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# **Globalization and World Politics**

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# **Foreign Direct Investment, Short-Term Capital Flows, Capital Controls, the Current Account, ...**

## **... and the quest for international Competitiveness**

1. What is a country's international competitiveness'?
2. Incentives for FDI
3. Concepts of Corporate Location
5. Patterns of FDI
6. some notes on FDI in China
7. Rethinking what we have seen: The Current Account
8. Competitiveness: A Broader View

# What is international Competitiveness and how can we measure it?

## ***Macroeconomic Indicators:***

current account surplus

a country exports more goods and services than it imports

capital account surplus

***a country attracts more foreign investments than its capital owners invest abroad***

## ***Why do Corporations go International?***

## ***Where do Corporations Locate?***

Some first shots:

availability of raw materials

low wages/ high productivity

market access

# The End of Globalization?

## Selected indicators of international production, 1982 - 2002

In % and billion US\$

Production indicator	Average annual growth rate					Value at current prices (billionUS\$)
	1986-1990	1991-1995	1996-2000	2001	2002	2002
Sales of foreign affiliates	16	10.1	10.9	9.2	7.4	17685
Gross product of foreign affiliates	17.3	6.7	7.9	14.7	6.7	3 437
Total assets of foreign affiliates	18.8	13.9	19.2	4.5	8.3	26 543
Exports of foreign affiliates	13.5	7.6	9.6	-3.3	4.2	2 613
Employment of foreign affiliates (thousands)	5.5	2.9	14.2	-1.5	5.7	53 094
Gross fixed capital formation	13.4	4.2	1	-3.9	1.3	6 422
Royalties and licences fees receipts	21.3	14.3	6.2	-3.1 ..		72
Export of goods and non-factor services	15.6	5.4	3.4	-3.3	4.2	7 838

Source: UNCTAD

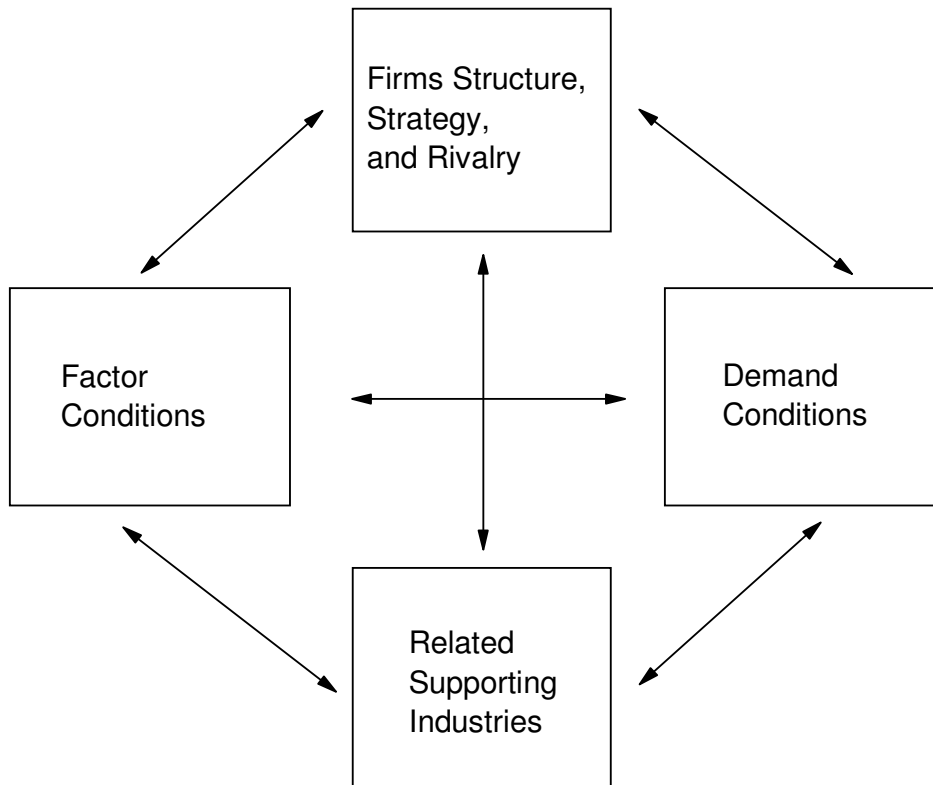
## World Top 25 Non-Financial Global Corporations (Source: UNCTAD)

Million US\$ and number of employees

	Corporation(home economy)	Industry	Foreign assets	assets	sales	Total employees
1	Vodafone (UK)	Telecommunications	187 792	207 458	32744	67178
2	General Electric (US)	Electrical and electronic equipment	180 031	495 210	125 913	310 000
3	BP (UK)	Petroleum expl./ref./distr.	111 207	141 158	175 389	110 150
4	Vivendi Universal (FR)	Diversified	91 120	123 156	51 423	381 504
5	Deutsche Telekom AG (GE)	Telecommunications	90 657	145 802	43 309	257 058
6	Exxonmobil Corporation (US)	Petroleum expl./ref./distr.	89 426	143 174	209 417	97 900
7	Ford Motor Company (US)	Motor vehicles	81 169	276 543	162 412	354 431
8	General Motors (US)	Motor vehicles	75 379	323 969	177 260	365 000
9	Royal Dutch/Shell Group (UK/NL)	Petroleum expl./ref./distr.	73 492	111 543	135 211	89 939
10	Total Fina Elf (FR)	Petroleum expl./ref./distr.	70 030	78 500	94 418	122 025
11	Suez (FR)	Electricity, gas and water	69 345	79 280	37 975	188 050
12	Toyota Motor Corporation (JP)	Motor vehicles	68 400	144 793	108 808	246 702
13	Fiat Spa (ITA)	Motor vehicles	48 749	89 264	52 002	198 764
14	Telefonica SA (SP)	Telecommunications	48 122	77 011	27 775	161 527
15	Volkswagen Group (GE)	Motor vehicles	47 480	92 520	79 376	324 413
16	ChevronTexaco Corp. (US)	Petroleum expl./ref./distr.	44 943	77 572	104 409	67 569
17	Hutchison Whampoa Ltd. (HK)	Diversified	40 989	55 281	11 415	77 253
18	News Corporation (AUS)	Media	35 650	40 007	15 087	33 800
19	Honda Motor Co., Ltd. (JP)	Motor vehicles	35 257	52 056	55 955	120 600
20	E.On (GE)	Electricity, gas and water	33 990	87 755	71 419	151 953
21	Nestlé SA (CH)	Food and beverages	33 065	55 821	50 717	229 765
22	RWE Group (GE)	Electricity, gas and water	32 809	81 024	58 039	155 634
23	IBM (US)	Electrical and electronic equipment	32 800	88 313	85 866	319 876
24	ABB (CH)	Machinery and equipment	30 586	32 305	19 382	156 865
25	Unilever (UK/NL)	Diversified	30 529	46 922	46 803	279 000

## ***Porter's Diamond of National Advantage***

or: useless things you may learn at business schools



## ***Dunning's 'Eclectic Approach'***

Three sources of competitive advantage of corporations:

a) size, monopoly, resource capabilities,...

firm's access to raw material

firm's size (economies of scale)

possession of intangible assets (patents, ...)

b) effects from vertical integration

access to cheaper input

knowledge of markets

centralized accounting

c) different factor endowments and market situations

diversification of locations

shelter from unfortunate business cycles

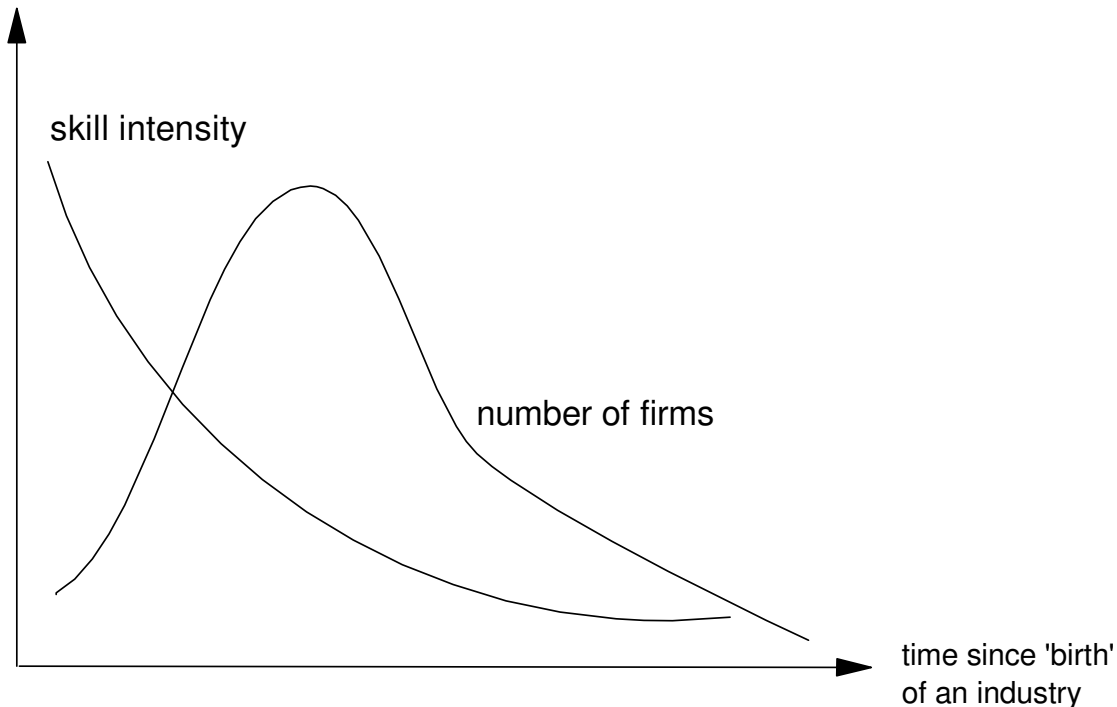
Hence: going multinational increases competitiveness, because corporations can exploit different factor endowments and are less vulnerable to demand shocks.

### ***Vernon's Product Life Cycle***

products (industries) run through a life cycle:

1. period: invention, high skill-intensity, patents, monopoly ?  
location: most advanced country
2. period: maturing, mid skill-intensity, patents expired, fierce competition  
location: advanced countries

3. period: old, low skill-intensity, no patents,  
potentially labor intensive production  
location: developing country



Krugman, Fujita, Venables

most industries produce positive externalities to their competitors

i.e. by enhancing the sector-specific skills of the workforce

as a consequence, there are advantages of 'clustering' competing corporations choosing the same location regardless of the availability of raw materials

examples?

Silicon Valley

software industry in India

else?

***... to sum up:***

Corporations chose the location where they maximize profit (so far, so trivial)

in doing so, they often (but not always) slice-up the product chain

factor endowment, market access, and agglomeration seem to be the driving forces

***And what about policies?***

tax policy

social regulation/ labor standards

environmental regulation

subsidies

else...

## Flows and Stocks of FDI (Source: UNCTAD, excerpt)

YEAR		1980	1990	2000	2001	2002	2003	2004
ECONOMY	CATEGORY							
World	FDI inflows	55,108	207,878	1,396,539	825,925	716,128	632,599	648,146
	FDI inward stock	530,244	1,768,589	5,786,029	6,197,711	6,703,607	7,987,077	8,902,153
	FDI outflows	53,743	238,681	1,239,149	743,465	652,181	616,923	730,257
	FDI outward stock	570,125	1,785,264	6,148,284	6,564,217	7,288,417	8,731,240	9,732,233
Developed economies	FDI inflows	46,629	172,067	1,134,293	596,305	547,778	442,157	380,022
	FDI inward stock	398,200	1,404,411	3,976,356	4,265,471	4,810,641	5,816,292	6,469,832
	FDI outflows	50,407	225,965	1,092,747	662,199	599,895	577,323	637,360
	FDI outward stock	496,197	1,637,760	5,257,261	5,673,530	6,368,560	7,727,178	8,610,146
Developing economies	FDI inflows	8,455	35,736	253,179	217,845	155,528	166,337	233,227
	FDI inward stock	132,044	364,057	1,739,726	1,831,112	1,764,474	2,007,962	2,232,868
	FDI outflows	3,336	12,701	143,226	78,571	47,775	29,016	83,190
	FDI outward stock	73,927	147,313	868,920	856,230	861,568	927,442	1,035,676
Developed economies: America	FDI inflows	22,725	56,004	380,798	187,124	92,838	63,183	102,152
	FDI inward stock	137,209	507,754	1,469,583	1,557,744	1,564,196	1,652,271	1,777,678
	FDI outflows	23,328	36,219	187,301	160,901	161,704	140,859	276,747
	FDI outward stock	239,158	515,328	1,553,886	1,711,045	1,875,764	2,101,078	2,387,982
Developed economies: Europe	FDI inflows	21,569	104,304	722,762	393,898	427,560	359,369	223,400
	FDI inward stock	239,034	800,751	2,292,922	2,501,888	2,980,555	3,819,536	4,258,547
	FDI outflows	24,128	138,936	866,090	451,336	396,868	390,021	309,498
	FDI outward stock	234,625	882,899	3,324,128	3,553,352	4,077,628	5,141,402	5,658,814
Developing economies: Asia	FDI inflows	442	22,614	145,725	108,583	92,009	101,278	147,545
	FDI inward stock	50,878	183,849	1,064,078	1,052,559	1,006,823	1,131,045	1,278,608
	FDI outflows	1,056	10,945	81,071	51,967	35,994	17,231	69,422
	FDI outward stock	19,418	68,178	612,305	585,816	573,399	623,068	717,997

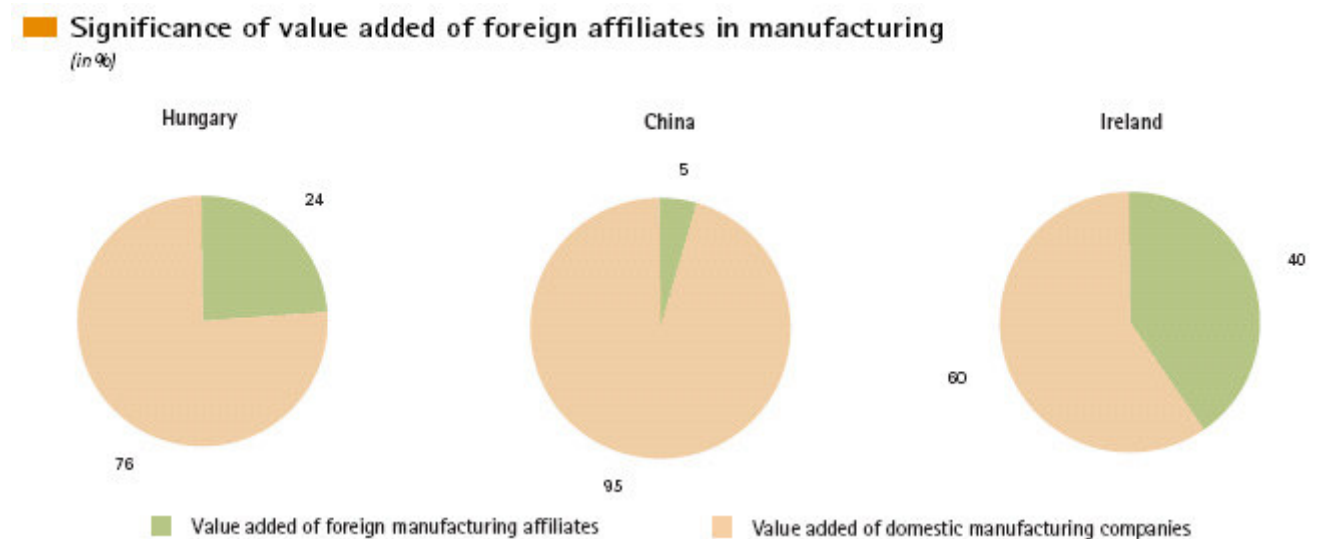
## Interpretation?

Much FDI is directed to gain market access.

‘Cheap labor’ and ‘absence of environmental regulation’ arguments cannot explain the bulk of FDI.

For example, China attracts less FDI than Britain.

... and FDI is less important in China than it is elsewhere...



Source: UNCTAD

# How Trade and Investment are related

## *The Balance of Payments*

see

[http://www.statistics.gov.uk/downloads/theme\\_economy/  
PinkBook2005.pdf](http://www.statistics.gov.uk/downloads/theme_economy/PinkBook2005.pdf)

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