TOWARD A GLOBAL BUSINESS CONFEDERATION

A Blueprint for Globalization

Subhash C. Jain

Greenwood
PUBLISHING GROUP

Toward a Global Business Confederation

Praise for *Toward a Global Business Confederation*

"A contemporary 'classic' book on international business has finally arrived. *Toward a Global Business Confederation* vividly demonstrates the economic, geopolitical, and social implications of today's multinational companies and their conflicts and cooperation with the nation-states for welfare generation on a global basis. This is a must reading for international business scholars and policymakers."

—Masaaki Kotabe, The Washburn Chair Professor of International Business and Marketing, Temple University

"A strong, well-presented grasp and analysis of the reality of the power of multinational corporations in our globalized world. A clear and focused argument for the opportunity and need to harvest that power to bring about a mutually beneficial global economic prosperity."

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"Eye opening and intriguing, *Toward a Global Business Confederation* is a wonderful book for all current and future international business people. It lucidly lays out the basics of globalization and proffers a Global Business Confederation as a link between today's multinational corporations and nation states and a bridge to a more equitable and peaceful world of the future. While one may or may not agree with this solution, one will definitely look at the path of globalization in a different and much more informed way."

—Gregory A. Boyko, Member of the Board of Advisors, University of Connecticut School of Business

"Subhash Jain has exposed many of the challenges facing business and nations in the coming decade, in both the developed and developing economies. With the increasing power of the multinational corporations and innovative technology, new approaches will be needed to handle the enormous growth of international markets. The author provides provocative ideas as to how these issues could be addressed. This book must be required reading for all who expect to survive and flourish in the globalized world."

—Marjorie D. Anderson, Executive Director, World Affairs Council, Hartford, Connecticut

"Jain's effort to define and promote a worldwide confederation of governments, companies, and interest groups that would set rules on multinational company activities is an admirable step toward development of needed global institutions. His analysis points out the many benefits produced by these companies, and the need to harness their positive contributions while responding to their activities that diverge from broad public interest. Jain has raised an excellent concept (of the Global Business Confederation), and one that should be explored in careful detail in today's globalized world."

—Robert Grosse, Professor of Economics, Thunderbird, The American Graduate School of International Management

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PREFACE

Enough evidence is available to support the fact that globalization leads to worldwide economic prosperity. It is the most powerful force for good the world has seen. The foundation of globalization is worldwide capitalism. Thanks to capitalism, life expectancy is up, infant mortality is down, education is richer, horizons are broader, environmental awareness is greater, and global cooperation is possible. Above all, capitalism is the reason we can provide reliable social welfare on a mass scale. The activities of capitalists generate the money to pay for education, medical research, and social welfare and help provide the incentives for people to invent things to make our lives better.

Measured either in terms of trade or direct investment, globalization has been highly uneven. A few developing countries have managed to increase their trade a lot. They are the same countries that have attracted the lion's share of foreign direct investment. And they have also seen the benefits of openness. According to the World Bank, 24 countries—home to 3 billion people and including China, India, Brazil, Argentina, and the Philippines—have substantially increased their ratios of trade to gross domestic product (GDP) in the past 20 years. These countries are the low-income globalizers. On average, their growth rates have improved as well. The GDP per head in these economies grew by an average of 5 percent a year during the 1990s, and their poverty rates declined. Rich countries in the same time period grew by 2 percent.

However, another 2 billion people live in countries that have become less, rather than more, globalized. In these countries, including Pakistan and much of Africa, trade has diminished in relation to national income, economic growth has been stagnant, and poverty has risen. Apparently, globalization has not been global. Much of the world, home to one-third of its people and including large tracts of Africa and many Muslim countries, has simply failed to participate. Thus, the process of globalization has not finished. Nonglobalizing developing countries must become a part of the process.

Over the next 20 years, the rich world's population will fall slightly, while the developing world will acquire 2 billion additional people, many of them in countries that are currently political and economic failures. Unless, with help from the rich countries and from one another, they can find ways to integrate into the global economy, much of the potential gains of globalization will continue to be limited to the rich and a few developing countries. Such a failure is good for neither rich nor developing countries. After the September 11, 2001, attacks on New York City and Washington, D.C., no country—least of all the United States—can believe it is immune from the effects of poverty and political collapse halfway around the world. Thus, the goal must be to spread the benefits of globalization more widely.

This book supports economic globalization because it leads to worldwide prosperity. Multinational corporations (MNCs) play a key role in making globalization feasible. Unfortunately, the movement toward globalization is too slow. To a large extent, this slowness can be attributed to the barriers that nation-states create in furthering globalization. To enhance the pace of globalization, it is essential that nation-states not force their national rules and regulations on multinationals. Rather, global rules and regulations must be enacted to allow MNCs to perpetuate globalization at full speed.

The book proposes the establishment of a global business confederation (GBC) to regulate and encourage MNCs to bring about global economic prosperity in a manner responsive to cultural, social, and human issues. This proposal amounts to a new type of capitalism, which may be called *globally shared capitalism*. Under such an arrangement, MNCs, following global rules and regulations established by the GBC, would seek global economic and business integration. The role of MNCs would expand while the roles of nation-states would decline. MNCs would work in full concert with other special interest groups such as labor, environmentalist, human rights, and other groups.

The GBC would be a unique, treaty-based, institutional framework that would define and encourage activities of MNCs around the globe in the greater interest of worldwide economic and social prosperity. The worldwide treaties (e.g., on labor practices) agreed to by nation-states, MNCs, and special interest groups would create communities of shared sovereignty in matters that would enhance the effectiveness of MNCs in generating global well-being while being responsive to social needs. The GBC would operate on the principle of subsidiarity. That is, it would be granted jurisdiction over those policies that could not be handled effectively at the level of the nation-state.

In the wake of the 9/11 terrorist attack, we are confronted with the question of whether the threat of today will destroy the promise of yesterday. In the 1990s, the impulse toward global economic integration survived financial crises and a rising tide of protest. The terrorists have multiplied the force of the challenges. That integration should be sustained is beyond serious question. Closing borders can only exacerbate instability, resentment, and poverty. It is in the long-run interests of the rich countries of the North to offer the rest of the world the opportunities afforded by economic integration, just as it is in the interests of the poorer countries of the South to exploit these opportunities. The challenge is doing so in today's more perilous times.

It is encouraging that globalization has proved resilient to shocks. Despite the financial crises in the developing world, no country has chosen to turn its back on the world economy. Although there is debate on how globalization should proceed, few question its desirability. Even the global economic slowdown has failed to generate wholesale resort to protectionism or beggar-thy-neighbor polices.

The terrorist attacks have added a new range of anxieties. The state is now called on to serve its primary function of protecting the citizenry. Suspicion has replaced international friendship. Movements of people, goods, information, and money are monitored even more closely. Business must bear the extra costs of security.

Yet it would be wrong to exaggerate these threats. The striking feature of the response to terrorism has been the width of the coalition formed to combat it. Nobody wants to live in the same world as private armies capable of such atrocities. In the Islamic world, too, the way of Osama bin Laden is increasingly viewed as a dead end. Such a coalition is also well suited to strengthening the underpinnings of the integrated global economy. Indeed, it has already helped launch the trade talks in Doha, Qatar. This cooperation is heartening. It also reflects a proper appreciation of the national interest. Even the United States, the world's strongest power, cannot secure a prosperous world economy on its own. Yet it is on such widespread prosperity that its own prosperity in large part depends.

The challenge is to deepen global economic integration without impairing security. The requirements for both are essentially the same: the right blend of leadership and cooperation. Times of danger are, as the Truman administration showed after World War II, times of opportunity. The world's leaders have recognized the dangers. They must also seize the opportunities.

This book proposes a blueprint for increasing the speed of globalization through the establishment of a GBC. This text will develop a framework of global rules and regulations for MNCs to successfully operate globally and bring about economic prosperity to the human race.

I am grateful to a number of individuals who stimulated my interest in this subject. The book is partly dedicated to all my students at the University of Connecticut who have been concerned about the future of this world. It reflects their genuine concern about billions of people in developing countries who live in poverty and squalor. The book also has been stimulated by the growing interest in the academic literature and among policy makers with regard to the role of MNCs in global economic integration—a subject that has until recently escaped the mainstream of international business studies. I had very useful and thought-provoking discussions about the linkage of MNCs, nation-states, the environment, and labor with Thomas G. Gutteridge, Wes Cann, Richard Vengroff, Elizabeth Hansen, Elizabeth Mahan, Susan Sbiggle, Jack Veiga, Chandra Roychoudhri, and Boris Bravo-Ureta at the University of Connecticut and with Claude Cellich, International University in Geneva, and Sushil Vachani, Boston University. I am indebted to them for the insights they shared on the subject. I am thankful to Kelly Dunn, associate director, Center for International Business Education and Research (CIBER), for administrative help in completing this book; graduate assistants Geoff Munger, Marina Kostova, Paula Ehlers, Yongping Jiao, and Mami Nishimune for a superb job of library research and organization of notes; and Jung-Eun Graham and Kelli Francis for clerical work and typing.

My wife, Sadhna, encouraged me to undertake this project and provided a valuable critical and rational view of controversial topics. Most of all, I dedicate this book to my children, Aarti and Amit, who, it is hoped, will do a better job of defending good causes than I might have done in this book.

I sincerely thank Pam Wilkinson for the fine work of editing the manuscript. I owe a special word of gratitude to Hilary D. Claggett, senior editor at Praeger Publishers, for her excellent advice on the structure of the book and, Senior Editor Nicholas Philipson, for seeing it to completion.

Chapter 1

THE EVOLUTION OF MULTINATIONAL ENTERPRISES

The development of companies with interests and activities located outside their home countries has played a significant role in the early evolution of international business. This development has been particularly noticeable since World War II, although companies doing business across national borders emerged considerably earlier. Beginning in the fifteenth century, a number of chartered trading companies appeared in Europe to establish and encourage trade links between a country and its colonies. For example, the East India Company, the Hudson's Bay Company, and others were created in those years and were later transformed into vast trading entities. But for the most part, these early companies were trading houses. Firms that engaged in foreign production emerged only in the second half of the nineteenth century. At the time of World War I, a number of U.S., British, and continental European companies with overseas manufacturing operations existed. Among them, the British firms were the dominant ones, a fact that reflected the nation's imperial position. The growth of U.S. companies with overseas operations revealed the country's emergence as the world's major industrial power.

Multinational corporations (MNCs) are a product of capitalism, with its inherent goal of yielding more from less. With managerial skills and entrepreneurship, MNCs strive to produce more goods with less investment of capital, labor, and raw materials. If markets are stable, the productivity gains increase the profit per unit, which gets distributed as return on capital or as low prices for consumers. If the productivity gains continue, at some point production output cannot be disposed of within the national borders, making it necessary for MNCs to seek markets overseas. In this way, MNCs distribute the world's industrial structure among many new nations, sharing not only jobs and incomes but also capitalism's power of wealth creation. Thus, MNCs have a great role in economic justice. The ultimate measure of success of an MNC is shareholder value. Although there are competing claims, the fundamental principle of capitalism is that a company's first and last duty is to its shareholders.

CURRENT PERSPECTIVES

Today, the MNC is the principal instrument in the expansion of business on an international scale. In barely five decades it has become, by all accounts, the most formidable single factor in world trade and investment. The MNC plays a decisive role in the allocation and use of the world's resources by conceiving new products and services, by creating or stimulating demand for them, and by developing new modes of manufacturing and distribution. Current rates of energy consumption would be unthinkable without the involvement of MNCs in the development and expansion of the automobile and electrical appliance industries. Indeed, MNCs largely set the patterns and pace of industrial activity worldwide.

The MNC is the most dynamic institution of our time. It develops, manufactures, and markets products and services worldwide. It is able to do so because of the following characteristics:

1. It controls economic activity in more than one country.
2. It takes advantage of geographic differences among countries and regions in factor endowments.
3. It has the flexibility to shift resources and operations among locations globally.

Dimensions of MNCs

According to a UN study, some sixty thousand companies worldwide qualify as multinational, and they have about five hundred thousand foreign affiliates.[1] Most of these firms have their headquarters in developed countries.

The value of the output under the governance of MNCs (parent firms and foreign affiliates) amounts to about 25 percent of global output, with one-third of it in host countries. Foreign affiliates' sales in domestic and international markets were about $11 trillion in 1998, compared with almost $7 trillion of world exports in the same year. Year after year, both global output and sales of foreign affiliates have grown faster than world gross domestic product (GDP) and exports.[2]

Exhibit 1.1 shows the distribution of MNCs between developed and developing countries and among different nations in each group. An important dimension of MNCs is the predominance of large firms. Virtually one hundred MNCs have annual sales of more than $10 billion. The economic significance of these corporations as compared with other economic entities, including the economies of many nations, suggests that they are an important source of global power. Exhibit 1.2 shows that many MNCs have higher annual revenues than the gross national products (GNPs) of some countries. Approximately 70 percent of world trade is controlled by 500 corporations.[3] The largest 200 MNCs control almost one-third of the world's GDP.

Many MNCs derive a substantial portion of their net income and sales from overseas operations. About one-third of the top 100 U.S. companies generate over 50 percent of their annual sales in foreign markets. Put together, the world's 1,000 largest companies produce 80 percent of the global industrial output. MNCs play a dominant role in the economies of specific countries. Foreign firms account for almost half of Ireland's employment and two-thirds of that country's output. In Australia, each of the 10 biggest MNCs has annual sales larger than its government's tax revenue. As shown in Exhibit 1.3, the nondomestic earnings of many U.S. companies, such as ExxonMobil, Hewlett-Packard, Dow Chemical, Motorola, McDonald's, Gillette, Rohm & Haas, Avon Products, and others, exceed 50 percent of the total earnings.

Another important feature of MNCs is their predominantly oligopolistic character; that is, they operate in markets that are dominated by a few sellers. Their technological leads, special skills, and ability to differentiate their products through advertising are all factors that help sustain or reinforce their oligopolistic nature. Four companies—ConAgra, ADM Milling, Cargill, and Pillsbury—mill nearly 60 percent of all flour produced in the United States, and two of them—ConAgra and Cargill—control 50 percent of grain exports.[4]

An important aspect of the operations of MNCs is the business activity that is generated within the multinational companies themselves as they export and import among their own foreign-based subsidiaries. About 50 percent of U.S. exports and imports are goods that constitute intrafirm transactions.[5] A U.S. computer company ships design components to its

Exhibit 1.1
Number of Parent Corporations and Foreign Affiliates, by Area and Economy, Latest Available Year

Area/Economy	Year	Parent Corporations Based in Economy	Foreign Affiliates Located in Economy
DEVELOPED ECONOMIES		49 806	94 623
Western Europe		39 415	62 226
European Union		33 939	53 373
Austria	1996	897	2 362
Belgium	1997	988	1 504
Denmark	1998	9 356	2 035
Finland	1997	1 963	1 200
France	1996	2 078	9 351
Germany	1996	7 569	11 445
Greece	1991	--	798
Ireland	1994	39	1 040
Italy	1995	966	1 630
Netherlands	1993	1 608	2 259
Portugal	1997	1 350	5 809
Spain	1998	857	7 465
Sweden	1998	5 183	3 950
United Kingdom	1997	1 085	2 525
Other Western Europe		5 476	8 853
Iceland	1998	70	79
Norway	1997	900	3 000
Switzerland	1995	4 506	5 774
Japan	1998	4 334	3 321
United States	1996	3 382	18 711
Other developed		2 675	10 365
Australia	1998		2 550
Canada	1997		4 562
New Zealand	1998		1 106
South Africa	1997		2 147
DEVELOPING ECONOMIES			
Africa		43	429
Ethiopia	1998	--	21
Mali	1999	3	33
Seychelles	1998	--	30
Swaziland	1996	30	134
Zambia	1997	2	175
Zimbabwe	1998	8	36
Latin America and the Caribbean		2 594	26 577
Bolivia	1996	--	257
Brazil	1998	1 225	8 050
Chile	1998	478	3 173
Colombia	1998	877	4 468
El Salvador	1990	--	225
Guatemala	1985	--	287

Exhibit 1.1
(continued)

Guyana	1998	4	56
Jamaica	1997	--	156
Mexico	1993	--	8 420
Paraguay	1995	--	109
Peru	1997	10	1 183
Trinidad & Tobago	1998	--	70
Uruguay	1997	--	123
South, East, and Southeast Asia		6 067	206 148
Bangladesh	1997	143	288
China	1997	379	145 000
Hong Kong, China	1998	500	5 312
India	1995	187	1 416
Indonesia	1995	313	3 472
Korea, Republic of	1998	4 488	5 137
Malaysia	1998	--	3 787
Mongolia	1998	--	1 100
Pakistan	1993	57	758
Philippines	1995	--	14 802
Singapore	1995	--	18 154
Sri Lanka	1995	--	139
Taiwan Province of China	1990	--	5 733
Thailand	1992	--	1 050
West Asia		449	1 948
Oman	1995	92	351
Saudi Arabia	1989	--	1 461
Turkey	1995	357	136
Central Asia		9	1 041
Kyrgyzstan	1997	9	1 041
The Pacific		84	2 763
Fiji	1997	--	151
Papua New Guinea	1999	--	2 342
Tonga	1998	84	270
Central and Eastern Europe		850	174 710
Albania	1998	--	1 239
Armenia	1998	--	157
Belarus	1994	--	393
Bulgaria	1994	26	918
Croatia	1997	70	353
Czech Republic	1999	660	71 385
Estonia	1999	--	3 066
Hungary	1998	--	28 772
Lithuania	1998	16	1 778
Poland	1998	58	35 840
Romania	1998	20	9 195
Russian Federation	1994	--	7 793
Slovakia	1997	--	5 560
Slovenia	1997	--	1 195
Ukraine	1998	--	7 066
WORLD		**59 902**	**508 239**

Source: UN Conference on Trade and Development estimates.

Exhibit 1.2
GNPs of Various Countries Ranked with Sales of Selected Corporations, 2002

Country/Company	Billions of U.S. Dollars
Switzerland	284
Sweden	227
Austria	217
ExxonMobil	206
Turkey	201
Wal-Mart	191
General Electric	185
General Motors	184
Denmark	175
Ford Motor	170
Norway	152
Poland	151
Saudi Arabia	143
South Africa	137
Thailand	132
Indonesia	130
Finland	125
Greece	123
Citigroup	112
Portugal	106
Iran	102
Colombia	100

Source: World Bank and company annual reports.

subsidiary in Malaysia for assembly and then imports the finished machines back to the United States and exports them to other buyers around the world.

MNCs are mainly the product of developed countries. However, the relative importance of different home countries has changed in the last 15 years. The MNCs of Japan and the European countries have increased in significance, whereas the significance of MNCs of the United States has declined. The available evidence suggests that these shifts are due primarily to changes in the international competitiveness of companies based in different countries.

Foreign Direct Investment Patterns

The establishment of foreign affiliates involves costs in either cash or kind. Often these costs comprise a package of equity participation in the new venture, technology transfer, and sharing of managerial expertise. In addition, loans may be made to the affiliate with an agreement to reinvest

Exhibit 1.3
Nondomestic Earnings, Sales, and Assets of Selected U.S. Firms, 2002

Company	Percentage of Net Profit	Percentage of Sales	Percentage of Assets
ExxonMobil	60	69	63
IBM	48	60	40
Texaco	40	72	50
Hewlett-Packard	61	56	50
Compaq Computers	36	55	35
Procter & Gamble	42	50	50
Intel	34	59	26
Motorola	78	53	40
Dow Chemical	73	62	46
Xerox	Deficit	55	41
Coca-Cola	36	61	37
Caterpillar	27	50	37
McDonald's	62	63	54
3M	47	53	37
Texas Instruments	13	73	30
Manpower	77	78	85
Aflac	73	82	86
Halliburton	62	66	39
Lear	71	50	43
Agilent Technologies	105	56	47
Crown Cork & Seal	Deficit	59	63
SCI Systems	45	51	73
AES	51	63	72
Unisys	Deficit	58	37
Gillette	56	60	52
Rohm & Haas	63	57	26
Avon Products	69	67	56
Baxter International	62	54	45

Source: Company annual reports.

the earnings for a specified duration. Together, all these elements of costs are defined as *foreign direct investment (FDI)*. In 1998, FDI outflows amounted to $649 billion in world trade. The inflows in the same year reached $644 billion.[6]

A major portion of FDI outflows and inflows is among developed countries. In 1998, FDI inflows to and outflows from developed countries reached $460 billion and $595 billion, respectively. FDI inflows to developing countries for the same year amounted to $166 billion. The pattern of FDI inflows and outflows by absolute value, as shown in Exhibit 1.4, does not provide a full picture of the significance of these flows in different countries. If the size of the economies is taken into consideration, a differ-

Exhibit 1.4
Regional Distribution of FDI Inflows and Outflows, 1998–2001

FDI Flows Per Capita

	Inflows				Outflows			
Region/Country	1998	1999	2000	2001	1998	1999	2000	2001
Developed countries	238.6	240.3	309.3	518.3	350.4	364.0	460.2	669.5
Western Europe	317.0	300.0	350.1	614.8	457.8	530.5	623.4	1 051.9
European Union	310.9	292.3	337.9	614.7	431.7	488.0	584.9	1 032.1
Other Western Europe	509.2	541.2	730.2	617.6	1 280.0	1 864.0	1 826.3	1 670.4
United States	220.0	283.7	402.2	706.4	344.7	277.7	404.8	485.2
Japan	0.3	1.8	25.7	25.3	180.9	186.9	206.9	191.8
Other developed countries	286.6	192.1	256.3	257.9	161.6	177.2	302.0	307.3
Developing countries	23.8	29.8	37.4	35.4	11.7	13.0	14.1	11.1
Africa	6.1	8.5	10.8	10.9	0.7	-	2.0	0.7
Latin America and the Caribbean	69.7	96.2	140.1	144.8	16.0	15.0	32.0	31.2
Developing Europe	37.5	84.2	76.0	99.9	5.4	7.0	19.8	11.2
Asia	20.7	24.5	28.1	24.6	13.4	15.4	14.0	10.5
West Asia	-2.0	2.8	20.7	20.0	-4.1	9.7	9.3	8.1
Central Asia	21.0	28.3	42.1	41.6	-	-	-	0.1
South, East, and Southeast Asia	22.2	26.0	28.3	24.6	14.9	16.2	14.7	10.9
The Pacific	91.4	28.6	22.7	26.7	-0.5	0.1	3.3	3.8
Central and Eastern Europe	42.3	36.8	55.1	52.2	1.4	3.3	10.2	5.7
World	58.0	62.4	79.6	108.9	63.2	66.0	81.4	109.7

Source: UN Conference on Trade and Development.

ent picture emerges. In terms of FDI inflows per $1,000 of GDP, in 1998 developing countries received more FDI per income dollars than did the developed countries (see Exhibit 1.5). This finding shows that factors such as market size and natural and human resources may be as important as national income in attracting FDI.

In absolute terms, FDI outflows from developed countries remain substantially high. However, Exhibit 1.5, which analyzes outflows per income dollars, shows that the disparity of outflows between developed and developing countries is slight. This finding suggests that even at lower levels of development, nations have companies that are sufficiently competitive to establish themselves abroad.

FDI patterns can be analyzed by examining sectors and indicators. Such examination considers the relative importance of different sectors and industries at home and in host nations, the degree of liberalization of host

Exhibit 1.5
FDI Flows per $1,000 GDP

Region/Country	Inflows 1998	Inflows 1999	Inflows 2000	Outflows 1998	Outflows 1999	Outflows 2000
Developed countries	9.4	9.5	12.4	13.8	14.4	18.4
Western Europe	13.7	12.8	15.8	19.8	22.6	28.2
European Union	13.7	12.7	15.6	19.1	21.2	27.0
Other Western Europe	13.1	14.0	21.0	32.9	48.3	52.4
United States	8.5	10.5	13.5	13.0	10.3	13.6
Japan	-	-	0.8	4.4	5.1	6.2
Other developed countries	23.5	15.2	19.9	13.3	14.0	23.4
Developing countries	19.3	22.3	26.9	9.4	9.8	10.0
Africa	12.5	16.2	15.6	1.4	-0.1	3.7
Latin America and the Caribbean	19.2	25.0	33.7	3.0	3.1	6.1
Developing Europe	10.0	21.5	20.0	1.4	1.8	5.2
Asia	20.0	21.6	24.8	13.4	13.9	12.7
West Asia	-0.7	0.9	7.4	-1.6	3.1	3.3
Central Asia	37.7	42.9	49.9	-	-	0.1
South, East, and Southeast Asia	24.2	25.8	27.8	16.5	16.4	14.7
The Pacific	49.8	15.0	12.5	-0.4	0.1	2.7
Central and Eastern Europe	20.6	15.2	22.3	0.7	1.4	4.1
World	11.6	12.3	15.8	12.7	13.1	16.2

Source: UN Conference on Trade and Development.

countries' policies as they pertain to MNC participation in different sectors and industries, and the strategies of MNCs. The industry with the largest share of invested FDI stock in the world, as shown in Exhibit 1.6, is financial services—that is, banking, insurance, securities, and other financial activities. The financial services industry has not lost its lead over the past decade. In the past several years FDI in services has been growing at a faster rate than FDI in other sectors, increasing services' share in the total outward FDI stock of developed countries by more than 50 percent. The increase is explained by the liberalization of investment and trade in many service industries and by the nontradability of many service products, which necessitates using FDI for their delivery to foreign markets.

The Top MNCs

The 100 largest MNCs worldwide, based on 1998 figures, held $1.8 trillion in foreign assets, sold products abroad worth $2.1 trillion, and

Exhibit 1.6
FDI Inflows by Industry, 2000

Sector/Industry	Developed Countries		Developing Countries		World	
	Value	Share	Value	Share	Value	Share
All industries	93 170	100.0	26 668	100.0	119 837	100.0
Primary	8 577	9.2	1 787	6.7	10 364	8.6
Agriculture, hunting, forestry, and fishing	1	-	569	2.1	570	0.5
Mining, quarrying, and petroleum	8 576	9.2	1 219	4.6	9 794	8.2
Unspecified primary	-	-	-	-	-	-
Manufacturing	34 974	37.5	17 802	66.8	52 776	44.0
Food, beverage, and tobacco	5 502	5.9	974	3.7	6 476	5.4
Textiles, clothing, and leather	2 638	2.8	994	3.7	3 632	3.0
Wood and wood products	335	0.4	720	2.7	1 055	0.9
Publishing, printing, and reproduction of recorded media	5 510	5.9	26	0.1	5 536	4.6
Coke, petroleum products, and nuclear fuel	-2 897	-3.1	128	0.5	-2 769	-2.3
Chemicals and chemical products	5 721	6.1	3 376	12.7	9 098	7.6
Rubber and plastic products	1 850	2.0	899	3.4	2 748	2.3
Nonmetallic mineral products	3 388	3.6	333	1.2	3 721	3.1
Basic metals	1 673	1.8	1 618	6.1	3 291	2.7
Fabricated metal products	1 168	1.3	-	-	1 168	1.0
Machinery and equipment	4 255	4.6	1 023	3.8	5 278	4.4
Electric machinery	2 785	3.0	2 066	7.7	4 850	4.0
Office, accounting, and computing machinery	2 082	2.2	-	-	2 082	1.7
Electrical machinery and apparatus	18	-	2 065	7.7	2 084	1.7
Radio, television, and communication apparatus	685	0.7	-	-	685	0.6
Precision instruments	1 046	1.1	7	-	1 053	0.9
Transport equipment	-223	-0.2	237	0.9	14	0.0
Motor vehicles, trailers, and semi-trailers	-233	-0.2	151	0.6	-82	-0.1
Other transport equipment	10	-	86	0.3	96	0.1
Other manufacturing	2 223	2.4	248	0.9	2 471	2.1
Unspecified manufacturing	-	-	5 155	19.3	5 155	4.3
Services	39 999	42.9	6 654	25.0	46 653	38.9
Electricity, gas, and water	764	0.8	-	764	0.6	
Construction	590	0.6	662	2.5	1 252	1.0
Trade	7 376	7.9	845	3.2	8 220	6.9
Hotels and restaurants	2 656	2.9	486	1.8	3 141	2.6
Transport, storage, and communications	878	0.9	549	2.1	1 427	1.2
Finance	12 639	13.6	857	3.2	13 497	11.3
Real estate	3 824	4.1	679	2.5	4 504	3.8
Rental activities	-	-	-	-	-	-
Business services	7 262	7.8	7	-	7 269	6.1
Computer and related activities	586	0.6	-	-	586	0.5
Research and development	-	-	7	-	7	-
Other business activities	6 676	7.2	-	-	6 676	5.6
Other services	4 010	4.3	2 568	9.6	6 578	5.5
Public administration and defense	-	-	-	-	-	-
Education	1	-	-	-	1	-
Health and social services	-	-	-	-	5	-
Community, social, and personal service activities	672	0.7	5	-	672	0.6
Others	3 337	3.6	2 563	9.6	5 900	4.9
Unspecified services	-	-	2	-	2	-
Unspecified	**9 620**	**10.3**	**424**	**1.6**	**10 044**	**8.4**

Source: UN Conference on Trade and Development.

Exhibit 1.7

World Top 100 Nonfinancial MNCs: Assets, Sales, and Employment (billions of dollars and number of employees)

	Corporation	Country	Industry	Assets		Sales		Employment	
				Foreign	Total	Foreign	Total	Foreign	Total
1	General Electric	United States	Electronics	97.4	304.0	24.5	90.8	111 000	276 000
2	Ford Motor Company	United States	Automotive	72.5	275.4	48.0	153.6	174 105	363 892
3	Royal Dutch/Shell Group	Netherlands/ United Kingdom	Petroleum	70.0	115.0	69.0	128.0	65 000	105 000
4	General Motors	United States	Automotive	0.0	228.9	51.0	178.2	...	608 000
5	Exxon Corporation	United States	Petroleum	54.6	96.1	104.8	120.3	...	80 000
6	Toyota	Japan	Automotive	41.8	105.0	50.4	88.5	...	159 035
7	IBM	United States	Computers	39.9	81.5	48.9	78.5	134 815	269 465
8	Volkswagen Group	Germany	Automotive	...	57.0	42.7	65.0	133 906	279 892
9	Nestle SA	Switzerland	Food and beverages	31.6	37.0	47.6	48.3	219 442	225 808
10	Daimler-Benz AG	Germany	Automotive	30.9	76.2	46.1	69.0	74 802	300 068
11	Mobil Corporation	United States	Petroleum	30.4	43.6	36.8	64.3	22 200	42 700
12	FIAT Spa	Italy	Automotive	30.0	69.1	20.2	50.6	94 877	242 322
13	Hoechst AG	Germany	Chemicals	29.0	34.0	24.3	30.0	...	137 374
14	Asea Brown Boveri (ABB)	Switzerland	Electrical equipment	...	29.8	30.4	31.3	200 574	213 057
15	Bayer AG	Germany	Chemicals	...	30.3	...	32.0	...	144 600
16	Elf Aquitaine SA	France	Petroleum	26.7	42.0	25.6	42.3	40 500	83 700
17	Nissan Motor Co., Ltd.	Japan	Automotive	26.5	57.6	27.8	49.7	...	137 201
18	Unilever	Netherlands/ United Kingdom	Food and beverages	25.6	30.8	44.8	46.4	262 840	269 315
19	Siemens AG	Germany	Electronics	25.6	67.1	40.0	60.6	201 141	386 000
20	Roche Holding AG	Switzerland	Pharmaceuticals	...	37.6	12.7	12.9	41 832	51 643
21	Sony Corporation	Japan	Electronics	...	48.2	40.3	51.1	...	173 000
22	Mitsubishi Corporation	Japan	Diversified	21.9	67.1	41.5	120.4	...	8 401
23	Seagram Company	Canada	Beverages	21.8	22.2	9.4	9.7	...	31 000
24	Honda Motor Co., Ltd	Japan	Automotive	21.5	36.5	31.5	45.4	...	109 400
25	BMW AG	Germany	Automotive	20.3	31.8	26.4	35.9	52 149	117 624
26	Alcatel Alsthom Cie	France	Electronics	20.3	41.9	25.9	31.0	...	189 549
27	Philips Electronics N.V.	Netherlands	Electronics	20.1	25.5	33.0	33.5	206 236	252 268
28	News Corporation	Australia	Media	20.0	30.7	9.5	10.7	...	28 220
29	Phillip Morris	United States	Food/tobacco	19.4	55.9	32.1	56.1	...	152 000
30	British Petroleum (BP)	United Kingdom	Petroleum	19.2	32.6	36.5	71.3	37 600	55 650
31	Hewlett-Packard	United States	Electronics	18.5	31.7	23.8	42.9	...	121 900

Exhibit 1.7
(continued)

32	Total SA	France	Petroleum	...	25.2	23.4	31.9	...	54 391
33	Renault SA	France	Automotive	18.3	34.9	18.5	35.6	45 860	141 315
34	Cable and Wireless Plc	United Kingdom	Telecommunication	...	21.6	7.8	11.5	33 740	46 550
35	Mitsui & Co., Ltd.	Japan	Diversified	17.9	55.5	52.3	132.6	...	10 994
36	Rhone-Poulenc SA	France	Chemicals/pharmaceuticals	17.8	27.5	11.5	15.0	...	68 377
37	Viag AG	Germany	Diversified	17.4	32.7	15.9	27.6	...	95 561
38	BASF AG	Germany	Chemicals	...	26.8	23.9	32.2	...	104 979
39	Itochu Corporation	Japan	Trading	16.7	56.8	48.7	117.7	2 600	8 878
40	Nissho Iwai Corporation	Japan	Trading	16.6	40.4	32.3	75.5	2 068	6 398
41	Du Pont (E.I.)	United States	Chemicals	16.6	42.7	20.4	39.7	...	98 000
42	Diageo Plc	United Kingdom	Beverages	...	29.7	17.6	22.6	63 761	79 161
43	Novartis	Switzerland	Pharmaceuticals/chemicals	16.0	36.7	21.0	21.5	71 403	87 239
44	Sumitomo Corporation	Japan	Trading/machinery	15.4	43.0	15.1	95.2	...	8 694
45	ENI Group	Italy	Petroleum	14.6	49.4	12.5	34.3	23 239	80 178
46	Chevron Corporation	United States	Petroleum	14.3	35.5	13.8	40.6	8 610	39 362
47	Dow Chemical	United States	Chemicals	14.3	23.6	11.3	20.0	...	42 861
48	Texaco Incorporated	United States	Petroleum	14.1	29.6	22.3	45.2	...	29 313
49	BCE Inc.	Canada	Telecommunication	13.6	28.2	15.5	23.2	...	122 000
50	Xerox Corporation	United States	Photo equipment	13.5	27.7	9.0	18.2	...	91 400
51	Saint-Gobain SA	France	Industrial material	...	22.7	9.5	18.3	...	107 168
52	Thomson Corporation	Canada	Printing and publishing	13.0	13.3	8.3	8.8	46 300	49 800
53	Peugeot SA	France	Automotive	12.9	30.8	16.1	31.2	32 100	140 200
54	Montedison	Italy	Chemicals/agribusiness	...	18.1	9.7	13.9	18 354	27 135
55	Matsushita Electric	Japan	Electronics	12.2	62.7	23.6	59.7	...	275 962
56	Hitachi, Ltd.	Japan	Electronics	12.0	76.6	19.8	63.8	58 000	331 494
57	Motorola, Inc.	United States	Electronics	11.7	27.3	17.4	29.8	70 000	150 000
58	Marubeni Corporation	Japan	Trading	11.6	55.9	38.5	103.3	2 827	8 868
59	Fujitsu Limited	Japan	Electronics	11.2	38.8	14.1	37.7	...	180 000
60	Imperial Chemical Industries (ICI) Plc	United Kingdom	Chemicals	10.6	15.2	14.7	18.1	51 400	69 500
61	Veba Group	Germany	Diversified	10.4	45.0	16.0	46.2	32 178	129 960
62	Volvo AB	Sweden	Automotive	...	20.7	21.5	24.1	29 250	72 900
63	RTZ Cra Plc	United Kingdom /Australia	Mining	10.2	16.7	5.8	9.4	27 297	50 507
64	Lafarge SA	France	Construction	10.1	16.0	5.1	7.0	28 936	37 097
65	Procter & Gamble	United States	Chemicals/cosmetics	10.0	31.0	17.9	37.2	...	110 000
66	McDonald's Corporation	United States	Restaurants	10.0	18.2	6.8	11.4	...	267 000
67	Ericsson LM	Sweden	Electronics	10.0	18.2	15.4	20.7	55 414	100 774
68	AMOCO Corporation	United States	Petroleum	9.9	32.5	8.0	31.9	...	43 451

Exhibit 1.7
(continued)

69	Johnson & Johnson	United States	Chemicals/pharmaceuticals	9.5	21.1	10.9	22.6	...	90 500
70	Mitsubishi Motors	Japan	Automotive	9.1	25.1	10.9	28.3	19 600	75 300
71	Glaxo Wellcome Plc	United Kingdom	Pharmaceuticals	...	13.6	12.1	13.1	...	53 068
72	Robert Bosch GmbH	Germany	Automotive	9.0	19.5	17.7	27.0	89 071	179 719
73	Petroleos de Venezuela S.A.	Venezuela	Petroleum	9.0	47.1	32.5	34.8	11 849	56 592
74	Electrolux AB	Sweden	Electrical appliances	...	10.1	13.6	14.3	...	103 000
75	Daewoo Corporation	Republic of Korea	Diversified	...	22.9	...	18.8	...	...
76	Michelin	France	Rubber and plastics	...	13.6	11.3	13.3	...	123 254
77	British American Tobacco Plc	United Kingdom	Food/tobacco	8.1	84.8	26.2	34.5	115 000	117 339
78	Crown Cork & Seal	United States	Packaging	8.1	12.3	5.1	8.5	...	40 985
79	Merck & Co., Inc.	United States	Drugs, cosmetics, and health	8.1	25.7	6.5	23.6	20 000	53 800
80	Generale des Eaux	France	Diversified /utility	...	43.1	9.2	28.6	...	193 300
81	AT&T Corp.	United States	Telecommunication/electronics	...	61.1	...	51.3	...	128 000
82	Solvay SA	Belgium	Pharmaceuticals/ chemicals	...	8.5	8.0	8.4	...	34 445
83	L'Air Liquide Group	France	Chemicals	...	9.3	4.7	6.6	...	27 600
84	GTE Corporation	United States	Telecommunication	...	42.1	...	23.3	...	114 000
85	International Paper	United States	Paper	7.8	26.8	5.8	20.1	28 000	82 000
86	Mannesmann AG	Germany	Engineering/telecommunication	...	16.4	12.6	22.5	41 290	120 859
87	Akzo Nobel N.V.	Netherlands	Chemicals	...	10.6	11.4	12.3	51 300	68 900
88	Danone Groupe SA	France	Food and beverages	7.5	16.5	8.8	14.8	...	80 631
89	Holderbank Financiere Glarus AG	Switzerland	Construction materials	7.5	12.0	6.9	7.8	37 302	40 779
90	BTR Plc	United Kingdom	Plastic and foam	7.5	12.7	11.5	12.3	90 878	110 498
91	Royal Ahold NV	Netherlands	Retailers	7.4	9.9	18.2	26.6	148 872	209 591
92	Atlantic Richfield	United States	Petroleum Exploration/refining/distribution	...	25.3	3.5	18.6	4 400	19 600
93	Bridgestone	Japan	Rubber and plastics	7.2	13.3	9.8	16.7	...	13 049
94	Smithkline Beecham Plc	United Kingdom	Drugs, cosmetics, and health	7.1	13.4	11.5	12.9	...	55 400
95	LVMH SA	France	Diversified	7.1	16.3	6.5	8.0	...	33 511
96	Canon Electronics Inc.	Japan	Electronics	7.0	22.0	14.6	21.2	41 211	78 767
97	American Home Products	United States	Pharmaceuticals	6.9	20.8	6.1	14.2	...	60 523
98	Toshiba Corporation	Japan	Electronics	6.8	44.9	14.6	41.3	...	186 000
99	Gillette Company	United States	Drugs, cosmetics, and health	6.8	10.9	6.4	10.1	31 600	44 000
100	Pharmacia & Upjohn, Inc.	United States	Pharmaceuticals	6.8	10.4	4.6	6.6	...	30 000

Note: The companies have been ranked by foreign assets.
Source: UN Conference on Trade and Development.

Exhibit 1.8
Industry Composition of Top 100 MNCs, 2000 (number)

Industry	
Chemicals and pharmaceuticals	21
Electronics/electrical equipment	18
Automotive	14
Petroleum refining/distribution and mining	13
Food and beverages	9
Diversified	7
Telecommunication/utilities	4
Trading	3
Machinery and engineering	2
Metals	-
Construction	3
Media	1
Other	5
Total	100

Source: UN Conference on Trade and Development.

employed about 6 million people in their overseas subsidiaries. These MNCs accounted for an estimated 15 percent of the foreign assets of all MNCs and 22 percent of their sales. A mere 1 percent of all MNCs own half the total stock of FDI.[7]

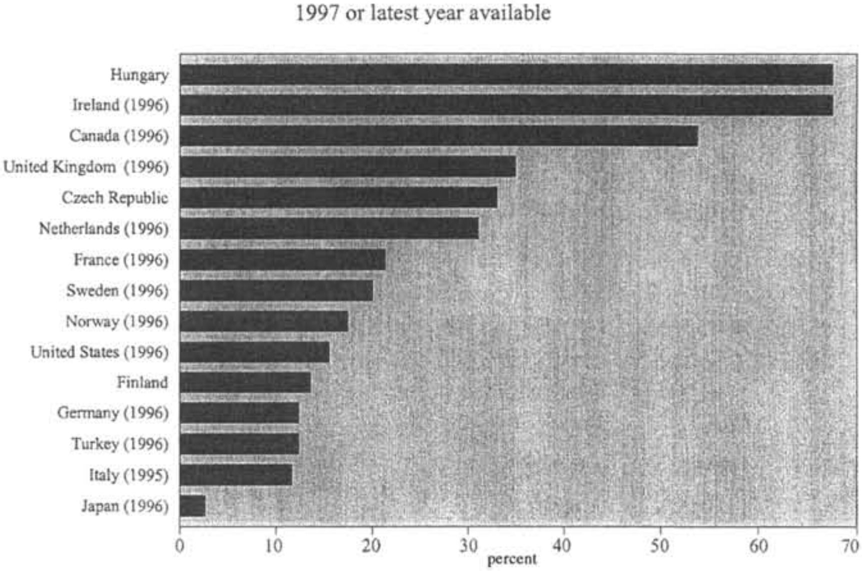
General Electric holds the first position among the world's 100 largest nonfinancial MNCs in terms of foreign assets. About 85 of the top 100 MNCs are firms that have been ranked in the top 100 over the last five years. Exhibit 1.7 identifies these 100 firms, along with their foreign sales, assets, and employment figures. Of the 100 companies, 89 originated in the United States, the European Union, or Japan. Only 2 companies among the global 100 companies came from developing countries: 1 company each from South Korea and Venezuela.

The industry classification of the top 100 firms is shown in Exhibit 1.8. Four industries account for two-thirds of the companies: chemicals and pharmaceuticals, electronics, automotive products, and petroleum. Chemicals and pharmaceuticals, with 21 companies, dominates the list.

Role of MNCs in OECD Economies

Multinational firms play on increasingly important role in the Organization for Economic Cooperation and Development (OECD) countries in

Exhibit 1.9
Share of Foreign Affiliates in Manufacturing Production



Source: Organization for Economic Cooperation and Development, Activities of Foreign Affiliates database.

terms of production and employment. The share of production and employment under foreign control in the OECD economies amounts to between 10 and 20 percent on average, but there are wide differences among countries. The share of foreign affiliates in manufacturing production ranges from 66 percent in Hungary and Ireland to 1 percent in Japan (see Exhibit 1.9). Foreign affiliates feature prominently in Canada, the Netherlands, France, the Czech Republic, Sweden, and the United Kingdom. Their presence is limited in Italy, Turkey, Germany, Finland, Norway, and the United States. The share of foreign affiliates depends on various factors, including the size and attractiveness of the country and the ease, from the institutional standpoint, with which such investments can be made.

The share of foreign affiliates in manufacturing production exceeds their share in manufacturing employment in nearly all countries. As shown in Exhibit 1.10, the mean wage paid by foreign affiliates in the manufacturing sector is also generally higher than the mean wage paid by national firms.

The share of foreign affiliates in research and development (R&D) varies widely across countries, ranging from less than 1 percent in the