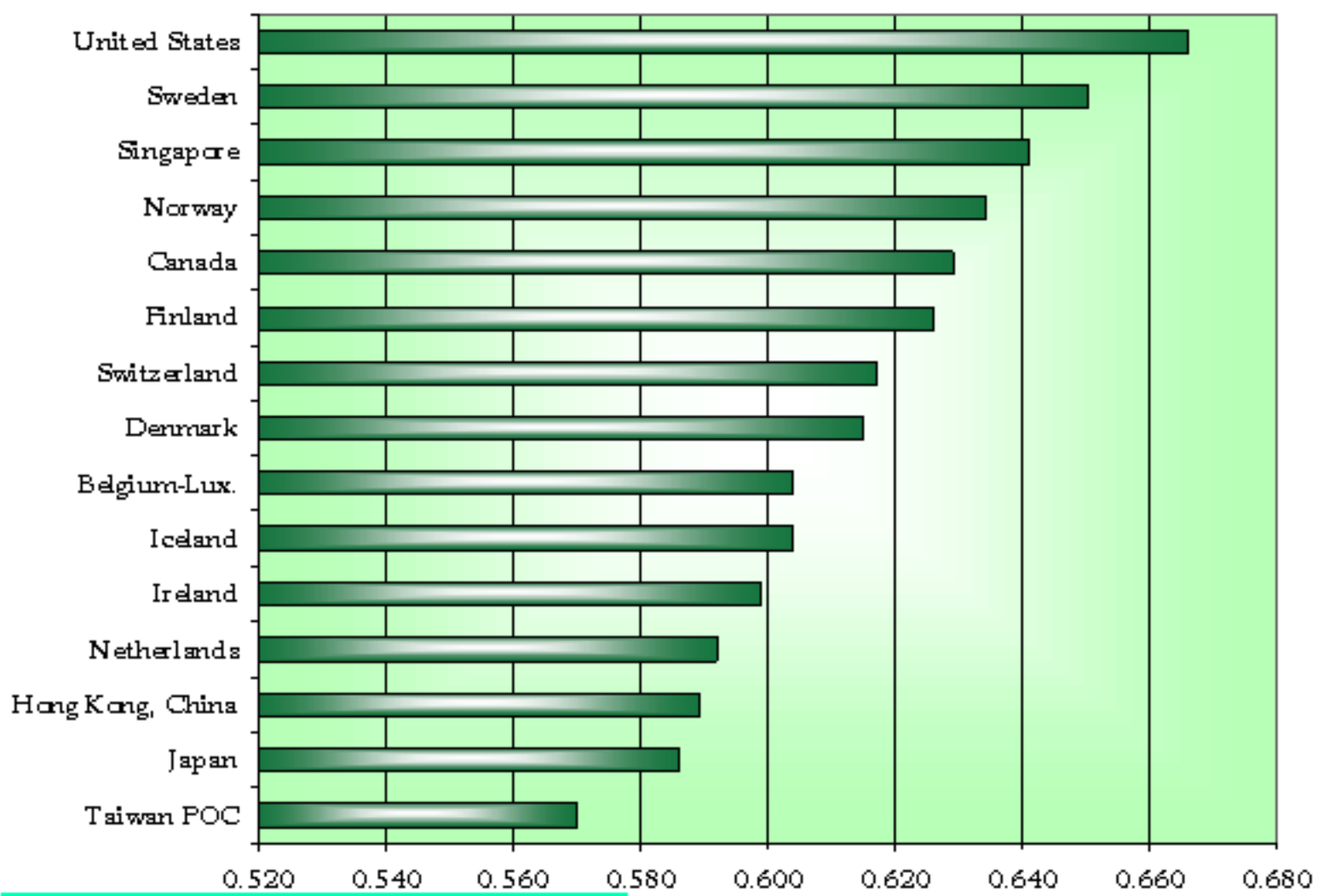
Top 15 ranks in the FDI Performance Index 1998-2000, index value



Note: An index value of 1 suggests that a country receives FDI in proportion to its relative size of GDP.

Source: UNCTAD

Top 15 ranks in the FDI Potential Index 1998-2000, index value



Source: UNCTAD

World Investment Report 2002: Transnational Corporations and Export

Snapshot of the world's top 100 TNCs in 2000

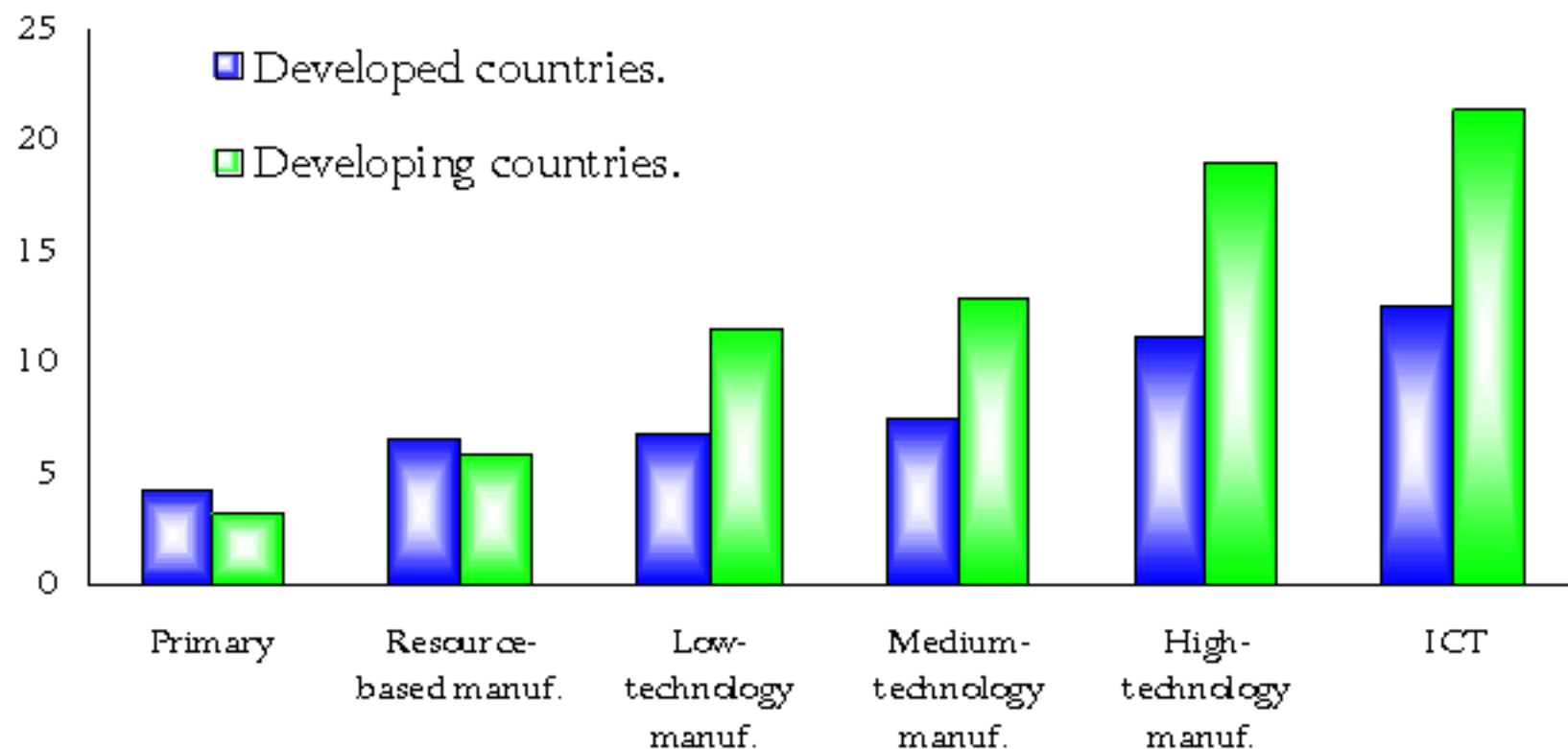
- 90 are based in the “Triad”
- 5 firms are based in developing countries
- Half of the largest 100 firms are in four industries
 - √ *motor vehicles and parts*
 - √ *electrical and electronic equipment*
 - √ *petroleum exploration and distribution industries*
 - √ *pharmaceuticals*
- The top 100 accounted for
 - √ *11 per cent of the foreign assets;*
 - √ *14 per cent of the sales; and*
 - √ *14 per cent of the employment...* ...in all TNCs!

- ◆
- ◆



Transnational Corporations and Export Competitiveness

Average annual growth rates of world exports, by technology intensity, 1985-2000, per cent

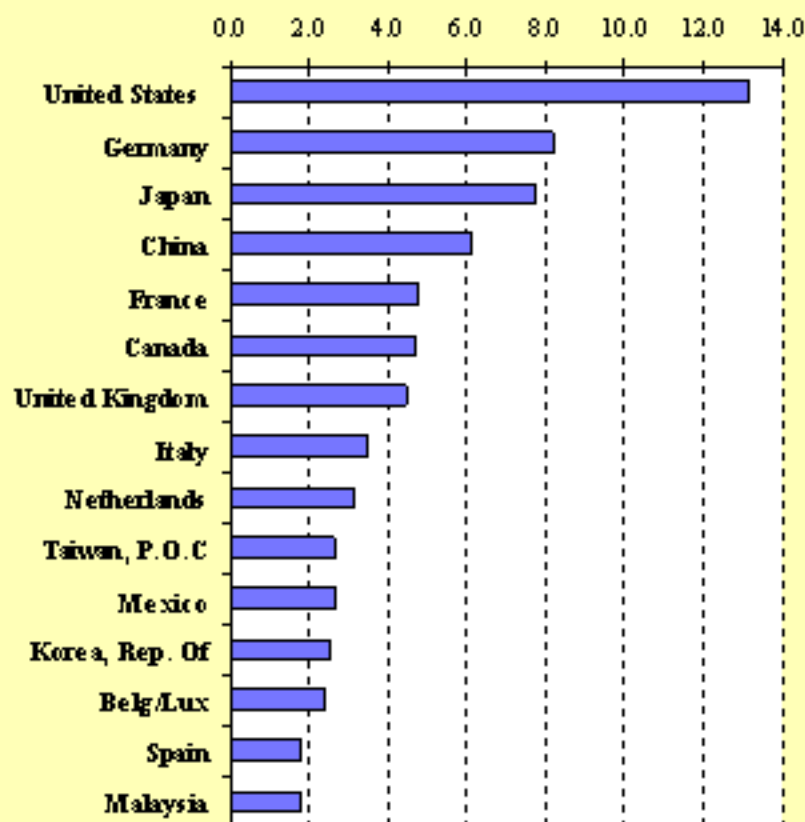


Source: UNCTAD

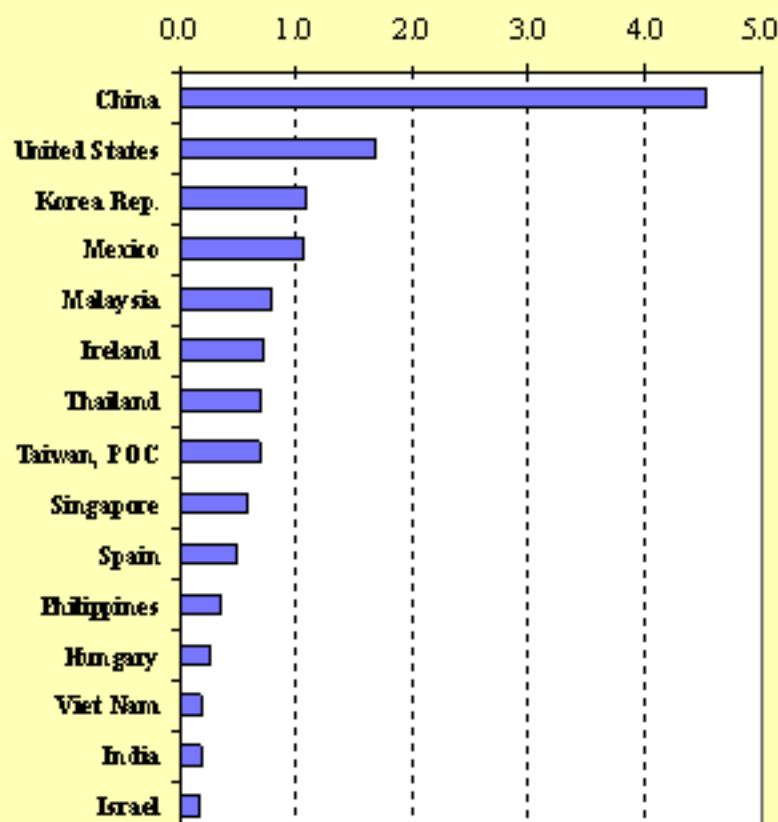
World Investment Report 2002: Transnational Corporations and Export

World export market shares, 2000, and changes, 1985-2000, per cent and percentage points

15 economies with largest export market shares, 2000 (per cent)



15 economies with the largest export market share gains, 1985-2000, (percentage points)



Source: UNCTAD

Enhanced export competitiveness

some observations

- 1985-2000, the developed country share fell in
 - total exports: from 69% to 63%; and in
 - exports of non-resource-based manuf.: from 82% to 67%
- Mexico: gaining in North American market
- Countries in Central and Eastern Europe: gaining in European market.
- Asian “winner countries”: gaining in *all* markets

Foreign affiliates' share of exports

selected countries, latest year

Ireland	90*
Hungary	80
Estonia	60
Poland	56
China	50
Malaysia	49
Czech Republic	47*
Canada	39
Sweden	39
Mexico	31
Argentina	29
Austria	26
Finland	26
Rep of Korea	15
Colombia	14
United States	14
Bolivia	9
Japan	4

** Manufacturing only*

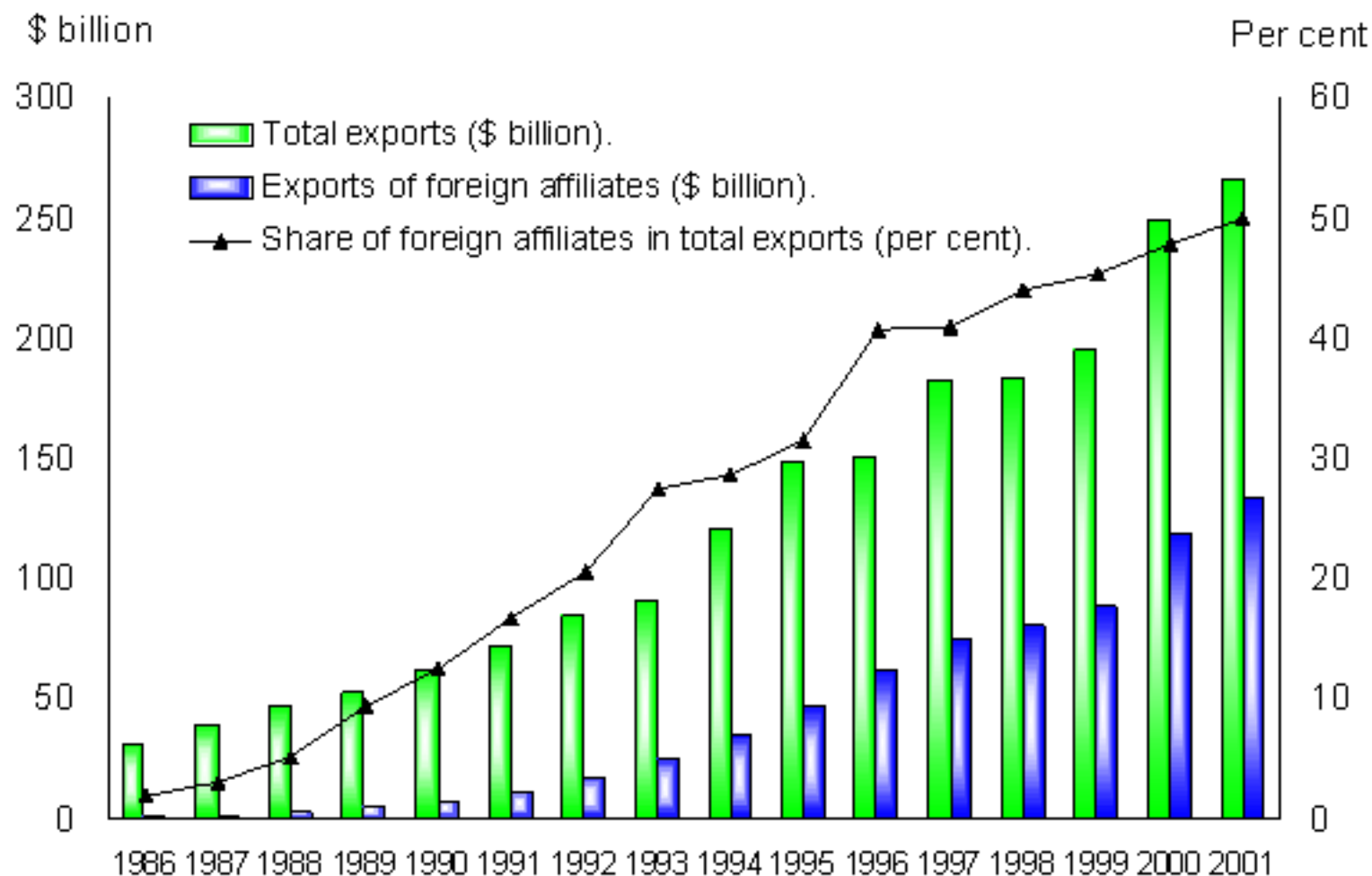
Source: UNCTAD

World Investment Report 2002: Transnational Corporations and Export

- Foreign affiliates account for high and rising shares in many countries that have seen increased export market shares.
- Especially in electronics and automotive.

Share of foreign affiliates in China's total exports

1986-2001, USD billions and per cent



Source: UNCTAD

The role of foreign affiliates in the exports of six selected countries

Country (Year)	Total exports 2000 (US\$ bn)	Share of foreign affiliates in total exports (%)	Top three TNC exporters in 2000	Exports 2000 (US\$ bn)
China (2001)	279.6	50	Samsung Electronics IBM Nokia	1.5 1.5 1.1
Costa Rica (2000)	6.7	50	Intel Dole Food Del Monte	1.7 0.2 0.1
Hungary (1999)	25.5	80	Volkswagen IBM Philips Electronics	3.2 2.2 2.0
Ireland (1998)	52.5 ^a	90	Intel (1998) Dell Computer (1998) Microsoft (1998)	4.8 4.3 2.4
Mexico (2000)	180.4	31	IBM DaimlerChrysler General Motors	9.6 6.9 6.7
Republic of Korea (1999)	150.4	15	Amkor Technology Nokia Chip PAK	4.7 2.4 2.4

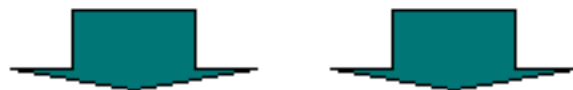
Source: UNCTAD

World Investment Report 2002: Transnational Corporations and Export

Corporate strategies reflect changes in the global business environment


Underlying factors

- Trade and investment liberalization
- Technological change
- Economic slowdown
- Increased competition



TNC responses

- Focus on core activities/outsourcing
- Specialization and internationalization
- Search for ways to reduce costs and reap economies of scale

 *Expansion of efficiency-seeking FDI!*

When investing in export-oriented activities TNCs look increasingly for:

- Access to key markets (e.g. EU, NAFTA)
- Adequate skills at competitive costs
- High-quality infrastructure and logistics
- Competitive domestic enterprises
 - in terms of cost, quality and timely delivery
- Presence of industrial clusters
- Efficient bureaucracy
- Locations that fit into their international production system

Policy implications

elements to consider in an integrated and coherent approach

- Improve access to markets as well as supplies
- Incentives to encourage TNCs to invest in strategic activities, taking due account of WTO rules on export subsidies
- Involve TNCs in the upgrading of human resources
- Infrastructure development (e.g. EPZs, industrial and science parks)
- Financial support to strategic investments involving domestic and foreign companies;
- Support the development of domestic suppliers and clusters.
- Integrate FDI promotion in overall development strategy
(targeting, investment facilitation, after-care and policy advocacy)

Policy implications

Targeting export-oriented FDI

- Why target?
 - help meet development objectives
 - cost-effective way of promoting FDI
 - respond to intense competition
- What export-oriented FDI to target? Starting point:
 - analyze existing trade and industry patterns
 - consult with existing investors
 - benchmark competing locations
 - identify specific niches
- How to target?
 - business-oriented approach - links to private sector
 - should be integrated into overall development policy
 - adapt strategy over time

◆
◆

Policy challenge: *to take advantage of TNC activities*

- Opening up to FDI is not enough
- Competition for efficiency-seeking FDI is fierce
 - Not all developing countries can attract export-oriented FDI in dynamic industries
 - Even traditionally successful recipients have to upgrade into higher value-added activities to sustain their competitiveness
- High exports do not mean high value added
- Linkages with domestic firms are important to:
 - raise local value added
 - make FDI less footloose
 - facilitate knowledge and technology transfers

Concluding remarks

- TNCs can contribute to the competitiveness of a country, but benefits are not automatic
- Changing corporate strategies open new opportunities for developing country exports (manufactures *and* services)
- Policies key to move from *static* to *dynamic* gains
- Success requires:
 - clear vision of objectives (*quality* not only quantity of FDI)
 - understanding of a location's strengths and weaknesses
 - emphasis on strengthening domestic capabilities (especially human resources)
 - a coherent and co-ordinated policy approach.