Multinational Corporations (MNCs)

A multinational corporation is “an enterprise that engages in foreign direct investment (FDI) and that owns or controls value-added activities in more than one country.

Synonyms: transnational corporation (TNC), multinational enterprise (MNE), transnational enterprise (TNE)
The Multinationality of MNCs

- Increases with:
  - number of countries in which it has subsidiaries or affiliate firms
  - number of countries in which the firm has operations of various sorts
  - foreign assets, revenues, employees over total
  - proportion of foreign employees, managers, stockholders
“IBM operates in 170 countries, with about 65 percent of our employees outside the U.S., including 30 percent in Asia Pacific. Non-U.S. operations generate about 60 percent of IBM’s revenue.

IBM’s research and software development have long been globally integrated. The company’s R&D system assigns work among our 20,000-plus software developers in 61 labs in 15 countries, and 3,000 scientists and technologists in IBM Research centers in the U.S., China, Israel, Switzerland, Japan and India, based on areas of unique expertise.”

Source: IBM Annual Report 2006
Example: Samsung (Korea)

- Total revenue = $158 billion in 2006
- The company employs approximately 138,000 people in 124 offices in 56 countries.
- Samsung Electronics is a leading producer of digital TVs, memory chips, mobile phones and LCDs.

Samsung is not as globally organized as IBM.
Hierarchy of MNC Activities

- Sales or marketing office
- Simply assembly plants (screwdriver plants)
- Full-scale manufacturing (final products and components manufactured abroad)
- R&D operations abroad
The OLI Model of Foreign Direct Investment

- **Ownership**: Market power that derives from ownership of special knowledge.
- **Location**: Advantages of a particular foreign location.
- **Internalization**: Firm must prefer FDI to other ways of conducting foreign business (e.g., exports, licensing).

Source: Various works by John Dunning.
Product-Cycle Theory

Source: Raymond Vernon.
Definition of Foreign Direct Investment

An investment made to acquire control over enterprises operating outside of the economy of the investor. Control means owning 10% or more of the ordinary shares or voting power of a firm or its equivalent; lower ownership shares are known as portfolio investment.
Two Main Reasons to Invest Abroad via FDI

- To gain access to local markets (*horizontal FDI*)
- To gain access to low-cost inputs (*vertical FDI*)

Most North-North FDI is horizontal; most North-South FDI is vertical.
Greenfield vs. Mergers and Acquisitions

- Two main methods of acquiring control of foreign assets:
  - Greenfield investments
  - Mergers and Acquisitions

Daimler-Benz purchase of Chrysler
The Role of Mergers and Acquisitions

Figure I.3. Global cross-border M&As, value and growth rate, 1988-2006

Source: UNCTAD, cross-border M&A database.
Figure 4-2. Outflows of FDI from Industrialized and Developing Nations, in Billions of Current Dollars, 1970-2006

Figure 4-3. Inflows of FDI from Industrialized and Developing Nations, in Billions of Current Dollars, 1970-2006

Figure 4-1. Outward Stock of Direct Foreign Investment in Billions of Dollars, 1960-2006

Figure 4-5. Inflows of FDI into the Big Five Industrialized Countries, in Billions of Current Dollars, 1965-2006

Figure 4-7. FDI Inflows into Developing and Transition Economies by Region, in Billions of Dollars, 1970-2006

Key Facts

- FDI flows are increasing more rapidly than trade flows
- Most FDI flows, like trade flows, are from rich countries to other rich countries
- An increasing amount of FDI is going to a small number of developing countries
- There are increasing numbers of MNCs headquartered in developing countries
How the US-Japan Trade Dispute in Autos Led to Greater FDI Flows from Japan to US

- After the oil price increases of 1973, US consumers bought larger number of fuel-efficient vehicles (VWs, Toyotas, etc.)
- Auto industry accused Japan of dumping autos on US markets
- Carter Administration negotiated a Voluntary Restraint Agreement (VRA) with Japan on autos
Exports vs. Local Production of Automobiles in the United States by Japanese Firms, 1980-1990, in Thousands of Vehicles

Source: Japan Automobile Manufacturers Association.