

MNE Strategies

6.1 Introduction

Given the economic considerations affecting the allocation of FDI, strategies of multinational enterprises on investment in developing countries are an independent influence on FDI flows. Such strategies are determined by a number of factors, which cannot be analysed in this study. However, there are two that need to be noted in the present context. The first is the firms' perceptions of the risk of investing in particular countries. The second is their corporate approaches to various aspects of international operation.

6.2 Country Risk

Let us start with risk. How does the international investment community rate the attractiveness and risk of investing in the various regions of the developing world? Apart from the "revealed preference" that is actually shown in past investment patterns, it may be relevant to look at published assessments of country risk that the business community in the OECD refer to. The assessment of country risk is something of an industry by itself, though most its results are confidential to firms or circulated on a limited (and very costly) basis. In such assessments, the risk element is necessarily evaluated by a subjective weighting of a number of factors, made up of a mixture of political and economic variables, that may affect future profitability and sustainability of operations in any given country. Most rely on a few selected indicators of performance, while some use replies given by corporate executives. By their nature, all are of limited predictive value, but they do reflect the kind of information and 'image' on the basis of which initial international investment decisions tend to be made

(final decisions of course require detailed evaluations and feasibility studies).

Table 4 shows the risk assessment for developing countries in 1993 carried out by Euromoney, one of the most comprehensive published risk assessments related to foreign investments. This is a ranking of 170 countries, conducted annually, and is based on economic performance, political risk, foreign debt and debt in default, credit rating, access to bank lending and short-term finance, and access to capital markets (rather than on subjective answers given by company executives). Each country is given marks out of a total of 100, with higher marks indicating better investment potential.

It should be noted that the risk ranking as given above is not necessarily directly related to how much FDI individual countries are getting – it is more an amalgam of indicators of economic performance in the recent past. The leading places in the developing world are held by Asian countries, followed by Latin America. Africa in general comes behind the other regions in these rankings. The leading country, South Africa, is 49th in the world league, but is clearly an exceptional case. Most countries in Sub-Saharan Africa come low on the list.

6.3 Integration and Sourcing Strategies

The recent World Investment Report 1994 highlights the process of emerging "deep integration" that increasingly characterises MNE operations in sophisticated services, high technology industries and in engineering activities that have significant scale economies and are actively traded. It contrasts this with traditional strategies of stand-alone affiliates and "simple integration",

Table 4: 1993 Risk Rankings of Developing Countries by Euromoney⁵²

Rank, Country	Points	Rank, Country	Points
12. Singapore	93.69	94. Gambia	36.24
15. Taiwan	91.95	95. Libya	35.45
22. Hong Kong	85.22	96. Panama	34.78
26. Rep. of Korea	81.65	97. Honduras	34.39
28. Malaysia	78.52	98. Djibouti	34.34
32. Thailand	75.25	99. Namibia	34.29
38. China	71.52	100. Senegal	33.97
41. Chile	68.75	101. Nigeria	33.60
42. Indonesia	68.48	102. Bhutan	33.04
44. Turkey	64.09	103. Vietnam	32.84
47. Colombia	60.68	104. Nepal	32.82
48. Mexico	60.37	105. Malawi	32.58
49. South Africa	60.04	106. Mali	32.10
50. Tunisia	58.10	107. Cameroon	31.63
51. Botswana	57.34	108. Guinea	31.45
52. Uruguay	54.41	109. Yemen	31.33
53. India	54.33	110. Burkina Faso	31.32
54. Barbados	53.25	111. Grenada	31.28
55. Argentina	50.46	112. Niger	31.01
56. Morocco	50.20	114. Benin	30.98
57. Papua New Guinea	50.02	116. Lebanon	30.11
58. Belize	49.93	117. Peru	29.85
59. Venezuela	48.96	118. C. African Republic	29.64
60. Fiji	47.72	119. Antigua & Barbados	29.26
62. Philippines	47.32	120. Madagascar	29.25
64. Trinidad and Tobago	46.86	121. Burundi	28.99
65. Jordan	46.03	123. Rwanda	28.90
66. Iran	45.84	124. Cote d'Ivoire	28.70
67. Mauritius	45.67	126. Chad	28.45
68. Pakistan	45.03	128. Togo	27.84
69. Zimbabwe	45.02	131. Haiti	26.29
70. Ghana	44.99	133. Myanmar	25.94
71. Costa Rica	44.72	134. Guinea-Bissau	25.72
73. Egypt	43.80	135. Tanzania	25.15
74. Paraguay	43.58	136. Zambia	24.91
75. Sri Lanka	43.20	140. Uganda	24.22
77. Brazil	42.61	141. Ethiopia	23.82
78. Vanuatu	42.22	143. Angola	23.68
79. Algeria	40.86	145. Mauritania	22.90
80. Syria	40.85	150. Sao Tome, Principe	21.93
81. Kenya	40.40	152. Sierra Leone	21.06
82. Seychelles	39.49	154. Congo	20.54
83. St Lucia	39.08	156. Guyana	19.08
84. El Salvador	38.93	157. Zaire	18.89

Rank, Country	Points	Rank, Country	Points
85. Bolivia	38.55	158. Mozambique	18.87
86. Gabon	38.40	161. Afghanistan	17.11
87. Guatemala	38.07	162. Cambodia	16.21
88. Lesotho	37.86	164. Iraq	15.67
89. Dominican Republic	37.59	166. Liberia	14.76
95. Libya	37.49	167. Nicaragua	12.02
91. Bangladesh	36.98	168. Sudan	10.98
92. Ecuador	36.81	169. Somalia	10.56
93. St Vincent	36.81	170. Cuba	9.47

in which only part of the production chain is integrated (Figure 2). Traditional strategies still predominate in many industries in which MNEs operate, and there are large differences between firms in their attitudes to integration; however, it is the emerging trends that are worth noting.

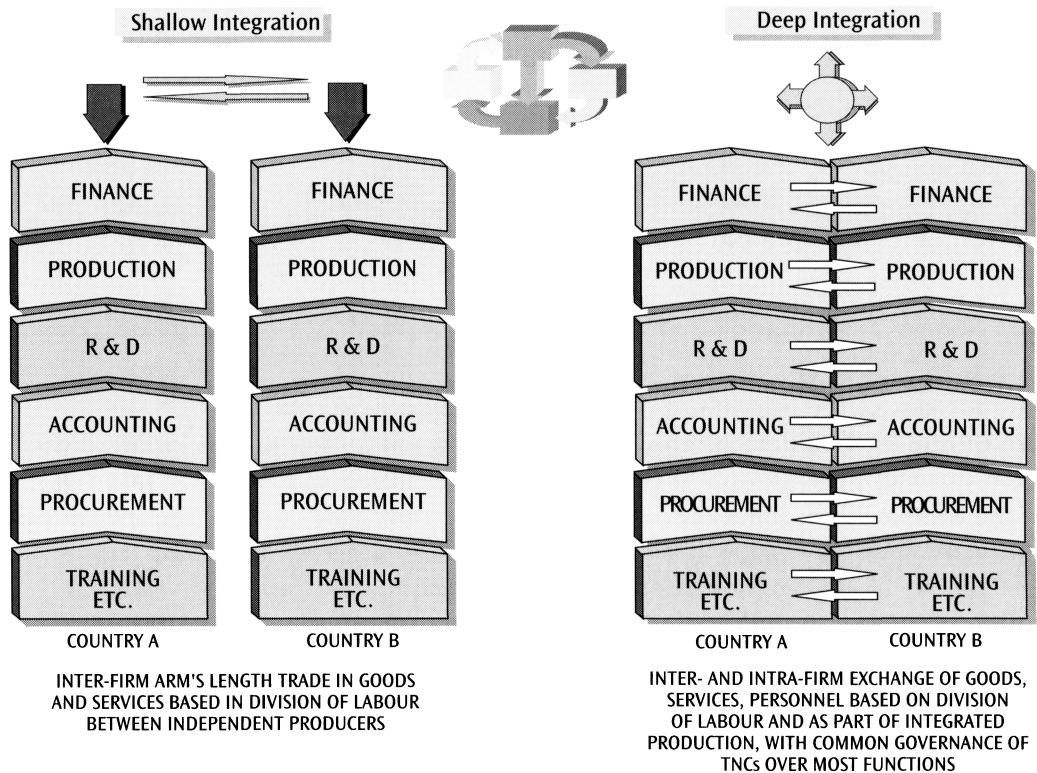
The WIR 1994 argues, with considerable persuasion, that it is in the most dynamic industries that deep integration strategies are gaining at the expense of more traditional strategies. There are many reasons for this, most of them to do with technological change and intensifying competition. This change may have sweeping and important implications for the international economy, at a time when more developing countries are choosing to participate more fully in trade and investment.

“Transnationals corporations are pursuing complex integration strategies in response to competitive pressures in the expectation of greater efficiency. The overall size of the integrated international production system that is emerging is difficult to gauge, but a number of indications suggest that the emergence of transnational corporations that are visibly global in their operations in industries such as automobiles, microelectronics, consumer electronics, household appliances, office machinery, instruments, pharmaceuticals and financial services... In these industries, the value-added chain is, in whole or in part,

geographically fragmented; but the individual functions of the chain, whether internalised or externalised, remain under the control and co-ordination of the major transnational corporations. In these industries, the leading firms have – or strive to have – a direct presence in each of the three Triad members. Within those areas, production and distribution are being rationalised and restructured, particularly where, as in the case of the European Union, internal barriers to the flow of factors, as well as intermediate and final products, are being dismantled.... In the process, the nature of the world economy is undergoing a profound change: from being a collection of independent national economies linked primarily through markets, the world economy is becoming, for the first time, an international production system, integrated increasingly through numerous parts of the value-added chain of production.”⁵³

What are the implications of this emerging structure for the location and sourcing decisions of multinational enterprises in developing countries? “The result is a broader range of opportunities for host countries to attract MNE activities, but also higher requirements in terms of human resources and infrastructure as well as open frameworks for trade and investment.”⁵⁴ Clearly, at this stage it is the developed countries

Figure 2: Types of Integration between Multinational Parents and Affiliates



and the more developed NIEs that are best placed to participate in the system. Other developing countries can participate to a greater or lesser extent depending on their ability to furnish the competitive factors that allow the activities involved to be carried out at world levels of efficiency. In an open trade and investment system, the ability to attract MNE production, increase exports, create local linkages and foster greater training for local employees would depend on making all these profitable relative to alternative locations. To quote from an earlier World Investment Report,

“These developments make it more important than ever for developing countries to build up their own human and physical infrastructure. In addition to providing the basis for industrialisation and development of the domestic economy, it

would allow national enterprises to join up with transnational corporations on a more equal basis. It would raise the quality and sophistication of the FDI a host country could attract, and would strengthen the prospects for technology acquisition. It would also enable host developing countries to build up supplier capabilities that are sometimes a precondition for the location of MNE activities and which, moreover, add to the economic and technological spillovers from foreign affiliates. The building up of such capabilities has been an essential feature of developing countries, including those in Asia and Latin America, that have succeeded in restructuring both their international and domestic production sectors towards higher- value-added activities.”⁵⁵

The risk of the emerging order of integrated MNE activities is that countries that are unable to furnish the bare essentials for competitive production may be further marginalised to international investment flows. The pattern of overall FDI flows suggests that this is already happening to some extent. If data were available for FDI flows by high skill and high technology activities, the dynamic edge of production and trade, the trends would be far more obvious. The skewness of FDI will thus continue.

To conclude, these trends in technology, investment, competitiveness and MNE strategies

appear to be mutually reinforcing. The end result is the uneven pattern of FDI flows that recent years have witnessed. Liberalisation of FDI policies will certainly help the lesser developed countries to attract multinational enterprises, but by itself is unlikely to dynamise the process of foreign investment and development. The inflow of FDI and economic development can interact in mutually beneficial ways if the host country can furnish, not just the policy regime, but also the incentives, capabilities and institutions that development demands.⁵⁶