

VOLUME 23

NUMBER 3

TRANSNATIONAL CORPORATIONS



UNITED NATIONS

VOLUME 23

NUMBER 3

TRANSNATIONAL CORPORATIONS



United Nations

New York and Geneva, 2016

United Nations Conference on Trade and Development
Division on Investment and Enterprise

Editorial statement

Transnational Corporations (formerly *The CTC Reporter*) is a refereed journal published three times a year by UNCTAD. 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). The basic objective of this journal is to publish articles and research notes that provide insights into the economic, legal, social and cultural impacts of transnational corporations in an increasingly global economy and the policy implications that arise therefrom. It focuses especially on political and economic issues related to transnational corporations. In addition, *Transnational Corporations* features book reviews. The journal welcomes contributions from the academic community, policymakers and staff members of research institutions and international organizations. Guidelines for contributors are given at the end of this issue.

Editor: James Zhan
Deputy Editor: Hafiz Mirza
Managing Editor: Shin Ohinata
Home page: <http://unctad.org/tnc>

Subscriptions

A subscription to *Transnational Corporations* for one year is US\$45 (single issues are US\$20). See the back page for details of how to subscribe.

Note

The views expressed in this publication are solely those of the authors and do not represent the views of the United Nations.

The designations employed and the presentation of the material do not imply the expression of any opinion on the part of the United Nations concerning the legal status of any country, territory, city or area, or of authorities or concerning the delimitation of its frontiers or boundaries.

Material in this publication may be freely quoted or printed, but acknowledgement is requested, together with a copy of the publication containing the quotation or reprint to be sent to the UNCTAD secretariat.

Unless stated otherwise, all references to dollars (\$) are to United States dollars.

This publication has been edited externally.

ISBN 978-92-1-112909-0
e-ISBN 978-92-1-060173-3
ISSN 1014-9562
Copyright © United Nations, 2017
All rights reserved
Printed in Switzerland

Board of Advisers

CHAIR

Terutomo Ozawa, Professor of Economics, Colorado State University, Fort Collins, Colorado, United States

MEMBERS

V.N. Balasubramanyam, Professor of Development Economics, Lancaster University, United Kingdom

Edward K.Y. Chen, Former President, Lingnan University, Hong Kong, China

Farok J. Contractor, Professor of Management and Global Business, Graduate School of Management, Rutgers University, Newark, New Jersey, United States

Xian Guoming, Professor of Economics and International Business, Director, Center for Transnational Corporation Studies, Dean, Teda College of Nankai University, Tianjin, China

Celso Lafer, Professor, University of São Paulo, Brazil

James R. Markusen, Professor of Economics, University of Colorado at Boulder, Colorado, United States

Theodore H. Moran, Karl F. Landegger Professor, and Director, Program in International Business Diplomacy, School of Foreign Service, Georgetown University, Washington, D.C., United States

Sylvia Ostry, Distinguished Research Fellow and China/WTO Project Chair, Centre for International Studies, University of Toronto, Toronto, Canada

Tagi Sagafi-nejad, Radcliffe Killam Distinguished Professor of International Business; Director, Center for the Study of Western Hemispheric Trade; Director, International Trade Institute and Editor, International Trade Journal, The A. R. Sanchez, Jr., School of Business, Texas A&M International University, Texas, United States

Mihály Simai, Professor Emeritus, Institute for World Economics, Budapest, Hungary

Osvaldo Sunkel, Professor and Director, Center for Public Policy Analysis, University of Chile, Santiago, Chile

Marjan Svetlicic, Head, Centre of International Relations, Faculty of Social Sciences, University of Ljubljana, Slovenia

Transnational Corporations

Volume 23, Number 3

Contents

ARTICLES

Palitha Konara and Yingqi Wei	Foreign direct investment as a catalyst for domestic firm development: the case of Sri Lanka	1
Matti Ylönen	Back from oblivion? The rise and fall of the early initiatives against corporate tax avoidance from the 1960s to the 1980s	33
UNCTAD	<i>World Investment Report 2016 – Investor Nationality: Policy Challenges</i>	67
BOOK REVIEW		103

Foreign direct investment as a catalyst for domestic firm development: the case of Sri Lanka

Palitha Konara and Yingqi Wei*

Foreign direct investment (FDI) carried out by multinational enterprises (MNEs) is recognized as a mechanism through which domestic firms can learn and improve competitiveness. Unlike the extant literature, which tends to focus on the aggregate effects of FDI in Sri Lanka, we investigate the role of FDI for domestic firm development at the firm level. Using World Bank Enterprise Survey data supplemented by industry data, preliminary investigation reveals that, compared with domestic firms, MNEs are larger, more productive, more profitable and more active in research and development (R&D). MNEs hire higher proportions of skilled workers and undertake more in-house training programs. They are also more export-oriented but rely more on inputs of foreign origin. The gaps between foreign and domestic firms indicate the potential that Sri Lankan firms can learn from MNEs and from FDI. The econometric study on firm-level productivity indicates positive direct effects and negative spillover effects of FDI on domestic firms. The findings have important policy implications.

Key words: foreign direct investment, multinational enterprises, Sri Lanka, productivity, spillovers

1. Introduction

In recent decades, countries around the globe have been competing to attract foreign direct investment (FDI) with the view that FDI is an engine of economic growth and FDI and its agent, multinational enterprises (MNEs), exert positive effects on domestic firms in a host country (Wei & Balasubramanyam, 2004). MNEs possess firm-specific assets such as advanced technologies, knowledge and know-how which are much desired by domestic firms, particularly those in developing countries. FDI is seen as the fastest and most efficient way to access these assets because domestic firms can be in direct contact with MNEs in the host country, which makes learning easier.

* Palitha Konara (corresponding author) is Senior Lecturer in International Business at the University of Huddersfield. Contact: palitha.konara@hud.ac.uk Yingqi Wei is Professor of International Business at Leeds University Business School. Contact: Y.We@leeds.ac.uk.

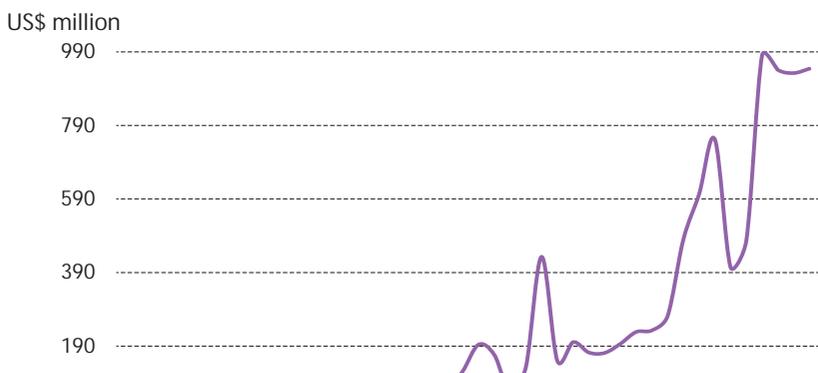
FDI can potentially improve the productivity of domestic firms through direct effects on MNE's local affiliates and through indirect or spillover effects on other domestic firms. However, this interest is not without concern that MNEs and FDI may negatively impact on domestic firms (Nam and Young, 2004). A number of reasons have been put forward, including that MNEs extort high rents; generate negative competition and monopoly effects; and bring resources, assets and practices into the host country that are inappropriate in the country context (Moosa, 2002).

There has been vibrant empirical investigation of the effects of FDI on domestic firms (see survey articles such as Iršová and Havránek (2013), Meyer and Sinani (2009) and Wooster and Diebel (2010)). The studies have produced a mixed bag of results. This has been partially attributed to different country contexts. Host-country-specific characteristics including the size of the country, its history, its stage of development, the quality of institutions and organizations, and the structure and quality of resources and capabilities embrace the gamut of characteristics affecting the role of FDI in domestic firm development. It is therefore essential to place the study of FDI in a specific country context. Against this background, we investigate FDI in Sri Lanka using firm-level data. The paper aims to answer the following question: to what extent do domestic firms differ from MNEs' local subsidiaries and benefit from FDI conducted by MNEs in Sri Lanka? Though a handful of studies have looked at FDI in the context of Sri Lanka, there is no study that compares foreign and domestic firms and examines the impact of FDI on domestic firms in Sri Lanka using firm-level data. This paper aims to fill that research gap.

Sri Lanka has long been considered, a country with excellent prospects for economic development. Post-independence, Sri Lanka was one of Asia's most promising new nations (UNCTAD, 2004). It was one of the early liberalizers in the developing world, embarking on an economic liberalization process in 1977 after a period of implementing inward-oriented policies (Athukorala, 2012; Athukorala and Rajapatirana, 2000). The reforms are fairly comprehensive, ranging from the dismantling of trade and foreign investment barriers, the unification of the exchange rate, the liberalization of interest rates and the removal of price and investment controls, to the restructuring of the tariff system and the tax system (UNCTAD, 2004). Thanks to these

outward-oriented policies, the situation of FDI was turned around from a period of slow growth or even divestment during 1966-1976, according to data published by UNCTAD (figure 1). In the 1980s, FDI jumped to an average of about US\$40 million per year. This further increased to US\$158 million in the 1990s. Unfortunately, the liberalization process suffered a significant setback when the Sri Lanka Freedom Party (SLFP) came to power in 2004 and started to follow statist economic policies advocating more state involvement in economic activities (Athukorala, 2012). In 2011, the Sri Lankan Government passed a controversial law in the parliament – the Revival of Under Performing Enterprises or Under Utilized Assets Act of Sri Lanka – and a few MNEs were expropriated (The Economist, 2011). This has clearly undermined Sri Lanka as an attractive location of FDI and may suggest that discomfort with and suspicion of MNEs and FDI are regaining place in policy circles. It is therefore paramount to evaluate the role of MNEs and FDI in domestic firm development in Sri Lanka and to draw policy implications based on empirical investigation.

Figure 1: FDI in Sri Lanka, US\$ million



预览已结束，完整报告链接和二维码如下：

https://www.yunbaogao.cn/report/index/report?reportId=5_9374

