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World Investment Report 2006

FDI from Developing and Transition Economies: Implications for Development

CHAPTER III
EMERGING SOURCES OF FDI

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EMERGING SOURCES OF FDI

A. Developing and transition economies gain ground as home countries

Developed-country TNCs account for the bulk of global FDI. However, a review of different data sources shows an increased and significant international presence of firms from developing and transition economies.[1] A small number of economies are responsible for a high share of these FDI outflows. Most of the investments have been made in the services sector. While interpretations are complicated by the role of offshore financial centres and by statistical limitations, the South-South element of the outward expansion of developing-country TNCs warrants special attention. Estimates suggest that such FDI is significant and growing. Moreover, for some of the low-income recipients, FDI inflows are almost entirely from other developing countries.

1. FDI from developing and transition economies increases

In order to assess the magnitude and importance of the recent expansion of FDI from developing and transition economies, a number of different data sources have to be considered. Since it is only recently that many of these economies have emerged as significant sources of FDI, there are limited data available (box III.1). Nevertheless, available evidence suggests a clear trend: FDI from developing and transition economies has grown rapidly, particularly during the past two decades, and is continuing to gain momentum. Thus, international production by TNCs from these economies can be expected to become an important aspect of the globalizing world economy.

a. *Growing overseas investments from developing and transition economies*

As highlighted in chapter I, FDI from developing and transition economies has grown considerably and now accounts for about 17% of world outward flows. Outflows grew particularly fast in the late 1990s and again in more recent years, reaching $133 billion in 2005 (figure III.1). The value of the outward FDI stock of developing and transition economies reached $1.4 trillion in 2005, or 13% of the world total. Although statistical and measurement problems prevent a full assessment of the position of developing and transition economies in global FDI (box III.1), available data indicate that FDI from these economies is on the rise.

FDI from developing countries has been growing for some time, with several periods of rapid expansion since the 1970s, although on a smaller scale than in recent years (box III.2). Except for temporary corrections in 1990-1991, 1998 and 2002-2003, it has experienced steady growth over the past two and a half decades, driven by various factors (chapter IV). The share of developing and transition economies in global outward FDI has fluctuated between less than 4% and as high as 18% (figure III.1). In the 1980s, their share of global FDI outflows peaked at 10% in 1982, mainly due to declining outflows from developed countries during the recession that was

Box III.1. Statistics on FDI from developing and transition economies – a cautionary note

Data on outward FDI from developing economies suffer from certain limitations. Official statistics on such FDI may be overestimated in some instances and underestimated in others. This box sheds light on the nature and characteristics of the data used in the *WIR06*.

Only a few developing countries report data on outward FDI. In many cases, the FDI outflows reported by UNCTAD are estimates based on information provided by the recipient countries. This method has been used for 23 of the 135 developing and transition economies for which UNCTAD reports such data.[a] As a result, this limitation implies an underestimation of total FDI from developing and transition economies since it only captures FDI to those countries that report inward FDI by origin. It also complicates international comparisons, since FDI reported by a source country does not necessarily correspond to the amount of inflows reported by the recipient countries.[b]

On the other hand, the volume of FDI from developing and transition economies may be inflated by the way in which TNCs finance their investments (e.g. for tax reasons). Significant amounts of FDI from developing economies (e.g. Brazil and Hong Kong (China)) go to offshore financial centres. These centres, in turn, are also major sources of FDI, thus contributing to the overall volume of FDI from developing and transition economies. A large part of the FDI from offshore financial centres is also undertaken by foreign affiliates of developed-country TNCs. Flows going back and forth between offshore financial centres and other developing countries may give rise to a "double-counting" of FDI (see also boxes I.1 and I.2).[c] Finally, in some developing and transition economies (e.g. China, Hong Kong (China) and the Russian Federation) a significant amount of FDI takes the form of round tripping.

When assessing the role of FDI from developing and transition economies, it is important to recognize the difference between "immediate" and "ultimate" investor. The international norm for FDI data compilation is to focus on the immediate investor. In some cases, significant outflows of FDI are the result of investments by foreign affiliates of other countries' TNCs. For example, in 2005, foreign affiliates of developed-country TNCs accounted for one quarter of all cross-border M&A purchases from Hong Kong (China). Such transactions may overestimate the role of TNCs from developing and transition economies. Conversely, some developing-country TNCs may be registered in a developed country, despite the fact that their assets and central economic activities remain in a developing country (e.g. SABMiller and Anglo American). When FDI projects are undertaken from a developed country by foreign affiliates of developing-country TNCs, they are not included in official data on FDI from developing-country TNCs, which results in underestimation.

These statistical issues underline the difficulties associated with measuring the magnitude and composition of FDI from developing and transition economies. It also implies that FDI data based on balance-of-payments information must be interpreted carefully. To obtain a more complete picture, FDI data need to be complemented with other data sources, including those related to M&As, greenfield and expansion investment projects and to the activities of foreign affiliates.

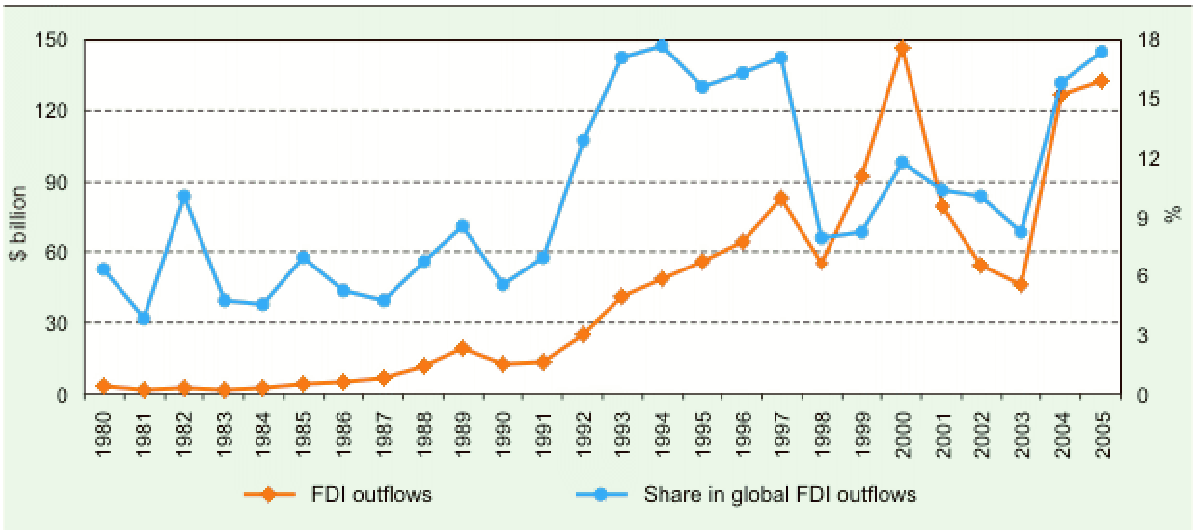
Source: UNCTAD.

[a] For example, outward FDI from most offshore financial centres, the United Arab Emirates and Saudi Arabia is derived in this way.

[b] Such discrepancies may be due to differences in the extent to which countries adhere to international and common standards in data collection as recommended by the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and UNCTAD. (For details, see UNCTAD 2005c and box I.3).

[c] For example, FDI outflows from Hong Kong (China) to the British Virgin Islands have at times been significant: in 2004, 45% of the total outward FDI stock of Hong Kong (China) went to the British Virgin Islands. When these outflows are redirected from the British Virgin Islands for investment in another economy (or returned to Hong Kong, China), they are recorded as outflows from the British Virgin Islands (Census and Statistics Department of Hong Kong, 2004).

Figure III.1. FDI outflows from developing and transition economies, 1980-2005



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

triggered by the second oil crisis. This share increased further in the early 1990s and remained at above 15% during the period 1993-1997. This time, outflows were driven by the international expansion of Asian TNCs, a process only temporarily interrupted by the Asian financial crisis. In 2005, the share was about 17%. However, it is only since the early 1990s that flows of FDI from developing and transition economies have assumed significant proportions in absolute terms. Aggregate data suggest that such FDI flows, which were about $3 billion in 1980, had increased to $13 billion 10 years later, shooting up thereafter to peak at $147 billion in 2000.

Box III.2. Early trends in FDI from developing countries

Until the 1960s, FDI from developing countries was negligible. Since then, the outward expansion by developing-country TNCs has fuelled three rounds of FDI growth during 1973-1978, 1985-1989 and 1991-1997. The two earlier episodes of FDI expansion from the South triggered an interest in developing-country TNCs among scholars (Lecraw 1977, Wells 1977, 1983, Kumar 1982, Lall 1983, Aggarwal 1984, ESCAP and UNCTC 1985, Dunning 1986). The new and long wave of outward FDI growth, has led to a renewed interest since the early 1990s (Tolentino 1993, Lecraw 1993, United Nations 1993, Ulgado et al. 1994, Dunning et al.1997, Hoesel 1997).

The early increases of FDI from developing countries differed in several ways from those in the 1990s. In the 1970s and 1980s, the scale of outward FDI was very small compared with current levels, and the flows were less concentrated. Moreover some of the top FDI sources were different: whereas earlier they included countries from Africa, Latin America and West Asia, since the mid-1980s, East and South-East Asia have assumed greater importance, while Africa has lost significance.

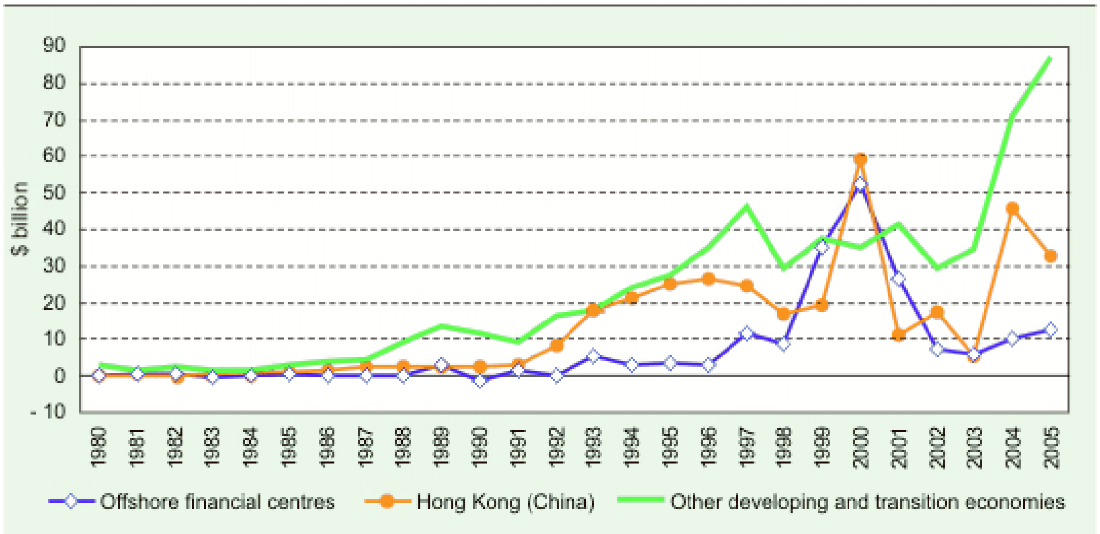
In comparison with their developed-country counterparts, TNCs from developing economies have generally been technological followers. The literature that emerged in the early 1980s suggested that the ownership advantages of these TNCs were derived from their ability to reduce the costs of production by applying technology imported from developed countries (e.g. Wells 1977, Kumar 1982) or from their experience of operating in less developed markets (Lall 1983). Later, researchers placed greater emphasis on the catch-up process of developing-country TNCs based on incremental learning (e.g. Vernon-Wortzel and Wortzel 1988, Cantwell and Tolentino 1990, Lecraw 1993). As signified by the choice of focus of this year's *World Investment Report*, there is renewed research interest in this area.

Source: UNCTAD.

Figures on FDI flows should be interpreted with care. Their volatility is partly the result of very large transactions in certain years involving offshore financial centres and Hong Kong (China). For example, in 2000, the latter economy, along with the three offshore centres of Bermuda, the British Virgin Islands and the Cayman Islands, accounted for as much as 76% of all outflows from developing and transition economies.[2] In some years during the 1990s, FDI flows from Hong Kong (China) were as large, or almost as large, as the flows from all other developing and transition economies combined. Nevertheless, even discounting FDI from offshore financial centres and Hong Kong (China), there has been a clear upward trend in outward FDI, which reached its highest level in 2005: $87 billion (figure III.2).

Data on FDI stocks confirm the growing significance of FDI from developing and transition economies. As recently as in 1990, only 6 countries reported outward FDI stocks of more than $5 billion; by 2005, that threshold had been exceeded by 25 developing and transition economies (annex table B.2).

Figure III.2. Outward FDI flows from developing and transition economies, 1980-2005



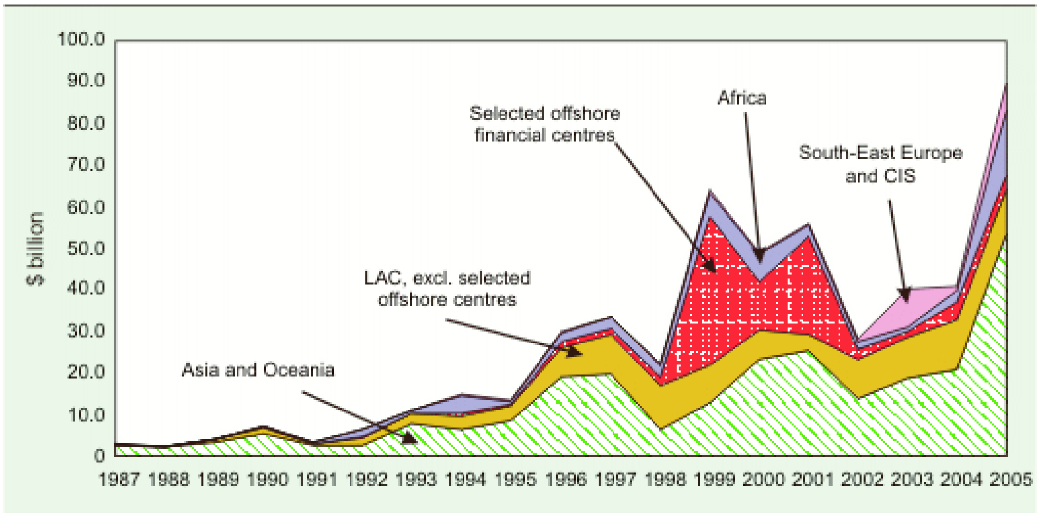
Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

b. Cross-border mergers and acquisitions on the rise

Data on cross-border M&As provide additional evidence of the rise of developing and transition economies as a source of FDI. These data are affected to a lesser extent than FDI flow data by problems related to round-tripping and trans-shipping. M&As are becoming an important mode of foreign entry, including for TNCs from developing and transition economies. The value of their cross-border M&As showed an upward trend between 1987 and 1999, reaching an unprecedented level of close to $90 billion in 2005 (figure III.3). The recent increase was driven primarily by companies from developing Asia. As a result, between 1987 and 2005, the share of developing and transition economies in global cross-border M&A activity rose from 4% to 13% in value terms and from 5% to 17% in terms of the number of deals. Offshore financial centres played a significant role in the South-North deals, particularly during the 1999-2001 period.[3] But even excluding the offshore centres, there has been a marked upturn in M&A activity from the mid-1990s onwards (figure III.3).

In 2005, cross-border M&A purchases by TNCs based in developing countries (excluding offshore financial centres) and transition economies of target companies in the North and in the South, respectively, were almost equally large in value terms (figure III.4). Since 2000, South-North transactions have shown particularly fast growth, indicating a growing need among companies in the South to acquire strategic assets in developed economies and/or speed up their expansion in these markets. The value of South-North M&As (excluding transactions involving offshore centres) rose from $9 billion in 2003 to $43 billion in 2005.

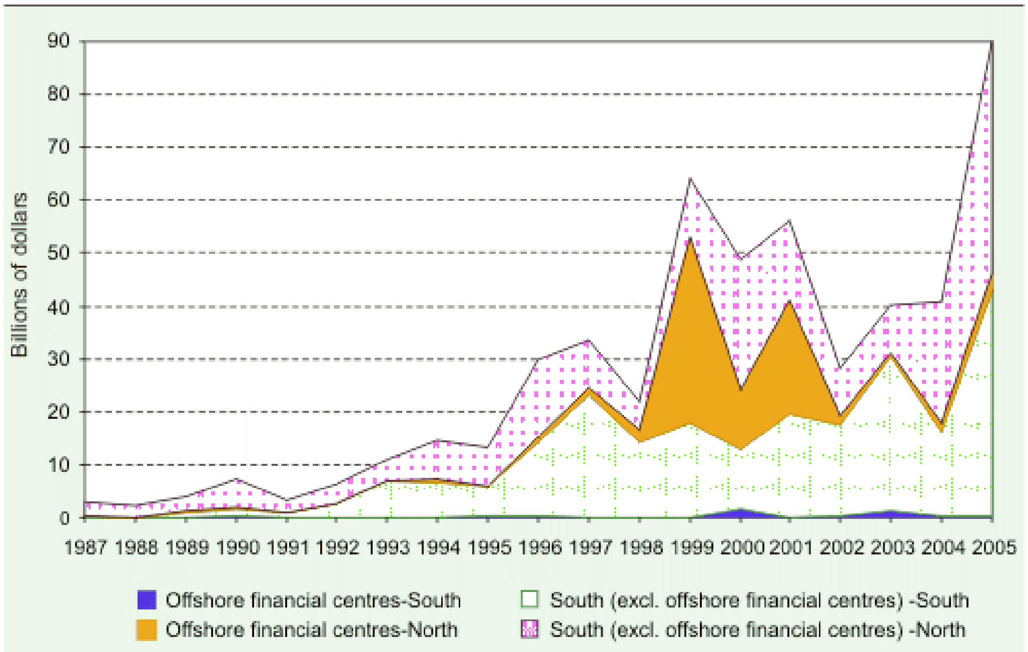
Figure III.3. Cross-border M&As by TNCs from developing and transition economies, by origin of purchaser, 1987-2005



Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
Note: The offshore financial centres included are the Bahamas, Bermuda, the British Virgin Islands and the Cayman Islands.

Developing-economy TNCs are engaged in a growing number of mega deals – up from only 1 in 1990 to 19 in 2005, and corresponding to 12% (3% in 2000) of total deals having an acquisition value of more than $1 billion (chapter I). However, it should be noted that among all 92 mega deals undertaken by developing-economy TNCs during the period 1987-2005, 15 were conducted by developed-country TNCs registered in offshore financial centres (e.g. Tyco International, Global Crossing). Other cross-border deals involved foreign affiliates in developing economies that are ultimately owned by a developed-country TNC. In 2005, such transactions made up approximately

Figure III.4. Cross-border M&As by developing and transition economies, by destination, 1987-2005[a]



Source: UNCTAD.
[a] In this figure, takeovers of targets in transition economies are included in “South”.

16% of the total value of cross-border M&As concluded by firms from developing countries. Subject to such caveats, the developing economy with the highest value of cross-border M&As was Singapore, followed by Hong Kong (China) and Malaysia (annex table B.4). Meanwhile, excluding TNCs registered in offshore financial centres, the top acquirers (in terms of deal value) during 1987-2005 were SingTel (Singapore), followed by Hutchison Whampoa (Hong Kong, China) and Weather Investments (Egypt) (table III.1).

Table III.2 presents a ranking of the largest cross-border deals by TNCs from developing and transition economies, excluding acquisitions by firms registered in offshore financial centres, for the period 1987-2005. Several observations can be made:

- 18 of the top 25 acquisitions were conducted after 2000, confirming an increased frequency of large transactions by TNCs from developing and transition economies in recent years.
- Asian companies dominate, accounting for 60% of the top 25 deals.
- Most of the largest M&As involved takeovers of developed-country companies.
- South-South acquisitions were mainly intraregional in nature.
- Some of the acquirers merged with developed-country TNCs; Ambev's takeover of John Labatt was part of a larger merger with Interbrew (Belgium), and YPF merged with Repsol (Spain) in 1999 (see section III.B.4).

Table III.1. Top 15 acquirers based in developing economies,[a] cumulative, 1987-2005

Rank	Value ($ million)[b]	Acquiring company	Home economy	Number of deals
1	36 475	SingTel	Singapore	49
2	15 205	Hutchison Whampoa Ltd	Hong Kong, China	58
3	12 799	Weather Investments II Sarl	Egypt	1
4	12 484	Cemex	Mexico	40
5	9 098	DBS Group (Bank / Holdings Ltd/DBS Land Ltd)	Singapore	44
6	8 152	Ambev	Brazil	5
7	6 925	Saudi Oger Ltd	Saudi Arabia	2
8	6 325	Metro Curtainwall & Cladding	Malaysia	2
9	6 209	Investcorp/Investcorp Bank BSC/Investcorp Bank EC	Bahrain	29
10	5 634	America Movil SA	Mexico	19
11	5 567	CITIC Group	China	22
12	5 540	Singapore Power Pte Ltd	Singapore	8
13	5 469	Flextronics International Ltd	Singapore	50
14	4 567	CNPC	China	5
15	3 824	Mobile Telecommunications Co	Kuwait	3

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

[a] Data refer to ultimate acquiring companies in developing economies, ranked in descending order of their cumulative transaction values in 1987-2005.

[b] Cumulative value in millions of dollars for the deals in which the transaction value is known, 1987-2005.

c. Greenfield and expansion investments

The third data source confirming the rising importance of developing and transition economies is information related to greenfield projects or expansion of existing projects. Whereas the number of projects is only a crude measure compared to data on the actual capital investments involved, it nevertheless provides an indication of the share of companies based in different home countries.

The recorded number of FDI projects originating from developing and transition economies rose from close to 800 in 2002 to more than 1,600 in 2003 (table III.3). Since then, the number has dropped somewhat, but has remained well above the 2002 level. In 2005, TNCs from developing and transition economies accounted for about 15% of all FDI projects for which information was available (table III.3). The table shows that Asia has been the source of the bulk of these FDI projects.

Table III.2. Top 25 cross-border M&A deals by TNCs from developing and transition economies, 1987-2005

Rank	Year	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Acquiring company	Home economy	Industry of the acquiring company
1	2005	12 799	Wind Telecomunicazioni SpA	Italy	Telephone communications, except radiotelephone	Weather Investments II Sarl	Egypt	Special purpose finance company
2	2001	8 491	Cable & Wireless Optus Ltd (C&W)	Australia	Telephone communications, except radiotelephone	SingTel (Singapore)	Singapore	Radiotelephone communications
3	2004	7 758	John Labatt Ltd	Canada	Malt beverages	Ambev	Brazil	Malt beverages
4	2005	6 550	Turk Telekomunikasyon AS	Turkey	Telephone communications, except radiotelephone	Oger Telecom	Turkey[a]	Telephone communications, except radiotelephone
5	1996	6 325	ASKO Deutsche Kaufhaus	Germany	Department stores	Metro Vermoegensverwaltung	Malaysia	Plastering, drywall, acoustical & insulation work
6	2001	5 680	Dao Heng Bank Group (Guoco)	Hong Kong, China	Banks	DBS Group Holdings Ltd	Singapore	Banks
7	2005	4 150	RMC Group	United Kingdom	Fabricated structural metal	Cemex	Mexico	Cement, hydraulic
8	2005	4 141	PetroKazakhstan Inc	Canada	Crude petroleum and natural gas	CNPC International Ltd	China	Crude petroleum & natural gas
9	2004	3 720	TXU Australia Ltd	Australia	Electrical services	Singapore Power Pte Ltd	Singapore	Electrical services
10	2003	3 692	Panamerican Beverages Inc	United States	Bottled & canned soft drinks & carbonated waters	Coca-Cola FEMSA SA CV	Mexico	Bottled & canned soft drinks & carbonated waters
11	2005	3 400	Celtel International BV	Netherlands	Telephone communications, except radiotelephone	Mobile Telecommunications Co	Kuwait	Radiotelephone communications
12	2000	2 846	Southdown Inc	United States	Cement, hydraulic	Cemex	Mexico	Cement, hydraulic
13	2000	2 591	DII Group	United States	Electronic components, nec	Flextronics International Ltd	Singapore	Printed circuit boards
14	2005	2 514	National-North of England	United Kingdom	Natural gas distribution	Hutchison Whampoa	Hong Kong, China	Natural gas distribution
15	2002	2 266	Telecom Americas Ltd	Brazil	Radiotelephone communications	America Movil SA de CV	Mexico	Radiotelephone communications
16	2000	2 223	ETSA Utilities,ETSA Power	Australia	Electrical services	Investor group	Hong Kong, China	Investors, nec
17	1999	2 137	Minorco SA	Luxembourg	Metal mining services	Anglo American Corp of SA Ltd	South Africa	Business services, nec
18	1997	2 100	China Light & Power Co Ltd	Hong Kong, China	Electrical services	CITIC Pacific (CITIC Hong Kong)	Hong Kong, China[b]	Land subdividers and developers, except cemeteries
19	2005	2 080	Hylsamex SA de CV	Mexico	Steel foundries, nec	Grupo Techint	Argentina	Primary metal products, nec
20	2005	2 000	Nelson Resources Ltd	United Kingdom	Gold ores	Lukoil Overseas Holding Ltd	Russian Federation	Crude petroleum & natural gas
21	2002	1 978	DSM Petrochemicals	Netherlands	Industrial inorganic chemicals, nec	Saudi Basic Industries Corp	Saudi Arabia	Industrial inorganic chemicals
22	2003	1 965	DBS Diamond Holdings Ltd	Hong Kong, China	Investors, nec	DBS Bank	Singapore	Banks
23	1998	1 952	British Petroleum	United Kingdom	Crude petroleum and natural gas	KIO	Kuwait	National government agency
24	2005	1 940	American Ref-Fuel Holding	United States	Electrical services	Bunge y Born	Argentina	Life insurance
25	2004	1 852	US Premium Office Properties	United States	Operators of nonresidential buildings	Investor group	Singapore	Investors, nec

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

[a] Ultimate owner: Saudi Oger Ltd (Saudi Arabia).

[b] Ultimate owner: CITIC Group (China).

Note: Includes only the deals for which the transaction value is known, and for which the ultimate investor was in a developing or transition economy other than an offshore financial centre.

Table III.3. Number of greenfield and expansion FDI projects by firms based in developing and transition economies, by source region, 2002-2005[a]
(Number of projects)

Source region	2002	2003	2004	2005
Africa	46	65	44	65
Asia and Oceania	572	1 224	1 079	1 081
South, East and South-East Asia	463	1 021	905	870
West Asia	109	203	174	211
Latin America and the Caribbean	89	151	171	97
South-East Europe and CIS	75	173	190	188
All developing and transition economies	782	1 613	1 480	1 418
Share of developing and transition economies in all greenfield and expansion FDI projects in the world (%)	*13.8*	*17.3*	*14.9*	*15.1*

Source: UNCTAD, based on information from the LOCOMonitor database, and annex table A.I.1.

[a] Information is available only for 2002-2005. The LOCOMonitor database includes both announced and realized projects.

2. Growing importance of Asia as a source of FDI

The geographical composition of FDI from developing and transition economies has changed over time, mainly reflecting the growing importance of Asia as a source region since the mid-1980s (figure III.5). That region's share of the total stock of FDI from developing and transition economies stood at 23% in 1980, increasing to 46% by 1990 and to 62% in 2005. Conversely, the relative role of Latin America and the Caribbean has declined substantially, from 67% in 1980 to 25% in 2005.

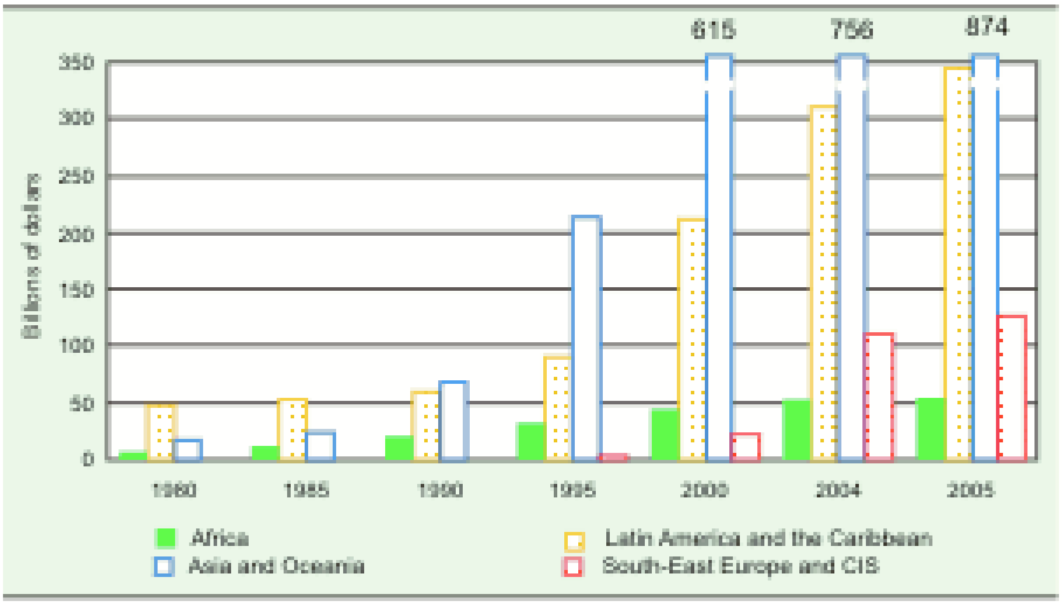
In terms of home countries, FDI from developing and transition economies is relatively concentrated.[4] In 2005, the top 5 sources accounted for 66% of the stock of FDI from these economies, and the top 10 for 83% (table III.4). Over time, the Latin America and Caribbean region has declined in importance while FDI from developing Asia has surged. In 1980, Brazil led the list of top FDI sources, followed by Taiwan Province of China, Argentina and South Africa. Some West Asian and North African countries were also among the leading investors. By 1990, while Brazil remained at the top, changes were noticeable for many other countries. The Asian newly industrializing economies (NIEs) – Hong Kong (China), the Republic of Korea, Singapore and Taiwan Province of China – as well as China and Malaysia were among the top 12 sources. Another 10 years later, Brazil had fallen to fifth place, overtaken by three of the Asian NIEs and one offshore financial centre (the British Virgin Islands), while the West Asian and North African countries had lost significance as source countries. Since 2000, the main new development in the list has been the growing importance of the Russian Federation as a source of FDI: it moved to third position in 2005. The country's outward FDI stock shot up from $20 billion in 2000 to $120 billion in 2005. Further down in the ranking, the tripling of the outward FDI stock of Mexico is also noteworthy. Argentina and South Africa have gradually slipped in the ranking since 1990, while China has remained firmly in the top 10.

In addition to comparisons of countries in terms of FDI in absolute values – which tends to place large countries high up in rankings – it is useful to consider outward FDI patterns taking into account the size of individual economies. UNCTAD's *Outward FDI Performance Index* provides one way to compare outward FDI from different countries in relative terms, that is, comparing an economy's share of world outward FDI against its share of world GDP (box III.3). According to this index, FDI from Hong Kong (China) was 10 times larger than would have been expected given its share of world GDP. Other developing economies with comparatively high outflows include Bahrain, Malaysia, Panama, Singapore and Taiwan Province of China. By the same token, many of the largest source countries in absolute terms rank far down in the *Outward FDI Performance Index*.

The relative importance and the industrial and geographical focus of FDI from a few of the top FDI sources highlighted in table III.4 is illustrated by a more detailed account of FDI from Hong Kong (China), the Russian Federation, Singapore, Brazil, China, South Africa and the Republic of Korea (in that order) (table III.5). Finally, the role of offshore financial centres is also addressed briefly.

Hong Kong (China) is the largest source of FDI from developing economies and the sixth largest in the world in terms of outward FDI stock in 2005. The bulk of its overseas FDI is in services, and much of this is related to investments in offshore financial centres in the Caribbean and China. In fact, as of 2004, 49% of its outward stock was in the British Virgin Islands and Bermuda. Hong Kong (China) also plays an important role as a financial centre for investments into and out

Figure III.5. Outward FDI stock, by source region, 1980-2005



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

of China – 39% of its overseas FDI stock was in China in 2004. Some of the FDI outflows from Hong Kong (China) are by foreign affiliates of TNCs from developed countries and China.[5]

The Russian Federation is the main source of FDI in South-East Europe and the CIS. It contributed to 95% of the region's outward FDI stock in 2005, a high concentration of it being in natural resources. With $13 billion in FDI outflows, the country became the third largest FDI source among developing and transition economies in 2005, after Hong Kong (China) and the British Virgin Islands. Russian TNCs in oil, gas and metal industries are the major players (see section III.B.5), but telecommunications companies are also actively investing abroad. The largest proportion of its outward FDI has gone to the countries of South-East Europe and the CIS.

Table III.4. Top 15 developing and transition economies in terms of stocks of outward FDI, 1980, 1990, 2000 and 2005
(Millions of dollars)

Rank	Economy	1980	Economy	1990	Economy	2000	Economy	2005
1	Brazil	38 545	Brazil	41 044	Hong Kong, China	388 380	Hong Kong, China	470 458
2	Taiwan Province of China	13 009	Taiwan Province of China	30 356	Taiwan Province of China	66 655	British Virgin Islands	123 167
3	Argentina	5 970	South Africa	15 004	British Virgin Islands	64 483	Russian Federation	120 417
4	South Africa	5 541	Hong Kong, China	11 920	Singapore	56 766	Singapore	110 932
5	Mexico	1 632	Singapore	7 808	Brazil	51 946	Taiwan Province of China	97 293
6	Kuwait	1 046	Argentina	6 057	South Africa	32 319	Brazil	71 556
7	Libyan Arab Jamahiriya	870	China	4 455	China	27 768	China	46 311
8	Panama	811	Panama	4 188	Korea, Republic of	26 833	Malaysia	44 480
9	Bermuda	727	Kuwait	3 662	Malaysia	22 874	South Africa	38 503
10	Singapore	623	Mexico	2 672	Argentina	21 141	Korea, Republic of	36 478
11	Bahrain	598	Malaysia	2 671	Cayman Islands	20 553	Cayman Islands	33 747
12	Botswana	440	Korea, Republic of	2 301	Russian Federation	20 141	Mexico	28 040
13	Bahamas	285	Saudi Arabia	1 873	Bermuda	14 942	Argentina	22 633
14	Saudi Arabia	239	Bermuda	1 550	Chile	11 154	Chile	21 286
15	Malaysia	197	Libyan Arab Jamahiriya	1 321	Mexico	8 273	Indonesia	13 735
	All developing and transition economies	72 307	All developing and transition economies	148 913	All developing and transition economies	893 102	All developing and transition economies	1 399 963

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

Box III.3. The Outward FDI Performance Index

The *Outward FDI Performance Index* measures the world share of an economy's outward FDI as a ratio of its share in world GDP (chapter I). The index in this box has been calculated on the basis of outward FDI stocks (box table III.3.1). Among the leading economies in this ranking are several from South-East Asia, West Asia and Latin America.

Some developing economies – Chile, Hong Kong (China), Malaysia and Singapore – as well as economies in transition – Azerbaijan and the Russian Federation – have seen increases in their index values over the past 10 years (box table III.3.1). The fact that their FDI grew faster than their share of global GDP may indicate that their enterprises are building ownership advantages rapidly and/or are increasingly choosing to exploit their advantages by establishing operations in foreign locations. Conversely, the values for Bahamas, Brazil, Panama and Taiwan Province of China fell significantly.

The index value for Hong Kong (China) has risen at an exceptionally fast pace, partly reflecting its particular position as a staging post for FDI into China and as a recipient of "round tripping" FDI by Chinese enterprises. For the 2003-2005 period, Singapore and Panama also showed disproportionately large outflows. However, apart from these economies, index values are on average higher for developed than for developing countries. Most of the large developing economies with considerable absolute levels of outward FDI, such as Brazil, China, India and Mexico, are found at the opposite end of the spectrum. The fact that their index values are below 0.5 suggests considerable potential for future expansion of FDI from these economies.

Box table III.3.1. UNCTAD's Outward FDI Performance Index, selected economies, 1993-1995 average and 2003-2005 average
(Ranked by 2003-2005)

Rank	Economy	1993-1995	2003-2005
1	**Hong Kong, China**	**4.63**	**9.97**
2	Norway	1.40	5.80
3	Luxembourg	..	4.99
4	Switzerland	4.32	4.42
5	Netherlands	4.13	4.22
6	Belgium	..	4.00
7	**Singapore**	**3.61**	**3.97**
8	**Panama**	**5.45**	**3.36**
9	United Kingdom	2.72	2.47
10	Sweden	2.80	2.46
11	Ireland	3.32	2.28
12	Denmark	1.32	1.84
13	Finland	1.20	1.76
14	France	1.33	1.66
15	Iceland	0.24	1.62
16	Canada	1.92	1.50
17	**Bahrain**	**1.84**	**1.46**
18	Germany	1.08	1.41
19	Spain	0.59	1.41
20	**Malaysia**	**1.07**	**1.39**
21	**Taiwan Province of China**	**1.68**	**1.19**
22	Australia	1.43	1.12
23	**Bahamas**	**4.12**	**1.10**
24	**Azerbaijan**	**..**	**1.09**
25	Portugal	0.30	1.06
26	Austria	0.48	0.92
27	**Chile**	**0.34**	**0.76**
28	**Russian Federation**	**0.06**	**0.73**
29	Cyprus	0.08	0.73
30	Malta	0.10	0.70
41	***Brazil***	***0.80***	***0.42***
59	***Korea, Republic of***	***0.18***	***0.18***
62	***Mexico***	***0.11***	***0.13***
67	***Turkey***	***0.09***	***0.10***
71	***China***	***0.26***	***0.09***
88	***India***	***0.01***	***0.04***

Source: UNCTAD.

Source: UNCTAD.

Singapore is the fourth largest source of FDI from developing and transition economies. Four fifths of its outward FDI stock in 2003 was in developing countries – 46% in South, East and South-East Asia and 25% in three offshore financial centres. FDI from this country has been more widely distributed than that from Hong Kong (China). Excluding offshore centres, China was the major recipient of FDI from Singapore, followed by Malaysia, Hong Kong (China) and Indonesia. By 2004, Singapore's FDI stock in developed countries had amounted to $30 billion. Temasek Holdings, the State-owned holding company, and large government-linked companies (GLCs) accounted for a large proportion of this stock. Almost four fifths of FDI from Singapore has been in services, notably in financial services.

Brazil has the strongest outward FDI position in Latin America, being the source of about 40% of that region's FDI stock.[6] Its FDI flows have been directed mainly to offshore financial centres, two thirds of them going to the Cayman Islands, the Bahamas and the British Virgin Islands in 2004. There are also sizeable stocks of Brazilian FDI in other countries of Latin America, such as Argentina and Uruguay, and in developed countries such as Denmark, Luxembourg, Spain and the United States. The largest proportion of the investment outside the offshore centres is primarily in trade, mining and construction.

In 2005, FDI from *China* reached $11 billion, representing the fourth largest outflow from developing and transition economies (annex table B.2). However, considering that many large M&A

Table III.5. Basic facts about the outward FDI stock of major developing and transition economies, 2005 or latest year available

Economy	Outward stock ($ millions)	Outward stock per capita ($)	Outward stock as share of GDP (%)	Top five recipients	Top three industries
Hong Kong, China	470 458	66 818	265	British Virgin Islands, China, Bermuda, United Kingdom, Japan[a]	Business activities; trade, transport; storage and communications[a]
Russian Federation	120 417	841	16	United States, Cyprus, Netherlands, United Kingdom, Germany[c]	Transport, storage and communications; mining, quarrying and petroleum; food, beverages and tobacco[c]
Singapore	110 932	25 646	94	British Virgin Islands, China, Malaysia, Bermuda, Hong Kong (China)[b]	Finance; transport, storage and communications; trade [b]
Brazil	71 556	384	9	Cayman Islands, Bahamas, British Virgin Islands, Uruguay, United States[b]	Business and finance activities; trade; mining and construction[a]
China	46 311	35	2	Hong Kong (China), Cayman Islands, Virgin Islands, United States, Russian Federation[a]	Business activities; trade; mining, quarrying and petroleum[a]
South Africa	38 503	812	16	United Kingdom, Luxembourg, Belgium, United States, Austria[b]	..
Korea, Republic of	36 478	763	5	United States, China, Netherlands, Bermuda, Hong Kong (China)[c]	Trade; electronic and electrical equipment; textiles and clothing[a]

Source: UNCTAD, annex tables B.2 and B.3 and FDI/TNC database (www.unctad.org/fdistatistics).
[a] 2004.
[b] 2003.
[c] 2002.

deals undertaken by Chinese companies are financed outside China, their outward investment may be significantly underestimated. Three quarters of China's outward FDI goes to Hong Kong (China). Part of these outflows can be attributed to round tripping (chapter I). The main activities attracting Chinese investments are business activities, trade and natural resources. In recent years, FDI in manufacturing and mining has grown especially fast, accounting for 60% of total Chinese FDI outflows in 2005.

South Africa is the leading African source of FDI, accounting for over 70% of the region's total outward FDI stock. As early as the 1970s it had already become a major source of FDI from developing countries. Flows have been concentrated in developed countries: three quarters of the country's outward FDI stock is in Europe and about one tenth in North America.[7] Although only 9% of its outward FDI goes to Africa, the country is among the leading foreign investors in many African countries. The industrial composition of South African investment is relatively varied (see section III.B.2).

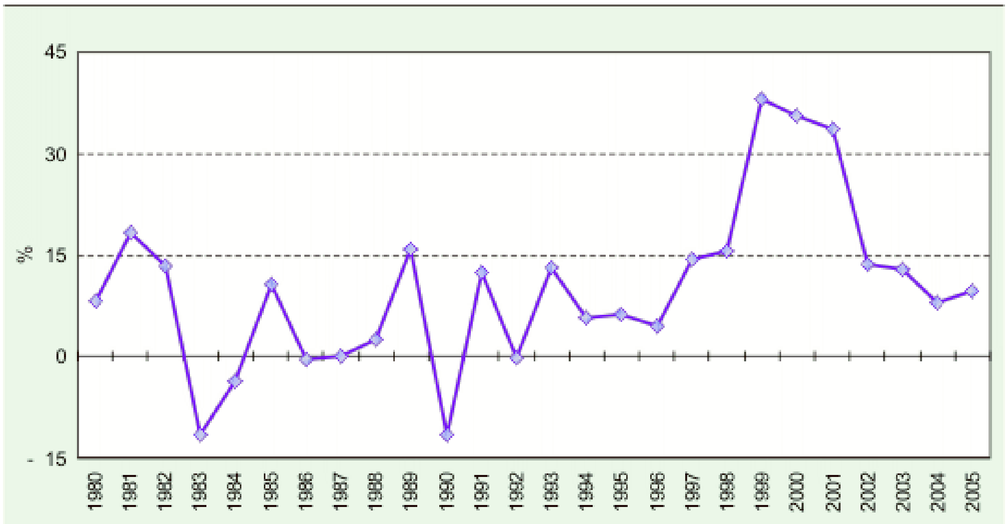
Over the past two decades, *the Republic of Korea* has been rapidly emerging as a source of outward FDI. At the end of 2004, the largest share of its outward FDI stock was in Asia (43%) followed by North America (27%) and Europe (17%).[8] Asia's share of Korean FDI has been increasing since 1990 owing to rapidly growing investments in China. Sector-wise, most of this FDI goes to manufacturing and trade (wholesale and retail); as of 2004, 53% of the outward stock was in manufacturing (especially in electronic and electrical equipment), and 22% in trade.[9]

As mentioned above, a significant share of FDI from developing and transition economies originates from *offshore financial centres*. The British Virgin Islands is by far the largest such source, with an outward FDI stock in 2005 estimated at $123 billion. From a statistical point of view, trans-shipping FDI via offshore financial centres makes it difficult to estimate the real size of outward FDI from specific economies and by specific companies (box III.1). In some years, flows from these centres have been particularly large. However, since its peak in 2000, which was related to the global M&A boom (figure III.4), outward FDI from offshore financial centres has declined considerably to one tenth of the total flows of FDI from developing and transition economies in 2005 (figure III.6).

3. Services dominate

A sectoral breakdown of the outward FDI stock from developing and transition economies demonstrates the importance of the services sector. It accounted for 81% of the total outward FDI stock of the developing and transition economies in 2004 (table III.6). The concentration in services is particularly accentuated in Hong Kong (China). As seen from the table, if that economy is excluded, the share of services in 2004 falls to about 71%, while that of manufacturing increases to 25%.[10]

Figure III.6. Shares of the main offshore financial centres[a] in FDI flows from developing and transition economies, 1980-2005



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
[a] These include Bermuda, the British Virgin Islands and the Cayman Islands.

Table III.6. Outward FDI stock of developing and transition economies, by sector, 2004

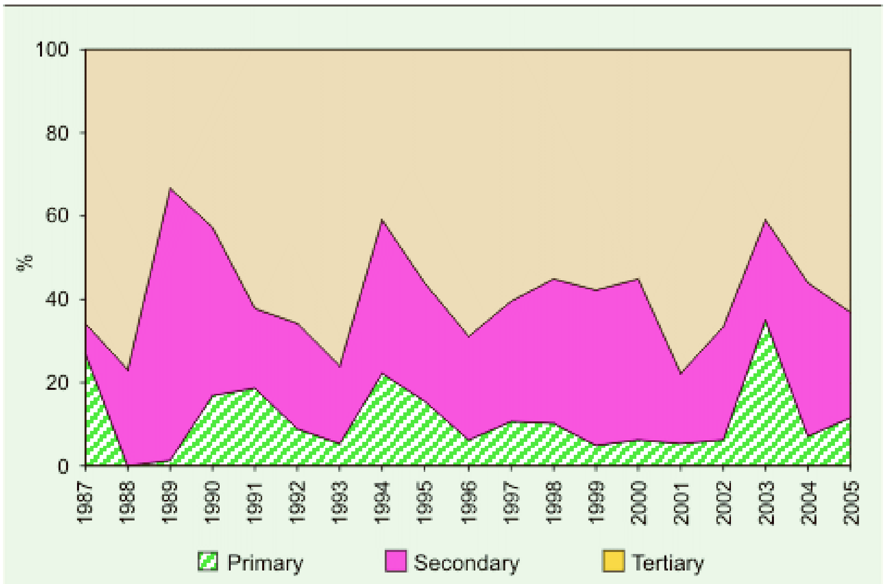
	Millions of dollars		Percentage share in total	
	2004	2004[a]	2004	2004[a]
Primary	11 420	11 532	1.3	3.1
Secondary	117 047	92 821	13.5	24.7
Tertiary	704 014	267 416	81.0	71.0
Unspecified	37 075	4 693	4.3	1.2

Source: UNCTAD, FDI/TNC database.
[a] Excluding Hong Kong (China).

In comparison, the share of services in the stock of outward FDI from developed countries stood at 67% in 2004, and that of manufacturing at about 28%.[11]

The dominance of services is confirmed in figure III.7, which shows the sectoral composition of cross-border M&As by companies based in developing and transition economies. In 2005, for example, 63% of the total value of such transactions involved services. By industry, the highest shares that year were recorded for transport,

Figure III.7. Cross-border M&A purchases by companies based in developing and transition economies, by sector, 1987-2005



Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

storage and communications (37%), mining (10%), financial services (10%) and food and beverages (7%).

In the *primary sector*, developing and transition economies are important sources of FDI in agriculture, accounting in 2004 for 17% of the world total (table III.7). Their investments in mining, quarrying and petroleum remain at a low level from a global perspective. However, this situation seems to be changing as a result of the increased demand for natural resources by companies in such economies as China, India and the Russian Federation (chapter II, chapter IV). In *manufacturing*, developing and transition economies have made inroads into such industries as electrical and electronic equipment (with an 7.8% share of global outward FDI stock in this industry in 2004), non-metallic mineral products (4.3%) and rubber and plastic products (3.7%) (table III.7). In *services*, the shares of developing and transition economies in the global outward FDI stock are particularly high in trade (15%), business activities (14%), construction (12%), hotels and restaurants (9%) and transport, storage and communications (8%).[12]

Table III.7. Outward FDI stock of developing and transition economies, by sector and selected industries, 2004

Sector/industry	Value (millions of dollars)	Share in world (per cent)
Primary	11 420	2.6
Agriculture, hunting, forestry and fishing	1 107	17.3
Mining, quarrying and petroleum	10 313	2.4
Manufacturing	117 047	4.4
Food, beverages and tobacco	2 243	0.9
Textiles, clothing and leather	3 043	2.0
Wood and wood products	1 584	2.7
Chemicals and chemical products	5 082	0.8
Rubber and plastic products	1 050	3.7
Non-metallic mineral products	1 082	4.3
Metals and metal products	2 877	1.3
Electrical and electronic equipment	17 745	7.8
Motor vehicles and other transport equipment	1 722	0.5
Services	704 014	10.3
Electricity, gas and water	2 878	2.5
Construction	6 949	11.7
Trade	98 983	14.6
Hotels and restaurants	8 476	8.7
Transport, storage and communications	55 005	8.2
Finance	162 476	7.3
Business activities	350 572	14.0
Other services	12 548	8.9
Unspecified tertiary	4 710	1.5
Unspecified	37 075	49.1
Total	869 556	8.7

Source: UNCTAD, based on annex table A.I.3.
Note: Based on data for 16 developing and transition economies. These economies accounted for 73% of the total outward FDI stock of developing and transition economies in 2004.

4. South-South FDI becomes significant

The rise of FDI from developing as well as transition economies is of particular relevance to low-income countries. In fact, most of the outflows stay within the developing and transition economies. UNCTAD estimates suggest that South-South FDI has expanded especially fast over the past 15 years.[13]

As shown in table III.8, total outflows from developing and transition economies amounted to about $127 billion in 2004. However, in order to disregard flows that are undertaken for purely financial reasons, it is appropriate to exclude transactions related to offshore financial centres. An analysis of the remaining total outflows from developing and transition economies shows an increase in FDI, from about $4 billion in 1985 to $61 billion in 2004. Most of these investments were destined for other developing or transition economies (excluding offshore financial centres). In fact, FDI within that group of countries increased from $2 billion in 1985 to $59.8 billion in 2004. As data related to transition economies account for a very small proportion of these transactions, this estimate can also be used as a proxy for the size of South-South FDI.[14]

The bulk of South-South FDI (excluding offshore financial centres) is intraregional in nature (figure III.8). In fact, during the period 2002-2004, intra-Asian annual average flows amounted to an estimated $48 billion, or more than four fifths of all flows shown in figure III.8. Intraregional FDI accounted for almost half of total flows to Asia, and was particularly pronounced between and within East Asia and South-East Asia.[15] Intra-ASEAN investment accounted for one fifth of total FDI stock in this subregion. The second largest stream of FDI within the group of developing countries was intraregional investment within Latin America, mainly driven by investors in Argentina, Brazil and Mexico. Intraregional flows within Africa were an estimated $2 billion during 2002-2004, reflecting, in particular, South African FDI in the rest of the continent.

Figure III.8 also shows that interregional FDI goes primarily from Asia to Africa ($1.2 billion). For example, China and Malaysia are among the top 10 sources of FDI in Africa (UNCTAD 2005d). The second largest interregional capital flow is from Latin America to Asia ($750

Table III.8. FDI from developing and transition economies, 1985-2004
(Billions of dollars)

Year	*Total FDI from all developing and transition economies*	FDI from developing and transition economies excluding offshore financial centres: Total	To developed countries	To other developing and transition economies
1985	*4.3*	3.8	1.9	2.0
1986	*5.1*	5.0	2.9	2.1
1987	*6.7*	6.3	4.2	2.1
1988	*12.1*	11.6	6.8	4.8
1989	*19.6*	15.2	6.7	8.5
1990	*12.7*	11.6	5.0	6.5
1991	*13.7*	10.7	3.7	7.0
1992	*24.8*	23.0	5.1	18.0
1993	*40.8*	34.1	2.6	31.5
1994	*48.6*	39.3	4.1	35.2
1995	*56.0*	46.3	4.6	41.8
1996	*64.8*	50.5	5.0	45.5
1997	*82.7*	54.5	11.0	43.5
1998	*54.9*	16.3	1.1	15.2
1999	*91.9*	38.7	7.5	31.2
2000	*146.9*	73.3	24.7	48.6
2001	*79.4*	46.5	10.7	35.9
2002	*54.4*	43.5	12.2	31.2
2003	*46.3*	36.6	9.6	27.0
2004	*126.8*	60.8	1.0	59.8

Source: UNCTAD, FDI database.

Notes: Estimates of FDI from developing and transition economies were derived as follows. First, total FDI flows from developing and transition economies were calculated from the data provided by recipient countries. The number of economies used for these estimates vary between 32 and 82, depending on the year, but they account for most of the FDI flows from developing and transition economies Then, these estimates were broken down by destination (i.e. FDI to developed countries and to other developing and transition economies). Finally, the share of each group was applied to total outflows as reported by developing and transition economies (annex table B.1). This estimation process can be expressed as follows:
(1) = Inward FDI into developed countries from developing and transition economies
(2) = Inward FDI into other developing and transition economies from these economies
(3) = (1) + (2) = total FDI from developing and transition economies
(4) = (1)/(3)
(5) = (2)/(3)

Outflows from developing and transition economies to developed countries = (4) x outflows from developing and transition economies. Outflows from developing and transition economies to other developing and transition economies = (5) x outflows from developing and transition economies.

FDI estimates from developing and transition economies excluding offshore financial centres were calculated as follows: first, FDI from the Caribbean and other America (mainly Bermuda, the British Virgin Islands and the Cayman Islands) were subtracted from the total FDI flows from developing and transition economies, using the data provided by recipient countries. Then the same procedures as above were used, applying the shares of each group (developing and transition economies to developed countries, and developing and transition economies to other developing and transition economies) to the total outflows from developing and transition economies (annex table B.1). The latter, however, was adjusted to exclude outflows to the offshore financial centres which, in turn, were derived from data provided by developing and transition source economies.

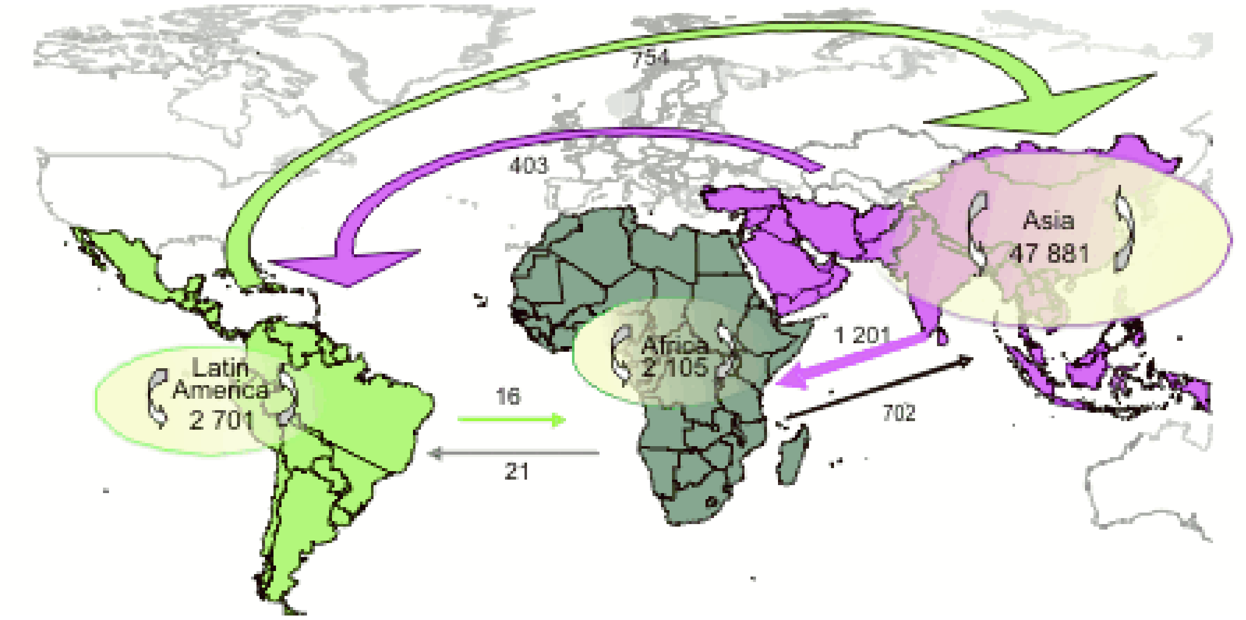
million) while, perhaps somewhat surprisingly, total flows of Asian FDI into the Latin American region were modest during the period 2002-2004.[16] Investment flows between Latin America and Africa were negligible.

An analysis of host country data sheds additional light on the growing role of FDI from developing and transition economies. Table III.9 shows that the share of the stock of inward FDI in developing and transition economies controlled by firms based in developed countries fell from 74% in 1990 to 44% in 2000. After that, the share appears to have stabilized at about 46%.

The role of TNCs from developing and transition economies as an important source of investment is particularly pronounced in several low-income countries. Figure III.9 depicts the relationship between the development stage of a host country (as measured by real GDP per capita) and the shares of FDI from developing and transition economies in total inward FDI. Among the countries with low incomes and high dependence on FDI from developing and transition economies are China, Kyrgyzstan, Paraguay, Thailand and the LDCs of Bangladesh, Cambodia, Ethiopia, the Lao People's Republic, Myanmar and the United Republic of Tanzania. FDI from

Figure III.8. Intraregional and interregional flows in developing countries excluding offshore financial centres, average 2002-2004

(Millions of dollars)



Source: UNCTAD, FDI/TNC database.

Note: The figures above refer to the estimated value of interregional and intraregional flows of the three regions (Africa, Latin America and Asia), excluding the main offshore financial centres. The figures were derived as follows: first total inward FDI flows for each region are calculated from the data of individual recipient countries for the average period 2002-2004 or latest period available. The share of each source group is applied to the total inflows of each recipient group for the period average 2002-2004. Eleven countries were covered in Africa (accounting for 45% of all inward flows to Africa in 2002-2004), 15 countries in Latin America (accounting for 99% of inward flows to Latin America) and 25 countries in Asia (accounting for 93% of inward flows to Asia). Due to differences in the coverage of countries, the sum of all figures presented here may not be comparable to the total FDI outflows from developing countries (annex table B.1) and to table III.8. Furthermore, the total figures in table III.8 were estimated by applying the shares to the total outflows of developing as well as transition economies.

Table III.9. Inward FDI stock of developing and transition economies, by major country groups, 1990-2004[a]

		Share in world inward stock (per cent)			
Year	**World**	Developed countries	Developing economies	South-East Europe and CIS	Unspecified
1990	100.0	73.8	22.2	0.0	4.0
1995	100.0	59.3	34.7	0.2	5.9
2000	100.0	44.4	51.4	0.1	4.1
2004[a]	100.0	46.3	49.8	0.2	3.7

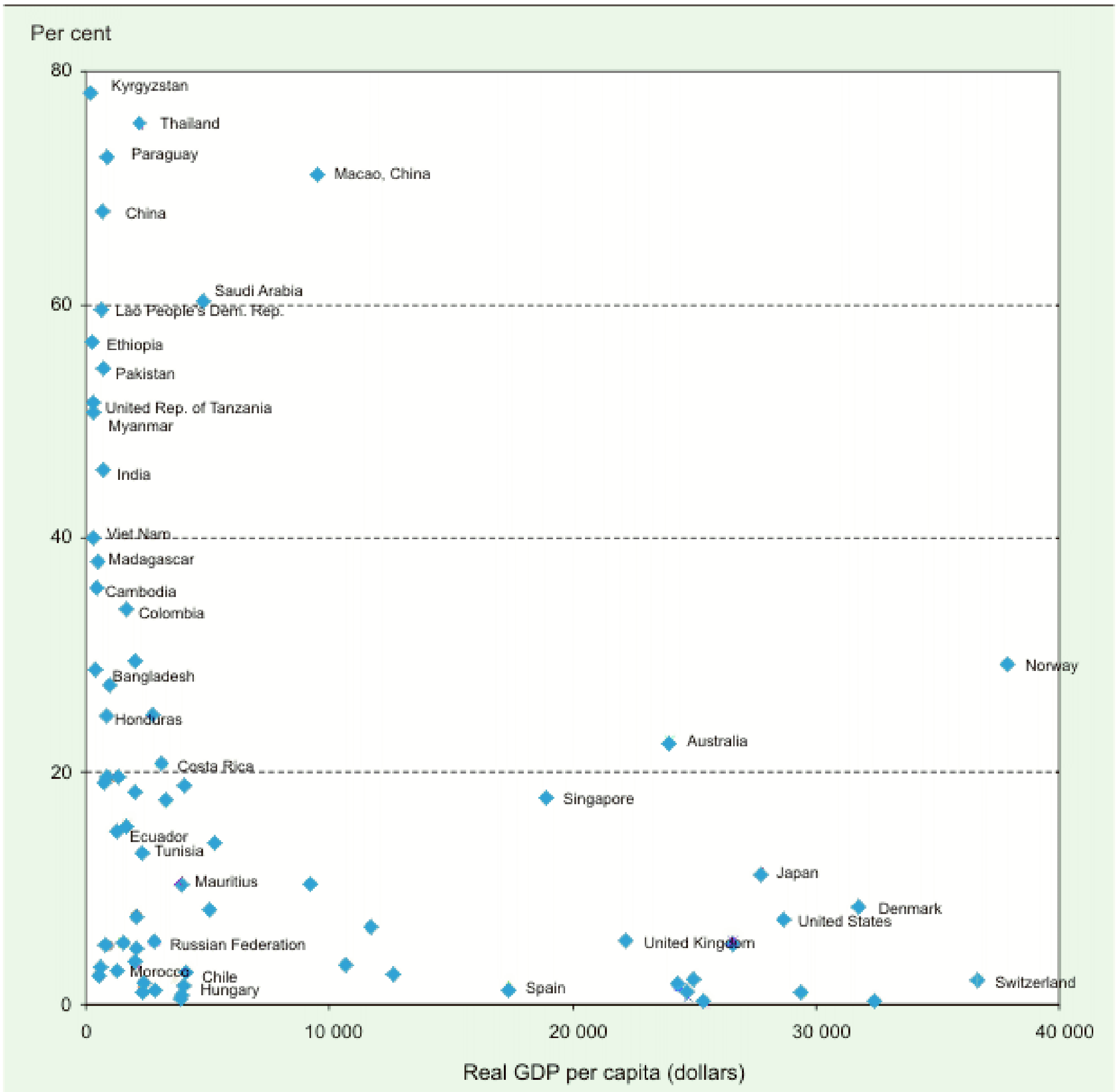
Source: UNCTAD, FDI/TNC database.

[a] Or latest year available.

Notes: For 1990, 1995 and 2000, only recipient countries for which data for the three main regions were available, were included. Therefore, the number of countries comprising the totals for developing countries and SEE and CIS as a group may vary for the years, depending on the availability of data for each recipient country. For 1990, 24 countries are covered (accounting for 53% of inward stock to developing countries and SEE and CIS in 1990), 33 in 1995 (accounting for 69% of inward stock to developing countries and SEE and CIS in 1995) and 32 in 2000 (accounting for 72% of inward stock to developing countries and SEE and CIS in 2000).

For 2004, data for the latest year available between 2001 and 2005 were used, covering 35 countries (accounting for 62% of inward stock to developing countries and SEE and CIS in 2004). Data refer to 2005 for El Salvador and Saudi Arabia; 2004 for Hong Kong (China), Macao (China), Madagascar, Malaysia, Myanmar, Pakistan, Philippines, South Africa, Sri Lanka, Thailand and Turkey; 2003 for Argentina, Armenia, Botswana, Singapore, Syrian Arab Republic and Uganda; 2002 for Azerbaijan, Cambodia, China, Kazakhstan, Mongolia, Peru, Republic of Korea, Russian Federation, Taiwan Province of China, Venezuela and Viet Nam; and 2001 for Bangladesh, Chile, Paraguay, United Republic of Tanzania and Zambia.

Figure III.9. Relationship between real GDP per capita and the share of developing and transition economies in total FDI inflows,[a] 2002-2004[b]



Source: UNCTAD based on FDI TNC/FDI database (www.unctad.org/fdistatistics) for FDI data and UNCTAD secretariat for GDP data.

[a] Based on 76 economies.

[b] The periods 2000-2002 and 2001-2003 were used where data for 2003 and/or 2004 were not available.

developing countries accounts for well over 40% of the total inward FDI of a number of LDCs (table III.10). As noted earlier, for many African countries, South Africa is a particularly important source of FDI. For example, more than 50% of all FDI inflows in Botswana, the Democratic Republic of the Congo, Lesotho, Malawi, Swaziland come from South African investors (Rumney and Pingo 2004). Moreover, it is possible that the role of South-South FDI is understated in official FDI data, since a significant amount of such investment goes to the informal sector of low-income economies, which is outside the realm of government statistics.

The relative importance of South-South FDI in developing host countries is confirmed by micro-level data. While TNCs from developing or transition economies were responsible for 15% of all greenfield and expansion FDI projects in the world during the period 2002-2005, their share was considerably higher in developing and transition economies, and especially high in West Asia (33%) and Africa (29%) (table III.11).

Investment from developing and transition economies still accounts for a small share of inflows to developed countries, but it is starting to rise. For example, the share of developing and

Table III.10. FDI from developing and transition economies to selected LDCs, various years

Recipient economy	Flows: Period/year	Flows: Share in total FDI (%)	Stock: Year	Stock: Share in total FDI (%)
Bangladesh	1995-1997	9	1995	17
	2002-2004	39	2001	13
Cambodia	1995-1997	63	1994	81
	2002-2004	64 [a]	2002	73
Ethiopia	1992-1994	100	1995	77
	2002-2004	51	..	..
Lao People's Dem. Rep.	1995-1997	93 [a]	1990	47 [b]
	2002-2004	45 [a]	1999	70 [b]
Madagascar	2003	29	2003	27
	2004	54	2004	36
Mozambique	2003	103 [b]	..	..
	2004	47 [b]	..	..
Myanmar	1995-1997	39 [a]	1990	33 [b]
	2002-2004	56 [a]	2004	61 [b]
Nepal	1990-1992	46 [b]	1990	58 [b]
	1996-1998	65 [b]	1999	63 [b]
Solomon Islands	1994-1996	56 [b]	..	..
Uganda	..	..	1999	48
	..	..	2003	36
United Rep. of Tanzania	..	..	1998	36
	1999-2001	41	2001	44
Vanuatu	1999	7	..	..
	2000-2002	19	..	..
Zambia	..	..	2000	21
	..	..	2001	20

Source: UNCTAD, FDI/TNC database.
[a] Based on information provided by the ASEAN Secretariat.
[b] Data are on an approval basis.

transition economies in FDI inflows into the United Kingdom rose from 2% in 1994 to 11% in 2004. There is also an increasing number of foreign affiliates of TNCs from developing and transition economies in some developed countries (table III.12). For example, in Japan their number increased from 157 in 1990 to 277 in 2001, and in Sweden, from 3 in 1990 to 266 in 2003. As highlighted in chapter VI, this trend has generated mixed reactions among stakeholders in developed host countries.

Table III.11. FDI projects undertaken by TNCs from developing or transition economies, by destination region, 2002-2005

Partner region/economy	Number	Share of all FDI projects in region (per cent)
Total world	**5 310**	**15.4**
Developed countries	1 306	8.9
Developing economies	3 312	20.8
Africa	339	28.6
Latin America and the Caribbean	414	15.3
Asia and Oceania	2 559	21.3
West Asia	507	33.2
South, East and South-East Asia	2 048	19.5
South-East Europe and the CIS	692	18.3

Source: UNCTAD, based on information from OCO consulting, LOCOmonitor website (www.locomonitor.com).

Table III.12. Number of foreign affiliates of TNCs from developing and transition economies, selected developed host countries, various years
(Number of affiliates)

Host country	Year	Number of affiliates
Finland	1995	24
	2001	40
France	1995	198
	2001	235
Ireland	1998	19
	2002	31
Italy	1991	22
	1999	38
Japan	1990	157
	2001	277
Poland	1997	12
	2001	17
Slovenia	1996	281
	2000	294
Sweden[a]	1990	3
	2003	266

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics)
[a] Majority-owned foreign affiliates only.

B. Global and regional players emerging from developing and transition economies

The expansion of FDI from developing and transition economies is steadily transforming the universe of TNCs. TNCs based in these emerging sources of FDI have multiplied rapidly in the past decade, but they have very diverse characteristics. Although most of them are relatively small, a number of large TNCs with global reach have also appeared on the scene. Their presence is observed more in some industries than in others, but with notable variations between different home economies and regions. Compared with their developed-country counterparts, State ownership is relatively common among the largest TNCs from developing and transition economies, especially in the primary sector.

In order to gain a better understanding of the scope and nature of the phenomenon, and to set the stage for the subsequent analysis of drivers and the economic implications, as well as for the policy discussion, this section provides an overview of the main TNCs in different parts of the developing world and in South-East Europe and the CIS. The picture that emerges is one of significant diversity both between and within regions, as far as the characteristics of TNCs are concerned.

1. The rise of TNCs from developing and transition economies

Developing and transition economies now account for an estimated one fourth of the total number of TNCs in the world (annex table A.I.6). Statistics from governments that report data on the number of parent companies indicate fast growth in recent years. For example, the number of parent companies in Brazil, China, Hong Kong (China), India and the Republic of Korea increased over the past decade by 450% from 2,700 to more than 14,800 (table III.13). By comparison, the corresponding growth rate of parent companies based in developed countries was only 47% in the same period.

Most of these parent companies are relatively small TNCs with a limited geographical reach. However, the number of large TNCs is on the rise. One indication of this is the growing number of developing-country firms that appear on lists showing the largest companies in the world. Around 1990, there were only 19 such companies among the *Fortune 500*; by 2005, the number had risen to 47.[17] Rankings of companies in several important industries show the competitive positions of TNCs from developing and transition economies (table III.14). Some have achieved important global positions in industries such as automotives, chemicals, electronics, petroleum refining and steel, and in services such as banking, shipping, telecommunications and construction. Developing-economy TNCs have a particularly strong presence in container shipping, petroleum refining and steel.

The average size of the largest developing-economy TNCs has risen significantly, as has the degree of their transnationalization (chapter I). The shares of their foreign to total assets, sales and employment rose rapidly during the period 1993-2004. Their foreign affiliates have become more widely distributed globally, not only in developing and transition economies, but also in developed countries (figure III.10). Still, as noted in chapter I (table I.18), the 100 largest TNCs from developing countries show a relatively strong preference for locations in developing economies compared with the 100 largest global TNCs. For the latter group of TNCs the five most favoured locations were all developed countries; for the former, three of the five were developing economies (Hong Kong (China), China and Singapore).

Another distinguishing feature between the largest TNCs globally and those from developing countries is the role of State ownership. Among the top 100 TNCs in the world (annex table A.I.11), only five are majority-owned by the State, three

Table III.13. Number of parent companies, selected developing economies, selected years

Economy	Early 1990s	(year)	Early 2000s	(year)	Rate of increase (Per cent)
Brazil	566	(1992)	1 225	(2005)	116
China	379	(1993)	3 429	(2005)	805
Hong Kong (China)	500	(1991)	948	(2002)	90
India	187	(1991)	1 700	(2003)	809
Korea, Republic of	1 049	(1991)	7 460	(2005)	611
Total	2 681		14 762		451
Developed countries	*34 280*		*50 520*		*47*

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics), and annex table A.I.6.
Note: See footnotes in annex table A.I.6 for the nature of data.

Table III.14. Top 20 TNCs, ranked by revenue and their activities, 2005 or latest available year

(Companies in bold are based in a developing or transition economy)

	Primary	Manufacturing					Services			
Rank	Mining	Automotive	Chemical	Electronics	Petroleum refining	Steel[a]	Banking[b]	Construction	Container shipping[c]	Telecommunications
1	BHP Billiton Ltd.	General Motors	BASF Group	Siemens	BP	Arcelor	Citigroup	VINCI	A.P. Moeller Maersk	NTT Corporation
2	Alcoa Inc.	DaimlerChrysler	Dow Chemical	Hitachi	ExxonMobil	Mittal Steel	JP Morgan Chase & Co	Bouygues	Mediterranean Shipping	Deutsche Telekom
3	Alcan Inc.	Toyota Motor	Bayer Group	Matsushita Electric Industrial	Royal Dutch/Shell	Nippon Steel	HSBC Holdings	Skanska AB	CMA CGM Group	Verizon Communications
4	Rio Tinto plc	Ford Motor	EI du Pont de Nemours	**Samsung Electronics**	Total	JFE Steel	Bank of America Corp	Shimizu Corp.	**Evergreen Group**	France Télécom
5	**Companhia Vale do Rio Doce**	Volkswagen	Mitsubishi Chemical	Sony	Chevron Corp.	**Posco**	Crédit Agricole Groupe	Bechtel	Hapag-Lloyd	Vodafone Group
6	Phelps Dodge Corp.	Honda Motor	Lyondell Chemical	Toshiba	ConocoPhillips	**Baosteel**	Royal Bank of Scotland	Kajima Corp.	**China Shipping Container Lines**	NTT DoCoMo
7	Commercial Metals Co.	Nissan Motor	**Saudi Basic Inds**	Tyco International	**Sinopec**	US Steel	Mitsubishi Tokyo Financial Group	Taisei Corp.	APL	Telecom Italia
8	The Furukawa Electric Co.	Peugeot	Akzo Nobel Group	**LG Electronics**	ENI	Corus Group	Mizuho Financial Group	Grupo ACS	**Hanjin/Senator**	SBC Communications
9	Inco Limited	Fiat	Degussa	Royal Philips Electronics	**CNPC**	Nucor	HBOS	Hochtief AG	**COSCO Container Line.**	Telefonica
10	**Aluminum Corp. of China Ltd**	BMW	Huntsman	Mitsubishi Electric	Valero Energy	ThyssenKrupp	BNP Paribas	Obayashi Corp.	NYK	BT Group
11	Freeport-McMoRan Copper & Gold Inc.	Renault	Asahi Kasei	Sharp	Marathon Oil	Riva Group	**Bank of China**	Centex	Mitsui O.S.K Line	Cingular Wireless
12	Teck Cominco Ltd.	Robert Bosch	Air Liquide Group	Sanyo Electric	Statoil	International Steel Group	Santander Central Hispano	Takenaka Corp.	**OOCL**	AT&T
13	Southern Copper Corp.	**Hyundai Motor**	Sumitomo Chemical	Electrolux	Repsol YPF	**Gerdau Group**	Barclays Bank	Royal BAM Groep	**CSAV Group**	KDDI Corporation
14	Cleveland-Cliffs Inc.	Delphi	Mitsui Chemicals	**Hon Hai Precision Industry**	**SK**	**Severstal**	Rabobank Group	**China Railway Engineering**	K Line	Sprint
15	Cameco Corporation	Volvo	**LG Chem**	Sumitomo Electric Industries	**Petrobras**	**China Steel**	Sumitomo Mitsui Financial Group	**China Railway Construction**	Zim	**China Mobile (Hong Kong)**
16	**Highveld Steel and Vanadium**	Johnson Controls	DSM	Emerson Electric	**Petronas**	Sumitomo Metal Industries	Wells Fargo & Co	**CSCEC**	**Yang Ming Line**	MCI
17	Kaiser Aluminum Corp.	Denso	PPG Industries	Whirlpool	Nippon Oil	**Evraz Holding**	ING Bank	KBR	Hamburg-Sud Group	BellSouth
18	Titanium Metals Corp.	Mazda Motor	Solvay Group	Schneider Electric	**Indian Oil**	**Steel Authority of India Limited**	Wachovia Corp.	Fomento de Constr. y Contratas	**Hyundai Merchant Marine**	**Tata Teleservices**
19	Brush Engineered Material	Bridgestone	Imperial Chemical Inds	..	**Lukoil**	**Anshan Iron and Steel Group**	UBS	Fluor Corp.	**Pacific Int'l Lines**	**China Telecom**
20	Stillwater Mining Co.	Suzuki Motor	Dainippon Ink & Chems	..	Sunoco	**Magnitogorsk**	ABN AMRO Bank	Bau Holding Strabag	**Wan Hai Lines**	Telstra Corporation

Source: UNCTAD, based on various sources.

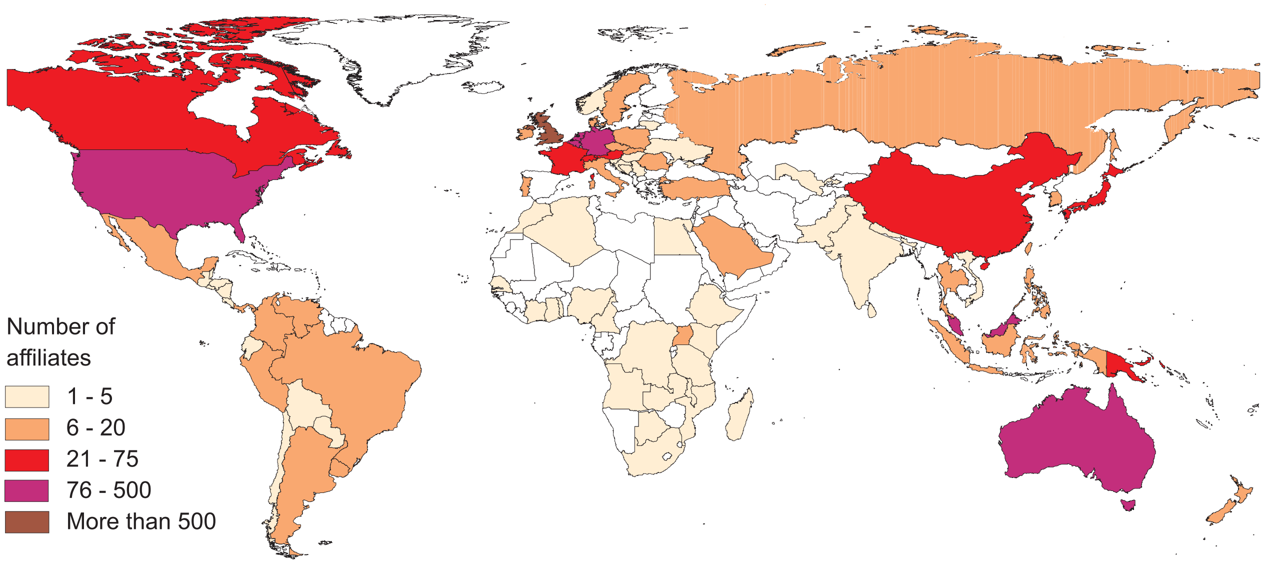
[a] Ranked by volume of production of crude steel.

[b] Ranked by Tier 1 capital (mainly shareholder equity).

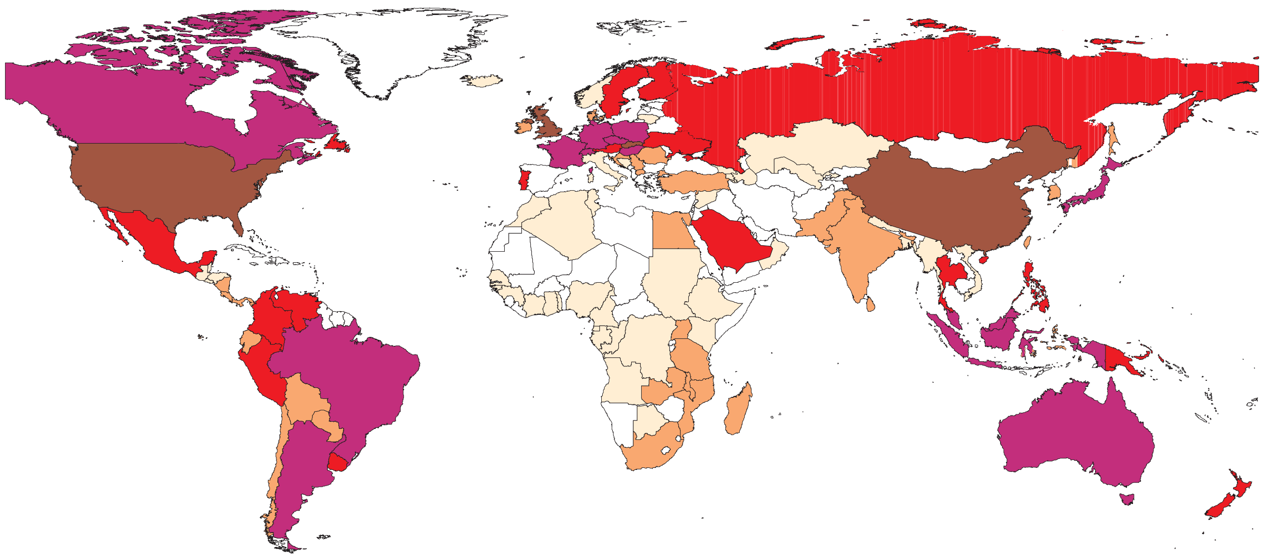
[c] Ranked by capacity.

Figure III.10. Distribution of foreign affiliates by TNCs from developing and transition economies, 1989 and 2005

(a) By 1989



(b) By 2005



Source: UNCTAD, FDI/TNC database, on the basis of *Who Owns Whom* (Dun and Bradstreet).
Note: Based on 11,736 majority-owned foreign affiliates in 2005 (8,877 in 1999 and 2,851 in 1989) that were established by 8,038 TNCs from developing countries (5,913 and 1,681, respectively).

of which are developing-country TNCs (CITIC Group, Petronas, Singtel).[18] In contrast, almost a quarter of the 100 largest developing-country TNCs are State-owned. State ownership is particularly common in the primary sector.

The following subsections provide additional information on the main players, both regional and global, that have emerged in Africa, Asia, Latin America, and South-East Europe and the CIS, highlighting some of their specific characteristics. The analysis draws on UNCTAD field research as well as some recent studies by various international organizations, private consultancy firms and academics. Special attention is paid to geographical and industrial distribution, market orientation (regional versus global) and ownership patterns.

2. TNCs from Africa

In terms of major players, TNCs from South Africa have undertaken the most outward investment among African countries. In North Africa, Egyptian TNCs have been the major players.[19] Beyond these two home countries, African outward FDI involves mainly small and medium-sized enterprises (SMEs) with fairly limited foreign assets. Sector-wise, the top African investors are active in a wide range of industries. Many of them have a significant presence in various parts of the African continent as well as in West Asia, and some TNCs have also ventured further afield. Among the top TNCs from Africa, private ownership predominates, but in transportation and energy, State-owned investors play a significant role.

South Africa is home to most of the largest African TNCs. In UNCTAD's list of top 100 non-financial TNCs from developing countries (annex table A.I.12), 10 out of 11 African companies are from South Africa. Ranked by foreign assets, the leading ones in 2004 were Sasol, Sappi and the MTN Group, whereas by total sales the top trio were Sasol, Metro Cash & Carry and Bidvest (table III.15). The industrial composition of the African outward investors is remarkably varied, ranging from mining to chemicals, metals and paper production in manufacturing, and retail, telecoms, media and transportation in services.

The internationalization of South African firms accelerated after 1990, following the removal of sanctions and the Government's liberalization of outward FDI.[20] Some of the large TNCs have already reached a relatively high level of internationalization, with more than half of their sales and assets abroad. The internationalization of many South African TNCs has focused mainly on the African region. Of the top 100 companies listed on the Johannesburg Stock Exchange in 2005, 60 have direct ownership of foreign affiliates in the rest of Africa; another 26 are holding companies that indirectly control foreign affiliates in Africa (Edge Institute 2005).[21] Nine companies have foreign affiliates only in non-African locations, all of them in the United Kingdom, the United States and Switzerland, with one exception (Harmony Gold Mining, which has a presence in Peru and Papua New Guinea).[22] South African banks, including Standard Bank, ABSA Group, FNB/RMB, Nedbank and Nedcor, are also active throughout the region, and some have a global presence. For example, Standard Bank Group operates in 17 African countries and 21 others.

While large private companies play a leading role in outward FDI, State-owned enterprises (e.g. Eskom and Transnet) and SMEs have also contributed to the increased FDI from South Africa. These companies tend to place more emphasis on investments close to home and in neighbouring African countries (Spicer 2006). Consequently, their investments outside Africa are insignificant. The outward expansion by Eskom and Transnet reflects the Government's efforts to boost development throughout Southern Africa as part of its commitment to the New Partnership for Africa's Development (NEPAD) initiative (Rumney 2005).

Table III.15. Top South African non-financial TNCs, ranked by sales, 2004

Company	Sales ($ billion)	Industry	Degree of internationalization: Foreign to total sales (%)	Degree of internationalization: Foreign to total assets (%)
Sasol	10.7	Industrial chemicals	38	38
Metro Cash & Carry	9.1	Retail	..	..
Bidvest	9.0	Trading activities	35	44
Transnet	8.2	Transportation	..	..
Telkom	7.6	Telecommunications	2	3
Eskom	7.6	Electricity	..	..
Barloworld	6.5	Diversified	54	51
Imperial Holdings	6.2	Automotives	..	..
MTN Group	5.1	Telecommunications	37	57
Shoprite Holdings	4.8	Retail	10	16
Sappi	4.7	Paper	74	68
Tiger Brands	4.5	Agroindustry	..	..
Massmart Holdings	4.2	Retail	5	6
Nampak	3.1	Packaging	74	68
AngloGold Ashanti	2.9	Mining	67	50

Source: UNCTAD, based on *Jeune Afrique L'intelligent*, 2006, company information and the UNCTAD/Erasmus University database on largest TNCs.

Some significant global players of South African origin (e.g. Anglo American, Billiton (precursor to BHP Billiton), Dimension Data, Old Mutual and South African Breweries (precursor to SABMiller)), shifted their primary listing from the Johannesburg Stock Exchange to the London Stock Exchange between 1997 and 2000, thus dropping out of UNCTAD's list of large TNCs from developing countries. By transferring their primary listing to London (partly to access the international financial markets) and subsequently undertaking M&As, many of them became leading global players. For example, Anglo American has emerged as one of the top global mining companies,[23] and the merger of South African Breweries in 2002 with Miller (United States) created SABMiller, the second largest brewing company in the world.

In UNCTAD's list of top 100 developing-country TNCs, the only African TNC that is not from South Africa is Orascom Construction Industries (Egypt). This company, along with Orascom Telecom Holdings, Orascom Hotels and Development and Orascom Technologies, is a subsidiary of Orascom Group, which in turn is owned by the Sawiris family (box III.4). Large State-owned enterprises also play an important role in the Egyptian economy,[24] but their level of internationalization is generally low.

Beyond South Africa and Egypt, Algeria, Botswana, Côte d'Ivoire, Liberia, the Libyan Arab Jamahiriya, Morocco and Nigeria all have outward FDI stocks of over $500 million (annex table B.2).[25] With few exceptions, TNCs from these countries are SMEs. However, they do not confine all their investments to the region. For example, more than half of the Nigerian outward FDI has gone to developed countries. These countries' TNCs invest mainly in natural resources. For example, Oando Group (Nigeria's largest energy group) has investments in a range of energy companies across West Africa and has expanded its operations into Southern African countries, including Angola and South Africa.

Box III.4. The Orascom Group

The total capitalization of the Orascom Group amounts to more than 40% of the overall value of the Egyptian stock market (Bonaglia and Goldstein 2006).

Orascom Telecom Holdings has used a series of acquisitions to achieve its strategic objective of becoming the number one mobile telecom operator in the Middle East and Africa. In 2000, the company bought an 80% stake in Telecel, which at the time held licences in 15 sub-Saharan African countries. In 2001, it secured the mobile network licence in Algeria with a bid of $737 million. In recent years, the company has widened its geographic coverage. In 2004, it expanded to Bangladesh, Iraq, Pakistan and Tunisia. In May 2005, via its financial vehicle (Weather Investments), it entered the European market by acquiring Wind Telecommunicazioni (Italy), an operator with 14 million subscribers and i4.7 billion in revenues (2004), in a deal valued at $12.8 billion (table III.2). In December 2005, it invested $1.3 billion to buy a 19.3% stake of Hutchison Telecommunications International Limited (Hong Kong, China), which operates in eight different countries or territories.

Orascom Construction Industries is the third largest construction contractor in Africa after the Arab Contractors (O.A.O. & Co.) (Egypt) and Grinaker-LTA (South Africa). More than half of the company's total revenues came from foreign markets in 2003. The corresponding share for the larger Arab Contractors was only 14%.

Source: UNCTAD.

3. TNCs from Asia

The recent rise of TNCs from developing countries has been driven mainly by Asia. This region now accounts for around four fifths of the top 100 TNCs from developing countries (chapter I). The expansion of the Asian TNCs has taken place in the context of rapid economic growth in some Asian economies that have successfully integrated into the global production system. Although interrupted by the 1997 financial crisis, the development performance of many of these economies has been outstanding in comparison with both developed countries and other parts of the developing world.[26] The expansion of the Asian TNCs has also been closely intertwined with the evolving regional institutional and policy context. Many of these companies have benefited from being part of regional or global production networks, the formation of which has been facilitated by progressive regional integration. Meanwhile, an actively outward-oriented policy approach over the past few decades has helped enhance the global reach of TNCs from the region. Indeed, a number of them have emerged as competitive global players (table III.14). Operating in a wide spectrum of service and manufacturing industries, some are very large and highly internationalized. While there are important examples of State-owned or government-linked enterprises, in particular in monopolized services or natural resources, most of the top Asian TNCs are privately owned.

Countries and subregions in Asia vary widely in terms of economic size, industrial structure, resource abundance, development level and strategy, and, consequently, so do the characteristics of their TNCs. The analysis in this section is therefore divided into three parts: TNCs from East and South-East Asia, from South Asia and from West Asia. Almost all the largest Asian TNCs come from East and South-East Asia, with some exceptions, such as IT service providers from South Asia and some companies from West Asia. To provide a fuller picture, attention is given to both large TNCs in East and South-East Asia as well as relatively small ones in South Asia and West Asia.

a. TNCs from East and South-East Asia

The subregion of East and South-East Asia is home to most of the top TNCs from the South; of the top 100 developing-country TNCs in 2004, 77 were based in this subregion. Five of them are also among the top 100 global TNCs (annex table A.I.11). Ranked 16th globally by foreign assets, Hutchison Whampoa (Hong Kong, China) leads, followed by Petronas (Malaysia), Singtel (Singapore), Samsung Electronics (Republic of Korea) and CITIC Group (China). TNCs from this subregion are concentrated in a handful of relatively high-income economies: the four Asian NIEs, China and Malaysia (annex table A.I.12).

The 77 largest TNCs from East and South-East Asia operate in a wide variety of industries. In the primary sector, there are four State-owned oil companies: Petronas (Malaysia), CNPC and CNOOC (both China) and PTTEP (Thailand). In services, transportation counts 8 TNCs, followed by trade (4), hotels (4) and telecommunications (3) – all of which are location-bound, non-tradable activities. In manufacturing, there are as many as 18 companies in the electronics, computers and peripherals category, most of which are from the NIEs. Another five TNCs are found in the food and beverages industry.

The rise of these and other TNCs in East and South-East Asia has taken place in the context of rapid industrial upgrading in the subregion. During the 1970s, companies from this subregion contributed to the first wave of FDI from developing countries, although to a lesser degree than their Latin American counterparts. In particular, companies from the four Asian NIEs accelerated their overseas expansion in the 1980s. By the mid-1990s, large enterprises from other South-East Asian economies, especially Malaysia and Thailand, also began to expand abroad, interrupted only briefly by the Asian financial crisis. The internationalization of Chinese companies since the launch of that country's open-door policy, and in particular after the mid-1990s, has also added to the growing importance of Asian TNCs.

Among developing-country TNCs, companies from the NIEs pioneered the pursuit of a global strategy. Different characteristics and structures of these economies have influenced the specialization and strengths of their corporations. As trade entrepôts and financial centres, Hong Kong (China) and Singapore are home to some very large TNCs in the services sector, such as Hutchison Whampoa, Singtel, Singapore Airlines and PSA International. The Republic of Korea and Taiwan Province of China boast a number of large and competitive TNCs in manufacturing, while Singapore also has large TNCs in manufacturing, particularly in electronics and food and beverages.

In the Republic of Korea, Hyundai Motor, LG. Chem, Samsung Electronics, LG Electronics, SK and Posco are examples of companies that have established global positions in such industries as automotives, chemicals, electronics, petroleum refining and steel (table III.14). These companies have evolved from *chaebols* – large, private-owned conglomerates that have been supported by proactive government policies. Strongly hit by the 1997 financial crisis, the *chaebols* had to undertake restructuring programmes (Chang 2003), which resulted in a more diversified ownership structure, sometimes with significant foreign participation. Consequently, they have become stronger and more focused global players. For example, Samsung Electronics long modelled itself on Sony, which was already an established global brand in 1969 when Samsung was a start-up in a Quonset hut.[27] By 2004, Samsung Electronics' revenue had surpassed that of Sony and its profits were five times higher (box III.5).

Similar to Samsung and LG, Acer (Taiwan Province of China) has become a globally renowned brand. Most other electronics companies from Taiwan Province of China, in contrast to Korean firms, have focused only on one part of the global value chain, building their global competitiveness based on original equipment manufacturing (OEM). Their rapid internationalization in recent years has helped this economy obtain a strong position in the list of top 100 developing-economy TNCs – 15 companies entered the list, all privately owned and mostly in computers and electronics. Hon Hai Precision Industry is now the third largest electronics company in Asia after Samsung Electronics and LG Electronics (table III.14).[28]

Of the 15 Singaporean companies in the list of the top 100 developing-country TNCs, 6 are GLCs:[29] Singtel, Capitaland, Neptune Orient Lines, Singapore Airlines, Keppel Corporation and Sembcorp Industries. In fact, according to a ranking of the top 100 Singapore International Companies conducted by IE Singapore in 2005, all the top five Singapore-based TNCs are GLCs (UNCTAD 2005b). Transformed from former SOEs, GLCs have played a key role in the Singaporean economy.[30] The State continues to retain significant control over them, primarily through Temasek Holdings (box III.6) and three other holding companies: Singapore Technologies, MinCom Holdings and MND Holdings.

As in Singapore, some of the largest overseas investors from Malaysia are State-owned, including Petronas and Misc Corp. Bhd. The bulk of Petronas' overseas investments are concentrated in upstream exploration and extraction activities, mainly in Africa and South-East Asia. FDI in services is primarily in finance, utilities and construction (PricewaterhouseCoopers 2005d; Tham 2006). Investments in manufacturing abroad are in fabricated metal products, machinery and equipment, palm oil, and wood and wood-based products. Although GLCs play an important role, like in Singapore, private-owned business conglomerates account for the main share of the outward FDI stock. Many of these conglomerates have a high degree of both industrial and geographical diversification.[31]

Box III.5. Internationalization of Samsung Electronics

In 1969, Samsung entered the electronics industry with the incorporation of Samsung Electronics Co., which became listed on the Korea Stock Exchange in 1975. Initially, its focus was on the development of mass production capability. International linkages were established through the creation of joint ventures with foreign technology suppliers such as NEC, Sanyo and Corning Glass Works, enabling it to acquire product designs and marketing outlets. As its capabilities grew, it ventured into international production.

Samsung's earliest overseas production efforts were a Portuguese joint venture operation started in 1982, and an investment in the United States in 1984. Following unsatisfactory results with production in that country, the company began to concentrate more on establishing low-cost manufacturing plants in Mexico, Central and Eastern Europe and South-East Asia. It was only by reorienting its international production to low-cost operations in peripheral areas that it was able to match its capabilities with its network structure. Meanwhile, encouraged by its profitability in its semiconductor business, Samsung Electronics began to acquire new capabilities through acquisition of or direct investment in foreign firms in the 1990s.

As of 2005, Samsung Electronics' domestic sales represented only 18% of its total revenue and the remaining comprised overseas sales in Asia (42%), Europe (24%), the United States (15%) and others (1%). The company had 67 foreign affiliates (26 production sites, 38 sales affiliates and 3 logistics centres) and 20 branches on almost every continent. Employees abroad comprised 37% of the total workforce. In 2005, the company invested $5.4 billion in R&D (i.e. 9.4% of its total sales). Its six research centres located in the Republic of Korea and its ten overseas centres (in China, India, Israel, Japan, the Russian Federation, the United Kingdom and the United States), drive the company's efforts to developing leading technologies in digital media, telecommunications, digital appliances and semiconductors. At the end of 2005, nearly 25% of its employees were directly involved in its 16 R&D centres.

Source: UNCTAD, based on Kim (1997) and information provided by Samsung Electronics.

Box III.6. Overseas investments of Temasek Holdings

Temasek Holdings is a State-owned company that has 48 key investments and effective shareholdings, with a total portfolio value of $62 billion as of 31 March 2005. The company's investments cover many industries, including telecommunications and media, financial services, property, transportation and logistics, energy and resources, infrastructure, engineering and technology, as well as pharmaceuticals and biosciences.

Temasek is the largest outward investor from Singapore. In March 2005, about half of its investments were overseas, spanning destinations in ASEAN (excluding Singapore) (9%), Australia (18%), East Asia (8%), Europe (5%), South Asia (2%) and the United States (6%). It has invested in some large foreign enterprises such as ICICI Bank, Mahindra & Mahindra and the Apollo Hospital Group in India; China Construction Bank and China COSCO Holdings in China; Bank Danamon and Bank Internasional Indonesia in Indonesia; Quintiles Transnational Corp. (United States); and Hana Bank (Republic of Korea). Over the next 8-10 years, Temasek expects its Singaporean assets to shrink to about one third of its operating assets, while another third would be in the rest of developing Asia and the remaining third in the OECD countries.

Source: UNCTAD, based on information from the company website.

Linkages with developed-country TNCs have played a significant role in private companies' domestic development and international expansion in countries such as Thailand (Peng, Au and Wang 2001, Pananond 2006).[32] Also important are the networks of "ethnic Chinese".[33] A stream of social, cultural and institutional literature suggests that the emergence of South-East Asian TNCs is part of the overall internationalization process of "ethnic Chinese" businesses in Asia (Kao 1993, Weidenbaum and Hughes 1996).[34] Indeed, a large number of "ethnic Chinese" companies have become important regional players in South-East Asia, and some of them have started going global (table III.16). For example, the highest ranking Thai company in the table, Shin Corporations, is

Table III.16. Selected large "ethnic Chinese" companies in South-East Asia, ranked by market capitalization
(Millions of dollars)

Company	Country	Industry	Market Value	Sales	Geographic scope
Non-financial companies					
Singapore Press Holdings Limited	Singapore	Publishing	4 021	581	Regional
City Developments Limited	Singapore	Hotels	3 928	1 408	Global
Genting Berhad	Malaysia	Hotels	3 541	1 223	Regional
IOI Corporation Berhad	Malaysia	Agriculture & fisheries	3 032	1 314	Global
Shin Corporations Public Company	Thailand	Telecommunications	2 725	493	Regional
YTL Power International Berhad	Malaysia	Utilities	2 643	891	Global
Venture Corporation Limited	Singapore	Electronic equipment	2 550	1 889	Global
YTL Corporation Berhad	Malaysia	Utilities	2 189	1 160	Global
Fraser and Neave Limited	Singapore	Soft drinks	2 170	2 039	Global
Want Want Holdings Limited	Singapore	Food products	1 637	524	Regional
Financial companies					
Company	Country	Industry	Market Value	Sales	Geographic scope
United Overseas Bank Limited	Singapore	Banking	12 971	1 928	Global
Overseas-Chinese Banking Corporation	Singapore	Banking	10 820	1 564	Global
Public Bank Berhad	Malaysia	Banking	6 008	1 328	Regional
Bangkok Bank Public Company Limited	Thailand	Banking	4 671	1 203	Global
Great Eastern Holdings Limited	Singapore	Life insurance	4 049	4 661	Regional
Kasikorn Bank Public Company Limited	Thailand	Banking	3 162	878	Global
Hong Leong Bank Berhad	Malaysia	Banking	2 162	367	Regional
Hong Leong Credit Berhad	Malaysia	Banking	1 063	668	Global
Bank of Ayudhya Public Company Limited	Thailand	Banking	856	387	Regional
Metropolitan Bank and Trust Company	Philippines	Banking	847	410	Global

Source: UNCTAD, based on *Asia Weekly*, 9 October 2005.

a major telecommunications operator in Thailand, and a regional player in its industry. It is active in neighbouring countries such as Cambodia and the Lao People's Democratic Republic.

Chinese TNCs emerged later than their counterparts in the NIEs. The first generation of Chinese TNCs were mainly large State-owned enterprises operating in monopolized industries such as financial services, shipping, international trading and natural resources. Many of them started operations abroad after China adopted its open-door policy in the late 1970s. CITIC Group, founded in 1979 by the Chinese Central Government,[35] is a diversified financial and industrial conglomerate, which has grown into one of the top 100 TNCs in the world. Other leading Chinese State-owned TNCs include COSCO, China State Construction Engineering Corporation, CNPC, Sinochem, CNOOC, China Minmetals and COFCO. Hong Kong (China) is usually the first stop along the path of the internationalization of these first-generation Chinese TNCs, and it remains the major location for their "overseas" operations.[36] In recent years, State-owned Chinese companies (including CNPC, CNOOC and Minmetals) have emerged as important players in natural resources, driven by their growing ambition to secure control of such resources abroad.

The second generation of major Chinese TNCs emerged after the early 1990s in competitive manufacturing industries, in particular those related to electronics and information and communication technologies (ICT).[37] Companies such as Haier and TCL are now global players in consumer electronics; Lenovo has become the third largest personal computer (PC) manufacturer in the world following the acquisition of IBM's PC business;[38] Huawei Technologies (box III.7) and ZTE are competing against developed-country TNCs in the global telecom equipment market. Some relatively small Chinese companies have also become highly internationalized in a wide range of industries.[39] The second generation of Chinese TNCs have diverse ownership structures, including private ownership, local government ownership and foreign participation.

b. TNCs from South Asia

In terms of size, TNCs from South Asia are still not comparable to those from East and South-East Asia. Only one company – Oil and Natural Gas Corporation (ONGC) – from India features in UNCTAD's list of top 100 developing-country TNCs (chapter I). India dominates the list of leading TNCs from this subregion.[40] With the

Box III.7. Huawei Technologies: a global player in telecom equipment

In China's telecom equipment market, leading domestic firms such as Huawei and ZTE are competing head-to-head with foreign TNCs. Huawei, a privately owned company established in 1988, is the largest and best known. After rapid development since the mid-1990s, Huawei's global revenue reached $5.6 billion in 2005, with almost half of its sales from international markets. The company has established eight regional headquarters and more than 85 subsidiaries in the world. It has overseas R&D centres in India, the Russian Federation, Sweden and the United States. Its products are sold in more than 100 countries. Currently, Huawei provides telecom products and solutions to over 270 operators worldwide, including 22 of the world's 50 largest operators.

Huawei is one of the most innovative companies in China.[a] In 2005, the company filed 249 property cooperation treaty (PCT) patent applications, giving it the third highest ranking among firms from developing countries and the 37th in the world in terms of the number of such patents.[b] Huawei has become a leading player in many segments of the global telecom equipment industry including fixed networks, mobile networks, data communications and optical networks. It is now one of the few companies in the world to provide end-to-end 3G solutions. It has Wideband Code-Division Multiple-Access (WCDMA) contracts in 18 countries and territories, which gives it a leading position in this high-end segment of mobile telecom equipment.

Source: UNCTAD, based partly on information from company websites.

[a] By the end of 2005, Huawei had applied for 9,600 Chinese patents and 1,547 international and foreign patents. It has had the highest number of patent applications in China since 2002 (*Source*: National Bureau of Statistics of China and WIPO).

[b] "Exceptional growth from North East Asia in record year for international patent filings", 3 February 2006, World Intellectual Property Organization (WIPO), Press Release 436.

increased openness of the economy since the mid-1990s, Indian firms have begun to go global. In several industries – software and IT services, pharmaceuticals and biotechnology, hotels and hospitality, automotives and other branded products – they have diversified their operations and investments across the world. But it is in software and IT services, the most dynamic component of the Indian economy, where the main TNCs are found. They are the pioneers in offshore outsourcing of software and IT-enabled services (*WIR04*). Although most Indian outward FDI stock is still in manufacturing, overseas investment in software and IT services has grown rapidly along with pharmaceuticals; companies such as Dr. Reddy's, Infosys (box III.8), Ranbaxy, TCS and Wipro have made sizeable overseas investments.

Large Indian companies in industries such as steel and chemicals have also begun to internationalize by acquiring upstream companies, for instance in Australia and Canada. In the energy sector, India's State-owned groups, such as ONGC Videsh Limited, Indian Oil Corporation and Oil India, have acquired equities in exploration, refining and retailing.

The United States is the main destination for overseas investments by Indian TNCs, followed by the Russian Federation, Mauritius and Sudan, in that order. While most of the investments in the Russian Federation and Sudan have been in oil exploration, those to the United States have been mainly in IT services and pharmaceuticals.

Box III.8. India's Infosys goes global

Infosys Technologies was created in 1981 in Bangalore. With over 52,000 employees worldwide, it now provides consulting and IT services to clients globally. The company has pursued an international strategy to strengthen its competitive position and become a global player. Infosys has over 30 foreign affiliates worldwide, covering all countries and territories where its major customers are located. Infosys Technologies' global initiatives began with the opening of its first subsidiary in the United States in 1987. Its first European subsidiary was created in the United Kingdom in 1996, followed by affiliates in Belgium, Germany and Sweden (1997), France (2000), the Netherlands (2001) and Switzerland (2002). In 2005, Infosys set up its first overseas operations centre in the Czech Republic and bought RASInfo (France).[a]

Source: UNCTAD.

[a] See e.g. "Infosys BPO subsidiary opens Czech center", *Computer Business Review Online*, 23 September 2005 (www.cbronline.com).

c. TNCs from West Asia

West Asia is an important capital exporter as a result of its large oil revenues.[41] However, most of the petrodollars have until recently been directed towards portfolio investments, and outward FDI remains small but growing. In fact, Turkey – a non-oil producing country – is the leading source of FDI from West Asia: its outward FDI stock accounts for about half of the total FDI stock of the region (see also box II.14).

Koç Holding and Sabanci Holding – Turkey's two largest industrial and financial conglomerates – and Turkish Petroleum Corporation (TPAO) are major outward investors. Controlled by private families, Koç Holding (whose subsidiary Arcelik has been expanding abroad recently, see box V.1)[42] and Sabanci Holding became highly diversified during the import-substitution regime before the late 1980s. Since then, they have increased their geographical diversification abroad and reduced their industrial diversification at home.[43] The State-owned petroleum enterprise, TPAO, aims to participate in international oil and natural gas exploration through the Turkish Petroleum International Company. Its outward FDI is about $2.7 billion, most of which is related to projects in Azerbaijan implemented in the early 1990s.[44]

Saudi Basic Industries Corporation, majority-owned by the Government of Saudi Arabia, is one of the leading players in the global chemical industry (table III.14), controlling about 5% of the world petrochemical markets.[45] It exports more than two thirds of its production to over 100 countries. It has offices spread across the globe, including two major manufacturing complexes in Germany and the Netherlands and one R&D centre in the United States.

Other major TNCs from oil-rich West Asian countries include the large State-owned oil companies. The operations of companies such as Saudi Aramco (Saudi Arabia) and Kuwait Petroleum Corporation (Kuwait) span the globe.[46] Regional TNC players from West Asia can also be found in such services as telecommunications, construction and port and terminal operations. Telecom operators include Investcom (UAE), Mobile Telecommunications Co. (Kuwait) and

Etisalat (UAE), which mainly focus on West Asia and Africa.[47] National Petroleum Construction Co. (UAE) and National Co. for Mechanical & Electrical Works Ltd. (Kuwait) are notable regional construction TNCs in the Middle East. In port and terminal operations, State-owned Dubai Ports World – or DP World – (UAE) received global attention when it acquired P&O (United Kingdom), which was the fourth largest port operator in the world (chapter VI). The deal made DP World one of the top three global port operators, with terminals across five continents.

4. TNCs from Latin America and the Caribbean

The evolution of TNCs from Latin America and the Caribbean (LAC) has been heavily influenced by changing institutions and policies in the region over the past few decades. While the region was the leading source of FDI from the South until the mid-1980s, LAC firms have recently not internationalized at the same pace as their Asian counterparts. Today, the main TNC players from LAC (also referred to as "trans-Latins") are based in Brazil and Mexico. In general, the "trans-Latins" concentrate in certain primary industries, some mass consumption manufacturing and a few services industries (ECLAC 2006). With a few exceptions, most TNCs have a strong regional focus in their internationalization strategies, and the share of their international sales in total sales tends to be low.

Outward FDI is not a new phenomenon in LAC. In fact, Argentina appears to have been one of the first developing countries to have firms with industrial plants abroad (box III.9). Moreover, during the 1960s and the 1970s firms from Argentina, Brazil and Mexico were part of the "first wave" of FDI from the South (Dunning et. al. 1996, Chudnovsky and López 2000). Since the early 1990s, some Latin American enterprises have embarked on a new strategy of internationalization, including through FDI. For many companies, outward expansion has been a response to the wide-ranging trade liberalization, deregulation and privatization policies that took place throughout the region in the 1990s (chapter IV).

Ranked according to total sales in 2004, the largest "trans-Latin" company was PDVSA (Venezuela), followed by Petrobras (Brazil) and Telmex (Mexico) (table III.17, ECLAC 2006). Meanwhile, in UNCTAD's list of the top 100 TNCs from developing countries, which ranks companies by foreign assets, Cemex (Mexico) heads the list (chapter I). The dominance of Brazil and Mexico as home countries is evident from both lists.[48] In table III.17, 12 of the 15 largest firms are from these two countries, with one firm each from Argentina, Chile and Venezuela completing the list. Meanwhile, none of the "trans-Latins" were among the global top 100 TNCs in 2004.

Sector-wise, the largest TNCs are concentrated mainly in natural-resource extraction (petroleum or mining) or in resource-based

Box III.9. Early Argentinean TNCs

Argentina was one of the first developing countries with firms internationalizing via FDI (Chudnovsky and López 2000, United Nations 1993). Many Argentinean enterprises were quick to establish foreign affiliates in other Latin American countries, and some even expanded further afield (Garrido and Wilson 1998, ECLAC 2006). For instance:

- *Alpargatas*, a textile manufacturer, set up a manufacturing affiliate in Uruguay in 1890, and later in Brazil.
- In the late 1920s and during the 1930s, *S.I.A.M di Tella*, a mechanical engineering company, and *Quilmes Bemberg*, a brewery company, established production plants in neighbouring countries.
- *Bunge & Born*, a conglomerate in agribusiness and food products, had affiliates in Brazil before the 1930s, and expanded its productive activities during the 1960s and 1970s to Paraguay, Peru and Venezuela, and later even to Austria, Belgium, Canada, France, Germany, the Netherlands and Spain.
- The petroleum company *Astra* has affiliates in Brazil, Mexico, Peru and the United States.
- Holding companies, such as *Perez Companc* and *Techint*, spread their productive activities mainly in Latin America, but also had some financial affiliates in Europe and the United States.
- *Soldati* and *SOCMA* invested in extractive, engineering and construction industries.

Source: UNCTAD.

Table III.17. Largest TNCs from Latin America and the Caribbean, ranked by sales, 2004

Company	Home country	Industry	Sales ($ billion)	Ranking among top 100 developing-country TNCs
PDVSA	Venezuela	Petroleum	63.2	10
Petrobras	Brazil	Petroleum	40.8	13
Telmex	Mexico	Telecom	12.4	-
América Móvil	Mexico	Telecom	12.1	18
CVRD	Brazil	Mining	10.4	25
Grupo Femsa	Mexico	Beverages	8.4	50
Cemex	Mexico	Cement	8.1	6
Metalurgica Gerdau	Brazil	Steel	7.4	33
Techint	Argentina	Steel	6.4	-
Grupo Alfa	Mexico	Diversified	5.3	-
ENAP	Chile	Petroleum	4.7	-
Grupo Bimbo	Mexico	Food	4.6	-
Grupo México	Mexico	Mining	4.4	-
Usiminas	Brazil	Steel	4.6	-
Grupo Imsa	Mexico	Metallurgy	3.3	82

Source: UNCTAD, based on ECLAC, 2006 and UNCTAD/Erasmus University database.

manufacturing (steel, cement), two are in telecommunications and the rest are in food and beverages. The only conglomerate in table III.17, Grupo Alfa, has diverse activities, including petrochemicals and synthetic fibres, aluminium components, refrigerated and frozen foods and telecoms.

Very few TNCs from Latin America have emerged as global players. Cemex is the only “trans-Latin” that can be considered a “major TNC at the global level” (ECLAC 2006, p. 79).[49] It has evolved into one of the three largest cement producers in the world, with operations in more than 30 countries. Techint and CVRD are aiming for world leadership in their specific market segments.[50] Only in a handful of the other companies listed in table III.17 – América Móvil, Grupo Alfa – did foreign sales exceed 50% of the companies’ total sales in 2004 (Ibid.). Moreover, apart from the petroleum and mining companies in the table, overseas investment has rarely gone beyond the Americas. The immediate focus of the internationalization strategy of many leading “trans-Latins” has been to grow into regional champions, drawing on leading positions in their domestic markets or capitalizing on opportunities arising out of privatization and deregulation in other countries of the region.

The sectoral composition as well as the regional focus of TNCs from this region largely reflects the productive and technological specialization that was fostered by decades of import substitution policies. Although the roots of industrialization in Latin America were consolidated and deepened as a result of the import substitution development model, the high protective barriers undermined the incentives to innovate and upgrade technologically (Bethell 2003, Quadros Carvalho and Bernardes 1998, Bonelli 1998). Following the debt crisis triggered in 1982, the import-substitution model was abandoned for more outward-oriented strategies. One after the other, Latin American countries in the 1980s began dismantling tariffs and other trade barriers, liberalizing prices, interest rates and capital markets, privatizing State-owned enterprises and reducing government intervention in the economy.

In this new environment, the activities and industries that managed to grow were mainly non-tradable services (telecommunications, electricity, water sanitation), manufacturers of industrial commodities based on natural raw materials (e.g. pulp and paper, iron and steel, aluminium, petrochemical products) and industries that had been given preferential treatment (*maquila* assembly industries). Those that suffered the most were knowledge-intensive industries such as pharmaceuticals, chemicals and scientific instruments, as well as those engaged in labour-intensive production of non-durable consumer goods, such as footwear, clothing or furniture. These were industries that were unable to meet the global competition once protective barriers had been dismantled (Cimoli et. al. 2001, Katz 2001).[51] Faced with greater competition, some firms viewed outward FDI as necessary to their survival, which triggered market-seeking, resource-seeking and strategic asset-seeking investments (chapter IV).

In addition to the companies listed in table III.17, a number of Latin American niche players deserve mention. For example, Televisa (Mexico) is the world’s largest producer and broadcaster of Spanish language programming; Embraer (Brazil) is one of the few prominent LAC companies that has progressed to become a world leader in a technology-intensive industry.[52] Chilean wine producers, such as Concha y Toro and Viña Santa Rita, are active in Argentina; and Empresas Santa Carolina has vineyards in Argentina, Paraguay and Peru (Holmgren 2005).

A number of “trans-Latins” have disappeared from the rankings, having been acquired by TNCs from other countries. In the energy sector, for example, Argentinean oil and gas producers YPF and Perez Companc had already begun to internationalize when they were taken over by Repsol (Spain) in 1999 and Petrobras (Brazil) in 2003, respectively. The electric utility companies Chilgener and Enersis (Chile) were taken over by Endesa (Spain) in 1999 and AES Corporation (United States) in 2001 respectively (box II.16). La Moderna-Seminis (Mexico), that had acquired innovative biotechnology firms in developed countries, was later taken over by Monsanto (United States).

Conversely, some TNCs from Latin America have also been among the bidders for target companies in other countries, and sometimes in response to privatization programmes in the region:

- Gerdau acquired Ameristeel, a former Japanese-owned affiliate in the United States, in 1999;
- Techint acquired the Mexican steel producer Hylsamex in 2005. It also led a consortium that eventually won the bid in the privatization of Sidor, a Venezuelan steel producer.
- Grupo Macri (Argentina) participated in the privatization of transport and infrastructure in Brazil;
- Telmex expanded its activities throughout Latin America when markets were liberalized.
- América Móvil applied an aggressive strategy to take control of the mobile telecoms business in other parts of LAC when several TNCs decided to withdraw from the region in the early 2000s (ECLAC 2004).[53]
- Similarly, due to the withdrawal of major TNCs from the retail trade, several Chilean companies decided to expand into new markets in the region. For example, as a result of a series of acquisitions, the department store Falabella is now the second largest company in its sector in Latin America, surpassed only by Wal-Mart (ECLAC 2004).

5. TNCs from South-East Europe and the CIS

As noted above (section III.A), outward FDI from South-East Europe and the CIS is mainly from the Russian Federation, but there are also some notable companies in Azerbaijan, Croatia and Romania. The industrial specialization of the largest outward investors from the region has been strongly influenced by the legacy of a planned economy as well as an abundance of certain natural resources. Indeed, the main transition-economy companies that have embarked on international expansion have based their competitiveness on access to various natural resources. Only a few TNCs from the Russian Federation have emerged as global players; most others remain at best regional players, with investments mainly in various other members of the CIS. The role of the State is still significant in FDI from the Russian Federation.

In the case of the Russian Federation, a few leading TNCs are very large, even by global standards. For example, in terms of foreign assets, Lukoil would be ranked 10th on the list of the top non-financial TNCs from developing economies (chapter I). Overall, the Russian firms can be divided into three tiers, measured by total sales (table III.18; chapter I). The first tier comprises the two oil and gas companies, Gazprom and Lukoil, both with sales of more than $33 billion in 2004, and the electricity behemoth UES, with sales of almost $25 billion. The second tier, with sales of $5-7 billion still mostly involves companies in natural resources (Norilsk Nickel, Severstal, Evraz, RusAl etc.), while the remaining TNCs – the third tier – are relatively small.

Russian TNCs are at very different stages of outward expansion. The oil and gas giants (Gazprom, Lukoil), as well as some other firms

Table III.18. Largest TNCs from South-East Europe and the CIS, ranked by sales, 2004

Company	Home country	Industry	Sales ($ billion)
Gazprom	Russian Federation	Natural gas	36.4
Lukoil	Russian Federation	Petroleum and natural gas	33.8
Unified Energy Systems (UES)	Russian Federation	Electricity	24.8
Norilsk Nickel	Russian Federation	Mining	7.0
Severstal	Russian Federation	Metals and metal products	6.6
Evraz	Russian Federation	Mining and steel	5.9
Sistema	Russian Federation	Consumer services	5.7
RusAl	Russian Federation	Metal mining services	5.4
Mechel	Russian Federation	Metals and metal products	3.6
Alrosa	Russian Federation	Non-metallic mineral mining	2.8
Pliva	Croatia	Pharmaceuticals	1.1
Podravka Group	Croatia	Food, beverages and pharmaceuticals	0.6

Source: UNCTAD, based on company information and UNCTAD/Erasmus University database.

(Sistema, Alrosa, Mechel, Norilsk Nickel, RusAl, Severstal) have taken considerable steps in their internationalization strategy spreading to a diverse set of host countries. However, only a few of them can be considered as aspiring to become "global players". Lukoil is perhaps the most well-known case. The company has exploration and production activities in other members of the CIS, Africa, Latin America and West Asia, as well as refining in the CIS, and downstream distribution affiliates worldwide, in at least 15 countries. Its international expansion also covers developed-country markets.[54]

Gazprom's international activities are not well documented and the value of its foreign assets is not publicly known. However, the company, which is majority-owned by the State, is reported to be in control of more than 93% of Russia's natural gas production and about a quarter of the world's known gas reserves.[55] In Europe alone, it has operations in at least 19 countries, involving natural gas distribution and processing activities (Heinrich 2005). It operates in the majority of the other members of the CIS as well.[56]

Norilsk Nickel is considered to be the third largest Russian TNC in terms of foreign assets. It is a world leader in the production of several strategic metals, including palladium, platinum, nickel, cobalt and copper (Vahtra and Liuhto 2005).[57] The company is particularly active in Belgium, Switzerland, South Africa, the United Kingdom and the United States (*WIR04*). RusAl is the world's second largest primary aluminium producer after Alcoa (United States), and the fifth largest alumina producer in the world (UNCTAD 2004a, p. 3).[58] Severstal is a relative newcomer to the international natural-resource/iron and steel scene, having leapfrogged to global status through its acquisition of Rouge Industries (United States) in 2003 and Lucchini Industries (Italy) in 2005.[59]

Other firms, even such large ones as UES, have more limited foreign operations, often confined to South-East Europe and the CIS. State-owned UES continues to focus principally on the Russian market, but has a presence through international consortia in the power station and energy distribution activities of some CIS members (Armenia, Georgia, the Republic of Moldova and Ukraine). It has a strategic goal of introducing a common CIS electricity system, a politically sensitive strategy vis-à-vis partner countries.[60]

The absence of technology-based companies from the group of Russian TNCs is notable, especially in light of the country's defence-related technology traditions. One exception is in the mobile telecom market of the CIS, into which several Russian companies have expanded, mainly through acquisitions. The three largest mobile service providers of the subregion – Mobile TeleSystems/MTS, VimpelCom and MegaFon – are all from the Russian Federation (see also Lisitsyn et al. 2005. p. 15).[61]

Some of the large outward investor firms (e.g. Lukoil, Norilsk Nickel, Mechel) are privately owned. Foreign investors have taken minority stakes in a few companies (e.g. Conoco-Phillips owns 10% of Lukoil) or majority shares (e.g. BP owns 50% plus one share in TNK-BP). Other firms, such as Gazprom and UES, remain State-owned. In the case of Gazprom, the State increased its share to become a majority owner as recently as 2005. The internationalization strategies of resource-based companies, especially the State-owned ones, are influenced by Russian foreign policy (chapter VI).[62] The future role of the Russian State in outward FDI remains uncertain, but recent indications suggest that its share and influence in natural resources may increase through the strengthening of its participation in Gazprom and its acquisition of some privately owned assets.

In Croatia, two TNCs account for most of the outward FDI: the generic pharmaceutical producer Pliva and the food producer Podravka (table III.18). These two companies acquired important technological skills and built regional brand names in their respective fields long before the disintegration of the former Yugoslavia and the transition to a market economy. Most of their outward expansion is fairly recent and has focused on the European continent (*WIR01*, p. 141).[63]

C. Salient features of the emerging sources of FDI

The overview presented in this chapter of the emerging sources of FDI – both countries and companies – allows for certain general observations that can serve as a basis for the analysis in subsequent chapters of drivers, impacts and policy implications.

The review of data related to FDI statistics, cross-border M&As and greenfield FDI projects reveals a number of trends and characteristics worth highlighting:

- Over the past two decades, FDI flows from developing and transition economies have risen fast in absolute as well as relative terms.
- Of the emerging sources among developing and transition economies, developing Asia and the Russian Federation have assumed increased importance since 1990, while the shares of Latin America and Africa have declined.
- Sectorally, the bulk of FDI from developing and transition economies is in tertiary activities, notably in business, financial and trade-related services. However, significant FDI has also been reported in manufacturing (e.g. electronics) and, more recently, in the primary sector (oil exploration and mining).
- FDI from developing countries is especially important for other developing countries. From a host-country perspective, South-South flows account for the bulk of inward FDI into many low-income economies.
- The value of FDI among developing and transition economies increased from about $2 billion in 1985 to around $60 billion in 2004, excluding flows to and from offshore financial centres. Most of these flows were intraregional in nature, dominated by FDI among economies in East and South-East Asia.
- At the same time, there is also a noticeable increase in the presence of TNCs from developing and transition economies in many developed countries.

While the diversity of the home economies now emerging as significant FDI sources prevents far-reaching generalizations of the characteristics of TNCs from developing and transition economies, it is nevertheless possible to identify certain salient features.

First, although more economies are emerging as FDI sources, there is still a relatively *high concentration* of countries from which the major TNCs originate. In Africa, South Africa dominates; in Latin America, major TNCs are from Brazil and Mexico; in the CIS it is the Russian Federation that is responsible for almost all significant outward investors. The picture is somewhat more diverse for Asia, where the four NIEs, along with China, India, Malaysia and Thailand, all have a growing number of companies with a strong foreign presence. At the same time, a number of smaller TNCs from a wider range of developing countries are also increasing their foreign activities, mostly at the regional level.

Second, in terms of *industrial distribution* a few industries are better represented than others, but with important regional variation. In all developing regions and in the Russian Federation, the primary sector (oil, gas, mining) and resource-based manufacturing (metals, steel) have seen the emergence of major TNCs. Some of them are now competing head-on with their developed-country rivals; examples include Sasol in Africa (as well as the former South African companies, Anglo American and BHP Billiton); CVRD, ENAP, Petrobras and Petroleos de Venezuela in Latin America; Baosteel, CNPC, CNOOC, Petronas, Posco and PTTEP in Asia; and Gazprom and Lukoil in the Russian Federation.

Another cluster of activities involving many developing-economy TNCs are financial services, infrastructure services (electricity, telecommunications, transportation services) and goods that are relatively difficult to export (cement, food and beverages). Because of their non-tradable nature, these economic activities typically require FDI if a company wishes to serve a foreign market. With few exceptions (such as Cemex and the former South African companies, Old Mutual and SABMiller), however, most of the developing-country TNCs in these areas are mainly regional players, with limited (if any) activities in other parts of the world.[64]

A third cluster of activities includes those that are the most exposed to global competition, such as automotives, electronics (including semiconductors and telecommunications equipment), garments and IT services. Almost all the major TNCs from developing or transition economies in these industries are based in Asia. Electronic companies like Acer, Huawei and Samsung Electronics, the automobile firms, Hyundai Motor and Kia Motor, or relatively smaller TNCs in the IT services industry, such as Infosys or Wipro Technologies, are already among the leaders in their respective industries.

The sectoral composition of TNCs from different home economies reflects their respective *comparative advantages* (i.e. variations in the costs of factors such as labour, land and capital). More importantly, however, it also reflects differences in *competitive advantage* (i.e. the capacity to transform any given inputs into products and services at maximum profit) (Kogut 1985). Competitive advantage, in turn, has been fostered in different ways through government policies and institutions (chapter VI). A distinguishing feature of the environment in which TNCs in East and

South-East Asia operate, compared to those in Latin America, has been a stronger emphasis on outward-oriented policies in the former subregion.

In all regions studied in this chapter, intraregional FDI plays a key role in TNC-controlled international networks. This is especially true in Latin America and in the CIS, but also to a large extent in South Africa and in Asia. The subregion of East and South-East Asia has the largest number of TNCs with global aspirations.

Finally, as regards the *ownership form* of TNCs from different parts of the developing world, private ownership is the most common. However, compared with TNCs from developed countries, there is a relatively high incidence of State involvement. This is particularly pronounced in China and Singapore, and, more generally, for most TNCs dealing with natural resources. In fact, among the top 100 TNCs from developing countries, almost all corporations in the oil and gas industry are State-owned. In South Africa, the Government is also actively involved in infrastructure-related outward investment. State ownership may imply that factors other than economic ones influence the internationalization strategies of the investing firms (chapter IV).

The next chapter provides a more detailed analysis to explain why and how TNCs from developing and transition economies have expanded internationally.

Notes

1 Unless otherwise stated, the term "developing and transition economies" in this chapter refers to all developing economies and economies in South-East Europe and the Commonwealth of Independent States (CIS).

2 As noted in box III.1, these flows often originated from foreign affiliates of developed-country TNCs.

3 Between 1999 and 2001, transactions by companies registered in offshore financial centres accounted for more than $70 billion, or 29% of the total value of cross-border M&As by acquirers based in developing and transition economies.

4 In the case of developing countries, the concentration of outward FDI is higher than the concentration of inward FDI.

5 For example, more than half of all cross-border M&A acquirers based in Hong Kong (China) in 2005 were controlled by TNCs based outside it. Foreign affiliates owned by developed-country TNCs accounted for about one quarter of the value of all such deals (box III.1) and foreign affiliates of Chinese TNCs accounted for about one third of this total (UNCTAD, cross-border M&A database).

6 It should be noted that this percentage relates to the FDI stock of Latin America and the Caribbean excluding the main offshore financial centres.

7 There was a marked push by large, privately owned companies to invest abroad in the mid-1990s following the relaxation of international sanctions and the liberalization of foreign exchange controls. The London listings of major South African companies in the mid-1990s contributed to the rapid growth of its outward FDI.

8 *Source*: Exim Bank of Korea.

9 *Source*: Bank of Korea (2005). "Effects of outward FDI in manufacturing on domestic employment (in Korean)", *Monthly Bulletin,* November 2005.

10 The increase in the share of manufacturing when Hong Kong (China) is excluded from the table also reflects a decline in the share of unspecified FDI.

11 Services also dominate cross-border M&As, accounting for 66% of the number of purchases by companies based in developing and transition economies in 2005.

12 The relatively high share of developing and transition economies in unspecified FDI is mainly due to FDI from Hong Kong (China).

13 Not many developing countries provide a geographical breakdown of destinations of FDI outflows. Data limitations prevent a precise calculation of the magnitude of such flows.

14 Using stock data, the value of South-South FDI (excluding offshore financial centres) was an estimated $502 billion in 2004, based on data from developing and transition *home* economies, and $895 billion based on data from developing and transition *host* economies. The latter corresponds to about half of total inward FDI stock in these economies in 2004. These figures were derived using data for the latest year available between 2001 and 2005 (mostly in 2004) for 15 reporting home economies and 35 reporting host economies, which accounted for 77% and 67%, respectively, of the total outward and inward stock of developing and transition economies in 2004.

15 Most FDI from East Asia went mainly to the more developed South-East Asian countries. Intraregional FDI within East Asia had been rising until recently, largely dominated by FDI into China.

16 In fact, most FDI flows between Asia and Latin America and the Caribbean involve inflows and outflows from offshore financial centres, which are not included in figure III.8.

17 Similarly, in the *Forbes* list of top 500 non-United States companies, the number of companies from developing and transition economies almost doubled between 1997 and 2002. *Forbes* ceased to provide this list after 2002.

18 The developed-country TNCs on the list with majority State ownership are Electricité de France (France) and Statoil (Norway).

19 A ranking of the largest African companies in terms of sales, placed the Algerian oil company, Sonatrach in top position (*Jeune Afrique L'intelligent*, 2006). However due to its limited international activities, it is not included in UNCTAD's list of the largest TNCs from developing countries. Of the top 30 companies, 26 were from South Africa.

20 Before 1990, apartheid and isolation largely restricted South African companies to the country and the Southern Africa region.

21 Many of these companies had a foreign presence beyond Africa as well.

22 The five remaining companies do not have any foreign affiliates at all.

23 Anglo American plc was formed as part of the company's restructuring in May 1999. With its primary listing on the London Stock Exchange, it is majority owned by United Kingdom institutions and the second largest mining company in the *Fortune 500* list in 2005.

24 Nine out of the 20 top Egyptian companies are State-owned.

25 Countries such as Kenya and Mauritius also have notable outward FDI. India is the main recipient of FDI from Mauritius.

26 Eight East Asian economies – China, Hong Kong (China), Indonesia, Malaysia, the Republic of Korea, Singapore, Taiwan Province of China and Thailand – had been among the 12 fastest-growing economies in the world for 30 years since 1960.

27 "The perpetual crisis machine: Samsung has never been more successful than now", *Fortune*, 5 September 2005.

28 Hon Hai makes everything from PCs for Hewlett Packard to cell phones for Nokia and PlayStation 2 game consoles for Sony.

29 In Singapore, a company is termed a GLC when the Government holds at least a 20% stake.

30 Since the late 1980s, many former State-owned enterprises have been listed on the Singapore Stock Exchange.

31 For instance, Sime Darby Group, one of Malaysia's leading TNCs has a comprehensive range of business activities carried out by 300 companies in over 20 foreign locations, particularly in China, Hong Kong (China), Singapore and Australia.

32 Some studies identified some broader generic organizational skills, such as the ability to combine foreign and domestic resources, as key factors in the development of business groups from late industrializing countries (see Kock and Guillén 1998, Guillén 2000).

33 The term "ethnic Chinese" here refers to companies that are owned and managed by people of ethnic Chinese origin.

34 The "overseas Chinese" networks provide ethnic Chinese entrepreneurs with business intelligence, sources of capital, and the necessary political linkages (Hamilton and Biggart 1988, Redding 1990, 1995, Brown 1998), thereby giving them a competitive advantage (Haley, Tan and Haley 1998).

35 Similar companies focusing on international businesses established by the Chinese central Government include China Resources and China Merchants.

36 In the mid-1990s, some provincial governments established so-called "window companies" in Hong Kong (China), such as Guangdong Investment Limited, Beijing Enterprises Holdings Ltd., Tianjin Development Holdings Limited and Shanghai Industrial Holdings. Today, these companies, as well as flagship subsidiaries of central Government-owned China Resources and China Merchants, are considered to be TNCs from Hong Kong (China).

37 Positive spillovers from inward FDI, coupled with supportive government policies, contributed to the emergence of these Chinese electronics companies (Liang 2004).

38 After this acquisition, the company ranked third in the global PC market, with a market share of 7.2%, following Dell (17.2%) and Hewlett Packard (15.7%) in the fourth quarter of 2005, according to estimates of International Data Corp.

39 Examples include Glanz, Pearl River Piano Corporation and Zhenhua Harbour Equipment.

40 Some SMEs with international operations exist in other South Asian countries. Although expectations of the internationalization of companies from LDCs such as Bangladesh are low, results of a survey show that some Bangladeshi banks and companies have investments abroad (Frans 2003). Except for investments by the Bangladeshi banks, however, these overseas investments are not reflected in balance-of-payments data, as they have been financed by foreign funds.

41 The total trade surplus of Middle East oil exporters has been forecast at $300 billion for 2006 (*Washington Post*, 7 March 2006).

42 In retail services, Koç Holding's Migros Group has been expanding overseas faster than at home. Its foreign affiliates' sales in Azerbaijan, Bulgaria, Kazakhstan and the Russian Federation accounted for 16% of its total sales ($1.7 billion) and 39% of its total profits in 2004.

43 In 2004, 37% of Koç Holdings' total sales were from exports and foreign affiliates' sales; these rose from $1 billion in 2000 to $7 billion in 2004.

44 *Source*: Treasury of Turkey.

45 SABIC is the 10th largest petrochemicals company in the world; it is 3rd in polyethylene production, 6th in polypropylene and 4th in polyolefins overall.

46 Saudi Aramco, for instance, has grown from essentially an exploration and production company prior to the 1990s to an integrated global petroleum company. The company operates in North Africa, Asia, the Pacific Rim and the United States.

47 For instance, MTC operates in 19 countries in the Middle East and sub-Saharan Africa, providing mobile voice and data services to over 14 million customers. Investcom operates GSM mobile networks, e.g. in Benin, Ghana, Guinea-Bissau, Liberia, Sudan, Syrian Arab Republic and Yemen. Investcom has also recently been awarded GSM licences in Afghanistan and Guinea, expanding its operations to 10 countries.

48 In the list of top 100 TNCs from developing countries, 10 out of 11 entries from the Latin American region are from these two countries, with PDVSA being the singular exception.

49 ECLAC (2006) notes that Cemex not only has a high level of sales abroad and an international network, it has also captured a significant global market share.

50 For example, Techint's affiliate, Tenaris, is the world's largest seamless pipe producer for the oil industry, with manufacturing in nine countries, and CVRD is the largest global producer of iron ore and pellets, and the second largest global producer of manganese and iron alloys, with activities in five continents.

51 In 1996, locally owned firms dominated LAC markets in beverages, glass, petrochemicals, steel, textiles, cement, pulp and paper, and agribusiness. They had a significant presence in food products, machinery and equipment, household appliances and tobacco. However, they had little or no presence in technology- or marketing-intensive

products like automobiles, telecom equipment, computers, and chemicals, in which foreign TNCs assumed the leading roles (Garrido and Wilson 1998).

52 It is now the world's largest maker of small commercial aircraft (those with fewer than 110 seats).

53 América Móvil is now, together with the Spanish Telefónica, a main wireless telecom company in Latin America, with more than 75 million clients in Argentina, Brazil, Chile, Colombia, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Paraguay, Peru and Venezuela (www.americamovil.com).

54 In 2000, for example, Lukoil entered the United States through the acquisition of Getty Petroleum Marketing. At the other end of the value chain, Lukoil's most important strategic move has been the acquisition in 2005 of Nelson Resources (Canada), an oil company that operates exploration and extraction facilities in Kazakhstan.

55 See, for example, www.hoovers.com/globaluk/sample/co/factsheet.xhtml (accessed 10 January 2006).

56 Its position will be further strengthened after the consolidation of Sibneft (now Gazprom Neft) into its operations, especially in the petroleum extraction and refinery segments.

57 Norilsk has been expanding abroad through a series of investments in trading and mining companies, such as a 51% stake in Stillwater Mining (United States) in 2003, a 20% stake in Gold Fields Ltd. (South Africa), and the acquisition of the metal trading company, Norimet (United Kingdom) in 2000.

58 It controls bauxite mining in Guinea and Guyana, it owns smelters in Armenia, Guyana, Nigeria (acquired in 2006) and Ukraine, and has joint venture refinery partners in Australia and Jamaica, as well as a marketing presence in developed-country markets.

59 It also entered into a coke producing joint venture and has started to build a greenfield steel plant in the United States. The company's plants in the United States supply the major car producers, among others.

60 Its first major investment outside the CIS was the acquisition of power stations in Varna and Ruse in Bulgaria, announced in May 2005.

61 As of end 2005, MTS was present in various markets, VimpelCom focused on Kazakhstan, Tajikistan and Ukraine, and MegaFon on Tajikistan. In addition, Alfa Group – the majority shareholder of VimpelCom and the joint venture partner of BP in the BP-TNK company – held shares in a Ukrainian and a Kyrgyz operator.

62 See, for example, "Gosudarstvo podderzhit expansiyu rossiyksogo biznesa na zarubezhnykh rynkakh" (The State supports the expansion of Russian business on foreign markets), *Pravda.ru*, 25 March 2005, www.pravda.ru/economics/2005/7/21/63/19414_expansion.html (accessed 3 February 2006).

63 Pliva acquired a major manufacturing operation in Poland in 1997. It has a presence in the EU and China, the CIS, India and the United States. In the case of Podravka, a food producer, its affiliates are located in Europe, Australia and the United States.

64 Hutchison Whampoa's ownership stake in the mobile telecoms operator "3", and Singtel are important exceptions.