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World Investment Report 2002

Transnational Corporations and Export Competitiveness

Overview

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The following symbols have been used in the tables:

Two dots (..) indicate that data are not available or are not separately reported. Rows in tables have been omitted in those cases where no data are available for any of the elements in the row;

A dash (-) indicates that the item is equal to zero or its value is negligible;

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A slash (/) between dates representing years, e.g., 1994/95, indicates a financial year;

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Reference to "dollars" ($) means United States dollars, unless otherwise indicated;

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates;

Details and percentages in tables do not necessarily add to totals because of rounding.

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UNCTAD/WIR/2002 (Overview)

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TRENDS IN INTERNATIONAL PRODUCTION

The role of TNCs in the globalizing world economy is increasing,...

International production continues to grow, as transnational corporations (TNCs) expand their role in the globalizing world economy. Recent estimates suggest there are about 65,000 TNCs today, with about 850,000 foreign affiliates across the globe. Their economic impact can be measured in different ways. In 2001, foreign affiliates accounted for about 54 million employees, compared to 24 million in 1990; their sales of almost $19 trillion were more than twice as high as world exports in 2001, compared to 1990 when both were roughly equal; and the stock of outward foreign direct investment (FDI), increased from $1.7 trillion to $6.6 trillion over the same period (table 1). Foreign affiliates now account for one-tenth of world GDP and one-third of world exports. Moreover, if the value of worldwide TNC activities associated with non-equity relationships (e.g. international subcontracting, licensing, contract manufacturers) is considered, TNCs would account for even larger shares in these global aggregates.

The world's largest TNCs dominate this picture. For example, in 2000, the top 100 non-financial TNCs (with Vodafone Group, General Electric and ExxonMobil Corporation in the lead) accounted for more than half of the total sales and employment of foreign affiliates (see table 2 for the top 25 of these firms). Mainly as a result of major mergers

Table 1. Selected indicators of FDI and international production, 1982-2001
(Billions of dollars and percentage)

Item	Value at current prices (Billions of dollars)			Annual growth rate (Per cent)					
	1982	1990	2001	1986-1990	1991-1995	1996-2000	1999	2000	2001
FDI inflows	59	203	735	23.6	20.0	40.1	56.3	37.1	-50.7
FDI outflows	28	233	621	24.3	15.8	36.7	52.3	32.4	-55.0
FDI inward stock	734	1 874	6 846	15.6	9.1	17.9	20.0	22.2	9.4
FDI outward stock	552	1 721	6 582	19.8	10.4	17.8	17.4	25.1	7.6
Cross-border M&As [a]	..	151	601	26.4[b]	23.3	49.8	44.1	49.3	-47.5
Sales of foreign affiliates	2 541	5 479	18 517[c]	16.9	10.5	14.5	34.1	15.1[c]	9.2[c]
Gross product of foreign affiliates	594	1 423	3 495[d]	18.8	6.7	12.9	15.2	32.9[d]	8.3[d]
Total assets of foreign affiliates	1 959	5 759	24 952[e]	19.8	13.4	19.0	21.4	24.7[e]	9.9[e]
Exports of foreign affiliates	670	1 169	2 600[f]	14.9	7.4	9.7	1.9	11.7[f]	0.3[f]
Employment of foreign affiliates (thousands)	17 987	23 858	53 581[g]	6.8	5.1	11.7	20.6	10.2[g]	7.1[g]
GDP (in current prices)	10 805	21 672	31 900	11.5	6.5	1.2	3.5	2.5	2.0
Gross fixed capital formation	2 285	4 841	6 680[h]	13.9	5.0	1.3	4.0	3.3	..
Receipts from royalties and licence fees	9	27	73[h]	22.1	14.3	5.3	5.4	5.5	..
Export of goods and non-factor services	2 081	4 375	7 430[i]	15.8	8.7	4.2	3.4	11.7	-5.4

Source: UNCTAD, *World Investment Report 2002: Transnational Corporations and Export Competitiveness*, table I.1.

[a] Data are only available from 1987 onward.
[b] 1987-1990 only.
[c] Based on the following regression result of sales against FDI inward stock (in millions of dollars) for the period 1982-1999: Sales=323+2.6577*FDI inward stock.
[d] Based on the following regression result of gross product against FDI inward stock (in millions of dollars) for the period 1982-1999: Gross product=364+0.4573*FDI inward stock.
[e] Based on the following regression result of assets against FDI inward stock (in millions of dollars) for the period 1982-1999: Assets= -1 153+3.8134*FDI inward stock.
[f] For 1995-1998, based on the regression result of exports of foreign affiliates against FDI inward stock (in millions dollars) for the period 1982-1994: Export=254+0.474*FDI inward stock. For 1999-2001, the share of exports of foreign affiliates in world exports in 1998 (34 per cent) was applied to obtain the values.
[g] Based on the following regression result of employment (in thousands) against FDI inward stock (in millions of dollars) for the period 1982-1999: Employment=12 138+6.0539*FDI inward stock.
[h] Data are for 2000.
[i] WTO estimates.

Note: Not included in this table are the value of worldwide sales by foreign affiliates associated with their parent firms through non-equity relationships and the sales of the parent firms themselves. Worldwide sales, gross product, total assets, exports and employment of foreign affiliates are estimated by extrapolating the worldwide data of foreign affiliates of TNCs from France, Germany, Italy, Japan and the United States (for sales and employment) and those from Japan and the United States (for exports), those from the United States (for gross product), and those from Germany and the United States (for assets) on the basis of the shares of those countries in the worldwide outward FDI stock.

Table 2. The world's top 25 non-financial TNCs, ranked by foreign assets, 2000
(Millions of dollars and number of employees)

Ranking in 2000 by: Foreign assets	Ranking in 2000 by: TNI[a]	Ranking in 1999 by: Foreign assets	Ranking in 1999 by: TNI[a]	Corporation	Home economy	Industry[b]	Assets: Foreign	Assets: Total	Sales: Foreign[c]	Sales: Total	Employment: Foreign	Employment: Total	TNI[a] (Per cent)
1	15	-	-	Vodafone	United Kingdom	Telecommunications	221 238	222 326	7 419	11 747	24 000	29 465	81
2	73	1	74	General Electric	United States	Electrical & electronic equip.	159 188	437 006	49 528	129 853	145 000	313 000	40
3	30	2	22	ExxonMobil	United States	Petroleum expl./ref./distr.	101 728	149 000	143 044	206 083	64 000	97 900	68
4	42	47	79	Vivendi Universal	France	Diversified	93 260	141 935	19 420	39 357	210 084	327 380	60
5	84	4	82	General Motors	United States	Motor vehicles	75 150	303 100	48 233	184 632	165 300	386 000	31
6	46	3	43	Royal Dutch/Shell	United Kingdom	Petroleum expl./ref./distr.	74 807	122 498	81 086	149 146	54 337	95 365	57
7	24	10	18	BP	United Kingdom	Petroleum expl./ref./distr.	57 451	75 173	105 626	148 062	88 300	107 200	77
8	80	6	81	Toyota Motor	Japan	Motor vehicles	55 974	154 091	62 245	125 575	..	210 709	35
9	55	30	73	Telefónica	Spain	Telecommunications	55 968	87 084	12 929	26 278	71 292	148 707	54
10	47	50	80	Fiat	Italy	Motor vehicles	52 803	95 755	35 854	53 554	112 224	223 953	57
11	57	9	49	IBM	United States	Electrical & electronic equip.	43 139	88 349	51 180	88 396	170 000	316 303	53
12	44	12	45	Volkswagen	Germany	Motor vehicles	42 725	75 922	57 787	79 609	160 274	324 402	59
13	64	-	-	ChevronTexaco	United States	Petroleum expl./ref./distr.	42 576	77 621	65 016	117 095	21 693	69 265	47
14	52	-	-	Hutchison Whampoa	Hong Kong, China	Diversified	41 881	56 610	2 840	7 311	27 165	49 570	56
15	23	19	57	Suez	France	Electricity, gas and water	38 521	43 460	24 145	32 211	117 280	173 200	77
16	93	7	50	DaimlerChrysler	Germany	Motor vehicles	..	187 087	48 717	152 446	83 464	416 501	24
17	11	31	14	News Corporation	United States	Media	36 108	39 279	12 777	14 151	24 500	33 800	85
18	4	11	2	Nestlé	Switzerland	Food & beverages	35 289	39 954	48 928	49 648	218 112	224 541	95
19	62	-	-	TotalFinaElf	France	Petroleum expl./ref./distr.	33 119	81 700	82 534	105 828	30 020	123 303	48
20	87	16	54	Repsol YPF	Spain	Petroleum expl./ref./distr.	31 944	487 763	15 891	42 563	16 455	37 387	29
21	51	20	32	BMW	Germany	Motor vehicles	31 184	45 910	26 147	34 639	23 759	93 624	56
22	48	22	42	Sony	Japan	Electrical & electronic equip.	30 214	68 129	42 768	63 664	109 080	181 800	57
23	77	-	-	E.On	Germany	Electricity, gas and water	..	114 951	41 843	86 882	83 338	186 788	39
24	3	21	3	ABB	Switzerland	Machinery and equip.	28 619	30 962	22 528	22 967	151 340	160 818	95
25	10	33	35	Philips Electronics	Netherlands	Electrical & electronic equip.	27 885	35 885	33 308	34 870	184 200	219 429	86

Source: UNCTAD, *World Investment Report 2002: Transnational Corporations and Export Competitiveness*, table IV.1.

[a] The transnationlity index (TNI) is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.
[b] Industry classification for companies follows the United States Standard Industrial Classification.
[c] In a number of cases companies reported only total foreign sales without distinguishing between exports from the parent company and sales of their foreign affiliates. Some foreign sales figures might therefore also include parent company exports.
.. Data on foreign assets, foreign sales and foreign employment were not available. In case of non-availability, they are estimated using secondary sources of information or on the basis of the ratios of foreign to total assets, foreign to total sales and foreign to total employment.
Note: In some companies, foreign investors may hold a minority share of more than 10 per cent.

and acquisitions (M&As) in 2000, the foreign assets of the 100 largest TNCs increased by 20 per cent in 2000, their foreign employment by 19 per cent and their sales by 15 per cent. M&As also affected industrial composition, resulting in an increase in the number of telecom and media companies on the list. All this, of course, represents only a snapshot of the situation just before the global economic slowdown took hold, the euphoria about new technology firms and the stock market at large evaporated, and the problem of auditing irregularities in a number of TNCs emerged.

For the first time since UNCTAD started collecting data on the largest TNCs, a record five firms headquartered in developing economies – Hutchinson Whampoa (Hong Kong, China); Petronas (Malaysia); Cemex (Mexico); Petróleos de Venezuela (Venezuela); and LG Electronics (Republic of Korea) – made it to the top 100 list for 2000. These are also the companies that have mainly driven the continued transnationalization of the top 50 companies from developing countries (see table 3 for the top 25 of these firms). These top 50 were less affected by stock market rallies and the cross-border M&A wave. Consequently, their overall foreign assets, sales and employment expanded more modestly, as is evident if the top five companies are excluded from the list.

Data for the top 25 TNCs in Central and Eastern Europe (CEE) confirm that Russian TNCs are larger and more globally spread than other TNCs from this region (see table 4 for the top 15 of these firms). Lukoil, for example, with foreign assets of more than $4 billion, is on par with some of the largest TNCs from developing countries. In 2000, most of these top 25 TNCs continued to grow, with their expansion abroad surpassing that of their operations at home. However, not all top TNCs in the region are on a growth path. Some Czech, Slovak and Polish firms are undergoing major restructuring, which often involves withdrawing from foreign activities.

The expansion of international production is driven by a combination of factors that play out differently for different industries and for different countries. Three forces are the main drivers. The first is policy liberalization: opening up national markets

Table 3. The top 25 non-financial TNCs from developing economies, ranked by foreign assets, 2000
(Millions of dollars and number of employees)

Ranking by: Foreign assets	Ranking by: TNI[a]	Corporation	Home economy	Industry[b]	Assets: Foreign	Assets: Total	Sales: Foreign[c]	Sales: Total	Employment: Foreign	Employment: Total	TNI[a] (Per cent)
1	11	Hutchison Whampoa	Hong Kong, China	Diversified	41 881	56 610	2 840	7 311	27 165	49 570	50
2	8	Cemex	Mexico	Non-metallic mineral products	10 887	15 759	3 028	5 621	15 448	25 884	55
3	15	LG Electronics	Korea, Republic of	Electrical & electronic equip.	8 750	17 709	9 331	18 558	20 072	46 912	43
4	20	Petróleos de Venezuela	Venezuela	Petroleum expl./ref./distr.	8 017	57 089	49 780	53 234	5 458	46 920	36
5	27	Petronas	Malaysia	Petroleum expl./ref./distr.	7 690	36 594	11 790	19 305	3 808	23 450	30
6	43	New World Development	Hong Kong, China	Diversified	4 578	16 412	565	2 633	800	23 530	16
7	39	Samsung Corporation	Korea, Republic of	Diversified/trade	3 900	10 400	8 300	40 700	175	4 740	18
8	21	Samsung Electronics	Korea, Republic of	Electrical & electronic equip.	3 898	25 085	23 055	31 562	16 981	60 977	35
9	4	Neptune Orient Lines	Singapore	Transport and storage	3 812	4 360	4 498	4 673	6 840	8 734	79
10	29	Companhia Vale Do Rio Doce	Brazil	Mining & quarrying	3 660	10 269	758	4 904	6 285	17 634	29
11	7	Sappi	South Africa	Paper	3 239	4 768	3 601	4 718	9 399	19 276	58
12	26	COFCO	China	Food & beverages	2 867	4 543	4 767	12 517	350	26 000	31
13	1	Guangdong Investment	Hong Kong, China	Diversified	2 852	4 605	460	634	6 837	7 875	88
14	19	China National Chemicals, Imp.& Exp.	China	Chemicals	2 603	4 701	10 755	18 036	600	8 600	37
15	47	Hyundai Motor	Korea, Republic of	Motor vehicles	2 488	25 393	4 412	25 814	6 532	84 925	10
16	42	Keppel	Singapore	Diversified	2 293	22 180	338	3 657	5 910	16 389	17
17	2	First Pacific	Hong Kong, China	Electrical & electronic equip.	2 116	2 322	652	809	8 511	8 560	81
18	13	Citic Pacific	Hong Kong, China	Construction	2 076	4 022	981	2 058	7 118	11 354	49
19	34	Grupo Carso	Mexico	Diversified	2 043	8 827	4 000	9 315	19 542	89 954	26
20	24	South African Breweries	South Africa	Food & beverages	1 966	4 384	1 454	5 424	15 763	48 079	31
21	3	Orient Overseas International	Hong Kong, China	Transport and storage	1 819	2 155	2 382	2 395	3 792	4 414	81
22	46	Singtel	Singapore	Telecommunications	1 790	8 143	..	2 845	2 500	12 640	13
23	45	Posco	Korea, Republic of	Metal and metal products	1 777	15 901	2 311	10 873	2 741	26 261	13
24	30	San Miguel	Philippines	Food & beverages	1 738	3 061	300	1 861	3 091	14 864	28
25	17	Jardine Matheson	Hong Kong, China	Diversified	1 641	10 339	7 148	10 354	50 000	130 000	37

Source: UNCTAD, *World Investment Report 2002: Transnational Corporations and Export Competitiveness*, table IV.10.

[a] The transnationlity index (TNI) is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.
[b] Industry classification for companies follows the United States Standard Industrial Classification.
[c] In a number of cases companies reported only total foreign sales without distinguishing between export from the parent company and sales of their foreign affiliates. Some foreign sales figures might therefore also include parent company exports.
.. Data on foreign assets, foreign sales and foreign employment were not available. In case of non-availability, they are estimated using secondary sources of information or on the basis of the ratios of foreign to total assets, foreign to total sales and foreign to total employment.
Note: In some companies, foreign investors may hold a minority share of more than 10 per cent.

Table 4. The top 15 non-financial TNCs based in Central and Eastern Europe,[a] ranked by foreign assets, 2000
(Millions of dollars and number of employees)

Ranking by: Foreign assets	Ranking by: TNI[b]	Corporation	Country	Industry	Assets: Foreign	Assets: Total	Sales: Foreign	Sales: Total	Employment: Foreign	Employment: Total	TNI[b] (Per cent)
1	11	Lukoil Oil	Russian Federation	Petroleum and natural gas	4 189.0	12 008.0	7 778.0[d]	14 436.0	20 000	130 000	35
2	6	Novoship	Russian Federation	Transport	963.8	1 107.0	271.5	372.0	88	7 406	54
3	1	Latvian Shipping[c]	Latvia	Transport	459.0	470.0	191.0	191.0	1 124	1 748	87
4	5	Primorsk Shipping	Russian Federation	Transport	256.4	444.1	85.3	116.5	1 308	2 777	59
5	24	Hrvatska Elektroprivreda	Croatia	Energy	296.0	2'524.0	10.0	780.0	..	15 877	4
6	7	Gorenje Group	Slovenia	Domestic appliances	236.3	420.8	465.5	615.5	590	6 691	47
7	10	Far Eastern Shipping	Russian Federation	Transport	236.0	585.0	134.0	183.0	263	8 873	39
8	13	Podravka Group	Croatia	Food & beverages/ pharmaceuticals	..[e]	440.1	139.8	316.5	516	6 827	32
9	9	Pliva Group	Croatia	Pharmaceuticals	181.9	915.9	384.7	587.6	2 645	7 857	40
10	3	Atlantska Plovidba[c]	Croatia	Transport	138.0	154.0	46.0[d]	46.0	..	509	63
11	8	Krka	Slovenia	Pharmaceuticals	129.2	462.4	212.0	273.0	483	3 322	40
12	20	MOL Hungarian Oil and Gas	Hungary	Petroleum and natural gas	102.7	3 281.6	758.8	3 632.2	870	18 016	10
13	14	Tiszai Vegyi Kombinát Rt.	Hungary	Chemicals	101.2	481.8	272.9	537.8	208	4 548	25
14	2	Adria Airways[c]	Slovenia	Transport	116.3	129.2	103.4	104.6	19	597	64
15	19	Petrol Group	Slovenia	Petroleum and natural gas	98.8	536.1	129.0[d]	1 187.9	49	1 943	11

Source: UNCTAD, *World Investment Report 2002: Transnational Corporations and Export Competitiveness*, table IV.17.

[a] Based on survey responses.
[b] The Transnationality Index (TNI) is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.
[c] 1999 data.
[d] Including export sales by the parent firm.
[e] Data not revealed by the firm; estimates have been made using secondary sources of information.
.. Data on foreign assets, foreign sales and foreign employment were not available. In case of non-availability, they are estimated using secondary sources of information or on the basis of the ratios of foreign to total assets, foreign to total sales and foreign to total employment.
Note: In some companies, foreign investors may hold a minority share of more than 10 per cent.

and allowing all kinds of FDI and non-equity arrangements. In 2001, 208 changes in FDI laws were made by 71 countries (table 5). More than 90 per cent aimed at making the investment climate more favourable to inward FDI. In addition, last year, as many as 97 countries were involved in the conclusion of 158 bilateral investment treaties, bringing the total of such treaties to 2,099 by the end of 2001. Similarly, 67 new double taxation treaties, were concluded. Moreover, the investment issue figured prominently at the Fourth WTO Ministerial Conference in Doha, Qatar, in November 2001. Part of the follow-up work involves a substantial effort to help developing countries evaluate better the implications of closer multilateral cooperation in the investment area for their development process.

The second force is rapid technological change, with its rising costs and risks, which makes it imperative for firms to tap world markets and to share these costs and risks. On the other hand, falling transport and communication costs – the "death"of distance – have made it economical to integrate distant operations and ship products and components across the globe in the search for efficiency. This is contributing, in particular, to efficiency-seeking FDI, with important implications for the export competitiveness of countries.

The third force, a result of the previous two, is increasing competition. Heightened competition compels firms to explore new ways of increasing their efficiency, including by extending their international reach to new markets at an early stage and by shifting certain production activities to reduce costs. It also results in international production taking new forms, with new ownership and contractual arrangements, and new activities being located in new sites abroad.

...although FDI flows declined sharply in 2001 as a result of the economic slowdown,...

These driving forces are long-term in nature. The investment behaviour of firms is also strongly influenced by short-term changes in business cycles, testified by recent trends in FDI. After the record high levels of 2000, global flows declined sharply in 2001 – for the first time in a decade (figure 1). This was mainly the result of the weakening of the global economy, notably in the world's three largest economies which all fell into recession, and a consequent drop in the value of cross-border M&As. The total value of cross-border M&As completed in 2001 ($594 billion) was only half that in 2000. The number of cross-border M&As also declined, from more than 7,800 in 2000 to some 6,000 in 2001. The number of cross-border deals worth over $1 billion fell from 175 to 113, their total value falling from $866 billion to $378 billion.