OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as "developed", "industrialized" and "developing" are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org

18142

RECENT TRENDS IN INTERNATIONAL FOREIGN DIRECT INVESTMENT, PARTICULARLY WITH REGARD TO DEVELOPING COUNTRIES

Report prepared by

Geoffrey HAMILTON and Rosemarie VALA

Geneva, 15 February 1990

Table of Contents

2. Home country measures for encouraging FDI flows to developing countries
   - Effects of home country schemes to promote FDI flows to developing countries

Part D

D. OTHER ISSUES

1. The emergence of CMEA countries as host countries to FDI

2. New legislative improvements for FDI in CMEA countries
   (i) The USSR
   (ii) Hungary
   (iii) Poland
   (iv) Bulgaria
   (v) Czechoslovakia

3. Impact of New Legislative Changes

4. Countries of origin of foreign direct investment in CMEA countries

5. Distribution of joint ventures by sector and industry

6. Implications for developing countries

7. FDI and other forms of technology transfer to developing countries
   (i) Extent and spread of CMEA enterprises' activities in developing countries
   (ii) Current and future prospects

8. Small and medium-sized enterprises (SMEs) as foreign direct investors

9. The importance of New Forms of Investment in developing countries
   (i) Industrial and sectoral breakdown of NFI
      (a) Primary sector
      (b) Services
   (ii) The implications of non-equity forms of investment for developing countries

* * *

Annex 1: US FDI Outflows to Selected Countries

Annex 2: PDFCs (Public Development Finance Corporations)

I. United Kingdom: CDC (Commonwealth Development Corporation)
II. Sweden: Swedfund
III. Japan:
   (i) JICA (Japanese International Co-operation Agency)
   (ii) The Export-Import Bank of Japan
IV. The Federal Republic of Germany:
   (i) DEG (The German Finance Company for Investment in Developing Countries)
   (ii) KfW (Kreditanstalt für Wiederaufbau)
V. The United States of America: OPIC (The Overseas Private Investment Corporation)

Annex 3: Direct Investment Flows to East Asian Countries

Annex 4: The World's Biggest Industrial Corporations.

Introduction

Rarely has there been such a period as the present, when the activities of transnational corporations (TNCs) and the flows of foreign direct investment (FDI) which they generate have been of such universal interest. In the recent past, this interest was centered on developed market economy countries, in which most of the world's FDI originates and where a majority of these investments are made, and on those relatively few developing countries which attracted substantial FDI flows. Now, however, it has been generalized to an increasing number and to almost all groups of countries. Today, developing countries and the previously described but now currently archaically denoted centrally planned economies are attaching a new importance to FDI and thereby creating for, perhaps, the first time, an almost universally shared belief in the positive and valuable contribution FDI can bring to economic development.

A number of political and economic reasons account for this growing convergence of opinion towards FDI but surely chief among these is the desire both of developing countries at large and of CMEA countries to integrate themselves into an increasingly globalized economy. The abandonment of an inward-looking economic strategy and the adoption of a more outward-oriented approach is by no means a recent development but it is now being pursued with greater vigour and pace by many more countries[1]; FDI is today perceived as an important economic tool aiding stagnant and beleaguered economies. Its chief importance is derived from the actual role of TNCs in the structuring of economic activities and in international trade and technology flows and, most crucial of all, as an important conduit for the economic integration of these countries into this more independent global, economy.

Among the many implications of these developments is the intensified competition between various groups of countries to attract these flows and thereby to either enter into, or consolidate their position within, an increasingly integrated world production, trading and investment system. Consequently, the types of policies being pursued to attract FDI, both of the directly promotional kind and those of a more indirect nature involving internal policy adjustments, display increasing similarities. As such, and paradoxially, given the intensification of competition between countries, such common policies do allow and will permit in the future, increasing international co-operation between states.

At the same time, for developing countries, almost all of which lack a long experience of industrial growth and which are, by far, the most heterogenous group in terms of their varied and different stages of economic development, these new challenges appear particularly pressing. For many, and for whatever ambitions they have of one day attaining full integration into the global economic network, FDI is a principal means of providing capital and technology.

---

1 For a further discussion of these issues, see: Industrialization and Trade of Developing Countries: Economic and Policy Concerns on the Participation of Transnational Corporations, ECE/UNCTC Joint Unit Publications Series No. 2, ECE/UNCTC Joint Unit on Transnational Corporations, United Nations, Geneva, 1984.

Worldwide flows of FDI have increased rapidly in recent years. As was the case earlier in the decade, FDI flows continue to take place primarily among developed countries and this concentration has increased. The five largest developed countries have increased their shares of both total FDI inflows and outflows and the US has once again reestablished itself as the world's largest home country in terms of FDI outflows[1].

While world FDI inflows as a whole are increasing and the importance of FDI in relation to other private financial flows to developing countries is also growing (in this case, as a result of reduced international bank lending), the capacity of developing countries as a group to attract FDI has declined and within this group of countries, the least developed have been the most adversely affected.

Furthermore, the consequences of the opening up of new markets for FDI flows, combined with the clear evidence of a leveling off in profit levels in those industries in developed industries where FDI has originated, threaten to squeeze the share of FDI flows to developing countries even further in the 1990s.

At the same time, the fact that within certain sectors and in some industries FDI to certain developing countries in particular has increased in recent years demonstrates, first and foremost, the dangers of making generalizations too hastily about developing countries as a whole, as well as the fact that FDIs can still present opportunities, despite the structural difficulties developing countries face. Moreover, the actual amount of total FDI flows does not always give a clear indication as to the type or quality of the investment. A lesser amount of capital invested may have a more beneficial impact on a country than a larger sum, if it is more clearly directed towards a particular sector or industry.

It is for these reasons that a detailed analysis of the dimension and of the sectoral and geographical spread of FDI, especially to developing countries, is required.

Direct investment flows and/or stocks constitute the most important indicators of the foreign activities of transnational corporations, yet they are only partial measures, since they include capital supplied and owned by transnational corporations abroad, but not local equity capital and other forms of capital not supplied directly or indirectly by the parent corporation.

The present report uses, to a large extent, data on flows of foreign direct investment; stock data are mainly used to analyse the distribution of FDI in developing countries by country of destination and by broad economic sector. Foreign direct investment generally refers to investment abroad involving an element of control by the investor over the corporation in which the investment is made. Such investments, which are principally made by transnational corporations, are important with regard to flows among countries, both of financial resources and of technological and other resources.

FDI flows are made up of three components: new equity capital, reinvested earnings and intercompany borrowing (that is, short-term and long-term borrowing from the parent company or from other affiliates). FDI does not cover non-equity forms of TNC participation and, therefore, FDI alone does not fully measure the extent of the TNCs presence in the world economy.

---

1 OECD, International Direct Investment and the New International Economic Environment, Paris 1989.

Total world outflows of foreign direct investments in 1988 were over $115 billion[1]. Increases in FDI flows over the last three decades have been almost continuous and, in some years, prodigous. For example, the total outflow of FDI for 1989 has been provisionally estimated at US $180 billion[2].

In the previous two decades, there have been just two points - in the mid 1970s and in the early 1980s - at which this pattern of continuous increase in FDI outflow was broken. In the early 1980s, the fall in FDI outflows was almost totally due to the fall in US FDI outflow.

Thereafter, on a world level, FDI flows took off, again reaching record levels. Total worldwide outflows of foreign direct investment tripled between 1984 and 1987, increasing 39% in 1985, 58% in 1986 and 46% in 1987. Average annual outflows during this period were $81 billion, a sharp increase from $41 billion for the immediately preceding years 1981-83[3].

Table 1: Outflows of foreign direct investment from five major home countries, 1981-1988
(Millions of US dollars)

Country	1981	1982	1983	1984	1985	1986	1987	1988*
France	4615	3063	1841	2126	2226	5234	8704	12751
Germany, Federal Republic of	3862	2481	3170	4389	4804	9610	9036	10393
Japan	4894	4540	3612	5695	6452	14480	19519	34210
United Kingdom	12065	7145	8211	7988	11293	16551	30699	26569
United States	9620	-2360	380	2820	18070	27810	44470	24420
Total	35056	14869	17214	23288	42845	73681	112428	104343

* Provisional figures.
Source: OECD, International Direct Investment and the New Economic Environment, Paris, 1989.

The growth in world FDI outflows is well illustrated in Table 1 above, which shows the outflows of the world's five leading market economies - France, the Federal Republic of Germany, Japan, the United Kingdom and the United States. In 1987, for the first time, these countries' total FDI outflows surpassed $100 billion; in 1981, the corresponding figure was $35 billion. The provisional calculation for 1988 of $104 billion confirms this prodigious upward trend in FDI outflows.

The dramatic increase in outflows of FDI since 1985, when expressed in US$, is in part due to the impact of the depreciation of the dollar on the measurement of such flows. For example, one recalculation of the investment flow data of five major investing countries (France, the Federal Republic of Germany, Japan, the United Kingdom and the United States) estimates that approximately one third of the increase in investment flows from these five countries from 1984 to 1987 was accounted for by the depreciation of the dollar[4]. On the other hand, since 1987, the upward trend in FDI outflow has continued, even though against some currencies - particularly the pound sterling - the US dollar has appreciated. Thus, despite currency fluctations, the FDI growth genuinely represents a strong indication of the increase of TNCs' activities on international markets.

---

1 OECD Statistics, Paris, 1989 (provisional figures).
2 Tribune de Genève, 21.12.89, page 9.
3 UNCTC, Series A, No. 11, Transnational Corporations and International Economic Relations: Recent Developments and Selected Issues, N.Y., September 1989.
4 Ibid.

PART A

A. FDI IN AND OUT OF DEVELOPED COUNTRIES

1. Countries of origin

The regional distribution of world FDI outflows has undergone considerable changes in recent decades (Table 2 and Figure 1). Notable over time has been the decreasing role of North America - that is, particularly of the USA - as a region of origin for such investments, and the increasing importance of West European countries and Asia (Japan).

On an average annual basis, North America accounted, in the 1960s, for about two thirds, Western Europe for less than one third and Asia for somewhat less than two percent of the total outflow. During the 1970s, the share of North America decreased to a little more than one half, while the share of Western Europe increased to about one third and that of Japan increased to about 6%. The 1980s saw a further sharpening of this trend, with North America's share of outward FDI flows slipping to 26.8% and the West European and Asian shares continuing to climb, to 53.4% and 13.6%, respectively.

Table 2. Outflow of FDI of developed market economy countries distributed (percentages) according to countries of origin, selected years

	1960/64	1970/74	1980/84	1985/88
Japan	1.5	5.5	15.2	19.0
Australia	0.1	1.0	2.8	3.8
US	70.0	53.5	11.9	31.0
Canada	2.0	2.0	7.9	5.1
UK	15	14	28	22.7
FRG	5.0	9.0	11.4	9.5
Netherlands	2.0	5.0	13.6	5.5
France	1.5	3.0	9.0	7.2
Italy	2.0	1.6	5.0	3.4
Sweden	-	1.5	3.5	3.8
Belgium	-	1.5		
Others	2.0	1.0		

Source: Dimensions and Structures of Foreign Direct Investments and Transnational Corporation Activities in Developed Market Economy Countries, ECE/UNCTC Joint Unit Publication Series No. 4, ECE/UNCTC Joint Unit on Transnational Corporations, Geneva, 1985. (Updated for recent years).

As it concerns the individual countries of origin of FDI, the most important country from which FDI traditionally emanated was the United States and this has been true for most of the last two decades. In 1987, as seen from Table 3, the United States' total outflow of $44.4 billion was more than twice that of Japan. In 1988, there was a fall, with the US accounting for just $20.42 billion in FDI outflow[1], partly reflecting the fall in US stock market prices in October 1987. In total, however, the US is still the world's leading foreign investor, although that tendency has lessened over time. In the early 1970s, the US's share of total FDI outflows was around 50%, while in the following ten years, its share had fallen by almost 40%. The recovery in the US position throughout the 1980s is illustrated in Table 2. Between 1985 and 1988, the US's share of total worldwide FDI outflows was 31%.

1 OECD, International Direct Investment ... op. cit.

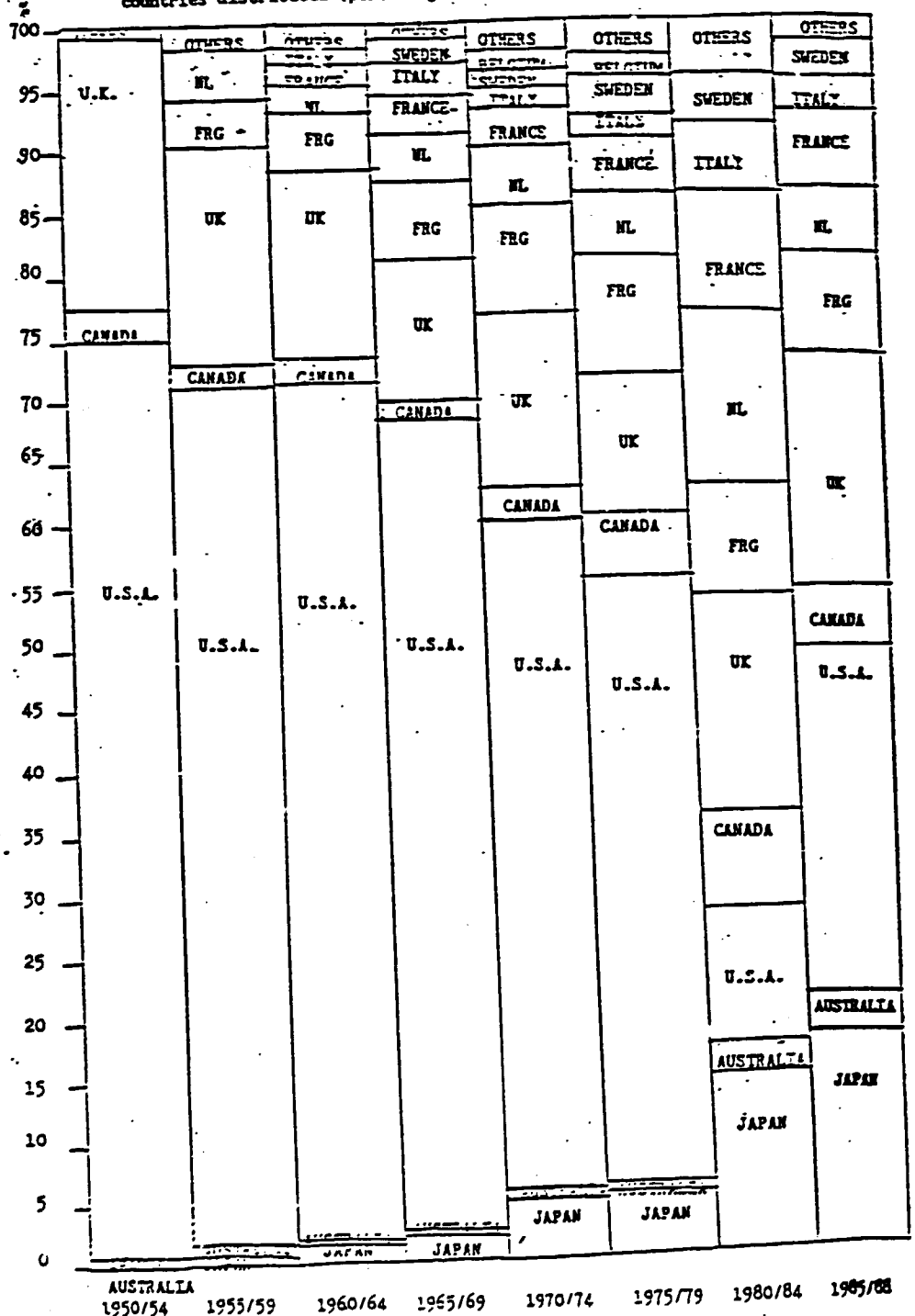
Table 3. Outward direct investment flows, 1971-1988
US$ million

	Cumulative flows (stock)						Direct investment flows[1]							
	1971/80	%	1981/86	%	1981/88	%	1981	1982	1983	1984	1985	1986	1987	1988
United States	134354	44.4	55780	18.9	121230	21.6	9620	-2360	380	2820	17270	28050	44470	20420
Annual	13435		9297		15154									
Japan	18052	6	39943	13.6	93672	16.7	4894	4540	3612	5965	6452	14480	19519	34210
Annual	1805		6657		11709									
France	13940	4.6	19101	6.5	40556	7.2	4615	3063	1841	2126	2226	5230	8704	12751
Annual	1394		318		5070									
Germany	23130	7.7	28265	9.6	47745	8.5	4097	2783	3170	4401	4815	8999	9036	10393
Annual	2313		4711		5968									
United Kingdom	55112	18.2	65455	22.2	120520	21.4	12065	7143	8138	8098	11320	16691	30699	26569
Annual	5511				15065									

1. Including reinvested earnings.
Source: OECD. Statistics and calculations from OECD, International Direct Investment and the New Economic Environment, Paris, 1989.

FIGURE 1

Outflow of foreign direct investments of developed market economy countries distributed (percentages) by countries of origin, 1950-1988



Source: Dimensions and Structures of Foreign Direct Investments and Transnational Corporation Activities in Developed Market Economy Countries, ECE/UNCTC Joint Unit Publication Series No. 4, ECE/UNCTC Joint Unit on Transnational Corporations. Geneva. 1985. (Updated for recent years).

The recovery of the US position as the world's leading foreign direct investor is amply shown by its share of total outward FDI outflows. While for the years 1980-84 its share of world FDI outflows had dipped to 12%, it rose to 31% in the 1985-1988 period.

In the early 1980s, US firms, faced with low world economic growth, high US interest rates, declining competitiveness and increasing international competition, clearly concentrated on restructuring their home country operations. After this period of restructuring, with their competitiveness restored and enhanced and under more favourable economic conditions, US TNCs began to expand their foreign operations.

The profitability of USA FDI also increased and boosted FDI outflows considerably. In 1987, the rate of return on US direct investments abroad averaged 18.4%, the highest at any point since 1981. These enhanced earnings were retained to fund further outflows. For example, over 80% of FDI outflows from the US in 1987 were financed from retained earnings[1].

Despite the recent upsurge in US FDI outflows, the relative fall in its leading role as a TNC home country has not been halted. This decline is also reflected by the fact that the USA is not, to the same extent as before, the leading headquarter country for large transnational corporations. While this was so for 42 of the world's 50 largest industrial corporations in 1960, this was the case with respect to only 21 corporations in 1982[2]. In 1988, only 19 US companies ranked among the world's 50 largest industrial corporations[3] (see Annex 4).

The position of Japan as a country of origin for world foreign direct investments has increased considerably over time, although, as can be seen from Table 2, this occurred from a relatively low base. In the early 1960s, Japan's share of total world FDI flows was only around 1%, while a decade later, it had climbed to around 5%. Since then, Japanese TNCs have become leading worldwide investors. Their share of total FDI outflows from 1980 to 1984 was over 15%, while in the latest period, 1985-1988, it had climbed to almost 20%. In 1988, Japanese TNCs invested over $34 billion overseas, which made Japan the world's leading foreign investor for that year.

Some changes can also be noted regarding the respective shares of West European countries in the direct investment outflow from developed market economies. Of leading West European foreign direct investors, the shares of the Federal Republic of Germany, France and Italy of total FDI flows declined marginally from the periods 1980-1984 to 1985-1988, from 11.4 to 9.5, 9.0 to 7.2 and 5.0 to 3.4% respectively, while those of the United Kingdom and especially the Netherlands declined more sharply in this period (see Table 2). In contrast and uniquely amongst this group of countries, Sweden increased its share somewhat, from 3.5% in 1980-1984 to 3.8% in 1985-1988.

---

1 UNCTC, Series A, No. 11, op. cit.

2 ECE/UNCTC Publications Series No. 4, op. cit and Fortune Magazine, 31 July 1989, pp. 36-37.

3 Source: Fortune Magazine, 31 July 1989, pp. 36-37.

When taking the outflow of all developed countries into account, the most notable feature is the fact that far more countries were significant home countries of foreign direct investment at the end of the 1980s than at the end of the 1970s. This greater balance in region and country origin of FDI may possibly signify a decline in future outflows, with more countries' TNCs matching their respective competitors in world markets and the need to catch up by investing abroad thus becoming less pressing[1]. However, this development towards a sort of global regional balance in FDI could be upset by the emergence of new global industries, e.g. biotechnology and/or the rise of TNCs from new countries, e.g. the Newly Industrialized Countries (NICs).

2. Countries of destination

The developed market economies have continued to attract a major share of FDI inflows throughout the 1980's. Indeed, it would seem that the capacity of developed countries to capture FDI flows has grown throughout this period.

An examination of the global geographical distribution of FDI inflows during the period 1981-87 shows that the five major FDI home countries are also the largest recipients of FDI, accounting in 1981-1983 for 53% and in 1984-87 for 58% of total inflows. Taking developed countries as a whole, their share of total worldwide FDI flows climbed from 72.5% in 1981-1983 to 78.8% in 1984-1987 (see Table 4 below).

Table 4. Foreign direct investment flows from five major countries: shares in 1981-1983 and 1984-1987
(Percentage of world-wide flows)

	Inflows	
Country	1981-1983	1984-1987
France	4.0	4.8
Germany, Federal Republic of	1.9	1.5
Japan	0.7	0.7
United Kingdom	11.3	7.5
United States	35.2	43.8
Five countries	53.1	58.3
All developed countries	72.5	78.8

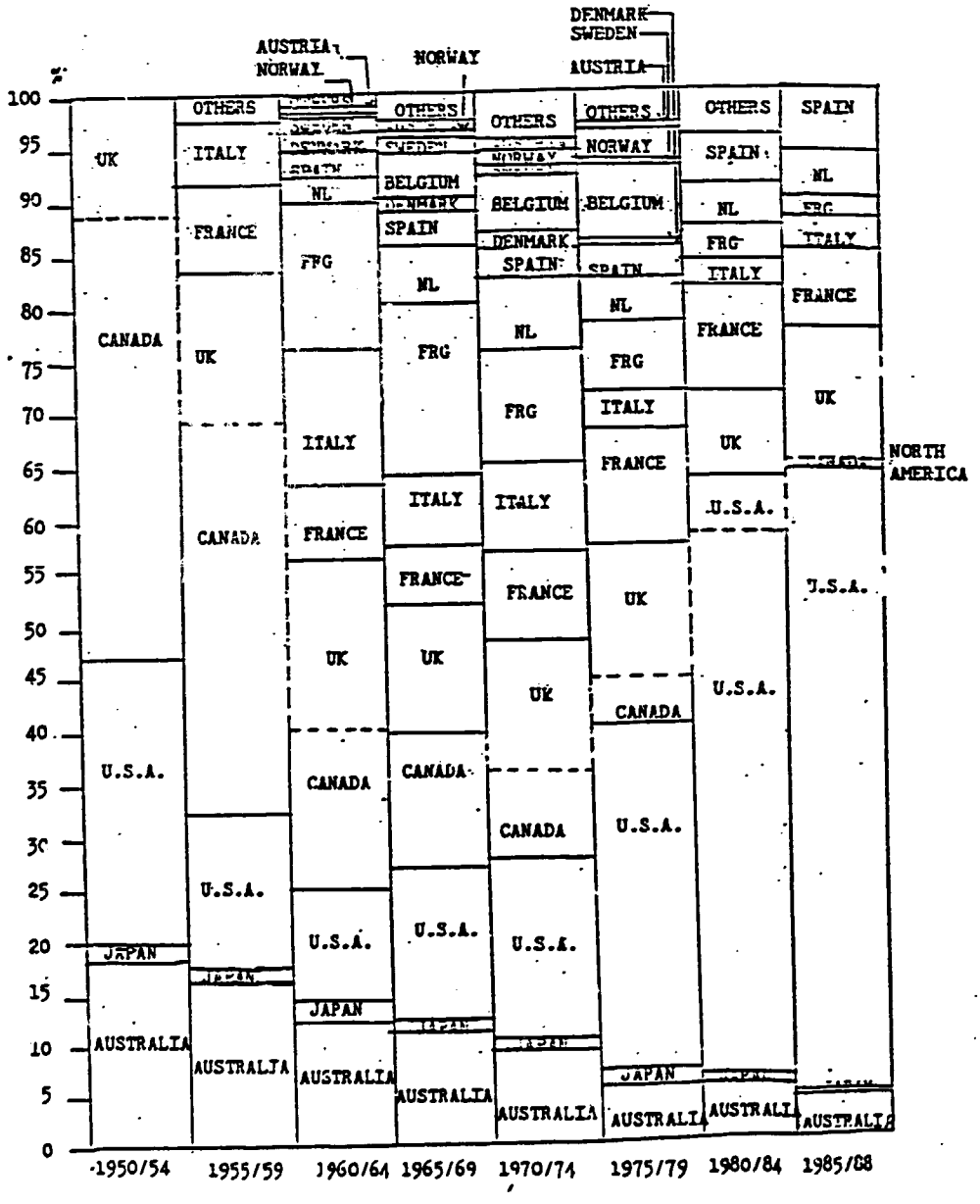
Source: International Monetary Fund, balance-of-payments tape, received on 13 October 1988. The outflows of the United States have been revised to exclude finance (except banking), insurance and real estate investments in the Netherlands Antilles. The outflows of Japan exclude reinvested earnings (which are not available).

As is well illustrated in Figure 2, the largest single recipient of FDI inflows has been the United States; its share has climbed throughout the 1970s and 1980s, attracting, on occasion, more than 50% of worldwide investment inflows.

1 See ECE/UNCTC Joint Unit Publication Series No. 4, op. cit.

FIGURE 2

Inflow of foreign direct investments to developed market economy countries distributed (percentages) by recipient regions and countries, 1950-1988



Source: Dimensions and Structures of Foreign Direct Investments and Transnational Corporation Activities in Developed Market Economy Countries, ECE/UNCTC Joint Unit Publication Series No. 4, ECE/UNCTC Joint Unit on Transnational Corporations, GEneva, 1985. (Updated for recent years).

Table 5. Inflows of FDI to Developed Market Economy Countries, distributed (percentages) according to recipient countries, selected years

	1961/70	1971/80	1980/84	1981/88
Japan	1.5	0.8	1.0	0.7
Australia	12.8	6.0	7.5	5.1
US	14.9	30.0	61.6	53.8
Canada	13.1	2.9	-6.9	0.9
UK	10.2	21.6	10.4	13.6
France	6.7	9.0	8.0	6.1
Italy	8.6	3.0	3.7	2.3
FRG	15	7.4	3.1	2.2
Netherlands	5.5	5.8	5.0	4.5
Spain	2.9	3.8	5.9	4.3

Source: Department of Economics and Statistics, OECD.

While much public attention has focused on Japanese investment in the USA, the UK plays by far the biggest role, accounting for 31% of all foreign investments in the US, as much as the next two investors - the Netherlands (14.9%) and Japan (16.1%) - combined. British eminence has only recently been achieved. Nine years ago, the Netherlands played the biggest role, with 25% of investment, compared to the UK's 16.6%[1]. Much of this investment came from proceeds of the Netherlands' North Sea gas in the same way, perhaps, as part of US FDI by UK TNCs came from the proceeds of North Sea oil. As it concerns Japan, Japanese FDI has been directed towards the financial sector as deregulation has allowed Japanese TNCs to acquire the assets of US financial firms.

The United States now plays host to approximately as much direct investment from other countries as United States-based TNCs have invested abroad. In 1988, cumulative foreign direct investment in the United States surged to $328.9 billion, just slightly behind US foreign direct investment abroad, estimated at $339 billion[2].

While Japan has had a growing role in world FDI abroad, its share of world FDI inflows is surely not commensurate with the size of its economy or with its own FDI outflow. Japan's share of total FDI inflows remained constant at around 0.7% throughout the 1980s[3]. Its cumulative total of inward FDI was $US 12.8 billion at the end of fiscal year 1988, and capital inflows for 1988 were $3.2 bn. In terms of the nationalities of investors in Japan, the US accounts for roughly 55% of the cumulative total, followed by Western Europe (25%)[4].

1 The Guardian, "Foreign Investment hits new records in the US", 11 December 1989.
2 United States Department of Commerce, Survey of Current Business, August 1989, p. 69.
3 OECD, International Direct Investment ... op.cit.
4 MITI, Tokyo, July 1989.

This disparity between Japanese outward and inward FDI flows was caused, initially, by the existence of strict Japanese rules governing FDI inflows. These have been relaxed in various stages and after the latest reform in 1980, FDI inflows into Japan increased from $189 mn in 1981 to $642 mn in 1985, and up to $1,165 mn in 1987[1]. In fact, certain sources estimate FDI inflow into Japan at $2.2 bn in 1987, moving up to $3.2 bn in 1988[2]. However, all FDI projects need to be notified to the Ministry of Finance and certain industries are excluded from FDI. Further obstacles to firms setting up in Japan include the country's special distribution and supply systems and, more recently, the strength of the yen has acted as a further impediment to new inflows. Nevertheless, there seems to be growing interest in undertaking FDI in Japan, which is exemplified by the large number of cases recorded for the acquisition of Japanese securities, which surpassed outward Japanese FDI during the fiscal years 1981-87.

While the developed market economies, as a group, have clearly been claiming a growing share of world FDI inflows throughout the 1980's, these gains are principally due to the development of the US as a major host country.

In contrast to the upsurge in flows to the US, the share of FDI inflows of many West European countries declined, with the Federal Republic of Germany's share sliding from 15% to 7.4%, all the way down to 2.2% for 1960-1970, 1971-1980 and 1981-1988, respectively (see Table 5). Sweden, Italy, Denmark and Austria also suffered a steady decline in their share of world FDI inflows over these 3 decades, as did Japan and Canada[3].

France, the Netherlands, Norway and the UK followed another detectable pattern, with increases in their shares of world FDI inflows during the 1970s, followed by a period of decline in the 1980s. The UK's and France's shares moved, for example, from 10.2% to 21.6%, down to 13.6%, and from 6.7% to 9.0%, down to 6.1%, respectively. Finland uniquely retained a constant share (0.2%) of world FDI inflow over this three-decade period[4].

Taking, however, the 1980s alone, shares of inflow of world FDI for France (6.1%), the Federal Republic of Germany (2.2%) and the UK (13.6%)[5] have remained relatively constant. The UK average was pulled down because of especially low 1984 inflow).

3. Distribution by Economic Sector

Considerable changes have not only occurred on a regional and country level, but also, over time, in the sectoral composition of the stock of FDI abroad. In general, these changes have meant an increasing role for investments in the services sector and in various manufacturing industries, and a decreasing one for those in the primary sector, including mining and petroleum.

---

1 OECD, International Direct Investment ... op. cit.
2 JETRO ...
3 OECD, International Direct Investment ... op. cit.
4 Ibid.
5 Ibid.

The share of the services sector in the world stock of foreign direct investment rose from 25% at the beginning of the 1970s to 40% by the mid-1980s. This shift toward services has continued through the 1980s: the share of services in total outflows of foreign direct investment reached some 55% in 1988[1]. The share of services in the distribution of foreign direct investment outflows from most major developed market economy countries (Canada, France, the Federal Republic of Germany, Japan and the UK) increased in the period 1981-1987 (see Table 6). The share of services in the outward direct investment of Japan increased from 41.8% to 62.2% between 1975-80 and 1981-85, and from 49.1% to 58.4% and from 34.3% to 53.2% in the cases of the Federal Republic of Germany and the US respectively[2]. Only in the cases of the UK and France did the services share in their outward direct investment decrease, and then only slightly. Furthermore, the UK and France increased the service share of their actual direct investment in the next period, 1984-87, while the services shares for Japan and the Federal Republic of Germany continued an upward climb. All developed countries' shares of services in inward direct investment increased in this period.

Table 6. Share of services in international direct investment, 1975-1987
(Percentage)

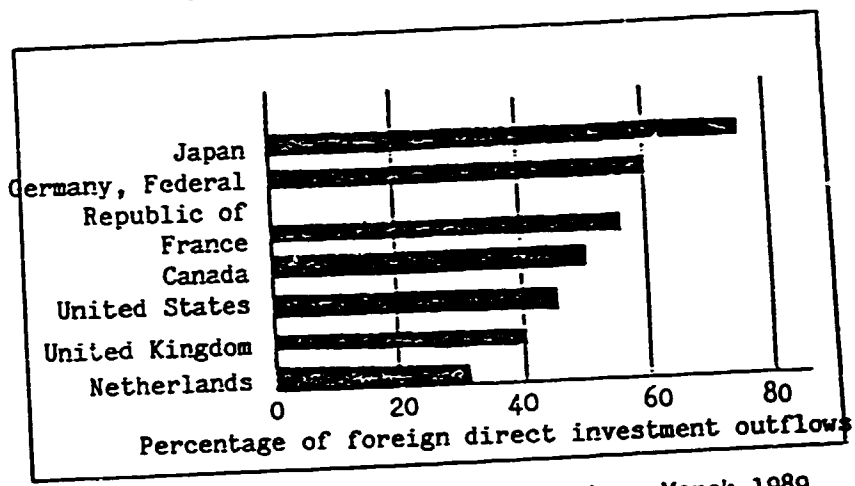
	1975-80	1981-85	1984-87
Outward direct investment			
Japan	41.8	62.2	77.0
Germany	49.1	58.4	60.0
United States	34.3	53.2	45.0
France	44.1	43.5	56.0
United Kingdom	43.6	38.2	40.0
Canada	20.2	30.9	50.0
Inward direct investment			
Germany	68.9	72.8	
Canada	58.8	69.9	
France	61.6	64.5	
United Kingdom	36.8	59.1	
United States	43.7	48.6	
Japan	27.8	31.0	

1 UNCTC, Transnationals Newsletter, March 1989.

2 UN, Foreign Direct Investment and Transnational Corporations in Services, N.Y., 1989.

FIGURE 3

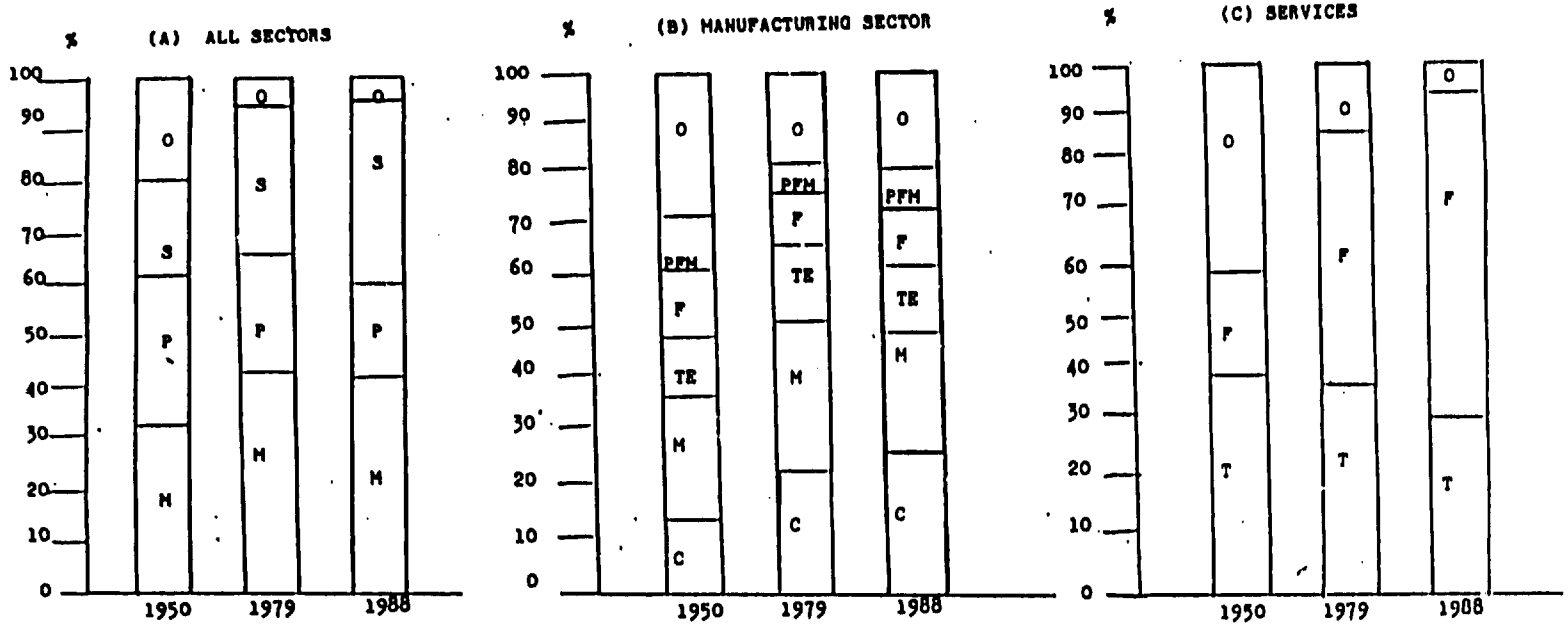
Services Share in Investments
(Annual average, 1984-1987)



Source: UNCTC, Transnational Newsletter, March 1989.

FIGURE 4

Sector and industry distribution (percentages) of the U.S. stock of foreign direct investments abroad, 1950, 1979 and 1988



M: Manufacturing
P: Petroleum
S: Services
O: Other

C: Chemicals
M: Machinery
TE: Transportation Equipment
F: Food
PFM: Primary and Fabricated Metals
O: Other

T: Trade
F: Finance (Banking, Insurance, Real Estate)
O: Other

Source: ECE/UNCTC, Dimensions and Structures of Foreign Direct Investments and Transnational Corporation Activities in Developed Market Economy Countries, Geneva, 1985; calculations from the US Survey of Current Business, various years.

This increase in the share of FDI in the services sector has occurred almost totally at the expense of FDI in the primary sector. In contrast to this decline in FDI in the primary sector and in spite of predictions made in the late 1970s of an impending fall in FDI in manufacturing, FDI in this sector has remained rather constant throughout the 1980s. These overall trends in the sectoral distribution of FDI are well demonstrated by the case of the US. For example, US FDI stock abroad showed a drop in the primary sector's share from 29% in 1950 to 23% in 1979, and a further fall to 18% in 1988. The share of US FDI in manufacturing rose from 32% in 1950 to 42% in 1979, and then steadied to 40% by 1988[1] (see Figure 4).

As it concerns US FDI in both the manufacturing and services sectors, there have been sizable shifts in the various industries attracting FDI throughout the 1980s. For instance, within manufacturing, there has been a shift in emphasis on outward FDI flows towards higher value-added products, although these are often difficult to pinpoint since the categories created for stastistical breakdowns often do not provide the distinctions, for example, between bulk and specialty chemicals or between consumer electronics and high technology software. Still, a certain pattern can be seen, taking the US as an example, for shares of FDI manufacturing flows to rise - from 13% in 1984 to 63% in 1988 - in generally higher value-added industries such as chemicals, and to fall - from 25.7% to 1.6% over the same period - in the lower technology industries as food[2].

In the case of United States FDI in services, the share of transport and communications has declined, while recently, the highest rate of investment has been in financial services and insurance. In 1950, finance (including banking, real estate and insurance) made up a little over 20% of the stock of US foreign direct investment in services abroad but this figure had jumped to 48% in 1979 and to almost 68% in 1988[3].

Concluding comment

Since the end of the 1970s, flows within the developed countries have been more balanced, as more and more countries have become involved as both inward and outward investors. Until the mid 1970s, the bulk of world foreign direct investment came from the United States. Since then, however, international direct investment by the European countries (especially France, the Federal Republic of Germany and the UK) has been expanding and this has continued in the 1980s.

The US, still also a leading investor abroad, is now also a major recipient of inward investment. While inward investment into Japan remains very modest in comparison with its outward investment flows, the amount of inward FDI has been dramatically increasing in recent years. The pattern of international direct investment by European countries shows that overall, they have invested more abroad than they have received in inward investment in recent years. This would also seem to confirm the trend towards a more balanced regional distribution of international investment flows.

---

1 Calculations from ECE/UNCTC, Publication Series No. 4, Geneva, 1985 and from US Survey of Current Business.

2 Calculated from US Survey of Current Business, various years.

3 Calculations from ECE/UNCTC, Publication Series No. 4, Geneva, 1985 and from US Survey of Current Business.

Part B

B. FDI IN AND OUT OF DEVELOPING COUNTRIES

Introduction

General Developments

The developing countries received a total of $11.2 bn in FDI flows from the OECD countries in 1988. This is somewhat better than the low point of 1985, when these countries received barely over one half of this - $6.7 bn - but rather poor when compared with 1981, when these countries amassed $17.2 bn in FDI inflow. On a general level, the share of developing countries in world FDI inflows has declined rapidly in recent decades.

In the 1960s, developing countries absorbed about 40% of international investments flows; during the 1970s, this figure fell to around one third of the global total[1].

Table 7. FDI OUTFLOWS FROM OECD TO DEVELOPING COUNTRIES, 1981-1988

	1981	1982	1983	1984	1985	1986	1987	1988
(US $bn)								
Direct investment (in LDCs)	17.2	12.8	9.9	11.4	6.7	12.2	13.2	11.2(a)
Total OECD FDI outflows	45.5	18.9	23.7	30.7	49.7	81.3	125.9	114.5(b)
(%)								
Share of LDCs in total OECD FDI outflows	37.8	67.7	41.7	37.2	13.5	15.0	10.5	9.8

(a) Not including UK
(b) Provisional figure
Source: Calculations based on OECD statistics.

As can be seen from Table 7, the early 1980s saw an increase in developing countries' share of total FDI flows. But thereafter, developing countries as a whole failed to capture any significant share of the great upsurge in world FDI flows which took place, in particular, after 1984. In fact, their shares for 1985, 1986, 1987 and 1988 were 13.5, 15.0, 10.5 and 9.8% respectively. As we shall see, however, this decreasing share in fact masks a rather varied picture of performances by individual developing countries, some of which have enjoyed significant upsurges in FDI inflows.

Furthermore, while as a group, developing countries' share of total FDI flows has undoubtedly declined, the role of foreign direct investments within total resource flows to developing countries has increased in the 1980s. While direct investment by OECD countries made up only 8.7% of total net resource flows to developing countries in 1984, this figure rose to 15.5% by

1 UNCTC, Salient Features and Trends in Foreign Direct Investment, N.Y., 1983.

1987[1]. However, this is largely because of the declining role of international bank lending in the 1980s to developing countries: such lending accounted for 38.2% of total net resource flows to developing countries in 1980, but for 16.2% in 1985 and 9.4% in 1987[2].

1. Countries of origin

During the period 1985-1988, about 90% of the net flow of direct investment from developed market economies into developing countries continued to originate in Canada, the Federal Republic of Germany, France, Japan, the Netherlands, the UK and the US[3]. The relative shares of individual developed market economies, however, underwent substantial changes.

Table 8. FDI Flows into LDCs, 1981-1988

(US mn$) Origin	1981	1982	1983	1984	1985	1986	1987	1988
USA (excludes Caribbean)		3705	1084	2581	-1040	2807	3286	3435
UK (includes Caribbean)	2045.1	83.8	1442.1	2185.6	2322.9	1841.9	3483.7	
FRG, LDCs (plus OPEC)	551.3	451.3	520.8	632.0	361.1	-3	888.0	299.0
Sweden (Non-OECD)	152.2	189.7	166.2	85.8	350.7	195.3	209.2	279.4
Japan (plus Middle East, excluding Caribbean)	5130	3458	4179	4324	3628	5613	7852	9054
Denmark (plus OPEC)	34.8	8.5	15.4	46.5	22.8	26.5	105.5	29.6
Finland	11.9	20.1	16.5	28.5	27.9	46.7	40.7	73.7
Netherlands (excludes offshore banking)	366.8	245.1	150.2	204.5	777.4	366.1	245.4	646.4
TOTAL								13816.7

Source: US Survey of Current Business, MITI/JETRO, Central Bank statistics of the individual courtries, various years.

Traditionally, the two principal sources of direct investment into developing countries have been the US, which accounted for over half of all such flows throughout the 1970s, and the UK, whose share, on average, was around 10%. As we can see from Table 8, in 1988, Japan has assumed the position of the world's leading source of FDI to developing countries. In that year, Japan accounted for over half of the total FDI flows to developing countries from major industrialized countries by investing $9 billion in these countries. This is over 25% of Japan's total outward flow of FDI (see Table 9). In comparison, the US invested, in the same year, $3.4 billion in these countries.

As it concerns the other leading OECD countries, their investments in developing countries have remained relatively constant throughout the 1980s. However, for a number of countries, the share of FDI to developing countries out of total FDI flows has declined quite substantially. Taking all OECD countries' investments, the share to developing countries has fallen from around 40% in the early 1980s to less than 15% between 1985 and 1987.

1 Financing and external debt of developing countries, 1987 Survey, OECD.
2 Ibid.
3 ECE/UNCTC documents

Table 9. JAPAN: Outward flows of direct investment

(US $ m) recipient	1987	1988
LDCs	10,018	12,909
All countries	33,364	47,022
% Share of LDCs in total Japanese FDI outflow	30.0	27.5

Source: OECD, International Direct Investment and the New Economic Environment, Paris, 1989.

In the cases of the UK and the Federal Republic of Germany, Tables 10 and 11 show that their shares of outflows to developing countries have fallen from 17% in 1981 to 11.3% in 1987 for the UK[1] and from 13.5% in 1981 to 1.1% in 1988 for the Federal Republic of Germany[2].

Table 10. FEDERAL REPUBLIC OF GERMANY: Outward flows of direct investment

(US $ m) recipient	1981	1984	1987	1988
LDCs	513.2	471.4	787.0	117.2
All countries	3811.7	4028.0	9946.9	10432.6
(%) Share of LDCs in total FRG FDI outflow	13.5	11.7	7.9	1.1

Source: Calculated from Statistische Beihefte zu den Monatsberichten der Deutschen Bundesbank, Reihe 3. Zahlungsbilanzstatistik, Nr. 6, Juni 1989.

Table 11. UNITED KINGDOM: Outward flows of direct investment

(US $ m) recipient	1981	1984	1987
LDCs	2045.1	2185.6	3483.7
All countries	12.065	7988	30699
(%) Share of LDCs in total UK FDI outflow	17.0	27.4	11.3

Source: Calculated from data from the Central Statistics Office, London, 1989.

1 Calculated from data from the Central Statistical Office, London, 1989.
2 Calculated from Statistische Beihefte zu den Montasberichten der Deutschen Bundesbank, Reihe 3. Zahlungsbilanzstatistik, Nr. 6, Juni 1989.

2. Countries of destination

FDI in developing countries has largely taken place in relatively few developing countries, many of which have a comparatively high per capita gross national product. Over the years, this trend has become more accentuated in fewer developing countries. In 1971, 20 developing countries accounted for almost two thirds of the total stock in developing countries. This share for these same countries increased to nearly three quarters in 1978[1]. Today, just 18 countries and territories account for 86% of the flow of FDI to the developing countries as a whole[2].

However, not all those developing countries which have traditionally received a large share of total FDI to developing countries have benefited to the same extent. Table 12, which shows FDI inflows to a group of selected high-income developing countries, reveals that, while Mexico now accounts for fully 28.1% of total FDI flows to developing countries, Brazil's share has fallen from around 20% in 1980 to barely over 3% in 1987. Those fast growing developing countries, too, that might have been expected, all things being equal, to boost their share of FDI inflows, like Singapore and Thailand, have failed to make much impression[3].

Table 12. FDI inflows for selected high-income developing countries, as a percentage of total FDI inflows and FDI inflows to LDCs (mn SDR)

	1980	% of LDC flow (a)	% of world flow (a)	1986	% of LDC flow (a)	% of world flow (a)	1987	% of LDC flow (a)	% of world flow (a)
Brazil	1470	21.3	3.9	380	3.1	0.6	352.4*	3.4	0.5
Mexico	1678	24.3	4.4	1290	10.4	2.0	2497	28.1	3.4
Singapore	860	12.5	2.3	555	4.5	0.9	894	10.0	1.2
Thailand	146	2.1	0.4	225	1.8	0.4	146	1.6	0.2
Total of selected high-income LDCs		60.2	11.0		19.8	3.9		43.1	5.3
LDCs	6898		18.2	12378		19.5	8898		12.2
World	37870			63526			72751		

* Preliminary information, from Journal for Latin America Studies, May 1989.
(a) Shares in per cent.
Source: Calculated from IMF, Balance of Payment Statistics Yearbook, Part 2, Volume 39, 1988.

As it concerns the least developed countries, their position among developing countries, as a whole, has worsened. In 1980, these countries, listed in Table 13, received almost 3% of total FDI to developing countries. In 1986, they received just 1.4%.

1 UNCTC, Salient Features and Trends in Foreign Direct Investment, N.Y., 1983.
2 UNCTC, 4th Survey, N.Y. 1988.
3 UNCTC, Series A, No. 11, op. cit.

Table 13. Foreign direct investment inflows to least developed countries, 1980-1986 (millions of United States dollars)

Country	1980	1981	1982	1983	1984	1985	1986
Afghanistan	9.0	0.2	0.1	..	..	..	..
Bangladesh	8.5	5.4	7.0	1.1	3.8	-6.7	-1.1
Benin	4.3	2.1	..	..	..	..	..
Bhutan	..	..	..	..	..	..	..
Botswana	111.5	88.4	21.1	23.8	62.1	53.6	90.5
Burkina Faso	..	2.5	2.0	2.0	1.6	..	..
Burma	0.4	..	..	-0.4	0.8	..	0.1
Burundi	4.6	11.1	0.9	3.0	1.2	0.2	0.3
Cape Verde	..	..	..	..	..	..	..
Central African Rep.	5.3	5.8	9.2	4.5	5.1	2.9	8.2
Chad	..	..	..	..	9.2	53.6	28.2
Comoros	..	..	0.2	..	..	..	..
Democratic Yemen	..	0.5	..	..	..	..	..
Djibouti	0.2	..	-0.1	..	0.2	0.2	1.2
Equatorial Guinea	..	-0.2	0.5	0.5	2.2	..	..
Ethiopia	..	..	..	..	..	..	..
Gambia	0.3	0.7	0.3	-0.4	-1.7	-0.5	..
Guinea	0.6	-1.3	..	0.4	0.7	1.1	4.0
Guinea-Bissau	..	..	..	..	2.3	1.4	0.8
Haiti	13.0	8.1	7.0	8.3	4.4	5.0	4.9
Kiribati	..	..	..	..	..	..	..
Lao People's Democratic Republic	..	..	..	..	..	-1.6	..
Lesotho	4.6	4.8	3.1	4.8	2.4	4.8	2.1
Malawi	9.5	1.1	..	2.6	..	0.5	..
Maldives	-0.1	..	-2.9	0.2	-0.1	..	..
Mali	2.3	3.7	1.5	3.1	4.1	4.5	4.3
Mauritania	27.1	12.5	15.0	1.4	8.5	7.0	4.5
Nepal	0.3	-0.2	..	-0.6	1.0	0.7	1.2
Niger	49.1	-6.1	28.3	1.2	1.4	1.2	1.2
Rwanda	16.4	18.0	20.8	11.1	15.1	14.6	17.6
Samoa	..	..	..	-0.1	..	0.4	-0.2
Sao Tome and Principe	..	..	..	..	..	..	..
Sierra Leone	-18.6	7.5	4.6	1.7	5.8	-3.8	-6.5
Somalia	..	..	-0.8	-8.2	-15.0	-0.7	-0.1
Sudan	..	..	..	..	8.8	-2.8	..
Tuvalu	..	..	..	..	..	..	..
Togo	42.3	10.1	16.1	1.5	-9.9	..	..
Uganda	4.0	..	2.0	..	..	-4.0	..
United Rep. of Tanzania	4.6	18.9	17.3	1.5	-8.4	1[illegible].5	3.3
Vanuatu	..	..	7.0	5.9	7.6	4.6	[illegible].0
Yemen	-1.2	13.8	51.8	15.8	0.1	2.[illegible]	4.2
All least developed countries	298.0	207.4	212.0	84.7	113.3	152.8	170.7

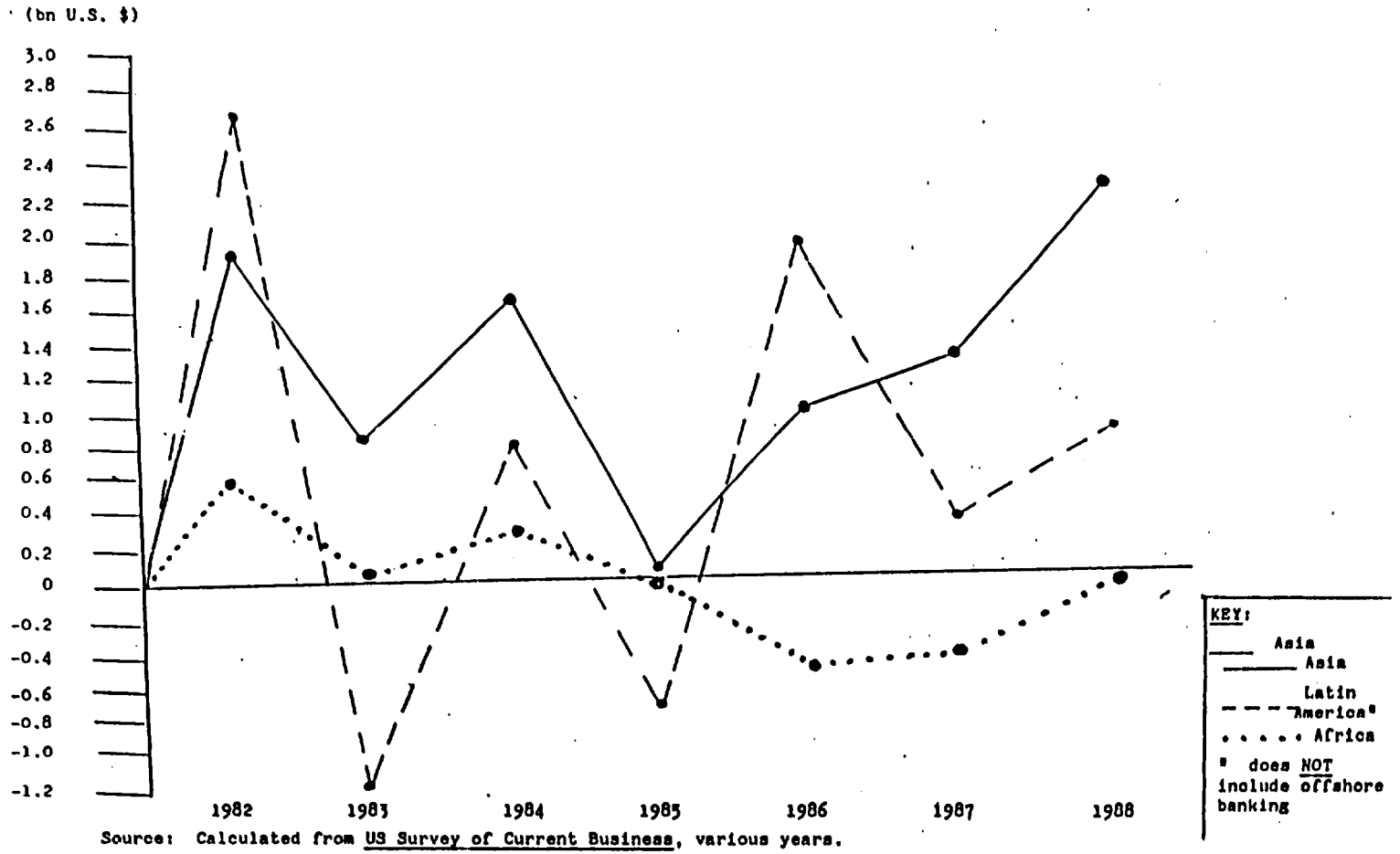
Table 13. (cont'd)

Country	1980	1981	1982	1983	1984	1985	1986
All developing countries	10348.5	15425.2	13169.1	10444.9	10638.3	11692.4	2053.0
Least developed countries'- share in developing countries (percentage)	2.88	1.3[a]	1.61	0.81	1.07	1.31	1.42

Sources: United Nations Centre on Transnational Corporations, based on IMF balance-of-payments tape of November 1988; information from OECD Secretariat; and national sources.

FIGURE 5

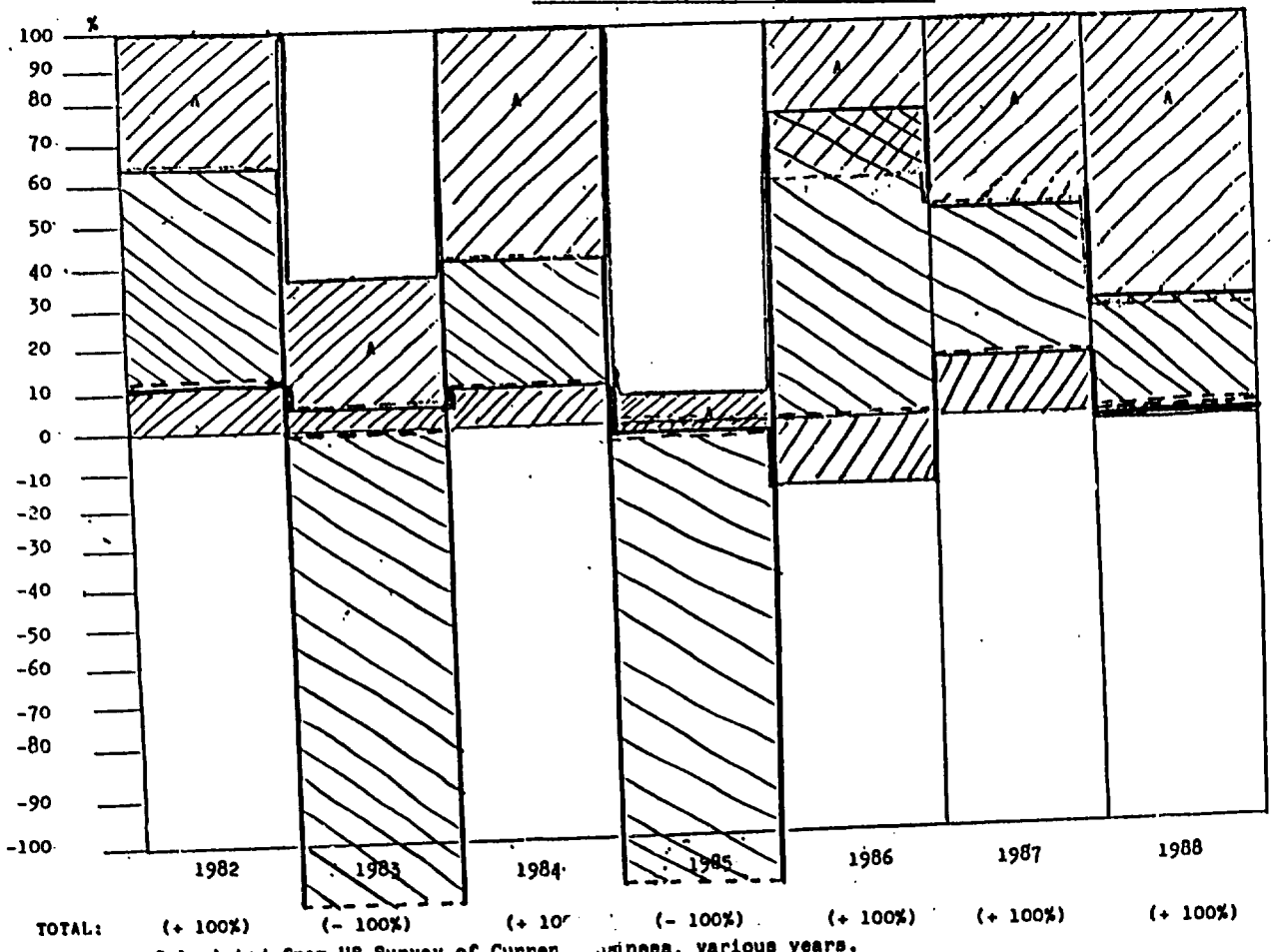
U.S. FDI Outflows to Developing Regions, 1982-1988



Source: Calculated from US Survey of Current Business, various years.

FIGURE 6

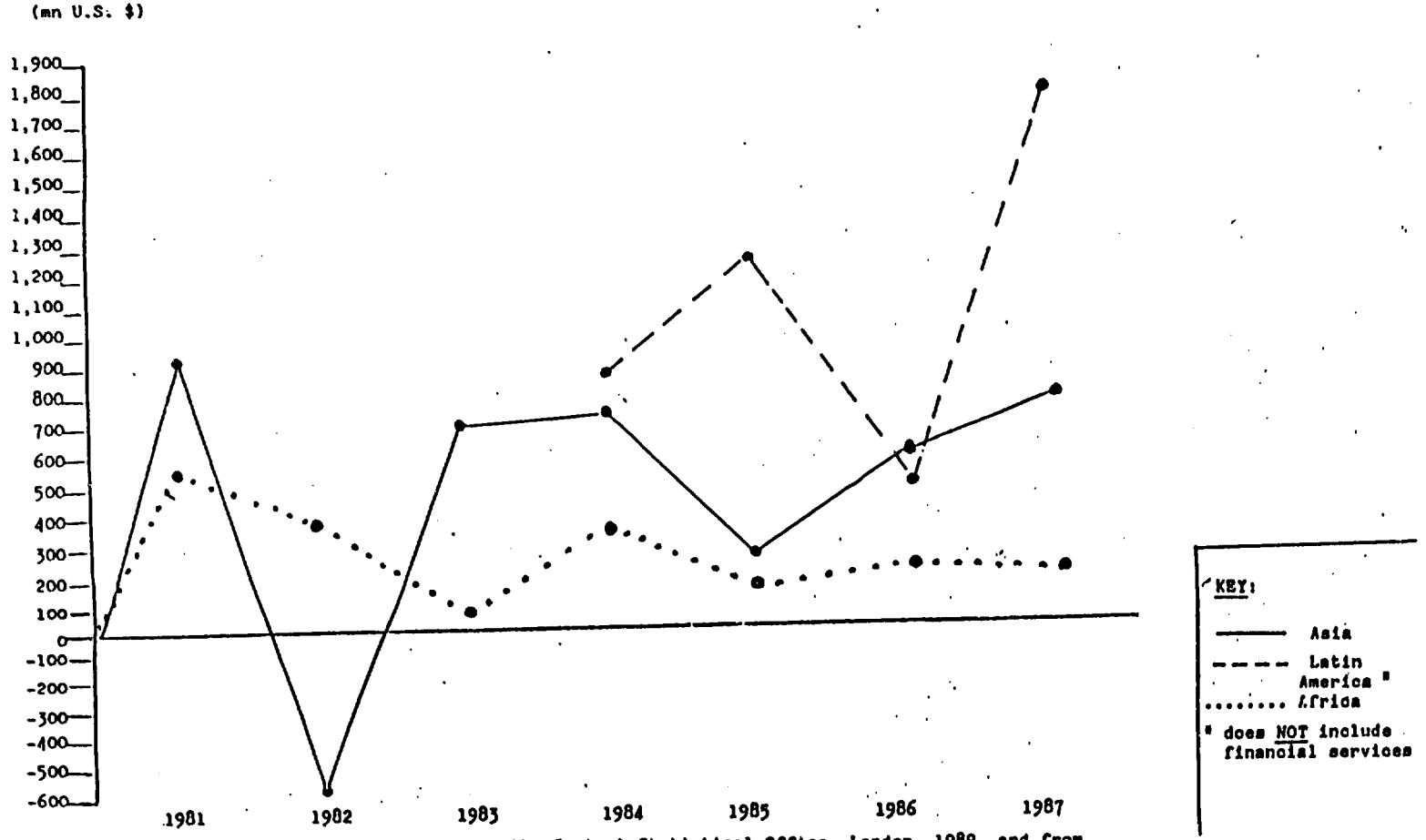
U.S. FDI Outflow to Developing Countries, 1982-1988,
Distributed (percentages) by Region



Source: Calculated from US Survey of Curren ..siness, various years.

FIGURE 7

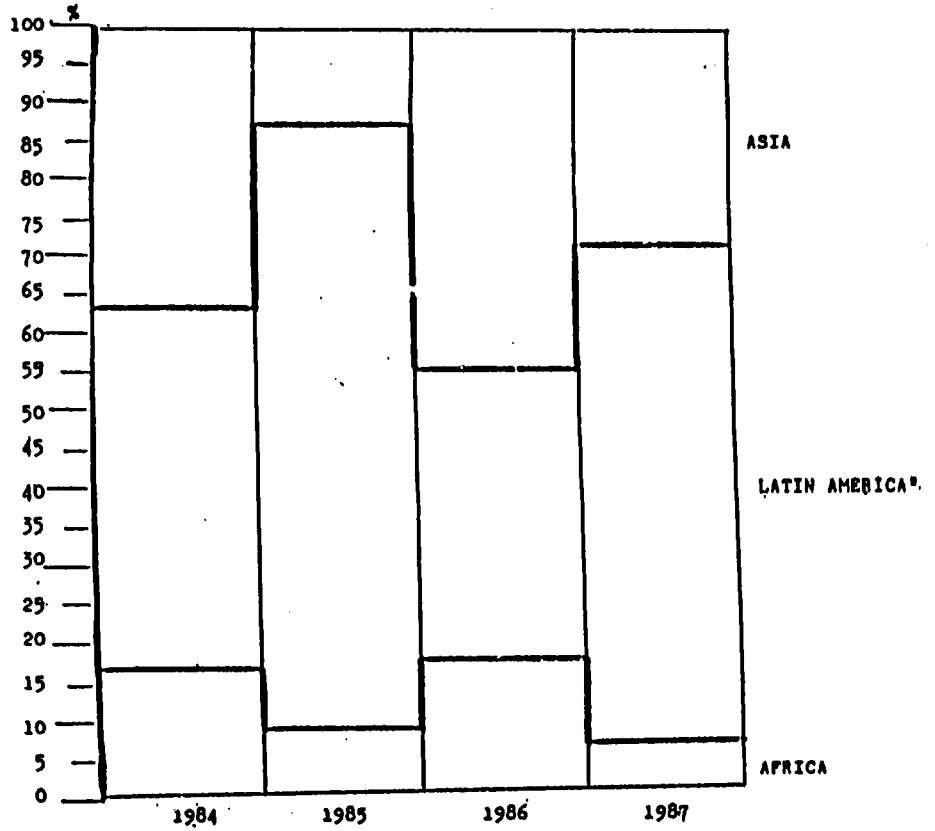
U.K. FDI Outflows to Developing Regions, 1981-1987



Source: Calculated from data from the Central Statistical Office, London, 1989, and from the OECD, International Direct Investment and the New Economic Environment, Paris, 1989.

FIGURE 8

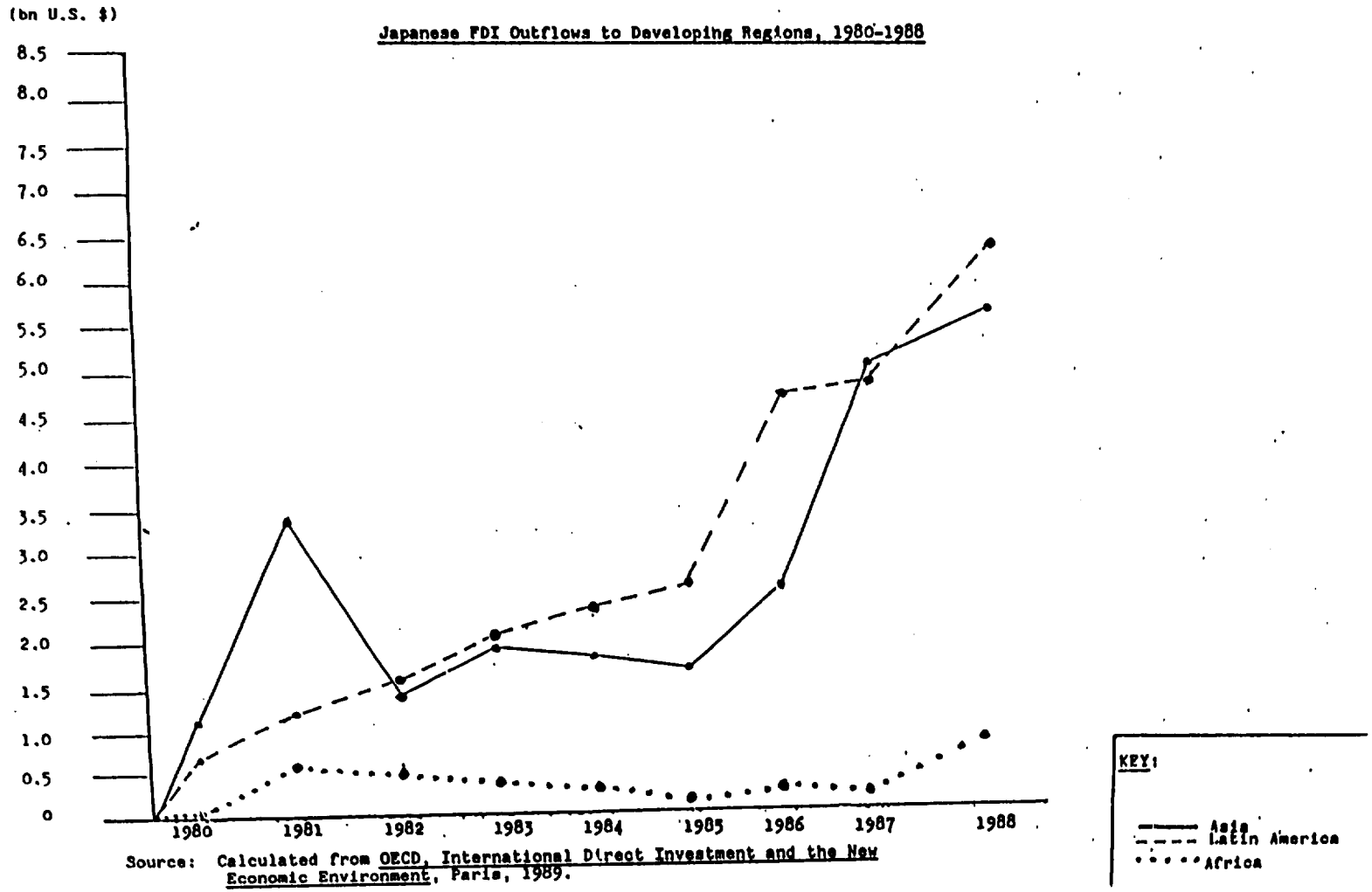
UK FDI Outflows to Developing Countries, 1981-1987, Distribued (percentages) by Region



* does NOT include financial services

Source: Calculated from data from the Central Statistical Office, London, 1989, and from the OECD, International Direct Investment and the New Economic Environment, Paris, 1989.

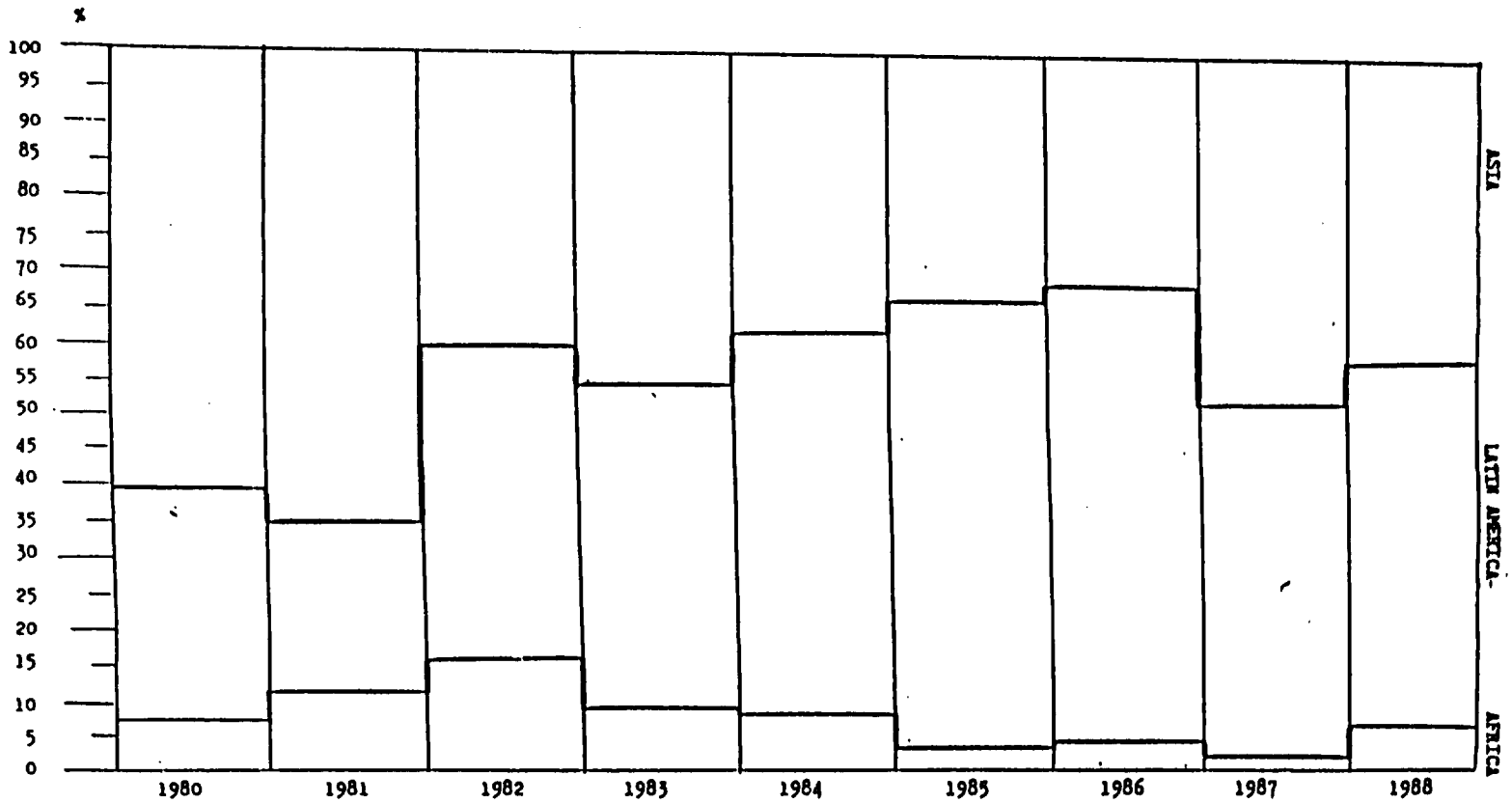
FIGURE 9



Source: Calculated from OECD, International Direct Investment and the New Economic Environment, Paris, 1989.

FIGURE 10

Japanese FDI Outflow to Developing Countries, 1980-1988,
Distributed (percentages) by Region



Source: Calculated from OECD, International Direct Investment and the New Economic Environment, Paris, 1989.

As it concerns the principal foreign direct investors in developing countries, the US, Japan and the UK, the distribution of their investments in the main developing regions of Africa, Asia and Latin America has changed considerably throughout the 1980s.

In the early 1980s, Japanese FDI went primarily to Asia, followed by Latin America and then Africa, while US FDI went first to Latin America, then to Asia and to Africa. For American investors, Asia has overtaken Latin America as the main region, while Latin America has taken over from Asia as the most attractive region in the cases of both UK and Japanese investors.

In the case of Asia, US FDI had fallen sharply in the mid 1980s, but is now rising rapidly in that region. Japanese FDI has risen more consistently and even more sharply to Asia. This reflects the tendency of Japanese manufacturers to shift certain activities to offshore locations as the appreciation of their currency has raised their own labour costs. Japanese TNCs, moreover, have used these offshore locations to circumvent trade barriers erected around US and European markets. The UK, reflecting its reconcentration on developed markets in Europe and the US, has kept FDI outflow to Asia at constant but low levels throughout the decade.

The decline in FDI flows to Latin America is almost totally a result of the investment behaviour of US TNCs. US FDI to Latin America fell sharply, particularly at the height of the debt crisis, 1983-85, since when some resurgence can be noted, but not to the same level as before. In contrast, in recent years, both the Japanese and the UK have recorded significant FDI increases in that region.

At the same time, the amount of Japanese FDI in Latin America is exaggerated, since it includes investment in offshore banking in certain Caribbean countries. Even so, the trend is clear enough: Latin America obtained only about 28% of Japan's FDI flows to developing countries in 1980, in comparison to about 50% in 1988[1].

While the fall in US FDI to Latin America has been counterbalanced by a rise in FDI to that region by Japanese and West European investors, notably from the UK, all FDI to Africa by these three countries' TNCs has fallen. At the beginning of the 1980s, even though Japanese FDI was negligible in Africa, both US and notably UK TNCs generated by no means insignificant amounts. As can be seen from the graphs, by the end of 1980s, their flows to Africa had dropped to practically zero levels. Overall, the depressed economic conditions and fall in commodity prices affected new FDI flows, but also, particularly as it concerns US and UK TNCs, the uncertain political climate and pressure for sanctions against the Republic of South Africa, where many TNCs had their African headquarters, have had an important impact as well.

Table 14. FDI INFLOWS TO DEVELOPING COUNTRIES, SELECTED YEARS

(mn SDR)	1981	1984	1987
All LDCs	18 455	15 574	8898
Brazil	2 142	1 559	3524*
Share of FDI inflow to Brazil as % of all inflow to LDCs	11.6	10.0	3.9

* Preliminary information, from Journal of Latin American Studies, May 1989.

Source: IMF, Balance of Payments Statistics Yearbook, Part II, 1988, Vol. 39.

1 Calculations from Data from Japanese Ministry of Finance.

FDI to individual developing countries

(i) Latin American countries

The impact of the debt crisis and the depressed economic conditions affecting the region have had an uneven effect on FDI flows to Latin American countries. FDI flows to Venezuela, Brazil, Argentina and Chile have all plunged since the debt crisis. As seen in Table 14, Brazil's share of total FDI flows to developing countries fell from over 11% in 1980 to under 4% in 1987. In contrast, Mexico's FDI inflows, which suffered a massive drop between 1983-85, have recovered to and even surpassed previous levels. In 1987, Mexico attracted 2.497 million SDR, in comparison to 2.155 million SDR in 1981. In contrast, Argentina recorded negative outflows in 1987, after attracting 698 million SDR in 1981; Venezuela received 46 million SDR in 1987, in comparison to 150 million SDR in 1981; Chile received 31 million SDR in 1987, in comparison to 325 million SDR in 1981, while for the latest available year, 1096, Brazil recorded an inflow of just 380 million SDR, in comparison to 2142 million SDR in 1981 (see Table 15).

Table 15. FDI INFLOWS SELECTED L.A. COUNTRIES, 1981-1987

(mn SDR)	Venezuela	Mexico	Brazil	Chile	Argentina
1981	156	2155	2142	325	698
1982	233	1489	2647	363	204
1983	80	427	1456	126	172
1984	47	381	1559	76	262
1985	104	494	1341	63	897
1986	14	1290	380	51	491
1987	46	2497	352.4*	81	-13

Source: IMF Balance of Payments Statistics Yearbook, Part 2, 1988.
* Preliminary information, from Journal of Latin American Studies, May 1989.

In this region, FDI has often been of two types: firstly, that in countries with a relatively high level of economic development and rather large domestic markets; and secondly, that in countries with raw material resources or with relatively low labour costs. Where the resurgence has occurred, it has tended to be in countries of the second type, notably Mexico, which has succeeded in attracting FDI to its "maquiladoras" region on the border with the US market, where firms are offered low labour cost advantages. At the same time, the impact of the debt crisis on TNCs involved primarily in servicing the local markets has been particularly damaging and it has sharply reduced demand in these countries. These TNCs have been even further affected by the impact of developing country indebtedness on the availability of foreign exchange and by resulting difficulties over profit remittances and the repatriation of capital.

(ii) Asian countries

As in Latin America, the flow of FDI into Asia is heavily concentrated in a few countries and territories. Out of 20 countries and territories, eight (China, Hong Kong, Indonesia, Malyasia, the Republic of Korea, Singapore, Taiwan Province and Thailand) received 92% of FDI flows during the 1981-85 period[1].

1 UNCTC, 4th Survey, N.Y., 1988.

These eight countries possess certain characteristics attractive to foreign investors. Among them are relatively large domestic markets (China, Indonesia, and Thailand); conditions favourable to the establishment of low-cost, export-oriented manufacturing industries, including low labour costs, availability of skilled manpower and well-developed infrastrucuture (Hong Kong, Malaysia, Singapore and Taiwan Province); and petroleum and other natural resources (Indonesia and Malaysia).

As can be noted from the Table 16 on FDI flows to Thailand, Indonesia, China, Malaysia, Singapore and the Republic of Korea, the picture is much more favourable than that of Latin America. However, there are still a number of particular characteristics within this overall picture. First, three countries with high economic growth rates - namely Thailand, Indonesia and the Republic of Korea - still receive relatively small amounts of FDI. Rather, as is well illustrated, the upsurge in FDI flows to the region, as a whole, is particularly accounted for by China. Since opening up its economy to foreign investors, it has become one of the world's major host countries to FDI. Between 1982 and 1987, its inflow increased fivefold to stand at $1790 million, more than the combined totals of Singapore, the Republic of Korea, Thailand and Indonesia. To some extent, the relatively poor performances of the above countries are due to China's own prodigious achievement. Second, FDI flows are sensitive to government policy and slowness in progressing towards full liberalization of country investment regimes has dampened inflows to a certain extent. Malaysia, for example, has lost 60% of its FDI inflow between 1982 and 1987[1], due in part to uncertainties over its policy towards foreign corporations.

Third, FDI flows are being affected by some countries' inability to offset the decline in their comparative advantage of relatively cheap labour factors by other advantages. The fall in inflows to Singapore in the 1980s can partly be thus explained.

Table 16. FDI INFLOWS TO SELECTED ASIAN COUNTRIES, 1981-1987.
(million SDR)

	Thailand	Indonesia	China	Malaysia
1981	249	113	...	1073
1982	175	205	389	1266
1983	327	274	595	1179
1984	394	221	1227	778
1985	159	304	1634	684
1986	225	221	1598	473
1987	146	236	1790	445

	Singapore	Republic of Korea
1981	1408	86
1982	1451	62
1983	1061	65
1984	1270	109
1985	1031	227
1986	555	365
1987	894	462

Source: IMF Balance of Payments Statistics Yearbook, Part 2, 1988.

1 Calculated from IMF, Balance of Payments Statistics Yearbook, Part 2, 1988, Volume 39.

Finally, all these countries face the problem of possible renewed competition from Latin American, whose declining capacity to attract new inflows in the 1980s was a factor in the relatively strong performance of the Asian region.

(iii) African countries

Of all developing country regions, Africa has clearly fared the worst. Whereas in 1980 it received about 8% of total FDI outflows to developing regions, primarily because of foreign investments in the extractive industries, by 1987, its share was 5.6%[1]. In the 1960's, Africa's share in total flows of FDI was comparable to, or greater than, that of Asia. Even in the early 1980s, its share received from the leading investors was still within the range of the other two regions but the gap between it and Asia and Latin America has since increased enormously. For comparative purposes, the whole of Africa received substantially less FDI inflows than Singapore in 1987.

As in the other developing regions, the flow of FDI to Africa is concentrated in a relatively small number of countries, practically all of which are oil exporters. During the 1981-85 period, Algeria, Cameroon, Egypt, Nigeria and Tunisia accounted for almost 90% of FDI inflows into the African region[2]. With the exception of Egypt, all FDI flows into these countries have fallen by varying degrees throughout the 1980s. The sharpest fall was registered by Nigeria. While, Nigeria received 463 million SDR in 1981, large-scale disinvestments by companies operating in the oil industry account for the decline to 53 million SDR in 1987. In contrast, Egypt has attracted new inflows into this industry in recent years. In 1985 and 1986, it received over 1 billion SDR (see Table 17). Egypt is now, far and away, the biggest recipient of FDI in the region.

The overall decline in FDI inflows into these countries has not been compensated for by the emergence of other countries as significant recipients of FDI. Indeed, of major concern is the failure of middle-income countries like Kenya, Morocco, Zambia and Zimbabwe to attract such investments. The volume of investment flows into these countries has never exceeded 100 million SDR per annum. Zimbabwe, for most of the 1980s, has recorded negative inflows, while Kenya's annual average inflow was just 20 million SDR (see Table 18).

Table 17. FDI INFLOWS INTO SELECTED AFRICAN COUNTRIES AND EGYPT, 1981-1987.

(mn SDR)	Algeria	Botswana	Cameroon	Côte d'Ivoire	Ghana	Morocco	Tunisia	Egypt
1981	11	75	115	28	14	50	251	638
1982	-49	19	101	43	15	72	308	266
1983	-	22	200	35	2	43	172	458
1984	1	61	17	3	2	46	111	711
1985	-	53	311	29	6	20	106	1160
1986	...	77	16	92	4	-	54	1038
1987	...	97	...	...	4	...	70	...

Notes: - means zero or insignificant
... means data risk.
Source: IMF Balance of Payments Statistics Yearbook, Part 2, 1988, Vol. 39.

1 Own calculations based on IMF Balance of Payments Sources.
2 UNCTC, 4th Survey, N.Y., 1988.

Table 18. FDI INFLOWS INTO SELECTED AFRICAN COUNTRIES, 1981-1987.

(mn SDR)	Kenya	Nigeria	Zambia	Zimbabwe
1981	12	463	-33	3
1982	12	389	35	-1
1983	22	331	24	-2
1984	10	184	17	-2
1985	18	462	51	3
1986	28	167	...	4
1987	...	53	...	...

Notes: - means zero or insignificant
... means data N.A.
Source: IMF Balance of Payments Statistics Yearbook, Part 2, 1988, Vol. 39.

For low-income African countries, net FDI flows ranged from a negative balance to a few million SDR per year in most cases. For example, Ghana's annual flows fell to single digit figures after 1982. For countries like Ghana, the dismal picture was partly due to the collapse in primary commodity prices between 1980 and 1987. Many of these Sub-Saharan countries' exports are derived from one or two primary commodities. Declining export revenues not only caused a cut-back in imports essential for domestic investment projects, but also increased debt-service-to-export ratios, to between 50% and 100%. Poor prospects for primary commodities were also responsible for the decline in FDI inflows, since the production of primary commodities for export is the major reason TNCs invest in those countries.

One of the most significant changes has been the elimination of government hostility among African countries towards FDI and this has resulted in new policy efforts to attract foreign investments. But there is no conclusive evidence, one way or the other, as to whether these policies will succeed in attracting new flows.

On the one hand, there are the cases of Botswana and the Ivory Coast, which both have long-standing liberal investment regimes, as exemplified by the absence of any laws for the transfer of technology associated with foreign investments or any provision limiting repatriation of profits and capital. FDI inflows, as can be seen, have been relatively healthy. For the most recent year for which data is available, these two countries both received almost 100 million SDR. On the other hand, few countries in Africa have a more liberal set of incentives for foreign investors than does the Gambia, yet there has been hardly any increase in FDI in that country following the introduction of more favourable policies.

Thus, although it is usually necessary to improve both the general climate for FDI and the range of particular incentives in order to increase the inflow of foreign investment into a country, such improvement is not, in itself, sufficient to guarantee increased FDI inflows.

At the same time, recent new government policies in Africa, such as the selling of state or parastatal enterprises (Ghana, for instance, in early 1988 named another 32 domestic companies for which it is seeking foreign purchasers), will provide foreign private investors with new business opportunities.

Furthermore, government policies to accelerate agricultural development and the comparatively high profits earned by TNCs involved in African agriculture may lead to others increasing their investments on the continent in the future - all the more so, if progress in reducing controls on agricultural trade in the current GATT round is sustained.

3. Distribution by economic sector

For developing countries, the sectoral composition of FDI has changed as well, but the trends are by no means as clear-cut here as in the case of developed countries and the impact on developing countries has varied substantially among individual countries.

As it concerns the major home country of FDI to developing countries, the US, the share of services has moved upwards, but not consistently and not in all regions.

Table 19. US outflows to developing regions*, 1982-1988, distributed according to industrial sector.

(US mn $)	Primary	Secondary	Tertiary
1982	2673	-34	541
1983	695	-801	518
1984	-27	1037	819
1985	-780	533	-289
1986	620	1016	701
1987	367	1650	1285
1988	-1390	3240	1403

* Includes Asia, Africa and Latin America without the Caribbean.

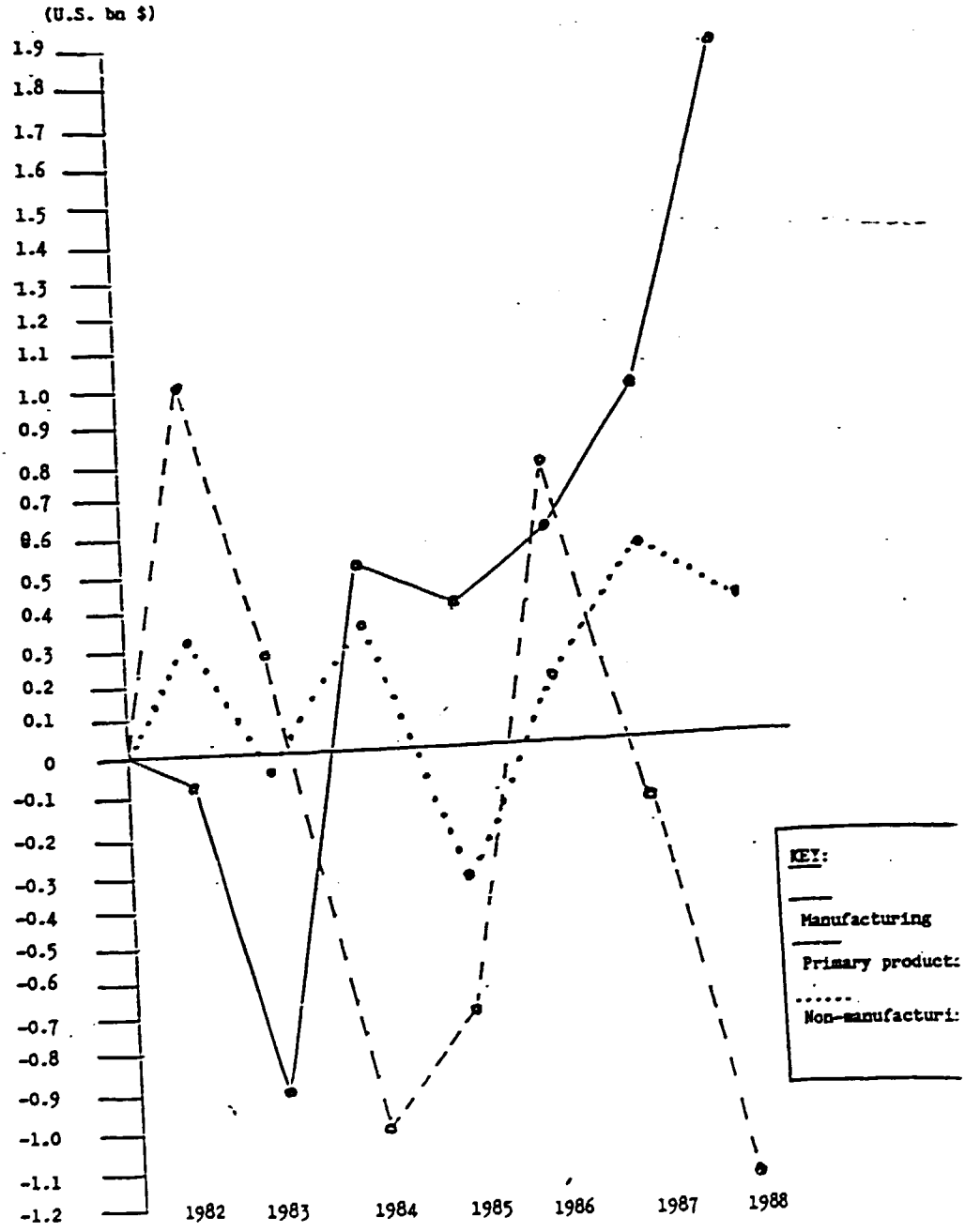
Table 19 shows that in 1988, US FDI into manufacturing in developing countries was $3.2 billion, outstripping FDI into services, which amounted to US $1.4 billion. From its earlier prominence in 1982, investment in primary products fell to a negative $1.3 billion. These trends are repeated when the sectoral inflows of US FDI into the three main regions of developing countries are examined.

US FDI in services to Latin America has remained more constant than either its investment in manufacturing or in primary products from 1982-1988. In contrast, US FDI in the Latin American primary products sector has fallen sharply, while that in manufacturing has climbed comparably.

In Asia, US FDI into manufacturing has become the most important sector, taking over from primary products, while US FDI in services has increased here more significantly than in Latin America. In Africa, the fall in US FDI in the primary products sector is amply illustrated, while in contrast to Latin America and Asia, there has been no evidence of a compensating upswing in FDI into either the manufacturing or service sectors.

FIGURE 11

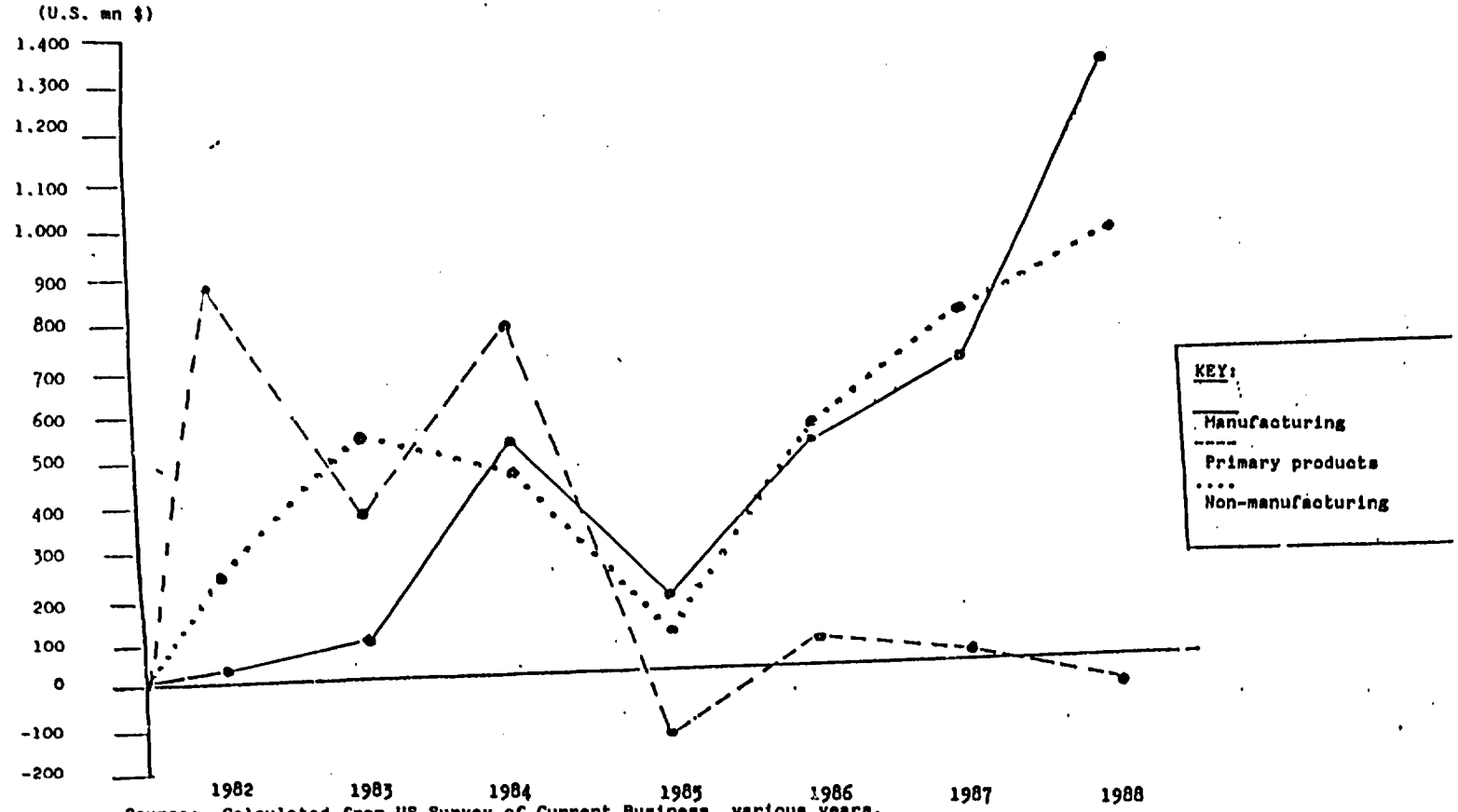
U.S. FDI Outflows to Latin America*, 1982-1988, Distributed According to Industrial Sector



* does NOT include the Caribbean.
Source: Calculated from US Survey of Current Business, various years.

FIGURE 12

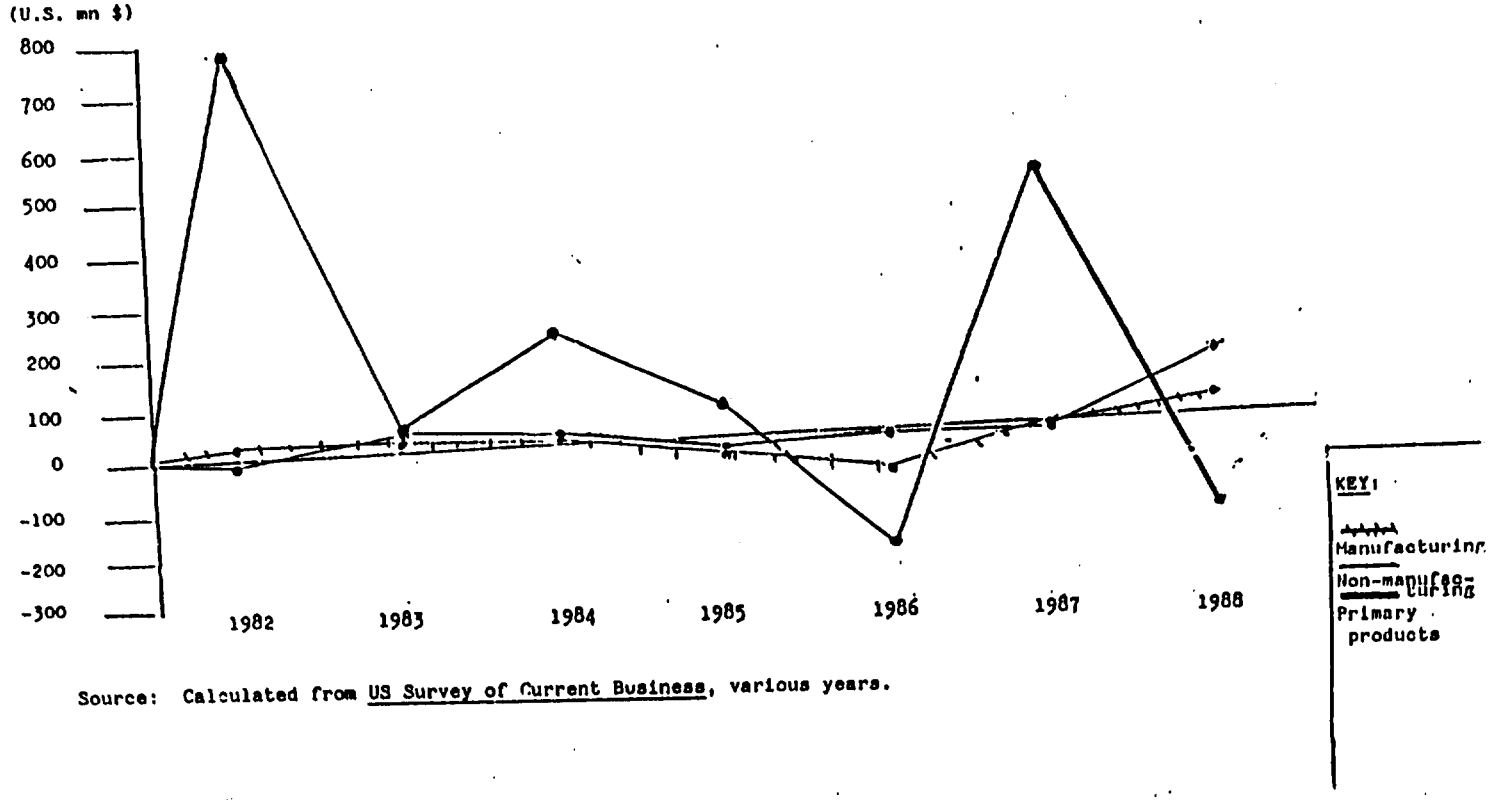
U.S. FDI Outflows to Asia, 1982-1988,
Distributed According to Industrial Sector



Source: Calculated from US Survey of Current Business, various years.

FIGURE 13

U.S. FDI Outflows to Africa, 1982-1988, Distributed according to Industrial Sector



Source: Calculated from US Survey of Current Business, various years.

These data show that predictions of a substantial decline in US manufacturing FDI to developing countries are premature, at least for certain countries and regions. For example, there were significant flows to Mexico in bond "maquiladoras" manufacturing firms. As can be seen from Table 20, in 1988, Mexico's manufacturing sector received a total of $651 million in US FDI, in contrast to both services and primary products, which recorded negative inflows of $-86 and $-5 million respectively. Electronics manufacturing and assembly in S.E. Asian countries also registered increases. Asia became the most favoured production site for US TNCs in the electronics industry to source the most labour-intensive parts of their operations.

It would seem, therefore, that the growth of investment in developing countries for export back to the US or other industrialized countries has not been greatly impaired, as had been predicted by the possibility of protectionist legislation in the US. Also, it would seem that the new organizational structures apparent in many US TNCs, which emphasize nearness to the main home customer base, have also neither led to substantial relocation to the US nor to any major decline in the use of suppliers based rather far from the US market. At the same time, these new organizational strategies have undoubtedly enhanced Mexico as a site for offshore production.

Table 20. US FDI Outflows to Mexico, 1982-1988, Distributed according to Industrial Sector.

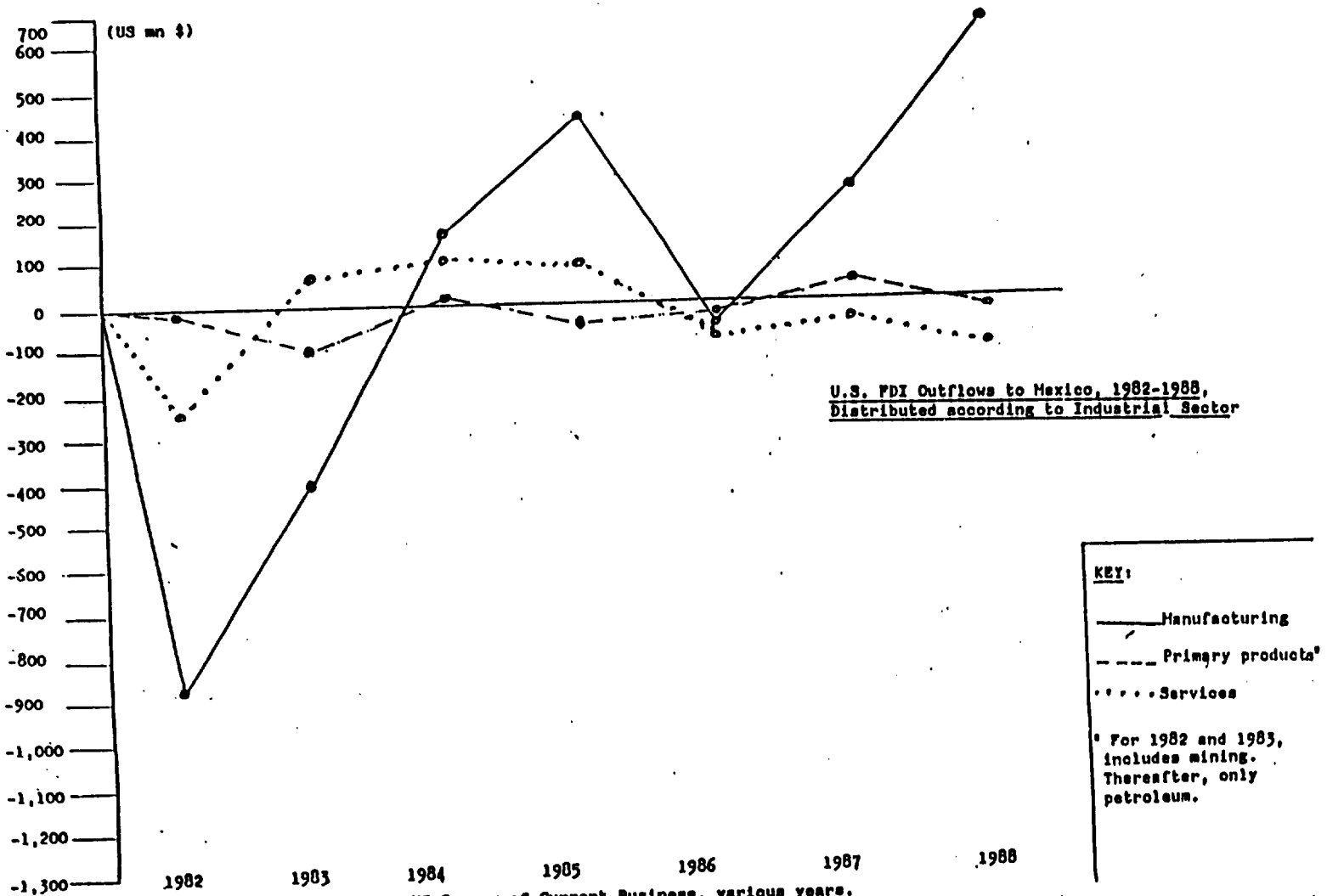
(US mn $)	1982	1983	1984	1985	1986	1987	1988
Manufacturing	-890	-400	164	444	-71	274	651
Primary *	-3	-107	1	-32	-10	23	-5
Services	-242	42	68	52	-73	-58	-86
Other industries	-85	-28	-43	-25	**	**	**
Total	-1,254	-493	190	439	-132	275	607

* For 1982 and 1983, includes mining and petroleum. After 1983, this classification no longer includes mining.

** Suppressed to avoid disclosure of individual companies.

Source: US Survey of Current Business, various years.

FIGURE 14

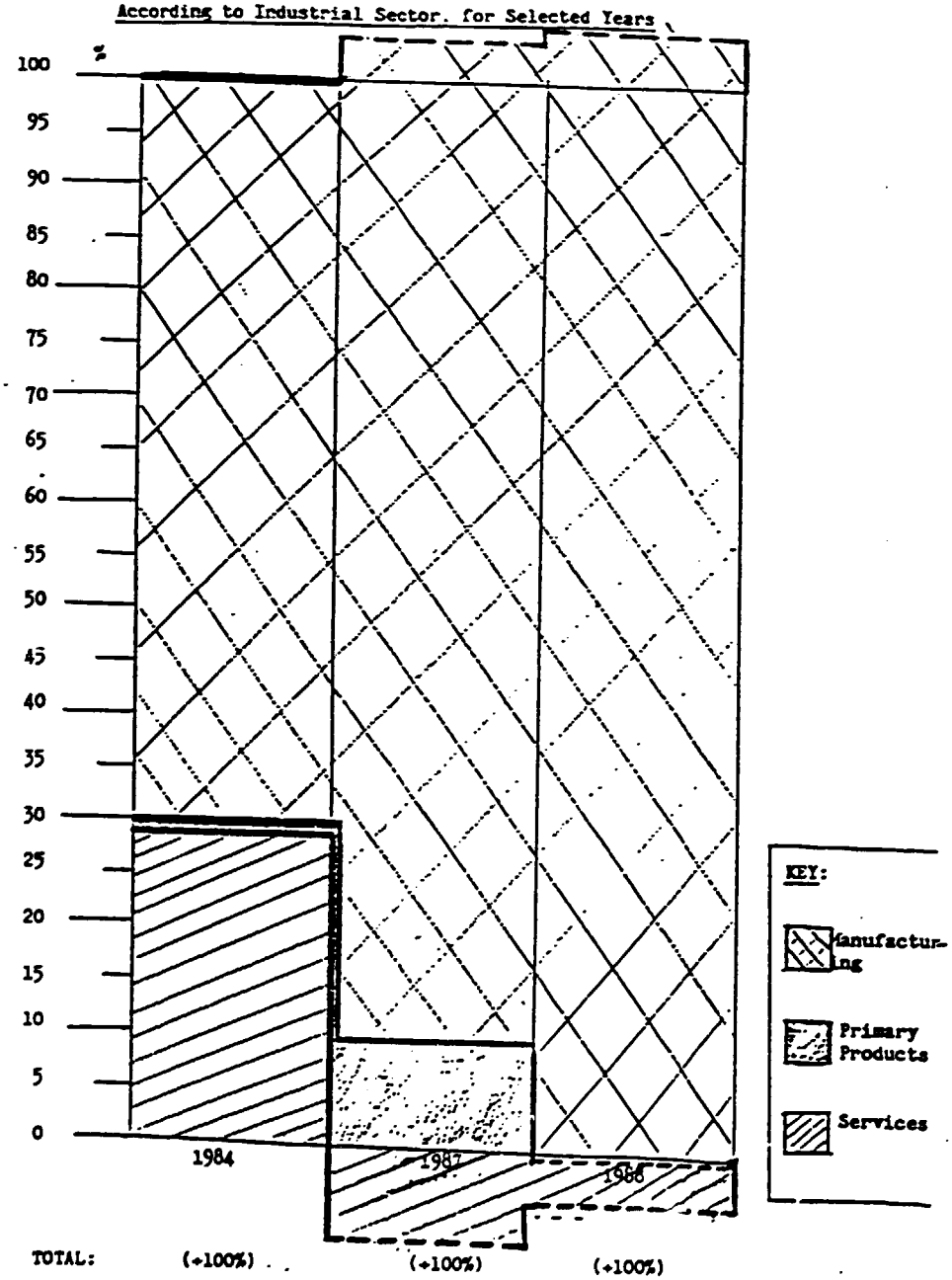


U.S. FDI Outflows to Mexico, 1982-1988, Distributed according to Industrial Sector

Source: Calculated from US Survey of Current Business, various years.

FIGURE 15

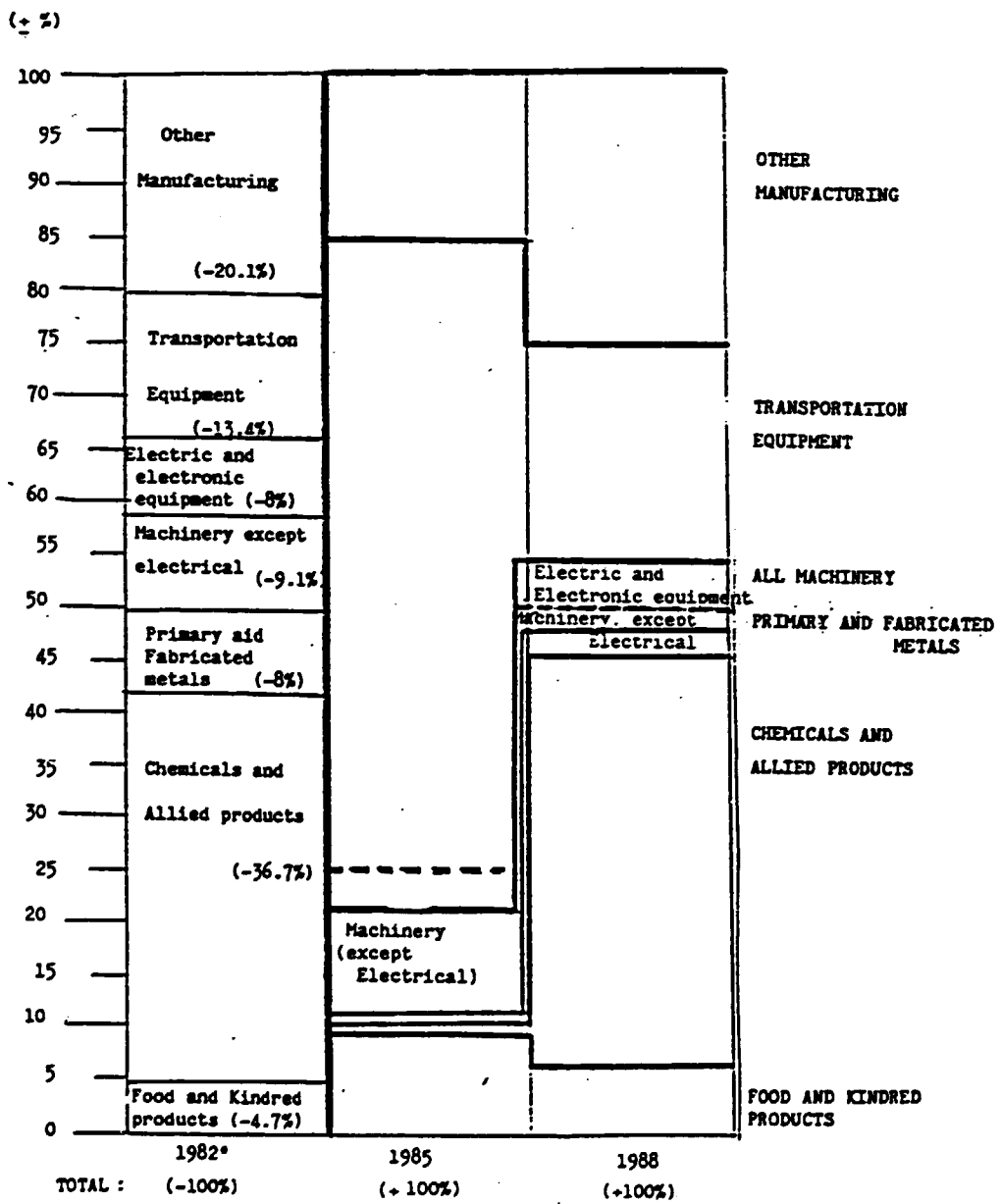
U.S. FDI Outflows to Mexico, Distributed (percentages) According to Industrial Sector, for Selected Years



Source: Calculated from US Survey of Current Business, various years.

FIGURE 16

U.S. FDI Outflows in Manufacturing to Mexico.
Distributed (percentages) by Industry: for Selected Years



* Negative Outflows in all manufacturing industries for 1982.
Source: Calculated from US Survey of Current Business, various years.

The upsurge of FDI in services to developing countries is much more noticeable in the Japanese case. As can be seen from Table 21, which records Japan's FDI outflows to developing countries, more than two thirds has been concentrated in the services sector from 1985 to 1988. In Latin America, the services sector is by far and away the largest recipient of FDI. In 1988, out of a total Japanese outflow of US $6.4 billion into Latin America, $5.9 billion was directed towards service industries. In Asia, investment by Japanese firms in the service sector was half of that invested in Latin America, at $2.7 billion, but still over half of total Japanese FDI to that region. And even for Africa, well over three quarters of Japanese FDI went into the services sector (see Tables 22 and 23).

Table 21. Japanese FDI flows to developing regions, selected years, distributed by industrial sector

(US mn $)	L.A.	Asia	Africa	Total
		1985		
Primary	14	329	7	350
Secondary	324	460	4	788
Tertiary	2276	630	161	3067
Total	2614	1419	172	4205
		1987		
Primary	32	275	2	309
Secondary	161	1679	2	1842
Tertiary	4619	2867	270	7756
Total	4812	4821	274	9907
		1988		
Primary	54	275	2	331
Secondary	443	2371	1	2815
Tertiary	5930	2708	650	9288
Total	6427	5354	653	12,434

Source: Calculated from data from the Japanese Ministry of International Trade and Industry, 1989 [JETRO].

Table 22. Japanese FDI Outflows to Asia, 1985-1988, Distributed According to Sector and Industry

(mn US$)	1985	1986	1987	1988
PRIMARY	329	245	275	275
Agr.+forestry	2	3	15	15
Fishery+marine	10	4	21	25
Mining	317	238	239	235
MANUFACTURING	460	804	1679	2371
Food	33	29	141	91
Textiles	9	21	28	149
Lumber+pulp	4	10	12	177
Chemicals	39	47	246	200
Metals	36	61	306	204
Machinery	76	95	1453	258
Electronic machinery	52	262	467	852
Transport machinery	151	130	206	155
Other manufacturing	59	251	169	284
SERVICES	630	1210	2867	2708
Construction	31	13	16	101
Commerce	136	212	212	431
Banking+insurance	168	288	378	1062
Services	194	588	684	538
Transportation	81	4	140	191
Real estate	15	96	442	384
Others	5	9	995	1
Branch openings/ expansions	18	66	47	215
Real estate acquisitions	0	0	0	0
TOTAL	1436	2327	4868	5569

Source: Calculated from data from MITI, 1989, [JETRO].

Table 23. Japanese FDI outflows to Africa, 1985-1988, distributed according to sector

(US mn $)	1985	1986	1987	1988
Primary	7	12	2	2
Manufacturing	4	8	2	1
Services	161	289	270	650
Total	172	309	274	653

Source: MITI, 1989. [JETRO].

Table 24. Japanese FDI outflows to Africa, 1987-1988

(US mn $)	1987	1988
Liberia	267	648
Zaire	-	-
Nigeria	-	0
Zambia	-	-
Others	5	5
Africa total	272	653

Source: MITI, 1989 [JETRO].

Table 25. Japanese FDI outflows to Latin America, 1985-1988 distributed according to sector and industry

(US mn $)	1985	1986	1987	1988
PRIMARY	14	115	32	54
Agr.+Forestry	3	5	7	4
Fishery+marine	1	16	1	42
Mining	10	94	24	8
MANUFACTURING	324	273	161	443
Food	2	10	8	16
Textiles	11	2	9	11
Lumber+pulp	0	0	3	0
Chemicals	0	2	3	28
Metals	183	35	77	169
Machinery	7	2	5	17
Electric machinery	7	17	42	125
Transport machinery	113	202	13	55
Other	1	3	2	20
SERVICES	2276	4350	4619	5930
Construction	22	13	3	5
Commerce	144	131	165	111
Banking+insurance	975	2519	2638	4077
Services	123	97	145	105
Transportation	981	1547	1632	1545
Real-estate	1	5	36	87
Other	30	38	0	0
Branch openings/ expansions	0	2	2	0
Real-estate acquisitions	0	0	0	0
Total	2616	4737	4816	6436

Source: MITI, 1989 [JETRO].

This dramatic shift in Japanese FDI into services abroad is largely accounted for by finance (banking, insurance and other financial services) and trade-related services (wholesale and retail trade and marketing). In developed countries, we have seen that expansion was largely due to the deregulation of certain leading financial centres. In developing countries, to some extent, expansion by Japanese financial TNCs reflects this trend towards deregulation. However, it is more accurate to say that a significant amount of Japanese investment in the services sector is accounted for by offshore banking, especially, as noted above, in Latin America and Africa. Banking and insurance alone accounted for almost $11 billion or over one third of cumulative Japanese foreign investment in Latin America by 1988[1]. About 60% of capital outflows by Japan to Latin America in 1988 went to such offshore banking centres as the Antilles, Cayman Islands, Bermuda and the Bahamas. The best illustration of how this type of service investment can distort the figures is provided by the example of Japanese FDI investment to Africa. In 1988, recorded outflows of Japanese FDI for all sectors was $653 million, of which services made up $650 million. All but $2 million of this total was accounted for by one country, Liberia, where the bulk of Japan's international shipping is registered (see Tables 23 to 25).

Table 26 shows the sectoral breakdown of FDI in 38 developing countries. While the value of service FDI has been growing in most of these countries, it has often been at a slower pace than for other sectors.

As a result, few of these countries have experienced the dramatic increases in the share of services in their inward FDI experienced by some of the developed countries. Nevertheless, for quite a few of them (Ecuador, Panama, Paraguay, Bangladesh, Hong Kong, Malaysia, Singapore, Sri Lanka, Thailand, Egypt, Liberia, Morocco and Nigeria), the share of services in the total inward stock has surpassed 40%. However, it should be taken into account that in a number of these countries, the level of FDI is quite small, so that any major investment into a sector can change significantly the composition of inward FDI.

Only relatively few developing countries statistically and accurately record the changing sectoral distribution of their stock of FDI. When these are brought together - as seen in the cases of Indonesia, Malaysia, Singapore, Province of Taiwan, Thailand, Republic of Korea and Colombia - they show a good deal of variation between countries in those industries in which FDI is prominent. For example, comparing Mexico and Brazil, while investments by foreign firms in the automobile industries in both countries have been strong, other branches of heavy industry - especially chemicals and, to an increasing extent, iron and steel - rank highly in Brazil, while food processing is of substantial importance in Mexico. In short, FDI does not appear significant in particular industries for every developing country. It may well be true that FDI in developing countries is concentrated in fewer industries than in developed countries, reflecting the developing nature of their economies, as well as, to some extent, the barriers to entry which some of these countries still raise to foreign firms.

In the Andean region (Bolivia, Colombia; Ecuador, Peru and Venezuela), services account for only 15% of total foreign investment, excepting Venezuela. However, the Andean group has a large and growing deficit in traders' services, which even exceeds its payments for servicing extended debt and investments. The Andean experience may well reflect the situation in many developing countries. Their services sector is largely comprised of traditional activities which have low productivity and employ large numbers of people; modern services are relatively underdeveloped.

---

1 MITI, 1989 [JETRO].

Table 26. Inward stock of foreign direct investment in services, selected host developing countries and territories, various years

Country/territory	Year	Value		Share of services in total foreign direct investment (Percentage)
		Total foreign direct investment (Billions of	Foreign direct investment in services dollars)	
Latin America				
Argentina a/	1981	2.4	0.6	25
	1983	2.8	0.8	27
	1985	3.1	0.9	26
Bolivia a/	1981	0.46	0.05	11
	1986	0.53	0.06	11
Brazil	1971	2.9	0.5	16
	1976	9.0	1.9	21
	1985	25.7	5.6	22
Chile	1973	0.4	0.1	27
	1983	2.0	0.7	33
Colombia c/	1975	0.6	0.2	29
	1980	1.1	0.2	23
	1985	2.2	0.4	16
	1987	3.0	0.4	12
Ecuador c/	1981	1.0	0.5	48
	1986	1.3	0.6	44
Mexico	1980	8.5	1.5	18
	1985	14.6	2.9	20
	1987	20.9	4.8	23
Panama	1975	0.3	0.1	32
	1980	0.3	0.1	37
	1983	0.4	0.2	48
Paraguay	1984	0.3	0.1	45
Peru	1978	0.8	0.2	25
	1980	0.9	0.2	27
	1985	1.4	0.4	29
	1986	1.4	0.4	30
Venezuela	1981	1.8	0.61	34
	1986	2.4	0.65	27
Asia				
Bangladesh d/	1980	0.013	0.009	64
	1982	0.018	0.012	69
Hong Kong	1981	3.8	2.4	64
India	1980	1.2	0.05	4

Table 26. (cont'd)

Country/territory	Year	Value: Total foreign direct investment (Billions of dollars)	Value: Foreign direct investment in services (Billions of dollars)	Share of services in total foreign direct investment (Percentage)
Indonesia e/	1977	2.9	0.3	11
	1980	4.0	0.4	11
	1986	6.9	0.7	10
Malaysia f/	1972	0.7	0.2	37
	1984	2.9	1.2	40
Nepal	1986	0.1	0.007	7
Pakistan	1980	0.2	0.02	15
	1985	0.3	0.04	13
Philippines	1976	0.5	0.2	34
	1983	2.0	0.5	26
	1986	2.7	0.6	23
Republic of Korea b/	1981	1.9	0.5	24
	1987	4.0	1.4	34
Singapore	1970	0.6	0.3	55
	1976	2.8	1.3	47
	1981	8.2	4.2	51
Sri Lanka g/	1985	0.7	0.4	57
Taiwan Province of China b/	1985	5.2	1.2	23
	1986	5.9	1.4	23
Thailand h/	1975	0.5	0.3	56
	1980	0.9	0.5	54
Western Samoa	1980	2.9	0.003	0.1
Africa				
Cameroon	1981	0.7	0.001	0.2
Central African Republic	1981	0.1	0.03	25
Ivory Cost	1980	0.6	0.1	23
Egypt i/	1979	7.0	4.0	57
	1984	14.9	6.7	50
Gabon	1981	1.4	0.02	1.6
Kenya	1984	0.3	0.1	29
Liberia	1987	0.007	0.003	45

Table 26. (cont'd)

Country/territory	Year	Value: Total foreign direct investment (Billions of dollars)	Value: Foreign direct investment in services (Billions of dollars)	Share of services in total foreign direct investment (Percentage)
Malawi	1981	0.4	0.05	12
Morocco	1982	0.7	0.4	55
Nigeria	1975	3.0	0.6	20
	1980	4.9	1.9	40
	1982	4.3	1.6	37
Zimbabwe	1982	1.9	0.7	34

Source: United Nations Centre on Transnational Corporations, based on official and other sources.

Note: The shares of services were calculated before the rounding of the stock figures. They may, therefore, differ from the shares which would result from the rounded figures.

a/ Cumulated approved foreign direct investment since 1 March 1977.
b/ Based on approvals.
c/ Excluding oil.
d/ Cumulative flows since 1977.
e/ Excluding oil, insurance and banking.
f/ Equity shares held by foreign residents in limited liability companies incorporated in Malaysia as of 31 December 1972 and 31 December 1984 (paid-up value).
g/ On approval basis. Cumulative flows since 1977.
h/ Cumulated flows since 1971.
i/ Projects established under the Investment and Free Zones Law, cumulative 1974-1984.

From the preceding, it can be noted that the sectoral and industrial distribution of FDI to developing countries is far more heterogenous than has been the case for developed countries which have, generally speaking, experienced a shift to high technology manufacturing and services. This reflects the fact that FDI flows to developing countries have been uneven: a relatively small group of developing countries has succeeded in capturing increased inflows, in spite of the overall decline in FDI to developing countries, while the flows to the majority of developing countries have either declined or remained static. Within the group of newly industrializing countries, which have succeeded in attracting increased flows, FDI has concentrated in different sectors and industries according to the particularities of the country concerned. In total, the prominence being given to services in FDI flows to developing countries is probably overplayed. This is because of the role of offshore banking and tax havens in attracting large inflows from financial service TNCs from developed countries. Also, services have come to take on an importance in many cases not because of actual real increases in FDI flows, but as a result of the sharp decline in FDI into other sectors - most notably, in primary products. Finally, FDI into services may also have been inflated by the inclusion of sales offices of TNCs operating in these developing countries. In countries like Brazil and Mexico, FDI flows into services (partly as a result of government policies) have been negligible. Nonetheless, in the fast growing economies of Asia, which operate fairly open door policies toward FDI in the service sectors, FDI has been substantial.

In the ASEAN region (data is available only for Indonesia, Malaysia, the Philippines, Singapore and Thailand), services account for more than 25% of foreign investment in all countries but Indonesia, and the share of services exceeds 45% in Singapore and Thailand. The region also shows, in some years, a surplus in the balance of payments for trade in services. This is because the fast growth in manufacturing has, to some extent, outstripped the capacity of the tertiary sector to service this expansion. In many of these countries, strains are found in almost all components of infrastructure, including roads, railroads, power and water supplies, posts and telecommunications. In some cases, these service bottlenecks have dissuaded foreign companies from investing. In order to alleviate this problem, many of these economies have permitted FDI inflows from foreign investors in service industries. Another reason for this services sector growth has also been the clear decision by some governments to target the sector as the future main motor of the economy in the face of intensified competition from neighbouring countries in the manufacturing sector. Singapore's decision to develop its economy into a leading international financial services center is a good illustration of this new thinking.

The Changing Branch Pattern of FDI Flows: the labour, capital, knowledge-intensive and natural resources mix

The changing branch pattern of FDI has some important implications for the type of skills being created and required in developing countries. In developing countries, generally speaking, throughout the 1980s, FDI has declined in natural resources and increased in services, even though not as much as in developed countries and has increased in manufacturing in some developing countries and declined in others. While fluctuating in this way, FDI in manufacturing, overall, has not advanced to the same degree as it did in the 1970s.

As it concerns FDI in manufacturing, this decline from its earliler prominence in the 1970s is due, to some extent, to new technological developments in developed countries where the application of microelectronics to production has substituted skill-intensive jobs for lower skilled ones. For developing countries which succeeded in attracting FDI into labour-intensive assembly in manufacturing, these developments tended to halt and, in some cases, even reverse this flow in new investment back to the developed countries. These innovations, however, in such areas as in computer aided manufacturing are increasingly eliminating not all requirements for manpower, but only the large-scale requirements for comparatively unskilled manpower for repetitive tasks. Indeed, some of these innovations result in greater demand for more highly skilled manpower with sound industrial and/or computer experience.

Many of these newly industrializing countries have acquired a competitive advantage in such activities as data collection and processing and this is reflected in the relocation of the US TNCs' data processing centres. For example, the Caribbean is becoming the offshore computer processing centre for the United States. Engineering software skills of Indian manpower are increasingly being used by TNCs in the electronics industry, also, since the costs are lower than at R&D centres in developed countries. These trends, however, towards higher skilled jobs in manufacturing FDI to developing countries will only affect a relatively small number of countries and only those which possess the skilled manpower.

As it concerns the services sector, most developing countries have traditionally been less enthusiastic towards FDI in services than in manufacturing. Typically, they have seen FDI in services as low technology, low skilled activities which can, at best, absorb some unemployment at the low skill end of the labour market. Their hope has generally been that investment in services will lead eventually to investment in manufacturing as, for example, in the conversion of sales subsidiaries into manufacturing facilities.

There is, however, evidence that TNCs in the service industries transfer a higher level of skill than previously thought. Associated with FDI in services are the so-called "soft" technologies - that is to say, know-how, management, marketing, technical, professional and other skills - as opposed to the hard technologies associated with FDI in manufacturing, which are embodied in plant equipment and industrial processes.

There are some differences between manufacturing and service transnationals which affect their propensity to transfer these two types of skills. Manufacturing TNCs in the building of transnational networks tend to allocate capital- and skill-intensive activities to the parent's headquarters, while labour-intensive (and, particularly, unskilled labour-intensive) operations are allocated to foreign affiliates, especially in developing countries. In contrast, service TNCs cannot split production activities; service affiliates abroad are more like miniature versions of their parent firms. For this reason, skills seem to spread more readily to host-country operations. This is confirmed by several studies which show that service affiliates are relatively high-skilled operations[1]. This is borne out by the fact that differences in pay between service affiliates in developing countries and their home country operations are much narrower than the gap in pay between home and host operations in the manufacturing sector[2].

---

1 Riddle, p. 1. Service-led Growth: The Role of the Service Sector in World Development, New York, 1986.

2 Bhagwati, Jadish, "Why are services cheaper in poor countries?", Economic Journal, Vol. 94 (June 1984), 279-286.

Indeed, in a number of service industries, such as management consulting, engineering and architectural services, the average pay in developing countries is even above that of the parents in the United States and above that of affiliates in developed countries.

The transfer of what is termed high technology services to developing countries depends on the economic development of the country concerned. These very modern services, like software data processing, telecommunications and certain activities in insurance, investment and commercial banking, demand high level skills and have increasingly been transferred to developing countries rich in skilled workers (for example, computer programmers in India)[1].

However, such transfers rarely take place in the case of most developing countries where the service sector comprises traditional activities which have low productivity and employ large numbers of people.

4. The increasing role of foreign investors from developing countries

The interest in foreign direct investment from developing countries has been based on the assumption that TNCs from these countries would provide technology, managerial skills and other aspects of FDI more suitable to developing countries than that provided by TNCs from developed countries. Furthermore, developing countries TNCs, it is generally perceived, can play an important role in the economic development of their home countries. Access to markets and to advanced technology plus the potential for increasing exports and generation of positive balance of payments effects, are conceivable benefits of their FDI activities abroad.

For a long time, it has been observed that while developed country TNCs tended to establish subsidiaries worldwide, TNCs from developing countries operated most frequently in the region where they originated, sometimes in other developing countries and only occasionally in developed countries. For instance, in the 1970s, the more advanced developing countries in Latin America, such as Argentina, Brazil and Mexico, concentrated their FDI in other Latin American countries. In the case of Argentina, more than 90% of projects undertaken from 1973-76 were located in Latin American countries. In the case of the Republic of Korea, 43% of that country's total FDI in 1978 was concentrated in South East Asia. In fact, prior to 1980, no firm from the Republic of Korea made any manufacturing investment in the developed countries in Europe and America, while about 60% of all its manufacturing FDI took place in South East Asia[2].

One of the new features of FDI from LDCs is a certain tendency to locate in developed countries. It would seem that having begun their FDI activities in other developing countries within their own region at a time when economic regional co-operation was fashionable, developing countries TNCs have now acquired the necessary proprietary advantages to compete in the markets of developed countries. For example, the foreign direct investment stock from developing countries in 34 host countries (12 developed and 22 developing countries) was estimated at about $50 billion in 1985, of which $36 billion and $13 billion was invested in developed and developing countries, respectively[3]. This changing focus reflects increased FDI flows from developing countries. For example, the share of inward foreign direct

---

1 Foreign Direct Investment and Transnational Corporations in Services, United Nations, New York, 1989.

2 Jo, Sung-Hwan, "Overseas Direct Investment by South Korean firms" in Kumer, K. and McLeod M.G. (1981), Multinationals from Third World Countries, Lexington.

3 UN ECOSOC, Report of the Secretary-General, Non-conventional Transnational Corporations, N.Y., 2-11 April 1990.

investment stock from developing countries in the total FDI stock of these same 34 countries increased to almost 10% in 1985. About 8% and 16% of inward FDI stock in developed and developing countries, respectively, in 1985 were from developing countries[1].

There is a marked tendency for many of these countries to understate, in official statistics, the amount of FDI flows, especially in those countries which place restrictions on the export of local currency. Moreover, overall transnational activities of developing country firms are greater than demonstrated by such statistics, as these firms prefer new forms of investment to wholly/majority-owned subsidiary forms of investment. For example, in the international construction industry, there were 43 developing country firms in the top 250 international contractors in 1988, capturing a 7% share of foreign contracts[2].

In the 1980s, the growth of outflows of FDI from Asia has been dramatic. This is partly due to the surge of FDI from China, which has become one of the largest investors in developing countries, and to the accelerating flows from the Republic of Korea and Taiwan Province.

In terms of investment value, the US is the largest host country, absorbing $22 billion of FDI from developing countries in 1985 accounting for 44% of total FDI from developing countries in 34 host countries. Developing host countries like Brazil, China, Indonesia and Singapore each attracted more than $1 billion in FDI from developing countries and in China and Malaysia, about half of inward FDI was from developing countries in 1985[3].

Although there are some countries/territories which invest more in developing countries than developed countries (Liberia, Uruguay, United Arab Emirates, China, Hong Kong, India, Malaysia, the Philippines, Singapore and Thailand), the importance of developing countries as a group of host countries declined from 39% in 1975 to 27% in 1985[4].

Outward data for the Republic of Korea and Taiwan Province point to the increasing importance of developed countries as host countries. The share of developed countries (North America and Europe only) among recipient countries increased from 14% in 1974 to 33% in 1983 and to 41% in 1988 for the Republic of Korea, while for Taiwan Province, the importance of the US as a host country among all countries increased from 43% in 1980 to 55% in 1985 and to 60% in 1988[5].

The motivation for FDI in developed countries by TNCs from developing countries is predominantly to circumvent tariffs and quotas imposed by developed countries. The primary motivations for FDI to other developing countries, as it concerns many of the developing country investors, are the increasing labour costs at home, and the general shortage of the semi-skilled labour.

---

1 UN ECOSOC, Report of the Secretary-General, Non-conventional Transnational Corporations, N.Y., 2-11 April 1990.

2 UNCTC, Services and Development: The Role of Foreign Direct Investment and Trade, N.Y., 1989.

3 UN ECOSOC, Report of the Secretary-General, Non-conventional Transnational Corporations, N.Y., 2-11 April 1990.

4 Ibid.

5 Ibid.

Since 1986, FDI by Republic of Korean companies has increased rapidly because of several factors affecting the economy of the Republic of Korea. The appreciation of the currency has made the Republic's exports less attractive and the fall in export growth has led to current account surpluses that have financed overseas investment. Rises in domestic wages also made production overseas more attractive vis-à-vis exporting, while growing protection in the industrialized countries led the Republic's companies to set up shop abroad to avoid trade barriers. The number of cases of overseas investment by the Republic of Korean firms has jumped from 46 in 1984, worth $57 mn, to 50 in 1986, worth $172.0 mn, to 165 in 1988, worth $212.9 mn[1].

The structure of Republic of Korean FDI outflow has also changed and is now moving from concentration in the natural resources sector to emphasis on manufacturing: while there were only 10 cases of Republic of Korean overseas investments in manufacturing in 1984, worth $13.4 mn, there were 64, worth $74.5 mn, in 1988[2].

There are also trends to be recognized in the geographical distribution of Republic of Korean FDI. Manufacturing operations are shifting to the US and EC countries to get around protectionist measures and to counter the decline in Korean exports due to the strong won. (The US is Korea's largest trading partner). This includes electrical appliances, electronics and automobiles. Asian countries have seen a rise in Republic of Korean inflows into labour-intensive industries such as textiles, footwear, and toys to take advantage of the lower labour costs there. Indonesia received 13 of the total 18 cases of Korean FDI in the footwear industry[3].

Although there is a regional concentration of Republic of Korean FDI occurring in South East Asia and North America, the concentration has been faster in South East Asia since 1988, since many small and medium-sized firms from the Republic of Korean in labour-intensive industries have become very active in setting up production in low labour cost countries such as Indonesia, Thailand, Malaysia and the Philippines. This emergence of small and medium-sized Republic of Korean companies as active investors abroad can be seen as another trend. FDI by these companies was 1.9% of total Korean FDI in 1986, 15.1% in 1988 and as much as 23.1% by the first half of 1989[4]. Most was concentrated in North America (to avoid trade friction) and South East Asia (to benefit from lower labour costs), and in manufacturing.

Until recently, developing country governments adopted a cautious official attitude towards FDI by their firms, principally because of balance of payments worries. For instance, the initial capital outflow of investments by developing country TNCs can be considerable. The recent acquisition by a Mexican glass firm of a US company was in the region of US $1 billion[5]. It takes a considerable amount of time, usually between 5-10 years, for an outflow such as this to be recouped by remittance of profits, interest, dividends, etc. Bankers, too, in developed countries have criticised recent outflows of this kind from developing countries as these may, as they see it, delay debt repayments[6].

---

1 Korea Exchange Bank, Monthly Review, August 1989, Vol. 23, No. 8
2 Korea Exchange Bank, Monthly Review, August 1989, Vol. 23, No. 8
3 Ibid.
4 Korea Exchange Bank, Monthly Review, August 1989, Vol. 23, No. 8.
5 Le Monde, 22 October 1989.
6 Ibid.

FDI by developing countries appears increasingly similar to that by developed countries. Until rather recently, it had been assumed that TNCs from developing countries possessed only such advantages which could be exploited in other developing countries. Such proprietary advantages were often seen to be based on so-called tropicalized technologies, that is, technology adapted to the special needs of countries located in less developed regions of the world, with the fiscal conditions and factor costs similar to those found at home.

Such advantages, which may, for example, have given Brazilian firms in the engineering and construction industries the technology to build dams and highways in remote parts of developing countries, could not be transferred easily to the more competitive markets of developed countries. In addition, TNCs from developing countries have been found to be smaller and to use more labour-intensive technologies than TNCs of developed countries. This difference, however, is often exaggerated. The greater amount of labour-intensive technologies used by TNCs from developing countries reflects the fact that these firms tend to operate in lower technology and hence labour-intensive industries.

While this discussion will proceed, the essential point is that the shift in developing country TNC investments from developing to developed countries will intensify the challenges which they will face. It will, at the same time and in the long run, increase the benefits to the home developing country to a greater extent than would have occurred had these investments remained within a developing country context. Apart from access to far larger and lucrative markets for their products, another advantage is that investment in developed countries will facilitate access to new and more advanced technologies which will enhance domestic capabilities of investing developing country firms. Direct exposure to more advanced managerial and organizational skills provides developing country investors with opportunities to gain internationally competitive managerial and marketing experience. There is also the possibility of diffusion of acquired know-how to other firms in developing home countries through spill-over effects.

Given these considerations, policy-makers may, through various instruments, try and ensure the proper environment in which developing country FDI to developed countries can be effected. Special incentives to encourage FDI and information concerning markets and competing firms in host countries might be usefully provided. As we shall see, Singapore has already begun such a policy for its own enterprises. such a policy is needed, since such resources which are, in many cases, purchased or internalized by the TNC from developed countries are often not available to TNCs from developing countries. Because they have limited resources compared to developed country TNCs, they are often not in a position to investigate market opportunities abroad.

Part C

C. Policies of governments of developing countries towards FDI and multilateral and bilateral schemes to promote FDI flows to LDCs.

1. LDC Government policies

General trends

Changes in the government policies of developing countries towards FDI in the past five years have confirmed and strengthened an apparent trend, begun in the mid-1970s, towards liberalization of inward FDI regulation. Rather than seeking to exercise new controls over FDI, countries now seek primarily to encourage inward FDI by reducing obstacles, restrictions and requirements, and by offering guarantees and incentives.

A number of factors appear to have played a significant part in bringing about these changes.

The experience of controlling inward investment through laws and restrictions has, for the most part, proved disappointing. Sluggish growth and low levels of capital accumulation have tended to remove many doubts these governments had on the utility FDI could provide for their economies. The refocusing of foreign companies on the markets of developed countries, particularly in high technology industries, has highlighted the vulnerable position of developing countries and their lack of access to technology. Finally, the indebted nature of many of these economies and the resulting debt service payments reduce the amount of capital available for capital formation and for necessary imports of goods and services. The reinvestment of earnings by foreign-controlled enterprises and the inflow of new capital from abroad emerge as important means by which to remedy the situation.

While liberalization towards FDI has been the clear general trend among developing countries as a whole, this does not mean that the previous institutional mechanisms for monitoring and controlling FDI do not still operate and that the entry and operations of TNCs are not subject to some kind of assessment. Liberalization, moreover, remains country-specific and no cross-the-board generalization for all developing countries as it refers to FDI policy is valid, especially as the various country and regional nuances can play such an important part in how FDI is received. Finally, the approach to FDI varies considerably depending on the specific economic sector, industry, or technology transfer concerned.

It is self-evident that there will be wide disparities among the various countries' approaches to FDI within this broad trend of increasing liberalization; in order to better asses these differences and the reasons for these, we have selected four countries from different regions and stages of development which, as far as possible, represent certain common approaches to FDI as displayed currently by developing countries.

(i) SINGAPORE

The case of Singapore is not typical of developing countries as a whole, given its high per capita income and the large involvement of TNCs. It demonstrates however, the new policy challenges confronting those newly industrializing countries which, having developed so fast in the 1960s and 1970s through labour-intensive manufacturing, are now having to shift equally quickly into higher technology and skill-intensive activities in manufacturing and, increasingly, into services, to retain their competitive advantage.

Singapore's policy towards FDI has traditionally been one of total openness. It imposes no anti-monopoly laws, no approval or licensing process for foreign investments and no technology transfer controls or compulsory registration of contracts. Companies do not have to comply with any domestic content legislation or requirements. They are free to import capital, remit profits and repatriate capital[1].

This open door policy towards FDI should not be confused with laissez faire. In fact, the Singaporean government plays an active role in guiding, promoting and encouraging FDI into those sectors and industries most in keeping with its overall development objectives and has done so over almost three decades.

These policies are strongly epitomised by the Economic Developmental Board (EDB) which was established in 1961 to create the proper environment in which FDI could best contribute to the country's industrialization programme.

In these early years, the goal of the EDB was to use foreign investment to alleviate the prospect of massive unemployment from the impending British military withdrawal. It therefore encouraged FDI in labour-intensive and low technology industries, offering the attraction of its geographical location (at the centre of the ASEAN region) and low cost labour. Although the unemployment threat receded in the 1970s, the EDB continued to promote investment to fully convert the economy from a trading entrepot to a base for the export of manufactured goods.

In the late 1970s and early 1980s, as unemployment continued to fall and with wages rising, competition from other industrializing countries with far lower wage rates increased. Protectionism too increased against some labour-intensive products in Singapore's markets abroad. The EDB thus instituted policies to accelerate the shift in the manufacturing sector away from labour-intensive industries with low value added per worker towards capital- and skill-intensive industries with higher value added per worker. The EDB, in co-operation with various other industrial departments, encouraged investment away from textiles, sawn timber and food processing into electronics, professional and scientific instruments, and into other higher technology industries.

Beginning in the mid-1980s, the country instigated a further shift in industrial planning, accelerating the pace towards high technology industries and targeting the service sector as another pillar of economic growth. The EDB thus expanded its activities beyond that of industrial development to include the promotion of services.

The aim here was to alleviate Singapore's growing labour shortage problem by focusing on improving productivity in service industries, which typically could be done without the need to expand the workforce. In the same fashion, the EDB has tried to encourage manufacturers into very specialized, high technology niche markets, where skill rather than manpower is the main requirement.

Indeed, the labour shortage is the main factor behind the EDB's new strategical initiative to encourage Singaporean manufacturing firms to become multinationals themselves and, in this way, to get firms to relocate their most labour-intensive operations abroad and concentrate on more value-added activities in Singapore[2].

---

1 Singapore and the Role of Multinational Corporations, H. Mirza, Croom Helm, 1986.

2 Economic Development Board, Annual Report, Singapore, 1987/88.

The main point is that with all these shifts in economic and industrial conditions, the EDB has involved itself fully in shaping and encouraging FDI to respond adequately and effectively to these developments.

The Nature of Investment Promotion and Incentive Schemes

FDI, in both quantative and qualitative terms, plays a major role in the restructuring of the Singaporean economy and this, in part, is due to the way the government has utilized a full range of promotional and incentive schemes to encourage FDI. Of all developing country agencies, the EDB must rank as one of the most sophisticated FDI promotional agencies, comparable indeed to the very best of similar agencies in developed countries.

The EDB is a one-step investment centre, providing a comprehensive range of services and facilities to investors. Its first task, promoting investments, is initially undertaken by its international network of offices established in 20 major world business centres. These offices provide companies with information about the country, assistance in project feasibility studies, the nature of the incentives they might expect, assistance with visits to survey sites and introductions to potential partners for collaboration. In particular, the EDB tries to locate potential foreign investors among TNCs with little or no international experience and/or knowledge about Singapore and the region, as well as in the most appropriate industry to serve the country's needs. The long-term and difficult nature of such activities sometimes means that FDI eventually occurs only after 5-10 years of mutual contact between firm and agency[1].

The EDB administers incentives to attract FDI. The basic incentive is pioneer status, which provides for exemption from the 40% company income tax for a period of 5 to 10 years. A second incentive encourages exports by offering low taxes on export profits. Tax concessions are applied to those firms for special reasons, including the export of high value added products.

The special treatment that large TNCs received because they tended to be the firms which exported high value added products led to concern over the competitiveness of indigenous enterprises. Thus, the EDB promoted local Singaporean business, especially in the small and medium-sized sector.

A major plank to EDB's strategy is manpower development and training. Its aim is to provide the whole economy with the necessary skills, systems and knowledge to operate a modern economy. In combination with industry and other government departments, it organizes schemes in industry to raise the level of awareness and use of information technology. It investigates precise manpower needs of actual and potential investors and works with the relevant educational bodies to try and ensure that such needs will be matched by the appropriate labour supply.

Singapore's future FDI promotion schemes

The Singaporean government bases its actual policies towards FDI on its future strategic goals for the economy. Overall, its aim is to develop the economy as a service centre for finance, business and trade: a "technopolis" or "total business centre" of South East Asia[2].

In manufacturing, it is seeking to base those high technology/software/service functions more and more inside the country, while relocating lower value added activities in nearby countries abroad.

---

1 Economic Development Board, op. cit.

2 Financial Times "Survey" on Singapore, 16 November 1989.

The EDB is actively involved in pursuing this more long-term strategy. It is helping Singaporean and foreign companies diversify their more labour-intensive activities into neighbouring countries and to link these operations with those in the home base. The Indonesian island of Batam is being promoted as an ideal site for such moves by the EDB. The EDB is also helping Singaporean companies make direct investments overseas, including strategic acquisitions, in order to develop true home-grown TNCs. Under the International Direct Investments Programme, there are several tax and fiscal incentives for companies whose direct investments overseas are considered of importance to Singapore.

The EDB urges firms to upgrade their activities from production into developing a more rounded capability, stretching from production engineering and product design to marketing technical support and ultimately regional management. The EDB also encourages, through special schemes and incentives, foreign corporations to make Singapore their regional headquarters. Over 20 foreign firms alone did this in 1988, thereby qualifying for special concessions.

The aim to establish Singapore as the operational headquarters of TNCs and of Singaporean TNCs is part of their overall commitment to develop tradable services which are inherently technology- and knowledge-intensive, including medical and computer education and training services[1].

(ii) MEXICO

The Mexican government's policy towards FDI is now rather typical of the new, more liberal approach to FDI among developing countries more generally, particularly among those like Mexico, which had operated rather tight and restrictive policies towards foreign TNCs. In the past, Mexican policy restricted FDI in certain industries and sectors, particularly the petrochemicals industry, limited profit repatriation and royalty payments and prevented acquisitions of shares in locally traded companies. The aim of these restrictions was to protect Mexico's own natural resources, so that production remained in the hands of nationals, and to protect local firms in nascent industries, particularly high technology ones like computers and pharmaceuticals which were especially vulnerable to competition from more developed foreign firms.

The main exception to this restrictive framework was the maquiladoras - special sites situated close to the US frontier, offering firms operating inside special trading benefits into the US market, as well as a large pool of rather low cost labour. These proved highly successful in attracting large stocks of FDI.

The shift in government policy towards FDI has come about, firstly, as a result of the declining international competitiveness of its indigenous firms, including some foreign firms which have operated in certain protected industries. The government hopes that by liberalizing previously closed industries, the competitive effects will raise the efficiency and earnings of Mexican corporations[2].

Secondly, the government needs more foreign investment to exploit and develop certain industries. In many of these industries, FDI had been restricted. With the country's debt problems, local firms and state enterprises have not been able to make the necessary investments. The lack of investment has become a major problem in the Mexican economy in all industrial sectors. For example, the country must import certain petrochemical products

1 Economic Development Board, op. cit.
2 "Why Mexico is Looking Better", Fortune, 15 January 1990.

because its own state firm, PEMEX, has no resources to develop the products itself, despite its access to the necessary raw materials. The failure to develop its own resources properly means that the economy loses the opportunity to earn foreign exchange from exports and thereby reduce its debt repayments. In the service sector, too, FDI is needed to build up the country's decaying infrastructure and new roads and highways which can boost the flow of exports into the US market are also urgently needed.

Thus, Mexico's policy changes are a function both of its drastic economic problems, as well as of the failure of its previous investment regime, which led to the development of inefficiencies in many industries and sectors.

There are two thrusts to Mexico's reform of its FDI legislation. First, previously closed industries have been liberalized so that FDI can take place. In this connection, the government has embarked on a major scheme of privatization in which foreign corporations will have the right to tender for shares.

In August 1989, the government re-classified basic petrochemicals and removed 15 products from the list of 34 basic petrochemicals reserved for the oil and gas producing monopoly. This opens up new possibilities for foreign investment and participation of multinationals as minority partners in joint ventures seems assured. The list of "secondary" petrochemicals has been reduced to 66. In this category, foreign participation of up to 40% is allowed and as of May 1989, some categories may be eligible for majority control by foreign companies for a 20-year period. For all other de-classified products, foreign investments of up to $100 mn. are now automatically approved unless queried within a period of 45 days.

To a large extent, such moves may be accounted for by the fact that Mexico's 1988 deficit of $550 mn was wholly attributable to the inability of Pemex to satisfy the domestic demand for basic products[1]. This is because Pemex has been forced to devote a rising proportion of its income to the state.

In addition, the government recently announced that it is opening its market in two of the three still restricted sectors, computers and pharmaceuticals, where imports have, up until now, been subject to licenses.

Licensing restrictions on the import of computers will be dropped from mid-March and a system of exemptions from duties on components for a 3-year period should further stimulate the domestic computer industry.

In the pharmaceuticals industry, the import permit system would also be abolished for 46 out of 80 inputs and raw materials. Restrictions would be removed on 12 more in the course of 1990, while imports of the rest would be liberalized in the 1991-1993 period[2].

The administration's general policy of liberalization has included the banking sector only to the degree that interest rates have been decontrolled and restrictions on letters of credit have been eased, but as far as privatization goes, any move to raise maximum possible private participation in the banks from 34% to the maximum is ruled out, for the time being.

A second major area of reform has been a simplifying of the rules governing the transfer of technology announced in early 1990. Under the old law governing technology transfer, the government decided whether the technology would be valuable to Mexico, if the terms of the deal were acceptable and how much in royalties would be paid. Now the agreements take

---

1 Financial Times, Survey on Mexico, 12 October 1989.
2 Financial Times, 9 February 1990.

place between businesses with no government interference. Full protection of intellectual property is now seen as a third area of reform necessary to attract new FDI on a large scale.

Thus, in January 1990, the government announced that legislation would be submitted to Congress to commit Mexico to observe patent and property rights in line with international standards, as part of the 1990-94 National Plan for Industrial Modernization and External Commerce.

(iii) INDIA

Unlike Mexico, India has done little in recent years to revise its highly selective and rather restrictive approach to FDI. India receives very little FDI and, indeed, for many years, has been a net exporter of FDI as many of its own companies have become quite active investors in foreign markets. FDI, when allowed, mainly comes in the form of joint ventures or non-equity collaborations[1]. India's policy towards FDI is based on the belief that full political independence can be achieved only when there is also full economic independence and when the economy is free from foreign control and domination. Its policy too is based on certain competitive advantages: a large supply of relatively cheap but, in some cases, quite skilled labour (India has the third largest pool of engineer graduates in the world) and a huge internal market where demand from an emerging middle class, although low by world standards, is nonetheless growing. This has encouraged India to prevent FDI entering those industries on the mature and low technology end of the spectrum, where Indian firms have the capabilities to compete, while permitting, to a certain extent, FDI in the high technology industries, where Indian firms are looking to increase their competitiveness. To some extent, FDI is also welcomed if production is primarily for export.

Thus, in general, private overseas capital is not given much emphasis as a source of financial flow to augment national savings. And in particular, foreign investment is not regarded as a major factor in overall economic growth, though it is now recognized as important in certain industries - electronics and vehicles - and for specific purposes: acquiring technology and increasing exports.

Government of India's policy towards FDI

Government policy towards FDI is laid down in the 1973 Foreign Exchange Regulation Act (FERA) which was designed as a mandatory measure to achieve the "Indianisation" of wholly foreign-owned companies. This Act's initial impact was to cause foreign firms to disinvest. Since the imposition of FERA in 1984, out of a total of 800 affiliates, 61 left, 112 were asked to dilute foreign shares to 51% - 74%, 231 to dilute to 40% or less, 72 diluted on their own, and the rest were already under the 40% limit[2].

Having achieved this result, the government has determined that its primary objective for FDI is to obtain new or upgraded technology; it states that it "looks upon foreign investment as a vehicle for the transfer of technology required by the country". In pursuance of this objective, the Indian authorities screen all proposals for foreign collaboration to determine if the technology is modern, necessary to the economy, and unavailable locally.

---

1 "Foreign Collaboration Policy in India: A Review", The Journal of Developing Areas, July 1989.

2 Developing with Foreign Investment, ed. Vincent Cable and Bishnodat Persaud, Croon Helm, 1987.

The Government's preference is that technology transfer be in the form of "technical collaborations" (sale or licensing of technology and know-how) rather than "equity collaboration" (joint ventures). In the case of technical collaborations, it prefers that payments be in the form of a lump sum rather than royalties or fees continuing over time. Where royalties or fees are allowed, the government tries to limit them to 5% of the "net ex-factory selling price" and to a period of five years.

In order to promote more rapid and widespread diffusion of technology, the government has adopted the philosophy that once one Indian company has acquired a technology, it should be available to all companies. Hence India's patent laws afford less protection than do the laws of most industrialized countries.

Indian policy towards FDI has often been criticized. Limitations on equity ownership prevent many TNCs from putting in their state-of-the-art equipment, production processes or know-how because they fear they will lose control of their proprietary knowledge. Their fears are exacerbated by the lack of adequate patent protection and by the government's attempts to diffuse technology to other firms once one local company has obtained it. Furthermore, the attempts to limit fees and royalties may have, in some cases, caused some foreign firms to transfer older technology[1].

At the same time, studies have shown that TNCs playing a leading role in the Indian economy in the high technology industries, such as pharmaceuticals and computer software and hardware, and collaboration with Indian firms have enabled the latter to upgrade their technology and exploit it in overseas markets.

As it concerns the mature, low-technology products which the Indian policy has protected from foreign competition, it has, it is claimed, produced firms which are quite insulated from foreign competition and, thus, uncompetitive and unable to sell products in highly competitive export markets.

Concerning the future course of government policy, there is little evidence that many of the restrictions mentioned above will be lifted or relaxed, especially the 40% ceiling on the equity participation in foreign investments which has probably, more than anything else, been the principal discouragement to FDI[2].

(iv) GHANA

Since its independence, Ghana's policy towards FDI has not been typical of other states in Africa. Africa is a region where a liberal attitude and a desire to encourage inward FDI through guarantees and incentives have long characterized the investment laws and regulations in effect in most countries[3]. Many African states have enacted "investment codes" designed to promote both domestic and foreign investment. Such codes usually provide for the granting of certain general guarantees (for example, against expropriation or nationalization without fair compensation and for non-discriminatory treatment and repatriation of capital and profits within certain specified limits) on all investments and for special advantages (particularly tax and customs exemptions) when the investment meets certain additional criteria.

---

1 "India urged to ease equity rules", Financial Times, 30 October 1986.

2 "Delhi shelves decision on Industrial Policy", Financial Times, 9 February 1990.

3 UNCTC, 4th Survey, New York, 1988.

In contrast, Ghana is more like one of the states in Latin America which, having had a restrictive regime towards FDI is now - even if selective - in the process of liberalizing it. For example, the Ghana Investment Policy Decree, 1975, imposed strict limitations on the equity holdings of foreign investors in specific sectors of the economy. Thus, in the mineral and timber industries, foreign equity participation was limited to a maximum of 45%. The same equity limitation applied to a range of manufacturing enterprises, including such industries as sugar, salt, soap, detergents, textiles, cement and beer. The decree further specified lists of projects which were reserved for full Ghanaian ownership and others which permitted joint foreign and Ghanaian ownership.

The Ghana Investment Code of 1981 attempted to modify some of those provisions, both with respect to limitations on equity participation and with respect to the projects or enterprises in which foreign participation was permitted. Nonetheless, the Code represented little fundamental change from the previous legislative stance towards FDI.

The respose of the Ghanaian government towards FDI began to change in the early 1980s when the economic climate in the country began to deteriorate. Over 50% of the country's foreign exchange earnings come from agricultural products, principally cocoa[1]. In the 1980s, the price of cocoa fell sharply. In 1983, the government adopted an IMF- and World Bank-sponsored structural adjustment programme. The loans the government received from this deal meant that the government had to pay a large percentage of its export earnings to service these debts. In 1988, the Ghanaian government had acquired a total debt of US $2.4 billion, accounted for principally by these official international institutions (the World Bank and IMF's share was over 60% in Ghana's total debt). In 1988, Ghana used 75% of its foreign earnings to meet debt repayments[2].

As a consequence of the government's tight financial situation, it could not fund moves to diversity the economy away from reliance on a single export earner, like cocoa, to other sources, notably minerals. In the gold industry, many seams remained unexploited because of insufficient state funds.

The New Ghanaian Programme towards FDI

The new approach towards FDI is essentially found in two legal instruments, the Investment Code of 1985 and a Mineral Code (1986), to update the law relative to investment in mining activities.

The Investment Code of 1985 represents a change of attitude towards foreign investments[3]. It removes all equity limitations on foreign investment. Instead, the Act defines a list of priority areas for foreign investments in those areas which shall qualify for a set of defined incentives and guarantees. These priority areas are agriculture, manufacturing industries, construction and building industries, and tourism. In manufacturing, those industries which undertake manufacturing for export, that predominantly use local raw materials or that produce agricultural equipment receive a number of fiscal incentives as well as exemption from the payment of customs import duties in respect to plant, machinery, etc.[4].

1 "Gold makes a comeback in Ghana", Financial Times, 7 February 1990.
2 Newsletter Government of Ghana, 1989.
3 UNCTC, National Legislation and Regulations Relating to Transnational Corporations, Vol. VII, New York, 1989.
4 "Investment Code", Republic of Ghana, 1985.

Second, the Investment Code of 1985 has reduced the list of enterprises wholly reserved for Ghanaians. Third, the Code provides for considerable investment guarantees, including the right not to be expropriated, and contains no restriction on the remittance of capital, and transfer of profits.

In some respects, however, while the Investment Code liberalizes the legislation concerning FDI, it by no means dismantles the entire legal framework for exercising control over TNCs or for evaluating the benefits and burdens of particular foreign investment proposals. The new Ghanaian Investment Centre established under the terms of the Code is empowered to appraise the project to ensure it meets certain conditions (for example, whether it utilizes local materials, supplies and services, creates employment opportunities in Ghana or whether it contributes to the upgrading of indigenous technology). Furthermore, although red tape surrounding the approval of new projects has been relaxed and speeded up, it has by no means been removed altogether. For example, the Centre must approve an FDI project in liaison with relevant Ministries and Departments. Thus, Ghana at least, is very far from having the quick one-step approval centres established in other developing countries to facilitate the establishment of FDI.

As it concerns the mining industry, new Ghanaian legislation has been passed to encourage FDI in the gold industry, since the development of the country's gold resources has become a matter of considerable urgency. New incentive packages are offered to foreign firms. Between 1986-89, 70 prospecting licences have been issued (a third to predominantly foreign-owned companies) and four mining leases have been granted, one to a Canadian mining corporation[1]. The urgency of the government's task is reflected in the fact that the government has favoured foreign investors over the heads of the local traditional mining community, which, generally speaking, does not have the technology to mine the substantial amounts of gold needed[2].

Finally, in response to its pressing financial difficulties, the government has begun a process of privatizing its large state sector and within certain industries, it is encouraging foreign investors to purchase shares. For example, Ghana's hotels have, for the most part, been traditionally state-run concerns. Poor management and lack of funds, according to the government, has led many of them to fall into disrepair. Consequently, the government has launched a programme to encourage foreign investment in this industry and partly because of the latent opportunities existing in the country's underdeveloped tourist industry, has been meeting with some success. In one new development, the "Novotel Accra" was reestablished as a joint venture between the Ghanaian government and private shareholders and a French hotel management group, Accor[3].

In conclusion, the liberalization of Ghana's FDI legislation has consisted of two main types of efforts: on the one hand, the government has lifted some of the onerous conditions on the entry and operations of TNCs, such as exclusion from certain industries, requirements of local participation, etc.; on the other, it has simplified the mechanisms whereby an FDI project is approved. At the same time, not all the restrictions of the previous investment regime have been lifted. In the former case, conditions remain, like the minimum capital requirement for FDI. In the latter case, while the approving mechanism has been improved and certralized into one body, the new Ghanaian Investment Centre, its power is circumscribed, to some extent,

---

1 "Gold makes a comeback ...", op. cit.

2 Ibid.

3 "Foreign fund Ghana's revival", Financial Times, 9 May 1989.

by the requirement on it to consult other ministries and departments before taking a decision. Nevertheless, the government now sees that FDI can play an important role in the country's economic recovery and while FDI is encouraged across the board, the government is tending to target its natural resources sector (gold) and services sector (tourism) as sites for new inflows.

Concluding comments

Increasingly, developing countries are adopting those practices and policies pursued by the OECD countries with respect to FDI and with respect to economic policy more generally. This convergence in approach to FDI is influenced by the increasing globalization of the economy which, in turn, is encouraging closer co-operation between developing and developed countries. This has encouraged a minimum set of common standards and, to a somewhat lesser degree, similarities of institutions.

As it concerns direct policies towards FDI, a common position of most developing countries is now well on its way to being established, which in itself represents something of a change from the 1970s and early 1980s:

- only a very few industries are still totally closed to foreign investors and even these are being reduced
- higher degrees of foreign equity holdings in approved industries are now permitted
- controls over the financing of investments are being loosered and, in particular, access to local markets for funds is being recognized as legitimate
- limitations on repatriation of principal and profits are being eased
- the concept of national treatment is being established
- guarantees againts expropriation are provided.

Indirect policies towards FDI are being pursued by developing countries in line with current policies of OECD Governments. Such policies, widely known and discussed, include reduction of public sector deficits, deregulation of markets and privatization. The privatization drive, in particular, is in several countries explicitly formulated with a view to encouraging foreign collaboration. Governments are changing fiscal schemes which, among other things, open up government procurement to foreign firms. Governments are also amending tariff and trade policy which, while challenging those foreign firms which originally had set up operations to overcome tariff walls, allows greater intra-firm trade and competition within home markets and is undoubtedly favourable to foreign investors.

Institutional organization for the handling of FDI also shows signs of convergence between developing countries. The two important trends are towards separation of promotion from regulation and the establishment of single stop agencies through which all formalities can be handled.

Developing countries, aware, too, that competition to attract FDI is intensifying, are beginning to borrow the external practices of OECD countries. These practices and institutional arrangements have been highly successful and are becoming increasingly sophisticated. They have involved the setting up of country promotional schemes abroad in the hopes of attracting foreign investors. In some instances, these agencies have targetted certain local firms in certain industries as a hoped-for first step in getting the firm to set up in their own countries or regions. There is growing evidence from developing countries of more careful targeting of some

companies and better specification of branches and types of activities. In this respect, as we have seen the degree of sophistication displayed by the EDB in Singapore could well qualify some of its practices as a model not just for some developing countries, but for many developed countries as well. In some instances, developing countries have been able to enlist the support of powerful institutions within OECD countries to assist them in the external promotion. The Foreign Investment Authority of Indonesia (BKPM) has an arrangement with JETRO, through which that organization represents BKPM's interests in Japan and seeks to promote Japanese corporate activities in Indonesia.

2. Home Country Measures for Encouraging FDI flows to Developing Countries

Having examined current approaches by developing countries to attract inward investment, we now investigate the actual and potential role of the donor or home countries and their efforts, both at the multilateral and bilateral levels, to stimulate FDI flows into developing countries.

As we have seen, the problem of boosting FDI flows to developing countries, concerns, in the main, two important groups of developing countries: those which previously were important recipients of FDI - that is to say, certain newly industrializing and middle income Latin American and African countries which have seen their shares decline sharply in the 1980s; and those developing countries, the so-called least developed countries, whose low economic position has steadfastly prevented them from ever attracting important FDI flows. As we have noted concerning the first group, a combination of short-term economic factors, e.g. debt crisis and long-term structural changes associated with new technological developments, has contributed to their difficult situation. The least developed countries, however, have never succeeded in attracting FDI flows and for this reason, the problem in their case is more difficult and intractable. Different home country measures would then be more effective if they were targeted to this group; however, donor countries do not as yet make a distinction between these two groups when designing measures to encourage FDI flows to developing countries.

As it concerns all developing countries but, in particular, the least developed group of countries, a major obstacle in their capacity to attract FDI flows is the low income levels of their populations, their inadequate infrastructure (telecommunications, water supply, etc.) and the poor state of their human resources (low literary, low level skills, etc.). In order to mitigate some of these factors, many home countries and multilateral organizations provide assistance to develop these infrastructures. The thrust of more recent initiatives is to strengthen the private enterprise sector as a means of raising the performance and level of the business system in these countries. Most of these measures are aimed at improving the overall economic climate in developing countries, but also benefit foreign investors indirectly as well.

Concerning those specific measures taken by the home countries to promote FDI to developing countries, most of the 17 developed countries listed in Table 27 have adopted a rather wide range.

Table 27. Promotional measures by developed countries to encourage foreign investment in developing countries

Country	Fiscal measures	Development finance institution	Other official support	Bilateral investment treaties	Investment (guarantee schemes)
Australia	Tax treaties	Yes	Yes	No	Yes
Austria	Tax treaties	No	Yes	No	Yes
Belgium	Tax treaties	Yes	Yes	Yes	Yes
Canada	Tax treaties	No	Yes	Yes	Yes
Denmark	No	Yes	No	Yes	Yes
Finland	Tax treaties	Yes	No	Yes	Yes
France	Tax treaties	-	-	Yes	-
Federal Republic of Germany	Tax treaties	Yes	Yes	Yes	Yes
Italy	No	No	Yes	Yes	Yes
Japan	Tax treaties	Yes	Yes	Yes	Yes
Netherlands	Tax treaties	Yes	Yes	Yes	Yes
New Zealand	Tax treaties	No	Yes	No	Yes
Norway	Tax treaties	No	Yes	Yes	No
Sweden	Tax treaties	Yes	No	Yes	Yes
Switzerland	Tax treaties	No	No	Yes	Yes
United Kingdom	Tax treaties	Yes	Yes	Yes	Yes
United States	No	Yes	Yes	Yes	Yes

Source: UN ECOSOC, Report of the Secretary-General, Home Country Incentives for Investment in Least Developed Countries, N.Y., 2-11 April 1990.

Table 28. Bilateral investment treaties and double taxation agreements of selected developed countries

Developed countries	Bilateral investment treaties		Double taxation treaties	
	Total No. of countries	No. of least developed countries	Total No. of countries	No. of least developed countries
Australia	--	--	20	0
Austria	4	0	11	0
Belgium	19	2	27	0
Canada	--	--	45	1
Denmark	7	1	40	1
Finland	3	0	37	1
France	31	6	47	4
Federal Republic of Germany	70	20	47	0
Italy	9	2	27	0
Japan	2	0	33	0
Netherlands	23	4	35	0
New Zealand	1	0	21	0
Norway	5	0	41	1
Sweden	12	1	49	2
Switzerland	37	13	26	0
United Kingdom	28	5	88	9
United States	10	2	47	1

Source: UNCTC, Bilateral Investment Treaties (United Nations Publications Sales No. E.88.II.A.1) and Internatinal Tax Treaties of All Nations, Cumulative Index (Oceana Publication, 1983).

As can be seen, most developed countries have signed bilateral agreements with developing countries to avoid double taxation. In the absence of a double taxation treaty, some of them have adopted special provisions to mitigate the effects of double taxation or to avoid nullifying fiscal incentives given by developing countries. Australia, Belgium, Canada and the Federal Republic of Germany apply tax saving credit as a fiscal incentive against taxes temporarily foregone by a developing country with which they have signed a bilateral tax agreement. Finland and Sweden in their tax treaties with developing countries allow for higher taxation in the host country, in which case the head office would generally be exempt from income tax on dividends from a subsidiary.

As it concerns financial incentives, ten developed countries (DAC members) have established "Public Development Finance Corporations" (PDFCs) to encourage private investment in developing countries. While the functions of PDFCs vary from country to country, they all act as investment banks and/or development agencies (see Annex 2).

All PDFCs require host governmental approval of the projects that they finance. Usually, they take a minority stake in projects financed by home and/or host country investors, invest in both loan and equity, and do not normally require host country guarantees or collatoral for their loans.

While PDFCs have this financial role, they also play a part in encouraging their home firm enterprises - in the main, small and medium-sized enterprises - to invest in developing countries. Recommendations have been made to broaden this co-operation between the public and private sectors and to expand the role of PDFCs to include larger TNCs.

Apart from the PDFCs, some developed countries provide development finance through separate institutions. The Australian joint venture scheme is designed to Australian development assistance funds to enable equity purchases by South Pacific countries in joint ventures with Australian partners. The Federal Republic of Germany provides loans, principally to small and medium-sized enterprises, to partly finance their projects in developing countries or to assist them in conducting pilot studies of investment opportunities there. In addition, the government grants loans to those enterprises which restructure their ventures in developing countries and which use new technologies. The loans are meant to introduce new products and technologies to developing countries.

There are also special financial schemes at the regional level offering financial assistance similar to that offered by PDFCs but differing in terms of the selection of special groups of developing countries for this assistance. The Nordic countries have created a special fund with the SADCC countries to promote investment and trade by Nordic enterprises in these so-called "front-line" states. The EEC established a scheme in 1988 to stimulate EEC private sector investment in certain countries in Latin America, Asia and the Mediterranean region.

Most developed countries appreciate that financing of projects in developing countries constitutes only part of the problem of FDI in these countries and they have established various service departments for their own companies, which provide information on business possibilities and organize investment missions in these countries. The Canadian International Development Agency offers support to Canadian enterprises wishing to invest in developing countries, without placing any limits on the enterprise's size. The Federal Republic of Germany, since 1984, has operated a Programme for the Promotion of Business Co-operation which acts as an advisory service for small

and medium-sized enterprises wishing to invest in developing countries. Similarly, the Overseas Private Investment Corporation (OPIC) of the US offers several services, including the Investment Mission Programme; the Opportunity Bank, a computerized data-base matching US companies with investment projects in developing countries; and the Investor Information Service, offering US investors basic information about developing countries and their business environment.

As can be seen, many of these schemes are rather recent but they do demonstrate that developed countries are aware that special measures are indeed necessary to stimulate FDI flows into developing countries.

At the same time, for many developed countries, investment promotion measures are still essentially synonymous with investment protection schemes.

The most long-standing of these are bilateral investment treaties. These treaties guarantee fair and equitable treatment of foreign investors through the protection of foreign investments. Most developed countries have signed bilateral investment treaties with developing countries (see Table 28).

Home countries also administer investment guarantee schemes to cover certain economic and political risks of investment in developing countries. They are adopted by all developed countries to cover problems regarding inconvertibility of local currency for dividend remittances, expropriation and loss due to civil war. Table 29 presents these schemes in summary form.

Table 29. Investment guarantee schemes by developed countries and multilateral agencies

Country/multilateral agency	Administration	Type of risk covered	Criteria for coverage
Australia	Export finance and Insurance Corporation	Expropriation, exchange transfer blockage, war damage	-
Austria	Osterreichische Kontrollbank	Three main political risks	Applies to both developed and developing countries.
Belgium	Office National du Ducroire	Political risk	Project must contribute to the economic and social development of recipient country; it must promote Belgium's economic interests abroad.
Canada	Export Development Corporation	Transfer of funds, expropriation, war, revolution or insurrection	Scheme available only to new investments.
Denmark	Danish International Development Agency	Three main political risks	New investments only, where investor has control over enterprise. Investment must have positive developmental effect on host country economy.
Finland	Export Guarantee Board	Expropriation, serious disturbance in economic condition of host country, restrictions in capital and earnings repatriation	Investment must be in form of equity participation, loans of loan guarantees, or licenses.
Federal Republic of Germany	Interministerial Committee from Ministries of Economics, Finance, Foreign Affairs and Economic Co-operation	Expropriation, nationalization war, revolution, nontransferability of capital and earnings	New investment, positive effect on home and host country economy. Situation in host country must appear satisfactory at time of approval with respect to legal protection against political risks.

.../...

Table 29. (cont'd)

Country/multilateral agency	Administration	Type of risk covered	Criteria for coverage
Japan	Ministry of International Trade and Industry	War, expropriation, exchange transfer and commercial risk (bankruptcy)	Direct investment by Japanese or non-Japanese company. Portfolio investment and long-term loans for Japanese and non-Japanese companies if engaged in exploitation of mineral and natural resources.
The Netherlands	Netherlands Credit Insurance Company	Expropriation, nationalization war, revolution, non-transferability of capital and earnings	New investments in developing countries, subject to satisfactory procedural arrangements for dealing with disputes.
New Zealand	Export Guarantee Office	Exchange transfer expropriation, war damage	New equity investments.
Norway	System presently suspended	New system under evaluation	
Sweden	Swedish Export Credits Guarantee Board	Currency transfer, expropriation, and war	Investment must have positive impact on Swedish economy.
Switzerland	Department of Economics	Three main types of political risks	Equity participation, only new investments promoting economic development of host country and reinvested earnings.
United Kingdom	Export Credits Guarantee	Expropriation, war, restriction of remittances	New investments, assisting in the development of host country.

.../...

Table 29. (cont'd)

Country/multilateral agency	Administration	Type of risk covered	Criteria for coverage
United States	Overseas Private Investment Corporation	Currency inconvertability expropriation, political violence	
World Bank	Multilateral Investment Guarantee Agency	Issue of guarantees including insurance with, and re-insurance of existing political risk insurers. In addition risks covered include creeping expropriation, currency inconvert ability	Projects of clear development interests for host country.
International Finance Corporation/Guaranteed Recovery of Investment Principal	International Finance Corporation	Threat of capital loss	Benefit host country economy, project must show financial promise.

Source: UN ECOSOC, Report of the Secretary-General, Home Country Incentives for Investment in Least Developed Countries, N.Y., 2-11 April 1990.

Complementing these bilateral and national investment guarantee schemes are various multilateral investment arrangements. For example, the International Centre for Settlement of Investment Disputes was created under the auspices of the World Bank to settle disputes between host governments and foreign investors and to foster conciliation and arbitration to encourage the growth of FDI. Many above-mentioned bilateral investment agreements include provisions to submit disputes to the centre and to accept its judgement. The Multilateral Investment Guarantee Scheme, established also by the World Bank, is intended as a measure of protection to foreign investors, particularly, but not exclusively, in developing countries of non-commercial risk. Another scheme by the International Finance Corporation, Guarantee Recovery of Investment Principal, facilitates FDI to developing countries by removing the threat of capital loss.

In addition to the measures described above, there are a number of trade-related programmes at the bilateral and multilateral level giving preferential access to exports from developing countries, which thereby encourage TNCs to choose these favoured countries as locations for investment in the production of export-oriented products. Under the Caribbean Basin Initiative, which came into effect in 1984, the US encouraged its firms to enter into manufacturing arrangements with CB-based firms, guaranteering duty-free access to the US.

Effects of Home Country Schemes to Promote FDI flows to developing countries

Although it is impossible to offer definitive conclusions as to the impact of these measures on FDI flows to developing countries, there is clear evidence that FDI flows have tended to be encouraged, in the main, into the more developed of these countries rather than into the least developed countries, or, in other words, to those countries which may have attracted such investments even if these schemes had not existed in the first place.

For instance, in 1988, the Overseas Private Investment Corporation insured or financed 165 projects in developing countries. Of these projects, only 6 were located in the least developed countries. Similarly, out of the $722 million of insured investment in developing countries by the OPIC in 1987, only $127 million or 16.5% was in the least developed countries, while for 1988, the amount was even smaller.

In terms of the involvment of the least developed countries in schemes to protect and insure FDI flows, Table 28 suggests a rather low level of participation[1].

1 Above section based on UN ECOSOC, Report of the Secretary-General, Home Country Incentives for Investment in Least Developed Countries, N.Y., 2-11 April 1990.

PART D

D. OTHER ISSUES

1. The Emergence of CMEA Countries as host countries to FDI

The CMEA countries have emerged as one of the most attractive potential sites for foreign direct investments. This attractiveness is due essentially to the tremendous political changes and the gradual establishment of Western-style democratic frameworks in these countries and to the fact that, until recently, they had clearly not been important host sites for FDI. Governments in countries which have traditionally been hosts to FDI in the past - developing and developed countries alike - have raised, publicly and privately, their fears that existing and future FDI will be diverted from their territories into the CMEA countries.

Although the interest of TNCs in doing business in the CMEA countries has only rather recently emerged, it should be borne in mind that FDI inflows into these countries have predated the political upheavals in 1989 and indeed the reform movement in the Soviet Union in 1985.

Table 30. Socialist States Allowing Foreign Investment

	Year of enactment of law allowing FDI
Yugoslavia	1967
Hungary	1972
Rumania	1972
Poland	1976
Bulgaria	1980
Czechoslovakia	1986
USSR	1987
Viet Nam	1977/1987
China	1979
Cuba	1982
PDR of Korea	1984

Source: UNCTC, N.Y., 1989.

As can be seen from the Table 30 above, laws allowing foreign investment in these states have a rather long history. However, these laws only allowed foreign enterprises access to their markets through joint ventures with a state trading organization or a foreign enterprise. These laws, in most cases, restricted the foreign firms to minority ownership and set limits on profit remittances. Typically, and as a result of such restrictions, foreign enterprises used joint ventures as trading operations rather than full-scale manufacturing activities. With limited investment opportunities, the number of joint ventures and the amounts of capital invested by foreign firms were small.

2. New Legislative Improvements for FDI in CMEA countries

To create more attractive conditions for foreign direct investment in their economies, the USSR, Bulgaria, Czechoslovakia, Hungary, and Poland have made significant amendments to their joint venture laws and regulations in 1989.

There are a number of common elements in the new legislations aimed largely at separating public administration from economic management in running these economies. Screening procedures for joint ventures have been simplified and the scope and eligibility for such partnerships expanded. The autonomy of enterprises in appointing top management and setting wages and prices has been further increased. Principles controlling the repatriation of profits, foreign majority share-holdings, the nationality of directors, and taxation have been substantially modified and a number of important legal guarantees against expropriation and divestment have been provided to foreign firms. In one or two cases, the right of domestic enterprises to participate directly in foreign trade operations has been extended. These developments are exemplified below.

(i) The USSR: Entitled "On Further Development of Foreign Economic Activities of State, Co-operative and other Social Enterprises, Amalgamations and Organizations", the new Soviet decree dated 2 December 1988 significantly broadens the scope for foreign and local participation in joint ventures. Among other things, the decree enables foreign majority holding and foreign chairmanship or directorship of enterprises. Now both state enterprises and co-operatives may become joint venture partners. Joint venture enterprises have been given complete discretion in hiring and firing employees and in fixing salaries. The decree grants special incentives to joint ventures establishing operations in the Soviet Far East, including a three year tax holiday and substantial concessions to firms manufacturing consumer goods, medical equipment and high-tech products.

(ii) HUNGARY: Act No. VI on "Economic Associations" and Act No. XXIV on "Investment of Foreigners in Hungary" in effect dismantle the centralized organization of Hungarian enterprises and permit the creation of economic organizations previously unheard of in socialist countries.

The Act on "Economic Associations" allows individual citizens to form business ventures with local or foreign companies. Further, it facilitates such collaborations by allowing those forms of partnership best suited for small and private entrepreneurs, namely, unlimited and limited liability companies. Citizens may invest their assets in business ventures. Act No. XXIV allows foreigners to hold up to 100% interest in a Hungarian company and provides important safeguards for their investments. A third and most important piece of legislation, which entered into force on 1 July 1989, enables the transformation of state-owned enterprises into "self-governing" shareholding companies.

(iii) POLAND: The law entitled "Economic Activity with Participation of Foreign Partners", enacted 1 January 1989, creates a unified legal framework for foreign investments in Poland. Earlier, Poland had a double system of foreign investment: small private investments by foreigners of Polish descent, "Polonia" firms, were administered differently than larger investments in joint ventures with state enterprises. The law creates a unique, high-level Foreign Investment Agency, responsible for approving and promoting foreign investment agreements.

(iv) BULGARIA: Decree No. 56 on "Economic Activities" went into effect on 11 January 1989. It provides the legal basis for foreign economic participation through wholly-owned subsidiaries or through representative offices and joint ventures, and strengthens the position of foreign firms. Foreign banks may be similarly established, but a minimal capitalization is imposed. Foreign firms may now issue shares locally.

(v) CZECHOSLOVAKIA: The law on "Enterprises with Foreign Capital Participation", enacted 1 January 1989, establishes a comprehensive legal framework for foreign investment in Czechoslovakia, replacing the non-statutory operating principles used previously. Czechoslovakian firms, co-operatives, and banks may become partners. Joint ventures may retain all foreign earnings, keep a foreign currency account in a local or foreign bank, and set their own prices according to market conditions[17].

3. Impact of New Legislative Changes

There has been a very strong growth in the number of joint ventures registered in the European countries of CMEA and Yugoslavia. According to the data base of the Economic Commission for Europe, there were, in total, 165 joint ventures at the beginning of 1988. By the end of June 1989, that figure had climbed to 1,375. By mid-October, more than another 700 joint ventures were added to this total and by the year's end, the overall total had climbed even further to 3,345.

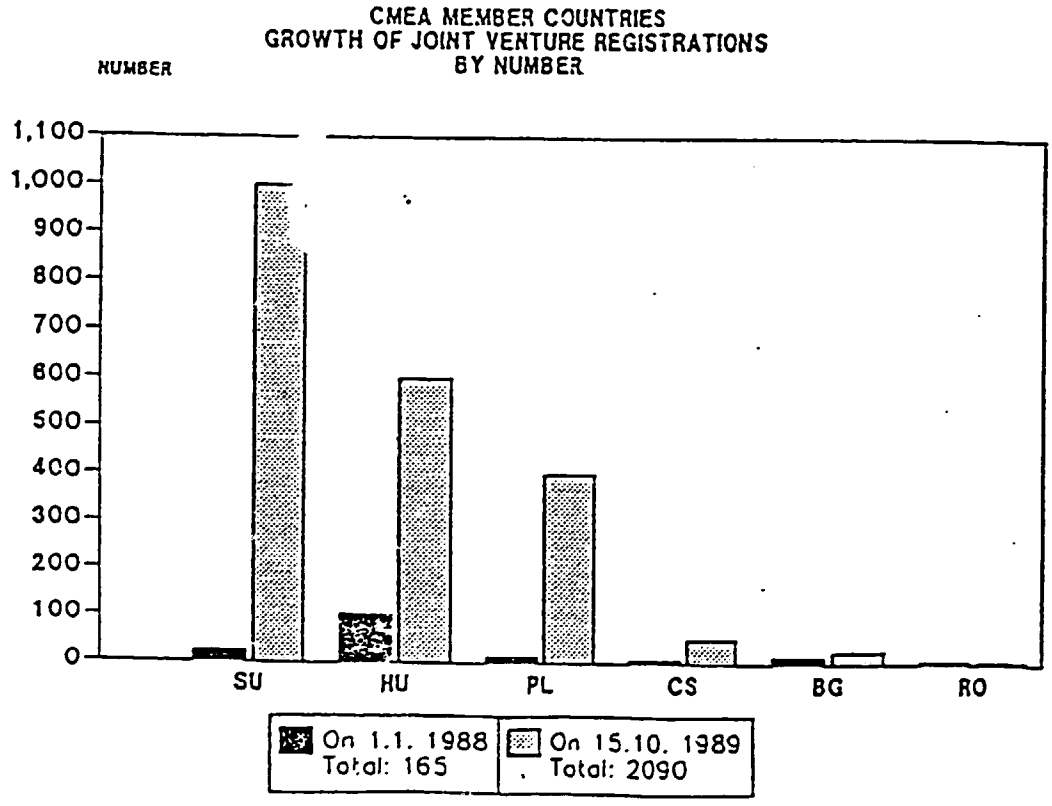
The three CMEA countries which have most liberalized their joint venture legislation accounted for the bulk of this FDI surge: the USSR, Hungary and Poland. This is well illustrated in the figure below, which shows the number of new ventures until 15 October 1989.

In the Soviet Union, since the registration of joint ventures began on 1 January 1987, the number has increased dramatically and, as the table below shows, the major increase has occurred in 1989. This acceleration can be attributed, at least in part, to the new regulations adopted in December 1988, authorizing co-operatives to participate in joint ventures.

---

1 Above section based on UNCTC Transnationals Newsletter, October 1989.

FIGURE 17



Source: ECE data base on joint ventures.

Table 31. JOINT VENTURES IN THE USSR, BY MONTH OF REGISTRATION

MONTH/YEAR	STATUTORY CAPITAL Total (Mln SUR)	Foreign (Mln SUR)	Foreign (Mln USD)	Number
May 1987	0.8	0.4	0.6	1
June 1987	5.4	2.5	3.9	4
July 1987	57.1	19.5	30.5	2
August 1987	0.0	0.0	0.0	0
September 1987	2.0	0.8	1.3	1
October 1987	37.3	11.6	18.4	3
November 1987	11.4	5.6	9.2	3
December 1987	45.4	15.1	25.5	9
January 1988	40.0	14.9	25.1	6
February 1988	0.0	0.0	0.0	0
March 1988	28.0	10.4	17.5	7
April 1988	13.2	6.2	10.4	5
May 1988	58.0	23.0	38.7	10
June 1988	54.1	18.3	30.4	12
July 1988	74.1	30.9	49.8	9
August 1988	33.2	14.3	22.8	16
September 1988	44.6	16.2	25.8	17
October 1988	13.7	5.7	9.1	8
November 1988	183.9	71.8	118.9	30
December 1988	109.6	41.0	68.2	48
January 1989	140.2	55.7	92.1	53
February 1989	99.7	33.3	53.9	46
March 1989	143.7	69.0	111.2	87
April 1989	125.3	57.7	92.1	53
May 1989	260.8	120.1	184.8	101
June 1989	429.7	202.8	312.0	160
July 1989	113.9	31.0	48.8	66
August 1989	219.3	96.2	151.5	126
September 1989	110.2	45.2	69.9	58
1987	159.3	55.5	89.3	23
1988	652.3	252.7	416.6	168
1989	1642.7	711.1	1115.0	738
TOTAL	2454.4	1019.3	1620.8	929

Note: On 1 October 1989, figures may not add up to totals because of rounding.

Source: ECE data base on joint ventures.

In cumulative terms, in the period from 1987 until the third quarter of 1989, the total capitalization of joint ventures in the USSR reached 2454.4 million SUR (Soviet Union Roubles) (see Table 31). As compared with the end of 1988, when total capital was 811.6 million SUR, the total capital thus increased threefold. The cumulative foreign capital invested up to the beginning of October amounted to US $1620.8 million. After the relaxation of foreign participation rules in December 1988, from which date foreign partners have been allowed to hold majority shares in joint enterprises, 65 companies were registered in which foreign partners hold more than 50% of the statutory capital. In 19 joint ventures, foreign participation is more than 60% and in 6, it is more than 70%. No enterprises have been registered in which the foreign share in capitalization exceeds 90%[1].

In Poland, since regulations changed in December 1988, thereby liberalizing, to some extent, foreign investments in the country, the number of joint ventures has increased. By 30 September 1989, a total of 490 new joint ventures had been approved, with total equity paid up by foreign partners amounting to $70.3 m[2]. By October 1989, over 600 new joint ventures had been approved, as shown in Table 32.

Table 32. New Joint Ventures in Poland

Dec. 31 1988 - July 1 1989	52*
Jan. 1 1989 - Feb. 28 1989	9**
March 1989	21
April	41
May	60
June	72
July	105
August	92
September	90
October	115
Total	657

* Under 1986 joint venture law.
** Under 1988 investment law.

The total paid-up equity of 605 new joint ventures approved until end-October 1989 is estimated at approximately $120 m, plus investment loans amounting to about $350 m.
Source: Foreign Investment Agency in Poland.

The number of joint ventures in operation in Hungary by the end of March 1989 was 178 (see Table 33). This underestimates the total number of joint ventures and other ventures where the foreign enterprise has full ownership. For example, it is estimated that by the end of October 1989, the total number of foreign direct investment projects in that country (including both joint ventures and wholly foreign-owned companies) was about 600[3].

As it concerns the 178 operating joint ventures, in the period from 1985 to the end of the first quarter of 1989, the total amount of capital invested grew from 3.6 to 27.8 billion HUF - that is, almost eight-fold. During the same period, the cumulative sum of foreign capital invested grew from 44.1 to 263.3 mln USD - that is, sixfold - at current official exchange rates.

1 ECE data base on joint ventures.
2 Financial Times, Survey on East-West Trade, 8 December 1989.
3 ECE data base on joint ventures.

Table 33. HUNGARY
GROWTH OF OPERATING JOINT VENTURES
1974 - 1st Quarter 1989

Year	Capital HUF	of which:	Foreign USD	Number of JVs
1974	92.2	45.0	4.9	2
1975	118.2	57.8	6.4	3
1976	118.2	57.8	6.4	3
1977	118.2	57.8	6.4	3
1978	118.2	57.8	6.4	3
1979	829.8	527.2	19.6	4
1980	969.2	595.8	21.7	6
1981	1094.8	654.8	23.4	7
1982	1540.5	859.8	29.0	12
1983	2108.0	1088.1	34.3	20
1984	2350.3	1143.7	35.5	27
1985	3568.3	1565.7	44.1	45
1986	5207.0	2501.7	64.5	62
1987	8799.1	3973.3	95.8	102
1988	27167.6	12239.5	259.8	176
1989(1)	27764.8	12424.1	263.2	178
Total	27764.8	12424.1	263.3	178

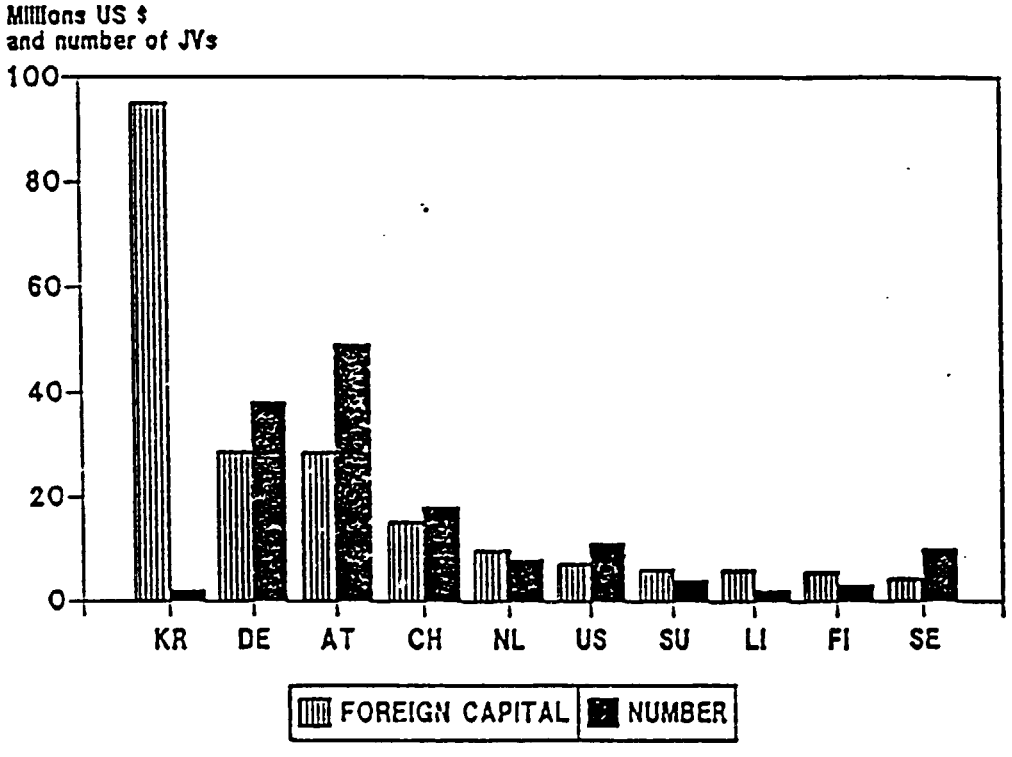
Note: On 1 April 1989. Figures may not add to totals because of rounding.

Source: ECE data base on Joint Ventures.

FIGURE 18

HUNGARY

MAJOR FOREIGN PARTNER COUNTRIES OF OPERATING JOINT VENTURES IN HUNGARY



Source: ECE data base on joint ventures.

In other CMEA countries, recent growth in joint ventures has been less impressive. The number of registrations in Czechoslovakia grew from 7 to 50; Bulgaria registered an increase from 15 to 35. No new joint ventures were registered in Romania[1].

Nevertheless, the reforms in laws affecting FDI in these countries is in part responsible for the steep increase in the number of joint ventures, which is particularly evident in the cases of the Soviet Union, Poland and Hungary.

4. Countries of origin of foreign direct investment in CMEA countries

Taking CMEA countries as a whole, the main investors in these countries come from EEC countries, followed by investors from the EFTA countries. Rather far back are foreign investors originating from other planned economies or from the United States and Japan. Developing countries, as a group, only have a marginal interest in foreign investments in CMEA countries as yet, but for certain individual developing countries, such FDI is gaining in significance.

In the USSR, as seen from Table 34, 599 joint ventures (or 64.5% of the total) have foreign partners who originate in Western Europe. Of these, 35.2% have parent companies in the member countries of the EEC and 26.6% in EFTA (the rest of Western Europe accounts for 2.5%). Companies from the United States and Japan established 9.3% and 1.9%, respectively, of the joint ventures, while the share of developing countries is 5.3%.

The Federal Republic of Germany is the main foreign investor, accounting for 139 or 15% of all joint ventures, followed by Finland with 101 or 11%.

Table 34. JOINT VENTURES IN THE USSR, BY ORIGIN OF FOREIGN PARTNER

REGION/COUNTRY	STATUTORY CAPITAL			Number
	Total (Mln SUR)	Foreign (Mln SUR)	(Mln USD)	
Western Europe, of which:	1588.3	639.4	1017.2	599
EEC	992.6	390.7	620.4	327
Belgium	2.1	1.2	1.9	7
Denmark	2.5	0.9	1.6	2
France	190.1	80.4	127.9	32
Germany, F.R. of	358.0	144.0	227.1	139
Greece	5.8	2.8	4.4	5
Ireland	16.8	8.1	13.3	3
Italy	227.7	77.2	124.9	53
Luxembourg	1.3	0.5	0.8	6
Netherlands	40.0	15.1	23.4	15
Spain	46.9	19.3	31.1	12
United Kingdom	101.4	41.2	64.0	53
EFTA	491.7	202.5	321.4	247
Austria	142.9	45.5	72.2	53
Finland	183.9	81.4	127.7	101
Norway	3.5	0.9	1.5	4
Sweden	78.4	37.5	59.6	32
Switzerland	67.0	29.4	47.9	45
Lichtenstein	15.9	7.8	12.4	12

1 ECE data base on joint ventures.

Table 34. (cont'd)

REGION/COUNTRY	STATUTORY CAPITAL Total (Mln SUR)	Foreign (Mln SUR)	Foreign (Mln USD)	Number
Other Europe	104.0	46.2	75.5	25
Cyprus	7.2	2.6	4.1	9
Malta	1.5	0.6	1.0	1
Yugoslavia	95.3	43.0	70.4	15
Japan	44.4	21.2	33.9	18
United States	250.2	121.7	190.6	86
Developing countries	56.2	23.1	36.6	49
Afganistan	2.2	1.1	1.7	1
Brazil	9.2	2.3	3.8	2
Hong Kong	0.6	0.3	0.5	1
India	13.7	5.4	8.6	14
Jordan	0.3	0.2	0.2	2
Korea, Republic of	0.5	0.3	0.4	1
Kuwait	3.1	1.5	2.5	3
Lebanon	2.4	1.2	1.9	2
Pakistan	5.5	3.3	5.1	1
Panama	2.3	1.1	1.8	3
Saudi Arabia	0.2	0.1	0.1	1
Singapore	3.1	1.1	1.8	5
Syrian Arab Republic	6.7	2.6	4.2	3
Thailand	0.6	0.0	0.0	1
United Arab Emirates	3.0	1.5	2.3	2
Venezuela	2.7	1.1	1.8	7
Planned Economies	253.6	113.1	181.6	88
CMEA	199.1	87.9	141.6	68
Bulgaria	100.9	43.8	71.6	26
Czechoslovakia	4.0	1.8	2.9	3
German Democratic Republic	5.0	2.5	4.0	1
Hungary	50.0	21.9	34.9	12
Poland	36.1	16.5	26.0	23
Viet Nam	3.0	1.4	2.2	3
Other, of which:	54.5	25.3	40.0	20
China	25.5	11.1	17.4	13
Korea, Democratic P.R. of	29.0	14.2	22.6	7
Other countries	262.8	101.1	161.2	89
Australia	19.1	9.5	15.1	9
Canada	56.2	24.6	39.8	20
New Zealand	1.5	0.6	0.9	2
Multi-party 1)	186.0	66.4	105.4	58
TOTAL	2454.4	1019.3	1620.8	929

Note: On 1 October 1989. Figures may not add to totals because of rounding.
1) Joint ventures with foreign partners from two or more countries.
Source: ECE data base on Joint Ventures.

Table 35, which shows foreign investment in Poland by origin of the foreign partner, demonstrates even more clearly than the case of the Soviet Union that the preponderance of foreign investors - no less than 150 joint ventures (or more than 82%) - originates in Western Europe.

The Federal Republic of Germany accounts alone for 43.4% of the total number of joint ventures - that is, 79. The dominance of this country's investments in Poland is revealed by the fact that the next biggest investor in the country - Austria - has only 16 joint ventures. Few developing countries have joint ventures in Poland, while Japan has none.

Table 35. FOREIGN INVESTMENT IN POLAND, BY ORIGIN OF FOREIGN PARTNER

REGION/COUNTRY	STATUTORY CAPITAL Total (Mln PLZ)	Foreign (Mln PLZ)	Foreign (Mln USD)	Number
Western Europe, of which:	25189.6	10711.4	21.0	150
EEC	19015.8	8307.5	16.2	112
Belgium	450.6	217.1	0.4	5
Denmark	81.0	39.7	0.1	2
France	20.0	10.3	0.0	1
Germany, F.R. of	8101.4	4211.0	7.7	79
Italy	3743.4	900.7	1.2	6
Netherlands	584.6	415.5	0.7	7
Spain	170.4	78.0	0.1	2
United Kingdom	5864.5	2435.3	6.0	10
EFTA	6173.7	2403.9	4.8	38
Austria	3427.3	1106.7	2.0	16
Finland	388.5	61.8	0.1	1
Lichtenstein	536.0	263.5	0.7	3
Norway	49.9	39.9	0.1	1
Sweden	867.4	457.7	0.9	10
Switzerland	904.7	474.2	1.0	7
United States	4289.1	2279.8	4.1	13
Developing countries	162.8	114.1	0.2	4
Lebanon	62.0	62.0	0.1	1
Thailand	42.0	25.2	0.0	1
Tunisia	55.0	25.0	0.0	1
United Arab Emirates	3.8	1.9	0.0	1
Planned Economies	689.0	310.8	0.7	5
Hungary	119.0	47.6	0.1	1
USSR	570.0	263.2	0.6	4
Other	2295.6	871.6	2.0	10
Canada	420.2	195.6	0.3	4
Multi-party 1)	1218.2	505.1	1.3	5
Unknown	657.2	170.9	0.4	1
TOTAL	32626.0	14287.4	28.0	182

Note: On 1 June 1989. Figures may not add to totals because of rounding.
1) Joint ventures with foreign partners from two or more countries.
Source: ECE data base on Joint Ventures.

In Hungary, in almost half (46.6%) of the operating joint ventures, the foreign partner is from a West European country which is not a member of the European Economic Community (EEC). In the total population of 178 joint ventures, the foreign partner is from Austria in 49 cases, from Switzerland in 18, and from Sweden in 10 (see Figure 18). In one third (34.8%) of the cases, the foreign party originates from the EEC. In this group, the Federal Republic of Germany holds first place with 37 joint ventures, followed by the Netherlands with eight, and the United Kingdom with 5 joint ventures[1].

If foreign participation is measured by the amount of capital invested by foreign parties, the picture changes somewhat from the foregoing (see Chart 27). By this yardstick, the Republic of Korea is first, with 95 million USD invested, which amounts to 36.4% of the total foreign investment. That country is followed by the Federal Republic of Germany (28.6 million USD) and Austria (28.5 million USD). Companies from these five countries account for 177.1 million USD - that is, 67.3% - of the total foreign investment of 263.3 million USD. The statutory capital of the joint ventures in which these companies participate is 18.0 billion HUF - that is, 64.9% of the total statutory capital of the joint ventures reviewed[2].

In Czechoslovakia, as in the case of Hungary, it is Austria which is home to most joint ventures in terms of numbers. It has 10 (26%) of joint ventures and is followed by France (5 joint ventures), the USSR and the Federal Republic of Germany (4 each), and the Netherlands (3) (see Table 36).

Table 36. JOINT VENTURES IN CZECHOSLOVAKIA, BY ORIGIN OF FOREIGN PARTNER

REGION/COUNTRY	STATUTORY CAPITAL Total (Mln CSK)	Foreign (Mln CSK)	Foreign (Mln USD)	Number
Western Europe, of which:	770.1	286.4	42.0	28
EEC	599.0	206.7	30.2	17
Belgium	4.5	1.5	0.1	1
Denmark	165.3	81.0	14.9	2
France	134.5	65.1	7.3	5
Germany, F.R. of	31.2	14.7	1.7	4
Netherlands	241.0	33.4	5.5	3
United Kingdom	22.5	11.0	0.7	2
EFTA	171.1	79.7	11.8	11
Austria	162.2	75.2	11.5	10
Sweden	8.9	4.5	0.3	1
Planned economies	245.2	122.6	18.4	7
CMEA	190.4	95.2	13.4	6
Bulgaria	10.0	5.0	0.3	1
Hungary	65.0	32.5	5.2	1
USSR	115.4	57.7	7.9	4
Other	54.8	27.4	5.0	1
China	54.8	27.4	5.0	1
Multi-party 1)	98.3	42.6	2.8	3
TOTAL	1113.5	451.6	63.2	38

Note: On 1 October 1989. Figures may not add to totals because of rounding.
1) Joint ventures with foreign partners from two or more countries.
Source: ECE data base on Joint Ventures.

1 ECE data base on joint ventures.
2 Ibid.

5. Distribution of Joint Ventures by Sector and Industry

The ECE data base provides a rather detailed industrial and sectoral breakdown for FDI in the USSR, Poland and Hungary. Given the smallness of the sample (38), such data is less useful for Czechoslovakia.

In all three countries, most joint ventures, in terms of number, are concentrated in the manufacturing sector - 48.8%, 65% and 60.7% for the Soviet Union, Poland and Hungary, respectively. These investments account for 73% of the foreign capital in Poland, 60% in the Soviet Union, and 35% in Hungary. The rest of joint venture activity is practically all accounted for by the service sector, as FDI in primary products for these countries is negligible.

Within the Soviet Union's manufacturing sector, in terms of the number of joint ventures, production of office equipment and computers represents the largest branch (15.5% of total joint ventures), followed by non-electrical machinery and instrument engineering. The manufacture of chemicals, rubber and plastics accounts for 8.6% of the total number of joint ventures in manufacturing, while food production accounts for 9% of manufacturing joint ventures.

As can be seen from Table 37, in Poland, too, joint ventures are particularly prominent in the food industry (the largest account for 19% of the total in manufacturing), metals, wood processing and chemicals, although, unlike in the Soviet Union, wearing apparel is important in terms of number (12.6% of all joint ventures).

Table 37. MANUFACTURING FOREIGN INVESTMENT IN POLAND, BY INDUSTRY

ISIC CODE Rev.3	INDUSTRY	STATUTORY CAPITAL Total (Mln PLZ)	Foreign (Mln PLZ)	Foreign (Mln USD)	Number
15	Food	2693.9	1345.9	2.7	23
16	Tobacco	61.1	30.5	0.0	1
17	Textiles	324.0	142.6	0.2	2
18	Wearing apparel	860.7	562.0	0.9	15
20	Wood and wood products	2285.4	1980.8	3.3	11
21	Paper and paper products	160.0	80.0	0.1	2
22	Publishing and printing	232.5	126.0	0.3	2
24	Chemicals, of which:	1130.3	340.0	0.7	7
241	Basic chemicals	68.0	33.3	0.1	1
242	Other chemicals, of which:	1062.3	306.6	0.6	6
2424	Cosmetics	42.0	25.2	0.0	1
	Other	1020.3	281.4	0.6	5
25	Rubber and plastics	92.7	66.0	0.1	3
26	Non-metallic products	770.8	356.1	0.7	10
28	Metal products	4465.1	1217.4	2.5	12
29	Machinery and equipment N.E.C., of which:	3375.2	1341.0	2.3	11
291	General purpose machinery	1855.2	697.0	1.3	3
292	Special purpose machinery, of which:	1520.0	644.1	1.1	8
2921	Agriculture and forestry machinery	686.9	236.7	0.5	3
2925	Food processing machines	100.0	44.0	0.1	1
2926	Textile machinery	48.0	25.0	0.0	1
	Other	685.0	338.5	0.5	3
30	Office equipment and computers	222.0	115.1	0.3	2
32	Communication equipment, of which:	293.6	89.7	0.2	3
3220	TV, radio transmitters	96.4	36.6	0.1	1
	Other	197.2	53.1	0.1	2
33	Precision instruments	206.1	118.0	0.2	2
34	Motor vehicles	200.0	80.0	0.2	1
35	Other transport equipment	3503.7	772.7	1.1	3
36	Furniture and manufacturing N.E.C.	2026.1	734.9	2.6	3
37	Recycling	2252.5	949.3	2.3	6
	TOTAL	25155.7	10358.0	20.6	119

Note: On 1 June 1989. Figures may not add to totals because of rounding.
Source: ECE data base on Joint Ventures.

In Hungary, within manufacturing, food production, communications equipment, non-metallic mineral products, office and computer equipment, and chemicals, respectively, hold the largest shares (see Table 38).

Within all three countries, trade, hotels and restaurants, and business services represent considerable poles of attraction for joint ventures in the service sector.

In the USSR, almost 15% of the joint ventures (138) belong to the group "other business activities", which includes services relating to engineering management, marketing, advertizing, law, architecture and other business services. 7% belong to the hotel and restaurant business, while 6% are accounted for by computer-related activities.

In Poland, where joint ventures in services are less developed, about 8% of foreign investments engage in trade, and 7% in hotels and restaurants. In Hungary, in contrast, two branches of services alone - financial services, on the one hand, and hotels and restaurants, on the other - attract 30% and 18.3% of total foreign capital, respectively.

An assessment of the role of these joint ventures within these host economies can also be made from the point of view of the destination of their products and services. One categorization used was those joint ventures oriented towards satisfying local consumer demand in goods and services. The role of consumer goods and services amounted to 52% of foreign investments in Poland, 47.5% in USSR and 40% in Hungary.

Table 38. MANUFACTURING JOINT VENTURES IN HUNGARY, BY INDUSTRY

INDUSTRY	Capital HUF	of which:	Foreign USD	Number of JVS
Food	1464.5	535.8	11.505	10
Textiles	932.0	464.1	9.269	4
Wearing apparel	552.6	217.1	4.578	7
Leather	51.6	19.7	0.395	2
Wood and wood products	800.1	383.1	7.854	7
Paper and paper products	119.5	60.8	1.207	3
Publishing and printing	153.8	84.2	1.668	6
Chemicals	946.2	362.4	8.095	12
Rubber and plastics	82.7	36.0	0.841	3
Non-metallic products	1088.3	498.1	10.280	7
Basic metals	21.4	10.7	0.223	2
Metal products	348.6	165.6	3.335	8
Machinery and equipment N.E.C.	524.2	244.5	5.493	13
Office equipment and computers	1006.5	325.7	6.501	3
Electrical equipment	128.9	52.9	1.129	4
Communication equipment	1294.4	439.1	8.798	5
Precision instruments	500.7	250.1	5.332	3
Motor vehicles	44.0	25.5	0.506	1
Other transport equipment	158.4	80.8	1.603	1
Furniture	181.4	81.0	1.657	4
Recycling	219.2	96.1	1.934	3
TOTAL MANUFACTURING	10619.1	4433.2	92.203	108

Note: On 1 April 1989. Figures may not add to totals because of rounding.
Source: ECE data base on Joint Ventures.

6. Implications for Developing Countries

There are two principal questions concerning the implications for developing countries of the emergence of joint venture activity in East European countries: (i) is the amount of FDI moving into these new markets of such a scale as to have a deleterious effect on developing countries and (ii) is such FDI actually or potentially substituting FDI to developing countries.

As it concerns the first question, actual amounts of FDI into CMEA countries up until the end of 1989 were relatively small.

In terms of US dollars, it can be estimated that the total foreign component in the statutory capital of the 2090 foreign investments in Czechoslovakia, Hungary, Poland and the Soviet Union was (at current exchange rates) about 2.2 billion USD on 15 October 1989[1].

Comparing this to the total stock of inward FDI to Mexico in 1988, it can be seen that $2.2 billion represents under 10% of the $21.9 billion registered by this single Latin American country[2].

Nevertheless, it is clearly a growing figure and recent developments like the spate of deals which have taken place in the automobile industry (see Table 39) may boost stocks and flows of FDI into CMEA countries significantly.

TABLE 39. Deals announced by TNCs in the Automobile Industry

Foreign Corporation	Country and joint venture partner	Nature of deal and date
Renault (France)	Czechoslovakia (Bratislava Automobile Zavodi)	Local assembly of light commercial vehicles; January 1990
General Motors (US)	Hungary	$100 million joint venture to build engines and assemble cars; January 1990
Volkswagen (FRG)	East Germany	Production of small cars or light commercial vehicles; December 1989
Suzuki (Japan)	Hungary	Small cars; December 1989
Daihatsu (Japan)	Poland	Small cars; December 1989

Source: ECE/UNCTC data.

1 ECE data base on Joint Ventures.
2 Director General of Foreign Investments, Mexico, 1989.

It is perhaps too early to speculate about the future course of FDI flows to these countries. However, even at this stage, a number of salient factors are worth bearing in mind. Despite liberalization in the investment codes of these countries - most notably, Hungary, Poland and the Soviet Union - such measures alone probably still have not created the conducive environment for FDI that would be required to attract substantial inflows. To some extent, this is due to the still untried nature of the legislation. Despite the existence of new investment opportunities, foreign companies have tended to prefer the traditional joint venture form of arrangement until the other options become more tried and tested. After all the reforms in all these countries, joint venture legislation still does not allow for the free and easy repatriation of profits. Alternatives to profit repatriation, like the taking over of raw materials as a substitute for hard currency, are commonly practised in the case of joint ventures between Finnish and Soviet Union firms. However, it is difficult to imagine how arrangements such as these could succeed in encouraging the scale of FDI inflow that these countries seem to wish and require. Thus, until more attractive investment regimes emerge in these countries, FDI flows will probably remain rather small.

Concerning the question of whether FDI flows to CMEA countries are substituting investments that normally would have gone to developing countries, the upsurge in investment into the CMEA countries is still too recent as yet to have had a major impact. At the same time, if it could be established that certain investors who had favoured developing countries were now investing in these new markets, then clearly the potential impact could well be negative for the developing countries concerned. To answer this question would require knowledge about the country of origin of the investor, the industry in which FDI took place, and the main motive for FDI.

As we saw above, the main investors in CMEA countries came from Western Europe and, particularly because of historical, linguistic and geographic ties, the Federal Republic of Germany and Austria. Neither of these two countries are, as we have shown, substantial investors in developing countries. While there has been a decline in the Federal Republic of Germany's share of total OECD FDI flows to developing countries, this decline began in the 1970s - that is to say, before new political and economic developments in CMEA countries. Thus, it would be erroneous to argue that any decline in FDI to developing countries from the Federal Republic of Germany has been caused by increased activity in Eastern Europe. Moreover, the United States and Japan, the number one and number two principal foreign direct investors in developing countries, have not as yet figured largely in the establishment of joint ventures in CMEA countries.

For these reasons, there is, thus far, little evidence that countries with traditionally strong FDI ties to developing countries are now investing in CMEA countries.

The evidence on whether FDI in CMEA countries is occurring in those manufacturing industries in which it takes place in developing countries is rather inconclusive. FDI in developing countries, as we have seen, is spread rather widely, although in many developing countries, the chemicals and electrical/electronic equipment industries are especially favoured. In CMEA countries, FDI in the chemicals industry, especially in Hungary and the USSR, was significant. In contrast, in no CMEA country did the electrical/electronic equipment industry receive a large share of manufacturing FDI inflow.

In the CMEA region, in fact, machinery and equipment N.E.C. played a very substantial role in the manufacturing FDI inflow to those countries, ranking as the number one sector for FDI manufacturing inflow in Hungary and Czechoslovakia, number two in the USSR and number four in Poland, as a percentage of the number of joint ventures in manufacturing.

Food and food products was another important area for FDI inflow into manufacturing in the CMEA region, ranking number one in Poland and number three in both Hungary and the USSR. Metal products, wood and wood products, and wearing apparel also claim substantial shares in the total inflow of FDI into manufacturing in the CMEA region.

There is a general tendency, however, for FDI to be concentrated in the low technology, more mature industries in CMEA countries where demand and expansion possibilities in TNCs' home countries are rather limited. Developing countries, and especially those with generally large markets, have received FDI of this sort. More specifically, firms in such mature industries as power generating and food processing, which need to increase market share, have moved, in recent times, into developing countries. In the same fashion, it is logical to predict that such TNCs will, all things being equal, develop their businesses in CMEA countries but it is difficult to say whether this would necessarily impact badly on FDI flows to developing countries.

Finally, concerning the overall purpose of FDI in CMEA countries, if new ventures were established as a relatively cheap labour production site for export back to developed market countries, then clearly, FDI in certain developing countries could be affected. But so far, the motive of these firms has predominantly been to increase market share within the CMEA countries. As seen above, a sizeable proportion of FDI is directed towards the production of local consumer goods and services. However, there are, of course, exceptions: the Republic of Korea's investment in Hungary is clearly aimed at using a cheap manufacturing base there to export to West European markets, which not only restrict access from Republic of Korea locations, but also have strong local content requirements for Republic of Korean FDI within their countries. As such, the preferential access which Hungarian-based manufacturers possess to the EC is attractive to a foreign investor with the type of market access problems faced by firms from the Republic of Korea.

7. FDI and Other forms of Technology Transfer by CMEA enterprises to developing countries

Generally speaking, technology transfer to developing countries by CMEA enterprises hardly ever takes place in the form of FDI. Rather, technology transfer takes place through a wide range of new types of involvements, including: (i) turn-key plant deliveries; (ii) exports of technology-intensive products; (iii) industrial co-operation agreements; (iv) licensing contracts; (v) exports of engineering, consultancy and technical services; (vi) joint ventures; and (vii) technical assistance and training.

FDI is not prominent, principally because technology transfer between CMEA countries and developing countries takes place in the context of intergovernmental agreements on economic, commercial and technical co-operation. Traditionally, these agreements involved the exchange of CMEA technology for the raw material products of developing countries. CMEA enterprises had neither the autonomy to make FDI decisions nor did they possess any of the proprietary advantages that would have been necessary to compete on international markets or in developing countries.

The major channel for East-South technology transfer has remained the export of technology-intensive products, although in recent years and owing to economic problems affecting both groups of countries, this has lagged behind other forms of foreign technological expansion. Apart from this form of technology transfer, there have developed the more integrated or system-oriented type of transfers. These include turn-key plant deliveries, accompanied by licensing agreements, transfer of technical documentation and technical training of local personnel. There are some differences among particular socialist countries in their approach to technology transfers to the developing countries.

Technology flows from the Soviet Union to the developing countries consist, in the main, of turn-key plants deliveries and technical assistance in human resources. As a rule, the Soviet Union delivers technology to large-scale projects. Czechoslovakian technology transfers to the developing countries have quite a different pattern, the main mode of transfer being the export of software, with technical assistance and complete plant exports playing a relatively small role. This country is the biggest CMEA exporter of licenses and one of the major exporters of engineering and consulting services to the developing countries. The main channels of technology transfer between Bulgaria and the developing countries are technical assistance and engineering and consulting services. However, lately, two other forms have been gaining in importance: turn-key plant deliveries and joint ventures with firms from developing countries.

(i) Extent and Spread of CMEA entreprises' activities in developing countries

There is little systematic data on the extent of CMEA entreprises' activities abroad, as well as a recurrent problem over whether these activities fall within the activities of the CMEA state or within those of the enterprise. These difficulties notwithstanding, one source has calculated that at the end of 1983, there were 236 joint East-South enterprises in the developing countries (see Table 40).

Table 40. Number of entreprises with CMEA capital participation in developing countries, 1983

Region	Bulgaria	Czecho-slovakia	German D.R.	Hungary	Poland	Romania	USSR	Total
Africa	15	8	-	13	20	33	13	102
Asia	6	3	-	6	8	3	9	36
Latin America	1	24	2	11	6	8	1	52
Middle East	12	3	-	14	3	10	4	46
TOTAL	34	38	2	44	37	54	27	236

Source: G.H. McMillan, Multinationals from the Second World. Growth of Foreign Investment by Soviet and East European State Enterprises (McMillan Press, London, 1987).

As can be seen from Table 41 below, most occurred in Africa, followed by Latin America, the Middle East and Asia. Another sources estimates that by the end of 1989, there were 268 CMEA affiliates in developing countries - again, predominantly in Africa.

Table 41. Distribution of foreign affiliates from Eastern Europe, end-1989 a/

Region of destination	Number
Developed countries	579
Western Europe	494
North America	64
Other developed	21
Developing countries	268
Africa	98
Asia	51
Latin America	59
Middle East	60
CMEA	15 b/
Total	862

Source: East-West project, Carleton University, Ottawa, Canada, and UNCTC, "Activities of the United Nations Centre on Transnational Corporations and the activities of the joint units with the regional commissions", E/C.10/1987/4, 23 February 1987.
a/ Excluding Yugoslavia.
b/ Mid-1985.

As can be seen from Table 42 below on the distribution of CMEA investment in developing countries by type of activity, most are found in non-specified manufacturing or raw material processing. In developing countries, CMEA investments are usually established as service firms to market products already produced at home. In contrast, the trading activities of CMEA enterprises in developing countries are rather small.

Table 42. Distribution of CMEA investments in the South by type of activity

Activity	McMillan 1983		Zaleski 1984	
	No.	%	No.	%
Trading	60	25.4	25	14.9
Production	108	45.8	65	38.7
Manufacturing and assembly	59	25.0	27	16.1
Natural resources prospecting and development	20	8.5	14	8.3
Forestry and wood industry	3	1.3	6	3.6
Fishing and fish processing	16	6.8	7	4.2
Agricultural production	10	4.2	11	6.5

Table 42 (cont'd)

Activity	McMillan 1983		Zaleski 1984	
	No.	%	No.	%
Services, excluding trading	63	26.7	23	13.7
Construction	9	3.8	9	5.4
Banking and insurance	9	3.8	6	3.6
Transportation	26	11.0	7	4.2
Unknown	5	2.1	55	32.7
TOTAL	236	100.0	168	100.0

Source: G.H. McMillan, Multinationals from the Second World ..., op. cit. pp. 40-41; E. Zaleski, "Socialist multinationals in developing countries", in: G. Hamilton, Red Multinationals or Red Herrings, the Activities of Enterprises from Socialist Countries in the West (Hamilton, 1986), p. 162.

Generally speaking, joint venture activity involves little technology transfer by CMEA enterprises. As previously noted, technology transfers occurs in other forms[1]. Prominent among these are the export of turn-key plants. By the early 1980s, the CMEA countries had exported more than 4,600 to developing countries, of which about 3,100 had been completed[2]. The sectoral structure of turn-key plants exports seems to be concentrated in traditional segments of industry in which the CMEA countries have a long history of experience. The exports are mostly in raw material-intensive and labour-intensive sectors. Most of these plants are exported to socialist-oriented economies, including Mongolia, Cuba and certain Middle Eastern countries such as the Republic of Iran and Iraq.

(ii) Current and Future Prospects

As to the future course of technology transfers from CMEA countries to developing countries, it is safe to predict that such transfer will take place under substantially new conditions. Given that technology transfer has often traditionally been a by-product of trading agreements between CMEA governments and governments from developing countries, the changing nature of many governments within the CMEA region could possibly alter these established trading patterns and, therefore, technology flows. Furthermore, the growing trend for the increased economic autonomy of CMEA enterprises, the substantial level of indebtedness of their home economies and the possibility of new equity relationships with firms from developed countries, together, could substantially transform existing technology transfer of CMEA enterprises to developing regions.

Taking one factor in particular, the possibility of new equity relationships with firms from developed countries, we have seen that there has been a notable increase in East-West joint ventures in recent years,

1 "Trends in East-South Technology Transfer", J. Maciejewicz, UNCTAD/TT/88.
2 Veneshniaia Torgovlia SSSR, No. 3, 1983, P. 11.

particularly as a result of the liberalization of CMEA legislation. It should be recalled in this context that past developments in East-South technology transfer have been determined, to some extent, by technology borrowed from the West[1]. Technology imported by CMEA countries from the West has, in the past, been adapted and then redeveloped for export to foreign markets, including developing markets.

For this reason, it may be possible to perceive a role for CMEA countries in this process of technological adaptation of Western technology for consumption in developing country markets, especially - and this remains problematic - if the growth in joint ventures in CMEA countries promotes the transfer of Western technology.

Such future scenarios will only be realisable, however, if the economies in both the CMEA and developing countries achieve greater stability. The debt problem existing in both groups of countries will most probably be a limiting factor in both East-South trade and technology transfer for the forseeable future.

8. Small and medium-sized enterprises (SMEs) as foreign direct investors

Interest in the role of SME TNCs derives from the potential special contribution these companies can make to developing countries. Their relatively recent arrival as TNC actors provides a new source of FDI for these countries. Their assumed specific characteristics - that is to say, their greater flexibility, their labour-intensive as opposed to capital-intensive nature, their greater adaptability to local economic conditions, their capacity to serve small communities - make them, it is widely thought, more suited. it would seem, to the conditions of most developing countries than their large TNC counterparts.

However, the degree to which SMEs are different from their larger TNC counterparts is not empirically proven. Moreover, in certain global industries where TNCs dominate and which are of interest to developing countries, the small and medium-sized enterprise do not have the scale of operations required to play a substantive role.

Nevertheless, for policy makers in developing countries, the FDI flows that SMEs can provide may constitute a valuable supplement to flows of more conventional types of TNCs, which, as indicated above, have been reducing their involvement in certain regions of developing countries in recent years.

In developed countries, interest in SMEs rose particularly in the 1970s as a possible source of alternative employment for those people affected by the restructuring of the traditional heavy industries like iron, coal and steel. Indeed, since the mid-1970s, SMEs have generated more employment than large firms, both in manufacturing and particularly in services sectors[1]. The importance of SMEs in employment creation is due to their higher rates of establishment, higher internal growth and high labour-intensity than large firms.

---

1 One piece of research undertaken for the Polish engineering industry has indicated that as much as one-fifth of the technology exported by this industry during the 1970s had its origin in technology imports from the market economy countries. Cited in E. Maciejewicz ... op. cit. p. 36.

Recently, SMEs have begun to enter the international market, facilitated by new technological developments in communication, transportation and financial sectors. In most cases, SMEs invest abroad for the same reasons as large firms. As with large firms, they need to be close to the market they are serving. Local production is necessary when tariff barriers that obstruct their imports exist. Also, those SMEs which supply components and other parts to large enterprises follow their clients abroad as they themselves internationalize their activities. Many TNCs now have, through the system of "partnership sourcing", rather close relations with their suppliers. Instead of using many small suppliers, they tend to choose a few and contract with them to supply goods produced to the highest standards of design and production and delivered to strict schedules. By using these closer relations, supplier firms can follow their clients abroad, knowing that their products will have a ready-made market.

In one study on Japanese SMEs[2], the main reason for investing overseas in the developing world was to reduce production costs. When making decisions as to the country location for investment, whether in the developed or developing countries, a large number of factors come into play. These have been ranked, as seen in Table 43, according to their importance.

Table 43. Purpose of Foreign Direct Investment in Different Periods (Percent: multiple answers)

Reason	Up to 1965	1966-70	1971-75	1986-80	1981+	Among firms which are planning to invest
1. Securing market of host countries	50	67	52	71	74	68
2. Export to Japan	30	21	27	21	19	26
3. Export to Third Countries	20	24	21	21	20	14
4. Securing materials	20	12	13	12	10	19
5. Utilize cheap labour cost	40	58	45	26	16	29
6. Technology export	0	24	26	21	21	41
7. Information collection and making contacts	10	21	23	28	42	29
8. Follow parent companies	20	12	11	14	15	13
9. Risk covering of currency	0	3	2	3	2	1
10. Trade friction	10	3	1	3	2	2
11. Utilizing promotion policies	0	9	12	3	7	9
12. Other	0	0	4	1	4	7

Source: MITI, Survey of SMIs, July 1985.

1 UN ECOSOC, Report to the Secretary-General, Non-conventional Transnational Corporations, N.Y., 2-11 April 1990.

2 Small Business Finance Corporation, Survey of SMIs, July 1985, conducted under MITI.

Of primary importance is securing the market of host country. The availability of pools of cheap unskilled labour appears to be of declining importance among Japanese firms seeking overseas locations. Labour-intensive production processes are relatively easily copied by local firms in the host country such that Japanese firms are increasingly wary of setting up such operations overseas. Cheap labour is still of some importance, but only if it is allied with some level of skill and competency.

In industries such as automotive parts and electronics, which figure significantly in the relocation drive, firms require workers with a relatively high level of skill in operating production machinery. In these industries, machinery cannot be substituted for labour and to maximize productivity, workers are expected to handle the machinery efficiently. For this reason, Japanese investors favour countries with such skills, especially Province of Tawain and the Republic of Korea, and, to some extent, Hong Kong[1].

Referring to SMEs as a whole, the heightened risks of internationalization because of these firms' small resource base mean, generally speaking, at least in the early stages, a cautious approach to international production; they often establish a sales office or agency first, usually in developed market economies.

According to one source, based on evidence from 735 small and medium-sized transnational corporations, such FDI has tended to concentrate in developed market economies, which host more than 80% of foreign affiliates. About 70% of foreign affiliates of Western European countries are in the same region[2]. Among the developed countries, Japanese transnational corporations are exceptional in that they demonstrate a remarkably higher preference for locating their foreign affiliates in developing countries. Within developing host regions, Latin America is the major host region for US small and medium-sized TNCs, South and East Asia for Japanese SMEs, and Latin America and Southeast Asia are almost equally important host regions for Western Europe (see Table 44).

---

1 [Source: (ASEAN ECONOMIC Bulletin), March 1988 "Decision-making ..." by Pasok Phongsaichit, p. 39].

2 UN ECOSOC, Report of the Secretary-General, Non-conventional Transnational Corporations, 2-11 April 1990.

Table 41. Number and geographical distribution of foreign affiliates of small and medium-sized transnational corporations based in 18 developed countries by country of origin and by sector of parents, 1986-1987 a/

Region/country	Total number of transnational corporations surveyed	Total number of foreign affiliates	Number of foreign affiliates per company	Distribution by group of economies (percentage)		
				Developed market economies	Developing market economies	Centrally planned economies b/
		By country of origin c/				
United States	171	426	2.49	82.6	16.9	0.5
Japan	120	438	3.65	46.6	52.3	1.1
Europe of which:	365	1308	3.58	92.1	7.8	0.1
France	23	63	2.74	92.1	7.9	-
Germany,Fed.Rep.	59	237	4.02	91.1	8.9	-
Italy	24	69	2.88	91.3	8.7	-
Netherlands	23	60	2.61	86.7	13.3	-
Sweden	28	113	4.04	99.1	0.9	-
Switzerland	24	95	3.96	91.6	8.4	-
United Kingdom	78	278	3.96	90.3	9.7	-
Total	735	2369	3.22	81.4	18.3	0.3
		By sector of parents d/				
Primary	25	86	3.44	86.0	14.0	-
Manufacturing of which:	514	1517	2.95	85.1	14.5	0.4
Textiles&clothing	45	101	2.24	81.2	16.8	2.0
Chemicals	56	202	3.61	82.2	17.8	-
Metals	57	186	3.26	87.1	12.9	-
Technical equip.	105	328	3.12	88.4	11.0	0.6
Electrical equip.	64	172	2.69	78.5	21.5	-
Services of which:	195	765	3.92	73.5	26.3	0.3
Distributive trade	87	307	3.53	75.2	24.4	0.3
All industries	734	2368	3.23	81.4	18.3	0.3

Source: UNCTC, database on small and medium-sized transnational corporations.

a/ Includes all identified foreign entities regardless of forms of organization (i.e., subsidiaries, branches, representative offices, etc.). Small and medium-sized transnational corporations here are those whose employment is less than 500 in all sectors. Banks, insurance and other financial companies are excluded.

b/ Includes China.

c/ Countries which do not appear in this table but are included are Canada, Austria, Belgium, Denmark, Finland, Ireland, Norway, Australia and New Zealand.

d/ Sectors are classified according to the primary business of the company.

The high concentration of SMEs in developed countries is probably due to the fact that the process of transnationalization begins with an expansion into markets whose characteristics are similar to those in home countries. This is more evident for SMEs, as their foreign expansion is still a relatively recent phenomenon.

The geographical distribution by sector of parents points to more concentration in developed countries in manufacturing than in services. Distributive trade in services and non-metallic mineral products and electrical equipment in manufacturing are the industries in which SMEs tend to establish foreign affiliates in LDCs more often than in other industries.

Japanese small and medium-sized transnational corporations, similar to large transnational corporations, started with Southeast Asia as their preferred location for foreign production. This region still accounts for about one-third of new equity investment cases for both large and small and medium-sized transnational corporations. About 40% of the total number of new equity investments by Japan from 1980-1986 were by small and medium-sized transnational corporations. In terms of value, these transnational corporations accounted for about 15% of all foreign direct investment during the same period, but this share is three times as high as in the latter half of the 1970s[1]. Foreign direct invetment by these transnational corporations first increased around the 1970s, due to the labour shortages in Japan. From the mid-1970s to mid-1980s, their foreign direct investment was directed towards developed countries, because of the strong demand for their products. Since 1985, due to the dramatic appreciation of yen, small and medium-sized transnational corporations moved back to Southeast Asia once again. In the years 1986-1988, almost the same number of new equity investments was made in Southeast Asia as in North America, which together accounted for about 90% of all investments. These two regions are also the largest host regions for large Japanese transnational corporations, accounting for about 70% of their investment[2].

Other countries' SMEs do not figure particularly largely in the share of total foreign activities by these firms. In the US, the large size of the home market reduces the incentives to SMEs to go abroad, while in the UK, in spite of the challenge presented by the creation of a Single European Market in 1992, small and medium-sized firms seem too accustomed to serve local markets and too bound by local culture and traditions to venture abroad. Also, the UK's comparative advantage has declined in precisely those manufacturing industries in which internationalization of SMEs is occurring.

In contrast to the UK and the US, the smaller European countries, such as Denmark, Ireland, Sweden, Finland and Switzerland, have relatively large numbers of foreign affiliates owned by SMEs, due to the small size of their home markets.

As to the contribution of SMEs to economic development in developing countries, the evidence is still patchy. The early research into the question tended to paint a positive picture of these new TNCs' contributions to developing countries' economic development. For example, based on experiences in the early 1970s, it was suggested then that SMEs tended more towards transferring technologies that lent themselves to smaller-scale production, required less capital and could be used to produce less sophisticated goods that were better suited to local demand[3].

---

1 UNCTC data base on small and medium-sized transnational corporations.

2 Ibid.

3 Leipziger, Multinational corporations in LDCs: the choice of technology, Oxford Bulletin of Economics and Statistics, 1975).

Although small and medium-sized enterprises operate on a more labour-intensive basis and create more job opportunities in the national economy, small and medium-sized transnational corporations and their foreign affiliates are not necessarily more labour-intensive than large transnational corporations and their foreign affiliates. However, Japanese data indicates that the labour-capital ratio of Japanese small and medium-sized transnational corporations was 15% higher in manufacturing, 161% higher in services and 32% higher in all industries in fiscal 1983 than the comparable figures for large transnational corporations[1]. This data does show that the average labour-capital ratio of Japanese foreign affiliates as a whole in host developing countries was about three times higher for those of small and medium-sized transnational corporations that for those of larger TNCs in 1987. If this is true for other developed country small and medium-sized transnational corporations (for which the relevant information is not available), their affiliates could generate more employment per unit of capital than those of large transnational corporations.

In terms of adaptation of technologies to suit host country conditions, there is evidence that small and medium-sized transnational corporations also make such efforts. For example, about 63% of Japanese small and medium-sized transnational corporations as of 1988 had given training in Japan to local employees. The growth rate of acceptance of local labourers from developing countries for training in Japanese companies was higher in small and medium-sized enterprises than in large firms from 1978-1984[2]. In Argentina, Brazil and Kenya, there is evidence of frequent adaptation by small and medium-sized transnational corporations.

One of the elements in the question of appropriate technology in developing countries is the issue of scale. Small and medium-sized enterprises' experience is usually associated with small-scale operation suited to developing country conditions in which smaller volumes of output are relevant, especially in products meant for domestic consumption.

It is difficult to assess what impact SMEs will have in the developing country context, especially as this remains a recent pheomenon. The evidence from the Republic of Korea, where large enterprises or large businesses groups have played a dominant role in leading the economy, shows that SMEs have grown enough to account for 83% (55 cases) of total joint ventures (671 cases) with foreign firms during the period 1984-87 and accounted for more than 40% (863 cases) of the introduction of technology from abroad (total of 2,045 cases) during the same period[3].

The importance of SMEs to developing countries is being increasingly recognized by these countries' governments themselves. Several countries have changed their regulations to attract SMEs from abroad. In Indonesia, regulations on minimum investment by foreign firms were abolished in 1988. This followed similar revisions by the Republic of Korea and Chile.

---

1 UNCTC ECOSOC, Report of the Secretary-General, Non-conventional Transnational Corporations, N.Y., 2-11 April 1990.

2 UN ECOSOC, Report of the Secretary-General, Non-conventional Transnational Corporations, N.Y., 2-11 April 1990.

3 UNCTC data base on small and medium-sized enterprises.

There has also been an increasing interest in developing local SMEs in developing countries. Some governments in developing countries have initiated specific schemes for the promotion of joint ventures or other forms of co-operation between their SMEs and those from developed countries. For example, the Republic of Korean Small and Medium Industry Promotion Corporation, in collaboration with "Association pour la Promotion et le Développement Industriel de France", set up a programme for transfer of technology and joint ventures between the Republic of Korea and France in 1984. The governments of Argentina and Italy concluded a treaty which seeks to mobilize $1.5 billion for private investments through joint ventures between SMEs[1]. In Mexico, Nacional Financiera (the State Bank) has created co-investment funds with several European countries to promote joint ventures between SMEs.

What can be said with certainty is that interest in ways of tapping the potential of SME TNCs will grow. Those corporations will become increasingly important foreign investors but (with few exceptions) they tend to invest primarily in other geographically contiguous developed market economies. They do not have the managerial or financial resources to scan developing countries for profitable investment opportunities, assuming, of course, that those exist in the first place. For their part, governments and potential joint venture partners in developing countries are often unaware of these companies' products or technologies which, in many cases, are quite suitable to the smaller markets of the developing countries.

9. The Importance of New Forms of Investment in Developing Countries

An increasing trend in relations between TNCs and developing countries concerns new forms of investment (NFI) under which a home country TNC supplies resources - material, financial and/or technical - for an investment project or enterprise in a host country but majority or whole ownership of the project or enterprise is retained by domestic interests in the host country.

NFIs can take many forms, including licensing agreements, franchising, turn-key and "product-in-hand" contracts, production-sharing and risk-service contracts, R&D co-operation, international subcontracting (in which the subcontracting firm is at least 50% locally owned) or joint ventures (in which foreign equity is no greater than 50%). NFI then goes beyond the definition of simple industrial co-operation, which are non-equity agreements, in that NFIs may include foreign equity participation in projects or enterprises, as long as domestic host country interests retain at least 50% control (which must not be strictly monetary).

A distinction must be made between NFI, especially joint ventures, which have characterized and, in some sectors, dominated foreign investment in certain industries in the developing countries, and the wave of co-operation agreements, joint ventures and joint R&D programmes which have swept the developed world - 15-20 years later, in the 1980's - involving many of the world's leading TNCs, in predominantly high technology industries.

The flow of NFI to developing countries began in the mid 1970s and was primarily the result of host government regulations which restricted foreign ownership of investment and, thereby, allowed the developing countries to retain local control over manufacturing and important natural resources.

---

1 UN ECOSOC, Report of the Secretary-General, Non-conventional Transnational Corporations, N.Y., 2-11 April 1990.

At this time, many developing countries also found it easier to do without traditional FDI because low or even negative real interest rates made foreign bank loans easier to obtain. These circumstances also made non-financial investments from abroad more appealing. In addition, technological change lowered some barriers to entry (as in the petroleum, metals and petrochemicals sectors), thus making it easier for the smaller, less experienced developing country firms to enter the industry without completely depending on already-established foreign TNCs.

As discussed above, the indebted nature of their economies has hampered developing countries' ability to obtain new bank lending. Traditional FDI has, therefore, become much more attractive. On the other hand, the TNCs now see advantages in retaining these new forms of investment, principally in the context of reducing the risks involved in their foreign operations in these countries. It is for this reason that NFI still continues in developing countries, although not to the same extent as in the 1970s.

(i) Industrial and Sectoral Breakdown of NFI

(a) Primary Sector

It is in the extractive industries - metals, mining and petroleum - that the strongest evidence of NFI superseding traditional FDI is found. Movement from FDI to NFI in petroleum began as far back as the late 1950's and by the end of the 1970's, FDI was almost obsolete in this sector. Today, NFI has practically entirely displaced traditional FDI in petroleum extraction in developing countries.

In metals mining, the shift from FDI to NFI did not occur until the late 1960's/mid-1970's. By the early 1980's, however, low world market prices for metals prompted developing countries to seek equity from foreign investors but although these governments were now anxious to receive traditional FDI, the TNCs were not very willing to take such a stake in what had proved to be a risky business. Therefore, the picture is still mixed but NFI has basically dominated, although not superseded, FDI. However, in metals mining in developing countries, the risk has definitely shifted shoulders from the TNCs to the host countries and to international lenders.

(b) Services

NFI is particularly found in the services sector. Most service TNCs, particularly large ones, engage in a wide range of non-equity ventures and a host of quite specific co-operative arrangements.

Franchising is a type of contractual arrangement widely used by many service TNCs, both at home and abroad, in order to distribute brand-name services under licence: the franchisor provides the business system and trade mark, and the franchisee operates the business under the franchisor's name. This practice is growing. In the case of the United States, 342 US franchising companies operated 30,188 outlets in foreign countries in 1985, compared to 156 franchisors with 3,365 outlets in 1971[1]. These forms of activities are found especially in international fast-food chains, restaurants and hotels. Other service industries in which the incidence of non-equity forms is relatively high include car rentals and health services.

---

1 "Foreign Direct Investments and Transnational Corporations in Services", UNCTC, New York, 1989.

It also appears that, especially in developing countries, there has been a long-term shift from FDI to such non-equity forms as turn-key and technical assistance contracts in public utilities, public transportation networks, port facilities, railroads, international shipping and air transportation[1]. At the same time, in all of these industries, FDI can play a significant role as well. For instance, in shipping, countries offering flags of convenience have attracted considerable FDI. It is thus difficult to say, precisely, the extent to which NFI is used by service TNCs.

In manufacturing, there are few sector-wide but rather more industry-specific patterns. NFI, like traditional FDI, tend to be concentrated in the host country's higher-growth industries. These new forms of investment are also more frequently found, within the manufacturing sector, in local-market-oriented-investments, whereas traditional FDI occurs more often where exports are important.

In general, NFI in manufacturing has become increasingly important since the 1970's but the timing and pattern of this shift differ among host countries and sectors and according to the share of foreign investment, as a whole, that exists in a country. In Brazil, for example, NFI is important in manufacturing but FDI has still remained prominent, whereas in Singapore, NFI is almost insignificant and FDI is very important. In Algeria and the Republic of Korea, NFI is very significant.

The relative importance of NFI as opposed to FDI discussed above does not, however, take account of the fact that, for example, the share of total foreign corporate involvement (NFI plus traditional FDI) in all manufacturing investment is high in Brazil and very high in Singapore and Algeria, but low in the Republic of Korea.

Within the manufacturing sector, NFI have gained in importance in such industries as food production and processing, but especially in petrochemicals and automobiles and, in fact, have superseded traditional FDI in areas such as textiles. Each industry has its own particular reasons for the predominance of one or the other form of foreign investment and the form may also vary from one geographic region of investment to another.

NFI was common almost from the very beginning in TNC petrochemical investments in developing countries. With the exceptions of Argentina and India, there was very little FDI in this industry in developing countries in the late 1950's and early 1960's. Not only are NFI in petrochemicals in developing countries today probably irreversible, but foreign participation, as a whole, has been dwindling and is tending to be replaced by indigenous investments. The widespread use of NFI can, therefore, perhaps be seen as a transition from dominance of this industry by foreign TNCs to gradual control by the host country, whether government or private. However, this may be more due to TNC strategy than to any desire by host country nationals to regain control, since many TNCs have already developed exit strategies out of petrochemicals and have chosen to invest in biotechnology, specialty chemicals and high-grade new materials.

---

1 OECD, New Forms of Investment in Developing Countries, Charles Oman, Paris, 1989.

In the automobile industry today, NFI, on the whole, has become more important than FDI in developing countries, although the predominance of NFI is very clearly seen in Asia, while in Latin America, FDI still remains very important. Traditional FDI was dominant through the mid-1970's but expansion of the automobile industry in Asia in the late 1970's meant that NFI, which were the more common form of investment in that region, also gained in importance. NFI are found, particularly, in China, the Republic of Korea, India and Taiwan Province in the automobile industry.

In the textile industry, it is also clear that NFI has largely superseded traditional FDI, although foreign investment on the whole has not been that significant in this industry. This may be because textiles has not been a major growth industry (except in the Republic of Korea, Taiwan Province and Hong Kong, where NFI played a significant role in promoting the industry).

Another factor in explaining the low level of foreign investment in textiles may be that low barriers to entry prevented the type of oligopoly (except in synthetic fibers) among OECD-based firms that occurred in many other manufacturing industries.

In the food industry, NFI is more widespread in primary food production - principally, in contract production - than in food processing, and is very important in Latin America. The shift to NFI was part of the adoption in many Latin American countries of import-substitution industrialization strategies. Recently, such NFI have also taken the form of multipartite agreements but there has also been a move away from contract growing, where NFI had superseded FDI, and into more reliance on open market operations. Therefore, although NFI has dominated the nature of foreign investment in food production in developing countries, the overall level of foreign participation in this industry in developing countries may be declining as open market operations begin to replace contract growing and TNCs generally start divesting out of this segment of the industry in developing regions[1].

(ii) The implications of non-equity forms of investment for developing countries

As we have see, NFI developed primarily in response to regulations of developing countries. There seems so far little evidence that as developing countries lessen these regulations, the incidence of NFI will in turn decrease. This is partly because TNCs themselves now appreciate the lower risks involved in NFI in comparison to traditional FDI, and will wish to continue benefiting from these increased advantages. It is not inconceivable that benefits to developing countries too will emerge from NFI. For example, NFI is being increasingly used by smaller firms from developed countries to transnationalize their operations. These firms are finding that they can use non-equity arrangements to exploit certain type of assets, such as organization or products or process technology, suitable to small-scale production or to other conditions prevaling in developing countries.

However, there are greater risks as well to developing countries from NFI. For instance, most non-equity arrangements carry the implication that host-country enterprises will assume all or most of the risks associated with investment projects. Of dominant concern, however, is that the financial situation existing in many developing countries prevents them from supplying the financial assets to the project concerned.

---

1 OECD, New Forms ..., Charles Oman, op. cit.

Annex 1

US FDI OUTFLOWS TO SELECTED COUNTRIES

(US$ mn) Recipient	1982	1984	1986	1987	1988
Europe	783	47	14054	22376	3335
EC	-257	-65	12778	18916	4439
Other Europe	1040	112	1276	3460	-1104
Canada	-1616	2259	2565	7450	4101
Japan	-2	-361	1987	2908	1976
Asian NICs 1)	434	836	1110	1497	1727
Latin America 2)	995	28	1638	1271	1117

1) Hong Kong, Singapore, Thailand, Taiwan Province and S. Korea.
2) Not including offshore banking.
Source: US Survey of Current Business, various years.

Annex 2

PDFCs (Public Development Finance Corporations)

I. UNITED KINGDOM:

CDC (Commonwealth Development Corporation)

The Commonwealth Development Corporation (CDC)'s goal is to assist overseas countries in the development of their economies:

(a) by providing long-term finance in the form of loans and risk capital (equity) for projects;
(b) by managing projects and resources;
(c) by providing ancillary services such as purchasing, marketing and personnel for projects.

Co-investors with the CDC are Development Finance Institutions (multilateral, bilateral and regional development banks); British private sector companies; host country governments; and local private sector companies. Among the British private sector co-investors, the great majority are large, well-known corporations, including many TNCs. As yet, few small and medium-sized British enterprises have participated in CDC projects in developing countries.

Out of a total of 254 deals in developing countries to which the CDC had committed itself as of 31 December 1988, less than 20%, or 53, were in least developed countries. 48 of these were in least developed countries in Africa, 3 in Asia and 2 in the Pacific Islands[1].

1 Above section based on Commonwealth Development Corporation, Report and Accounts 1988.

Table 1. TOTAL COMMITMENTS AS OF 31 DECEMBER 1988

Region		# of projects	# of projects in least developed countries
Pacific Islands		8	2
Caribbean		34	
Latin America		20	
East Africa)		48	14
Central Africa)		43	21
Southern Africa) AFRICA 140		25	10
West Africa)		24	3
South Asia)		12	3
S.E. Asia) ASIA 49		37	
Other		3	
	Total :	254	53 (less than 20%)

Source: Calculated from the Commonwealth Development Corporation, Report and Accounts, 1988.

Operations in approx. 50 countries.

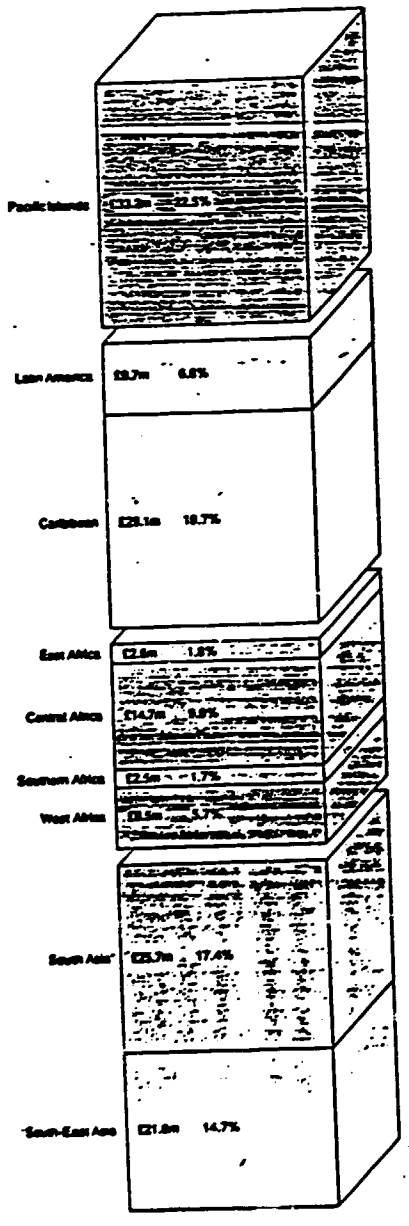
Table 2.

CDC New Commitments in 1988:	(£mn)
Pacific Islands	33.158
Caribbean	29.086
Latin America	9.706
East Africa	2.600
Central Africa	14.769
Southern Africa	2.435
West Africa	8.500
South Asia	25.748
South-East Asia	21.803
Total:	147.8

Source: Calculated from the Commwealth Development Corporation, Report and Accounts, 1988.

FIGURE 19

TOTAL NEW COMMITMENTS IN 1988: £147.8m

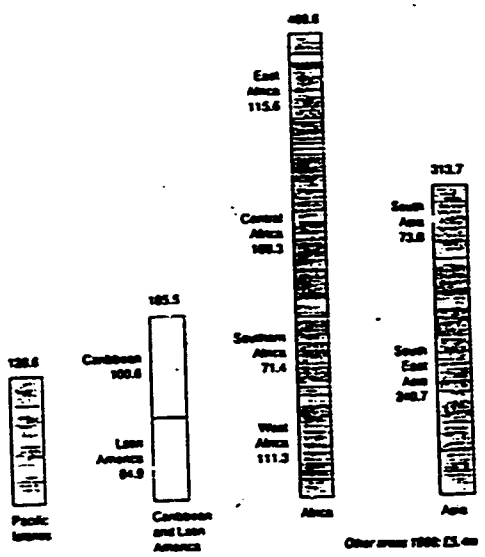


* = India, Pakistan, Bangladesh, Sri Lanka

Source: Commonwealtn Development Corporation, Report and Accounts 1988.

FIGURE 20

CAPITAL DISTRIBUTION BY AREA - 1988

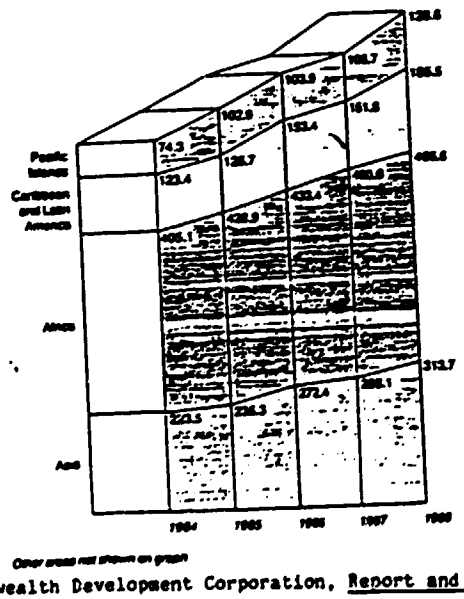


Source: Commonwealth Development Corporation, Report and Accounts 1988.

FIGURE 21

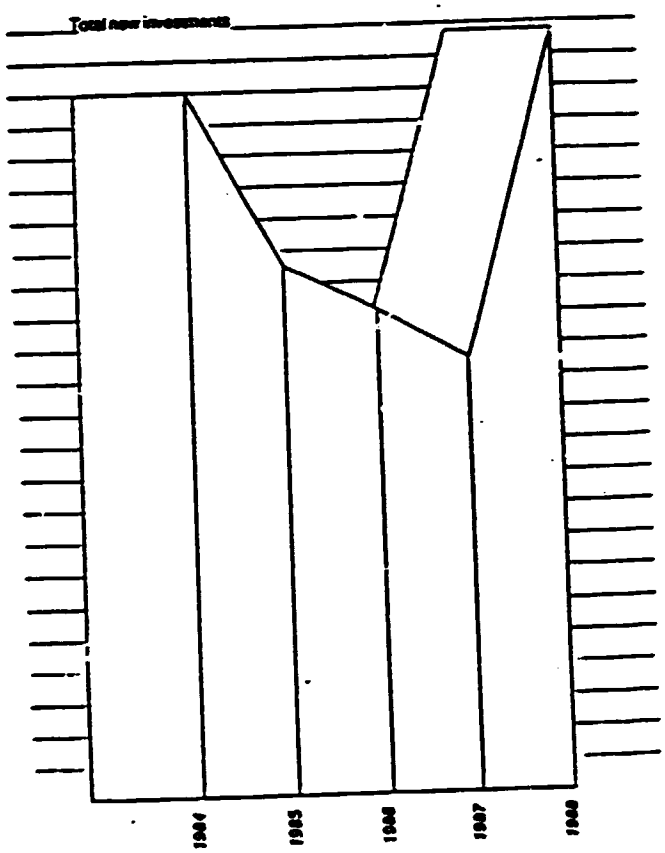
CAPITAL DISTRIBUTION BY AREA

All figures shown on graphs are in £m and represent total invested and committed



Source: Commonwealth Development Corporation, Report and Accounts 1988.

FIGURE 22



Source: Commonwealth Development Corporation, Report and Accounts 1988.

II. SWEDEN:

SWEDFUND (The Swedish Fund for Industrial Co-operation with Developing Countries)

Swedfund's goal is to promote industries in developing countries, in collaboration with Swedish industrial enterprises, by participating as a minority owner on commercial terms in joint venture companies together with developing country partners and Swedish firms.

By the end of 1988, Swedfund had commitments of SEK 186 mn in 29 companies in 19 countries, where total investments by all partners equalled SEK 1,850 mn. These projects are expected to generate 6,000 jobs.

Swedfund participates in 17 joint venture companies in Africa, 9 in Asia and 3 in Latin America. In 1988, 2 new projects were undertaken in Africa (Tanzania and Rwanda) and 1 in Asia (India). No new commitments were made in Latin America.

Out of these 29 projects in which Swedfund is involved, about one third, or 10, are in least developed countries (9 in Africa, 1 in Asia)[1].

III. JAPAN:

Japan is the second largest donor of ODA (Official Development Assistance) among DAC member countries, having donated approximately $7,5 bn or 0.31% of GNP in 1987. The Japanese government has further set a goal of providing over $50 bn in ODA over the period 1988-1992.

(i) JICA (Japanese International Co-operation Agency)

The JICA (Japanese International Co-operation Agency) is an agency for government-based technical co-operation for developing countries and for administration of emigration services, which is budgeted by the Japanese Government under its ODA programme.

JICA is active in the following areas:

(1) government-based technical co-operation
(2) The grant aid programme
(3) Dispatch of JOCV (Japanese Overseas Co-operation Volunteers) members
(4) The development co-operation programme (investment in and financing of developments projects)
(5) Emigration services
(6) Recruiting and training of qualified Japanese experts for technical co-operation.

In 1987, Asia accounted for 49.1% of expenses of JICA'S Technical Co-operation (30.6% for ASEAN countries, 18.5% for other Asia), Latin America accounted for 22.1%; Africa for 13.8% and the Middle East for 7.5%.

The aspect of JICA's programme which can be most closely linked to promotion of investments in developing countries is point 4 of the agency's categories of activities, the Development Co-operation Programme (investment in and financing of development projects).

---

1 Above data taken from Swedfund Annual Report, 1988.

Through this programme, JICA offers long-term, low-interest loans to both Japanese corporations and foreign corporations financed by Japanese firms, which require funds for improvement and expansion of facilities and for experimental projects in developing countries. These funds are used, however, in projects which do not pay on a commercial basis and which promote social development, agricultural and forestry development, and mining and manufacturing activities.

JICA provided 2,648.0 mn yen for 1 experimental project in 1987; 1,886.7 mn yen in loans for 28 experimental projects; and conducted 14 basic surveys, while providing 35 experts and accepting 29 trainees related to technical guidance[1].

(ii) The Export-Import Bank of Japan

Promoting the development of LDC's economies is also an aspect of the Export-Import Bank of Japan's activities (the Export-Import Bank of Japan is an independent governmental financial institution). While the bank is active in providing export and import credit; guarantees; overseas investment credit and overseas project loans; and untied direct loans, it is through the latter two that the Bank seeks to further Japan's stated goal of recycling its huge current account surplus to the developing countries as a means of economic co-operation with them.

Overseas investment credit and overseas project loans are extended to Japanese corporations for overseas investment activities and projects, as well as to overseas joint ventures with Japanese capital and to foreign governments for their capital contributions and loans to these joint ventures with Japanese capital.

Untied direct loans are extended to foreign governments, foreign governmental institutions, foreign financial institutions and multilateral development banks for specific purposes, such as energy development and developing countries' priority-sector projects and economic restructuring programmes. This use of untied loans to recycle capital to the developing countries is an extension, first undertaken in 1986, of their original purpose, which was restricted to providing loans to multilateral development banks and to resource development projects. The amount of credit commitments provided in terms of untied loans increased by over 200% from 1985 to 1986. In 1986, untied direct loans were also extended to Colombia, Mexico and Indonesia to help the capital flows to these developing countries.

A distribution of credit commitments by area shows a large increase in Latin America's and in S.E. Asia's shares from 1985 to 1986, from 9% to 15% and from 8% to 29%, respectively. The year also saw substantial decreases for North America and East Asia, from 23% to 9% and from 26% to 16%, respectively.

Total credit commitments for the Export-Import Bank of Japan were 1,035 bn yen ($5.4 bn) in 1986, up from 888 bn Yen ($4.1 bn) in 1985[2].

---

1 Above data taken from Japan International Co-operation Agency, Annual Report, 1988.

2 Above data taken from the Export-Import Bank of Japan, Annual Report for the Fiscal Year ended 31 March 1987.

IV. THE FEDERAL REPUBLIC OF GERMANY:

(i) DEG (The German Finance Company for Investment in Developing Countries)

The DEG is the German Finance and Advisory Institute for promotion of private enterprise in the Third World. The DEG supports the co-operation of German corporations with companies in the Third World in the form of private investment or other types of co-operation by both advising interested parties and providing long-term credit and risk capital for projects in developing regions.

The DEG claims to have established and contributed funds to experience in over 450 project financings in over 80 countries. Of the approximate 300 projects listed in the 1988 annual report, only 37 were in least developed countries (32 in Africa, 5 in Asia).

52 new projects worth 161 mn DM were approved in 1988, covering 30 developing countries. Emphasis was on Asia, where 22 of the new project approvals were located (worth 93.9 mn DM or 58% of the new financing). Africa received 12 project approvals, worth 37.7 mn DM or 24%; Latin America received 10% and Europe (Portugal, Greece and Yugoslavia) 8%.

Projects in 1988 were concentrated in chemicals, electro-technical products, development banks, hotels and farms/fisheries[1].

(ii) KfW: Kreditanstalt für Wiederaufbau

The KfW Bank of the FRG has 2 goals: the promotion of German enterprise through investment- and export-credit, as well as financial co-operation, in the name of the German government, with developing countries through credits and grants.

In 1988, the German government, through the KfW, approved 2.9 bn DM in credit and grants for developing countries, 1.3 bn DM of which went to Asia; 1.2 bn DM to Africa and 0.2 bn DM to Latin America. Almost half of the countries in which new projects were approved in 1988 were least developed countries, the great majority in Africa[2].

V. THE UNITED STATES OF AMERICA:

OPIC (The Overseas Private Investment Corporation)

OPIC is the federal agency for promotion of American business investment in developing regions. OPIC primarily provides political risk insurance, but also provides loan guarantees, direct loans to small businesses and co-operatives, and various pre-investment and investment-encouragement programmes.

OPIC claims to be active in over 100 developing countries. Since the early 1980's, it has become successful in its efforts to stimulate the participation of SMEs of the US in overseas ventures. More than 40% of the 1985-supported projects were sponsored by small businesses or co-operatives.

---

1 Above data taken from the German Finance Company for Investment in Developing Countries (DEG), Annual Report, 1988.

2 Above data taken from Kreditanstalt für Wiederaufbau, Annual Report, 1988.

Investment encouragement projects - especially the feasibility study programme, which doubled in size from 1984 to 1985 - were targeted to those industries and companies whose products, services and expertise were most compatible with Third World development needs.

In 1985, the total finance portfolio was distributed 37% in Africa, 27% in Latin America and the Caribbean, 23% in East Asia, and 13% in the New East, S. Asia and Europe. The 157 investment projects with which OPIC assisted in 1985 involved a total investment of about $5.2 bn, of which $2 bn will be provided by US investors. These projects will directly contribute to 2 of the Third World's most urgent needs; creation of employment and generation of foreign exchange. During the first 5 years of operations, the 1985 OPIC-assisted projects are expected to generate 27,587 jobs.

74 of these 157 projects are located in the least developed countries.

OPIC also screens each proposed investment to ensure that it contributes positively to the host country's development and that it will not have a significantly adverse effect on the US economy or US employment[1].

---

1 Above data taken from the Overseas Private Investment Corporation, 1985 Annual Report.

Annex 3

Direct Investment flows to East Asian Countries
(mn US$)

China	1985*	1987	1988
Japan	100	1,266	296
US**	172	NA	99 (1988/89)

Hong Kong	1985*	1987	1988
Japan	131	1,072	1,662
US	-38	381	729

Thailand	1985*	1987	1988
Japan	48	254	859
US	-49	194	-154

S. Korea	1985*	1987	1988
Japan	134	647	483
US	36	215	629

Taiwan Province	1985*	1987	1988
Japan	114	367	372
US	-2	432	230

Philippines	1985*	1987	1988
Japan	61	72	134
US	-258	-89	77

Singapore	1985*	1987	1988
Japan	339	494	747
US	-58	275	629

Malaysia	1985*	1987	1988
Japan	79	163	387
US	43	20	316

Indonesia	1985*	1987	1988
Japan	408	545	586
US	165	-288	61

Sources: US Survey of Current Business; JETRO.
* Japanese figure from Financial Times, 30.1.90
** US figures on China from FT, 30.1.90.

Annex 4

The World's Biggest Industrial Corporations

Rank	Company	Headquarters	Industry	Sales $ mn.	Profits $ mn.
1	General Motors	Detroit	Motor vehicles	121,085.4	4,856.3
2	Ford Motor	Dearborn, Mich.	Motor vehicles	92,445.6	5,300.2
3	Exxon	New York	Petroleum refining	79,557.0	5,260.0
2	Royal Dutch/Shell Group	London/The Hague	Petroleum refining	78,381.1	5,238.7
5	International Business machines	Armonk, N.Y.	Computers	59,681.0	5,806.0
8	Toyota Motor	Toyota City(Japan)	Motor vehicles	50,879.9	2,314.6
10	General Electric	Fairfield, Conn.	Electronics	49,414.0	3,386.0
6	Mobil	New York	Petroleum refining	48,198.0	2,087.0
7	British Petroleum	London	Petroleum refining	46,174.0	2,155.3
9	IRI	Rome	Metals	45,521.5	921.9
11	Daimler-Benz	Suttgart	Motor vehicles	41,817.9	953.1
16	Hitachi	Tokyo	Electronics	41,330.7	989.0
21	Chrysler	Highland Park, Mich.	Motor vehicles	35,472.7	1,050.2
18	Siemens	Munich	Electronics	34,129.4	757.0
17	Fiat	Turin	Motor vehicles	34,039.3	2,324.7
19	Matsushita Electric Industrial	Osaka	Electronics	33,922.5	1,177.2
15	Volkswagen	Wolfsburg (FRG)	Motor vehicles	33,696.2	420.1
12	Texaco	White Plains, N.Y.	Petroleum refining	33,544.0	1,304.0
14	E.I. Du Pont de Nemours	Wilmington, Del.	Chemicals	32,514.0	2,190.0
20	Unilever	London/Rotterdam	Food	30,488.2	1,485.6
24	Nissan Motor	Tokyo	Motor vehicles	29,097.1	463.0
22	Philips' Gloeilampen-fabrieken	Enchoven (NL)	Electronics	28,370.5	477.1
27	Nestlé	Vevey(Switzerland)	Food	27,803.0	1,392.7
32	Samsung	Seoul	Electronics	27,386.1	464.3
25	Renault	Paris	Motor vehicles	27,109.7	1,496.7
29	Philip Morris	New York	Tobacco	25,860.0	2,337.0
35	Toshiba	Tokyo	Electronics	25,440.8	438.9
26	ENI	Rome	Petroleum refining	25,226.8	917.3
23	Chevron	San Francisco	Petroleum refining	25,196.0	1,768.0
28	BASF	Ludwigshafen (FRG)	Chemicals	24,960.5	802.2
34	Hoechst	Frankfurt	Chemicals	23,308.1	1,037.8
37	Peugeot	Paris	Motor vehicles	23,249.7	1,485.8
33	Bayer	Leverkusen (FRG)	Chemicals	23,025.9	1,055.5
39	Honda Motor	Tokyo	Motor vehicles	22,236.5	819.5
30	CGE (Cie Générale d'Electricité)	Paris	Scien. & Photo. Equip.	21,487.5	362.4
31	Elf Aquitaine	Paris	Petroleum refining	21,175.0	1,209.9
36	Amoco	Chicago	Petroleum refining	21,150.0	2,063.0
38	Imperial Chemical Industries	London	Chemicals	20,839.0	1,490.9
47	NEC	Tokyo	Electronics	19,626.1	183.4
41	Occidental Petroleum	Los Angeles	Food	19,517.0	302.0
42	Procter & Gamble	Cincinnati	Soaps, Cosmetics	19,336.0	1,020.0
.	Ferruzzi Finanziaria	Ravenna	Chemicals	18,311.1	425.6
40	United Technologies	Hartford	Aerospace	18,087.8	659.1

The World's Biggest Industrial Corporations (cont'd)

Rank	Company	Headquarters	Industry	Sales $ mn.	Profits $ mn.
43	Atlantic Richfield	Los Angeles	Petroleum refining	17,626.0	1,583.0
.	Asea Brown Boveri	Zurich	Indus.&Farm Equip.	17,562.0	386.0
.	Daewoo	Seoul	Electronics	17,251.2	33.3
49	Nippon Steel	Tokyo	Metals	17,108.9	291.7
.	Eastman Kodak	Rochester, N.Y.	Scien.& Photo.Equip.	17,034.0	1,397.0
46	Boeing	Seattle	Aerospace	16,962.0	614.0
44	RJR Nabisco	Atlanta	Food	16,956.0	1,393.0
.	Mitsubishi Electric	Tokyo	Electronics	16,857.4	160.6
.	Thyssen	Duisburg (FRG)	Metals	16,796.0	372.3
.	Dow Chemical	Midland, Mich.	Chemicals	16,682.0	2,398.0
.	Xerox	Stamford, Conn.	Scien.&Photo.Equip.	16.441.0	388.0
.	USX	Pittsburgh	Petroleum refining	15,792.0	756.0
50	Volvo	Goteborg (Sweden)	Motor vehicles	15,752.1	807.3

Source: Fortune Magazine, 31 July 1988.