

United Nations Conference on Trade and Development

World Investment Report

1999 Foreign Direct Investment
and the Challenge of
Development

Overview



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World Investment Report 1999: Foreign Direct Investment and the Challenge of Development

Overview

The momentum for the expansion of international production continues to hold, though the world economy is currently affected by a number of factors that could discourage investment, including foreign direct investment (FDI) by transnational corporations (TNCs). FDI flows to developing countries declined in 1998, but that decline was confined to a few countries. Technology flows, as measured by technology payments, continued to grow, partly reflecting the increasing importance of technology in the production process. Cross-border M&As among developed countries have driven the expansion of FDI flows and international production capacity in 1998. This suggests that, in the face of diminished financing and reduced market prospects world-wide, TNCs in the Triad are concentrating on consolidating their assets and activities so as to strengthen their readiness for global expansion or survival once the health of the world economy, including countries affected by the recent financial crises and their aftermath, is fully restored.

TRENDS

Transnational corporations drive international production ...

International production – the production of goods and services in countries that is controlled and managed by firms headquartered in other countries – is at the core of the process of globalization. TNCs – the firms that engage in international production – now comprise over 500,000 foreign affiliates established by some 60,000 parent companies, many of which also have non-equity relationships with a large number of independent firms. The TNC universe comprises large firms mainly from developed countries, but also firms from developing countries and, more recently, firms from economies in transition, as well as small- and medium-sized firms. A small number of TNCs, ranking at the

top, are noteworthy for their role and relative importance in international production:

- The world's 100 largest non-financial TNCs together held \$1.8 trillion in foreign assets, sold products worth \$2.1 trillion abroad and employed some six million persons in their foreign affiliates in 1997 (see table 1 for the top 50 of those firms). They accounted for an estimated 15 per cent of the foreign assets of all TNCs and 22 per cent of their sales. General Electric is the largest among these TNCs ranked by foreign assets, holding the top place for the second consecutive year. Close to 90 per cent of the top 100 TNCs are from Triad countries (European Union, Japan and United States), while only two developing-country firms - Petroleos de Venezuela and Daewoo - figure in the list. While company rankings may change from year to year, membership in the list of the 100 largest TNCs has not changed much since 1990: about three-quarters of the TNCs in the list in 1997 were already part of the world's 100 largest TNCs in 1990. Even the ranking of the top TNCs by their degree of transnationality (an index reflecting the combined importance of foreign assets, sales and employment as shares of their respective totals) has been fairly stable. Automotive, electronics/electrical equipment, petroleum and chemicals/pharmaceuticals are the dominant industries to which firms in the top 100 belong.
- The top 50 non-financial TNCs based in developing countries together held \$105 billion in foreign assets in 1997 (see table 2 for the top 25 of those firms). The top companies from developing countries are less transnationalized than the world's 100 largest TNCs. They are domiciled in a handful of economies: Hong Kong (China), Republic of Korea, China, Venezuela, Mexico and Brazil. Their industrial composition is different from that of the world's top 100 TNCs, with food and beverages, petroleum, construction and diversified activities being the most important industries.
- The list of the 25 largest TNCs based in Central Europe (not including the Russian Federation) — published for the first time in this year's *World Investment Report* — identifies a new nascent group of investors which, together, held \$2.3 billion in assets abroad in 1998 and had foreign sales worth \$3.7 billion (see table 3 for the top 10 of those firms). Employment

Table 1. The world's top 50 TNCs, ranked by foreign assets, 1997
(Billions of dollars and number of employees)

Ranking by		Corporation	Country	Industry ^b	Assets		Sales		Employment		Transnationality index ^a (Per cent)
Foreign assets	Transnationality index ^a				Foreign	Total	Foreign	Total	Foreign	Total	
1	84	General Electric	United States	Electronics	97.4	304.0	24.5	90.8	111 000	276 000	33.1
2	80	Ford Motor Company	United States	Automotive	72.5	275.4	48.0	153.6	174 105	363 892	35.2
3	44	Royal Dutch/Shell Group ^c	Netherlands/ United Kingdom	Petroleum expl./ref./distr.	70.0	115.0	69.0	128.0	65 000	105 000	58.9
4	91	General Motors	United States	Automotive	0.0	228.9	51.0	178.2	...	608 000	29.3
5	29	Exxon Corporation	United States	Petroleum expl./ref./distr.	54.6	96.1	104.8	120.3	...	80 000	65.9
6	75	Toyota	Japan	Automotive	41.8	105.0	50.4	88.5	...	159 035	40.0
7	54	IBM	United States	Computers	39.9	81.5	48.9	78.5	134 815	269 465	53.7
8	50	Volkswagen Group	Germany	Automotive	...	57.0	42.7	65.0	133 906	279 892	56.8
9	4	Nestlé SA	Switzerland	Food and beverages	31.6	37.7	47.6	48.3	21 944	225 808	93.2
10	71	Daimler-Benz AG *	Germany	Automotive	30.9	76.2	46.1	69.0	74 802	300 068	44.1
11	39	Mobil Corporation	United States	Petroleum expl./ref./distr.	30.4	43.6	36.8	64.3	22 200	42 700	59.7
12	74	FIAT SpA	Italy	Automotive	30.0	69.1	20.2	50.6	94 877	242 322	40.8
13	16	Hoechst AG	Germany	Chemicals	29.0	34.0	24.3	30.0	...	137 374	76.5
14	2	Asea Brown Boveri (ABB)	Switzerland	Electrical equipment	...	29.8	30.4	31.3	20 057	21 305	96.7
15	9	Bayer AG	Germany	Chemicals	...	30.3	...	32.0	...	144 600	82.7
16	48	Elf Aquitaine SA	France	Petroleum expl./ref./distr.	26.7	42.0	25.6	42.3	40 500	83 700	57.6
17	60	Nissan Motor Co., Ltd.	Japan	Automotive	26.5	57.6	27.8	49.7	...	137 201	51.1
18	5	Unilever ^d	Netherlands/ United Kingdom	Food and beverages	25.6	30.8	44.8	46.4	262 840	269 315	92.4
19	56	Siemens AG	Germany	Electronics	25.6	67.1	40.0	60.6	201 141	386 000	52.1
20	10	Roche Holding AG	Switzerland	Pharmaceuticals	...	37.6	12.7	12.9	41 832	51 643	82.2
21	34	Sony Corporation	Japan	Electronics	...	48.2	40.3	51.1	...	173 000	62.8
22	78	Mitsubishi Corporation	Japan	Diversified	21.9	67.1	41.5	120.4	...	8 401	36.9
23	1	Seagram Company	Canada	Beverages	21.8	22.2	9.4	9.7	...	31 000	97.6
24	32	Honda Motor Co., Ltd.	Japan	Automotive	21.5	36.5	31.5	45.4	...	109 400	64.1
25	38	BMW AG	Germany	Automotive	20.3	31.8	26.4	35.9	52 149	117 624	60.7
26	31	Alcatel Alsthom Cie	France	Electronics	20.3	41.9	25.9	31.0	...	189 549	64.8
27	8	Philips Electronics N.V.	Netherlands	Electronics	20.1	25.5	33.0	33.5	206 236	252 268	86.4
28	21	News Corporation	Australia	Media	20.0	30.7	9.5	10.7	...	28 220	72.8
29	58	Philip Morris	United States	Food/Tobacco	19.4	55.9	32.1	56.1	...	152 000	51.1
30	42	British Petroleum (BP) *	United Kingdom	Petroleum expl./ref./distr.	19.2	32.6	36.5	71.3	37 600	55 650	59.2
31	57	Hewlett-Packard	United States	Electronics	18.5	31.7	23.8	42.9	...	121 900	51.1
32	20	Total SA	France	Petroleum expl./ref./distr.	...	25.2	23.4	31.9	...	54 391	73.2

Table 1. The world's top 50 TNCs, ranked by foreign assets, 1997 (concluded)

(Billions of dollars and number of employees)

Ranking by		Corporation	Country	Industry ^b	Assets		Sales		Employment		Transnationality index ^a (Per cent)
Foreign assets	Transnationality index ^a				Foreign	Total	Foreign	Total	Foreign	Total	
33	68	Renault SA	France	Automotive	18.3	34.9	18.5	35.6	45 860	141 315	45.7
34	18	Cable and Wireless Plc	United Kingdom	Telecommunication	...	21.6	7.8	11.5	33 740	46 550	74.7
35	79	Mitsui & Co., Ltd.	Japan	Diversified	17.9	55.5	52.3	132.6	...	10 994	35.8
36	30	Rhone-Poulenc SA	France	Chemicals/pharmaceuticals	17.8	27.5	11.5	15.0	...	68 377	65.7
37	55	Viag AG	Germany	Diversified	17.4	32.7	15.9	27.6	...	95 561	53.3
38	41	BASF AG	Germany	Chemicals	...	26.8	23.9	32.2	...	104 979	59.5
39	82	Itochu Corporation	Japan	Trading	16.7	56.8	48.7	117.7	2 600	8 878	33.3
40	76	Nissin Iwai Corporation	Japan	Trading	16.6	40.4	32.3	75.5	2 068	6 398	38.8
41	72	Du Pont (E.I.)	United States	Chemicals	16.6	42.7	20.4	39.7	...	98 000	41.8
42	25	Diageo Plc	United Kingdom	Beverages	...	29.7	17.6	22.6	63 761	79 161	71.0
43	19	Novartis	Switzerland	Pharmaceuticals/chemicals	16.0	36.7	21.0	21.5	71 403	87 239	74.4
44	94	Sumitomo Corporation	Japan	Trading/machinery	15.4	43.0	15.1	95.2	...	8 694	25.9
45	88	ENI Group	Italy	Petroleumexpl./ref./distr.	14.6	49.4	12.5	34.3	23 239	80 178	31.7
46	86	Chevron Corporation	United States	Petroleumexpl./ref./distr.	14.3	35.5	13.8	40.6	8 610	39 362	32.1
47	52	Dow Chemical	United States	Chemicals	14.3	23.6	11.3	20.0	...	42 861	56.4
48	69	Texaco Incorporated	United States	Petroleumexpl./ref./distr.	14.1	29.6	22.3	45.2	...	29 313	45.3
49	61	BCE Inc.	Canada	Telecommunication	13.6	28.2	15.5	23.2	...	122 000	50.9
50	65	Xerox Corporation	United States	Photo equipment	13.5	27.7	9.0	18.2	...	91 400	48.7

Source: UNCTAD/Erasmus University database.

^a The index of transnationality is calculated as the average of 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 as used by the United States Securities and Exchange Commission (SEC).

^c Foreign assets, sales and employment are outside Europe.

^d Foreign assets, sales and employment are outside the United Kingdom and the Netherlands.

... Data on foreign assets, foreign sales and foreign employment were not made available for the purpose of this study. In case of non-availability, they are estimated using secondary sources of information on the basis of the ratios of foreign to total assets; foreign to total sales and foreign to total employment.

* Mergers between Daimler-Benz and Chrysler, resulting in Daimler-Chrysler and between British Petroleum and Amoco, resulting in BP-Amoco, are not documented yet as they took place in 1998.

Note: The list includes non-financial TNCs only. In some companies, foreign investors may hold a minority share of more than 10 per cent.

Table 2. The top 25 TNCs from developing countries, ranked by foreign assets, 1997
(Millions of dollars and number of employees)

Ranking by		Corporation	Country	Industry ^b	Assets		Sales		Employment		Transnationality index ^a (Per cent)
Foreign assets	Transnationality index ^a				Foreign	Total	Foreign	Total	Foreign	Total	
1	12	Petroleos de Venezuela S.A.	Venezuela	Petroleum expl./ref./distr.	9007	47 148	32 502	34 801	11 849	56 592	44.5
2	10	Daewoo Corporation	Republic of Korea	Diversified	..	22 946	..	18 802	50.8
3	4	Jardine Matheson Holdings Ltd. ^c	Hong Kong, China/ Bermuda	Diversified	6652	11 970	7983	11 522	-	175 000	75.0
4	5	First Pacific Company Ltd.	Hong Kong, China	Electronics	6295	11 386	7416	8308	40 400	51 270	74.4
5	9	Cemex, S.A.	Mexico	Construction	5627	10 231	2235	3788	10 690	19 174	56.6
6	17	Hutchison Whampoa, Ltd.	Hong Kong, China	Diversified	4978	15 086	1899	5754	17 013	37 100	37.3
7	7	Sappi Limited	South Africa ^d	Paper	3830	4953	2419	3557	9492	23 458	61.9
8	29	China State Construction Engineering Corporation	China	Construction	3730	7230	1530	5420	5496	258 195	27.3
9	14	China National Chemicals Import and Export Corporation	China	Diversified	3460	5810	11 240	17 880	625	8905	43.1
10	23	LG Electronics Incorporated	Republic of Korea	Electronics and electricalequipment	3158	15 431	5175	17 640	32 532	80 370	30.1
11	36	YPF Sociedad Anonima	Argentina	Petroleum expl./ref./distr.	3061	12 761	911	6144	1908	10 002	19.3
12	50	Petroleo Brasileiro S.A. - Petrobras	Brazil	Petroleum expl./ref./distr.	-	34 233	-	27 946	-	41 173	44
13	39	Sunkyong Group	Republic of Korea	Diversified	2561	24 572	9960	31 692	2600	32 169	16.6
14	15	Hyundai Engineering & Construction Co.	Republic of Korea	Construction	-	8063	-	5405	-	30 981	37.6
15	43	New World Development Co. Ltd.	Hong Kong, China	Construction	2060	14 030	800	2580	-	14 840	15.3
16	3	Guangdong Investment Ltd.	Hong Kong, China	Diversified	1898	3053	676	924	15 080	16 500	75.6
17	13	Oitic Pacific Limited	Hong Kong, China	Diversified	1834	8733	912	2154	8262	11 800	44.5
18	30	PETRONAS- Petroliam Nasional Berhad	Malaysia	Petroleum expl./ref./distr.	-	20 990	-	10 055	-	13 000	25.9

Table 2. The top 25 TNCs from developing countries, ranked by foreign assets, 1997 (concluded)

(Millions of dollars and number of employees)

Ranking by		Corporation	Country	Industry ^b	Assets		Sales		Employment		Transnationality index ^a (Per cent)
Foreign assets	Transnationality index ^a				Foreign	Total	Foreign	Total	Foreign	Total	
19	41	Shougang Corporation	China	Diversified	1600	6640	1040	4390	-	218 158	16.2
20	6	Fraser & Neave Limited	Singapore	Food and beverages	1578	4273	1230	1912	11 461	13 131	62.8
21	40	Samsung Electronics Co., Ltd.	Republic of Korea	Electronics and electricalequipment	-	16 301	-	13 050	-	57 817	16.3
22	16	Singapore Airlines Limited	Singapore	Transportation	1546	9111	3454	4727	2957	13 258	37.4
23	21	Companhia Vale do Rio Doce	Brazil	Transportation	1509	14 332	3320	4744	7432	42 456	32.7
24	25	Enerdis S.A.	Chile	Electrical services	-	14 281	-	890	-	14 366	28.2
25	8	Acer Incorporated	Taiwan Province of China	Diversified	1376	2946	3204	4217	6792	12 342	59.2

Source: UNCTAD, FDI/TNC database.

^a The transnationality index (TI) is calculated as the average of the sum of three ratios for each TNC: 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 which is used by the United States Securities and Exchange Commission (SEC).

^c The company is incorporated in Bermuda and the group is managed from Hong Kong, China.

^d Within the context of this list, South Africa is treated as a developing country.

.. Data on foreign assets, foreign sales or foreign employment were not made available for the purpose of this study. 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: The list includes non-financial TNCs only. In some companies, foreign investors may hold a minority share of more than 10 per cent.

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Table 3. The top 10 TNCs based in Central Europe,^a ranked by foreign assets, 1998
(Millions of dollars and number of employees)

Corporation	Country	Industry ^c	Assets		Sales		Employment		Transnationality index ^b (Percent)
			Foreign	Total	Foreign	Total	Foreign	Total	
ian Shipping Co.	Latvia	Transportation	399.0	505.0	201.0	214.0	1 631	2 275	81.5
avka Group	Croatia	Food & beverages/ pharmaceuticals	285.9	477.1	119.4	390.2	501	6 898	32.6
erije Group	Slovenia	Domestic appliances	256.4	645.9	642.2	1 143.3	607	6 717	35.0
kov a.s.	Czech Republic	Trade	163.6	262.5	260.2	349.1	576	1 000	64.8
tska Plovidba, d.d.	Croatia	Transportation	152.0	167.0	47.0 ^d	47.0	-	528	95.5
i Group	Croatia	Pharmaceuticals	142.1	855.1	334.3	463.0	1 616	6 680	37.7
ja Group Plzen	Czech Republic	Diversified	139.1	973.4	150.7	1 244.5	1 073	19 830	10.6
a Airways d.d.	Slovenia	Transportation	129.4	143.7	97.7	97.7	-	585	95.0
Hungarian Oil	Hungary	Petroleum & natural gas	128.3	2 881.6	203.4	2 958.1	628	20 140	5.1
Gas Plc.			72.0	1 445.0	0.2	876.0	58	26 719	1.7
a.s. Kosice	Slovakia	Iron & steel							

^a Only of top TNCs in Central and Eastern Europe.

^b Financial TNCs only. In some companies, foreign investors may hold a minority share of more than 10 percent. Responses received from Croatia, Slovenia, Hungary, Lithuania, Slovakia, Czech Republic, Macedonia (TFYR), Rep. Moldova, and Ukraine.

^c Transnationality is calculated as the average of three ratios: foreign assets to total assets, foreign sales to total sales and foreign total employment.

^d Classification for companies follows the United States Standard Industrial Classification as used by the United States Securities and Exchange Commission (SEC).

^e Sales by parent company.