

## 2.3 Foreign Direct Investment and The Global Firm

A second key indicator of globalization is private sector direct investment. While governments may facilitate or hinder globalization, the global firm is the key player in the globalization process. Foreign direct investment (FDI) is not simply an international transfer of capital, it is also an extension of a firm, including some degree of its entrepreneurial and management skills, into a foreign country. Global firms are enterprises that have adopted global corporate strategies to increase their efficiency. Global firms establish production facilities on an international basis, pursue strategic alliances with foreign firms, and obtain inputs for production internationally. The degree to which firms have become "stateless", however, can easily be exaggerated.<sup>11</sup> Much research and development is done in the home country, and consortia are often established among firms from the same region. Needless to say, there is a trend toward a greater level of cross-border business activities, but the "stateless" firm is more of a myth than a reality, at least to date.

An important aspect of the global and regional pattern of production is foreign direct investment. Growth in the stock of FDI was exceptionally strong in the 1985-1990 period, increasing at an average rate of 19.4 percent. This slowed in 1991 to 11.2 percent.<sup>12</sup> From 1985 to 1991, the world stock of FDI increased from US \$733 billion to US \$1,882 billion. An interesting and important feature of FDI is that most of the investment occurs within the developed countries. In 1967, the developed countries accounted for 69.4 per cent of the world stock of inward direct investment, and 76.6 per cent in 1991 (Table 2).<sup>13</sup> The perception that most FDI, or even an increasing proportion, is flowing from the developed to the developing countries is incorrect. On a regional basis, however, the Asian developing countries have seen a remarkable increase in foreign inward investment during the 1980-91 period, increasing from 7.1 percent to 14.3 percent of the global total.

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<sup>11</sup> Keith Christie, Globalization and Public Policy in Canada: In Search of a Paradigm, DFAIT, Policy Staff Paper 93/01, January 1993, pp. 22-5.

<sup>12</sup> John Rutter, "Recent Trends in International Direct Investment: The Boom Years Fade", U.S. Department of Commerce, August 1993.

<sup>13</sup> Ibid. Appendix Table 6.