TNCs

- Transnational corporations:
  - Parent Company
    - Parent Companies *control* assets in other countries
    - Controlled – at least 10% of voting power
  - Affiliates
    - Subsidiary: 50% is controlled by another firm
    - Associate: 10% is controlled by another firm
    - Branch: Wholly or jointly owned unincorporated enterprise
FDI

- Foreign Direct Investment: A long term relationship between an investor or enterprise in one country and an enterprise is a foreign country
- What's Included?
  - Equity Capital: owning shares of a foreign company
  - Reinvested Earnings: Earnings not redistributed to investors
  - Intra-company loans: Borrowing and lending between parents and affiliates
- Greenfield vs. merger and acquisition
But how big is it?

- 500 largest TNCs control ½ of global trade; 1/5 of GDP
- Majority of trade is intra-firm
  - 80% of US-Japan trade is between parent and affiliate
- Majority of business is in local country, ...
  - In 1998: sales of MNCs: 11 trillion; total world exports: 7 trillion
- But sales can be huge!
  - Walmart would be 20th largest country (Sweden)
  - GE would be 39th (Portugal)
Most inflows are to Developed Country (380b vs. 233b., and 96b. to US96)...
- Inflows to US only 0.8% of GDP
- But they can be important to developing countries
- 15% of fixed capital formation in Latin America due to FDI
Why?

- Foreign Target Markets:
  - Tariff and quota avoidance
  - Transportation cost reduction
  - Services (often difficult to export)
  - Technology spillovers
  - Result, large countries are gaining: China, India, Brazil
Why

- Cheap inputs (labor and resources)
  - Likely if production can be separated
  - Example: VW moving to assembly to E. Europe; motherboard assembly in Asia
- Internalization
  - Catch-all phrase for “do-it-yourself”
  - Sometimes difficult to get licenses to sell or trade technology
  - Licensing involves divulging technology
  - Easier to monitor and enforce quality standards
- Monetary Hedging
  - Toyota wants to avoid yen-dollar fluctuations
Final Points

- Flows are figures are significant
- Much of flow is acquisition, not new development
- A large portion of trade, ...
- But most of industry remains local
- Still account for only a small share of investment
- Not yet poised to take over the world