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| Institution: University of Reading |
| Unit of Assessment: 19 Business and Management |
| Title of case study: Influencing United Nations' technical advice to emerging economies' industrial policies towards emerging market multinational enterprises. |
| <p>1. Summary of the impact</p> <p>In the early 2000s the increasing Chinese, Brazilian, Indian and South African multinational enterprise investments into advanced economies were greeted with genuine concern by policy makers in these emerging economies, where the fear was that this was a prelude to disinvestment and relocation to advanced economies. Many of these policy makers and their advisors went to the United Nations Conference on Trade and Development (UNCTAD) for guidance, which in turn harnessed the specialist expertise of University of Reading professors John H Dunning (joined Reading in 1964, now deceased) and Rajneesh Narula (at Reading since 2004).</p> <p>Narula and Dunning wrote a key report, which transformed UNCTAD's technical assistance programme and reassured emerging market policy makers that this pattern of MNE investment was entirely predictable and not a prelude to disinvestment. The policy response in these countries was duly moderated.</p> <p>2. Underpinning research</p> <p>During the early 1990s, the policy consensus towards the role played by MNEs in the world economy changed dramatically, as witnessed by the changing debates during the General Agreement on Tariffs and Trade (GATT) Uruguay Round (1988 to 1994). Much of this was informed by the body of work on international business developed by scholars at the University of Reading, a grouping which became known as the 'Reading School of International Business'.</p> <p>During that decade, Dunning and Narula extended this framework to explain economic development, identifying potential benefits to the interaction of Foreign Direct Investment (FDI) and the economic structure and industrial development of both home and host countries (Dunning and Narula 1996, 2004, Narula and Dunning 2000). This has been seminal in explaining the growth of outward FDI and the 'new' MNEs from emerging economies such as China, India and Brazil, and its economic implications, in terms of shifting wealth and growth, and the changing competitiveness of the emerging economies.</p> <p>The work of Dunning and Narula on the interaction of MNEs and growth has two aspects: it explains how MNEs' investments affect growth, and also how this growth then causes indigenous firms to start expanding and to enter new markets abroad. Dunning and Narula's development of the 'Investment Development Path' (IDP) in the 1980s and 1990s predicted that at a certain stage in the growth of developing countries, their firms would systematically start investing abroad. The IDP also predicted how these new MNEs from emerging markets would affect the world economy at large, and what their influence would be on the economic development of both host and home countries. Subsequent work has underlined and further refined these ideas (Lall and Narula 2004, Criscuola and Narula 2008).</p> <p>Building upon the IDP and the theory of structural change, Dunning and Narula proposed that, as these emerging-market multinationals (EMNEs) became more experienced, they would start exploiting opportunities not just in neighbouring developing countries, but they would also begin to compete directly with MNEs from developed countries. Dunning and Narula's work clearly suggested the conditions for the emergence of this phenomenon, and delineated the effects that this growth would have on the competitiveness of their home emerging economies, as well as the recipients of these investments.</p> <p>This placed the body of research at odds with the growing popular concern in both developed and developing countries about the increasing number and activities of EMNEs during the early 2000s.</p> |

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The structural changes in the world economy since the 1990s meant FDI became much easier, with fewer barriers. Advanced economy governments deliberately solicited inward FDI through ever more generous subsidies, and EMNEs such as Arcelor Steel, Tata and SAB were beginning to invest in developed economies.

While the policy consensus among developed economies had moved decisively towards promoting outward FDI-friendly policies, policy makers in developing countries were still negotiating the legacy of dependency theory and were concerned that permitting their leading MNEs to acquire subsidiaries in advanced economies might lead to an emigration of key activities and so to a 'hollowing out' of domestic economic resources.

Dunning and Narula's research had, by contrast, made it clear that EMNE acquisitions of strategic assets in advanced economies were highly unlikely to lead to them migrating their headquarters to developed economies, that there were costs and benefits to outward FDI, and hence the policy response in emerging economies could be moderated accordingly. A series of associated policy recommendations for developing countries followed in the published literature.

3. References to the research

The outputs below have been internally assessed as of 2* quality or above.

Dunning, J.H. & Narula, R. (1996) (eds), *Foreign direct investment and governments: Catalysts for economic restructuring* (London, Routledge).

Lall, S. & Narula, R. (2004) FDI and its role in economic development: Do we need a new agenda?, *European Journal of Development Research*, 16(3), pp. 447-464. (134 Google citations, March 2013) DOI: 10.1080/0957881042000266589.

Criscuolo, P. & Narula, R. (2008) A novel approach to national technological accumulation and absorptive capacity: Aggregating Cohen and Levinthal, *The European Journal of Development Research*, 20(1), pp. 56-73; DOI: 10.1080/09578810701853181.

Dunning, J.H. & Narula, R. (2004) *Multinationals and industrial competitiveness: A new agenda*. (Cheltenham, UK: Edward Elgar). (85 Google citations, March 2013).

Narula R. (2006) Knowledge creation and why it matters for development, in *Globalization of R&D and developing countries*, UNCTAD, Geneva

Narula, R. & Dunning, J.H. (2000) Industrial development, globalization and multinational enterprises: New realities for developing countries, *Oxford Development Studies* 28(2), pp. 141-167. (The article has received 356 Google citations, March 2013); URL: http://eco.ieu.edu.tr/courses/econ322/lecture/narula&dunning_2000.pdf.

4. Details of the impact

In the early 2000s, growing numbers of EMNEs were investing in advanced economies. Policy makers in emerging markets were worried that these may be preludes to disinvestment and relocation. Increasing numbers of policy makers and advisors in developing economies were asking for technical assistance from the United Nations to help them design better industrial policy that was not only consistent with World Trade Organization (WTO) regulations, but also helped them to counter the perceived threat of EMNEs investing in developed economies. These member states' requests for assistance were referred to UNCTAD.

UNCTAD's *World Investment Report* for 2004 demonstrated that the number of cross-border acquisitions by firms from developing economies was increasing rapidly, adding urgency to the need to understand the implications of this growing phenomenon. John Dunning was the Senior Economic Advisor for UNCTAD since 2001, and so the Director of UNCTAD's Division on Investment & Enterprise commissioned Dunning and Narula in 2004 to survey EMNE activities. This survey provided the clearest empirical data to date about outward FDI from emerging

economies, and was written up under Dunning and Narula's guidance into the 2006 *World Investment Report* [4] focused entirely on this subject, entitled *FDI from Developing and Transition Economies: Implications for Development*. The UNCTAD World Investment Reports have continued to draw from this research as evidenced in the UNCTAD World Investment Report 2011[5].

This report has had a very significant impact on UNCTAD's technical assistance programme for member states. The policy guidance from UNCTAD since 2007 has been to rely on the frameworks developed by Dunning and Narula (primarily built around the IDP) and to assist member states to design and customise policies to attract and embed inward FDI, to help them identify the most appropriate domestic sectors and industries upon which to focus their industrial development and investment policies, and how to target the most efficient ways to maximise domestic upgrading. The UNCTAD technical assistance policies therefore do not aim to raise barriers against outward FDI from emerging economies, nor to raise unrealistic expectations of the likely net economic impact of such overseas investments.

The result was for UNCTAD's technical assistance programme to alter its advice to policy makers, which in turn had a direct influence on industrial policy in several countries, where government debate had previously determined to prohibit their leading firms from acquiring assets in advanced economies such as the UK and US. Instead, on the recommendation of UNCTAD advisors, policy was moderated and plans to prohibit such outward FDI were withdrawn.

As UNCTAD's Chief of its Investment Issues section confirms, 'this advice has influenced countries such as Indonesia, Malaysia and South Africa vis-a-vis liberalising their policies towards *outward* FDI by national companies, including acquiring assets in advanced countries. In this respect, research by Narula and Dunning – for instance on the Investment Development Path - has materially and distinctly supported UNCTAD's programmes.' [1]

The Head of Cluster and Senior Economic Affairs Officer, United Nations Economic Commission for Africa (UNECA), also confirms that Narula's work injected, 'an important dose of realism into policy advice from UNCTAD' [2].

A related outcome has been a more careful evaluation by emerging economies on 'getting the conditions right' to promote EMNEs and their sustainability. Thus, the United Nations also commissioned Narula to develop a major international training programme on planning and implementing strategic alliances for developing countries for the United Nations Industrial Development Organization (UNIDO), from 2009 onwards. Other national governments have also sought help on evaluating their options, sometimes directly, or through supranational institutions. Narula was part of a team of experts sent by the OECD to evaluate the investment milieu of Russia. Related work was undertaken as an advisor to the International Labour Organisation, and the Inter-American Development Bank.

Dunning and Narula's body of research continues to develop. So when developed economy governments started perceiving the high-profile acquisitions by EMNEs (such as the acquisition of Jaguar by Tata) as a potential threat to their own long-term competitiveness, the OECD appointed Narula as one of eight non-residential fellows to steer the group of experts that drafted its flagship publication, *Perspectives on Global Development* on the subject of 'Shifting Wealth' in 2008. After Narula's intervention, the eventual report had a far more moderate tone than the original draft, now being based on the IDP framework [3].

The primary beneficiary of this research has been UNCTAD, whose published work feeds directly into their technical assistance programme. UNCTAD provides assistance tailored to the needs of the developing countries, with special attention being paid to the requirements of the least developed countries (LDCs) and those countries with the greatest needs. These commissioned studies seek to customise policy advice to individual countries, distilling the work from Dunning and

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Narula.

Additional beneficiaries include other governments and supranational organisations, which are responsible for dispersing large amounts of subsidy funding to MNEs and additionally for establishing standards that govern international trade and investment. These include ILO, OECD and the European Commission. Many governments have special units charged with monitoring, evaluating and assessing the impact of investment and trade. Their work builds directly on these models and frameworks, and feeds directly into their recommendations to governments.

5. Sources to corroborate the impact

The individuals below have provided testimonial letters which are available upon request:

[1] Chief, Investment Issues Section, Investment Trends and Issues Branch, DIAE/UNCTAD

[2] Head of Cluster and Senior Economic Affairs Officer, United Nations Economic Commission for Africa (UNECA), Sub-Regional Office for Eastern Africa (SRO-EA)

[3] Professor of Development Studies, University of Malaya

[4] UNCTAD World Investment Report 2006 (http://unctad.org/en/docs/wir2006_en.pdf)

[5] UNCTAD World Investment Report 2011 (<http://www.imf.org/external/pubs/ft/bop/2011/11-22.pdf>)