

Developing Country Multinational Enterprises

8.1 Background

The growth of one “new form” of FDI, the emergence and spread of developing country multinational enterprises (DCMNEs), has aroused considerable interest in the international investment literature.⁶⁷ The WIR 1994 contains a useful compilation of data, from the IMF and UNCTAD’s own data base on FDI, on outward investment flows and stocks by selected developing countries and regions (Table 5). It shows that in 1992, the developing world as a whole accounted for \$9.2 billion of overseas investment, 5.3% of global investment, compared to 1.9% over 1982-87. The developing world accounted for 3.2% of the world stock of FDI in 1992, up from 0.7% in 1980. According

to UNCTAD (1994) there were some 3000 multinational enterprises originating in the developing world, though this estimates excludes several major countries and there are certainly many more developing world firms with overseas investments.

These data suggest that while DCMNEs are still small in global terms, their growth is very dynamic. However, the table shows that FDI from the developing world is highly concentrated in a relatively few countries. While intra-developing world investment has grown in every region, its pace, spread and industrial diversification in recent years have been driven by Asian economies, with their export growth and spread of competitive advantages.

Table 5: **Outward Investment by Developing Countries** (\$ mill. and %)

Region	Annual FDI Outflows (%)			Outward FDI stock 1992
	1982-87 average	1990	1992	
Total developing	1321 (100)	9592 (100)	9151 (100)	62418 (100)
All Africa	79 (6.0)	190 (2.0)	93 (1.0)	1736 (2.8)
o/w SSA ⁶⁸	20 (1.5)	24 (0.3)	58 (0.6)	418 (0.7)
Latin America ⁶⁹	294 (22.3)	1042 (10.9)	286 (3.1)	6281 (10.1)
o/w Argentina	- 5 (- 0.4)	—	—	n.a.
Brazil	161 (12.2)	665 (6.9)	146 (1.6)	3557 (5.7)
Chile	n.a.	n.a.	n.a.	713 (1.1)
Colombia	37 (2.8)	16 (0.2)	50 (0.5)	476 (0.8)
Venezuela	89 (6.7)	355 (3.7)	84 (0.9)	1323 (2.1)
West Asia	150 (11.4)	- 19 (- 0.2)	543 (5.9)	2713 (4.3)
South/East Asia ⁷⁰	812 (61.5)	8388 (87.4)	8221 (89.8)	51681 (82.8)
o/w China	333 (25.2)	830 (8.6)	4000 (43.7)	7401 (11.9)
Hong Kong	n.a.	n.a.	n.a.	14015 (22.5)
Korea	106 (8.0)	820 (8.5)	1047 (11.4)	4576 (7.3)
Singapore	178 (13.5)	1352 (14.1)	1347 (14.7)	6565 (10.5)
Taiwan	162 (12.3)	5243 (54.7)	1701 (18.6)	16443 (26.3)
Thailand	29 (2.2)	140 (1.5)	136 (1.5)	701 (1.1)

Source: UNCTAD (1994.a), Annex Tables 2 and 4.

Because of its relative stagnation in growth and intra-regional economic activity over much of the 1980s, Latin America exported relatively little FDI. However, as trade and investment have started to grow again, their enterprises are playing a growing role in international investment. Multinational enterprises from Latin America have a long tradition (the first DCMNE came from Argentina in the early part of this century), and some have widespread networks in the continent. Many are now also entering the USA to acquire firms in related activities, access the market and acquire new technologies.⁷¹

As may be expected, Africa shows very little outward FDI activity. Sub-Saharan Africa in particular accounts for less than 1 percent of FDI generated in the developing world. Note, however, that there are no data on FDI flows from South Africa, which has a large network of international operations in countries that maintained economic relations during apartheid. Given its relative economic size and level of development, South Africa may be expected to become an important source of FDI in the region. However, the South Africa economy has itself been sheltered so long that it is difficult to predict where its competitive edge lies and how far its multinational enterprises will be able to compete in a more liberal setting. There are also a number of prominent business families of Asian origin in East Africa with widespread investments in the region (and in West Africa). Again, their investments are probably not captured by the available data.

8.2 Asian Multinationals

First, a look at some data on intra-regional FDI by developing countries in Asia (Table 6). The figures in the table, while not complete, illustrate the vitality of this form of FDI. In many large recipients of FDI in East and South East Asia – China, Malaysia, Thailand, Indonesia and the Philippines – the largest or second largest single investor is another Asian developing country, usually one of

the Four Tigers of East Asia.⁷²

The most outstanding case is China, where 65% or more of the foreign investment stock comes from Asian developing countries. The preponderant proportion of this appears in the official figures as Hong Kong investments, but the figures also contain significant Taiwanese capital and perhaps investments by other countries operating through Hong Kong. It may also include 'round tripping' by Chinese enterprises bringing capital back to China.⁷³

The new NIEs, Indonesia, Thailand and Malaysia (and the Philippines), have become important staging posts for enterprises from the Tigers, relocating labour intensive operations to lower wage areas. In Pakistan and Bangladesh the main developing country investors are from West Asia rather than from the NIEs, with interests more in real estate and tourism rather than manufacturing. However, the growth of the Bangladeshi garments industry and exports has been fuelled by investments from East Asia, mainly Hong Kong and Korea.

Many Asian developing country investors also have very substantial investments in the OECD countries. For instance, it is estimated that Taiwan's investment in the developed world accounted for 50 to 60 percent of its overseas investments; the comparable figure for Korea is 55 percent. For Hong Kong and Singapore less than 50 percent is held in the OECD countries, but the figures are pure estimates.⁷⁸

Hong Kong and Taiwan are the largest overseas investors in developing Asia, together accounting for nearly half of the developing world's stock of foreign investments. Data on these two countries are especially unreliable, since a lot of foreign investment activity is unreported; however, there is no reason to doubt the magnitude of their international presence. Their industrial structures, populated by large numbers of small and medium enterprises specialised in the export of labour-intensive manufactures, have forced a massive relocation of activities to lower cost countries, especially China (see

Table 6: **FDI from Developing Countries in Asia by Host Country**

Host Country	FDI inflows from other developing countries in Asia (% of total FDI inflows)		FDI stocks from Asian developing countries (% of total FDI stocks)
	1985-87	1988-90	Latest available year
Bangladesh	4	7	15 ⁷⁴
China	65	60	65
Hong Kong	1 (1986-89) ⁷⁵	n.a.	17
India	1	3	5
Indonesia	20	32	18
Korea	5	3	4
Malaysia	19	42	41
Pakistan	15 (1985-88) ⁷⁶	n.a.	27 ⁷⁷
Philippines	7	9	10
Singapore	12	12	5
Sri Lanka	36	n.a.	36
Taiwan	11	15	28
Thailand	17	32	21

Sources: UNCTAD, *World Investment Report 1993*, P. 49, and UN CTC, *World Investment Directory 1992*

below).⁷⁹ Hong Kong now employs nearly 3 million workers in mainland China in export-oriented assembly activities, and its enterprises are active there in a variety of service and infrastructure activities. Hong Kong garments firms are operating in practically every low wage Asian economy that is exporting garments (with the possible exception of India), and as far away as Mauritius, Central America and South Europe.

Small and medium Taiwanese exporters have also spread various labour-intensive activities overseas, with active support and encouragement from a government anxious to use up its massive foreign exchange reserves and to upgrade the domestic industrial structure. Until recently, Taiwanese companies were forbidden to invest in China and so had to recourse to indirect means. This restriction was been lifted in 1991, and, by 1993, Taiwanese companies had an investment stock of \$19 billion in China, while by 1994 pledged new Taiwanese investment in the mainland exceeded \$20 billion.⁸⁰ Unlike Hong Kong, however, Taiwan has some large enterprises with ample financial resources and a technological edge in high-technology and skill-intensive industries – these are investing overseas to serve

growing local markets and also to place the simpler processes in low cost locations.

For instance, Acer, one of the world's largest producers of laptop computers and accessories, has set up operations in Malaysia and the USA, and is exploring options elsewhere.⁸¹ Taiwanese TV and video manufacturers, like Tatung, are active in SE Asia as well as Europe. Taiwanese chemical firms are contemplating enormous investments in China to escape environmental controls at home. Taiwan's largest food processor, President Foods Group, has "ambitions of becoming the world's largest food conglomerate" and has four factories in South-East Asia as well targeting mainland China.⁸²

Singapore is also a major investor overseas, but its scope is generally more limited to neighbouring countries and to a narrower range of activities. Its activities in Indonesia's Batam island in the context of the "Sijori growth triangle" have already been noted. In line with the prominent role that the state plays in the economic life of this free trade economy, some of its largest overseas investors are government owned, and many of its largest foreign ventures are designed and co-ordinated by the government.⁸³ Singapore Telecom

has installed one of the world's most advanced systems at home, and is starting (still on a small scale) to look overseas: it has invested in the UK and in the Sijori triangle, and is planning a large investment in the Philippines. A consortium of firms, under government direction, is developing a large industrial area in China. As a regional financial and trading centre, Singapore also serves multinational enterprises from other countries (including developing countries) as a launching pad for their operations in the region.

These three NIEs illustrate the importance of the "Chinese connection" in a lot of intra-Asian FDI. There is a vast network of family and commercial connections between the Chinese business communities that dominate industry and services in the different countries of the region. The low 'transactions costs' implicit in familiarity and trust (what the Chinese call *guanxi*), backed by enormous financial, entrepreneurial and skill resources, clearly provide an edge to multinational enterprises from the community.⁸⁴ Asian MNEs are often dominated by family groups that strike deals with each other, often keeping the most lucrative deals secret. This makes it difficult to gauge their true size and impact. Many Asian groups have interests in resource-based and real estate projects, including hotels and resort development. In activities where they lack a technological edge, they tend to seek alliances with developed country firms (telecommunications is a good example). Most are in fact concentrated in low-technology activities where little R&D is needed, drawing strength from internal capital markets provided by the family network.

However, the "Chinese connection" does not give an exclusive competitive edge, and there are many other sources of FDI in Asia. Korea is one of these, with the largest presence in technologically advanced and capital-intensive activities. It is presently a smaller investor than the other Asian Tigers, though it is significant in terms of the sums involved. It has not had the large balance-of-payments surpluses of Taiwan that would allow its government to encourage overseas investment. Nor has it had the loca-

tional advantages of Hong Kong for offloading its assembly industries. At the same time, its deeper and heavier industrial structure has meant that there has been less economic pressure on it to relocate to low wage areas. Its overseas investment activity thus tends to resemble more that of a developed country, especially Japan, to transfer relatively advanced technologies and skills and to tap local markets, than one like Hong Kong, which is forced to look for low cost locations as its domestic industry winds down.⁸⁵

Though relatively late starters in the overseas investment game, Korean multinational

Box 4: Korean Investment Potential in Africa

The Republic of Korea does not have diplomatic relations with Zimbabwe, but this is not holding back the entry of its leading firms. The chaebol Daewoo is setting up a regional office in Harare as a hub to do business there and in neighbouring countries.⁸⁶ It has had talks with four of Zimbabwe's largest private companies as well as two public sector firms, to license its technology and to set up joint ventures. Apart from tapping local markets, the firm wants to export the country's agricultural and mineral resources. It is offering its telecom technology to the post and telegraph utility to upgrade the country's phone, fax and telex services to the rest of the world. It has reached a preliminary agreement with a company in South Africa to build a colour TV tube plant there.

Daewoo is the company credited with sparking off the rapid growth of the Bangladesh garment industry, by taking local workers to Korea for training and helping them to set up their own factories for export.

Its rival Korean chaebol Hyundai is also setting up an office in Zimbabwe, and may buy an assembly plant there to make its trucks and cars for the regional market.

enterprises have enormous technological and financial 'muscle' compared to most other DCMNEs. The bulk of Korean overseas investment comes out of a small number of conglomerates, the chaebol. Their geographical and industrial spread is generally wider, and they tend to be in much more complex and 'heavy' activities, than investors from other Asian countries. Korean automobile manufacturers, for instance, have opened assembly plants in North America and in various parts of Asia, and are exploring East Europe and Africa (see Box 4), the most advanced developing country firms in this highly complex industry. A recent Daewoo investment in the UK to build a video cassette recorder plant (near Belfast) has attracted considerable attention in the British press in recent months.⁸⁷ This plant has received considerable incentives from the Industrial Development Board for Northern Ireland, and will create 450 jobs in this sophisticated industry.

Furthermore, despite the lack of a Chinese connection, Korean firms are launching large projects in China.⁸⁸ They are investing, not only in Asia and Africa but also in Latin America, the former Soviet Union and Mongolia. They are often risk-taking than their Japanese counterparts, as in East Europe. A recent report on Vietnam notes that Korean firms are among the leading investors there (though trailing Hong Kong and Taiwan); its chaebol are planning motor assembly, TV picture tube, container, chemical, equipment and other plants there.⁸⁹

Firms from the "new NIEs", though with a more limited base of technology, have also accumulated skills in some areas of manufacturing and services. Some are therefore emerging as important overseas investors. San Miguel of the Philippines has long been established as a true international operator, but has a number of smaller followers.⁹⁰ Large Malaysian, Indonesian and Thai firms are also setting up major foreign operations, mainly in neighbouring countries, but with a strong interest in China. In 1993, the largest foreign investing country in Malaysia's

Box 5: Some Multinational enterprises from Asian countries

The CP (Charoen Pokphand) group of Thailand, founded by an overseas Chinese, is the country's largest food processing company, and has investments in several neighbouring countries. It is also becoming one of the largest foreign investors in China, and its assets there are reckoned at \$1.3 billion. Apart from food related businesses, it also has a motorcycle plant in Shanghai. World-wide CP has 200 companies with revenues in 1992 of \$4 billion.⁹¹

Malaysia's Hong Leong, originally a branch of Hong Leong Singapore, has been grown much larger than its parent. It has over 60 affiliates and subsidiaries within Malaysia and owns the third largest bank in Hong Kong, property groups in Singapore and Philippines, and is setting up plants to make air conditioners, tiles and motorcycles in China. It is exploring manufacturing opportunities in Vietnam, Thailand and Indonesia.⁹²

Several Indian manufacturing firms are active overseas.⁹³ Ranbaxy Laboratories of India has operations in Hong Kong, Malaysia, Nigeria and Thailand, and is setting up in China. Aditya Birla's group has over 20 ventures in South East Asia, including Vietnam; it is the world's largest producer of rayon fibre, the second largest of palm oil and the sixth largest of carbon black. It is planning new ventures in Burma, Egypt and E. Europe. Ballarpur Industries has Thai and Indonesian paper operations. IFB Industries has a manufacturing base in the UK. Arvind Mills has textile operations in Mauritius and Sri Lanka, and has set up an alliance with a German firm. TELCO has a truck assembly operation in Malaysia and a precision tool making facility in Singapore, where it also runs one of the prestigious training centres for specialised skills.

textile industry was Indonesia, which has firms operating complex synthetic fibre plants in Ireland and elsewhere.

Indian enterprises have also been important actors overseas for some time, as its large business houses looked for sites that allowed them to escape some of the stifling constraints of government policy before recent liberalisation. They were generally oriented to the domestic markets of the host countries, though there were exceptions, and spanned a range of simple to complex activities. The recent liberalisation is encouraging them to look overseas with a different orientation, based more on serving world markets. Indian multinationals resemble those of Korea more than of the other NIEs, but they lack the financial and technological resources of the chaebol. They also have some "Indian connections" overseas, especially in the business communities of East Africa. The latter often draw on this connection for technical expertise and capital. These connections could be deepened and exploited more to benefit the host economies. Host governments should make a special effort to welcome and facilitate these investments in view of the advantages they offer to local industry.

Box 5 gives some examples of multinational enterprises from Malaysia, Thailand and India. The universe of firms with active interests abroad is, of course, very much larger, but these cases give some flavour of the extent and nature of the internationalisation process now under way. The examples focus mainly on manufacturing, but there is an enormous amount of investment in plantations and services like hotels, banking, real estate, trade, transport and consulting.

Interestingly, China, currently the largest recipient of FDI, has emerged as a major overseas investor, despite the communist regime and the non-private ownership of the enterprises investing abroad. According to the available, possibly patchy, data, Chinese enterprises had invested in 79 countries by 1988, with over 240 affiliates in Asia, over 80 in Africa, more than 50 in Europe,

about 40 in Australia and over 20 in the Americas.⁹⁴ The numbers are bound to be substantially larger today.

A large proportion of Chinese overseas ventures were engaged in manufacturing (chemicals, metallurgy, paper, coal and oil, equipment of various kinds and paper), but there were also resource extraction and agricultural ventures, banks and transport firms involved. In Singapore, for example, there are over 90 Chinese affiliates, mostly in the financial sector, raising hard currency resources to do business in the thriving region.⁹⁵ Chinese firms are very prominent in Hong Kong, with a variety of trading, financial, real estate and other interests. Many Chinese firms are seeking open or 'backdoor' listings in stock exchanges in Hong Kong and the developed countries.⁹⁶

In industry, many of China's overseas investments are in 'heavy' activities like steel making, equipment and chemicals. As may be expected, the Chinese consumer goods industry is relatively weak and does not have the ownership advantages to compete overseas at this stage. It is possible, however, that with the massive inflow of technology and skills in this sector in export-oriented activities from Hong Kong and Taiwan, local enterprises will develop advantages and start overseas operations.

8.3 Contribution of DCMNEs

The growth of DCMNEs is of great significance to policy makers seeking to attract FDI into their countries. But what exactly is the nature of their contribution to the host economy? This section ends with a note on this contribution, focusing on MNEs in manufacturing.

The potential contribution of DC multinational enterprises to the host economy, in general terms, depends largely on the nature of their 'ownership advantages'. Many analysts suggest that such enterprises are small or medium sized firms, specialised in simple, labour-intensive technologies, producing undifferentiated products

and using adapted technologies that are not a match for the advanced technologies of the large multinational enterprises from the developed world. There is clearly a class of DCMNEs that conforms to this picture. However, there is a large, and growing, class of enterprises that does not.

To simplify greatly, there are two categories of DCMNEs in industry: the 'classic' investors noted above, and the 'new' investors that were much more like developed country firms.⁹⁷ The latter were large firms with professional managements and complex organisations, which possessed and deployed advanced capital-intensive technologies, conducted R&D, had branded products and could often compete with developed country MNEs on their home ground. The ownership advantages of both lay in the way in which they had developed the capabilities that allowed them to operate competitively. The capabilities of the 'classic' set lay in their ability to transfer simple technology that they had absorbed and adapted to developing countries, and, in the case of export-oriented firms, to provide high levels of production management and quality control and contacts with export markets. That of the 'new' DCMNEs lay in a more prolonged and difficult process of developing and deepening technological capabilities in complex technologies.

Some debate has ranged in the literature on the sources of ownership advantages of DCMNEs. The early analysts, from a business school perspective,⁹⁸ focused on 'classic' investors and saw the process as a product cycle phenomenon, with technology slowly percolating down to less developed countries as it matured. The process was costless and passive, and there was little original or different in the capabilities that developing world firms accumulated with industrialisation. Other analysts, based in the economic analysis of technology development,⁹⁹ saw the process as an active, conscious,

and often risky and costly, one of investing in capability development, with developing country firms gaining unique ownership advantages in the process.

The growing volume of recent research on industrial development suggests that the latter explanation has more validity. As a comprehensive recent study on the subject concludes,

"The analysis of the technological advantages of Third World MNEs across a wide range of industries suggests a rapid pace of industrial development accompanied by the existence and accumulation of indigenous technological capability, especially in those sectors in which indigenous firms have accumulated production experience ... The existence and accumulation of indigenous technological capability therefore becomes an important cause and effect of the growth of international production networks and the process of industrial restructuring. The existence of indigenous technological capability influences the ability to engage in international production..."¹⁰⁰

The contribution of the two broad types of investors may be expected to be different. The 'classic' small, low technology investor can contribute to employment generation, transfer of appropriate technologies, local sourcing of inputs and personnel and, in relevant activities, increased export earnings based on cheap labour. The 'new' investor will be very much like a developed country MNE, transferring advanced technologies and skills, retaining greater linkages overseas, using capital-intensive facilities and increasingly integrating operations across countries as liberalisation takes hold.