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Programme on Transnational Corporations

World Investment Report 1993

Transnational Corporations and Integrated International Production



United Nations New York, 1993

NOTE

The UNCTAD Programme on Transnational Corporations of the United Nations serves as the focal point within the United Nations Secretariat for all matters related to transnational corporations. In the past, the Programme on Transnational Corporations was carried out by the United Nations Centre on Transnational Corporations (1975-1992) and by the Transnational Corporations and Management Division of the United Nations Department of Economic and Social Development (1992-1993). In 1993, the Programme was transferred to the United Nations Conference on Trade and Development. The objectives of the work programme include to further the understanding of the nature of transnational corporations and of their economic, legal, political and social effects on home and host countries and in international relations, particularly between developed and developing countries; to secure effective international arrangements aimed at enhancing the contribution of transnational corporations to national development and world economic growth; and to strengthen the negotiating capacity of host countries, in particular developing countries, in their dealings with transnational corporations.

The *World Investment Report* is published annually by the UNCTAD Programme on Transnational Corporations to contribute to a better understanding of transnational corporations, their activities and their impact.

The term "country" as used in this report also refers, as appropriate, to territories or areas; the designations employed and the presentation of the material do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. In addition, the designations of country groups are intended solely for statistical or analytical convenience and do not necessarily express a judgement about the stage of development reached by a particular country or area in the development process.

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 (/) between dates representing years, e.g., 1988/89, indicates a financial year;

Use of a hyphen (-) between dates representing years, e.g., 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.

The material contained in this study may be freely quoted with appropriate acknowledgement.

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PREFACE

The continuing expansion of transnational corporations, the regionalization and globalization of firms, the emergence of an integrated international production system and some legal and policy implications of these processes are the focus of the *World Investment Report 1993*.

There are some 37,000 transnational corporations in the world, with over 170,000 foreign affiliates. This volume analyzes their evolving strategies and changing organizational structures, and the implications of the increasing functional, cross-national integration of their activities for the location of international production.

In spite of an overall decline in world-wide flows of foreign direct investment in the early 1990s, there are many features of the world economic environment pointing to a continuing and important role for transnational corporations. World investment continues to drive international trade and world output. Flows of foreign direct investment to developing countries—with the exception of Africa—are continuing to rise. Transnational corporations are continuing to invest in the newly opened economies of Central and Eastern Europe. And transnational corporations from developing countries are expanding their activities abroad.

The early 1990s have also witnessed increasing cross-national economic integration, with the single market of the European Community, the European Economic Area, the North American Free Trade Agreement, MERCOSUR and ASEAN as the most visible examples. Perhaps of greater significance is the emergence of an integrated international production system, brought about by the activities of transnational corporations which are increasingly integrating across borders the functions required to produce goods and services. This integration presents opportunities and challenges for both host and home countries, and, in particular, raises important issues for developing countries that are seeking to improve their development prospects by integrating their economies more closely into the world economy. It also raises a number of new policy issues, such as the definition of the nationality of the transnational firm, the determination of the tax base of the firm and the complex relationships between parent firms and their foreign affiliates.

Policy and regulatory frameworks need to adapt to the emerging integrated international production system, if the benefits of regionalization and globalization are to be spread as widely as possible. The analysis and evidence presented in the *World Investment Report 1993* should assist policy makers in formulating policies, especially in light of the emerging integrated international production system. It should also contribute to a greater awareness of the need for harmonization of policies among host countries in order to avoid policy competition as each country seeks to be the location of choice in the emerging system of integrated international production.

The *Report* was prepared by staff of the Programme on Transnational Corporations (the former Centre on Transnational Corporations), which was transferred to UNCTAD earlier this year.



Kenneth K.S. Dadzie
Secretary-General

New York, July 1993

United Nations Conference on Trade and Development

The *World Investment Report 1993* was prepared by a team led by Karl P. Sauvant and comprising Victoria Aranda, Persephone Economou, John Gara, David Gold, Khalil Hamdani, Azizul Islam, Hiroshi Kawamura, Peter Koudal, Richard Kozul-Wright, Padma Mallampally, Paz Estrella Tolentino, Jörg Weber and Zbigniew Zimny. Some of this staff is now with the Department for Economic and Social Information and Policy Analysis. Specific inputs were received from Marita Andersson, Ricardo Bielschowsky, Cornelia Fischer, Masataka Fujita, Michael Mortimore and Fiorina Mugione. Principal research assistance was provided by Mohamed Chiraz Baly and Dorothy Woo. Research assistance was also provided by Tracy L. Casteel, Udo Mandler, Daniela Maiorino, Franziska Rahner, Thomas Theuringer, Reiner Walleser and Herold E. Weiss. The *Report* was copy-edited by Betty Hamnett. Production of the *Report* was carried out by Medy Almario, Marie Antoine, Marie-Erdwine Antoine, Juliet Capili, Kanayalal Israni, Ditas G. Miranda, Teresita Sabico, Wilma V. Soto and Helen Thacker. It was desktop-published by Valerian Monteiro.

Experts from within and outside of the United Nations system provided substantial inputs that were utilized for the *Report*. Major inputs were received from Jag Alexeyev, Arghyrios Fatouros and Edward Saperstein. Inputs were also received from Manuel Agosin, Gillian Dell, DeAnne Julius, M. Ishaq Nadiri and Peter Petri.

A number of experts were consulted and commented on various chapters. Comments, including during expert group meetings, were received during various stages of preparation from Carlos Alfaro, Rory Allan, David Aronofsky, Samuel K. B. Asante, Reinhart Augustin, John Beck, Phillip Blumberg, Aad Cooman, Lorraine Eden, William Egelhoff, Magnus Ericsson, David Gill, Berthold Goldman, Karl Hofstetter, Ivan Ivanov, D. C. Kelly, John Kline, Bruce Kogut, Sanjaya Lall, Fernando de Mateo, Allen Morrison, Maurice Odle, Goran Ohlin, Jeffrey Owens, Richard Pomp, Kendahl Roth, Andreas Lowenfeld, John Stopford, Osvaldo Sunkel, J. J. G. M. Vermeere, Thomas Waelde, Cynthia Day Wallace and Obie Wichard. The *Report* benefited from overall advice from John H. Dunning, Senior Economic Adviser.

Executives of a number of companies extended their cooperation by providing information and insights. They included the Ford Motor Company, Siemens, companies in the list of the largest 100 transnational corporations and many others.

The *World Investment Report 1993* was edited by Rupert Pennant-Rea.

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