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**Foreign Investment, Globalisation and International
Economic Governance**

Grahame Thompson

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**FOREIGN DIRECT INVESTMENT,
GLOBALISATION AND
INTERNATIONAL ECONOMIC GOVERNANCE**

Grahame F Thompson

Grahame Thompson is a Senior Lecturer in the Faculty of Social Sciences. This paper is based upon talks given at the Department of International Relations, University of Kent; the Department of Economics, University of Cambridge; and at the ESRC Conference on *Post-Fordism and Local Governance*, Lancaster University, February 15-16, 1994. Grahame would like to thank the participants in these sessions for their comments and contributions. The paper is part of on-going collaborative work with Paul Q Hirst at Birkbeck College, University of London, and he thanks him in particular for his stimulating discussions of the issues raised here.

INTRODUCTION

The issue of 'governance without government' is increasingly important in the international arena as economic and political activity rapidly 'globalizes' without a concomitant development of state or state-like formations that can regulate, manage or 'govern' these relationships. As an illustration of this consider the development of the European Union (EU), which is now faced with a highly integrated economy but without the proper political means to govern it. It is very unlikely that the EU will develop into a unitary state, nor is it likely to develop into a federal one either. For the foreseeable future, then, the governance of 'Europe' is likely to be in the form of a 'confederal public power' rather than as a traditional state-like body (Hirst and Thompson, 1992).

In part this problem informs the investigation here, which takes as its object the analysis of foreign direct investment (FDI) and the activity of transnational corporations (TNCs), which are the organizations responsible for the conduct of FDI. What are the implications of the recent growth in FDI and MNCs for the governance of the international economic order? This question arises in the context of the increasing interdependence within the international system generally and the growth of the integration of production in particular. How does this affect a system that continues to be made up of nation states and which is still heavily imbued with the notion of discrete 'national economies'. Does the term 'national economy' still have relevance in the environment of a 'globalizing economy'?

TNCs IN THE EARLY 1990s

There were an estimated 37,000 TNCs in the early 1990s controlling about 170,000 affiliated organizations (UN 1993a, from which much of the following information is drawn). Of these, 24,000 (about 70%) were 'home based' in the fourteen major developed OECD countries. Ninety percent of TNC headquarters are in the developed world.

In 1992 the stock of FDI was US\$2 trillion. The TNCs controlling this stock were responsible for (domestic and international) sales of US\$5.5 trillion. This was much more than the total of world trade at US\$4 trillion in 1992. Only 5% of the stock of FDI had its origins with a developing country's TNC.

Some 80% of US trade was conducted by TNCs, which is not untypical for the developed countries as a whole. For total US trade as much as a third was estimated to be *intra*-TNC trade (Bonturi and Fukasaku, 1993). Intra-TNC trade — that conducted within the confines of the company, involving transfers across borders between different parts of the organization — is both difficult to ascertain and to assess. Clearly, TNC's FDI and trade are very closely linked, but interesting things are happening here and differences in the patterns between the two are emerging about which we have more to say in a moment.

There is great concentration in FDI. The largest one hundred TNCs accounted for a third of the total FDI stock, and 14% of the total flow in 1990. In as much as these distinctions can still be made, 60% of TNC stock was associated with manufacturing, 37% with services and only 3% with the primary sector. It is the growth in service sector FDI that has been a particular feature of the latest surge in overall investment levels.

CHARACTER OF FDI AND TRADE

The post II World War 'long boom' was typified by a massive increase in world trade and domestic (and to a lesser extent foreign) investment. The prosperity of the international economy was in large part based on these trends — it was 'export driven'. The main characteristics of the period between 1960 and 1988 can be seen from Table 1. This shows the 'trade gap' between the growth of world output (GDP) and that of world trade, at least up until 1980; that is exports increased at a much faster rate than production between 1960 and 1980.

Since the early 1980s, however, a different trend has emerged, which can also be seen from Table 1. Here what is striking is the sudden increase in FDI relative to GDP and trade since 1980. Trade growth did not stop relative to the growth in output, but trade growth was eclipsed by the expansion of FDI. For instance, between 1983 and 1990 FDI flows expanded at an average annual rate of 34% compared with an annual rate of 9% for global merchandise trade (OECD, 1992, p 12). The rest of this section is concerned with the consequences of this very basic change in the nature of the international economy.¹

	GDP	World Trade (at current prices)	FDI flows
1960-67 (1960=100)	142.9	168.8	164.6
1967-73 (1967=100)	180.7	270.3	223.2
1973-80 (1973=100)	209.4	357.3	204.1
1980-85 (1980=100)	131.2	97.8	142.2
1985-88 (1985=100)	141.6	146.9	200.7

Source:

Dunning JH (1993) *Multinational Enterprises & the Global Economy*.

Adopted from Table 2.1, p16.

Table 1

The significance of Trade and FDI in the Global Economy

One slight caveat is in order at this stage. Since the early 1990s there has been a slow down in the growth of FDI, and indeed a slight fall in 1992 and 1993. The fall was mainly due to the slower growth rate in the major advanced countries' domestic economies. Thus it raises the issue of whether the growth in FDI since the early 1980s indicates a robust structural change in the international economy or simply a cyclical upturn which came to an end a decade later. The argument here is that there will be no return to the pre-1980s position, but that the surge in FDI flows of the 1984-1989 period in particular will not be repeated until there is another upturn in advanced country economic growth rates. The UN FDI forecasting model predicts a modest increase in FDI flows for the advanced countries between 1989 and 1995, with a more rapid increase going to Latin America, Africa and Asia (though from a much lower base so that the *share* going to these areas does not change much — UN, 1993c, pp34-36).

It was the GATT mechanism that governed the post-1945 long boom and the increase in trade which accompanied it. Indeed, it may have been the trade liberalisation promoted by the GATT that substantially stimulated this growth. The question now is 'What

mechanism of international governance can regulate this new distinct period of FDI growth?' Indeed, can it be governed at all?

Many of the problems besetting the Uruguay Round of GATT negotiations stem from these structural changes in the international economy. Broadly speaking, the tactic of the international inter-governmental organizations committed to the preservation of a multilateral and liberal trading environment, particularly the OECD, has been to attach FDI governance issues to the GATT negotiating framework. They have attempted to ride on the back of the past successes of GATT by grafting FDI negotiations directly on to it (the so called TRIPs and TRIMs — see below). This strategy of linkage has been encouraged by attitudes stemming from the traditional close connection between trade and investment matters.

Previous rounds of GATT negotiations were successful largely because they concentrated on one main aspect of trade — the reduction of various forms of trade barriers on the international exchange of raw materials and manufactured goods. But the Uruguay Round has been different. It took on some very thorny issues that were not obviously linked intrinsically one to another.

The first of these is the issue of agricultural trade and subsidies. This is not such a straightforward issue as manufacturing because of the national 'cultural' connotations and interests involved with agricultural protection.

The second issue is trade in services. Here it is FDI that is progressively substituting for trade because it is not possible to internationally trade many services. They are locationally specific, so that MNCs must invest abroad in order to provide these services. In the context of the Uruguay Round the objective was to negotiate a comprehensive accord on trade and investment in services so as to facilitate their liberalisation.

The third issue concerns trade related investment measures proper (TRIMs). These refer to items like investment incentives (subsidies, tax and tariff concessions, grants); performance requirements (local content agreements, domestic sales requirements, technological transfer requirements, remittance restrictions, foreign exchange restrictions, export requirements, etc.); and finally, measures affecting general corporate activity (competition policy issues,

pricing restrictions, collusive tendering, etc.). The reason these items were up for negotiation under GATT is that they are thought to be 'trade distorting'. The analytical framework behind this attempt to eliminate policy obstacles is the supposed 'gains from trade' generated from a modelling strategy in the context of perfectly competitive markets. Removing market imperfections is supposed to generate significant growth in international trade, and therefore to provide a greater stimulus to domestic economic growth than specific national internationalist policy measures can do. The same logic underlay the creation of the Single Market in the EU and the Checcini Report on which the growth stimulus of liberalisation was based.

Now, while this emphasis on perfect competition remains the established theoretical framework for analysing international trade it is increasingly being challenged by an alternative approach that analyses international trade and growth in the context of *imperfectly* competitive market structures. This is the programme of the new trade theory (NTT) and new growth theory (NGT). These theories envisage a universe of oligopolistic firms, increasing returns to scale, barriers to trade, 'first mover advantage', 'lock-ins' and the like. The upshot of this new analytical framework is that a good many of the 'distortions' referred to above cease to be regarded as obstacles to growth and become quite legitimate objects of public intervention in the context of trade and industrial policies operated by governments in specific national territories. Such policies can achieve advantages in terms of rent and producer surplus appropriation, which do not necessarily result in an overall welfare loss (this remains controversial however — see Krugman, 1986 and 1987; Moran, 1992; Tyson, 1993). Thus, to a large extent the way GATT has treated the TRIMs issue derives from an intellectual milieu that no longer conforms either to the core features of the international economy or a sustainable theoretical orthodoxy. This has made it increasingly difficult to legitimise the TRIM negotiations.

The fourth negotiating issue in the Uruguay Round concerned trade related aspects of intellectual property rights (TRIPs). These involve items like genetic engineering and patent protection, trade marks, minimum standards on copyrights, industrial designs, computer integrated circuitry, layout designs, etc. Almost all of these areas centrally involve the protection of R&D investments. Again, an attempt was made to establish tighter international rules on property rights and common procedures in respect to these areas.

Thus this particular round of negotiations involved rather a rag-bag of only loosely related issues, though the attempt was to solve them all together. Many of these issues intimately concerned FDI as well as trade measures in the strict sense. Indeed, with most of these issues it was the investment aspect in their constitution that was more important than trade (with respect to services and TRIMs, and possibly TRIPs as well).

The general question raised by the preceding discussion is 'can trade and investment issues be dealt with in this directly linked way?' Would it not be better to split them off? That is, to try to develop a whole new regime of FDI governance for example that was separate from, but running in parallel with, the existing GATT framework? Should there be a new General Agreement on International Investment or International Corporations (GAI or GAIC)? It is to this question that we return near the end of the analysis. First something needs to be said about the organizational strategies of the key players in the international economy, the TNCs themselves.

PATTERN OF FDI FLOWS AND STOCKS, AND THE OPERATION OF TNCs

One of the most noticeable developments in recent years with regard to FDI activity has been the emergence of distinct regional patterns of its distribution. This regional clustering is associated with the formation of trading blocs such as the EU and NAFTA. While these are still called trading blocs, it might be better to describe them as investment blocs. A scrutiny of the recently ratified NAFTA, for instance, demonstrates that it has as much if not more to do with investment relationships between the US and Mexico than with trade as such.

An example of a regionally based production network is shown in Figure 1, in this case based upon an American firm's strategy in the rapidly integrating EU market. This is an example of a genuine network of integrated sourcing, production and marketing. But it also interestingly demonstrates the still fluid situation for FDI in the international economy, since Ford announced in April 1994 that it was abandoning its purely regionalized approach to car manufacturing (producing a different range of models in each of its regionalized markets) and was adopting instead a genuinely 'global' strategy of producing a single different model in its various manufacturing environments and then selling these world-wide.

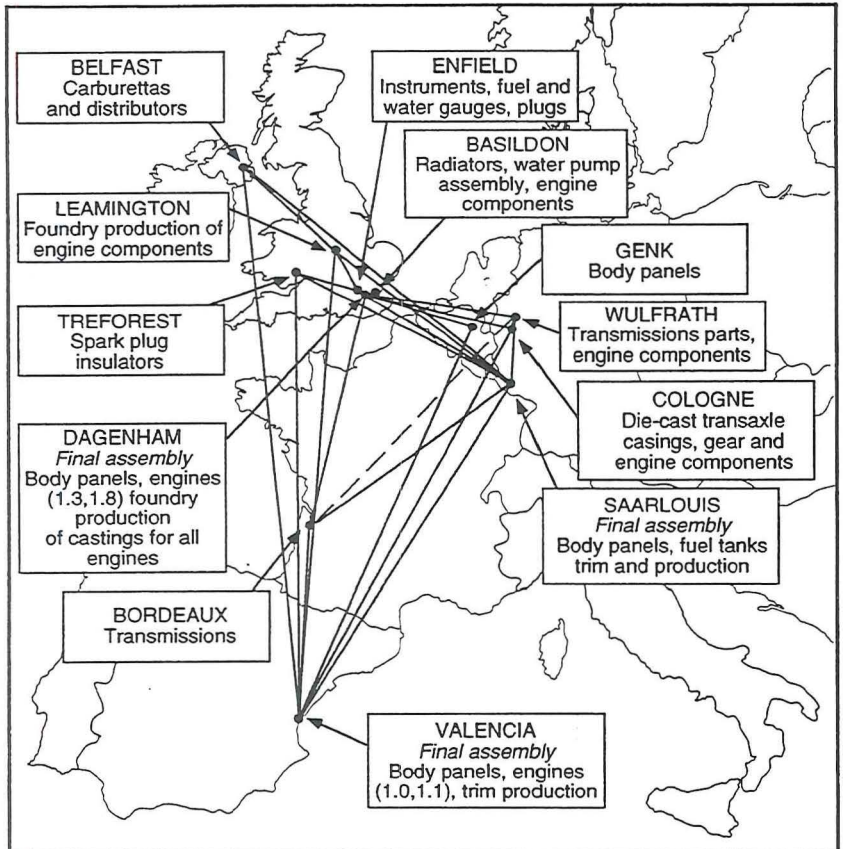


Figure 1

The Ford Fiesta production network in Europe

(Source: Dicken, 1992 p300)

Many other examples of continuing regionalized strategies could be provided however. What they show is that a contributory factor to the stalling of the Uruguay Round was the emergence of these types of regionally based trading and investment blocs and the specific and mutually contradictory interests attaching to them. We will return to this theme in a moment.

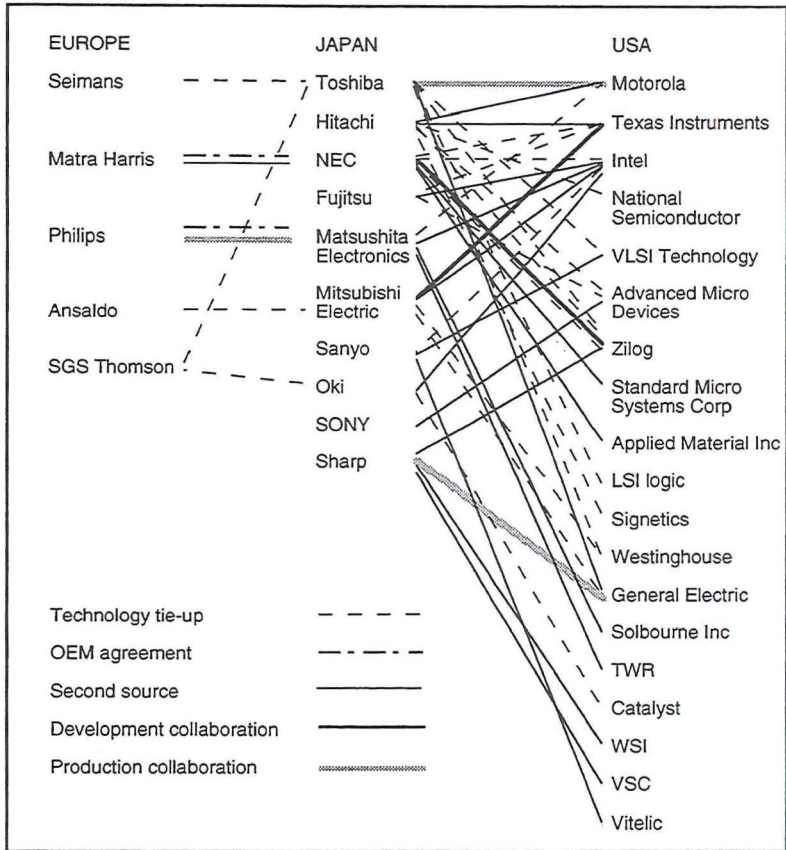


Figure 2
 International tie-ups of the world's leading semiconductor manufacturers
 (Source: JETRO survey)

Another typical example of the integration developing at the international level concerns high-tech R&D led production sectors, one of which is shown in Figure 2. The products here are being developed and manufactured within quite different forms of collaborative arrangement between firms and national subsidiaries of the same firm. Diverse strategies are being followed by

companies in these and other fields, which are not easy to comprehensively categorise or explain clearly (see Dunning, 1993; UN, 1993a; Howells and Wood, 1993, amongst others, for details of these diverse strategies).

Some have seen developments like this, involving new information technologies, as heralding the key to a new stage of TNC evolution, that is the uncoupling of companies and networks from distinct national bases, and the move towards a genuine global economy centred upon truly global companies. The best example of this argument is the work of Kenichi Ohmae (Ohmae, 1990 and 1993). The virtue of Ohmae's case is that he does at least say what he thinks the structure of a borderless truly global economy would look like; it is summed up in the idea of an 'inter-linked economy'. Ohmae argues that 'stateless' corporations are now the prime movers in an inter-linked economy (ILE) centred on North America, Europe and Japan. He contends that macroeconomic and industrial policy intervention by national governments can only distort and impede the rational process of resource allocation by corporate decisions and consumer choices on a global scale. The emergence of 'electronic highways' enables anyone, in principle, to 'plug into' the global market place. All corporate players need to do is to shake off the burden of a nationally orientated bureaucracy, and the government intervention that goes along with this, and enter the new world of open global marketing and production. The vision is of one large inter-linked network of producers and consumers plugged into an efficiently operating 'level playing field' of the open international and globalised economy. International markets provide coordinative and governance mechanisms in and of themselves, which national strategies and policy interventions can merely distort. Like Robert Reich (1992) Ohmae believes that the era of effective national economies and state policies corresponding to them is over.

Pace Ohmae, the international economy looks nothing like the ILE and does not seem to be converging towards it. Current practice by TNCs is more complex, as Figure 2 implies.

The tie ups indicated there are creating an extremely uneven international market place, which is being duplicated in many other manufacturing and service sectors. To the extent that the globalised economy exists at all it is *oligopolistically* organized, not organized according to the dictates of the perfectly competitive

model as Ohmae and others wish to believe. The major corporate players are involved in a deadly competitive game, one in which they deploy all manner of business strategies to exclude some competing players from their networks whilst locking others firmly into them. For oligopolists there are massive 'first mover' advantages. If a firm can secure the originating industry standard for instance it can reap enormous potential benefits by moving down the cost curve to reap economies of scale and scope. The providers of the 'super electronic highways', for instance, compete with one another over standards and conditions of connection, which preclude any open plugging in at will (Mansell, 1994). They seek to attract the right kind of customer and 'trap' them by locking them early into their own particular standards and connections so that sales can be guaranteed from then on. These companies seek to strongly protect by market measures and public policy any advantages gained in this way.

A related illustration of this can be seen in Figure 3. The airline groupings emerging here in the context of different computer reservation systems will dictate the particular nature of the international airline industry of the future. One specific collaboration is threatening to dominate all the others; that between the European Galileo system and the North American Covia/Apollo system. The airlines involved with these two systems — some of the major European 'national carriers' and two of the largest American carriers (along with Air Canada) — stand to gain great marketing advantages if this liaison comes off.

In addition, we should not forget the still massive and important *national* differences in the attractiveness of locations for investment. Countries vary considerably in the effectiveness of their economies in delivering FDI advantages to TNC firms which cannot be ignored. Successful TNCs are those that can tap into these specific advantages. These advantages are not just ones associated with the cost of labour. Companies also need national legal and commercial policy provisions to protect their investments, constraints that prevent them being entirely extra-territorial.

The literature on 'national systems of innovation' (Ludval, 1992; Nelson, 1993; McKelvey, 1991; Porter, 1990) and on 'national business systems' (Whitley, 1993a and 1993b) is instructive here.

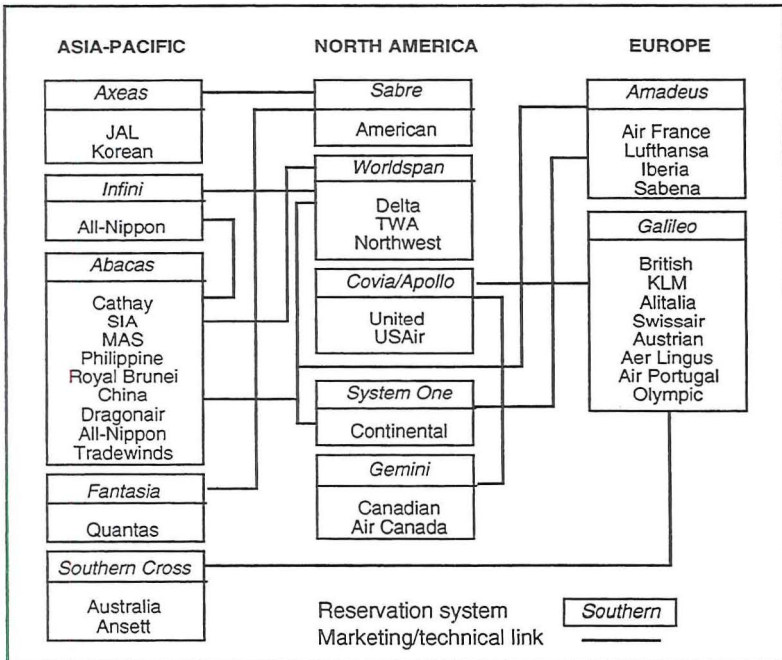


Figure 3

Towards a global distribution system: alliances among airline computer reservation systems

(Source: UN, 1993a)

These authors point to definite differences in the way countries have traditionally gone about their innovative activity, established their typical business environment, and the way they have conducted business therein, which continue even in a 'globalising' world. Not all countries are the same in the way they perform quite basic economic functions and productive tasks. There are differences in the ingrained 'culture' of business, the financial system, and the typicality and effectiveness of their R&D efforts, technical innovation, product development life-cycles, and the like, which are deeply institutionally and nationally embedded. These differences both inform the character of the firms that have their traditional home-base in one major country or another, and they affect the nature of the national environment into which FDI is inserted.

The key to the success of TNC FDI is not whether it simply seeks a low cost location to generate maximum profit advantage, but how it adapts its strategy to fit into the particular institutionalized national environments of business and innovation in to which it settles.

TNCs are not monolithic entities, with a single strategic direction and intent. Increasingly they are networks of 'loosely coupled but highly aligned' semi-autonomous units. These units articulate themselves within specific national environments. The strategies of successful companies must precisely allow for this flexibility, which means the activities of their sub-units both engage with the embedded national systems in which they function but also have an effect upon them. It is this double move that is crucial to an understanding of the nature of the 'transformations' being wrought by TNCs as they integrate their sourcing, production and marketing internationally.

One consequence of this emphasis on national specificities in production advantage is that there is increasing evidence of national sectoral trade specialization and diversity rather than a homogenization of inter-country trade (Archibugi and Pianta, 1992; Archibugi and Michie, 1994).

Perhaps an alternative related way of expressing this, from the TNCs point of view this time, is via the three level competencies that Bartlett and Ghoshal (1989) suggest are the key to managing a network of cross border value-adding activities; a) taking advantage of the economies of scale and scope offered by international integration (the 'global' dimension); b) the appreciation of consumer needs in different countries and tailoring local production and supply to meet these (the 'local' dimension); c) using the experience so gained in global and local markets to strengthen the resource base of the firm as a whole (the 'learning' dimension). A careful balance between these three dimensions needs to be crafted for commercial success, they suggest, the precise nature of which will vary between different sectors and product ranges.

Thus what we have here is not only a set of commercial oligopolists operating in the international market place but the possibility of a set of national governments that can act as strategic oligopolists as well (Dunning, 1993, p612).

Governments can *create* asset endowment advantages rather than simply rely on 'natural' ones (Porter, 1989). Increasingly these are taking the form of infrastructure provision, the generation of a highly trained and skilled labour force, and the like. This is not to say, of course, that TNCs operating in some sectors are not looking for cheap labour, some are. But even in those sectors traditionally associated with this strategy, like auto-construction, circumstances are changing. In Mexico's auto-construction industry, for instance, it is estimated that up to a third of the workers are graduates.

Finally we should note the role of small and medium sized TNCs. There has been a growing interest in small and medium sized enterprises (SMEs) generally, and this has spilled over into their role as generators of FDI (UN, 1993b). SM-TNCs are growing in significance as international investors and they are particularly important in the case of new innovative technologies, not all of which are necessary of a 'high-tech' kind. Their technological transfer can be in a labour intensive form and one more 'appropriate' to the circumstances of less developed economies, for instance. SMEs investments also tend to be more 'trade intensive' than larger TNCs so their impact on the trade balance of recipient countries is often favourable. But, as yet, SMEs transnational investment activity represents a very small share of total FDI (though they are more important in terms of *numbers* of companies involved). In addition, the distribution of SMEs FDI is heavily skewed towards the advanced countries. Such that their activity is directed towards non-advanced countries, it is concentrated in the rapidly growing South and East Asian countries.

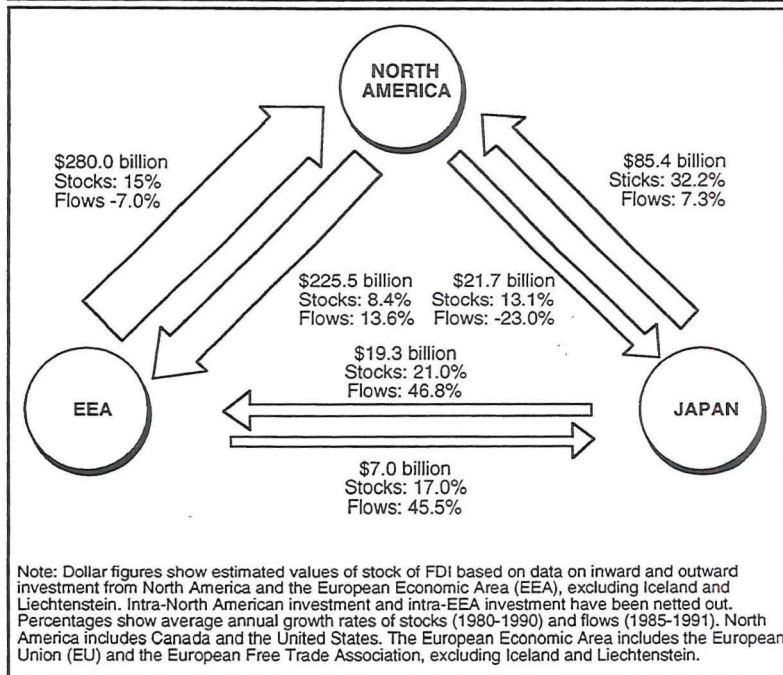


Figure 4

Intra-Triad foreign direct investment, 1990 (Billions of dollars)

(Source: UNCTAD, *Programme on Transnational Corporations, foreign-direct-investment database*)

TRIAD POWER AND INFLUENCE

This discussion of the diverse strategies and tactics of firms and governments in the context of FDI should not blind us to another overarching feature of these relationships, illustrated in Figure 4. Seventy-five percent of the total accumulated stock, and 60% of the flow, of FDI was located in just three players at the beginning of the 1990s. North America, Europe and Japan dominate as both the originators and destination for international investment. In the case of investment the flows were particularly intense between North America and Europe (the European Economic Area - EEA). Japan remained a net exporter of FDI in 1990 to both the other areas.

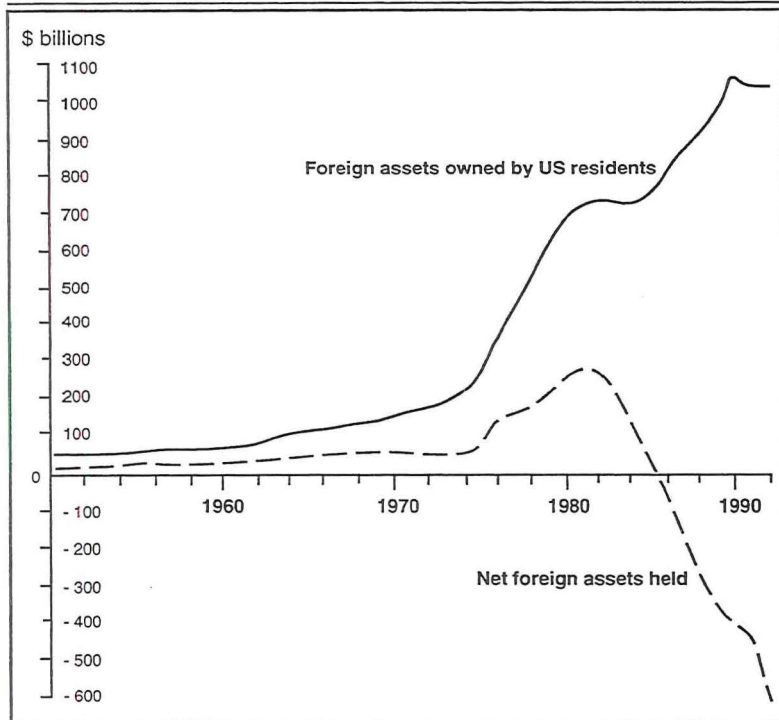


Figure 5

Foreign assets 1950 - 1992 (Current values, US \$ billions)

(Source: *Balance Sheet for the US Economy, 1945-1992*, Federal Reserve, Washington DC, 1993)

Particularly noticeable is that the US was a net importer of FDI in 1990. The background to this is shown in Figure 5. The US became a net debtor nation in 1985 (for the first time since the First World War). Even the growth of foreign assets owned by US residents faltered in the early 1990s. The implication of all this is that domestic US assets are being bought up by foreigners at a faster rate than US residents are investing abroad.

A further noteworthy development can be seen from Figure 6. Relatively isolated clusters of main actor and client states are emerging, which are geographically discrete and stabilizing.

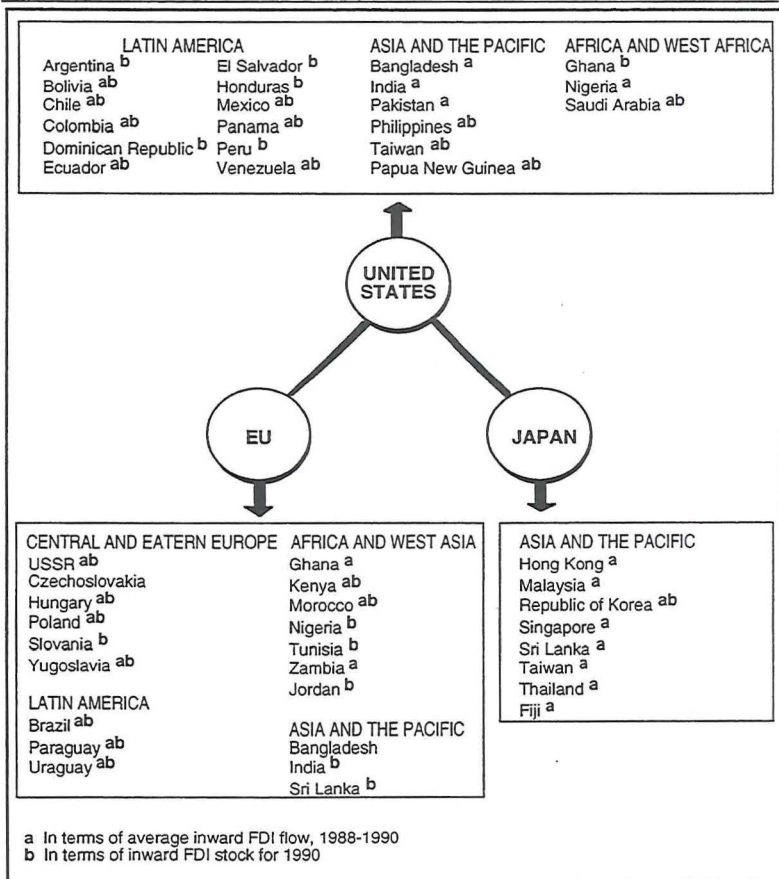


Figure 6

Foreign-direct-investment clusters of Triad members, 1990.

Economies in which a Triad member dominates inward foreign-direct-investment stocks and/or flows

(Source: UNCTAD, Programme on Transnational Corporations, foreign-direct-investment database)

This figure shows which member of the Triad dominates the inward FDI in particular countries. Thus whilst *intra*-Triad investment relationships are particularly dense, a pattern of further discrete but robust *inter*-linkages between each of the Triad members and more marginalized country groupings is also evident. These country groupings tend to be regionally specific and 'adjacent' to one or other of the Triad members.

Once again this goes against the idea of a 'neutral' or level playing-field' in the global market place. Indeed it testifies to the relative *lack of integration* in FDI flows and stocks since the clusters indicate a geographical and regional discreteness in the relationships between countries. The direction of the FDI relationship is between one or other of the Triad powers and its clustered client states, rather than between these client states themselves.

There are two sets of points to be drawn from this analysis.

The first concerns the *intensity* of the relationships involved and the consequences of these. Broadly speaking, the intensity of the relationship between the core members and their regional clients is *less* in the case of FDI than it is in the case of trade (UN, 1993a, Chapter VII). This is just another way of saying that multilateral trade integration is lower than is integration in the case of FDI, even though, as we have seen, it remains very geographically discrete in the case of investment. But there is a more multilateral set of integrative linkages between all the countries shown in Figure 6 where investment is concerned so that the geographical discreteness (and any associated 'clientism') is potentially less important than in the case of trade. Investment relationships are more 'open' to cross-integration between core countries and the different sets of clients than in the case of trade relationships, which are more intensive and hence more closed to these cross boarder fertilizations as between regionalized blocs.

This has two possible further implications. First it means that 'protectionist' sentiment on the part of the different trading blocs and major states is likely to be lower in the field of investment than it may be in the field of trade. Secondly, it makes investment potentially more liable to genuine multilateral regulation than is trade (and trade has shown itself amenable to this form of management in the past). Both of these features might be responsible for undermining any intense and inward looking development of regionalized trading blocs. Given that investment is tending to displace trade as the driving force of international integration the likelihood of competitive and antagonistically poised trade blocs emerging is made less likely if this analysis is correct.

Why are investment relationships less sticky and intense than ones involving trade? The UN report (1993a) suggests there are two

possible reasons; a) geographical distance is less of an inhibitor to FDI than it is to trade because transactions costs are lower with respect to the former; b) national endowment advantages in respect to FDI are less specific than they are with respect to trade. The factors important for successful FDI are more widely distributed geographically than they are for trade, hence, while FDI remains highly concentrated it is less concentrated than is trade.

The second major point to draw out from the analysis is to re-emphasise the still enormous geographical concentration of FDI in the big three and a few other states. And similarly it is to re-emphasise this intensity and concentration even more so in respect to trade flows, as just pointed out above.

Before we proceed to the possible consequences of this concentration of FDI it is important to mention two provisos. The first is that concentration seems to have fallen a little in 1992 and 1993, as the major core areas continued to experience a recession, particularly that in Japan. This has meant a slight widening of the geographical spread of FDI, which may continue into the future. The second is to emphasise the growing importance of some developing countries as the source of FDI on the basis of their indigenous TNC activity. In particular this trend affects the rapidly growing East-Asian countries, and a few in Latin America. Whilst an important trend, as yet these developments do not threaten to undo the pattern outlined above of the continued dominance of the Triad in FDI.

FDI, TRADE AND INCOME INEQUALITIES

So what is the problem with the type and level of concentration of FDI elaborated above? The data presented in Table 2 identifies some of the issues. It is divided into three levels, A, B and C, showing the population and distribution of global FDI for different groups of countries and areas.

The first level, A, concerns only the Triad countries, which whilst making up only 14% of world population in 1990, attracted 75% of FDI flows over the 1980s. The second level, B, adds the populations of the ten most important developing countries in terms of FDI flows over the period (which together received 66%

POPULATION (1990) MILLIONS		INVESTMENT FLOWS (%)		
Total World 5,292.195 (100%)		1980-1991		
A	US, Canada	275.865	} 14%	75%
	EC & EFTA	357.767		
	Japan	123.460		
B	Ten most important developing countries in terms of flows*	1,519.380	29%	66% of total flows to developing countries
C	Nine most important developing countries + 9 main Chinese coastal provinces**	758.820	15%	
A+B		43%	}	91.5% (approx)
A+C		28%		

Notes: * Singapore, Mexico, China, Brazil, Malaysia, Hong Kong, Argentina, Thailand, Egypt, Taiwan.

** Beijing, Tianjin, Hebei, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong.

Sources: *World Population Prospects, 1990, UN, 1991, various tables.*
China: Statistical Yearbook, 1991; Table T3.3.
Statistical Yearbook of the Republic of China, 1991; Table 1, p.5.
TNC's and Integrated International Production, UN 1993; Annex Table 4, p.255.

Table 2

Investment Flows and Populations: 1981-1990/91

I: Including Intra-EU trade

	Total : \$3731 bn	
	share of :	%
A	US and Canada	15.6
	EU & EFTA*	45.2
	Japan	9.1

	Total :	70
B	Ten most important developing countries in terms of 1980's FDI flows (see Table 1)	
	Total :	14.0
	A + B: Overall Total :	84

II: Excluding Intra-EU trade

	Total US \$ 2843 bn	
	share of :	%
A	US and Canada	20.5
	EU & EFTA*	27.9
	Japan	12.0

	Total :	60.4
B	Ten most important developing countries in terms of 1980's FDI flows (see Table 1)	
	Total	----- 18.2
	A + B: Overall Total :	78.6

* Includes Switzerland

Source: 1993 International Trade Statistics, GATT, Geneva based upon
Tables 1.4 & 1.5)

Table 3
Global Distribution of Trade in 1992 (exports only)

of all non-Triad flows and accounted for another 29% of world population). Adding these together (A+B, shown near the bottom of the figure) gives a total of 43% of the world's population in receipt of 91.5% of FDI flows. But the group of countries included under level B is dominated by China with a population of nearly 1.2 billions in 1990. It is unlikely that all Chinas' population is benefiting from inward FDI. It is known that FDI and growth is highly concentrated in the coastal provinces, particularly in the south. Thus level C includes only the populations of the eight Chinese coastal provinces, along with Beijing province, to give a rough estimate of where the FDI is actually going within China. With this re-calculation, A+C, it is only 28% of the world's population that now receives 91.5% of the FDI.

On the basis of these admittedly rough and ready calculations between 57% and 72% of the world population is in receipt of only 8.5% of global FDI. In other words nearly two-thirds of the world is virtually written off the map as far as any benefits from this form of investment are concerned. The question is, for how long can this kind of severe inequality continue?

What is more, this inequality in paralleled by the case of trade. Table 3 shows the distribution of world trade (exports) in 1992. Again the table is divided into two parts: the first part (I) includes intra-European trade while the second part (II) excludes it. On the basis of this evidence the equivalent of A + B in Table 2 accounted for between 84% and 79% of trade in 1992, again demonstrating an incredible inequality compared to the populations involved.

If we now look at the 'bottom line' of these developments, Table 4 indicates the persistence of inequality in the world distribution of income for the dominant FDI investment group of countries (measured in terms of GDP). This distribution changed little from the 1970s to the 1980s.

Looking at the global distribution of income more generally (Figure 7), on the basis of the two measures indicated this has become more unequal rather than less since the 1970s.² All these measures go against the sentiment that benefits to the less well off nations and regions will 'trickle down' as investment and trade are allowed to follow strictly market signals. Inequalities are dramatic, remain stubborn to change and indeed have grown since the 1970s.

	Market Exchange Rate Data (1)		Purchasing Power Currency data (2)	
	Average 1970-79	Average 1980-89	Average 1970-79	Average 1980-89
A US & Canada	29.03	29.50	31.22	29.81
EC & EFTA	29.54	28.13	29.25	26.91
Japan	8.78	11.97	10.11	9.66
Sub-Total	67.35	68.76	70.58	66.38
B Ten most important developing countries in terms of 1980's FDI flows (see Table 1)				
Sub-Total	7.34 (3)	7.2 (3)	8.68 (4)	9.2 (4)
A + B: Overall Total				
	74.69	76.05	79.26	75.58

- Notes:
- 1) Based upon data for 178 countries
 - 2) Based upon data for 117 countries
 - 3) Excludes Taiwan
 - 4) Excludes China, Hong Kong and Taiwan

Source:

Derived from *Trends in International Distribution of Gross World Product*, UN, New York, 1993. Based upon various tables.

Table 4
Global Distribution of GDP (% Share)

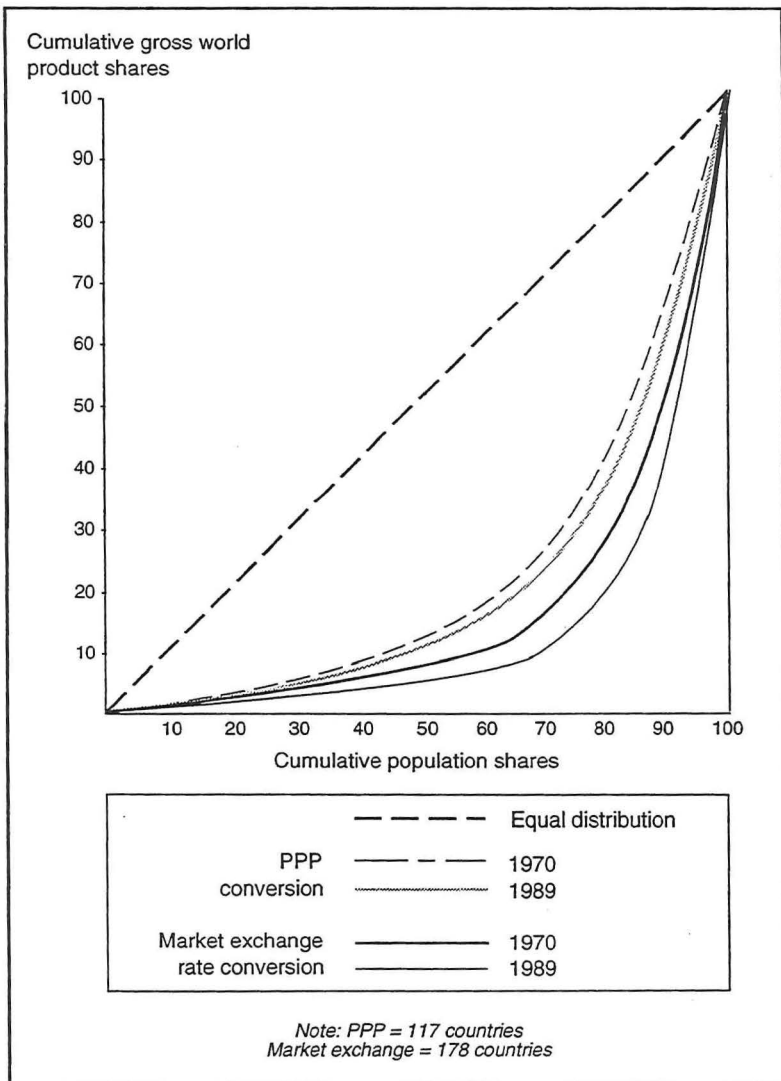


Figure 7

Lorenz curves of gross world product shares

(Source: *Trends in International Distribution of Gross World Product*, UN New York. National Accounts Statistical special issue, Series X, No18)

There are good ethical arguments against this situation. Its consequences for living conditions, life expectancy and security on the part of the worlds' poor are obvious. It should not be *allowed* to go on and we should do something about it urgently as a matter of *conscience*. Ethics, however, have rarely moved economists, Western policy makers or company executives. These people need other rationales, ones formulated in terms of economic and political logics. These non-ethical arguments are therefore emphasised here, that is, the practical economic and political objections to the continuation of these trends. These objections concern the self-interest of the successful in not neglecting the worlds' poor.

One of these implicates problems for world order. With an increasingly interconnected international system and the majority of the world's population excluded from prosperity, even greater political, social, environmental and therefore *economic* disruption of the world economy can be anticipated. This is not a new argument but it is one worth re-emphasising in the contemporary conditions of the absence of super-power rivalry but an increasing plurality of antagonistic political groups and social forces. Greater disruption in and by the 'periphery' now tends to have more immediate consequences within the 'core'. Moreover, the 'core' itself is not immune from many of these trends; it 'imports' the consequences of poverty. The pressure on Europe and the USA of refugees and migrants fleeing conflict and poverty is obvious. Mass migration and its containment constitutes a major new security risk, and this is likely to be exacerbated by the continuing reproduction of extreme inequality in the distribution of wealth on a global scale.

Secondly, there are good economic arguments in terms of direct benefits to the First World against the continuation of this unequal situation. Even while the high levels of concentration between the Triad were developing in the 1980s this did not prevent them from falling into recession. Indeed the post-1973 period more generally has been one of continued economic difficulties for many of the advanced countries of the Triad. One of the reasons for this could be the relative growth of cross-border merger and acquisition expenditure at the expense of 'new establishment' investment in the 1980s. Such activity expanded dramatically in the US (from 67% of inward investment in the first half of the 1980s to 80% in

the second half — OECD, 1992, p21), but it was a feature of the other Triad countries as well. The significance of this is that it may mean simply the transfer of ownership and speculative activity, rather than involving any net new productive investment. Be that as it may, stagnant aggregate demand, the underutilization of resources and excess capacity, and an inability to launch a sustained recovery and upturn, have all typified this period.

What this hints at is the need for a more balanced re-distribution of world resources; a generation of new effective demand on a world scale, so as to generate a robust long-term recovery in the Triad as well as some hope for a sustainable upturn amongst the so far excluded countries of the 'South'. Spare capacity in the Triad is matched by excess but frustrated demand in the South. What is required is some mechanism (and the political will) to redistribute between them. It is to the credit of UNCTAD to have been one of the few lone international voices to have consistently argued this case (for its most recent effort see UNCTAD, 1993). Both rich and poor countries would benefit by such a move, and it would be in their joint long-term interests to engineer it.

As it stands, however, any of this looks unlikely. But there must be a question mark hanging over whether the existing situation analysed above is sustainable even in its own terms over the long-run. How can a 'global system', however partial in its truly internationalised features, manage when two thirds of its population is systematically excluded from the benefits of that system whilst the limited prosperity it generates is increasingly concentrated amongst the already employed and successful in the wealthy 14% of the world and a few client states?

ISSUES IN THE GOVERNANCE OF THE NEW WORLD INVESTMENT ORDER

What these issues bring to the fore are the possibilities of new institutional mechanisms of governance for the newly emerging international economic system. They throw up major issues for the kind of world investment order that could develop in the future.

Here we can return to the analysis of the GATT mechanism made earlier. There it was argued that GATT had been burdened with many of these new issues, but that it was ill equipped to deal with them. But the GATT is not the only international organization involved in initiatives in this area. Both the World Bank and the

OECD have been in the forefront of attempts to generate new instruments to codify and regulate aspects of FDI and TNC activity. Perhaps the most comprehensive attempt to come to terms with some of these issues is represented by the UN's Economic and Social Council's efforts to negotiate a *Draft Code of Conduct on TNCs* (Dunning, 1993, Appendix to Chapter 21 provides the full text of this).

The work on this code began in the early 1970s but by the 1990s it had come to nothing. It now seems to represent a stalled initiative that lacks momentum. One of the reasons for this could be that it was begun in a different era as far as attitudes towards TNCs and FDI are concerned. It represents the final phase of a long post-war hostility towards TNCs activity, embodied in a perception of an antagonistic relationship between such organizations and national states. The developing world saw multinationals as exploiters and a threat to national economic autonomy.

Rethinking these issues in a new political context less concerned with quasi-autarkic development has led to the revival of another old idea from the 1970s but presented as a the new start: a comprehensive multilateral agreement on international investment and international corporations — GAI or GAIC as mentioned above (Bergsten and Graham, 1993; Kline, 1993; Scaperlanda, 1993). The objectives of this agreement would be to codify and bring together the legitimate goals of both business and government in the conduct of FDI; to recognise in international law the continued 'dual personality' of TNCs — being part 'national' and part 'global'; and finally to design rules that would avoid 'beggar my neighbour' policies, first by governments in terms of their competitive attempts to attract FDI, and second by firms in their attempt to try to play one country off against another — both of these being recognized as leading to sub-optimal outcomes.

This kind of initiative can be viewed in the context of a matrix such as illustrated in Figure 8. Along the horizontal axis is measured the extent or degree of economic convergence, while on the vertical axis is measured the degree or approach to regulation. The way this developed in respect to FDI as the degree of convergence moved from the national (unilateral) towards the

global (multilateral), is for the approach or 'degree' of regulation to move from the 'harder' integrative realm of laws and regulation to the 'softer' standards and procedures approach associated with cooperation and coordination. The suggestion for a comprehensive package of measures (outlined further in a moment) is to push the international agencies involved with this activity in the opposite direction; towards the lower right hand corner of global-integration.

What might such a comprehensive agreement involve? It should first define, codify, and guarantee the property rights of TNCs in their FDI in various ways. Second the rights of labour and conditions of work would be protected. Third that it would recognize the rights of governments to defend certain of their legitimate national functions in respect to the economy — support for R&D, defence considerations, balance of payments issues, etc. Fourth it would establish binding protocols on company taxation. Fifthly it would establish a disputes mechanism that would be written into international law. Finally there should be some strengthened protocols on environmental protection as well.

This is a long list of very worthy and necessary provisions that begs to be properly agreed and sanctioned by the international community. However, one suspects that in the current international climate this kind of a comprehensive agreement would be very difficult, if not impossible, to achieve. It would be in danger of going down the road of the UNs 1970s initiative. It would certainly require a degree of political commitment and negotiating convergence not seen amongst the G5-G10 countries in the 1980s and early 1990s.

Thus perhaps a less comprehensive and totalizing approach is called for, which might make progress along a number of different fronts in parallel. This would go along with the sentiment emerging from some of the 'governance without government' literature referred to earlier (Ostrom, 1990; Rosenau and Czempiel, 1993), which has stressed the virtue of small scale, highly focused organizational forms for the effectiveness of 'non-government' agreements in situations that lack an obvious hegemony.

One possibility, therefore, would be for the Triad to 'go it alone'; to try to reach some collaborative trilateral agreement on how FDI is treated within their own borders and by companies over which they have influence in their investments in poorer countries. This may have the edge on a truly multilateral approach, if nothing else because it is just more feasible to reach agreement between three parties rather than over a hundred as presently in the GATT. In addition, of course, the three account for three-quarters of FDI and 70% of trade anyway.

A second possibility is to think in terms of negotiations amongst a greater number of countries but along discrete 'functional' lines. Thus it might be possible to have separate negotiations and agreements on taxation, environmental standards, TNC property rights, etc., all running in parallel. The danger here is that inconsistencies will arise between all of these and a mess will result much along existing lines.

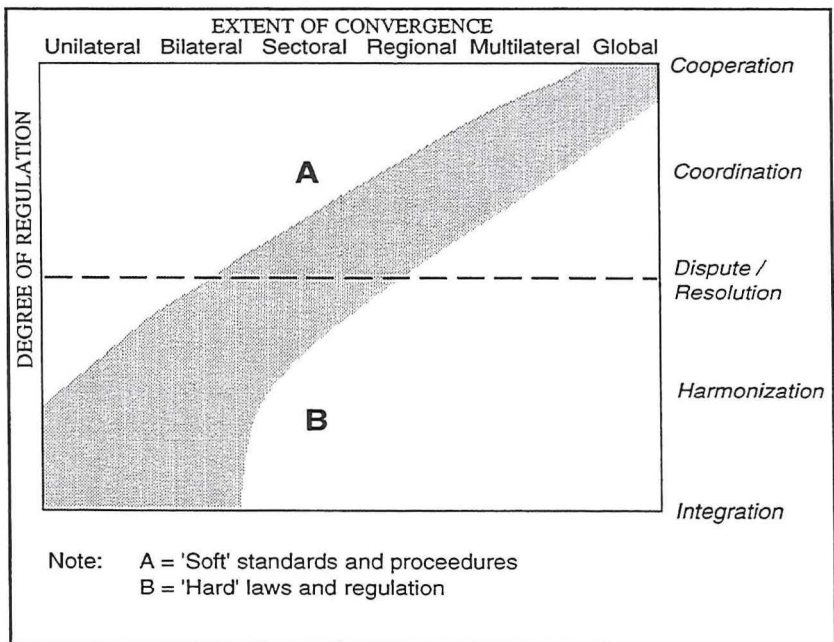


Figure 8
The regulatory environment

(Source: Based on Kline, 1993)

Whatever the outcome, however, whether in terms of a comprehensive multilateral approach or along the more speculative lines sketched here (which, in fact, largely build on existing practice), this will not solve the extreme inequality and distributional problem discussed in connection to Tables 2 to 4 and Figure 7. Quite how that could be tackled remains another matter altogether. Nor do the prospects for tougher environmental regulation in connection to investment and trade look promising as the GATT is transformed into a bureaucratic WTO where decisions are increasingly likely to be made administratively behind closed doors (Northrope, 1993). Whatever the shortcomings of the GATT mechanism at least it represented a relatively open forum for negotiation and one subject to legitimate political pressure.

CONCLUSION

The upshot of this analysis is that FDI will continue to remain central in the evolving dynamics of the international economy, that its regulation and redistribution is the key to accelerating and widening growth, and that it will not be redistributed unless new concepts, institutions and strategies of economic governance are devised. 'Globalisation' tends to make its proponents optimistic about the success of an unregulated international economy and to make its opponents seek to return to national regulatory solutions. An internationalised, but not 'globalised', economy requires that we move beyond such simplistic thinking, recognising the need to coordinate international governance and national policies.

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Footnotes

¹ International short-term financial capital flows are not discussed in this paper. The concern here is with those international mechanisms that impact the structure and growth in the exchange of actual goods and services in the world economy — trade and FDI. Clearly international short term financial flows have expanded rapidly since the abandonment of fixed exchange rates in the mid-1970s. Short term capital flows have some indirect impact upon growth since they affect the exchange rate and the interest rate. But the argument is that these flows mainly redistribute success and failure around the system, and add little to the structural capacity of economies to generate aggregate growth in world economic activity.

² In terms of measures that try to present comparable distributional evidence on a consistent and deflated basis, the distribution of world income remains about the same as between the two periods shown.

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