The World Investment Report, published annually by UNCTAD, is celebrating this year its 10th anniversary. Over the years these publications have established themselves an important position within the FDI literature, contributing towards a better understanding of the role of FDI in the world economy and to the ongoing discussions on globalisation and its impact on firms and countries. They provide valuable insights into the activities of TNCs and its consequences for their home countries and for the countries that host them.

This review focuses on the recently published World Investment Report 2000: Cross Border Mergers and Acquisitions and Development. It starts by briefly describing the structure and content of this report, highlighting the main issues addressed in each of its sections, and assessing its specific contribution to the existing FDI literature. The review continues by examining some new features of this year’s report and by suggesting possible additions and improvements that might be included in future reports.

The first part of the report – like its predecessors - is devoted to a survey of general FDI developments over the last year at the global and the regional level, and to a description of the activities of the leading TNCs world-wide. In this part, the report documents the large increase in FDI, which have reached new record in 1999 at $865 billion, an increase of 27% over the previous year. This increase is also presented via the growing number of TNCs world-wide, where about 63,000 parent firms are controlling an estimated 690,000 foreign affiliates. UNCTAD’s report is the only source of FDI data which provide this latter kind of information, and in considerable details (broken by countries and regions).

Documented is also the country breakdown of 1999 FDI, notably the lead of outward investment being taken this year by the UK, the continued, and rapidly growing, lead of the US as the largest, by far, host country for FDI. Another notable characteristic of the geographic distribution of FDI is the growth of inward flows to Japan, with the ratio between inward and outward becoming far more balanced than ever before. At the regional level, the report highlights the position of the EU as the world’s most important source of FDI. The report emphasises the continued trend towards liberalisation of FDI regimes, as countries recognise its economic value for their economies, and seek to attract it.

Most interesting is the analysis of the largest TNCs (by the value of their foreign assets), which comprises three parts - the top 100 world-wide, the 50 largest from developing countries and the 25 largest from Central Europe. The report provides illuminating information regarding the geographical and industrial distribution of these firms, in absolute (foreign assets) and relative (transnationality index) terms, and over time, covering the whole 1990s.

The report emphasises that the driving force behind the 1999 increase of FDI activity continued to be cross-border mergers and acquisitions (M&As). It documents the growth of
M&As over the last decade or so, in absolute terms, as share of GDP and of FDI. This is the central topic of the second part of the report, which examines the impact of FDI through M&As on host countries as compared with that of greenfield FDI. These effects are analysed in terms of the impact on key areas of economic development, including financial resources and investment, technology, employment and skills, export competitiveness and trade, market structure and competition, as well as broader impact including those on economic restructuring, national economic sovereignty and social, political and structural aspects of development. The main policy implications that can be drawn on the basis of this analysis are considered and policy options for countries are outlined.

This discussion starts by documenting general trends and characteristics of M&As, as a whole and by industries and regions. Specific attention is given to the growing magnitude of cross border deals (those of value of over $1 billion), which in 1999 – according to the report – accounted for about 70% of total value of cross-border M&As. As the report illustrates, this share has been growing considerably over the last decade. The data on M&As at the international level is problematic (which probably explains – in part at least – the limited research at this level). The report makes a most valuable contribution by discussing these difficulties and by presenting analysis based on UNCTAD’s database of M&As (based on information provided by Thompson Financial Securities Data Company).

The report goes on to assess performance, motivations and outlook for M&As. In discussing why M&As have become more common as a means by which firms expand their activities internationally, the report distinguishes between economic and non-economic reasons. It is argued that the current growth of cross-border M&As reflects the interaction between the basic driving forces that motivate firms to engage in cross-border M&As, and the important changes that have undertaken place in the economic environment in which firms operate. These include especially the liberalisation of trade, finance and investment, regional integration, deregulation and privatisation, technological change and increased global competitive pressure.

The discussion on the impact of M&As refers to impact on corporations and on home and host countries. The introduction of the former is a new feature of UNCTAD’s reports, which traditionally focused on countries as their main unit of analysis and area of interest. This is an important and most welcome development. Missing in this context a specific reference to developing countries corporations. The report suggests that M&As, as compared with greenfield investment, may involve, in some respects smaller benefits or larger negative impact from the perspective of host countries. These include smaller financial and employment gains, increased concentration and anti-competitive results, but a better mean for transfer of technology, and restructuring of the host economies. However, most of the shortcomings of FDI through M&As in comparison with greenfield FDI relate to effects at entry or soon after entry. Over the longer terms, many differences between the two modes diminish or disappear (with the possible exception of the impacts on market structure and competition).

This part of the report concludes by emphasising the role of policy in influencing the costs and benefits of M&As. It points to ways to formulate policies in order to maximise the positive effects and minimise the negative effects of cross border M&As. Specific reference is given to competition policy. In this context, the report highlights the limitations of national actions and the need for regulatory competition authorities at the international level in order to respond effectively to anti-competitive practices of firms.

There are excellent theoretical discussions of various issues related to impact of M&As in this part of the report, with a most adequate balance between theory and anecdotal evidence.
There are wide range of data of various types, which is used to supplement and illustrate the excellent theoretical discussions. A notable improvement is the introduction of full coloured figures!

The report makes a major contribution to the literature on cross border M&As in its emphasis on development-related issues, which has been somewhat neglected by this literature. It brings together the literature on M&As, with its focus on developed country firms, and development literature. This combination results in rich applications for developing countries.

However, the analysis is mainly conceptual and represents a first attempt at assessing the role of cross border M&As in development. The report cannot draw on much empirical evidence on the relationship between cross-border M&As and development, and how they may compare with other modes of entry. Nor indeed it makes an attempt to start feeling this gap in the literature and provide some empirical evidence of its own. This is left entirely as a task for future research, which is a main drawback of the report. This is a major area in which future reports can, and should, expand their scope.

Additional area in which some improvement could be made in future reports is the specific reference to developing country TNCs. In particular, as the literature directly addressing questions related to these firms is so spares, future reports can make valuable contribution, which would have important implications for policy makers in developing countries.

This year’s report, like its predecessors, seeks to reach a wide audience interested in FDI-related issues, ranging from academics, national and international policy makers - notably those with interests in and responsibility for developing countries - and also, increasingly, practitioners. For these audience, it is a rich and most valuable source of different kinds of information (theoretical, anecdotal, and not least – data!) on FDI. It adds an important dimension to the growing literature on FDI by contributing to filling a gap between purely academic and otherwise anecdotal research on FDI, and it reflects key aspects of the research agenda on TNCs.

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