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Foreign Direct Investment

The export of capital influences and greatly accelerates the development of capitalism in those countries to which it is exported.

Typical of the latest stage of capitalism, where monopolies rule, is the export of capital.

—Vladimir Lenin, 1916[1]

Foreign direct investment (FDI) stirs strong emotions in both home and host (recipient) countries. In home countries these emotions range from fear that firms that invest abroad lower domestic wages, destroy local jobs, and erode technology leadership to the belief that firms must invest abroad in order to remain competitive in an increasingly global environment. In recipient countries, some insist that FDI accelerates economic development by bringing new capital and technologies, while others fear the effects of foreign control of local factors and assets and expect multinational corporations (MNCs) to exploit their size and power to destroy local firms, create economic dependence, and threaten local culture and sovereignty.

In the last two decades, proponents of FDI seem to have gained the upper hand. Worldwide flows of direct investment grew from $57 billion in 1982 to nearly $1,200 billion in 2007. Governments in both developed and developing countries have not only reduced barriers to FDI, but have also offered special incentives to attract foreign firms.

This note briefly reviews motivations and trends of multinational corporations that engage in foreign direct investment as well as the policy debate that surrounds FDI.

Definition and Motivation for Foreign Direct Investment[2]

When a foreign investor purchases a local firm's securities or bonds without exercising control over the firm, that investment is regarded as a *portfolio investment.* When a foreign investor begins a greenfield operation (i.e., constructs new production facilities) or acquires control of an existing local firm, that investment is regarded as a *direct investment*. Since control can be exercised in many ways, the measurement of FDI poses some difficulties. The International Monetary Fund, the United Nations Conference on Trade and Development (UNCTAD), and the U.S. Department of Commerce, among other organizations, classify an investment as direct if a foreign investor holds at least 10% of

[1] Vladimir Lenin, *Imperialism, the Highest Stage of Capitalism* (Indianapolis, IN: Pegasus, [1916] 1968), pp. 127, 129.

[2] The scholarly literature on FDI and multinational corporations is vast and has been surveyed many times. For recent surveys see John H. Dunning, *The Globalization of Business* (London: Routledge, 1993); and Richard Caves, *Multinational Enterprise and Economic Analysis* (Cambridge, U.K.: Cambridge University Press, 1996). See also Debora Spar, "Note on Foreign Direct Investment," HBS Note No. 795-031 (Boston: Harvard Business School Publishing, 1995). For recent trends, see United Nations Conference on Trade and Development (UNCTAD), *Trade and Investment Report* (United Nations, 2001).

Professor Laura Alfaro and Research Associate Esteban Clavell prepared this note as the basis for class discussion.

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a local firm's equity.[3] This arbitrary threshold is meant to reflect the notion that large stockholders, even if they do not hold a majority stake, will have a strong say in a company's decisions and participate in and influence its management.

Regardless of measurement difficulties, it is this desire to achieve partial or complete control over the activities of a firm in another country that distinguishes FDI from portfolio investment. An MNC, sometimes referred to as a transnational corporation (TNC), is a firm that owns and controls production facilities or other income-generating assets in at least two countries.

MNCs vary in size, sectors in which they operate, and organizational structures. Firms can invest abroad to serve a market directly; gain access to a supply of inputs, raw materials, or labor; increase operational efficiency; or simply preempt competitors' acquisitions of strategic assets.

However, the fundamental question underlying FDI activities is: Why would an investor be willing to acquire a foreign firm or build a new factory abroad? After all, there are added costs of doing business in another country, including communication and transport costs, higher costs of stationing personnel abroad, and barriers due to language, customs, and exclusion from local business and government networks. In fact, not all firms are multinationals, and while many countries attract and possess many MNCs, other countries neither possess nor attract MNCs.

The answer may seem like the logical extension of a company's pursuing profits in another country: either because it expects larger annual cash flows or a lower cost of capital than the domestic firm. But how can a foreign firm be able to offset successfully the domestic advantage afforded by a local firm's superior knowledge of the market, legal and political system, language, and culture?

One explanation, known as the cost-of-capital theory, is that foreign firms, because of their size or structure, have access to lower-cost funds not available to local firms. This approach, however, has several serious shortcomings. If lower cost of capital were the only advantage, why would a foreign investor endure the troubles and headaches of operating a firm in a different political, legal, and cultural environment instead of simply making a portfolio investment?

Further practices by investors undermine the notion of regarding FDI flows as mainly a way to take advantage of differences in rates of return across countries. Evidence shows that investors often fail to bring all the capital with them when they take control of a foreign company; instead, they tend to finance an important share of their investment in the local market. Moreover, FDI flows, in particular those among developed countries, proceed in both directions and often in the same industry. As MIT economic historian Charles Kindleberger noted, "direct investment may thus be capital movement, but it is more than that."[4]

A more broadly accepted framework derived from the industrial organization literature suggests that firms engage in FDI not because of differences in the cost of capital, but because certain assets are worth more under foreign than local control. An investor's decision, then, to acquire a foreign company or build a plant instead of simply exporting or engaging in other forms of contractual arrangements with foreign firms involves three interrelated aspects: ownership of an asset, location to produce, and whether to keep the asset internal to the firm. First, a firm can possess some *ownership advantage*—a firm-specific asset (such as a patent, technology, process, or managerial or organizational know-how) that enables it to outperform local firms. Second, *locational factors*—such as opportunities to tap into local resources, provide access to low-cost inputs or low-wage labor, or

[3] Note that there is no international consensus on the minimum stake needed to acquire control. In the United Kingdom the percentage is 20%, and in Germany 25%. In addition, countries have changed their definitions over time. Before 1980, for example, Japanese data assumed a 25% minimum stake; after 1980 it decreased to 10%.

[4] Charles P. Kindleberger, *American Business Abroad* (New Haven, CT: Yale University Press, 1969), p. 3.

bypass tariffs that protect a market from imported goods—can also lead to the decision to invest in a country rather than serve the foreign market through exports. Third, the *internalization* of global transactions may be preferable to the use of arm's-length market transactions.[5] In general, the more "imperfect" a market is, the higher the transaction costs and the greater the benefits of internalizing rather than, for example, establishing a partnership or joint venture with a local firm or simply licensing the asset to a domestic firm.

According to this view, the genesis of FDI is the possession of some intangible asset such as technology and know-how that constitutes a potentially important gain for the host country and suggests that FDI can play an important role in modernizing and promoting economic growth in the host country. However, this also means that there might be offsetting costs to the host country. After all, a foreign firm will seek to use this special asset to its advantage and to exploit the monopoly power derived from it. This might result in the transfer of rents away from host-country firms, which may have negative long-term effects on the indigenous base of the economy.

Evolution of International Business and Attitudes toward FDI[6]

The most important driver of FDI flows, in addition to the macroeconomic environment and technological advances, is the attitude of host countries regarding FDI's potential costs and benefits. Policy instruments (trade barriers, direct restrictions against foreign control of local resources or sectors, incentives) have paralleled the prevailing political mood regarding FDI. Over the last century, these attitudes have exhibited remarkable swings.

International investments were already beginning to emerge by the nineteenth century. British firms operated Brazilian gold mines as early as the 1820s; the German conglomerate Siemens made important investments in Russia during the 1850s. However, FDI volumes were still insignificant relative to total economic activity.

International direct investments exploded from the 1880s until the early twentieth century, boosted by economic growth and improvements in transportation and communications and becoming heavily concentrated (55%) in natural resources such as petroleum, coal and iron, and agricultural products. (See **Exhibit 1**.) FDI also became highly concentrated by country of origin and destination. The United Kingdom, the United States, Germany, and France accounted for nearly 85% of outward FDI, while Latin America and Asia, with their abundant natural resources, received almost 55% of inward FDI. Throughout this period, governments did not attempt to control or restrict international private transactions in any systematic way. FDI enjoyed a liberal business environment until the late 1920s.

World War I and the nationalization of foreign property in Russia in 1917 dealt heavy blows to FDI, but it was the onset of the Great Depression in 1929 that marked the end of its golden era. Economic stagnation in the world economy and the breakdown of the international financial system reduced the number of attractive investment opportunities. More importantly, receptivity toward FDI declined during the 1930s, and restrictions increased worldwide as governments became concerned about FDI's potential impact on their economies and national sovereignty. Mexico, for

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[5] This approach to the theory of the multinational firm is also known as the OLI framework. See John H. Dunning, *International Production and the Multinational Enterprise* (London: George Allen and Unwin, 1981).

[6] For a historical overview of international business, see Geoffrey Jones, *The Evolution of International Business* (London: Routledge, 1996). On the policy debate, see Edward M. Graham and Paul Krugman, *Foreign Direct Investment in the United States* (Washington, DC: Institute for International Economics, 1995); and Robert Gilpin, *The Challenge of Global Capitalism: The World Economy in the 21st Century* (Princeton, NJ: Princeton University Press, 2000), chap. 6.

example, expropriated the foreign oil industry in 1938. Developing countries, seeking to regain control of their natural resources, denounced the "extractive" nature of FDI, reflecting multinationals' large involvement in the exploitation of natural resources.

Receptivity toward FDI declined even further after World War II following the spread of communism. In this period, attitudes toward FDI were shaped by ideological support for government intervention in the economy in general. Communist countries excluded foreign firms altogether; developing countries began to regulate foreign capital and restrict activities in sectors considered to be in the national interest. Waves of nationalization of key industries followed World War II not only in developing countries but also in European countries such as France and the United Kingdom. Meanwhile, Japan, for example, systematically discouraged inward FDI and managed to restrict it to low levels. FDI activity declined dramatically worldwide.

In the 1960s, a slow resurgence of FDI was largely due to a positive macroeconomic environment. This new wave of FDI, in contrast with that at the turn of the century, was concentrated in manufacturing and in developed countries, with Western Europe, the United States, and Canada accounting for nearly two-thirds of inward FDI. (See **Exhibit 1**.) This shift reflected the declining importance of raw materials in the world economy and the emergence of new market-oriented strategies in the more prosperous developed countries. It was also a consequence of the still-hostile environment that FDI faced in many developing countries. Some manufacturing MNCs, nevertheless, found new opportunities in countries following import-substitution development strategies. With tariff levels kept high to protect domestic industries, some countries allowed MNCs to pursue "tariff jumping" investments and set up factories to cater to the local markets.

Foreign firms' shift from commodities to manufacturing, however, sparked new waves of criticism. Critics argued that foreign firms tended to monopolize rather than diffuse their know-how and that the capital and technology they brought were unlikely to have positive effects on local development. Others argued that MNCs favored imported inputs over locally produced ones, with a consequent negative effect on the trade balance. Critics also maintained that functions with positive externalities such as research and development (R&D) were kept at headquarters, thereby limiting technology transfer and, in the case of international acquisitions, potentially destroying local know-how. Moreover, MNCs were seen to have the undesirable ability to influence local consumption patterns and, protected from local taxation by questionable transfer-pricing practices, exploit their market power to extract huge profits.

Some critics went so far as to assert that MNCs were the main cause of Third World poverty. The dependency theory, which originated in Latin America and swept the world in the 1970s, accused multinationals of being imperialist predators that exploited developing countries. "For every dollar invested by MNCs in the Third World," they argued, "more than one dollar returned to the metropolis in the form of repatriated profits and royalties."[7] Moreover, dependence on MNCs, they claimed, imposed limits on national policies, as governments were restricted by the need to maintain good "investment climates."

Outward FDI was also criticized, as it was construed to be responsible for unemployment and obsolescence of labor in home countries. Others argued that the mobility of FDI reduced labor's bargaining power and led to good jobs with high wages, benefits, and job security being replaced by jobs with low wages and little stability.

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[7] Ian Roxborough, *Theories of Underdevelopment* (London: Macmillan, 1979), p. 58. See also Fernando H. Cardoso and Enzo Faletto, *Dependency and Development in Latin America* (Berkeley, CA: University of California Press, 1979).

The 1970s and early 1980s were once again difficult times for FDI. Surging oil prices and the debt crisis in developing countries slowed FDI flows. Both developing and developed countries questioned the merits of FDI. The debate in the United States, for example, reached its climax in the middle of the 1980s, as Americans feared the massive flows of Japanese FDI into the country. These concerns even filtered into popular culture: movies such as *Black Rain* and *Rising Sun* portrayed Japanese FDI as sinister. With Japan accounting for 10.5% of global FDI outflows but less than 2.5% of inflows, U.S. businesspeople complained that the United States kept its borders open to Japanese MNCs even as Japan remained largely closed, giving Japanese firms strategic advantages such as economies of scale and scope that could eventually enable them to drive U.S. firms out of the world markets.[8]

But after decades of skepticism, the pendulum swung in favor of FDI in the late 1980s as a broad consensus began to emerge regarding FDI's potential benefits to host economies. FDI began to be portrayed as a means to improve the well-being of the societies in which it operated through the provision of capital, technology, and know-how.

What explains this change in attitude? First, the 1980s debt crisis had severed developing countries' access to credit and portfolio investment. Moreover, the industries in which MNCs were now active—high technology and services—made FDI far more attractive. Finally, the fall of the Soviet bloc reinforced the perception that closed economies and state intervention in economies had failed. As relations improved between MNCs and host countries, governments began to ease restrictions on FDI and increasingly offer incentives in an effort to attract investment and be integrated into the globalized economy. Perhaps one of the most dramatic policy changes occurred in China, as the government gradually opened the domestic market to foreign companies.

During the 1990s, FDI soared, growing more than 20% per year driven by more than 60,000 MNCs with more than 800,000 international affiliates. This recent surge of FDI had its own distinctive characteristics. More than 50% of new investments were in the service sector, and cross-border mergers and acquisitions (M&A) became the main driver of FDI activity. (See **Exhibits 2** and **4**.) Technological developments, especially in telecommunications, and increased competition fostered changes in corporate strategies and forced companies to emphasize business networks and relocate functions. By 2000, intrafirm trade among MNCs accounted for 40% of world trade. Despite a slowdown following a recession in the U.S. economy in 2001, growth of world FDI inflows had resumed by 2004. (See **Exhibit 1.**) UNCTAD forecast strong increases in FDI inflows of around 5% per year for the rest of the decade.[9]

FDI Promotion and Incentives[10]

Although some studies minimize the role government incentives play in foreign investment decisions, both developed and developing countries try to lure foreign investors by granting FDI special treatment.[11] Policies to promote FDI are designed to increase investment revenues and/or reduce costs or risks. Incentives can be fiscal or financial. *Fiscal incentives* are designed to reduce the tax burden of foreign investors. In 1998, 103 countries offered tax concessions to foreign companies

[8] For explanations of the low levels of Japan's inward FDI, see Yasheng Huang, "Note on Foreign Direct Investment in Japan," HBS Note No. 702-029 (Boston: Harvard Business School Publishing, 2002).

[9] See "Boomer Backlash" in *World Investment Prospects to 2010*, by The Economist Intelligence Unit (2006).

[10] For the debate on FDI promotion, see Louis T. Wells, Jr., and Alvin Wint, *Marketing a Country: Promotion as a Tool for Attracting Foreign Investment* (Washington, D.C.: International Finance Corporation, 2000); and Gordon H. Hanson, *Should Countries Promote Foreign Investment?* (New York: United Nations, 2001).

[11] Market characteristics, political factors, economic stability, and strategic considerations appear to be important determinants. See UNCTAD, *Incentives and Foreign Direct Investment* (New York: United Nations, 1996).

that established facilities within their borders. *Financial incentives* include government grants, credit at subsidized rates, government equity participation, and government guarantees. Other incentives include subsidized, dedicated infrastructure, often through duty-free export zones, and foreign exchange privileges. Some host countries require MNCs to establish production facilities in specified industries or regions. Incentives can be granted at the national, state, or municipal level. Direct subsidies are often granted case by case.

A bargaining relationship exists between a firm and host country over the negotiation of incentives. Each seeks to extract maximum concessions from the other following the "obsolescing bargain" pattern.[12] The firm is in the stronger position before an investment, when it can extract maximum concessions. But once the investment is made and knowledge about the techniques spread, the bargaining power shifts to the host country. This is particularly the case for certain projects such as mining, plantation, and infrastructure projects where the benefits of the foreign presence are no longer viewed as essential for the operation of the facility. With the shift in bargaining power, an FDI project can be affected by noncommercial risks such as expropriation, political violence, and breach of contract.

In an effort to minimize these risks, many investors establish relationships (joint ventures, licensing agreements) for the purpose of sharing market knowledge and creating interdependencies with local players. Many investors also purchase political risk insurance from private insurers, who tend to focus on the short to medium term (up to three years); and from export credit agencies (ECAs) and the World Bank's Multilateral Investment Guarantee Agency (MIGA), which cover riskier investments with longer durations.[13]

However, the more conducive environment for FDI has sparked a new debate about the concessions offered to foreign firms. Does FDI warrant special treatment over other forms of investment? If foreign capital is more mobile than local, it could be argued that governments might want to tax income from foreign capital, both FDI and portfolio investment, at lower rates. In general, however, economists argue that for FDI to merit special treatment over other forms of investment, there needs to be some form of market failure such as externalities and spillovers.

Advocates argue that FDI, by its very nature, has important positive effects on host economies beyond the direct capital financing it supplies and the jobs it creates. FDI can help to introduce new processes, managerial skills, and superior know-how into the domestic market while promoting international production networks and access to foreign markets, all of which create valuable productivity spillovers. Increased competition arising from the entry of foreign firms might force local firms to modernize, introduce new technologies, and become more efficient. FDI might also foster linkages with local firms and help jump-start an economy.[14] Finally, countries might want to pursue FDI because of its lower volatility compared with that of portfolio investment flows.

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[12] For more on the perils of the obsolescing bargain and the risk FDI faces in infrastructure investment, see Louis T. Wells and Eric S. Gleason, "Is Foreign Infrastructure Investment Still Risky?" *Harvard Business Review,* September-October 1995.

[13] MIGA's insurance services, initiated in 1988, are available to investors in all MIGA-member nations (a total of 154 in 2000). In 2001, MIGA insured up to $200 million, 95% of the value of the investment, and up to 40 years. See www.miga.org. In the United States, the Overseas Private Investment Corporation (OPIC) underwrites political risk insurance for U.S. corporations that invest abroad. In 2001 OPIC insured up to $250 million and 20 years, covering 90% of the cost of an investment. See www.opic.gov. In addition to OPIC, there are 18 other ECAs representing 16 industrialized countries.

[14] For an overview of the economics literature on FDI spillovers, see Magnus Blomstrom and Ari Kokko, "Multinational Corporations and Spillovers," *Journal of Economic Surveys*, vol. 12, no. 3 (1998): 247–277. On linkages, see Andres Rodriguez-Clare, "Multinationals, Linkages and Economic Development," *American Economic Review,* vol. 86, no. 4 (1996): 852–873; and Laura Alfaro and Andres Rodriguez-Clare, "Multinationals and Linkages: An Empirical Investigation," *Economia* (Spring, 2004): 113–170.

Others disagree and question whether FDI's potential benefits justify special treatment. In particular, this view has been influenced by empirical studies both at the firm and national levels that show mixed results in terms of growth-enhancing externalities of FDI. A recent survey of empirical work sponsored by UNCTAD finds little evidence that FDI generates positive spillovers in host countries and suggests that a country's capacity to take advantage of these externalities might be limited by local conditions such as infrastructure, education levels, and the policy environment.[15] In sum, generalizations are difficult to make.

Furthermore, some developing countries that have liberalized their policies toward FDI are disillusioned by foreign companies' lack of interest in tapping their markets; FDI remains concentrated in a very few of them. The top 10 developing countries (including China, Hong Kong, Brazil, and Mexico) account for close to 70% of FDI inflows to developing countries, while the 50 least developed countries account for less than 0.5% of global FDI. Sub-Saharan Africa, for example, accounts for less than 1% of total inward FDI. (See **Exhibit 3**.)

Governments continue to believe that FDI warrants special treatment. However, competition for FDI among developing countries has led to increasing concerns that benefits granted by one country—or region within a country—might trigger similar responses by other potential hosts, precipitating a "race to the bottom" that could spiral to the point that incentives granted to foreign firms exceed the social gain of FDI, thus representing a net loss for the "winning" country.

The Future of FDI

Although recent decades have seen unprecedented growth in FDI as governments in both developed and developing countries have liberalized FDI regimes, these policy changes at the national and regional level are not yet reflected at the multilateral level. Despite some bilateral and regional agreements and the partial guidelines related to investment established by the Uruguay Round in 1994, international consensus on FDI practices has yet to be achieved.

The very nature of FDI, the ownership and control of local factors, and the lack of consensus regarding FDI's benefits all limit the possibilities of an international agreement. Such a regime would require rules on right of establishment, national treatment, and nondiscrimination.[16] Moreover, an investment regime would have to deal with rules on sectors that countries tend to restrict (such as finance, culture, and national security), determining which sectors are legitimate and which are not. In the end, governments want to guarantee the best treatment for their firms that invest abroad without relinquishing national sovereignty.

More importantly, the beginning of the twenty-first century has seen a new antiglobalization sentiment and discontent with foreign corporations, which appears to be spreading rapidly. Demonstrations such as those in Seattle in 1999, Genoa in 2001, and Johannesburg in 2002 suggest some questioning of MNCs' activities and FDI. Critics once again warn against the pervasive economic, political, and cultural effects that MNCs can have and voice growing concern that

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[15] For example, whereas Richard Caves's pioneering work, "Multinational Firms, Competition, and Productivity in Host-Country Markets," *Economica*, vol. 41, no. 149 (1974): 176–193, finds positive FDI spillovers in Australia, Brian J. Aitken and Ann Harrison, "Do Domestic Firms Benefit from Direct Foreign Investment? Evidence from Venezuela," *American Economic Review*, vol. 89, no. 3 (1999): 605–618, find the net effect of FDI on productivity to be small in Venezuela. Macro-level evidence yields little support for the notion that FDI has a positive effect on growth. Hanson's *Should Countries Promote Foreign Investment?* surveys the empirical literature. See also Laura Alfaro, Areendam Chanda, Sebnem Kalemli-Ozcan, and Selin Sayek, "FDI and Economic Growth: The Role of Local Financial Markets," *Journal of International Economics*, vol. 61, no.1 (2004): 113–134.

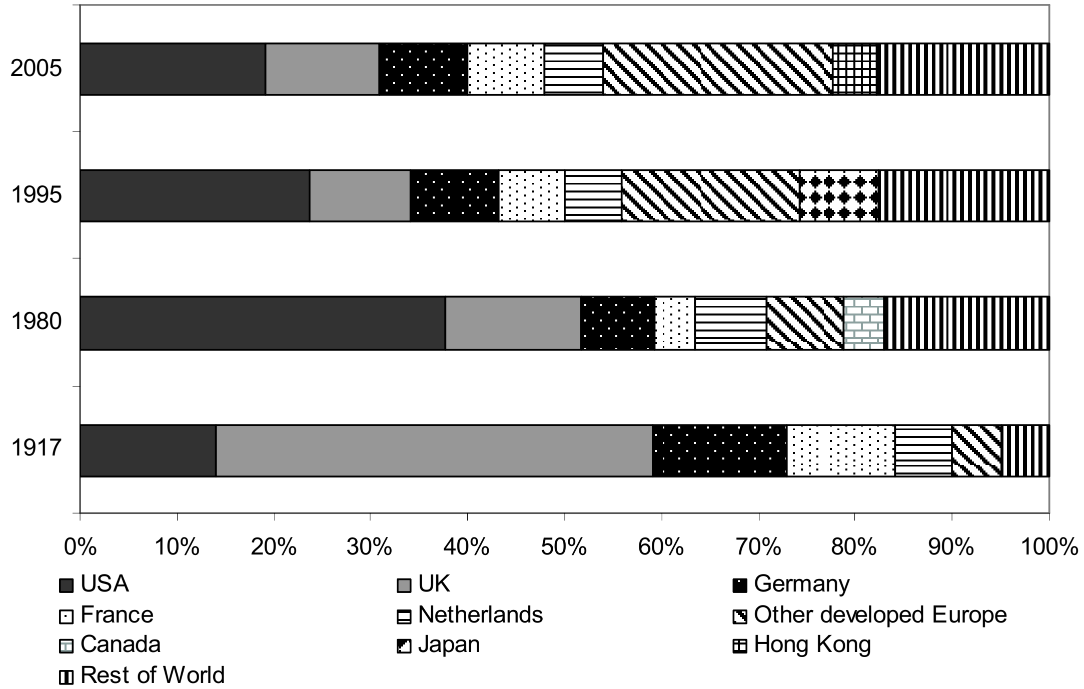
[16] The right of establishment guarantees that firms of every nationality have the right to invest anywhere in the world; the principle of national treatment requires national governments to treat the subsidiaries of foreign firms as if they were domestic; and the principle of nondiscrimination requires countries not to impose different treatments on firms from different countries.

multinationals have dwarfed the power of governments across the globe.[17] But, as *The Economist* recently noted, "None of this is new."[18]

[17] Noreena Hertz, *The Silent Takeover: Global Capitalism and the Death of Democracy* (New York: Free Press, 2001), p. 109.
[18] "The World's View of Multinationals," *The Economist*, January 27, 2000.

Exhibit 1 FDI Activity, 1917 to 2005

By Origin



By Destiny

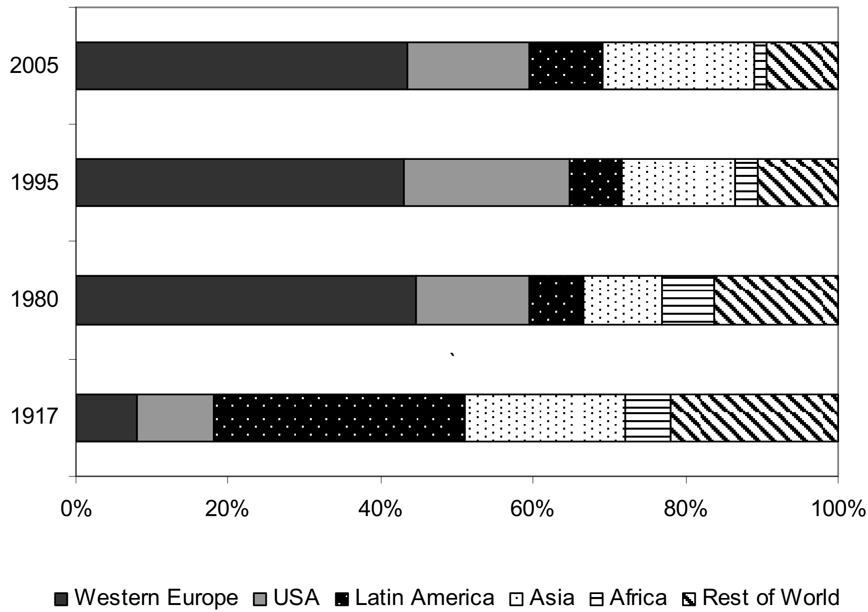
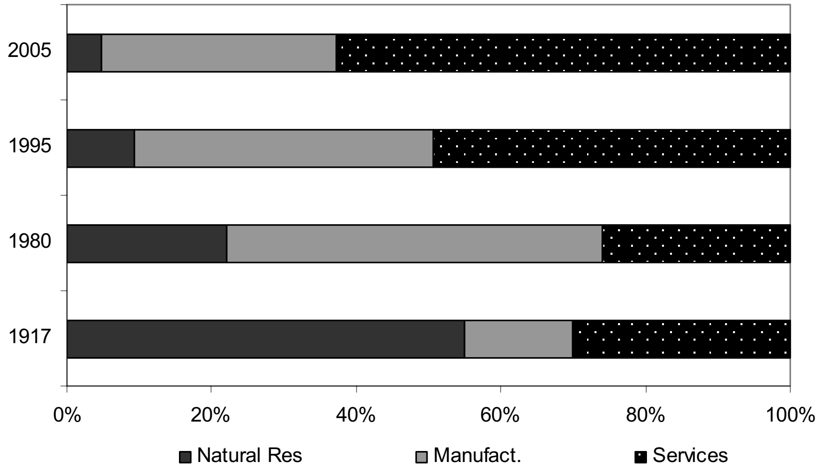


Exhibit 1 (continued)

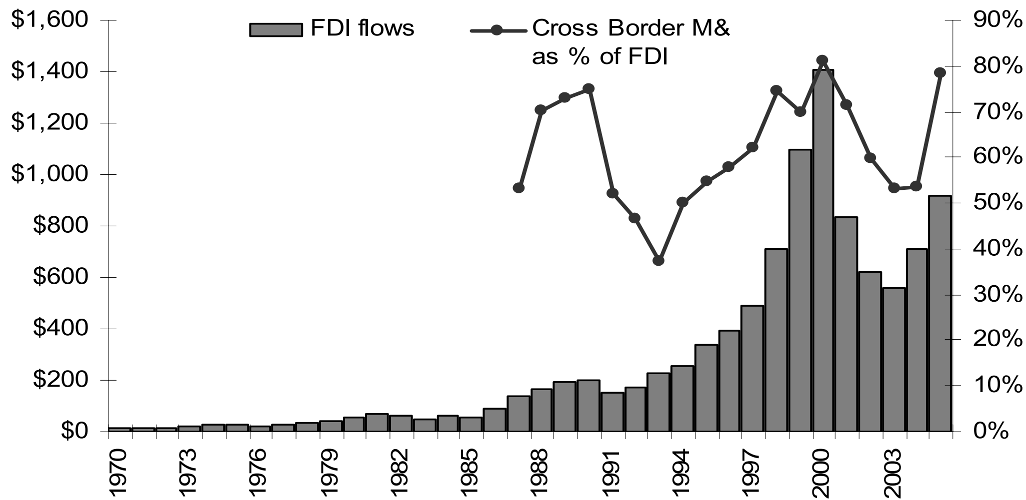
By Source



Source: Adapted from Geoffrey Jones, *The Evolution of International Business* (London: Routledge, 1996); and United Nations Conference on Trade and Development, *Trade and Investment Report* (United Nations, 2006).

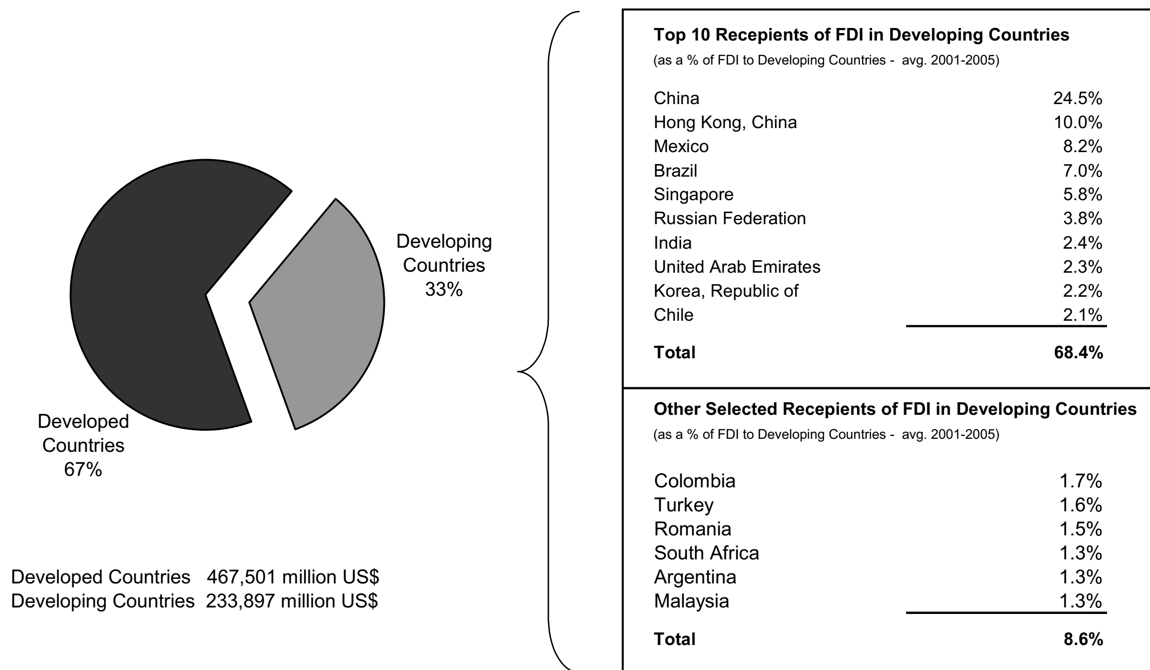
Notes: Figures expressed as % of total FDI stock.

Exhibit 2 Evolution of FDI and M&As, 1970–2005 (in billions of US$)



Source: Adapted from United Nations Conference on Trade and Development, *Trade and Investment Report* (United Nations, 2006).

Exhibit 3 Top FDI Recipients among Developing Countries (average 2001–2005)



Top 10 Recepients of FDI in Developing Countries
(as a % of FDI to Developing Countries - avg. 2001-2005)

Country	%
China	24.5%
Hong Kong, China	10.0%
Mexico	8.2%
Brazil	7.0%
Singapore	5.8%
Russian Federation	3.8%
India	2.4%
United Arab Emirates	2.3%
Korea, Republic of	2.2%
Chile	2.1%
Total	**68.4%**

Other Selected Recepients of FDI in Developing Countries
(as a % of FDI to Developing Countries - avg. 2001-2005)

Country	%
Colombia	1.7%
Turkey	1.6%
Romania	1.5%
South Africa	1.3%
Argentina	1.3%
Malaysia	1.3%
Total	**8.6%**

Source: Adapted from United Nations Conference on Trade and Development, *Trade and Investment Report* (United Nations, 2006).

Exhibit 4 The World's Largest Multinationals (2004—Ranked by Foreign Assets)

				Assets (bn US$)		Sales (bn US)		Employment ('000)	
	Corporation	**Country**	**Sector**	**Foreign**	**Total**	**Foreign**	**Total**	**Foreign**	**Total**
1	General Electric	United States	Electrical & electronic equipment	448.9	750.5	56.9	152.9	142.0	307.0
2	Vodafone Group Plc	United Kingdom	Telecommunications	247.9	258.6	53.3	62.5	46.0	57.4
3	Ford Motor	United States	Motor vehicles	179.9	305.3	71.4	171.7	102.7	225.6
4	General Motors	United States	Motor vehicles	173.7	479.6	59.1	193.5	114.6	324.0
5	British Petroleum Company Plc	United Kingdom	Petroleum expl./ref./distr.	154.5	193.2	232.4	285.1	85.5	102.9
6	ExxonMobil	United States	Petroleum expl./ref./distr.	134.9	195.3	202.9	291.3	53.0	105.2
7	Royal Dutch/Shell Group	UK/Netherlands	Petroleum expl./ref./distr.	129.9	192.8	170.3	265.2	96.0	114.0
8	Toyota Motor Corporation	Japan	Motor vehicles	123.0	233.7	103.0	171.5	94.7	265.8
9	Total	France	Petroleum expl./ref./distr.	98.7	114.6	123.3	152.4	62.2	111.4
10	France Télécom	France	Telecommunications	85.7	131.2	24.3	58.6	81.7	206.5
11	Volkswagen AG	Germany	Motor vehicles	84.0	172.9	80.0	110.5	165.2	342.5
12	Sanofi-Aventis	France	Pharmaceuticals	82.6	104.5	15.4	18.7	68.8	96.4
13	Deutsche Telekom AG	Germany	Telecommunications	79.7	146.8	47.1	71.9	73.8	244.6
14	RWE Group	Germany	Electricity, gas and water	78.7	127.2	23.6	52.3	42.4	97.8
15	Suez	France	Electricity, gas and water	74.1	85.8	38.8	50.6	100.5	160.7

The Largest Multinationals from Developing Countries (2004—Ranked by Total Assets)

				Assets (bn US$)		Sales (bn US$)		Employment ('000)	
	Corporation	**Country**	**Sector**	**Foreign**	**Total**	**Foreign**	**Total**	**Foreign**	**Total**
1	Hutchison Whampoa Limited	Hong Kong, China	Diversified	67.6	84.2	11.4	23.1	150.7	182.0
2	Petronas - Petroliam Nasional Bhd	Malaysia	Petroleum expl./ref./distr.	22.6	62.9	10.6	36.1	4.0	33.9
3	Singtel Ltd.	Singapore	Telecommunications	18.6	21.6	5.4	7.7	8.7	19.2
4	Samsung Electronics Co., Ltd.	Republic of Korea	Electrical & electronic equip.	14.6	66.7	61.5	79.2	21.3	61.9
5	CITIC Group j	China	Diversified	14.5	84.7	1.7	6.4	15.9	93.3
6	Cemex S.A.	Mexico	Construction	13.3	17.2	5.4	8.1	16.8	26.7

Source: Adapted from United Nations Conference on Trade and Development, *Trade and Investment Report* (United Nations, 2006).