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Editorial statement

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Transnational Corporations

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Contents

Foreign direct investment, competitiveness and technology
Editor's introduction

When we were compiling the articles and the research note of this issue of *Transnational Corporations*, we realized that the materials dealt with the same topic: the interaction of foreign direct investment (FDI) with competitiveness and technology. Hence we can offer our readers a panorama of key issues, analyzed by eminent scholars.

The convergence of topics in the three articles and the Overview of the *World Investment Report 2002* is not an accident. Leading scholars are closely following the most important emerging patterns of the world economy and the challenges they raise. And there is no doubt that under a scenario of heightened international competition among firms and intensifying competition among locations for investment projects, the question of how success can be attained and maintained is of crucial importance.

The first article, written by John H. Dunning and Alison McKaig-Berliner, analyzes the competitiveness question from a firm perspective, and in one services industry (professional business services). Given the growing importance of services in economic activities and their increasing tradability, it is timely to carry out an empirical enquiry on how these developments affect the sources of competitiveness. The authors carried out an original field study into the sources of competitiveness of 96 professional business service firms. Among its most significant findings, the article shows that the propensity of firms to access competitive advantages from foreign locations is positively related to the degree of transnationality, and varies according to the country of origin and form of FDI.

In the second article, Sanjaya Lall investigates the sources of competitiveness for developing locations and the role Governments can play in enhancing such competitiveness. The article addresses the competitiveness question from the point of view of the role of FDI in technology transfer and learning. It highlights the important role that FDI can play in the transfer of technology, but emphasizes that technology transfer should be maximized and complemented by appropriate country policies. It presents the success achieved by South-East Asian economies as a benchmark for economic and policy analysis. Lall concludes that there is no single path to competitive success; there are rather diverse paths followed by different countries.

The third article, by Rajah Rasiah, provides further details on how government policies can (or can not) enhance competitiveness. The relevance of his analysis comes from the fact that he contrasts the cases of two locations within the same country (Malaysia): that of Penang (a success story) with Klang Valley (a less successful case). This underlines the importance of sub-national entities in providing the right type of assistance to competitiveness. The author focuses on the development of human capital through formal education and learning by doing in both locations. Different systemic coordination at the local level has produced different levels of network synergies in Penang and Klang Valley. Stronger systemic coordination and network cohesion stimulated greater differentiation and division of labour in Penang, while weak systemic coordination and network cohesion confined transnational corporations to largely truncated operations without significant levels of differentiation and division of labour in Klang Valley.

The Overview of the *World Investment Report 2002* provides a wide range of background information for the reader, in order to contribute to a full picture of the current dynamics of the world economy. It examines the downturn of FDI in 2001 – the first in ten years – mainly due to a slowdown of world economic growth and a decrease in cross-border mergers and acquisitions, as well as its implications for both firms and host economies. Furthermore, it focuses on FDI and export competitiveness, both from the point of view of evolving corporate strategies and the changing global landscape of production. Based on an analysis of recent trends in international trade, it identifies the countries and products in which TNCs have driven export performance and describes the most relevant corporate strategies behind these patterns. It also presents policy options available for developing countries to attract and upgrade export-oriented FDI.

As for the standard features of *Transnational Corporations*, this issue contains not just six book reviews on volumes that all deal with related firm-level or host-location related competitiveness issues, the traditional list of UNCTAD publications, information on UNCTAD's recent press materials and books received, but also the consolidated indices of all materials published in *Transnational Corporations* so far. We hope those indices will help the reader in finding relevant reading in the wealth of materials we have produced over the past 11 years.

Karl P. Sauvant
Editor

The geographical sources of competitiveness: the professional business service industry

John H. Dunning and Alison McKaig-Berliner [*]

This article presents the results of an original field study into the geographical sources of competitiveness of some 96 professional business service firms. Among its more significant findings, it shows that the propensity of firms to access competitive advantages from a foreign location is positively related to their degree of transnationality, and varies according to their country of origin and form of overseas involvement.

Key words: business strategy, competitiveness, knowledge capital, policy, professional business services, transnationality

Introduction

In the December 1996 issue of *Transnational Corporations*, one of the authors of this article summarized the results of a field survey into the geographical sources of competitiveness of the world's largest industrial firms (Dunning, 1996). Based upon the opinions of the senior executives of some 144 such firms, that article found that a not insignificant part of their competitive advantages was obtained as a direct result of their foreign based activities; that an "overwhelming majority" of these executives – from all industries and countries[1] – believed that the importance of the foreign sourcing of these advantages had increased in the first half of the 1990s (Dunning, 1996, p. 27); and that foreign direct investment (FDI), followed by cross-border inter-firm cooperative agreement, was the favoured modality for acquiring those advantages.

[*] The authors are Emeritus Esmee Fairbairn Professor of International Investment and Business Studies, University of Reading, United Kingdom and Emeritus State of New Jersey Professor of International Business, Rutgers University, United States and Ph.D. graduate, Rutgers University, United States, respectively. The authors wish to thank three anonymous referees.

[1] As listed in the *Fortune* magazine, 25 July 1994.

The purpose of the present article is to set out the findings of a follow-up survey into the geographical sources of competitiveness of some 96 professional-business-service firms. The survey was conducted between November 1999 and May 2000. Some ten professional business service industries were chosen for examination.[2] These industries are identified in table 1, which also sets out the response rate to the questionnaires sent out to 448 professional-business-service firms.[3] As revealed by the table, the response rate (weighted by the size of the firms) varied between 8 per cent and 44 per cent around an average of 21 per cent. Apart from that obtained from two industries *viz.* information technology, investment and financial services, this is an acceptable response rate.

The characteristics of the sample

Further details of the sample firms are presented in tables 2-4. Particular note should be taken of the transnationality index (TI) set out in the final columns of the three tables. In table 2, an industry classification is offered, based upon the knowledge-capital intensity (KCI)[4] of the participating firms. The KCI ratio[5] was derived from information provided by the respondents; it is based on an average of (a) the percentage of skilled labour (up to first university degree or its equivalent) to the total labour force, (b) the extent of linkages between a firm and university and research institutions, and (c) the perception of the executives of the importance of knowledge related assets (relative to other assets) as a competitive advantage. The data suggest that 83.3 per cent of the sample firms, which accounted for 74.0 per cent of the global sales, classified themselves as of above