

Much ado about nothing, or sirens of a brave new world? MNE activity from developing countries and its significance for development

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Main questions of this paper


- Does DC MNE activity really matter that much?
- Is DC MNE activity very different from 'conventional' MNE activity?
- can south-south FDI substitute for North-south FDI and is this a sustainable model?
- Can DC MNEs help with home-country development ?

My answers

- DC MNEs *from certain countries* are increasingly indistinguishable from conventional MNEs as they acquire experience.
 - From a **host** development perspective, DC MNEs are not an obviously superior option to conventional MNEs (but on a large scale, there are few significant differences).
 - Not all outward FDI is indicative of superior firm-specific assets and advantages that are sustainable;
 - The firm-specific assets of DC MNEs are path-dependent, and reflect the resources, economic structure, technological capabilities and comparative advantages of the home country. **Sustainable** MNE activity is therefore limited to a few home countries.
- From a **home** development perspective, DC MNEs may provide very limited benefits.

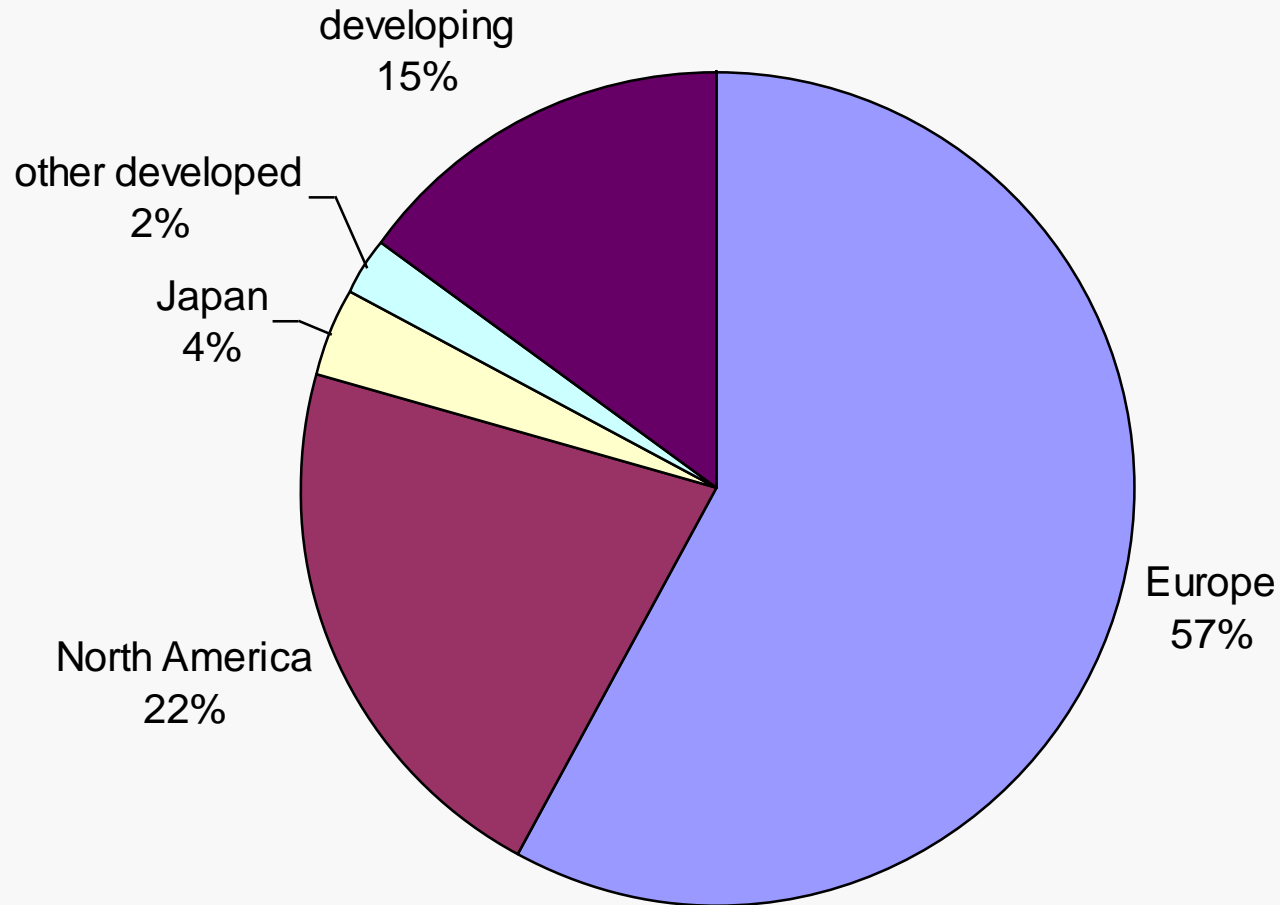
DC MNEs – what happened in the past?

- Main sources in 1980s and 1990s are similar to those of today
- Tended to go to:
 - countries at similar or lower stages of development for resource-seeking and market seeking;
 - Countries at higher stages for asset-augmenting and market-seeking purposes
 - Matches the industrial structure /market size of the home and host country!
- Liberalisation and globalisation have only helped stress this.
 - Crowding-out, but also survivors have been aggressive about playing the same game as conventional MNEs.

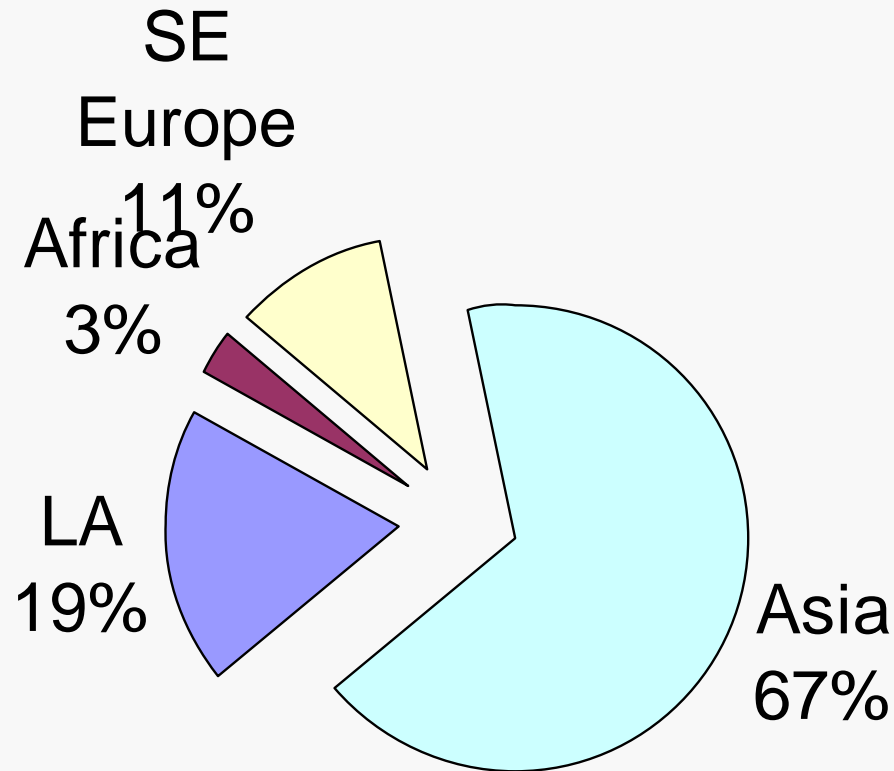
	‘First Wave’ DC MNE 1970-1980s	‘Second Wave’ DC MNE 1990s	‘Second Prime wave’ DC MNE 2000s	‘Conventional’ MNEs 
Ramamurti Terminology	‘infant MNEs’	‘Adolescent MNEs’	→	Mature MNEs
Destination	regional FDI: neighbouring countries and other developing countries	Majority still regional, but expanding to a global basis	In between second wave and conventional	Global basis
Ownership advantages	Primarily country-of-origin-specific. Basic Oa advantages, few Ot advantages	Both firm- and country-specific		Mainly firm-specific Advanced Oa and Ot advantages.

Outward FDI Stocks 2007

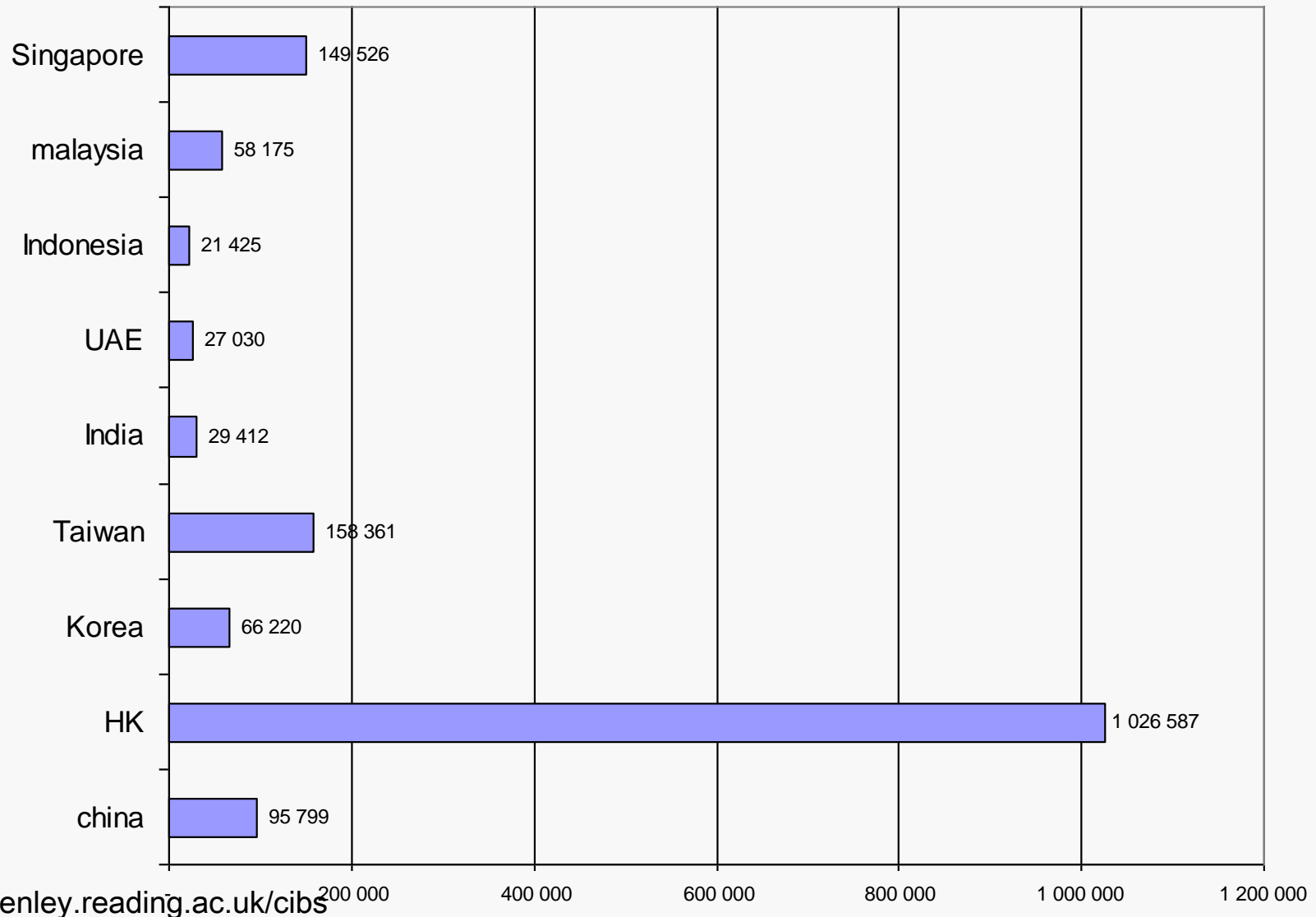
Total world = US\$ 1560 billion



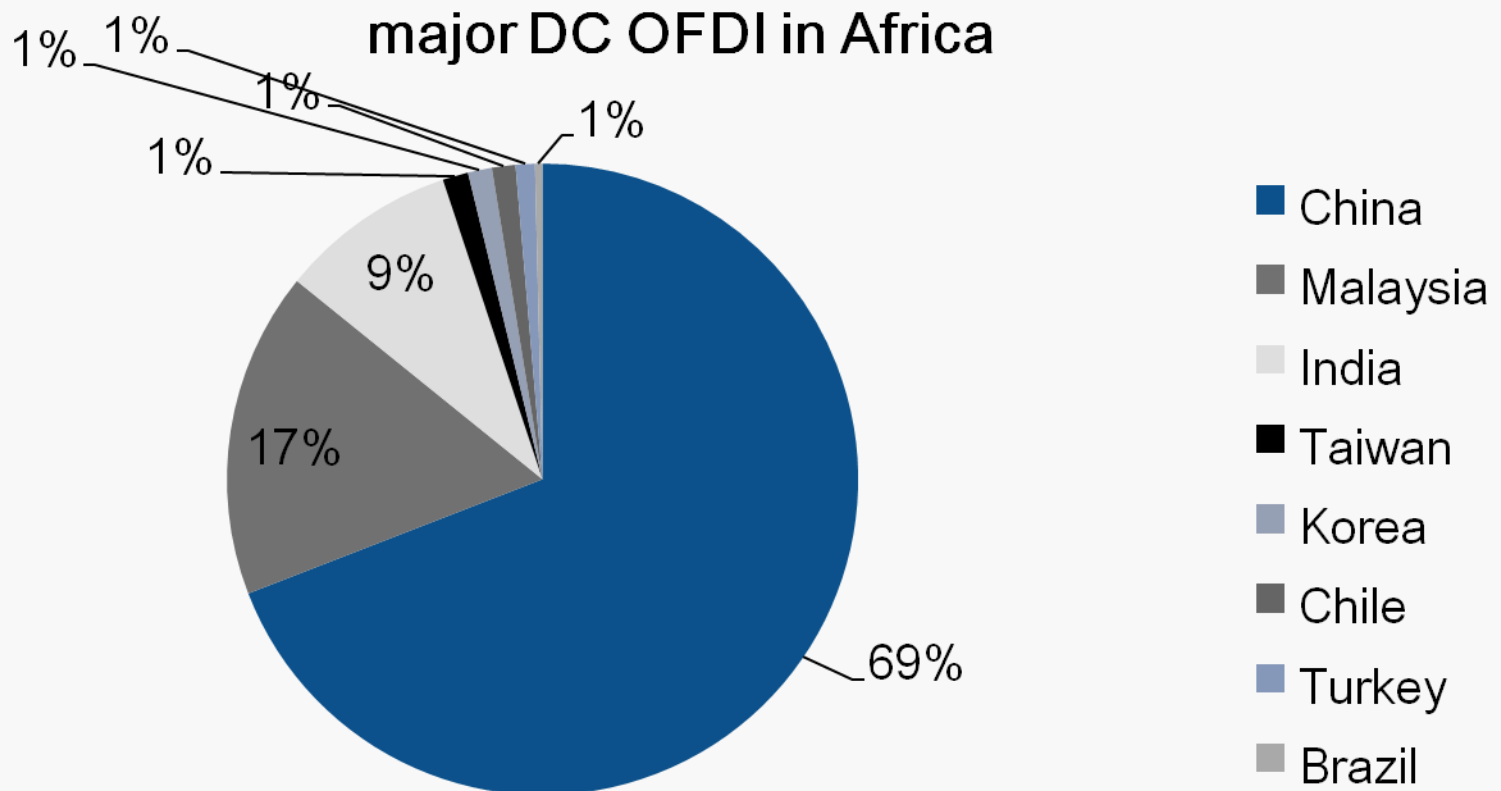
OFDI stock, developing countries



Asia outward FDI – largest, 2007 total = 1722 billion



DC FDI in Africa <10% of total... And most in extractive...

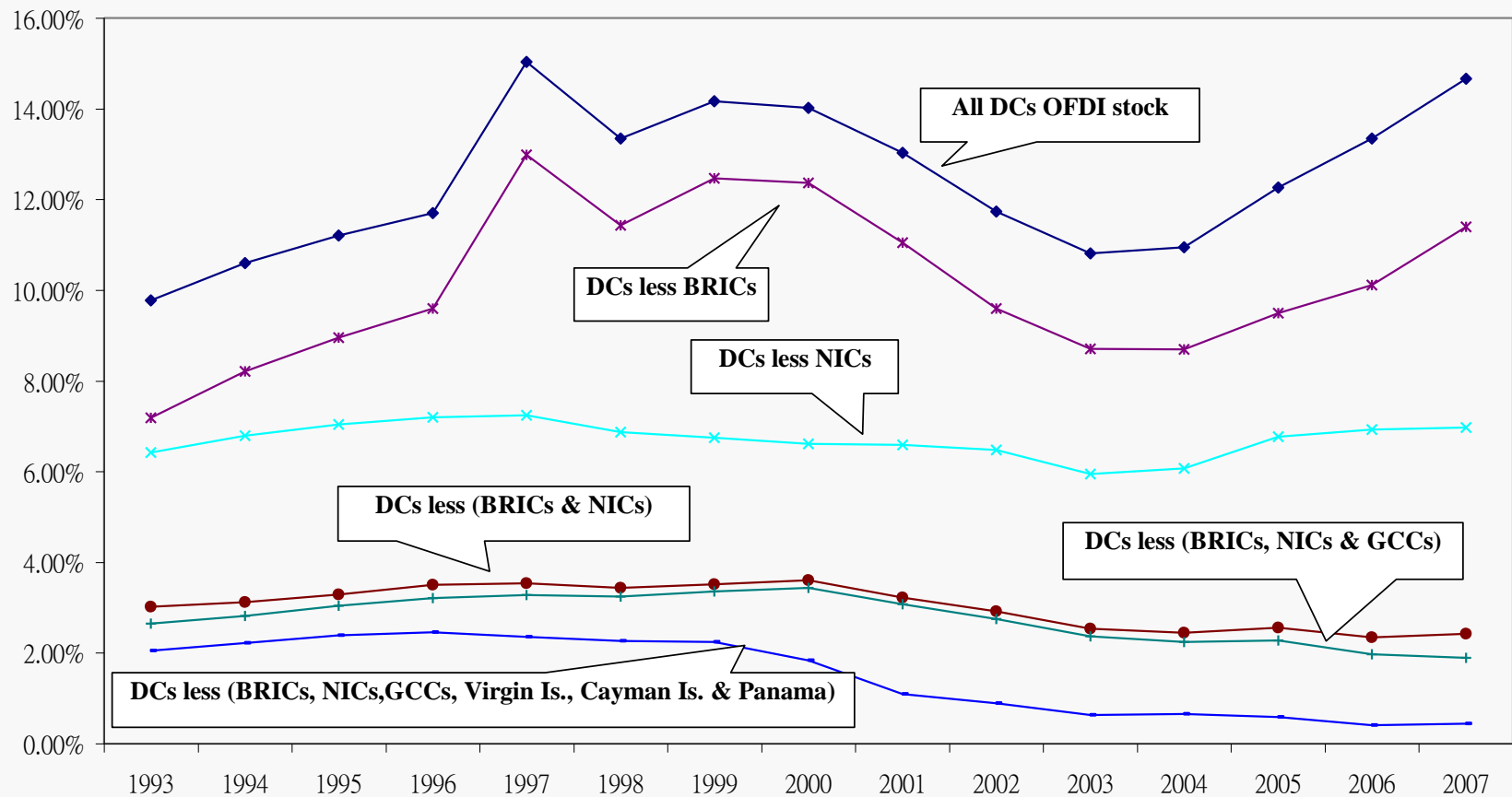


<\$5 billion! And 70% to 5 countries

	1993	2000	2007
Sum of 20 DCs' OFDI	195,653	758,780	2203,684
Share of total DC OFDI	87.85%	88.04%	96.31%
Share of World's OFDI	8.58%	12.34%	14.12%

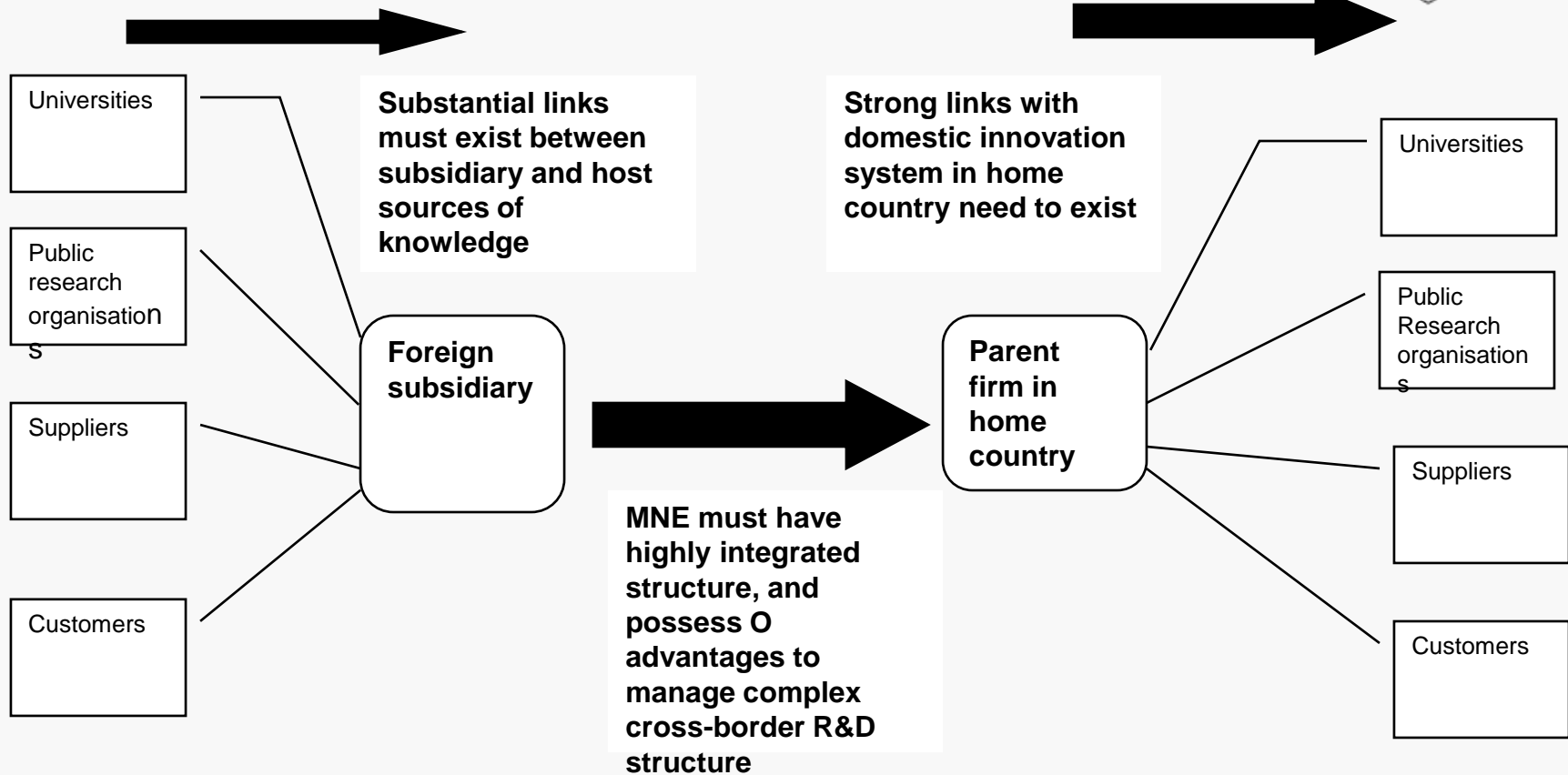
DC OFDI stock (percentage of World's OFDI)

DC OFDI stock (share of the world's OFDI)



Yes, there has been growth in DC FDI

- But this growth does not reflect a broad paradigm shift.
 - Some flight capital (not new, but larger because of currency float)
 - In other cases, flight capital re-labelled as FDI
 - Portfolio investment/free-standing companies
 - ‘new’ industries from (FDI perspective) such as banking, etc
 - China effect – state-owned firms
 - round-trip FDI
- Still largely about NICs plus China (with Brazil, India, Russia, South Africa coming up - and a few others such as Chile, Malaysia, etc)
- The story is about exceptions.



For outward MNE activity to influence the home country economy, all three of these sets of linkages must be well-developed

Figure 2: conditions that permit upgrading of the home country's L advantages by ourwad MNE activity

Policy focus in home countries should be on improving knowledge infrastructure



- DC MNEs often invest abroad because
 - Dissatisfaction with the supply of adequate knowledge infrastructure, and the complexities of national institutions limiting knowledge flows
 - For smaller firms there is also the challenge of living in the shadow of the ‘national champions’ – regulatory capture
 - Seek access opportunities to customer
 - Seeking new sources of knowledge
- Most host countries are passive – they do not match development policies with FDI policies.

Changes in GDP and OFDI growth rates



	GDP per capita			changes		O/FDI per capita			changes	
	1993	2000	2007	00/93	07/00	1993	2000	2007	00/93	07/00
Low-income economies	287.0	334.4	618.5	1.2	1.8	2.8	4.7	16.9	1.7	3.6
Low-middle income economies	541.8	866.9	2007.9	1.6	2.3	8.9	20.0	65.9	2.2	3.3
Upper-middle income economies	3262.6	3718.9	8006.2	1.1	2.2	164.2	326.9	1169.0	2.0	3.6
High-income economies	21650.7	25794.5	38162.2	1.2	1.5	2293.9	5905.3	13982.7	2.6	2.4
20 DCs average	1249.6	1640.3	3388.2	1.3	2.2	61.1	215.2	578.1	3.5	6.4
BRICs average	643.5	972.7	2517.0	1.5	2.6	24.5	38.6	180.6	1.6	4.7
NICs average	10559.1	13957.3	21795.5	1.3	1.6	1271.8	6730.8	16884.8	5.3	2.5
World	4520.3	5263.9	8257.4	1.2	1.1	0	0	0	-	-
Ratio LI/HI	1.3%		1.6%			0.12%		0.12%		
Ratio LMI/HI	2.5%		5.3%			0.39%		0.47%		
Ratio UMI/HI	15.1%		21%			7.2%		8.4%		

Home country	1993				2000				2007			
	OFDI stock		OFDI stock per capita		OFDI stock		OFDI stock per capita		OFDI stock		OFDI stock per capita	
	US\$ millions	Rank	US\$ dollars	Rank	US\$ millions	Rank	US\$ dollars	Rank	US\$ millions	Rank	US\$ dollars	Rank
Brazil	42688	1	277.2	5	51946	4	303.3	10	129840	5	685.8	9
Hong Kong	39114	2	6521.2	1	388380	1	57863.5	1	1026587	1	147646.6	1
Taiwan	36989	3	1761.8	3	66655	2	2992.1	3	158361	3	6897.9	3
South Africa	17952	4	456.3	4	32333	5	726.2	5	54562	9	1140.3	7
China	13768	5	11.6	18	27768	6	21.9	19	95799	6	72.5	17
Singapore	13209	6	3984.6	2	56766	3	14093.0	2	149526	4	32583.5	2
Argentina	8085	7	238.4	6	21141	8	574.7	7	26873	13	682.8	10
Korea	5441	8	123.1	7	26833	7	570.8	8	66220	7	1366.6	8
Mexico	3386	9	38.5	11	8273	12	84.5	11	44703	10	424.7	12
Venezuela	2447	10	117.0	8	7676	13	317.5	9	13814	15	502.3	11
Nigeria	2411	11	24.5	12	4132	15	34.7	15	5514	20	38.3	19
Russia	2300	12	15.5	16	20141	9	137.1	12	255211	2	1794.7	6
Malaysia	1437	13	73.5	10	15878	10	675.8	6	58175	8	2167.4	4
Indonesia	1294	14	6.8	19	6940	14	33.8	17	21426	14	95.3	16
Turkey	1263	15	22.7	13	3668	16	58.4	14	12210	16	177.2	14
Chile	1111	16	80.7	9	11154	11	733.3	4	32469	11	1957.9	5
Thailand	960	17	16.5	14	2203	18	35.3	16	7025	18	106.9	15
Philippines	908	18	13.8	17	2044	19	26.8	18	5573	19	62.9	18
Columbia	591	19	15.9	15	2989	17	70.6	13	10383	17	218.5	13
India	294	20	0.3	20	1859	20	1.8	20	29412	12	25.1	20

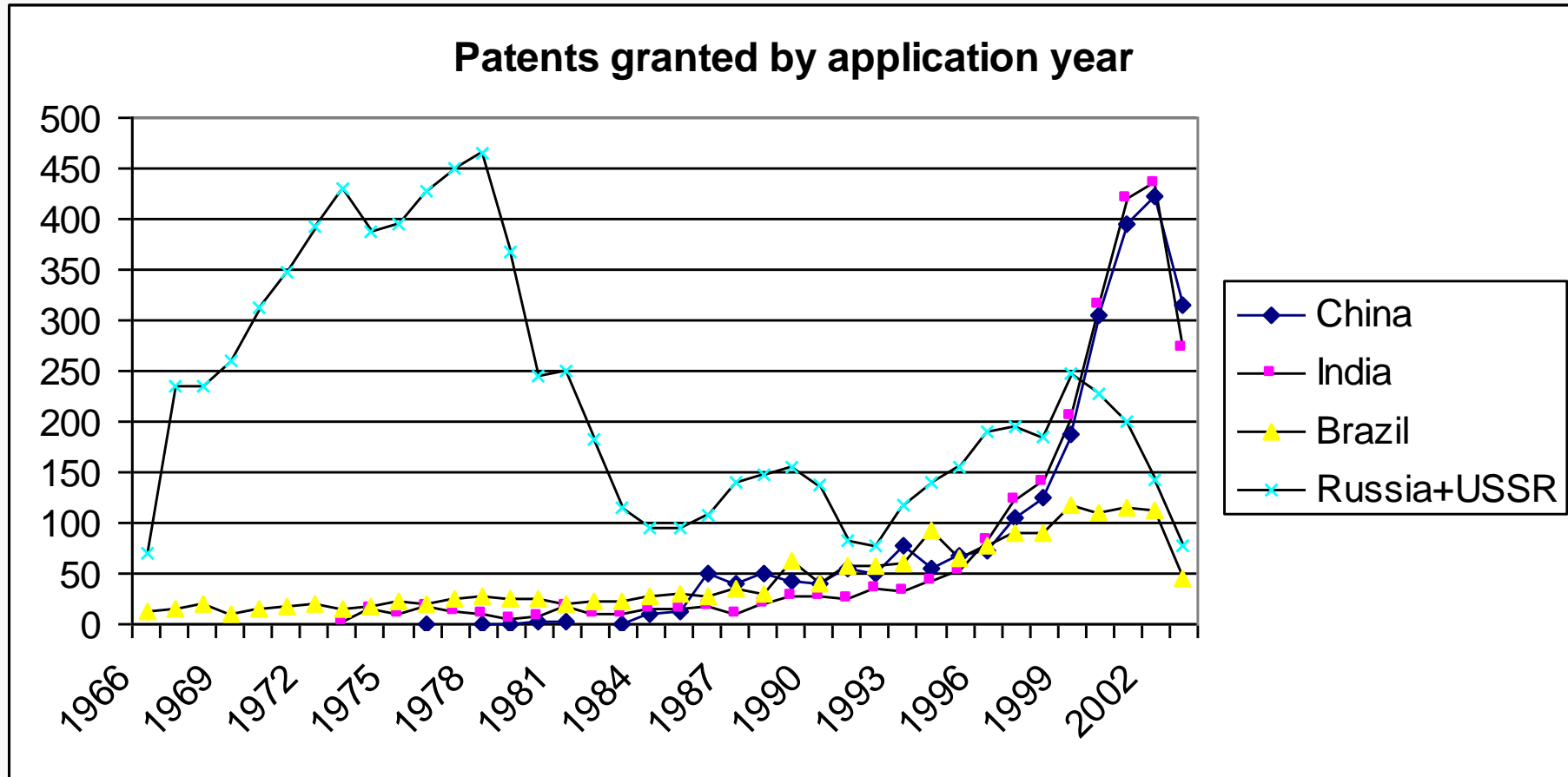
The challenge from China and India is exaggerated

- In the short and medium term, India does not pose a serious threat *in general*
 - Knowledge and physical infrastructure provide natural limits to this
 - Although there is a large supply of human capital, the quality issue is not always taken into account
- Ability to absorb and create capabilities is at the heart of a country's competitiveness

	Researchers per million	Internet users	Time Required to start a business (days)
China	663	73	48
India	119	32	71
Portugal	1949	281	54
Turkey	341	142	9
Spain	2195	336	47

China and India look good...

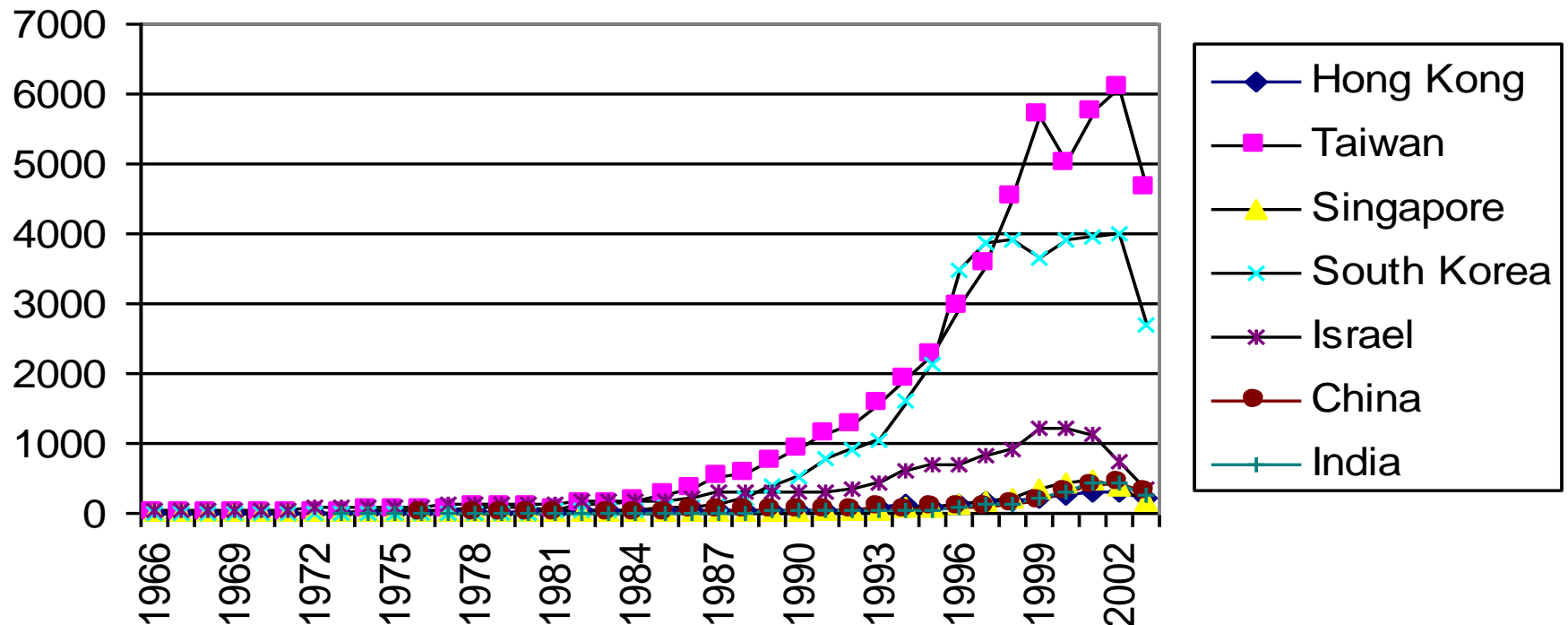
(courtesy Athreye and Prevezer 2008)



But in a comparison with Asian Tigers and even Israel, not so good.....

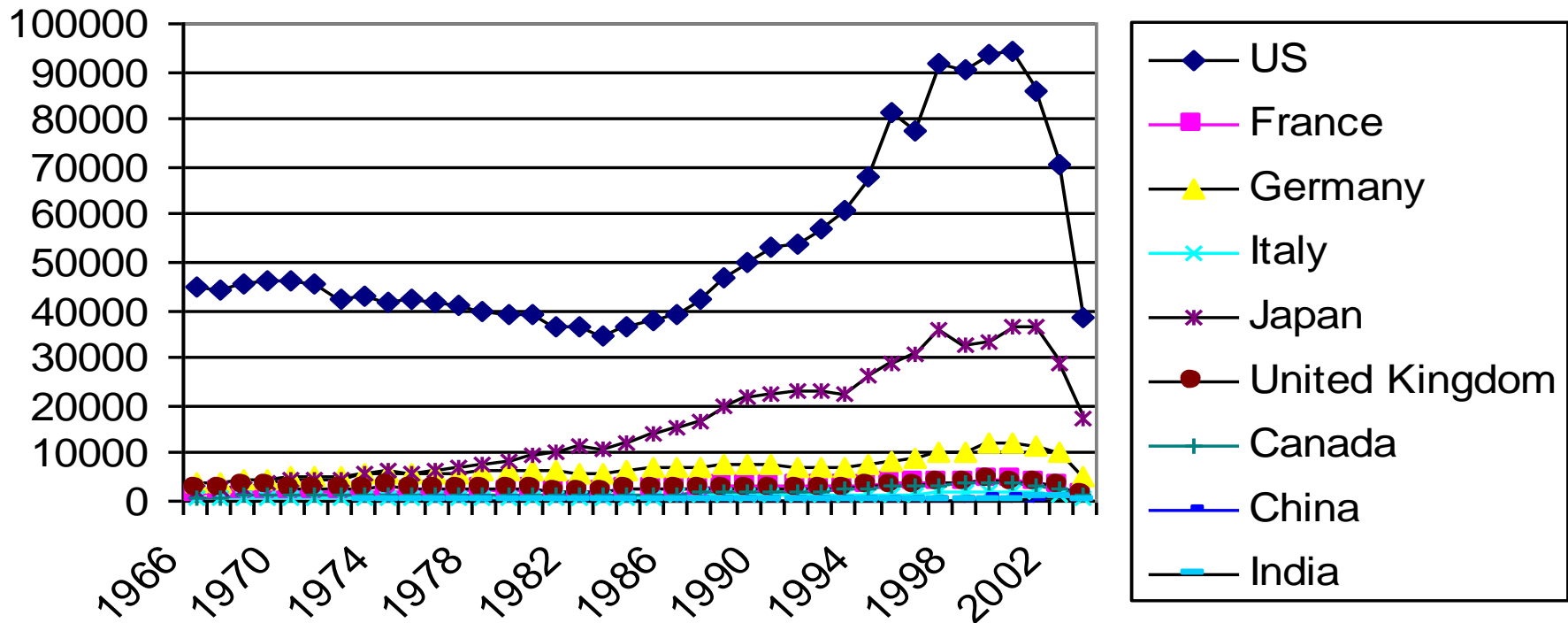
(courtesy Athreye and Prevezer 2008)

patents granted by application year



And the world certainly doesn't look flat if we go global.....

patents granted by application year



Globalisation, liberalisation and increased competition

- Globalisation has impacted on firms by creating broader and more competitive markets across countries. This has had two effects on the developing countries:
 - Firms in all countries. Providing similar products across larger *de facto* markets has also become essential to defray the costs and risks of such sunk costs, and firms need to have large economies of scale and a high minimum efficient scale. This has meant that firms in these industrial sectors need to expand internationally to justify production;
 - With falling tariff barriers and global accords such as those associated with the WTO, firms in developing countries that were able to generate economic rents in their protected home markets from mature products and services utilising ‘inferior’ ownership advantages were unable to continue do so

Liberalisation and domestic firms in developing countries:



- Some have been crowded-out
- Greater competition has prompted firms to upgrade their assets by partnering with foreign MNEs, while others have sought to improve their firm-specific assets through greater investment in R&D, whether at home or abroad. Firms that have survived have tended to do so by following the same 'game plan' as 'conventional', MNEs in the use of (and integration into) global production networks and supply chains.

Successful DC MNEs

- Originate from home countries with the necessary location advantages to create sustainable ownership advantages.
- Are able to upgrade and leverage their initial location-bound competitive assets successfully.
- Even where they have similar or superior firm-specific assets to developed country MNEs, they have less experience and managerial know-how of how to manage across borders, and achieving economies of common governance.
- Nonetheless, as they expand abroad and gather experience, DC MNEs should eventually become indistinguishable from conventional MNEs.

development effects determined in part by motive of FDI

- MNE motives and strategies are interrelated, and affect opportunities for externalities.
 - In the primary sector, the scope for vertical linkages is often limited, due to the use of continuous production processes and the capital intensity of operations.
 - In manufacturing the potential for vertical linkages are broader, depending on the extent of intermediate inputs to total production and the type of production processes.
- Policy makers and commentators fall into a well-known trap of presuming that the development potential of every dollar of MNE investment is the same, regardless of industry and regardless of the capacity of the host country to efficiently utilise the spillovers and linkages that are potentially made available.
- South-South capital and knowledge flows are not an obviously superior option to North-south options.

Not all DC MNEs have been successful

- Initial advantages that are location-specific;
- Advantages that only worked in a protected environment;
- Some initial advantages derive from having lots of money;
- Firms are seeking to escape uncertainty;
- Firms seek 'institutional voids'
- Firms are expanding abroad through hubris
- Others are free-standing companies
- Outsourcing has its limits!
- **In summary – not all advantages are sustainable**

Policy implications

- Most DCs have reacted passively to globalisation.
- few have an explicit or well-considered industrial policy, often applying principles that belong as part of a more closed, import-substituting era.
- Industrial policy integrated with trade and FDI policy are more important.
- MNE activity needs to be evaluated by considering the kinds of externalities that are generated; whether and how domestic actors can internalise them; and what kinds of L advantages may be required to achieve this.
- **the ‘success stories’ of MNE-assisted development have sought to attract MNEs, but have also built up domestic absorptive capacities in tandem.**
- They have then tried to upgrade their L advantages to encourage MNEs to both deepen and broaden their local value adding activities.

