
Karl P. Sauvant, Columbia University

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This widely acclaimed annual series is the most authoritative source of information on trends in foreign direct investment (FDI) flows, on merger and acquisition activities and on the scale and scope of transnational corporations (TNCs). It is also an essential research tool for government officials, foreign investors, international financial institutions, journalists, academics and others interested in FDI.

The World Investment Report 2003 (WIR03) is divided in two parts. The first offers data and analysis on FDI flows. The second part, as indicated by its subtitle, is devoted to FDI policies for development.

FDI flows declined by 20% in 2002. According to the Report, the impact of this downturn was uneven. Among developing countries, the worst hit region was Latin America and the Caribbean. In Africa, after some adjustments, there was no significant decline. In Asia the decline was small, but this was largely due to a record inflow of $53 billion into China. It is likely that, in the near future, FDI will bounce back, fuelled by a recovery of economic growth, an increase in corporate profitability and a revival of merger and acquisition activities. What is uncertain, however, is whether FDI will continue to gravitate around a handful of successful economies in the developed and developing world, or whether it will spread to countries that, so far, have been unable to attract it. The revival of global FDI will inevitably raise two questions that have a
long pedigree among development practitioners: what should countries do to attract FDI and how should they ensure that FDI contributes to economic development?

Although it is generally accepted that individual countries do not control all the factors that drive the growth and location of FDI, there is much that governments can do to enhance the prospects of attracting it. Governments in the developing world are fully aware of this fact. As WIR03 shows, despite the decline of FDI in 2002, investment liberalization has continued at a vigorous pace. A survey of 70 countries shows that nearly all of their 248 regulatory changes in investment regimes were designed to increase and facilitate FDI inflows. Developing countries thus seem to recognize that a sound institutional framework is necessary for attracting investment.

What is less certain, however, is whether governments in the developing world can successfully achieve the right policy mix so that FDI inflows make an effective contribution to national development objectives. Thus, the decision of the editors of this Report to devote the second Part of this work to FDI policies for development is wise and timely. Unfortunately, the focus of the materials in this Part is not as comprehensive as suggested by the Report’s subtitle. Within this framework, the stated objective is to understand development related issues that countries should take into account when they negotiate international investment agreements (IIAs). Thus, instead of a substantive discussion of development strategies and FDI, this Part is mainly devoted to a technical analysis of IIAs – a term that includes bilateral investment treaties, plurilateral investment agreements contained in various regional trading agreements, such as the North American Free Trade Agreement (NAFTA) and the Southern Common Market (MERCOSUR), and the network of double taxation agreements.

WIR03 identifies eight key issues in the negotiation of IIAs: definition of investment, national treatment requirement, rules on nationalization and expropriation, dispute settlement procedures, performance requirement provisions, investment
incentives, technology transfer and competition policy. These areas are rightly identified as critical since the capacity of countries to attract FDI is generally measured by their willingness to make credible concessions that will enhance the legal, political and economic security of foreign investors. Thus, for example, countries are generally expected to sign up to agreements that contain broad definitions of investment and strict rules on expropriation or measures tantamount to expropriation. They are also expected to remove foreign investment disputes from the jurisdiction of local courts. The Report, though not hostile to investment liberalization, suggests that when developing countries negotiate investment agreements they should ensure that concessions made in any of these eight policy areas are in tune with national development strategies. In other words, they must ensure that their foreign investment policies are closely linked to their development objectives.

It is difficult to disagree with the proposition that FDI policies should have a development-orientated approach and that, ultimately, a balance should be struck between the concessions countries make in the area of FDI and national development policies. It is also difficult to disagree with the argument for development friendly solutions. Yet, WIR03 does not address the crucially important question: what is a development friendly solution? It could well be argued that an answer to this question is found in the prevailing economic policy paradigm, as embodied in the so-called Washington consensus. Yet, if this is the case, then advice to governments should be that they subordinate national development priorities to the priorities of foreign investors, as otherwise they would be erecting undesirable barriers to the process of investment liberalization. Under the Washington consensus paradigm the way to achieve positive development outcomes is through full and unimpeded liberalization.

The authors of the Report do not appear to share such optimistic views about the virtues of unchecked liberalization. They are especially concerned that, in many areas of policy, IIAAs seem unduly to restrict government choices. Thus, WIR03
advises developing countries to find a balance between liberal FDI policies and their national development objectives. But calling for a balance is far too vague to be helpful. How, in the absence of a substantive set of development objectives, can governments find this balance? How does the balance metaphor help government officials, who are under constant and intense pressure to accept ever more comprehensive commitments that restrain their policy-making capacity not only in the area of investment, but in virtually every policy area that has a bearing on international economic relations?

Despite minor technical differences – all superbly identified and analysed in *WIR03* – investment agreements are remarkably similar. As a consequence, the scope that countries have to negotiate “development friendly” agreements is indeed limited. This is reflected in the modest and somewhat disappointing recommendations that the *Report* offers to those involved in the negotiation of IIAs. In the area of services, for example, *WIR03* suggests that countries should liberalize slowly, adopting the cautious positive list approach of the General Agreement on Trade in Services rather than the wider, or negative list, approach found in some regional trade agreements where parties are required to identify the specific sectors that they are not liberalizing. In the area of performance requirements, *WIR03* suggests that developing countries should be given more scope to decide for themselves the costs and benefits of liberalization.

The authors of the *Report* are rightly concerned that IIAs restrict the scope for policy-making at the national level. This is why they are keen to ensure these agreements do not restrict the capacity of governments for independent policy development. Yet, it is not self-evident that having more space available for policy-making is necessarily a good thing. The important question is whether and how, under the prevailing development paradigm, national priorities can be successfully linked to FDI.

The *Report’s* excellent analysis of IIAs demonstrates, paradoxically, that tinkering with the clauses in IIAs will not resolve the strategic question as to how FDI can further development objectives. Yet, this Part of *WIR03* also shows the
importance of understanding the architecture and content of IIAs. IIAs can and do have a major impact on policy. This is the case, for example, of the so-called “regulatory takings”. These are legislative or administrative decisions that may be deemed to be inconsistent with commitments undertaken by governments under IIAs. In the past, these measures were known as “creeping expropriation”; that is, measures that ostensibly seek a public policy objective, but which, according to TNCs, have the effect of depriving foreign investors of their property. In recent years, this issue has become a matter of serious concern among NAFTA countries. TNCs based in the United States and Canada have invoked the investment provisions of the NAFTA Agreement to challenge a wide range of government regulations including some that are only remotely connected to investment. The irony of this development is that while these international investment rules were meant to restrain Mexico, foreign investors have instead used them mainly to target decisions by the Governments of the United States and Canada.

The tendency of foreign investors to make claims under investment agreements that have the effect of restricting national policy choices has brought into sharp focus the nature and adequacy of dispute resolution mechanisms. Under most investment agreements, the decision as to whether a specific government measure constitutes creeping expropriation or a regulatory taking is entrusted to arbitrators who are experts in international commercial law and with generally little knowledge of local political and legal issues. This raises the question as to whether dispute resolution mechanisms in IIAs can ever become “development friendly”. Thus, not surprisingly, some have floated the idea of setting up an appeals procedure, modelled on the Appellate Body of the World Trade Organization, in order to ensure not only consistency in the interpretation of IIAs, but also to ensure that public policy considerations are duly taken into account.

Recent practice under IIAs has also exposed the fragile legal foundations of the current process of economic globalization. Those who are not familiar with the intricacies of international law will be surprised to learn that, despite the
intensity of the current process of globalization, the meaning of such fundamental concepts as international law and customary international law is highly disputed and nebulous. Here again, the experience of NAFTA is revealing. In an attempt to contain the flood of complaints brought by TNCs, the NAFTA governments were forced to issue an interpretation of some key concepts contained in NAFTA’s investment chapter. This interpretation restricts the scope of customary international law. It also states that the minimum standard of treatment guaranteed by NAFTA does not protect foreign investors from breaches of NAFTA provisions that are unrelated to investment, or from the breach of provisions in other international treaties binding on NAFTA parties. This interpretation undoubtedly has the effect of enhancing the policy-making space of national governments. On the other hand, it is also an implicit rejection of the much flaunted notion that globalization forges broad and unavoidable linkages.

The study of IIAs shows that national governments confront numerous constraints in the formulation of national policies for development. The materials in the second part of WIR03 make a useful contribution towards understanding the nature and extent of these constraints. Yet, much work remains to be done. I hope UNCTAD and the team that produces the World Investment Report continue to take seriously this important dimension of foreign investment policy.

Julio Faundez
Professor of Law
University of Warwick
Coventry, United Kingdom
The Future of the Multinational Company

Edited by Julian Birkinshaw, Sumantra Ghoshal, Constantinos Markides, John Stopford and George Yip
(Chichester: Wiley, 2003), 282 pages

Like most books about the future, this book is also very much about the past and the present as it sets out to present a microcosm of the global economy and its key player, the transnational corporation (TNC). It is probably helpful to know that that book initially came into being as a Festschrift for John Stopford. Since a Festschrift is generally intended for a small, if devoted, readership, the editors have made substantial efforts to broaden the appeal of the book beyond this group. The chapters are stripped of excessive weight by containing few, if any, references, and they are aimed at an informed generalist readership. In some cases the required transformation has resulted in a somewhat simplified version of an academic paper, but in most cases the transition is quite successful and the resulting chapters are very readable and thought-provoking. Given the number of chapters, 18 in total, and the origins of the book as a Festschrift, it is probably not reasonable to expect an overarching chapter that would join together all the contributions. While there is indeed no such integrative chapter, there is an attempt to divide the book into three themed sections, following the titles of three of the most influential books by Stopford: Rival States, Rival Firms; Managing the Multinational Enterprise; and Rejuvenating the Mature Business.

At the beginning of Section One, Louis Turner reminds us that, while TNCs are increasingly political animals, they are not so ferocious that they could not be held in check by competent governments. In the following chapter, John Dunning echoes the sentiment that business should not be left to regulate itself, but he calls for more attention to be paid to the moral underpinnings of capitalism, not just at the national but also at the individual level. This is followed by Örjan Sölvell, who presents the most lucid and de-mystified account of the
connection between modern knowledge-intensive TNCs and their location choices that one is likely to encounter anywhere. Finally, in chapter four, Alan Rugman and Alain Verbeke deliver their by now familiar argument that the world’s largest TNCs are in fact regional rather than transnational, whether measured in terms of their sales, assets or employment abroad.

In Section Two, eight chapters tackle the structural issues within TNCs and the global-local dilemma. The trio of chapters by Lawrence Franko (chapter eight), Julian Birkinshaw and Siri Terjesen (chapter nine) and Eleanor Westney (chapter ten) are particularly enjoyable as they all deal with the structural transformation of some of the transnational causes célèbres, such as ABB, IBM and Hewlett-Packard, and their eventual retreat away from global matrixes towards simpler forms. These chapters are very provocative in posing the question of the extent to which structure is indeed a design variable. Given the idiosyncrasies of each business sector and the location preferences of global customers, how many degrees of freedom are there left for large TNCs to choose their form? The most recent structural solution involving front-end and back-end divisions solves much of the global-local dilemma, but at the cost of splitting the organization into two or more parts, and once again raising the question of how the organizational boundary should be drawn. If the front-end is where the “rubber hits the road”, populated with dedicated teams who respond to the customers’ needs and deliver tailored solutions, while the back-end is a mixture of production and logistics with increasing degrees of outsourcing, it is not always obvious why one firm should maintain control of both parts.

Section Three presents another interesting trio of papers by John Stopford and Charles Baden-Fuller (chapter thirteen), Sumantra Ghoshal and Heike Bruch (chapter fourteen) and Peter Williamson (chapter fifteen) on the subject of exploring, prospecting, sensing and identifying new markets and opportunities. All three chapters paint a picture of corporate transformation as a process that relies heavily on the personal leadership of top management. In addition to possessing
enthusiasm and projecting an inspiring vision for others to follow, all of these top managers act as entrepreneurs in the market making sense of Mark Casson (2003). Such entrepreneurial talent is a scarce factor, and it is not surprising that even firms that have managed to rejuvenate themselves in the past eventually find it necessary to do so again. It seems that inertia is always just around the corner, and Costas Markides argues, in chapter sixteen, that large TNCs should not even attempt to stay at the leading edge of innovation, but rather counteract the smaller innovators with improvements to their core product or service. Similarly, Williamson argues that since commercialization is what large TNCs are particularly well suited for, they should cultivate new growth opportunities as a portfolio of options, ranging from the idea stage to small scale pilot projects of a new product or service.

In reading through the volume, two themes in particular resonated with me, namely that TNCs face a more complex regulatory, political and social environment and not just increased product market diversity, and that geography matters even if you do not want it to matter. This is partly because of technological change in the global economy over the past few decades, but it is also due to the unique role of the (very) large TNCs in the political economy of their home and host markets.

The Fortune Global 500, which include many of the firms discussed in this book, are a curious group of firms. The majority of these giants have their origin (in whole or in part) in the late nineteenth century, and their structural evolution is linked to the historical development of global capitalism, as described by Alfred D. Chandler (1990). These are rather conventional large firms with a heavy reliance on regional sales and production. It is unquestionable that today such firms face acute pressures to develop more customer-oriented organizations. But in contrast to their medium-sized or even smaller transnational brethren, they also have a life force that is at least in part derived from market dominance and cash reserves, at least if they have restrained the urge to overspend on corporate acquisitions. While large TNCs are trying to find their entrepreneurial essence and
prospect for new value-added combinations to present to the customer, they are being challenged by "dragon multinationals" (Mathews, 2002) and metanationals, as described in the chapter by Yves Doz, Jose Santos and Peter Williamson (chapter twelve). In spite of having arrived late on the global scene, these new TNCs are able to tap into various resources around the world with great agility.

As the chapter by Dunning shows, many of today's hot-button issues, such as concerns over working conditions in sweatshops, are remarkably similar in comparison to the Victorian era. But there is a key difference: just as the new technologies of transportation, communication and computing have transformed production, they have transformed civil society as well. And it is the size and visibility of the established TNCs that make them most relevant in the discussion concerning political legitimacy, and wider concerns about the consequences of globalization. Large TNCs may well find that, unlike many product markets, legitimacy is local, and geography matters when it comes, for example, to decisions on whose standards should apply.

In his concluding remarks, Stopford notes that "senior managers in multinationals will become part of the new diplomacy" and that "governance issues are moving center stage, both inside the firm and between firms and society" (p. 241). The personal example of leadership and self-reliance of top management may well inspire the organization to rejuvenate itself, but moral leadership is also required to acquire legitimacy and to fulfill the expanded political role of TNCs in the global economy. While research is just beginning to come to grips with the new role of TNCs in issues such as the setting and upholding of environmental standards in the global economy (e.g. Lundan, 2004), managers are not necessarily very keen on this challenge, and business schools have done little so far to prepare them for their new role.

Even readers who are reasonably familiar with the international business literature will have many discoveries in
this book, and I particularly welcome the opportunity given to the authors to express some broader thoughts on the evolution of the global economy. To the non-specialist reader, the book offers a wealth of useful information in a concise manner, and I can see it being used very successfully as a primer for discussions in executive education programmes, for instance. This book is a commendable use of the occasion of a *Festschrift* to present an interesting collection of writings that is relevant to academics but also to a much wider audience.

**Sarianna Lundan**  
University of Maastricht  
Maastricht, the Netherlands


