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United Nations Centre on Transnational Corporations

World Investment Report 1991
The Triad in foreign direct investment

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NOTE

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The *World Investment Report* is published annually by the United Nations Centre on Transnational Corporations with a view to contributing to a better understanding of transnational corporations, their activities and their economic, legal, political and social impact.

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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;

A blank in a table indicates that the item is not applicable;

A slash (/) indicates a financial year, e.g. 1988/89;

Use of a hyphen (-) between dates representing years, for example, 1985-1989, signifies the full period involved, including the beginning and end years.

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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Preface

"The Old World was ruled by the logic of the triad: three times, three ages, three persons, three continents".

— Octavio Paz

Is the New World of international economic relations also ruled by the logic of a triad? Certainly, the concept of a triad has been prominent in recent discussions of the evolution of international trade relations and corporate strategies. Does the logic of a triad apply in the world of foreign direct investment as well? As yet, there have been no empirical investigations of this question, which carries important policy implications. The present volume analyses the Triad (Japan, the European Community and the United States) in terms of foreign direct investment, looks at the role transnational corporations play in promoting regional economic integration around the three poles of the Triad, describes the linkages between foreign direct investment and trade, technology and financial flows, and highlights policy implications for developing countries and the international community.

Among the findings of this study, one of the most important is that foreign direct investment has been increasing far more rapidly in the 1980s than both world trade and world output, and promises to continue to do so in the future. This would suggest that foreign direct investment is increasingly becoming an engine of growth in the world economy. Furthermore, the composition of foreign direct investment and the major actors associated with it have seen a significant change over the last decade. Behind those changes are the strategies of transnational corporations which, as this study shows, are furthering the emergence of regional clusters of countries around the three poles of the Triad. It is essential that developing countries that wish to influence the flow of foreign direct investment understand those changes, and the implications that are associated with them.

The present report is the first of a series of annual reports which will present data and trends relating to transnational corporations and foreign direct investment. In addition, each volume will focus on a topic which emerges from the Centre's ongoing research activities. As such, the *World Investment Report* will provide up-to-date, comprehensive information on an annual basis, and will provide in-depth analyses of a variety of themes, selected for their relevance to policy-making in the field of foreign direct investment.

The present volume was prepared by a team comprising Persephone Economou, Michelle Gittelman, David Gold, Azizul Islam, Karl P. Sauvant, Paz Estrella Tolentino and Zbigniew Zimny, with the assistance of Torben Huss, Georg Kell, Padma Mallampally, Valerian Monteiro and Dorothy Woo.

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GLOBAL TRENDS IN FOREIGN DIRECT INVESTMENT

A. The increasing importance of foreign direct investment in the 1980s

After having nearly tripled between 1984 and 1987, world-wide outflows of foreign direct investment increased by another 20 per cent in both 1988 and in 1989, to reach an absolute level of $196 billion. By 1989, the total world-wide stock of this investment stood at approximately $1.5 trillion. 3/

The dynamism of foreign direct investment can be best illustrated by comparisons with world exports and world output. Since 1983, foreign-direct-investment outflows have increased at the unprecedented rate of lion, reached in 1979. Since 1985, the gap between the growth rate of exports and that of foreign-direct-investment outflows has widened dramatically (figure I), leading one writer to suggest that "as a means of international economic integration, foreign direct investment is in its take-off phase; perhaps in a position comparable to world trade at the end of the 1940s". 4/ Furthermore, the rapid growth of foreign direct investment compared to that of world output suggests that the share of the former in world output is increas-