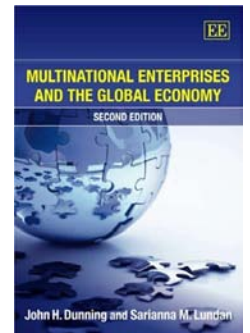


Chapter 1

Facts, Theory and History

Based on:
Multinational Enterprises And The Global Economy
by
Dunning / Lundan



A Working Definition

A general accepted definition of Multinational Enterprises (MNEs):

- Engagement in Foreign Direct Investment (FDI)
- Owns or controls value-added activities in more than one country

=> This very general definition does not allow to distinguish between different levels and intensities of multinationality.

Assessment criteria

- Number and size of foreign affiliates
- Number of countries the MNE is active in
- Proportion of assets, revenue, employment etc. accounted for by foreign affiliates
- Degree of international management
- Extend to which higher value activities are internationalized
- Systemic advantages arising from the multinational network
- Degree of control over foreign affiliates

=> Multinationality is not an unidimensional concept.

The Distinctive Features of an MNE

An MNE has two distinctive features...

- ... it accesses, organizes and coordinates multiple value added activities across national boundaries.
 - ... it internalizes at least some of the cross-border markets for the intermediate products arising from these activities.
- => No other institution engages in both cross-border production and transactions.

Forms of Foreign Involvement by MNEs

Traditionally, the expansion of a firm's production outside its national boundaries has been achieved by Foreign Direct Investment (**FDI**). This involves the transfer of a package of assets or intermediate products:

- Financial capital
- Management and organizational experience
- Technology
- Entrepreneurship
- Incentive structures
- Values and cultural norms
- Access to markets across national boundaries

Forms of Foreign Involvement by MNEs

FDI is defined by the International Monetary Fund (IMF) as:

“Investment that involves a long-term relationship reflecting a lasting interest of a resident entity in one economy (direct investor) in an entity resident in an economy other than that of the investor. The direct investors purpose is to exert a significant degree of influence an the management of the enterprise resident in the other economy.”

Measuring Issues: Sources and Types of Data

- In general, the source of data depends on the availability and the purpose for which they are collected.
- Indicator for overall or sectoral significance of MNE Activity: EVA outside national boundaries
- Sources of Data: UNCTAD World Investment Report, World Investment Directory, Eurostat and OECD, IMF Balance of Payments Statistics Yearbook, Who owns Whom?, International Labour office, Worlds Investment Prospects, Survey of Current Business (BEA), Compustat Worldscope

Measuring Issues: Sources and Types of Data

- Comprehensive and comparable statistics are only available for
 - Outward and inward foreign capital stock
 - Income earner on that capital stock
 - New investment flows
- For major investing countries (e.g. OECD countries) more detailed data is available:
 - Employment
 - R&D expenditure
 - Imports and exports
 - ...

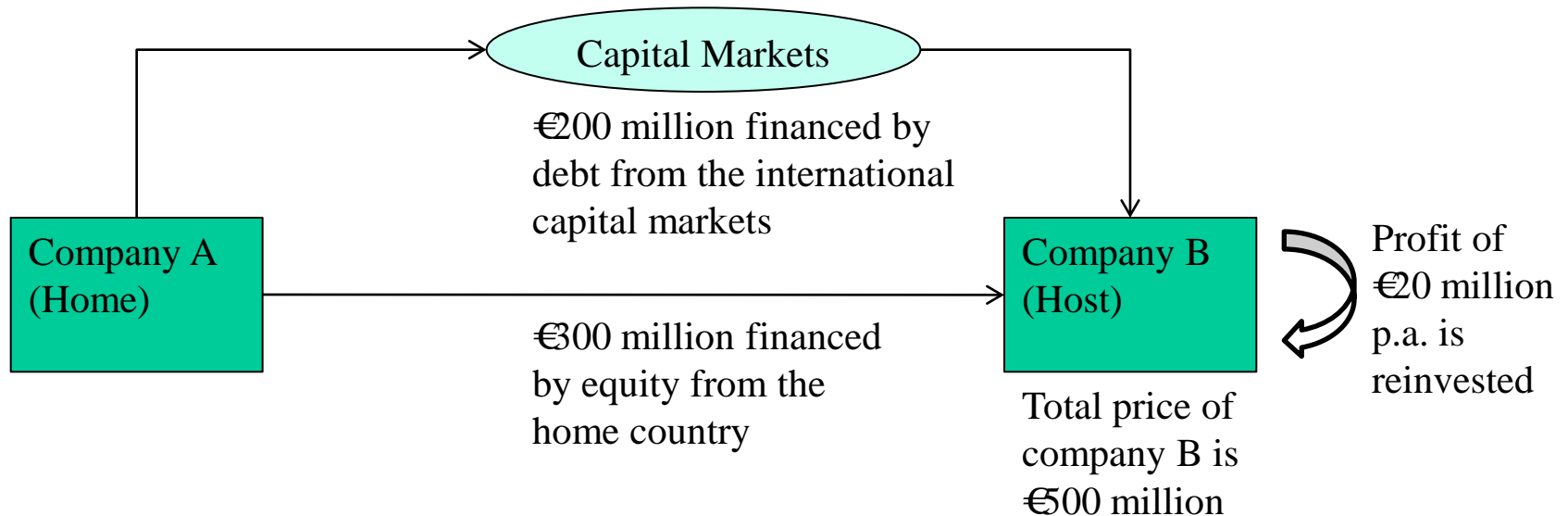
Deficiencies in the Quality of statistical Data on FDI

- FDI stocks and flows are a proxy for the economic activity undertaken by MNE
- The difference between FDI and portfolio investment not defined in the same way by each statistic
- Methods for data collection vary between countries
- Valuation is often based on book value instead of market or replacement value
- Currency translation problems

Size and Stability of Foreign Investment Flows

- Balance of payments based FDI flows do (in most cases) not cover the true extend of multinational investment.
 - ⇒ Can you think of reasons why?
 - ⇒ In case of greenfield investments?
 - ⇒ In case of M&As?

Size and Stability of foreign Investment Flows

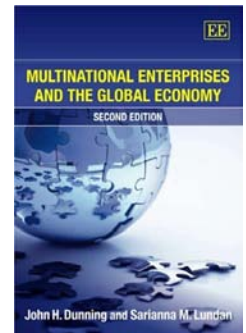


=> How would these transactions be displayed in the balance of payments? Does this represent the actual flows?

Chapter 2

The extent and pattern of foreign direct investment

Based on:
Multinational Enterprises And The Global Economy
by
Dunning / Lundan



Recent developments

- Sixfold increase of the total world outward stock of foreign investments from \$1,723 billion in 1990 to \$10,672 billion in 2005.
- MNEs accounted for between 25-30% of the GDP of the world's market economies in the mid-1980s. Recent estimates for 2005 indicate that this number increased to nearly half of the world GDP.
- In 2005, there were roughly 77,000 parent MNEs with 770,000 affiliates worldwide.
- The number of MNEs has especially increased in developing countries: In 1994, they accounted for 9% of the parents and 58% of all affiliates; in 2002, they were responsible for 22% of the parents and 60% of all affiliates.
- In 2004, the foreign assets of the top 100 non-financial MNEs accounted for 46% of the global outward FDI stock.

More recent developments and trends

Table 2.1 The significance of multinational enterprises in the global economy

	Value at current prices (billions of dollars)				Annual growth rate (percentages)		
	1982	1990	2000	2005	1986-1990	1991-1995	1996-2000
FDI inflows	59	202	1.271	916	21,7	21,8	40,0
FDI outflows	28	230	1.150	779	24,6	17,1	36,5
FDI inward stock	647	1.789	6.314	10.130	16,8	9,3	17,3
FDI outward stock	600	1.791	5.976	10.672	18,0	10,7	18,9
Cross-border M&As	n/a	151	1.144	716	25,9	24,0	51,5
Sales of foreign affiliates ¹	2.620	6.045	15.680	22.171	19,7	8,9	10,1
Gross product of foreign affiliates ¹	646	1.481	3.167	4.517	17,4	6,9	8,8
Total assets of foreign affiliates ¹	2.108	5.956	21.102	45.564	18,1	13,8	21,0
Exports of foreign affiliates ¹	647	1.366	3.572	4.214	14,3	8,4	4,8
Employment of foreign affiliates (thousands) ¹	19.537	24.551	45.587	62.095	5,4	3,2	11,0
GDP	10.899	21.898	31.895	44.674	11,1	5,9	1,3
Gross fixed capital formation	2.397	4.925	6.466	9.420	12,7	5,6	1,1
Royalties and licence fee receipts	9	30	66	91	21,2	14,3	7,8
Exports of goods and non-factor services	2.247	4.261	7.036	12.641	12,7	8,7	3,6

Source: UNCTAD (2006); for 2000 data is from UNCTAD (2001).

¹ Figures based on UNCTAD estimates.

Table 2.3 Outward stock of foreign direct investment by major home countries and regions (billions of US dollars) (PART 1)

Country/region	1967		1973		1980		1990		2000		2005	
	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP
Developed economies	109,3	4,8	205,0	5,1	507,4	6,2	1.642,2	9,6	5.578,3	22,8	9.271,9	27,9
European Union	na	na	na	na	293,1	6,2	810,3	11,5	3.050,1	36,8	5.475,0	40,7
United Kingdom	15,8	14,5	15,8	9,1	80,4	15,0	229,3	23,2	897,8	62,4	1.238,0	56,2
France	6,0	7,0	8,8	3,8	23,6	3,6	110,1	9,0	445,1	33,5	853,2	40,5
Germany	3,0	1,6	11,9	3,4	43,1	4,7	151,6	9,1	541,9	29,0	967,3	34,6
Belgium and Luxembourg	na	na	na	na	6,0	4,9	40,6	19,4	179,8	72,5	386.3 ²	103,8
Netherlands	11,0	33,1	15,8	25,8	42,1	24,5	106,9	36,3	305,5	82,4	641,3	102,6
Spain	na	na	na	na	1,9	0,9	15,7	3,0	167,7	28,9	381,3	33,8
Italy	2,1	2,8	3,2	2,4	7,3	1,6	60,2	5,5	180,3	16,8	293,5	16,6
Sweden	1,7	5,7	3,0	6,1	3,7	3,0	50,7	21,2	123,2	51,4	202,8	56,5

Source: Data for 1967 and 1973: UNCTAD, based on Dunning and Cantwell (1987); official national and international data and World Development Report, various editions. Data for 1980 from UNCTAD (2001). Data for 1990, 2000 and 2005 from UNCTAD (2006), for these years figures for the European Union comprise the EU-25. From 1990 onwards, the world total includes developed and developing countries as well as CIS as a separate category.

Table 2.3 Outward stock of foreign direct investment by major home countries and regions (billions of US dollars) (PART 2)

Country/region	1967		1973		1980		1990		2000		2005	
	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP
Developed economies	109,3	4,8	205,0	5,1	507,4	6,2	1.642,2	9,6	5.578,3	22,8	9.271,9	27,9
Other Western Europe	na	na	na	na	22,1	13,1	77,0	21,3	593,0	139,1	769,3	112,0
Switzerland	2,5	10,0	7,1	16,2	21,5	21,1	66,1	28,0	229,7	93,4	394,8	107,4
Norway	na	na	na	na	0,6	0,9	10,9	9,4	362,6	217,2	365,1	123,3
North America	na	na	na	na	244,0	8,2	515,3	8,1	1553,9	14,8	2.450,6	18,0
United States	56,6	7,1	101,3	7,7	220,2	8,1	430,5	7,5	1.316,2	13,5	2.051,3	16,4
Canada	3,7	5,3	7,8	6,1	23,8	9,0	84,8	14,8	237,6	33,3	399,4	35,3
Other developed economies	na	na	na	na	28,3	2,1	239,5	6,9	381,4	7,2	576,9	10,5
Japan	1,5	0,9	10,3	2,5	19,6	1,9	201,4	6,6	278,4	5,9	386,6	8,5
Australia	na	na	na	na	2,3	1,5	30,5	9,8	85,4	22,0	159,2	22,5
Developing economies	3,0	0,6	6,1	0,6	16,5	0,9	148,7	4,3	871,0	13,4	1.273,6	12,8
World	112,3	4,0	211,1	4,2	523,9	5,3	1.791,1	8,6	6.471,4	20,6	10.671,9	23,9

Table 2.4 Outflows of foreign direct investment from major home countries and regions

<i>Country/region</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>1970-79</i>	<i>1980-89</i>	<i>1990-99</i>	<i>2000-2005</i>
	<i>(Billions of US dollars)</i>								<i>(Average share of world total)</i>			
Developed economies	642,6	1.036,8	1.107,8	681,7	489,4	510,6	685,7	640,7	0,99	0,94	0,89	0,89
Developed economies: Europe	444,5	765,7	871,4	474,0	281,7	317,0	368,0	618,8	0,44	0,52	0,57	0,59
Switzerland	18,8	33,3	44,7	18,3	8,2	15,4	26,8	42,9	na	0,03	0,03	0,03
EU-25	421,9	727,1	813,1	435,4	265,8	286,1	334,9	554,8	0,43	0,48	0,53	0,54
United Kingdom	122,8	201,5	233,4	58,9	50,3	62,2	94,9	101,1	0,16	0,18	0,14	0,13
France	48,6	126,9	177,4	86,8	50,4	53,1	57,0	115,7	0,04	0,07	0,08	0,11
Germany	88,8	108,7	56,6	39,7	18,9	6,2	1,9	45,6	0,09	0,08	0,10	0,03
Belgium-Luxembourg ¹	28,8	122,3	86,4	100,6	12,3	38,9	33,5	22,9	0,02	0,02	0,05	0,05
Netherlands	36,5	57,6	75,6	50,6	32,0	44,2	17,3	119,5	0,09	0,06	0,06	0,06
Spain	20,2	44,4	58,2	33,1	32,7	27,5	60,5	38,8	0,00	0,01	0,03	0,05
Italy	16,1	6,7	12,3	21,5	17,1	9,1	19,3	39,7	0,01	0,02	0,02	0,02
Sweden	24,4	21,9	41,0	7,3	10,6	21,1	21,0	25,9	0,01	0,04	0,03	0,03
Developed economies: America	168,5	247,1	197,6	157,8	166,0	146,7	265,2	15,9	0,49	0,24	0,25	0,24
United States	131,0	209,4	142,6	124,9	134,9	129,4	222,4	-12,7	0,44	0,19	0,21	0,19
Canada	34,4	17,2	44,7	36,0	26,8	21,5	43,3	34,1	0,05	0,05	0,03	0,04
Developed economies: Asia	25,3	23,6	34,9	39,0	33,3	30,9	35,5	48,3	0,06	0,15	0,06	0,04
Japan	24,2	22,7	31,6	38,3	32,3	28,8	31,0	45,8	0,06	0,15	0,06	0,04
Developing economies	50,3	68,7	133,5	79,8	45,4	39,7	113,4	122,9	0,01	0,06	0,11	0,10
World	694,4	1.108,2	1.244,5	764,2	539,5	561,1	813,1	778,7	1,00	1,00	1,00	1,00

Table 2.6 Inward stock of foreign direct investment by major host countries and regions (billions of US dollars) (PART 1)

Country/region	1967		1973		1980		1990		2000		2005	
	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP
Developed economies	73,2	3,2	153,7	3,8	375,0	4,7	1.418,9	8,5	3.976,2	18,3	7.117,1	22,7
European Union	na	na	na	na	185,7	5,3	768,2	10,9	2.179,7	26,3	4.499,1	33,5
United Kingdom	7,9	7,2	24,1	13,9	63,0	11,7	203,9	20,6	438,6	30,5	816,7	37,1
France	na	na	na	na	22,9	3,4	86,8	7,1	259,8	19,6	600,8	28,5
Germany	3,6	1,9	13,1	3,8	36,6	4,0	111,2	6,7	271,6	14,5	502,8	18,0
Belgium and Luxembourg	na	na	na	na	7,3	5,9	58,4	27,8	195,2	78,7	492,3 ¹	132,3
Netherlands	na	na	na	na	19,2	11,1	68,7	23,3	243,7	65,8	463,4	74,1
Spain	na	na	na	na	5,1	2,4	65,9	12,5	156,3	26,9	367,7	32,6
Italy	na	na	na	na	8,9	2,0	60,0	5,4	121,2	11,3	219,9	12,4
Ireland	na	na	na	na	3,7	19,5	56,5	119,5	127,1	133,8	211,2	105,7
EU 10 new member states	na	na	na	na	na	na	2,5	na	97,7	na	273,9	na
Other Western Europe	na	na	na	na	15,1	8,9	47,0	12,9	118,1	27,6	232,2	33,8
Switzerland	2,1	8,4	4,3	9,8	8,5	8,4	34,2	14,5	86,8	35,3	172,5	46,9

Table 2.6 Inward stock of foreign direct investment by major host countries and regions (billions of US dollars) (PART 2)

Country/region	1967		1973		1980		1990		2000		2005	
	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP
North America	na	na	na	na	137,2	4,6	507,8	8,0	1.469,6	14,0	1.982,6	14,6
United States	9,9	1,2	20,6	1,6	83,0	3,1	394,9	6,9	1.256,9	12,9	1.625,7	13,0
Canada	na	na	na	na	54,1	20,6	112,8	19,7	212,7	29,8	356,9	31,6
Other developed economies	na	na	na	na	37,0	2,8	95,9	2,8	208,8	3,9	403,2	7,3
Australia	na	na	na	na	13,2	8,8	73,6	23,7	111,1	28,7	210,9	29,8
Japan	0,6	0,3	1,6	0,4	3,3	0,3	9,9	0,3	50,3	1,1	100,9	2,2
Developing economies	32,3	6,4	54,7	5,4	240,8	10,2	370,3	9,8	1.756,5	26,3	2.757,0	27,0
Asia and the Pacific	8,3	3,9	15,3	3,6	174,5	14,3	193,8	9,0	1.066,4	26,5	1.555,1	23,2
Hong Kong, China	na	na	na	na	138,8	487,0	45,1	59,4	455,5	275,4	533,0	299,9
China	na	na	na	na	6,3	3,1	20,7	5,4	193,3	17,9	317,9	14,3
Singapore	na	na	na	na	6,2	52,9	30,5	82,6	112,6	121,7	186,9	158,6
Republic of Korea	na	na	na	na	1,1	1,8	5,2	2,0	37,5	7,3	63,2	8,0
Thailand	na	na	na	na	1,0	3,0	8,2	9,7	29,9	24,4	56,5	33,5
Malaysia	na	na	na	na	5,2	21,1	10,3	23,4	52,7	58,4	47,8	36,5
India	na	na	na	na	1,2	0,7	1,7	0,5	17,5	3,8	45,3	5,8

Table 2.6 Inward stock of foreign direct investment by major host countries and regions (billions of US dollars) (PART 3)

Country/region	1967		1973		1980		1990		2000		2005	
	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP	Value	% of GDP
Turkey	na	na	na	na	0,1	0,2	11,2	7,4	19,2	9,6	42,2	11,6
Taiwan, Province of China	na	na	na	na	2,4	5,8	9,7	6,1	17,6	5,7	41,9	12,1
Viet Nam	na	na	na	na	0,0	0,2	1,7	25,5	20,6	66,1	31,1	61,2
Indonesia	na	na	na	na	10,3	14,2	8,9	7,7	24,8	16,5	21,1	7,7
Africa	5,6	9,0	10,2	8,7	16,2	4,6	58,4	12,2	151,0	26,0	264,5	28,2
South Africa	na	na	na	na	na	na	9,2	8,2	43,4	32,7	69,4	29,0
Nigeria	na	na	na	na	2,4	2,6	8,5	26,3	23,8	48,6	34,8	35,1
Egypt	na	na	na	na	2,3	9,9	11,0	26,4	18,3	17,7	28,9	31,0
Latin America and the Caribbean	18,5	15,8	28,9	12,3	50,0	6,5	118,1	10,3	539,0	25,8	937,4	36,7
Mexico	na	na	na	na	8,1	3,6	22,4	8,5	97,2	16,7	209,6	27,3
Brazil	na	na	na	na	17,5	7,4	37,2	8,5	103,0	17,1	201,2	25,4
Chile	na	na	na	na	0,9	3,2	10,1	30,0	45,8	61,1	73,6	64,6
Argentina	na	na	na	na	5,3	6,9	8,8	6,2	67,6	23,8	55,2	30,4
South-East Europe and CIS	na	na	na	na	na	na	0,1	0,2	70,3	15,9	255,7	21,2
Russian Federation	na	na	na	na	na	na	na	na	32,2	12,4	132,5	17,3
World	105,5	3,8	208,4	4,1	615,8	6,0	1.789,3	8,5	5.802,9	18,3	10.129,7	22,7

Table 2.7 Changes in the sectoral composition of the stock of outward FDI of investing countries, 1975-2003 (PART 1)

<i>Home country</i>		<i>Sectors (% share)</i>			
		<i>Primary</i>	<i>Secondary</i>	<i>Tertiary</i>	<i>Unspecified</i>
United States	1975	26,4	45,0	28,6	0,0
	1989	16,7	40,9	42,3	0,0
	1997	7,4	34,5	58,1	0,0
	2003	4,9	21,5	73,6	0,0
Canada	1975	21,1	50,5	28,4	0,0
	1987	13,1	43,3	43,4	0,0
	1997	24,8	6,4	43,1	25,7
	2003	10,1	30,9	58,5	0,6
Japan	1975	28,1	32,4	39,5	0,0
	1989	6,7	26,0	67,0	0,0
	1996	6,2	29,7	62,2	1,9
	2001	2,7	46,4	50,9	0,0

Table 2.7 Changes in the sectoral composition of the stock of outward FDI of investing countries, 1975-2003 (PART 2)

<i>Home country</i>		<i>Sectors (% share)</i>			
		<i>Primary</i>	<i>Secondary</i>	<i>Tertiary</i>	<i>Unspecified</i>
United Kingdom	1981	na	na	35,6	0,0
	1987	26,9	34,4	38,6	0,0
	1997	15,5	38,2	46,3	0,0
	2002	na	29,1	62,5	8,4
France	1975	22,1	38,2	39,7	0,0
	1988	15,0	36,6	48,3	0,0
	1997	6,4	36,1	57,0	0,6
	2003	1,8	16,0	81,8	0,5
Germany	1976	4,5	48,3	47,2	0,0
	1988	2,8	43,4	53,7	0,0
	1997	0,7	43,6	55,7	0,0
	2003	0,3	29,9	69,8	0,0
Netherlands	1975	46,8	38,6	14,6	0,0
	1988	36,4	24,7	38,8	0,0
	1997	24,4	24,6	50,9	0,0
	2003	22,5	17,2	60,4	0

Table 2.10a Geographical distribution of the outward FDI stock of selected developed economies (percentages) (PART 2)

	<i>Investing in:</i>	<i>Developed economies</i>				<i>Developing economies</i>			
		<i>Western Europe</i>	<i>Japan</i>	<i>United States</i>	<i>Total</i>	<i>Latin America and the Caribbean</i>	<i>Asia and the Pacific</i>	<i>Africa</i>	<i>Total</i>
<i>Home country:</i>									
United Kingdom	1981	23,1	0,7	27,9	78,1	6,0	8,3	nsa	21,9
	1987	31,0	1,1	35,3	83,8	7,7	5,7	nsa	16,1
	2003	63,0	0,3	21,1	89,9	3,3	4,5	0,8	8,6
France	1982	44,1	0,7	34,3	77,8	8,5	0,7	nsa	21,7
	1989	51,7	0,4	32,3	86,0	3,4	0,9	nsa	13,7
	2003	61,9	2,0	21,5	90,0	1,8	2,0	0,6	4,5
Germany	1980	48,9	1,2	21,6	77,4	12,3	2,0	nsa	22,5
	1988	49,0	2,2	27,0	83,7	8,7	2,3	nsa	16,3
	2003	48,3	1,3	33,6	86,2	3,1	4,5	0,2	8,1

Table 2.10a Geographical distribution of the outward FDI stock of selected developed economies (percentages) (PART 3)

	<i>Investing in:</i>	<i>Developed economies</i>				<i>Developing economies</i>				
		<i>Western Europe</i>	<i>Japan</i>	<i>United States</i>	<i>Total</i>	<i>Latin America and the Caribbean</i>	<i>Asia and the Pacific</i>	<i>Africa</i>	<i>Total</i>	
<i>Home country:</i>										
Netherlands	1980	52,6	neg	18,8	81,4	11,3	4,4	nsa	18,6	
	1988	45,6	1,1	33,9	87,4	7,8	3,9	nsa	12,6	
	2003	63,8	0,3	16,9	85,3	4,0	5,3	1,1	10,4	
Italy	1980	58,3	neg	8,6	66,9	neg	neg	nsa	33,1	
	1987	61,6	0,4	11,4	74,4	13,6	neg	nsa	25,6	
	2003	72,3	0,5	8,8	82,2	2,7	na	na	2,7	
Switzerland	1990	53,8	na	na	81,8	15,0	2,7	0,4	18,1	
	2003	43,6	1,9	na	68,1	17,8	5,7	0,5	24,1	

Table 2.10b Geographical distribution of the outward FDI stock of selected developing economies (percentages) (PART 1)

	<i>Investing in:</i>	<i>Developed economies</i>				<i>Developing economies</i>			
		<i>Western Europe</i>	<i>Japan</i>	<i>United States</i>	<i>Total</i>	<i>Latin America and the Caribbean</i>	<i>Asia and the Pacific</i>	<i>Africa</i>	<i>Total</i>
<i>Home country:</i>									
Singapore	1990	8,0	0,4	5,1	27,4	nsa	51,1	nsa	51,1
	1997	16,1	0,8	4,2	25,6	nsa	52,1	nsa	52,1
Taiwan, Province of China	1980	nsa	nsa	43,4	56,5	nsa	33,4	nsa	43,5
	1988	nsa	nsa	60,5	71,3	nsa	24,4	nsa	28,8
	1998	3,6	1,0	22,2	27,7	39,0	32,2	0,7	71,8
China	1984	6,7	1,9	48,3	57,8	4,5	26,2	nsa	42,3
	1987	6,5	1,2	13,8	66,7	3,5	21,9	nsa	33,1
	1995	2,5	0,8	18,7	62,3	4,9	23,1	5,6	32,1
	2002	0,6	1,0	10,1	22,9	5,9	63,3	5,4	77,1
Republic of Korea	1980	7,4	7,4	20,5	32	4,8	28,8	nsa	68,2
	1988	3,7	2,7	35,6	55,5	2,3	22,7	nsa	44,5
	1998	10,0	1,9	26,7	42,3	4,9	45,0	1,9	51,7
Malaysia	1987	11,3	9,7	3,9	37,0	neg	58,3	neg	58,3
	1997	15,5	4,0	12,0	41,7	1,7	48,7	1,4	51,8

Table 2.11 The world's top 25 non-financial MNEs, ranked by foreign assets, 2008

Ranking by:		Corporation	Home economy	Industry ^c	Assets		Sales		Employment		TNI ^b (Per cent)
Foreign assets	TNI ^b				Foreign	Total	Foreign	Total	Foreign ^d	Total	
1	75	General Electric	United States	Electrical & electronic equipment	401 290	797 769	97 214	182 515	171 000	323 000	52.2
2	32	Royal Dutch/Shell Group	United Kingdom	Petroleum expl./ref./distr.	222 324	282 401	261 393	458 361	85 000	102 000	73.0
3	6	Vodafone Group Plc	United Kingdom	Telecommunications	201 570	218 955	60 197	69 250	68 747	79 097	88.6
4	20	BP PLC	United Kingdom	Petroleum expl./ref./distr.	188 969	228 238	283 876	365 700	76 100	92 000	81.0
5	74	Toyota Motor Corporation	Japan	Motor vehicles	169 569	296 249	129 724	203 955	121 755	320 808	52.9
6	42	ExxonMobil Corporation	United States	Petroleum expl./ref./distr.	161 245	228 052	321 964	459 579	50 337	79 900	67.9
7	27	Total SA	France	Petroleum expl./ref./distr.	141 442	164 662	177 726	234 574	59 858	96 959	74.5
8	67	E.ON	Germany	Utilities (Electricity, gas and water)	141 168	218 573	53 020	126 925	57 134	93 538	55.8
9	90	Electricite De France	France	Utilities (Electricity, gas and water)	133 698	278 759	43 914	94 044	51 385	160 913	42.2
10	10	ArcelorMittal	Luxembourg	Metal and metal products	127 127	133 088	112 689	124 936	239 455	315 867	87.2
11	53	Volkswagen Group	Germany	Motor vehicles	123 677	233 708	126 007	166 508	195 586	369 928	60.5
12	64	GDF Suez	France	Utilities (Electricity, gas and water)	119 374	232 718	68 992	99 377	95 018	196 592	56.4
13	8	Anheuser-Busch Inbev SA	Netherlands	Food, beverages and tobacco	106 247	113 170	18 699	23 558	108 425	119 874	87.9
14	59	Chevron Corporation	United States	Petroleum expl./ref./distr.	106 129	161 165	153 854	273 005	35 000	67 000	58.1
15	33	Siemens AG	Germany	Electrical & electronic equipment	104 488	135 102	84 322	116 089	295 000	427 000	73.0
16	71	Ford Motor Company	United States	Motor vehicles	102 588	222 977	85 901	146 277	124 000	213 000	54.3
17	62	Eni Group	Italy	Petroleum expl./ref./distr.	95 818	162 269	95 448	158 227	39 400	78 880	56.4
18	39	Telefonica SA	Spain	Telecommunications	95 446	139 034	54 124	84 778	197 096	251 775	70.3
19	79	Deutsche Telekom AG	Germany	Telecommunications	95 019	171 385	47 960	90 221	96 034	227 747	50.3
20	37	Honda Motor Co Ltd	Japan	Motor vehicles	89 204	120 478	80 861	99 458	111 581	181 876	72.2
21	70	Daimler AG	Germany	Motor vehicles	87 927	184 021	108 348	140 268	105 463	273 216	54.5
22	77	France Telecom	France	Telecommunications	81 378	132 630	36 465	78 256	83 795	186 049	51.0
23	88	Conocophillips	United States	Petroleum expl./ref./distr.	77 864	142 865	74 346	240 842	15 128	33 800	43.4
24	63	Iberdrola SA	Spain	Utilities (Electricity, gas and water)	73 576	119 467	19 785	36 863	17 778	32 993	56.4
25	18	Hutchison Whampoa Limited	Hong Kong, China	Diversified	70 762	87 745	25 006	30 236	182 148	220 000	82.0

Source: UNCTAD/Erasmus University database.

^a All data are based on the companies' annual reports unless otherwise stated.

^b TNI, the Transnationality Index, is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

^c Industry classification for companies follows the United States Standard Industrial Classification as used by the United States Securities and Exchange Commission (SEC).

^d In a number of cases foreign employment data were calculated by applying the share of foreign employment in total employment of the previous year to total employment of 2008.

Table 2.12 The world's top 25 non-financial MNEs from developing and transition economies, ranked by foreign assets, 2008

Ranking by:						Assets		Sales		Employment		TNI ^b (Per cent)
Foreign assets	TNI ^b	Corporation	Home economy	Industry ^c	Foreign	Total	Foreign	Total	Foreign ^d	Total		
1	9	Hutchison Whampoa Limited	Hong Kong, China	Diversified	70 762	87 745	25 006	30 236	182 148	220 000	82.0	
2	88	CITIC Group	China	Diversified	43 750	238 725	5 427	22 230	18 305	90 650	21.0	
3	11	Cemex S.A.	Mexico	Non-metallic mineral products	40 258	45 084	17 982	21 830	41 586	56 791	81.6	
4	41	Samsung Electronics Co., Ltd.	Korea, Republic of	Electrical & electronic equipment	28 765	83 738	88 892	110 321	77 236	161 700	54.2	
5	79	Petronas - Petroliam Nasional Bhd	Malaysia	Petroleum expl./ref./distr.	28 447	106 416	32 477	77 094	7 847	39 236	29.6	
6	71	Hyundai Motor Company	Korea, Republic of	Motor vehicles	28 359	82 072	33 874	72 523	22 066	78 270	36.5	
7	46	China Ocean Shipping (Group) Company	China	Transport and storage	28 066	36 253	18 041	27 431	4 581	69 648	49.9	
8	61	Lukoil	Russian Federation	Petroleum and natural gas	21 515	71 461	87 637	107 680	23 000	152 500	42.2	
9	67	Vale S.A.	Brazil	Mining & quarrying	19 635	79 931	30 939	37 426	4 725	62 490	38.3	
10	85	Petróleos De Venezuela	Venezuela, Bolivarian Republic of	Petroleum expl./ref./distr.	19 244	131 832	52 494	126 364	5 140	61 909	21.5	
11	30	Zain	Kuwait	Telecommunications	18 746	19 761	6 034	7 452	1 151	15 000	61.2	
12	22	Jardine Matheson Holdings Ltd	Hong Kong, China	Diversified	17 544	22 098	16 831	22 362	79 276	150 000	69.2	
13	29	Singtel Ltd.	Singapore	Telecommunications	17 326	21 887	6 745	10 374	9 058	20 000	63.2	
14	64	Formosa Plastics Group	Taiwan Province of China	Chemicals	16 937	76 587	17 078	66 259	70 519	94 268	40.9	
15	18	Tata Steel Ltd.	India	Metal and metal products	16 826	23 868	26 426	32 168	45 864	80 782	69.8	
16	91	Petroleo Brasileiro S.A. - Petrobras	Brazil	Petroleum expl./ref./distr.	15 075	125 695	40 179	146 529	6 775	74 240	16.2	
17	35	Hon Hai Precision Industries	Taiwan Province of China	Electrical & electronic equipment	14 664	26 771	21 727	61 810	515 626	611 000	58.1	
18	49	Metalurgica Gerdau S.A.	Brazil	Metal and metal products	13 658	25 750	10 274	23 182	22 315	46 000	48.6	
19	21	Abu Dhabi National Energy Company	United Arab Emirates	Utilities (Electricity, gas and water)	13 519	23 523	3 376	4 576	1 839	2 383	69.5	
20	82	Oil And Natural Gas Corporation	India	Petroleum expl./ref./distr.	13 477	30 456	4 238	27 684	3 921	33 035	23.8	
21	24	MTN Group Limited	South Africa	Telecommunications	13 266	18 281	7 868	12 403	10 870	16 452	67.4	
22	58	LG Corp.	Korea, Republic of	Electrical & electronic equipment	13 256	51 517	44 439	82 060	32 962	64 000	43.8	
23	53	Evrz	Russian Federation	Metal and metal products	11 196	19 448	12 805	20 380	29 480	134 000	47.5	
24	20	Qatar Telecom	Qatar	Telecommunications	10 598	20 412	4 077	5 582	1 539	1 832	69.7	
25	44	América Móvil	Mexico	Telecommunications	10 428	31 481	17 323	31 026	36 353	52 879	52.6	

Source: UNCTAD/Erasmus University database.

^a All data are based on the companies' annual reports unless otherwise stated.

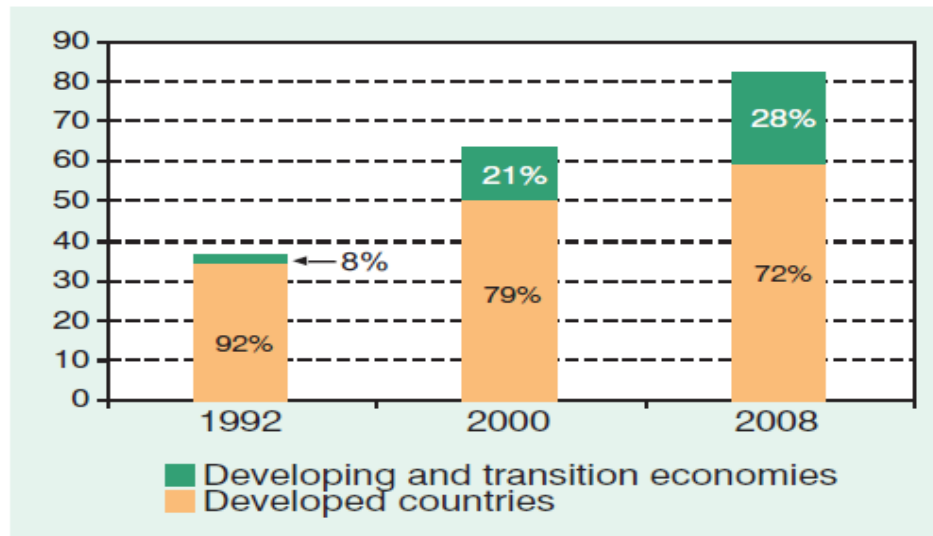
^b TNI, the Transnationality Index, is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

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^d In a number of cases foreign employment data were calculated by applying the share of foreign employment in total employment of the previous year to total employment of 2008.

World Investment Report 2010

Figure I.12. Number of TNCs from developed countries and from developing and transition economies, 1992, 2000 and 2008
(In thousands)



Source: UNCTAD.

Note: Figures in the bar show a distribution share.

Table I.7. Recent evolution in the internationalization level of the 100 largest non-financial TNCs worldwide and from developing and transition economies, 2007 and 2008

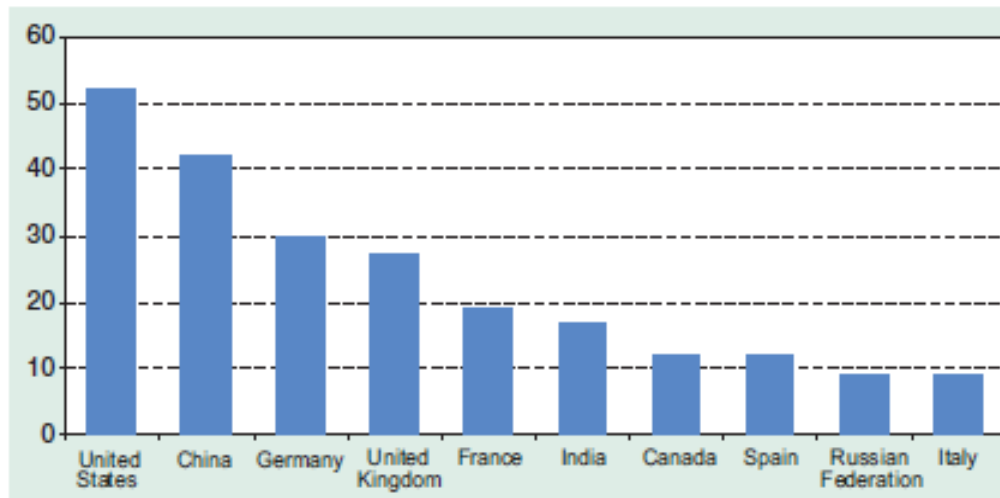
(Billions of dollars, thousands of employees and percentage)

Variable	100 largest TNCs worldwide			100 largest TNCs from developing and transition economies		
	2007	2008	% Change	2007	2008	% Change
Assets						
Foreign	6 116	6 172	0.9	808	907	12.3
Total	10 702	10 760	0.9	2 311	2 680	16.0
Foreign as % of total	57	57	0.2	35	34	-1.1
Sales						
Foreign	4 936	5 173	4.8	805	997	23.9
Total	8 078	8 354	3.4	1 699	2 240	31.8
Foreign as % of total	61	62	0.8	47	45	-2.9
Employment						
Foreign	8 440	8 905	5.5	2 648	2 652	0.2
Total	14 870	15 408	3.6	6 366	6 779	6.5
Foreign as % of total	57	58	1.0	42	39	-2.5

Source: UNCTAD/Erasmus University database on the top 100 TNCs.

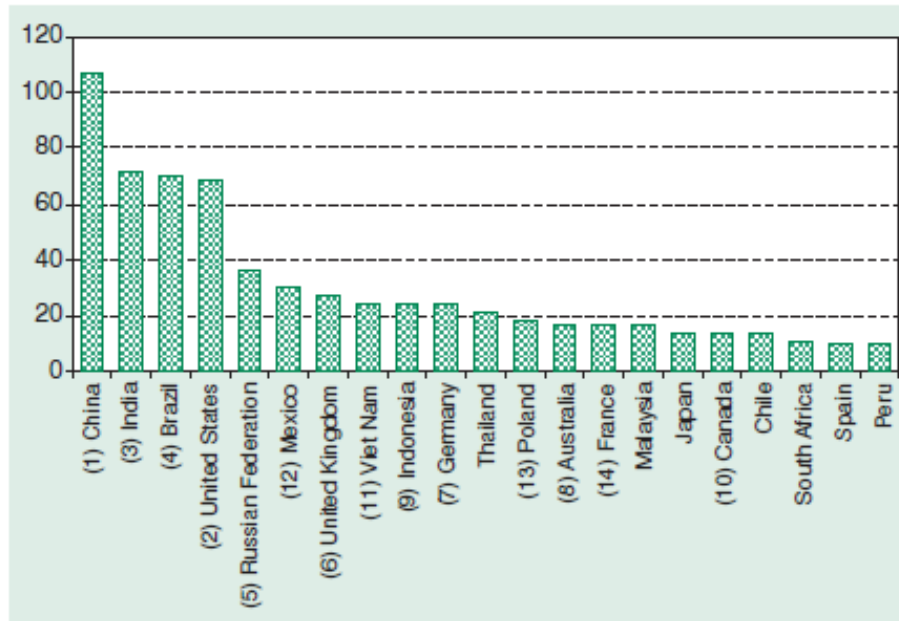
^a In percentage points.

Figure I.19. The most promising investor home countries in 2010–2012, according to IPAs
(Number of times the country is mentioned as top investor by respondent IPAs)



Source: UNCTAD, forthcoming a.

Figure I.21. Top host economies for FDI in 2010–2012
(Number of times the country is mentioned as top FDI priority by respondent TNCs)



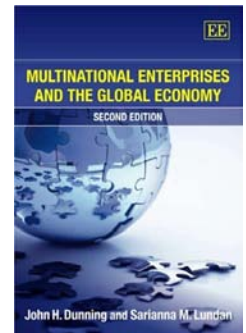
Source: UNCTAD, forthcoming a.

Note: Rankings in the survey conducted in 2009 are given in parentheses before the name of selected countries.

Chapter 3

The motives for foreign production

Based on:
Multinational Enterprises and The Global Economy
by
Dunning / Lundan



The motives of foreign production

After this session you will...

- ... know about the main reasons why firms engage in foreign production;
- ...be able to explain these reasons based on major theories.

The motives for foreign production

AGENDA

1. Why do firms wish to engage in foreign production?
2. The main types of foreign production
3. The political economy of outward FDI

FDI is a part of economic rationality

- MNEs, like all other private owned companies, are motivated primary by what they perceive to be in the interest of their direct stakeholders (employees, managers, shareholders).
- From a neoclassical economic perspective, any residual income earned over and above the opportunity costs of the stakeholders will accrue to the owners of the business in form of profits. The maximization of these profits is the driving force of the modern enterprise.

Expressed in the following maximization equations this means...

$$II = \frac{TR - TC}{K}$$

Over a three - year period :

$$\sum II_{1-3} = II_1(1+r)^2 + II_2(1+r) + II_3$$

If conceived of the firm as a collective of assets,
the value of which its owners wish to increase as much as possible :

$$NPV_{(t=3)} = \frac{Y_1}{(1+r)^2} + \frac{Y_2}{(1+r)} + Y_3$$

*II is the rate of return; TR is the total sales revenue; TC is the total cost of productio;
K is the owner' s capital invested; r is maximun rate of income a firm can earn trough
reinvesting the profits earned in previous years; NPV is the net present value; Y ist the
expected income of a firm in time t*

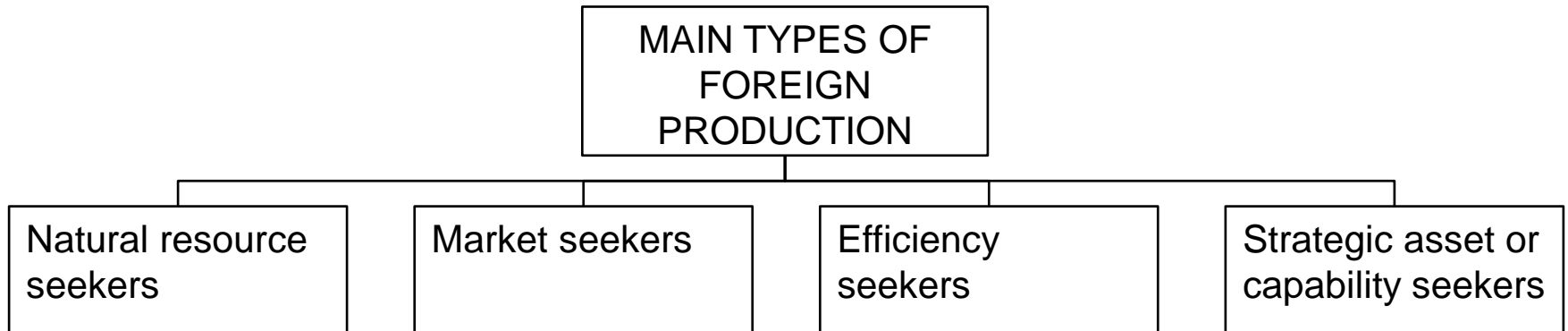
Apart from profit maximisation there are several other approaches

- Behaviorists state, that firms will be content to earn „satisfactory“ rather than „maximum“ profits.
- Evolutionary economists argue, that it is nearly impossible for firms to identify the theoretical optimal performance.
- From a “varieties-of-capitalism-based” view, coordinated and liberal market economies can be distinguished.
 - Coordinated markets are more open to stakeholder capitalism.
 - Liberal markets tend so stick more to the shareholder paradigm.
- Ownership: The above mentioned does not apply to public owned firms or private owned firms with widespread shareholders.

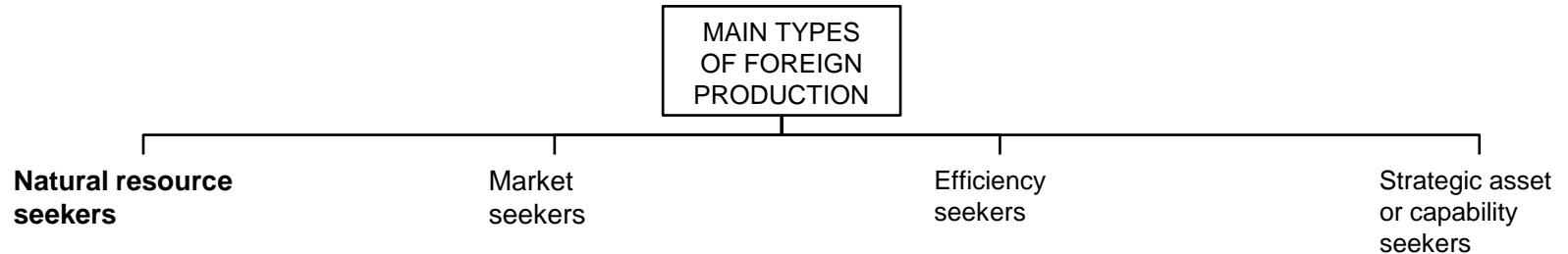
How to deal with these different approaches

- Risk and uncertainty have to be introduced into the evaluation
 - Real option models can be used to analyse sequential investment
- => For our further analysis we shall assume that, for the most part, the principal objective of private enterprises undertaking foreign production is to advance their long-term profitability. This includes the profitability of the foreign affiliate itself and the effect the foreign production has on the rest of the investing organisation.

Four types of MNE activity can be identified

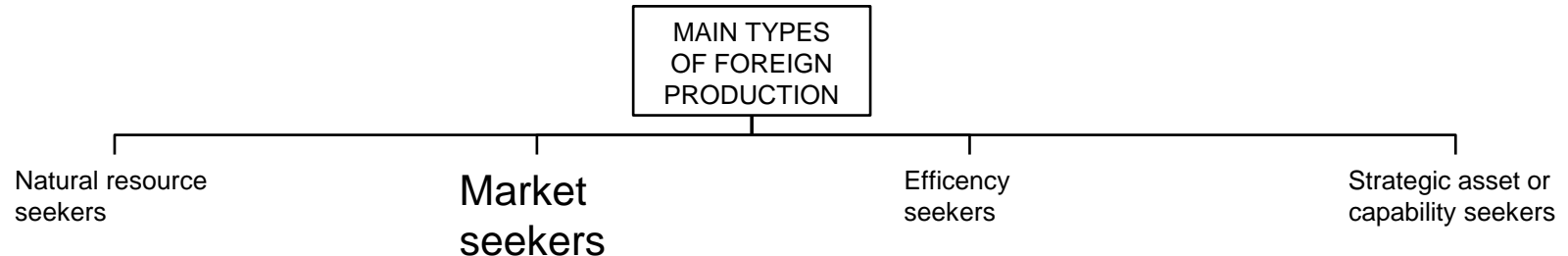


The (Natural) Resource Seekers



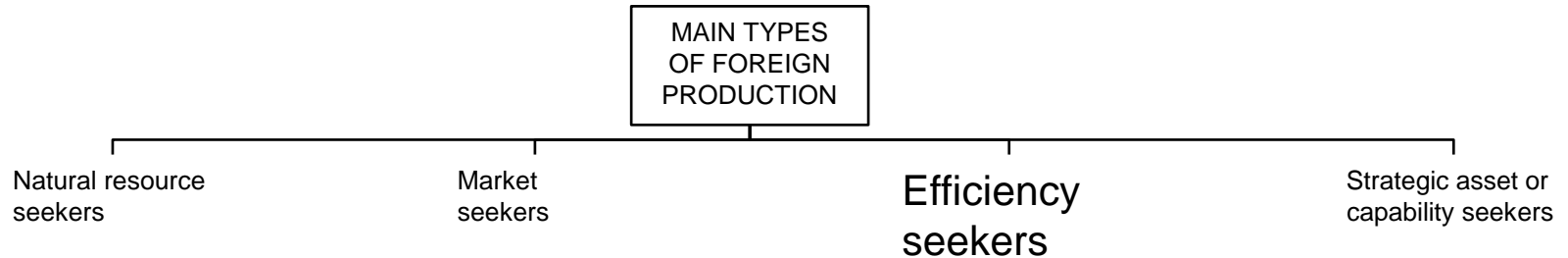
- Acquisition of resources of a higher quality at a lower real cost
- Typically, the output of the affiliates tends to be exported into higher industrialized countries
- Three main types:
 - Physical resource seekers: cost minimization and security of supply sources
 - Labor resource seekers: (unskilled) labor cost arbitrage
 - Technological (created) resource seekers: need for technological capability, marketing expertise or organisational skills

The Market Seekers



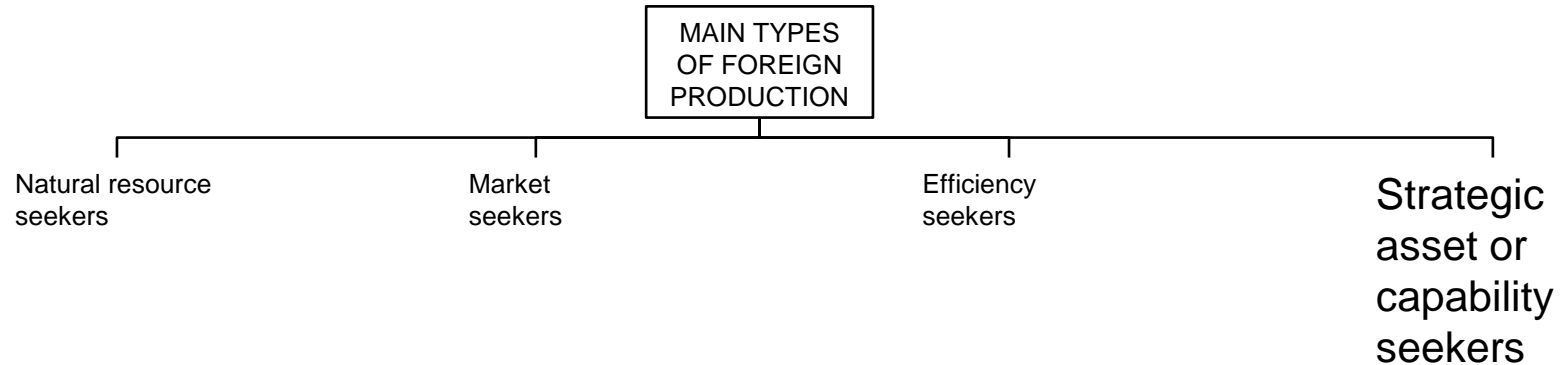
- Market access
- Avoiding tariffs or other cost-raising barriers
- Typically exporting to a certain country is followed by building up production sites in the country as the market becomes big enough
- Becoming familiar with the market (e.g. adapting products to local tastes)
- Minimizing production and transaction costs, avoiding FX risk
- Physical presence in the market served by its competitors
- Incentives of host-governments

The Efficiency Seekers



- Generating economies of scale and scope
- Risk diversification
- Learning experiences

The Strategic Asset Seekers

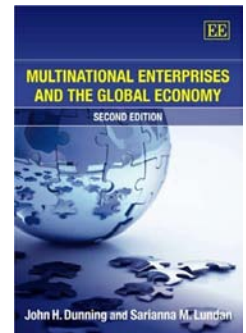


- Acquisition of foreign firms assets in order to promote their long-term strategic goals
- Acquisition of physical assets and human competences to strengthen their ownership-specific advantages or weaken their competitors
- Portfolio investments made by institutional portfolio investors or private equity companies

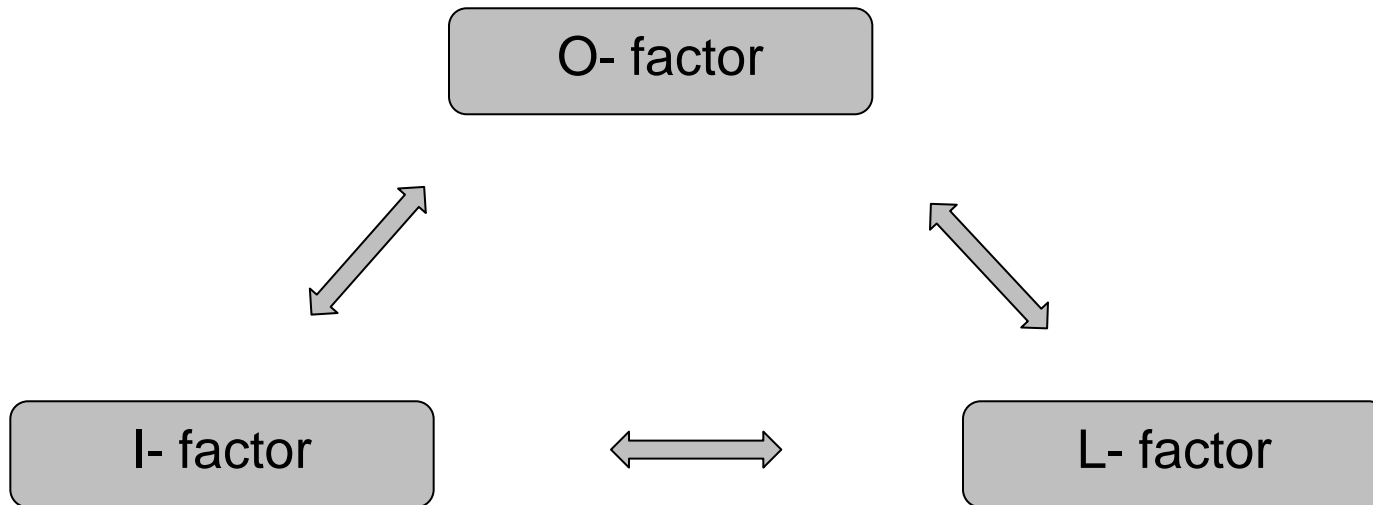
Chapter 5

The determinants of MNE activity: the OLI paradigm revisited

Based on:
Multinational Enterprises and The Global Economy
by
Dunning / Lundan



The Eclectic or OLI Paradigm



BOX 4.1 THE ECLECTIC (OLI) PARADIGM OF INTERNATIONAL PRODUCTION

Ownership-specific Advantages (O)

(a) *Property rights and/or intangible asset advantages (Oa)*

The resource (asset) structure of the firm. Product innovations, production management, organisational and marketing systems, innovatory capacity, noncodifiable knowledge; accumulated experience in marketing, finance, etc. Ability to reduce costs of intra- and/or inter-firm transactions (also influenced by Oi).

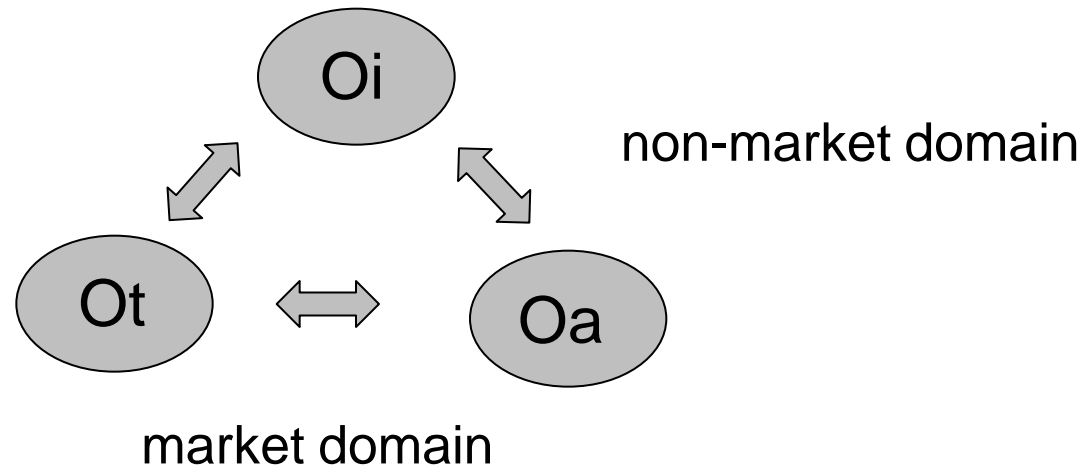
Location-specific Factors (L)

- Spatial distribution of natural and created resource endowments and markets
- Input prices, quality and productivity (e.g., labour, energy, materials, components, semifinished goods)
- International transport and communication costs
- Investment incentives and disincentives (including performance requirements, etc.)
- Artificial barriers (e.g., import controls) to trade in goods and services
- Infrastructure provisions (educational, transport and communication)
- Cross-country ideological, language, cultural, business, political differences
- Economies of agglomeration and spillovers
- Economic system and strategies of government; the institutional framework for resource allocation
- Legal and regulatory system (e.g., protection of propriety rights, credible enforcement)

Internalisation Advantages (I)

- To avoid search and negotiating costs
- To avoid costs of moral hazard and adverse selection, and to protect the reputation of the internalising firm
- To avoid cost of broken contracts and ensuing litigation
- Buyer uncertainty about nature and value of inputs (e.g., of technology being sold)
- When market does not permit price discrimination
- Need of seller to protect quality of intermediate or final products
- To capture economies of interdependent activities (influenced by O_t)
- To compensate for the absence of future markets
- To avoid or exploit government intervention (quotas, tariffs, price controls, tax differences, etc.)
- To control supplies and conditions of sale of inputs (including technology)
- To control market outlets (including those which might be used by competitors)
- To be able to engage in practices, such as cross-subsidisation, predatory pricing, leads and lags, and transfer pricing as a competitive (or anticompetitive) strategy

Types of O-advantages



O-related advantages

- Asset-based ownership advantages (Oa)
 - Tangible property and equipment, intellectual property (e.g. trademarks, brand name).
- Economies of common governance (Ot)
 - Advantages derived from multinationality.
- Institutional ownership advantages (Oi)
 - „The ability to manage various challenges arising from the non-market domain“.

Introduction

- Recent important developments: the mushrooming of cooperative relationships and networks; the clustering of high value-added activities; the growing importance of relational assets of firms and countries in economic activity; and the role of institutions.
- How can the changes in the organisation and external environment of MNEs be incorporated into the eclectic paradigm?
- Do these changes impose challenges to its contents and methodology?

New theoretical perspectives

Cooperative Relationships and I Advantages

- I advantages can explain why particular transactions are undertaken by the market, while others are more efficiently organised within the hierarchy of the firm.
- In addition to its internal network, the MNE is part of a larger network external to its ownership boundaries.
- In reality, the make or buy decision is seldom a binary choice.

Cooperative Relationships and I Advantages

- The problems of using hierarchy as a mode of coordination of transactions include *dulled incentives, goal displacement, agency problems, and shirking*.
- Increased monitoring and appropriate internal incentive structures can overcome some of these problems, but these are not costless.
- The factors that plague long-term contracting include *ex ante* adverse selection and *ex post* moral hazard (caused by information asymmetries).
- The growing trend of outsourcing many stages of the value chain has reduced the number of activities directly owned by firms.

Cooperative Relationships and I Advantages

- At the same time, a wide range of activities are coordinated through non-equity relationships.
- Firms make outsourcing decisions (e. g. customer service) based on what they believe to be their areas of core competence.
- While transaction cost economies can determine what kinds of markets are most likely to be internalised, it cannot indicate *who* will internalise what.
- While almost any transaction can potentially be internalised by one or more parties, *who* internalises *what* requires an explanation that rests on the specific capabilities of the firm.

New theoretical perspectives

The Resource-based View and Dynamic O Advantages

- This theory, which builds on the seminal contributions of Penrose (1959), among others, postulates that resources that are *valuable, rare and difficult to imitate* are the source of the competitive advantages of firms.
- The firm's ability not just to possess, but to grow or acquire more assets of this kind, affords it a sustainable competitive advantage over other firms („dynamic capabilities“).
- Since the Penrosean theory is a true theory of the firm, the MNE emerges as the result of a growth process that extends the boundaries of the firm beyond nation states.

The Resource-based View and Dynamic O Advantages

- The resource-based view regards knowledge as another type of capability, identifying international knowledge and experience as a valuable, unique, and hard to imitate resource that distinguishes the winners from the losers and mere survivors in global competition.
- The questions of *where* and in *what form* advantages are exploited are left open.

New theoretical perspectives

The Knowledge-based Theory of the Firm and Dynamic O Advantages

- This theory states that any knowledge generation and transfer within the MNE network is likely to be organised by ‚higher order organising principles‘, which will tend to arise only within a hierarchical organisation.
- MNEs as ‚social communities that specialise in the creation and internal transfer of knowledge‘ (Kogut and Zander, 1993).
 - Tacit and articulated knowledge.
- The theory rejects transaction costs or market failure as an explanation for the internalisation of technology transfer.
- Nevertheless, the views can be reconciled.

The Knowledge-based Theory of the Firm and Dynamic O Advantages

- Doing so requires the use of transaction costs and resource-based reasoning to explain the act of internalisation and asset accumulation over time; combined with an argument that can account for the formation and implementation of an effective incentive structure within the firm.
- The ‚higher order organising principles‘, and the incentives accompanying them, are likely to explain why the institutional structure of one firm might be more amenable to knowledge generation and transfer than that of another.
- The ability of a firm to create communities that provide a context for structured experimentation is an important function.

In the end, any theory of the firm should essentially explain three things:

- why a firm should prefer to hire employees (rather than contract for their labour);
- why it chooses to own assets, rather than to lease them or their rights to other firms;
- and how monitoring and compensation take place within the firm.

(Foss, 1996)

MNE strategy and structure

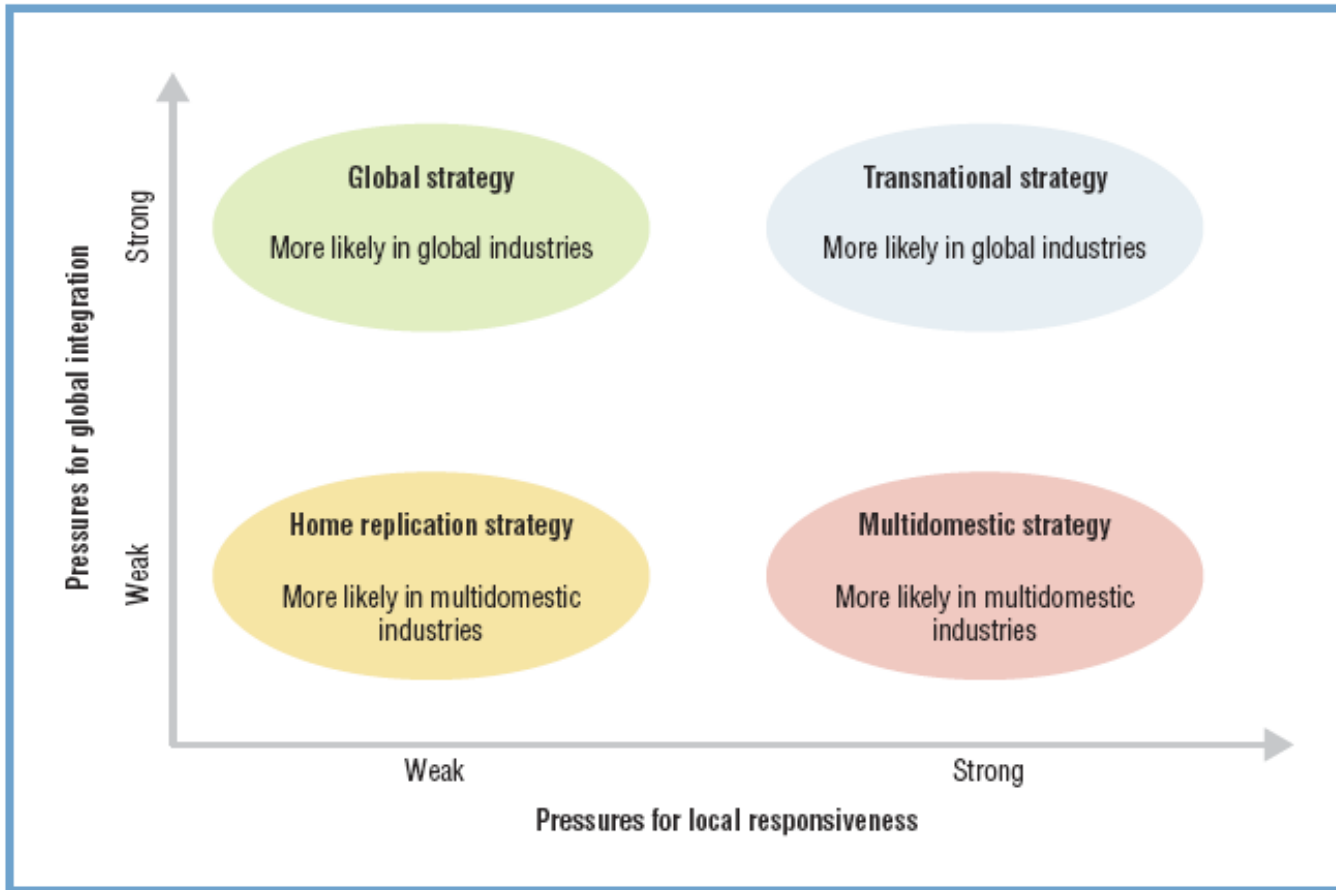


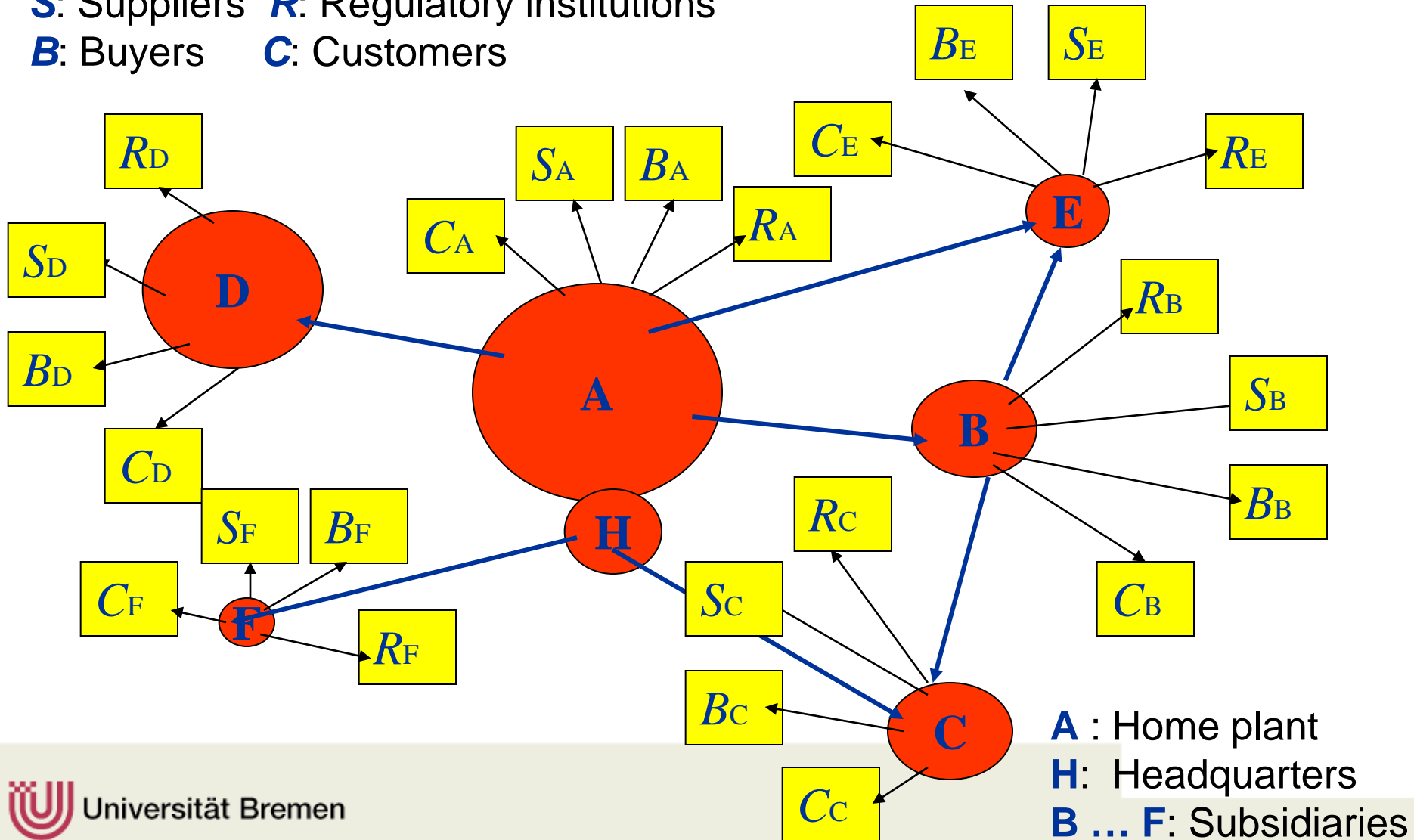
Exhibit 11.2

Four Distinct Strategies
Emerging from the Integration-
Responsiveness Framework

Subsidiary Level Network

S: Suppliers **R:** Regulatory institutions
B: Buyers **C:** Customers

An MNE Network

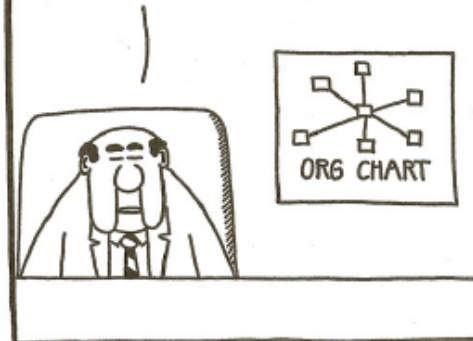


CHANGE FOR THE SAKE OF PROMOTION

YOU WILL APPEAR TO BE A VISIONARY PLANNER IF YOU DECENTRALIZE EVERYTHING WHICH IS CENTRALIZED AND CENTRALIZE EVERYTHING WHICH IS DECENTRALIZED.

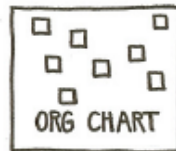


WE'VE GOT TO DECENTRALIZE TO REMOVE THE BOTTLENECKS.



ONE YEAR LATER

WE'VE GOT TO CENTRALIZE TO BE MORE EFFICIENT.



5/10/05

THE MAN IS A MANAGEMENT GENIUS.



MNEs and NEMs

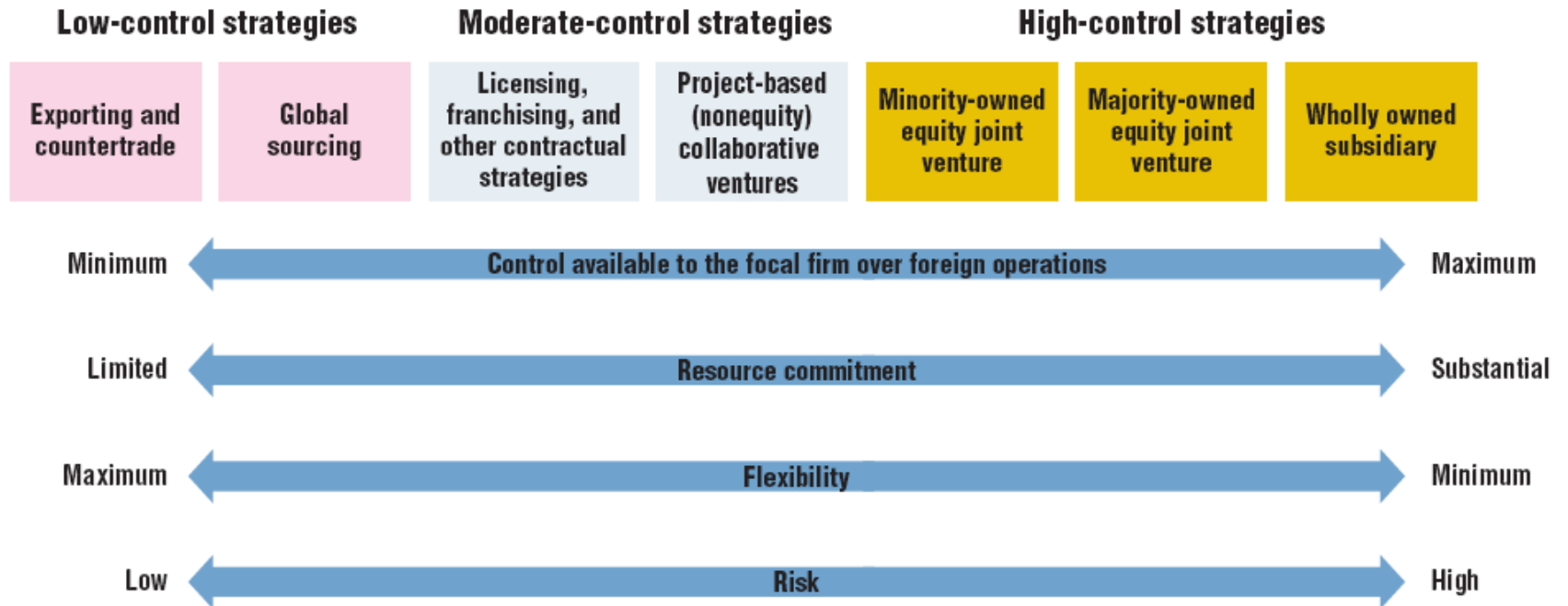
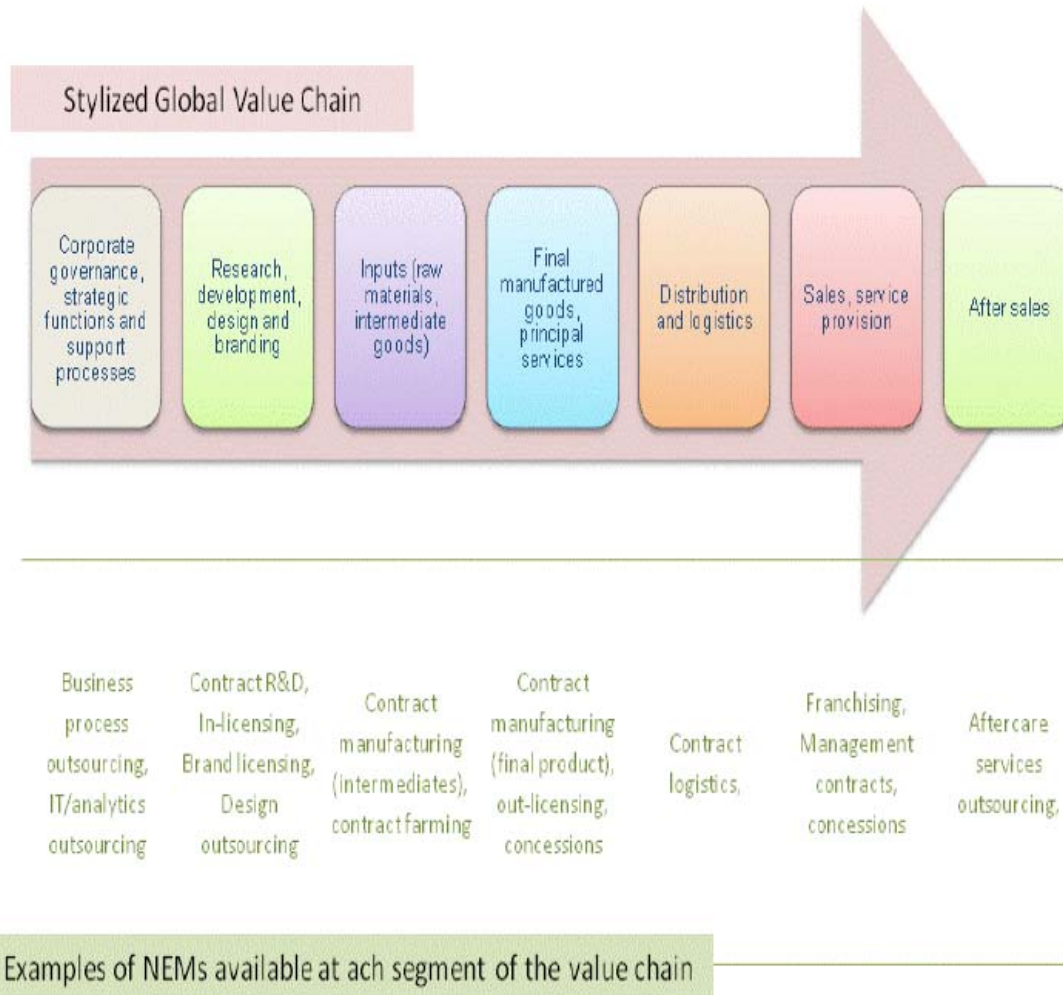


Exhibit 14.1 A Classification of Foreign Market Entry Strategies Based on Degree of Control Afforded to the Focal Firm



Thank you