Small and Medium-sized Transnational Corporations: Trends and Patterns of Foreign Direct Investment

*Masataka Fujita**

ABSTRACT. This paper provides an analysis of small and medium-sized transnational corporations (TNCs). Statistical evidence is provided on trends and patterns of foreign direct investment (FDI) by small and medium-sized enterprises (SMEs). There are virtually no countries for which consistent and systematic FDI data are available by firm size, but data complied by or made available to the author for the UNCTAD Programme on Transnational Corporations allow an analysis of broad characteristics, trends and patterns.

FDI by SMEs is more concentrated in developed countries than that by large TNCs. However, small and medium-sized TNCs, especially those from Japan, are increasingly investing in developing countries. Although absolute size of FDI is still small, SMEs account for a large share in terms of the number of investment cases and the number of parent firms. South and East Asia became the primary host region of small and medium-sized TNCs during the 1980s and early 1990s. The industrial distribution of FDI by SMEs in developing countries is quite wide, but concentrated in electrical goods, chemicals, textiles and some services industries. SMEs also engage in non-equity investments.

A. Global trends, patterns and characteristics of foreign direct investment

There are two major features of the transnationalization of SMEs[1]: first, their foreign direct investment (FDI) is small in value but large in terms of the number of affiliates; the second, their FDI is concentrated in developed countries (see Buckley, 1989).

If measured in value terms, large transnational corporations (TNCs) still account for the bulk of FDI. For example, in the case of Japan which has probably the largest number of active small and medium-sized TNCs in the world, their share in total FDI by value was less than one fifth in the mid-1980s.[2] In the United States, only 3 per cent of the assets of all foreign affiliates were controlled by small and medium-sized TNCs in 1988. A small share in FDI is not unexpected as small and medium-sized TNCs do not establish large affiliates, even if there are many instances of such investment. On the other hand, if FDI is measured in terms of the *number* of foreign investments or the number of firms involved in FDI, the share taken by small and medium-sized TNCs increases significantly. More than one half of new equity foreign investments by Japanese TNCs were accounted for by SMEs in the late 1980s (Small and Medium Enterprise Agency, various years).[3] Small and medium-sized TNCs constituted 28 per cent of all United States TNC parent companies in 1988 (up from 24 per cent in 1982) and 6 per cent of the number of affiliates (up from 5 per cent).[4] In the United Kingdom, only 1 per cent of book value of FDI was attributed to firms whose net foreign assets were under £2 million, but in terms of the number of enterprises they accounted for 66 per cent in 1981, which is the latest available year (Department of Trade and Industry, 1984, Table 12).[5]

The second feature of developed-country SMEs mentioned above, that they are more likely to invest in other developed countries than large TNCs, has been already reported (Fujita, 1990, pp. 37–42): while large TNCs from most developed countries had well over 20 per cent of their affiliates located in developing countries, the corresponding figure was usually less than 10 per cent in the case of SMEs. The exception to this rule is Japan, whose SMEs have been inclined to establish affiliates in developing countries to a

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Transnational Corporations Affairs Officer
United Nations Conference on Trade and Development
Geneva, Switzerland

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larger extent than in developed countries. The ensuing analysis discusses these features in detail, as well as general trends and patterns of FDI.

On average, small and medium-sized TNCs based in developed countries had 3.2 foreign affiliates in 1986–1987, as opposed to more than 60 affiliates for large TNCs (Table I). This compares with an average of about six affiliates per parent for *all* TNCs (including developing-country TNCs) (United Nations, Transnational Corporations and Management Division, 1993, Table 1, pp. 5–6.), although the number of affiliates per parent firm vary a lot by industry and country: for example, in 1988 United States TNCs had an average of eight affiliates each.[6]

Small and medium-sized TNCs based in Japan and most Western European countries have more foreign affiliates than the average. In particular, in small European countries such as Denmark, Ireland, Sweden, Finland and Switzerland, the number of foreign affiliates owned by small and medium-sized TNCs seems to be highest. Thus, at least in terms of comparative numbers of foreign affiliates, TNCs in these countries are most transnationalized. This is probably because these small and medium-sized TNCs are already relatively large in relation to their markets (such economies are thus generally more transnationalized) and in relation to the definition employed in this paper. On the other hand, in countries with large domestic markets such as the United States, the average number of SMEs' foreign affiliates is low, although large TNCs have many affiliates (Table I). Many United States SMEs have not felt it necessary to become internationalized because their home market is large.

1. *Geographical dispersion*

Small and medium-sized TNCs have concentrated their investments in developed countries: more than 90 per cent for foreign affiliates owned by 735 small and medium-sized TNCs based in 18 developed countries were in developed countries in 1986–1987 (Table I). Most foreign affiliates of firms for Western Europe are located in such countries, about three fourths of which are within the region. In North America, more than 60 per cent of Canadian foreign affiliates were in the United States, while only 16 per cent of United States foreign affiliates were in Canada. For United States small and medium-sized TNCs, Western European countries are preferred locations, accounting for more than one half of United States foreign affiliates, with the United Kingdom being the largest host country.

The big exception among developed countries is Japan and, to a lesser degree, Australia, both of which tend to locate their foreign affiliates in developing countries. One half of foreign affiliated owned by 120 Japanese small and medium-sized TNCs were in developing countries in 1986–1987 (Table I). For both Japan and Australia, the United States is the largest single host country; however, South and East Asia (excluding China) as a region hosts more affiliates of their small and medium-sized TNCs. If the distribution of foreign affiliates only among developing countries is examined, Latin America is a major host developing region for United States small and medium-sized TNCs, as South and East Asia is for Japanese. For Western European small and medium-sized TNCs, Latin America and South and East Asia are almost equally important host developing regions. Africa, hosting more affiliates of small and medium-sized TNCs than the Middle East, is largely dominated by Western European firms.

A comparison of the above pattern with the distribution of foreign affiliates by 593 large TNCs (those with sales of more than $1 billion) shows that 73 per cent of about 38,000 foreign affiliates of these firms are located in developed countries (Table I), with Europe as the largest host region. Latin America, with 14 per cent of affiliates, and South and East Asia at 8 per cent are the major host developing regions for large TNCs.

That comparison shows that small and medium-sized TNCs are *less likely than large TNCs to invest in developing countries* (18 per cent of their affiliates are located there, as opposed to 27 per cent for large firms), perhaps because of the perceived or actual greater difficulties of setting-up in those counties.[7] The fact that small and medium-sized TNCs seem to prefer South and East Asia (the most "developed" of the developing countries, at least in terms of infrastructure and other environmental factors) to other developing countries is important and needs to be addressed by Governments.

TABLE I

Number of transnational corporations and geographical distribution of foreign affiliates of small and medium-sized transnational corporations[a] and large transnational corporations,[b] by country of origin and industry of parent firms, 1986–1987

	Small and medium-sized TNCs					Large TNCs				
			Distribution by group of countries (percentage)					Distribution by group of countries (percentage)		
Country/industry	Total number of TNCs surveyed	Number of foreign affiliates per company	Developed countries	Developing countries	China, Central and Eastern Europe	Total number of TNCs surveyed	Number of foreign affiliates per company	Developed countries	Developing countries	China, Central and Eastern Europe
				By country of origin						
United States	171	2.5	82.6	16.9	0.5	239	51.6	67.6	32.2	0.2
Japan	120	3.7	46.6	52.3	1.1	114	15.1	56.6	42.9	0.5
Europe	365	3.6	92.1	7.8	0.1	209	105.0	77.0	22.9	0.1
of which:										
France	23	2.7	92.1	7.9	–	28	56.0	76.6	23.3	0.1
Germany	59	4.0	91.1	8.9	–	42	72.7	77.7	22.2	0.1
Italy	24	2.9	91.3	8.7	–	7	117.6	47.2	25.6	0.1
Netherlands	23	2.6	86.7	13.3	–	14	106.4	77.6	22.2	0.1
Sweden	28	4.0	99.1	0.9	–	19	108.2	83.4	16.5	0.1
Switzerland	24	4.0	91.6	8.4	–	8	115.8	74.5	25.2	0.3
United Kingdom	78	3.6	90.3	9.7	–	68	158.8	67.6	32.2	0.2
All countries	735	3.2	81.4	18.3	0.3	59.3	64.1	73.0	26.9	0.1
				By industry of parent firms[c]						
Primary	25	3.4	86.0	14.0	–	30	50.3	54.9	45.1	–
Manufacturing	514	3.0	85.1	14.5	0.4	504	65.7	74.7	25.2	0.1
of which:										
Textiles and clothing	45	2.2	81.2	16.8	2.0	17	37.7	72.7	27.3	–
Chemicals	56	3.6	82.2	17.8	–	78	85.7	70.3	29.6	0.2
Metals	57	3.3	87.1	12.9	–	68	56.2	77.9	22.1	0.1
Mechanical equipment	105	3.1	88.4	11.0	0.6	52	55.2	70.9	28.9	0.2
Electrical equipment	64	2.7	78.5	21.5	–	50	94.0	74.0	25.7	0.3
Services	195	4.0	73.5	26.3	0.3	31	82.2	65.9	34.1	–
of which:										
Distribution trade	87	3.5	75.2	24.4	0.3	4	47.3	80.4	19.6	–
All industries	734	3.2	81.4	18.3	0.3	565	65.8	73.3	26.7	0.1

Source: Fujita (1990, p. 38).

[a] Based on the database of small and medium-sized TNCs of the UNCTAD Programme on Transnational Corporations. Includes all identified foreign entities regardless of form of organization (that is, subsidiaries, branches, representative offices etc.) owned by firms in 18 developed countries. Banks, insurance and other financial companies are not included. Countries that do not appear in the table, but are included, are Australia, Austria, Belgium, Canada, Denmark, Finland, Ireland, New Zealand and Norway.

[b] Based on TNCs whose annual sales are more than $1 billion.

[c] Industries are classified according to the primary business of the company. Excludes firms whose primary business is unidentifiable.

2. *Sectoral and industrial configuration*

In terms of sectoral distribution, 70 per cent of small and medium-sized TNCs are in manufacturing (Table I). The rest are mostly in services, including trade. The average number of foreign affiliates per SME was four in services and three in manufacturing, mainly because services companies, particularly those in transport and storage, need a greater spread of location world-wide to conduct their international business. Focusing on the total number of TNCs, SMEs are especially concentrated in distribution trade (wholesale and retail) and capital-goods production (i.e., mechanical equipment); this is in contrast to large TNCs where the industrial spread of affiliates is more even, except in services in which large TNCs are relatively under-represented.

Although small and medium-sized TNCs invest more in developed countries than in developing countries in all industries, developed countries host proportionally more manufacturing FDI (Table I). The greater likelihood of services SMEs locating in developing countries is partly due to special factors (e.g., the use of countries such as Liberia as flags of convenience), but is mainly due to the location spread of such companies, as discussed above. Apart from mechanical equipment, small and medium-sized TNCs in developing countries are especially represented in textiles, chemicals and electrical equipment (South and East Asia dominates as a location) in the manufacturing industry. In comparison with large TNCs, small and medium-sized TNCs seem to have a comparative advantage in textiles, clothing and mechanical equipment, a point that would need to be considered in policies adopted by developing-country Governments.

3. *General characteristics of the foreign direct investment in the United Nations Survey*

The broad characteristics of FDI in the United Nations Survey,[8] covering 242 affiliates owned by 97 small and medium-sized TNCs, are similar to those described above. Small and medium-sized TNCs in the survey have an average of 2.5 foreign affiliates; European small and medium-sized TNCs own more foreign affiliates than their Japanese and United States counterparts; more than half (55 per cent) of foreign affiliates are established in developed countries;[9] and small and medium-sized services TNCs own more foreign affiliates on average than small and medium-sized manufacturing TNCs (2.7 foreign affiliates versus 2.4 foreign affiliates), locating slightly more of their foreign affiliates in developing countries than small and medium-sized manufacturing TNCs (46 per cent of affiliates as opposed to 44 per cent). The survey characteristics of large TNCs reflect those in the United Nations database, as discussed earlier in this section, with no significant divergence between the two data sets.

According to the survey, about two thirds of investments were made after 1980, implying that substantial FDI by SMEs is a relatively recent phenomenon (Table II). Investment years vary somewhat among countries. United States small and medium-sized TNCs, as in the case of large TNCs, started in invest very early, some as early as in the 1920s. This is an interesting observation, as United States SMEs are less transnationalized than SMEs in other developed countries. FDI by both Japanese and European SMEs is concentrated in the 1980s and early 1990s. By sector, small and medium-sized manufacturing TNCs started to invest earlier than those in services.[10]

It is interesting to note that FDI by SMEs in high-technology industries first started in the 1920s, but is nevertheless concentrated in the 1980s. In general, SMEs in high-technology industries started to transnationalize earlier than those in medium- or low-technology industries, which is in keeping with the literature (Campos *et al.*, 1993). The average period between a SME's establishment and its first FDI is 25 years for SMEs in high-technology industries, 28 years for SMEs in medium-technology industries and 33 years for SMEs in low-technology industries.[11] There are some SMEs in all industries that transnationalize very soon after establishment.

The characteristics and dimension of global trends and patterns of FDI by SMEs discussed in this section are derived from the numerical distribution of small and medium-sized TNCs and their foreign affiliates. In order to gain a better understanding of the phenomenon, information on the actual amounts invested by SMEs would be necessary. However, global aggregate data are not available, although the value of FDI will be given,

TABLE II
Distribution of foreign-direct-investment cases by small and medium-sized enterprises, by period

Country/industry	Number of investments surveyed	Distribution by period (percentage)					
		Before 1949	1950–1959	1960–1969	1970–1979	1980–1989	1990–1992
				By home country			
Japan	142	–	1	5	25	55	15
United States	24	8	–	4	42	37	8
Europe	57	–	–	7	23	51	19
All countries	225	1	–	5	27	52	15
				By industry of parent firm			
Primary	5	–	–	20	–	80	–
Manufacturing	156	1	–	6	29	49	15
High-technology industries	33	6	–	6	21	55	12
Medium-technology industries	71	–	–	4	37	44	15
Low-technology industries	52	–	–	10	23	52	15
Services	67	–	1	1	24	57	16
All industries	228	1	–	5	27	52	15
				By host country			
Developed countries	129	2	–	5	27	51	15
United States	42	–	–	5	21	64	10
Europe	72	1	–	6	29	46	18
Others	15	7	–	7	33	40	13
Developing countries	99	–	1	5	26	53	15
South and East Asia	91	–	1	5	26	54	13
Others	8	–	–	–	25	38	38
All countries	228	1	–	5	27	52	15

Source: Based on the United Nations Survey.

where possible, in the country section that follows. The net impression from the available information is that the value of FDI by SMEs is small but growing.

B. Japan

The scale of FDI by Japanese SMEs is more or less related to their important role in the home economy. Small and medium-sized TNCs have become a significant component of Japanese FDI, to the extent that their share of total overseas Japanese equity investments was as much as a remarkable 60 per cent in 1988 (Table III). The rise in their FDI share in the latter half of the 1980s was due in part to the loss of export competitiveness caused by competition from companies based in developing countries, particularly newly industrializing economies, and, in part, to the fact that SMEs follow their (large) clients into foreign production. Behind these factors, the dramatic appreciation of the yen was at work.

Transnationalization by Japanese SMEs prior to the 1980s must be seen in the context of structural changes in the Japanese economy (Ozawa, 1979). Wage rises at home and protectionist measures abroad were among the main factors inducing international expansion by Japense SMEs.

About 1,200 Japanese SMEs are identified as TNCs, corresponding to one third of the total. The average value of outflows by small and medium-sized Japanese TNCs between the period 1980–1983 and the period 1984–1986 increased by 2.3 times, while for large TNCs the increase was only 2.1 times (Fujita, forthcoming).[12] Thus, the share of accumulated FDI accounted for by small and medium-sized TNCs increased from 16 per cent during 1980–1983 to 18 per cent during

TABLE III
Japan: Number of new equity investments[a] by small and medium-sized enterprises,[b] 1977–1991[c]

Year	Equity investments by SMEs[d]		Equity investments by all firms[d]		Share of equity investments by SMEs	
	All industries	Manufacturing	All industries	Manufacturing	All industries	Manufacturing
1977	342	76	830	203	41.2	37.4
1978	306	112	887	323	34.5	34.7
1979	437	133	990	309	44.1	43.0
1980	326	99	790	260	41.3	38.1
1981	336	108	748	240	44.9	45.0
1982	247	86	765	226	32.3	38.1
1983	306	94	868	246	35.3	38.2
1984	312	109	828	303	37.7	36.0
1985	318	137	1023	363	31.1	37.7
1986	599	279	1419	N.A.	42.2	N.A.
1987	1063	469	2126	N.A.	50.0	N.A.
1988	1625	724	2725	N.A.	59.7	N.A.
1989	1401	535	2602	N.A.	53.8	N.A.
1990	995	381	2249	N.A.	44.2	N.A.
1991	619	281	1556	N.A.	39.8	N.A.

Source: Small and Medium Enterprise Agency, various years; and national official sources.
[a] New equity investments refer to investments in initial capital acquisition (thus excluding additional investments by the same company in the same affiliate) and establishment of new foreign affiliates. Loan investments, which are an important component of FDI, are also excluded.
[b] The definition of Japanese SMEs is as follows: in manufacturing, capital is less than 100 million yen and the number of employees is fewer than 300; in wholesale trade, capital is less than 30 million yen and the number of employees is fewer than 100; and in retail trade and other services, capital is less than 10 million yen and the number of employees is fewer than 50.
[c] Calendar year for SMEs and fiscal year for all firms.
[d] On approval/notification basis. As notification criteria of investment value have changed from more than 3 million yen to 10 million yen since April 1984 and from more than 10 million yen to 30 million yen since July 1989, the data are not consistent before and after 1983, and before and after 1988.
N.A. = Not available.

1984–1986. Those shares represent a substantial increase over the 3–8 per cent level in the 1970s. Furthermore, the value per investment case increased from \$0.2–0.3 million in the 1970s to about \$2 million in the mid-1980s. There are no data on FDI stock by size of companies, however, an examination of the flow data during the period of 1974–1986 indicates that FDI stock by small and medium-sized TNCs can be estimated at 13 per cent of total FDI. If that share is applied to the present FDI stock, FDI by Japanese SMEs would amount to about \$40 billion by 1990. But as the SME's share of FDI has accelerated in the 1980s, the stock value could be much higher than that. The scale of investment by small and medium-sized TNCs has also become much larger than earlier.

An important fact that should be noted, however, is that there was a decline in Japanese FDI in the early 1990s. Furthermore, although in line with the general slow-down of FDI by all firms, the share of SMEs in total equity in investments decreased to less than one half – to almost the same level of the early 1980s (Table III). Nevertheless, as FDI has become an integral part of corporate strategies for many Japanese SMEs, their interest in FDI is likely to continue (Small and Medium Enterprise Agency, 1992, pp. 37–38).

Sectoral and geographical breakdowns of FDI are available only in terms of the number of new equity investment cases. On this basis, manufacturing investment cases accounted for about one third of total new equity investment cases during 1974–1991, reaching as high as 42 per cent during 1986–1991 (Table IV). In line with the global picture, most new equity investment cases are in services; during 1986–1991, over one half of new equity investment cases were accounted for by this

TABLE IV

Japan: Regional and sectoral distribution of foreign direct investment by small and medium-sized enterprises,[a] 1974–1991 (percentage)

Region/country/sector	1974–79[b]	1980–85	1986–91	1989	1990	1991
Total number of new equity investments[c]	1963	1845	6302	1401	995	619
			Regional distribution			
Developed countries	53.2	61.1	55.3	56.2	59.1	49.9
North America	44.7	50.6	42.1	40.5	44.4	30.5
Europe	6.7	7.9	8.3	9.7	8.8	14.4
Oceania	1.8	2.6	5.0	6.0	5.8	5.0
Developing countries	46.8	39.0	44.7	43.7	40.9	50.1
South and East Asia	38.8	35.3	43.0	42.8	38.6	48.5
China	N.A.	N.A.	8.2	6.1	6.9	14.1
Hong Kong	10.8	5.6	5.0	6.1	2.6	3.2
Korea, Rep. of	5.7	5.1	6.3	4.0	3.2	3.7
Taiwan	6.6	6.9	6.6	4.5	2.6	2.1
Others	15.7[d]	17.7[d]	16.9	22.1	23.2	25.4
Latin America	6.9	2.8	1.4	0.8	1.9	1.3
Middle East	0.6	0.6	0.1	–	–	0.3
Africa	0.5	0.3	0.1	0.1	0.4	–
All countries	100.0	100.0	100.0	100.0	100.0	100.0
			Sectoral distribution			
Primary[e]	4.3	2.9	1.8	1.8	0.8	1.8
Manufacturing	31.5	34.3	42.4	38.2	38.3	45.4
Food	3.8	4.3	3.1	2.1	2.4	2.6
Textiles	1.9	2.5	5.5	4.8	7.1	13.1
Lumber, pulp and paper	1.4	2.0	1.2	1.3	1.1	1.5
Chemicals	2.8	3.1	2.9	2.4	2.8	3.1
Iron, steel and non-ferrous metals	2.8	2.6	4.2	3.0	5.1	3.4
Machinery	10.5	12.0	15.4	15.1	11.8	10.8
Others	8.4	8.7	10.1	9.5	7.9	11.0
Services	64.2	62.8	55.8	60.0	60.9	52.8
Construction	2.2	1.7	2.2	3.8	3.4	3.4
Commerce	44.7	41.9	19.3	21.7	14.7	21.6
Services	7.5	7.4	10.2	10.4	10.6	15.3
Others	9.8	11.8	24.1	24.1	32.3	12.4
All industries	100.0	100.0	100.0	100.0	100.0	100.0

Source: Small and Medium Enterprises Agency, various years.

[a] The definition of Japanese SMEs is as follows: in manufacturing, capital is less than 100 million yen and the number of employees is fewer than 300; in wholesale trade, capital is less than 30 million yen and the number of employees is fewer than 100; and in retail trade and other services, capital is less than 10 million yen and the number of employees is fewer than 50.

[b] For 1974 and 1975, only from April to December.

[c] New equity investments refer to investments in initial capital acquition (thus excluding additional investments by the same company in the same affiliate) and establishment of new subsidiaries. Loan investments, which are an important component of FDI, are also excluded.

[d] Includes China.

[e] Agriculture, forestry and fishery, and mining.

N.A. = Not available.

sector. In meanufacturing, the share of South and East Asia, which is the largest host developing region, decreased to about one half in the mid-1980s, but has been increasing again since 1985. This reflects a change in motivation over time; in recent years a tendency to invest proprotionally more in developed countreis was curtailed by the yen appreciation of the 1980s – which also fueled the concommitant need to produce components in nearby low-cost labour countries (Small and Medium Enterprise Agency, 1988, Table 2-1-31, p. 52).[13]

In comparison to the geographical distribution of FDI by large firms, FDI by SMEs is slightly more concentrated in developed countries, particularly, in North America (Table V). However, for both sizes of firms, South and East Asia is a very important host region and is the second largest recipient of FDI after North America. Although FDI by both sizes of firms is largely concentrated in these two regions, the concentration is higher for SMEs; FDI by large firms is more evenly spread among different regions.[14] As substantial FDI by SMEs is a relatively recent phenomenon, their concentration in particular regions is to be expected. More significant is the relative importance of South and East Asia for Japan in manufactuirng FDI, in contrast with North America where services FDI is more pronounced (Table V). The establishment of production sites in South and East Asia and distribution facilities in North America is a prominent feature of FDI by Japanese SMEs. There appears to be some division of labour between SMEs and large TNCs in terms of their overseas investment by indsutry. In manufacturing, there is relatively more SMEs' investment in light- or low-technology industries such as textiles, food and pulp and

TABLE V

Japan: Regional and sectoral distribution of foreign direct investment by size of firms, cumulative 1977–1991[a]

Region	Primary[b]		Manufacturing		Services		All industries	
	SMEs	Large firms[c]	SMEs	Large firms[c]	SMEs	Large firms[c]	SMEs	Large firms[c]
Developed countries	1.2	2.3	13.3	14.5	42.4	39.0	56.9	55.8
North America	0.6	1.4	10.0	9.5	34.1	22.2	44.7	33.1
Europe	0.2	0.1	2.7	4.5	5.1	13.2	8.0	17.8
Oceania	0.4	0.8	0.6	0.5	3.2	3.6	4.2	4.9
Developing countries	1.0	1.8	25.9	18.0	16.2	24.5	43.1	44.2
South and East Asia	0.7	0.8	25.3	15.7	14.6	16.3	40.6	32.8
Hong Kong	–	–	2.1	0.8	3.5	5.0	5.7	5.9
Korea, Re. of	0.1	–	4.5	2.5	1.2	0.9	5.8	3.4
Taiwan	0.1	–	4.6	3.5	2.1	1.3	6.8	4.9
Others	0.6	0.8	14.1	8.9	7.8	9.1	22.4	18.7
Latin America	0.3	0.7	0.5	1.9	1.3	5.4	2.0	8.0
Middle East	–	0.1	0.1	0.1	0.2	1.2	0.3	1.3
Africa	–	0.2	–	0.3	0.1	1.6	0.2	2.1
All countries	2.2	4.0	39.2	32.5	58.6	63.5	100.0[d]	100.0[e]

Source: Small and Medium Enterprise Agency, various years; and Ministry of Finance, 1977 and 1987.

[a] Based on number of new equity investment cases, from 1977 to 1991, calendar year for SMEs, and from 1977 to 1986 fiscal year for large firms. On approval/notification basis. As notification criteria of investment value have changed from more than 3 million yen to 10 million yen since April 1984, the data is not consistent before and after 1983. As there are no data on foreign direct investment cases by large firms, estimation was made in the following way: the cumulative number of new equity investment of all firms as of fiscal 1976 is subtracted from that of fiscal 1986. Then, the cumulative number of new equity investment of SMEs is subtracted from that number. However, data of new equity investment of all firms by industry is no longer available after 1986 fiscal year.

[b] Agriculture, forestry and fishery, and mining.

[c] 1977–1986.

[d] Absolute number is 9,232.

[e] Absolute number is 5,616.

paper, whereas large TNCs have a slight lead (23 per cent of all large TNCs' FDI, compared to 21 per cent for small and medium-sized TNCs) in industries such as chemicals, iron and non-ferrous metals and machinery.[15] In services the distinction is clearer: large TNCs dominate banking, insurance and other financial services, whereas small and medium-sized TNCs are more inclined towards real estate and restaurants.

SMEs are less transnationalized than large firms. According to a TNC survey by the Ministry of International Trade and Industry (MITI, 1991), the stock the equity and loan investment by Japanese small and medium-sized TNCs[16] was only 0.06 per cent of all SMEs assets, about one twentieth of the degree of transnationalization of large firms in 1989 (Table VI). Despite some deficiencies intrinsic to this survey,[17] it is clear that transnationalization is taking place for both small and medium-sized and large TNCs, and the degree of transnationalization for small and medium-sized TNCs is deepening at a faster rate than it did for large TNCs in the 1980s (Table VI).

Another indication of transnationalizaiton is related to the degree of transnationality of fims that have already become TNCs. The ratio of

TABLE VI
Japan: Stock of equity and loan investment[a] as percentage of total assets of firms, by industry, fiscal years 1980 and 1989[b]

	Equity and loan investment stock by small and medium-sized TNCs as percentage of total assets of all SMEs		Equity and loan investment stock by large TNCs as percentage of total assets of all large firms		Equity and loan investment stock by all TNCs as percentage of total assets of all firms	
Industry	1980	1989	1980	1989	1980	1989
Primary	0.03	0.06	2.8	7.7	1.2	3.2
Agriculture, forestry and fishery	0.02	0.03	5.8	3.1	1.1	0.5
Mining	0.06	0.13	2.0	8.7	1.3	5.4
Manufacturing	0.06	0.07	1.2	2.6	0.9	1.8
Food	0.06	0.03	0.4	0.9	0.2	0.5
Textiles	0.08	0.28	3.4	0.7	1.3	0.4
Lumber, pulp and paper	0.01	0.03	1.8	1.8	0.9	0.9
Chemicals	0.05	0.02	1.6	2.0	1.4	1.7
Iron and steel	0.03	0.04	1.1	1.1	1.0	1.0
Non-ferrous metals	0.01	0.08	1.0	4.0	0.9	3.5
Non-electric machinery	0.04	0.02	1.2	1.7	0.8	1.0
Electric machinery	0.15	0.11	2.0	3.7	1.6	3.1
Transport equipment	0.02	0.04	1.8	5.6	1.5	4.9
Precision machinery	0.15	0.15	1.6	2.4	1.0	1.8
Coal and oil products	N.A.	–	N.A.	0.1	N.A.	0.1
Others	0.04	0.03	0.5	2.2	0.2	1.1
Services	0.01	0.06	0.5	0.6	0.4	0.5
Construction	N.A.	0.01	N.A.	1.1	N.A.	1.0
Commerce	0.01	0.02	0.9	0.7	0.7	0.6
Services	N.A.	–	N.A.	0.2	N.A.	0.2
Others	–	0.23	0.1	0.4	–	0.4
All industries	0.03	0.06	0.8	1.2	0.6	0.9

Source: MITI, 1983, Tables 1-15 and 1-21, pp. 94–95 and 100–101 and MITI, 1991, Table 1-14, p. 80; and Ministry of Finance, 1981 and 1990.

[a] In addition to equity investment loan investment, Japanese FDI is defined to include payment to establishment and expansion of branches and purchase of property. Purchase of property, however, is not counted as FDI since December 1980.

[b] Based on the sample sizes (in all industries) of 399 for 1980 and 307 for 1989 for small and medium-sized TNCs, 892 for 1980 and 1,053 for large TNCs, and 1,291 for 1980 and 1,360 for 1989 for all TNCs.

N.A. = Not available.

foreign sales (or foreign assets) to total sales (or total assets) is often used. One survey (Small and Medium Enterprise Agency, 1989, Table 1-2-1, p. 54) suggests that the share of foreign sales to total sales of Japanese small and medium-sized TNCs was larger than that of large TNCs, 26 per cent against 16 per cent in 1988, and this share was expected to rise to 39 per cent and 21 per cent, respectively, by 1991. The higher ratio for small and medium-sized TNCs may simply be the result of relatively small sales by parent firms; but, mroe importantly, it may also be due to a corporate strategy by small andmedium-sized TNCs that places more emphasis on foreign produciton or foreign sales once foreign affiliates are established. Each foreign affiliate is relatively more important compared to large TNCs, as small and medium-sized TNCs own only a few affiliates.

In contrast to services, the degree of transnationalization by manufacturing small and medium-sized TNCs has not deepened very much (in terms of foreign-held equity and loans to total assets) during recent years. Within the manufacturing sector, the textile industry is the most transnationalized industry for small and medium-sized TNCs, whereas the transport equipment industry exhibits the highest degree of transnationalization for large TNCs (Table VI). In the latter industry, however, while SMEs are usually automobile parts and component makers, not a few of them invest abroad to accompany their clients – automobile makers – in order to maintain close relationships and in response to requested by clients (the latter wish to assure the quality and specifications of components they use in foreign markets). In the United States, those small and medium-sized component TNCs are also expecting to supply their products to the "Big Three" United States auto companies and enter the after-sales services market. During 1983–1986 Japanese parts and components companies established 41 affiliates and joint ventures in the United States, which was about the same number as those established prior to 1982 (*Shukan Toyo Keizai*, 1987, p. 67 and *Ekonomisuto*, 1985, p. 127).

The number of foreign affiliates owned by TNCs is another aspect of transnationalization. The number of foreign affiliates owned by a Japanese small or medium-sized TNC is on average 1.2–1.4, while a typical Japanese large TNC has 5–6 foreign affiliates. As of March 1990, about 90 per cent of small and medium-sized TNCs still only owned 1–2 foreign affilaites, while about one half of large TNCs had more than 3 foreign affilaites (MITI, 1991, Tables 1-47-1 and 1-47-2, pp. 100–101).[18]

The data on technology exports illustrates another dimension of the internationalization of SMEs. Technology trade by Japanese SMEs has been in surplus since 1983. This is noteworthy, as the *overall* value of technology exports has never surpassed that of technology imports (Statistics Bureau, Management and Coordination Agency, various years). During fiscal 1985–1990, the share of SMEs in technology exports was 16 per cent of the total number of contracts and 3 per cent by value (Table VII). About three fourths of both the value and the number of technology exports by SMEs occured in South and East Asia.[19]

The number of international technology licensing contracts by small and medium-sized TNCs is small (0.2 cases per company) compared to large TNCs (2.8 cases per company) (Table VIII). Small and medium-sized TNCs contracted nearly one half of technology licensing agreements with their foreign affilaites, while about two thirds of agreements by large TNCs were concluded with non-affiliated local firms (Table VIII). Although there are spillover effects of technology dispersion from affiliates to host countries, this suggests that international technology transfer by Japanese small and medium-sized TNCs may be more limited than for large TNCs.

C. United States

United States' small and medium-sized TNCs controlled about 6 per cent of the number and 3 per cent of the assets of all foreign affiliates by United States TNCs in 1988 (Table IX), representing a FDI stock of around $15 billion in 1990. Although these levels reflect an increasing importance of FDI by United States SMEs as compared to the levels of 1982, SMEs do not seem to play a role in United States FDI comparable to that played by such companies in Japan. This is probably the result of a very large domestic market that does not reach saturation point easily (Fujita, 1993). This is also reflected in Table X, which shows that the degree of transnationalizaiton

TABLE VII
Japan: Technology exports by small and medium-sized enterprises, 1985–1990

Destination	Average 1985–1990		As percentage of all firms	
	Value (Millions of dollars)	Number	Value	Number
Developed countries	1291	186	1.0	7.6
North America[a]	610	128	0.7	10.3
Europe[b]	681	58	1.3	4.9
Developing countries	6523	798	5.5	22.0
South and East Asia	6055	774	5.6	23.1
Middle East	270	5	4.9	5.9
Latin America	198	20	3.9	9.6
Others[c]	289	20	2.1	6.3
Total	8103	1005	3.1	15.7

Source: Statistics Bureau, Management and Coordination Agency, various years.
[a] Includes Mexico and Panama.
[b] Includes Central and Eastern Europe.
[c] Includes Oceania and Africa.

TABLE VIII
Japan: Number of international technological licensing contracts by small and medium-sized transnational corporations and large transnational corporations, March 1990[a]

Region	Primary	Manufacturing	Services	All industries
Developed regions[b]				
Small and medium-sized TNCs	–	12	2	14
	(–)	(5)	(1)	(6)
Large TNCs	–	1496	19	1515
	(–)	(323)	(10)	(333)
All TNCs	–	1508	21	1529
	(–)	(328)	(11)	(339)
Developing regions[c]				
Small and medium-sized TNCs	–	32	4	36
	(–)	(15)	(3)	(18)
Large TNCs	1	1354	30	1385
	(–)	(496)	(12)	(509)
All TNCs	1	1386	34	1421
	(–)	(511)	(15)	(527)
World				
Small and medium-sized TNCs	–	44	6	50
	(–)	(20)	(4)	(24)
Large TNCs	1	2850	49	2900
	(1)	(819)	(22)	(842)
All TNCs	1	2894	55	2950
	(1)	(839)	(26)	(866)

Source: MITI, 1991, Tables 1-52-1–1-52-3, pp. 105–107.
[a] Based on the sample sizes (in all industries) of 307 for small and medium-sized TNCs, 1,053 for large TNCs and 1,360 for all TNCs. Figures in parentheses are the numebr of technological licensing contracts with their foreign affiliates.
[b] Europe, North America and Oceania.
[c] Africa, Asia, Latin America and Middle East.

TABLE IX

United States: Importance of small and medium-sized transnational corporations in terms of number of parent firms, number of their foreign affiliates and assets of their foreign affiliates,[a] 1982 and 1988

Sector	1982		1988	
	Small and medium-sized TNCs[b]	Share of small and medium-sized TNCs in all TNCs	Small and medium-sized TNCs[b]	Share of small and medium-sized TNCs in all TNCs
		Number of parent firms		
All industries	469	23.5	562	28.3
Primary	57	34.3	54	40.6
Manufacturing	214	17.6	230	19.8
Services	198	32.3	278	39.9
		Number of foreign affiliates		
All industries/countries	884	5.2	928	5.5
Primary	104	4.1	138	6.1
Manufacturing	331	2.9	366	3.3
Services	449	13.9	424	12.8
Developed countries	620	5.6	631	5.7
Developing countries	222	3.9	256	4.7
		Assets of foreign affiliates (millions of dollars)		
All industries/countries	12490	1.7	31329	2.7
Primary	3129[c]	1.3[c]	16096	5.7
Manufacturing	2449	0.6	4902	0.8
Services	6195[c]	5.1[c]	10331	4.1
Developed countries	6733	1.3	17940	2.0
Developing countries	4976	2.3	12192	4.9

Source: Based on special tabulation of United States FDI by firm size by United States Department of Commerce at the request of the author for the UNCTAD Programme on Transnational Corporations.

[a] Non-bank parent firms of non-bank affiliates. Parent firms whose foreign affiliates' total assets, sales or net income were each less than $3 million are excluded. The number of omitted parent firms was more than 1,400. Thus, both absolute values and percentage figures for small parent firms are presumably underestimated.

[b] Defined as TNCs whose employees at parent firms are fewer than 500.

[c] Excludes data that are supposed to avoid disclosure. Thus, the figures are underestimated.

TABLE X

United States: Shares of parent transnational corporations[a] in the total population of firms, by size of employment, 1982 (percentage)

Industries	Total	0–499 employees	500–999 employees	1,000–9,999 employees	More than 10,000 employees
All industries[b]	0.04	0.01	6.7	27.3	83.1
Manufacturing	0.41	0.07	10.9	37.1	82.0
Services[b]	0.02	0.01	2.8	13.9	72.1

Source: Based on special tabulation of United States TNCs by firm size by the United States Department of Commerce at the request of the author for the UNCTAD Programme on Transnational Corporations; and United States Department of Commerce, Bureau of the Census, 1986.

[a] Parent firms whose foreign affiliates' total assets, sales or net income were less than $3 million are excluded. The number of omitted parents was more tan 1,400. Thus, the share for smaller parent firms is presumably underestimated.

[b] Excludes financial companies.

increases with size of firm: in this respect, United States TNCs are typical of those from most developed countries. However, during the 1980s when the number of United States TNCs increased slowly,[20] owing possibly to the international rationalizaiton of operations by (large) TNCs, the share of small and medium-sized TNCs in the total number of TNCs rose from 24 per cent to 28 per cent, the lowest increase being in manufacturing (Table IX).

While developing countries as a whole received a declining share of global FDI in the 1980s, this is not the case for United States SMEs, which established proportionally more affiliates during this period (25 per cent of foreign affiliates of small and medium-sized TNCs were in developing countries in 1982, rising to nearly 28 per cent in 1988); although the developing-country share of United States SMEs' foreign assets in their total foreign assets has dipped slightly (Table XI). However, FDI by United States SMEs increased in the 1980s in proportion to total FDI as indicated by a rising share of foreign assets of SMEs from 1.7 per cent in 1982 to 2.7 per cent in 1988 in all industries/countries and from 2.3 per cent in 1982 to 4.9 per cent in 1988, in particular in developing countries (Table IX); as a result, the average value of assets per affiliate of small and medium-sized TNCs in developing countries ($47.6 million) actually rose above that of large TNCs ($45.5 million) in 1988.[21] This phenomenon is primarily explained by relatively large investments in petroleum-related industries (petroleum extraction, petroleum products and petroleum trade), which accounted for about one half of total assets of foreign affiliates of small and medium-sized TNCs in 1988, compared to one fourth in 1982.

The regional distribution of foreign affiliates of United States TNCs did not change much between 1982 and 1988 for either small and medium-sized TNCs or large TNCs. The most notable change is that South and East Asia is now the second largest host region for United States small and medium-sized TNCs after Europe, measured in terms of assets (Tables XI and XII). This is particularly remarkable since in 1982 the South and East Asia's share was barely greater than Africa's and well behind Latin America's. This trend mirrors that of Japanese SMEs; the host countries benefiting most are Hong Kong, Taiwan, Singapore, the Philippines and the Republic of Korea, in order of magnitude. Apart from these South and East Asian countries, United States SMEs are well represented in terms of numbers, assets, sales and employment (compared to large TNCs) in a number of other regions and countries: Canada (because of a similar market and proximity), the Middle East (because of the significance of petroleum as mentioned earlier) and a few Latin American countries (because of proximity). Mexico is already the second largest developing country after Hong Kong in developing countries (excluding tax-haven countries/territories) for small and medium-sized TNCs and its importance may increase with the development of the North American Free Trade Agreement.[22]

The spread of United States small and medium-sized TNCs to South and East Asia and other regions is highly diversified by industry (on a number of measures, including assets, sales and employment) compared to large TNCs (Table XIII). Most noteworthy is the fact that transportation equipment industry is relatively unimportant compared to Japanese small and medium-sized TNCs (a strong indicator that follow-your-client type of motivaitons are unimportant, at least in this industry). United States SMEs in the services sector appear more transnationalized than their counterparts in the manufacturing sector, but this may reflect only the fact that the criterion employed here for small and medium-sized TNCs (500 employees) is relatively large for the services sector.

D. European countries

As with the United States, large European TNCs also account for the bulk of FDI from the region. In the United Kingdom, there were some 1,000 TNCs whose total FDI (net assets of foreign affiliates) was under £2 million in 1981 (the latest availabel year). Those TNCs that made small investments abroad (not necessarily SMEs) accounted for two thirds of all United Kingdom TNCs, owned one fouth of foreign affiliates by number, but only possessed 0.8 per cent of net assets (Table XIV).

Furthermore, the data indicate that the average value of net assets of foreign affilates under £2 million decreased from £0.4 million in 1974 to

TABLE XI

United States: Regional distribution of foreign affiliates of small and medium-sized transnational corporations and large transnational corporations, 1982 and 1988[a] (percentage)

Region	1982 Small and medium-sized TNCs[b]	1982 Large TNCs[c]	1988 Small and medium-sized TNCs[b]	1988 Large TNCs[c]
	By number of affiliates			
Developed region	70.1	64.4	70.0	65.6
Europe	42.8	42.4	42.5	44.7
Japan	4.4	3.9	3.6	4.1
Others	23.0	18.1	22.0	16.8
Developing region	25.1	33.8	27.6	32.8
Africa	2.0	3.3	2.8	3.0
South and East Asia	7.6	7.4	8.4	8.0
Latin America	12.1	21.1	13.3	19.8
Middle East	3.4	2.1	3.1	2.0
World[d]	100.0	100.0	100.0	100.0
(Absulute number)	(884)	(16144)	(928)	(15794)
	By assets of foreign affiliates			
Developed region	54.2	68.5	57.2	78.5
Europe	32.0[e]	41.2[e]	20.8[e]	48.9[e]
Japan	N.A.	6.0[e]	N.A.	10.6[e]
Others	17.9[e]	20.1[e]	11.6[e]	18.9[e]
Developing countries	39.8	29.3	38.9	20.6
Africa	4.4	2.1	1.0	1.0
South and East Asia	5.0	5.1	18.4	4.6
Latin America	20.3	20.0	15.9	13.5
Middle East	10.1	2.2	3.6	1.5
World[d]	100.0	100.0	100.0	100.0
(Absulute value, billions of dollars)	(12.4)	(729.0)	(31.1)	(1145.4)

Source: Based on special tabulation of United States FDI by firms size by United States Department of Commerce at the request of the author for the UNCTAD Programme on Transnational Corporations.

[a] Non-bank affiliates of non-bank parents. Parent firms whose foreign affiliates' total assets, sales or net income were each less than $3 million are excluded. The number of omitted parent firms was more than 1,400. Thus, both absolute values and percentages figures for smaller parent firms are presumably underestimated.

[b] TNCs whose employees at parent firms are fewer than 500.

[c] TNCs whose employees at parent firms are more than 500.

[d] As unspecified countries are included, the total above does not add up to 100.

[e] Excludes data that are suppressed to avoid disclosed. Thus, the figures are underestimated.

N.A. = Not available.

£0.2 million in 1981. For large investments with over £100 million in net assets, on the other hand, not only did the absolute number of TNCs and their foreign affiliates increase from 15 and 906 in 1974, respectively, to 65 and 2,068 in 1981, respectively, but the average value of their foreign net assets increased from £242 million in 1974 to £315 million in 1981. It seems from the above data that large firms gained in importance in FDI while SMEs did not.

In Sweden, of the 715 TNCs, as many as three fourths of them were small and medium-sized TNCs. However, these TNCs accounted for only 2 per cent of the total employees of all foreign affiliates (Table XV). A predominance by large TNCs exists in the entire range of economic activities, and the largest 17 foreign investors accounted for 74 per cent of total employees of all foreign affiliates. Despite the relatively large number of small and medium-sized TNCs, which

TABLE XII

United States: Shares of foreign affiliates of small and medium-sized transnational corporations in those of all transnational corporations, by host country, 1988 (percentage)

Country	Number of affiliates	Assets of affiliates	Sales of affiliates	Employment of affiliates
Developed countries	5.7	2.0	2.5	1.7
Canada	9.1	2.1	1.9	1.9
Europe	5.3	1.2	1.8	1.6
Japan	4.8	N.A.	N.A.	1.6
Others	3.4	N.A.	N.A.	1.4
Developing economies	4.7	4.9	8.0	2.6
Africa	5.2	2.7	4.4	2.9
South and East Asia	5.8	9.9	17.6	4.2
Hong Kong	8.0	5.1	5.1	9.7
Philippines	4.4	N.A.	N.A.	3.4
Republic of Korea	3.1	N.A.	N.A.	N.A.
Singapore	5.3	N.A.	N.A.	2.6
Taiwan	6.0	2.5	5.4	5.1
Latin America	3.8	3.1	1.8	1.7
Argentina	1.3	0.2	0.3	0.4
Brazil	3.5	0.6	0.8.	0.8
Colombia	3.4	1.0	1.0	2.0
Mexico	2.8	2.2	1.7	1.4
Venezuela	3.0	1.5	1.7	N.A.
Middle East	8.4	6.1	11.7	7.1
All countries	5.5	2.7	3.4	1.9

Source: Based on special tabulation of United States TNCs by firm size by United States Department of Commerce at the request of the author for the UNCTAD Programme on Transnational Corporations.
N.A. = Not available.

results from the fact that even small firms are urged to go transnational because of the small Swedish market, they clearly do not play a major role in the transnationalization of Swedish industry.[23] Their geogrpahical orientaiton is essentially limited to neighbouring countries: more than one half of their foreign affiliates are located in other Scandinavian economies, compared to only 15 per cent for large TNCs, which show a much wider geographical spead in their foreign operations.

There are no official aggregate data on small and medium-sized TNCs in other European countries. What is available for other countries is based on various sample surveys. For example, of 477 foreign affiliates of Austrian TNCs, 23 per cent were established by SMEs, which themselves accounted for 40 per cent of the total number of parent firms in 1987 (Industriewissenschaftliches Institut, 1990, pp. 56–59).[24] Four fifths of Austrian firms in the survey that did not invest abroad were SMEs. In France, of about 2,000 TNCs that were found to engage in technology transfer or FDI in the mid-1980s, about 90 per cent (1,800) were SMEs (Bertin, 1986, p. 6). In another survey conducted in 1974, of a sample of 413 French companies, 11 per cent of those with capital of less than FF 20 million were TNCs, whereas this ratio rose to 82 per cent of those with capital of more than FF 500 million (Savary, 1981, pp. 35–51).

In the case of Germany, a study conducted in the late 1970s indicates that about 27 per cent of companies with FDI were SMEs; those accounted for only 14 per cent of employment in all affiliates in developing couneis, a ratio somewhat lower than the 21 per cent share in developed countries (Kayser and Schwarting, 1981, p. 295).[25] In another study on TNCs based in Germany, only about one fifth of about 300 TNCs were small and medium-sized (Kayser, 1981),[26] although the database of the Programme on Transnational Corporations of UNCTAD has identified so far

TABLE XIII

United States: Shares of parent firms and foreign affiliates of small and medium-sized transnational corporations in those of all transnational corporations, by industry of parent firms, 1988 (percentage)

Industry	Number of parent firms	Foreign affiliates			
		Number	Assets	Sales	Employment
Primary	40.6	6.1	5.7	0.1[a]	6.9
Agriculture, forestry and fishing	66.7	15.6	4.5	3.2	10.3
Mining and petroleum	38.0	5.8	5.7	0.1[a]	6.5
Manufacturing	19.8	3.3	0.8	0.8	1.1
Food, beverages and tobacco	19.2	1.3	0.2	0.3	0.3
Textile products and apparel	23.5	8.9	3.9	3.1	6.5
Lumber, wood and paper products	17.2	3.8	1.1	1.1	0.9
Chemicals and allied products	17.6	2.2	0.7	0.6	0.6
Primary and fabricated metals	24.8	6.4	1.7	2.3	2.1
Machinery, except electrical	25.0	5.7	1.2	1.2	1.8
Electrical and electronic equipment	21.3	4.7	2.6	3.4	2.6
Transportation equipment	8.0	0.5	–	0.1	0.2
Other manufacturing	17.1	3.0	0.8	1.0	1.1
Services	39.9	12.8	4.1	3.2[a]	3.1[a]
Wholesale and retail trade	44.7	30.4	11.3	4.3[a]	4.5
Finance (except banking), insurance and real estate	59.4	4.6	2.2	2.2	1.0
Hotels and other lodging places	20.0	21.2	23.0	N.A.	N.A.
Construction	27.6	7.0	8.7	3.0	0.6
Transportation, communication and public utilities	13.6	5.4	0.6	0.7	0.7
Other services	23.2	7.6	4.1	3.6[a]	4.6[a]
All industries	28.3	5.5	2.7	3.4	1.9

Source: Based on special tabulation of United States TNCs by firm size by United States Department of Commerce at the request of the author for the UNCTAD Programme on Transnational Corporations.

[a] Excludes data that are suppressed to avoid disclosure. Thus, the figures are underestimated.

N.A. = Not available.

TABLE XIV

United Kingdom: Foreign direct investment by size,[a] 1974–1981 (percentage)

FDI size[b]	Number of enterprises			Number of foreign affiliates			Book value of FDI		
	1974	1978	1981	1974	1978	1981	1974	1978	1981
Under £2 million	76.0	76.0	66.3	31.4	23.8	25.0	5.3	3.0	0.8
Over £2 million	24.0	24.0	33.7	68.6	76.2	75.0	94.7	97.0	99.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Memorandum: Over £100 million	0.8	2.3	4.4	9.2	26.9	28.5	35.9	59.8	71.7
(Absolute figures, numbers and billions of pounds)	(1798)	(1891)	(1509)	(12303)	(14193)	(9092)	(10.1)	(19.2)	(28.5)

Source: Department of Trade and Industry, 1978, 1981, 1984, Tables 5, 12 and 12, respectively.

[a] Not included are oil companies, banks and insurance companies.

[b] Size of book value of net assets attributable to United Kingdom enterprises.

TABLE XV

Sweden: Number of employees of foreign affiliates of transnational corporations,[a] 1987 (thousands and percentage)

Region	Small and medium-sized TNCs		Large TNCs	
	Number	Share	Number	Share
Number of TNCs	527	74	188	26
Number of employees of foreign affiliates	11.1	2	476.6	98
		Regional distribution		
Developed countries	10.4	94	359.0	75
Nordic area	5.8	52	70.3	15
European Union, excluding Denmark	3.4	31	203.8	43
North America	1.2	11	85.0	18
Developing countries[b]	0.7	6	117.6	25
Latin America	0.2	1	51.8	11
Asia	0.2	2	37.3	8
Others	0.4	3	28.5	6
All counrtries	11.1	100	476.6	100

Source: Based on Ministry of Industry, 1990, pp. 48–49.

[a] Excludes financial companies with fewer than 50 employees that do not file annual reports to the Swedish Patent and Registration Office. The public enterprises such as the FFV Group, Swedish State Railways, Swedish Telecom, the Swedish Forest Service and the SAS Group are excluded.

[b] Includes such developed countries as Japan, Australia, New Zealand and South Africa as they are separately unavailable.

700 small and medium-sized German TNCs. Another survey of foreign involvement by both small and medium-sized TNCs and large TNCs involved in a range of equity and non-equity foregn investments (Table XVI) shows that both small and medium as well as large German TNCs are willing to engage in non-equity foreign investment; and that such willingness is increasing for SMEs.

The pattern of Italian transnationalization is also interesting. According to a 1987 survey of 211 Italian TNCs, 60 per cent were small and medium-sized that owned 29 per cent of all foreign affiliates, albeit accounting for only 7 per cent and 6 per cent of foreign employment and foreign sales, respectively (Table XVII). Among these small and medium-sized TNCs, however, firms with between 200 and 499 employees showed a relatively high share in foreign employment and sales. Italian medium-sized firms grew faster in the mid-1980s than other firms (Mariotti, 1989), enjoying a competitive edge created by developing niche products, and exploited international markets because their moderate size (a) permits growth relatively unimpeded by the sort of resource constraints felt by smaller firms and (b) assures less management hierarchy than large firms. Regarding ownership of foreign affilates of small Italian TNCs (employment less than 200), about one third are majority-owned, compared to about 70 per cent majority ownership for large TNCs (employment more than 1,000) (Mariotti, 1989, Table 4). There seems to be a monotonic relation between firm size and the share of majority-owned participation, except that medium-sized TNCs (employment 200–499) show a higher perference towards majority ownership (58 per cent) than TNCs of the next (large) size category (employment 500–999).

Finally, Western Europe is not only the largest home region but also the largest host region of small and medium-sized TNCs (Fujita, forthcoming). As a host, Western Europe has increasingly attracted FDI from both inside and outside the region, due in part to the prospects of a unified market in the European Union. SMEs are also actors in the mergers-and-acquisitions activity in the European Union, involving companies from both inside and outside the European Union, an activity that is partly responsible for the expansion

TABLE XVI

Germany: Foreign involvement of manufacturing transnational corporations, by employment size and country group,[a] 1979–1988 (percentage)

	1979–1983				1984–1988[b]			
	Developed countries		Developing countries		Developed countries		Developing countries	
Forms of investment	Small and medium-sized TNCs	Large TNCs	Small and medium-sized TNCs	Large TNCs	Small and medium-sized TNCs	Large TNCs	Small and medium-sized TNCs	Large TNCs
Equity form	53	88	13	38	29	52	10	24
Acquisition of equity:								
Less than 50 per cent equity share	7	12	7	9	2	8	3	5
More than 50 per cent equity share	14	27	2	8	4	10	1	3
Establishment of subsidiaries, branches and sales offices:								
Joint ventures	3	10	2	7	6	9	4	6
Wholly-owned	29	39	2	14	17	25	2	10
Non-equity form	34	56	16	34	42	51	25	34
Licensing consignment to foreign enterprises	16	30	7	19	19	23	9	17
Co-production with foreign enterprises (including processing consignment)	9	17	6	9	12	17	9	10
Other forms of cooperation without capital involvement	9	9	3	6	11	11	7	7

Source: Berger and Uhlmann (1985, Table 11, p. 56).

[a] Only former Federal Republic of Germany. Excludes Central and Eastern Europe. Based on the survey by IFO-Institut conducted in 1983 of 256 small and medium-sized TNCs and 414 large TNCs excluding those in the chemical industry. The totals do not add up to 100 per cent owing to multiple answers.

[b] Forecast.

TABLE XVII
Italy: Characteristics of transnational corporations, by employment size, 1987 (percentage)

Employment size of parents	Number of TNCs	Foreign affiliates		
		Number	Employment[a]	Turnover[a]
1– 99	15.2	6.3	0.7	0.7
100– 199	19.0	8.3	1.4	1.1
200– 499	26.1	14.2	5.4	4.4
500– 999	10.4	6.3	1.5	2.2
1000–1999	10.4	7.2	3.7	3.3
2000–9999	10.9	11.8	8.9	8.4
More than 10000	3.8	44.5	78.3	79.7
Total[b]	100.0	100.0	100.0	100.0
(Absolute number)	(211)	(678)	(321,802)	(52,723 billion lire)
1–499	60.2	28.8	7.4	6.2
More than 500	35.5	69.9	92.3	93.6

Source: Mariotti, 1989, Table 3; and Del Bello and Ramos, 1988, Table 12, p. 24.
[a] Data for 1986.
[b] Includes also private investors. Thus, the total above adds up to less than 100.

of FDI (inward and intra-European Union) since the late 1980s. The evolution of the single European market will continue to affect the pattern of SMEs' transnational activity, perhaps by diverting it from developing countries; on the other hand, transitional countries (as well as some in the European Union, such as Portugal) may benefit from SMEs oriented towards servicing the Western Eurpean market.

E. Conclusions

SMEs do not play a role in FDI to the same extent as in their home economy. Their FDI is more concentrated in developed countries than is the FDI of large TNCs. This means that small and medium-sized TNCs are still minor actors in the introduction of capital, technology and management into developing countries. However, there is an indication that small and medium-sized TNCs have been increasing their investment in developing countries, especially those from Japan. In any case, with the exception of Japan and some countries in Europe such as Austria, FDI by SMEs appears to be a small fraction of total FDI from developed countries.

As regards FDI by SMEs in developing countries, the evidence indicates that locational perferences vary according to the national origin of SMEs. Japanese SMEs have been inclined to invest mainly in South and East Asia. United States SMEs previously selected Latin America as the first preference, but have been shifting their FDI into South and East Asia. Western European SMEs seem to have preferred South and East Asia first and then Latin America. Comparatively few SMEs have invested in Africa. This pattern reflects closely the clustering observed for FDI overall (United Nations Centre on Transnational Corporations, 1991 and UNCTAD Programme on Transnational Corporations, 1993).

Small and medium-sized TNCs appear to operate to a large extent in manufacturing and particularly in industries that produce capital goods. In terms of those that invest in developing countries, the evidence indicates that SMEs from the electrical equipment industry, followed by those established in chemicals and textiles, have a larger relative propensity to locate affiliates in developing countries.

In the case of SMEs, howeve, and accurate idea of the extent of internationalization and its impact in recipient developing countries can only be obtained if non-equity forms of investment are also taken into consideration. In fact, as noted for the German case and evidenced elsewhere (Campos *et al.*, 1993) there is a high tendency towards licensing agreements among SMEs in transferring their know-how (many of those agreements, of course, are with their own affiliates). Developing-country and other policy markers need to integrate this evidence with that on equity-based transnationalization in the formulation of their policies towards small and medium-sized TNCs.

Notes

* The author is grateful for advice and comments by Hafiz Mirza.

[1] In this paper a small or medium-sized TNCs is defined as an entrprise that has a home base (headquarters of parent firm) in developed country and that operate at least one affliate in another country and whose employment level in its home country is fever than 500 people, regardless of the industry. Any deviation from this scale rule is indicated in notes.

[2] The Japanese definition of SMEs has two criteria: capital and employment size. In manufacturing, SMEs are those whose capital is less than ¥100 million and employees fewer than 300. In the wholesale trade, the capital has to be less than ¥30 million and the number of employees fewer than 100, while in the retail trade and other services the respective levels are ¥10 million and 50 employees. The data on SMEs reported by the Government of Japan are based on this definition.

[3] See also Table III.

[4] Based on special tabulation of United Sates FDI by firm size by United States Department of Commerce at the request of the author for the UNCTAD Programme on Transnational Corporations. See also Table IX.

[5] See also Table XIV.

[6] See Table IX for source.

[7] The large concentration of foreign affiliates of small and medium-sized TNCs in developed countries may also be due in part to the gradual approach that firms take as a corporate strategy in their geographical orientation. The process of transnationalization of some SMEs starts with going into the markets whose characteristics are similar to those in their home countries, in which physical and cultural similarities are important factors in choosing locations (Fujita, 1993). As the substantial foreign expansion of SMEs is still a relatively recent phenomenon, concentration in similar markets is more evident for small and medium-sized TNCs. In particular, avoidance of various risks associated with unfamiliar markets is deemed necessary as they have more limited resources than large TNCs.

[8] The United Nations Survey comprise three different questionnaires sent to a number of companies: affiliates of small and medium-sized TNCs and large TNCs in developing countries, parent firms of small and medium-sized TNCs and indigenous developing-country firms. In addition, interviews were conducted by the author with officials of institutions in developed countries that support the internationalization of SMEs. The publication by the UNCTAD Programme on TransnationalCorporations is based on this Survey, from which the present as well as the next articles are drawn.

[9] In the United Nations Survey, the proportion of foreign affiliates established in developing countries (less than 20 per cent) is larger than in the evidence discussed above (45 per cent). This is probably because during the survey process small and medium-sized TNCs with foreign affiliates in developing countries tended to respond more to the United Nations Survey than small and medium-sized TNCs without foreign affiliates in developing countries, since one of main objectives of the United National Survey was to find the importance of their FDI in developing countries.

[10] Developed countries started to host FDI from SMEs earlier than developing countries and the concentration of FDI by SMEs is high from the 1980s. An interesting point is that nearly one fifth of investments made in Europe are within only a few years of the 1990s – the result of the single European market.

[11] Based on 11 SMEs in high-technology, 24 SMEs in medium-technology and 20 SMEs in low-technology industries.

[12] The data on value of FDI by SMEs are available only for the period 1974–1986.

[13] These are imported in Japan and urged to reduce the ultimate cost of Japanese products.

[14] As population standard deviation of the share in seven regions is 18.1 for SMEs and 12.8 for large firms, it can be said that the geographical dispersion of FDI by large firms is wider and more equally divided than for SMEs.

[15] Based on Small and Medium Enterprise Agency, various years and Ministry of Finance, 1977 and 1988.

[16] Stock of equity and loan investment in MITI's TNC survey is based on only the companies that responded to its questionnaire and excludes, by definition, other components of FDI, which are payment to establishment and expansion of branches adn purchase of property (though, purchase of property is not counted as FDI since December 1980). Thus, this stock data is assumed to be lower than FDI stock. It also excludes financial and insurance companies. Therefore, in this section the data on all SMEs exclude those companies when they are compared to the data from the MITI survey on TNCs.

[17] The MITI's TNC survey suffers from some deficiencies. First of all, it does not cover all TNCs. In terms of number of parent firms, the 1980 survey covers 43.1 per cent and the 1989 survey covers 50.3 epr cent. Therefore, figures on both small and medium-sized TNCs and large TNCs are underestimated, but it is not certain how much they are underestimated. It is presumed that large TNCs tend to respond more to the MITI survey. Secondly, as the coverage ratio varies from survey to survey, accurate comparison between surveys cannot be made.

[18] Differences in the number of foreign affiliates owned by TNCs between here and in Table I are due to the differences in the number of TNCs covered.

[19] On the other hand, large firms tend to conclude more technology exports with developed countries than SMEs. About 40 per cent of the number and 50 per cent of the value of technology exports by large firms were made to developed countries during 1985–1990.

[20] According to the United States Department of Commerce (1985 and 1992), the number of parent United States TNCs decreased from 1,994 in 1982 to 1,989 in 1988, but increased

to 2,272 in 1989. However, those numbers do not include TNCs with less than $3 million in 1982 and 1989 and $15 million in 1988 in assets, sales or net income in their foreign affiliates. The number of omitted companies was 1,412 in 1982, but unknown in 1988. The 1989 figure excludes 723 such companies.

[21] In 1982, average value was $22.4 million for affiliates of small and medium-sized TNCs in developing countries, compared to $39.2 million for those of large TNCs.

[22] Of course, Mexico may not appear prominent simply because the percentages in Table III.XII represent SMEs' shares in each country – and large TNCs may be investing heavily also.

[23] Nearly 60 per cent of employees of the larges 17 TNCs are employed abroad, while only 18 per cent of total employees of small and medium-sized TNCs are overseas.

[24] The number of TNCs that own these subsidiaries is not specified.

[25] This survey is based on parent companies owning 654 foreign subsidiaries.

[26] The survey was conducted in May 1980. The number of TNCs responding to it were 308.

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