

**United Nations Conference on Trade and Development**

# **World Investment Report**

**2005** **Transnational Corporations and  
the Internationalization of R&D**



**United Nations  
New York and Geneva, 2005**

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**This Report is dedicated to the  
memory of Sanjaya Lall**



## PREFACE

The globalization of production is reshaping the international economic landscape. With that, the conventional wisdom of developed countries as capital and technology exporters and developing countries as importers is gradually giving way to a more complex set of relationships. The geography of international investment flows is changing. Developing countries are emerging as outward investors, and their importance as recipients of foreign direct investment in more knowledge-intensive activities is increasing. The *World Investment Report 2005*, focusing on the internationalization of research and development by transnational corporations, illustrates some of these changes.

As global competition intensifies, transnational corporations are internationalizing even the most knowledge-intensive corporate functions, such as research and development. Until recently, this trend was limited almost exclusively to developed countries. Today, corporations in industries such as automobiles, electronics, biotechnology and pharmaceuticals are establishing research and development facilities in selected developing countries. They do this to enhance their efficiency, to access expanding pools of scientists and engineers, and to meet the demands of increasingly sophisticated markets in these countries.

These recent trends have important implications for the international division of labour. The traditional view, of more complex production activities being undertaken in the North and simpler ones in the South, is less and less a true reflection of the reality. Firms now view parts of the developing world as key sources not only of cheap labour, but also of growth, skills and even new technologies. As transnational corporations are the dominant players in the creation of new technologies, it matters where they undertake their research and development. Currently, only a few developing countries attract such activities on a significant scale. Most low-income countries are not participating in global research and development networks, and consequently do not reap the benefits that they can generate.

The internationalization of research and development by transnational corporations has important implications for policy-making. The *World Investment Report 2005* stresses the need for coherent national policies – particularly in the areas of science, technology and innovation, education and investment – to ensure greater benefits from this evolution. For many countries, however, this is a daunting task, which will necessitate the full support of the international community.



Kofi A. Annan

Secretary-General of the United Nations

New York, July 2005

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