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# Transnational Corporations from Emerging Economies and South-South FDI

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# Transnational Corporations from Emerging Economies and South-South FDI

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**Abstract**

The article reviews some recent developments with respect to the growing importance of transnational corporations (TNCs) from the South and their overseas expansion. The current situation differs from that of the 1970s and 1980s. The scale of the phenomenon is much larger, the geographical composition of flows and stocks is different as are the drivers and determinants. Drawing primarily on UNCTAD's work in this field, the article presents new data to shed light on the nature and scope of the phenomenon, it examines some salient features of the recent surge of foreign direct investment (FDI) by TNCs from the South and considers policy implications for governments in developing as well as developed countries. The paper ends by underlining the need for more dialogue both among developing countries and between developed and developing countries to harness the opportunities created by the rise of FDI from the South.

## 1. Introduction

The rise of transnational corporations (TNCs) from developing and transition economies has accelerated in recent years. The presence of such companies on the world stage were documented several decades ago, by such distinguished scholars as Louis Wells (1977, 1983) and Sanjaya Lall (1983). The situation of the 1970s and 1980s differs, however, in a number of ways from that of the present time. The scale of the phenomenon is today much larger, the geographical composition of flows and stocks is different as are the drivers and determinants.

This article reviews some recent developments with respect to the growing importance of TNCs from the South and their overseas expansion. It starts by presenting data from various sources to shed light on the nature and scope of the phenomenon. It then turns to an examination of some salient features of the recent surge of foreign direct investment (FDI) by these firms. The final section examines some policy implications for governments in developing as well as developed countries.

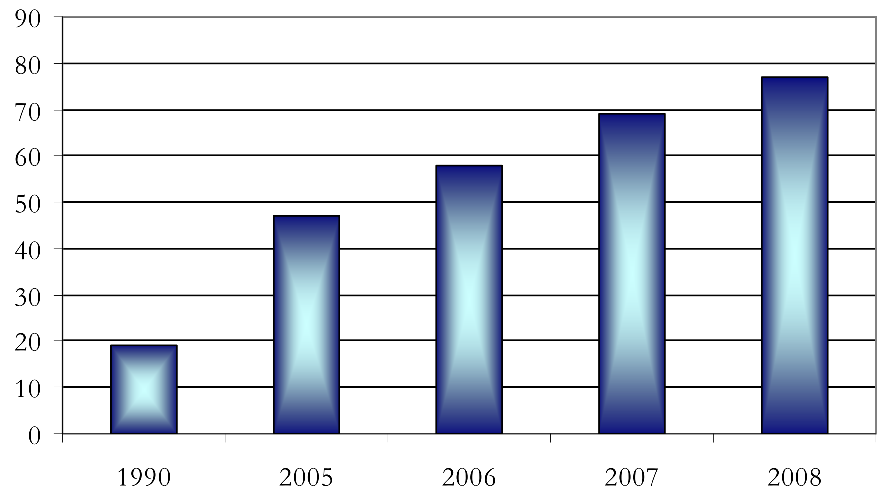
## 2. The rise of Southern TNCs accelerates

The overseas expansion by TNCs from the South has accelerated at record speed in the past few years. In UNCTAD's most recent ranking of the 100 largest TNCs in the world, seven of them were based in a developing country (UNCTAD, 2007). In terms of foreign assets, the largest among the seven, Hutchison Whampoa (Hong Kong, China), was in 2005 ranked number 20 in the world, with foreign assets of US$62 billion, right before Procter & Gamble (United States).

Other corporate rakings give further testimony to the rapid growth of companies in the South. For example, in 1990, there were only 18 companies from the South represented among the Fortune Global 500 rankings. By 2005, that figure had risen to 47, and in the subsequent two years, another 30 companies had entered the list.

As a result, in the 2008 list, 77 (or more than 15%) of the largest 500 companies were based in a developing or transition economy (figure 1).[1]

**Figure 1: Number of entries from developing and transition economies among the list of Fortune Global 500 companies, 1990, 2005-2008**

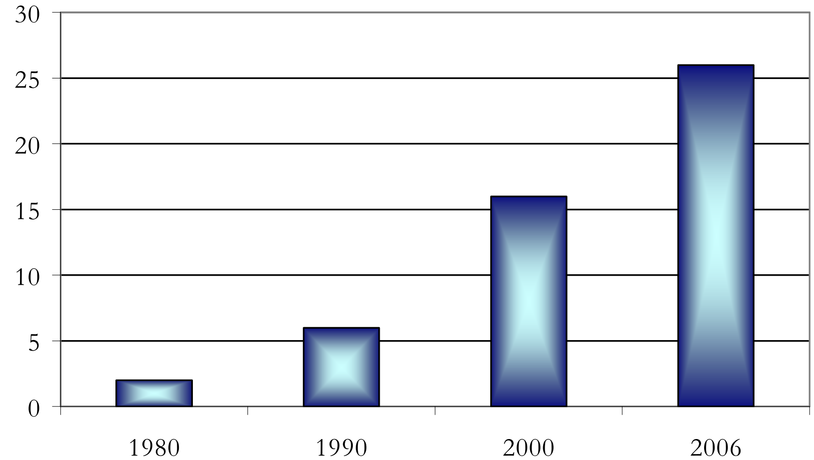



*Source:* Fortune Global 500.

This rapid corporate growth is reflected in data on FDI. According to UNCTAD, the *stock* of outward FDI from developing and transition economies almost doubled between 2000 and 2006, from US$1.78 trillion to US$3.54 trillion. During the same period, annual FDI *outflows* from these economies shot up from US$102 billion to almost US$200 billion. The trend of internationalization of companies is not confined to only a few countries. In fact, the number of countries with an outward FDI stock of more than US$5 billion jumped from seven in 1990 to 26 in 2006 (figure 2).

**Figure 2: Number of developing and transition economies with a stock of outward FDI valued at more than US$5 billion, 1980, 1990, 2000 and 2006**

[1] See http://money.cnn.com/magazines/fortune/global500/2008/full_list/.




*Source:* UNCTAD.

Geographically, the rise of TNCs from the South is today primarily an Asian phenomenon. In this respect, it differs considerably from the situation of the 1970s and 1980s, with Latin American firms were the most active outward investors from the South. Indeed, while Latin America in 1970 accounted for two thirds of the outward FDI stock from the South, by 2006, it was Asia that held a similar share of that stock (UNCTAD, 2006, 2007).

Asia's dominance is confirmed in various other statistics. Out of the seven Southern TNCs featuring among the top-100 TNCs in the world, six are Asian and only one from Latin America. In UNCTAD's most recent ranking of the top-100 TNCs from developing countries, Asia accounted for 78 of the entries, while Africa and Latin America had 11 entries each (UNCTAD, 2007). And in the 2008 list of Fortune Global 500 companies, 62 of the 77 entries from a developing or transition economy were from Asia, ten from Latin America and five from Russia (table 1). Moreover, between 2007 and 2008, seven new entries were noted for Asia (most of which Chinese companies), while the number of Latin American firms was unchanged.

**Table 1: Number of companies from developing and transition economies among the Fortune Global 500 companies, 2007 and 2008**

| Home economy | Number of companies 2008 | 2007 |
|---|---|---|
| Africa | 0 | 0 |
| Asia and Ocenia | 62 | 55 |
| China | 29 | 24 |
| Republic of Korea | 15 | 14 |
| India | 7 | 6 |
| Taiwan Province of China | 6 | 6 |
| Malaysia | 1 | 1 |
| Saudi Arabia | 1 | 1 |
| Singapore | 1 | 1 |
| Thailand | 1 | 1 |
| Turkey | 1 | 1 |
| Latin America | 10 | 10 |
| Brazil | 5 | 5 |
| Mexico | 5 | 5 |
| South-east Europe and the CIS | 5 | 4 |
| Russia | 5 | 4 |
| **Total** | **77** | **69** |

*Source:* Fortune Global 500.

In terms of sectoral distribution, TNCs from the South have appeared in a wide range of industries, with large regional variations. As highlighted in the *World Investment Report* 2006, some of them have taken global positions in automotives, chemicals, electronics, petroleum refining and steel, and in services such as banking, shipping, IT services and construction (UNCTAD, 2006). In some specific segments, such as container shipping, port management and petroleum refining TNCs from the South have a particularly strong presence.

In all developing regions and in the Russian Federation, major TNCs have emerged in the primary sector (oil, gas, mining) and resource-based manufacturing (metals, steel). Some of them are now competing head-on with their developed-country rivals. Examples include Sasol (South Africa); Vale (Brazil), ENAP (Chile), Petrobras (Brazil) and Petroleos de Venezuela (Venezuela); Baosteel, CNPC and CNOOC (China), Petronas (Malaysia), Posco (Republic of Korea) and PTTEP (Thailand); and Gazprom and Lukoil (Russian Federation).

Another important cluster relates to the production of goods and services that are generally difficult to export and therefore require FDI to serve a foreign market. Examples include financial services, infrastructure services (electricity, telecommunications and transportation) and such goods as cement, food and beverages. Because of their non-tradable nature, these economic activities typically require FDI to serve a foreign market. With a few exceptions (such as Cemex), however, most of the Southern TNCs in these areas are primarily regional players, with limited (if any) activities in parts of the world more distant from home.

A third cluster of activities comprises those industries that are the most exposed to global competition, such as automotives, electronics (including semiconductors and telecommunications equipment), garments and IT services. Almost all major TNCs from the South in these industries have Asian origin. Electronics companies such as Acer (Taiwan Province of China), Huawei (China) and Samsung Electronics (Republic of Korea), automobile firms such as Hyundai Motor and Kia Motor (Republic of Korea), or smaller TNCs in the IT services industry, such as Infosys or Wipro Technologies (India), are already leaders in their respective areas.

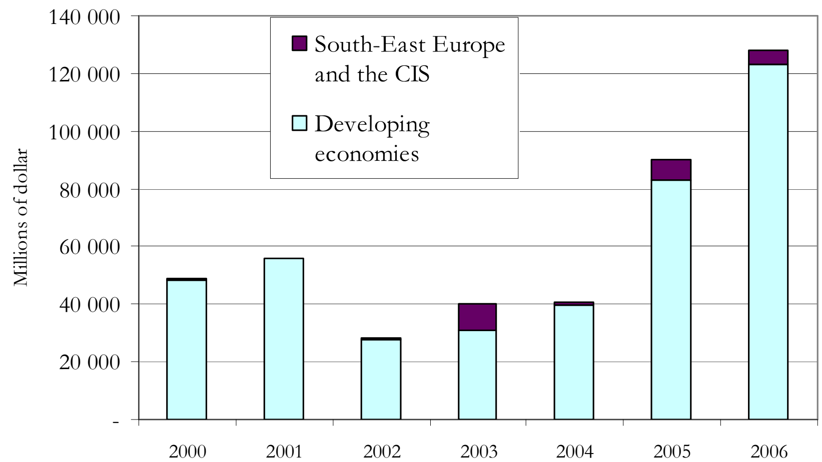
### 3. Drivers and modes

The internationalization of TNCs from the South has been driven by a diverse set of factors, ranging from the traditional quest for accessing natural resources, production factors or foreign markets to the desire to acquire technological and other strategic assets. Compared with earlier waves of FDI from developing countries, it appears that the current wave involves a greater element of "asset-augmenting" as opposed to "asset-exploiting" motives for going abroad (UNCTAD, 2006). In a globalizing world economy, with high levels of competition and rapid technological progress, tapping into foreign centres of excellence or gaining control of assets controlled by foreign firms can be essential to sustain or enhance a company's competitiveness.

The search for technology and other strategic assets is reflected in the surge of cross-border mergers and acquisitions (M&As) with TNCs from the South on the acquiring side. The value of foreign takeovers by such companies shot up from less than US$30 billion in 2002 to almost US$130 billion in 2006 (figure 3). Some of the largest recent such deals include Brazilian Vale's acquisition of Inco (Canada), Cemex' (Mexico) takeover of Rinker (Australia) and Tata Steel's (India) purchase of

Corus (UK/Netherlands). Another good illustration is Lenovo's (China) takeover of IBM's PC division, which served to help the bidder establish itself as a global brand while at the same time acquiring vital technology expertise.

**Figure 3: Cross-border M&A purchases by companies based in a developing or transition economy, 2000-2006**
(Millions of dollars)



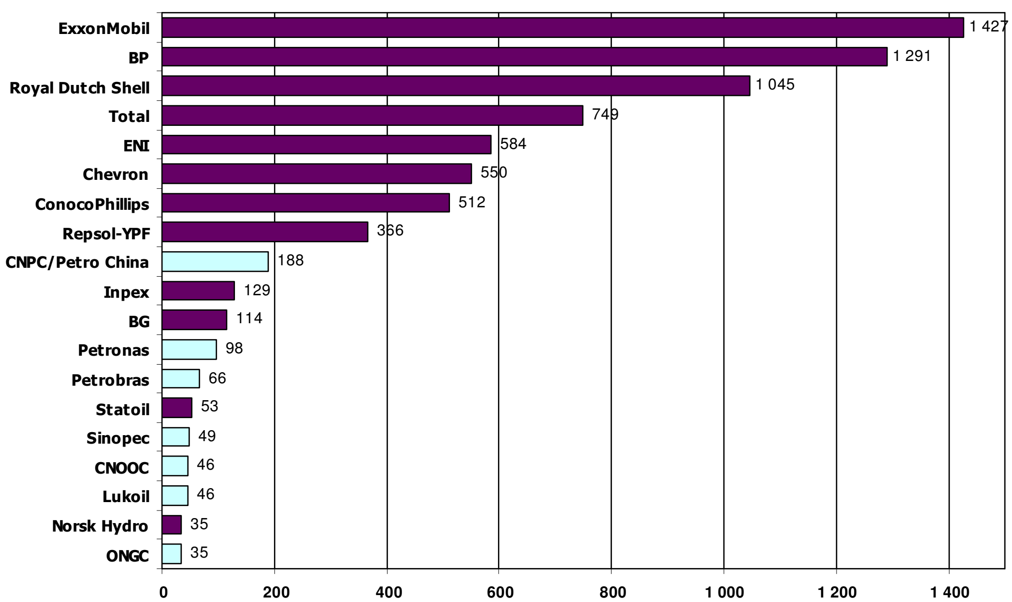

*Source:* UNCTAD.

Three trends, which have been specifically addressed in UNCTAD's research in the past few years, deserve particular attention from the perspective of the forces driving TNCs from the South to expand internationally. The first relates to the quest for natural resources, such as metal minerals, oil and gas (UNCTAD, 2007). The second is the growing importance of Southern TNCs in the area of infrastructure (UNCTAD, 2008). And the third is the trend of internationalization of research and development (R&D) by firms in developing countries (UNCTAD, 2005). The three trends provide an illustration of the diversity and complexity of the drivers behind the recent wave of FDI from the South.

*3.1. Natural-resource seeking TNCs*

As highlighted in the *World Investment Report 2007*, the search for natural resources has accelerated in the most recent years against the backdrop of rising commodity prices, which in turn have been influenced by the high demand for metals and energy in emerging economies, and especially China. Although national oil companies control most of the global production of oil and gas, their degrees of internationalization are typically low compared with those of the top oil majors. However, some companies from the South are fast becoming global players (figure 4). The combined overseas production of CNOOC, CNPC, Sinopec (all China), Lukoil (Russian Federation), ONGC (India), Petrobras (Brazil) and Petronas (Malaysia) exceeded 528 million barrels of oil equivalent in 2005, up from only 22 million barrels 10 years earlier (UNCTAD, 2007). Both CNPC and Petronas are now involved in oil and gas production in more than ten foreign countries.

**Figure 4. Oil and gas production of selected TNCs outside their home country, 2005**




*Source:* UNCTAD, 2007, figure IV.10.

One distinctive feature of the "emerging" oil TNCs is that they are State-owned. Their overseas expansion often reflects strategic national interest in addition to purely commercial ones. They often enjoy financial backing by their governments that may allow them to assume greater risks when investing abroad and to pay more for access to mineral resources. For example, some of these State-owned oil TNCs have invested in host countries that developed-country TNCs are less likely to operate in, for a variety of reasons, including sanctions. Moreover, in 2006, a new record in signature bonuses was reached when Sinopec outbid its competitors by paying a $2.2 billion in return for the right to explore for oil in two Angolan exploration blocks.[2]

*3.2. Infrastructure TNCs*

The second trend relates to the growing role of infrastructure TNCs from the South. When UNCTAD ranked the top 100 infrastructure TNCs in the world in 2006, as many as 22 companies were based in a developing country or in Russia (UNCTAD, 2008). As noted above, TNCs from the South claimed only 7 of the top 100 slots in UNCTAD's global ranking of TNCs. Within infrastructure, TNCs from the South are particularly strong in the areas of transport and telecommunications.

In some cases, massive infrastructure commitments have been made in return for access to natural resources.[3] For example, in September 2007, China agreed to invest in big infrastructure projects in the Democratic Republic of Congo (DRC), to be paid for with the host country's reserves of copper and cobalt. The Chinese companies will start work on infrastructural projects in 2008 in such areas as water, electricity, education, health, and transport.[4] These works will cost an estimated US$9 billion. The idea is that Congolese and Chinese SOEs set up a joint venture, Socomin, that is incorporated under Congolese law. This mining company will invest US$3 billion in mainly new mining areas and another correcting loan of US$100 million, with which the back pay of foreign and Congolese ex-employees, among others, can be paid. The profits of Socomin will be used to repay these mining investments and the investments in the big infrastructural works. The infrastructure will be developed by two Chinese SOEs (Sinohydro and China Railways Engineering Company).[5]

[2] See http://www.globalinsight.com/SDA/SDADetail5873.htm.

[3] As of September 2006, China Exim Bank entertained relations with 36 African countries, and had 259 African projects in its portfolio. Almost four fifths of its commitments to Africa was in infrastructure (Bossard, 2007).

[4] See e.g. "Congo: Huge development project solidifies China's clout", *Global Information Network*, 11 February 2008.

[5] These companies will, among other things, build high-voltage power lines and power plants; repair and expand water supply; construct potable water distribution centres; build 31 hospitals, 145 health centres and four large universities; renovate two important railways and build 250 km of roads.

Under the deal, the Chinese investors will receive the loans directly from the Chinese Exim Bank, thereby circumventing the bureaucracy of the DRC. In this way, the country's mineral resources will be used as collateral for infrastructure investments.

The agreement between the DRC and China illustrates how the rise of Southern TNCs in a number of infrastructure industries offers new pools of capital and expertise for low-income countries to tap into. At the same time, it is important to engage these new players in ongoing processes aimed at securing sustainable development gains from international investments.

TNCs from the South already make significant contributions to infrastructure development in developing countries. In Asia, almost half of the foreign investment commitments originate from developing countries. In Africa, developing-country TNCs dominate foreign investment in telecommunications and account for a considerable share of all foreign infrastructure investments. In least developed countries (LDCs), their role is most pronounced in transport, in which such companies as DP World and Hutchison Whampoa have pushed up the share of South-South flows to as high as 65% of all foreign investment commitments.

*3.3 Internationalization of R&D*

R&D is one of the business functions that traditionally have been the least internationalized. However, this pattern has shown signs of rapid change (UNCTAD, 2005). For example, for Swedish TNCs, the share of R&D conducted abroad rose from 22% to 43% between 1995 and 2003; German firms established more overseas R&D centres in the 1990s than in the preceding 50 years combined (Ambos 2005); and in a cross-country survey, foreign to total R&D rose from 15% in 1995 to 22% in 2001 (Roberts 2001), a trend that has been confirmed also in other studies (Edler et al 2002., von Zedtwitz and Gassmann 2002).

Moreover, this trend has not been confined to firms in developed countries. As part of their search for foreign technology, a growing number of TNCs from the South are also engaging in R&D internationalization. It involves both investments in developed countries (in which case the aim might be to "catch up" with developed-country competitors) and in other developing countries (in which case the goal may be to support local business activities).[6]

There are many examples of companies that have targeted the knowledge base of developed countries (UNCTAD, 2005):

- Samsung (Republic of Korea) has set up R&D laboratories in Europe;
- Acer (Taiwan Province of China) has laboratories in the United States;
- Ingenuity Solutions (Malaysia) has invested in R&D in the United States;
- Bionova (Mexico) has acquired DNA Plant Technology (United States)
- Cordlife (Singapore) has acquired Cytomatrix (United States).

There are similarly many examples of South-South R&D-related FDI:

- Acer has set up R&D laboratories in China;
- Huawei (China) has an R&D centre in Bangalore, India;
- A number of firms from the Republic of Korea, Singapore, Malaysia and Thailand have set up R&D activities in India, particularly related to software development (Reddy 2000).
- Samsung Electronics (Republic of Korea) has opened R&D centres in China and India (as well as in Russia);
- Bogasari International (Indonesia, food processing) chose Singapore partly due to the country's favourable R&D incentive schemes for foreign investors.

Chinese TNCs are becoming international players in R&D. A recent study of large Chinese companies found that they had at least 37 R&D units abroad at the end of 2004 (von Zedtwitz 2005). Twenty-six of these foreign R&D units were located in developed countries, predominantly in the United States (11) and Europe (11), mostly serving as listening posts or in product design roles. The remaining 11 units located in developing countries. Huawei[7] and Haier,[8] are illustrative of the trend, with R&D

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[6] Maximilian von Zedtwitz (2005) denotes such R&D investments as "ctaching up" and "expansionary" strategies.

[7] In addition to Bangalore, Huawei has invested into Stockholm (Sweden), Moscow (Russian Federation) and Dallas (United States).

[8] Haier operates ten small-scale research units abroad, which focus on technology monitoring and other R&D activities.

units mostly located in developed countries. Other Chinese companies from the electronics industry, such as ZTE and UTStarcom, have established R&D centres in India, aiming essentially at offshore (embedded) software development.

Indian TNCs are also globalizing their R&D, focusing mainly on serving their customers in specific regional markets. The leading software firms have all invested abroad, mostly in developed countries. For example, Infosys, Wipro, Birlasoft (part of Aditya Birla Group) and HCL Technologies have set up operations in the United States. They are also moving into China and other emerging markets.[9] Some Indian software R&D affiliates are located in other developing regions – Tata, for example, invested in Latin America and the Caribbean (Uruguay) – and in new EU member countries (Hungary). There are also examples of FDI in R&D in other industries, such as pharmaceuticals and chemicals.[10]

### 4. Most of their outward expansion targets developing countries

Whereas there has been increased interest among TNCs ni the South to acquire assets in developed countries, most of their investments to date has flown into other developing countries. While data in this area are admittedly patchy, UNCTAD has found that South-South FDI has expanded particularly fast over the past two decades. Total outflows from developing and transition economies (excluding offshore financial centres) increased from about US$4 billion in 1985 to US$61 billion in 2004, primarily as a result of inflows into developing economies. In fact, the South-South part of these FDI flows increased from US$2 billion in 1985 to US$60 billion in 2004 (UNCTAD, 2006).

The emergence of these new sources of FDI may be of particular relevance to low-income host countries. In all three trends highlighted in the previous section – natural resources, infrastructure and internationalization of R&D – South-South

[9] Jointly with GE, for instance, TCS has established an R&D centre in Hangzhou, the capital city of Zhejiang Province in China. Similarly, other top Indian IT services players such as Infosys, Satyam and Wipro have invested in China.
[10] For example, in 2003, the pharmaceutical firm Ranbaxy set up in Abu Dhabi a new plant that will also do R&D.

investment feature prominently. TNCs from the South have emerged as significant investors in many LDCs. Developing countries with the highest dependence on FDI from developing and transition economies include China, Kyrgyzstan, Paraguay and Thailand, and LDCs such as Bangladesh, Ethiopia, the Lao People's Republic, Myanmar and the United Republic of Tanzania. Indeed, South-South FDI accounts for well over 40% of the total inward FDI of a number of LDCs (table 3). In addition, the level of FDI from developing and transition economies to LDCs may well be understated in official FDI data, as a significant proportion of such investment goes into the informal sector.

**Table 3: FDI from developing and transition economies in selected LDCs, various years**
(Percent)

| | Flows | | Stock | |
|---|---|---|---|---|
| **Recipient economy** | **Period/year** | **Share in total FDI (%)** | **Year** | **Share in total FDI (%)** |
| Bangladesh | (1995-1997) | 9 | (1995) | 17 |
| | (2002-2004) | 39 | (2001) | 13 |
| Cambodia | (1995-1997) | 63 | (1994) | 81 |
| | (2002-2004) | 64 [a] | (2002) | 73 |
| Ethiopia | (1992-1994) | 100 | (1995) | 77 |
| | (2002-2004) | 51 | .. | .. |
| Lao People's Dem. Rep. | (1995-1997) | 93 [a] | (1990) | 47 [b] |
| | (2002-2004) | 45 [a] | (1999) | 70 [b] |
| Madagascar | (2003) | 29 | (2003) | 27 |
| | (2004) | 54 | (2004) | 36 |
| Mozambique | (2003) | 103 [b] | .. | .. |
| | (2004) | 47 [b] | .. | .. |
| Myanmar | (1995-1997) | 39 [a] | (1990) | 33 [b] |
| | (2002-2004) | 56 [a] | (2004) | 61 [b] |
| Nepal | (1990-1992) | 46 [b] | (1990) | 58 [b] |
| | (1996-1998) | 65 [b] | (1999) | 63 [b] |
| Solomon Islands | (1994-1996) | 56 [b] | .. | .. |
| Uganda | .. | .. | (1999) | 48 |
| | .. | .. | (2003) | 36 |
| United Rep. of Tanzania | .. | .. | (1998) | 36 |
| | (1999-2001) | 41 | (2001) | 44 |
| Vanuatu | (1999) | 7 | .. | .. |
| | (2000-2002) | 19 | .. | .. |
| Zambia | .. | .. | (2000) | 21 |
| | .. | .. | (2001) | 20 |

*Source:* UNCTAD, 2006. *a* Based on information provided by the ASEAN secretariat.
*b* Data are on an approval basis.

The bulk of South-South FDI (excluding offshore financial centres) is intraregional in nature. In fact, during the period 2002-2004, average annual intra-Asian flows amounted to an estimated US$48 billion. The next largest stream of FDI within the group of developing countries was within Latin America, mainly driven by investors in Argentina, Brazil and Mexico. Intraregional flows within Africa were an estimated $2 billion reflecting, in particular, South African FDI to the rest of the continent. For example, South African accounts for more than 50% of all FDI inflows into Botswana, the Democratic Republic of the Congo, Lesotho, Malawi and Swaziland. Interregional South-South FDI has gone primarily from Asia to Africa, while the second largest has been from Latin America to Asia. Perhaps somewhat surprisingly, total flows from Asia to the Latin American region were modest during the period 2002-2004, and those between Latin America and Africa have until recently been negligible (UNCTAD, 2006). However, rising interest Africa's natural resources have provoked new Latin American investments into Africa, for example in the area of biofuel production.

More recently, we have seen the emergence of new forms of South-North FDI, as illustrated by investments by sovereign wealth funds (SWFs). Fuelled by rising current account surpluses, as a result of oil revenues or revenues from exports of manufactures, a number of SWFs in developing countries have become more willing to invest also in direct investment assets. Some have welcomed the capital injections of SWFs into troubled banks (including Citibank and UBS) in certain developed countries, while others have voiced concerns related to these acquisitions. Similar concerns have been raised vis-à-vis takeovers, or attempted takeovers, by State-owned companies from developing countries. State ownership has been perceived as increasing the risk that a transaction is undertaken for other than purely economic motives. It appears that concerns have particularly pronounced when acquisitions are related to energy, infrastructure services or other industries with a potential "national security dimension" (UNCTAD, 2006, 2007).

## 5. Policy implications for developing and developed countries

### *5.1 Developing home countries*

The rise of FDI from the South reflects considerable policy changes in those countries that have emerged as important sources of FDI. More and more developing and transition economies are dismantling barriers to outward FDI. While some form of capital control is often still in place to mitigate the risk of capital flight or financial instability, remaining restrictions mostly aim at limiting other international capital flows than FDI. Just a handful of countries retain outright bans on outward FDI. In fact, a number of governments, especially in developing Asia, are even encouraging their firms to invest abroad. Active promotion of outward FDI is most common in South, East and South-East Asia.[11] In several countries of this region, governments discharge their promotional policies via trade promotion organizations, investment promotion agencies (IPAs), export credit agencies and EXIM banks. A variety of supportive measures are used, including information provision, match-making services, financial or fiscal incentives, as well as insurance coverage for overseas investment.

But there is no one-size-fits-all approach that can be recommended to deal with outward FDI. Every home country has to adopt and implement policies that fit its specific situation. Whether it will benefit by moving from "passive liberalization" to "active promotion" of outward FDI depends on many factors, such as the capabilities of the country's enterprises, and the links of the investing companies with the rest of the economy. As reflected in the various factors driving firms to internationalize, outward FDI can bring improved access to foreign markets, resources and strategic assets, but this requires the development of capabilities in the home country. In many low-income countries, it may therefore be appropriate to focus on creating a more attractive business environment and enhancing domestic firm capabilities before encouraging existing firms to go abroad.

[11] Some governments in Africa and Latin America have also publicly stressed the importance of outward FDI, but these statements have rarely been followed by concrete promotional measures.

The growth of FDI from the South also has implications for the role of international investment agreements (IIAs). Increased FDI from developing economies is likely to generate greater demand from the business community in these economies for protection of their overseas investments. As a consequence, the focus of developing-country governments in may swing from a singular emphasis on using IIAs to facilitate inward investment towards protection of outward FDI. This may influence the substantive content of future treaties as well as generate calls for the renegotiation of existing treaties (UNCTAD, 2006).

The political and social aspects of their activities may give rise to controversy, partly due to the size of TNC operations. In developing host economies, such problems have sometimes been exacerbated by the absence of an adequate regulatory framework and disparity in the allocation of economic benefits from inward FDI. It is essential that TNCs that have just begun their overseas expansion – as well as their home country governments – quickly learn to manage their foreign operations in accordance with internationally acceptable social and economic standards. They will have to become used to addressing various issues related to corporate responsibility. A recent review of the top mining and oil and gas TNCs, for example, found that very few of those based in developing and transition economies were explicitly committed to relevant international initiatives in the area of corporate social responsibility (UNCTAD, 2007). Although this may entail costs for the companies concerned, it should pay off in the longer term for both the investing firms and their home countries. Investors from developing or transition economies that are anxious to tap the markets and resources of developed countries may face growing pressure to address more fully issues related to corporate governance and transparency.

### *5.2 Developing host countries*

There are also implications for the host countries in the developing world. As highlighted above, most of the FDI from developing countries flow to other developing economies. A key question is what the host countries can do to leverage fully this expansion. In terms of enhancing the positive impact of such FDI, they need to consider the full range of policies that can influence the behaviour of foreign affiliates, and their interaction with the local business environment. This requires taking into account the specific characteristics of different industries and activities in designing a strategy to attract desired kinds of FDI. In addition, it is important to promote the amount and quality of linkages between foreign affiliates and domestic firms. Host-country governments can use various measures to encourage linkages between domestic suppliers and foreign affiliates and strengthen the likelihood of spillovers in the areas of information, technology and training. In terms of addressing potential concerns and negative effects associated with inward FDI, there is no principal difference between the policies to apply in the case of FDI from developed countries and in the case of FDI from developing and transition economies.

The scope for "South-South" FDI has led many developing host countries to adopt specific strategies to attract such investment. In a 2006 UNCTAD survey of IPAs, more than 90% of all African respondents stated that they currently target FDI from other developing countries, especially from within their region. For African IPAs, South Africa topped the list of developing home countries targeted, while in Latin America and the Caribbean, Brazil was the most targeted source.

The new TNCs undoubtedly represent a new source of development finance. As shown above, many low-income countries already rely primarily on other developing countries for inward FDI. For mineral-rich low-income economies, the rapid growth of China and other emerging economies has also led to increased demand and higher prices for their commodities. This expanded diversity of potential FDI sources implies greater bargaining power of recipient countries to the extent that they are able to attract a greater number of investors to compete for existing investment opportunities.

### *5.3. Developed host countries*

For developed countries, the emergence of TNCs in the South has provoked mixed feelings among policymakers.

On the one hand, developed countries as well see opportunities to attract new capital from these emerging TNCs, which are actively courted by IPAs in the North. Among developed-country IPAs, China was the most commonly mentioned target source, followed by other Asian economies such as India, the Republic of Korea, Singapore and Taiwan Province of China. A significant number of developed-country IPAs have also established local offices for to attract investment in places like Brazil, China, India, the Republic of Korea, Singapore and South Africa (UNCTAD, 2006).

On the other hand, the speed at which some of these firms have climbed to prominent positions in their respective industries, sometimes via hostile takeovers, appears to have taken competitors and governments in developed countries by surprise. As a result, many observers have responded in defensive ways, sometimes akin to protectionism. This has been visible in the United States, with cases such as CNOOC's bid on Unocal and the responses to Dubai Port World's takeover of a number of American ports as a result of its acquisition of P&O. In other cases, there have been concerns that the taking over by developing-country firm may lead to jobs shifting to the home country of the investor (UNCTAD, 2006).

Responses to foreign investments involving companies from the South need to be carefully balanced. What is to be regarded as a threat to the national security of a country is not well defined (GAO, 2007). Countries must therefore use this tool very carefully so as not to fuel a trend of increased protectionism and retaliation. In today’s multifaceted global economy, it is becoming equally important for developed-country firms to secure access to developing-country markets as for developing-country firms to access the markets in the North. Developed countries and their firms will face new competition for various resources and markets, but they will also find new opportunities for collaboration with newcomer TNCs.

## 6. Concluding remarks

FDI from developing and transition economies has only started to expand. It is a phenomenon that is likely to evolve rapidly in the next few years, as more and more companies in these economies gain the necessary skills and experience to venture abroad. This trend will be accentuated by firms based in countries characterized by rising current account surpluses. The changes that we are witnessing today will undoubtedly have far-reaching implications, even if their full effects are difficult to forecast with any precision.

As all international business is associated with significant risks, there are bound to be many failures. However, failures are also a way to gain experience. Among the main challenges for these emerging TNCs to better manage their international operations is to find the right human resources. Many studies have reported shortage of talent as one of the key obstacles facing managers of these companies. Management training needs to be placed high up on the agenda as policymakers in the new home countries define their education priorities for the coming years.

In fact, policymakers in countries at all levels of development need to pay greater attention to the emergence of new sources of FDI with a view to maximizing the developmental impact of this recent phenomenon. There is scope for policymakers from developing and transition economies to share experiences in this area – within as well as across regions. South-South cooperation between host and home countries may enhance opportunities for cross-border investments and contribute to their mutual development. There is a similar need for an enhanced South-North dialogue with a view to raising awareness and improving the understanding of the factors that determine FDI from the South and of their potential impacts. UNCTAD, other international organizations as well as the academic community can play an important role in this context by providing analysis, technical assistance and, not least, forums for an exchange of views and experiences.

For the world as a whole, it is important to make the process more inclusive. Too many people around the world may not yet see many benefits from globalization. It is furthermore essential to explore ways to avoid that the focus on productive efficiency clouds other essential objectives such as alleviating poverty, protecting human rights and fighting climate change.

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