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The international competitiveness of the UK and its multinational enterprises

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Abstract

This study outlines the theoretical links between the international competitiveness of firms and their home countries and uses them to examine the dynamic relationships between the international competitiveness of the UK domestic economy and its Multinational Enterprises (MNEs). These are measured by the UK shares of OECD output, exports and outward foreign direct investment (FDI) respectively, since the late 19th century onwards. The main findings are that the shares of the UK in OECD exports, output and outward FDI have been declining during most parts of the last century, but UK MNEs have performed consistently better than the UK domestic economy. During the period studied, and particularly since the 1960s onwards, UK outward FDI, export and output shares have moved in tandem rather than as substitutes. The study concludes by drawing the policy implications of these relationships. © 2001 Elsevier Science B.V. All rights reserved.

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1. Background

It is now conventional wisdom that the international competitiveness of the UK domestic economy, as measured by its export performance, has been declining over the last century in most industries. While, a hundred years ago, the UK exported

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about 30% of world manufactured exports, its share fell to less than 7% in the early 1990s. In absolute terms, the UK's exports were above the levels of all its main competitors in the 19th and early 20th century; in the 1990s, they were far below those of Germany, Japan and the US.

The explanations that have been given for this decline have focused on factors such as macro-economic policies (Dunnett, 1989), low productivity (Craft, 1991), lack of innovative activities and low level of technology (Buxton, 1994; Buxton et al., 1994). Other explanations stressed the indifferent British attitudes towards business and lack of managerial skills (Chandler, 1980, 1990). The continued commitment of UK firms to traditional Empire markets, which allowed them to achieve growth and profits without innovations and modern technologies, has also been suggested as a factor inhibiting the modern transformation of the UK industry (Cairncross, 1992). Another hypothesis sometimes advanced is that the UK's early start in industrialisation adversely affected its more recent economic growth (Craft, 1988). The success of the old industries reduced the incentive for the proper development of new, technologically advanced industries.

One further explanation to which relatively little attention has been paid is the activity of UK-owned firms outside the boundaries of their home country. It might be that the decline of the UK's export shares reflects a shift of location of production by UK firms rather than a loss of their competitiveness.

Empirical studies based on data from the US and Sweden, have demonstrated that the export shares of these countries and the shares of their multinational enterprises (MNEs) in world manufacturing exports have changed in very different ways. While both countries have experienced declining export shares, their MNEs have been gaining competitiveness (Lipsey and Kravis, 1986; Blomstrom and Kulchycky, 1988; Blomstrom and Lipsey, 1989; Kravis and Lipsey, 1989; Blomstrom, 1990). These findings suggest that analyses based only on exports may provide only a partial picture of the international competitiveness of a country and its firms.

The significant size and growth of overseas direct investment by UK MNEs, at a time when export shares of the UK have been declining, suggest that a similar situation may exist also in the UK (Jones, 1994). The UK was the world's leading outward direct investor up to the Second World War. Since then, its share of world FDI has fallen, but the value of its overseas assets has increased continuously (Dunning, 1988). In 1996, the UK was the second largest outward FDI investor (following only the US) and held a larger foreign direct capital stake than any country except the US and Japan (UNCTAD-DTCI, 1997).

There is some evidence that suggests that a shift of value-added activities abroad by UK firms may indeed explain, at least partially, the decline of UK's export shares. Such developments have been demonstrated by Corley (1994) for the 1870–1914 period, by Reddaway (1968) for the 1950s and early 1960s, and by Dunning (1978) for the 1960s and early 1970s. Stopford and Turner (1985) provided additional support to this suggestion, based on the division of labour between affiliates and headquarters in a sample of leading UK MNEs in the 1980s. These studies highlight the need to acknowledge the competitive performance of