UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

World Investment Report 2006

FDI from Developing and Transition Economies: Implications for Development

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PREFACE

This year's *World Investment Report* highlights the changing role of developing countries and transition economies in global foreign direct investment and the international production system. It examines their emergence as significant sources of foreign direct investment as well as the underlying factors and broader implications.

The *Report* stresses that such outward investment offers an additional avenue for developing countries to link up to global markets and production systems. If managed successfully, these investments can help firms access markets, natural resources, foreign capital, technology or various intangible assets that are essential to their competitiveness but that may not be readily available in their home countries. Appropriate policies are needed to mitigate the risks and costs and seize the opportunities arising from outward investment.

From a host-country perspective the rise of transnational corporations from developing and transition economies expands the range of potential sources of finance, technology and management know-how. This is of particular relevance to low-income countries. As shown in the *Report*, inflows of foreign investment into many least developed countries come primarily from other developing countries. It is important to consider how this form of South-South cooperation can be further strengthened to promote mutual development gains.

Developed countries and their firms will face new competition for various resources and assets, but they will also find new opportunities for economic collaboration. They will have to become accustomed to many more transactions involving investors from developing and transition economies as they expand internationally. In fact, the emergence of these new sources of investment has broader implications for international economic relations as it reflects their growing clout in the world economy.

Finally, the emergence of transnational corporations from developing and transition economies imparts greater momentum to South-South cooperation. New investment corridors are opening up between Latin America, Africa and Asia as part of this dynamic activity, with positive prospects for advancing development. To capitalize on this opportunity, policy-makers from home and host developing countries need to gear themselves into action and, for this, they will require insightful knowledge and analysis. This year's *World Investment Report* is a step towards this goal.

Kofi A. Annan
Secretary-General of the United Nations

New York, July 2006

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ABBREVIATIONS

AGOA	African Growth and Opportunity Act (of the United States)
ASEAN	Association of Southeast Asian Nations
BIT	bilateral investment treaty
CARICOM	Caribbean Community
CIS	Commonwealth of Independent States
COMESA	Common Market for Eastern and Southern Africa
CSR	corporate social responsibility
DFI	developoment finance institution
DTT	double taxation treaty
ECA	export credit agency
ECLAC	Economic Commission for Latin America and the Caribbean
ECOWAS	Economic Community of West African States
EIU	Economist Intelligence Unit
EMU	European Monetary Union
EPA	economic partnership agreement
EU	European Union
FDI	foreign direct investment
FTA	free trade agreement
GATS	General Agreement on Trade in Services (WTO Agreement)
GCC	Gulf Cooperation Council
GDP	gross domestic product
GFCF	gross fixed capital formation
GLC	government-linked company
IAIGC	Inter-Arab Investment Guarantee Corporation
ICSID	International Centre for Settlement of Investment Disputes
ICT	information and communications technology
IDP	investment development path
IIA	international investment agreement
IPA	investment promotion agency
IPR	intellectual property right
ISDS	investor-State dispute settlement
ISO	International Standards Organization
IT	information technolgy
LAC	Latin America and the Caribbean
LDC	least developed country
M&A	merger and acquisition
MERCOSUR	Mercado Común del Sur (Southern Common Market)
MIGA	Multilateral Investment Guarantee Agency
MFA	Multi-Fibre Arrangement
MFN	most-favoured nation
NEPAD	New Partnership for Africa's Development
NIE	newly industrializing economy
NOI	net outward investment
OECD	Organisation for Economic Co-operation and Development
OEM	original equipment manufacture
PC	personal computer
R&D	research and development
SADC	Southern African Development Community
SAFE	State Administration of Foreign Exchange (China)
SAGIA	Saudi Arabian General Investment Authority
SME	Small and medium-sized enterprises
SPE	special purpose entity
TNC	transnational corporation
TPO	Trade promotion organization
TRIPS	Trade-related Aspects of Intellectual Property Rights (WTO agreement)
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
WAIPA	World Association of Investment Promotion Agencies
WTO	World Trade Organization

OVERVIEW

ANOTHER YEAR OF FDI GROWTH

Foreign direct investment in 2005 grew for the second consecutive year, and it was a worldwide phenomenon.

Inflows of foreign direct investment (FDI) were substantial in 2005. They rose by 29% – to reach $916 billion – having already increased by 27% in 2004. Inward FDI grew in all the main subregions, in some to unprecedented levels, and in 126 out of the 200 economies covered by UNCTAD. Nevertheless, world inflows remained far below the 2000 peak of $1.4 trillion. Similar to trends in the late 1990s, the recent upsurge in FDI reflects a greater level of cross-border mergers and acquisitions (M&As), especially among developed countries. It also reflects higher growth rates in some developed countries as well as strong economic performance in many developing and transition economies.

Inflows to developed countries in 2005 amounted to $542 billion, an increase of 37% over 2004, while to developing countries they rose to the highest level ever recorded – $334 billion. In percentage terms, the share of developed countries increased somewhat, to 59% of global inward FDI. The share of developing countries was 36% and that of South-East Europe and the Commonwealth of Independent States (CIS) was about 4%.

The United Kingdom saw its inward FDI surge by $108 billion to reach a total of $165 billion, making it the largest recipient in 2005. Despite a decline in the level of inward FDI, the United States was the second largest recipient. Among developing economies, the list of the largest recipients compared with previous years remained stable, with China and Hong Kong (China) at the top, followed by Singapore, Mexico and Brazil. Regionally, the 25-member European Union (EU) was the favourite destination, with inflows of $422 billion, or almost half of the world total. South, East and South-East Asia received $165 billion, or about a fifth of that total, with the East Asian subregion accounting for about three quarters of the regional share. North America came next with $133 billion, and South and Central America followed with $65 billion. West Asia experienced the highest inward FDI growth rate, of 85%, amounting to $34 billion. Africa received $31 billion, the largest ever FDI inflow to that region.

Global FDI outflows amounted to $779 billion (a different amount from that estimated for FDI inflows due to differences in data reporting and collecting methods of countries). Developed countries remain the leading sources of such outflows. In 2005, the Netherlands reported outflows of $119 billion, followed by France and the United Kingdom. However, there were significant increases in outward investment by developing economies, led by Hong Kong (China) with $33 billion. Indeed, the role of developing and transition economies as sources of FDI is increasing. Negligible or small until the mid-1980s, outflows from these economies totalled $133 billion last year, corresponding to some 17% of the world total. The implications of this trend are explored in detail in Part Two of this Report.

It was spurred by cross-border M&As, with increasing deals also undertaken by collective investment funds.

Cross-border M&As, especially those involving companies in developed countries, have spurred the recent increases in FDI. The value of cross-border M&As rose by 88% over 2004, to $716 billion, and the number of deals rose by 20%, to 6,134. These levels are close to those achieved in the first year of the cross-border M&A boom of 1999-2001. The recent surge in M&A activity includes several major transactions, partly fuelled by the recovery of stock markets in 2005. There were 141 mega deals valued at more than $1 billion – close to the peak of 2000, when 175 such deals were observed. The value of mega deals was $454 billion in 2005 – more than twice the 2004 level and accounting for 63% of the total value of global cross-border M&As.

A new feature of the recent M&A boom is increasing investment by collective investment funds, mainly private equity and related funds. A number of factors, including historically low interest rates and increasing financial integration,

have led private equity firms to undertake direct investments abroad, which are estimated to have reached $135 billion in 2005 and accounted for 19% of total cross-border M&As. Unlike other kinds of FDI, private equity firms tend not to undertake long-term investment, and exit their positions with a time horizon of 5 to 10 years (or an average of 5-6 years), long enough not to be regarded as typical portfolio investors. Thus host countries, and developing ones in particular, need to be aware of this difference in time horizon. At the same time, foreign ownership can bring market access and new technologies, and private equity investment can help host-country enterprises at a critical juncture to move to a new phase of development.

Most inflows went into services, but the sharpest rise in FDI was in natural resources.

Services gained the most from the surge of FDI, particularly finance, telecommunications and real estate. (Since data on the sectoral distribution of FDI are limited, these observations are extrapolated from data relating to cross-border M&As, which accounted for a significant share of inflows.) The predominance of services in cross-border investments is not new. What *is* new is the further and sharp decline in the share of manufacturing (four percentage points lower in cross-border M&A sales over the preceding year) and the steep rise of FDI into the primary sector (with a sixfold increase in cross-border M&A sales), primarily the petroleum industry.

There has been a significant increase in developing-country firms in the universe of transnational corporations.

Transnational corporations (TNCs), most of them privately owned, undertake FDI. However, in some home countries (notably in the developing world) and in some industries (especially those related to natural resources) a number of major State-owned enterprises are also increasingly expanding abroad. According to estimates by UNCTAD, the universe of TNCs now spans some 77,000 parent companies with over 770,000 foreign affiliates. In 2005, these foreign affiliates generated an estimated $4.5 trillion in value added, employed some 62 million workers and exported goods and services valued at more than $4 trillion.

The TNC universe continues to be dominated by firms from the Triad – the EU, Japan and the United States – home to 85 of the world's top 100 TNCs in 2004. Five countries (France, Germany, Japan, the United Kingdom and the United States) accounted for 73 of the top 100 firms, while 53 were from the EU. Heading the list of the global top 100 non-financial TNCs are General Electric, Vodafone and Ford, which together account for nearly 19% of the total assets of these 100 companies. The automobile industry dominates the list, followed by pharmaceuticals and telecommunications.

However, firms from other countries are advancing internationally. Total sales of TNCs from developing countries reached an estimated $1.9 trillion in 2005 and they employed some 6 million workers. In 2004, there were five companies from developing economies in the list of the top 100 TNCs, all with headquarters in Asia, three of them State-owned. These five companies – Hutchison Whampoa (Hong Kong, China), Petronas (Malaysia), Singtel (Singapore) Samsung Electronics (the Republic of Korea) and CITIC Group (China) – topped the list of the largest 100 TNCs from developing countries. (Since 1995, the *World Investment Report* has published a list of the top 50 TNCs, but in this Report the list has been expanded to cover 100 TNCs.) In 2004, 40 of the firms were from Hong Kong (China) and Taiwan Province of China, 14 from Singapore and 10 from China. Altogether, 77 of the top 100 TNCs had their headquarters in Asia; the remaining were equally distributed between Africa and Latin America.

Liberalization continues, but some protectionist tendencies are also emerging.

In terms of regulatory trends relating to investment, the pattern observed in previous years has persisted: the bulk of regulatory changes have facilitated FDI. They have involved simplified procedures, enhanced incentives, reduced taxes and greater openness to foreign investors. However, there have also been notable moves in the opposite direction. In both the EU and the United States, growing concerns have arisen over proposed foreign acquisitions. In early 2006, the acquisition by DP World (United Arab Emirates) of P&O (United Kingdom), a shipping and port management firm, along with that firm's management of some ports in the United States, led to United States protests on the grounds of security. Similarly, in Europe concerns were voiced over a bid by Mittal Steel to acquire Arcelor, and broader European opposition to the EU's own directive relating to the liberalization of services. Some notable regulatory steps were also taken to protect

economies from foreign competition or to increase State influence in certain industries. The restrictive moves were mainly related to FDI in strategic areas such as petroleum and infrastructure. For example, the Latin American oil and gas industry became the focus of attention, particularly following the Bolivian Government's decision to nationalize that industry in May 2006.

The web of international agreements of relevance to FDI continued to expand. By the end of 2005, the total number of bilateral investment treaties (BITs) had reached 2,495, and double taxation treaties (DTTs) 2,758, along with 232 other international agreements containing investment provisions. A number of developing countries are actively involved in such rule-making, including through more South-South cooperation. A notable trend involves the conclusion of further free trade agreements and various economic cooperation arrangements dealing with investment. The universe of international investment agreements (IIAs) is becoming increasingly complex. The recent IIAs tend to deal with a broader set of issues, including public concerns related, for example, to health, safety or the environment. While such quantitative and qualitative changes may contribute to creating a more enabling international framework for foreign investment, they also mean that governments and firms have to deal with a rapidly evolving system of multilayered and multifaceted set of rules. Keeping this framework coherent and using it as an effective tool to further countries' development objectives remain key challenges.

Africa attracted much higher levels of FDI.

In *Africa*, FDI inflows shot up from $17 billion in 2004 to an unprecedented $31 billion in 2005. Nonetheless, the region's share in global FDI continued to be low, at just over 3%. South Africa was the leading recipient, with about 21% ($6.4 billion) of the region's total inflows, mainly as a result of the acquisition of ABSA (South Africa) by Barclays Bank (United Kingdom). Egypt was the second largest recipient, followed by Nigeria. As in the past, with a few exceptions such as Sudan, most of the region's 34 least developed countries (LDCs) attracted very little FDI. The leading source countries remained the United States and the United Kingdom, along with France and Germany further behind. Most of the FDI was in the form of greenfield investments.

FDI flows to Africa in 2005 went mainly into natural resources, especially oil, although services (e.g. banking) also figured prominently. High commodity prices and strong demand for petroleum led to an increase in exploration activities in a number of African countries, including Algeria, Egypt, Equatorial Guinea, the Libyan Arab Jamahiriya, Mauritania, Nigeria and Sudan. TNCs from the United States and the EU continued to dominate the industry, but a number of developing-country TNCs, such as CNOOC from China, Petronas from Malaysia and ONGC Videsh from India, are increasingly expanding into Africa. Total FDI into six African oil-producing countries – Algeria, Chad, Egypt, Equatorial Guinea, Nigeria and Sudan – amounted to $15 billion, representing about 48% of inflows into the region in 2005.

Although outward FDI from Africa declined in 2005, several African TNCs deepened their internationalization, including through cross-border M&As. For example, Orascom, acquired Wind Telecommunicazioni of Italy through Weather Investments of Egypt. Most of the FDI from South Africa, the leading investor in Africa, went to developing countries in 2005.

Manufacturing attracted less FDI than natural resources and services. However, some sector-specific developments are worth highlighting. Automotive TNCs have set up export-oriented production facilities in South Africa, generating employment opportunities and export revenues. Conversely, fragmented markets, poor infrastructure and a lack of skilled workers, coupled with the ending in 2005 of the quotas established under the Multi-Fibre Arrangement (MFA), contributed to some divestment in the ready-made garments industry in countries like Lesotho. These divestments suggest that preferential market access (as provided by the United States' African Growth and Opportunities Act and the EU's Everything But Arms initiative) is not in itself sufficient to attract and retain manufacturing FDI in a globalizing environment. If African countries are to become internationally competitive, it is essential that they strengthen the necessary linkages between their export sectors and the rest of the economy by building and fostering domestic capabilities in areas such as physical infrastructure, production capacity and institutions supportive of private investment.

There have been positive developments in terms of regulatory regimes, and many African countries have signed new bilateral agreements related to investment and taxation. However, attracting quality FDI – the kind that would significantly increase employment, enhance skills and boost the competitiveness of local enterprises – remains a challenge. Africa's industrial progress

requires competitive production capacity, in addition to better market access.

South, East and South-East Asia is still the main magnet for inflows into developing countries ...

FDI inflows into *South, East and South-East Asia* reached $165 billion in 2005, corresponding to 18% of world inflows. About two thirds went to two economies: China ($72 billion) and Hong Kong, China ($36 billion). The South-East Asian subregion received $37 billion, led by Singapore ($20 billion) and followed by Indonesia ($5 billion), Malaysia and Thailand ($4 billion each). Inflows to South Asia were much lower ($10 billion), though they grew significantly in several countries, with the highest level ever for India of $7 billion.

Over half of the inflows to the region came from developing home economies, mostly within the region. The figures for inward stock show significant growth in the share of these sources over the past decade, from about 44% in 1995 to about 65% in 2004, with a corresponding decline in the share of developed-country sources.

Manufacturing FDI has been increasingly attracted to South, East and South-East Asia, although specific locations have changed as countries have moved up the value chain. The sector continues to attract large inflows, especially in the automotive, electronics, steel and petrochemical industries. Viet Nam has become a new location of choice, attracting new investment by companies such as Intel, which is investing $300 million in the first semiconductor assembly plant in that country. In China, investment in manufacturing is moving into more advanced technologies; for example, Airbus plans to set up an assembly operation for its A320 aircraft. There is, however, a shift towards services in the region, in particular banking, telecommunications and real estate.

Countries in South, East and South-East Asia continue to open up their economies to inward FDI. Significant steps in this direction were taken in 2005, particularly in services. For example, India is now allowing single-brand retail FDI as well as investment in construction, and China has lifted geographic restrictions on operations of foreign banks and travel agencies. A few measures were also introduced to address concerns over cross-border M&As in countries such as the Republic of Korea.

South, East and South-East Asia is also an emerging *source* of FDI (among developing countries), with outflows of $68 billion in 2005. Although this implies a drop of 11% from 2004, Chinese outflows increased and seem set to rise further in the next few years. Many of the region's countries have accumulated large foreign reserves, which may lead to more outward FDI. Among the main recent FDI deals involving companies from this region were Temasek's (Singapore) purchase of an 11.5% stake in Standard Chartered (United Kingdom) in 2006, and CNPC's (China) takeover of Petrokazakhstan in 2005. China and India have been energetically pursuing the acquisition of oil assets, and have even cooperated on some bids.

... while West Asia received an unprecedented level of inflows.

FDI inflows into the 14 economies of West Asia soared by 85%, the highest rate in the developing world in 2005, to reach a total increase of about $34 billion. High oil prices and consequently strong GDP growth were among the main factors that drove this increase. In addition, the regulatory regime was further liberalized, with an emphasis on privatization involving FDI notably in services: for instance, power and water in Bahrain, Jordan, Oman and the United Arab Emirates, transport in Jordan, and telecommunications in Jordan and Turkey.

The United Arab Emirates collectively received inflows of $12 billion, to become the largest recipient of FDI in West Asia in 2005. The next largest was Turkey, primarily on account of a few mega cross-border M&A sales in services. FDI inflows in West Asia have gone mainly into services, including real estate, tourism and financial services. Much of the FDI in real estate has been intraregional. There is also increasing FDI in manufacturing, especially in refineries and petrochemicals, in which Saudi Arabia alone received some $2 billion in 2005. There is little FDI in the primary sector, as most West Asian countries do not permit it in upstream activities in the energy industry.

West Asia is becoming a significant outward direct investor. Traditionally, most of the region's petrodollars have gone into bank deposits and portfolio purchases abroad, particularly in the United States. This is changing in both form and location. Unlike the previous periods of high oil revenues, the present phase is witnessing substantial outward FDI in services, in developing as well as developed countries. One motivation for

this has been to forge stronger economic ties with the emerging Asian giants, China and India, but investment has also gone into Europe and Africa. Deals such as the above-mentioned acquisition of P&O by DP World, and the purchase of Celtel International (Netherlands) by Kuwait's Mobile Telecommunications illustrate this trend. Notable cases of South-South FDI include the purchase of a 25% share by Saudi Aramco in a refinery in Fujian, China, and a possible Saudi equity partnership with India's ONGC in a refinery in Andhra Pradesh, India.

Latin America and the Caribbean continued to receive substantial FDI.

Latin America and the Caribbean saw inflows of $104 billion, representing a small rise over 2004. Excluding the offshore financial centres, inflows increased by 12%, to reach $67 billion in 2005. Economic growth and high commodity prices were contributory factors. The region registered exceptional GDP growth rates in 2004-2005, surpassing those of the world average for the first time in 25 years. Strong demand for commodities contributed to a noticeable improvement in the regional trade balance. A significant proportion of the FDI inflows consisted of reinvested earnings, reflecting a marked increase in corporate profits. Trends varied by country: while inflows decreased in Brazil (- 17%), Chile (-7%) and Mexico (-3%), they rose significantly in Uruguay (81%), more than trebled in Colombia, almost doubled in Venezuela, and increased by 65% and 61% in Ecuador and Peru respectively.

Sectorally, the share of FDI in services in total FDI flows continued to decline, from 40% in 2004 to 35% in 2005 – a very low share compared with other regions. Some TNCs continued to withdraw from the region, in part due to disputes with host governments in areas such as public utilities (e.g. the withdrawal from Argentina of Suez and EDF (both French firms)). Manufacturing accounted for just over 40% of inflows, including a relatively large number of M&As, such as SABMiller's takeover of breweries in Colombia and Peru, Grupo Techint's (Argentina) purchase of the steel-maker Hylsamex (Mexico), and Camargo Correa's (Brazil) acquisition of the cement-maker, Loma Negra (Argentina).

Even though a number of countries in the region introduced more restrictive policies, FDI in the primary sector grew significantly, attracting nearly 25% of inflows. Despite introducing a requirement on TNCs in the petroleum industry to operate under new contracts Venezuela received FDI inflows of $1 billion. In Colombia, petroleum-related FDI soared to $1.2 billion, a 134% rise, and in Ecuador it increased by 72% in the first half of 2005. Investment in the mining industry also expanded. In Colombia, for example, it grew by nearly 60% to $2 billion, in Chile to $1.3 billion, in Peru to $1 billion and in Argentina to $850 million.

Notwithstanding significant differences accross countries, there appears to be a trend towards greater State intervention in the region, above all in the oil industry, and other natural resources. As a result of the large windfall earnings generated by the exploitation of natural resources and high commodity prices, several governments are introducing rules that are less favourable to FDI than those established in the 1990s, when commodity prices were at record lows. For instance, oil and gas resources have been nationalized in Bolivia; and the Government of Venezuela took control of 32 oilfields previously under private control, and created new State-owned companies in sectors such as sugar processing, retailing and communications. In addition, a broader shift in policy is under way in some countries, which aims at addressing income inequalities attributed to previous policy regimes.

Regional cooperation in the area of investment experienced several setbacks in 2005. Negotiations on establishing a 34-country Free Trade Agreement of the Americas stalled owing to opposition by five countries (including Argentina and Brazil); the free-trade talks between Ecuador and the United States were suspended following a takeover by the Government of Ecuador of Occident Petroleum's production infrastructure.

FDI outflows from Latin America and the Caribbean increased by 19% to $33 billion in 2005, with TNCs from the region acquiring assets mainly in telecommunications and heavy industries. As a significant share of these investments is within Latin America and the Caribbean, it also contributes to FDI inflows into the region.

FDI flows to South-East Europe and the Commonwealth of Independent States remained relatively high...

FDI flows to South-East Europe and the CIS in 2005 remained at a relatively high level ($40 billion), increasing only slightly over the previous year. Inflows were fairly concentrated: three countries – the Russian Federation, Ukraine and

Romania, in that order – accounted for close to three quarters of the total. FDI outflows from the region grew for a fourth consecutive year, reaching $15 billion, with the Russian Federation alone responsible for 87% of the total outflows. The countries of the region have different policy priorities related to inward and outward FDI, reflecting their varying economic structures and institutional environments. In natural-resource-based economies, such as the Russian Federation, Azerbaijan and Kazakhstan, most of the policy issues concern management of the windfall earnings from high international oil prices, and the definition – or redefinition – of the role of the State.

…while there was an upturn in FDI to developed countries.

FDI inflows into developed countries rose by 37% to $542 billion, or 59% of the world total. Of this, $422 billion went to the 25-member EU. The United Kingdom – the largest single recipient of global FDI – received $165 billion. The main contributory factor was the merger of Shell Transport and Trading (United Kingdom) with Royal Dutch Petroleum (the Netherlands), a deal valued at $74 billion. Other major FDI recipients, that registered significant increases in their FDI inflows included France ($64 billion), the Netherlands ($44 billion) and Canada ($34 billion). The 10 new EU members together attracted $34 billion, a rise of 19% over 2004 and another new record high. Inflows into the United States amounted to $99 billion, a significant decline from 2004. Although well over 90% of all inflows into developed countries originated from other developed countries, several notable investments by TNCs from developing countries also took place, including Lenovo's (China) takeover of IBM's personal computer division and the above-mentioned purchase of Italian Wind Telecomunicazioni by Orascom of Egypt through Weather Investments.

As a result of the Shell merger mentioned above, the Netherlands emerged as the leading source of FDI in 2005, followed by France ($116 billion) and the United Kingdom ($101 billion). Overall, however, outflows from developed countries declined somewhat, from $686 billion to $646 billion, mainly due to a fall in outflows from the United States. The American Jobs Creation Act of 2004 contributed to the decline, as it allowed repatriated earnings of United States foreign affiliates to be taxed at a lower rate than the normal one, leading to a one-off fall in reinvested earnings.

FDI into developed countries increased in all three sectors: primary, manufacturing and services. In keeping with the global trend, investment in natural resources increased significantly. In manufacturing, some of the new EU members (especially the Czech Republic, Hungary, Poland and Slovakia) consolidated their positions as preferred locations for automotive production. Hyundai Motors, for instance, announced plans to set up new plants in the Czech Republic and in Slovakia. The new EU members are likely to maintain their comparative advantages (e.g. their average wage is 30% of the average wage in the older EU countries) for some time, and their automotive production is expected to double over the next five years, to 3.2 million vehicles.

In 2005, there were intense political discussions on various aspects of FDI, and especially cross-border M&As, in developed countries. On the one hand, some countries, particularly the 10 new EU member States, continue to privatize, reduce corporate income taxes and provide new incentives to attract more FDI. On the other hand, various concerns have been raised in a number of countries following the increased M&A activity. National security concerns, for example, led to a blocking of the purchase of Unocal (United States) by CNOOC (China); the Governments of Spain and France tried to prevent the buyouts of Endesa and Suez, respectively, by companies from other EU countries, and steps were taken to protect national champions. Japan has postponed the approval of cross-border M&As through share swaps and adopted some restrictions in the retail industry for instance.

Overall, FDI should continue to grow in the short term.

World FDI inflows are expected to increase further in 2006. This prospect is based on continued economic growth, increased corporate profits – with a consequent increase in stock prices that would boost the value of cross-border M&As – and policy liberalization. In the first half of 2006, cross-border M&As rose 39% compared to the same period in 2005. However, there are factors that may dampen further FDI growth. These include the continuing high oil prices, rising interest rates and increased inflationary pressures, which may restrain economic growth in most regions. Also, various economic imbalances in the global economy as well as geopolitical tensions in some parts of the world are adding to the uncertainty.

FDI FROM DEVELOPING AND TRANSITION ECONOMIES

Developing and transition economies have emerged as significant outward investors…

Although developed-country TNCs account for the bulk of global FDI, an examination of different data sources shows a growing and significant international presence of firms – both private and State-owned – from developing and transition economies. Their outward expansion through FDI provides development opportunities for the home economies concerned. However, it is eliciting mixed reactions from recipient countries in different parts of the world. Some welcome the increased FDI from these economies as a new source of capital and knowledge; for others it also represents new competition.

A small number of source economies are responsible for a large share of these FDI outflows, but companies from more and more countries see the need to explore investment opportunities abroad to defend or build a competitive position. FDI from developing and transition economies reached $133 billion in 2005, representing about 17% of world outward flows. Excluding FDI from offshore financial centres, the total outflow was $120 billion – the highest level ever recorded. The value of the stock of FDI from developing and transition economies was estimated at $1.4 trillion in 2005, or 13% of the world total. As recently as 1990, only six developing and transition economies reported outward FDI stocks of more than $5 billion; by 2005, that threshold had been exceeded by 25 developing and transition economies.

Data on cross-border M&As, greenfield investments and expansion projects as well as statistics related to the number of parent companies based outside the developed world confirm the growing significance of TNCs from developing and transition economies. Between 1987 and 2005, their share of global cross-border M&As rose from 4% to 13% in value terms, and from 5% to 17% in terms of the number of deals concluded. Their share of all recorded greenfield and expansion projects exceeded 15% in 2005, and the total number of parent companies in Brazil, China, Hong Kong (China), India and the Republic of Korea has multiplied, from less than 3,000 to more than 13,000 over the past decade.

Sectorally, the bulk of FDI from developing and transition economies has been in tertiary activities, notably in business, financial and trade-related services. However, significant FDI has also been reported in manufacturing (e.g. electronics) and, more recently, in the primary sector (oil exploration and mining). Data on cross-border M&As confirm the dominance of services, which constituted 63%, by value, of M&As undertaken by companies based in developing and transition economies in 2005. By industry, the highest shares that year were recorded for transport, storage and communications, mining, financial services, and food and beverages.

The geographical composition of FDI from developing and transition economies has changed over time, the most notable long-term development being the steady growth of developing Asia as a source of FDI. Its share in the total stock of FDI from developing and transition economies stood at 23% in 1980, rising to 46% by 1990 and to 62% in 2005. Conversely, the share of Latin America and the Caribbean in outward FDI fell from 67% in 1980 to 25% in 2005. The top five home economies accounted for two thirds of the stock of FDI from developing and transition economies, and the top 10 for 83%. In 2005, the largest outward FDI stock among developing and transition economies was in Hong Kong (China), the British Virgin Islands, the Russian Federation, Singapore and Taiwan Province of China.

A sizeable share of FDI originates from *offshore financial centres*. The British Virgin Islands is by far the largest such source, with an outward FDI stock in 2005 estimated at almost $123 billion. From a statistical point of view, trans-shipping FDI via offshore financial centres makes it difficult to estimate the real size of outward FDI from specific economies and by specific companies. In some years, flows from these centres have been particularly large. However, since 2000, their outward FDI has declined considerably and now amounts to around one tenth of the total flows of FDI from developing and transition economies.

According to UNCTAD's *Outward FDI Performance Index*, which compares an economy's share of world outward FDI against its share of world GDP, FDI from Hong Kong (China) was 10 times larger than would be expected, given its share of world GDP. Other developing economies with

comparatively high outflows included Bahrain, Malaysia, Panama, Singapore and Taiwan Province of China. Meanwhile, many countries with relatively large outward FDI in absolute terms, such as Brazil, China, India and Mexico, are at the opposite end of the spectrum, suggesting considerable potential for future expansion of FDI.

…generating considerable South-South investment flows.

The emergence of these new sources of FDI may be of particular relevance to low-income host countries. TNCs from developing and transition economies have become important investors in many LDCs. Developing countries with the highest dependence on FDI from developing and transition economies include China, Kyrgyzstan, Paraguay and Thailand, and LDCs such as Bangladesh, Ethiopia, the Lao People's Democratic Republic, Myanmar and the United Republic of Tanzania. Indeed, FDI from developing countries accounts for well over 40% of the total inward FDI of a number of LDCs. For example, in Africa, South Africa is a particularly important source of FDI; it accounts for more than 50% of all FDI inflows into Botswana, the Democratic Republic of the Congo, Lesotho, Malawi and Swaziland. Moreover, the level of FDI from developing and transition economies to many LDCs may well be understated in official FDI data, as a significant proportion of such investment goes to their informal sector, which is not included in government statistics.

UNCTAD estimates show that South-South FDI has expanded particularly fast over the past 15 years. Total outflows from developing and transition economies (excluding offshore financial centres) increased from about $4 billion in 1985 to $61 billion in 2004; most of these were destined for other developing or transition economies. In fact, FDI among these economies increased from $2 billion in 1985 to $60 billion in 2004. As FDI of transition economies account for a very small proportion of these transactions, this estimate can also be used as a proxy for the size of South-South FDI.

The bulk of South-South FDI (excluding offshore financial centres) is intraregional in nature. In fact, during the period 2002-2004, average annual intra-Asian flows amounted to an estimated $48 billion. The next largest stream of FDI within the group of developing countries was within Latin America, mainly driven by investors in Argentina, Brazil and Mexico. Intraregional flows within Africa were an estimated $2 billion reflecting, in particular, South African FDI to the rest of the continent. Interregional South-South FDI has gone primarily from Asia to Africa, while the second largest has been from Latin America to Asia. Perhaps somewhat surprisingly, total flows from Asia to the Latin American region were modest during the period 2002-2004, and those between Latin America and Africa were negligible.

New global and regional players are emerging, especially from Asia…

The diversity of the home economies now emerging as significant sources of FDI precludes any far-reaching generalizations of the characteristics of TNCs from developing and transition economies, but it is possible to identify certain salient features. Although most of their TNCs are relatively small, a number of large ones with global ambitions have also appeared on the scene. They tend to be involved in particular industries, with notable variations between different home economies and regions. Compared with their developed-country counterparts, a relatively high degree of State ownership can be observed among the largest TNCs from developing and transition economies. However, these stylized observations should be interpreted with care, as there are important differences between regions and countries, as well as between individual companies.

Although more economies are emerging as FDI sources, there is still a relatively *high concentration* of countries from which the major TNCs originate: from South Africa in Africa, from Mexico and Brazil in Latin America, and from the Russian Federation in the CIS. There is less concentration in Asia, where the four newly industrializing economies, along with China, India, Malaysia and Thailand, are home countries for a growing number of companies that have expanded abroad. At the same time, a number of smaller TNCs from a wider range of developing countries are also increasing their foreign activities, mostly at the regional level. There are also an increasing number of large TNCs from developing and transition economies that feature in lists of the largest companies in the world. For example, around 1990, there were only 19 companies from developing and transition economies listed in the Fortune 500; by 2005, the number had risen to 47.

In terms of *industrial distribution* a few industries are better represented than others, but with important regional variations. Some TNCs from developing and transition economies have risen to leading global positions in industries such as automotives, chemicals, electronics, petroleum refining and steel, and in services such as banking, shipping, information technology (IT) services and

construction. In some specific industries, such as container shipping and petroleum refining, developing-economy TNCs have a particularly strong presence.

In all developing regions and in the Russian Federation, major TNCs have emerged in the primary sector (oil, gas, mining) and resource-based manufacturing (metals, steel). Some of them are now competing head-on with their developed-country rivals. Examples include Sasol (South Africa) in Africa; CVRD (Brazil), ENAP (Chile), Petrobras (Brazil) and Petroleos de Venezuela (Venezuela) in Latin America; Baosteel, CNPC and CNOOC (China), Petronas (Malaysia), Posco (Republic of Korea) and PTTEP (Thailand) in Asia; and Gazprom and Lukoil (Russian Federation).

Another cluster of activities involving many developing-economy TNCs are financial services, infrastructure services (electricity, telecommunications and transportation) and goods that are relatively difficult to export (cement, food and beverages). Because of their non-tradable nature, these economic activities typically require FDI if a company wishes to serve a foreign market. With a few exceptions (such as Cemex and the former South African companies, Old Mutual and SABMiller), however, most of the developing-country TNCs in these areas are mainly regional players, with limited (if any) activities in other parts of the world.

A third cluster of activities consists of those that are the most exposed to global competition, such as automotives, electronics (including semi-conductors and telecommunications equipment), garments and IT services. Almost all the major TNCs from developing or transition economies in these industries are based in Asia. Electronics companies such as Acer (Taiwan Province of China), Huawei (China) and Samsung Electronics (Republic of Korea), the automobile firms, Hyundai Motor and Kia Motor (Republic of Korea), or smaller TNCs in the IT services industry, such as Infosys or Wipro Technologies (India), are already among the leaders in their respective industries.

In all regions studied, intraregional FDI plays a key role in TNC-controlled international networks. This is especially true in Latin America and the CIS, but also to a large extent in Africa and Asia. The subregion of East and South-East Asia has the largest number of TNCs with global aspirations. Of the top 100 developing-country TNCs in 2004, as many as 77 were based in this subregion. Five of them are also among the top 100 global TNCs: Hutchison Whampoa (Hong Kong, China), Petronas (Malaysia), Singtel (Singapore), Samsung Electronics (Republic of Korea) and CITIC Group (China).

…as developing-country TNCs respond to the threats and opportunities arising from globalization with their own distinctive competitive advantages.

The increase in the number and diversity of developing-country TNCs over the past decade is largely due to the continuing impact of globalization on developing countries and their economies. The dynamics are complex, but within them the combination of competition and opportunity – interwoven with liberalization policies across developing and developed regions – is particularly important. As developing economies become more open to international competition, their firms are increasingly forced to compete with TNCs from other countries, both domestically and in foreign markets, and FDI can be an important component of their strategies. This competition, in turn can impel them to improve their operations and it encourages the development of firm-specific competitive advantages, resulting in enhanced capabilities to compete in foreign markets.

Firms may respond directly to international competition or opportunities by utilizing their existing competitive advantages to establish affiliates abroad. This type of TNC strategy is referred to as "*asset exploiting*". Firms can also opt for an "*asset augmenting*" strategy in order to improve their competitiveness by exploiting their limited competitive advantages to acquire created assets such as technology, brands, distribution networks, R&D expertise and facilities, and managerial competences that may not be available in the home economy. They may even combine both strategies.

While developed-country TNCs are most likely to utilize firm-specific advantages based on ownership of assets, such as technologies, brands and other intellectual property, evidence shows that developing-country TNCs rely more on other firm-specific advantages, derived from production process capabilities, networks and relationships, and organizational structure. There are, however, significant variations by country, sector and industry. For example, TNCs in the secondary sector as a whole are most likely to possess and utilize advantages in both production process capabilities and ownership of assets (in that order), with less reliance on advantages grounded in networks and relationships, and organizations. In contrast, for TNCs in the primary sector, production process advantages are preponderant, while in the tertiary sector, networks and relationships represent

the main advantage. There is some tendency to convergence with developed-country TNCs, mostly as economies become more developed (e.g. the advantages of TNCs from the Republic of Korea lie increasingly in their ownership of key technologies), but for the present a large diversity of advantages underlies the internationalization of developing-country TNCs.

Many of these TNCs also enjoy non-firm-specific competitive advantages: for example, those deriving from access to natural resources or reservoirs of knowledge and expertise in their home countries. These locational advantages might be available to all firms based in an economy, but a number of developing-country TNCs are adept at combining various sources of advantage (including firm-specific ones) into a strong competitive edge.

Many of the developing and transition economies that are home to large TNCs and are investing significant amounts of FDI overseas – such as Brazil, China, India, the Russian Federation, South Africa and Turkey – are doing so much earlier (and to a greater degree) than would be expected on the basis of theory or past experience. This intensification of FDI by these countries can be traced to around the early 1990s. The likely reason for this shift lies in the impact of globalization on countries and companies, especially through increased international competition and opportunities.

Their outward expansion is driven by various factors …

Four key types of push and pull factors, and two associated developments help explain the drive for internationalization by developing-country TNCs.

First, market-related factors appear to be strong forces that push developing-country TNCs out of their home countries or pull them into host countries. In the case of Indian TNCs, the need to pursue customers for niche products – for example, in IT services – and the lack of international linkages are key drivers of internationalization. Chinese TNCs, like their Latin American counterparts, are particularly concerned about bypassing trade barriers. Overdependence on the home market is also an issue for TNCs, and there are many examples of developing-country firms expanding into other countries in order to reduce this type of risk.

Secondly, rising costs of production in the home economy – especially labour costs – are a particular concern for TNCs from East and South-East Asian countries such as Malaysia, the Republic of Korea and Singapore, as well as Mauritius (which has labour-intensive, export-orientated industries, such as garments). Crises or constraints in the home economy, for example where they lead to inflationary pressures, were important drivers in countries such as Chile and Turkey during the 1990s. However, interestingly, costs are less of an issue for China and India – two growing sources of FDI from the developing world. Clearly, this is because both are very large countries with considerable reserves of labour, both skilled and unskilled.

Thirdly, competitive pressures on developing-country firms are pushing them to expand overseas. These pressures include competition from low-cost producers, particularly from efficient East and South-East Asian manufacturers. Indian TNCs, for the present, are relatively immune to this pressure, perhaps because of their higher specialization in services and the availability of abundant low-cost labour. For them, competition from foreign and domestic companies based in the home economy is a more important impetus to internationalize. Similarly, competition from foreign TNCs in China's domestic economy is widely regarded as a major push factor behind the rapid expansion of FDI by Chinese TNCs. Such competition can also sometimes result in pre-emptive internationalization, as when Embraer (Brazil) and Techint (Argentina) invested abroad in the 1990s, ahead of liberalization in their respective home industries. Domestic and global competition is an important issue for developing-country TNCs, especially when these TNCs are increasingly parts of global production networks in industries such as automobiles, electronics and garments.

Fourthly, home and host government policies influence outward FDI decisions. Chinese TNCs regard their Government's policies as an important push factor in their internationalization. Indian firms, on the other hand, have been enticed by supportive host-government regulations and incentives, as well as favourable competition and inward FDI policies. South African TNCs, among others, mention transparent governance, investment in infrastructure, strong currencies, established property rights and minimal exchange-rate regulations as important pull factors. Most importantly, liberalization policies in host economies are creating many investment opportunities, for example through privatizations of State-owned assets and enterprises.

Apart from the above mentioned factors, there are two other major developments driving developing-country TNCs abroad. First, the rapid growth of many large developing countries – foremost among these being China and India – is

causing them concern about running short of key resources and inputs for their economic expansion. This is reflected in strategic and political motives underlying FDI by some of their TNCs, especially in natural resources. Second, there has been an attitudinal or behavioural change among the TNCs discussed in this chapter. They increasingly realize that they are operating in a global economy, not a domestic one, which has forced them to adopt an international vision. These two developments, along with push and pull factors – especially the threat of global competition in the home economy and increased overseas opportunities arising from liberalization – adds empirical weight to the idea that there is a structural shift towards earlier and greater FDI by developing-country TNCs.

...which, together with TNCs' motives and competitive advantages, result in most of their FDI being located in developing countries.

In principle, four main motives influence investment decisions by TNCs: *market-seeking, efficiency-seeking, resource-seeking* (all of which are asset exploiting strategies) and *created-asset-seeking* (an asset-augmenting strategy).

Surveys undertaken by UNCTAD and partner organizations on outward investing firms from developing countries confirm that, of these motives, the most important one for developing-country TNCs is market-seeking FDI, which primarily results in intraregional and intra-developing-country FDI. Within this, there are differences in patterns of FDI, depending on the activity of the TNC: for example, FDI in consumer goods and services tends to be regional and South-South orientated; that in electronic components is usually regionally focused (because of the location of companies to which they supply their output); in IT services it is often regional and orientated towards developed countries (where key customers are located); and FDI by oil and gas TNCs targets regional markets as well as some developed countries (which remain the largest markets for energy).

Efficiency-seeking FDI is the second most important motive, and is conducted primarily by TNCs from the relatively more advanced developing countries (hence higher labour costs); it tends to be concentrated in a few industries (such as electrical and electronics and garments and textiles). Most FDI based on this motive targets developing countries; that in the electrical/electronics industry is strongly regionally focused, while FDI in the garments industry is geographically more widely dispersed. Generally, resource-seeking and created-asset-seeking motives for FDI are relatively less important for developing-country TNCs. Not unexpectedly, most resource-seeking FDI is in developing countries and much created-asset-seeking FDI is in developed countries.

Apart from the above motives, a common one for TNCs from some countries is that of strategic objectives assigned to State-owned TNCs by their home governments. Some governments have encouraged TNCs to secure vital inputs, such as raw materials for the home economy. For example, both Chinese and Indian TNCs are investing in resource-rich countries, especially in oil and gas (to expand supplies, in contrast to targeting customers as does market-seeking FDI in this industry). In the case of Chinese TNCs, the quest for secure supplies of a wide range of raw materials is complemented by parallel and sustained Chinese diplomatic efforts in Africa, Central Asia, Latin America and the Caribbean, and West Asia.

In terms of location of FDI, the net result of the relevant drivers, advantages and motives is that most investments are in other developing countries (e.g. because of similarities in consumer markets, technological prowess or institutions) or within their region (i.e. neighbouring countries with which they are familiar).

TNCs from developing countries and transition economies are here to stay. As they expand overseas, they gain knowledge, which potentially benefits them in two ways. First, they learn from experience and improve their ability to operate internationally. Second, they gain expertise and technology to enhance their firm-specific advantages, thereby improving their competitiveness and performance. This improved competitiveness has implications for home countries. By the same token, developing-country TNCs can have an impact on host developing economies in a number of ways, ranging from financial resource flows and investment to technology and skills.

Increased competitiveness is one of the prime benefits that developing-country TNCs can derive from outward FDI ...

The most important potential gain for a firm from outward FDI is increased competitiveness, that is, the ability to survive and grow in an open economy, and attain its ultimate objectives of maximizing profits and retaining or increasing market share. Outward FDI can be a direct path to market expansion. In certain circumstances, it is the only path, for example when there are trade barriers that inhibit exports or when the TNC is in the business of providing a service that is non-

tradable. Many developing-country TNCs have indeed expanded their markets through outward FDI, either through M&As or through greenfield investments. Outward FDI can also contribute to a company's competitiveness by increasing its efficiency. Rising domestic costs, especially labour costs, have led a number of East and South-East Asian TNCs to invest in less expensive locations, with significant efficiency gains.

In the above-mentioned surveys of outward investing firms from developing countries conducted by UNCTAD and partner organizations, market expansion in a broad sense (including market diversification) was the benefit most frequently mentioned, followed by efficiency gains. Case studies confirm that outward FDI has indeed enabled developing-country firms to enter new markets and expand their businesses. In a range of industries, such as white goods and personal computers, a number of Asian TNCs, such as Acer (Taiwan Province of China), Arcelik (Turkey), Haier (China) and Lenovo (China), have successfully expanded their markets through FDI, which has helped them grow into global players. Some companies from other developing regions have also ventured beyond their borders and become successful players in regional and even global markets. For instance, in 2005, Cemex (Mexico) became the third largest cement-making company in the world, with more than two thirds of its sales in developed countries.

Enhancing enterprise competitiveness through outward FDI is a complex undertaking. It goes beyond the immediate gains arising from market expansion and/or cost-cutting, and includes upgrading technology, building brands, learning new management skills, linking up with global value chains, and moving up these chains into more advanced activities. Some of these tasks can be protracted and, in straight financial terms, bring little or no gain in the short run. This is particularly likely when the outward FDI is asset-augmenting rather than asset-exploiting, since in the former case the acquired assets must first be assimilated.

Firms that invest abroad tend to be more competitive than their domestically oriented peers. However, these firms are also subject to risks inherent in projects undertaken abroad. Some of these projects may fail for various reasons, with potential negative effects on the parent company. One of the reasons is the disadvantage of being foreign, another is the existence of cultural, social and institutional differences between home and host economies, and the third is the increasing need for coordinating activities and concomitant organizational and environmental complexities.

…while home countries can also benefit.

Outward FDI from developing countries can also contribute directly and indirectly, to a home economy as a whole. Arguably, the most important potential gain for home countries from outward FDI is the improved competitiveness and performance of the firms and industries involved. Such gains may translate into broader benefits and enhanced competitiveness for the home country at large, contributing to industrial transformation and upgrading of value-added activities, improved export performance, higher national income and better employment opportunities. Improved competitiveness of outward investing TNCs can be transmitted to other firms and economic agents in home countries through various channels, including via linkages with, and spillovers to, local firms, competitive effects on local business, and linkages and interactions with institutions such as universities and research centres. In sum, the more embedded the outward investing TNCs are, the greater will be the expected benefits for the home economy.

Evidence suggests that under appropriate home-country conditions, improved competitiveness of outward investing firms can indeed contribute towards enhancing industrial competitiveness and restructuring in the home economy as a whole. For instance, broader upgrading has occurred in whole industries in which firms have engaged in outward FDI. Examples are the IT industry in India, the consumer electronics industry in the Republic of Korea and China, and the computer and semiconductor industries in Taiwan Province of China.

At the same time, outward FDI may pose several risks for the home economy: it can lead to reduced domestic investment, hollowing out of parts of the economy and loss of jobs. As always, the beneficial impacts have to be weighed against possible damaging impacts. The benefits are usually reaped when certain preconditions are met, for example a reasonably competitive home market or the absorptive capacity to profit from advanced technology. The net outcome of the different economic and non-economic impacts for a home economy depends on the underlying motives and strategies of firms for investing overseas and on the characteristics of the home economy itself.

While outward FDI entails the transfer of capital from home to host country, it can also generate inflows in the form of repatriated profits, royalties and licensing fees, and payments by the host country for increased imports from the home

country (often in the form of intra-firm trade). In general, in the immediate aftermath of the outward investment, net financial flows tend to be negative but then gradually become positive. Outward FDI also seems to have a delayed but positive effect on domestic investment.

The trade impacts of outward FDI on the home economy depend significantly – as in the case of developed-country FDI – on the motivations and types of investment undertaken. If the TNCs seek natural resources, outward FDI could lead to an increase in imports of those resources and exports of the inputs required for extraction. Market-seeking FDI can be expected to boost exports of intermediate products and capital goods from the home economy to the host country. If the motivation is efficiency or cost-reduction, outward FDI could enhance exports as well as imports, especially intra-firm trade, and their extent and pattern, depending on the geographic spread of the TNCs' integrated international production activities. Results of some studies on Asian developing home economies and data on trade by affiliates of developing-country TNCs in the United States and Japan suggest a positive relationship between home-country exports and outward FDI from developing countries.

Regarding employment, the impacts also vary according to the motivation of FDI. Efficiency-seeking FDI may raise many questions from a home-economy perspective. Even if it leads to a greater demand for higher skills at home, this may be of limited use to workers with low skills. Other kinds of FDI appear to have positive employment effects in the long run, depending considerably on the motivations of firms and their types of investments abroad. Evidence related to some Asian economies, such as Hong Kong (China) and Singapore, suggests that, under appropriate conditions, outward FDI can generate additional jobs in higher-skilled technical and managerial categories while reducing those in unskilled ones. On balance, in those economies, the job-creating effects of outward FDI exceeded its job-reducing effects. Much would depend, however, on the capacities of the human resources in the home country to adapt to changes in the structure of the home economy.

Developing host countries may also gain from the rise in South-South FDI.

For developing host economies, FDI from other developing countries provides a broader range of potential sources of capital, technology and management skills to tap. For low-income developing countries, it can be of great importance. As indicated above, in a number of LDCs, it accounts for a large share of total FDI inflows. To the extent that firms from developing countries invest appreciable amounts in other developing countries, that investment provides an important additional channel for further South-South economic cooperation.

Because the motivations and competitive strengths of developing-country TNCs and the locational advantages sought by these firms diverge in several respects from those of TNCs from developed countries, their impact on host developing economies may carry certain advantages over that of FDI from developed countries. For example, the technology and business model of developing-country TNCs are generally somewhat closer to those used by firms in host developing countries, suggesting a greater likelihood of beneficial linkages and technology absorption. Developing-country TNCs also tend to use greenfield investments more than M&As as a mode of entry. This applies especially to investment in developing host countries. In this sense, their investments are more likely to have an immediate effect in improving production capacity in developing countries.

The trade impacts of FDI from developing countries also vary according to motives. Efficiency-seeking FDI is most likely to boost exports, which may include local value addition of various kinds. One recent prominent kind of efficiency-seeking FDI has been in the garments industry, which has had substantial export-boosting effects in LDCs in particular. However, local sourcing and backward linkages in this industry have been limited, with the result that the ending of MFA quotas has led to a reduction in such FDI, for instance in Lesotho. In market-seeking FDI, especially in manufacturing, the effect is mainly one of import substitution. Resource-seeking FDI, of course, is export-oriented almost by definition, and may allow the host country to diversify its markets.

A major advantage for host developing countries of FDI by developing-country TNCs, as compared to that from developed-country TNCs, is the greater employment-generating potential of the former. The main reason is that developing-country TNCs may be oriented more towards labour-intensive industries, and may be more inclined to use simpler and more labour-intensive technologies, especially in manufacturing. Empirical evidence on average employment per affiliate in host developing countries suggests developing-country TNCs hire more people than

do developed-country TNCs. In the case of sub-Saharan Africa, for example, it has been found that the labour intensity of developing-country TNCs tends to be higher than that of developed-country TNCs in the majority of industries covered. Foreign affiliates of developing-country TNCs, on average, created more jobs per million dollars of assets than did those of developed-country TNCs. The effects of FDI on wages are generally positive, as TNCs as a whole pay higher wages than local employers. Although data specific to developing-country TNCs are limited, indirect evidence suggests that, at least for skilled labour, they offer higher wages than host-country domestic firms.

But South-South FDI – like all FDI – also carries risks that can give rise to concerns. One is that foreign TNCs might dominate the local market. Another is that some host countries might feel threatened by the presence of too many firms from a single home country. For example, the dominance of South African TNCs has triggered some unease in neighbouring host countries. There is also the issue of undue political influence when an investing enterprise is State-owned, which is the case with many developing-country TNCs in natural resources. The political and social aspects of TNCs' activities may also give rise to controversy, partly due to the size of their operations. In developing host economies, such problems have sometimes been exacerbated by the absence of an adequate regulatory framework and disparity in the allocation of economic benefits from inward FDI. In economies where domestic industries are underdeveloped, governments may not have the capabilities to ensure that acceptable labour and environmental standards, for example, are adhered to when foreign firms introduce new production processes or working methods.

In sum, outward FDI from developing countries provides a potential avenue for gains from economic cooperation among developing countries. As investment by developing-country TNCs have certain inherent characteristics, including a greater orientation towards labour-intensive industries, it is of considerable relevance to low-income countries. At the same time, outward FDI from developing countries is a relatively new phenomenon. The limited evidence presented in this Report suggests that for home as well as host developing countries, the positive effects of FDI from developing countries may outweigh the negative ones; however further research is necessary to deepen the understanding of the impact of such FDI on developing economies.

The expansion of outward FDI from developing countries is paralleled by changing policies in home countries...

The emergence of TNCs from some developing and transition economies as key regional or global players is paralleled by important changes in both developed and developing countries of policies governing FDI and related matters. The ability of countries – be they sources or recipients of such investment – to benefit from such investment activity is influenced by active policies. By providing the appropriate legal and institutional environment, home country governments can create conditions that will induce their firms to invest overseas in ways that will produce gains for the home economy.

From a home-country perspective, more and more developing and transition economies are dismantling previous barriers to outward FDI. While some form of capital control is often still in place to mitigate the risk of capital flight or financial instability, restrictions are mostly aimed at limiting other international capital flows than FDI. Only a handful of developing countries retain outright bans on outward FDI. Countries are increasingly recognizing the potential benefits from outward FDI. A number of governments, especially in developing Asia, are even actively encouraging their firms to invest abroad using a variety of supportive measures to that end. Such measures include information provision, match-making services, financial or fiscal incentives, as well as insurance coverage for overseas investment.

There is no one-size-fits-all policy that can be recommended to deal with outward FDI. Every home country has to adopt and implement policies that fit its specific situation. Whether a country will benefit by moving from "passive liberalization" to "active promotion" of outward FDI depends on many factors, including the capabilities of its enterprise sector, and the links of the investing companies with the rest of the economy. Certain local capabilities are needed to exploit successfully the improved access to foreign markets, resources and strategic assets that outward FDI can bring about. Moreover, a certain level of absorptive capacity in the domestic enterprise sector may also be required to generate broader benefits from outward FDI. In many low-income countries, it may therefore be appropriate to focus on creating a more attractive business environment and enhancing domestic firm capabilities.

Still, for those countries that decide to encourage their firms to invest abroad, it is advisable to situate policies dealing specifically with outward FDI within a broader policy framework aimed at promoting competitiveness. The importance of generating domestic capabilities to benefit from outward FDI makes it appropriate to connect outward FDI-specific policies to those applied in areas such as development of small and medium-sized enterprises, technology and innovation. Moreover, outward FDI is only one of several ways in which a country and its firms can connect with the global production system. Government efforts to promote outward FDI can therefore benefit from close coordination with those related to attracting inward FDI, promoting imports or exports, migration and technology flows.

The most elaborate use of measures to promote outward FDI is found in South, East and South-East Asia. In several countries of this region, governments discharge their promotional policies via trade promotion organizations, investment promotion agencies (IPAs), export credit agencies and/or EXIM banks. A range of policy instruments is applied in innovative ways, often targeting specific types of outward FDI. Some governments in Africa and Latin America have also publicly stressed the importance of outward FDI, but these statements have rarely been followed by concrete promotional measures.

Particular attention is warranted to the role of outward FDI in the context of "South-South" cooperation. Governments in Asia and Africa have outlined specific programmes to facilitate such investment. Some of these programmes are aimed at strengthening intra-regional development (as in the case of infrastructure-related FDI by South African State-owned enterprises), while others are inter-regional in scope. This is an area that needs to be further explored and supported through closer collaboration among developing-country institutions. An interesting recent UNCTAD initiative to this end is the establishment of the G-NEXID network, which will allow for the sharing of experiences among EXIM banks from developing countries.

...various policy responses in host countries ...

There are also policy implications for host countries. A key question is what developing host countries can do to leverage fully the expansion of FDI from the South. In terms of enhancing the positive impact of such FDI, they need to consider the full range of policies that can influence the behaviour of foreign affiliates, and their interaction with the local business environment. This requires taking into account the specific characteristics of different industries and activities in designing a strategy to attract desired kinds of FDI. In addition, it is important to promote the amount and quality of linkages between foreign affiliates and domestic firms. Host-country governments can use various measures to encourage linkages between domestic suppliers and foreign affiliates and strengthen the likelihood of spillovers in the areas of information, technology and training. In terms of addressing potential concerns and negative effects associated with inward FDI, there is no principal difference between the policies to apply in the case of FDI from developed countries and in the case of FDI from developing and transition economies.

The scope for "South-South" FDI has led many developing host countries to adopt specific strategies to attract such investment. In a 2006 UNCTAD survey of IPAs, more than 90% of all African respondents stated that they currently targeted FDI from other developing countries, notably from within their own region. Indeed, for African IPAs, South Africa tops the list of developing home countries targeted, while in Latin America and the Caribbean, Brazil is the most targeted country. Meanwhile, developed-country IPAs also court investors from developing and transition economies. A significant number of such agencies have already set up local offices for that purpose in places like Brazil, China, India, the Republic of Korea, Singapore and South Africa. This expanded diversity of potential sources of FDI may imply greater bargaining power of recipient countries to the extent that they are able to attract a greater number of investors to compete for existing investment opportunities.

Notwithstanding the interest in FDI from developing and transition economies, some stakeholders are less enthusiastic about some of the new investors. Several cross-border M&As by TNCs with links to their respective governments have generated national-security concerns, and others have spurred fears of job cuts. Countries in which State-owned TNCs embark on internationalization through FDI need to be aware of the potential sensitivities involved. In some host countries, State ownership is seen as an increased risk of a transaction being undertaken for other than purely economic motives. This is especially the case if the acquisitions relate to energy, infrastructure services or other industries with a "security dimension". Whether private or State-owned, investors from developing or transition economies that are anxious to tap the markets and resources of developed countries may also face

growing pressure to address more fully issues related to corporate governance and transparency.

As far as the recipient countries are concerned, business leaders, trade unions as well as policymakers may have to get used to an increased frequency of transactions involving companies from developing and transition economies as acquirers of domestic firms. There may be important benefits to a host country from having more companies competing to acquire local assets. Countries need to be careful in their use of legislation aimed at protecting national security interests, keeping in mind the risk of fuelling possible retaliation and protectionism.

…and it has implications also for the management of CSR issues…

Issues of corporate social responsibility (CSR) may also become more important as developing-country firms expand abroad. Discussions related to CSR have traditionally revolved around developed-country TNCs and their behaviour abroad; more recently the managements of TNCs from developing and transition economies are also being exposed to similar issues. While adherence to various internationally adopted CSR standards may entail costs for the companies concerned, it can also generate important advantages – not only for the host country, but also for the investing firms and their home economies. A number of developing-country TNCs have already incorporated CSR policies into their business strategies, some of them even becoming leaders in this area. For example, more than half of the participating companies in the United Nations Global Compact are based in developing countries. Moreover, some developing countries are establishing a regulatory and cultural environment that supports CSR standards. These initiatives are sometimes driven by governments and at other times by business associations, non-governmental organizations or international organizations.

…and for international rule making.

Beyond the national level of policy-making, there is a marked increase in South-South investment cooperation through IIAs, in parallel to the growth of FDI from the South. The increase of FDI from some of these economies is also likely to generate growing demand from their business community for greater protection of their overseas investments. As a consequence, in addition to using IIAs as a means to promote inward FDI, some developing-country governments will increasingly consider using IIAs to protect and facilitate outward investments. This may influence the content of future treaties and result in an additional challenge for those developing country governments to balance their need for regulatory flexibility with the interests of their own TNCs investing abroad.

* * *

Policymakers in countries at all levels of development need to pay greater attention to the emergence of new sources of FDI with a view to maximizing the developmental impact of this recent phenomenon. There is scope for policymakers from developing and transition economies to share their experience in this area. South-South cooperation between host and home countries may enhance opportunities for cross-border investments and contribute to their mutual development. From a South-North perspective, there is a similar need for dialogue, increased awareness and understanding of the factors that drive FDI from the South and of their potential impacts. UNCTAD and other international organizations can play an important role in this context by providing analysis, technical assistance and, not least, forums for an exchange of views and experiences, in order to help countries realize the full benefit of the rise of FDI from developing and transition economies.

Geneva, August 2006

Supachai Panitchpakdi
Secretary-General of UNCTAD

PART ONE

ANOTHER YEAR OF FDI GROWTH

CHAPTER I

GLOBAL TRENDS: RISING FDI INFLOWS

A. Overall trends and developments in FDI

Global foreign direct investment (FDI) flows grew substantially in 2005 over those in 2004. As in the late 1990s, that growth was spurred by cross-border mergers and acquisitions (M&As). Recent increases in FDI have been concentrated in certain sectors and regions/countries, and the level of concentration of FDI worldwide has also risen again. Furthermore, investments by collective investment funds (e.g. private equity and hedge funds) – a relatively new source of FDI – have been growing. As investments by these funds often have a shorter time horizon than those by more conventional transnational corporations (TNCs), current FDI growth may not be sustainable. In addition, the way in which the rise in global FDI flows is measured, does not necessarily translate fully into capital formation in host economies, as data on FDI flows include items unrelated to investment in production capacity. This section discusses recent trends in FDI, its composition and characteristics, as well as some issues related to FDI statistics.

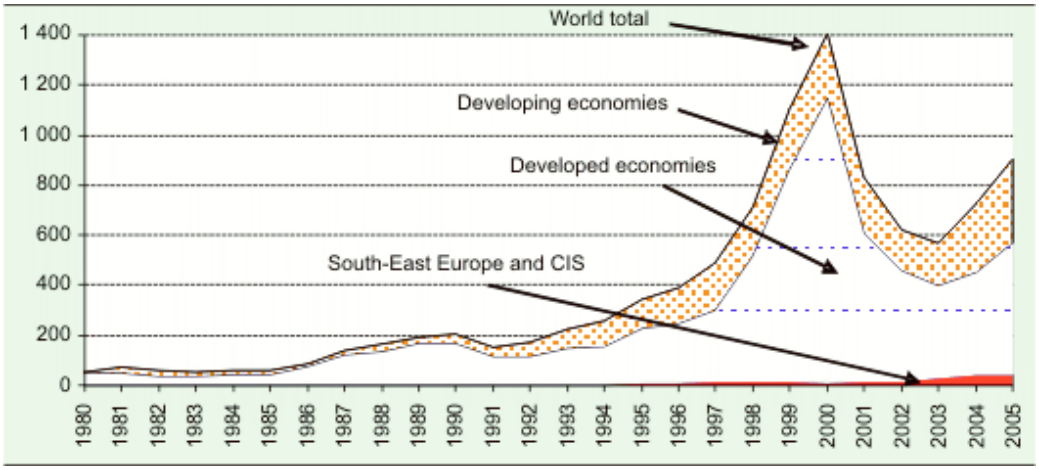
1. Trends, patterns and characteristics

a. Global FDI

Global FDI inflows rose by 29% to $916 billion in 2005, compared to a 27% increase in 2004 (figure I.1), largely reflecting a significant increase in cross-border M&As, both in value and in number of deals. FDI inflows increased in both developed and developing countries. The concentration of FDI flows between certain countries remains high, even accentuating somewhat since 2000 for developing countries and since 2003 for developed countries (figure I.2). However, its level is considerably lower than in the 1980s when not many countries received FDI inflows on any significant scale, or in the late 1990s when FDI distribution was particularly distorted by large-scale M&As. Even though concentrated, FDI inflows nevertheless grew in 126 out of 200 economies in 2005, compared to 111 economies in 2004. Growth in 2005 was broad-based geographically as in the previous year, but higher in developed than in developing countries. Thus, despite record inflows into developing countries, the share of developing countries in world FDI inflows fell slightly (to 36%), thereby increasing the gap in FDI inflows between developed and developing countries to over $200 billion in 2005.[1] The United Kingdom was the largest recipient of FDI in 2005, ahead of the United States, China and France (annex table B.1).

The *value* of cross-border M&As – a key mode of global FDI since the late 1980s – started to pick up in 2004 following three years of decline, while their *number* has been growing since 2002 (annex tables B.4-B.7). On the other hand, greenfield FDI projects fell after increasing for two consecutive years (annex table A.I.1).[2] Diverging trends between cross-border M&As and greenfield FDI are not surprising, because, to some extent, companies tend to consider these two modes of market entry as alternative options.

Figure I.1. FDI inflows, global and by group of economies, 1980–2005
(Billions of dollars)

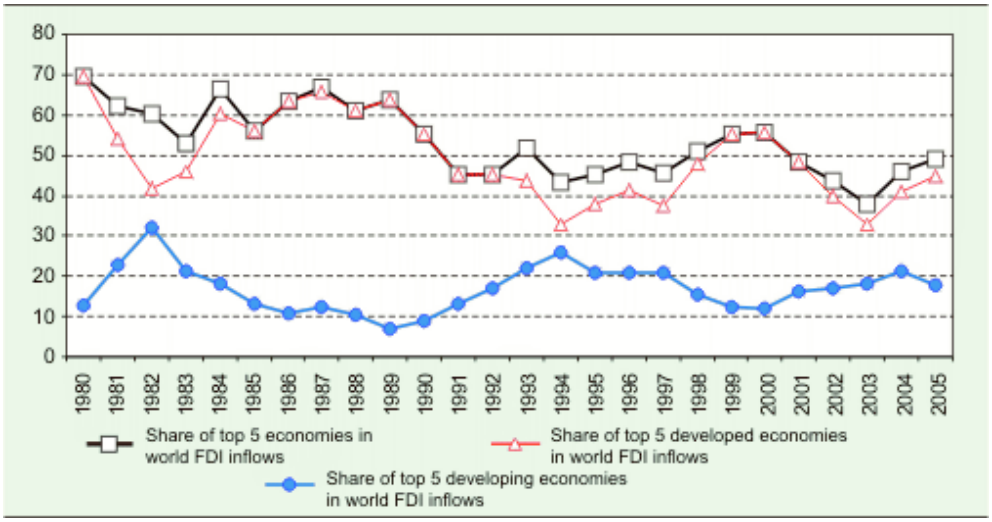


Source: UNCTAD, based on its FDI/TNC database (www.unctad.org/fdi statistics).

Inward FDI in *developed countries* had already started to increase in 2004, after three years of significant decline between 2000 and 2003. That decline was mainly due to sluggish growth in the developed countries, in particular in the euro area and Japan. While developed countries other than those of the European Union (EU) contributed to the growth of inflows in 2004, the increase in 2005 was particularly marked in the EU (97%), most notably in Germany, the Netherlands and the United Kingdom, each of which experienced an increase of more than $40 billion (more than $100 billion in the case of the United Kingdom). The five largest host economies in 2005 – the United Kingdom, the United States, France, the Netherlands and Canada in that order – accounted for 75% of total FDI inflows to developed countries.

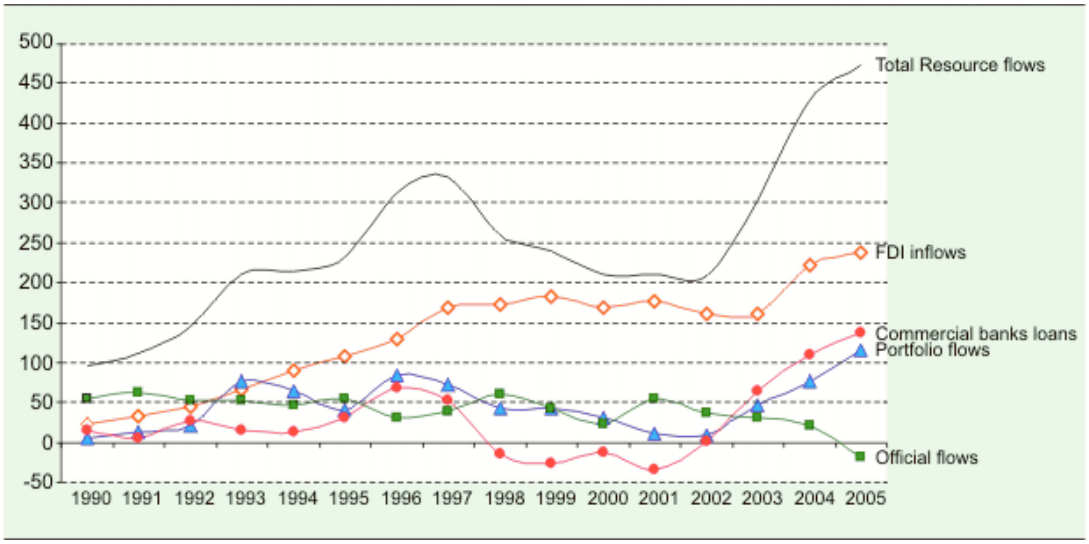
Inward FDI in *developing countries* rose by another 22% to $334 billion, following a 57% growth in 2004. Compared to other capital flows, FDI inflows remain the largest component of net resource flows to developing countries (figure I.3) and their share rose in 2005. While all developing regions experienced an increase in FDI flows, *Africa* saw a rise of 78%, with record inflows of $31 billion. Flows to *West Asia* reached $34 billion, an 85% increase over the previous year, and to

Figure I.2. Concentration of FDI inflows: the share of the top 5 FDI recipients in the world total, 1980-2005
(Per cent)



Source: UNCTAD.

Figure I.3. Total net resource flows[a] to developing countries[b], by type of flow, 1990-2005
(Billions of dollars)



Source: UNCTAD, based on World Bank 2006.

[a] Defined as net liability transactions or original maturity of greater than one year.

[b] The World Bank's classification of developing countries is used here. It differs from UNCTAD's classification in that it includes new EU member States from Central and Eastern Europe and excludes high-income countries such as the Republic of Korea and Singapore.

South, East and South-East Asia they increased by 20%. In *Latin America and the Caribbean*, on the other hand, there was only a 3% increase, a much lower rate than in 2004 when flows to the region rose by 118% after four consecutive years of decline. FDI inflows in the 50 *least developed countries* (LDCs) recorded a historic high of $9.7 billion, mainly due to a significant rise in flows to Cambodia, the Democratic Republic of the Congo, the Gambia, Guinea-Bissau and Mauritania, in each of which inflows more than doubled. Overall, FDI had been less concentrated and has not fluctuated widely since the mid-1980s compared to developed countries. Brazil, China, Hong Kong (China), Mexico and Singapore – that have been the five largest host developing economies almost every year since 1996 – accounted for some 48% of total flows to developing countries.

In South-East Europe and the Commonwealth of Independent States (CIS), FDI inflows remained almost at the same level as in 2004, at around $40 billion. While there was a considerable increase in inflows in Ukraine, in other major recipient countries (Bulgaria, Kazakhstan, Romania and the Russian Federation) they declined.

Global outflows in 2005 showed a somewhat different picture than did inflows, declining by 4% to $779 billion. It should be pointed out in this regard that the divergence in trends in FDI inflows and outflows reflects differences in the way countries compile FDI data. The size of earnings repatriated by a number of United States parent companies in 2005 partly explains, for instance, the divergence noted for that year: repatriated profits from foreign affiliates of United States firms are recorded in United States FDI data as negative outflows, while the host countries of these affiliates do not necessarily take into account reinvested earnings in their FDI data.[3]

Developing countries as emerging sources of FDI strengthened their global position further in 2005, investing $117 billion in 2005 – 4% more than in the previous year. The most notable growth of outflows was from West Asia: FDI outflows more than doubled, to $16 billion, backed by huge amounts of petrodollars and strong economic growth. Flows from South, East and South-East Asia declined by 11%, although China saw a sixfold increase in outward investments, amounting to $11 billion, while the other giant in this region, India, experienced a decline, after an almost twofold increase the year before. FDI outflows from Latin America and the Caribbean rose by 19%, to $33 billion, led by Colombia and Mexico (excluding offshore financial centres). Outflows from South-East Europe and the CIS rose modestly, with flows from the Russian Federation declining somewhat. Altogether, transition economies and developing countries invested a total of $133 billion abroad, the largest amount since 2000.[4]

The changes discussed above reflect recent FDI trends and changes in the geographic patterns of FDI flows. There are also significant long-term changes in the relative positions of countries and regions as hosts and home bases for FDI. Indeed, over the past few decades, the geography of FDI has undergone some major shifts, as noted below:

- Over the past few decades the share of the Triad (the EU, Japan and the United States) in total world inward FDI flows and stocks has fluctuated at around 60-70%. However, within the Triad, there has been a marked shift towards the EU. The share of the EU in FDI inflows into the Triad was 75% in 2003-2005, compared to 62% in 1978-1980 (table I.1). The EU – which now also includes eight economies formerly classified under Central and Eastern Europe – today accounts for almost half of global inward and outward flows and stocks. The rise of the EU in outward FDI flows and stocks is even more pronounced. Conversely, the importance of the United States in both inward and outward FDI flows and stocks has declined: since the beginning of the 1980s for outward FDI and the beginning of the 1990s for inward FDI (table I.1). Japan, which had emerged as an important source of FDI in the 1980s, has declined considerably in importance as an outward investor over the past 15 years, but gained somewhat as a recipient. However, it remains marginal as a host country.
- Developing countries have gained in importance as recipients of FDI in terms of both inward flows and stocks (table I.1). Their share in total world inflows rose from an average of 20% in 1978-1980 to an average of 35% in 2003-2005, though the performance of the different regional groups was uneven. The share of African countries gradually fell, from 10% of total inflows to developing countries in 1978-1980 to around 5% in 1998-2000, but in the past few years it has recovered. The share of Asia and Oceania, particularly South, East and South-East Asia, increased rapidly – driven partly by flows to China which appeared on the FDI scene only in the late 1970s – until the end of the 1990s and then slowed down somewhat in the early 2000s. Latin America and the Caribbean region has experienced a noticeable decline from its dominant position of the 1970s and early 1980s. And so far it has not recovered to its previous level, even though FDI flows to the region are again on the rise.
- Data on FDI outflows from developing countries point to the increasing dynamism of this group of countries as sources of FDI. Their share in global outward FDI stock has fluctuated between 8% and 15% over the past 25 years, while their share in outflows points to a clearly increasing trend. Negligible or small until the mid-1980s, such flows from developing countries amounted to $117 billion, or about 15% of world outflows in 2005 (annex table B.1). Their FDI outward stock increased from $72 billion in 1980 to $149 billion in 1990 and to more than $1 trillion in 2005. More importantly, a number of developing countries have emerged as significant sources of FDI in other developing countries (chapter III), and their investments are now considered a new and important source of capital and production know-how, especially for host countries in developing regions. The increasing importance of FDI from developing countries reflects stronger ownership advantages of developing-country firms, related somewhat to the growing importance of their home countries in the world economy, as demonstrated by various indicators. For example, developing countries accounted for over half of global output at purchasing-power parity value in 2005,[5] for more than 40% of world exports, and for two thirds of global foreign exchange reserves. According to the competitiveness rankings of the world's economies, in 1986 there was only one developing economy (Turkey) among the 20 most competitive economies, and by 2005 the number had increased to five: Taiwan Province of China, Singapore, the Republic of Korea, the United Arab Emirates and Qatar in that order (World Economic Forum 2005).
- In the case of South-East Europe and the CIS, where FDI to and from most economies started to increase from the early 1990s onwards in the wake of their transition to market economies, their share in both inward and outward flows and stocks, albeit very small, is on the rise. Within the region, the Russian Federation has always occupied a dominant position in FDI inflows as well as outflows.

The emergence of developing countries and the transition economies of South-East Europe and the CIS as significant outward investors – one of

Table I.1. Distribution of FDI by region and selected countries, 1980-2005
(Per cent)

Region	Inward stock				Outward stock			
	1980	1990	2000	2005	1980	1990	2000	2005
Developed economies	75.6	79.3	68.5	70.3	87.3	91.7	86.2	86.9
European Union	42.5	42.9	37.6	44.4	37.2	45.2	47.1	51.3
Japan	0.6	0.6	0.9	1.0	3.4	11.2	4.3	3.6
United States	14.8	22.1	21.7	16.0	37.7	24.0	20.3	19.2
Developing economies	24.4	20.7	30.3	27.2	12.7	8.3	13.5	11.9
Africa	6.9	3.3	2.6	2.6	1.3	1.1	0.7	0.5
Latin America and the Caribbean	7.1	6.6	9.3	9.3	8.5	3.4	3.3	3.2
Asia and Oceania	10.5	10.8	18.4	15.4	2.9	3.8	9.5	8.2
West Asia	1.4	2.2	1.1	1.5	0.3	0.4	0.2	0.3
South, East and South-East Asia	8.8	8.5	17.2	13.8	2.5	3.4	9.3	7.8
South-East Europe and CIS	..	0.01	1.2	2.5	..	0.01	0.3	1.2
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Region	Inflow				Outflow			
	1978-1980	1988-1990	1998-2000	2003-2005	1978-1980	1988-1990	1998-2000	2003-2005
Developed economies	79.7	82.5	77.3	59.4	97.0	93.1	90.4	85.8
European Union	39.1	40.3	46.0	40.7	44.8	50.6	64.4	54.6
Japan	0.4	0.04	0.8	0.8	4.9	19.7	2.6	4.9
United States	23.8	31.5	24.0	12.6	39.7	13.6	15.9	15.7
Developing economies	20.3	17.5	21.7	35.9	3.0	6.9	9.4	12.3
Africa	2.0	1.9	1.0	3.0	1.0	0.4	0.2	0.2
Latin America and the Caribbean	13.0	5.0	9.7	11.5	1.1	1.0	4.1	3.5
Asia and Oceania	5.3	10.5	11.0	21.4	0.9	5.6	5.1	8.6
West Asia	-1.6	0.3	0.3	3.0	0.3	0.5	0.1	1.0
South, East and South-East Asia	6.7	10.0	10.7	18.4	0.6	5.1	5.0	7.7
South-East Europe and CIS	0.02	0.02	0.9	4.7	..	0.01	0.2	1.8
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex tables B.1 and B.2.

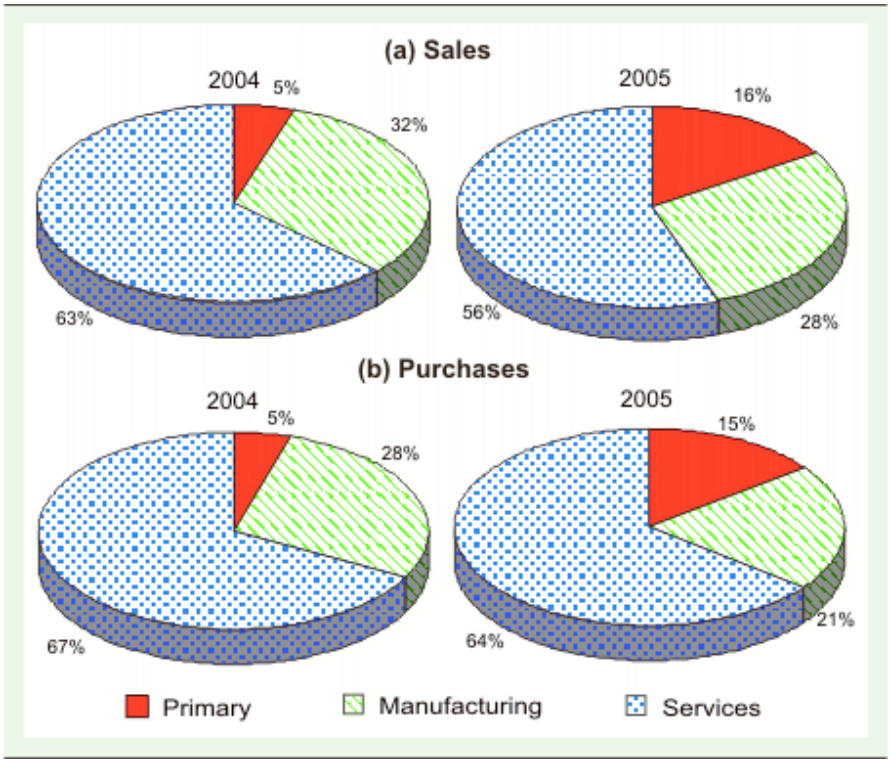
the above-mentioned significant changes in the pattern of FDI – and the development implications of this phenomenon are discussed in detail in Part Two of this Report.

b. Sectoral analysis: revival of FDI in natural resources

The sectoral breakdown of FDI data is available for only a limited number of countries, and at most up to 2004, which prevents a comprehensive sectoral analyses of FDI. According to available data, the overall sectoral distribution of FDI in 2004 remained almost the same as in previous years (annex tables A.I.2-A.I.5). However, data on various forms of FDI by sector – especially cross-border M&As– show that in 2005 the primary sector gained in importance, in terms of both target and acquiring industries (figure I.4), while both manufacturing and services declined. Nevertheless, services remain the dominant sector in cross-border M&A deals (*WIR04*). By contrast, FDI in manufacturing is on a downward trend, recording its lowest share ever of cross-border M&A sales and purchases in 2005 (excluding 2000, when the largest ever M&A deal of Vodafone-Mannesmann distorted the distribution, mainly in favour of services) (figure I.5). On the other hand, the growth of FDI in the primary sector, especially in mining activities, is very recent – if viewed over the past 25 years – and indeed dramatic. Cross-border M&A sales as well as purchases in this sector rose more than sixfold, and the sector's share in both sales and purchases reached close to the peak attained in 1987-1988 (figure I.5 for sales).[6] FDI in mining (including oil and other mining), which accounts for the bulk of the primary sector, has been largely responsible for the recent growth of global FDI.

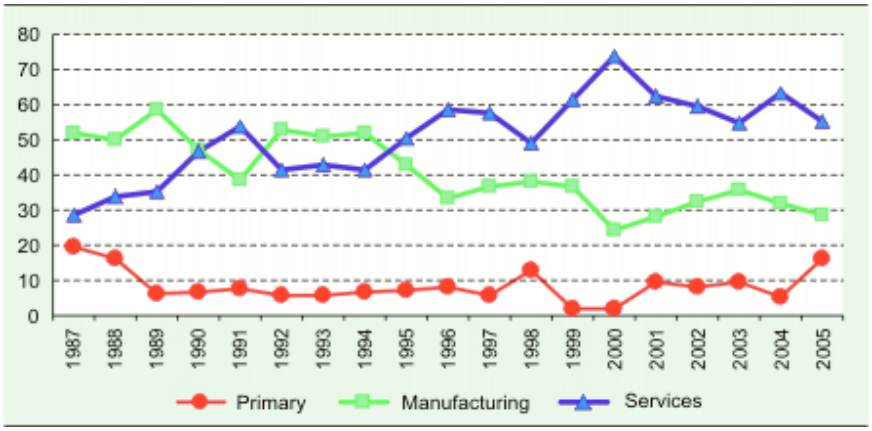
Current FDI growth seems to be led primarily by a few specific industries, rather than being broad-based sectorally. Specifically, in 2005, oil and gas, utilities (e.g. telecommunications, energies), banking and real estate were the leading industries in terms of inward FDI. For the first time since 1987 (M&A data are available only from that

Figure I.4. Cross-border M&As by sector, 2004-2005
(Per cent)



Source: UNCTAD, based on its FDI/TNC database (www.unctad.org/fdistatistics).

Figure I.5. Sectoral breakdown of cross-border M&A sales, 1987-2005
(Per cent)



Source: UNCTAD, based on its FDI/TNC database (www.unctad.org/fdi statistics).

year onwards), the petroleum (includes oil and natural gas) industry became the largest FDI recipient, accounting for 14% of all cross-border M&A sales, followed by finance and telecommunications – the latter two partly as a result of further liberalization in some countries (chapter II) (annex table B.6). These three activities accounted for more than one third of the total value of M&A deals. They were closely followed by real estate, which has also become an important recipient of FDI since 2004 following the liberalization of FDI entry by various countries (*WIR05*). Considerable FDI also went to service industries such as construction, transport and software businesses that were responsive to economic growth in 2005 as in the previous year. In manufacturing, FDI in the industries related to primary products rose: for example, cross-border M&As in oil refining doubled and those in rubber and plastic goods quadrupled, while in metals industries they rose sixfold (annex table B.6). Metals, telecommunications and real estate also attracted more greenfield FDI than in 2004.[7]

In terms of outward FDI, according to cross-border M&A purchase data, the petroleum industry was dwarfed by the special finance industry comprising investment and commodity firms, including private equity firms and hedge fund investors (discussed in section 3.c). This special finance industry alone accounted for more than 30% of total cross-border M&A purchases in terms of value in 2005 (annex table B.6). The petroleum industry was the second largest acquiring industry, followed by telecommunications.

Sectorally, FDI in the primary sector (natural resources, in particular, mining) has recovered slightly in the past few years, after a considerable decline in importance over the past two decades or more, while the services sector continues to capture an increasing share of FDI. A corollary of this is a further decline of the manufacturing sector in total FDI flows and stock. This is the same scenario for both inward and outward FDI, and in all groups of economies (annex tables A.I.2-A.I.5).

Table I.2. Selected indicators of FDI and international production, 1982-2005

Item	Value at current prices (Billions of dollars)				Annual growth rate (Per cent)						
	1982	1990	2004	2005	1986-1990	1991-1995	1996-2000	2002	2003	2004	2005
FDI inflows	59	202	711	916	21.7	21.8	40.0	-25.8	-9.7	27.4	28.9
FDI outflows	28	230	813	779	24.6	17.1	36.5	-29.4	4.0	44.9	-4.2
FDI inward stock	647	1 789	9 545	10 130	16.8	9.3	17.3	9.7	20.6	16.1	6.1
FDI outward stock	600	1 791	10 325	10 672	18.0	10.7	18.9	9.6	17.7	14.1	3.4
Income on inward direct investment	47	76	562	558	10.4	30.9	17.4	10.8	37.0	32.3	-0.7
Income on outward direct investment	47	120	607	644	18.7	18.1	12.7	6.3	37.0	26.6	6.1
Cross-border M&As [a]	..	151	381	716	25.9[b]	24.0	51.5	-37.7	-19.7	28.2	88.2
Sales of foreign affiliates	2 620	6 045	20 986[c]	22 171[c]	19.7	8.9	10.1	11.2	30.4	11.4[c]	5.6[c]
Gross product of foreign affiliates	646	1 481	4 283[d]	4 517[d]	17.4	6.9	8.8	1.9	20.3	22.8[d]	5.4[d]
Total assets of foreign affiliates	2 108	5 956	42 807[e]	45 564[e]	18.1	13.8	21.0	36.7	27.9	3.5[e]	6.4[e]
Exports of foreign affiliates	647	1 366	3 733[f]	4 214[f]	14.3	8.4	4.8	4.9[f]	16.5[f]	21.0[f]	12.9[f]
Employment of foreign affiliates (thousands)	19 537	24 551	59 458[g]	62 095[g]	5.4	3.2	11.0	10.0	-0.5	20.1[g]	4.4[g]
GDP (in current prices)	10 899	21 898	40 960	44 674[h]	11.1	5.9	1.3	3.9	12.1	12.1	9.1
Gross fixed capital formation	2 397	4 925	8 700	9 420	12.7	5.6	1.1	0.4	12.4	15.5	8.3
Royalties and licence fee receipts	9	30	111	91	21.2	14.3	7.8	7.9	14.1	17.0	-17.9
Exports of goods and non-factor services [h]	2 247	4 261	11 196	12 641	12.7	8.7	3.6	4.9	16.5	21.0	12.9

Source: UNCTAD, based on its FDI/TNC database (www.unctad.org/fdistatistics), and UNCTAD estimates.

[a] Data are available only from 1987 onwards.

[b] 1987-1990 only.

[c] Data for 2004 and 2005 are based on the following regression result of sales against FDI inward stock (in $ million) for the period 1980-2003: Sales=1 646.227+2.02618*FDI inward stock.

[d] Data for 2004 and 2005 are based on the following regression result of gross product against FDI inward stock (in $ million) for the period 1982-2003: Gross product=474.0967+0.399066*FDI inward stock.

[e] Data for 2004 and 2005 are based on the following regression result of assets against FDI inward stock (in $ million) for the period 1980-2003: Assets= -2 174.209+4.712645*FDI inward stock.

[f] For 1995-1998, based on the regression result of exports of foreign affiliates against FDI inward stock (in $ million) for the period 1982-1994: Exports=357.6124+0.558331*FDI inward stock. For 1999-2005, the share of exports of foreign affiliates in world exports in 1998 (33.3 per cent) was applied to obtain the values.

[g] Based on the following regression result of employment (in thousands) against FDI inward stock (in $ million) for the period 1980-2003: Employment=16 415.27+4.509468*FDI inward stock.

[h] Based on data from IMF, *World Economic Outlook*, April 2006.

Note: Not included in this table are the values of worldwide sales by foreign affiliates associated with their parent firms through non-equity relationships and the sales of the parent firms themselves. Worldwide sales, gross product, total assets, exports and employment of foreign affiliates are estimated by extrapolating the worldwide data of foreign affiliates of TNCs from Austria, Canada, the Czech Republic, Finland, France, Germany, Italy, Japan, Sweden, Switzerland and the United States (for employment); those from Austria, Canada, the Czech Republic, Finland, France, Germany, Italy, Japan, Luxembourg, Sweden and the United States (for sales); those from Japan and the United States (for exports); those from the Czech Republic, Portugal and the United States (for gross product); and those from Austria, Germany, Japan and the United States (for assets), on the basis of the shares of those countries in the worldwide outward FDI stock.

c. Trends in international production

International production, as measured by estimates of global FDI stock and of sales, assets, value-added, employment and exports by foreign affiliates, grew further in 2005 (table I.2). Given the important role of cross-border M&As and their rise in 2005, part of the expansion of international production and related assets and activities represents a shift of such assets and activities from domestic firms to TNCs rather than an addition to host countries' output, employment and value added. However, the shift may itself contribute to a growth in host countries' production capabilities over time due to possible sequential FDI aimed at expanding acquired production facilities (section 3 below).

The number of TNCs worldwide has risen to about 77,000, with at least 770,000 foreign affiliates (annex table A.I.6). More than 20,000 of the TNCs originate in developing countries. FDI has grown faster than domestic investment (gross fixed capital formation), and FDI stock continues to rise. Thus the share of international production in world output, as measured by the share of value added of foreign affiliates in world GDP, is rising and is estimated to have been 10% in 2005, compared to 7% in 1990. On the assumption that a dollar of FDI stock from any home country leads to the same amount of international production everywhere, and based on past estimates of the relationship between FDI stock and foreign sales, employment and value added, respectively, TNCs based in developing countries and in South-East Europe and the CIS are estimated to have accounted for about $2.6 trillion in sales, employed 7.4 million workers and generated more than $500 billion in value added outside their home countries in 2005. (For individual country data on international production, see annex tables B.8-B.19).

The degree of transnationality of host countries – both developed and developing, as well as the transition economies of South-East Europe and the CIS – measured by UNCTAD's Transnationality Index, fell somewhat in 2003 (figure I.6), reflecting a decline in FDI flows in that year. Significant differences continue to prevail in the degree of transnationality of different countries in all three groups, but the most and least transnationalized countries have remained the same in each host group as in the previous year. Some small developing countries experienced large changes in their ranking in 2003. The most significant changes were for Costa Rica, up from ranked 21 in 2002 to 13 in 2003, and the Dominican Republic, down from 13 in 2002 to 20 in 2003. The most transnationalized economy of all in 2003 was Hong Kong (China), followed by Ireland and Belgium.

The increase in global FDI flows in 2005 was driven by many factors: macroeconomic, microeconomic (corporate) and institutional. The most important factor at the macroeconomic level has been continued economic growth.[8] At the microeconomic level, a surge of financial flows to collective investment institutions (e.g. private equity funds, hedge funds) led to massive cross-border investments by these funds. At the institutional level, although a number of restrictive measures are being adopted to discourage takeovers, favourable conditions in financial and stock markets prompted the growth of cross-border M&As.

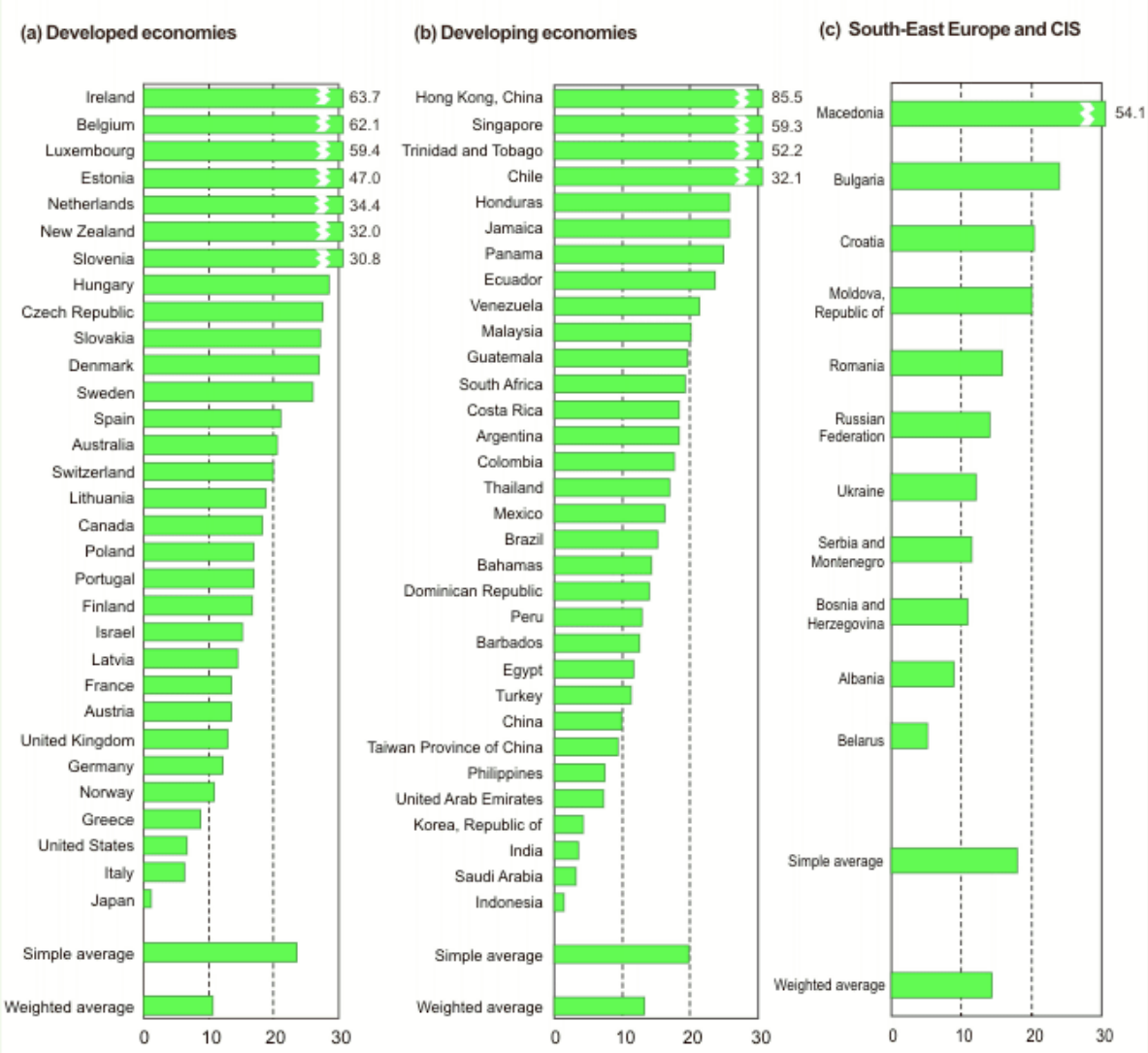
However, data on FDI flows and stocks should be interpreted with caution, taking into account a number of issues related to FDI statistics. A rise in global FDI flows, for instance, does not necessarily mean increased productive capacities in host economies, as explained in the next section.

2. Some issues concerning FDI statistics: what is behind the numbers?

Host countries today generally welcome FDI, on the condition that it will lead to higher value added and/or higher rates of output growth in their economies. FDI flows are expected to represent funds for expenditure on capital formation in host economies. But in reality not all of the flows shown in FDI data represent external financial resources for investment, because they may have originated in that country itself in the first place (round-tripping), or because they are intended mainly for FDI in some other country (trans-shipping), as discussed below. And, even if they are trans-shipments, they do not necessarily translate into expenditures to build production capacity in host economies.

Capital formation is the flow of expenditures that increase or maintain the real capital stock (sum of the value of capital goods used as factor inputs for production) in an economy. FDI that goes into new investment projects in an economy is part of

Figure I.6. Transnationality index[a] of host economies[b], 2003
(Per cent)



Source : UNCTAD estimates.

a Average of the four shares : FDI inflows as a percentage of gross fixed capital formation for the past three years 2001-2003; FDI inward stocks as a percentage of GDP in 2003; value added of foreign affiliates as a percentage of GDP in 2003; and employment of foreign affiliates as a percentage of total employment in 2003. For Belgium and Luxembourg, the corresponding ratio of FDI inflows to gross fixed capital formation refers only to 2002-2003.

b Only the economies for which data for all of these four shares are available were selected. Data on value added are available only for Belarus (2002), Czech Republic (2002), Finland (2001), France (2001), Hungary (2000), Ireland (2000), Italy (1997), Japan (2002), Netherlands (1996), Norway (1998), Portugal (2002), Sweden, United Kingdom (1997), United States, China (2002), India (1995), Malaysia (1995), Singapore (2002), Taiwan Province of China (1994) and Republic of Moldova. For Albania, the value added of foreign owned firms was estimated on the basis of the per capita inward FDI stocks and the corresponding ratio refers to 1999. For the other economies, data were estimated by applying the ratio of value added of United States affiliates to United States outward FDI stock to total inward FDI stock of the country. Data on employment are available only for Austria, Czech Republic, Denmark (1996), Finland (2001), France (2001), Germany, Hungary (2000), Ireland (2001), Italy (1999), Japan (2002), Netherlands (1996), Norway (1996), Poland (2000), Portugal (2002), Republic of Moldova, Slovenia (2000), Sweden, Switzerland, United Kingdom (1997), United States, Hong Kong (China) (1997), Indonesia (1996) and Singapore (2002). For Albania, the employment impact of foreign-owned affiliates was estimated on the basis of their per capita inward FDI stocks and the corresponding ratio refers to 1999. For the remaining countries, data were estimated by applying the ratio of employment of Finnish, German, Japanese, Swedish, Swiss and United States affiliates to their outward FDI stock and to total inward FDI stock of the respective economy. Data for France, Netherlands, Norway, Sweden and United Kingdom refer to majority-owned foreign affiliates only.

Box I.1. FDI and round-tripping of investments

Different treatment for foreign investors, as opposed to domestic investors, and tax differentials between countries affect the size and direction of FDI flows, leading in some cases to what is known as "round-tripping", or "the channelling by direct investors of local funds to SPEs (special purpose entities) abroad and the subsequent return of the funds to the local economy in the form of direct investment" (IMF 2004, p. 70).[a]

While estimates of such FDI vary, a large share of FDI from and in major developing host economies such as China and Hong Kong (China) is round-tripped. In the case of inward FDI in China, some of which is round-tripped via Hong Kong (China), estimates vary from 25% (*WIR03*, p. 45) to about 50% (Xiao 2004). Chinese firms try to benefit from special treatment and incentives given to foreign investors by remitting funds to Hong Kong (China) and then having their Hong Kong affiliates reinvest the funds back in China. After its accession to the World Trade Organization (WTO), China has removed many of the incentives, but there are still differences in treatment between domestic and foreign investors; for example, the corporate tax is still levied at lower rates on foreign TNCs than on domestic firms (normally 5%-13% on the former, compared with 25% on the latter).

Additional notable examples include the Russian Federation and others that have relatively recently opened up to foreign investors that tend to offer special incentives to FDI. However, in all these other cases, only small amount of FDI is round-tripped, as their FDI inflows are relatively small compared to those of China.

Source: UNCTAD.

[a] The term "round-tripping" is not mentioned in the existing official documents related to compilation of FDI data such as the IMF's *Balance of Payments Manual, Fifth Edition* (1993), or the OECD's *Benchmark Definition of FDI* (1996). However, the *Revision of the Balance of Payments Manual, Fifth Edition*, currently being undertaken by the IMF in cooperation with other international organizations (including UNCTAD) will include a reference to it (IMF 2004, p.70).

Box I.2. FDI and trans-shipping of investments

A large amount of FDI is invested in special purpose entities (SPEs) not only in developing countries (in particular tax havens or some offshore financial centres) but also in developed countries. Even in some major developed host countries the share of holding companies – one type of SPEs – in total inward FDI is relatively high (box table I.2.1). In a number of developed countries, it is usually difficult to ascertain to what extent FDI from SPEs is trans-shipped to other countries, but in the case of financial centres, it is likely that most of their FDI will be redirected to other countries.

In Luxembourg – the largest FDI recipient in 2002-2003 if FDI in SPEs or trans-shipped FDI were to be included – official data suggest that an estimated 95% of FDI inflows during 2002-2005 were trans-shipped (box table I.2.2).

Box table I.2.1. Inward FDI stock in holding companies of selected countries, 2003

Country	Millions of dollars	Share in total (%)
France	196 860	38
Germany	87 363	23
Portugal	11 762	20
United States [a]	84 361	6

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

[a] Data refer to 2004.

Box table I.2.2. FDI inflows in Luxembourg, distributed between SPE/trans-shipped FDI and non-SPE/non-trans-shipped FDI, 2002-2005
(Millions of dollars)

Item	2002	2003	2004	2005
Total inflows including SPE/trans-shipped FDI	117 218	83 814	77 215	43 755
Non-SPE/non-trans-shipped FDI	3 992	3 943	3 958	3 685
SPE/trans-shipped FDI	113 226	79 871	73 257	40 070

Source: UNCTAD, based on official communications with Statec, Luxembourg.

/...

Box I.2. FDI and trans-shipping of investments (concluded)

Furthermore, offshore financial centres located in the Caribbean alone accounted for 10% of inward FDI inflows to developing countries during 2000-2005 (annex table B.1).

Data for Hong Kong (China) show that 27% of its outward FDI stock in 2004 was accounted for by FDI that is directed to non-operating companies in offshore financial centres (mainly British Virgin Islands) (China, Hong Kong Census and Statistics Department, various years).[a] This type of FDI may have increased after the return of Hong Kong to China in 1997 as both local and foreign investors in Hong Kong (China) sought to diversify their financial holdings as a hedge against policy changes that might be detrimental to their interests (Ramstetter 2005).In addition, in some major host countries for which information is available, the share of tax havens in total inward FDI is substantial: for example, 14% of inward stock in Singapore (2003), 39% in Hong Kong, China (2004), and 15% in Brazil (2000).

Source: UNCTAD.

[a] Round-tripped FDI from China via Hong Kong (China) should also be taken into account, but official estimates of this type of FDI are not available. Thus it is not considered here.

this. However, FDI flows in the form of cross-border M&As in many cases simply end up transferring the ownership of production assets to the foreign investor and do not entail, at least in the short-term, any direct addition to capital stock in a host country (other than possible transfers of technology and know-how), as discussed in section 3 below. In addition, for different reasons, round-tripped investments (box I.1), trans-shipped investments (box I.2), as well as the bulk of investments in special purpose entities (SPEs) and in tax havens do not necessarily represent foreign investments in production capacity in host countries: they might eventually be used for productive investment in other, or even the originating, countries. The current FDI data, which include these kinds of investments, thus overestimate actual investment in production capacity.

These issues are being extensively discussed by expert groups on FDI at the international level, in particular the Direct Investment Technical Expert Group[9] and the OECD's Benchmark Advisory Group,[10] for the purpose of the revisions of the IMF's *Balance of Payments Manual* and the OECD's *Benchmark Definition of FDI*. Both groups set international guidelines for the compilation of statistics on balance of payments and international investment positions.[11] These issues and problems were also underlined at an UNCTAD expert meeting held in Geneva in December 2005 (box I.3).

FDI data should therefore be interpreted and used with all of these caveats in mind. More importantly, developing countries need to improve the quality of their FDI statistics – a major challenge for many of them. Moreover, FDI data alone are not enough to assess the importance and impact of FDI in host economies. They should be complemented with statistical information on the activities of TNCs and their foreign affiliates (e.g. sales, employment, trade, research and development (R&D)).

3. A new wave of cross-border M&As

This section takes a closer look at the new wave of cross-border M&As, including the growing importance of collective investment funds – particularly private equity funds and hedge funds – in FDI and their contribution to the recent recovery of FDI flows. It also highlights some of the questions this phenomenon raises concerning future FDI flows.

a. Recent trends

Both the value and number of cross-border M&As rose in 2005, to $716 billion (an 88% increase) and to 6,134 (a 20% increase) respectively – levels close to those of 1999, the first year of the latest cross-border M&A boom (annex tables B.4-B.7). While this high level of M&As reflected strategic choices of TNCs, it was also fuelled by the recovery of stock markets, which led to an increasing number of mega deals (each worth more than $1 billion in transaction value): in 2005, there were 141 such deals, representing a total value of $454 billion – more than twice the amount recorded in 2004 – and accounting for 63% of the total value of global cross-border M&As (table I.3; for individual deals see annex table A.I.7). These deals, the very large ones in particular, are typically concluded through the exchange of shares as a means of reducing the

Box I.3. UNCTAD expert meeting on FDI statistics: sound data essential for sound policies

Reliable data are essential for analysing the process of globalization in all its dimensions, including its impact on sustainable economic development, which provides the basis for formulating development-oriented policies. In host economies, adequate and timely policies play a crucial role in ensuring that FDI brings the desired kinds of investment and benefits. But without proper information, it is difficult to formulate sound FDI policies that are conducive to development.

Against this background, the Expert Meeting on Capacity Building in the Area of FDI: Data Compilation and Policy Formulation in Developing Countries, convened by UNCTAD in December 2005, provided a forum for discussing some key issues. The meeting emphasized that data collected should be reliable, comparable, useful, comprehensive and timely. By all of these criteria, wide-scale improvements in data gathering are required.[a]

Providing increased and improved information on FDI would facilitate the analysis of trends and the assessment of the impact of FDI on development. At the UNCTAD expert meeting, it was recognized that the present data collecting and reporting systems of many developing countries, in particular LDCs, may not be able to provide the data required for sound analysis and appropriate policy formulation. Ways of improving this situation need to be considered, including through international and regional cooperation. UNCTAD is currently involved in expert meetings/consultations in various regions to identify steps that can be taken in this direction. These include institutional capacity-building activities relating to FDI statistics, and support to regional cooperation among relevant institutions in developing countries and economies in transition to help promote a harmonized system for measuring, collecting and reporting statistics on FDI and the activities of TNCs.

Source: UNCTAD, based on "FDI statistics: data compilation and policy issues", note prepared by the UNCTAD secretariat (TD/B/COM.2/EM.18/2) for the Expert Meeting on Capacity Building in the Area of FDI: Data Compilation and Policy Formulation in Developing Countries, Geneva, 12-14 December 2005 and "Report of the Expert Meeting on Capacity Building in the Area of FDI: Data Compilation and Policy Formulation in Developing Countries"(TD/B/COM.2/EM.18/3).

[a] See annex on Definitions and Sources, section B, for a discussion of some limitations of currently available FDI data.

Table I.3. Cross-border M&As valued at over $1 billion, 1987-2005

Year	Number of deals	Share in total (%)	Value ($ billion)	Share in total (%)
1987	14	1.6	30.0	40.3
1988	22	1.5	49.6	42.9
1989	26	1.2	59.5	42.4
1990	33	1.3	60.9	40.4
1991	7	0.2	20.4	25.2
1992	10	0.4	21.3	26.8
1993	14	0.5	23.5	28.3
1994	24	0.7	50.9	40.1
1995	36	0.8	80.4	43.1
1996	43	0.9	94.0	41.4
1997	64	1.3	129.2	42.4
1998	86	1.5	329.7	62.0
1999	114	1.6	522.0	68.1
2000	175	2.2	866.2	75.7
2001	113	1.9	378.1	63.7
2002	81	1.8	213.9	57.8
2003	56	1.2	141.1	47.5
2004	75	1.5	199.8	52.5
2005	141	2.3	454.2	63.4

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

need for cash as well as for deferring or minimizing tax payments over capital gains. Indeed, some of them are impossible to effect by cash payment because of their sheer size. This is reflected in the increasing number of deals through an exchange of shares when cross-border M&As rise in value (table I.4). However, more recently, as noted below, due to the growth of FDI by collective investment institutions (e.g. private equity funds and hedge funds), M&As involving cash payment have also been on the rise.

Although it is too soon to make exact comparisons, the present boom in cross-border M&As bears a number of similarities as well as differences with the previous one (table I.5). The value and number of M&As in 2005 were comparable to the averages in 1999-2001, as were the number of mega deals. The top three target countries in terms of shares of total sales by value – the United Kingdom, the United States and Germany – were the same as in the previous boom.

On the other hand, there were some changes in the sectoral and industrial distribution of M&As in the two periods: the share of the primary sector

Table I.4. Cross-border M&As through exchange of shares, 1987-2005
(Billions of dollars and per cent)

Year	World		Developed countries		Developing economies[a]	
	Stock swap	Share in total	Stock swap	Share in total	Stock swap	Share in total
1987	1.5	2.0	1.5	2.1	-	-
1988	1.6	1.4	1.6	1.4	0.0	0.4
1989	11.2	8.0	11.2	8.2	0.0	0.8
1990	12.6	8.4	12.2	8.5	0.5	6.6
1991	2.3	2.9	2.3	3.0	-	-
1992	3.0	3.8	3.0	4.1	0.0	0.2
1993	14.3	17.3	13.4	18.6	0.9	8.2
1994	5.3	4.2	4.9	4.3	0.4	2.8
1995	13.8	7.4	12.6	7.3	1.2	9.0
1996	29.8	13.1	20.9	10.6	9.0	30.0
1997	32.4	10.6	30.8	11.4	1.6	4.6
1998	140.9	26.5	139.9	27.5	1.0	4.6
1999	277.7	36.3	250.3	35.7	27.4	42.7
2000	507.8	44.4	496.1	45.6	11.7	24.0
2001	140.9	23.7	115.8	21.6	23.8	42.4
2002	39.9	10.8	37.4	10.9	2.5	8.8
2003	32.7	11.0	31.7	12.3	1.1	2.6
2004	62.2	16.3	50.4	14.8	11.8	28.9
2005	123.7	17.3	121.4	19.4	2.3	2.6

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
[a] Includes South-East Europe and CIS.
Note: Covers only the deals whose transaction value is known.

was higher in the latest boom, at the expense of services; this is reflected in the fact that the top three target industries in 2005 were mining, quarrying and petroleum. They pushed the two leading industrial categories in the previous M&A peak – transport, storage and communications, and finance – to the second and third positions respectively, and displaced business services from the top three.

There are some noticeable differences in the factors underlying the present upsurge in cross-border M&As, compared to those that drove the previous one. The financial markets and the "dot-com" boom no longer play key roles. Moreover, there is reason to believe that the present boom is driven primarily by strategic choices of firms in light of opportunities provided by economic growth, and that opportunistic factors play a smaller role in the current M&As. Thus the deals involve fewer industries than in the previous boom. Most cross-border M&As are undertaken within the same industry, except where new types of investors are involved, such as private equity firms (discussed later), that usually invest in any industry.

b. Cross-border M&As versus greenfield FDI

Greenfield FDI refers to investment projects that entail the establishment of new production facilities such as offices, buildings, plants and factories, as well as the movement of intangible capital (mainly in services). This type of FDI involves capital movements that affect the accounting books of both the direct investor of the home country and the enterprise receiving the investment in the host country. The latter (or foreign affiliate) uses the capital flows to purchase fixed assets, materials, goods and services, and to hire workers for production in the host country. Greenfield FDI thus directly adds to production capacity in the host country and, other things remaining the same, contributes to capital formation and employment generation in the host country.

Cross-border M&As involve the partial or full takeover or the merging of capital, assets and liabilities of existing enterprises in a country by TNCs from other countries. M&As generally involve the purchase of existing assets and companies. The target company that is being sold and acquired is affected by a change in owners of the company. There is no immediate augmentation or reduction in the amount of capital invested in the target enterprise at the time of the acquisition, except in some cases involving operations in which the direct investor already has an interest (see below). However, M&As may subsequently lead to an expansion (or reduction) of operations.

If the acquisition is strictly an exchange of shares between residents and non-residents with no cash involved,[12] there are no actual flows of financial capital. In the balance of payments, the exchanges of shares, which are recorded as inflows and outflows in the financial accounts of the two countries involved, should balance, resulting in no net inflow or outflow of financial capital. Such stock-swapping M&As accounted for 17% of total cross-border M&As in 2005 (table I.4).[13]

It should be underlined, however, that even though FDI through M&As may not add directly to the total capital stock of a host country, it does add to *foreign-owned* capital stock (when domestic firms are acquired) and to international production. Thus, from the point of view of the outward investors, these are investments that add to their production capacities, and from a global point of view, they add to international production capacity

Table I.5. Main characteristics of cross-border M&As: then and now

Item	1999-2001 (Previous peak period)		2005
Value ($ million) (Annual average)	834 607		716 302
Number (Annual average)	6 974		6 134
Number of mega deals (Annual average acquisition worth over $1 billion in transaction value)	134		141
Regional breakdown based on totals (% of total) (based on sales)			
Developed countries	90		84
Developing countries	9		14
South-East Europe and CIS	-		2
Sectoral breakdown based on sales (% of total)			
Primary	4		16
Manufacturing	29		28
Services	67		55
Top 3 target countries (% of total)			
United States	30	United Kingdom	24
United Kingdom	15	United States	15
Germany	13	Germany	9
Top 3 target industries (% of total)			
Transport, storage and communications	26	Mining, quarrying and petroleum	16
Finance	17	Transport, storage and communications	14
Business activities	10	Finance	13
Factors			
Financial market boom		Economic growth	
Pressures to merge		Strategic choices (firm's growth, consolidation,	
Strategic and financial		protection from acquisition)	
The dot-com surge		New investors (private equity firms)	

Source: UNCTAD. M&A data from cross-border M&A database (www.unctad.org/fdistatistics).

and cross-border production under the common governance of TNCs. More importantly, although most FDI through M&As does not represent a direct addition to the capital stock of countries, several factors must be taken into account in assessing its significance for capital formation and for development in host countries (*WIR00* and box I.4).

c. An emerging trend: the rise in FDI by collective investment funds

Investment firms, or collective investment institutions and schemes – that include, among others, private equity firms and various financial investment funds (e.g. mutual funds, hedge funds) – have recently become growing sources of FDI, mainly through cross-border acquisitions. This emerging trend is examined here, in particular with reference to private equity funds and hedge funds that are frequently used for FDI, and the transactions of which are recorded in FDI statistics.

As long as cross-border investments of private equity and hedge funds exceed the 10% equity threshold of the acquired firm, these investments are classified and should be recorded as FDI, even if a majority of such investments are short term and are closer in nature to portfolio investments. Investments by these funds may be the latest examples of portfolio investment turning into FDI (Dunning and Dilyard 1999). Recent investments, however, involve a relatively long period of management by the funds themselves (box I.5) and have the characteristics of FDI. Further research is needed to better assess the true FDI or portfolio nature of such investments.

Private equity funds are emerging as a new and growing source of investment, with a record amount of funds raised in 2005 – $261 billion –[14] about half of which were used for FDI.[15] The investments are made primarily in companies in need of venture capital and in companies in distress, as well as in firms divested by large enterprises that prefer to concentrate on core

Box I.4. Comparison of the impact of cross-border M&As and greenfield FDI on host countries

The main difference between the impact on the host-country of FDI through cross-border M&As and greenfield investment lies in the immediate or short-term effects on capital formation and employment. Greenfield FDI, or FDI in new projects, adds directly to the stock of productive capital (and to employment) in the host country, while a merger or acquisition represents a change in ownership that does not necessarily involve any immediate additions to investment or employment in the host country. Over time, however, the impact of FDI through the two modes is likely to be similar in these and other respects, while differing in some others, particularly in the competition area by eliminating acquired companies or crowding out domestic companies.

First and foremost, over the longer term, both cross-border M&As and greenfield entry are likely to provide similar investment inflows in similar situations (*WIR00*, p.171). Evidence from developing countries shows that new (sequential) investments after cross-border M&As can be sizeable. Moreover, sequential investments can be encouraged through policy measures or provisions in privatization deals.

Second, there are situations in which cross-border M&As are the only realistic option for FDI entry, for example when there is a need for rescuing ailing companies in a financial crisis or when large-scale privatization is under way. Even when the two entry modes may be considered alternatives, industry-specific factors, such as market concentration, high barriers to entry, slow growth or excess capacity, may limit the probability of greenfield entry. Moreover, when FDI is motivated by the search for assets embodied in other firms, or driven by competitive pressures that force firms to access assets or restructure rapidly, the greenfield option is often ruled out (*WIR00*, p.161). However, these latter factors are likely to apply mainly to relatively advanced host developing economies; in less developed ones, the paucity of firms that are candidates for M&As may make greenfield entry the only option.

Third, FDI is a package of assets, including not only capital for investment but potentially also technology, organizational and managerial practices and market access. Greenfield FDI can provide this, while the potential impact of cross-border M&As on these aspects of host-country development is less known. Nevertheless, cross-border M&As, for example, can bring in their wake transfers of technology, especially when acquired firms are restructured to increase the efficiency of their operations. When TNCs invest in building local skills and technological capabilities, they do so regardless of how their affiliates are established.

In sum, the impact of FDI on host countries is difficult to distinguish by mode of entry once the initial period has passed. The possible exceptions are their impacts on market structure and competition, for instance when cross-border M&As have adverse effects by monopolizing production (closing down of the acquired firms or crowding out of local firms), and on economic restructuring of industries and activities, where cross-border M&As may play a more positive role than greenfield FDI (*WIR00*, pp.193-197).

Source: UNCTAD, based on *WIR00*.

competencies. Private equity firms are still largely concentrated in the United States and the United Kingdom, and the majority of the investments by private equity funds are still made in their home markets. But in recent years, such funds have expanded their business and investments into other countries and regions of the world. In 2005, 10% of all private equity funds raised were spent outside Europe and North America, in addition to "global" funds – which are a mixture of funds raised in more than one country – that accounted for another 20% (Private Equity Intelligence 2006, p. 9). In Europe, the single currency and the increasing integration of financial markets contributed to a significant increase in the importance of the private equity market (ECB 2005, p. 24). In Asia, companies with growth potential but in financial difficulty following the financial crisis (or a prolonged recession as in the case of Japan) have attracted such funds. In recent years, private equity funds have been joined by another type of funds – hedge funds. These funds have also started to participate in buyout transactions and are in competition with traditional TNCs and private equity funds, with

Box I.5. Characteristics of private equity and hedge fund investments

Private equity funds are financial service firms or institutions that purchase equity shares in companies at home and abroad. Most of the money raised for investments comes from institutional investors, such as banks, pension funds and insurance companies. In addition, commercial corporations, private foundations and private individuals invest in these funds. The funds are engaged in asset management that focuses on actively investing in and supporting businesses with a potential for high growth. The target companies are typically not listed on the stock market, or if listed, they are normally de-listed after acquisition. The aim of the investors is to earn profits (mainly in the form of capital gains) by helping the acquired companies to grow over several years through the provision of financial resources, advice, networking and knowledge. The capital gain for the investors is derived from the value creation achieved in the company, and is realized when the investment is exited. Venture capital is a subset of private equity, and refers to investments in companies at early stages of their development. Investments at the buyout stage apply to more mature companies, and involve larger amounts and different types of finance.

Hedge funds do not own or run a specified asset management business, but generally have broad investment mandates. There are very few regulatory restrictions on the types of instruments in which they deal, and they make extensive use of short selling, leverage and derivatives. They are often referred to as speculative funds. In recent years, however, hedge funds have expanded their equity stakes in selected stock-listed companies.

Durations of investment by private equity and hedge funds differ. In the case of private equity funds, investors tend to take equity positions with a time horizon of 5 to 10 years (or an average of 5-6 years). Hedge funds normally stay very short.

Source: UNCTAD, based on ECB (2006a), EVCA (2005).

a record $1,200 billion raised in 2005. Box I.5 provides an overview of the main characteristics of private equity funds and hedge funds and their investments.

Private equity-financed FDI increased in 2005, but it is difficult to calculate exactly its share in total FDI inflows worldwide, as balance-of-payments data do not distinguish between different types of investors.[16] The only available data are those on cross-border M&As by private equity funds, hedge funds and other similar investors.[17] Such data suggest that such investments are rising: they reached a record $135 billion and accounted for as much as 19% of total cross-border M&As in 2005 (table I.6). These figures are even higher than those of the M&A peak period of the late 1990s and 2000. About 10% and 30% of the value and number, respectively, of these deals took place in developing countries, in particular developing Asia (figure I.7 for number of deals).

Private equity funds normally obtain a majority of shares or full control and management of the companies they buy, and stay longer than other funds. Thus they are much more important for FDI than are hedge funds. The analysis that follows focuses on private equity funds.

In 2005, the private equity market boomed worldwide, particularly in Asia, including Japan, and the EU. Historically low interest rates, high liquidity of investors and the good performance of private equity funds led to an increase in investments in the funds. Half of the funds were venture capital funds. As in previous years, private equity firms in the United Kingdom and the United States accounted for the lion's share of raised funds (85%) (Private Equity Intelligence 2006). In the United States, the private equity market traditionally has been of greater importance than in other countries.

The majority of private equity funds invest in their own countries/regions. But a growing proportion of investments are now undertaken abroad. Often, private equity firms compete with traditional TNCs in acquiring foreign companies. In 2005, they were involved in several deals that included the largest buyouts in the world (table I.7). In many cases they invested jointly.[18]

In 2005, private equity firms invested abroad in various industries and sectors: for example in the services sector, including real estate, in Europe, the banking industry in developing Asia, and finance and leisure industries in Japan. In Germany, investments in real estate amounted to more than

$13 billion (box I.6). In general, in developed countries, the sectoral distribution of FDI by private equity firms is more or less equal between manufacturing and services sectors, but, unlike FDI overall or total cross-border M&As, the primary sector does not seem to be a significant target (figure I.8). In developing countries, the focus is more on services (80% of the total value). In developed countries, these firms invest largely in the food, beverages and tobacco industry in the manufacturing sector and in business activities (including real estate) in the services sector, while in developing countries and South-East Europe and the CIS their focus is more on finance and telecommunications.

The increasing activity of private equity funds in cross-border investments raises questions about the implications of such investments for the long-term growth and welfare of the host economies. There is disagreement about the positive effects of private equity in the form of venture or risk capital (i.e. capital invested in firms with high growth potential but also a high level of risk). A recent study has shown that firms that receive external private equity financing tend to have a larger start-up size and can therefore better exploit their growth potential (Colombo and Grilli 2005). Investment in firms with high growth potential and high risk levels may appeal less to traditional investors, as the risk of such projects seems too large or too difficult to assess. Venture capital from foreign private equity firms may well help developing countries create firms that could become a Xerox, a Microsoft or an Apple of the future.

Table I.6. Cross-border M&As by collective investment funds,[a] 1987-2005
(Number of deals and value)

Year	Number of deals		Value	
	Number	Share in total (%)	$ billion	Share in total (%)
1987	43	5.0	4.6	6.1
1988	59	4.0	5.2	4.5
1989	105	4.8	8.2	5.9
1990	149	6.0	22.1	14.7
1991	225	7.9	10.7	13.2
1992	240	8.8	16.8	21.3
1993	253	8.9	11.7	14.1
1994	330	9.4	12.2	9.6
1995	362	8.5	13.9	7.5
1996	390	8.5	32.4	14.3
1997	415	8.3	37.0	12.1
1998	393	7.0	46.9	8.8
1999	567	8.1	52.7	6.9
2000	636	8.1	58.1	5.1
2001	545	9.0	71.4	12.0
2002	478	10.6	43.8	11.8
2003	649	14.2	52.5	17.7
2004	771	15.1	77.4	20.3
2005	889	14.5	134.6	18.8

Source: UNCTAD, cross-border M&As database.

[a] Collective investment funds here refer mainly to private equity and hedge funds that are defined as "investors not elsewhere classified" under investment and commodity firms, dealers and exchanges (i.e. financial service industries excluding credit institutions, savings and loans, mutual savings banks, commercial banks, bank holding companies, investment and commodity firms, dealers and exchanges except investors not elsewhere classified — such as securities companies, commodity brokers, dealers and exchanges, investment offices, real estate investment trusts and management investment offices – and insurance firms). This classification is based on the one used by the Thomson Financial database on M&As.

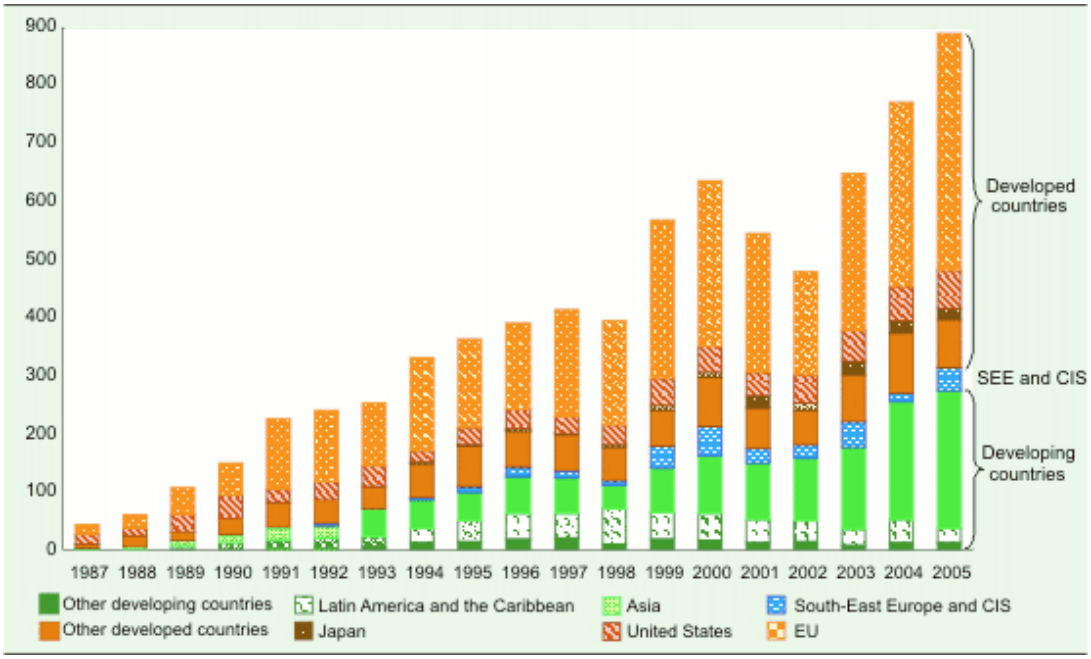
However, the role of private equity funds in foreign acquisitions is particularly strongly debated when they invest in firms in distress. In a number of cases, private equity funds have been accused of putting companies up for resale within a short time period after squeezing profits out of them and laying off workers, or of slicing up and destroying companies. Sometimes, they have been referred to as "heartless asset strippers",[19] provoking a public outcry. For example, several such firms provoked public anger in the Republic of Korea (e.g. Newbridge Capital and Lone-Star, both United States private equity firms, when the former sold Korea First Bank in 2005 and the latter, Korean Exchange Bank in 2006). Similar examples are also prevalent in developed countries (e.g. Japan).

One of the differences between FDI by private equity funds and that by traditional TNCs relates to the fact that the investment horizon of the former lasts, on average, only 5-6 years, while, in theory, traditional TNCs have typically engaged in expanding the production of their goods and services to locations abroad and have longer investment horizons. But more recently, TNCs have also increasingly been driven by short-term performance targets to meet shareholders' expectations for high and rapid returns.

The prospects for fund-raising and investment by private equity funds remain good for 2006. Some firms (e.g. KKR) even started to raise funds from stock markets by issuing shares. With growing expertise, such funds are increasingly investing abroad, driving FDI financed by private equity funds. New institutional investors from developing countries are also emerging. Examples include Capital Asia (Hong Kong, China), Dubai International Capital (UAE), H&Q Asia Pacific

Figure I.7. Number of cross-border M&As by collective investment funds,[a] by target region, 1987-2005

(Number)



Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

[a] See note to table I.6 for definition of collective investment funds.

Table I.7. Selected 20 large cross-border M&As using collective investment funds,[a] announced or completed during 2004-March 2006

Rank	Year	Value in $ million	Target company	Country of target company[b]	Investor	Investors' country[a]
1	2005	13.0	TDC	Denmark	Apax, Blackstone, KKR, Providence	United States
2	2006	7.3	WNU	Netherlands	Carlyle, Blackstone, KKR, Alpinvest, Permira, Hellmann&Friedman	United States
3	2005	7.0	Viterra	Germany	Terra Firma (via Deutsche Annington)	United Kingdom
4	2004	4.4	Basell	Netherlands	Access Industries, Chatterjee Group	United States
5	2005	4.3	Amadeus	Spain	BC Partners, Cinven	United Kingdom
6	2004	3.1	Canary Wharf Group PLC	United Kingdom	Songbird Acquisition Ltd	United States
7	2005	2.9	Warner Chilcott PLC	United Kingdom	Waren Acquisition Ltd	United States
8	2004	2.2	Celanese AG	Germany	Blackstone Group LP	United States
9	2005	1.9	Masonite International Corp	Canada	Kohlberg Kravis Roberts & Co	United States
10	2004	1.8	WCM-Residential Pty	Germany	Blackstone Group LP	United States
11	2005	1.8	Ruhrgas Industries GmbH	Germany	CVC Capital Partners Ltd	United Kingdom
12	2004	1.8	ATU Auto-Teile-Unger GmbH	Germany	Kohlberg Kravis Roberts & Co	United States
13	2004	1.7	Brenntag AG	Germany	Bain Capital Inc	United States
14	2004	1.7	Picard Surgeles SA	France	BC Partners Ltd	United Kingdom
15	2005	1.6	Pirelli SpA-Cables & Sys Div	Italy	GS Capital Partners LP	United States
16	2005	1.6	Turkcell Iletisim Hizmetleri	Turkey	Alfa Group	Russian Federation
17	2004	1.5	Verizon-Canadian Directory Bus.	Canada	Bain Capital Inc	United States
18	2005	1.5	Tussauds Group Ltd	United Kingdom	Dubai International Capital	United Arab Emirates
19	2005	1.4	Chr Hansen-Food Ingredient	Denmark	PAI Partners SA	France
20	2005	1.4	Dometic International AB	Sweden	BC Partners Ltd	United Kingdom

Source: UNCTAD, based on annex table A.I.8 and newspaper accounts.

[a] See note to table I.6 for definition of collective investment funds.

[b] While the (immediate) country of target and investor is the same, the ultimate investor is based in another country.

Box I.6. Large private equity investments in the German real estate sector

In 2005, there were several high value investments by foreign private equity firms in the German real estate sector. For example, Fortress acquired NILEG Immobilien Holding GmbH for i1.5 billion ($1.9 billion), Cerberus/ Fortress bought Deutsche Wohnen for i1.0 billion ($1.3 billion) and Oaktree acquired GEHAG for i1.0 billion ($1.3 billion).

The most spectacular investment was undertaken by Terra Firma, a private equity capital firm, which acquired E.ON, a real estate firm, from one of the biggest German energy suppliers, German Viterra AG, for a publicly announced price of i7 billion ($8.8 billion), making it the largest transaction in the European real estate sector and the largest buyout in Germany.[a] The German housing market has become more attractive to foreign investors as economic conditions in that country have begun to improve and housing prices are relatively low following a decade of stagnation.

Like many investments by private equity firms, the acquisition of Viterra (which was undertaken through the German affiliate of Terra Firma, Deutsche Annington) appears to have been financed to a large extent by loans raised in local markets. Since these loans were taken by the German affiliate in domestic markets, they are not considered as involving cross-border payments, and therefore are not recorded as inward FDI in Germany. In the German balance-of-payments statistics, total FDI inflows in the real estate sector in 2005 amounted to only $0.8 billion; yet the acquisition of Viterra AG, together with other publicly announced acquisitions of German real estate companies by foreign private equity companies, amounted to over i13 billion ($16.2 billion).

Source: UNCTAD.

[a] "Terra Firma wettet auf den deutschen Aufschwung", *Frankfurter Allgemeine Zeitung*, 23 February 2006.

Hong Kong (China) and Temasek (Singapore). However, given the recent tendency of many such funds to use bank loans to finance private equity buyouts, a deterioration in the macroeconomic environment, especially a sharp increase in interest rates, could lead to difficulties for the private equity funds and slow down the dynamic development of their investment abroad.

FDI by collective investment funds is a new form of foreign investment, which raises a number of questions that deserve further research. For instance, how does FDI financed by private equity funds differ from FDI by TNCs in its strategic motivations? Who controls such funds? And what are their impacts on host economies?

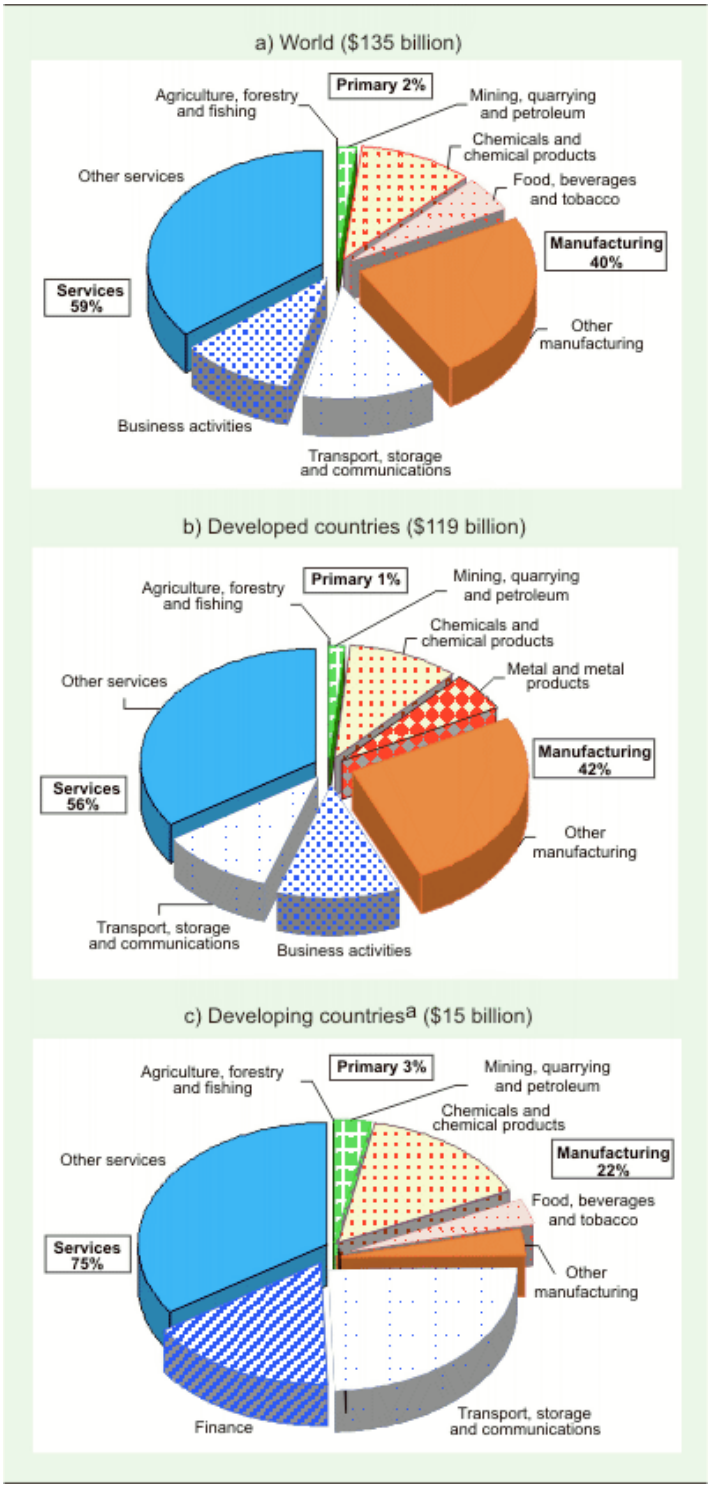
4. FDI performance and potential

Some changes took place in 2005 (or the 2003-2005 average) of rankings by the UNCTAD *Inward FDI Performance Index*,[20] reflecting uneven developments with respect to FDI inflows (annex table A.I.9).

By country, as a result of continued large investments in its oil and gas industry, Azerbaijan still led the performance index ranking ahead of other small economies – usually well represented among the leaders – such as Brunei Darussalam, Hong Kong (China), Luxembourg, Malta and Singapore (table I.8). Estonia came fourth (having moved up from the 15th position in 2004 (or the 2002-2004 average). Among the top 20 performers by the index, 12 were developing economies and three were from the transition economies of South-East Europe and the CIS. Many high performers are oil- and gas-producing economies.

By region, the group of developed countries suffered a decline in its relative position, reflecting large falls in FDI in some countries (table I.9). Within the group, the largest declines were in the EU, although significant gains were observed for the Netherlands and the United Kingdom (annex table A.I.9). On the other hand, the developing regions, with the exception of Latin America and the Caribbean, improved their ranking by the FDI Performance Index. The highest index was that of South-East Asia, but the sharpest rise was achieved by the North African region (with Sudan, Egypt and Morocco moving up in the rankings) and West Asia. South-East Europe also improved its index in 2005 (table I.9). The two candidates for EU accession, Bulgaria and Romania, figured among the top 30 (annex table A.I.9).

Figure I.8. Cross-border M&As by private equity funds and hedge funds, by sector and main industry, 2005
(Per cent)



Source: UNCTAD.
[a] Including South-East Europe and CIS.

In contrast to changes in rankings in the performance index, there were almost no changes in the rankings based on the Inward FDI Potential Index[21] (annex table A.I.9 for rankings of all 141 countries). The top economies remain the same as in the previous year, almost in the same order. This reflects the stability of the structural variables comprising the Index. The United States and the United Kingdom ranked first and second, and 15 developed countries ranked among the top 20. Singapore, Qatar, Hong Kong (China), the Republic of Korea and Taiwan Province of China, in that order, were the developing economies that featured among the top 20 in the 2005 ranking.

Comparing their inward FDI performance and potential using the UNCTAD indices, countries in the world can be divided into the following four categories: front-runners (countries with high FDI potential and performance); above potential (countries with low FDI potential but strong FDI performance); below potential (countries with high FDI potential but low FDI performance); and under-performers (countries with both low FDI

Table I.8. Top 20 rankings by Inward FDI Performance Index, 1995, 2004 and 2005[a]

Economy	1993-1995	2002-2004	2003-2005
Azerbaijan	11	1	1
Brunei Darussalam	18	2	2
Hong Kong, China	13	6	3
Estonia	15	15	4
Singapore	2	7	5
Luxembourg	..	4	6
Lebanon	116	8	7
Malta	21	30	8
Bulgaria	96	9	9
Congo	7	10	10
Belgium	..	11	11
Mongolia	94	13	12
Iceland	130	58	13
Georgia	114	16	14
United Arab Emirates	90	25	15
Sudan	112	19	16
Congo, Democratic Republic of the	131	91	17
Angola	24	3	18
Jordan	132	46	19
Trinidad and Tobago	5	14	20

Source: UNCTAD.
[a] Three-year moving averages of FDI inflows and GDP, using data for the immediate past three years including the year in question.

Table I.9. Inward FDI Performance Index, by region, 1990, 2004 and 2005[a]

Region	1988-1990	2002-2004	2003-2005
World	1.000	1.000	1.000
Developed regions	1.007	0.838	0.807
Europe	1.272	1.393	1.372
European Union	1.271	1.406	1.385
Other Europe	1.280	1.132	1.119
North America	1.129	0.472	0.484
Other developed countries	0.290	0.431	0.194
Developing regions	0.967	1.532	1.596
Africa	0.722	1.288	1.455
North Africa	0.838	1.186	1.591
Other Africa	0.643	1.356	1.372
Latin America and the Caribbean	0.948	1.705	1.625
South America	0.814	1.747	1.687
Other Latin America and the Caribbean	1.277	1.649	1.535
Asia and Oceania	1.030	1.500	1.604
Asia	1.019	1.501	1.605
West Asia	0.142	0.872	1.242
South, East and South-East Asia	1.240	1.635	1.685
South Asia	0.112	0.525	0.507
East and South-East Asia	1.632	1.899	1.962
East Asia	1.085	1.931	1.933
South-East Asia	3.172	1.780	2.073
Oceania	7.144	0.702	0.717
South-East Europe and CIS	0.444[b]	2.062	2.098
South-East Europe	0.876[b]	3.699	3.857
CIS	0.407[b]	1.732	1.760

Source: UNCTAD.

a Three-year moving averages of FDI inflows and GDP, using data for the immediate past three years including the year in question.

b 1992-1994. As most of the countries in this region did not exist in their present form before 1992, the period for the index is adjusted.

potential and performance) (table I.10). There are some surprises for the first and last groups. While the first group included many developed countries and newly industrializing economies, in 2004 (2002-2004 average), the most recent year available for this analysis, countries such as Denmark, France and Switzerland were categorized as below potential. The last group consisted mainly of poor and low-income developing economies, including LDCs and countries affected by economic or political crises.

Performance in FDI outflows relative to the size of economies, as measured by the Outward FDI Performance Index,[22] showed only a few changes in country positions in 2005 as compared with those in 2004. Iceland and Hong Kong (China) head the list, and the composition of the top 10 economies was the same as that of the previous year (2004), with six developed countries, three developing economies and one transition economy from the CIS (Azerbaijan). In general, as in the case of inward FDI performance, small economies ranked relatively high in the Outward FDI Performance Index. Chapter III further discusses developments based on this index for developing countries.

B. Policy developments

1. National policy changes

The year 2005 saw intense discussions in many parts of the world on the merits of liberalization versus the need for economic protectionism. Most countries continued to liberalize their investment environment but others took steps to protect their economies from foreign competition or to increase State influence in certain industries. In particular, the Latin American oil and gas industries were the focus of attention culminating in the decision in Bolivia to nationalize its oil and gas industry in May 2006.

A total of 205 policy changes were identified by UNCTAD in 2005 (table I.11). In terms of regional distribution, Africa accounted for 53 policy changes, followed by Asia and Oceania (48), developed countries (44), South-East Europe and the CIS (39) and Latin America and the Caribbean (21). The number of FDI-related changes in national laws was slightly lower than those reported for the past three years. This partly reflects a change in the methodology used by UNCTAD to gather the data.[23]

Most of the changes in 2005 made conditions more favourable for foreign companies to enter and operate. The types of measures most frequently adopted were related to sectoral and cross-sectoral liberalization (57 policy changes), promotional efforts (51 policy changes), operational measures (22 policy changes) and FDI admission (19 policy changes).

Fifty-one measures involved new promotional efforts, including various incentives aimed at furthering investment in certain economic activities. Greece, for example, introduced new incentives for investments in tourism and into R&D activities. Most of the changes reported were related to corporate income taxes, considered

Table I.10. Matrix of inward FDI performance and potential, 2004[a]

	High FDI performance	Low FDI performance
	Front-runners	Below potential
High FDI potential	Australia, Bahamas, Bahrain, Belgium, Botswana, Brunei Darussalam, Bulgaria, Chile, China, Croatia, Cyprus, Czech Republic, Dominican Republic, Estonia, Finland, Hong Kong (China), Hungary, Iceland, Ireland, Jordan, Kazakhstan, Latvia, Lebanon, Lithuania, Luxembourg, Malaysia, Malta, Netherlands, New Zealand, Panama, Poland, Portugal, Qatar, Singapore, Slovakia, Slovenia, Spain, Sweden, Trinidad and Tobago and United Arab Emirates.	Algeria, Argentina, Austria, Belarus, Brazil, Canada, Denmark, France, Germany, Greece, Islamic Republic of Iran, Israel, Italy, Japan, Kuwait, Libyan Arab Jamahiriya, Mexico, Norway, Oman, Philippines, Republic of Korea, Russian Federation, Saudi Arabia, Switzerland, Taiwan Province of China, Thailand, Tunisia, Turkey, Ukraine, United Kingdom and United States.
	Above potential	Under-performers
Low FDI potential	Albania, Angola, Armenia, Azerbaijan, Bolivia, Congo, Costa Rica, Ecuador, Ethiopia, Gabon, Gambia, Georgia, Guyana, Honduras, Jamaica, Kyrgyzstan, Mali, Mongolia, Morocco, Mozambique, Namibia, Nicaragua, Nigeria, Republic of Moldova, Romania, Sudan, Tajikistan, Uganda, United Republic of Tanzania, Viet Nam and Zambia.	Bangladesh, Benin, Burkina Faso, Cameroon, Colombia, Côte d'Ivoire, Democratic Republic of the Congo, Egypt, El Salvador, Ghana, Guatemala, Guinea, Haiti, India, Indonesia, Kenya, Madagascar, Malawi, Myanmar, Nepal, Niger, Pakistan, Papua New Guinea, Paraguay, Peru, Rwanda, Senegal, Sierra Leone, South Africa, Sri Lanka, Suriname, Syrian Arab Republic, TFYR of Macedonia, Togo, Uruguay, Uzbekistan, Venezuela, Yemen and Zimbabwe.

Source: UNCTAD.
[a] Three-year average for 2002-2004. Because of unavailability of data on FDI potential for 2005, the data for 2004 have been used.

promotional measures and thus included in these statistics. A significant number of countries continued to lower these rates, a measure which may not only attract FDI but also benefit domestic enterprises. Rate reductions were most significant in Europe, where especially the new EU members continued to revise their corporate tax laws.[24] There were also some cases in other regions. For example, Ecuador introduced tax breaks of 10-12 years for investment in selected industries such as agriculture or tourism.[25] India introduced a law that grants foreign investors tax incentives for investing in special economic zones.[26] Tax increases have been the exception, and were observed only in the Dominican Republic (25%–30%), Equatorial Guinea (25%–35%), Lithuania (15%–19%) and the Philippines (32%–35%) (KPMG 2006). Some countries, such as Georgia, reformed their entire tax system and introduced flat taxes, an approach adopted also in several of the new EU member countries.

Asia and Africa were the leading regions in terms of introducing further sectoral liberalization. Some countries decided to liberalize certain sectors for the first time. The Libyan Arab Jamahiriya, for example, permitted foreign banks to open branches for the first time. Other countries, such as Egypt, combined sectoral liberalization with the introduction of more favourable operational

Table I.11. National regulatory changes, 1992-2005

Item	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Number of countries that introduced changes in their investment regimes	43	57	49	64	65	76	60	63	69	71	70	82	102	93
Number of regulatory changes:	77	100	110	112	114	150	145	139	150	207	246	242	270	205
More favourable to FDI [a]	77	99	108	106	98	134	136	130	147	193	234	218	234	164
Less favourable to FDI [b]	-	1	2	6	16	16	9	9	3	14	12	24	36	41

Source: UNCTAD, database on national laws and regulations.
[a] Includes further liberalization, or changes aimed at strengthening market functioning, as well as increased incentives.
[b] Includes changes aimed at increasing control, as well as reducing incentives.

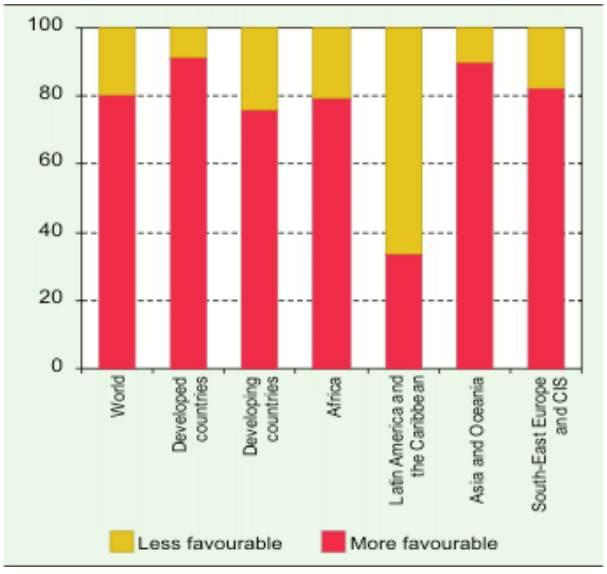
measures.[27] Nineteen countries introduced cross-sectoral liberalization, allowing foreign ownership in several economic sectors. Botswana, for example, published a privatization master plan that provides a framework for follow-up privatizations.

A number of countries also improved policies towards inward FDI. Israel linked a reform of its FDI admission procedure with the granting of expanded incentives.[28] Croatia and the former Yugoslav Republic of Macedonia set up one-stop shops for FDI admission, and New Zealand significantly raised the amount of investment for which no approval is needed (from $50 million to $100 million). Only three instances were noted of countries that enacted new policies to improve the legal protection of FDI. Colombia, most notably, introduced "legal stability contracts" to boost investor confidence.

While policy changes that were favourable to FDI still dominated in 2005, the number of changes making a host country less welcoming to FDI was the highest ever recorded by UNCTAD. In fact, the share of less favourable changes has been rising steadily, from 5% in 2002 to 20% in 2005. The share was particularly high in Latin America, where two thirds of the observed changes implied less favourable measures vis-à-vis inward FDI (figure I.9).

Figure I.9. Regulatory changes in 2005, by nature and region

(Per cent)



Source: UNCTAD, database on national laws and regulations.

New measures introduced have in many cases been linked to the exploitation of natural resources. Bolivia decided to nationalize its oil and gas sector in May 2006, while Venezuela continued to increase the control of the State-owned PDVSA over its oil production by renegotiating concession contracts with foreign investors. Consequently, a number of international oil companies agreed to sign new joint-venture contracts transferring majority ownership of their concessions to the PDVSA and accepting a higher tax rate (chapter II.A.4). In Chile, a new law imposed a tax of 5% of operating profits on mining operators that produce more than 50,000 metric tons of copper per year. Argentina extended the economic emergency laws adopted in 2002 for one more year, through 2006. This gives the Government widespread powers to adopt economic measures by decree and, in particular, allows renegotiation of privatized utilities' contracts (including tariffs).

Various measures to make the environment for investment less welcoming were observed in other parts the world as well. For example, the Government of Eritrea closed down the investment promotion agency (IPA), suspended private import-export licences and limited the free transfer of foreign exchange. Mirroring the trend to tighten control over natural resource extraction, the Central African Republic suspended for an indefinite period the issuance of new gold and diamond permits and banned foreigners from entering mining zones. Some developed countries introduced changes to defend the position of national champions. The French Government, for example, declared that foreign control of companies operating in 11 industries of national interest should be prevented.[29] In addition, a number of cross-border M&As triggered intense political discussions in countries such as France, Italy, Spain and the United States. Those discussions did not result in regulatory changes, but had a negative impact on certain cross-border mergers (see chapter VI).

The trend to increase controls on FDI has drawn the attention of the international media. UNCTAD's data also suggest that the balance of more and less favourable changes to FDI is shifting somewhat. For the time being, the trend is mainly confined to a small number of countries and relates primarily to investments in natural resources. FDI changes at the regional level are further described in chapter II.

2. Recent developments in international investment arrangements

The trend from previous years of expansion and increasing sophistication in international investment rule-making at the bilateral, regional and interregional level continued in 2005. The evolving system of international investment rules may contribute to creating an enabling framework for FDI. At the same time, managing the universe of multilayered and multifaceted international investment agreements (IIAs)[30] becomes more demanding, in terms of keeping it coherent, ensuring its effective functioning and making it conducive to national development objectives.

a. The IIA network continues to expand

The universe of IIAs continues to grow. In 2005, 70 bilateral investment treaties (BITs), 78 double taxation treaties (DTTs) and 14 other IIAs were concluded. The total number of IIAs was close to 5,500 at the end of 2005: 2,495 BITs, 2,758 DTTs and 232 other international agreements that contain investment provisions (figure I.10).

Several trends are worth noting in this context:

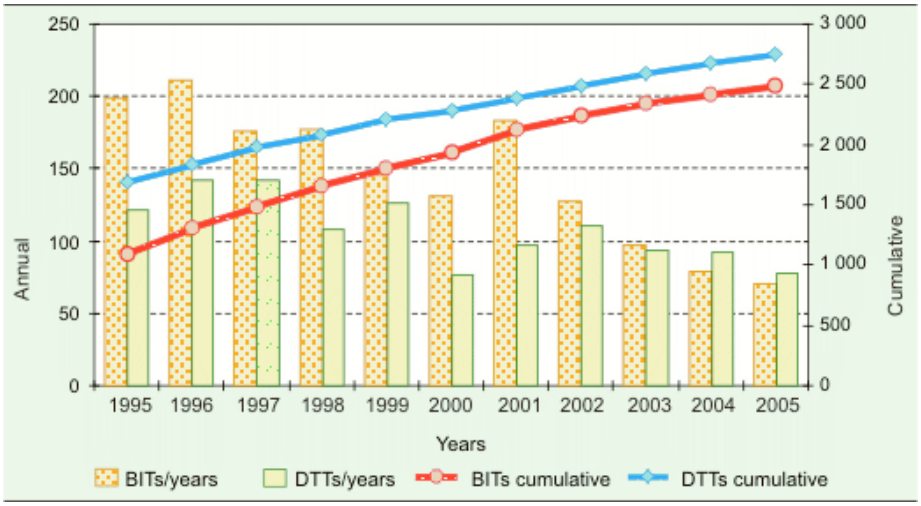
A first observation concerns the geographical distribution of IIAs. Asian countries are particularly engaged as parties to approximately 40% of all BITs, 35% of DTTs and 39% of other IIAs. Africa and South-East Europe and the CIS are generally more active than their Latin American counterparts in terms of BITs and DTTs, while Latin American countries are more active in concluding other types of IIAs, in particular free trade agreements.

A second noticeable trend is the growing involvement of many developing countries in IIAs. At the end of 2005, they were party to 75% of all BITs (figure I.11), 58% of all DTTs (figure I.12), and 81% of other IIAs. Two developing countries (China and Egypt) were amongst the top 10 signatories of BITs worldwide (figure I.13). LDCs, although host to only 0.7% of global FDI inward stock, had concluded 15% of all BITs, 6% of DTTs and 15% of other IIAs (table I.12).

IIAs between developing countries have increased substantially. For example, the total number of BITs among developing countries leapt from 42 in 1990 to 644 by the end of 2005. During the same period, the number of DTTs concluded between developing countries rose from 105 to 399, and the number of other IIAs from 17 to 86.

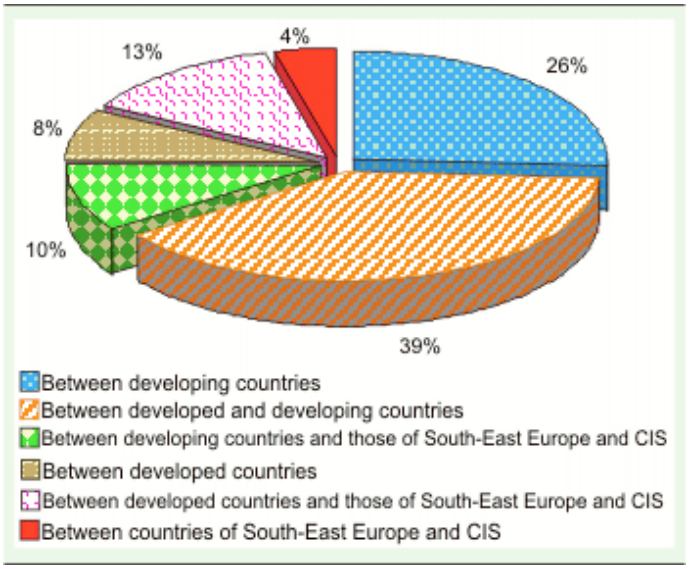
Third, recent IIAs tend to become more sophisticated in content, clarifying in greater detail the meaning of certain standard clauses and procedural rules relating to dispute settlement. Furthermore, a growing number of agreements express more clearly the public interest involved in such matters as the protection of health, safety and the environment.[31] These treaties therefore mark a step towards a better balancing of the rights of foreign investors and respect for legitimate public concerns. This may contribute to a broader acceptance of these agreements by interested stakeholders and other segments of civil society.

Figure I.10. Number of BITs and DTTs concluded, cumulative and annual, 1995-2005



Source: UNCTAD (www.unctad.org/iia).

Figure I.11. Total BITs concluded, by country group, as of end 2005



Source: UNCTAD (www.unctad.org/iia).

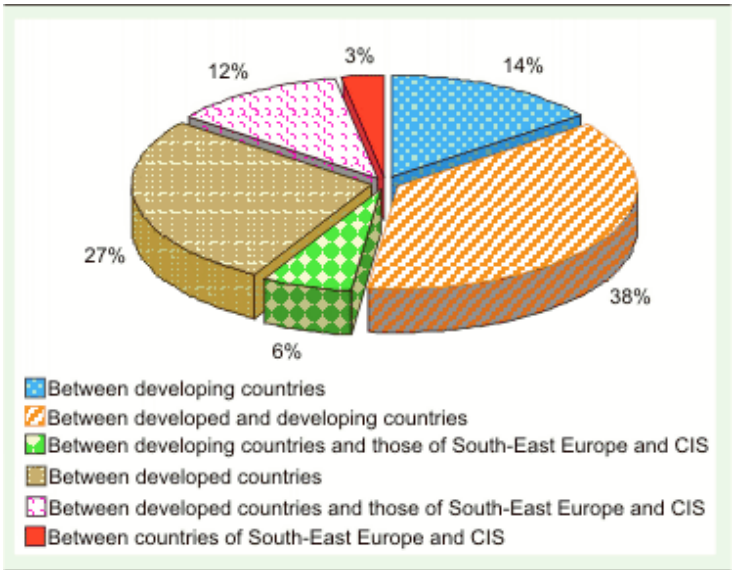
Fourth, international investment rules are increasingly adopted as an essential part of free trade agreements (FTAs) and other treaties on economic cooperation (figure I.14). These other IIAs may cover services, intellectual property, competition, labour, environment, government procurement, temporary entry for business persons and transparency, among others. This broad coverage demonstrates a trend towards an integrated approach in dealing with interrelated issues in international investment rule-making. The investment provisions included in these IIAs differ in their nature, scope and content of obligations. While the total number of IIAs other than BITs and DTTs is still relatively small, they have almost doubled over the past five years. In addition, as of 1 May 2006, at least 67 agreements were under negotiation involving 106 countries (see annex tables A.I.15 and A.I.16). This suggests there will be an even more pronounced increase in such treaties in the near future. At least five FTAs with legally binding substantive investment provisions were concluded from January to May 2006.

Finally, recent years have seen an increase in investor-State disputes. In 2005, at least 50 new cases were filed, bringing the total number of treaty-based cases to at least 226 by the end of 2005 (figure I.15). Some 136 out of a total of 226 cases were filed with the International Centre for Settlement of Investment Disputes (ICSID). Other disputes were initiated under the United Nations Commission on International Trade Laws (UNCITRAL) Arbitration Rules (67), the Stockholm Chamber of Commerce (14), and the International Chamber of Commerce (4) and ad-hoc arbitration (4), while the remaining case involved the Cairo Regional Centre for International Commercial Arbitration. At least 32 awards were rendered in 2005. While investment arbitration in general has helped to clarify the meaning and content of individual treaty provisions, some inconsistent decisions have also created uncertainty.[32] Along with the observed rise of FDI from developing economies (see Part Two of this Report) there have also been a number of investor-State disputes involving TNCs from these economies (box VI.12).

b. Systemic issues in international investment rule-making

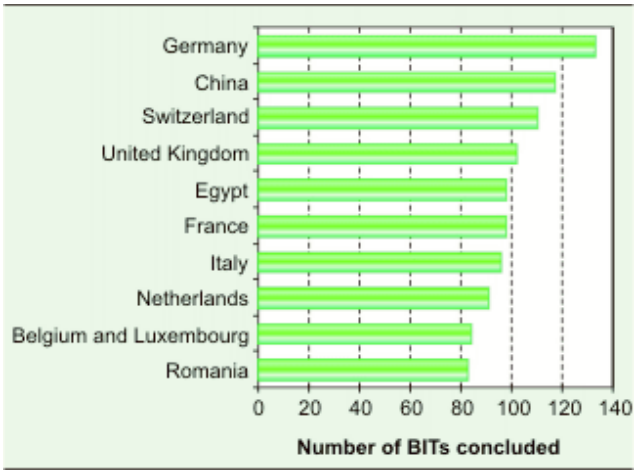
Greater diversity of IIAs in terms of their scope, structure and content reflects the flexibility that countries would like to have in choosing the partners to enter into an agreement, and to tailor

Figure I.12. Total DTTs concluded, by country group, as of end 2005



Source: UNCTAD (www.unctad.org/iia).

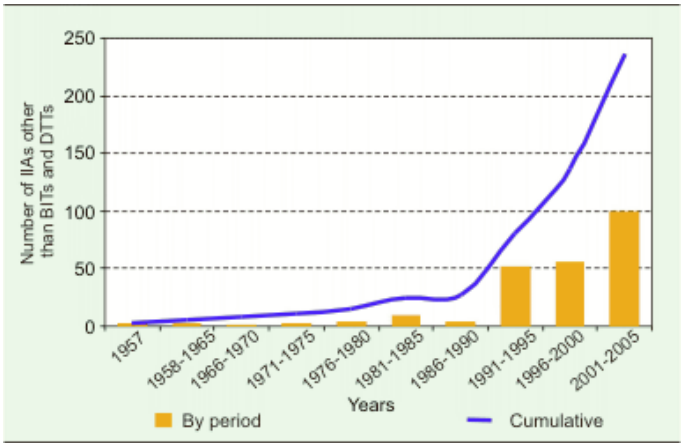
Figure I.13. Top 10 signatories of BITs, as of end 2005



Source: UNCTAD (www.unctad.org/iia), based on annex table A.I.10.

Figure I.14. The growth of IIAs other than BITs and DTTs, 1957 to 2005

(Number)



Source: UNCTAD (www.unctad.org/iia).

individual agreements to their specific situations, development objectives and public concerns. Furthermore, more elaborated rules may enhance legal clarity regarding the rights and obligations. Multiple coverage under more than one IIA may also contribute to improving the investment climate in the host countries for FDI by creating a synergetic effect and filling possible gaps in the overall treatment of foreign investment.

The increasing sophistication of IIAs also reflects the greater attention of policy-makers on the interface of different policy matters and the integrated treatment of those issues. By addressing investment together with other issues such as trade, services, competition, intellectual property and industrial policies in one and the same IIA, it becomes easier for countries to cover simultaneously different facets of investment activity, to set in place mutually reinforcing strategies to attract foreign investment and to avoid one policy being pursued at the expense of another.

On the other hand, the growing diversity of IIAs also means that foreign investors and governments have to operate within an increasingly complex framework of investment rules. Establishing and maintaining the coherence of the IIA network may therefore become more challenging (box I.7).

The complexity and rapid pace at which new IIAs are being concluded may create logistical problems for negotiating parties related to their lack of capacity, in particular for developing countries. Many lack sufficient financial resources and expertise to be able to assess fully and in time the implications

Table I.12. IIAs concluded, by region, cumulative and 2005

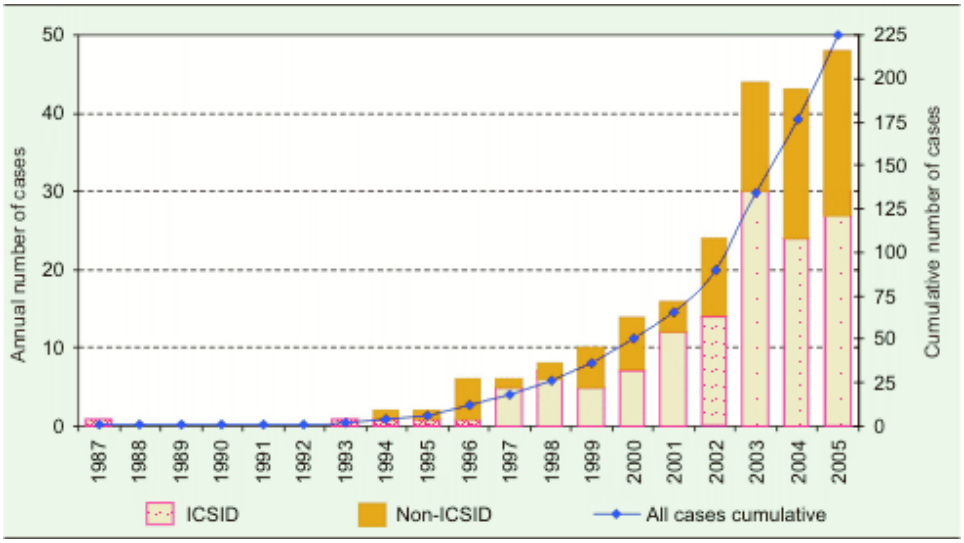
Region	BITs		DTTs		Other IIAs	
	2005	Cumulative	2005	Cumulative	2005	Cumulative
Asia and Oceania	31	1 003	36	968	12	89
Latin America and the Caribbean	13	464	9	322	5	62
Africa	21	660	17	436	2	34
South-East Europe and CIS	15	671	27	576	0	34
Memorandum						
Developed countries	45	1 511	38	2 111	7	127
Developing countries	60	1 878	53	1 604	14	185
Between developing countries	20	644	25	399	7	86
Least developed countries	16	399	5	184	2	35[a]

Source: UNCTAD.

[a] Includes agreements concluded by regional groups that have one or more LDC members.

Note: The above figures reflect multiple counting (e.g. BITs concluded between countries from Asia and Africa are included under both regions). The net total of each category of IIAs is therefore lower than the sum of the above figures.

Figure I.15. Known investment treaty arbitrations, cumulative and newly instituted cases, 1987-2005



Source: UNCTAD (www.unctad.org/iia).

Box I.7. Incoherence between IIAs

The expansion of the IIA network has given rise to various forms of potential incoherence between different agreements. For example:

- While most BITs leave it to the discretion of the host country to decide whether foreign investment should be admitted or not, FTAs often include establishment rights for foreign investors.
- Different modes of investment liberalization in IIAs may affect coherence. For instance, regional economic integration agreements (such as the North American Free Trade Agreement (NAFTA)) may establish up-front liberalization (i.e. full liberalization with a possibility to take reservations) based on a "top-down" approach, whereas the multilateral General Agreement on Trade in Services (GATS) provides for gradual market access on the basis of a "bottom-up" strategy. As a result, the degree of liberalization may be unclear for an economic activity covered by both agreements in the same host country.
- The Energy Charter Treaty includes an exception clause concerning the protection of the essential security interests of contracting parties. Many BITs do not contain similar provisions.

There may also be cases of "unintended coherence" between treaties that a country concludes with different countries. For instance, the MFN clause may, against the intention of a contracting party, incorporate into the IIA containing this clause certain procedural or substantive rights from other IIAs. This problem has been exacerbated by some recent contradictory interpretations of the scope of the MFN clause by arbitration tribunals.[a]

Another example is the so-called "umbrella" clause, which extends the protection of the IIA to "any other obligation" of the contracting parties in respect of an investment. As a result, a breach by a host country of such other obligations (e.g. one deriving from a contract with a foreign investor) may be a violation of the IIA, and the latter's dispute settlement mechanism applies - an outcome that may not be desired by a contracting party to the IIA.

The risk of incoherence is especially high for countries that lack expertise and bargaining power. In particular, they may have to conduct negotiations on the basis of divergent model agreements of negotiating partners that have stronger bargaining power.

Source: UNCTAD.

[a] See, in particular, the following cases: "Maffezini" (*Emilio Agustin Maffezini v. The Kingdom of Spain*, ICSID Case No. ARB/97/7, Decision on Jurisdiction, 25 January 2000; Award, 13 November 2000, Rectification of Award, 31 January 2001); "Salini" (*Salini Costruttori S.p.A. and Italstrade S.p.A. v. Jordan*, ICSID Case No. ARB/02/13, Decision on Jurisdiction, 9 November 2004); "Siemens" *(Siemens v. Argentina*, ICSID Case No. ARB/02/8, Decision on Jurisdiction, 3 August 2004); and "Plama" (*Plama Consortium Limited v. Bulgaria*, ICSID Case No. ARB/03/24, Decision on Jurisdiction, 8 February 2005).

of various options in negotiations. Negotiations of IIAs having a broader scope require not only expertise on investment issues, but often also knowledge related to trade, services, competition and/or intellectual property rights.

It may also become more difficult for policymakers to gauge the full legal and economic implications of any new IIA and to identify the differences between various agreements. Furthermore, as the number of treaties with overlapping obligations increases, foreign investors may more often be in a position to claim "more favourable" treatment through the most-favoured nation (MFN) clause. The scope of applicability of this clause has become a matter of concern in the light of recent contradictory arbitral awards (box I.7).

Another issue is treaty implementation. This involves, among other things, completing the ratification process, bringing national laws and practices into conformity with treaty obligations, informing and training the local authorities that have to comply with the IIA, managing disputes that might arise under IIAs, and reassessing the implications of various agreements in light of national development priorities. Implementation of more complex IIAs involves a broader range of issues and thus requires the involvement of more domestic institutions.

One consequence is the growing need for capacity building to help developing countries in assessing the implications of different policy options before entering into new agreements, identifying the potential obligations deriving there from and implementing commitments made. Rigorous policy analysis of the evolution of the IIA universe and international consensus building on key development-related issues are other vital tasks. In this context, UNCTAD has an important role to fulfil as it has been called upon to "serve as the key focal point in the United Nations system for dealing with matters related to international investment agreements, and continue to provide the forum to advance the understanding of issues related to international investment agreements and their development dimension".[33]

C. The largest TNCs

This section looks at developments among the 100 largest non-financial TNCs worldwide, ranked by foreign assets, and for the first time this year, the top 100 TNCs from developing economies. It also includes information on the largest TNCs from the transition economies of South-East Europe and the CIS (box I.8), and an analysis of the internationalization of the 50 largest financial TNCs worldwide, ranked by a spread index based on the number of host countries and the number of foreign affiliates. Following a slowdown in their expansion in the early 2000s, coupled with reduced corporate profits, the transnational activities of the largest TNCs increased significantly in 2003 and 2004.

1. The world's 100 largest TNCs

In 2004 (most recent year for which data are available), the world's 100 largest TNCs accounted for 11%, 16% and 12%, respectively, of the estimated foreign assets, sales and employment of

Box I.8. The largest TNCs from the transition economies of South-East Europe and the CIS

Following the reclassification of the eight EU accession countries from Central Europe as developed countries, the *WIR* has discontinued its review of the top 25 TNCs from Central and Eastern Europe. The largest non-financial TNCs from South-East Europe and the CIS have always been smaller than the largest TNCs from developing countries, with the exception of the largest Russian firm Lukoil, which would rank 160th in the list of the largest TNCs worldwide (foreign assets for Gazprom are not available). Natural-resources-based firms from the Russian Federation dominate the list, but on average they are less transnationalized than the top 100 TNCs from developing economies. Eight firms from the Russian Federation are included in this list, with metal and metal products firms being the most represented (annex table A.I.13).

In the second half this top 10 TNCs are small and would not feature in the list of top 100 from developing countries. Although the average Transnationality Index (TNI) value (explained in section 2 below) increased in 2004 from 36.6 to 41.8, it remains much lower than the average TNI value for the largest TNCs from developing countries.

Source: UNCTAD.

all TNCs operating in the world, which gives an indication of the major role they play in international production. Given that their activities increased significantly, with total assets and sales increasing by 10%, 2004 proved to be a new record year (table I.13). The ratio of foreign activities to total activities also increased in 2004, with the exception of employment, which remained at almost the same level.

The motor vehicle industry dominates the first quartile of the top 100 TNCs with eight entries, and six industries – motor vehicles, pharmaceuticals, telecommunications, utilities, petroleum and electronic/electrical equipment – accounted for more than 60% of the activities of the top 100.

Overall, the rankings in the first quartile of the top 100 list in 2004 have remained relatively stable in the past few years, with General Electric, Vodafone and Ford Motor heading the list. These three TNCs had about $877 billion in foreign assets, corresponding to nearly 19% of the total foreign assets of the top 100 TNCs (annex table A.I.11). There was no change in the top 10 companies in 2004. However, there were 10 new entries in the list of top 100 in 2004: two companies – Mittal Steel (Netherlands/United Kingdom) and CITIC (China) – appeared on the list for the first time. Mittal Steel, founded and owned by the Indian Mittal family (chapter III), was created in 2004 by the merger of LNM Holdings (United Kingdom) and Ispat International NV (Netherlands), ranked 76th. CITIC, ranked 94, is the first ever entry of a Chinese TNC in the top 100.

In 2004, 85 of the top 100 TNCs had their headquarters in the Triad, the United States dominating the list with 25 entries. Five countries (the United States, the United Kingdom, Japan, France and Germany) accounted for 73 of the top 100 firms, while 53 entries were from the EU. In 2004, there were five companies from developing economies (China, Hong Kong (China), Malaysia, the Republic of Korea and Singapore), the largest number ever from this group, among the top 100. It is noteworthy that some large TNCs had their origin in a developing country, such as Anglo American (United Kingdom), ranked 36 and formed in May 1999 through the merger of Anglo American Corporation of South Africa and Minorco (Luxembourg), and SAB Miller (although not in the top 100 as it is ranked 117) which was formed out of SAB (South Africa) and Miller Brewing Company (the second largest brewery in the United States).

Taking the next ranking down (from 101 to 200) 10 more TNCs from eight developing economies appear in the ranking (from Brazil, China, Hong Kong (China), Mexico, the Republic of Korea (2), Singapore (2), Taiwan Province of China and Venezuela). TNCs from the United States and the United Kingdom account for 40% of these companies, and Japan and Germany for another 10% each.

Table I.13. Snapshot of the world's 100 largest TNCs, 2003, 2004
(Billions of dollars, thousands of employees and per cent)

Variable	2003	2004	% Change
Assets			
Foreign	3 993	4 728	18.41
Total	8 023	8 852	10.33
Foreign as % of total	49.8	53.4	3.6 [a]
Sales			
Foreign	3 003	3 407	13.45
Total	5 551	6 102	9.93
Foreign as % of total	54.1	55.8	1.7 [a]
Employment			
Foreign	7 242	7 379	1.89
Total	14 626	14 850	1.53
Foreign as % of total	49.5	49.7	0.2 [a]

Source: UNCTAD/ Erasmus University database.
[a] In percentage points.

2. The top 100 TNCs from developing economies

This year's *WIR* expands the coverage of the top TNCs from developing economies, from the top 50 to the top 100. Since UNCTAD began publishing the list of the leading developing-economy TNCs in 1995, these companies have expanded their activities abroad. However, there still remains a large gap between TNCs from the developed and developing groups. By way of illustration, the total foreign assets of the top 100 TNCs from developing economies in 2004 amounted to less than the foreign assets of General Electric alone.

Hutchison Whampoa (Hong Kong, China) maintained its leading position in 2004, with foreign assets of $68 billion, representing as much as 17% of the foreign assets of the top 100. Petronas (Malaysia), Singtel (Singapore) Samsung

Electronics (the Republic of Korea) and CITIC Group (China) occupied the next four positions (annex table A.I.12), accounting for 34% of the foreign assets of the 100 largest developing-country TNCs. All TNCs in the first quartile were already in the top 50 in 2003, and there were notable improvements in the positions of CITIC (China), Hyundai Motor Company (Republic of Korea) and Hon Hai Precision Industries (Taiwan Province of China).

In 2004, the foreign assets and foreign sales of the 50 largest TNCs increased by 36% and 58%, respectively, compared to the previous year (table I.14). The shares of foreign assets, sales and employment of the top 50 companies in those of the 100 largest TNCs from developing economies were 86%, 85% and 54% respectively. Their total assets and sales increased by 51% and 44%, respectively, but their foreign operations, as reflected in the ratio of foreign assets to total assets and foreign employment to total employment, have not increased to the same extent.

The regions and economies of origin of the largest developing-country TNCs have changed little over the past 10 years, although developing Asia has increased in importance. In 2004, Hong Kong (China) and Taiwan Province of China together had 40 of the 100 largest TNCs, followed by Singapore with 14 and China with 10. Asia's dominance in the top 100 grew, with 77 enterprises on the list. The other TNCs on the list came from South Africa (10), Mexico (8), Brazil (3), Venezuela (1) and Egypt (1). On average, TNCs from the Republic of Korea are performing better than those from other developing countries as reflected in their sales-to-assets ratio and the sales-to-employment ratio (table I.15). TNCs from South Africa, on average, would be ranked next, ahead of TNCs from other Asian economies.

The largest TNCs from developing economies operate in a wide range of industries. In 2004, the most important was the electrical/electronic equipment and computer industry (20), with all companies but one from Asia. The next in importance were shipping and transport (9), food (8) and petroleum (8).

Table I.14. Snapshot of the world's 50 largest TNCs from developing economies, 2003, 2004
(Billions of dollars, thousands of employees and per cent)

Variable	2003	2004	% Change
Assets			
Foreign	248.6	336.9	35.5
Total	710.9	1073.2	51.0
Foreign as % of total	35.0	31.4	-3.6[a]
Sales			
Foreign	204.2	323.0	58.2
Total	512.5	738.2	44.0
Foreign as % of total	39.8	43.8	4.0[a]
Employment			
Foreign	1 077.0	1 109.0	3.0
Total	3 097.0	3 364.0	8.6
Foreign as % of total	34.8	33.0	-1.8[a]

Source: UNCTAD/Erasmus University database.
[a] In percentage points.

Table I.15. Performance measures of the largest TNCs from developing economies, 2004

Home economy	Ratio of sales to assets	Sales per employee (Thousands of dollars)
China (10)	0.57	89.5
Hong Kong, China (25)	0.43	90.5
Malaysia (6)	0.53	320.2
Mexico (8)	0.69	160.0
Republic of Korea (5)	1.14	1 050.6
Singapore (13)	0.58	80.6
South Africa (10)	1.00	204.4
Taiwan Province of China (15)	0.83	256.7

Source: UNCTAD/Erasmus University database.
Note: The above ratios are highly dependent on the industry composition, and may differ across sectors of activity. The five companies from the Republic of Korea are in electronics/electrical, motor vehicles and diversified sectors of activities, whereas sector composition is more diversified for China, Hong Kong (China), Mexico and Taiwan Province of China.

3. Transnationality of top TNCs

The Transnationality Index (TNI) developed by UNCTAD is a composite of three ratios – foreign assets/total assets, foreign sales/total sales and foreign employment/total employment. The average TNI is higher for the largest 100 non-financial TNCs, but in the recent past the TNI for the largest TNCs based in developing economies has increased and is catching up with that of the global top 100. The gap between the TNIs for the two groups narrowed until 2001, but thereafter it seemed to stabilize. In 2004, the average TNI value for the global top 100 increased by one percentage point. In the top 50 alone, the value of the TNI fell by one percentage point compared to 2003 (box I.9).

A comparison by country or region of origin of the largest TNCs (including from developing economies) in 2004 shows large discrepancies between countries and regional groups (table I.16). Among the world's largest TNCs, those from Latin America and the Caribbean, South Africa and the United States are, on average, the least transnationalized, while those from France and the United Kingdom are the most transnationalized. Among TNCs from developing economies, those from South-East Asia are, on average, more transnationalized than companies from any other developing region.

One aspect of transnationality from the operations perspective is the intensity of foreign operations according to the number of foreign affiliates. The Internationalization Index (II) shows that, on average, more than 65% of the affiliates of the world's largest TNCs are located abroad.[34] The information on foreign affiliates by TNCs' home country and industry shows that the II, like the TNI, is the highest for the top TNCs from small countries (e.g. Finland, Ireland and Switzerland), and by industry, electrical and electronic equipment and pharmaceuticals predominates(table I.17).

Table I.16. Comparison of TNI values, by region, 2003, 2004
(TNI values and number of entries)

Region/economy	Average TNI [a] 2003	Average TNI [a] 2004	Number of entries 2004
Top 100 largest TNCs	**55.8**	**56.8**	**100**
of which:			
United States	45.8	48.2	25
France	59.5	62.3	15
Germany	49.0	52.2	13
United Kingdom	69.2	70.5	11
Japan	42.8	52.2	9
Top 100 TNCs from developing economies		**50.7**	**100**
of which:			
Africa (South Africa)		48.0	10
South-East Asia		57.2	21
East Asia		53.2	55
Latin America and the Caribbean		38.1	12

Source: UNCTAD/Erasmus University database.
[a] TNI, the Transnationlity Index, is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

Box I.9. Expanding the coverage of leading developing-country TNCs, from top 50 to top 100: a comparison of samples

The coverage of the top TNCs from developing countries has been expanded to include 100 TNCs from developing economies. Direct comparisons with previous years covering only the top 50 TNCs are therefore not possible. By increasing the sample, the number of home countries for these 100 TNCs increased from 11 to 14 and the number of industries from 20 to 25.

TNCs from Hong Kong (China), which dominated the top 50, are even more dominant in the top 100. As a whole, the Asian region gains in importance. TNCs from Mexico and South Africa maintain the same relative importance. Industries are more diversified in the top 100 with the computers industry more than doubling its relative share.

The TNI value is higher for the top 100 than for the top 50, meaning that the 50 largest TNCs in the list are less transnationalized, on average. On the other hand, the 50 largest also have a higher Internationalization Index (II), which is the ratio of a TNC's foreign affiliates to total affiliates.

Source: UNCTAD.

Box table I.9.1. Comparison of the country/industry composition of the largest 50 and 100 TNCs from developing economies, 2004
(Per cent)

Economy/industry	Top 50	Top 100
Number of economies	**11**	**14**
Share in total		
Hong Kong, China	20	25
Taiwan Province of China	10	15
Singapore	14	13
China	14	10
Mexico	8	8
South Africa	10	10
Number of industries	**20**	**25**
Share in total		
Diversified	14	16
Electrical/Electronics	14	11
Petroleum	14	8
Transport and storage	10	9
Food and beverages	10	7
Telecommunications	8	6
Computers	4	9
TNI	**46.9**	**50.7**
II	**51.9**	**49.9**

Source: UNCTAD.

TNCs from developing economies in the petroleum industry or the metals industry are far less transnationalized than their counterparts from developed countries.

Table I.17. Comparison of II and TNI values for the top 100 TNCs from both lists, by industry, 2004

Industry	Largest TNCs		TNCs from developing countries	
	II	TNI	II	TNI
Motor vehicle	58.8	52.3	65.2	21.9
Electrical/electronics	73.0	53.0	65.2	67.3
Petroleum	61.2	53.9	25.2	32.3
Pharmaceuticals	79.2	59.1	-	-
Telecommunications	54.6	53.7	52.9	51.0
Utilities	58.8	48.7	-	-
Metals and metal products	77.1	63.7	39.9	29.5
Food and beverages	67.7	80.3	58.2	37.3
Transport and storage	82.7	41.8	52.4	61.5
All industries	65.9	56.8	49.9	50.7

Source: UNCTAD/Erasmus University database.

4. TNCs' most-favoured locations

Another aspect of transnationality is geographical reach, or the extent to which a company's operations and interests are spread in several countries or concentrated in just a few. This aspect of transnationality is relevant for several reasons: the spread of operations into many countries affects the strategic stance of the company; it also affects its ability to develop and spread knowledge and innovation. On average, the largest TNCs have affiliates in 40 foreign countries.

Information available suggests that the host country most frequently chosen by the largest TNCs for their foreign affiliates is the Netherlands: 86 of the 100 largest TNCs have at least one affiliate there. However, there are four Dutch companies in the top 100, which, by definition, cannot have foreign affiliates in their own country; and a similar situation applies to TNCs from France, the United Kingdom and the United States. "Location Intensity" takes into account the number of TNCs originating from a location/economy; it is defined as the total number of TNCs having at least one affiliate in the host country, divided by 100, minus the number of TNCs from this country listed in the top 100.

Based on this measure, the largest number of TNCs have invested in the United States, followed by the United Kingdom and then the Netherlands. The United States is also the most-favoured location for affiliates of TNCs from developing countries, followed by Hong Kong (China) and the United Kingdom (table I.18). Among developing countries, Brazil hosts the largest number of affiliates of the world's largest TNCs (81), followed by Mexico (78). The top 20 most-favoured locations of the world's largest TNCs are also among the most-favoured locations of TNCs from developing countries. Apart from locations in developed countries, the largest number of affiliates of the top 100 TNCs from developing countries are located in South-East and East Asia. This is not surprising, since most of these TNCs originate from that region and tend to locate in neighbouring countries (Rugman and Verbeke, 2004). For example, information available on the location of foreign affiliates suggests that the most frequent host region for Mexican TNCs is Latin America and the Caribbean, and for Malaysian TNCs, it is South, East and South-East Asia (table I.19).

It is noteworthy that tax-havens such as Cayman Islands, Bermuda and British Virgin Islands are also favoured.

5. The world's 50 largest financial TNCs

The rise in the value of assets of financial TNCs is attributable to growth mainly through M&As. At the end of the 1990s, international M&As involving European firms accounted for a large share of all cross-border activities. Overall, firms in the European countries engaged in fewer, but generally larger transactions than North American institutions and insurance was the leading industry in cross-border M&As (BIS 2001). In 2004, the three largest M&A deals were in the financial services industry, with the acquisition of Abbey National (United Kingdom) by the Santander Group (Spain) for $15.8 billion, followed by the acquisition of John Hancock (United States) by Manulife (Canada) and the acquisition of Charter One (United States) by Citizen Financial (United States). Other important deals involved large financial groups, acquiring banks in developing economies, such as HSBC in China and Citigroup in the Republic of Korea.

Table 1.18. Most-favoured locations of top 100 TNCs from both lists

For largest world TNCs		For largest developing-country TNCs	
Economy	**Location intensity**	**Economy**	**Location intensity**
United States	92.0	United States	50.0
United Kingdom	91.0	Hong Kong (China)	33.9
Netherlands	89.6	United Kingdom	33.7
Germany	87.4	China	30.0
France	83.5	Singapore	26.4
Italy	81.4	Netherlands	25.0
Brazil	81.0	Japan	22.5
Belgium	80.0	Malaysia	20.3
Switzerland	79.4	Canada	16.2
Mexico	78.0	Australia	15.0
Canada	77.3	Germany	15.0
Spain	76.4	Cayman Islands	13.7
Singapore	73.7	Taiwan Province of China	13.2
Poland	72.0	Virgin Islands, United Kingdom	12.5
Japan	70.3	Bermuda	11.2
Czech Republic	70.0	France	11.2
Australia	69.7	Brazil	10.4
Argentina	68.0	Belgium	10.0
China	66.0	Mexico	9.5
Hong Kong (China)	65.6	Poland	8.8
Austria	64.0	Czech Republic	7.5
Portugal	64.0	Italy	7.5
Denmark	61.0	Spain	7.5
Finland	55.1	Korea, Republic of	6.7
Hungary	55.0	Austria	6.2
Sweden	54.5	Colombia	6.2
Luxembourg	54.0	Denmark	6.2
Russian Federation	54.0	Panama	6.2
Malaysia	53.5	Sweden	6.2
Norway	53.5	Switzerland	6.2
Venezuela	52.0	United Arab Emirates	6.2
Turkey	50.0	Argentina	5.0
Korea, Rep. of	49.5	Chile	5.0
New Zealand	49.0	Hungary	5.0
Taiwan Province of China	49.0	Nicaragua	5.0

Source: UNCTAD.

In 2005, this trend continued with the acquisition by Unicredito (Italy) of the German Bayerishe Hypo Bank and the Bank of Austria Creditanstadt for a total of $21.6 billion. Other deals also involved developing countries, with the acquisition of the Absa Group (South Africa) by Barclays (United Kingdom) and Korea First Bank by Standard Chartered (United Kingdom).

Large groups dominate world financial services, not only in terms of total assets but also in terms of the number of countries in which they operate (annex table A.I.14). The Internationalization Index (II) shows that, on average, 56% of the affiliates of the top 50 financial TNCs are located abroad. The index is significantly higher for the top five financial groups by total assets (65%) and for firms from Switzerland (88%) due to the small size of their home-country markets. In addition, the top 50 financial TNCs have affiliates in 25 countries, on average, whereas the five largest have affiliates in 44 countries, on average.

Table I.19. Preferred locations of TNCs from Mexico and Malaysia, 2005
(Per cent)

	Mexico[a]	Malaysia[b]
Host region/country	**Location intensity**	**Location intensity**
United States/Canada	12	12
Europe	9	23
Japan/Australia/New Zealand	-	12
Africa	2	4
Central America and the Caribbean	40	4
South America	37	-
South, East and South-East Asia	-	45
West Asia	-	-
South-East Europe and CIS	-	-

Source: UNCTAD.
[a] Based on 6 TNCs with 42 affiliates.
[b] Based on 5 TNCs with 26 affiliates.

D. Prospects

Prospects for FDI point to a new growth in 2006. The main macroeconomic factor likely to have a favourable influence on such growth in the developing world (although regional performance may vary greatly), while the microeconomic factors include increased corporate profits, with a consequent increase in stock prices that would boost the value of cross-border M&As. Institutional factors including, in particular, the continuing liberalization of investment policies and trade regimes will also contribute.

Following strong growth in 2004, of 5.3%, world real GDP growth slowed down somewhat to 4.8% in 2005, and is projected to hold this high level in 2006 (4.9%) and 2007 (4.7%) (World Bank 2006). Growth in developing countries and economies in transition is projected to slow down moderately, from an estimated 7.2% in 2005 to 6.6% by 2007 (IMF 2006). In part, this reflects fast economic growth in China and India, where output will continue to expand at a rapid rate, though somewhat slower than in 2005. At the same time, high oil prices, rising interest rates, and building inflationary pressures are expected to restrain growth in most developing regions.

A low inflationary environment is one of the factors that have helped maintain low interest rates and loosen monetary controls in developed economies. The future path of long-term interest rates depends on success in maintaining price stability, but the monetary authorities in major economies have already begun to make measured increases in interest rates.

Trends in cross-border M&As point to strategies for increased investments by TNCs. M&As rose by 39% in value in the first half of 2006 over the same period of 2005. But the current cross-border M&A boom is partly caused by the activities of private equity and hedge funds. If FDI growth relies on such investments, rather than FDI by TNCs expanding their international production for firm-specific economic reasons, it is not certain how long this kind of growth will last.

Prospects for a new growth in FDI flows worldwide in 2006 are confirmed by a number of surveys by international organizations or research institutes (IMF 2006, World bank 2006, IIF 2006). But prospects are less certain for 2007 (IMF 2006).[35] Corporate survey findings are also optimistic as regards short-term FDI prospects. The *McKinsey Global Survey of Business Executives Confidence Index* (McKinsey 2006) has risen for the first time in two years and the *CEO Briefing* by the Economist Intelligence Unit finds that almost nine out of every ten respondents regarded the global prospects for business as either good or very good. Rising demand in emerging markets will have the greatest impact on the global marketplace over the coming three years according to the same source. A.T. Kearney's *FDI Confidence Index* (A.T. Kearney 2006) survey based on findings at the end of 2005 is cautious about prospects for FDI due to investors' concerns about corporate financial health and an unexpected economic downturn, though regional prospects are somewhat different.

Looking at prospects *by region*, the above-mentioned surveys confirm the importance of the Asian economies, in particular West Asia, as FDI locations (IMF 2006, IIF 2006). The *FDI Confidence Index* shows unprecedented levels of investor confidence in emerging markets, led by China and India. The April 2006 survey by the Japan External Trade Organization (JETRO) of Japanese affiliates operating in Asia confirms that business sentiment in the region has improved for 2006.[36] Choosing among emerging markets, CEO respondents to the *9th Annual Global CEO Survey* carried out by PricewaterhouseCoopers are investing the most in China, followed by India, Brazil and the Russian Federation, in that order. Other fast growing economies (Indonesia, Mexico and Turkey) are also at the top of the list of the most preferred locations. FDI prospects for Eastern European are also bright, but for Africa, and Latin America as a whole they are less favourable (IMF 2006, IIF 2006). Finally, according to A.T. Kearney's *FDI Confidence Index*, investors have lost confidence in Western Europe, other than the United Kingdom, due to increasing competition from emerging markets and protectionism.

Looking at prospects *by sector*, FDI in natural resources is expected to pick up further. High demand for such resources, partly caused by China's growing economy, and the opening up of new potentially profitable opportunities in the primary sector (e.g. gas and oil in Algeria) will attract more FDI into that sector. Interestingly, health care is also mentioned as the industry with the highest growth prospects in the coming years, according to *CEO briefing* (EIU 2006a). The pace of offshoring – including for R&D – will intensify, particularly in Asia and Eastern Europe, which are already experiencing the largest increase in such activities, according to the *FDI Confidence Index*.

On the policy side, liberalization is continuing, but overregulation and trade barriers are still viewed by CEOs as the most significant deterrant and the greatest challenge to the globalization of activities (PricewaterhouseCoopers 2006). While in 2005 operational risks, such as government regulations, and political and social instability, appeared to be less threatening (A.T. Kearney 2006), there are some worries about nationalism and protectionism in the years to come.

Increasing FDI from developing countries is not only driven by corporate factors, but also, and perhaps more importantly in some cases, by government policies aimed at ensuring access to strategic resources such as mineral resources. In view of the rising demand for these resources generated by growing economies such as India and China, this trend is likely to continue. At the same time, in some regions, growth-constraining structural weaknesses and financial and corporate vulnerabilities continue to hinder a strong FDI recovery. Continuing global external imbalances and sharp exchange rate fluctuations, high and volatile commodity prices as well as political tensions and even open conflicts in some part of the world pose risks that may also discourage global FDI flows.

Notes

1 However, this gap is lower than in many previous years. For instance, in 2000, flows to developed countries exceeded those to developing countries by $867 billion.

2 Based on the number of projects from the Locomonitor database. This database includes new FDI projects and expansions of existing projects both announced and realized (www.locomonitor.com). Because of non-availability of data on the value of most projects, only trends in the number of cases can be examined. Data from this database are available only from 2002 onwards.

3 For example, United States data for 2005 record outflows to the Netherlands as -$28 billion, the largest negative investment from the United States, while Netherlands data show that inflows from the United States totalled $4 billion in 2005. (Data from United States Department of Commerce for United States FDI outflows and De Nederlandsche Bank for Dutch FDI inflows.)

4 The term "developing and transition economies" refers to all developing economies and countries in South-East Europe and the CIS.

5 Based on GDP at purchasing-power parity. "Coming back", *The Economist*, pp. 65–66, 21 January 2006. At market price, it is 25%.

6 Data on cross-border M&As are available only from 1987. In general, primary production in the 1980s and 1990s was low. Part of the 2005 growth was caused by a special deal – the acquisition of Shell Transport and Trading Co. (United Kingdom) by Royal Dutch Petroleum (Netherlands) for $74 billion. However, this deal is a financial rearrangement and has nothing to do with FDI that increases production capacity (for details, see chapter II). For cross-border M&A purchases, the share of the primary sector in 2005 was 15%, the third highest since 1987.

7 According to Locomonitor database (www.locomonitor.com), the number of greenfield investments rose from 403 in 2004 to 554 in 2005 in metals, from 177 to 204 in telecommunications and from 222 to 234 in real estate.

8 In 2004, world real GDP grew by 5.3%, a record growth rate. Worldwide economic growth moderated in 2005, but – at 4.8% – it remained well above the trend line (IMF 2006, p. 2).

9 The Direct Investment Technical Expert Group (DITEG) was established by the IMF and OECD in 2004 to make recommendations on the methodology for measuring FDI for a harmonized revision of these documents. It comprised expert representatives from 13 countries and 5 international organizations (including UNCTAD). DITEG has submitted its recommendations for consideration by the IMF Committee on Balance of Payments Statistics and the OECD Workshop on International Investment Statistics.

10 UNCTAD is also a member of this group, which includes FDI experts from OECD countries (Australia, Belgium, Canada, France, Ireland, Japan, the Netherlands, Spain, Sweden and the United States) and international organizations (OECD, IMF, Eurostat and European Central Bank (ECB)).

11 The new guidelines as spelt out in the IMF's *Balance of Payments Manual* and the OECD's *Benchmark Definition of FDI* on compilation of direct investment flows and positions are expected to be released in 2008. A number of them will remain unchanged or will be aligned even more closely with national accounting standards. These include: a 10% ownership threshold for establishing a direct investment relationship; use of market valuation for the measurement of direct investment stocks; resident status of SPEs in the economies in which they are registered or incorporated; recognition of a fully consolidated system for indirect FDI relationship; retention of reinvested earnings as a transaction; inter-company transactions/positions with fellow subsidiaries; and principles for industry classification. However, there will be some changes (e.g. on the application of the asset/liability principle and on the principle of permanent debt) and some new supplementary details (e.g. on M&As, greenfield investments, SPEs, extension of capital and round-tripping) that will be distinguished from standard components, and considered by countries as options when a particular issue is of interest to policymakers. Additional recommendations on specific issues are likely to be proposed in the *Benchmark Definition* to assist in the analysis of FDI.

12 This kind of transaction needs to be reflected in FDI figures in the balance of payments. But the exchange of shares in the balance of payments should balance with offsetting capital flows in other components of the capital account (portfolio investment) or FDI component, depending on how the previous shareholders of the acquired firm are treated (i.e. whether as portfolio investors or direct investors in the newly merged firm).

13 This exercise is not done routinely by the data gathering agencies because they are not necessarily interested in the issue of augmenting production capacity; nor is it done regularly by UNCTAD because M&A data are used only selectively to supplement FDI flow and stock data and data on operations.

14 Data from *Private Equity Intelligence*, 2006. There are also some different estimates. For example, Dealogic estimates $362 billion in cross-border takeovers ("Investment rivals bicker over common turf", *Financial Times*, 30 January 2006).

15 This figure is based on the assumption that all of these funds used in cross-border M&As are regarded (and are recorded) in FDI statistics as FDI flows.

16 The value of FDI inflows due to cross-border investments of private equity and hedge funds, which is recorded in the balance-of-payments statistics, can deviate significantly from the publicly announced values of buyouts or venture-capital-financed investments. Private equity firms often finance investments by using large amounts of loan capital in addition to fund capital. If the loans are raised by a foreign affiliate that is already located in the economy of the targeted company, there are no cross-border financial flows between the private equity firm and the target company that could be recorded in the balance of payments.

17 For the purpose of estimating M&As through these funds, firms in the following industries are considered as using private equity funds and hedge funds: "investors not elsewhere classified" under investment and commodity firms, dealers and exchanges (i.e. financial service industries excluding credit institutions, savings and loans, mutual savings banks, commercial banks, bank holding companies, investment and commodity firms, dealers and exchanges except investors not elsewhere classified – such as securities companies, commodity brokers, dealers and exchanges, investment offices, real estate investment trusts and management investment offices – and insurance firms). This classification is based on the one used by the Thomson Finance database on M&As.

18 For example, Amadeus (Spain) was acquired for a publicly announced value of i4.3 billion ($5.4 billion) by BC Partners (United Kingdom) and Cinven (United Kingdom). ISS A/S (Denmark) was bought for i3.8 billion ($4.8 billion) by EQT (Sweden) and Goldman-Sachs (United States). (Since these deals were not completed by 2005, they are not included in table I.7.) At the turn of 2005-2006 the Danish telecommunications company, TDC, was bought by four private equity investors for i13.0 billion ($16.3 billion), making it the largest buyout in Europe. During 2004–2005, the increase in inward FDI in Japan was largely due to M&As worth more than $3.1 billion involving private equity firms.

19 "Europe's new deal junkies", *The Economist*, 18 February 2006, pp. 12-13.

20 The UNCTAD Inward FDI Performance Index is a measure of the extent to which a host country receives inward FDI relative to its economic size. It is calculated as the ratio of a country's share in global FDI inflows to its share in global GDP. For the detailed methodology, see *WIR02*.

21 The UNCTAD Inward FDI Potential Index is based on 12 economic and structural variables measured by their respective scores on a range of 0-1 (raw data available on: www.unctad.org/wir). It is the unweighted average of scores on the following: GDP per capita, the rate of growth of GDP, the share of exports in GDP, telecoms infrastructure (the average number of telephone lines per 1,000 inhabitants, and mobile phones per 1,000 inhabitants), commercial energy use per capita, share of R&D expenditures in gross national income, share of tertiary students in the population, country risk, exports of natural resources as a percentage of the world total, imports of parts and components of electronics and automobiles as a percentage of the world total, exports of services as a percentage of the world total, and inward FDI stock as a percentage of the world total. For the methodology for building the index, see *WIR02*, pp. 34-36.

22 The UNCTAD Outward FDI Performance index is calculated in the same way as the Inward FDI Performance Index: the world share of a country's outward FDI as a ratio of its share in world GDP.

23 The revised methodology notably leaves out a number of secondary legal fields (such as intellectual property laws) that were previously covered.

24 The average European statutory corporate income tax rate fell somewhat from 25.32% to 25.04% (KPMG 2006). As a comparison, the average statutory corporate income tax rates in the Asia and Oceania and Latin American regions were 29.99% and 28.25% respectively.

25 The minimum investment needed to be eligible to receive the tax breaks would be $7.5 million in some industries and $2.5 million in others. Examples of other industries were agriculture industries, oil refineries, hydroelectric generation, electronics manufacturing, air traffic control, sea ports, tourism and environmental projects.

26 Firms investing in such zones are entitled to a 15-year income tax break consisting of a 100% exemption for the first five years, a 50% exemption for the second five years, and an exemption on a proportion of export profits for the final five years.

27 Egypt, for example, eased the acquisition of land by foreign investors as well as their entry and residence in Egypt, and allowed the expansion of new investments in the tourism sector.

28 Israel, for example, expanded tax benefits to both local and foreign investors and simplified the approval process for qualified investments.

29 See BBC News, EU warns over state protectionism, 9 March 2006, The *Wall Street Journal* online, Common Market? Think Again!, 13 March 2006.

30 This section covers BITs and DTTs as well as other IIAs that encompass bilateral, regional or interregional agreements containing provisions for the promotion, liberalization and/or protection of investment. There are various kinds of the latter agreements, such as free trade agreements (FTAs), closer economic partnership agreements (EPAs), regional economic integration agreements or framework agreements on economic cooperation. For a detailed analysis, see UNCTAD 2006.

31 See, as a recent example, the Trans-Pacific Strategic Economic Partnership Agreement between Brunei Darussalam, Chile, Singapore and New Zealand (2005) - Article 11.22; the Closer Economic Partnership Agreement between Thailand and New Zealand (2005) - Article 15.2; and the Agreement between Japan and the United Mexican States for the Strengthening of Economic Partnership (2004) - Articles 65 and 74.

32 For example, arbitration tribunals have arrived at conflicting conclusions with regard to: (i) the scope of investor-State dispute settlement procedures, (ii) the legal implications of the so-called "umbrella clause", (iii) the observance of so-called cooling-off periods, and (iv) the scope of the most-favoured nation (MFN) clause. See UNCTAD 2005a; Schreuer 2006.

33 See No. 4 of the Agreed Recommendations of the 10th session of the Commission on Investment, Technology and Related Financial Issues, 6-10 March 2006 (doc. TD/B/COM.2/71).

34 Data on the number of affiliates are from Dun & Bradstreet, *Who Owns Whom Database*, which covers majority-owned affiliates only.

35 A small decline in FDI flows is forecast by the IMF for 2007, from $221 billion to $218 billion.

36 This is a monthly survey conducted by JETRO in 12 Asian countries, including five ASEAN countries, on Japanese business sentiments (www/jetro.go.jp).

CHAPTER II

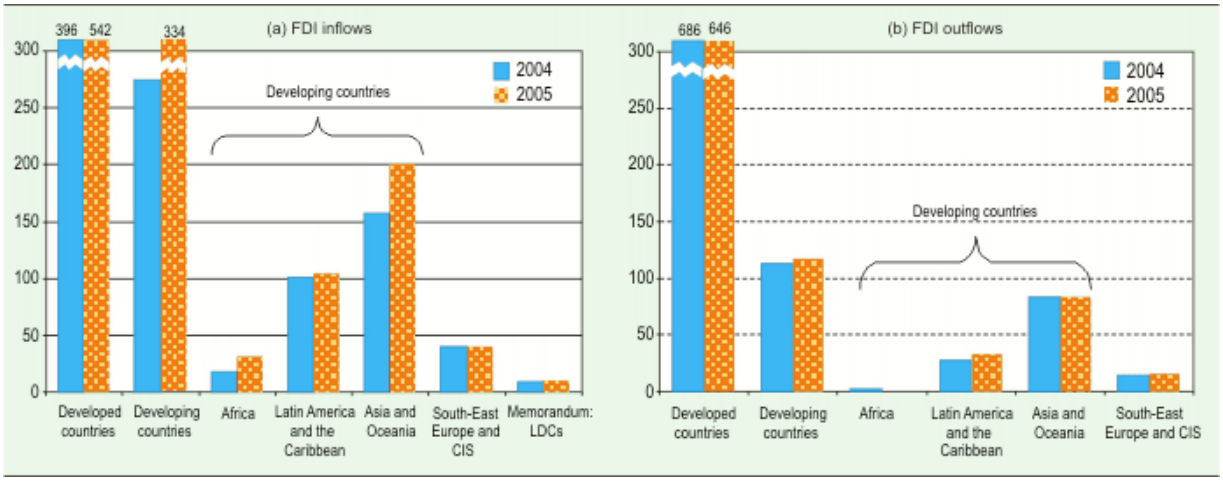
REGIONAL TRENDS: FDI GROWS IN MOST REGIONS

Introduction

FDI inflows grew in nearly all regions in 2005, though unevenly. Developing countries as a whole experienced increases in both inflows and outflows, while developed countries showed increases only in inflows (figure II.1). The slight decline in outflows from the latter largely reflected a fall in the reinvested earnings of United States affiliates abroad (see subsection C.1.a). Inflows to South-East Europe and the CIS[1] remained steady, but outflows from the region rose. FDI flows to the 50 least developed countries (LDCs) as a whole grew by 11% to reach $10 billion, but still remained marginal relative to world flows and total flows to developing countries.

Cross-border M&As were a prime driver of FDI growth in 2005 (chapter I). Their numbers rose worldwide, but the rise was particularly prominent in developing and transition economies. In both developed and developing regions, more than half of all cross-border M&As took place in the services sector (table II.1). Their growth in the primary sector was mainly concentrated in developed countries, while in developing countries there were more cross-border purchases but fewer sales. Not that primary-sector FDI fell in developing countries; it simply occurred through greenfield investment. In general, the relatively small value of M&As in the primary sector in developing countries reflects a restrictive regulatory environment. In South-East Europe and the CIS, cross-border M&As were more evenly distributed between manufacturing and services.

Figure II.1. FDI flows by region, 2004-2005
(Billions of dollars)



Source: UNCTAD, based on annex table B.1 and FDI/TNC database (www.unctad.org/fdistatistics).

Table II.1. Sectoral distribution of cross-border M&As, by group of economies, 2004-2005
(Millions of dollars)

Sector	Year	World	By group of economies: Developed countries	Developing countries	South-East Europe and CIS	Memo-randum: LDCs
			Sales			
Total	2004	380 598	315 851	54 700	10 047	506
	2005	716 302	598 350	100 633	17 318	302
Primary	2004	19 414	11 337	6 157	1 920	350
	2005	115 420	110 474	2 858	2 088	42
Manufacturing	2004	120 747	105 202	14 956	589	-
	2005	203 730	171 020	25 963	6 747	-
Services	2004	240 437	199 312	33 587	7 538	156
	2005	397 152	316 856	71 812	8 483	260
			Purchases			
Total [a]	2004	380 598	339 799	39 809	991	250
	2005	716 302	626 339	83 150	6 812	58
Primary	2004	17 471	14 904	2 509	58	-
	2005	105 544	97 876	5 646	2 022	-
Manufacturing	2004	106 795	91 269	15 239	286	-
	2005	148 742	125 604	20 585	2 553	29
Services	2004	256 332	233 624	22 061	647	250
	2005	461 969	402 823	56 909	2 237	29

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
[a] Also includes unspecified items.

A. Developing countries

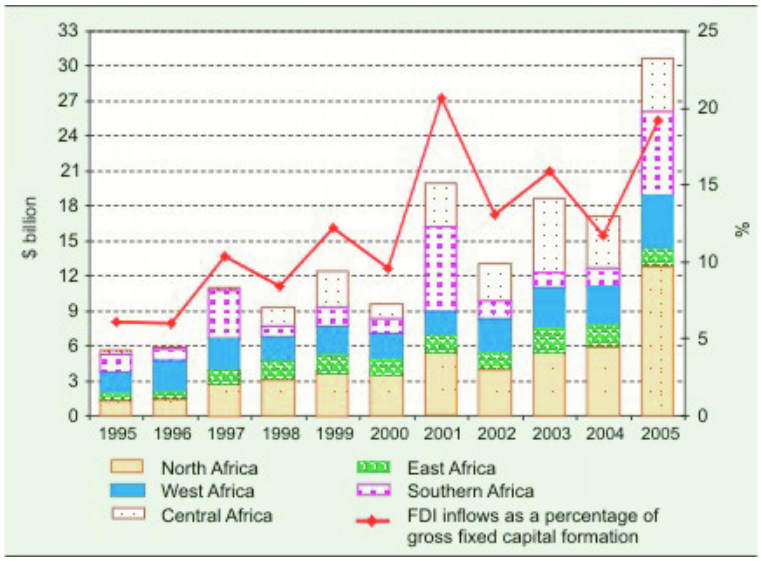
In developing countries as a whole, both inflows and outflows rose in 2005, although trends varied by region. Inflows into and outflows from Latin America and the Caribbean and West Asia rose in 2005, while in Africa and East, South and South-East Asia only inflows rose (figure II.1). Increases in West Asia were particularly marked, both inward and outward.

1. Africa

In Africa, rising corporate profits and high commodity prices helped boost inflows in 2005 to a historic high of $31 billion, from $17 billion in 2004 (figure II.2). FDI inflows as a percentage of Africa's gross fixed capital formation also increased, to 19% in 2005. However, the region's share of global FDI remained at around 3%. A large proportion of the 2005 inflows were concentrated in mining, and in particular, oil and gas, although there was also investment in services from the United Kingdom, the United States, South Africa, China, Brazil and India. At the same time, however, low skill levels, fragmented markets and a lack of diversification inhibited FDI in manufacturing.

FDI inflows increased in 34 African countries in 2005 and declined in 19. Cross-border M&As are becoming an important mode of entry into the region: their value more than doubled, to reach $10.5 billion in 2005. Most African countries adopted more favourable regulatory frameworks and policies at the national, bilateral and regional levels. Inflows to the region are expected to increase sharply in 2006 against the background of a high volume of new project commitments and renewed M&A activity. However, the region continues to exhibit weaknesses that constrain its ability to attract quality FDI of the kind that would generate broader beneficial effects in its economies. Its outward investors, primarily those from South Africa, expanded their transnationalization through cross-border M&As, although outward FDI from the region as a whole declined in 2005.

Figure II.2. Africa: FDI inflows and their share in gross fixed capital formation, 1995-2005



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex tables B.1 and B.3.

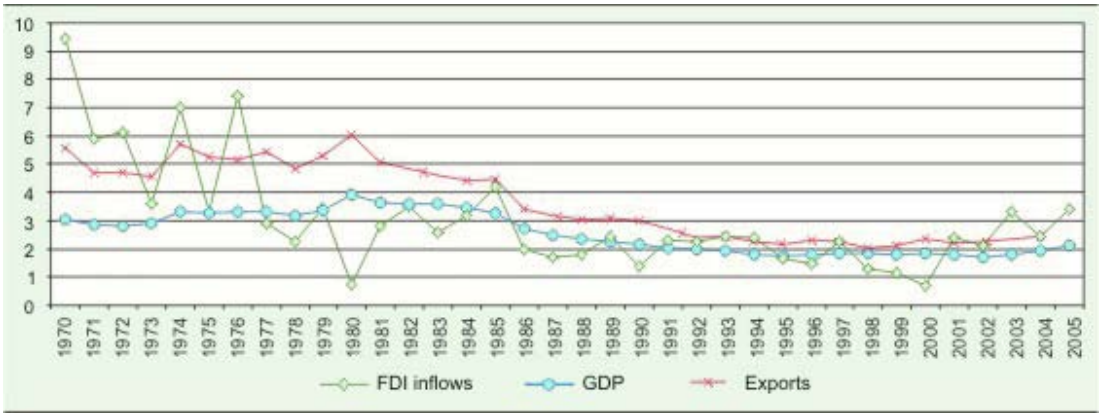
a. Geographical trends

(i) Growth driven by high commodity prices

Total FDI inflows into Africa surged to reach $31 billion in 2005, representing a historic growth rate of 78%. This was higher than the global FDI growth rate of 29% and that of developing economies as a whole. It was primarily the consequence of a boom in the global commodity market, which led to large inflows into the primary sector, although inflows into the services sector also rose. Nonetheless, Africa's current share in global FDI remains much lower than it used to be in the 1970s and early 1980s, even though in the past three years that share has once more surpassed the region's share in global GDP and exports (figure II.3). The decline in Africa's share in global FDI over the past two decades reflects its slow progress in increasing production capacity and diversification, and creating larger regional markets. As a result, Africa's per capita inflows were only $34 in 2005, compared with $64 for developing economies as a whole.

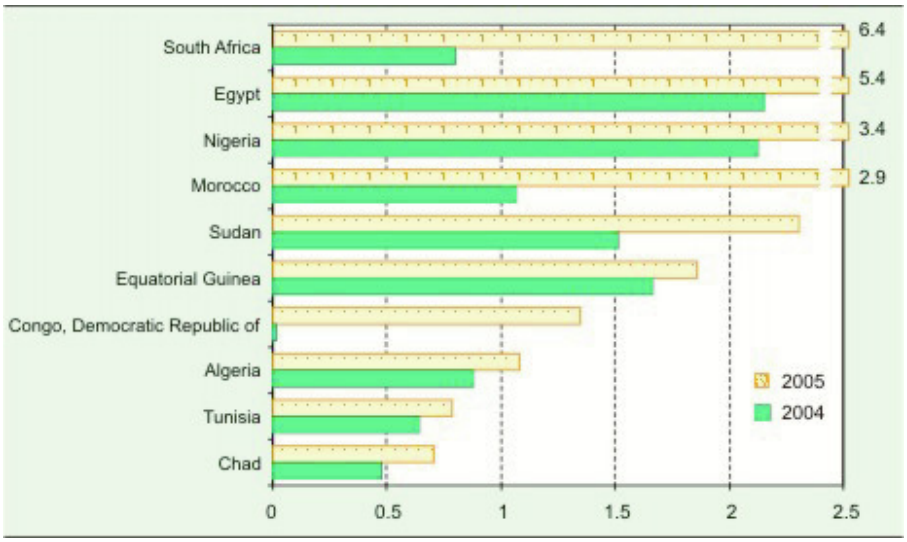
FDI in Africa has traditionally been geographically and industrially concentrated, and 2005 was no exception; five countries (South Africa, Egypt, Nigeria, Morocco and Sudan – in descending order of value of FDI) accounted for 66% of the region's inflows (figure II.4 and table II.2). South Africa registered the largest inflows,

Figure II.3. Shares of Africa in world FDI inflows, world GDP and world exports, 1970-2005
(Per cent)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) for FDI and UNCTAD Secretariat for GDP and exports.

Figure II.4. Africa: FDI inflows, top 10 economies,[a] 2004-2005
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.
[a] Ranked on the basis of the magnitude of the 2005 FDI inflows.

with a sharp increase to $6.4 billion from only $0.8 billion in 2004, or about 21% of the region's total. This was mainly due to the acquisition of Amalgamated Bank of South Africa (ABSA) by Barclays Bank (United Kingdom) for $5 billion (see annex table A.I.7 and discussion below). Among other leading recipients in 2005 were Chad, Equatorial Guinea and Sudan, along with Algeria, the Democratic Republic of the Congo and Tunisia, many of them oil and gas-producing countries. Inflows to the Democratic

Table II.2. Africa: country distribution of FDI flows, by range,[a] 2005

Range	Inflows	Outflows
Over $3.0 billion	South Africa, Egypt and Nigeria	..
$2-2.9 billion	Morocco and Sudan	..
$1-1.9 billion	Equatorial Guinea, Democratic Republic of the Congo and Algeria	..
$0.5 to 0.9 billion	Tunisia and Chad	..
$0.2 to 0.4 billion	United Republic of Tanzania, Congo, Namibia, Botswana, Gabon, Libyan Arab Jamahiriya, Zambia, Uganda and Ethiopia	Nigeria
Less than $0.1 billion	Liberia, Côte d' Ivoire, Mali, Ghana, Mauritania, Mozambique, Guinea, Zimbabwe, Seychelles, Senegal, Togo, Madagascar, Lesotho, Sierra Leone, Gambia, Somalia, Mauritius, Djibouti, Kenya, Benin, Burkina Faso, Cape Verde, Cameroon, Niger, Eritrea, Guinea-Bissau, Rwanda, Sao Tome and Principe, Central African Republic, Malawi, Comoros, Burundi, Swaziland and Angola	Liberia, Morocco, Libyan Arab Jamahiriya, Egypt, South Africa, Botswana, Mauritius, Senegal, Angola, Algeria, Swaziland, Gambia, Tunisia, Kenya, Seychelles, Niger, Mali, Zimbabwe, Ghana, Rwanda, Benin, Lesotho, Burkina Faso, Guinea-Bissau, Côte d' Ivoire, Togo, Namibia and Gabon

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.

[a] Countries are listed according to the magnitude of FDI.

Republic of the Congo and South Africa were the most diversified and went into energy, machinery and mining, as well as into banking, which received the largest share.

The countries that received the least FDI in Africa were mostly LDCs (table II.2), including oil-producing Angola, which witnessed a drastic decline in its FDI inflows in 2005. Many of them have limited natural resources, lack the capacity to engage in significant manufacturing, and, as a result, are among the least integrated into the global production system. Some have also experienced political instability or civil war in the recent past, which has destroyed much of their already limited production capacity.

The key source countries of FDI inflows to Africa have remained the same for some years, but investment from China and other Asian economies (box II.1) increased, especially in the oil and telecom industries. In contrast to other regions, greenfield FDI projects in Africa increased in 2005 (annex table A.I.1).[2] A number of greenfield projects originated from EU member countries, but projects by firms from Asia also grew. The rise in greenfield FDI projects by Chinese investors, among others, is noteworthy: CNOOC is engaged in projects in Algeria, Nigeria, South Africa and Sudan, with about $280 million or 7% of its total outward FDI invested in Africa in 2005 (see also box II.1).[3] The driving force of Chinese FDI has been growing domestic demand for raw materials. The value of Asia-Africa cross-border M&As rose significantly as well (table II.3; and annex table B.7 for the number of deals).

The five subregions of Africa showed considerable variation in FDI inflows in 2005:

North Africa.[4] FDI inflows into the subregion more than doubled in 2005 to $13 billion, accounting for 42% of total inflows to Africa. Egypt, Morocco, Sudan, Algeria and Tunisia, in that order, received the largest inflows in 2005. The surge in inflows to Egypt ($5.4 billion) was mainly because of a strong rise in investment in the petroleum industry, along with the privatization programme. In Morocco and Tunisia, it was largely privatizations that led to the increase.[5] Asian FDI flows to Sudan, principally from China, India, Kuwait and Malaysia, grew considerably in 2005. For example, a consortium comprising Petronas of Malaysia, the Oil and Natural Gas Corporation (ONGC) of India and the Sudanese State-owned Sudapet invested $0.4 billion in the development of an oilfield (see also box II.1).[6]

West Africa.[7] FDI inflows into West Africa increased by 40%, to $4.5 billion in 2005 from $3.2 billion in 2004, representing 15% of Africa's total. This increase was dominated, as usual, by inflows to Nigeria, which received 70% of the subregion's total and 11% of Africa's total – with oil accounting for some 80% of the inflows. TNCs mostly from France (Total), the United Kingdom (BP) and the United States (ChevronTexaco) invested in projects to develop undersea oilfields off the coast of Nigeria. FDI in Mauritania also increased 23-fold, again mainly as a result of increased activity in the oil industry. In Sierra Leone, Sierra-Com (Israel) invested $3 million – a significant amount for this country – for high-speed broadband wireless Internet and Voice over Internet Protocol (VoIP) communications.[8]

Central Africa.[9] With inflows of $4.6 billion in 2005, the same amount as in 2004, this subregion accounted for 15% of Africa's inflows, attracting FDI into the primary as well as the service sector,

Box II.1. Asian FDI in Africa

In the past decade, TNCs from developing Asia have begun to show an interest in investing in Africa. India and Malaysia are the leading Asian investors there, followed by the Republic of Korea, China and Taiwan Province of China (box table II.1.1); Pakistan is another FDI source, although its investment is relatively small. Among African host economies, South Africa is a large recipient of Asian FDI, but Mauritius receives the most FDI from India and Malaysia. However, Asian investments in Africa remain dwarfed by those from more traditional sources such as the United Kingdom (with a total FDI stock of $30 billion in 2003), the United States ($19.0 billion), Germany ($5.5 billion) and France ($4.4 billion). Among developed countries, Japan has relatively little FDI in Africa ($2 billion).

Box table II.1.1. FDI in Africa from selected Asian developing economies, 1990-2004
(Millions of dollars)

Year	China[a]	India[a]	Malaysia	Pakistan	Republic of Korea	Taiwan Province of China[a]
			Flows			
1990	..	..	..	5.0	24.1	13.0
1991	1.5	..	1.1	4.2	15.9	4.5
1992	7.7	..	12.6	8.2	27.7	16.9
1993	14.5	..	6.6	7.0	28.7	0.4
1994	28.0	..	36.2	5.5	111.1	18.7
1995	17.7	..	72.3	6.9	38.4	28.8
1996	-	..	496.0	5.8	8.1	20.9
1997	-	..	147.5	5.5	87.7	-
1998	-	..	77.5	4.4	81.2	36.2
1999	42.3	..	223.9	3.9	19.9	41.3
2000	85.0	243.3	80.0	4.3	23.8	7.0
2001	24.5	184.8	46.8	4.1	14.3	6.1
2002	30.1	883.4	661.1	2.1	- 6.5	17.4
2003	60.8	338.4	..	..	..	..
2004	..	22.1	..	..	..	..
			Stocks			
1990	49.2	296.6 [b]	1.1 [c]	84.9	45.2	25.9
2002	588 [d]	1968.6 [e]	1 615.8	93.1	511.6	224.0

Source: UNCTAD, based on UNCTAD forthcoming a.

[a] Based on approval data.
[b] 1996.
[c] 1991.
[d] 2003.
[e] 2004, cumulative flows from 1996.

By mode of entry, there were 47 greenfield FDI projects and 11 cross-border M&A deals from South, East and South-East Asia in 2005. Among the greenfield projects, China had 16 new investments, followed by India with 12. Altogether, South, East and South-East Asia accounted for more than 10% of all greenfield investment in Africa in 2005. As regards cross-border M&As, Malaysian companies such as Petronas and Telkom Malaysia have been the most active over the past two decades, accounting for more than 24% of the deals during the period 1987-2005 (box table II.1.2). The largest recent acquisition by an Asian firm was the $1.8 billion purchase of LNG (Egypt) by Petronas (Malaysia) in 2003.

With the increase in Asian FDI flows to Africa has come a new aid-investment nexus between Asian countries and their African partners. China, for instance, plans to increase contributions to its African Human Resources Development Fund by 33% and to provide training to 10,000 African personnel by 2008.[a] India is also stepping up aid to Africa: Indian technicians have been running training schemes to build up small companies in Ghana, Kenya, Nigeria, Senegal, Uganda, the United Republic of Tanzania and Zimbabwe. The Republic of Korea and others are also increasing aid to Africa alongside their commercial expansion. Ultimately, the rise of FDI from Asia to Africa is unlikely to have much of an affect on the relationship between Africa and its traditional sources of FDI (the industrialized countries) *in the short term*. However, Asia's increasing volume of FDI is helping to diversify Africa's options, and to the extent that investment and the associated aid help to create stronger domestic production capacity, it may influence Africa's economic relations with the world generally, particularly in trade.

Box table II.1.2. Cross-border M&As in Africa by firms from selected developing Asian economies, 1987-2005
(Cumulative number of deals)

Host/home economy	China	Hong Kong, China	India	Malaysia	Pakistan	Republic of Korea	Singapore	Others	**Asia total**
Egypt	-	-	3	2	-	2	1	8	**16**
Ghana	-	-	-	2	-	-	-	-	**2**
Madagascar	-	-	-	1	-	-	-	1	**2**
Mauritius	-	-	1	3	-	-	7	3	**14**
Morocco	-	-	-	-	-	2	-	4	**6**
South Africa	-	5	3	12	1	1	3	5	**30**
Sudan	1	1	3	1	-	2	-	2	**10**
Uganda	1	-	-	1	-	-	-	-	**2**
United Republic of Tanzania	1	-	-	-	-	1	-	-	**2**
Zambia	-	-	3	-	-	-	-	-	**3**
Others	-	-	2	3	-	-	1	11	**17**
Africa total	**3**	**6**	**15**	**25**	**1**	**8**	**12**	**34**	**104**

Source: UNCTAD, based on UNCTAD forthcoming a.

Source: UNCTAD, based on UNCTAD forthcoming a.

[a] *Jeune Afrique.* "The African report: an insight into Africa, an outlook on the world", Number 2, March 2006.

Table II.3. Africa: distribution of cross-border M&As, by home/host region, 2004-2005
(Millions of dollars)

Home/host region	Sales		Purchases	
	2004	2005	2004	2005
World	4 595	10 509	2 718	15 505
Developed countries	2 571	9 564	727	13 331
European Union	2 418	8 906	488	12 994
United States	40	184	-	29
Japan	-	44	-	-
Developing economies	2 024	476	1 991	2 152
Africa	1 849	360	1 849	360
Latin America and the Caribbean	-	-	-	-
Asia and Oceania	175	116	141	1 792
Asia	175	116	141	1 792
West Asia	-	5	-	-
South, East and South-East Asia	175	111	141	1 792
South-East Europe and CIS	-	469	-	22

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

including infrastructure. Equatorial Guinea, the Democratic Republic of the Congo, and, to a lesser extent, Chad and Congo, were the major host countries in 2005. In addition to FDI flows into the oil industry (for instance, the United States firm Chevron-Texaco), there were significant flows into infrastructure development. In the Democratic Republic of the Congo, a large share of the inflows were from other developing countries, mostly South Africa and developing Asia (e.g. China). ESKOM of South Africa invested in the Grand-Inga Dams project, one of the largest FDI projects under way in Africa today. Angola's inflows plummeted to $24 million in 2005 from $1.4 billion in 2004. A large part of this can be attributed to the purchasing of assets of foreign companies in the oil projects of Angola's national oil company – Sonangol – which now has significant interests in a total of 30 oil blocks. Nevertheless, Angola did attract some FDI in banking in 2005: Banco Comercial Angolano, a private bank, undertook a 50% capital expansion jointly with the South African bank, ABSA.[10]

East Africa.[11] FDI inflows into this subregion fell to $1.7 billion from $1.9 billion in 2004, and represented 5% of the inflows to Africa. East Africa attracted the lowest FDI inflows of all the subregions. It comprises mostly resource-poor countries, many of which have recently experienced political instability. In 2005, six of these countries (including the subregion's main recipients: Ethiopia, Kenya, Madagascar and Mozambique) registered a decline in their FDI inflows. On the other hand, Uganda benefited from continuing macroeconomic and political stability to become one of the FDI front-runners in the subregion, with inflows rising by 16%, to $258 million in 2005. Small and medium-sized TNCs from other African countries, in particular Egypt, Kenya, Mauritius and South Africa, have been attracted to Uganda. Some FDI inflows in telecom services were also registered in Kenya and Madagascar.

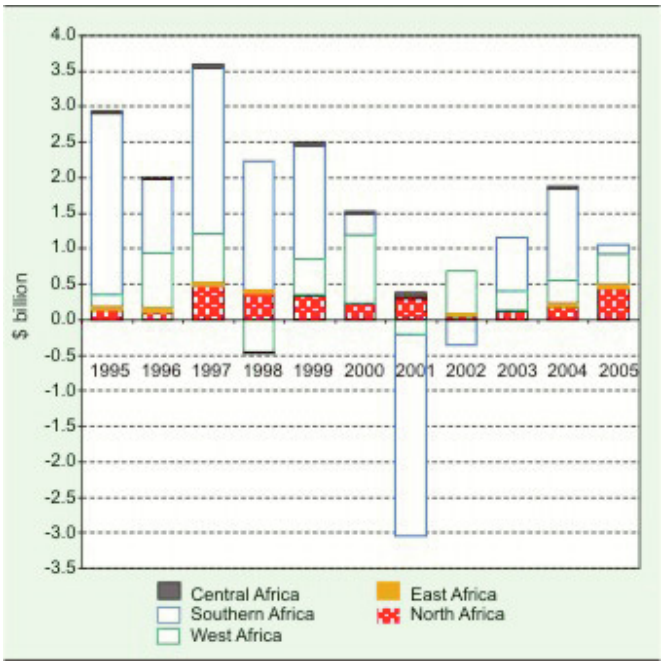
Southern Africa.[12] This subregion experienced the most impressive FDI inflows, in terms of both growth and sectoral diversity, in 2005. Inflows rose to $7.1 billion from $1.5 billion in 2004, with investment taking place in particular in banking, telecommunications and mining industries. The increase lifted the subregion from its lowest ranking among African subregions in 2004 to the second highest in 2005, accounting for 23% of African inflows. Inflows to Southern Africa were dominated by the above-mentioned major cross-border acquisition of the South African bank, ABSA, by an international banking group led by Barclays Bank of the United Kingdom. Foreign companies, particularly banks, have repurchased operations in South Africa (sold at the end of the apartheid regime) as well as in its neighbouring countries (e.g. Namibia). Diamond and nickel mines that had lain dormant in many Southern African countries, such as Lesotho, Namibia and South Africa (because of high extractive costs and low demand), also attracted new FDI as the prices of these commodities skyrocketed in 2005.

(ii) Outward FDI: down in 2005

Despite the increased transnationalization of TNCs from Africa through cross-border M&As in 2005, FDI outflows from the region declined sharply, by 44%, to $1.1 billion from $1.9 billion (figure II.5).

A major cause of the decline was the slump in outward FDI from South Africa, which had accounted for 72% of the region's outward FDI in 2004 ($1.34 billion). South Africa's outward FDI dropped by 95% in 2005, to only $0.07 billion. In addition, some of the country's TNCs now have their primary listings on stock markets outside the country, as illustrated by SABMiller that moved its primary listing to London. The outward

Figure II.5. Africa: FDI outflows, by subregion, 1995-2005



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex tables B.1 and B.3.

investments of such companies are no longer registered as investments from South Africa.[13]

FDI outflows from Africa were a minuscule proportion of global outflows – 0.1% – and only 0.9% of developing-country outflows.[14] The top six home countries of outward FDI from Africa in 2005 were Nigeria, Liberia, Morocco, the Libyan Arab Jamahiriya, Egypt and South Africa, in that order, accounting for 81% of the region's outflows (annex table B.1).

While data on cross-border M&As are not directly comparable with FDI data (*WIR00*), the significant rise in the value of M&A purchases by TNCs from the region in 2005 is worth noting: at $15.5 billion in 2005 it is almost six times the level attained in 2004 (table II.4 and annex table B.4). This increase is, however, explained largely by one deal: the acquisition of Wind Telecomunicazioni (Italy) by Orascom Telecom through Weather Investments (Egypt) for $12.8 billion (annex table A.I.7).[15] Available data show that greenfield FDI rose in 2005, mainly as a result of an increase in projects in Africa and Asia, especially West Asia. The number of greenfield projects in these two regions increased more than 50% in 2005.

b. Sectoral trends: FDI up in the primary sector

FDI inflows to Africa in 2005 were, once again, tilted towards primary production (mainly oil), even though significant increases also occurred in the services sector, particularly in banking. Inflows to the manufacturing sector, particularly the textile and apparel industry, declined following the end of quotas established under the Multi-Fibre Arrangement (MFA).

The *primary* sector – particularly the oil and gas industry – continued to attract FDI to Africa. In 2005, the share of petroleum in FDI inflows to the oil-producing countries in the list of the top 10 recipients in Africa (figure II.4) remained high: Algeria, 55%, Egypt, 37%, Nigeria, 80%, and Sudan, 90%.[16] Available information on greenfield FDI projects suggests a near-doubling of such projects in the sector. While these numbers are only a small fraction of all greenfield projects in the continent, the value of the investments involved is usually very large. However, while 2004 was characterized by high-value M&As in the primary sector (87% of total value), 2005 marked a pause with only 9% of total M&As by value (table II.4).

Manufacturing activities did not feature prominently in FDI inflows into Africa in 2005. For example, cross-border M&As in this sector accounted for only $1.7 billion, or 16% of the total value of cross-border M&As. In recent years, countries such as Kenya, Lesotho, Mauritius and Uganda had begun to receive FDI in their textile and apparel industry, in part under the African Growth and Opportunity Act (AGOA), but the trend changed following the end of MFA quotas in 2005. A number of TNCs in that industry in Africa have been relocating. In Mauritius, there was a 30% decline in the volume of garments manufactured in 2005 following the departure of some Hong Kong (China) companies.[17] In Lesotho, six textile firms closed, leaving 6,650 garment workers jobless.[18] This shows that the value of preferential market access is limited when domestic production capabilities are inadequate. Barring a few countries such as Egypt and South Africa (box II.2), most African countries lack linkages between foreign TNCs and local enterprises, and their efforts to promote regional integration have been too limited to allow economies of scale. As a result, they are

Table II.4. Africa: distribution of cross-border M&As of African countries, by sector/industry, 2004-2005
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2004	2005	2004	2005
Total	4 595	10 509	2 718	15 505
Primary	3 994	908	1 680	249
Mining, quarrying and petroleum	3 994	908	1 680	249
Manufacturing	68	1 676	529	35
of which:				
Food, beverages and tobacco	46	17	-	3
Wood and wood products	-	120	452	-
Non-metallic mineral products	-	967	-	29
Metals and metal products	-	12	-	3
Machinery and equipment	4	545	-	-
Electrical and electronic equipment	-	-	74	-
Tertiary	533	7 925	509	15 221
of which:				
Electricity, gas and water	19	58	-	-
Construction	-	-	58	48
Trade	44	312	60	47
Hotels and restaurants	33	32	-	-
Transport, storage and communications	331	1 534	317	1 307
Finance	65	5 398	74	13 787
Business services	25	4	-	31
Health and social services	-	587	-	-

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

unable to participate competitively in the international production networks of TNCs.

An important aspect of FDI flows into *services* in 2005 was a shift in their composition, from investment driven by privatization to investment into private entities. Cross-border M&As in services, for instance, surged to $8 billion in 2005 from $0.5 billion in 2004 (table II.4), taking place mostly in finance (68% of the deals, mainly in South Africa), followed by transport, storage and communications (19%). One example was the acquisition by Barclays Bank (the United Kingdom) of 60% of ABSA. Barclays also acquired a substantial stake in Bank Windhoek of Namibia as a result of this takeover. The State Bank of India acquired a 51% stake in Mauritius-based Indian Ocean International Bank Ltd as part of its overseas expansion policy – particularly into the rest of Africa. Other transactions included acquisitions in Angola and Nigeria by banks from Brazil and the United States.

c. Policy developments

In 2005, African countries continued to liberalize their investment environments. Of the 53 regulatory changes observed by UNCTAD in Africa, four fifths (42) were favourable to FDI, while 11 made the environment less favourable. Mirroring global trends in extractive industries, some countries either increased taxes or imposed new restrictions on access to natural resources.

The trend towards privatization continued across Africa. Algeria, Angola, Comoros, Congo, Côte d'Ivoire, Kenya, the Libyan Arab Jamahiriya, Mauritius, Morocco, Nigeria, Sierra Leone and Tunisia either privatized specific sectors or introduced plans to enhance cross-sectoral liberalization. The industries affected included utilities, telecommunications and tourism. Some programmes attracted TNCs from developing countries. In Angola, the privatization agency approved Telecom Namibia's bid to become the first private operator of Angola's fixed-line network. Egypt has pursued a policy aimed at opening up its markets in activities where it has a clear advantage (e.g. tourism) as well as in some manufacturing (box II.3).

Another set of favourable changes concerns attempts to improve the investment climate. Mirroring international trends, a number of African countries, such as Egypt, Ghana, Senegal and South Africa, have reformed their tax systems, often reducing corporate income taxes. Some have eased operational conditions for TNCs. For example, Egypt is facilitating the entry and residence of foreigners.

Recognizing that an investor-friendly admission phase has a beneficial effect on the subsequent relationship between host and investor, some countries such as Ghana and Mali have reformed their admission procedures by introducing one-stop shops. Other governments have acted to remove some of the key constraints on attracting and benefiting from FDI. For example, South Africa has introduced a Skills Support Programme (SSP) to enhance the supply of skilled labour (box II.4). Similar measures could be usefully adopted by other African countries seeking FDI in high-value processing.

In Africa, as in other regions, 2005 also saw policy changes which made the regulatory framework less favourable to FDI in the extractive

Box II.2. South Africa: from import substitution to export orientation in the automotive industry

The automotive industry has become a dynamic export platform in South Africa as a result of increased FDI. The increase in inflows to the industry was partly due to government policies, particularly the Motor Industry Development Programme (MIDP) in 1995, which sought to give car assemblers greater flexibility in their sourcing and to encourage a shift towards exports. The MIDP abolished local content requirements and introduced a faster tariff phase-down than required by South Africa's WTO obligations. Under the programme, exporters, including foreign firms, also benefit from various concessions, mainly duty reductions on imports.

The foreign automotive firms present in South Africa include, among others, General Motors, Toyota, Volkswagen, Ford, and Nissan. Recent foreign investors include auto components manufacturers such as Mario (Italy), Woco Group (Germany), Leonie AG (Germany), Almec Spa (Italy), AMD Group (United States) and Saffil Ltd (United Kingdom). As a result of FDI, the production of cars and light commercial vehicles grew from 315,000 in 1995 to about 500,000 in 2005, while exports more than doubled, from approximately 60,000 to 140,000. The capital expenditure of affiliates of automotive TNCs (i.e. for investment in production and export facilities, and supporting infrastructure) also more than doubled between 2000 (1.5 billion rand or $236 million) and 2005 (3.6 billion rand or $566 million).

South Africa is now emerging as a hub for the production of right-hand-drive vehicles and other models for export. Other exports include components such as leather seat covers, silencers and exhaust pipes and catalytic converters. Prospects point to growth, as many other large automotive TNCs such as General Motors, Toyota, DaimlerChrysler and Nissan have announced their intention to export models from South Africa to Europe, North America and Asia.

As a result of these investments, South Africa's automotive industry now offers a global export platform that combines low production costs and a high degree of manufacturing flexibility. The country also benefits from accumulated expertise in various automotive technologies, including the ability to design components that can cope with the high temperatures and dust levels in Africa. Finally, it offers easier access to the Southern hemisphere and African markets.

Source: UNCTAD, based on UNCTAD forthcoming b, Naidu and Lutchman 2004, Meyn 2004, Barnes 1999, Barnes and Lorentzen 2003, and www.southafrica.info/.

Box II.3. Egypt: National Suppliers Development Programme to boost manufacturing

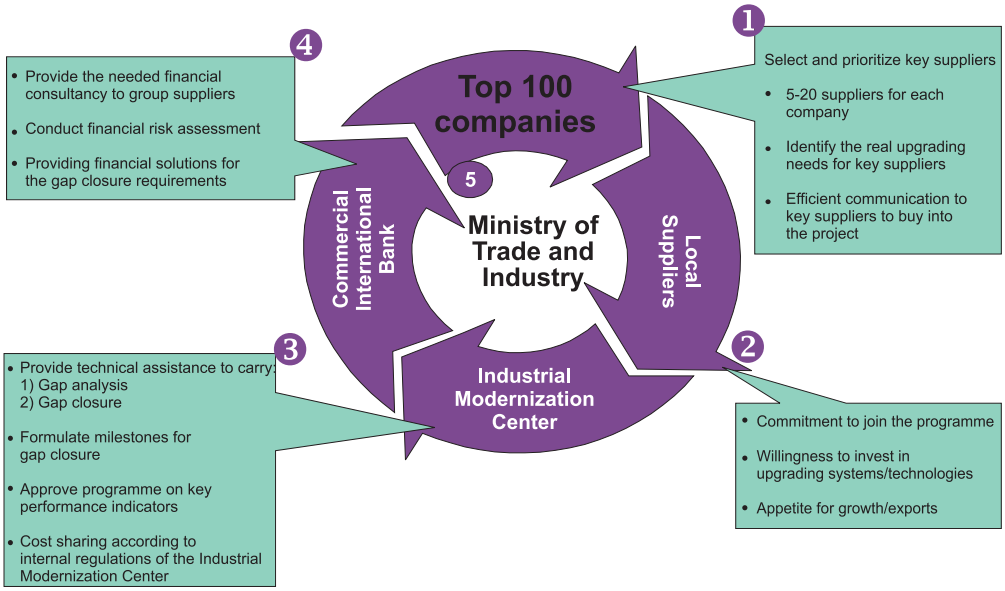
As the Egyptian economy has shifted over the past decade towards a more market-based model, the Government of Egypt has taken various measures to increase inward FDI, so as to help Egyptian industries become, or remain, globally competitive. In the manufacturing sector in particular, Egyptian producers, like many other African producers, risk becoming marginalized even in their own markets. Recognizing this, the Government of Egypt has teamed up with the private sector in an initiative known as the National Suppliers Development (NSD) Programme (box figure II.3.1) to boost manufacturing growth and stimulate job creation. Through this initiative, the Government provides active support to companies, including TNCs, to improve the quality and cost of Egyptian goods and to tailor them to the demands of a globalized world economy.

One hundred TNCs and leading exporters in Egypt have been asked to select up to 20 local suppliers for receiving technical assistance by international consultants to identify efficiency and quality shortfalls, after which they will be able to access bank loans through the NSD Programme to make the necessary improvements. In return, exporters who benefit from the programme agree to expose their Egyptian suppliers to global markets. The NSD Programme has started to yield some results. General Motors, which owns Egypt's largest vehicle assembly plant, has helped pioneer projects under the Programme. Other TNCs involved include DaimlerChrysler, Americana, Cadbury and Hero. The Government of Egypt hopes that the NSD Programme will also make Egypt attractive to more TNCs. Indeed, leading private-equity firms are considering investing in Egyptian suppliers that benefit from the Programme.

/...

Box II.3. Egypt: National Suppliers Development Programme to boost manufacturing (concluded)

Box figure II.3.1. How does the NSD programme work?



Source: Official communications from the Government of Egypt.

Source: UNCTAD, based on information from the Industrial Modernisation Center and "Egypt's private sector in scheme to boost manufacturing" *Financial Times*, 21 October, 2005, p. 5.

industries. The Central African Republic, for example, introduced an indefinite suspension of the issuance of new gold and diamond mining permits and banned foreigners from entering mining zones. Zimbabwe continued its indigenization programme by requiring all foreign-owned mining companies to sell a 30% stake to local businesses within a 10-year period.

At the bilateral level, African countries concluded a total of 583 BITs and 298 DTTs during the period 1980-2005. Twelve countries (Algeria, Egypt, Ethiopia, Ghana, Mauritius, Morocco,

Box II.4. South Africa: Skills Support Programme

In South Africa, the Government has developed several programmes aimed at improving competitive activities in all sectors. Since the shortage of skilled labour is a serious constraint on attaining such competitiveness through inward FDI, the Skills Support Programme (SSP) was introduced in 2005, complementing the previously existing Skills Incentive Programme (SIP) and Small and Medium Enterprises Development Programme (SMEDP).

SSP seeks to encourage greater investment in training, including the introduction of new advanced skills. It provides a cash grant for new projects or the expansion of existing projects, including FDI projects, for up to three years. There are no restrictions on the type of training to be provided. A maximum of 50% of the training costs will be granted to companies whose training programmes are approved. A variety of training activities qualify, including upgrading instructor competence, training in-house assessors, preparing materials and designing programmes. Companies that have qualified for SIP or SMEDP can also qualify for the SSP. Investors, including foreign direct investors, engaged in manufacturing, high-value agricultural projects, agro-processing, aquaculture, biotechnology, tourism, information and communications technology, recycling, and culture industries are eligible.

Source: UNCTAD, based on the South Africa Skills Support Programme, "Incentives and development finance", 2005, (www.info.gov.za).

Mozambique, Nigeria, South Africa, Tunisia and Zimbabwe) concluded more than 20 BITs each, mostly with partners from the EU, followed by those in South-East Asia. Seven countries (Algeria, Egypt, Mauritius, Morocco, South Africa, Tunisia and Zimbabwe) concluded more than 12 DTTs each. The number of BITs and DTTs between African countries is expected to increase in the near future under the New Partnership for Africa's Development (NEPAD) initiative. However, caution is advisable against a proliferation of BITs, DTTs, free trade agreements (FTAs) and regional trade agreements (RTAs). African countries have already subscribed to a large number of regional integration schemes (over 200 in 2005),[19] which have created an overlapping multiplicity of agreements.

At the international level, the AGOA initiative continued to bolster trade and investment in Africa, influencing the strategies of foreign investors in a number of industries. An exception (mentioned above) was the textiles and apparel industry, which saw the departure of a number of TNCs following the termination of MFA quotas. This further weakened the drive to promote industrialization in Africa through international trade. It also emphasized the fact that Africa's industrial progress requires competitive production capacity, in addition to better market access (e.g. through AGOA and EBA) and more welcoming regulatory frameworks.

d. Prospects

Prospects for growth in FDI inflows into Africa in 2006 are good: for example, cross-border M&As tripled in the first half of 2006 over those in the same period in 2005, according to UNCTAD's estimates. Rapidly rising global commodity prices will once again be pivotal to this increase, particularly in the oil industry, including in investment from developing countries (box II.5).[20] However, the regional picture is not uniformly upbeat across sectors, countries and subregions. Inflows may continue to be low in low-income economies that lack natural resources.

Box II.5. Prospects for FDI rise as TNCs from developing countries invest in oil in Africa

The buoyant global demand for oil and the resulting rise in profits have resulted in unprecedented FDI in petroleum exploration, extraction and related activities in Africa by TNCs from developing countries. Major examples include the following:

North Africa. In Sudan, the presence of TNCs from countries such as China, India and Malaysia increased. In 2005, Petronas of Malaysia agreed to build a refinery on the Red Sea in Sudan and undertake exploration work onshore. ONGC Videsh of India also continued the expansion of its operations in Sudan, ranging from the exploration of more oil blocks to oil refining. The company financed the construction of a 741-km-long pipeline, which would link Sudan's biggest refinery, Gaili Refinery, north of Khartoum, to Port Sudan on the Red Sea. ONGC Videsh also made further investments in upgrading and modernizing yet another refinery in Port Sudan, so as to handle larger transport capacities of petroleum goods for export.

West Africa. In January 2006, CNOOC (China) was planning to buy a 45% stake in the oilfield, Oil Mining License 130, an undeveloped deepwater project off the Nigerian coast operated by Total (France), for $2.3 billion. In another development, Asia Petroleum Limited (Pakistan) is investing $5 billion in Nigeria to set up a joint venture comprising CPL (Nigeria), Korean Electric Corporation (Republic of Korea) and Medico (Indonesia). In Nigeria, Equator Exploration (United Kingdom) acquired a 30% production-sharing stake in offshore deepwater blocks, with the Korean National Oil Corporation taking another 60% and local companies taking the balance.

Central Africa. In Angola, TNCs from countries other than the United States and EU members (whose TNCs already control approximately 70% of the oil assets), including those from developing countries, are increasingly joining the competition to increase their petroleum reserves. Chinese companies are already in competition there[a] while companies from Brazil, India, Thailand, the Republic of Korea and others have shown an interest in investing in the country.

Southern Africa. In 2006, Petronas of Malaysia won its bid for offshore exploration of oil and gas blocks in Mozambique's Rovuma basin.

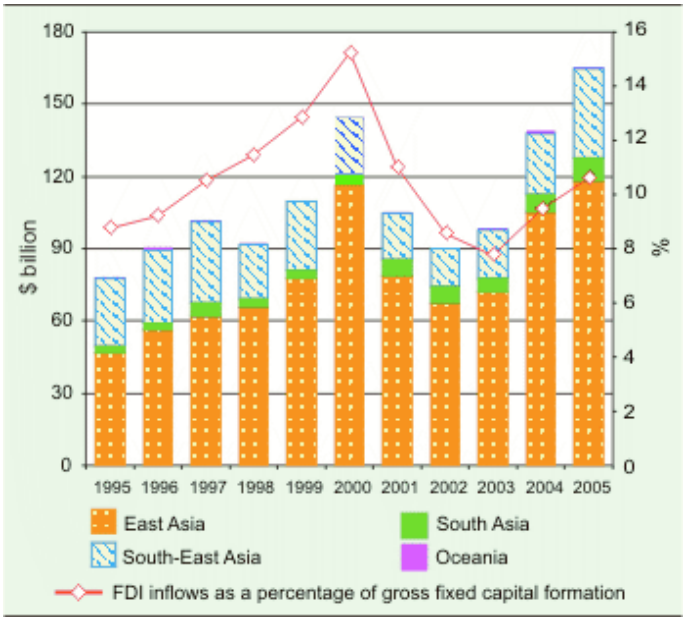
Source: UNCTAD, based on EIU *Viewswire* (various issues).

[a] This can be explained by China's rapid industrialization, which has led to a surge in the country's demand for oil as well as such commodities as iron ore, coal and copper.

In Central Africa, as well as North and West Africa, FDI inflows are expected to grow again in 2006 largely as a result of increased investment in the primary sector in countries such as Angola, Algeria, the Democratic Republic of the Congo, Egypt, the Libyan Arab Jamahiriya, Nigeria and Sudan, and in infrastructure in some cases. In Southern Africa, FDI inflows could decline slightly, as South Africa's inflows will probably return to a normal level after the one-off mega deal between ABSA and Barclays in 2005.

Growth in FDI outflows from Africa is expected to resume in 2006. TNCs from Egypt (services), Mauritius (sugar, textiles and tourism), Nigeria (petroleum) and South Africa (various sectors, particularly banking and energy) will probably contribute to most of the increase. A large part of the outflows is expected to be intra-African. Judging by the data on cross-border M&As in the first half of 2006, the surge in M&A sales is likely to lead to a recovery of FDI from the region in 2006.

Figure II.6. South, East and South-East Asia, and Oceania: FDI inflows and their share in gross fixed capital formation, 1995-2005



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex tables B.1 and B.3.

2. South, East and South-East Asia, and Oceania

FDI inflows to South, East and South-East Asia, and Oceania[21] reached a new high of $165 billion in 2005. As a growth pole in the world economy, the region is becoming increasingly attractive to market-seeking FDI. In particular, TNCs' investments in financial services and high-tech industries are growing rapidly. FDI outflows from the region as a whole declined to $68 billion in 2005, as outward investment from some Asian newly industrializing economies (NIEs) fell. However, outflows from China rose sharply, helping to reshape the pattern of outward FDI from the region.

a. Geographical trends

FDI inflows to South, East and South-East Asia, and Oceania maintained their upward trend in 2005, rising by about 19% (figure II.6), but their share of global inflows declined from 20% in 2004 to 18% in 2005. FDI outflows from the region dropped by 11%, to $68 billion, after tripling in 2004. China, Hong Kong (China) and Singapore retained their positions as the largest recipients of FDI in the region, while China emerged as a major outward investor (table II.5).

(i) Inward FDI: continues to soar

FDI increased in all subregions, though at different rates: South-East Asia witnessed a 45% increase in 2005, followed by South Asia (34%) and East Asia (12%). Inflows to Oceania declined from $705 million in 2004 to $397 million in 2005.[22]

(a) South, East and South-East Asia

Rapid economic growth in South, East and South-East Asia has contributed to the continued increase in FDI inflows.[23] The importance of the region in the world economy[24] and its high growth rate have made it more attractive to market-seeking FDI. The *2006 Global CEO Survey* (Pricewaterhouse-Coopers 2006) confirmed that reaching new customers is a more important motive than reducing costs for FDI in emerging markets in general, and in large Asian economies (such as China and India) in particular.

At the subregional level, the shift is slightly in favour of the south, with a sustained increase in flows to South and South-East Asia and slower growth in flows to East Asia. In 2005, East Asia, South-East Asia and South Asia accounted for 71%,

Table II.5. South, East and South-East Asia, and Oceania: country distribution of FDI flows, by range[a], 2005

Range	Inflows	Outflows
Over $50 billion	China	..
$10-49 billion	Hong Kong (China) and Singapore	Hong Kong (China) and China
$1.0-9.9 billion	Republic of Korea, India, Indonesia, Malaysia, Thailand, Pakistan, Viet Nam, Taiwan Province of China and Philippines	Taiwan Province of China, Singapore, Republic of Korea, Indonesia, Malaysia and India
$0.1-0.9 billion	Macao (China), Bangladesh, Cambodia, Myanmar, Brunei Darussalam, Sri Lanka, Mongolia, Marshall Islands, New Caledonia and Democratic People's Republic of Korea	Thailand and Philippines
Less than $0.1 billion	French Polynesia, Papua New Guinea, Lao People's Democratic Republic, Kiribati, Vanuatu, Maldives, Tuvalu, Nepal, Tonga, Palau, Timor-Leste, Nauru, Afghanistan, Bhutan, Tokelau, Solomon Islands, Samoa and Fiji	Pakistan, Sri Lanka, Fiji, Bangladesh, New Caledonia, Cambodia, Papua New Guinea, Vanuatu, Cook Islands, Maldives and Macao (China)

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.

[a] Countries are listed according to the magnitude of FDI.

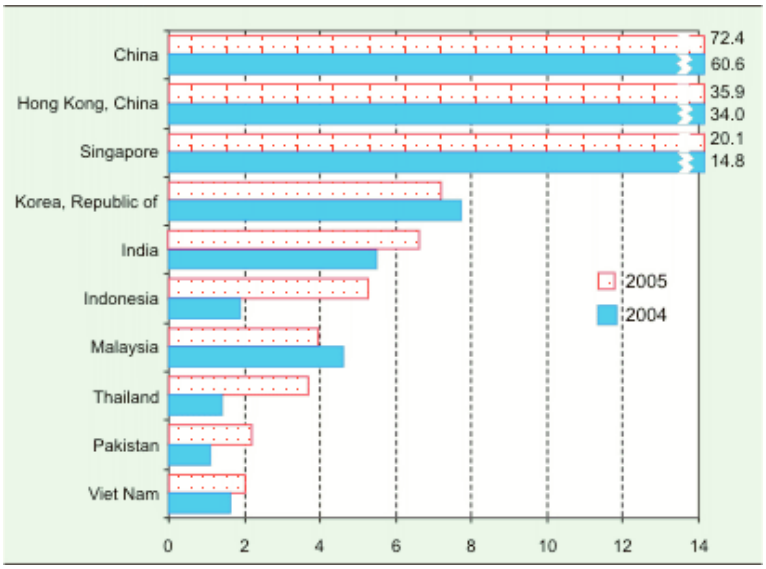
22% and 6% of the total FDI inflows to the region respectively.

East Asia[25] nevertheless remained the most important subregion for inward FDI, despite a slowdown in the growth of inflows in 2005. Major economies in this subregion showed divergent performance. FDI inflows into China and Hong Kong (China) continued to rise (figure II.7), while flows to the Republic of Korea and Taiwan Province of China declined. The increase recorded for China (of 13%,[26] to reach $72 billion) is partly related to changes in the methodology underlying Chinese FDI statistics – for the first time data on Chinese inward FDI include inflows to financial industries (box II.6). In 2005, non-financial FDI alone was $60 billion, and it registered a slight decline after five years of increase. FDI into financial services surged to $12 billion, driven by large-scale investments in China's largest State-owned banks. However, a significant share of China's inward FDI from Hong Kong (China) might be the result of round-tripping (box I.1). The drop in flows to the Republic of Korea (by 7% to $7.2 billion) after a doubling in 2004, and a similar decline in Taiwan Province of China (by 14%) are partly explained by a slowdown of economic growth in those two economies. In the Republic of Korea, policy changes related to FDI, in particular tightened tax rules (section c), are also a major reason for the decline, especially in M&As.

Most major economies in *South Asia*[27] experienced significant increases in FDI inflows: flows to Bangladesh, India, Pakistan and Sri Lanka rose by 50%, 21%, 95% and 17% respectively. Improved economic and policy conditions, especially in India, where the GDP growth rate exceeded 8% and the stock market grew by 36% in 2005, have led to growing investor confidence in the subregion. Increased FDI inflows were partly driven by large M&As, such as the acquisition of Gujarat Ambuja (India) by Holcim (Switzerland) for $607 million. Considering the high performance of the Indian economy since 2003 and the improving policy environment (section c), the growth of FDI does not yet reflect India's potential for attracting FDI.

Figure II.7. South, East and South-East Asia: top 10 recipients of FDI inflows, 2004-2005

(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.

Box II.6. China's revised and new data on FDI

Before 2006, data on inward FDI released by the Ministry of Commerce (MOFCOM) and the State Administration of Foreign Exchange (SAFE) of China did not include FDI in financial services, as its total amounts were relatively small. But in 2006, they began to include these services, as inflows to them soared.

However, significant discrepancies exist between the data reported by these two agencies (box table II.6.1), due to methodological differences. The 2005 data reported by SAFE include intra-company loans in non-financial industries ($9.7 billion) and purchases of real estate by foreign institutions ($3.4 billion), while neither of these items is included in the MOFCOM data. In addition, MOFCOM reports FDI data on a gross basis (recording only credit transactions), while SAFE reports FDI data on a net (credit less debit) or balance-of-payments basis. Thus divestments, capital withdrawals and repayment of debt to parent firms are not included in the MOFCOM data.

While MOFCOM data deviate from the international standards based on the balance-of-payments concept, it is not clear to what extent SAFE data correctly reflect transactions in real estate.[a] The data used in this Report, as in previous *WIRs*, are based on MOFCOM data.

Box table II.6.1. Data on FDI inflows reported by MOFCOM and by SAFE, 1998-2005
(Billions of dollars)

FDI data	1998	1999	2000	2001	2002	2003	2004	2005
MOFCOM								
Gross data	45.5	40.3	40.7	46.9	52.7	53.5	60.6	72.4
Non-financial	45.5	40.3	40.7	46.9	52.7	53.5	60.6	60.3
Financial	-	-	-	-	-	-	-	12.1
SAFE								
Gross data	45.5	40.3	40.7	46.9	52.7	53.5	60.6	85.5
Non-financial [a]	45.5	40.3	40.7	46.9	52.7	53.5	60.6	73.4
Financial	-	-	-	-	-	-	-	12.1
Net data [b]	43.8	38.8	38.4	44.2	49.3	47.1	54.9	79.1
Non-financial [a]	43.8	38.8	38.4	44.2	49.3	47.1	54.9	..
Financial	-	-	-	-	-	-	-	..

Source: UNCTAD, based on data from MOFCOM and SAFE.
[a] Including real estate.
[b] On a balance-of-payments basis.

Source: UNCTAD, based on communications with MOFOCM and SAFE.
[a] Purchases of real estate by foreign individuals are not included in SAFE's FDI statistics.

FDI inflows to *South-East Asia*[28] continued to rise (to $37 billion) despite an economic slowdown in this subregion in 2005. The highest growth in FDI inflows in South, East and South-East Asia was recorded in a number of member States of the Association of Southeast Asian Nations (ASEAN), such as Cambodia, Thailand and Indonesia. FDI inflows into Thailand rose from $1.4 billion in 2004 to $3.7 billion in 2005, and those into Indonesia jumped by 177%, to $5.3 billion. Large cross-border M&As, such as the acquisition of Sampoerna (Indonesia) by Philip Morris (United States), accounted for the rise. The implementation of structural reforms in Indonesia during the past few years has strengthened its economic fundamentals,[29] and therefore helped enhance investor confidence.

Developing countries accounted for more than half of all FDI to South, East and South-East Asia, as they have done for most of the past 15 years (table II.6). Intraregional FDI constitutes the bulk of these flows. In 2005, 43% of cross-border M&As in South, East and South-East Asia were intraregional, up from 32% in 2004. Available data on the number of greenfield FDI projects also show that, while developed countries remained major sources of FDI in the subregion, accounting for more than four fifths of all recorded projects in 2004-2005, most other recorded projects were undertaken by companies from within the region.[30] In 2005, the United States was the major investor in terms of greenfield FDI projects (accounting for one third of them), followed by Japan, Germany, the United Kingdom and France, accounting for 14%, 8%, 6% and 4% of all projects respectively. Projects originating from the region were mostly undertaken by companies from Hong Kong (China), the Republic of Korea and Singapore, each contributing to 2-3% of all projects. A growing number of greenfield projects were also undertaken by companies based in West Asia.

The value of cross-border M&As almost doubled, to $45 billion in 2005. Rapid economic growth, low interest rates, rising stock markets and sufficient cash held by companies contributed to the increase. Hong Kong (China), China, Indonesia, the Republic of Korea, Singapore and India were the leading target economies in the region, accounting for the bulk of cross-border M&A sales in 2005 (annex table B.5). The growth in South-

Table II.6. Inward FDI of South, East and South-East Asia from major country groups, 1990-2004
(Per cent)

Type	Year	World	Regional share in inward FDI: Developed countries	Developing economies	South-East Europe and CIS	Unspecified
Flows	Average 1990-1994	100	37.4	56.9	0.1	5.6
	Average 1995-1999	100	42.0	50.2	-	7.8
	Average 2000-2004	100	33.5	62.3	-	4.2
	2002	100	37.8	58.5	-	3.7
	2003	100	38.8	52.2	-	9.0
	2004	100	34.6	56.7	-	8.7
Stock	1990	100	62.9	31.0	-	6.1
	1995	100	51.1	43.6	0.2	5.0
	2000	100	33.3	63.1	0.1	3.5
	2003	100	42.1	55.2	-	2.7
	2004	100	32.9	64.8	-	2.3

Source: UNCTAD, FDI/TNC database.
Notes: Only recipient countries for which data for the three main regions were available, were included. Therefore, the number of countries in the totals for South, East and South-East Asia may vary in each period or year, depending on the availability of data for each recipient country. For the countries with only approval data, the actual data included in the aggregates was estimated by applying the implementation ratio of realized FDI to approved FDI to the latter. The number of recipients and their share in total inward FDI to developed countries for each period/year were as follows: in 1990-1994, 17 countries were covered accounting for almost 100% of flows; in 1995-1999, 18 countries accounted for 86% of flows; in 2002, 20 accounted for almost 100% of flows; in 2003, 18 accounted for 99% of flows; in 2004, 17 accounted for 92% of flows; and in 2000-2004, 16 accounted for 92% of flows. Similary, in inward stock: in 1990, 15 countries accounted for 91% of stock; in 1995, 19 accounted for 99% of stock; in 2000, 15 accounted for 95% of stock; in 2003, 7 accounted for 61% of stock; and in 2004, 7 accounted for 48% of stock.

East Asia was particularly significant, with cross-border M&A sales in Indonesia and Singapore quadrupling. Cash-rich Asian investment companies, such as Temasek Holdings of Singapore (see box III.6), are among the major players in the region's M&A market. Reflecting a global trend (chapter I), private equity funds have also become a strong force in that market. Such funds, in particular those from the United States, engaged in a number of large deals in 2005 and early 2006 (table II.7)

(b) Oceania

FDI inflows into Oceania fell by 44% in 2005, to $397 million, although the value of cross-border M&As surged by 250%, to $184 million, driven mainly by increased sales in the mining industry.

Natural resource exploration is becoming increasingly attractive to foreign investors. In June 2005, for example, China Metallurgical Construction Group Corporation signed an agreement with the Government of Papua New Guinea to invest $650 million in the Ramu Nickel-Cobalt Project, a joint exploration project in which the Chinese side owns 85% of the equity. This investment is by far the largest FDI project in the subregion and China's largest overseas investment in metal mining.

(ii) Outward FDI: overall decline, but flows from China surge

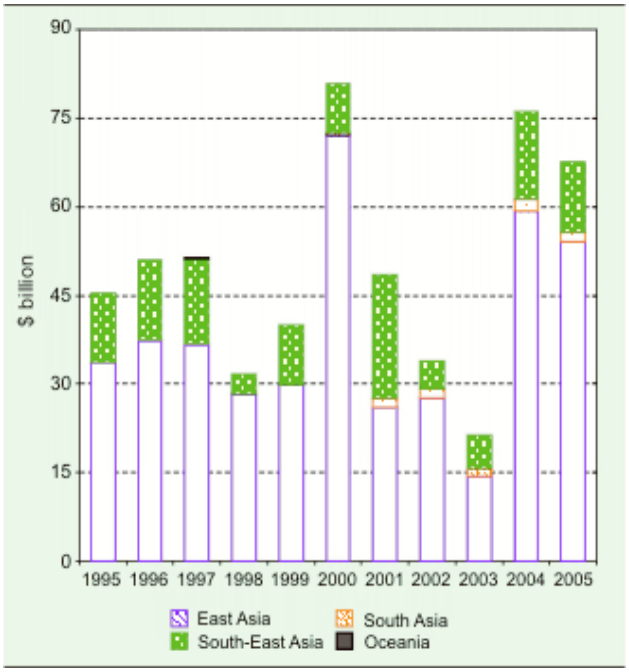
Following the dramatic increase registered in outflows from the region in 2004 – quadrupling to reach the second highest level ever – there was a decline of 11% in 2005 (figure II.8). Nevertheless, outflows remained relatively high ($68 billion) as a result of an 83% increase in the value of cross-border M&As.

Table II.7. Selected large M&A deals undertaken by United States private equity investors in South, East and South-East Asia, 2005-early 2006

Target company	Economy	Acquirer	Value of investment ($ million)
Goodbaby Group	China	Pacific Alliance	123
Harbin Pharmaceutical Group	China	Warburg Pincus [a]	282
Shriram Hldgs (Madras) Pvt Ltd	India	Newbridge Capital	100
Tanshin Financial Holding Co. Ltd	Taiwan Province of China	Newbridge Capital	800
Xugong Group [b]	China	Carlyle Group	375

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics) and data from various newspaper accounts.
[a] In cooperation with local partner CITIC Capital Markets.
[b] The deal was halted by the Chinese Government in 2006.

Figure II.8. South, East and South-East Asia, and Oceania, FDI outflows, by subregion, 1995-2005



Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics) and annex tables B.1 and B.3.

(a) South, East and South-East Asia

Asian NIEs, namely Hong Kong (China), China, Taiwan Province of China, Singapore and the Republic of Korea, in that order, remained the main sources of FDI from developing countries in general and developing Asia in particular,[31] despite a significant decline in their total outflows (figure II.9). Meanwhile, the rise in its foreign currency reserves accelerated the growth of outward FDI from China (box II.7), helping reshape the pattern of outward FDI from Asia.

M&As have become a major mode of entry into developed-country markets by TNCs from South, East and South-East Asia. In recent years, an increasing number of mega deals have been undertaken in the United States and Europe by Asian TNCs. In 2005, for example, a group of Hong Kong (China) investors acquired the Bank of America Center in San Francisco for $1 billion; BenQ (Taiwan Province of China) took over the mobile phone business of Siemens for $323 million; Tata chemicals (India) acquiried Brunner Mond (United Kingdom) for $109 million.

Most of the leading investor countries in the region are also among the largest investors in the developing world (chapter III.A). Some recent developments deserve particular attention. For instance, the growth in outflows from Singapore is likely to resume, as Singaporean investment companies are actively investing in both developing countries – mainly those in South, East and South-East Asia – and developed countries.[32] China's FDI outflows surged in 2005, reaching $11 billion, driven mainly by some mega M&As in manufacturing[33] and natural resources (see next section). Given the strong performance of the Indian corporate sector, there is considerable potential for outward FDI from India.[34]

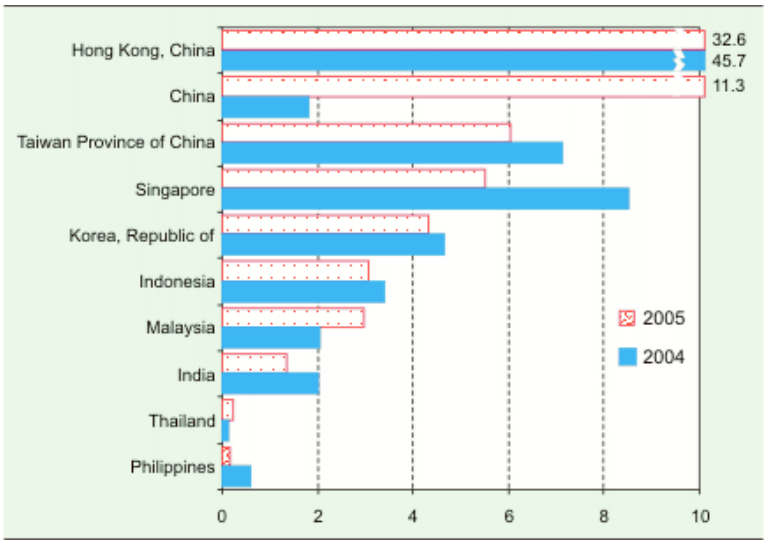
(b) Intraregional FDI

Intraregional FDI flows in South, East and South-East Asia have grown over the years. Today, it accounts for almost half of all FDI inflows to the region, and is particularly pronounced between and within East Asia and South-East Asia (figure II.10).

Intraregional FDI is particularly marked between East Asia and South-East Asia. Hong Kong (China), Singapore, Taiwan Province of China, the Republic of Korea, China and Malaysia, in that

Figure II.9. South, East and South-East Asia: top 10 sources of FDI outflows,[a] 2004-2005

(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.

[a] Ranked on the basis of the magnitude of the 2005 FDI flows.

Box II.7. "China dollars" will stimulate more Chinese outward FDI

In 2005, China's foreign currency reserves increased by $209 billion to reach $819 billion, equivalent to 37% of the country's GDP. Having exceeded those of Japan, they have become the world's largest in 2006. Despite efforts at currency diversification, a major share of these reserves is still in United States dollars. In view of the relatively low returns and high risks associated with these "China dollars", the Chinese Government is considering alternative uses for them.[a] Suggestions include, for example, establishing an investment fund targeting high-quality assets both at home and abroad.

China's foreign currency reserves have been accumulated mainly through its sustained surpluses, both in its current and capital accounts, since the mid-1990s.[b] Capital inflows, driven by the expectation of a renminbi appreciation, have also contributed to the soaring foreign currency reserves in recent years. With its total trade amounting to $1.4 trillion in 2005, China is now the third largest trading nation in the world after the United States and Germany. The country's trade surplus more than tripled, to $102 billion in 2005, which is likely to increase pressure from its main trading partner to speed up appreciation of the renminbi.

In the 1980s, the rapid accumulation of foreign currency reserves in Japan led to a surge in Japanese outward FDI. A similar situation could arise in China in the coming years. Indeed, the pressure from the large and ever-increasing amounts of "China dollars" have made the promotion of outward FDI an imperative for the Chinese Government, leading it to adopt a "going global" strategy and take concrete measures to promote the internationalization of Chinese companies (box VI.4). Against this background, the strong growth in China's overseas investment should continue in the coming years. China – ranked 17th in the world among outward investors in 2005 (annex table B.1) – is likely to become an even more important source of FDI in the near future.

Source: UNCTAD.

[a] In 2003, the Chinese Government had already drawn from the foreign currency reserves "strategically" by injecting $45 billion into the State-owned banking sector.

[b] China's surpluses in both current and capital accounts have been related to the exchange rate of the renminbi, since a cheap renminbi stimulates exports. It also promotes inward FDI by making investments in China cheaper in foreign currency terms. Further appreciation of the renminbi could moderate the rapid accumulation of reserves by limiting the growth of both exports and FDI inflows and promoting outward FDI.

order, were leading investors in these two subregions. Most FDI from East Asia went to the relatively high-income South-East Asian countries. The largest FDI flows have been within East Asia and they had been rising until recently, largely dominated by China as a key destination. Intra-ASEAN investment accounted for 13% of cumulative FDI flows in this subregion between 1995 and 2004,[35] with Singapore as the leading investor. Within South Asia, intraregional FDI flows have been less significant compared with other subregions, and those between South-East Asia (as well as East Asia) and South Asia have not been as significant as those between East Asia and South-East Asia.

Petrodollars in West Asia have also led to more intraregional FDI in developing Asia as a whole, driven by the rapid rise of the Chinese and Indian economies and increasing opportunities in downstream industries. The interaction between West Asia and China in particular highlights a new development in intraregional investment in Asia: China is gaining access to upstream oil assets in West Asia, while West Asian countries are investing in downstream refinery projects in China (box II.12).[36] In January 2006, the Governments of China and Saudi Arabia signed an economic cooperation agreement focusing on oil and gas.

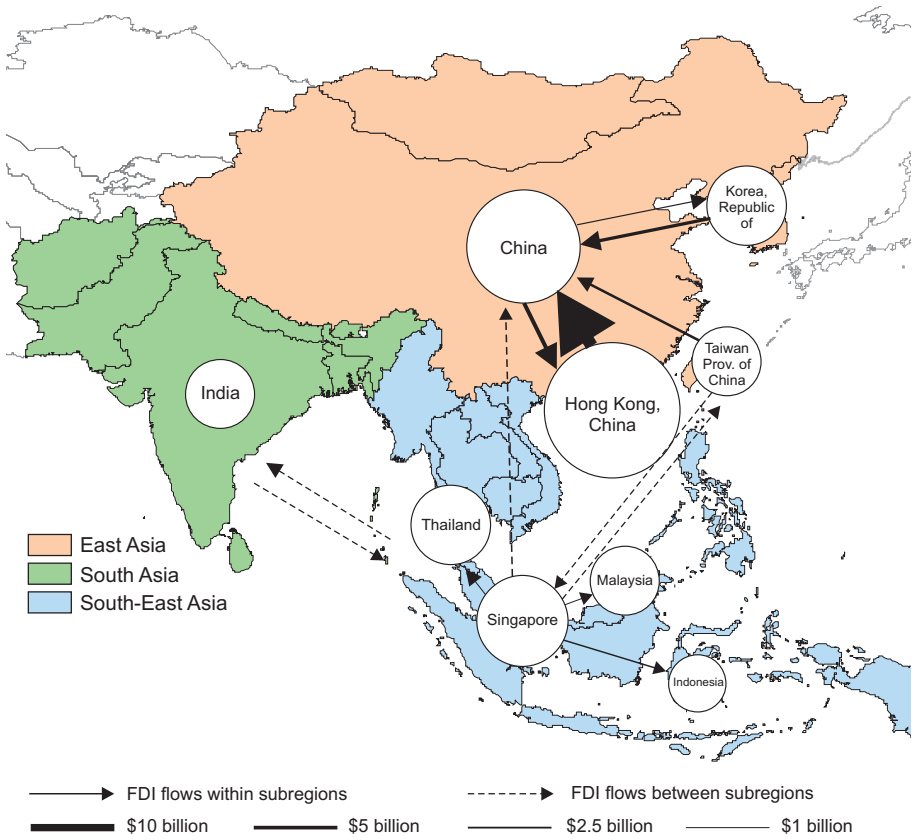
b. Sectoral trends

(i) Inward FDI: strong growth in services and high-tech industries

In 2005, all three economic sectors – primary, manufacturing and services – in South, East and South-East Asia, and Oceania received higher FDI flows. In particular, the primary sector is becoming more attractive to FDI. Manufacturing FDI continues to rise, driven by large greenfield investments, while inflows to the services sector, such as finance, telecommunications and real estate, are significant and increasing.

A number of countries in these subregions, apart from Oceania, are increasingly attracting high value-added and knowledge-intensive activities by

Figure II.10. Pattern of intraregional FDI flows in South, East and South-East Asia, 2002-2004 [a]



Source: UNCTAD.

[a] The width of arrows reflects the annual average of FDI flows during 2002-2004 (based on FDI inflow data from host economies). FDI flows below $400 million are not shown, except for those between India and South-East Asia. The size of circles reflects the inward FDI stock in 2004.

leading TNCs, including, for instance, Intel (United States). The trend of increased FDI in R&D in the region, noted in *WIR05*, is continuing (box II.8).

FDI in the *primary sector* grew in 2005, partly driven by the increase in cross-border M&A sales in the agro-industry. However, cross-border M&A sales in mining, quarrying and petroleum declined (table II.8). In Indonesia, ExxonMobil Corp. and the Government reached agreement on Cepu, the largest oilfield in the country. This may lead to a large increase in FDI inflows into the Indonesian oil industry in the coming years.

FDI flows into the *manufacturing sector* have been rapidly rising, fuelled by large greenfield projects in industries such as automotives, electronics, steel and petrochemicals. Low-cost countries in South-East Asia are becoming attractive locations for the manufacturing activities of TNCs. For instance,

Box II.8. FDI in R&D continues to rise in developing Asia

In 2005, 315 new FDI projects in R&D were recorded in South, East and South-East Asia, four fifths of them located in China and India.[a] The number of foreign-invested R&D centres had risen to 750 in China by the end of 2005. In the automotive industry, for instance, Shanghai GM and Shanghai Volkswagen are expanding their existing R&D centres, and Nissan Motor, DaimlerChrysler, Honda Motor and Hyundai Motor, together with their respective local joint-venture partners, are establishing new R&D centres. After establishing the Toyota Technical Center Asia Pacific (Thailand) in May 2005 (*WIR05*, p. 145), Toyota Motor is also setting up an R&D centre in Tianjin, China.

Source: UNCTAD.

[a] Based on the Locomonitor database (www.locomonitor.com). This database includes new FDI projects and expansions of existing projects, both announced and realized.

Daewoo Bus Corporation (Republic of Korea) is investing in a production facility in Viet Nam, and Intel plans to build the country's first semiconductor assembly facility. Meanwhile, Intel is also expanding its assembly and test facility in Malaysia. In India, increased inflows are taking place in the steel and petrochemical industries in particular. Meanwhile, FDI in China's manufacturing sector has been shifting towards more advanced technologies. For example, foreign TNCs invested $1 billion in China's integrated circuit industry in 2005, and Airbus plans to build an A320 assembly line in China.[37] By contrast, investments by both foreign and domestic companies in some traditional industries are likely to be hindered by overcapacity.

The *services* sector in the region continues to receive increasing FDI flows: in 2005, these were driven by large deals in financial services, particularly in China, and in other services such as telecommunications. Foreign banks and financial institutions invested about $12 billion in China's banking industry in 2005, compared to $3 billion in 2004. According to the China Banking Regulatory Commission, 154 foreign banks had been allowed to do business in local currency in 25 Chinese cities by the end of 2005. In the past two years, foreign investors rapidly entered the market by acquiring stakes in Chinese banks, rather than establishing their own branches. Real estate continued to be a hot spot for FDI in the region (box II.9). The top three targets of cross-border M&As were finance, transport, storage and communications, and business services (largely real estate), accounting for 32%, 15% and 11%, respectively, of the total sales of all the deals in 2005 (table II.8).

The services sector remains the main target of cross-border M&As in developing Asia, but TNCs have been increasingly using M&As as a mode of entry or a means of increasing market shares in the manufacturing sector, particularly in consumer goods industries such as food, beverages and tobacco (table II.8).

(ii) Outward FDI: growing interest in natural resources

Outward FDI from South, East and South-East Asia still focuses on services, but a growing proportion of capital outflows from the region have been targeting manufacturing and natural resources.

Box II.9. Rising FDI in Asian real estate

The real estate market in Asia has attracted considerable FDI. Foreign investors enter this market through various channels, including establishing new real estate developers, acquiring local ones, investing via financial institutions and purchasing properties directly. The NIEs continue to be major destinations for FDI in this market, while the Chinese and Indian real estate markets are also becoming increasingly attractive.

According to MOFCOM, FDI into China's real estate industry, the second largest recipient of FDI inflows in recent years, was $5.4 billion in 2005. But as these data do not include non-resident purchases of properties, the real size of FDI in this sector is underestimated. Even if the SAFE's data on the purchase of real estate by foreign institutions ($3.4 billion) are taken into account, the actual amount of FDI in real estate in 2005 might be much higher than the combined figure ($8.8 billion).[a] According to an estimate by SAFE, foreign investment now accounts for 15% of China's real estate market.[b] Real estate investment has become one of the most important channels through which "hot money" flows into China, contributing to the overheating of the Chinese real estate market in recent years.

FDI in India's real estate industry was $120 million in 2005. Although real estate development has not formally opened up to FDI, the Securities and Exchange Board of India has allowed foreign funds to invest in the local real estate industry since April 2004. Over 30 foreign funds have applied to conduct business in real estate in India. For instance, Tishman Speyer (United States) has established a joint venture with ICICI Venture Funds Management (India) with plans to invest $600 million in the Indian real estate market.[c] Investment funds from West Asia have also entered this market, and firms from Singapore (such as GIC) recently announced plans for significant investments in the Indian real estate market.

Source: UNCTAD, based on various newspaper accounts.

[a] See footnote a in box II.6.

[b] Wang Hongru, "Foreign investment flushes in the Chinese real estate market, how to regulate", *China Economic Weekly*, 24 October 2005.

[c] Jim Pickard, "International transactions of real estate keep increasing", 13 February 2006, *FT Chinese*.

Table II.8. South, East and South-East Asia: distribution of cross-border M&A sales, by sector/industry, 2004, 2005
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2004	2005	2004	2005
Total	24 193	45 132	19 319	35 349
Primary	421	469	819	4 312
Agriculture, hunting, forestry and fisheries	10	120	132	37
Mining, quarrying and petroleum	411	350	687	4 275
Manufacturing	7 386	13 300	4 769	14 805
Food, beverages and tobacco	1 575	6 256	373	7 040
Wood and wood products	320	997	162	30
Chemicals and chemical products	2 329	659	292	676
Electrical and electronic equipment	1 691	2 368	1 948	4 113
Motor vehicles and other transport equipment	516	1 047	223	596
Tertiary	16 385	31 363	13 730	16 222
Trade	421	1 863	157	652
Hotels and restaurants	62	1 845	541	244
Transport, storage and communications	840	6 604	491	1 172
Finance	10 911	14 529	7 315	10 803
Business services	2 820	4 804	834	2 441

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

In terms of cross-border M&A purchases, the shares of these two sectors rose significantly in 2005, while that of the tertiary sector declined, from 71% in 2004 to 46% in 2005, although the total value of purchases in this sector rose by 18%.

Both China and India have intensified their efforts to acquire oil assets. Following the failure of CNOOC (China) in its bid for Unocal in the United States, Chinese oil companies have been successful elsewhere: China National Petroleum Corp. (CNPC) won the bid for PetroKazakhstan, headquartered in Canada, in August 2005; CNPC and Sinopec jointly purchased EnCana's (Canada) oil assets in Ecuador in September 2005; CNOOC invested in the Akpo offshore oilfield, owned by South Atlantic Petroleum Ltd. (Nigeria), in January 2006. Chinese and Indian oil companies have also begun to cooperate in bidding for foreign oil assets.

Both China and India are also actively investing in mining. Companies from both countries participate in biddings for mining projects. In 2006, Chalco (China) won a bid for a project in Australia, and Minmetals (China) established a joint venture in cooperation with Codelco (Chile).

c. Policy developments

UNCTAD's survey of changes in national FDI policies suggests that countries in South, East and South-East Asia continue to open up their economies to inward FDI. Significant steps in this direction were taken in 2005, particularly in services. Several countries also streamlined administrative procedures and introduced new incentives to encourage more investment. A few measures also aimed at securing greater benefits from FDI, or addressing concerns over cross-border M&As. In terms of policies on outward FDI, some governments in the region continued to remove barriers or to strengthen support to the international expansion of domestic firms (chapter VI).

In 2005, several countries in the region took notable steps to further liberalize inward FDI in services. The Government of India, for instance, took the first step to open up its retail industry by allowing foreign single-brand retailers to enter the domestic market. It also began opening up industries such as radio broadcasting and construction to FDI, and raised the permitted level of foreign ownership in telecommunications. China lifted geographical restrictions on the operations of foreign banks and travel agencies, and allowed 100% foreign ownership of hotels as well as minority foreign ownership in television programming, distribution and movie production. Malaysia opened futures brokerage and venture capital firms to 100% foreign ownership. Some countries also liberalized FDI in the primary sector. For example, Timor-Leste issued a law permitting international energy companies to obtain licences for oil and gas exploration, both onshore and offshore.

Various other initiatives were taken to make it easier for foreign companies to invest in a country. Indonesia introduced a 15-year income tax break for foreign companies investing in special zones. The Republic of Korea shortened the approval period for FDI from 30 to 20 days and amended its Foreign Investment Promotion Act by introducing a new clause for transparency, fairness, and predictability in administrative examination. In Thailand, new incentives were introduced for FDI in pharmaceutical projects.

However, some new policy measures were adopted with a view to addressing growing concerns related to cross-border M&As. In the Republic of Korea, for instance, foreign M&As

have become a sensitive issue since foreign private equity funds began to cash in their holdings without paying taxes. In this context, the Government decided to adopt a special withholding tax procedure to combat schemes through which third-country residents establish shell companies in the countries of its tax treaty partners to claim undue treaty benefits.[38] Concerns related to foreign M&As are also being addressed in China, including, for instance, antitrust and national economic security investigations.

d. Prospects

As rapid economic growth in South, East and South-East Asia shows few signs of slowing down, a further expansion of FDI into the region is expected. A PricewaterhouseCoopers survey in 2006 suggests that two major Asian economies, China and India, are the two most attractive locations for FDI in emerging markets.[39] Rapid economic growth and expanding purchasing power in these and other economies in the region will continue to boost FDI inflows, and might also fuel a new round of outward FDI growth. With Government support strengthened and some mega M&A deals expected,[40] outward FDI from China in particular should continue to grow rapidly.

FDI may continue to rise in China's services sector, but, overall, is likely to stagnate in the manufacturing sector. Nevertheless, the quality of FDI in manufacturing is improving. Rising FDI in services and high-tech manufacturing, coupled with the economic impact of the 2008 Olympic Games in Beijing and the 2010 World Expo in Shanghai, might contribute to a new round of FDI growth in the country. However, rising labour costs, in particular in the coastal provinces, as well as policy changes related to foreign M&As and to FDI in real estate might have a negative impact on FDI growth.

FDI inflows to India have been gaining momentum in recent years, encouraged by sustained macroeconomic stability and a high GDP growth rate. A number of leading TNCs from the United States plan to expand their presence significantly in the country.[41] According to a recent survey (A.T. Kearney 2006), despite disadvantages and bottlenecks, such as poor infrastructure, the long-term prospects for the country in attracting FDI are promising.

FDI is also likely to continue its upward trend in South-East Asia, in particular in relatively low-cost countries. For instance, low labour costs and expanding markets in Viet Nam are attracting both market- and efficiency-seeking FDI. According to the JETRO survey of Japanese manufacturers operating in six ASEAN countries and India, most surveyed companies envisage growing demand in these markets and plan to expand business operations within the next two years.[42] A recent survey of Japanese manufacturers regarding their investment plans in the next three years shows that all but two (the United States and the Russian Federation) in the 10 most promising locations are in Asia (JBIC 2006).

A significant increase in FDI flows to Oceania is also expected, with the above-mentioned Ramu Nickel-Cobalt project being implemented in Papua New Guinea, and implementation of the China-Pacific Island Countries Economic Development & Cooperation Guiding Framework.[43]

Data on cross-border M&As support expectations for further increases in both inward and outward FDI: M&A sales and purchases in the first half of 2006 grew by 40% and 26%, respectively, over those in the same period in 2005.

3. West Asia

West Asia[44] saw historic growth in FDI flows in 2005: both inward ($34 billion) and outward ($16 billion). The growth rate of inflows was the highest in the developing world. Outflows from the region, particularly from the Gulf countries, more than doubled. Economic growth, high global oil demand, a favourable investment environment and economic diversification efforts were the main factors behind this growth. This rising trend in both inward and outward FDI flows is likely to continue in 2006, though there are some concerns about geopolitical uncertainty in some parts of the region.

a. Geographical trends

(i) Inward FDI: unprecedented rise

FDI flows into the 14 countries of West Asia rose by 85% in 2005, reaching a record $34 billion and resulting in the strongest FDI growth of all

the developing country subregions for the second consecutive year. Similarly, the share of West Asia's inward FDI in total inward FDI in Asia and Oceania was the highest since 1985: over 17%. Its share in all developing countries' inward FDI also increased, from 7% in 2004 to 10% in 2005. FDI as a percentage of gross fixed capital formation (15%) surpassed that of Asia and Oceania as well as of all developing countries for the first time in 2005 (figure II.11).

Several factors explain this high growth in 2005. First, the region experienced strong economic growth, spurred by production increase due to high commodity prices. During the period 2003-2005, the GDP growth rate averaged 7.4% in eight of the West Asian countries,[45] compared to 5% for the developing world. This raised the region's GDP per capita, which was already high.[46] Large-scale greenfield investments and cross-border M&A deals were attracted by the booming local economies and prospects for continuing high prices of oil and gas. FDI in downstream activities in the oil and gas industries has also been spurred by a rise in world demand for their products. Second, the business climate has also been favourable, as illustrated by the good performance of the Gulf Cooperation Council (GCC) members based on the World Bank's Doing Business indicators.[47] Third, liberalization efforts continued, with the privatization of services (telecommunications, water and energy supply, and banking) gathering momentum (box II.10). Finally, foreign affiliates in the region improved their performance, as illustrated by the profit-to-sales ratios of Japanese and United States affiliates.[48] This sent a promising signal to potential investors.

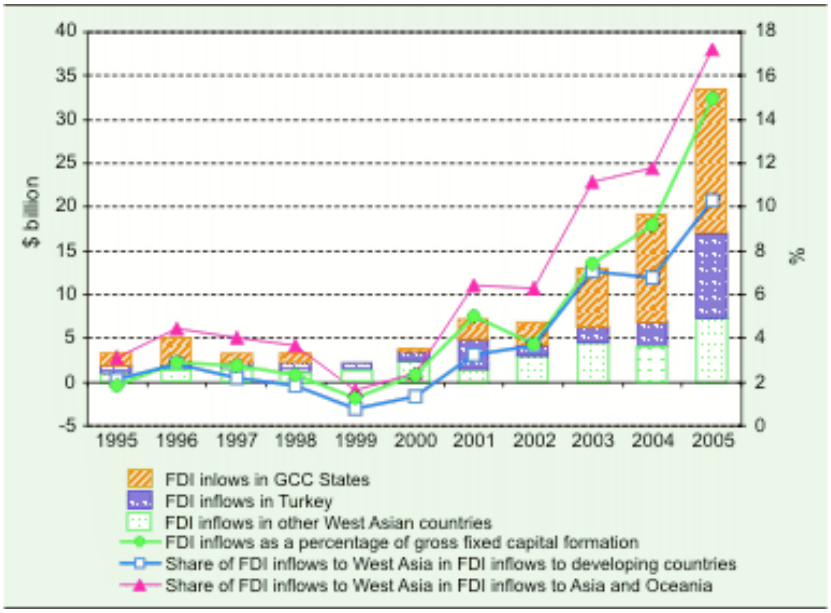
FDI inflows to West Asia in 2005 were spread unevenly among the region's economies, being concentrated in Saudi Arabia, Turkey and the United Arab Emirates. The Islamic Republic of Iran and Yemen failed to attract more inflows than in previous years, mainly due to increasing geopolitical uncertainty.

The United Arab Emirates was the largest recipient of FDI in West Asia, with a record high of $12 billion, mainly gone to the country's 15 free trade zones (figure II.12). Turkey followed, with a few mega deals that included the privatization of Türk Telekom (with $1.3 billion paid in 2005) and two deals in banking amounting to some $4 billion. Lebanon, for which FDI data on a balance-of-payments basis were reported for the first time this year, ranked fourth among 14 countries in the region.

Although developed countries continued to be the main sources of FDI, FDI from the developing world has also been rising. It is noteworthy that such FDI is increasingly intraregional, especially in services, and is concentrated in a few countries (box II.11).

Cross-border M&As in West Asia saw a historical increase from $0.6 billion in 2004 to $14 billion in 2005 (tables II.9 and II.10). As mentioned earlier, intraregional M&As, accounting for 65% of the total value and 30% in terms of numbers (box figure II.11.1), played an important role in this growth (box II.11). Large-scale acquisitions in services, mainly in telecommunications and banking, took place also in Turkey (for telecommunications, see also box II.10).

Figure II.11. West Asia: FDI inflows and their share in gross fixed capital formation, 1995-2005



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex tables B.1 and B.3.

Box II.10. Recent privatizations involving FDI in West Asia

- *Bahrain*. In order to help diversify its economy, Bahrain has been implementing a privatization scheme through the Supreme Privatization Council created in 2001. For example, a privatization agreement for Hidd Power and Water was signed in 2006.[a] Privatizations of retail sales of petroleum products and postal services are also being considered (box table II.10.1).
- *Jordan*. The Government has been carrying out a number of privatizations, including through FDI, in line with the Privatization Programme launched in 1996 and Privatization Law No. (25) of 2000. The Programme focuses on transport, electricity, water and telecommunications. Out of six privatizations announced, two were completed in 2005-2006 (box table II.10.1).
- *Oman*. Full foreign ownership in privatization was allowed as of July 2004 by Royal Decree, which establishes a new privatization framework, targeting power, water and telecommunications. The seventh five-year development plan (2006-2010) envisages the gradual privatization of several State-owned enterprises and the launch of an investment fund using privatization proceeds to finance local infrastructure.
- *Turkey*. Privatization and the creation of an investor-friendly environment have been on Turkey's agenda since 1984. The new Mining Law of 2004 promotes privatization of the mining industry and welcomes FDI. A law adopted in 2004 lifted some of the foreign ownership restrictions in telecommunications. The largest share, reserved for the State, has been reduced, making foreign acquisitions easier. The Privatization Administration is currently planning to privatize several firms in insurance, hotels and ports.[b]
- *The United Arab Emirates*. In view of soaring demand for electric power, the Abu Dhabi Government has given particular attention to privatizing utilities, while Dubai is considering privatizing transport industries.

Box table II.10.1. Selected privatization projects involving foreign investors in West Asia, 2005-June 2006

Host country	Year of signature	Value ($ million)	Shares acquired (%)	Acquired company	Industry of acquired company	Immediate acquiring company	Ultimate acquiring company	Ultimate home country
Bahrain	2006	738	15	Hidd Power and Water	Water and energy	Investor group	Investor group	France/ Japan/ United Kingdom
Jordan	2005	55	80	Jordan Aircraft Maintenance Company (JorAMCo)	Aircraft engines and engine parts	ABRAAJ Capital Ltd	ABRAAJ Capital Ltd	United Arab Emirates
	2005[a]	..	80	Jordan Airmotive Limited Company (JALCO)	Aircraft engines and engine parts	..	..	..
	2005[a]	..	51	Central Electricity Generating Company (CEGCO)	Electricity	..	..	..
	2005-6[a]	..	41.5	Jordan Telecommunication Co. (JTEL)	Telecommunications services	..	..	..
	2005-6[a]	..	..	Jordan Post Company (JPC)	Mail services	..	..	..
	2006	112	37	Jordan Phosphate Mines Co. (JOPH)	Mining	Brunei Investment Agency	Brunei Investment Agency	Brunei Darussalam
Turkey	2005	6 550	55	Türk Telekom	Telecommunications services	Oger Telecoms Joint Venture Group	Saudi Oger Ltd	Saudi Arabia/Italy
United Arab Emirates	2005	1 700	40	Taweelah Bproject	Water and energy	Al Taweelah Asia Power	Marubeni/Powertek Berhad/BTU power company	Japan /Malasia/ United States
	2006	1 344	40	Union Water & Electricity Company (UWEC)	Water and energy	SembCorp Utilities	SembCorp Industries	Singapore

Source: UNCTAD, based on cross-border M&A database; information from national sources; companies' websites; and media accounts.

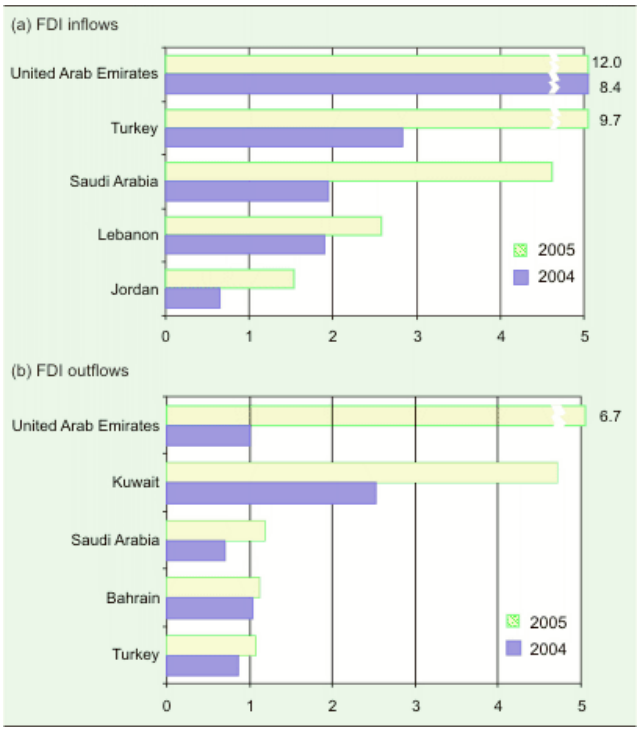
[a] Not completed.

Source: UNCTAD.

[a] This project, worth $738 million, has been given to a consortium comprising International Power of the United Kingdom (40% of the total value), Suez of France (30%) and Sumitomo Corporation of Japan (30%).

[b] Turkey, Privatization Administration, *Privatization 2006* (www.oib.gov.tr/yayinlar/publications.htm).

Figure II.12. West Asia: FDI flows, top five economies,[a] 2004-2005
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.
[a] Ranked on the basis of the magnitude of the 2005 FDI flows.

Box II.11. Intraregional FDI flows on the rise in West Asia

The real size of FDI flowing within West Asia is difficult to estimate due to the lack of statistics on bilateral FDI on a balance-of-payments basis. However, data on an approval basis reported by the Inter-Arab Investment Guarantee Corporation (IAIGC) on intra-Arab investments for 12 West Asian countries[a] suggest that intraregional flows have been soaring since 2001. There was a particularly sharp surge in 2005, partly due to increased flows from the Gulf countries profiting from high oil prices: such flows averaged $8 billion annually during the period 2001-2005, compared to $1 billion during the period 1997-2000. They were highly concentrated among the four top recipients: Lebanon, Saudi Arabia, the Syrian Arab Republic and the United Arab Emirates. These accounted for over 90% of the value of approved investments. Moreover, three oil-exporting countries, Kuwait, Saudi Arabia and the United Arab Emirates, were responsible for 88% of *outward* intraregional investment during this period. Data on cross-border M&As also show that intraregional deals have risen

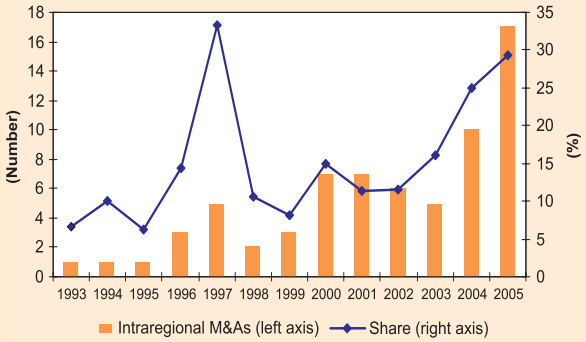
/...

Box II.11. Intraregional FDI flows on the rise in West Asia (concluded)

significantly since 2001(box figure II.11.1).

These trends reflect efforts undertaken by countries in the region, notably since 2000, to diversify their economies and improve the investment climate, liberalize the services sector and strengthen regional integration. For example, the Greater Arab Free Trade Agreement[b] provides for zero customs duties (see section on policy developments). The shared language, culture and religion of West Asia have also played a crucial role.

Box figure II.11.1. Number of intraregional cross-border M&As and their share in total cross-border M&As in West Asia, 1993-2005
(Number and per cent)



Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

Source: UNCTAD and information provided by the IAIGC.

[a] There are 21 Arab member States eligible for the IAIGC, including the following 12 West Asian countries: Bahrain, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestinian Territory, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates and Yemen. The IAIGC employs the term "private and licensed inter-Arab investments", defined as "investment flows conducted by a private/mixed/joint Arab investors from one Arab country or more into another Arab country that depicts both private (including natural Arab persons, private Arab companies, mixed private-public companies, joint Arab companies, joint Arab-foreign companies, and joint Arab-foreign banks), and pure public or government investments, based on their nationality". This definition is different from the one used in the balance of payments, on the basis of which FDI statistics are normally compiled. The latter are used in this Report.

[b] The GAFTA members in West Asia are Bahrain, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestinian Territory, Qatar, Saudi Arabia, the Syrian Arab Republic the United Arab Emirates and Yemen.

Table II.9. West Asia: distribution of cross-border M&As, by home/host region, 2004-2005
(Millions of dollars)

Home/host region	Sales		Purchases	
	2004	2005	2004	2005
World	575	14 134	1 280	18 221
Developed countries	446	3 265	1 157	8 806
Developing economies	128	9 276	121	9 413
Africa	-	-	-	5
Latin America and the Caribbean	-	-	-	50
Asia and Oceania	128	9 276	121	9 358
Asia	128	9 276	121	9 358
West Asia	114	9 208	114	9 208
South, East and South-East Asia	14	68	7	150
South-East Europe and CIS	-	1 593	1	2

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

Table II.10. West Asia: distribution of cross-border M&As, by sector, 2004-2005
(Millions of dollars)

Sector	Sales		Purchases	
	2004	2005	2004	2005
Total	575	14 134	1 280	18 221
Primary	383	111	-	45
Manufacturing	146	55	922	19
Tertiary	46	13 968	357	18 157

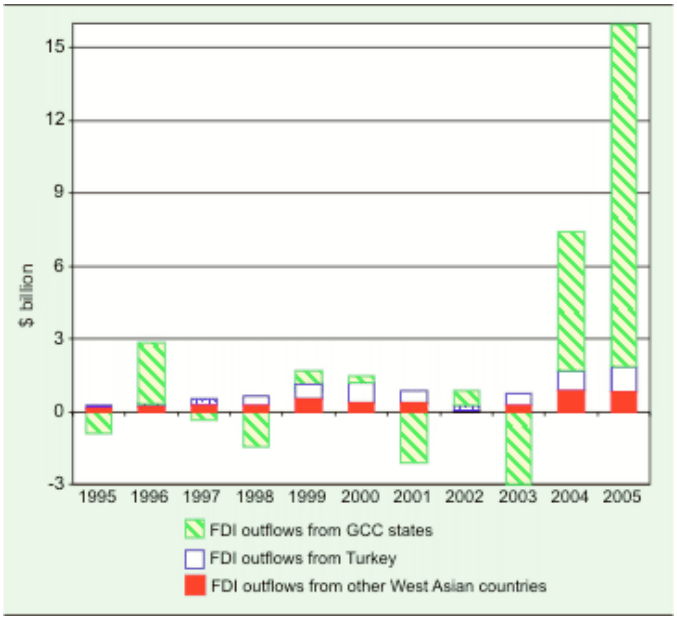
Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

Note: Sales and purchase data are compiled based on immediate target or acquirer country, rather than ultimate target or acquirer country. Thus, these data include equity acquisitions of firms' foreign affiliates in the countries where foreign equity ownership is not allowed. For example, primary sector sales in Kuwait include deals in the crude petroleum and natural gas industry (in which FDI is prohibited) undertaken by foreign affiliates operating in the country.

(ii) Outward FDI: petrodollars boost investment

Surging oil prices and increased foreign exchange reserves in many countries have made West Asia an important source of FDI outflows (figure II.13), notably by the State-owned investment firms of oil-exporting States such as Kuwait, Saudi Arabia and the United Arab Emirates (annex table A.II.1). In 2005, outward FDI flows from the region rose to $16 billion, compared to $7 billion in 2004. For the first time since 1990, outflows from the region surpassed those from ASEAN member States. In particular, outward cross-border M&As, mainly in services, increased twelvefold (tables II.9 and II.10). The oil-producing countries are increasingly investing abroad, notably in services and oil-related manufacturing. This phenomenon of "petrodollar recycling" is in sharp contrast to the one in the 1970s and 1980s, when portfolio investment dominated (box II.12).

Figure II.13. West Asia: FDI outflows, by subregion, 1995-2005



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex tables B.1 and B.3.

Private-equity and institutional investors from West Asian countries have invested in various areas, sometimes through large-scale investments (see chapter I). For example, Kingdom Holding – a Saudi State-owned company – which has been an active private-equity firm since the 1980s, targets not only blue-chip shares and luxury hotels in developed countries, but also emerging firms in developing countries, including in Africa. In Bahrain, Investcorp and Arcapita Bank use their private equity arms to purchase majority shares in companies in Europe and the United States. Recently, the Dubai Government (United Arab Emirates), through its private-equity firms, has made some significant cross-border equity acquisitions, including the purchase of Peninsular and Oriental Steam Navigation Company (P&O) of the United Kingdom through the State-run DP World (annex table A.II.1). This acquisition made DP World the world's third largest ports operator (chapters III and VI).

Box II.12. How are West Asian petrodollars recycled in FDI?

Spurred by soaring commodity prices over the past few years, oil-rich countries in West Asia have been increasingly spending their windfall profits not only in portfolio investments in developed countries but also in FDI worldwide.

In 2005, the six members of the Organization of the Petroleum Exporting Countries (OPEC) in the region[a] received the highest export revenues since 1998.[b] Available data on cross-border investment originating in these countries point to changing trends in petrodollar investment. Although the absolute amount of their outward FDI is still much smaller than their banking deposits and portfolio investments abroad,[c] the share of FDI in capital outflows has been growing since 1999, compared to that during previous oil price hikes in the 1970s and the 1980s (McGuire and Tarashev 2005).

For example, investments financed by petrodollars have flowed into the services sector all over the world – to other Asian and African economies (e.g. Egypt, India, Pakistan and Sudan) as well as developed countries. Kuwait, Saudi Arabia and Dubai (United Arab Emirates) are investing in telecommunications, hotels and real estate, both in the region and in developed countries (see also annex table A.II.1).

In addition, the "look-east" policy of Kuwait and Saudi Arabia, with a view to establishing stronger ties with the Asian giants in the energy industry, particularly oil, is bearing fruit. For example, Kuwait and the Guangdong Provincial Government in China are planning to build a refinery and petrochemicals complex for $5 billion. A new $3.6-billion refinery and petrochemicals plant was inaugurated in Fujian (China) by Saudi Aramco (with a 25% share) along with China's State-owned Sinopec (50%) and ExxonMobil (25%). Crude oil for the plant is to be supplied by Saudi Arabia, China's largest oil supplier. Saudi Arabia is also likely to be an equity partner for India's State-owned Oil and Natural Gas Corporation in a refinery project in the Indian State of Andhra Pradesh (see section 2 on South, East and South-East Asia).

Source: UNCTAD.

[a] Iraq, the Islamic Republic of Iran, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates.

[b] *Source*: United States Department of Energy (www.eia.doe.gov/cabs/OPEC_Revenues/OPEC.html).

[c] For example, the Government of Kuwait transfers 10% of its oil revenue each year through the Kuwait Investment Authority (KIA) to KIA's affiliate in London (Kuwait Investment Office) that manages its funds as a global investor. *Source*: Kuwait Investment Authority (www.kia.gov.kw/KIA/KIO).

b. Sectoral trends: rising flows to energy-related industries

FDI data for the region by sector are scarce. However, available data suggest that West Asia's inward and outward FDI flows are highly concentrated in the services sector. FDI in manufacturing has also been taking place, for instance in textiles and ITC-related manufacturing (*WIR05*), as well as in areas related to oil and gas. In the case of inward FDI, the shift towards services is in response to increasing liberalization and promotion of FDI in this sector, whereas the rise of FDI in manufacturing is mainly in downstream activities (part of manufacturing) since FDI in upstream activities in the energy industries is not allowed in most West Asian countries. In response to increasing global demand, countries in the region are trying to attract FDI in downstream activities related to natural resources to increase production and improve productivity through advanced technologies. The following are the main characteristics of FDI in each sector:

- *Primary sector*. Data on the oil and gas industries are limited. However, as most West Asian countries do not allow FDI in exploration activities, FDI is likely to be very limited in the primary sector.[49] In Turkey, following the privatization of its mining industry (coal, chromite, copper, boron) in 2004 (box II.10), that industry received FDI inflows of $44 million in 2005.[50]
- FDI in the *manufacturing* sector has been soaring, notably in the energy-related industries, including oil refining and petrochemicals, bolstered by continuing high global demand. In Saudi Arabia, FDI inflows to these industries in 2005 amounted to $2.5 billion – almost four fifths of total FDI in manufacturing and more than five times higher than the level in 2004 ($425 million).[51] State-owned Qatar Petroleum has also been expanding its investment expenditures in joint projects in liquefied natural gas and petrochemicals with United States firms.[52]

- The *services* sector continued to attract the most foreign investment in West Asia in 2005, mainly through cross-border M&As (table II.10). Continued efforts of countries in the region to diversify their economies and promote FDI further through liberalization and deregulation of non-oil industries, together with booming real estate and financial markets, played a vital role in spurring inward FDI flows to these industries. The most targeted industries in the region are, among others, real estate, tourism, telecommunications and financial services, as well as transport and construction. FDI in real estate and tourism took place mainly at the intraregional level, partly because of some legal constraints on GCC (Gulf Cooperation Council) States with regard to receiving investments from foreign investors other than the GCC.

  In financial services, FDI was spurred by ongoing liberalization measures. For instance, the Qatar Financial Centre and the Dubai International Financial Exchange were both opened in 2005 and have already attracted some investments. Educational services and R&D have been an emerging area for FDI in some countries in the region.[53] In the telecommunications industry, both European and West Asian telecom operators actively invested in the region in 2005.[54] Kuwaiti Mobile Telecommunications Company, which purchased an 85% stake in Celtel International (Netherlands) in 2005 (with operations in 13 African countries), has been keen to expand its business abroad, particularly in the region (chapter III, and see also annex table A.II.1).

c. Policy developments

Most West Asian economies are progressively easing laws and regulations relating to FDI, in line with efforts to diversify away from oil. They are also strengthening FDI incentives. Liberalization of FDI applies particularly to non-energy sectors that have been experiencing an intraregional investment boom. Over 90% of policy measures introduced in West Asia at the national, regional and multilateral levels were favourable to foreign investors.[55]

In 2005, as part of a plan to attract more FDI in non-energy sectors, Qatar allowed a limited number of foreign investors to trade in the Doha Securities Market.[56] It also established the Qatar Financial Centre where full foreign ownership and repatriation of profits are allowed. Moreover, the Qatar Science and Technology Park – the first free investment zone – was also established to attract foreign investors in agriculture, technology, tourism and other non-energy activities. Meanwhile, the United Arab Emirates launched a national project in early 2005 to assist decision-makers to adopt policies promoting non-oil FDI, including in real estate and manufacturing activities. It includes the establishment of a comprehensive database on FDI in accordance with international standards, and it is hoped that the accurate and timely statistics provided will help in the development of sound policies (box II.13). The Emirates also opened the Dubai International Financial Exchange, which allows 100% foreign ownership. Turkey has also been enhancing its FDI incentives: examples include a new Law that allows additional low-income provinces to grant tax and insurance incentives and assist in the provision of energy and free land.[57] In addition, Turkey has been undertaking tax policy reforms to create a simpler and more stable tax regime that would be more consistent with international norms and would reduce the financial burden on foreign investors (Turkey, General Directorate of Foreign Investments (2006)).[58] The Kuwaiti Government is also planning to reduce corporate tax rates from 55% to 25% to attract FDI in non-oil industries.[59]

Governments in the region are undertaking trade liberalization policies at the national, regional and multilateral levels through the establishment of free trade areas and a series of trade agreements, as well as by closer integration into the global trading system. A number of free trade agreements (FTAs) at both bilateral and regional levels have been signed or are under negotiation. For instance, Turkey signed an FTA with Egypt in December 2005 as part of South-South integration in the Euro-Mediterranean Free Trade Area (see also Africa section).[60] Bahrain and Oman each signed an FTA with the United States in September 2005 and January 2006 respectively. The GCC has been seeking to expand the scope of agreements currently under negotiation to include services and investments with different partners. For example, while the EU-GCC free trade negotiation missed the 2005 year-end deadline, both these regional blocs remain keen to conclude an agreement in 2006. Negotiations between the GCC and India to finalize an agreement on a free trade area by 2007 are also in progress.[61] It will include agreements on investment and services to make it a comprehensive Indo-GCC economic cooperation agreement. On the other hand, FTA negotiations

Box II.13. Efforts in West Asia to strengthen national FDI databases in line with the ESCWA/UNCTAD joint project

With rapidly advancing economic diversification in the United Arab Emirates, supported by increasing FDI in the private sector, there is a growing need to better monitor the economy. The Government's awareness of the need to improve FDI data quality, coverage, periodicity, timelines and intrasectoral consistency at the Federal level resulted in a national project to establish a database on FDI, which coordinates efforts by the Federal Government and all seven Emirates authorities. In November 2005, a national working team was established by the United Arab Emirates Ministry of Economy and Planning with officials from key government departments and Emirates[a] to collect information on FDI, including its source, size and ultimate destination, and to design appropriate policies to attract more FDI.

That same year, national workshops were organized by UNCTAD, together with the Economic and Social Commission for Western Asia (ESCWA), in countries of the region, including the United Arab Emirates, Kuwait and Qatar. The workshops aimed at helping them to implement international methodological standards and set up data compilation and dissemination systems to produce internationally comparable statistics on FDI. They trained officials from the respective national statistical institutes in the implementation of effective survey systems to collect and disseminate data on FDI and the activities of TNCs. As a result of training workshops undertaken in the previous years, Bahrain, Oman and Saudi Arabia recently undertook surveys on FDI for the first time.

Source: UNCTAD and press release issued by the Ministry of Economy and Planning of the United Arab Emirates.

[a] That includes the Ministry of Economy and Planning, Chamber of Commerce (Abu Dhabi), Emirates Central Bank, Dubai West Asia Development and Investment Authority, Department of Commerce & Planning (Sharjah), Department of Commerce & Industry (Fujairah), Chamber of Commerce (Ajman), Department of Commerce (Um Al Quain), Department of Commerce (Ras Al Khayma), Ministry of Finance & Industry's Statistics Centre and Dubai Municipality.

between the GCC and Japan that were launched in May 2006 will cover only trade in goods and services.[62] At the regional level, the Greater Arab Free-Trade Agreement (GAFTA), which entered into force in 1998, eliminated all trade barriers among its members in January 2005. At the multilateral level, Saudi Arabia acceded to the WTO in November 2005, which has accelerated the country's integration into the global economy as well as its liberalization of inward FDI (box II.14).[63]

d. Prospects

The upward trend in inward FDI flows to West Asia is expected to continue in 2006, driven by high GDP growth (forecast at over 5%), ongoing economic reforms and high oil prices. Although recent surveys (e.g. by A. T. Kearney 2006 and JBIC 2006) do not suggest a rush of foreign investors to the region, their business sentiments are likely to remain stable. Meanwhile, the distribution of inflows in the region will remain uneven, mainly owing to heightened geopolitical uncertainty in some areas. Outward FDI is also expected to continue to rise mainly from oil-exporting countries benefiting from bullish oil prices.

Economies in the Gulf region and Turkey will continue to be key players in the inward FDI of West Asia. For instance, in *Saudi Arabia*, FDI in services that have been increasingly opening up (box II.14) should grow further, while the country's strong incentive to promote downstream industries will also play an important role in attracting increased FDI inflows.[64] In *Qatar*, along with FDI in the natural gas industry, the growing demand for transportation of liquefied natural gas will contribute to the rise of FDI inflows, in particular in activities such as shipping, dry-dock and repair yard construction. The Qatar Financial Centre is also expected to attract international financial service institutions and major TNCs. The *United Arab Emirates* will continue to attract FDI in various manufacturing and service activities, mainly to their free zones. Driven by the property laws enacted successively in Abu Dhabi and in Dubai, FDI in real estate is likely to remain prominent. With the eventual adoption of the planned federal Company Law to allow majority foreign ownership in non-free economic zones, the Emirates would continue to be the largest FDI recipient in the region. Lower corporate taxes and ongoing economic reforms may increase foreign investors' growing interest in *Turkey* – ranked 13th in the FDI Confidence Index (A. T. Kearney 2006)

Box II.14. Accession to the WTO and liberalization of FDI by Saudi Arabia

In negotiations to join the WTO, Saudi Arabia focused on the degree to which it would be willing to increase market access to foreign goods and services and the time frame for becoming fully compliant with WTO obligations. In the area of FDI, the list of sectors in which FDI is prohibited – defined under the new FDI Law adopted in 2000 – has been shortened progressively. Activities currently closed to FDI include three in manufacturing – oil exploration, drilling and production – and 15 in services.[a] The negative list will be further revised and shortened periodically.

Saudi Arabia's commitments on FDI in services include the following:

- *Insurance.* Foreign insurance companies are permitted to open and operate direct branches in Saudi Arabia. Commercial presence is also permitted for insurers that establish a locally incorporated cooperative insurance joint-stock company, in which foreign participation is limited to 60%. A three-year transition period is given to existing foreign insurance providers[b] to convert to either a Saudi cooperative insurance company or to a direct branch of a foreign insurance company.
- *Banking.* Banks are allowed a commercial presence in the form of a locally incorporated joint-stock company or as a branch of an international bank. Upon Saudi Arabia's accession to the WTO, the foreign equity cap for joint ventures in banking was increased to 60%. While financial services can be provided only by commercial banks, non-commercial-banking financial institutions are also allowed to provide asset management and advisory services.
- *Telecommunications.* Saudi Arabia will allow up to 70% foreign equity ownership of most of its committed sectors in telecommunications services [c] by the end of 2008, except for public fixed facilities-based voice telephone services, facsimile services, voice mail and some public mobile telephone services, where foreign equity will be kept at 60% by 2008. These telecommunications services are to be supplied by a company registered in Saudi Arabia.

Source: UNCTAD, based on Saudi Arabian General Investment Authority (SAGIA) (www.sagia.gov.sa), WTO (2005) and WTO, "WTO General Council successfully adopts Saudi Arabia's terms of Accession", Press/420, 11 November 2005, (www.wto.org/english/news_e/pres05_e/pr420_e.htm).

[a] These activities are listed in the negative list, available on SAGIA's website (www.sagia.gov.sa).
[b] They have been allowed to operate in the country through direct branches since April 2005.
[c] These commitments apply to both basic telecom services and value-added telecom services. Public telecom services will have to be provided by a joint stock company.

and 67th among 140 countries in the UNCTAD Inward Potential Index (annex table A.I.9). The country's financial and telecommunications industries will continue to attract large-scale FDI projects.[65] Data on cross-border M&As for the first half of 2006 showed a surge, reaching more than 65% of the total sales for 2005.

Outward FDI from West Asia is most likely to expand further, in particular in services, with petrodollars still one of the most important sources of finance. For instance, the Kuwait Investment Authority confirmed plans to buy a 10% stake (worth $2 billion) in the Industrial & Commercial Bank of China.[66] In recent months, Tecom of Dubai (United Arab Emirates) has purchased 35% of Tunisie Telecom, and Emirates Telecommunications Corporation (Etisalat) acquired a 26% stake in Pakistan's State-owned Pakistan Telecommunication Company Limited (PTCL). All in all, by June 2006 cross-border M&A purchases from West Asia had reached $17 billion, over three times their previous record level reached in 2005.

4. Latin America and the Caribbean

Latin America and the Caribbean experienced a slight increase in FDI inflows in 2005, following the rebound registered the previous year, as the result of strong economic growth and soaring commodity prices. Income on inward FDI increased significantly resulting in high reinvested earnings as a component of inward FDI. Higher growth and commodity prices contributed not only to higher inward FDI, but also to increased outward FDI, as improved earnings enabled Latin American and Caribbean firms to acquire foreign assets, mainly in telecommunications and heavy industries. A significant proportion of outward FDI from Latin

America and the Caribbean goes to other countries in the region, contributing thereby to the growth in their inward FDI. The share of the services sector in FDI inflows continued to decline, while that of the primary sector rose and that of manufacturing remained steady. On the other hand, soaring commodity prices allowed a noticeable improvement in the current-account balances of many countries, reducing policy constraints on governments. This affected the incentive regime set up to attract FDI into natural resources in the 1990s, when commodity prices were at a record low level. The regulatory environment for FDI in natural resources was tightened in many countries and, in some, there was a general policy shift away from the liberal reforms of the 1990s.

a. Geographical trends

(i) Inward FDI: strong increase to Andean countries

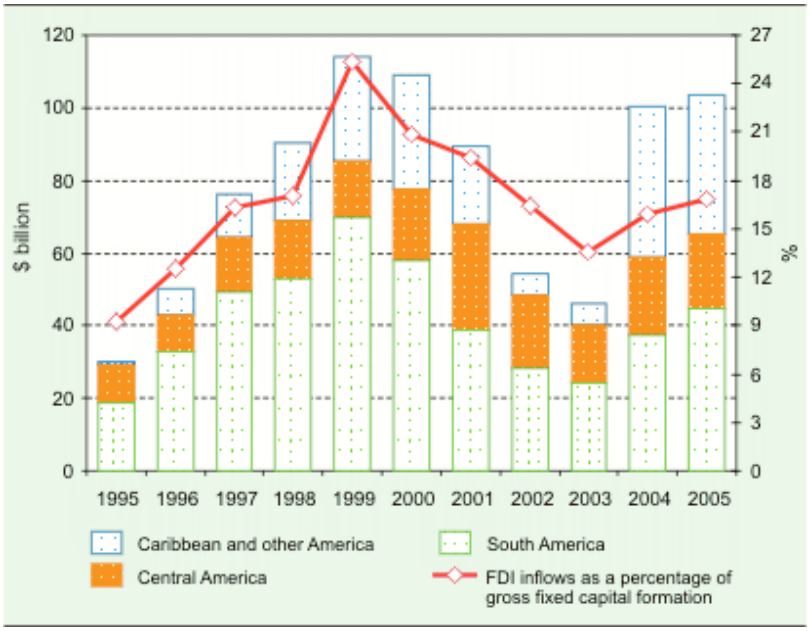
In 2005, FDI inflows to Latin America and the Caribbean reached $104 billion, 3% higher than the previous year. However, excluding the offshore financial centres, inflows increased by 12%, to $67 billion in 2005. While in 2004 the upturn in FDI inflows was widespread in the region, the increase in 2005 was unevenly distributed. Inflows to South America rose by 20%, to $45 billion, driven by strong increases in all but one Andean country, while those directed to the Central American and Caribbean countries, other than offshore financial centres, remained at the same level as in 2004 ($23 billion). Flows to the offshore financial centres decreased by 10%, to $36 billion, partly as a consequence of the Homeland Investment Act adopted in the United States (see box II.19). FDI inflows as a percentage of gross fixed capital formation increased slightly, from 16% in 2004 to 17% in 2005 (figure II.14).

In 2005, the increase in FDI inflows in the region, excluding offshore financial centres, consolidated the strong rebound of 2004 following four years of marked declines. Generally, the same factors as in 2004 were at play: sustained regional economic recovery, combined with the continued growth of the world economy, higher profits of TNCs' affiliates and considerably improved business prospects. Indeed, the region registered exceptional rates of GDP growth during the period 2004-2005, surpassing the average for the world economy for the first time in 25 years. Another characteristic of the current recovery is that for the second year in a row GDP growth was coupled with a surplus in the current account (ECLAC 2004a and 2005).[67] This is mainly the result of the strong demand for commodities, leading to a noticeable improvement in the region's trade balance.[68]

In this context, foreign companies' profits increased significantly: income on inward FDI in the top six FDI recipient countries – other than offshore financial centres – increased by 177% to $42 billion between 2002 and 2005 (see figure II.15). This increase was particularly marked in Brazil and Chile, where FDI income amounted to $11 billion each. Because of this, reinvested earnings have clearly gained in importance as a component of FDI inflows since 2003, particularly in South America where their share increased from 3% in 2000-2002 to 48% in 2003-2005.[69]

The trend in FDI inflows was different by country and by subregion. For example, they declined in Brazil (-17%), Chile (-7%) and

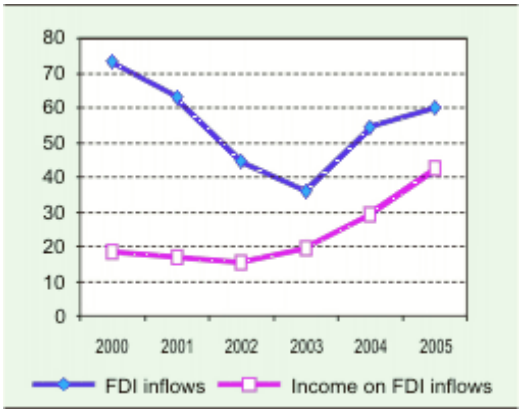
Figure II.14. Latin America and the Caribbean: FDI inflows and their share in gross fixed capital formation, 1995-2005



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex tables B.1 and B.3.

Figure II.15. FDI inflows and income on FDI inflows in selected countries in Latin America and the Caribbean,[a] 2000-2005

(Billions of dollars)



Source: UNCTAD, based on balance of payments data from the central banks of the respective country.

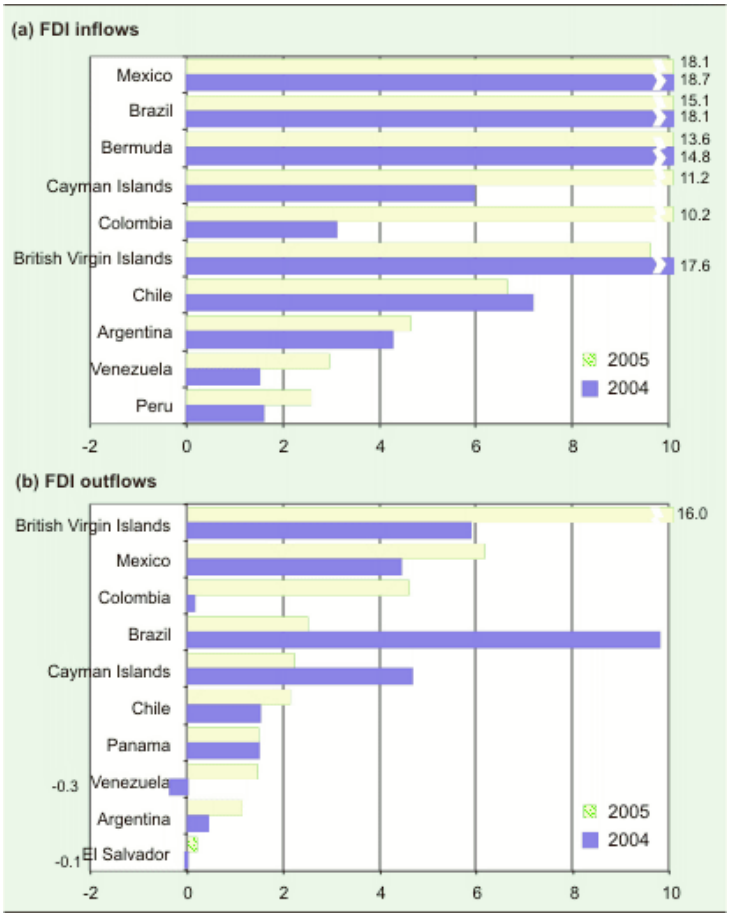
[a] The countries covered are those for which income on inward FDI data were available for 2005. These are: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. Their share in total FDI inflows to Latin America and the Caribbean (excluding offshore financial centres) in 2005 was 89%.

Mexico (-3%), while they strongly increased in Uruguay (81%). They also increased in most of the Andean countries: they more than trebled in Colombia, almost doubled in Venezuela, and increased by 65% and 61% in Ecuador and Peru respectively (figure II.16). These divergent performances suggest that, together with the common drivers referred to above, specific factors have been at play in each country:

- In Brazil and Mexico, the decline in inward FDI in 2005 is attributable to the lower value of cross-border M&As (table II.11).[70] Moreover, in the case of Brazil, the continued appreciation of its currency (the real) may also have negatively influenced the prospects for export-oriented activities.[71]
- The trebling of inflows to Colombia in 2005 was mainly the result of cross-border acquisitions of local companies,[72] although the dynamism of greenfield FDI in mining, oil and telecom activities also contributed to the upsurge.
- In Chile, the decline of FDI inflows in 2005 is due to equity inflows that halved as a consequence of the purchase of Telecom Italia's affiliate by the local group Almendral for $934 million. Reinvested earnings remained an important and increasing component of total FDI inflows: in 2005 they increased by 7%, to $6.3 billion, and their share in total FDI inflows increased from 83% in 2004 to 95% in 2005. The copper industry accounted for around half of total reinvested earnings.
- In Argentina, the 9% increase in FDI inflows came from high and sustained economic growth (8%-9% over the past three years) as well as a competitive exchange rate that favours export-oriented activities and lowers the cost of acquisitions and investments by foreign investors. TNCs from Latin America and the Caribbean are increasingly investing in Argentina.[73]

Figure II.16. Latin America and the Caribbean: FDI flows, top 10 economies,[a] 2004-2005

(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.

[a] Ranked on the basis of the magnitude of the 2005 FDI flows.

Table II.11. Latin America and the Caribbean[a]: distribution of cross-border M&As, by sector/industry, 2004-2005
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2004	2005	2004	2005
Total	21 840	22 532	11 977	10 179
Primary	1 333	814	8	881
Manufacturing	6 560	10 793	8 582	5 492
Food, beverages and tobacco	4 131	5 710	7 786	127
Metals and metal products	195	3 129	382	3 306
Stone, clay, glass and concrete products	634	1 025	-	1 672
Tertiary	13 947	10 926	3 322	3 806
Retail trade food stores	350	1 621	-	-
Telecommunications	6 811	3 502	1 553	2 532
Finance	4 770	1 077	1 725	1 107

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
[a] Excluding offshore financial centres such as Belize, Panama and the Caribbean countries other than Cuba, Dominican Republic, Haiti, Jamaica and Trinidad and Tobago.

- The strong increase in FDI flows to Venezuela and Ecuador was mainly the result of increased investment in oil and gas, while in Peru, in addition to the continued interest of foreign investors in mining, oil and gas activities, there was the $470 million sale of the local beer company UCP Backus y Johnston to SABMiller.
- In Central America and the Caribbean – excluding Mexico and the financial centres – inflows increased by 9%, to $4.5 billion, mainly in the services sector (ECLAC 2006a).
- In Uruguay, FDI inflows almost doubled, to an unprecedented $600 million, mainly due to the development of two large-scale pulp and paper projects (see section b below).

Many other countries remain small recipients, receiving less than $100 million in FDI inflows (table II.12).

(ii) Outward FDI: continued growth

FDI outflows from Latin America and the Caribbean increased in 2005 by 19%, to $33 billion (figure II.17). The offshore financial centres, where outflows rose by 24%, accounted for 43% ($14 billion) of this amount. The Central American and Caribbean countries (other than offshore financial centres), where Mexico is the main investor, registered the strongest growth (44%), with outflows amounting to $7 billion. Outflows from South American countries increased by 5% to reach $12 billion, with Colombia, Brazil, Chile, Venezuela and Argentina (in that order) as the main investors.

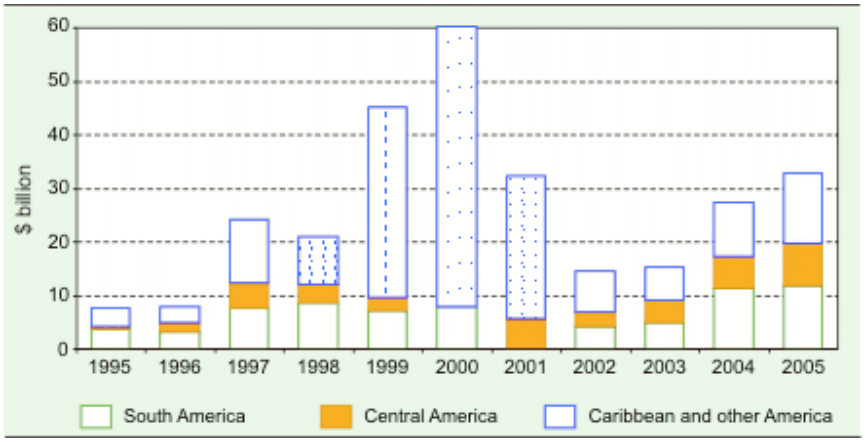
Excluding offshore financial centres, Mexico headed the region as the leading foreign direct investor with outflows of $6.2 billion in 2005 (figure II.16), mainly due to cross-border acquisitions by Cemex, Telmex and América Móvil.[74] Colombia ranked second after the acquisition of a 15.1% stake by the Santo Domingo Group in the brewer company SABMiller.[75] Brazil reverted to lower levels of outward FDI after the exceptional amounts reached in 2004 (*WIR05*). The most noticeable deal was Camargo Correa's purchase of the Argentinean cement company Loma Negra. Companies based in Chile, Venezuela and Argentina have also been

Table II.12. Latin America and the Caribbean: country distribution of FDI flows, by range,[a] 2005

Range	Inflows	Outflows
Over $10 billion	Mexico, Brazil, Bermuda, Cayman Islands and Colombia	British Virgin Islands
$5-9.9 billion	British Virgin Islands and Chile	Mexico
$1-4.9 billion	Argentina, Venezuela, Peru, Ecuador and Trinidad and Tobago	Colombia, Brazil, Cayman Islands, Chile, Panama, Venezuela and Argentina
$0.1-0.9 billion	Dominican Republic, Panama, Costa Rica, Jamaica, Uruguay, El Salvador, Bahamas, Honduras, Nicaragua, Paraguay, Guatemala, Barbados, Antigua and Barbuda, Aruba, Saint Lucia, Belize and Anguilla	El Salvador and Trinidad and Tobago
Less than $0.1 billion	Guyana, Saint Kitts and Nevis, Netherlands Antilles, Suriname, Saint Vincent and the Grenadines, Grenada, Dominica, Haiti, Montserrat, Cuba and Bolivia	Jamaica, Peru, Honduras, Aruba, Paraguay, Bolivia, Barbados, Netherlands Antilles, Belize, Uruguay, Costa Rica and Bermuda

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex tables B.1 and B.2.
[a] Countries are listed according to the magnitude of FDI.

Figure II.17. Latin America and the Caribbean: FDI outflows, by subregion, 1995-2005



Source: UNCTAD (www.unctad.org/fdistatistics) and annex tables B.1and B.3.

active as outward investors. In Venezuela, PDVSA was particularly active in the petroleum industry, while in Argentina, Grupo Techint's purchase of the Mexican steel company Hylsamex was the largest outward FDI operation in 2005.

b. Sectoral trends: natural resources and manufacturing increasingly targeted

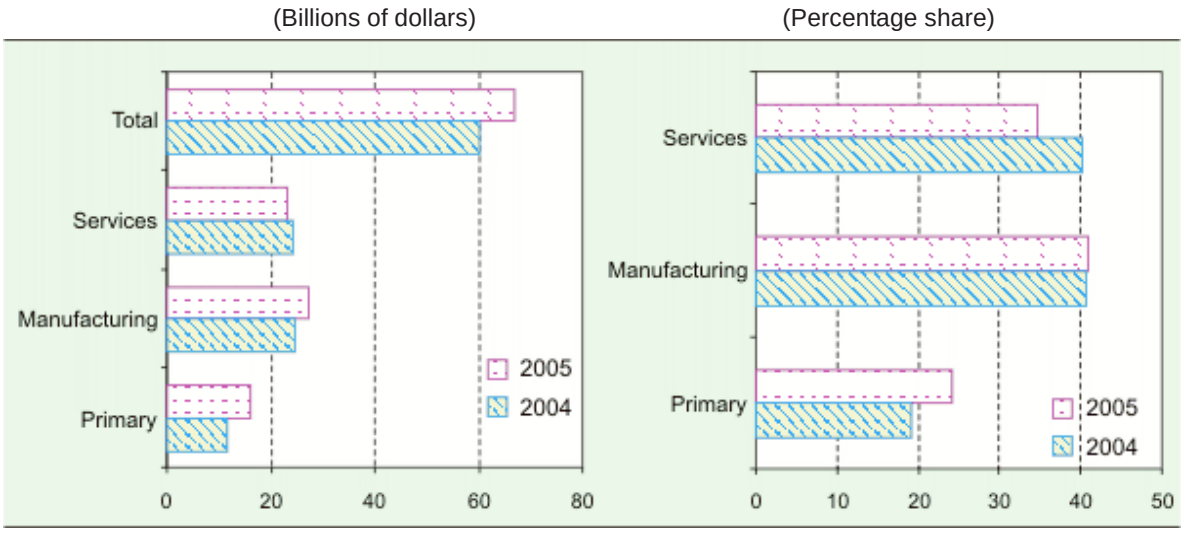
In 2005, the share of FDI directed to the services sector in Latin America and the Caribbean (excluding the offshore financial centres) continued to decline – a trend that had begun in 2001 (*WIR05*). Its estimated share in total FDI flows to the region fell from 40% to 35%, offset by gains in the primary sector whose share rose from 19% to 24%. FDI flows to the primary and manufacturing sectors increased by an estimated 40% and 11% respectively, and those to services decreased by 4% (figure II.18).

Primary sector

The growing attractiveness of the primary sector is due to soaring commodity prices, the stimulating impact of which, at least for the time being, outweighs the deterring effects of policy changes implemented in that sector by various governments since 2004 (*WIR05* and section c below).

Of the oil and gas producing countries, the only one where FDI to the primary sector seems to have declined – or even reached negative values – in 2005 was Bolivia, due to the delays and uncertainties surrounding implementation of its new law relating to oil an gas adopted in 2005 (*WIR05*). This was followed by a decree in May 2006 nationalizing the country's oil and gas resources that will further affect foreign oil companies operating in the country (see box II.16).

Figure II.18. Latin America and the Caribbean:[a] FDI inflows by sector, 2004-2005



Source: UNCTAD secretariat calculations, based on official data from Argentina (for 2004), Brazil, Costa Rica, Ecuador (for 2004 and the first half of 2005), Mexico and Venezuela (for the petroleum sector), and on estimates for the rest.

[a] Excluding offshore financial centres such as Belize, Panama and the Caribbean countries other than Cuba, the Dominican Republic, Haiti, Jamaica and Trinidad and Tobago.

Bolivia has relied heavily on foreign investment in upstream, midstream and downstream activities for the development of its natural gas since its privatization of the oil and gas industry in the early 1990s. About 25 international energy firms currently operate in that country.[76] Brazil's Petrobras and Span's Repsol YPF, whose strategies have relied heavily on Bolivian gas, are the most important among these. Negotiations on gas export prices and conditions are currently under way between the Government of Bolivia and the Governments of Argentina and Brazil, and foreign TNCs have taken no decision thus far regarding their operations in the country. On the other hand, the State-owned oil and gas companies of Bolivia and Venezuela (YPFB and PDVSA) are set to sign a joint venture to carry out gas projects in Bolivia.[77]

In the other Andean countries, FDI in oil and gas activities in 2005 registered strong increases. In Colombia, it rose by 134%, to $1.2 billion. In Venezuela, where foreign firms had to sign new joint-venture contracts (box II.16), FDI in oil and gas activities reached $1 billion, having registered a negative value in 2004.[78] Twenty-two private firms have signed new contracts, among them large foreign TNCs,[79] while Total (France) and Eni (Italy) were the only two that have not done so yet, and ExxonMobil and other smaller companies pulled out of the country.[80] In Ecuador, FDI in oil and gas activities increased by 72% in the first half of 2005.[81] A Chinese consortium entered the Ecuadorian oil industry by acquiring the oil and pipeline business of EnCana (Canada) at a time when policies relating to the oil and gas industry, which aimed at increasing taxes, were being discussed (box II.16).

In Argentina, declining oil and gas production and reserves in 2005, combined with increased domestic demand has put more pressure on firms to increase their investments, mainly in exploration.[82] Spain's Repsol-YPF – the country's main oil and gas producer – announced that it would invest $6.7 billion in Argentina in the period 2005 to 2009.[83] In Trinidad and Tobago, new capacities came on-stream in oil and gas activities, mainly as a result of activities by firms such as BHP Billiton and British Gas (EIU 2006c).

FDI in non-oil mining industries has also been buoyant in 2005. In Colombia, it grew by 59%, to $2 billion. The coal industry was particularly dynamic. Estimated investments in mining are $1.3 billion in Chile for 2005,[84] $1 billion in Peru, and $850 million in Argentina.[85] However, the marked growth in mining projects has increased hostility towards mining activities by local communities and environmentalists.[86]

Manufacturing sector

Several factors explain the rise of FDI in the manufacturing sector in 2005. The most important one is the increase in cross-border M&As, the growth of domestic and regional markets (as a result of strong economic growth), and the increase of manufacturing FDI to Mexico, mainly in response to dynamic demand from the United States.

Cross-border M&As in this sector increased by 65% in 2005 (table II.11). The most notable deals were SABMiller's acquisition of national brewers in Colombia and Peru, Grupo Techint's (Argentina) acquisition of the steel company, Hylsamex (Mexico), and Camargo Correa's (Brazil) acquisition of the Argentinean cement company, Loma Negra.

A significant part of FDI inflows in manufacturing in Latin America and the Caribbean (37%) is estimated to have gone to Mexico in 2005, where that sector accounted for more than half the flows (58%). Mexico's major attraction for direct investors still lies in its privileged access to the United States market. Although local operations face a growing threat from Asian producers, Mexico's geographic advantage remains strong, particularly in the automotive, heavy manufacturing and other industries in which low transport costs and just-in-time logistics are crucial to competitiveness. In 2005, *maquila* exports increased by 11%, to $97 billion.[87]

What is new in the *maquila* sector is the growing presence of companies that employ skilled workers to assemble complex products, such as medical supplies, aerospace and telecom components. There are also new Chinese investments in high-tech electronics.[88] In the more traditional *maquila* activities, carmakers, automotive parts manufacturers, and producers of household electronic appliances continue to invest in Mexico and are actually adding to their sophisticated, just-in-time production lines. Moreover, the FTA between Mexico and Japan that entered into force in May 2005 helped spark the interest of Japanese car makers in investing in Mexico. Labour-intensive and low-skilled activities, on the other hand, are becoming less important.[89] Overall, Mexico needs to increase the value-added and high-tech content of its exports

Box II.15. Latin American firms step into the breach

After the rush to acquire Latin American firms during the 1990s, several services TNCs from developed countries pulled out from the region. This opened space for domestic or regional competitors to expand their operations. The pull-out was mainly the result of the 1999-2003 economic crises and the surge of regulatory disputes in utilities in the early 2000s. This opened an opportunity for Latin American firms to exploit their competitive advantages such as knowledge of local conditions and the ability to cope with economic volatility.

Privatization and liberalization in the 1990s opened the region's markets in industries such as telecoms, power, water and sanitation, oil and gas, and steel. Among foreign investors, it has been the non-Latin American TNCs that seized this opportunity and established a presence in the region. At that time, only a few regional companies had the capacity to compete with TNCs for prime acquisitions, among them the Chilean electric companies Chilgener and Enersis, and the Argentinean oil companies YPF and Perez Companc. However, in the second half of the 1990s, three out of these four were subsequently acquired by foreign TNCs, while Perez Companc was acquired by Brazil's Petrobras.

Since the early 2000s, the trend has reversed, particularly in services:

Some Latin American firms, after consolidating their position in their home markets, adopted an aggressive strategy of expansion through acquisition when developed-country TNCs were withdrawing or downsizing their operations. This occurred mainly in telecoms and retailing: firms such as the Mexico's Telmex and América Móvil and the Chilean retailers Falabella and Farmacias Ahumadas, previously confined to their domestic markets, have now emerged as new regional TNCs (see chapter III).

Other Latin American firms have concentrated on acquisitions in the home market. This has been the case, for example, of the Brazilian banks Bradesco and Itaú, both of which have led the consolidation of the Brazilian banking system by actively purchasing assets put on sale by the State and by local and foreign companies. The most recent operation is the $2.2 billion acquisition by Banco Itaú, in June 2006, of Bank of America's BankBoston unit in Brazil.[a] Banco Itaú, which already has offices overseas, may initiate foreign expansion through acquisitions, as it has exclusive rights to buy BankBoston units in Chile and Uruguay as well. Other recent examples of the acquisition of foreign firms by local ones can be found in Argentina and Chile, where the Argentina's Dolphin acquired EDF's assets in the electricity distribution company Edenor in 2005, while Chile's Almendral took over Entel Chile owned by Telecom Italia.

The regional expansion of Latin American TNCs in the services sector demonstrates their ability to exploit the competitive advantages they have built or strengthened since the liberalization of the 1990s. However, it also entails the risk of being taken over by developed-country TNCs. Previous experiences have shown that the regional networks built up by Latin American TNCs have proved to be a "very valuable asset for TNCs wishing to achieve high market coverage in Latin America in a short time" (ECLAC 2006a, p.106). This was the case in the second half of the 1990s, as mentioned, and more recently in the case of the brewing companies of Brazil, Colombia and Peru.

Source: UNCTAD, based on ECLAC 2003, ECLAC 2004b, ECLAC 2006a, and *America Economia*, 19 May to 20 June 2006.

[a] Itaú will pay Bank of America with its preferred, non-voting shares, giving the United States bank 5.8% of its capital that should not, in principle, constitute FDI.

to face the challenge of Asian competition in the United States market. Among the factors hampering technology development are the weak interaction between *maquila* companies and educational centres, and the lack of venture capital for R&D.

Brazil accounted for an estimated 20% of total manufacturing FDI in Latin America and the Caribbean in 2005. However, FDI in this sector decreased substantially (-46%) from the exceptionally large amount registered in 2004[90] that included the $4 billion acquisition of Ambev by the Belgian company Interbrew (*WIR05*). In contrast, FDI in the Brazilian automobile industry continued to grow in 2005 (by 38% to $1.1 billion) because of a healthy growth in sales, while that in the plastics and rubber industry jumped form $100 million to $600 million because of the soaring global demand for large tyres, which led, for instance, Michelin (France) to undertake important investments in Brazil. However, the continued

appreciation of the local currency (the real) is affecting business prospects for companies that have invested in export capacity. The Brazilian Development Bank (BNDES), a pillar of Brazil's industrial policy, has announced new credit lines for automotive manufacturers, aimed at sustaining the current export drive, after the manufacturers began warning that their contracts were coming to an end and were not certain to be renewed (see section c below). In the metallurgy industry, a high-profile Chinese-Brazilian joint venture investment project to build a $2.4 billion steel plant (*WIR05*) is being postponed indefinitely, due to an excess of global capacity and an increase in Chinese domestic production.[91]

In Argentina, some foreign manufacturers, motivated by the competitive exchange rate, are expanding their production capacity to supply foreign markets. The automobile industry, for instance, has experienced a strong recovery, with its production tripling between 2002 and 2005 to 320,000 units. New projects were announced by some of the main assembly plants.[92]

Finally, two large-scale projects worth $1.1 billion and $728 million in pulp and paper have been launched in Uruguay, on the border with Argentina, by Botnia (Finland) and Ence (Spain). These projects, the largest ever by foreign TNCs, have provoked an unprecedented public outcry and raised bilateral tensions. Local residents and environmentalists in both countries fear that the projects may contaminate the Uruguay River and hurt tourism, one of the area's foremost economic activities. The Governments of Argentina and Uruguay have been unable to reach a bilateral solution and have resorted to international arbitration.[93]

Services sector

FDI flows in the services sector in Latin America and the Caribbean are estimated to have fallen by 4% in 2005 (figure II.18), due to a decline in cross- border M&As in this sector (table II.11). The tendency of TNCs to withdraw from services in 2004 (*WIR05*) continued unabated in 2005 and 2006 (*WIR05* and box II.15). However, while buyers (national, regional or extraregional) are being found quite easily in telecoms and retailing, motivated by strong economic growth in the region, in water and sanitation, private companies are more reluctant than before to invest in developing countries due to the growing number of regulatory disputes (section c below).

The retail industry in 2005 enjoyed a second year of strong growth in Latin America and the Caribbean, boosted by economic growth and newly available consumer credit. Rising sales are encouraging foreign retailers to expand through acquisitions or the launching of new stores. In 2005, the Brazilian and Central American retail markets were the scene of a series of consolidation moves driven by Wal-Mart (United States) and the French supermarkets chains, Casino Guichard Perrachon and Carrefour. In addition, Latin American retailers, such as Farmacias Ahumada (Chile), Falabella (Chile) and Elektra (Mexico) have also been expanding their outward operations within the region.[94]

In the telecommunication industry, there is an ongoing battle between the Mexican Grupo Carso's affiliates – Telmex and América Móvil – and Telefonica SA (Spain) to control the Latin American telecom market in both the fixed and mobile segments through the acquisition of assets divested by other TNCs (*WIR04* and *WIR05*).[95] The growing size and market position of the industry's two main competitors is putting pressure on Telecom Italia, the region's third largest operator. This company, which still has businesses in Brazil, Argentina, Cuba, Bolivia, and Paraguay could be the last major international telephone company to leave Latin America.[96]

Finally, in the electricity industry, Electricité de France (EDF) sold a controlling stake in its affiliate, Edenor, in Argentina to a local group, while in the water and sanitation sector, Aguas Argentinas (France) in Argentina and Uragua (Spain) in Uruguay have been de-privatized.[97] Others like RWE Thames Water (Germany) in Chile are looking for an acquirer (section c below).

c. Policy developments

The good economic performance of Latin America in recent years has not diminished social discontent due to persistent poverty and inequality. (ECLAC 2004b; Moreno-Brid and Paunovic 2006, Santiso 2006). Some countries have begun changing their economic policies, in varying degrees, towards a greater role for the State, partly with a view to reducing inequalities that they attribute to excessively market-friendly policies. This policy shift has been made easier by improved terms of trade and their positive impact on the current-account balance in many countries. This reduced governments' dependence on external finance and increased their policy space. For

instance, some countries have decided to undertake early repayments of their external debt to the International Monetary Fund (IMF), either totally (Argentina and Brazil) or partially (Uruguay). While most of the countries continue to be committed to liberalization and free-market policies and to following monetary and fiscal orthodoxy, some, like Argentina, have used other economic instruments to pull out of recession and secure a strong economic recovery.[98] Others, such as Bolivia and Venezuela, are introducing more radical changes. Bolivia nationalized all activities in oil and gas as a first step before extending the measure to all natural resources, while Venezuela created new State-owned companies in industries such as sugar processing, retailing and communications, and initiated measures to nationalize landholdings and other properties which are not being used productively.[99]

These policy changes are reshaping the map of regional agreements. Some countries have reconsidered their previous affiliations with regional blocs or their interest in new ones: for example in November 2005, Argentina, Brazil, Paraguay, Uruguay and Venezuela opposed the Free Trade Area of the Americas (FTAA) Agreement, which has been under negotiation since 1998; and Venezuela relinquished its membership of the Andean Nations Community (CAN) in April 2006. Others have joined existing blocs or signed new bilateral agreements or established alternative regional agreements: for example the Bolivarian Alternative for the Americas (ALBA) was created in December by Cuba and Venezuela and was joined by Bolivia in April 2006; bilateral cooperation agreements were signed by Venezuela with Argentina, Brazil and Uruguay; and Venezuela joined the MERCOSUR Council in July in July 2006. High oil prices have also affected regional integration schemes, leading simultaneously to diverging interests between exporters and importers (e.g. Bolivia-Brazil, Bolivia-Argentina, Argentina-Chile) and to cooperation initiatives between suppliers and consumers.

Along with these changes in orientation, there have been specific policy changes that directly affect foreign investors or the industries they dominate. Natural resources and public utilities attracted most of the FDI in Latin America and the Caribbean in the 1990s. In the 2000s, these areas saw a tightening of their regulatory environments (*WIR04* and *WIR05*), which expanded to more countries in 2005-2006. Although a restrictive environment has been most noticeable in natural-resource-related activities, it has also affected water and sanitation services. In other utilities, the trend has been towards the resolution of disputes. On the other hand, in Argentina and Brazil, new incentives were offered to FDI in the automotive industry. In all, while there were 21 regulatory changes reported in this region, according to UNCTAD, only a third were favourable to FDI.

The large windfalls recently generated in natural resources have led many countries to establish new rules that they believe are more appropriate to current price levels, as compared to prices prevailing in the 1990s (UNCTAD 2005a). Except for the royalty taxes on mining created in Chile and Peru in 2005 (*WIR05*), all the other changes apply to the oil and gas industry. Although all changes aim at increasing taxes in the natural resource area, their intensity differs from country to country, and some of them also aim at increasing State control over the enterprises through increased ownership (box II.16)

In utilities, disputes in 2005 were concentrated in water sanitation, where private companies are becoming increasingly reluctant to invest in developing countries. After an unfruitful search for private partners for a new concession following the cancellation of a contract with Aguas Argentinas (the affiliate of French Suez), the Government of Argentina announced the creation of a State-owned company, Aguas y Saneamiento Argentinos, to replace Suez that had been threatening to pull out for two years.[100] In Chile, the second largest operator of water utilities, Essbio – an affiliate of RWE Thames Water (Germany) – was fined by regulators for failing to honour its investment commitments. The company is seeking to sell its water assets not only in Chile but also in Australia, Canada, China, Egypt and India, to focus on the United States and European markets and develop its electricity businesses.[101] Moreover in Chile, a new water code, applied since January 2006, changes the previous regime that enabled a number of companies – particularly electricity-generating operations – to register in their names a vast amount of water rights that they could choose not to use. The company most affected will be the electricity generator Endesa (Spain), which uses only 13.3% of its water rights accumulated over the years.

In the case of other public services, such as electricity, gas distribution, telecommunications and transport, the economic recovery has attenuated

Box II.16. High oil prices have induced changes in oil and gas regulations

Soaring oil prices have increased the strategic importance of oil and gas resources and led many Latin American countries to renegotiate contracts signed with foreign oil companies in the 1990s, when prices were at a record low. The objective of these renegotiations is to increase the State's share in the oil and gas rent as well as its control over the industry.

- In Bolivia, a decree for the nationalization of oil and gas resources was promulgated in May 2006. It gives the State control and management of the production, transport, refining, stocking, distribution, commercialization and industrialization of oil and gas in the country. It requires private companies to channel future sales of oil and gas through the State-owned energy company, Yacimientos Petrolíferos Fiscales Bolivianos (YPFB).[a] The State will also regain control of Bolivian oil and gas companies that were privatized in the 1990s through the repossession by YPFB of the shares of the Collective Capitalization Fund.[b] The decree obliges companies to comply immediately with the new dispositions and regularize their activities through new contracts authorized and approved by the legislative power within a period of 180 days, failing which they will no longer be allowed to continue operating in the country. Also, the decree fixes the share of private companies at 18% of the value of production,[c] compared to 50% accorded by the hydrocarbon Law approved in May 2005, and much lower than the 82% accorded at the time of privatization.
- In Venezuela, the 2001 Hydrocarbons Law rendered illegal the agreements that gave majority control to private local or foreign firms. But it was only in 2005 that the Government pushed for new contracts that gave control to the State-owned PDVSA, and took control of 32 extraction fields which were in the hands of private companies (accounting for approximately 17% of the country's daily extraction capacity).
- In Ecuador, the Congress approved in April 2006 a hydrocarbon reform bill that increases the State's share of private production to 50% from its current level, whenever international oil prices exceed those established in existing contracts. Moreover, the Government cancelled Occidental Petroleum Company's (United States) rights to an oilfield in the Amazon basin region and took control of its production infrastructure in May 2006.[d]
- In Trinidad and Tobago, the Government plans to reform the oil and natural gas tax regimes with a view to increasing its income from the firms involved.

Source: UNCTAD.

a The Government aims to assume responsibility for setting the price of its natural gas, previously set by the TNCs. Affiliates of the same TNCs controlled exports and imports: Pluspetrol's (Argentina) affiliate in Bolivia sold to Pluspetrol Argentina, Repsol Bolivia to Repsol Argentina, and Petrobras Bolivia to Petrobras Brazil.

b This fund was established during the privatization process: the Government sold 50% of the public enterprises' shares to capitalize the companies and retained the other half for the collective fund. The fund is managed by private pension funds.

c This rate is 50% for companies producing less than 100 million cubic feet of natural gas daily.

d Ecuador's decision followed a dispute over Occidental's 2004 sale of a 40% share in its Ecuador operations to EnCana (Canada) without first consulting the Ecuadorian authorities. Bilaterals.org, 19 May 2006 (www.bilaterals.org).

the intensity of conflicts. In Argentina, in particular, seven cases against Argentina for requiring companies to conform with the Government's conditions for negotiating new contracts have been suspended at the International Centre for Settlement of Investment Disputes (ICSID), and two have been discontinued after an agreement was reached,[102] while the negotiation process is still going on for many other cases.[103]

However, a few measures were adopted that did not specifically address foreign investors, but were favourable to industries where such investors play a significant role. This is the case of the automobile industry in Brazil and Argentina. In Brazil the BNDES adopted a financing programme in October 2005 for the production of automobiles for export, to compensate for the negative impact of the strong local currency (the real) on competitiveness and help boost overseas sales.[104] Similarly, in Argentina, the authorities are taking steps to assist the automobile industry that had been seriously affected by an overvalued national currency and economic recession between the second half of the 1990s and 2002.[105] They also obtained an agreement by Brazil to delay full

liberalization of bilateral trade in automobiles, previously scheduled for 1 January 2006, due to the persistence of important bilateral asymmetries.

At the interregional level, the trend towards increased liberalization and agreements to promote FDI is continuing in some countries. For example, Chile signed the following new agreements in 2005: an FTA with China, a Framework Agreement to Promote Economic Cooperation with India, and a Trans-Pacific Strategic Economic Partnership Agreement with Brunei Darussalam, New Zealand and Singapore. Colombia and Peru each signed an FTA with the United States in 2006. However, implementation of the Dominican Republic-Central America Free-Trade Agreement (DR-CAFTA), which was supposed to take effect on 1 January 2006, has been delayed. Costa Rica has yet to ratify the Agreement, and the respective legislatures in the other countries have failed to pass the necessary laws in time. El Salvador is the only country that has revised its domestic laws and regulations in line with the commitments made under the Agreement.[106] The numbers of BITs and DTTs concluded in 2005 were 13 and 9 respectively, for a total of 464 and 322 by countries in the region. About 83% of the BITs and 90% of the DTTs concluded are with countries outside the region.

d. Prospects

FDI inflows into Latin America and the Caribbean, excluding the offshore financial centres, are expected to slow down in 2006. They could even decline in some of the largest recipient countries, as suggested by preliminary FDI data for the first months of 2006.[107] Data on cross-border M&As in the region (excluding offshore financial centres) for the first six months of 2006 also show a 19% decline in the value of acquisitions of local assets by foreign TNCs compared to the same period in 2005.

Since the same factors behind the strong rebound in FDI in 2004 and its continued growth in 2005 (i.e. high commodity prices and strong economic growth, both at regional and global level) still exist, other factors would explain the likely decline in FDI inflows into the region. These include changes in policy stance resulting from higher prices and growing demand for commodities, and a reversal in the trend by foreign firms in the services sector to acquire local firms and assets.

High commodity prices have already had an effect on FDI in the natural resource industries by increasing the leverage of State-owned companies, reducing their dependence on capital from foreign firms, and prompting a tightening of FDI policy in that sector. Although for the time being the attraction of high commodity prices seems to be overriding the deterrent effects of policy changes (as discussed in the sectoral analysis section above), it is still premature to assess their real impact on FDI, especially in the oil and gas sector. The possibility of additional regulatory changes and of their extension to more countries is likely to increase uncertainty among investors.

On the other hand, high commodity prices have led to an appreciation of the value of local currency in many countries because of the improved current-account balance. This might affect business prospects for FDI in export-oriented manufacturing, though incentive measures such as those adopted by the Brazilian authorities may compensate for the negative impact of the currency appreciation. In the case of Mexico, FDI in the export-oriented *maquiladoras* is likely to grow as long as there is demand from the United States. Market-seeking FDI in the manufacturing sector is also likely to continue if the prospects for regional economic growth – estimated in 2006 at 4.3% (IMF 2006) – remain encouraging.

In the services sector, FDI could fall due to the significant decline in the number of domestic firms available for acquisition (after the boom of the 1990s) and to the solid growth of local firms. The decline of FDI in services activities would be indicative of a swing of the pendulum back towards the middle – that is, a more balanced distribution of the market between foreign and local firms.

With regard to FDI outflows from the region, Latin American and Caribbean firms are expected to continue to expand, principally to neighbouring countries and regionally, although global expansion is expected to gain momentum.

B. South-East Europe and the Commonwealth of Independent States

In 2005, FDI inflows into South-East Europe and the Commonwealth of Independent States (CIS) remained almost at the same level as in the previous year, at $40 billion. Inflows were uneven, with three countries, the Russian Federation, Ukraine

and Romania, in that order, alone accounting for close to three quarters of the regional total. Developed countries continued to account for the bulk of greenfield projects and cross-border M&As, in terms of numbers, EU members being particularly prominent in greenfield investments. FDI outflows from the region grew for a fourth consecutive year, reaching $15 billion. The Russian Federation alone accounted for 87% of such outflows, as oil prices and competition for resources prompted Russian TNCs to maintain a high level of investments abroad. Outward investment in greenfield projects targeted mainly other countries within the region, while the majority of cross-border M&A purchases took place in developed economies. Countries of the region have different policy priorities and are confronted with different issues related to inward and outward FDI, depending on their economic structure and institutional environment. In natural-resource-based economies, such as the Russian Federation, Azerbaijan and Kazakhstan, most of the policy issues relate to the management of the windfall earnings from high international commodity prices, and the definition, or redefinition, of the role of the State.

1. Geographical trends

a. Inward FDI: fifth year of growth

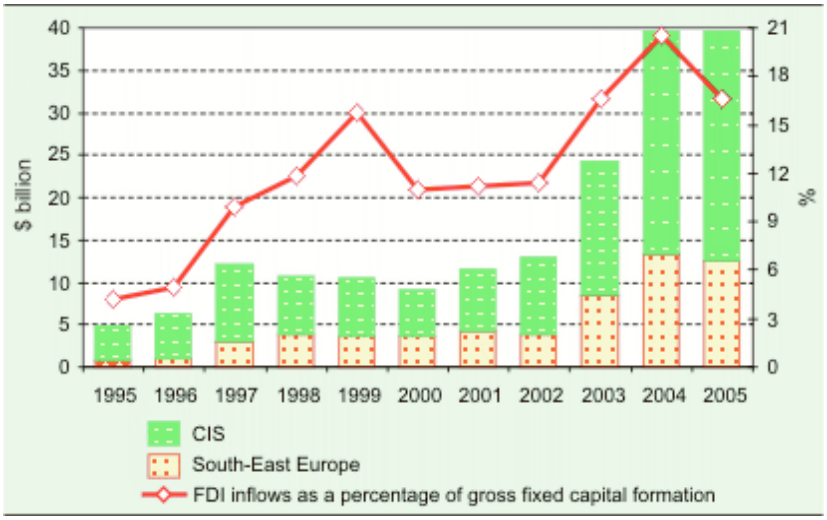
FDI inflows to the 19 countries of South-East Europe and the Commonwealth of Independent States (CIS) in 2005 remained at $40 billion (figure II.19). The share of inward FDI in gross fixed capital formation declined from 21% in 2004 to 17% in 2005, as domestic investment grew faster than FDI. In each of three main recipients – the Russian Federation, Ukraine and Romania – FDI inflows exceeded $5 billion (more than $10 billion in the Russian Federation alone) (figure II.20). At the other extreme, in 11 countries they remained below $1 billion (annex table B.1). Inflows rose in 8 countries (most notably in Ukraine) and fell in 11. After the peak of 2004, related to large oil and gas projects, inflows plummeted in Azerbaijan and Kazakhstan.

By subregion, the sharp increase in Ukraine accounted for much of the rise in inflows in the CIS, while declining inflows in Bulgaria drove inflows down in South-East Europe.

Developed countries continued to account for the largest number (more than four-fifths) of *greenfield inward FDI*[108] in South-East Europe and the CIS, in 2005. Members of the EU invested in three fifths of all new projects, while the share of the United States remained at over 10% and that of the Russian Federation at around 5%. In *cross-border M&A sales* in the region – mostly privatization deals in South-East Europe, and both privatizations and investment in private companies in the CIS – developed countries again dominated (table II.13). Between 2004 and 2005, their share in the value of transactions increased from about 80% to more than 90%. In 2004, Austria was the largest purchaser, while in 2005, reflecting a large acquisition in Ukraine (see below), the Netherlands became the largest cross-border M&A purchaser. The share of the Russian Federation as a source country in cross-border M&As remained at around 5%.

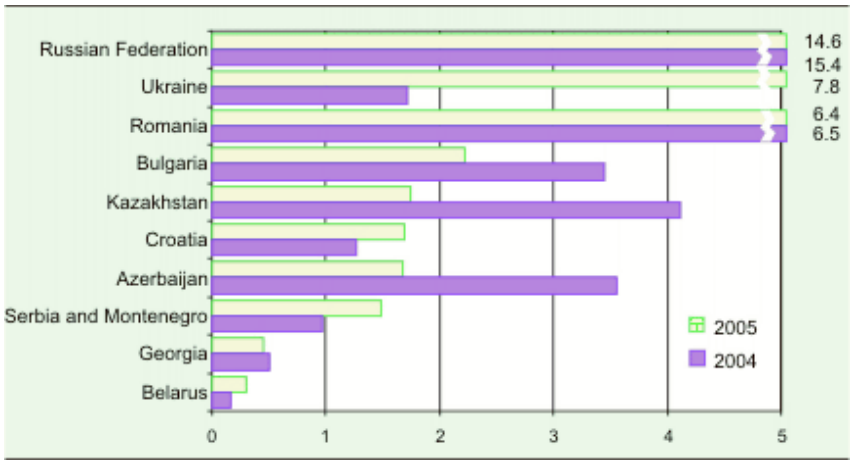
In the Russian Federation, inward FDI spanned a range of activities in all three sectors: from natural resources in the primary sector, through some manufacturing activities (such as Coca Cola's $501 million investment in food and beverages), to services (such as the $1.3-billion real estate and trading project in St. Petersburg by Baltic Pearl (China)). In Ukraine, the privatization

Figure II.19. South-East Europe and the CIS: FDI inflows and their share in gross fixed capital formation, 1995-2005



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex tables B.1 and B.3.

Figure II.20. South-East Europe and the CIS: top 10 economies for FDI inflows,[a] 2004-2005
(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.

[a] Ranked on the basis of the magnitude of the 2005 FDI inflows.

In South-East Europe, the strong performance of Romania and Serbia and Montenegro was explained in part by several privatization deals in banking (such as the acquisition of Banca Comerciala Romana by Erste Bank (Austria) in Romania, and of Kontinental Banka by Nova Ljubljanska Banka (Slovenia) in Serbia and Montenegro). In addition, in Romania, the privatization of natural gas providers and their purchase by Gaz de France and Ruhrgas (Germany) were responsible for a large proportion of the increase in FDI inflows.

of the Kryvorizhstal iron and steel factory led to its purchase by Mittal Steel (Netherlands/United Kingdom) valued at $4.8 billion – the largest deal in the country and in the CIS so far – and that of Aval Bank by Raiffeisen International (Austria) for $1 billion (re-sold to Hungary's OTP in 2006).

Table II.13. South-East Europe and the CIS: distribution of cross-border M&As, by home/host country, 2004-2005
(Millions of dollars)

	Sales		Purchases	
Home/host region (economy)	2004	2005	2004	2005
World	10 047	17 317	990	6 811
Developed countries	7 869	16 124	380	3 801
of which:				
EU-25	6 605	14 075	40	3 340
Austria	4 136	3 239	-	-
Czech Republic	344	635	4	284
France	-	505	-	-
Germany	188	570	-	15
Italy	103	730	-	652
Netherlands	-	6 189	-	-
United Kingdom	1 364	285	-	2 005
North America	1 176	1 999	339	-
United States	846	1 947	334	-
Developing economies	1 566	245	-	2 062
of which:				
British Virgin Islands	1 431	-	-	-
Turkey	-	-	-	1 593
South-East Europe and CIS	610	948	610	948
of which:				
Russian Federation	574	909	5	236
Ukraine	-	6	14	511

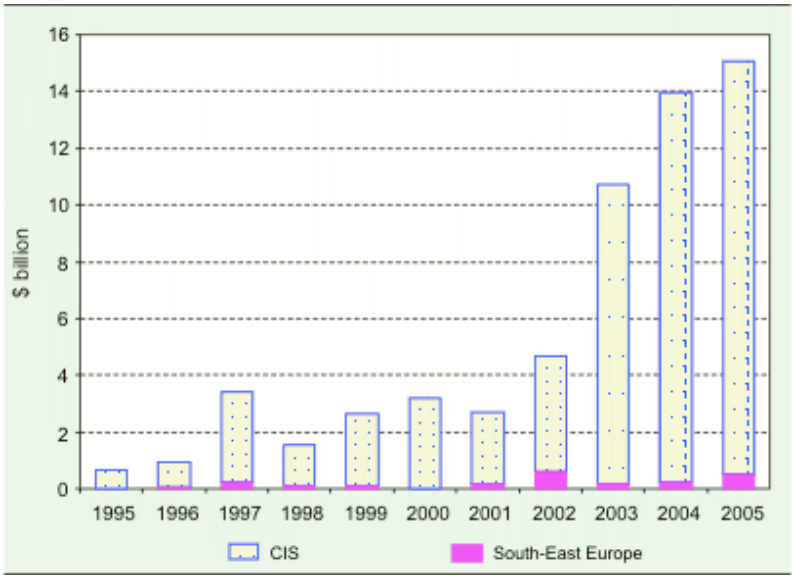
Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

b. Outward FDI: strong performance of Russian TNCs continues

In 2005, FDI outflows from the region grew for a fourth consecutive year, reaching $15 billion (figure II.21). Outward FDI was equivalent to about 7% of gross fixed capital formation, slightly down from the previous year. Russian TNCs continue to dominate the outward FDI of the region accounting for 87% of the total in 2005 (annex table B.1). Besides the Russian Federation, only outflows from Azerbaijan exceeded $1 billion in 2005. In *greenfield* outward FDI, more than half of the new projects originating from South-East Europe and the CIS targeted other countries within the region, followed distantly by the EU. In terms of value of *cross-border M&A purchases* by the region, more than half were in developed economies in 2005, especially the United Kingdom. Telecommunications-related investments in Turkey represented the second largest M&A purchases by South-East Europe and the CIS (table II.14).

Oil prices and competition for resources in 2005 prompted Russian TNCs to maintain high levels of investment abroad. In particular, the Russian TNC, Lukoil, reacted to the purchase of the Canadian-based independent oil company, Petrokazakhstan, by China's CNPC with the acquisition of another Canadian-based oil company, Nelson Resources. Both of the acquired companies have major exploration and extraction contracts in Kazakhstan. Russian firms were active in other natural resources such as aluminium: RusAl became a joint-venture refinery partner in Australia in 2005,

Figure II.21. South-East Europe and the CIS: FDI outflows, by subregion, 1995-2005



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.

while the electricity company, UES, won the privatization bid for power stations in Bulgaria. As for outward FDI from Azerbaijan, most of it has been related to the construction of the Baku-Tbilisi-Ceyhan pipeline, which crosses Georgia and Turkey, and in which the State Oil Company of Azerbaijan has a 25% share.

2. Sectoral trends: manufacturing dominates inflows, natural resources lead outflows

Inward FDI in some high value-added activities such as R&D reflects the relatively well-developed skills base of some of the countries of the region (*WIR05*). For example, in 2005, General Motors decided to locate one of its high-tech activities – the development of its new generation of electric vehicles – in a new research centre in Moscow, making it the firm's eighth global science laboratory. However, not all FDI projects in the region have a high-tech content. In some cases, low wages attract projects in low value-added activities such as assembly manufacturing. For example, between 1998 and 2004, low wages in Bulgaria attracted $226 million worth of FDI in "cut and make" textiles (in which customers provide all inputs except labour). However, with the end of MFA quotas and Bulgaria's potential EU accession in 2007, foreign investors in textiles, such as Miroglio (Italy) and Rollman (Germany), can no longer rely on wage competitiveness alone, and are upgrading their factories there from simple assembly to higher value-added activities (in which the manufacturer also buys and owns machinery).[109] In natural-resource-rich economies that are less likely to specialize in low-wage manufacturing, it is the concentration of FDI in natural resources and related activities that presents a challenge to policymakers as they seek to diversify by attracting FDI into higher value-added activities in a wider range of industries.

Data on the sectoral breakdown of FDI flows to the region are very limited. However, data on *cross-border M&A sales* (table II.14) show that the share of manufacturing was two fifths of that in 2005 (in value terms), although it rose in some industries such as metals and metal products. The share of services, although declining, is still close to one half of total cross-border sales and reflects the importance of transport, storage and communications, and finance. In some countries such as the Russian Federation, natural resources in M&A sales are also important, although the share of primary activities in the regional total remains relatively limited (just over one tenth).

As far as the sectoral distribution of outward FDI is concerned, data on *cross-border M&A purchases* show some interesting trends: the shares of petroleum extraction and of natural-resource-based manufacturing, such as metallurgy, were over one quarter each in 2005, making them the most prominent target industries, especially for Russian TNCs (table II.14). In 2004, telecommunications became the first non-resource-based Russian industry with significant investments abroad, although, reflecting the lumpiness of M&A deals, its share declined temporarily in 2005. However, as the three largest mobile telephone service providers of the CIS are firms from the Russian Federation (box II.17), the share of telecommunications in outward FDI is expected to rebound.

Table II.14. South-East Europe and the CIS: distribution of cross-border M&As, by sector/industry, 2004-2005
(Millions of dollars)

Sector/industry	Sales		Purchases	
	2004	2005	2004	2005
Total	10 047	17 318	991	6 812
Primary	1 920	2 088	58	2 022
Mining, quarrying and petroleum	1 916	2 088	58	2 022
Manufacturing	589	6 747	286	2 553
of which:				
Food, beverages and tobacco	242	1 112	1	217
Textiles, clothing and leather	-	1	-	-
Wood and wood products	-	1	-	1
Chemicals and chemical products	23	232	-	484
Stone, clay, glass and concrete products	167	-	-	-
Metals and metal products	156	5 323	285	1 851
Machinery	-	12	-	-
Motor vehicles and other transport equipment	1.0	65	-	-
Services	7 538	8 483	647	2 237
of which:				
Electricity, gas & water distribution	851	1 488	-	52
Construction firms	-	-	-	-
Hotels and restaurants	-	129	-	-
Trade	9	108	4	-
Transport, storage and communications	4 919	3 155	591	327
Finance	347	2 677	52	1 858
Business activities	30	153	-	-
Community, social and personal service activities	31	760	-	-

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

3. Policy developments

In South-East Europe and the CIS, as in other regions of the world except Latin America and the Caribbean, most policy changes (32 of the 39) in 2005 affecting inward FDI remained more favourable to investors.

Countries of the region have different policy priorities depending on the specific issues they face and their economic structure and institutional environment. In natural-resource-based economies, such as the Russian Federation, Azerbaijan and Kazakhstan, most of the policy questions are related to management of the windfall earnings from high international oil prices, and to defining, or redefining, the role of the State in both inward and outward FDI. In the Russian Federation, the Government increased its share to a majority stake in one of the largest outward investing TNCs, Gazprom, a gas firm (*WIR05*, p. 78), and acquired a major outward investing oil firm (Sibneft). The acquisition of Gazprom shares was accompanied by the removal of the 20% cap on foreign ownership of the remaining shares and an easing of the rules on the trading of Gazprom shares. However, any transaction that could reduce the Government's ownership below 50% would be subject to clearance by the federal authorities. In an attempt to facilitate diversification away from natural resources, the Russian Federation adopted a Law on Special Economic Zones in 2005, which will allow the creation of special zones for up to 20 years. These will allow customs-free imports and certain tax benefits. In Kazakhstan, the Government has been exploring ways to increase its shareholding in Petrokazakhstan in the aftermath of its acquisition by CNPC (China). The country also adopted a new Production Sharing Agreements Law, reserving for State-owned KazMunaiGaz a 50% share in all offshore projects plus the right to determine (with the consent of the Ministry of Energy and Mineral Resources) the type of contract to be concluded.

In the rest of the region, policy priorities reflect, among others, the degree of association with the EU. Bulgaria and Romania are already in accession talks, and Croatia may follow soon. These accession talks can redefine the ways FDI-related policies are carried out. In 2005, as a prelude to EU accession (envisaged in 2007), Romania introduced a 16% flat tax on incomes and profits while eliminating most tax exemptions and tax allowances. At the same time, Bulgaria reduced its corporate tax from 19.5% to 15%. The two countries also announced legislation that will simplify the acquisition of real estate by EU residents after accession but keeps restrictions on agricultural and forest lands. Association and partnership agreements are also shaping FDI-related policies in various countries such as Albania, Bosnia and Herzegovina and Ukraine. Albania, like other countries, cut its tax rate in 2005, from 25% to 23%. Ukraine had already introduced a unified tax in 2004, with a starting rate of 13% but planned to rise to 15% in 2007. In Serbia and Montenegro, the corporate tax was reduced from 14% to 10% in 2005.

4. Prospects

South-East Europe and the CIS is expected to increasingly attract inward FDI in 2006 and beyond. Although data on cross-border M&As during the first half of 2006 show hardly any change compared with the first half of 2005, with an initial public offering of the oil company Rosneft

Box II.17. Russian mobile phone operators in the CIS

Telecommunications is the first non-resource-based Russian industry to have significant investments abroad, albeit mainly within the CIS. This is because the mobile telecommunications industry of the CIS is not yet saturated, and its duopolistic or oligopolisitic advantages promise high and sustained profits for operators, especially those that enter the markets early enough to reap the benefits of fast growth (Lisitsyn et al. 2005).

The three largest mobile service providers in the subregion in 2005 were the same firms that also dominated the Russian market (Mobile TeleSystems/MTS, VimpelCom and MegaFon). As of end 2005, MTS was present in various markets, while VimpelCom focused on Kazakhstan, Tajikistan and Ukraine, and MegaFon on Tajikistan. In addition, Alfa Group – the majority shareholder of VimpelCom and the joint venture partner of BP in the BP-TNK company – held shares in a Ukrainian and a Kyrgyz operator. With one exception, Russian mobile operators entered the local markets through acquisitions of local firms. The leading Russian mobile operators are an important source of finance, technology and managerial experience in the CIS host countries. Part of their expertise has been gained in the Russian Federation, and part from Western telecommunications companies that are minority shareholders in the Russian companies (the majority are owned by Russian financial capital). As Russian mobile telecommunications operators gain experience and strength, they are taking steps to move outside the CIS. In 2005, for instance, Alfa Group (the parent of VimpelCom) purchased a 13% minority share in Turkish Turkcell.

Source: UNCTAD, based on Lisitsyn *et al.* 2005.

(Russian Federation) in July 2006 in London for a value exceeding $10 billion, cross-border M&As received a major boost for the rest of the year.

Countries on the western side of the region have a more advantageous geographical location: close to the EU, which is one of the largest markets in the world. Thus the potential benefits for the "new neighbours" (following EU enlargement in 2004) can be enormous. In addition, some of the countries of the region possess significant natural resources, which are attracting large projects from major investors. Other countries offer relatively skilled labour at competitive wages. As for market-seeking investment, the main pull factor is a prospective increase in local purchasing power, which has been low so far. The region's largest economy, the Russian Federation (alone accounting for more than 60% of the region's GDP in 2004), offers a potential combination of natural resources, markets and cost efficiency. In a survey of Japanese manufacturing TNCs by JBIC (JBIC 2006), the Russian Federation was ranked 6th, making it the most promising host location for FDI projects in 2006-2008, behind four Asian economies and the United States. It was particularly attractive for FDI in general machinery (4th). Even in automobile production, in which global competition for new projects is particularly strong, it was ranked 7th. Finally, prospects for Russian TNCs' outward investments will largely depend on developments in international natural resource markets.

C. Developed countries

FDI inflows into developed countries[110] jumped by an estimated 37%, to $542 billion, in 2005. The rise in inflows was led by a sharp rise in investments in the United Kingdom – the highest ever recorded for a European country. With inflows 65% higher than those of the United States, the United Kingdom was the world leader for inward FDI for the first time since 1977. The significant increase in FDI flows to developed countries included a substantial increase in equity capital and a recovery in intra-company loans. The main driving forces behind the upswing in FDI flows to developed countries in 2005 were high corporate profitability – partly driven by successful cost-cutting efforts in the euro area – and a pick-up in cross-border M&A activity. In 2005, the volume of cross-border M&A transactions was the second largest ever recorded after 2000, partly reflecting higher share prices in many major financial markets. The number of large cross-border M&As also increased substantially.

Most major FDI recipients among developed countries (Canada, France, Germany, Netherlands, United Kingdom) recorded higher FDI inflows (as well as higher values of cross-border M&As). FDI inflows into the new EU member States also rose. In many of these countries, higher FDI inflows resulted from an increase in reinvested earnings,

but foreign acquisitions and greenfield investments also contributed to the increase, especially in the Czech Republic. FDI flows to Japan more than halved, returning to the lowest level since 1996, despite the Government's commitment to double the level of FDI stock within five years by 2006.

FDI outflows from developed countries grew in 2003 and 2004 after a two-year slump, but fell again in 2005 by 6%, to $646 billion. This is essentially due to a considerable decline in outflows of United States FDI in response to special tax incentives offered by that country's Government. In principle, outward FDI is on an upward trend, mainly driven by high profits, rising business expectations and the search for new strategic investments abroad. Prospects in 2006 for a further rise in FDI flows from developed countries, as a group, are favourable, as the fundamentals driving such flows appear positive.

1. Geographical trends

a. Inward FDI: recovering from the downturn

FDI inflows to developed countries increased by 37%, to reach $542 billion in 2005 (figure II.22). Inward investment was higher in 23 countries of the group, compared with 21 countries in 2004. FDI growth was thus fairly widespread.

FDI inflows into *North America* rose by 8% to $133 billion (figure II.22), with *Canada* accounting for most of this increase. After four consecutive years of decline, to $1.5 billion in 2004, inward FDI flows rebounded in 2005 to $34 billion. Strong economic growth and favourable domestic demand as well as a continued favourable investment climate attracted foreign investors with large investments.[111] Inward investments into the *United States*, still the world's largest host country for FDI, in terms of stock, fell by 19% to $99 billion in 2005, making that country the second-largest FDI recipient worldwide in 2005, after the United Kingdom (figure II.23).

Reduced equity capital inflows to the United States were more than offset by a substantial increase in intra-company debt inflows – a shift from the net outflows registered in the previous year – and an increase in reinvested earnings that allowed foreign affiliates to expand capacities in the United States. Reinvested earnings rose again, from $45 billion in 2004 to $49 billion in 2005, as the profitability and earnings of foreign affiliates in the United States improved.[112]

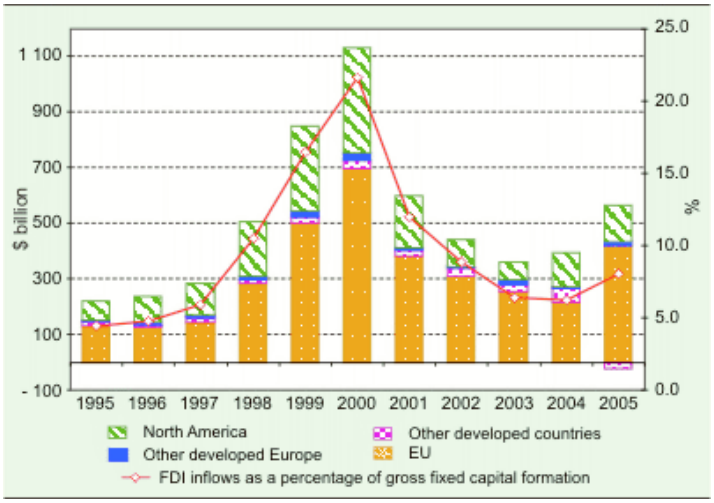
The strong growth in domestic demand in the United States attracted investors in trade, services, logistics and consumer goods industries. As in past years, the main investors in the United States in 2005 were United Kingdom firms (accounting for 29% of total FDI inflows in 2005): they were responsible for the lion's share of cross-border M&A purchases of United States firms, including large ones, such as the acquisition of Innovene, a chemical company, by INEOS Group (United Kingdom) for $9 billion (annex table A.I.7). After a long period of weak activity German companies also returned to the United States market as large investors; for example, Adidas-Salomon AG bought Reebok International Ltd. for $4.3 billion, Fresenius Medical Care AG spent $4.0 billion for Renal Care Group Inc. and Deutsche Bahn AG invested $1.1 billion for Box Global Inc.

In 2005, total FDI inflows into *EU* member countries increased substantially, nearly doubling, to $422 billion. Most of the increase was due to a rise in intra-EU FDI.[113] The picture varied considerably among the 25 EU members, depending on their level of development and their economic prospects. Some large-scale cross-border M&A deals also influenced the geographical distribution of FDI inflows to the EU.

FDI flows to the EU-15 amounted to an estimated $388 billion in 2005 – 109% higher than the previous year – helped by a surge in investments in the United Kingdom that was driven by M&As and by further market integration in the euro zone. FDI inflows to the 10 new EU members rose by 19%, to a record level of $34 billion, mainly due to high rates of reinvested earnings.

FDI inflows into the *United Kingdom* tripled, from $56 billion in 2004 to $165 billion in 2005. The increase was largely due to the merger of Shell Transport and Trading Company Plc and Royal Dutch Petroleum Company into Royal Dutch Shell, a Dutch company, for some $74 billion (a transaction reflected in the FDI outflow data of the Netherlands, as discussed below).[114] The increase also reflects several high-value cross-border acquisitions of United Kingdom firms: for example, Goal Acquisitions (France) bought Allied Domecq for $14.4 billion (annex table A.I.7). Financial services, telecommunications and transportation were the industries targeted the most by foreign investors. The United Kingdom's inward FDI stock at the end of 2005 amounted to $817

Figure II.22. Developed countries: FDI inflows and their share in gross fixed capital formation, 1995-2005



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex tables B.1 and B.3.

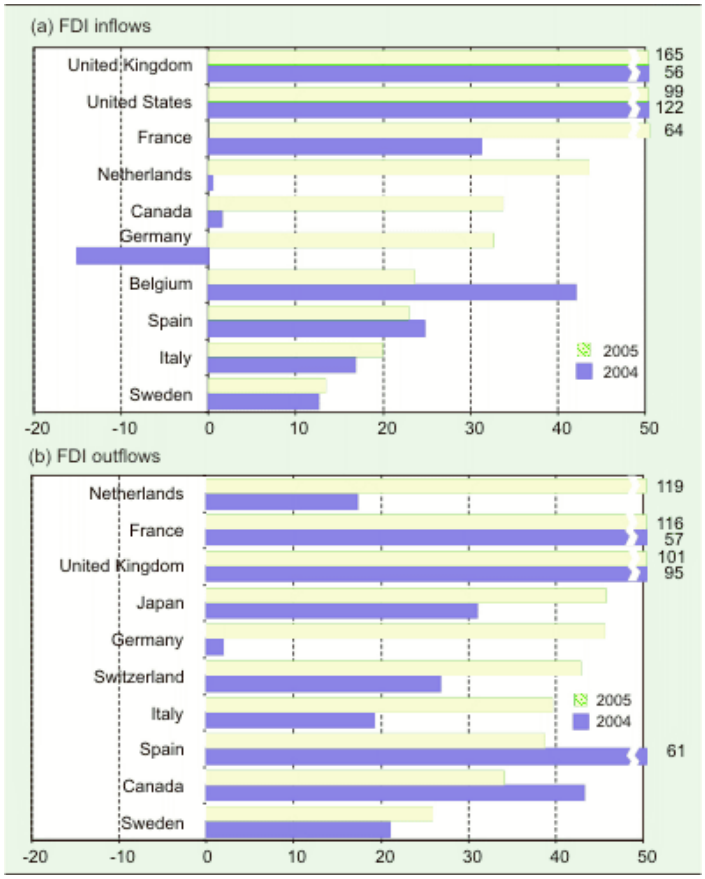
billion, the second-largest inward FDI stock worldwide after that of the United States.

In *Denmark* there was an upturn in FDI inflows to $5 billion in 2005, following disinvestments of FDI in 2004 of $11 billion. Larger inflows of equity capital, as well as a number of large deals accounted for most of the change.[115] In *Sweden* FDI inflows in 2005 amounted to $13 billion, slightly higher than the 2004 level. Larger intra-company loans and reinvested earnings contributed to this trend.

Inward FDI flows into the 12 countries forming the *European Monetary Union* (EMU-12) amounted to $205 billion in 2005, compared with $127 billion in 2004. Several of the countries received considerably larger FDI inflows than in 2004. FDI inflows into *France* more than doubled, from $31 billion to $64 billion, the highest level since 2001. Its economic growth – higher than its large neighbouring countries (Germany, Italy) – and an increasingly proactive policy to attract foreign investments may explain part of this increase (*WIR04*, p. 87). Inward FDI in *Austria* nearly tripled, to $9 billion in 2005, mainly due to an increase in inflows of equity capital ($6 billion). As in past years, German companies were the largest investors in Austria – accounting for 70% of FDI inflows – taking advantage of a favourable economic climate, wage levels lower than in other EMU countries and the country's geographical proximity to the new EU members. In Germany and the Netherlands, there was a rebound in FDI inflows. In *Germany* it amounted to $33 billion, compared to -$15 billion in 2004; the sharp turnaround was mainly caused by the halt to the large repatriations of intra-company loans that began in 2003 (-$17 billion) and peaked in 2004 (-$50 billion).[116] The *Netherlands* received $44 billion in FDI flows in 2005, compared to a low of $0.4 billion in 2004; as in the case of Germany, small inflows in 2004 were due to large repatriations of capital by foreign affiliates to parent companies (-$8 billion), whereas in 2005 loans to affiliates located in the Netherlands amounted to $34 billion. The examples of Germany and the Netherlands again show the high volatility of intra-company loans that depend on

Figure II.23. Developed countries: FDI flows, top 10 economies,[a] 2004-2005

(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.

[a] Ranked on the basis of the magnitude of the 2005 FDI flows.

taxes, interest-rate differentials, exchange-rate changes and the profitability of TNCs and their foreign affiliates (*WIR05*, p. 11). FDI inflows to Italy rose to $20 billion as foreign investors undertook several acquisitions in the Italian financial sector, which, under pressure from the European Commission, is becoming more open to foreign investors. Thus, for example, the Dutch bank, ABN Amro, was able to purchase the Italian financial firm Antonveneta for $9 billion after a long and controversial dispute involving the Central Bank of Italy.

In contrast to these countries there were several EMU-12 countries with lower FDI inflows. FDI inflows to *Ireland* turned negative due to repayment of loans to parent firms. Flows to *Belgium* nearly halved. Inflows into *Spain* also declined. In *Luxembourg*, data on FDI flows, excluding trans-shipped FDI (mainly FDI in special purpose entities (SPEs)), that were made available for the first time to UNCTAD, show that FDI inflows have remained virtually static ($4 billion) since 2002.[117]

FDI inflows into the *10 new EU member countries* rose by 19% in 2005, from $28 billion in 2004 to $34 billion. The economic disparity between these countries and the earlier EU members (for example their GDP per capita is only half that of the earlier members) (*WIR 2005*, pp. 86-87), as well as among the 10 EU members, influences the amount and type of FDI that each of them receives. Most of the increase in inflows to the new EU member States went to the *Czech Republic*, its inward FDI rising by $5 billion to reach $11 billion. Its total inward FDI stock has now reached $59 billion, making it the third largest FDI recipient in Eastern Europe, just behind Poland ($93 billion) and Hungary ($61 billion). Foreign investors increased their FDI in transportation and communications services (that accounted for about half of FDI inflows in 2005), real estate and business activities (accounting for around one fifth) in the Czech Republic. *Hungary* registered record FDI inflows of $6.7 billion. In both Hungary and the Czech Republic, FDI is progressively shifting towards high-tech activities, including R&D, and other services (e.g. call centres). By contrast, FDI inflows into the other, larger new EU country, *Poland*, declined but remained at a relatively high level of $8 billion. The growth rate was the most marked in *Estonia*. The main mode of investment in most new EU countries was reinvested earnings of foreign affiliates: for example, in the Czech Republic, Estonia and Hungary together, 29% of FDI inflows in 2005 were reinvested earnings.

Among other non-EU countries in Europe Switzerland is noteworthy. FDI inflows in this country shot up from less than $1 billion to $6 billion because of capital repayments by finance and holding companies.

FDI inflows into *Japan* fell by 64% to $2.8 billion, the lowest in the past decade. This level, as well as its share in the country's gross fixed capital formation, is among the lowest for developed countries, and Japan's country ranking in the UNCTAD Performance Index was only 131 out of 141 (chapter I; annex table A.I.9). Recent moves may cast another shadow on further growth of FDI in Japan; these include the postponement, at least till 2007, of approval of cross-border M&As through the exchange of shares, and increased restrictions on the establishment of operations by large retailers, both domestic and foreign.[118] Since FDI in the country is increasingly likely to occur through cross-border M&As and to take place in the retail industry, this will certainly affect the level of FDI inflows and put into doubt the Government's commitment made in 2003 to double FDI stocks by 2006 (box II.18; and *WIR 2004*, pp. 82-83). The delay for the approval of cross-border M&As through share exchanges is due to concerns about hostile takeovers of the kind that recently involved corporate scandals and illegal activities. However, all these dubious deals have involved Japanese companies; according to Thomson Financial, no hostile takeovers by foreign investors have been reported in Japan.[119]

Australia experienced a dramatic decline in FDI inflows, from $42 billion in 2004 to -$35 billion. Similarly, a large decline was also recorded in FDI outflows, from $18 billion to -$41 billion. This is largely explained by a technical reason – the reincorporation in 2004 of News Corporation, one of the largest media companies in the world, in the United States whereby its primary listing was moved to the New York Stock Exchange. [120]

More than 90% of FDI inflows into developed countries originated in other developed countries (table II.15). But in terms of stock, investments from developing countries in developed countries have been on the rise over the past decade, and their share in 2004 surpassed the level reached in 1990. There were several mega deals by developing-country TNCs in 2005 such as the above-mentioned acquisition of Wind

Box II.18. Will Japanese FDI stock really be doubled by 2006?

The Government of Japan committed itself to doubling Japan's FDI stock from its 2001 level within five years (i.e. by the end of 2006) to 13.2 trillion yen ($119 billion) in 2006. The Japanese Prime Minister, in his General Policy Speech in January 2006, stated that Japan would achieve this goal and even set the goal of further doubling this level by 2011, to $26 trillion yen.[a]

Judging from recent trends in FDI inflows into Japan, however, it will be difficult to achieve the goal set for end 2006. By the end of 2001, Japan's inward FDI stock was 6.6 trillion yen ($60 billion). FDI inflows during the period 2002-2005 were 3.8 trillion yen. In order to reach a stock of 13.2 trillion yen, inflows of some 2.8 trillion yen ($25 billion) would be required in 2006. Japan has never received such a high level of inflows. Another and possibly fatal blow to attaining the target was GM's and Vodafone's selling off of their Japanese interests in 2006: GM reduced its share in Suzuki from 20% to 3% for 0.2 trillion yen ($2 billion) and Vodafone sold its affiliate Vodafone Japan to Softbank (Japan) for 1.7 to 2 trillion yen ($15 billion).

The only possibility of achieving the goal (at least technically) is if there are increases in non-transaction components of FDI stock, namely valuation changes due to changes in exchange rates[b] and prices,[c] and other adjustments.[d] Indeed, valuation changes accounted for 43% of changes in FDI stock in Japan between 2002 and 2005 (box table II.18.1). However, even if this component is taken into account, it will not yield more than 2 trillion yen per year, which is still below the 2.8 trillion yen required to meet the goal.

Box table II.18.1. Composition of inward FDI stock in Japan, 2001-2005

Year	FDI stock, flows and valuation	(Billions of yen)	(Billions of dollars)
2001	Stock	6 632	50.3
	Flows	759	6.2
	Changes and adjustments	1 978	16.3
2002	Stock	9 369	78.1
	Flows	1 159	9.2
	Changes and adjustments	- 918	-7.3
2003	Stock	9 610	89.7
	Flows	733	6.3
	Changes and adjustments	- 245	-2.1
2004	Stock	10 098	97.0
	Flows	846	7.8
	Changes and adjustments	959	-0.4
2005	Stock	11 903	100.9
	Flows	306	2.8
	Changes and adjustments	1 499	13.6

Source: UNCTAD, based on data from the Bank of Japan (www.boj.or.jp).

Source: UNCTAD.

[a] The Prime Minster, however, dropped this pledge later because of reported fears of hostile takeovers. "Koizumi drops FDI pledge on M&A fears", *Financial Times*, 2 February 2006.

[b] The depreciation or appreciation of the local currency vis-à-vis another country's currency (e.g. the United States dollar) affects the value of external assets and liabilities and the investment position of a country.

[c] Prices of securities can change in the stock market from the beginning of a period to the end of the period.

[d] Includes reclassifications (from foreign portfolio investment to FDI or vice versa), write-offs, expropriations, unilateral cancellation of debt and measurement errors.

Telecominicazioni of Italy ($12.8 billion) by Weather Investment of Egypt, an investment arm of Orascom, and that of the PC section of IBM by China's Lenovo through its Hong Kong affiliate for $1.8 billion. San Miguel (Philippines) also bought National Foods (Australia) for $1.5 billion (annex table A.I.7).

In 2005, cross-border M&A activity increased significantly and drove the rise in FDI flows to developed countries. The number and value of M&A deals reached was the highest after the record year 2000. Falling stock prices in the years following 2000 had led in many cases to massive financial losses to shareholders and a more sceptical view about the success of M&As. The strong resurgence of growth of M&As in 2005 was driven by favourable conditions in the world economy. Corporate profits in developed countries were historically high in 2005 (IMF 2005a, p. 6), giving a boost to investment generally and to FDI. Rising stock market prices worldwide reflected an upbeat business sentiment.[121] High liquid reserves and low costs of external financing in an environment of low real interest rates increased the chances of growing faster through M&As than through organic or internal firm growth. In 2005, private-equity funds and hedge funds became very active in cross-border acquisitions (chapter I). High yields on equity and low interest rates motivated

Table II.15. Inward FDI of developed countries from major country groups, 1990-2004
(Per cent)

Type	Year	World	Regional share in inward FDI: Developed countries	Developing economies	South-East Europe and CIS	Unspecified
Flows	Average 1990-1994	100	92.8	5.6	0.1	1.4
	Average 1995-1999	100	93.2	3.7	-	3.0
	Average 2000-2004	100	93.8	4.1	0.1	2.0
	2002	100	94.3	5.9	-	- 0.3
	2003	100	93.9	5.5	0.1	0.5
	2004	100	97.8	-2.9	0.3	4.9
Stock	1990	100	93.5	6.0	0.1	0.4
	1995	100	93.5	4.7	0.2	1.5
	2000	100	94.5	4.3	0.1	1.1
	2004	100	92.8	6.1	-	1.1

Source: UNCTAD, FDI/TNC database.
Notes: Only recipient countries for which data for the three main group were available, were included. Therefore, the number of countries comprising the totals for developed countries as a group may vary in each period or year, depending on the availability of data for each recipient developed country. Thus the number of recipients and their share in total inward FDI to developed countries for each period/year were as follows: in 1990-1994, 17 countries were covered accounting for 78% of flows; in 1995-1999, 22 countries accounted for 95% of flows; in 2002, 24 accounted for 93% of flows; in 2003, 24 accounted for 90% of flows; and in 2004 and in 2000-2004, 18 countries accounted for 61% and 71% of inward flows respectively. Similarly, in inward stock: in 1990, 11 countries accounted for 74% of stock; in 1995, 19 accounted for 82% of stock; in 2000, 27 accounted for 87% of stock; and in 2004, 11 accounted for 50% of stock.

such institutional investors that rely a great deal on financing by bank credits and individual funds to expand their investments through acquisitions.

More than 90% of cross-border M&As in developed countries were concluded by firms from other developed countries (table II.16). The share of developing countries in cross-border M&As in developed countries was 7%-8% in both 2004 and 2005 (compared to 4% in 2003), but developing Asian and African firms spent considerably more in 2005 than in 2004.

Unlike cross-border M&As, greenfield FDI in developed countries fell in 2005, judging from the number of cases recorded for that year: this number declined from 4,144 in 2004 to 3,981 in 2005 (annex table A.I.1). However, investments from South, East and South-East Asia rose by 9% to 268.[122] United Kingdom and United States investors also increased their greenfield investments in developed countries, though these increases were more than offset by decreases in FDI from other major sources (e.g. France, Germany, Italy).

b. Outward FDI: overall decline

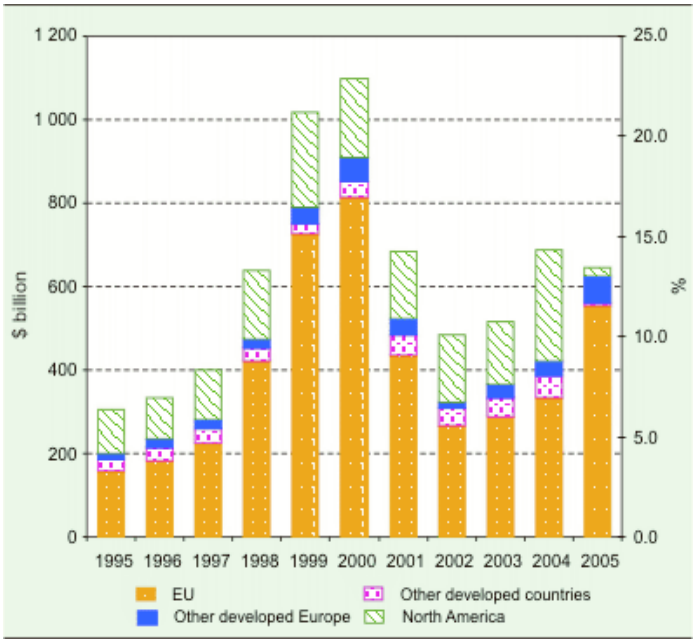
FDI outflows of developed countries in 2005 declined by 6% to $646 billion. The share of the EU in developed-country FDI outflows has been losing ground recently, while that of North America (Canada and the United States) has been gaining (figure II.24). But in 2005, the latter's share fell to only 3%. In 2005, with the exception of Canada, Japan, Norway and Switzerland, all developed countries with outflows of more than $10 billion were from the EU in 2005 (table II.17). Many developed countries tend to be both major sources and recipients of FDI and are ranked within the same range of outward FDI volume and inward FDI volume.[123] In the lowest range, there were many new EU countries. Overall, developed-country FDI outflows exceeded inflows, but the difference between the two flows narrowed by 64%, to $104 billion in 2005.

Table II.16. Developed countries: distribution of cross-border M&As, by home/host region, 2004-2005
(Millions of dollars)

Home/host region	Sales 2004	Sales 2005	Purchases 2004	Purchases 2005
World	315 851	598 350	339 799	626 339
Developed countries	291 170	551 291	291 170	551 291
Developing economies	24 301	43 258	40 760	58 924
Africa	727	13 331	2 571	9 564
Latin America and the Caribbean	11 527	5 543	21 599	22 772
Asia and Oceania	12 047	24 385	16 590	26 588
Asia	12 044	24 382	16 539	26 434
West Asia	1 157	8 806	446	3 265
South, East and South-East Asia	10 886	15 576	16 092	23 169
South-East Europe and CIS	380	3 801	7 870	16 124

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

Figure II.24. Developed countries: FDI outflows, by subregion, 1995-2005



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.

The regional distribution has not changed much over the past 15 years: the largest share of outflows from developed countries continues to be directed towards other developed countries (58% in 2004) (table II.18). There are some variations among countries: the importance of developing and transition economies as a destination (i.e. developing economies and South-East Europe and the CIS) fell for outward FDI from France and Germany (7-8% of total outward FDI stock), but rose for outward FDI from Austria, Canada, Denmark and Switzerland. For Japan and the United States, those economies' share as a destination has fluctuated over the years. Among major investors, Japanese firms directed their investment first to developing economies, particularly South, East and South-East Asia (23% of total FDI stock in 2005). Only two other countries, Switzerland and the United States, located more than one quarter of their FDI stock (27% each) in developing and transition economies.[124]

Despite a considerable decline in its outward FDI in 2005, which also means some loss of world pre-eminence in investment abroad, the United States remained the world's largest source of FDI in terms of stock. The decline in outward FDI flows of United States companies from a historical peak of $222 billion in 2004 to -$13 billion in 2005 was mainly due to an increase in distributed profits of foreign affiliates of United States-based companies; this of course led to a large decline in reinvested earnings of foreign affiliates, which has been the main mode of investment by United States firms abroad in previous years (see box II.19).

Other major sources of FDI from Europe were the Netherlands, France, the United Kingdom, Germany and Switzerland. FDI outflows from the *Netherlands* amounted to $119 billion. The large increase over outflows in 2005 resulted mainly from the previously mentioned merger of Royal Dutch Shell of the Netherlands and Shell Transport and Trading Company Plc of the United Kingdom. Because of this transaction, outflows from the Netherlands in 2005 reached a record level, making the country the largest investor in the world. Outward FDI from *France* doubled, to about $116 billion in 2005 – the highest level since the country's peak FDI outflows in 2000. This was due to abundant cash from strong corporate profits after three-year restructuring efforts to reduce costs.

Companies located in the *United Kingdom* invested $101 billion abroad, an increase of 7% over that in 2004, which made the country the third largest investor worldwide in 2005. At the end of 2005, the United Kingdom owned the second largest FDI stock abroad of approximately $1.2 trillion. A large increase in earnings of foreign

Table II.17. Developed countries: country distribution of FDI flows, by range,[a] 2005

Range	Inflows	Outflows
Over $50 billion	United Kingdom, United States and France	Netherlands, France, and United Kingdom
$10-49 billion	France, Netherlands, Canada, Germany, Belgium Spain, Italy, Sweden and Czech Republic	Japan, Germany, Italy, Spain, Canada, Sweden, Belgium, Norway and Ireland
$1-9 billion	Austria, Poland, Hungary, Israel, Denmark, Finland, Luxembourg, Norway, Portugal, Estonia, Japan, Iceland, Slovakia, New Zealand, Cyprus and Lithuania	Denmark, Austria, Iceland, Luxembourg, Finland, Israel, Poland, Greece, Hungary and Portugal
Less than $1 billion	Latvia, Greece, Malta, Slovenia, Gibraltar, Ireland and Australia	Czech Republic, Estonia, Slovenia, Cyprus, Lithuania, Slovakia, Latvia, Malta, New Zealand, United States and Australia

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.

[a] Countries are listed according to the magnitude of FDI.

Box II.19. The effects of the Homeland Investment Act on United States outward FDI

The American Jobs Creation Act of 2004 signed into law on 22 October 2004, through its provision, the Homeland Investment Act, allows United States companies that repatriate earnings from their foreign subsidiaries for a period of one year (calendar year 2004 or calendar year 2005 at taxpayers' option) to be taxed at a reduced rate of 5.25%, instead of 35%, if certain conditions are met (Sauers and Pierce 2005; *WIR05*, pp. 89-90). At constant earnings of foreign affiliates, an increased distribution of earnings leads to an equal and offsetting decrease in reinvested earnings. A decline in reinvested earnings results in lower FDI outflows, as reinvested earnings are an important component of United States outward FDI.

Since many United States parent companies sought to take advantage of the incentive to repatriate foreign affiliates' earnings at reduced rates of taxation, the Homeland Investment Act led to a sizeable decline in reinvested earnings (box table II.19.1). FDI outflows in 2005 therefore shrank by $235 billion to -$13 billion.

Box table II.19.1. Earnings of foreign affiliates of United States TNCs, 2004/QI-2006/QI
(Millions of dollars)

	2004				2005				2006
Item	Q: I	Q: II	Q: III	Q: IV	Q: I	Q: II	Q: III	Q: IV	Q: I
Direct Investment income	53 551	57 209	56 121	59 343	58 427	61 906	63 889	67 148	69 459
Earnings	51 992	55 613	54 534	57 687	56 787	60 347	62 321	65 630	67 984
Distributed earnings	9 153	21 253	10 095	21 987	25 102	33 529	87 058	110 633	14 622
Reinvested earnings	42 839	34 359	44 439	35 700	31 684	26 818	-24 737	-45 003	53 362
FDI outflows	53 668	51 491	35 755	81 522	29 165	33 486	-29 738	-45 626	60 866

Source: UNCTAD, based on data from the United States Department of Commerce, Bureau of Economic Analysis, U.S. International Transactions Accounts Data, released on 14 March 2006 (www.bea.doc.gov).

Source: UNCTAD.

affiliates resulted in increasing reinvested earnings abroad.

In 2005, there was a turnaround in Germany's outward FDI from its low levels of 2003 and 2004 when German companies had cut their investments, both domestic and foreign, due to corporate restructuring. Thereafter, rising profits of large *German* companies led to an increase in German FDI abroad to $46 billion, with investing firms recently using more M&As, including hostile takeovers. Germany therefore regained its traditional role as a (net) foreign investor in 2005.

Switzerland also featured among the large investors in 2005. The surge of outflows from this country, from $27 billion to $43 billion, was due to increased investments by finance and holding companies as well as trading companies. Chemicals and food, typically for Swiss FDI, accounted for more than 90% of its outward FDI in manufacturing.

Although outflows from Spain declined significantly (by 36%), they still reached $39 billion, making the country one of the largest EU investors. Spanish firms are currently expanding their investments into Europe and the United States.[125] Their acquisitions are encouraged by a favourable tax regime: for example, goodwill acquired is tax-deductible. Moroever, with an expected slowdown of the economy, Spanish banks and construction companies are hedging their investments by moving abroad and diversifying businesses.[126] Generational change in the big family construction companies is another factor for increasing outward investments.[127]

With *Japan's* corporate debt reaching its lowest level since the bursting of the bubble economy, along with the highest profits (7.6% higher than in 2004 for all listed firms) as well as a recovery of stock exchange markets to their 2001 level, Japanese TNCs have been flush with financial resources for investment. Unsurprisingly, therefore, Japanese outflows rose to $46 billion in 2005. Automobile firms continued to be the main investors, producing more abroad than at home. An interesting feature in 2005 was the fact that major Japanese banks, which once topped the league table of the world's leading banks but then lost financial strength in the past decade, began resuming investment abroad. The most prominent

Table II.18. Outward FDI from developed countries to major country groups, 1990-2004
(Per cent)

Type	Year	World	Regional share in outward FDI			
			Developed countries	Developing economies	South-East Europe and CIS	Unspecified
Flows	Average1990-1994	100	79.1	19.0	0.5	1.4
	Average1995-1999	100	79.2	16.3	0.7	3.8
	Average 2000-2004	100	78.3	15.9	1.6	4.2
	2002	100	82.9	12.4	1.4	3.3
	2003	100	82.8	10.0	2.1	5.1
	2004	100	57.5	24.5	2.8	15.2
Stock	1990	100	82.2	16.6	0.1	1.1
	1995	100	79.6	17.8	0.2	2.4
	2000	100	81.4	16.7	0.5	1.4
	2003	100	81.6	16.3	0.6	1.5
	2004	100	75.4	20.5	0.6	3.5

Source: UNCTAD, FDI/TNC database.
Notes: Only source countries for which data for the three main group were available, were included. Therefore, the number of countries comprising the totals for developed countries as a group may vary in each period or year, depending on the availability of data for each source country. Thus the number of countries and their share in total outward FDI from developed countries for each period/ year were as follows: in 1990-1994, 16 countries were covered accounting for 93% of flows; in 1995-1999, 20 accounted for 97% of flows; in 2002, 24 accounted for 94% of flows; in 2003, 23 accounted for 98% of flows; and in 2004 and in 2000-2004, 18 countries accounted for 72% and 73% of outward flows respectively). Similarly for outward stock: in 1990, 11 countries were covered accounted for 76% of stock; in 1995, 17 accounted for 84% of stock; in 2000, 26 accounted for 93% of stock; in 2003, 21 accounted for 91% of stock; and in 2004, 10 accounted for 53% of stock.

move was by the Bank of Tokyo Mitsubishi UFJ, the world's largest bank in terms of assets in 2006. Partly to follow their Japanese client base, Japanese FDI in banking has been spreading into new EU member States and the Russian Federation, as well as to traditional investment locations in Asia, the EU and the United States. Outstanding loans by these Japanese banking affiliates abroad, an indicator of Japanese FDI in the banking industry, tripled during 2004-2005 and rose by one third in 2005 alone, the highest growth rate since 1990. Finance and insurance accounted for one fifth of total Japanese FDI outflows in 2005.

2. Sectoral trends: inflows up in all sectors

Judging from data on the sectoral breakdown of cross-border M&As (table II.19), which reflect global trends towards more investment in the oil, mining and other natural-resource activities, the *primary sector* in particular gained in importance in sales (inward FDI) and purchases (outward FDI) of developed countries in 2005. FDI data also point in that direction, though the most recent data are available only up to 2004 (annex tables A.I.1-A.I.4).

Based on cross-border M&As in terms of both sales and purchases, FDI increased in developed countries' *manufacturing sector* in 2005 (table II.19). In particular, spectacular growth of FDI in metals and metal products reflected the high commodity prices: five times higher in cross-border sales and four times higher in purchases.[128] Motor vehicles and transport equipment also experienced high FDI growth, with a threefold increase in cross-border M&As. In recent years, the new member States of the *EU* have been attracting increasing FDI in the car manufacturing industry in Europe. Major TNCs such as Hyundai Motor (Republic of Korea), Hyundai-affiliated Kia Motors and Sanden (Japan) have announced greenfield investments worth $1.2 billion, $1.29 billion and $140 million, respectively, to open new production plants in the Czech Republic, Slovakia and Poland respectively (box II.20).

In general, there is increasing FDI activity in the *services sector* of developed countries, particularly in financial and real estate industries. In the telecommunications industry there were several large cross-border acquisitions that increased the value of FDI flows. In banking and insurance FDI inflows increased due to consolidation in the industry and to expansion, spurred by financial deregulation and globalization. Much of the increase was in the EU (box II.21).

3. Policy developments

In 2005, a number of developed countries adopted policies aimed at attracting FDI. These included further liberalization and privatization of State-owned enterprises in the manufacturing and services sectors, cutting corporate tax rates, and introducing tax exemptions and other incentives for foreign investors.

Many new EU member countries continued the process of privatization and liberalization. For example:

- In the Czech Republic, the Government sold its 51% stake in Cesky Telecom and a 99% stake in Vitkovice Steel to foreign investors.
- In Hungary, Latvia and Malta, formerly State-owned enterprises in such different industries as airport operations, State and municipal property, oil terminals and electricity were privatized and partially sold to foreign investors.
- In Poland, the Government sold State-owned firms in oil, gas and chemicals industries.

There were also some large-scale privatizations in other developed countries in 2005.

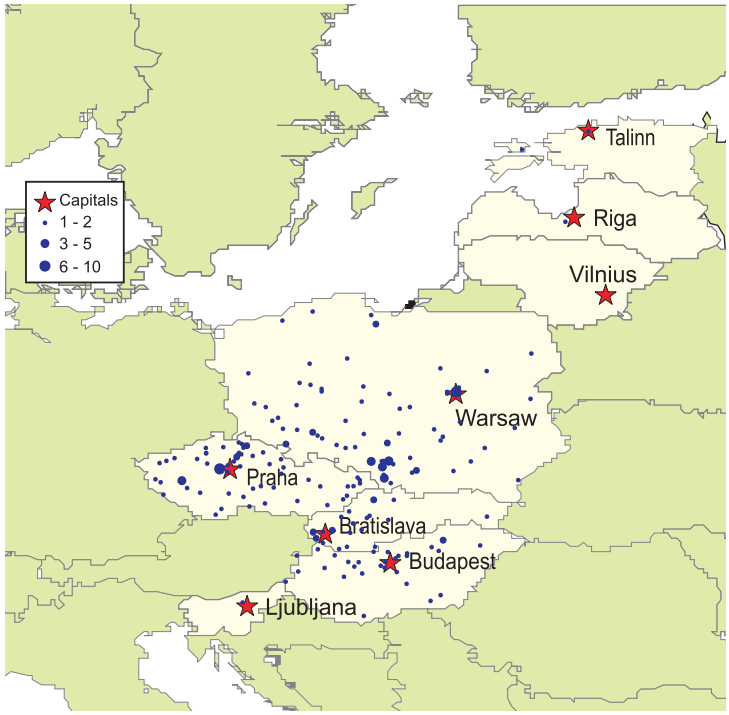
- In Austria, the Government sold its 15% stake in VA Tech, a metallurgy, power generation and infrastructure conglomerate, to Siemens (Germany).

Box II.20. New EU member States continue to attract international car manufacturers

The new EU member States have become new hubs of manufacturing for automobile production in Europe. In 2005, passenger car production in the new EU members exceeded 1.6 million cars, equivalent to 9.5% of the total production in the EU-25. Foreign affiliates in this industry are concentrated in four countries (box figure II.20.1). The Czech Republic and Poland are the largest producers, followed by Hungary and Slovakia. In the past 15 years, TNCs have invested heavily in the automobile industry in East European countries. About one tenth of inward FDI stocks in Hungary, Poland and the Czech Republic are in the automobile industry.

Foreign firms dominate the automobile industry in the new EU member States. They account for an estimated 70% of total employment in the industry. The bulk of inward FDI originates from European manufacturers. But since investing in these countries allows overseas investors to jump over EU tariff barriers, other investors (especially from Japan, the Republic of Korea and the United States) are becoming increasingly interested in the region (European Communities 2004, p. 188 ff). As large component suppliers have followed car producers, a dynamic manufacturing cluster with high output and export potential has developed.

Box figure II.20.1. Map of location of foreign affiliates in the new EU member States, 2005



Source: UNCTAD, based on Dun & Bradstreet, *Who Owns Whom Database*.
Note: Based on 275 majority-owned foreign affiliates, including those in the parts and supplies industry.

Further investments in the new EU member States are expected from large car-makers and component suppliers in the coming years because of several encouraging factors, including expected strong economic growth, low labour costs, a skilled workforce, a low tax environment, as well as several investment incentives. For example, in 2005, the average effective top statutory tax rate on corporate income in the Czech Republic, Hungary and Poland was 20.1%, compared to an average tax rate of 36.6% in France, Germany and Italy (box table II.20.1). Wages in the

/...

Box II.20. New EU member States continue to attract international car manufacturers (concluded)

new EU member States in 2005 are about 70% lower than those in the EU-15 countries[a] and they can be expected to remain at this level for quite a while (*WIR05*). Thus automobile production in the new EU member States is expected to double within the next five years, from 1.6 million to 3.2 million vehicles, increasing the share of the new EU-10 countries in total EU production to 16.5% (Csmauto 2005).

Box table II.20.1 Macroeconomic and other indicators for selected EU members

Country	Economic growth (average for 2006-2007) [a]	Tax rate on corporate income (2005 per cent) [b]
France	2.1	33.8
Germany	1.2	38.6
Italy	1.3	37.3
Czech Republic	5.0	26.0
Hungary	4.3	17.5
Poland	4.0	19.0

Source: UNCTAD, based on the following:
[a] IMF forecast (IMF 2006).
[b] Effective top statutory tax rate on corporate income (Eurostat 2005).

Source: UNCTAD.

[a] It should be noted that a simple comparison of wage costs expressed in one currency (e.g. the euro) is of limited value since productivity is not considered.

Box II.21. FDI in banking in the EU-15: trends, determinants and barriers to integration

There have been several large cross-border M&A deals in the European banking industry in recent years. Santander (Spain) acquired Abbey National (United Kingdom) for $15.8 billion in 2004, Unicredito (Italy) merged with the German Bayerische Hypo Bank for $18 billion in 2005 (annex table A.I.7), and the Netherlands' ABN Amro acquired Italian Antonveneta in 2006.

Despite growing activity, the degree of integration in banking in Europe lags behind expectations. In several European countries with a relatively large number of banks, the consolidation process in the banking sector has been relatively slow. The single market, the introduction of the euro and several deregulation measures, such as the Financial Services Action Plan, increased cross-border financial flows in the EU, but integration via cross-border expansion of banking institutions has advanced slowly (Berglöf, Fulghieri and Gual 2005). In Italy and Germany, for example, the market share of the top five banks is small (35% and 25% respectively) compared to 75% in France and 80% in the Netherlands (Berglöf, Fulghieri and Gual 2005). The market share of foreign-dominated institutions in many European countries is also small.

Part of the reason for this situation lies in the existence of institutional and regulatory barriers to foreign takeovers of resident banks in some countries. In Italy, an acquisition of more than 5% of shares in any Italian bank has to be approved by the Bank of Italy. The Bank of Italy can therefore resist any foreign acquisitions of Italian banks, as illustrated by the case of the Netherlands' ABN Amro's acquisition of Antonveneta. After the European commission initiated proceedings in early December 2005 against Italy for possible infringement of Single Market provisions on the free flow of capital, the Italian Government transferred part of the responsibility for dealing with anti-competitive behaviour – that was in the past often assumed by the Bank of Italy – to the anti-trust authority (IMF 2006). In Germany, State ownership of almost half of the banking system makes it very difficult for foreign investors to enter through M&As (Brunner, et al. 2004).

Source: UNCTAD.

Table II.19. Developed countries: distribution of cross-border M&As, by sector, 2004-2005
(Millions of dollars)

Sector	Sales		Purchases	
	2004	2005	2004	2005
Total	315 851	598 350	339 799	626 339
Primary	11 337	110 474	14 904	97 876
Manufacturing	105 202	171 020	91 269	125 604
Tertiary	199 312	316 856	233 624	402 823
Unknown[a]	-	-	2	36

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

[a] Including non-classified establishments.

- Part of the State-owned Danish postal service was privatized and sold to a foreign private equity fund.
- The Italian State-owned electricity company, ENEL, was partially privatized as well as Gaz de France.

Despite some progress in recent years, the EU continues to lag behind the United States in the opening up and deregulation of the services sector, which hinders further cross-border investments in this sector (ECB 2006b). The EU Commission's Proposal for a Directive on Services in the Internal Market could change this. According to some estimates, EU bilateral trade and investment in commercial services could eventually increase by up to a third once the Directive takes full effect (which could take until 2010) (ECB 2006b, p. 15 ff).[129] A further stimulus to intra-EU investments could be the accession to the EU of Bulgaria and Romania, which is currently scheduled for 2007.[130]

Partly with a view to enhancing their attractiveness, several countries completed or announced further cuts in corporate income tax and reforms of their tax regime. Estonia amended its corporate profit tax law to ease the setting up of holding companies in the country, and announced plans to reduce its flat income tax rate for companies and individuals from 24% in 2005 to 20% in 2009. Finland cut its corporate tax rate from 29% to 26%. Progressive corporate tax rate cuts were announced in Greece, Israel and the Netherlands.

In 2005, several developed countries also adopted incentives for FDI and measures aimed at facilitating the entry process for foreign investors. In Greece, for instance, a new law offers generous cash grants for investment. In Slovenia, a decree was passed to reduce entry costs for FDI that creates new jobs and contributes to the transfer of knowledge and technology.

In addition, countries continued to conclude BITs and DTTs – although at a reduced rate compared to previous years. In 2005, 45 BITs and 38 DTTs involved a developed country. This brought the total number of BITs and DTTs involving developed countries to 1,511 and 2,111, respectively, at the end of 2005.

There were also a number of protectionist moves in 2005 in the area of FDI. For example, the Spanish Government tried to prevent the takeover of the energy supplier Endesa by German E.ON. The French Government resisted the acquisition of Suez by the Italian firm ENEL by promoting the merger of Gaz de France and Suez and creating a "national champion". France, Germany, Italy and Japan have sought to tighten M&A regulations by allowing target companies to use "poison pills" (*WIR00*, p. 104). In the United States, for national security reasons, major cross-border M&As are reviewed by the Committee on Foreign Investment (CFIUS) (box VI.9). This led, for example, to the withdrawal of the bid by the Chinese oil firm, CNOOC, for the United States firm, Unocal, in 2005.

While Japan has introduced measures that may restrict M&A activities, it is trying to advance negotiations on FTAs and economic partnership agreements (EPAs), and aims at concluding an FTA with 15 countries or regions by 2010. However, according to a survey by the Japan Bank for International Cooperation (JBIC 2006),[131] Japanese manufacturing TNCs do not intend to make much use of what is offered by the agreements signed or under negotiation between Japan and ASEAN or Japan and six individual countries (Indonesia, Malaysia, the Philippines, the Republic of Korea and Thailand). The bilateral agreement they find the most useful is the one between Japan and Thailand, but even that is planned to be used by only 29% of Japanese TNCs, while in the case of the agreement between Japan and the Philippines only one eighth of Japanese TNCs responded that they found it useful. The FTA between Japan and Malaysia, scheduled to take effect in 2006, also evoked a lukewarm response.

4. Prospects

The prospects for a further increase in FDI flows to developed countries in 2006 are favourable, despite some downside risks. Economic growth in developed countries is expected to increase moderately, to 3% in 2006 (IMF 2006). Growth divergence among developed countries are expected to narrow. The United States economy will continue to be the main engine of growth, with an expected annual growth rate in 2006-2007 of 3.5%. The Japanese economy is expected to grow at 2.8%, and economic recovery in the euro area should be more sustained (+2%). Corporate profits of companies in developed countries reached historically high levels in 2005 (IMF 2006, chapter IV). Despite fears of protectionist measures, strong growth in world trade is expected (IMF 2006, OECD 2006): in 2006 and 2007 the volume of world trade in goods and services is expected to grow by 8.0 % and 7.5% respectively, which would be close to the 35-year trend line and much stronger than in 2005 (7.3%).

If business and consumer confidence grows further, it should result in additional investments by developed-country TNCs, which would further increase FDI inflows in developed countries. In addition, external financing conditions are still favourable. Short-term interest rates have continued to rise, but long-term interest rates are still considerably lower than long-term averages.

Surveys in several countries also point to continued robust FDI activity. The annual JBIC survey, for instance, suggests that 79% of surveyed companies plan to increase their FDI within the next three years (JBIC 2006).[132] A similar trend is confirmed by the Nikkei survey in October 2005, which revealed that 87% of Japanese manufacturing companies plan to expand foreign production over the next three years. The country that attracts them the most is China (85% of surveyed firms), followed by Thailand (23%), North America (19%) and Europe, including Central and Eastern Europe (5%).[133] According to an annual survey of German firms, FDI by the companies surveyed in the manufacturing sector in 2006 will continue to grow (DIHK 2006): 41% of the firms plan to invest abroad (slightly more than in 2005); 43% of them are planning to invest more and only 10% less than in the previous year. FDI outflows from the United States are also expected to increase considerably in 2006, as the massive reduction of reinvested earnings abroad – that led to low FDI outflows in 2005 – will most likely be reversed after the first quarter of 2006 (Bach 2006), due to time limitations in the American Jobs Creation Act (box II.19). The OECD's outlook for FDI flows in the coming years is positive, though it projects that both inward and outward FDI in 2006 in the OECD countries will remain unchanged or decline slightly (OECD 2006).

FDI by institutional investors is also expected to be strong in 2006. For example, in Japan FDI by private equity firms continues to be a significant determinant of the level of inflows. Permira (United Kingdom) alone plans to invest 100-150 billion yen ($0.9-1.4 billion) over the next three years, and Carlyle (United States) collected $2 billion in funds for investment in 2006. According to UNCTAD's estimates, private equity cross-border investments in the first half of 2006 show at least a similarly high level as in the corresponding period of 2005. Data on cross-border M&As in general indicate growing foreign investments – a nearly 40% increase over the same period of 2005.

Several risks for the world economy persist, with implications for FDI flows from developed countries. Most of them are not new. Global current-account imbalances have begun to widen dramatically, and the United States deficit increased to 6.5 % of GDP in 2005. This contrasts sharply with the current-account surpluses of China, Japan and other Asian countries, and of the oil-exporting countries, and could cause abrupt exchange-rate changes. High and volatile oil prices have caused inflationary pressures and a tightening of financial market conditions. High fiscal deficits in Europe in combination with rising interest rates could lead to tax and wage pressures. All these considerations underline the need for caution in assessing FDI prospects for developed countries.

Notes

1 *WIR05*, box I.2. These countries are also referred to as transition economies.

2 Based on OCO Consulting's Locomonitor database. See endnote 2 in chapter 1 for the nature of these data.

3 *Source*: "China makes more overseas investment in 2005, mainly in Asia", *People's Daily Online*, 10 February 2006 (www.english.people.com.cn/200602/10/eng20060210_241644.html).

4 Comprising: Algeria, Egypt, the Libyan Arab Jamahiriya, Morocco, Sudan and Tunisia.

5 For example, in 2005, Morocco privatized four sugar companies and two fixed-line telecommunications licences, while Tunisia sold Société Tunisio-Algerienne de Ciment Blanc to Prassa (Spain) and Banque du Sud to Banco Santander (Spain).

6 *Source*: "The domestic economy: Chinese and Indian firms eye new projects", Economist Intelligence Unit, 11 March 2005. (www.eiu.com/index.asp?layout=displayIssueArticle&article_id=1628141362&text=Sudapet%2C+Petronas).

7 Countries in the subregion are: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, the Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone and Togo.

8 *Source*: "Israel Sierra-com to Invest US$3M in Sierra Leone Broadband and VOIP", *BalancingAct* (www.balancingact-africa.com/news/back/balancing-act_288.html).

9 Comprising: Angola, Cameroon, Central African Republic, Chad, Congo, the Democratic Republic of the Congo, Equatorial Guinea, Gabon and Sao Tome and Principe.

10 *Source*: "Phase two of Barclays deal to create African megabank", *BusinessDay*, 12 May 2005 (www.businessday.co.za).

11 Countries in the subregion are: Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Mozambique, Rwanda, Seychelles, Somalia, Uganda, the United Republic of Tanzania, Zambia and Zimbabwe.

12 The subregion comprises: Botswana, Lesotho, Namibia, South Africa and Swaziland.

13 For example, SABMiller's acquisitions of Bavaria Brewers (Colombia) for $4.7 billion (annex table A.I.7) and Shaw Wallace & Company (India), Topovar Brewery (Slovakia) and Funyan City Snowland Brewery (China) in 2005 were not recorded as outward investment from South Africa because the financing for these deals did not originate in South Africa.

14 A comprehensive analysis of FDI outflows from most African countries is constrained by the lack of adequate data, except for South Africa and a few other countries such as Nigeria, the Libyan Arab Jamahiriya and Côte d'Ivoire.

15 This transaction is apparently not reflected in the balance of payments of Egypt because payments were either not made in 2005 or made from countries other than Egypt.

16 Data from national sources.

17 *Source:* "Urgent need to broaden the base: Island takes a buffeting with lost income from its clothing and sugar industries", *Financial Times*, 14 March 2006.

18 *Source*: "Lesotho textile workers lose jobs", *BBCNews*, 12 January 2005 (www.news.bbc.co.uk/1/hi/business/4169587.stm).

19 See, for instance, ECA 2004.

20 *Source*: "Special report: spotlight on a continent that supplies two-thirds of the world's sparklers", *Financial Times Africa: Diamonds*, 28 June 2005.

21 South, East and South-East Asia, as well as West Asia and Oceania, were discussed under "Asia and Oceania" in previous *WIR*s. In this year's *Report*, West Asia is discussed in a separate section.

22 Marshall Islands accounted for 73% of FDI inflows to Oceania in 2004, but lower flows to the country in 2005 explain most of the decrease of FDI inflows to Oceania for that year.

23 For example, China has recorded 10% growth rates for three years in a row. The Government of China adjusted its GDP statistics, in particular in services, in December 2005, based on the results of a new economic census. For 2003, 2004 and 2005, growth rates are now estimated at 10%, 10.1% and 9.9% respectively.

24 In 2005, the region accounted for 12% of world GDP, but for 26% of the increase in world GDP.

25 Comprises China, Hong Kong (China), the Democratic People's Republic of Korea, the Republic of Korea, Macao (China), Mongolia and Taiwan Province of China.

26 The growth rate cannot be calculated directly, as the data for 2004 released by MOFCOM do not include FDI in financial industries (see box II.6). The adjusted figure (including FDI in financial industries) for 2004 is $63.8 billion (based on UNCTAD's communications with MOFCOM), which results in a growth rate of FDI inflows to China in 2005 of 13%.

27 Comprises Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

28 Comprises Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.

29 Dan Kingsley, "Substance needed to woo investors", *The Jakarta Post*, 15 June 2006.

30 Based on the number of projects from the Locomonitor database (see endnote 2 in chapter I).

31 In 2005, they accounted for more than 41% of total FDI outflows from developing economies and about 72% of total outflows from South, East and South-East Asia, and Oceania.

32 In early 2006, Temasek (Singapore) purchased an 11.55% stake in Standard Chartered, the London-based bank that focuses on emerging markets, for £2.3 billion ($4.2 billion). Temasek also bought Shin Corp Plc (Thailand) valued at 73.3 billion baht ($1.9 billion).

33 For instance, Shanghai Automotive Industry Corporation Group acquired Ssangyong Motor (Republic of Korea) for $531 million, and Nanjing Automobile Group acquired MG Rover (United Kingdom) for $122 million.

34 The Government of India has not established a proactive policy for outward FDI as the Government of China has done (chapter VI), but leading Indian companies have already invested abroad intensively. Many of these companies are in software and IT-enabled services, in which Indian enterprises have already established strong competitiveness. Large deals undertaken by Indian companies in 2005 can also be found in chemicals and

pharmaceuticals. For example, Tata chemicals acquired Brunner Mond (United Kingdom) with an investment of $112 million; and Kemwell established operations in Uppsala (Sweden) after taking over a plant formerly run by Pfizer (United States).

35 Data from ASEAN Secretariat (2005a).

36 For example, Aramco (Saudi Arabia) is investing in Qingdao, Maoming, Quanzhou and Haikou in China, and Sinopec (China) is cooperating with Saudi and international companies in exploring oilfields in Saudi Arabia, as well as operating in a downstream project. Previously, Japan and the Republic of Korea were the partners in such joint projects, and now China and India have become increasingly attractive.

37 Currently, four Chinese cities are competing to become the third location for Airbus aircraft assembly, in addition to Toulouse and Hamburg.

38 From July 2006, foreign investors from the designated areas, such as offshore financial centres, deriving investment income (including interest, dividends, royalties or capital gains), in the Republic of Korea will be subject to a withholding tax at a regular rate, as stipulated in the domestic law. However, refund may subsequently be made if the investor concerned proves within three years that he or she is entitled to treaty benefits under the relevant double taxation convention. According to the Korean Ministry of Finance and Economy, the change is procedural in nature, rather than an attempt to apply the domestic tax laws without regard to existing bilateral tax treaties to which the country is party.

39 Of the CEOs surveyed 55% were willing to invest the most in China, followed by India (36%) and Brazil (33%).

40 The expected M&As include, for instance, the CITIC-Nations Energy (Canada) deal ($2.2 billion) and the Sinopec-Udmurtneft (Russian Federation) deal ($3 billion).

41 For instance, Boeing (United States) has agreed to invest $100 million in India, Ford is investing $75 million in the country, and IBM has announced that it would invest $6 billion in India in the next three years.

42 According to the monthly survey conducted by JETRO (www/jetro.go.jp).

43 The First Ministerial Meeting of the China-Pacific Island Countries Economic Development & Cooperation Forum was held in Nadi, Fiji on 5-6 April 2006. Ministers of Australia, China, the Cook Islands, Fiji, Micronesia, New Zealand, Niue, Papua New Guinea, Samoa, Tonga and Vanuatu attended.

44 Comprising Bahrain, the Islamic Republic of Iran, Iraq, Jordan, Kuwait, Lebanon, Oman, the Palestinian Territory, Qatar, Saudi Arabia, the Syrian Arab Republic, Turkey, the United Arab Emirates and Yemen.

45 They are the United Arab Emirates, Qatar, Kuwait, Bahrain, Turkey, Saudi Arabia, the Islamic Republic of Iran and Jordan, in that order.

46 In current prices, Qatar's GDP per capita, the highest in the Asia and Oceania region, exceeded that of the United States for the first time in 2005. Qatar was followed by the United Arab Emirates and Kuwait. *Source: IMF's World Economic Outlook Database* as of April 2006 (www.imf.org/external/pubs ft/weo/2006/01/data/index.htm).

47 The top three countries in the region ranked among 155 economies are Saudi Arabia (38th), Kuwait (47th) and Oman (51st), demonstrating relative strength in areas related to taxes, incentives and property registration. Bahrain and Qatar are not included in the ranking. For details, see: www.doingbusiness.org.

48 For example, the ratio of current profits to sales of affiliates of Japanese and United States TNCs operating in West Asia has been increasing since 2002. For Japanese affiliates, the ratio was nearly 10% in 2003 (5.4 percentage points higher than in 2001) compared with 5% in all developing countries and 2% in all developed countries. Similarly for United States affiliates, the ratio in West Asia was 16% in 2003 (9 percentage points higher than in 2001), compared with 14% in all developing regions and 9% in all developed regions (data from UNCTAD, FDI/TNC database (www.unctad.org/fdistatsitics)).

49 For instance, FDI inflows into Saudi Arabia's primary sector in 2005 were negligible (0.17% of total flows).

50 Based on data reported by the Central Bank of the Republic of Turkey.

51 According to the data reported by the Saudi Arabian General Investment Authority (SAGIA), March 2006. A single transaction of $2 billion by Sumitomo Corporation (Japan) to establish the $9.8-billion joint venture Rabigh Refining and Petrochemical Company with the State-run Saudi Aramco in this country was the main reason for this surge.

52 These projects include liquefied natural gas and petrochemical plants involving United States firms like ExxonMobil and Chevron Phillips Chemical.

53 For example, TNCs that invested in the Qatar Science and Technology Park (QSTP), established in 2005, include Royal Dutch/Shell Group (which is planning an expenditure of up to $100 million over a 10-year period) and Gartner Lee, a Canada-based environmental services firm (for the development and application of environmental and waste-management technologies) (see policy developments in section below). The QSTP is located in Doha's Education City, run on a non-profit basis by the Qatar Foundation. The Foundation was created in 1995 to enhance Qatar's educational, scientific and social infrastructure. *Source*: Qatar Science and Technology Park (www.qstp.org.qa).

54 For instance, some mega M&A deals have taken place in Turkey between Saudi Oger (Saudi Arabia) and Türk Telekom, while the Russian Alfa Group purchased Türkcell shares.

55 Based on UNCTAD's database on national laws and regulations.

56 Foreign ownership of a listed company is limited to 25% of issued share.

57 In addition to the 36 provinces with a per capita income of less than $1,500, 13 provinces were earmarked to benefit from the incentives scheme. *Source*: Turkey, the General Directorate of Foreign Investments (2006).

58 The minimum tax rate for firms with a minimum of 10% foreign participation has been lowered from 25% to 15%, effective from January 2006, while for Turkish firms, the corporate income tax has been lowered from 30% to 20% (Corporate Income Tax Law No. 5520).

59 Legislation is expected to be passed by mid-2007, enabling Project Kuwait, a $7 billion plan to encourage foreign investment and development of oilfields in northern Kuwait, to start in the first half of 2008 (EIU 2006b). There is no corporate tax for Kuwaiti nationals.

60 In the Barcelona Declaration (1995), the Euro-Mediterranean Partners agreed to the establishment of a Euro-Mediterranean Free Trade Area by the target date of 2010. This is to be achieved by means of Euro-Mediterranean association agreements negotiated and concluded between the EU and the Mediterranean Partners, together with free trade agreements among the partners themselves. In 1995, Turkey signed an association agreement establishing the final phase of a customs union with the EU. *Source*: EU (europa.eu.int/comm/external_relations/euromed/free_trade_area.htm).

61 The GCC, where four million Indian expatriate workers reside, is India's second largest trading partner. *Source* www.gulfnews.com/business/Trade/10028411.html.

62 While Saudi Arabia, which is chairing the GCC, expressed its willingness as an individual State to revitalize discussions on how to further promote mutual investments, and indicated its readiness to resume negotiations on bilateral agreements for the protection and promotion of investment, investment issues at the GCC level were not covered in the joint statement in April 2006. *Source*: "Joint Statement - Towards the building of strategic and multi-layered partnership between Japan and the Kingdom of Saudi Arabia" (www.mofa.go.jp/region/middle_e/saudi/joint0604.html).

63 Saudi Arabia began the progressive implementation of liberalization measures in the banking and insurance industries even before its accession to the WTO in 2005 (box II.14). It started in the late 1990s when the market was opened up to foreign banks only from the GCC, followed by the entry of non-GCC banks in 2003. The opening up of the insurance industry to foreign investors is more recent, in April 2005, in preparation for accession to the WTO. As of March 2006, 13 foreign insurance firms (e.g. from Bahrain, France, Germany, India, Japan, Jordan, Lebanon, the Netherlands, Switzerland, the United Kingdom and the United States) had been licensed to operate in the country. *Source*: WTO (www.wto.org/english/news_e/pres05_e/pr420_e.htm), Saudi Arabian Monetary Agency (SAMA, www.sama.gov.sa), Samba (2006) and SAGIA (www.sagia.gov.sa).

64 Examples include Saudi Aramco, which, in 2006, signed deals with Total (France) and ConocoPhillips (United States) for two new refineries costing $6 billion.

65 In 2006, Vodafone (United Kingdom) completed an acquisition of Turkey's second largest mobile operator, Telsim Mobil for $4.55 billion.

66 *Source*: Ministry of Commerce (MOFCOM), China (ch2.mofcom.gov.cn/aarticle/chinanews/200603/20060301684361.html).

67 According to ECLAC, "in the past, when GDP was growing at a good pace, the current account was deteriorating, and when the current account was improving based on positive trade balances, this was because imports were contracting owing to slack domestic demand." (ECLAC 2004a)

68 The trade balance of Latin America and the Caribbean has shifted since 2002 from negative to positive and growing values amounting to $18 billion in 2004 (data from the UNCTAD secretariat on the base of *IMF Balance of Payment database*).

69 Only those countries were covered for which data on reinvested earnings were available for 2005. In South America these countries are: Argentina, Bolivia, Chile, Colombia, Peru and Venezuela. They attracted 60% of total FDI inflows to South America in 2005. Brazil is not considered because its central bank does not report data on reinvested earnings. However, the strong increase in inward FDI in this country suggests that reinvested earnings might also have reached high levels.

70 The decline in the value of cross-border M&As in Brazil and Mexico in 2005 is due to the exceptional amounts reached the previous year in both countries where two mega deals took place respectively: the Belgian beer company, Interbrew, paid $4 billion for the acquisition of Brazilan Ambev, and the Spanish Bank, BBVA, paid $3.9 billion to increase its ownership in its Mexican affiliate Grupo Financiero BBVA Bancomer from 59.4% to 99.7% (see *WIR05*).

71 "The Real under fire", *Business Latin America*, 21 November 2005 (London: EIU), and *Business Latin America*, 30 January 2006 (London: EIU).

72 The most important deal was the $4.7 billion purchase of the Bavarian beer company by SABMiller. Another significant deal was BBVA's (Spain) acquisition of a 98.78% stake in the country's top mortgage lender Granahorrar, via a privatization auction, for $424 million. Other deals included: the $292 million purchase of tobacco producer Coltabaco by Philip Morris International (United States); the $110 million purchase by Glencore (Switzerland) of La Jagua de Ibirico in the coal industry; the $69 million controlling stake purchased by Grupo Gerdau (Brazil) in the steel mills Diaco and Sidelpa; the purchase of the printing company Editora Cinco by Televisa (Mexico) for $40 million; and Copa Airlines' (Panama) acquisition for $30 million of a controlling interest in Aerorepública, Colombia's second-largest airline.

73 Latin American countries have been increasingly investing in Argentina in recent years. In 2005, they were the source of 40% of the 23 cross-border M&A deals in that country, with the second highest deal completed by the Brazilian cement company Camargo Correa that purchased Loma Negra for $1 billion (UNCTAD cross-border M&A database). Moreover, the share of Latin American countries in inward FDI stock in Argentina increased from 14.3% in 2002, to 18.7% in 2004 (*Instituto Nacional de Estadísticas y Censos* (INDEC) (www.mecon.gov.ar/cuentas/internacionales).

74 Grupo Carso acquired – through its affiliates Telmex and América Móvil – telecommunication assets in Brazil, Chile, Paraguay and Peru for more than $2.5 billion. Cemex took over RMC Group (Untied Kingdom) – one of Europe's largest cement producers and one of the world's largest ready-mixed concrete and aggregate suppliers – for $4.2 billion. This deal is excluded from table II.11 because RMC was acquired by Cemex's affiliate in the United Kingdom, and the table only takes into account the cross-border deals in which the immediate acquirer or the immediate target is in Latin America.

75 Santo Domingo Group sold its affiliate Bavaria to SABMiller, which in turn gave a part of its share (15.1%) to Santo Domingo Group. In table II.11, only the acquisition of Bavaria by SABMiller is included.

76 "Bolivian President seizes gas industry", *Washington Post*, 2 May 2006.

77 "Bolivia turns to Venezuela for gas help", *Yahoo News*, 22 May 2006 (news.yahoo.com).

78 Information from Central Bank of Venezuela (www.bcv.org.ve).

79 Such as Chevron (United States), BP (United Kingdom), Royal/Dutch Shell (United Kingdom/Netherlands), Repsol YPF (Spain) and Petrobrás (Brazil).

80 Exxon Mobil sold its stake in a Venezuelan field to its partner, Repsol YPF. See"New Year's seizures", *Business Latin America*, 16 January 2006 (London, EIU), and *BBC News*, 3 April 2006, news.bbc.co.uk, and ECLAC 2006a.

81 *Central Bank of Ecuador* (www.bce.fin.ec).

82 Since 1990, natural gas reserves have fallen from 30 years to 13.5 years of consumption, while crude oil reserves dwindled from 13 to 10.5 years. Private firms are reported to have exploited the reserves discovered by the previous state-owned firm with minimum spending on exploration ("En los últimos 10 años, salvo alguna honrosa excepción, no se han incorporado reservas por descubrimiento", *El Inversor Energético*, 2005, año 1, número cuatro, noviembre, and "The government is offering tax incentives to companies that commit to oil and natural-gas projects", *Business Latin America*, 30 May 2005 (London: EIU)).

83 Repsol's *press release*, 12 January 2006 (www.repsolypf.com).

84 This amount does not include investments in exploration and in routine maintenance (Chilean Copper Commission (Cochilco) (www.cochilco.cl).

85 Ministries of Mining of Peru and Argentina, respectively.

86 For instance, violent protests in Peru forced BHP Billiton Tintaya, the country's third-largest copper producer, to suspend operations for one month, and Newmont mining to suspend its gold exploration in Yanacanchilla. In Argentina, two provinces followed the example of the province of Chubut, where a law adopted in 2003 prohibited cyanide in open-pit mining (Torres 2005) and limited certain types of mining projects following public protests. ("Argentina's gold rush", *Business Latin America*, 13 March 2006 (London: EIU)).

87 Instituto Nacional de Estadística, Geografía e Informática (INEGI) of Mexico (www.inegi.gob.mx).

88 For example, six Chinese firms set up facilities in Tijuana during the second half of 2005 and many others have expressed their interest in establishing such facilities, with a view to targeting the United States and Latin American markets, as reported by the Consejo Nacional de la Industria Maquiladora de Exportación (Cnime). *La Nación*, 20 April 2006.

89 See, for example, "Investors still bet on Mexico", *Business Latin America*, 5 September 2005 (London: EIU); "Maquiladoras get fitter", *Business Latin America*, 27 March 2006 (London: EIU); "Mexico-US railways: investors aboard", *Business Latin America*, 26 December 2005 (London: EIU); "Automotive - Mexico", *Business Latin America*, 6 February 2006 (London: EIU) and (ECLAC 2006a).

90 Data from Central Bank of Brazil (www.bcb.gov.br).

91 The joint venture was between the Chinese government-owned Baosteel and the Brazilian mining giant Companhia Vale de Rio Doce (CVRD), *Business Latin America*, 21 November 2005 (London: EIU).

92 Peugeot Citroën will stop importing gear boxes from France and produce them in Córdoba, in partnership with Fiat (Italy), to fit various models of passenger cars and invest $125 million in manufacturing new export models; DaimlerChrysler will spend some $50 million on the production of a Mercedes Benz utility vehicle, to be sold exclusively in non-Latin American markets; and Renault will invest $30 million in 2006. (ECLAC 2006a, and Adefa (www.adefa.com.ar), and *Business Latin America*, 22 May 2006 (London: EIU).

93 See ECLAC 2006a and "Uruguay: A sticky predicament", *Business Latin America*, 22 May 2006 (London: EIU).

94 Farmacias Ahumada (Chile) acquired full ownership of Mexico's 30-unit Farmacias Fénix drugstore chain; Elektra (Mexico) is spending $400 million to open 60 stores in Mexico and Central America in 2005-2006; and Falabella (Chile) has opened a new store in Lima, Peru and is planning further expansions in that country as well as in Argentina, Colombia, Ecuador and Venezuela. (See ECLAC 2006a for more details on the regional expansion of Chilean retail businesses).

95 After Telefónica Móviles acquisition in 2005 of the entire Latin American and Caribbean assets of Bellsouth (United States) *(WIR05)*, Telmex expanded significantly in Brazil, while América Móvil purchased mobile companies from foreign operators in Chile, Peru and Paraguay. Moreover, in early 2006, Telmex and América Móvil announced the acquisition of the US Verizon's assets in the Dominican Republic, Puerto Rico and Venezuela.

96 The sale of Telecom Italia's Peruvian unit to América Móvil was its second divestiture in South America in 2005, after it sold control of its Chilean unit to a local company (Almendral SA). It also announced in May 2006 the sale of its Venezuelan mobile phone unit, to the Venezuelan start-up telecom group Telvenco SA. (*Computer Business review Online*, 16 August 2005 (www.cbronline.com) and marketwatch.com, 26 May 2006 (www.marketwatch.com)).

97 See "Uruguay: Vázquez's investor nod", *Business Latin America*, 18 April 2005, (London:EIU); and "Kirshner le rescindió el contrato a Aguas Argentinas", *La Nación*, 22 March 2006, Buenos Iares; and *Business Latin America*, 25 July 2005, (London:EIU).

98 These instruments include, among others, intervention in the foreign-exchange market to maintain national currency at a competitive level, export taxes to increase the State's revenues and to halt price rises on the domestic market, control of inflation through the freezing of public utility prices and negotiation of price agreements between the Government and leading producers and retailers.

99 "Venezuela: Chavéz cashes in", *Business Latin America*, 8 August 2005, (London:EIU), and *Business Latin America*, 19 September 2005 (London:EIU).

100 Although it is the fourth deprivatization by the Argentinean Government since the end of 2003, this move was not considered as representing an overall policy towards re-nationalization, but rather an attempt to regain control over deteriorating public services. (Inter Press Service News Agency, 10 May 2006 (www.ipsnews.net)). Previous moves towards the restoration of State control occurred in the postal services (operated by a national company) in 2003, the airwaves used by mobile phone operators and radio and TV stations (operated by the French Thales Spectrum) in 2004, and a passenger train line (run by the Argentine-

owned Taselli Group) in 2004.

101 *Business Latin America*, 7 February 2005 (London: EIU).

102 The companies that discontinued the claim are: Pioneer Natural Resources (United States) in hydrocarbon and electricity and France Telecom SA in telecommunications. The companies that suspended the claim are: 1)AES Corporation (United States) in electricity generation and distribution; 2) Camuzzi International (Italy) in electricity distribution and transport; 3) Gas Natural SDG (Spain) in gas supply and distribution; 4) Aguas Cordobesas (Spain), Suez (France), and Sociedad General de Aguas de Barcelona (Spain) (all together in the same case) in water services; 5) Enersis (Spain)in electricity distribution; 6) Electricidad Argentina (Argentina/France) and EDF International (France) (together in the same case) in electricity distribution; 7) SAUR International (France) in water and sewer services (www.worldbank.org/icsid).

103 *Clarín*, 16 February 2006 (Buenos Aires).

104 In October 2005, Volkswagen (Germany) received $300 million, Ford Motor (United States) $250 million, General Motors (United States) $200 million and Fiat (Italy) $100 million. An additional $250 million loan was accorded to Volkswagen in April 2006. (*BNDES* News, 31 October 2005 and 18 April 2006, www.bndes.gov.br.)

105 Accordingly, in July 2005 the Government announced a three-year plan to foster the integration of foreign automobile producers with the national auto parts industry. This consists of tax rebate for any automobile and truck terminals that buy parts that have 70% or more of national content in the production of motors, gears and axles as well as for the installation of new platforms. The rebate is 8% of the value of the parts purchased during the first year, 7% the second and 6% the third year (Decree 774/2005).

106 *Business Latin America*, 6 March 2006 (London: EIU), and *Business Latin America*, 13 March 2006 (London: EIU).

107 FDI inflows declined in the major host countries; for instance, they fell by 12% in Brazil during the first five months of 2006 compared to the same months of 2005. They dropped by 39% in Mexico and 37% in Argentina in the first quarter, while in Venezuela they registered a negative value. FDI to Colombia is also expected to drop from the exceptionally high level reached in 2005, as M&As by foreign investors are likely to decline. In contrast, FDI inflows into Chile increased by 150% during the first four months of 2006.

108 Data are from OCO Consulting's LOCOmonitor database (www.locomonitor.com). See note to annex table A.I.1 for its coverage.

109 See "Followers of fashion", *Business Europe*, 16-28 February 2005, p. 8.

110 The developed country category now includes, among others, eight countries formerly classified under the Central and Eastern European countries, and Cyprus, formerly classified as a developing country in West Asia, all of which became new EU member States on 1 May 2004. For a detailed explanation of recent changes in geographical groupings, see *WIR05*, box I.2, p. 6.

111 For example, the average value of cross-border M&As in Canada in 2005 was $94 million, compared with $68 million in 2004 (annex tables B.4 and B.6).

112 The rate of return on inward FDI in the United States (as measured by FDI income divided by the average of the beginning- and end-of-year of FDI stock) has been on the rise since 2001: 6% in 2004 (most recent year for which data are available), which was the highest ever since 1997 (data from the United States Department of Commerce, *Survey of Current Business*, various issues).

113 According to cross-border M&A data (FDI data for 2005 are not available), M&As from non-EU countries into the EU-25 doubled, to $142 billion in 2005, while those from EU countries nearly tripled, to $287 billion (data from UNCTAD cross-border M&A database).

114 This deal is a nominal financial rearrangement and has little economic significance.

115 These include, for instance, acquisition of Elsam by Vattenfall (Sweden) for $1.5 billion and Chr. Hansen-Food Ingredient by PAI Partners (France) for $1.4 billion (annex table A.I.7). A group of foreign private equity investors (Apax, Blackstone, KKR, Providence) also acquired the Danish telephone company TDC for a publicly reported value of $13 billion in 2005 (paid in 2006) – the largest cross-border takeover by private equity funds so far (table I.7).

116 In 2005, inflows of intra-company loans amounting to $12 billion were recorded for Germany, while FDI in the form of equity capital dropped by 50% to $13 billion. For an explanation of the negative FDI inflows to Germany in 2004, see *WIR05*, p. 85.

117 Data on trans-shipped FDI were made available for the first time to UNCTAD. They show that trans-shipped FDI (mostly FDI in SPEs) account for 95% of total FDI flows (box I.2). If FDI in SPEs were to be included, in 2002 Luxembourg was the world's largest recipient of FDI inflows (*WIR03*, p. 69). TNCs invest in such entities to take advantage of Luxembourg's favourable tax and financial environment, but they hardly spend there, unlike in other developed countries where FDI in SPEs is relatively large.

118 With only 4% of city planning zones being open to them, instead of 80% as was formerly proposed.

119 These are defined as cases in which the board officially rejected an offer, but the acquirer persisted in its takeover efforts, a definition used by Thomson Financial.

120 The reincorporation resulted in a debt entry in FDI outflows and caused both debit and credit entries in FDI inflows. Conceptually, there is no overall impact on the balance of FDI flow account. The FDI position (stock) was also treated in a similar manner.

121 The World Federation of Exchanges (2006, p. 73) recorded rising stock market prices in 51 of 56 major stock exchanges worldwide in 2005. In many countries stock prices jumped with higher, double-digit rates of increase.

122 Data on greenfield FDI are based on Loco Consulting's Locomonitor database (www.locomonitor.com).

123 This phenomenon has been observed since a long time. See Lipsey (2001).

124 Data from UNCTAD FDI/TNC database (www.unctad.org/fdistatistics).

125 Examples include acquisitions such as those of O_2 of the United Kingdom for $31 billion (concluded in 2006) and Cesky Telecom (Czech Republic) for $1.1 billion by Telefónica, that of Gecina (France) by Metrovacesa

for $6.9 billion, a 20% stake in Sovereign (United States) billion by Santander for $2.4, and the British Airport Authority by Grupo Ferrovial for $19 billion.

126 "Corporate conquistadors", *The Economist*, 18 February 2006, pp. 57-58.

127 "British economy grows used to encounters with the Spanish acquisition", *The Financial Times*, 14 February 2006.

128 Data from UNCTAD, cross-border M&A database.

129 After the Directive had been amended by the European Parliament, it was adopted by the EU Council at the end of May 2006 and sent back to the EU Parliament for a second reading. It is expected to be finally adopted under the Finish EU Presidency.

130 On 16 May 2006, the EU Commission decided not to postpone the admission of Bulgaria and Romania.

131 The survey, conducted in July-September 2005, covered 590 manufacturing TNCs.

132 However, this is 2 percentage points lower than in the 2004 survey.

133 The survey was conducted in September-October 2005 and covered 160 major manufacturing TNCs, 122 of which replied. *Nihon Keizai Shimbun*, 22 October 2005. Two thirds (64%) of those firms also plan to increase their domestic production.

PART TWO

FDI FROM DEVELOPING AND TRANSITION ECONOMIES: IMPLICATIONS FOR DEVELOPMENT

PART TWO

INTRODUCTION

Transnational corporations (TNCs) continue to reshape the global economy. The TNC universe itself is also rapidly changing. Many new companies are venturing overseas with a view to acquiring a regional or even global reach. More importantly, a growing impetus for change today is coming from developing countries and economies in transition, where a number of private as well as State-owned enterprises are increasingly undertaking outward expansion through FDI. This expansion presents new opportunities and challenges which are gradually gaining the attention of the rest of the world. Some welcome it as a new source of capital and knowledge; others regard it as new competition from unexpected places.

In many respects, the expansion of FDI from developing and transition economies is entirely to be expected. In fact, this has been predicted since the late 1970s. After having documented the existence of many overseas subsidiaries of TNCs from developing countries, one early assessment concluded that "the fact that so many have appeared in such a short time suggests that the overall numbers are likely to be considerably more impressive in the next few years" (Wells, 1983: p. 2). By the early 1990s, FDI from developing countries had taken off in earnest.

According to theory, companies need certain ownership-specific advantages to compete successfully outside their home markets. Such advantages are likely to increase as countries reach higher levels of development. Thus FDI is a natural extension of an internationalization process that often begins with exports. It is a process similar to that pursued by today's developed economies, which internationalized in response to the need to access markets or resources and, subsequently, to reduce production and transaction costs by coordinating their regional and global activities. However, another important reason for developing-country firms to invest abroad is to acquire assets that are not available in their own country. Such "asset-augmenting" FDI can indeed help latecomer firms to catch up with their developed-country rivals.

Still, the most recent international expansion of firms from developing and transition economies contains some distinctive features that deserve to be highlighted, particularly as they might be quite unexpected. Although the extent of growth of TNCs from developing and transition economies should not be exaggerated, the speed at which it is unfolding is nevertheless noteworthy. The stock of outward FDI from developing and transition economies in 2005 reached $1.4 trillion, up from only $335 billion 10 years earlier. In some countries, the surge in outward FDI has been remarkable. In 2001, Chinese companies acquired foreign assets amounting to $450 million; in 2005, the value of such acquisitions exceeded $5 billion. Secondly, the process has now spread to an increasing range of countries. Earlier episodes of outward expansion from developing countries involved mainly the newly industrializing economies (NIEs) of Asia, and some Latin American and West Asian economies.[1] Today, TNCs from a wide range of developing countries, such as Argentina, Chile, India, Malaysia, Nigeria, South Africa, Thailand, Turkey and Venezuela, as well as several lower income economies, are extending their reach. After the collapse of the

former Soviet Union, the Russian Federation has also emerged as a major source of outward FDI. The number of developing and transition economies with an outward FDI stock of more than $5 billion increased from 6 in 1990 to 25 in 2005.

A third characteristic concerns the industrial scope of the process. While it might have been expected that FDI from developing and transition economies would involve only a limited number of industries, reflecting a narrow set of ownership-specific assets, the reality is different. Some of the most prominent TNCs from developing and transition economies are active in such diverse areas as oil extraction, cement production, manufacturing of automobiles, personal computers and cell phones, as well as services like banking, telecommunications and port management. However, there is important sectoral variation between different home economies. Fourthly, while most TNCs from developing and transition economies – especially those from Latin America – are regional players, some have global aspirations. In fact, companies like Cemex (Mexico) and Samsung Electronics (Republic of Korea) have reached leading global positions in their respective niches.

The growth rate and geographical as well as sectoral compositions of FDI differ by region. While the bulk of FDI from developing countries in the early 1980s originated from Latin America, it is now the Asian economies that dominate the picture. In 2004, companies from that region controlled well over two thirds of the $1 trillion stock of FDI from developing countries. And among the top 100 TNCs from the developing world, as many as 78 were based in Asia in 2004 (chapter I). Thus the growth of FDI from these economies adds momentum to the gradual shift in the world economy towards the booming and populous Asian economies.

From a development perspective, it is important to understand the distinctive motives driving these TNCs, and the possible implications for home and host economies. Some evidence suggests that they may be better equipped than those from developed countries to offer appropriate goods and services to smaller markets with low per capita purchasing power, and to handle risks associated with operating in States characterized by weak governance. This may make them valuable prospective development partners, particularly with firms in other developing countries. In fact, for a number of the poorest countries, other developing countries constitute the dominant source of inward FDI. At the same time, outward FDI also implies new policy issues that need to be addressed by these home countries. For example, such investments may result in both inflows and outflows of potentially scarce capital, technology, management and other resources, which require them to address the cost-benefit balance. Finally, although the spread of investment by TNCs from developing and transition economies is still much less global in reach than that of some of their developed-country counterparts, the widening and deepening of this process is likely to continue, especially in light of the high rates of growth in parts of the developing world. This quantitative rise might lead to qualitative changes, with implications for broader international economic relations.

This year's *WIR* takes the pulse of the rise of new sources of FDI and TNCs. It maps the most recent trends to identify the main actors in terms of companies as well as home and host countries (chapter III). Particular attention is given to the role of FDI in the context of "South-South" economic relations. Chapter IV discusses the main drivers and determinants of the recent wave of FDI from developing and transition economies, while chapter V explores its impact and development implications. Finally, chapter VI examines the current policy framework at the national and international levels and considers the need for policy responses.

Before proceeding to the analysis, a number of limitations and definitions should be mentioned. First, many developing countries do not report data on outward FDI, and even fewer provide such data broken down by industry or host economy. Hence the analysis will, by necessity, often have to rely on estimations. Second, reference to developing and transition economies covers all developing countries and territories (according to the United Nations) and all countries in South-East Europe and the Commonwealth of Independent States (CIS). Third, the analysis focuses on companies that are based in these developing and transition economies, although cases like SAB Miller and Mittal Steel, which have their origin in a developing economy but are registered in a developed country, are also discussed when appropriate.

Note

[1] While South Africa was defined as a developed country, it also belonged to the early movers in terms of outward FDI.

CHAPTER III

EMERGING SOURCES OF FDI

A. Developing and transition economies gain ground as home countries

Developed-country TNCs account for the bulk of global FDI. However, a review of different data sources shows an increased and significant international presence of firms from developing and transition economies.[1] A small number of economies are responsible for a high share of these FDI outflows. Most of the investments have been made in the services sector. While interpretations are complicated by the role of offshore financial centres and by statistical limitations, the South-South element of the outward expansion of developing-country TNCs warrants special attention. Estimates suggest that such FDI is significant and growing. Moreover, for some of the low-income recipients, FDI inflows are almost entirely from other developing countries.

1. FDI from developing and transition economies increases

In order to assess the magnitude and importance of the recent expansion of FDI from developing and transition economies, a number of different data sources have to be considered. Since it is only recently that many of these economies have emerged as significant sources of FDI, there are limited data available (box III.1). Nevertheless, available evidence suggests a clear trend: FDI from developing and transition economies has grown rapidly, particularly during the past two decades, and is continuing to gain momentum. Thus, international production by TNCs from these economies can be expected to become an important aspect of the globalizing world economy.

a. Growing overseas investments from developing and transition economies

As highlighted in chapter I, FDI from developing and transition economies has grown considerably and now accounts for about 17% of world outward flows. Outflows grew particularly fast in the late 1990s and again in more recent years, reaching $133 billion in 2005 (figure III.1). The value of the outward FDI stock of developing and transition economies reached $1.4 trillion in 2005, or 13% of the world total. Although statistical and measurement problems prevent a full assessment of the position of developing and transition economies in global FDI (box III.1), available data indicate that FDI from these economies is on the rise.

FDI from developing countries has been growing for some time, with several periods of rapid expansion since the 1970s, although on a smaller scale than in recent years (box III.2). Except for temporary corrections in 1990-1991, 1998 and 2002-2003, it has experienced steady growth over the past two and a half decades, driven by various factors (chapter IV). The share of developing and transition economies in global outward FDI has fluctuated between less than 4% and as high as 18% (figure III.1). In the 1980s, their share of global FDI outflows peaked at 10% in 1982, mainly due to declining outflows from developed countries during the recession that was

Box III.1. Statistics on FDI from developing and transition economies – a cautionary note

Data on outward FDI from developing economies suffer from certain limitations. Official statistics on such FDI may be overestimated in some instances and underestimated in others. This box sheds light on the nature and characteristics of the data used in the *WIR06*.

Only a few developing countries report data on outward FDI. In many cases, the FDI outflows reported by UNCTAD are estimates based on information provided by the recipient countries. This method has been used for 23 of the 135 developing and transition economies for which UNCTAD reports such data.[a] As a result, this limitation implies an underestimation of total FDI from developing and transition economies since it only captures FDI to those countries that report inward FDI by origin. It also complicates international comparisons, since FDI reported by a source country does not necessarily correspond to the amount of inflows reported by the recipient countries.[b]

On the other hand, the volume of FDI from developing and transition economies may be inflated by the way in which TNCs finance their investments (e.g. for tax reasons). Significant amounts of FDI from developing economies (e.g. Brazil and Hong Kong (China)) go to offshore financial centres. These centres, in turn, are also major sources of FDI, thus contributing to the overall volume of FDI from developing and transition economies. A large part of the FDI from offshore financial centres is also undertaken by foreign affiliates of developed-country TNCs. Flows going back and forth between offshore financial centres and other developing countries may give rise to a "double-counting" of FDI (see also boxes I.1 and I.2).[c] Finally, in some developing and transition economies (e.g. China, Hong Kong (China) and the Russian Federation) a significant amount of FDI takes the form of round tripping.

When assessing the role of FDI from developing and transition economies, it is important to recognize the difference between "immediate" and "ultimate" investor. The international norm for FDI data compilation is to focus on the immediate investor. In some cases, significant outflows of FDI are the result of investments by foreign affiliates of other countries' TNCs. For example, in 2005, foreign affiliates of developed-country TNCs accounted for one quarter of all cross-border M&A purchases from Hong Kong (China). Such transactions may overestimate the role of TNCs from developing and transition economies. Conversely, some developing-country TNCs may be registered in a developed country, despite the fact that their assets and central economic activities remain in a developing country (e.g. SABMiller and Anglo American). When FDI projects are undertaken from a developed country by foreign affiliates of developing-country TNCs, they are not included in official data on FDI from developing-country TNCs, which results in underestimation.

These statistical issues underline the difficulties associated with measuring the magnitude and composition of FDI from developing and transition economies. It also implies that FDI data based on balance-of-payments information must be interpreted carefully. To obtain a more complete picture, FDI data need to be complemented with other data sources, including those related to M&As, greenfield and expansion investment projects and to the activities of foreign affiliates.

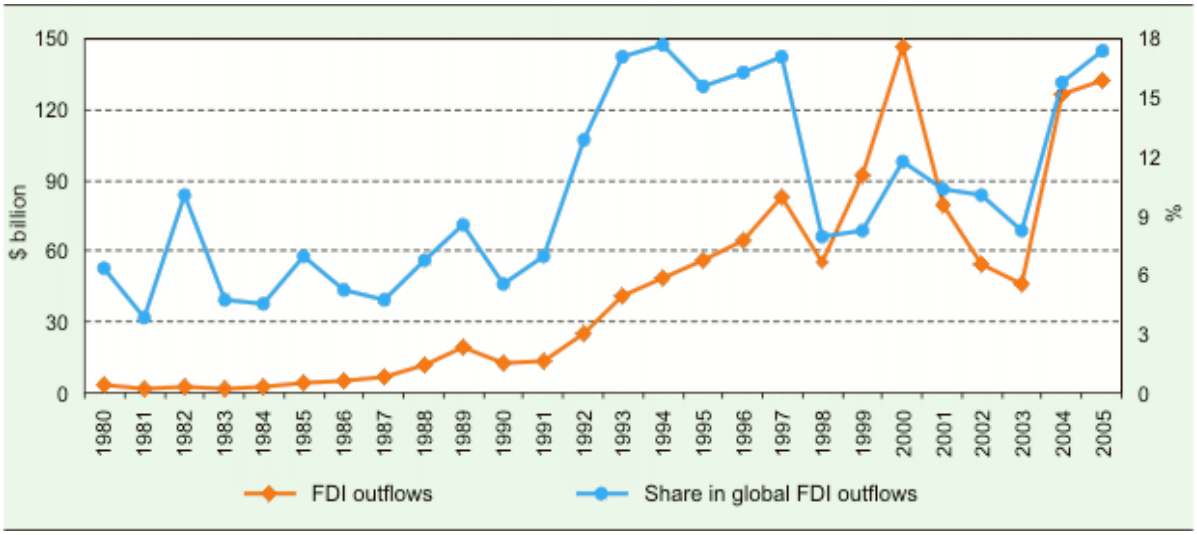
Source: UNCTAD.

[a] For example, outward FDI from most offshore financial centres, the United Arab Emirates and Saudi Arabia is derived in this way.

[b] Such discrepancies may be due to differences in the extent to which countries adhere to international and common standards in data collection as recommended by the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and UNCTAD. (For details, see UNCTAD 2005c and box I.3).

[c] For example, FDI outflows from Hong Kong (China) to the British Virgin Islands have at times been significant: in 2004, 45% of the total outward FDI stock of Hong Kong (China) went to the British Virgin Islands. When these outflows are redirected from the British Virgin Islands for investment in another economy (or returned to Hong Kong, China), they are recorded as outflows from the British Virgin Islands (Census and Statistics Department of Hong Kong, 2004).

Figure III.1. FDI outflows from developing and transition economies, 1980-2005



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

triggered by the second oil crisis. This share increased further in the early 1990s and remained at above 15% during the period 1993-1997. This time, outflows were driven by the international expansion of Asian TNCs, a process only temporarily interrupted by the Asian financial crisis. In 2005, the share was about 17%. However, it is only since the early 1990s that flows of FDI from developing and transition economies have assumed significant proportions in absolute terms. Aggregate data suggest that such FDI flows, which were about $3 billion in 1980, had increased to $13 billion 10 years later, shooting up thereafter to peak at $147 billion in 2000.

Box III.2. Early trends in FDI from developing countries

Until the 1960s, FDI from developing countries was negligible. Since then, the outward expansion by developing-country TNCs has fuelled three rounds of FDI growth during 1973-1978, 1985-1989 and 1991-1997. The two earlier episodes of FDI expansion from the South triggered an interest in developing-country TNCs among scholars (Lecraw 1977, Wells 1977, 1983, Kumar 1982, Lall 1983, Aggarwal 1984, ESCAP and UNCTC 1985, Dunning 1986). The new and long wave of outward FDI growth, has led to a renewed interest since the early 1990s (Tolentino 1993, Lecraw 1993, United Nations 1993, Ulgado et al. 1994, Dunning et al.1997, Hoesel 1997).

The early increases of FDI from developing countries differed in several ways from those in the 1990s. In the 1970s and 1980s, the scale of outward FDI was very small compared with current levels, and the flows were less concentrated. Moreover some of the top FDI sources were different: whereas earlier they included countries from Africa, Latin America and West Asia, since the mid-1980s, East and South-East Asia have assumed greater importance, while Africa has lost significance.

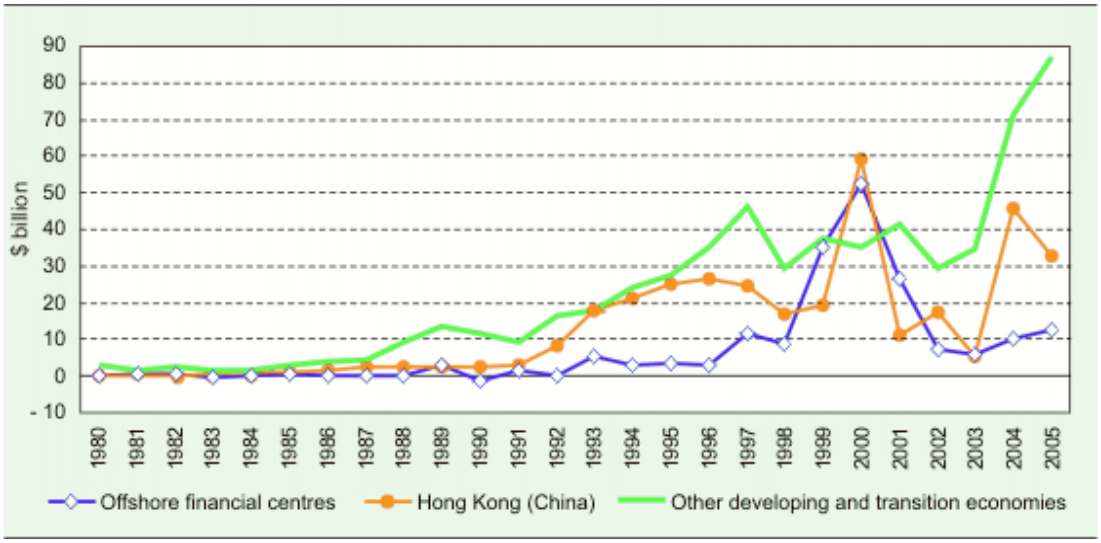
In comparison with their developed-country counterparts, TNCs from developing economies have generally been technological followers. The literature that emerged in the early 1980s suggested that the ownership advantages of these TNCs were derived from their ability to reduce the costs of production by applying technology imported from developed countries (e.g. Wells 1977, Kumar 1982) or from their experience of operating in less developed markets (Lall 1983). Later, researchers placed greater emphasis on the catch-up process of developing-country TNCs based on incremental learning (e.g. Vernon-Wortzel and Wortzel 1988, Cantwell and Tolentino 1990, Lecraw 1993). As signified by the choice of focus of this year's *World Investment Report*, there is renewed research interest in this area.

Source: UNCTAD.

Figures on FDI flows should be interpreted with care. Their volatility is partly the result of very large transactions in certain years involving offshore financial centres and Hong Kong (China). For example, in 2000, the latter economy, along with the three offshore centres of Bermuda, the British Virgin Islands and the Cayman Islands, accounted for as much as 76% of all outflows from developing and transition economies.[2] In some years during the 1990s, FDI flows from Hong Kong (China) were as large, or almost as large, as the flows from all other developing and transition economies combined. Nevertheless, even discounting FDI from offshore financial centres and Hong Kong (China), there has been a clear upward trend in outward FDI, which reached its highest level in 2005: $87 billion (figure III.2).

Data on FDI stocks confirm the growing significance of FDI from developing and transition economies. As recently as in 1990, only 6 countries reported outward FDI stocks of more than $5 billion; by 2005, that threshold had been exceeded by 25 developing and transition economies (annex table B.2).

Figure III.2. Outward FDI flows from developing and transition economies, 1980-2005



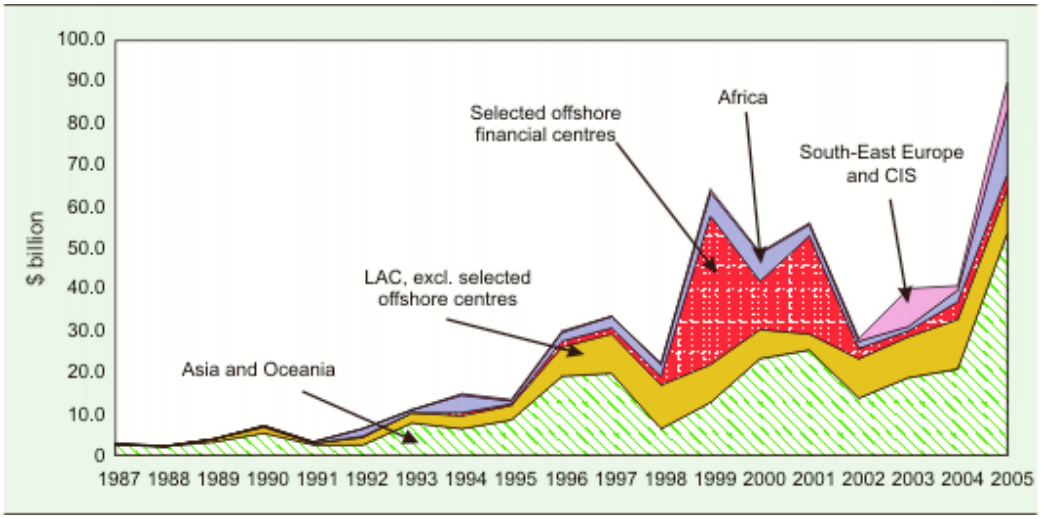
Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

b. Cross-border mergers and acquisitions on the rise

Data on cross-border M&As provide additional evidence of the rise of developing and transition economies as a source of FDI. These data are affected to a lesser extent than FDI flow data by problems related to round-tripping and trans-shipping. M&As are becoming an important mode of foreign entry, including for TNCs from developing and transition economies. The value of their cross-border M&As showed an upward trend between 1987 and 1999, reaching an unprecedented level of close to $90 billion in 2005 (figure III.3). The recent increase was driven primarily by companies from developing Asia. As a result, between 1987 and 2005, the share of developing and transition economies in global cross-border M&A activity rose from 4% to 13% in value terms and from 5% to 17% in terms of the number of deals. Offshore financial centres played a significant role in the South-North deals, particularly during the 1999-2001 period.[3] But even excluding the offshore centres, there has been a marked upturn in M&A activity from the mid-1990s onwards (figure III.3).

In 2005, cross-border M&A purchases by TNCs based in developing countries (excluding offshore financial centres) and transition economies of target companies in the North and in the South, respectively, were almost equally large in value terms (figure III.4). Since 2000, South-North transactions have shown particularly fast growth, indicating a growing need among companies in the South to acquire strategic assets in developed economies and/or speed up their expansion in these markets. The value of South-North M&As (excluding transactions involving offshore centres) rose from $9 billion in 2003 to $43 billion in 2005.

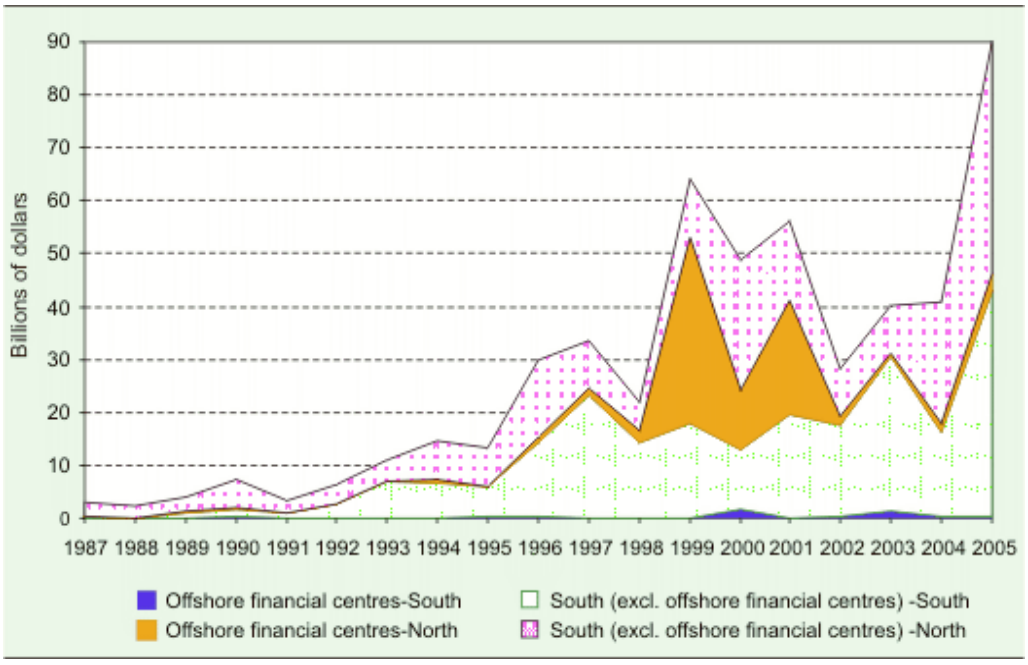
Figure III.3. Cross-border M&As by TNCs from developing and transition economies, by origin of purchaser, 1987-2005



Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
Note: The offshore financial centres included are the Bahamas, Bermuda, the British Virgin Islands and the Cayman Islands.

Developing-economy TNCs are engaged in a growing number of mega deals – up from only 1 in 1990 to 19 in 2005, and corresponding to 12% (3% in 2000) of total deals having an acquisition value of more than $1 billion (chapter I). However, it should be noted that among all 92 mega deals undertaken by developing-economy TNCs during the period 1987-2005, 15 were conducted by developed-country TNCs registered in offshore financial centres (e.g. Tyco International, Global Crossing). Other cross-border deals involved foreign affiliates in developing economies that are ultimately owned by a developed-country TNC. In 2005, such transactions made up approximately

Figure III.4. Cross-border M&As by developing and transition economies, by destination, 1987-2005[a]



Source: UNCTAD.
[a] In this figure, takeovers of targets in transition economies are included in "South".

16% of the total value of cross-border M&As concluded by firms from developing countries. Subject to such caveats, the developing economy with the highest value of cross-border M&As was Singapore, followed by Hong Kong (China) and Malaysia (annex table B.4). Meanwhile, excluding TNCs registered in offshore financial centres, the top acquirers (in terms of deal value) during 1987-2005 were SingTel (Singapore), followed by Hutchison Whampoa (Hong Kong, China) and Weather Investments (Egypt) (table III.1).

Table III.2 presents a ranking of the largest cross-border deals by TNCs from developing and transition economies, excluding acquisitions by firms registered in offshore financial centres, for the period 1987-2005. Several observations can be made:

- 18 of the top 25 acquisitions were conducted after 2000, confirming an increased frequency of large transactions by TNCs from developing and transition economies in recent years.
- Asian companies dominate, accounting for 60% of the top 25 deals.
- Most of the largest M&As involved takeovers of developed-country companies.
- South-South acquisitions were mainly intraregional in nature.
- Some of the acquirers merged with developed-country TNCs; Ambev's takeover of John Labatt was part of a larger merger with Interbrew (Belgium), and YPF merged with Repsol (Spain) in 1999 (see section III.B.4).

Table III.1. Top 15 acquirers based in developing economies,[a] cumulative, 1987-2005

Rank	Value ($ million)[b]	Acquiring company	Home economy	Number of deals
1	36 475	SingTel	Singapore	49
2	15 205	Hutchison Whampoa Ltd	Hong Kong, China	58
3	12 799	Weather Investments II Sarl	Egypt	1
4	12 484	Cemex	Mexico	40
5	9 098	DBS Group (Bank / Holdings Ltd/DBS Land Ltd)	Singapore	44
6	8 152	Ambev	Brazil	5
7	6 925	Saudi Oger Ltd	Saudi Arabia	2
8	6 325	Metro Curtainwall & Cladding	Malaysia	2
9	6 209	Investcorp/Investcorp Bank BSC/Investcorp Bank EC	Bahrain	29
10	5 634	America Movil SA	Mexico	19
11	5 567	CITIC Group	China	22
12	5 540	Singapore Power Pte Ltd	Singapore	8
13	5 469	Flextronics International Ltd	Singapore	50
14	4 567	CNPC	China	5
15	3 824	Mobile Telecommunications Co	Kuwait	3

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

[a] Data refer to ultimate acquiring companies in developing economies, ranked in descending order of their cumulative transaction values in 1987-2005.

[b] Cumulative value in millions of dollars for the deals in which the transaction value is known, 1987-2005.

c. Greenfield and expansion investments

The third data source confirming the rising importance of developing and transition economies is information related to greenfield projects or expansion of existing projects. Whereas the number of projects is only a crude measure compared to data on the actual capital investments involved, it nevertheless provides an indication of the share of companies based in different home countries.

The recorded number of FDI projects originating from developing and transition economies rose from close to 800 in 2002 to more than 1,600 in 2003 (table III.3). Since then, the number has dropped somewhat, but has remained well above the 2002 level. In 2005, TNCs from developing and transition economies accounted for about 15% of all FDI projects for which information was available (table III.3). The table shows that Asia has been the source of the bulk of these FDI projects.

Table III.2. Top 25 cross-border M&A deals by TNCs from developing and transition economies, 1987-2005

Rank	Year	Value ($ million)	Acquired company	Host economy	Industry of the acquired company	Acquiring company	Home economy	Industry of the acquiring company
1	2005	12 799	Wind Telecomunicazioni SpA	Italy	Telephone communications, except radiotelephone	Weather Investments II Sarl	Egypt	Special purpose finance company
2	2001	8 491	Cable & Wireless Optus Ltd (C&W)	Australia	Telephone communications, except radiotelephone	SingTel (Singapore)	Singapore	Radiotelephone communications
3	2004	7 758	John Labatt Ltd	Canada	Malt beverages	Ambev	Brazil	Malt beverages
4	2005	6 550	Turk Telekomunikasyon AS	Turkey	Telephone communications, except radiotelephone	Oger Telecom	Turkey[a]	Telephone communications, except radiotelephone
5	1996	6 325	ASKO Deutsche Kaufhaus	Germany	Department stores	Metro Vermoegensverwaltung	Malaysia	Plastering, drywall, acoustical & insulation work
6	2001	5 680	Dao Heng Bank Group (Guoco)	Hong Kong, China	Banks	DBS Group Holdings Ltd	Singapore	Banks
7	2005	4 150	RMC Group	United Kingdom	Fabricated structural metal	Cemex	Mexico	Cement, hydraulic
8	2005	4 141	PetroKazakhstan Inc	Canada	Crude petroleum and natural gas	CNPC International Ltd	China	Crude petroleum & natural gas
9	2004	3 720	TXU Australia Ltd	Australia	Electrical services	Singapore Power Pte Ltd	Singapore	Electrical services
10	2003	3 692	Panamerican Beverages Inc	United States	Bottled & canned soft drinks & carbonated waters	Coca-Cola FEMSA SA CV	Mexico	Bottled & canned soft drinks & carbonated waters
11	2005	3 400	Celtel International BV	Netherlands	Telephone communications, except radiotelephone	Mobile Telecommunications Co	Kuwait	Radiotelephone communications
12	2000	2 846	Southdown Inc	United States	Cement, hydraulic	Cemex	Mexico	Cement, hydraulic
13	2000	2 591	DII Group	United States	Electronic components, nec	Flextronics International Ltd	Singapore	Printed circuit boards
14	2005	2 514	National-North of England	United Kingdom	Natural gas distribution	Hutchison Whampoa	Hong Kong, China	Natural gas distribution
15	2002	2 266	Telecom Americas Ltd	Brazil	Radiotelephone communications	America Movil SA de CV	Mexico	Radiotelephone communications
16	2000	2 223	ETSA Utilities,ETSA Power	Australia	Electrical services	Investor group	Hong Kong, China	Investors, nec
17	1999	2 137	Minorco SA	Luxembourg	Metal mining services	Anglo American Corp of SA Ltd	South Africa	Business services, nec
18	1997	2 100	China Light & Power Co Ltd	Hong Kong, China	Electrical services	CITIC Pacific (CITIC Hong Kong)	Hong Kong, China[b]	Land subdividers and developers, except cemeteries
19	2005	2 080	Hylsamex SA de CV	Mexico	Steel foundries, nec	Grupo Techint	Argentina	Primary metal products, nec
20	2005	2 000	Nelson Resources Ltd	United Kingdom	Gold ores	Lukoil Overseas Holding Ltd	Russian Federation	Crude petroleum & natural gas
21	2002	1 978	DSM Petrochemicals	Netherlands	Industrial inorganic chemicals, nec	Saudi Basic Industries Corp	Saudi Arabia	Industrial inorganic chemicals
22	2003	1 965	DBS Diamond Holdings Ltd	Hong Kong, China	Investors, nec	DBS Bank	Singapore	Banks
23	1998	1 952	British Petroleum	United Kingdom	Crude petroleum and natural gas	KIO	Kuwait	National government agency
24	2005	1 940	American Ref-Fuel Holding	United States	Electrical services	Bunge y Born	Argentina	Life insurance
25	2004	1 852	US Premium Office Properties	United States	Operators of nonresidential buildings	Investor group	Singapore	Investors, nec

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

[a] Ultimate owner: Saudi Oger Ltd (Saudi Arabia).

[b] Ultimate owner: CITIC Group (China).

Note: Includes only the deals for which the transaction value is known, and for which the ultimate investor was in a developing or transition economy other than an offshore financial centre.

Table III.3. Number of greenfield and expansion FDI projects by firms based in developing and transition economies, by source region, 2002-2005[a]
(Number of projects)

Source region	2002	2003	2004	2005
Africa	46	65	44	65
Asia and Oceania	572	1 224	1 079	1 081
South, East and South-East Asia	463	1 021	905	870
West Asia	109	203	174	211
Latin America and the Caribbean	89	151	171	97
South-East Europe and CIS	75	173	190	188
All developing and transition economies	782	1 613	1 480	1 418
Share of developing and transition economies in all greenfield and expansion FDI projects in the world (%)	*13.8*	*17.3*	*14.9*	*15.1*

Source: UNCTAD, based on information from the LOCOMonitor database, and annex table A.I.1.

[a] Information is available only for 2002-2005. The LOCOMonitor database includes both announced and realized projects.

2. Growing importance of Asia as a source of FDI

The geographical composition of FDI from developing and transition economies has changed over time, mainly reflecting the growing importance of Asia as a source region since the mid-1980s (figure III.5). That region's share of the total stock of FDI from developing and transition economies stood at 23% in 1980, increasing to 46% by 1990 and to 62% in 2005. Conversely, the relative role of Latin America and the Caribbean has declined substantially, from 67% in 1980 to 25% in 2005.

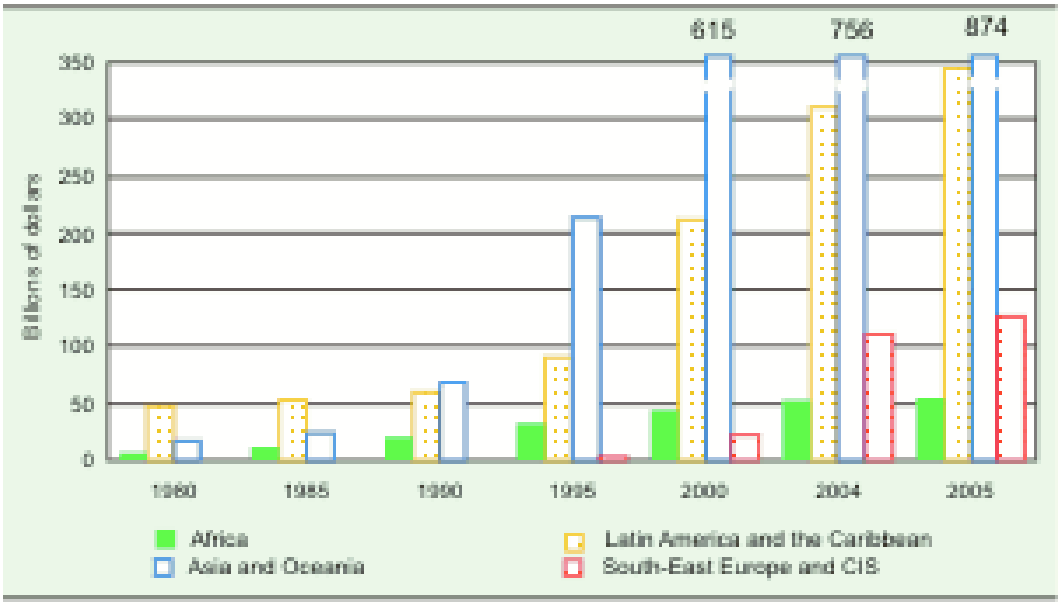
In terms of home countries, FDI from developing and transition economies is relatively concentrated.[4] In 2005, the top 5 sources accounted for 66% of the stock of FDI from these economies, and the top 10 for 83% (table III.4). Over time, the Latin America and Caribbean region has declined in importance while FDI from developing Asia has surged. In 1980, Brazil led the list of top FDI sources, followed by Taiwan Province of China, Argentina and South Africa. Some West Asian and North African countries were also among the leading investors. By 1990, while Brazil remained at the top, changes were noticeable for many other countries. The Asian newly industrializing economies (NIEs) – Hong Kong (China), the Republic of Korea, Singapore and Taiwan Province of China – as well as China and Malaysia were among the top 12 sources. Another 10 years later, Brazil had fallen to fifth place, overtaken by three of the Asian NIEs and one offshore financial centre (the British Virgin Islands), while the West Asian and North African countries had lost significance as source countries. Since 2000, the main new development in the list has been the growing importance of the Russian Federation as a source of FDI: it moved to third position in 2005. The country's outward FDI stock shot up from $20 billion in 2000 to $120 billion in 2005. Further down in the ranking, the tripling of the outward FDI stock of Mexico is also noteworthy. Argentina and South Africa have gradually slipped in the ranking since 1990, while China has remained firmly in the top 10.

In addition to comparisons of countries in terms of FDI in absolute values – which tends to place large countries high up in rankings – it is useful to consider outward FDI patterns taking into account the size of individual economies. UNCTAD's *Outward FDI Performance Index* provides one way to compare outward FDI from different countries in relative terms, that is, comparing an economy's share of world outward FDI against its share of world GDP (box III.3). According to this index, FDI from Hong Kong (China) was 10 times larger than would have been expected given its share of world GDP. Other developing economies with comparatively high outflows include Bahrain, Malaysia, Panama, Singapore and Taiwan Province of China. By the same token, many of the largest source countries in absolute terms rank far down in the *Outward FDI Performance Index*.

The relative importance and the industrial and geographical focus of FDI from a few of the top FDI sources highlighted in table III.4 is illustrated by a more detailed account of FDI from Hong Kong (China), the Russian Federation, Singapore, Brazil, China, South Africa and the Republic of Korea (in that order) (table III.5). Finally, the role of offshore financial centres is also addressed briefly.

Hong Kong (China) is the largest source of FDI from developing economies and the sixth largest in the world in terms of outward FDI stock in 2005. The bulk of its overseas FDI is in services, and much of this is related to investments in offshore financial centres in the Caribbean and China. In fact, as of 2004, 49% of its outward stock was in the British Virgin Islands and Bermuda. Hong Kong (China) also plays an important role as a financial centre for investments into and out

Figure III.5. Outward FDI stock, by source region, 1980-2005



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

of China – 39% of its overseas FDI stock was in China in 2004. Some of the FDI outflows from Hong Kong (China) are by foreign affiliates of TNCs from developed countries and China.[5]

The Russian Federation is the main source of FDI in South-East Europe and the CIS. It contributed to 95% of the region's outward FDI stock in 2005, a high concentration of it being in natural resources. With $13 billion in FDI outflows, the country became the third largest FDI source among developing and transition economies in 2005, after Hong Kong (China) and the British Virgin Islands. Russian TNCs in oil, gas and metal industries are the major players (see section III.B.5), but telecommunications companies are also actively investing abroad. The largest proportion of its outward FDI has gone to the countries of South-East Europe and the CIS.

Table III.4. Top 15 developing and transition economies in terms of stocks of outward FDI, 1980, 1990, 2000 and 2005
(Millions of dollars)

Rank	Economy	1980	Economy	1990	Economy	2000	Economy	2005
1	Brazil	38 545	Brazil	41 044	Hong Kong, China	388 380	Hong Kong, China	470 458
2	Taiwan Province of China	13 009	Taiwan Province of China	30 356	Taiwan Province of China	66 655	British Virgin Islands	123 167
3	Argentina	5 970	South Africa	15 004	British Virgin Islands	64 483	Russian Federation	120 417
4	South Africa	5 541	Hong Kong, China	11 920	Singapore	56 766	Singapore	110 932
5	Mexico	1 632	Singapore	7 808	Brazil	51 946	Taiwan Province of China	97 293
6	Kuwait	1 046	Argentina	6 057	South Africa	32 319	Brazil	71 556
7	Libyan Arab Jamahiriya	870	China	4 455	China	27 768	China	46 311
8	Panama	811	Panama	4 188	Korea, Republic of	26 833	Malaysia	44 480
9	Bermuda	727	Kuwait	3 662	Malaysia	22 874	South Africa	38 503
10	Singapore	623	Mexico	2 672	Argentina	21 141	Korea, Republic of	36 478
11	Bahrain	598	Malaysia	2 671	Cayman Islands	20 553	Cayman Islands	33 747
12	Botswana	440	Korea, Republic of	2 301	Russian Federation	20 141	Mexico	28 040
13	Bahamas	285	Saudi Arabia	1 873	Bermuda	14 942	Argentina	22 633
14	Saudi Arabia	239	Bermuda	1 550	Chile	11 154	Chile	21 286
15	Malaysia	197	Libyan Arab Jamahiriya	1 321	Mexico	8 273	Indonesia	13 735
	All developing and transition economies	72 307	All developing and transition economies	148 913	All developing and transition economies	893 102	All developing and transition economies	1 399 963

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

Box III.3. The Outward FDI Performance Index

The *Outward FDI Performance Index* measures the world share of an economy's outward FDI as a ratio of its share in world GDP (chapter I). The index in this box has been calculated on the basis of outward FDI stocks (box table III.3.1). Among the leading economies in this ranking are several from South-East Asia, West Asia and Latin America.

Some developing economies – Chile, Hong Kong (China), Malaysia and Singapore – as well as economies in transition – Azerbaijan and the Russian Federation – have seen increases in their index values over the past 10 years (box table III.3.1). The fact that their FDI grew faster than their share of global GDP may indicate that their enterprises are building ownership advantages rapidly and/or are increasingly choosing to exploit their advantages by establishing operations in foreign locations. Conversely, the values for Bahamas, Brazil, Panama and Taiwan Province of China fell significantly.

The index value for Hong Kong (China) has risen at an exceptionally fast pace, partly reflecting its particular position as a staging post for FDI into China and as a recipient of "round tripping" FDI by Chinese enterprises. For the 2003-2005 period, Singapore and Panama also showed disproportionately large outflows. However, apart from these economies, index values are on average higher for developed than for developing countries. Most of the large developing economies with considerable absolute levels of outward FDI, such as Brazil, China, India and Mexico, are found at the opposite end of the spectrum. The fact that their index values are below 0.5 suggests considerable potential for future expansion of FDI from these economies.

Box table III.3.1. UNCTAD's Outward FDI Performance Index, selected economies, 1993-1995 average and 2003-2005 average
(Ranked by 2003-2005)

Rank	Economy	1993-1995	2003-2005
1	**Hong Kong, China**	**4.63**	**9.97**
2	Norway	1.40	5.80
3	Luxembourg	..	4.99
4	Switzerland	4.32	4.42
5	Netherlands	4.13	4.22
6	Belgium	..	4.00
7	**Singapore**	**3.61**	**3.97**
8	**Panama**	**5.45**	**3.36**
9	United Kingdom	2.72	2.47
10	Sweden	2.80	2.46
11	Ireland	3.32	2.28
12	Denmark	1.32	1.84
13	Finland	1.20	1.76
14	France	1.33	1.66
15	Iceland	0.24	1.62
16	Canada	1.92	1.50
17	**Bahrain**	**1.84**	**1.46**
18	Germany	1.08	1.41
19	Spain	0.59	1.41
20	**Malaysia**	**1.07**	**1.39**
21	**Taiwan Province of China**	**1.68**	**1.19**
22	Australia	1.43	1.12
23	**Bahamas**	**4.12**	**1.10**
24	**Azerbaijan**	**..**	**1.09**
25	Portugal	0.30	1.06
26	Austria	0.48	0.92
27	**Chile**	**0.34**	**0.76**
28	**Russian Federation**	**0.06**	**0.73**
29	Cyprus	0.08	0.73
30	Malta	0.10	0.70
41	***Brazil***	***0.80***	***0.42***
59	***Korea, Republic of***	***0.18***	***0.18***
62	***Mexico***	***0.11***	***0.13***
67	***Turkey***	***0.09***	***0.10***
71	***China***	***0.26***	***0.09***
88	***India***	***0.01***	***0.04***

Source: UNCTAD.

Source: UNCTAD.

Singapore is the fourth largest source of FDI from developing and transition economies. Four fifths of its outward FDI stock in 2003 was in developing countries – 46% in South, East and South-East Asia and 25% in three offshore financial centres. FDI from this country has been more widely distributed than that from Hong Kong (China). Excluding offshore centres, China was the major recipient of FDI from Singapore, followed by Malaysia, Hong Kong (China) and Indonesia. By 2004, Singapore's FDI stock in developed countries had amounted to $30 billion. Temasek Holdings, the State-owned holding company, and large government-linked companies (GLCs) accounted for a large proportion of this stock. Almost four fifths of FDI from Singapore has been in services, notably in financial services.

Brazil has the strongest outward FDI position in Latin America, being the source of about 40% of that region's FDI stock.[6] Its FDI flows have been directed mainly to offshore financial centres, two thirds of them going to the Cayman Islands, the Bahamas and the British Virgin Islands in 2004. There are also sizeable stocks of Brazilian FDI in other countries of Latin America, such as Argentina and Uruguay, and in developed countries such as Denmark, Luxembourg, Spain and the United States. The largest proportion of the investment outside the offshore centres is primarily in trade, mining and construction.

In 2005, FDI from *China* reached $11 billion, representing the fourth largest outflow from developing and transition economies (annex table B.2). However, considering that many large M&A

Table III.5. Basic facts about the outward FDI stock of major developing and transition economies, 2005 or latest year available

Economy	Outward stock ($ millions)	Outward stock per capita ($)	Outward stock as share of GDP (%)	Top five recipients	Top three industries
Hong Kong, China	470 458	66 818	265	British Virgin Islands, China, Bermuda, United Kingdom, Japan[a]	Business activities; trade, transport; storage and communications[a]
Russian Federation	120 417	841	16	United States, Cyprus, Netherlands, United Kingdom, Germany[c]	Transport, storage and communications; mining, quarrying and petroleum; food, beverages and tobacco[c]
Singapore	110 932	25 646	94	British Virgin Islands, China, Malaysia, Bermuda, Hong Kong (China)[b]	Finance; transport, storage and communications; trade [b]
Brazil	71 556	384	9	Cayman Islands, Bahamas, British Virgin Islands, Uruguay, United States[b]	Business and finance activities; trade; mining and construction[a]
China	46 311	35	2	Hong Kong (China), Cayman Islands, Virgin Islands, United States, Russian Federation[a]	Business activities; trade; mining, quarrying and petroleum[a]
South Africa	38 503	812	16	United Kingdom, Luxembourg, Belgium, United States, Austria[b]	..
Korea, Republic of	36 478	763	5	United States, China, Netherlands, Bermuda, Hong Kong (China)[c]	Trade; electronic and electrical equipment; textiles and clothing[a]

Source: UNCTAD, annex tables B.2 and B.3 and FDI/TNC database (www.unctad.org/fdistatistics).
[a] 2004.
[b] 2003.
[c] 2002.

deals undertaken by Chinese companies are financed outside China, their outward investment may be significantly underestimated. Three quarters of China's outward FDI goes to Hong Kong (China). Part of these outflows can be attributed to round tripping (chapter I). The main activities attracting Chinese investments are business activities, trade and natural resources. In recent years, FDI in manufacturing and mining has grown especially fast, accounting for 60% of total Chinese FDI outflows in 2005.

South Africa is the leading African source of FDI, accounting for over 70% of the region's total outward FDI stock. As early as the 1970s it had already become a major source of FDI from developing countries. Flows have been concentrated in developed countries: three quarters of the country's outward FDI stock is in Europe and about one tenth in North America.[7] Although only 9% of its outward FDI goes to Africa, the country is among the leading foreign investors in many African countries. The industrial composition of South African investment is relatively varied (see section III.B.2).

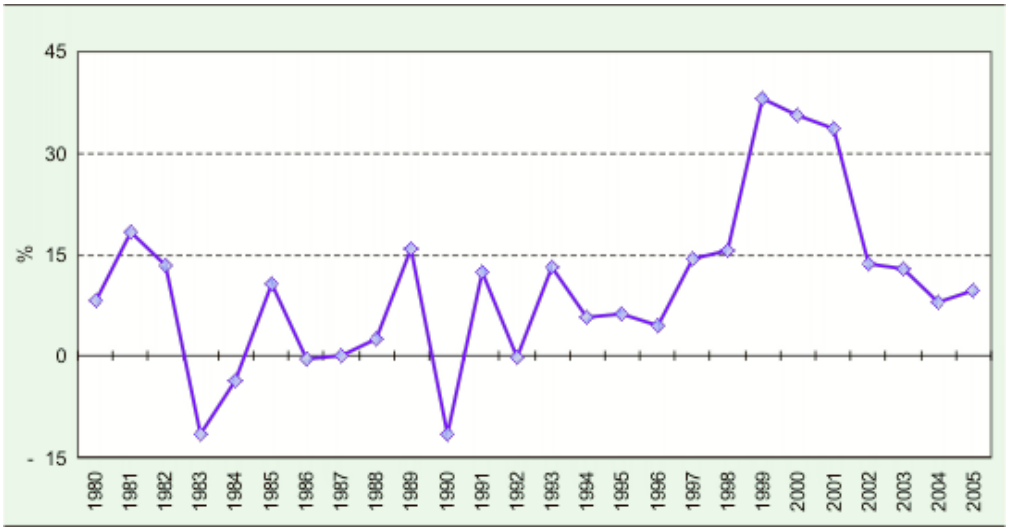
Over the past two decades, *the Republic of Korea* has been rapidly emerging as a source of outward FDI. At the end of 2004, the largest share of its outward FDI stock was in Asia (43%) followed by North America (27%) and Europe (17%).[8] Asia's share of Korean FDI has been increasing since 1990 owing to rapidly growing investments in China. Sector-wise, most of this FDI goes to manufacturing and trade (wholesale and retail); as of 2004, 53% of the outward stock was in manufacturing (especially in electronic and electrical equipment), and 22% in trade.[9]

As mentioned above, a significant share of FDI from developing and transition economies originates from *offshore financial centres*. The British Virgin Islands is by far the largest such source, with an outward FDI stock in 2005 estimated at $123 billion. From a statistical point of view, trans-shipping FDI via offshore financial centres makes it difficult to estimate the real size of outward FDI from specific economies and by specific companies (box III.1). In some years, flows from these centres have been particularly large. However, since its peak in 2000, which was related to the global M&A boom (figure III.4), outward FDI from offshore financial centres has declined considerably to one tenth of the total flows of FDI from developing and transition economies in 2005 (figure III.6).

3. Services dominate

A sectoral breakdown of the outward FDI stock from developing and transition economies demonstrates the importance of the services sector. It accounted for 81% of the total outward FDI stock of the developing and transition economies in 2004 (table III.6). The concentration in services is particularly accentuated in Hong Kong (China). As seen from the table, if that economy is excluded, the share of services in 2004 falls to about 71%, while that of manufacturing increases to 25%.[10]

Figure III.6. Shares of the main offshore financial centres[a] in FDI flows from developing and transition economies, 1980-2005



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
[a] These include Bermuda, the British Virgin Islands and the Cayman Islands.

Table III.6. Outward FDI stock of developing and transition economies, by sector, 2004

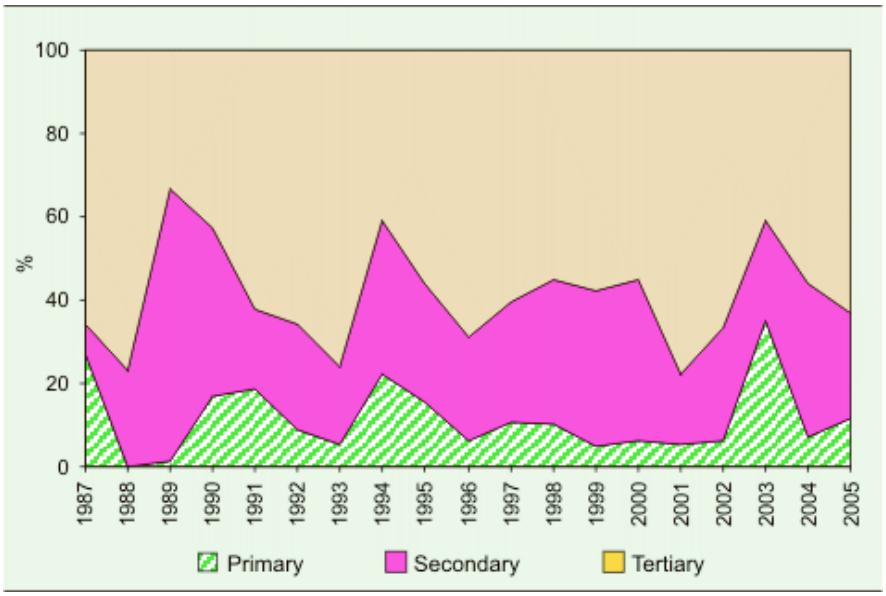
	Millions of dollars		Percentage share in total	
	2004	**2004[a]**	**2004**	**2004[a]**
Primary	11 420	11 532	1.3	3.1
Secondary	117 047	92 821	13.5	24.7
Tertiary	704 014	267 416	81.0	71.0
Unspecified	37 075	4 693	4.3	1.2

Source: UNCTAD, FDI/TNC database.
[a] Excluding Hong Kong (China).

In comparison, the share of services in the stock of outward FDI from developed countries stood at 67% in 2004, and that of manufacturing at about 28%.[11]

The dominance of services is confirmed in figure III.7, which shows the sectoral composition of cross-border M&As by companies based in developing and transition economies. In 2005, for example, 63% of the total value of such transactions involved services. By industry, the highest shares that year were recorded for transport,

Figure III.7. Cross-border M&A purchases by companies based in developing and transition economies, by sector, 1987-2005



Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).

storage and communications (37%), mining (10%), financial services (10%) and food and beverages (7%).

In the *primary sector*, developing and transition economies are important sources of FDI in agriculture, accounting in 2004 for 17% of the world total (table III.7). Their investments in mining, quarrying and petroleum remain at a low level from a global perspective. However, this situation seems to be changing as a result of the increased demand for natural resources by companies in such economies as China, India and the Russian Federation (chapter II, chapter IV). In *manufacturing*, developing and transition economies have made inroads into such industries as electrical and electronic equipment (with an 7.8% share of global outward FDI stock in this industry in 2004), non-metallic mineral products (4.3%) and rubber and plastic products (3.7%) (table III.7). In *services*, the shares of developing and transition economies in the global outward FDI stock are particularly high in trade (15%), business activities (14%), construction (12%), hotels and restaurants (9%) and transport, storage and communications (8%).[12]

Table III.7. Outward FDI stock of developing and transition economies, by sector and selected industries, 2004

Sector/industry	Value (millions of dollars)	Share in world (per cent)
Primary	11 420	2.6
Agriculture, hunting, forestry and fishing	1 107	17.3
Mining, quarrying and petroleum	10 313	2.4
Manufacturing	117 047	4.4
Food, beverages and tobacco	2 243	0.9
Textiles, clothing and leather	3 043	2.0
Wood and wood products	1 584	2.7
Chemicals and chemical products	5 082	0.8
Rubber and plastic products	1 050	3.7
Non-metallic mineral products	1 082	4.3
Metals and metal products	2 877	1.3
Electrical and electronic equipment	17 745	7.8
Motor vehicles and other transport equipment	1 722	0.5
Services	704 014	10.3
Electricity, gas and water	2 878	2.5
Construction	6 949	11.7
Trade	98 983	14.6
Hotels and restaurants	8 476	8.7
Transport, storage and communications	55 005	8.2
Finance	162 476	7.3
Business activities	350 572	14.0
Other services	12 548	8.9
Unspecified tertiary	4 710	1.5
Unspecified	37 075	49.1
Total	869 556	8.7

Source: UNCTAD, based on annex table A.I.3.
Note: Based on data for 16 developing and transition economies. These economies accounted for 73% of the total outward FDI stock of developing and transition economies in 2004.

4. South-South FDI becomes significant

The rise of FDI from developing as well as transition economies is of particular relevance to low-income countries. In fact, most of the outflows stay within the developing and transition economies. UNCTAD estimates suggest that South-South FDI has expanded especially fast over the past 15 years.[13]

As shown in table III.8, total outflows from developing and transition economies amounted to about $127 billion in 2004. However, in order to disregard flows that are undertaken for purely financial reasons, it is appropriate to exclude transactions related to offshore financial centres. An analysis of the remaining total outflows from developing and transition economies shows an increase in FDI, from about $4 billion in 1985 to $61 billion in 2004. Most of these investments were destined for other developing or transition economies (excluding offshore financial centres). In fact, FDI within that group of countries increased from $2 billion in 1985 to $59.8 billion in 2004. As data related to transition economies account for a very small proportion of these transactions, this estimate can also be used as a proxy for the size of South-South FDI.[14]

The bulk of South-South FDI (excluding offshore financial centres) is intraregional in nature (figure III.8). In fact, during the period 2002-2004, intra-Asian annual average flows amounted to an estimated $48 billion, or more than four fifths of all flows shown in figure III.8. Intraregional FDI accounted for almost half of total flows to Asia, and was particularly pronounced between and within East Asia and South-East Asia.[15] Intra-ASEAN investment accounted for one fifth of total FDI stock in this subregion. The second largest stream of FDI within the group of developing countries was intraregional investment within Latin America, mainly driven by investors in Argentina, Brazil and Mexico. Intraregional flows within Africa were an estimated $2 billion during 2002-2004, reflecting, in particular, South African FDI in the rest of the continent.

Figure III.8 also shows that interregional FDI goes primarily from Asia to Africa ($1.2 billion). For example, China and Malaysia are among the top 10 sources of FDI in Africa (UNCTAD 2005d). The second largest interregional capital flow is from Latin America to Asia ($750

Table III.8. FDI from developing and transition economies, 1985-2004
(Billions of dollars)

Year	*Total* *FDI from all developing and transition economies*	FDI from developing and transition economies excluding offshore financial centres		
		Total	To developed countries	To other developing and transition economies
1985	*4.3*	3.8	1.9	2.0
1986	*5.1*	5.0	2.9	2.1
1987	*6.7*	6.3	4.2	2.1
1988	*12.1*	11.6	6.8	4.8
1989	*19.6*	15.2	6.7	8.5
1990	*12.7*	11.6	5.0	6.5
1991	*13.7*	10.7	3.7	7.0
1992	*24.8*	23.0	5.1	18.0
1993	*40.8*	34.1	2.6	31.5
1994	*48.6*	39.3	4.1	35.2
1995	*56.0*	46.3	4.6	41.8
1996	*64.8*	50.5	5.0	45.5
1997	*82.7*	54.5	11.0	43.5
1998	*54.9*	16.3	1.1	15.2
1999	*91.9*	38.7	7.5	31.2
2000	*146.9*	73.3	24.7	48.6
2001	*79.4*	46.5	10.7	35.9
2002	*54.4*	43.5	12.2	31.2
2003	*46.3*	36.6	9.6	27.0
2004	*126.8*	60.8	1.0	59.8

Source: UNCTAD, FDI database.

Notes: Estimates of FDI from developing and transition economies were derived as follows. First, total FDI flows from developing and transition economies were calculated from the data provided by recipient countries. The number of economies used for these estimates vary between 32 and 82, depending on the year, but they account for most of the FDI flows from developing and transition economies Then, these estimates were broken down by destination (i.e. FDI to developed countries and to other developing and transition economies). Finally, the share of each group was applied to total outflows as reported by developing and transition economies (annex table B.1). This estimation process can be expressed as follows:
(1) = Inward FDI into developed countries from developing and transition economies
(2) = Inward FDI into other developing and transition economies from these economies
(3) = (1) + (2) = total FDI from developing and transition economies
(4) = (1)/(3)
(5) = (2)/(3)

Outflows from developing and transition economies to developed countries = (4) x outflows from developing and transition economies. Outflows from developing and transition economies to other developing and transition economies = (5) x outflows from developing and transition economies.

FDI estimates from developing and transition economies excluding offshore financial centres were calculated as follows: first, FDI from the Caribbean and other America (mainly Bermuda, the British Virgin Islands and the Cayman Islands) were subtracted from the total FDI flows from developing and transition economies, using the data provided by recipient countries. Then the same procedures as above were used, applying the shares of each group (developing and transition economies to developed countries, and developing and transition economies to other developing and transition economies) to the total outflows from developing and transition economies (annex table B.1). The latter, however, was adjusted to exclude outflows to the offshore financial centres which, in turn, were derived from data provided by developing and transition source economies.

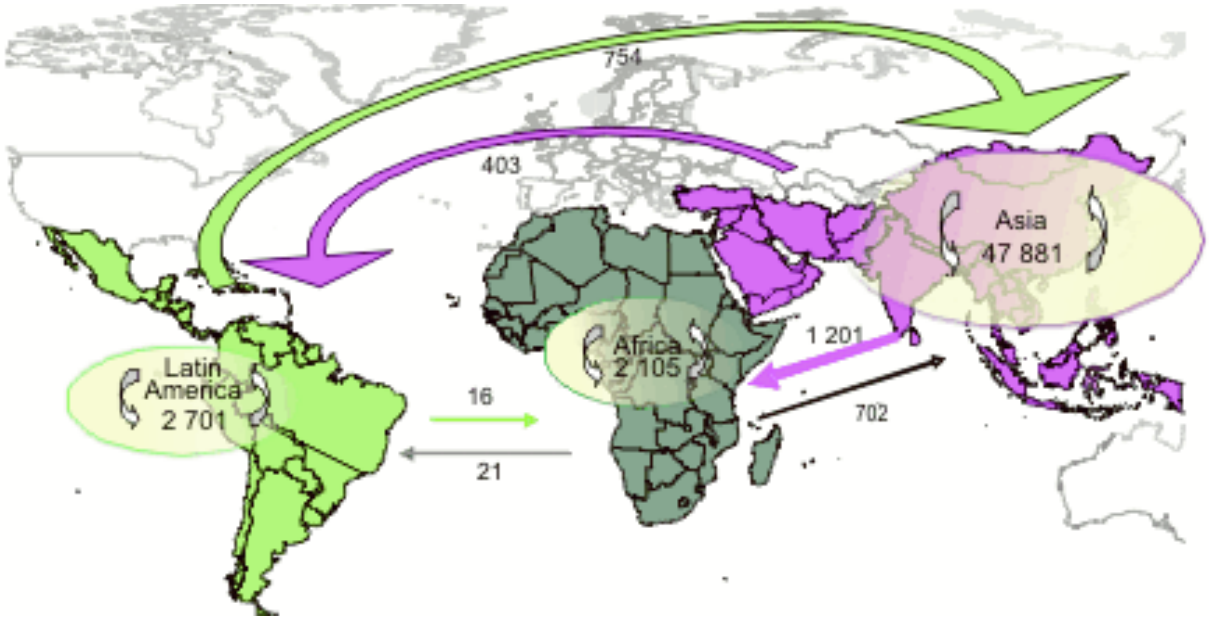
million) while, perhaps somewhat surprisingly, total flows of Asian FDI into the Latin American region were modest during the period 2002-2004.[16] Investment flows between Latin America and Africa were negligible.

An analysis of host country data sheds additional light on the growing role of FDI from developing and transition economies. Table III.9 shows that the share of the stock of inward FDI in developing and transition economies controlled by firms based in developed countries fell from 74% in 1990 to 44% in 2000. After that, the share appears to have stabilized at about 46%.

The role of TNCs from developing and transition economies as an important source of investment is particularly pronounced in several low-income countries. Figure III.9 depicts the relationship between the development stage of a host country (as measured by real GDP per capita) and the shares of FDI from developing and transition economies in total inward FDI. Among the countries with low incomes and high dependence on FDI from developing and transition economies are China, Kyrgyzstan, Paraguay, Thailand and the LDCs of Bangladesh, Cambodia, Ethiopia, the Lao People's Republic, Myanmar and the United Republic of Tanzania. FDI from

Figure III.8. Intraregional and interregional flows in developing countries excluding offshore financial centres, average 2002-2004

(Millions of dollars)



Source: UNCTAD, FDI/TNC database.

Note: The figures above refer to the estimated value of interregional and intraregional flows of the three regions (Africa, Latin America and Asia), excluding the main offshore financial centres. The figures were derived as follows: first total inward FDI flows for each region are calculated from the data of individual recipient countries for the average period 2002-2004 or latest period available. The share of each source group is applied to the total inflows of each recipient group for the period average 2002-2004. Eleven countries were covered in Africa (accounting for 45% of all inward flows to Africa in 2002-2004), 15 countries in Latin America (accounting for 99% of inward flows to Latin America) and 25 countries in Asia (accounting for 93% of inward flows to Asia). Due to differences in the coverage of countries, the sum of all figures presented here may not be comparable to the total FDI outflows from developing countries (annex table B.1) and to table III.8. Furthermore, the total figures in table III.8 were estimated by applying the shares to the total outflows of developing as well as transition economies.

Table III.9. Inward FDI stock of developing and transition economies, by major country groups, 1990-2004[a]

		Share in world inward stock (per cent)			
Year	**World**	Developed countries	Developing economies	South-East Europe and CIS	Unspecified
1990	100.0	73.8	22.2	0.0	4.0
1995	100.0	59.3	34.7	0.2	5.9
2000	100.0	44.4	51.4	0.1	4.1
2004[a]	100.0	46.3	49.8	0.2	3.7

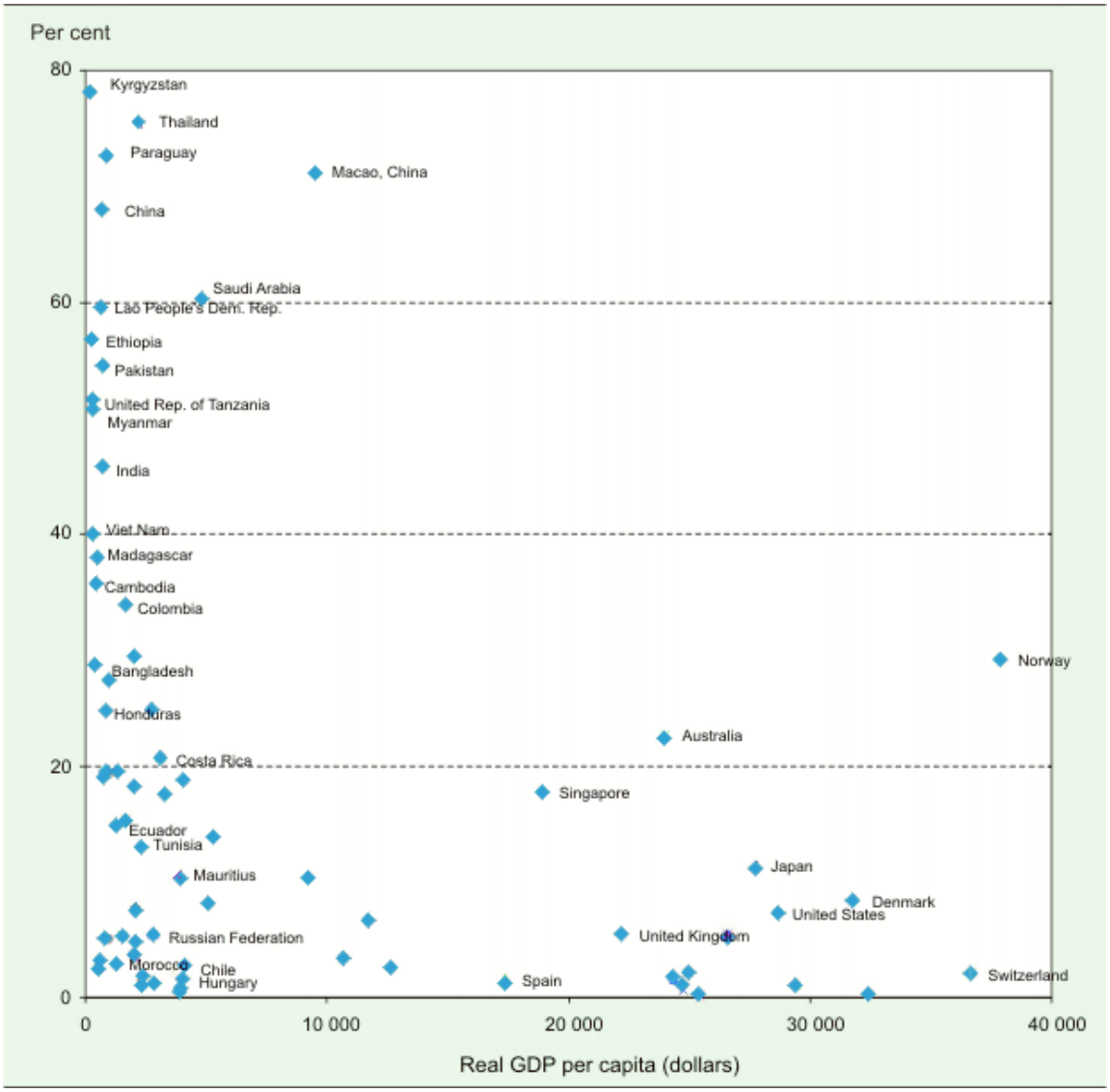
Source: UNCTAD, FDI/TNC database.

[a] Or latest year available.

Notes: For 1990, 1995 and 2000, only recipient countries for which data for the three main regions were available, were included. Therefore, the number of countries comprising the totals for developing countries and SEE and CIS as a group may vary for the years, depending on the availability of data for each recipient country. For 1990, 24 countries are covered (accounting for 53% of inward stock to developing countries and SEE and CIS in 1990), 33 in 1995 (accounting for 69% of inward stock to developing countries and SEE and CIS in 1995) and 32 in 2000 (accounting for 72% of inward stock to developing countries and SEE and CIS in 2000).

For 2004, data for the latest year available between 2001 and 2005 were used, covering 35 countries (accounting for 62% of inward stock to developing countries and SEE and CIS in 2004). Data refer to 2005 for El Salvador and Saudi Arabia; 2004 for Hong Kong (China), Macao (China), Madagascar, Malaysia, Myanmar, Pakistan, Philippines, South Africa, Sri Lanka, Thailand and Turkey; 2003 for Argentina, Armenia, Botswana, Singapore, Syrian Arab Republic and Uganda; 2002 for Azerbaijan, Cambodia, China, Kazakhstan, Mongolia, Peru, Republic of Korea, Russian Federation, Taiwan Province of China, Venezuela and Viet Nam; and 2001 for Bangladesh, Chile, Paraguay, United Republic of Tanzania and Zambia.

Figure III.9. Relationship between real GDP per capita and the share of developing and transition economies in total FDI inflows,[a] 2002-2004[b]



Source: UNCTAD based on FDI TNC/FDI database (www.unctad.org/fdistatistics) for FDI data and UNCTAD secretariat for GDP data.

[a] Based on 76 economies.

[b] The periods 2000-2002 and 2001-2003 were used where data for 2003 and/or 2004 were not available.

developing countries accounts for well over 40% of the total inward FDI of a number of LDCs (table III.10). As noted earlier, for many African countries, South Africa is a particularly important source of FDI. For example, more than 50% of all FDI inflows in Botswana, the Democratic Republic of the Congo, Lesotho, Malawi, Swaziland come from South African investors (Rumney and Pingo 2004). Moreover, it is possible that the role of South-South FDI is understated in official FDI data, since a significant amount of such investment goes to the informal sector of low-income economies, which is outside the realm of government statistics.

The relative importance of South-South FDI in developing host countries is confirmed by micro-level data. While TNCs from developing or transition economies were responsible for 15% of all greenfield and expansion FDI projects in the world during the period 2002-2005, their share was considerably higher in developing and transition economies, and especially high in West Asia (33%) and Africa (29%) (table III.11).

Investment from developing and transition economies still accounts for a small share of inflows to developed countries, but it is starting to rise. For example, the share of developing and

Table III.10. FDI from developing and transition economies to selected LDCs, various years

Recipient economy	Flows: Period/year	Flows: Share in total FDI (%)	Stock: Year	Stock: Share in total FDI (%)
Bangladesh	1995-1997	9	1995	17
	2002-2004	39	2001	13
Cambodia	1995-1997	63	1994	81
	2002-2004	64 [a]	2002	73
Ethiopia	1992-1994	100	1995	77
	2002-2004	51	..	..
Lao People's Dem. Rep.	1995-1997	93 [a]	1990	47 [b]
	2002-2004	45 [a]	1999	70 [b]
Madagascar	2003	29	2003	27
	2004	54	2004	36
Mozambique	2003	103 [b]	..	..
	2004	47 [b]	..	..
Myanmar	1995-1997	39 [a]	1990	33 [b]
	2002-2004	56 [a]	2004	61 [b]
Nepal	1990-1992	46 [b]	1990	58 [b]
	1996-1998	65 [b]	1999	63 [b]
Solomon Islands	1994-1996	56 [b]	..	..
Uganda	..	..	1999	48
	..	..	2003	36
United Rep. of Tanzania	..	..	1998	36
	1999-2001	41	2001	44
Vanuatu	1999	7	..	..
	2000-2002	19	..	..
Zambia	..	..	2000	21
	..	..	2001	20

Source: UNCTAD, FDI/TNC database.
[a] Based on information provided by the ASEAN Secretariat.
[b] Data are on an approval basis.

transition economies in FDI inflows into the United Kingdom rose from 2% in 1994 to 11% in 2004. There is also an increasing number of foreign affiliates of TNCs from developing and transition economies in some developed countries (table III.12). For example, in Japan their number increased from 157 in 1990 to 277 in 2001, and in Sweden, from 3 in 1990 to 266 in 2003. As highlighted in chapter VI, this trend has generated mixed reactions among stakeholders in developed host countries.

Table III.11. FDI projects undertaken by TNCs from developing or transition economies, by destination region, 2002-2005

Partner region/economy	Number	Share of all FDI projects in region (per cent)
Total world	**5 310**	**15.4**
Developed countries	1 306	8.9
Developing economies	3 312	20.8
Africa	339	28.6
Latin America and the Caribbean	414	15.3
Asia and Oceania	2 559	21.3
West Asia	507	33.2
South, East and South-East Asia	2 048	19.5
South-East Europe and the CIS	692	18.3

Source: UNCTAD, based on information from OCO consulting, LOCOmonitor website (www.locomonitor.com).

Table III.12. Number of foreign affiliates of TNCs from developing and transition economies, selected developed host countries, various years
(Number of affiliates)

Host country	Year	Number of affiliates
Finland	1995	24
	2001	40
France	1995	198
	2001	235
Ireland	1998	19
	2002	31
Italy	1991	22
	1999	38
Japan	1990	157
	2001	277
Poland	1997	12
	2001	17
Slovenia	1996	281
	2000	294
Sweden[a]	1990	3
	2003	266

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics)
[a] Majority-owned foreign affiliates only.

B. Global and regional players emerging from developing and transition economies

The expansion of FDI from developing and transition economies is steadily transforming the universe of TNCs. TNCs based in these emerging sources of FDI have multiplied rapidly in the past decade, but they have very diverse characteristics. Although most of them are relatively small, a number of large TNCs with global reach have also appeared on the scene. Their presence is observed more in some industries than in others, but with notable variations between different home economies and regions. Compared with their developed-country counterparts, State ownership is relatively common among the largest TNCs from developing and transition economies, especially in the primary sector.

In order to gain a better understanding of the scope and nature of the phenomenon, and to set the stage for the subsequent analysis of drivers and the economic implications, as well as for the policy discussion, this section provides an overview of the main TNCs in different parts of the developing world and in South-East Europe and the CIS. The picture that emerges is one of significant diversity both between and within regions, as far as the characteristics of TNCs are concerned.

1. The rise of TNCs from developing and transition economies

Developing and transition economies now account for an estimated one fourth of the total number of TNCs in the world (annex table A.I.6). Statistics from governments that report data on the number of parent companies indicate fast growth in recent years. For example, the number of parent companies in Brazil, China, Hong Kong (China), India and the Republic of Korea increased over the past decade by 450% from 2,700 to more than 14,800 (table III.13). By comparison, the corresponding growth rate of parent companies based in developed countries was only 47% in the same period.

Most of these parent companies are relatively small TNCs with a limited geographical reach. However, the number of large TNCs is on the rise. One indication of this is the growing number of developing-country firms that appear on lists showing the largest companies in the world. Around 1990, there were only 19 such companies among the *Fortune 500*; by 2005, the number had risen to 47.[17] Rankings of companies in several important industries show the competitive positions of TNCs from developing and transition economies (table III.14). Some have achieved important global positions in industries such as automotives, chemicals, electronics, petroleum refining and steel, and in services such as banking, shipping, telecommunications and construction. Developing-economy TNCs have a particularly strong presence in container shipping, petroleum refining and steel.

The average size of the largest developing-economy TNCs has risen significantly, as has the degree of their transnationalization (chapter I). The shares of their foreign to total assets, sales and employment rose rapidly during the period 1993-2004. Their foreign affiliates have become more widely distributed globally, not only in developing and transition economies, but also in developed countries (figure III.10). Still, as noted in chapter I (table I.18), the 100 largest TNCs from developing countries show a relatively strong preference for locations in developing economies compared with the 100 largest global TNCs. For the latter group of TNCs the five most favoured locations were all developed countries; for the former, three of the five were developing economies (Hong Kong (China), China and Singapore).

Another distinguishing feature between the largest TNCs globally and those from developing countries is the role of State ownership. Among the top 100 TNCs in the world (annex table A.I.11), only five are majority-owned by the State, three

Table III.13. Number of parent companies, selected developing economies, selected years

Economy	Early 1990s	(year)	Early 2000s	(year)	Rate of increase (Per cent)
Brazil	566	(1992)	1 225	(2005)	116
China	379	(1993)	3 429	(2005)	805
Hong Kong (China)	500	(1991)	948	(2002)	90
India	187	(1991)	1 700	(2003)	809
Korea, Republic of	1 049	(1991)	7 460	(2005)	611
Total	2 681		14 762		451
Developed countries	*34 280*		*50 520*		*47*

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics), and annex table A.I.6.
Note: See footnotes in annex table A.I.6 for the nature of data.

Table III.14. Top 20 TNCs, ranked by revenue and their activities, 2005 or latest available year

(Companies in bold are based in a developing or transition economy)

	Primary	Manufacturing					Services			
Rank	Mining	Automotive	Chemical	Electronics	Petroleum refining	Steel[a]	Banking[b]	Construction	Container shipping[c]	Telecommunications
1	BHP Billiton Ltd.	General Motors	BASF Group	Siemens	BP	Arcelor	Citigroup	VINCI	A.P. Moeller Maersk	NTT Corporation
2	Alcoa Inc.	DaimlerChrysler	Dow Chemical	Hitachi	ExxonMobil	Mittal Steel	JP Morgan Chase & Co	Bouygues	Mediterranean Shipping	Deutsche Telekom
3	Alcan Inc.	Toyota Motor	Bayer Group	Matsushita Electric Industrial	Royal Dutch/Shell	Nippon Steel	HSBC Holdings	Skanska AB	CMA CGM Group	Verizon Communications
4	Rio Tinto plc	Ford Motor	EI du Pont de Nemours	**Samsung Electronics**	Total	JFE Steel	Bank of America Corp	Shimizu Corp.	**Evergreen Group**	France Télécom
5	**Companhia Vale do Rio Doce**	Volkswagen	Mitsubishi Chemical	Sony	Chevron Corp.	**Posco**	Crédit Agricole Groupe	Bechtel	Hapag-Lloyd	Vodafone Group
6	Phelps Dodge Corp.	Honda Motor	Lyondell Chemical	Toshiba	ConocoPhillips	**Baosteel**	Royal Bank of Scotland	Kajima Corp.	**China Shipping Container Lines**	NTT DoCoMo
7	Commercial Metals Co.	Nissan Motor	**Saudi Basic Inds**	Tyco International	**Sinopec**	US Steel	Mitsubishi Tokyo Financial Group	Taisei Corp.	**APL**	Telecom Italia
8	The Furukawa Electric Co.	Peugeot	Akzo Nobel Group	**LG Electronics**	ENI	Corus Group	Mizuho Financial Group	Grupo ACS	**Hanjin/Senator**	SBC Communications
9	Inco Limited	Fiat	Degussa	Royal Philips Electronics	**CNPC**	Nucor	HBOS	Hochtief AG	**COSCO Container Line.**	Telefonica
10	**Aluminum Corp. of China Ltd**	BMW	Huntsman	Mitsubishi Electric	Valero Energy	ThyssenKrupp	BNP Paribas	Obayashi Corp.	NYK	BT Group
11	Freeport-McMoRan Copper & Gold Inc.	Renault	Asahi Kasei	Sharp	Marathon Oil	Riva Group	**Bank of China**	Centex	Mitsui O.S.K Line	Cingular Wireless
12	Teck Cominco Ltd.	Robert Bosch	Air Liquide Group	Sanyo Electric	Statoil	International Steel Group	Santander Central Hispano	Takenaka Corp.	**OOCL**	AT&T
13	Southern Copper Corp.	**Hyundai Motor**	Sumitomo Chemical	Electrolux	Repsol YPF	**Gerdau Group**	Barclays Bank	Royal BAM Groep	**CSAV Group**	KDDI Corporation
14	Cleveland-Cliffs Inc.	Delphi	Mitsui Chemicals	**Hon Hai Precision Industry**	**SK**	**Severstal**	Rabobank Group	**China Railway Engineering**	K Line	Sprint
15	Cameco Corporation	Volvo	**LG Chem**	Sumitomo Electric Industries	**Petrobras**	**China Steel**	Sumitomo Mitsui Financial Group	**China Railway Construction**	Zim	**China Mobile (Hong Kong)**
16	**Highveld Steel and Vanadium**	Johnson Controls	DSM	Emerson Electric	**Petronas**	Sumitomo Metal Industries	Wells Fargo & Co	**CSCEC**	**Yang Ming Line**	MCI
17	Kaiser Aluminum Corp.	Denso	PPG Industries	Whirlpool	Nippon Oil	**Evraz Holding**	ING Bank	KBR	Hamburg-Sud Group	BellSouth
18	Titanium Metals Corp.	Mazda Motor	Solvay Group	Schneider Electric	**Indian Oil**	**Steel Authority of India Limited**	Wachovia Corp.	Fomento de Constr. y Contratas	**Hyundai Merchant Marine**	**Tata Teleservices**
19	Brush Engineered Material	Bridgestone	Imperial Chemical Inds	..	**Lukoil**	**Anshan Iron and Steel Group**	UBS	Fluor Corp.	**Pacific Int'l Lines**	**China Telecom**
20	Stillwater Mining Co.	Suzuki Motor	Dainippon Ink & Chems	..	Sunoco	**Magnitogorsk**	ABN AMRO Bank	Bau Holding Strabag	**Wan Hai Lines**	Telstra Corporation

Source: UNCTAD, based on various sources.

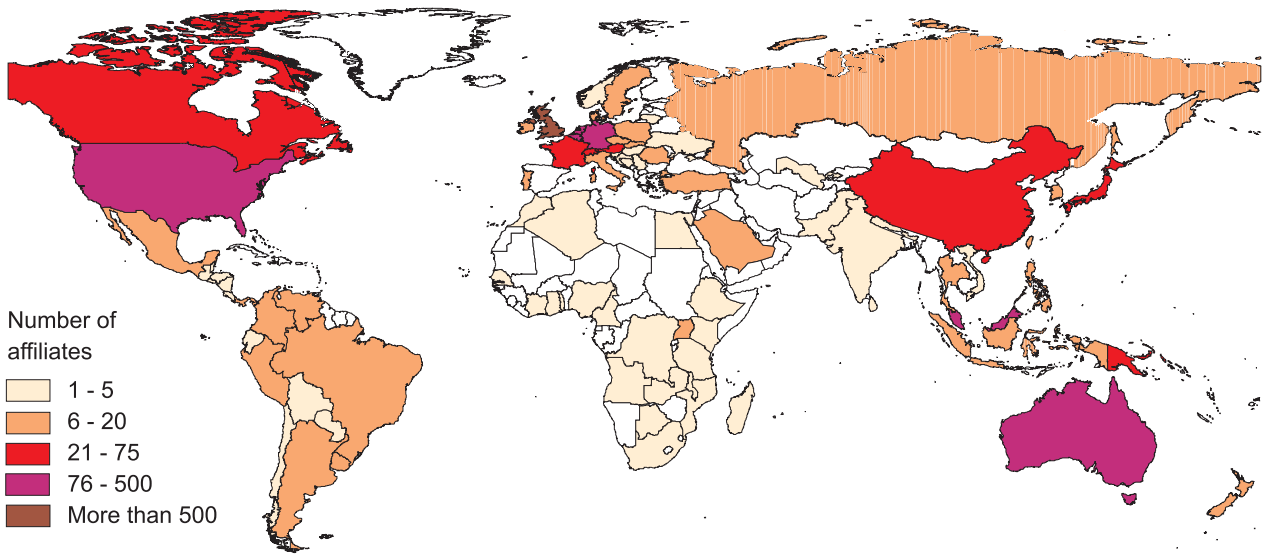
[a] Ranked by volume of production of crude steel.

[b] Ranked by Tier 1 capital (mainly shareholder equity).

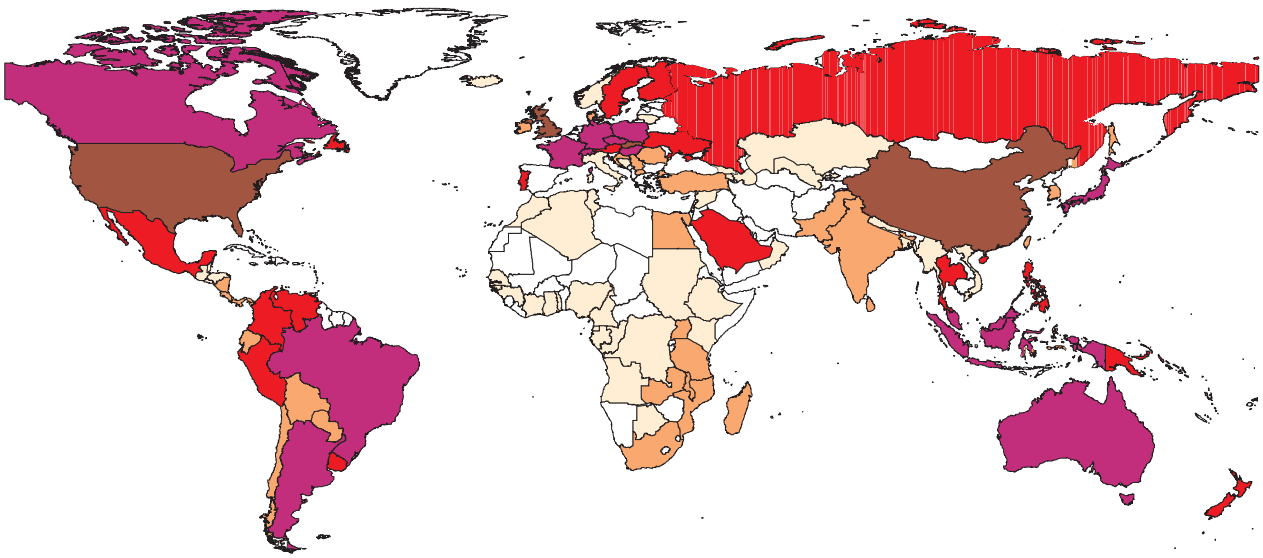
[c] Ranked by capacity.

Figure III.10. Distribution of foreign affiliates by TNCs from developing and transition economies, 1989 and 2005

(a) By 1989



(b) By 2005



Source: UNCTAD, FDI/TNC database, on the basis of *Who Owns Whom* (Dun and Bradstreet).
Note: Based on 11,736 majority-owned foreign affiliates in 2005 (8,877 in 1999 and 2,851 in 1989) that were established by 8,038 TNCs from developing countries (5,913 and 1,681, respectively).

of which are developing-country TNCs (CITIC Group, Petronas, Singtel).[18] In contrast, almost a quarter of the 100 largest developing-country TNCs are State-owned. State ownership is particularly common in the primary sector.

The following subsections provide additional information on the main players, both regional and global, that have emerged in Africa, Asia, Latin America, and South-East Europe and the CIS, highlighting some of their specific characteristics. The analysis draws on UNCTAD field research as well as some recent studies by various international organizations, private consultancy firms and academics. Special attention is paid to geographical and industrial distribution, market orientation (regional versus global) and ownership patterns.

2. TNCs from Africa

In terms of major players, TNCs from South Africa have undertaken the most outward investment among African countries. In North Africa, Egyptian TNCs have been the major players.[19] Beyond these two home countries, African outward FDI involves mainly small and medium-sized enterprises (SMEs) with fairly limited foreign assets. Sector-wise, the top African investors are active in a wide range of industries. Many of them have a significant presence in various parts of the African continent as well as in West Asia, and some TNCs have also ventured further afield. Among the top TNCs from Africa, private ownership predominates, but in transportation and energy, State-owned investors play a significant role.

South Africa is home to most of the largest African TNCs. In UNCTAD's list of top 100 non-financial TNCs from developing countries (annex table A.I.12), 10 out of 11 African companies are from South Africa. Ranked by foreign assets, the leading ones in 2004 were Sasol, Sappi and the MTN Group, whereas by total sales the top trio were Sasol, Metro Cash & Carry and Bidvest (table III.15). The industrial composition of the African outward investors is remarkably varied, ranging from mining to chemicals, metals and paper production in manufacturing, and retail, telecoms, media and transportation in services.

The internationalization of South African firms accelerated after 1990, following the removal of sanctions and the Government's liberalization of outward FDI.[20] Some of the large TNCs have already reached a relatively high level of internationalization, with more than half of their sales and assets abroad. The internationalization of many South African TNCs has focused mainly on the African region. Of the top 100 companies listed on the Johannesburg Stock Exchange in 2005, 60 have direct ownership of foreign affiliates in the rest of Africa; another 26 are holding companies that indirectly control foreign affiliates in Africa (Edge Institute 2005).[21] Nine companies have foreign affiliates only in non-African locations, all of them in the United Kingdom, the United States and Switzerland, with one exception (Harmony Gold Mining, which has a presence in Peru and Papua New Guinea).[22] South African banks, including Standard Bank, ABSA Group, FNB/RMB, Nedbank and Nedcor, are also active throughout the region, and some have a global presence. For example, Standard Bank Group operates in 17 African countries and 21 others.

While large private companies play a leading role in outward FDI, State-owned enterprises (e.g. Eskom and Transnet) and SMEs have also contributed to the increased FDI from South Africa. These companies tend to place more emphasis on investments close to home and in neighbouring African countries (Spicer 2006). Consequently, their investments outside Africa are insignificant. The outward expansion by Eskom and Transnet reflects the Government's efforts to boost development throughout Southern Africa as part of its commitment to the New Partnership for Africa's Development (NEPAD) initiative (Rumney 2005).

Table III.15. Top South African non-financial TNCs, ranked by sales, 2004

Company	Sales ($ billion)	Industry	Degree of internationalization	
			Foreign to total sales (%)	Foreign to total assets (%)
Sasol	10.7	Industrial chemicals	38	38
Metro Cash & Carry	9.1	Retail	..	..
Bidvest	9.0	Trading activities	35	44
Transnet	8.2	Transportation	..	..
Telkom	7.6	Telecommunications	2	3
Eskom	7.6	Electricity	..	..
Barloworld	6.5	Diversified	54	51
Imperial Holdings	6.2	Automotives	..	..
MTN Group	5.1	Telecommunications	37	57
Shoprite Holdings	4.8	Retail	10	16
Sappi	4.7	Paper	74	68
Tiger Brands	4.5	Agroindustry	..	..
Massmart Holdings	4.2	Retail	5	6
Nampak	3.1	Packaging	74	68
AngloGold Ashanti	2.9	Mining	67	50

Source: UNCTAD, based on *Jeune Afrique L'intelligent*, 2006, company information and the UNCTAD/Erasmus University database on largest TNCs.

Some significant global players of South African origin (e.g. Anglo American, Billiton (precursor to BHP Billiton), Dimension Data, Old Mutual and South African Breweries (precursor to SABMiller)), shifted their primary listing from the Johannesburg Stock Exchange to the London Stock Exchange between 1997 and 2000, thus dropping out of UNCTAD's list of large TNCs from developing countries. By transferring their primary listing to London (partly to access the international financial markets) and subsequently undertaking M&As, many of them became leading global players. For example, Anglo American has emerged as one of the top global mining companies,[23] and the merger of South African Breweries in 2002 with Miller (United States) created SABMiller, the second largest brewing company in the world.

In UNCTAD's list of top 100 developing-country TNCs, the only African TNC that is not from South Africa is Orascom Construction Industries (Egypt). This company, along with Orascom Telecom Holdings, Orascom Hotels and Development and Orascom Technologies, is a subsidiary of Orascom Group, which in turn is owned by the Sawiris family (box III.4). Large State-owned enterprises also play an important role in the Egyptian economy,[24] but their level of internationalization is generally low.

Beyond South Africa and Egypt, Algeria, Botswana, Côte d'Ivoire, Liberia, the Libyan Arab Jamahiriya, Morocco and Nigeria all have outward FDI stocks of over $500 million (annex table B.2).[25] With few exceptions, TNCs from these countries are SMEs. However, they do not confine all their investments to the region. For example, more than half of the Nigerian outward FDI has gone to developed countries. These countries' TNCs invest mainly in natural resources. For example, Oando Group (Nigeria's largest energy group) has investments in a range of energy companies across West Africa and has expanded its operations into Southern African countries, including Angola and South Africa.

Box III.4. The Orascom Group

The total capitalization of the Orascom Group amounts to more than 40% of the overall value of the Egyptian stock market (Bonaglia and Goldstein 2006).

Orascom Telecom Holdings has used a series of acquisitions to achieve its strategic objective of becoming the number one mobile telecom operator in the Middle East and Africa. In 2000, the company bought an 80% stake in Telecel, which at the time held licences in 15 sub-Saharan African countries. In 2001, it secured the mobile network licence in Algeria with a bid of $737 million. In recent years, the company has widened its geographic coverage. In 2004, it expanded to Bangladesh, Iraq, Pakistan and Tunisia. In May 2005, via its financial vehicle (Weather Investments), it entered the European market by acquiring Wind Telecommunicazioni (Italy), an operator with 14 million subscribers and i4.7 billion in revenues (2004), in a deal valued at $12.8 billion (table III.2). In December 2005, it invested $1.3 billion to buy a 19.3% stake of Hutchison Telecommunications International Limited (Hong Kong, China), which operates in eight different countries or territories.

Orascom Construction Industries is the third largest construction contractor in Africa after the Arab Contractors (O.A.O. & Co.) (Egypt) and Grinaker-LTA (South Africa). More than half of the company's total revenues came from foreign markets in 2003. The corresponding share for the larger Arab Contractors was only 14%.

Source: UNCTAD.

3. TNCs from Asia

The recent rise of TNCs from developing countries has been driven mainly by Asia. This region now accounts for around four fifths of the top 100 TNCs from developing countries (chapter I). The expansion of the Asian TNCs has taken place in the context of rapid economic growth in some Asian economies that have successfully integrated into the global production system. Although interrupted by the 1997 financial crisis, the development performance of many of these economies has been outstanding in comparison with both developed countries and other parts of the developing world.[26] The expansion of the Asian TNCs has also been closely intertwined with the evolving regional institutional and policy context. Many of these companies have benefited from being part of regional or global production networks, the formation of which has been facilitated by progressive regional integration. Meanwhile, an actively outward-oriented policy

approach over the past few decades has helped enhance the global reach of TNCs from the region. Indeed, a number of them have emerged as competitive global players (table III.14). Operating in a wide spectrum of service and manufacturing industries, some are very large and highly internationalized. While there are important examples of State-owned or government-linked enterprises, in particular in monopolized services or natural resources, most of the top Asian TNCs are privately owned.

Countries and subregions in Asia vary widely in terms of economic size, industrial structure, resource abundance, development level and strategy, and, consequently, so do the characteristics of their TNCs. The analysis in this section is therefore divided into three parts: TNCs from East and South-East Asia, from South Asia and from West Asia. Almost all the largest Asian TNCs come from East and South-East Asia, with some exceptions, such as IT service providers from South Asia and some companies from West Asia. To provide a fuller picture, attention is given to both large TNCs in East and South-East Asia as well as relatively small ones in South Asia and West Asia.

a. TNCs from East and South-East Asia

The subregion of East and South-East Asia is home to most of the top TNCs from the South; of the top 100 developing-country TNCs in 2004, 77 were based in this subregion. Five of them are also among the top 100 global TNCs (annex table A.I.11). Ranked 16th globally by foreign assets, Hutchison Whampoa (Hong Kong, China) leads, followed by Petronas (Malaysia), Singtel (Singapore), Samsung Electronics (Republic of Korea) and CITIC Group (China). TNCs from this subregion are concentrated in a handful of relatively high-income economies: the four Asian NIEs, China and Malaysia (annex table A.I.12).

The 77 largest TNCs from East and South-East Asia operate in a wide variety of industries. In the primary sector, there are four State-owned oil companies: Petronas (Malaysia), CNPC and CNOOC (both China) and PTTEP (Thailand). In services, transportation counts 8 TNCs, followed by trade (4), hotels (4) and telecommunications (3) – all of which are location-bound, non-tradable activities. In manufacturing, there are as many as 18 companies in the electronics, computers and peripherals category, most of which are from the NIEs. Another five TNCs are found in the food and beverages industry.

The rise of these and other TNCs in East and South-East Asia has taken place in the context of rapid industrial upgrading in the subregion. During the 1970s, companies from this subregion contributed to the first wave of FDI from developing countries, although to a lesser degree than their Latin American counterparts. In particular, companies from the four Asian NIEs accelerated their overseas expansion in the 1980s. By the mid-1990s, large enterprises from other South-East Asian economies, especially Malaysia and Thailand, also began to expand abroad, interrupted only briefly by the Asian financial crisis. The internationalization of Chinese companies since the launch of that country's open-door policy, and in particular after the mid-1990s, has also added to the growing importance of Asian TNCs.

Among developing-country TNCs, companies from the NIEs pioneered the pursuit of a global strategy. Different characteristics and structures of these economies have influenced the specialization and strengths of their corporations. As trade entrepôts and financial centres, Hong Kong (China) and Singapore are home to some very large TNCs in the services sector, such as Hutchison Whampoa, Singtel, Singapore Airlines and PSA International. The Republic of Korea and Taiwan Province of China boast a number of large and competitive TNCs in manufacturing, while Singapore also has large TNCs in manufacturing, particularly in electronics and food and beverages.

In the Republic of Korea, Hyundai Motor, LG. Chem, Samsung Electronics, LG Electronics, SK and Posco are examples of companies that have established global positions in such industries as automotives, chemicals, electronics, petroleum refining and steel (table III.14). These companies have evolved from *chaebols* – large, private-owned conglomerates that have been supported by proactive government policies. Strongly hit by the 1997 financial crisis, the *chaebols* had to undertake restructuring programmes (Chang 2003), which resulted in a more diversified ownership structure, sometimes with significant foreign participation. Consequently, they have become stronger and more focused global players. For example, Samsung Electronics long modelled itself on Sony, which was already an established global brand in 1969 when Samsung was a start-up in a Quonset hut.[27] By 2004, Samsung Electronics' revenue had surpassed that of Sony and its profits were five times higher (box III.5).

Similar to Samsung and LG, Acer (Taiwan Province of China) has become a globally renowned brand. Most other electronics companies from Taiwan Province of China, in contrast to Korean firms, have focused only on one part of the global value chain, building their global competitiveness based on original equipment manufacturing (OEM). Their rapid internationalization in recent years has helped this economy obtain a strong position in the list of top 100 developing-economy TNCs – 15 companies entered the list, all privately owned and mostly in computers and electronics. Hon Hai Precision Industry is now the third largest electronics company in Asia after Samsung Electronics and LG Electronics (table III.14).[28]

Of the 15 Singaporean companies in the list of the top 100 developing-country TNCs, 6 are GLCs:[29] Singtel, Capitaland, Neptune Orient Lines, Singapore Airlines, Keppel Corporation and Sembcorp Industries. In fact, according to a ranking of the top 100 Singapore International Companies conducted by IE Singapore in 2005, all the top five Singapore-based TNCs are GLCs (UNCTAD 2005b). Transformed from former SOEs, GLCs have played a key role in the Singaporean economy.[30] The State continues to retain significant control over them, primarily through Temasek Holdings (box III.6) and three other holding companies: Singapore Technologies, MinCom Holdings and MND Holdings.

As in Singapore, some of the largest overseas investors from Malaysia are State-owned, including Petronas and Misc Corp. Bhd. The bulk of Petronas' overseas investments are concentrated in upstream exploration and extraction activities, mainly in Africa and South-East Asia. FDI in services is primarily in finance, utilities and construction (PricewaterhouseCoopers 2005d; Tham 2006). Investments in manufacturing abroad are in fabricated metal products, machinery and equipment, palm oil, and wood and wood-based products. Although GLCs play an important role, like in Singapore, private-owned business conglomerates account for the main share of the outward FDI stock. Many of these conglomerates have a high degree of both industrial and geographical diversification.[31]

Box III.5. Internationalization of Samsung Electronics

In 1969, Samsung entered the electronics industry with the incorporation of Samsung Electronics Co., which became listed on the Korea Stock Exchange in 1975. Initially, its focus was on the development of mass production capability. International linkages were established through the creation of joint ventures with foreign technology suppliers such as NEC, Sanyo and Corning Glass Works, enabling it to acquire product designs and marketing outlets. As its capabilities grew, it ventured into international production.

Samsung's earliest overseas production efforts were a Portuguese joint venture operation started in 1982, and an investment in the United States in 1984. Following unsatisfactory results with production in that country, the company began to concentrate more on establishing low-cost manufacturing plants in Mexico, Central and Eastern Europe and South-East Asia. It was only by reorienting its international production to low-cost operations in peripheral areas that it was able to match its capabilities with its network structure. Meanwhile, encouraged by its profitability in its semiconductor business, Samsung Electronics began to acquire new capabilities through acquisition of or direct investment in foreign firms in the 1990s.

As of 2005, Samsung Electronics' domestic sales represented only 18% of its total revenue and the remaining comprised overseas sales in Asia (42%), Europe (24%), the United States (15%) and others (1%). The company had 67 foreign affiliates (26 production sites, 38 sales affiliates and 3 logistics centres) and 20 branches on almost every continent. Employees abroad comprised 37% of the total workforce. In 2005, the company invested $5.4 billion in R&D (i.e. 9.4% of its total sales). Its six research centres located in the Republic of Korea and its ten overseas centres (in China, India, Israel, Japan, the Russian Federation, the United Kingdom and the United States), drive the company's efforts to developing leading technologies in digital media, telecommunications, digital appliances and semiconductors. At the end of 2005, nearly 25% of its employees were directly involved in its 16 R&D centres.

Source: UNCTAD, based on Kim (1997) and information provided by Samsung Electronics.

Box III.6. Overseas investments of Temasek Holdings

Temasek Holdings is a State-owned company that has 48 key investments and effective shareholdings, with a total portfolio value of $62 billion as of 31 March 2005. The company's investments cover many industries, including telecommunications and media, financial services, property, transportation and logistics, energy and resources, infrastructure, engineering and technology, as well as pharmaceuticals and biosciences.

Temasek is the largest outward investor from Singapore. In March 2005, about half of its investments were overseas, spanning destinations in ASEAN (excluding Singapore) (9%), Australia (18%), East Asia (8%), Europe (5%), South Asia (2%) and the United States (6%). It has invested in some large foreign enterprises such as ICICI Bank, Mahindra & Mahindra and the Apollo Hospital Group in India; China Construction Bank and China COSCO Holdings in China; Bank Danamon and Bank Internasional Indonesia in Indonesia; Quintiles Transnational Corp. (United States); and Hana Bank (Republic of Korea). Over the next 8-10 years, Temasek expects its Singaporean assets to shrink to about one third of its operating assets, while another third would be in the rest of developing Asia and the remaining third in the OECD countries.

Source: UNCTAD, based on information from the company website.

Linkages with developed-country TNCs have played a significant role in private companies' domestic development and international expansion in countries such as Thailand (Peng, Au and Wang 2001, Pananond 2006).[32] Also important are the networks of "ethnic Chinese".[33] A stream of social, cultural and institutional literature suggests that the emergence of South-East Asian TNCs is part of the overall internationalization process of "ethnic Chinese" businesses in Asia (Kao 1993, Weidenbaum and Hughes 1996).[34] Indeed, a large number of "ethnic Chinese" companies have become important regional players in South-East Asia, and some of them have started going global (table III.16). For example, the highest ranking Thai company in the table, Shin Corporations, is

Table III.16. Selected large "ethnic Chinese" companies in South-East Asia, ranked by market capitalization
(Millions of dollars)

Non-financial companies

Company	Country	Industry	Market Value	Sales	Geographic scope
Singapore Press Holdings Limited	Singapore	Publishing	4 021	581	Regional
City Developments Limited	Singapore	Hotels	3 928	1 408	Global
Genting Berhad	Malaysia	Hotels	3 541	1 223	Regional
IOI Corporation Berhad	Malaysia	Agriculture & fisheries	3 032	1 314	Global
Shin Corporations Public Company	Thailand	Telecommunications	2 725	493	Regional
YTL Power International Berhad	Malaysia	Utilities	2 643	891	Global
Venture Corporation Limited	Singapore	Electronic equipment	2 550	1 889	Global
YTL Corporation Berhad	Malaysia	Utilities	2 189	1 160	Global
Fraser and Neave Limited	Singapore	Soft drinks	2 170	2 039	Global
Want Want Holdings Limited	Singapore	Food products	1 637	524	Regional

Financial companies

Company	Country	Industry	Market Value	Sales	Geographic scope
United Overseas Bank Limited	Singapore	Banking	12 971	1 928	Global
Overseas-Chinese Banking Corporation	Singapore	Banking	10 820	1 564	Global
Public Bank Berhad	Malaysia	Banking	6 008	1 328	Regional
Bangkok Bank Public Company Limited	Thailand	Banking	4 671	1 203	Global
Great Eastern Holdings Limited	Singapore	Life insurance	4 049	4 661	Regional
Kasikorn Bank Public Company Limited	Thailand	Banking	3 162	878	Global
Hong Leong Bank Berhad	Malaysia	Banking	2 162	367	Regional
Hong Leong Credit Berhad	Malaysia	Banking	1 063	668	Global
Bank of Ayudhya Public Company Limited	Thailand	Banking	856	387	Regional
Metropolitan Bank and Trust Company	Philippines	Banking	847	410	Global

Source: UNCTAD, based on *Asia Weekly*, 9 October 2005.

a major telecommunications operator in Thailand, and a regional player in its industry. It is active in neighbouring countries such as Cambodia and the Lao People's Democratic Republic.

Chinese TNCs emerged later than their counterparts in the NIEs. The first generation of Chinese TNCs were mainly large State-owned enterprises operating in monopolized industries such as financial services, shipping, international trading and natural resources. Many of them started operations abroad after China adopted its open-door policy in the late 1970s. CITIC Group, founded in 1979 by the Chinese Central Government,[35] is a diversified financial and industrial conglomerate, which has grown into one of the top 100 TNCs in the world. Other leading Chinese State-owned TNCs include COSCO, China State Construction Engineering Corporation, CNPC, Sinochem, CNOOC, China Minmetals and COFCO. Hong Kong (China) is usually the first stop along the path of the internationalization of these first-generation Chinese TNCs, and it remains the major location for their "overseas" operations.[36] In recent years, State-owned Chinese companies (including CNPC, CNOOC and Minmetals) have emerged as important players in natural resources, driven by their growing ambition to secure control of such resources abroad.

The second generation of major Chinese TNCs emerged after the early 1990s in competitive manufacturing industries, in particular those related to electronics and information and communication technologies (ICT).[37] Companies such as Haier and TCL are now global players in consumer electronics; Lenovo has become the third largest personal computer (PC) manufacturer in the world following the acquisition of IBM's PC business;[38] Huawei Technologies (box III.7) and ZTE are competing against developed-country TNCs in the global telecom equipment market. Some relatively small Chinese companies have also become highly internationalized in a wide range of industries.[39] The second generation of Chinese TNCs have diverse ownership structures, including private ownership, local government ownership and foreign participation.

b. TNCs from South Asia

In terms of size, TNCs from South Asia are still not comparable to those from East and South-East Asia. Only one company – Oil and Natural Gas Corporation (ONGC) – from India features in UNCTAD's list of top 100 developing-country TNCs (chapter I). India dominates the list of leading TNCs from this subregion.[40] With the

Box III.7. Huawei Technologies: a global player in telecom equipment

In China's telecom equipment market, leading domestic firms such as Huawei and ZTE are competing head-to-head with foreign TNCs. Huawei, a privately owned company established in 1988, is the largest and best known. After rapid development since the mid-1990s, Huawei's global revenue reached $5.6 billion in 2005, with almost half of its sales from international markets. The company has established eight regional headquarters and more than 85 subsidiaries in the world. It has overseas R&D centres in India, the Russian Federation, Sweden and the United States. Its products are sold in more than 100 countries. Currently, Huawei provides telecom products and solutions to over 270 operators worldwide, including 22 of the world's 50 largest operators.

Huawei is one of the most innovative companies in China.[a] In 2005, the company filed 249 property cooperation treaty (PCT) patent applications, giving it the third highest ranking among firms from developing countries and the 37th in the world in terms of the number of such patents.[b] Huawei has become a leading player in many segments of the global telecom equipment industry including fixed networks, mobile networks, data communications and optical networks. It is now one of the few companies in the world to provide end-to-end 3G solutions. It has Wideband Code-Division Multiple-Access (WCDMA) contracts in 18 countries and territories, which gives it a leading position in this high-end segment of mobile telecom equipment.

Source: UNCTAD, based partly on information from company websites.

[a] By the end of 2005, Huawei had applied for 9,600 Chinese patents and 1,547 international and foreign patents. It has had the highest number of patent applications in China since 2002 (*Source*: National Bureau of Statistics of China and WIPO).

[b] "Exceptional growth from North East Asia in record year for international patent filings", 3 February 2006, World Intellectual Property Organization (WIPO), Press Release 436.

increased openness of the economy since the mid-1990s, Indian firms have begun to go global. In several industries – software and IT services, pharmaceuticals and biotechnology, hotels and hospitality, automotives and other branded products – they have diversified their operations and investments across the world. But it is in software and IT services, the most dynamic component of the Indian economy, where the main TNCs are found. They are the pioneers in offshore outsourcing of software and IT-enabled services (*WIR04*). Although most Indian outward FDI stock is still in manufacturing, overseas investment in software and IT services has grown rapidly along with pharmaceuticals; companies such as Dr. Reddy's, Infosys (box III.8), Ranbaxy, TCS and Wipro have made sizeable overseas investments.

Large Indian companies in industries such as steel and chemicals have also begun to internationalize by acquiring upstream companies, for instance in Australia and Canada. In the energy sector, India's State-owned groups, such as ONGC Videsh Limited, Indian Oil Corporation and Oil India, have acquired equities in exploration, refining and retailing.

The United States is the main destination for overseas investments by Indian TNCs, followed by the Russian Federation, Mauritius and Sudan, in that order. While most of the investments in the Russian Federation and Sudan have been in oil exploration, those to the United States have been mainly in IT services and pharmaceuticals.

Box III.8. India's Infosys goes global

Infosys Technologies was created in 1981 in Bangalore. With over 52,000 employees worldwide, it now provides consulting and IT services to clients globally. The company has pursued an international strategy to strengthen its competitive position and become a global player. Infosys has over 30 foreign affiliates worldwide, covering all countries and territories where its major customers are located. Infosys Technologies' global initiatives began with the opening of its first subsidiary in the United States in 1987. Its first European subsidiary was created in the United Kingdom in 1996, followed by affiliates in Belgium, Germany and Sweden (1997), France (2000), the Netherlands (2001) and Switzerland (2002). In 2005, Infosys set up its first overseas operations centre in the Czech Republic and bought RASInfo (France).[a]

Source: UNCTAD.

[a] See e.g. "Infosys BPO subsidiary opens Czech center", *Computer Business Review Online*, 23 September 2005 (www.cbronline.com).

c. TNCs from West Asia

West Asia is an important capital exporter as a result of its large oil revenues.[41] However, most of the petrodollars have until recently been directed towards portfolio investments, and outward FDI remains small but growing. In fact, Turkey – a non-oil producing country – is the leading source of FDI from West Asia: its outward FDI stock accounts for about half of the total FDI stock of the region (see also box II.14).

Koç Holding and Sabanci Holding – Turkey's two largest industrial and financial conglomerates – and Turkish Petroleum Corporation (TPAO) are major outward investors. Controlled by private families, Koç Holding (whose subsidiary Arcelik has been expanding abroad recently, see box V.1)[42] and Sabanci Holding became highly diversified during the import-substitution regime before the late 1980s. Since then, they have increased their geographical diversification abroad and reduced their industrial diversification at home.[43] The State-owned petroleum enterprise, TPAO, aims to participate in international oil and natural gas exploration through the Turkish Petroleum International Company. Its outward FDI is about $2.7 billion, most of which is related to projects in Azerbaijan implemented in the early 1990s.[44]

Saudi Basic Industries Corporation, majority-owned by the Government of Saudi Arabia, is one of the leading players in the global chemical industry (table III.14), controlling about 5% of the world petrochemical markets.[45] It exports more than two thirds of its production to over 100 countries. It has offices spread across the globe, including two major manufacturing complexes in Germany and the Netherlands and one R&D centre in the United States.

Other major TNCs from oil-rich West Asian countries include the large State-owned oil companies. The operations of companies such as Saudi Aramco (Saudi Arabia) and Kuwait Petroleum Corporation (Kuwait) span the globe.[46] Regional TNC players from West Asia can also be found in such services as telecommunications, construction and port and terminal operations. Telecom operators include Investcom (UAE), Mobile Telecommunications Co. (Kuwait) and

Etisalat (UAE), which mainly focus on West Asia and Africa.[47] National Petroleum Construction Co. (UAE) and National Co. for Mechanical & Electrical Works Ltd. (Kuwait) are notable regional construction TNCs in the Middle East. In port and terminal operations, State-owned Dubai Ports World – or DP World – (UAE) received global attention when it acquired P&O (United Kingdom), which was the fourth largest port operator in the world (chapter VI). The deal made DP World one of the top three global port operators, with terminals across five continents.

4. TNCs from Latin America and the Caribbean

The evolution of TNCs from Latin America and the Caribbean (LAC) has been heavily influenced by changing institutions and policies in the region over the past few decades. While the region was the leading source of FDI from the South until the mid-1980s, LAC firms have recently not internationalized at the same pace as their Asian counterparts. Today, the main TNC players from LAC (also referred to as "trans-Latins") are based in Brazil and Mexico. In general, the "trans-Latins" concentrate in certain primary industries, some mass consumption manufacturing and a few services industries (ECLAC 2006). With a few exceptions, most TNCs have a strong regional focus in their internationalization strategies, and the share of their international sales in total sales tends to be low.

Outward FDI is not a new phenomenon in LAC. In fact, Argentina appears to have been one of the first developing countries to have firms with industrial plants abroad (box III.9). Moreover, during the 1960s and the 1970s firms from Argentina, Brazil and Mexico were part of the "first wave" of FDI from the South (Dunning et. al. 1996, Chudnovsky and López 2000). Since the early 1990s, some Latin American enterprises have embarked on a new strategy of internationalization, including through FDI. For many companies, outward expansion has been a response to the wide-ranging trade liberalization, deregulation and privatization policies that took place throughout the region in the 1990s (chapter IV).

Ranked according to total sales in 2004, the largest "trans-Latin" company was PDVSA (Venezuela), followed by Petrobras (Brazil) and Telmex (Mexico) (table III.17, ECLAC 2006). Meanwhile, in UNCTAD's list of the top 100 TNCs from developing countries, which ranks companies by foreign assets, Cemex (Mexico) heads the list (chapter I). The dominance of Brazil and Mexico as home countries is evident from both lists.[48] In table III.17, 12 of the 15 largest firms are from these two countries, with one firm each from Argentina, Chile and Venezuela completing the list. Meanwhile, none of the "trans-Latins" were among the global top 100 TNCs in 2004.

Sector-wise, the largest TNCs are concentrated mainly in natural-resource extraction (petroleum or mining) or in resource-based

Box III.9. Early Argentinean TNCs

Argentina was one of the first developing countries with firms internationalizing via FDI (Chudnovsky and López 2000, United Nations 1993). Many Argentinean enterprises were quick to establish foreign affiliates in other Latin American countries, and some even expanded further afield (Garrido and Wilson 1998, ECLAC 2006). For instance:

- *Alpargatas*, a textile manufacturer, set up a manufacturing affiliate in Uruguay in 1890, and later in Brazil.
- In the late 1920s and during the 1930s, *S.I.A.M di Tella*, a mechanical engineering company, and *Quilmes Bemberg*, a brewery company, established production plants in neighbouring countries.
- *Bunge & Born*, a conglomerate in agribusiness and food products, had affiliates in Brazil before the 1930s, and expanded its productive activities during the 1960s and 1970s to Paraguay, Peru and Venezuela, and later even to Austria, Belgium, Canada, France, Germany, the Netherlands and Spain.
- The petroleum company *Astra* has affiliates in Brazil, Mexico, Peru and the United States.
- Holding companies, such as *Perez Companc* and *Techint*, spread their productive activities mainly in Latin America, but also had some financial affiliates in Europe and the United States.
- *Soldati* and *SOCMA* invested in extractive, engineering and construction industries.

Source: UNCTAD.

Table III.17. Largest TNCs from Latin America and the Caribbean, ranked by sales, 2004

Company	Home country	Industry	Sales ($ billion)	Ranking among top 100 developing-country TNCs
PDVSA	Venezuela	Petroleum	63.2	10
Petrobras	Brazil	Petroleum	40.8	13
Telmex	Mexico	Telecom	12.4	-
América Móvil	Mexico	Telecom	12.1	18
CVRD	Brazil	Mining	10.4	25
Grupo Femsa	Mexico	Beverages	8.4	50
Cemex	Mexico	Cement	8.1	6
Metalurgica Gerdau	Brazil	Steel	7.4	33
Techint	Argentina	Steel	6.4	-
Grupo Alfa	Mexico	Diversified	5.3	-
ENAP	Chile	Petroleum	4.7	-
Grupo Bimbo	Mexico	Food	4.6	-
Grupo México	Mexico	Mining	4.4	-
Usiminas	Brazil	Steel	4.6	-
Grupo Imsa	Mexico	Metallurgy	3.3	82

Source: UNCTAD, based on ECLAC, 2006 and UNCTAD/Erasmus University database.

manufacturing (steel, cement), two are in telecommunications and the rest are in food and beverages. The only conglomerate in table III.17, Grupo Alfa, has diverse activities, including petrochemicals and synthetic fibres, aluminium components, refrigerated and frozen foods and telecoms.

Very few TNCs from Latin America have emerged as global players. Cemex is the only "trans-Latin" that can be considered a "major TNC at the global level" (ECLAC 2006, p. 79).[49] It has evolved into one of the three largest cement producers in the world, with operations in more than 30 countries. Techint and CVRD are aiming for world leadership in their specific market segments.[50] Only in a handful of the other companies listed in table III.17 – América Móvil, Grupo Alfa – did foreign sales exceed 50% of the companies' total sales in 2004 (Ibid.). Moreover, apart from the petroleum and mining companies in the table, overseas investment has rarely gone beyond the Americas. The immediate focus of the internationalization strategy of many leading "trans-Latins" has been to grow into regional champions, drawing on leading positions in their domestic markets or capitalizing on opportunities arising out of privatization and deregulation in other countries of the region.

The sectoral composition as well as the regional focus of TNCs from this region largely reflects the productive and technological specialization that was fostered by decades of import substitution policies. Although the roots of industrialization in Latin America were consolidated and deepened as a result of the import substitution development model, the high protective barriers undermined the incentives to innovate and upgrade technologically (Bethell 2003, Quadros Carvalho and Bernardes 1998, Bonelli 1998). Following the debt crisis triggered in 1982, the import-substitution model was abandoned for more outward-oriented strategies. One after the other, Latin American countries in the 1980s began dismantling tariffs and other trade barriers, liberalizing prices, interest rates and capital markets, privatizing State-owned enterprises and reducing government intervention in the economy.

In this new environment, the activities and industries that managed to grow were mainly non-tradable services (telecommunications, electricity, water sanitation), manufacturers of industrial commodities based on natural raw materials (e.g. pulp and paper, iron and steel, aluminium, petrochemical products) and industries that had been given preferential treatment (*maquila* assembly industries). Those that suffered the most were knowledge-intensive industries such as pharmaceuticals, chemicals and scientific instruments, as well as those engaged in labour-intensive production of non-durable consumer goods, such as footwear, clothing or furniture. These were industries that were unable to meet the global competition once protective barriers had been dismantled (Cimoli et. al. 2001, Katz 2001).[51] Faced with greater competition, some firms viewed outward FDI as necessary to their survival, which triggered market-seeking, resource-seeking and strategic asset-seeking investments (chapter IV).

In addition to the companies listed in table III.17, a number of Latin American niche players deserve mention. For example, Televisa (Mexico) is the world's largest producer and broadcaster of Spanish language programming; Embraer (Brazil) is one of the few prominent LAC companies that has progressed to become a world leader in a technology-intensive industry.[52] Chilean wine producers, such as Concha y Toro and Viña Santa Rita, are active in Argentina; and Empresas Santa Carolina has vineyards in Argentina, Paraguay and Peru (Holmgren 2005).

A number of "trans-Latins" have disappeared from the rankings, having been acquired by TNCs from other countries. In the energy sector, for

example, Argentinean oil and gas producers YPF and Perez Companc had already begun to internationalize when they were taken over by Repsol (Spain) in 1999 and Petrobras (Brazil) in 2003, respectively. The electric utility companies Chilgener and Enersis (Chile) were taken over by Endesa (Spain) in 1999 and AES Corporation (United States) in 2001 respectively (box II.16). La Moderna-Seminis (Mexico), that had acquired innovative biotechnology firms in developed countries, was later taken over by Monsanto (United States).

Conversely, some TNCs from Latin America have also been among the bidders for target companies in other countries, and sometimes in response to privatization programmes in the region:

- Gerdau acquired Ameristeel, a former Japanese-owned affiliate in the United States, in 1999;
- Techint acquired the Mexican steel producer Hylsamex in 2005. It also led a consortium that eventually won the bid in the privatization of Sidor, a Venezuelan steel producer.
- Grupo Macri (Argentina) participated in the privatization of transport and infrastructure in Brazil;
- Telmex expanded its activities throughout Latin America when markets were liberalized.
- América Móvil applied an aggressive strategy to take control of the mobile telecoms business in other parts of LAC when several TNCs decided to withdraw from the region in the early 2000s (ECLAC 2004).[53]
- Similarly, due to the withdrawal of major TNCs from the retail trade, several Chilean companies decided to expand into new markets in the region. For example, as a result of a series of acquisitions, the department store Falabella is now the second largest company in its sector in Latin America, surpassed only by Wal-Mart (ECLAC 2004).

5. TNCs from South-East Europe and the CIS

As noted above (section III.A), outward FDI from South-East Europe and the CIS is mainly from the Russian Federation, but there are also some notable companies in Azerbaijan, Croatia and Romania. The industrial specialization of the largest outward investors from the region has been strongly influenced by the legacy of a planned economy as well as an abundance of certain natural resources. Indeed, the main transition-economy companies that have embarked on international expansion have based their competitiveness on access to various natural resources. Only a few TNCs from the Russian Federation have emerged as global players; most others remain at best regional players, with investments mainly in various other members of the CIS. The role of the State is still significant in FDI from the Russian Federation.

In the case of the Russian Federation, a few leading TNCs are very large, even by global standards. For example, in terms of foreign assets, Lukoil would be ranked 10th on the list of the top non-financial TNCs from developing economies (chapter I). Overall, the Russian firms can be divided into three tiers, measured by total sales (table III.18; chapter I). The first tier comprises the two oil and gas companies, Gazprom and Lukoil, both with sales of more than $33 billion in 2004, and the electricity behemoth UES, with sales of almost $25 billion. The second tier, with sales of $5-7 billion still mostly involves companies in natural resources (Norilsk Nickel, Severstal, Evraz, RusAl etc.), while the remaining TNCs – the third tier – are relatively small.

Russian TNCs are at very different stages of outward expansion. The oil and gas giants (Gazprom, Lukoil), as well as some other firms

Table III.18. Largest TNCs from South-East Europe and the CIS, ranked by sales, 2004

Company	Home country	Industry	Sales ($ billion)
Gazprom	Russian Federation	Natural gas	36.4
Lukoil	Russian Federation	Petroleum and natural gas	33.8
Unified Energy Systems (UES)	Russian Federation	Electricity	24.8
Norilsk Nickel	Russian Federation	Mining	7.0
Severstal	Russian Federation	Metals and metal products	6.6
Evraz	Russian Federation	Mining and steel	5.9
Sistema	Russian Federation	Consumer services	5.7
RusAl	Russian Federation	Metal mining services	5.4
Mechel	Russian Federation	Metals and metal products	3.6
Alrosa	Russian Federation	Non-metallic mineral mining	2.8
Pliva	Croatia	Pharmaceuticals	1.1
Podravka Group	Croatia	Food, beverages and pharmaceuticals	0.6

Source: UNCTAD, based on company information and UNCTAD/Erasmus University database.

(Sistema, Alrosa, Mechel, Norilsk Nickel, RusAl, Severstal) have taken considerable steps in their internationalization strategy spreading to a diverse set of host countries. However, only a few of them can be considered as aspiring to become "global players". Lukoil is perhaps the most well-known case. The company has exploration and production activities in other members of the CIS, Africa, Latin America and West Asia, as well as refining in the CIS, and downstream distribution affiliates worldwide, in at least 15 countries. Its international expansion also covers developed-country markets.[54]

Gazprom's international activities are not well documented and the value of its foreign assets is not publicly known. However, the company, which is majority-owned by the State, is reported to be in control of more than 93% of Russia's natural gas production and about a quarter of the world's known gas reserves.[55] In Europe alone, it has operations in at least 19 countries, involving natural gas distribution and processing activities (Heinrich 2005). It operates in the majority of the other members of the CIS as well.[56]

Norilsk Nickel is considered to be the third largest Russian TNC in terms of foreign assets. It is a world leader in the production of several strategic metals, including palladium, platinum, nickel, cobalt and copper (Vahtra and Liuhto 2005).[57] The company is particularly active in Belgium, Switzerland, South Africa, the United Kingdom and the United States (*WIR04*). RusAl is the world's second largest primary aluminium producer after Alcoa (United States), and the fifth largest alumina producer in the world (UNCTAD 2004a, p. 3).[58] Severstal is a relative newcomer to the international natural-resource/iron and steel scene, having leapfrogged to global status through its acquisition of Rouge Industries (United States) in 2003 and Lucchini Industries (Italy) in 2005.[59]

Other firms, even such large ones as UES, have more limited foreign operations, often confined to South-East Europe and the CIS. State-owned UES continues to focus principally on the Russian market, but has a presence through international consortia in the power station and energy distribution activities of some CIS members (Armenia, Georgia, the Republic of Moldova and Ukraine). It has a strategic goal of introducing a common CIS electricity system, a politically sensitive strategy vis-à-vis partner countries.[60]

The absence of technology-based companies from the group of Russian TNCs is notable, especially in light of the country's defence-related technology traditions. One exception is in the mobile telecom market of the CIS, into which several Russian companies have expanded, mainly through acquisitions. The three largest mobile service providers of the subregion – Mobile TeleSystems/MTS, VimpelCom and MegaFon – are all from the Russian Federation (see also Lisitsyn et al. 2005. p. 15).[61]

Some of the large outward investor firms (e.g. Lukoil, Norilsk Nickel, Mechel) are privately owned. Foreign investors have taken minority stakes in a few companies (e.g. Conoco-Phillips owns 10% of Lukoil) or majority shares (e.g. BP owns 50% plus one share in TNK-BP). Other firms, such as Gazprom and UES, remain State-owned. In the case of Gazprom, the State increased its share to become a majority owner as recently as 2005. The internationalization strategies of resource-based companies, especially the State-owned ones, are influenced by Russian foreign policy (chapter VI).[62] The future role of the Russian State in outward FDI remains uncertain, but recent indications suggest that its share and influence in natural resources may increase through the strengthening of its participation in Gazprom and its acquisition of some privately owned assets.

In Croatia, two TNCs account for most of the outward FDI: the generic pharmaceutical producer Pliva and the food producer Podravka (table III.18). These two companies acquired important technological skills and built regional brand names in their respective fields long before the disintegration of the former Yugoslavia and the transition to a market economy. Most of their outward expansion is fairly recent and has focused on the European continent (*WIR01*, p. 141).[63]

C. Salient features of the emerging sources of FDI

The overview presented in this chapter of the emerging sources of FDI – both countries and companies – allows for certain general observations that can serve as a basis for the analysis in subsequent chapters of drivers, impacts and policy implications.

The review of data related to FDI statistics, cross-border M&As and greenfield FDI projects reveals a number of trends and characteristics worth highlighting:

- Over the past two decades, FDI flows from developing and transition economies have risen fast in absolute as well as relative terms.
- Of the emerging sources among developing and transition economies, developing Asia and the Russian Federation have assumed increased importance since 1990, while the shares of Latin America and Africa have declined.
- Sectorally, the bulk of FDI from developing and transition economies is in tertiary activities, notably in business, financial and trade-related services. However, significant FDI has also been reported in manufacturing (e.g. electronics) and, more recently, in the primary sector (oil exploration and mining).
- FDI from developing countries is especially important for other developing countries. From a host-country perspective, South-South flows account for the bulk of inward FDI into many low-income economies.
- The value of FDI among developing and transition economies increased from about $2 billion in 1985 to around $60 billion in 2004, excluding flows to and from offshore financial centres. Most of these flows were intraregional in nature, dominated by FDI among economies in East and South-East Asia.
- At the same time, there is also a noticeable increase in the presence of TNCs from developing and transition economies in many developed countries.

While the diversity of the home economies now emerging as significant FDI sources prevents far-reaching generalizations of the characteristics of TNCs from developing and transition economies, it is nevertheless possible to identify certain salient features.

First, although more economies are emerging as FDI sources, there is still a relatively *high concentration* of countries from which the major TNCs originate. In Africa, South Africa dominates; in Latin America, major TNCs are from Brazil and Mexico; in the CIS it is the Russian Federation that is responsible for almost all significant outward investors. The picture is somewhat more diverse for Asia, where the four NIEs, along with China, India, Malaysia and Thailand, all have a growing number of companies with a strong foreign presence. At the same time, a number of smaller TNCs from a wider range of developing countries are also increasing their foreign activities, mostly at the regional level.

Second, in terms of *industrial distribution* a few industries are better represented than others, but with important regional variation. In all developing regions and in the Russian Federation, the primary sector (oil, gas, mining) and resource-based manufacturing (metals, steel) have seen the emergence of major TNCs. Some of them are now competing head-on with their developed-country rivals; examples include Sasol in Africa (as well as the former South African companies, Anglo American and BHP Billiton); CVRD, ENAP, Petrobras and Petroleos de Venezuela in Latin America; Baosteel, CNPC, CNOOC, Petronas, Posco and PTTEP in Asia; and Gazprom and Lukoil in the Russian Federation.

Another cluster of activities involving many developing-economy TNCs are financial services, infrastructure services (electricity, telecommunications, transportation services) and goods that are relatively difficult to export (cement, food and beverages). Because of their non-tradable nature, these economic activities typically require FDI if a company wishes to serve a foreign market. With few exceptions (such as Cemex and the former South African companies, Old Mutual and SABMiller), however, most of the developing-country TNCs in these areas are mainly regional players, with limited (if any) activities in other parts of the world.[64]

A third cluster of activities includes those that are the most exposed to global competition, such as automotives, electronics (including semiconductors and telecommunications equipment), garments and IT services. Almost all the major TNCs from developing or transition economies in these industries are based in Asia. Electronic companies like Acer, Huawei and Samsung Electronics, the automobile firms, Hyundai Motor and Kia Motor, or relatively smaller TNCs in the IT services industry, such as Infosys or Wipro Technologies, are already among the leaders in their respective industries.

The sectoral composition of TNCs from different home economies reflects their respective *comparative advantages* (i.e. variations in the costs of factors such as labour, land and capital). More importantly, however, it also reflects differences in *competitive advantage* (i.e. the capacity to transform any given inputs into products and services at maximum profit) (Kogut 1985). Competitive advantage, in turn, has been fostered in different ways through government policies and institutions (chapter VI). A distinguishing feature of the environment in which TNCs in East and

South-East Asia operate, compared to those in Latin America, has been a stronger emphasis on outward-oriented policies in the former subregion.

In all regions studied in this chapter, intraregional FDI plays a key role in TNC-controlled international networks. This is especially true in Latin America and in the CIS, but also to a large extent in South Africa and in Asia. The subregion of East and South-East Asia has the largest number of TNCs with global aspirations.

Finally, as regards the *ownership form* of TNCs from different parts of the developing world, private ownership is the most common. However, compared with TNCs from developed countries, there is a relatively high incidence of State involvement. This is particularly pronounced in China and Singapore, and, more generally, for most TNCs dealing with natural resources. In fact, among the top 100 TNCs from developing countries, almost all corporations in the oil and gas industry are State-owned. In South Africa, the Government is also actively involved in infrastructure-related outward investment. State ownership may imply that factors other than economic ones influence the internationalization strategies of the investing firms (chapter IV).

The next chapter provides a more detailed analysis to explain why and how TNCs from developing and transition economies have expanded internationally.

Notes

1 Unless otherwise stated, the term "developing and transition economies" in this chapter refers to all developing economies and economies in South-East Europe and the Commonwealth of Independent States (CIS).

2 As noted in box III.1, these flows often originated from foreign affiliates of developed-country TNCs.

3 Between 1999 and 2001, transactions by companies registered in offshore financial centres accounted for more than $70 billion, or 29% of the total value of cross-border M&As by acquirers based in developing and transition economies.

4 In the case of developing countries, the concentration of outward FDI is higher than the concentration of inward FDI.

5 For example, more than half of all cross-border M&A acquirers based in Hong Kong (China) in 2005 were controlled by TNCs based outside it. Foreign affiliates owned by developed-country TNCs accounted for about one quarter of the value of all such deals (box III.1) and foreign affiliates of Chinese TNCs accounted for about one third of this total (UNCTAD, cross-border M&A database).

6 It should be noted that this percentage relates to the FDI stock of Latin America and the Caribbean excluding the main offshore financial centres.

7 There was a marked push by large, privately owned companies to invest abroad in the mid-1990s following the relaxation of international sanctions and the liberalization of foreign exchange controls. The London listings of major South African companies in the mid-1990s contributed to the rapid growth of its outward FDI.

8 *Source*: Exim Bank of Korea.

9 *Source*: Bank of Korea (2005). "Effects of outward FDI in manufacturing on domestic employment (in Korean)", *Monthly Bulletin*, November 2005.

10 The increase in the share of manufacturing when Hong Kong (China) is excluded from the table also reflects a decline in the share of unspecified FDI.

11 Services also dominate cross-border M&As, accounting for 66% of the number of purchases by companies based in developing and transition economies in 2005.

12 The relatively high share of developing and transition economies in unspecified FDI is mainly due to FDI from Hong Kong (China).

13 Not many developing countries provide a geographical breakdown of destinations of FDI outflows. Data limitations prevent a precise calculation of the magnitude of such flows.

14 Using stock data, the value of South-South FDI (excluding offshore financial centres) was an estimated $502 billion in 2004, based on data from developing and transition *home* economies, and $895 billion based on data from developing and transition *host* economies. The latter corresponds to about half of total inward FDI stock in these economies in 2004. These figures were derived using data for the latest year available between 2001 and 2005 (mostly in 2004) for 15 reporting home economies and 35 reporting host economies, which accounted for 77% and 67%, respectively, of the total outward and inward stock of developing and transition economies in 2004.

15 Most FDI from East Asia went mainly to the more developed South-East Asian countries. Intraregional FDI within East Asia had been rising until recently, largely dominated by FDI into China.

16 In fact, most FDI flows between Asia and Latin America and the Caribbean involve inflows and outflows from offshore financial centres, which are not included in figure III.8.

17 Similarly, in the *Forbes* list of top 500 non-United States companies, the number of companies from developing and transition economies almost doubled between 1997 and 2002. *Forbes* ceased to provide this list after 2002.

18 The developed-country TNCs on the list with majority State ownership are Electricité de France (France) and Statoil (Norway).

19 A ranking of the largest African companies in terms of sales, placed the Algerian oil company, Sonatrach in top position (*Jeune Afrique L'intelligent*, 2006). However due to its limited international activities, it is not included in UNCTAD's list of the largest TNCs from developing countries. Of the top 30 companies, 26 were from South Africa.

20 Before 1990, apartheid and isolation largely restricted South African companies to the country and the Southern Africa region.

[21] Many of these companies had a foreign presence beyond Africa as well.

[22] The five remaining companies do not have any foreign affiliates at all.

[23] Anglo American plc was formed as part of the company's restructuring in May 1999. With its primary listing on the London Stock Exchange, it is majority owned by United Kingdom institutions and the second largest mining company in the *Fortune 500* list in 2005.

[24] Nine out of the 20 top Egyptian companies are State-owned.

[25] Countries such as Kenya and Mauritius also have notable outward FDI. India is the main recipient of FDI from Mauritius.

[26] Eight East Asian economies – China, Hong Kong (China), Indonesia, Malaysia, the Republic of Korea, Singapore, Taiwan Province of China and Thailand – had been among the 12 fastest-growing economies in the world for 30 years since 1960.

[27] "The perpetual crisis machine: Samsung has never been more successful than now", *Fortune*, 5 September 2005.

[28] Hon Hai makes everything from PCs for Hewlett Packard to cell phones for Nokia and PlayStation 2 game consoles for Sony.

[29] In Singapore, a company is termed a GLC when the Government holds at least a 20% stake.

[30] Since the late 1980s, many former State-owned enterprises have been listed on the Singapore Stock Exchange.

[31] For instance, Sime Darby Group, one of Malaysia's leading TNCs has a comprehensive range of business activities carried out by 300 companies in over 20 foreign locations, particularly in China, Hong Kong (China), Singapore and Australia.

[32] Some studies identified some broader generic organizational skills, such as the ability to combine foreign and domestic resources, as key factors in the development of business groups from late industrializing countries (see Kock and Guillén 1998, Guillén 2000).

[33] The term "ethnic Chinese" here refers to companies that are owned and managed by people of ethnic Chinese origin.

[34] The "overseas Chinese" networks provide ethnic Chinese entrepreneurs with business intelligence, sources of capital, and the necessary political linkages (Hamilton and Biggart 1988, Redding 1990, 1995, Brown 1998), thereby giving them a competitive advantage (Haley, Tan and Haley 1998).

[35] Similar companies focusing on international businesses established by the Chinese central Government include China Resources and China Merchants.

[36] In the mid-1990s, some provincial governments established so-called "window companies" in Hong Kong (China), such as Guangdong Investment Limited, Beijing Enterprises Holdings Ltd., Tianjin Development Holdings Limited and Shanghai Industrial Holdings. Today, these companies, as well as flagship subsidiaries of central Government-owned China Resources and China Merchants, are considered to be TNCs from Hong Kong (China).

[37] Positive spillovers from inward FDI, coupled with supportive government policies, contributed to the emergence of these Chinese electronics companies (Liang 2004).

[38] After this acquisition, the company ranked third in the global PC market, with a market share of 7.2%, following Dell (17.2%) and Hewlett Packard (15.7%) in the fourth quarter of 2005, according to estimates of International Data Corp.

[39] Examples include Glanz, Pearl River Piano Corporation and Zhenhua Harbour Equipment.

[40] Some SMEs with international operations exist in other South Asian countries. Although expectations of the internationalization of companies from LDCs such as Bangladesh are low, results of a survey show that some Bangladeshi banks and companies have investments abroad (Frans 2003). Except for investments by the Bangladeshi banks, however, these overseas investments are not reflected in balance-of-payments data, as they have been financed by foreign funds.

[41] The total trade surplus of Middle East oil exporters has been forecast at $300 billion for 2006 (*Washington Post*, 7 March 2006).

[42] In retail services, Koç Holding's Migros Group has been expanding overseas faster than at home. Its foreign affiliates' sales in Azerbaijan, Bulgaria, Kazakhstan and the Russian Federation accounted for 16% of its total sales ($1.7 billion) and 39% of its total profits in 2004.

[43] In 2004, 37% of Koç Holdings' total sales were from exports and foreign affiliates' sales; these rose from $1 billion in 2000 to $7 billion in 2004.

[44] *Source*: Treasury of Turkey.

[45] SABIC is the 10th largest petrochemicals company in the world; it is 3rd in polyethylene production, 6th in polypropylene and 4th in polyolefins overall.

[46] Saudi Aramco, for instance, has grown from essentially an exploration and production company prior to the 1990s to an integrated global petroleum company. The company operates in North Africa, Asia, the Pacific Rim and the United States.

[47] For instance, MTC operates in 19 countries in the Middle East and sub-Saharan Africa, providing mobile voice and data services to over 14 million customers. Investcom operates GSM mobile networks, e.g. in Benin, Ghana, Guinea-Bissau, Liberia, Sudan, Syrian Arab Republic and Yemen. Investcom has also recently been awarded GSM licences in Afghanistan and Guinea, expanding its operations to 10 countries.

[48] In the list of top 100 TNCs from developing countries, 10 out of 11 entries from the Latin American region are from these two countries, with PDVSA being the singular exception.

[49] ECLAC (2006) notes that Cemex not only has a high level of sales abroad and an international network, it has also captured a significant global market share.

[50] For example, Techint's affiliate, Tenaris, is the world's largest seamless pipe producer for the oil industry, with manufacturing in nine countries, and CVRD is the largest global producer of iron ore and pellets, and the second largest global producer of manganese and iron alloys, with activities in five continents.

[51] In 1996, locally owned firms dominated LAC markets in beverages, glass, petrochemicals, steel, textiles, cement, pulp and paper, and agribusiness. They had a significant presence in food products, machinery and equipment, household appliances and tobacco. However, they had little or no presence in technology- or marketing-intensive

products like automobiles, telecom equipment, computers, and chemicals, in which foreign TNCs assumed the leading roles (Garrido and Wilson 1998).

52 It is now the world's largest maker of small commercial aircraft (those with fewer than 110 seats).

53 América Móvil is now, together with the Spanish Telefónica, a main wireless telecom company in Latin America, with more than 75 million clients in Argentina, Brazil, Chile, Colombia, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Paraguay, Peru and Venezuela (www.americamovil.com).

54 In 2000, for example, Lukoil entered the United States through the acquisition of Getty Petroleum Marketing. At the other end of the value chain, Lukoil's most important strategic move has been the acquisition in 2005 of Nelson Resources (Canada), an oil company that operates exploration and extraction facilities in Kazakhstan.

55 See, for example, www.hoovers.com/globaluk/sample/co/factsheet.xhtml (accessed 10 January 2006).

56 Its position will be further strengthened after the consolidation of Sibneft (now Gazprom Neft) into its operations, especially in the petroleum extraction and refinery segments.

57 Norilsk has been expanding abroad through a series of investments in trading and mining companies, such as a 51% stake in Stillwater Mining (United States) in 2003, a 20% stake in Gold Fields Ltd. (South Africa), and the acquisition of the metal trading company, Norimet (United Kingdom) in 2000.

58 It controls bauxite mining in Guinea and Guyana, it owns smelters in Armenia, Guyana, Nigeria (acquired in 2006) and Ukraine, and has joint venture refinery partners in Australia and Jamaica, as well as a marketing presence in developed-country markets.

59 It also entered into a coke producing joint venture and has started to build a greenfield steel plant in the United States. The company's plants in the United States supply the major car producers, among others.

60 Its first major investment outside the CIS was the acquisition of power stations in Varna and Ruse in Bulgaria, announced in May 2005.

61 As of end 2005, MTS was present in various markets, VimpelCom focused on Kazakhstan, Tajikistan and Ukraine, and MegaFon on Tajikistan. In addition, Alfa Group – the majority shareholder of VimpelCom and the joint venture partner of BP in the BP-TNK company – held shares in a Ukrainian and a Kyrgyz operator.

62 See, for example, "Gosudarstvo podderzhit expansiyu rossiyksogo biznesa na zarubezhnykh rynkakh" (The State supports the expansion of Russian business on foreign markets), *Pravda.ru*, 25 March 2005, www.pravda.ru/economics/2005/7/21/63/19414_expansion.html (accessed 3 February 2006).

63 Pliva acquired a major manufacturing operation in Poland in 1997. It has a presence in the EU and China, the CIS, India and the United States. In the case of Podravka, a food producer, its affiliates are located in Europe, Australia and the United States.

64 Hutchison Whampoa's ownership stake in the mobile telecoms operator "3", and Singtel are important exceptions.

CHAPTER IV

DRIVERS AND DETERMINANTS

Chapter III demonstrated that FDI by developing and transition economy TNCs has risen rapidly over the past two decades and now constitutes a sizeable share of global FDI flows. These outflows of investment are, however, concentrated both by country of origin and industry. Allowing for the caveat that this is still an emerging phenomenon, this chapter explains the how, why and where of FDI by developing countries and transition economies, using a recognized conceptual framework.

The conceptual framework examines how developing-country TNCs are able to acquire competitive advantages, including proprietary expertise and technology, which will allow them to operate in overseas environments and compete effectively with foreign firms. Many of these TNCs possess sophisticated and distinctive advantages which they have created and nurtured over many years. There are also complementarities between developed- and developing-country TNCs (especially Asian ones), for example in some electronics industries where developed-country TNCs retain R&D, product design, branding and sales of a product, but have disbursed production to contract manufacturers. Finally, a number of developing-country TNCs are able to benefit from home-country locational factors, including access to natural resources such as oil (often allied to State ownership) and access to cheap funds, which translate into significant advantages for these firms. The wider range of sources from which developing-country TNCs derive their advantages requires an extension of the theory of transnational corporations, rather than warranting an alternative approach.

The question why TNCs are emerging from some developing countries and not others is discussed in terms of the investment development paths (IDP) of countries. The IDP theory argues that as countries become more industrialized or developed – with a parallel advance in their industrial and service sectors – their firms are likely to build up firm-specific advantages, and so are able to compete more effectively at the international level. Why FDI from developing and transition economies has increased in recent years is partly explained by this theory. However, there is some evidence of trend acceleration over the past decade, which seems to be largely due to the continuing impact of globalization on developing countries and their economies. The dynamics are complex, but within them the combination of competition and opportunity – interwoven with liberalization policies across the developing and developed regions – is particularly important. As developing economies become more open to international competition, their firms are increasingly forced to compete with TNCs from other countries in their home *and* foreign markets, and one of the means at their disposal is through FDI. The competition in turn can impel them to improve their operations by encouraging the development of firm-specific advantages, which enhance their capabilities to compete in foreign markets.

Finally, where developing-country TNCs locate overseas depends a great deal on their motives, in particular whether they are market-seeking, efficiency-seeking, resources-seeking or created/strategic-asset-seeking. Apart from opportunistic circumstances (e.g. in the case of privatizations), the location is also affected by

contingent factors such as a firm's strategy, the industry or service and the position in the value chain of the investing firm.

This chapter is divided into two main parts. Section A provides a conceptual framework for investigating the competitive advantages of TNCs from developing and transition economies, as well as factors which drive them to internationalize, and their motives and strategies. Section B examines these issues empirically. The conceptual framework first discusses the established theory of TNCs and FDI (section A.1) before examining aspects of the theory that would explain the rise of TNCs in developing and transition economies (section A.2) and the nature of the advantages they possess (section A.3). The empirical analysis assesses the sources of TNCs' competitive advantages, which the theory suggests are essential to firms' internationalization (section B.1), the drivers which impel these TNCs to invest overseas (section B.2), and the motives which help determine their choice of host location (section B.3). Section C concludes.

A. Conceptual framework

1. The theory of transnational corporations and foreign direct investment

The basic rationale for FDI by firms in a global market economy is to increase or protect their profitability and/or capital value. One of the ways in which TNCs are achieving this goal is by engaging in FDI, either to better exploit their existing competitive advantages or to safeguard, increase or add to these advantages. Economic and political drivers that trigger the internationalization of TNCs (or result in their further overseas expansion) can be wide ranging, but often include a small home market (relative to a company's operations or ambitions), competitive pressures (which are intensifying in an increasingly liberalizing world) and government policies aimed at encouraging foreign expansion. These drivers are likely to vary, with different impacts on companies, depending, for example, on their competitive situation, motives and choices.

Firms may be in a position to respond directly to these pressures or opportunities to internationalize by utilizing their competitive advantages, some of which may be firm- or ownership-specific.[1] The latter are necessary if internationalization is to take place through FDI and international production within a TNC system.[2] These advantages could be assets possessed by a firm (e.g. patents, a recognized brand or production process capabilities) or they could involve more efficient organization of these assets across a geographical space. Using either kind of advantage, this type of TNC strategy is referred to as "asset exploiting", and its choice of host country location is determined by one or more of three types of motive: to seek out new markets, to raise efficiency (cost reduction), and to source better quality or cheaper factor inputs, such as skilled labour, raw materials or good quality infrastructure.

In contrast to asset-exploiting TNC strategies, firms engaged in asset augmenting strategies may not possess competitive advantages, especially firm-specific ones, which allow them to respond to, or exploit effectively, the drivers mentioned above. In order to address this shortcoming, such firms may therefore be motivated to venture into international markets and exploit their limited competitive advantages in order to acquire "strategic" created assets such as technology, brands, distribution networks, R&D facilities and managerial competences (quite commonly through M&As). In a world economy characterized by high levels of international competition and rapid technological advance, any particular advantage can easily be eroded. Asset augmenting FDI[3] has therefore become more prevalent and it is undertaken by firms that have the necessary minimum complement of competitive advantages for acquiring assets and conducting operations in foreign locations. Furthermore, firms must develop organizational capabilities which facilitate the absorption[4] of learning in their internationalisation process. This is a dynamic process and implies that a significant aspect of firms' motives is to address asset imbalances. Asset augmentation is a part of the normal growth process of the firm; and globalisation has widened the potential sources available to companies (*WIR00*, Dunning 2004). Although asset augmenting strategies were recognized as important in the early 1990s, it was only in the early 2000s that they were systematically used to explain South-North FDI by developing-country TNCs (Moon and Roehl 2001).

TNCs may emphasize one or other of "asset exploiting" and "asset augmenting" strategies at any given moment, but they are not necessarily

alternatives nor always independent of each other. It is quite common for these strategies to be combined in a number of ways; for example, a TNC might buy a firm to gain access to a market, which it then services by a combination of existing and acquired assets (IV.B.3, *WIR00*).

Internationalization either to exploit or augment assets does not *necessarily* result in FDI; firms can choose a number of other responses to the initial drivers. For example, in some cases it may be more profitable to produce domestically and export to overseas markets (thereby realizing scale economies, among other benefits). Even where overseas production becomes desirable, a firm might choose to license its advantages[5] to a foreign company, which then establishes production or service facilities and pays the firm (the licensor) a royalty. However, if the firm and its prospective licensee cannot agree on the value of the technology, the firm might decide to internalize the market for the technology and establish its own FDI production affiliate overseas. Similar issues prevail for asset augmenting internationalization.[6]

Once the decision to invest overseas has been made, the implementation of that decision – where the investment should be made, or when and on what scale – is not a simple matter, especially for a small or new TNC (typically one from a developing country). A valuable approach to the questions – where, when and how - is provided by a variant of the theory of the international firm, which stresses the importance of experiential learning (Johanson and Vahlne 1977, Blomstermo and Sharma 2003). This approach argues that the pace and form of internationalization by any firm is determined by the dynamic interplay between increasing foreign market commitments and the knowledge and experience gained therefrom, including learning feedback loops (see Macharzina et al. 2003). This critical insight can be applied in a number of ways to understand TNC internationalization processes, including for example, the use of small, successive steps to deepen involvement in a foreign economy; the tendency to expand into markets which are better known (e.g. geographically proximate regional ones);[7] and the importance of familiarity to explain how investments might be spread internationally (e.g. common cultural or linguistic roots might explain the concentration of Brazilian FDI in Portugal and Angola). Allied with the concepts of a firm's asset exploitation and internalization, this developmental approach offers a powerful way to analyse TNCs' choice of host country locations.[8] In addition, the specific choice of location will also depend on host country advantages or assets, such as the policy framework, business facilitation measures, business conditions and economic determinants (e.g. market size, natural resources and created assets) (*WIR98*). These host country advantages are important determinants of the international location pattern of FDI activity (Dunning 1998) (section IV.B.2).

The foregoing discussion of existing theory raises two interrelated questions about developing and transition economy TNCs, both concerning the nature of competitive advantages that they possess. The first question, addressed in subsection 2 below, uses the theory of the IDP, which is about how and when such advantages arise. It might also help explain the recent rapid increase of FDI by these TNCs. The second question, considered in subsection 3, concerns the nature of the advantages possessed by developing-country TNCs, especially the degree to which they are similar to, or different from, the competitive advantages of developed-country TNCs.

2. The investment development path and the emergence of TNCs from developing and transition economies

According to the IDP theory, the outward and inward FDI position of a country is systematically related to a country's level and structure of economic development. Along the IDP, outward FDI is expected to be undertaken only when a country has reached a certain minimum level of development, at which time ownership advantages may have evolved among firms in that country. The outward FDI pattern will therefore reflect the evolving nature of ownership advantages of domestic firms as well as changes in the advantages of the home economy vis-à-vis potential host economies.

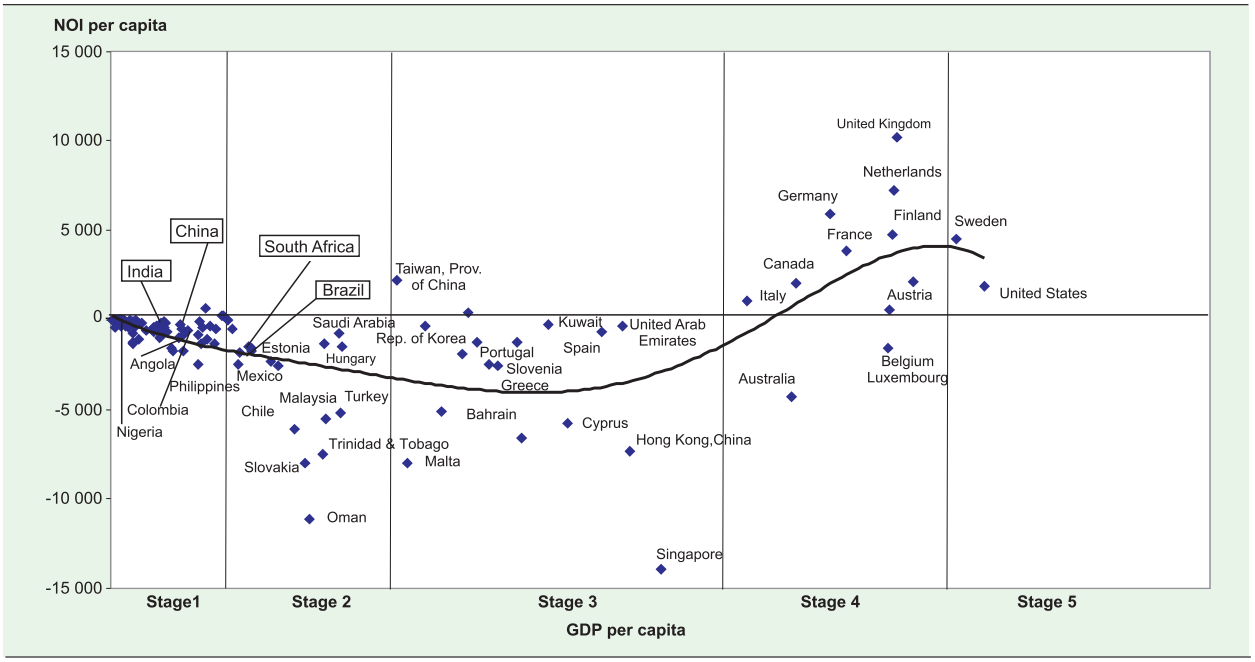
The IDP theory suggests that countries tend to go through five stages (from "least developed" to "developed"), in which the propensity of being a net recipient to ultimately becoming a net source of FDI evolves (Dunning 1981, 1986, 2005, Dunning and Narula 1996, Dunning et al 1998).[9] In the first stage, there is likely to be very little inward and outward FDI. This is because, at this stage, there are very few country-level factors (i.e. location-specific advantages such as a sizeable

market or clusters of development) that might attract inward FDI, with possible exceptions being assets such as natural resources. Local firms have not created or acquired many firm-specific advantages that might allow them to invest overseas. In the second stage, inward FDI starts to rise (because of the increase of per capita incomes and other location-specific assets), while outward FDI remains low or negligible (firms are still developing). At stage three, the rate of growth of inward FDI is expected to decline (as local firms become more competitive), and that of outward FDI to grow faster. In the fourth stage, a country's outward FDI stock should exceed or equal the stock of inward FDI. By this stage, most domestic firms are now capable of competing with foreign firms abroad as well as in their own market. Finally, at stage five, the net investment position of a country tends to fluctuate around zero, reflecting relatively similar magnitudes of the stocks of inward and outward FDI.

Beyond changes in the volume of inward and outward FDI along the IDP, the approach also predicts structural changes in the composition of such investment. Inbound FDI is first directed to low/medium knowledge-intensive or resource-based industries; later they may move into the high-technology-intensive industries, and/or more efficiency-seeking FDI takes place. Similarly, outward FDI first takes place in low-technology or resource-based industries and then in high value-added activities. This process of structural upgrading driven by inward and outward FDI reflects growing national competitiveness.

This brief overview of the IDP theory is put to the test in figure IV.1, which correlates net outward investment (NOI) per capita with GDP per capita.[10] In the broadest sense the IDP holds: the poorest countries receive very little investment and are home to very few or no TNCs (stage 1, falling NOI per capita). As economies' GDP per capita rises they receive, as predicted, increasing amounts of inward FDI (stage 2, NOI per capita continues falling). This is followed by a point (midway in stage 3 in the figure) at which the NOI per capita curve takes an upward trajectory, as middle- to high-income developing countries become home to increasingly competitive TNCs which invest abroad at a mounting rate. Stage 4 depicts a point at which countries are fully developed, with

Figure IV.1. Relationship between net outward investment and GDP per capita, selected countries, 2004



Source: UNCTAD.

Note: A total of 135 countries were included in a regression equation, which postulated a relationship between the level of development and the net outward investment (NOI) position of countries (i.e. outward FDI stock less inward FDI stock). Only a small number of countries have been indicated in the figure, for illustrative purposes. The points on the bottom axis at which the stages are divided from each other were chosen to correspond with theoretical predictions of the relationship between the NOI and level of development, and in this sense are notional. These points dividing the stages are roughly $2,500 (between stages 1 and 2), $10,000 (between stages 2 at 3), $25,000 (between stages 3 and 4), and $36,000 (between stages 4 and 5).

outward investment exceeding inward investment (i.e. a positive NOI per capita). There are insufficient data points to test stage 5.

While this overview of the patterns of inward and outward FDI for countries at various levels of development supports the IDP theory, it is important to recognize the limitations of the concept (Dunning 2005, Liang 2006). First, in figure IV.1, countries at similar levels of development (GDP per capita) display dissimilar patterns of NOI per capita. This reflects different levels and patterns of industrial development, as well as the consequences of government policies (Lall 1997, Frischtak 1997, Chudnovsky and Lopez 2000, ECLAC 2006a) (box IV.1). In addition, contextual issues, especially location-specific aspects, are needed to explain countries' actual net investment position. For example, Singapore has a very negative NOI per capita for its level of development, which is the result of its strategic position in South-East Asia that makes it a prime location for TNCs' regional headquarters, operations and services.

Second, many of the countries, such as Brazil, China, India, Mexico, South Africa and Turkey, which are home to leading TNCs and are investing significant amounts of FDI overseas (as analysed in chapter III) are at stages 1 and 2 of the IDP; they have therefore begun outward FDI earlier than might be expected on the basis of the IDP (the *net* outward investment position, as used in figure IV.1, disguises this trend a little because these countries also receive large amounts of inward FDI). Of course, GDP per capita may be a poor measure of development and other contextual issues can be used to understand why low- and middle- income countries are investing comparatively large amounts overseas.[11] However, this is a prima facie indication that many companies are conducting FDI earlier than might be expected.

Box IV.1 A tale of two continents: policy choices and industrial development in East and South-East Asia and Latin America

East and South East Asia and Latin America provide a useful contrast for showing how country and company responses and strategies have longer-term consequences, including for economic development and FDI.

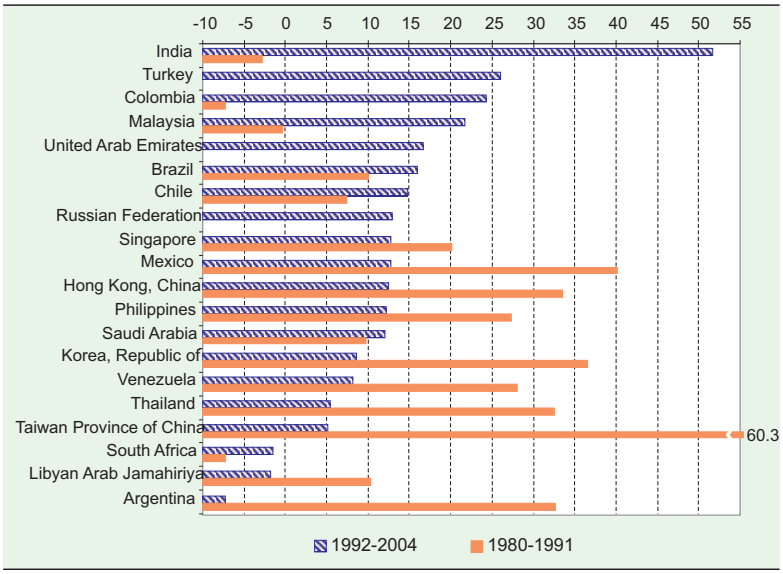
Until about 1970, import substitution of manufactured goods and services, often behind protective barriers that insulated local firms from the international economy, was the primary development framework in most developing economies.

From the 1970s, this situation changed dramatically as each country and region reacted in a variety of ways to the rapidly globalizing world economy. Most East and South-East Asian governments were open to inward investment or other forms of involvement with developed-country TNCs. As part of wider industrial policies, including trade and investment liberalization, they opted for export orientated industrialization. East Asian TNCs have emerged partly as a result of this process. They are represented in a wide range of industries, in many cases because of deliberate policy choices by the subregion's governments to diversify their industrial bases.

In contrast, Latin American economies and companies – which were more developed than those in other parts of the developing world – have been squeezed hard. They lost ground to competitors, partly by continuing to pursue import substitution policies, which were not sustainable under the circumstances; they were also negatively affected by the international debt crisis that struck all Latin American economies. From the late 1980s, Latin American economies began to liberalize and switched to export-orientated policies, but faced with stiff international competition, many firms went bankrupt or were forced to downsize. This was considered a necessary process of the "survival of the fittest". At the top end, in goods such as capital machinery, pharmaceuticals, speciality chemicals and scientific instruments, firms lost ground to competitors, mostly developed-country TNCs; at the bottom end developing-country competitors, especially from China, took over their market shares in products such as footwear, garments and furniture. On the other hand, the demise of some local enterprises allowed a few ("the fittest") to prosper. Other Latin American TNCs have been able to retrench by specializing or intensifying their activities in manufactured goods based on natural resources, such as pulp and paper, petrochemicals and cement. Finally, a new group of companies has emerged as a result of privatizations, especially in infrastructural services such as telecommunications and utilities.

Source: UNCTAD.

Figure IV.2. Annual average growth rates of outward FDI flows
(3-year moving average, percentage)



Source: UNCTAD.
Note: Argentina (1984-1991), India (1982-1991), Libyan Arab Jamahriya (1992-2003), Saudi Arabia (1980-1990, 1993-2004), Turkey (1984-1991), and United Arab Emirates (1993-2004). Growth rates for for one or both periods were not available or too volatile for meaningful calculations for the following countries: China, Nigeria, Russian Federation, Turkey and United Arab Emirates.

It is given some weight by figure IV.2, which shows that there was a marked increase in the *growth rates* of FDI flows in the period 1992-2004 compared to 1980-1991 in many countries, including Brazil, India, the Russian Federation, South Africa and Turkey.[12] For some economies, such as Hong Kong (China), the Republic of Korea and Singapore, the growth rates of FDI flows in 1992-2004 were not as high as the earlier period, but these countries started from a high base, since their TNCs had been involved in outward FDI for some time. Although the data should be treated with caution, there is some evidence to suggest that there has been a secular shift in the link between development stages and internationalization, so that TNCs from developing and transition economies are increasingly investing at an earlier stage in their country's (and their) development. A likely reason for this lies in the impact of globalization on countries and companies, especially through increased competition and opportunities (see section IV.B.2).

Finally, although TNCs from developing countries might now be investing overseas at an earlier stage than TNCs did in the past, they nevertheless need to pass some thresholds implied by the theory. In particular, as suggested earlier, they need to possess some firm-specific or other competitive advantages that facilitate their FDI. India, for example, is a poor country, but it has a significant number of companies with a strong industrial base (BCG 2006a), indicating that Indian TNCs possess some relevant ownership of created assets. Of course, these thresholds should be taken into consideration by governments and, in this respect, the IDP helps explain how inward and outward FDI can assist in improving a country's – and its TNCs' – competitiveness (box IV.2). On the other hand, the fact that Kuwait and the United Arab Emirates – countries with a limited industrial tradition – are at stage 3 of the IDP (i.e. on the upswing of the NOI per capita curve, as shown in figure IV.1), suggests that competitive advantages might also emerge from sources other than firm- specific factors.

3. Application of the theory to TNCs from developing and transition economies

Is there a case for a special theory for TNCs from developing and transition economies? Many authors have commented on how their characteristics differ from those of developed-country TNCs,[13] and some have argued for alternative theories to explain their internationalization.[14] Compared to developed-country TNCs at a similar stage of development many developing-country TNCs appear to be investing overseas at a very early stage. Furthermore, their sources of firm-specific or other competitive advantages seem to cover a wider range than the technological and expertise-based competencies that the prevailing theory has normally considered. Nonetheless, it *is* possible to nest a special theory[15] of developing-country TNCs within the general theory of TNCs and FDI discussed above by pinpointing the unique or distinctive advantages possessed by developing-country firms. Table IV.1 does this by cross-tabulating the broad types of competitive advantages that TNCs are seen to enjoy, as derived from the general theoretical and empirical literature, against the *particular* advantages that

Box IV.2 The use of inward and outward FDI to upgrade the competitiveness of countries

Essentially, countries may use both inward and outward FDI to upgrade the competitiveness of their indigenous resources and capabilities to facilitate structural change, thereby promoting dynamic comparative advantage. In both cases, foreign assets (resources, capabilities, access to markets, patents, trade marks, entrepreneurial skills and institutions) are bought, whether it be via *market, resource, efficiency or strategic asset* seeking FDI.

The IDP suggests that at low levels of economic development, both imports and inward FDI are likely to be the most favoured means of securing "created" assets. Exceptions may be capital-rich countries (e.g. the oil-rich States) that might have the liquid assets to acquire foreign firms. This is obviously one of the quickest ways to gain access to the "competitive advantage" of foreign firms; but unless it is to be a portfolio investment, the purchaser must have some other capabilities to manage the purchased firm effectively. In such cases, outward FDI is being used as a means of *augmenting* existing advantages.

Normally, however, in the early stages of the IDP, countries are likely to obtain created assets through inward FDI. First, these are directed to low/medium knowledge-intensive industries and/or resource-based sectors in which the host countries have or are developing a comparative advantage; later as countries move upwards along their IDPs, FDI is directed to higher technology-intensive sectors, and/or more efficiency-seeking FDI takes place.

Over time, through a variety of spillover effects, inward FDI acts as a competitive spur to domestic firms. Eventually, the most efficient of these will start to penetrate foreign markets (through exports, FDI or contractual agreements). Because of recent technological and communication advances and the pressures of globalization, this process is accelerating. Sometimes it is aided by governments, as in the Republic of Korea in the 1980s and 1990s, and Malaysia and China today.

The principle of comparative dynamic advantage suggests a continuing restructuring of economic activity as countries move upwards along their IDP. Both inward and outward FDI policies have a critical role to play in guiding or facilitating this process, as do other macroeconomic and micro-management policies.

Many firms today engage in a combination of the two types of FDI (asset-exploiting and asset- augmenting). In their development policies, countries may also opt for both inward and outward FDI. Finally, the geography of inward and outward FDI may differ just as much as that of trade. Certain companies might be in a favourable position to exploit or gain new assets via outward FDI, while others might best advance their competitive/comparative advantage by encouraging inward FDI from a different group of countries.

Source: UNCTAD.

developing and transition economy TNCs have been shown to possess in the specialized literature.[16] The latter are also categorized in the table by source of advantage (i.e. whether the advantage is firm-specific or stems from the home-country environment or some aspect of the development process). Perhaps the most important feature that stands out when comparing table IV.1 with the salient industrial characteristics of developing-country TNCs discussed in chapter III, is that nearly all of the industries in which developing-country TNCs are concentrated (namely primary sector industries, financial, infrastructural and IT services, and manufacturing industries such as automobiles, electronics and garments) derive their principal[17] advantages from three segments in the table. These segments are "expertise and technology", "access to resources and activities" and "production and service capabilities".

Expertise and technology-based ownership advantages (segment 1 in table IV.1) are the most common basis for FDI by developed-country TNCs and are clearly also relevant to developing-economy TNCs in a number of industries, including consumer electrical and electronic products (e.g. Haier and Hisense in China, Daewoo and Samsung in the Republic of Korea, Acer and Tatung in Taiwan Province of China, and Arcelik and Vestel in Turkey), food and beverages (e.g. Grupo Bimbo in Mexico, San Miguel in the Philippines, and Fraser and Neave in Singapore), heavy industries (e.g. Cemex in Mexico, Gerdau and Odebrecht in Brazil, Reliance in India and Sasol in South Africa) and transportation equipment (e.g. Embraer in Brazil, Tata Motors in India and Hyundai in the Republic of Korea). A few of these companies are able to compete with developed-country TNCs at the highest level, especially in consumer

Table IV.1. Types of advantages possessed by developing-country TNCs, by sources of advantage

		Sources of competitive advantages	
Type of advantage	**Firm-specific advantages**	**Advantages stemming from the home country environment**	**Advantages stemming from the development process or stage of development**
Ownership and access	**Segment 1. Expertise and technology** • Appropriate and specialized expertise and technology • Early adoption of new technologies (e.g. in areas such as infrastructure and telecommunications) • Some advanced technology or expertise, stemming from sustained investment in R&D and other resources	**Segment 2. Access to resources and activities** • Primary sector/natural resources, sometimes monopolized by State-owned enterprises • Clusters of knowledge and expertise (e.g. IT skills in Bangalore, India) • Access to funds or alternative forms of financing (e.g. from State banks and financial institutions, Islamic banks) • Development of utilities and infrastructure	**Segment 3. Relative advantages** • Growth poles in a developing country might give temporary relative size and ownership advantages over other developing country firms at home and abroad
Products/services, production processes and value chain niches	**Segment 4. Production and service capabilities** • Efficient production of components and products • Distribution and delivery capabilities	**Segment 5. Access to created assets** • Production clusters, including associated factor inputs	**Segment 6. Market niches** • Products and services adapted for developing-country markets • Cheap products
Networks and relationships	**Segment 7. Business models** • Development of networks to exploit advantages • Stress on customer or supplier bases and relationships	**Segment 8. Kinship** • Diaspora (e.g. overseas Chinese, Indians, Lebanese)	**Segment 9. Intra-developing country relations** • Intergovernmental initiatives
Organizational Structure and business culture	**Segment 10. Forms of governance** • Family firms • State-owned, collectives • Novel organizational architecture with greater use of networks	**Segment 11. Cultural affinity** • Cultural and historical associations with other countries	**Segment 12. Institutional affinity** • Business culture and structures, government-industry relations arising from parallel stages or processes of development.

Source: UNCTAD.

electronics. Indeed América Móvil (Mexico), Hon Hai Precision Industries (Taiwan Province of China) and High Tech Computer (Taiwan Province of China) occupied the top three positions in *Business Week's* 2006 global "Information Technology 100"; and there were 30 TNCs in the overall listing[18] from a number of developing and transition economies. However, they are concentrated in just four economies, Hong Kong (China) (mostly telecommunications), India (IT services), the Republic of Korea (electronics) and Taiwan Province of China (electronics).[19]

Most of the developing-country firms mentioned above have followed the internationalization path depicted by the theory, and become TNCs by generating ownership advantages which they can exploit overseas.[20] The primary driver of these industries and companies is likely to be competition (at home and abroad) in combination with relatively small domestic markets. Consequently, the main motives are market-seeking (whether regional, developed or developing markets will depend on the brand and quality of goods and services) and asset-seeking, to further improve competitive advantage.

Turning to advantages gained from *access to home country resources and activities* (segment 2 in table IV.1), the diversity of firms and industries is considerable (natural resources, natural-resource-derived manufacturing, infrastructure services,

telecommunications, software and others) and home governments can exercise substantial influence (e.g. through industrial policies, competition policy and even ownership of assets). In a similar vein, many developed-country TNCs at least originally derived benefits from their home countries' natural and other resources or pockets of knowledge and expertise (e.g. Exxon and Microsoft in the United States, Norsk Hydro in Norway and BASF in Germany), but later diversified by industry and market as well as along the value chain, to ensure that their advantages were based on "internal" (i.e. ownership of technology and expertise at the firm, proprietary level), rather than "external" sources (the home country environment).[21] Developing and transition economy TNCs in natural resources, and related manufacturing activities, such as Petróleos de Venezuela, Petronas (oil, Malaysia), Gerdau (metal products, Brazil), PetroChina, Sappi (paper, South Africa), Saudi Basic Industries Corp. and Gazprom (natural gas, Russian Federation), are proceeding in a similar way to their developed country equivalents, but are at a relatively early stage in the process.[22] However in some industries, for instance Indian software consultancy firms such as TCS, Wipro and Infosys, the process has been more rapid, partly because of the nature of the industry, their strong global links with a highly competitive software industry and the backing of Indian conglomerates (e.g. TCS is part of the Tata Group).[23]

In infrastructure services (including utilities, transportation and ports) and telecommunications, as mentioned in chapter III, many developing-country TNCs are competing directly with developed-country firms. This is because of early adoption of new technologies such as mobile telecommunications by developing-country firms (a latecomer advantage as discussed earlier), the recent extensive opening of the infrastructure sector in both developed and developing countries to private firms and the availability of investible funds. Thus, for example, as discussed in chapter III, there are now a number of developing-country TNCs in the telecommunications industry which are significant players in regional or global markets. These include América Móvil (Mexico), Bharti Airtel (India), China Mobile (Hong Kong (China)), MTN (South Africa), Orascom Telecom (Egypt), Singtel (Singapore) and VimpelCom (Russian Federation; box II.17) (see IV.B.3 for the internationalization motives of these companies). These and other developing-country firms are currently able to draw upon relatively cheap funds from State banks and other sources of finance that ultimately derive from high personal savings rates (East and South-East Asia), trade surpluses from manufacturing or service exports (East, South-East and South Asia) or high commodity prices (Latin America, Africa, West Asia and the CIS).[24]

Although many of the advantages of developing-country TNCs in natural resources and related industries, software services and infrastructural services depend on access to home country resources, each industry has different dynamics, as will be seen in section IV.B.3.[25] In addition to the nature of these industries, many TNCs in this segment are either State-owned or supported or family-controlled (segment 10), which might present financial and other advantages, such as the sharing of risk. For example, the Chinese State-owned Assets Supervision and Administration Commission (SASAC) supervises some 170 companies, many of them TNCs, in industries such as telecommunications, energy and automobiles (BCG 2006b). It supports these financially, but also manages them by, for example, triggering consolidations in an effort to improve their international competitiveness (see also "other" motives in subsection B.3 below). Family ownership also offers certain advantages, for example through cheap transfers of funds or higher levels of trust between family members (Yeung 1997, Tsui-Auch 2004).

Production process capabilities (segment 4). Other large companies identified in chapter III derive their advantages primarily from specialization in the production part of the value chain in industries such as electronics, automobile components, garments and footwear. Most of them are located in Asia (chapter III, section IV.A.2) and specialize in low-cost, high-quality manufacturing, mostly for sale to retailers or manufacturers. Many well-known developing country TNCs – especially in electronics – such as Acer and Tatung (Taiwan Province of China) and Daewoo and LG (Republic of Korea) began as such companies, but moved up along the value chain to create or buy technology, brands and other created assets, thus becoming similar to major developed-country TNCs. However, these industries lend themselves to deep-niche specialization, whereby companies can produce particular components on a mass scale and realize profits through cost reduction.[26] This requires high standards of timeliness, delivery, distribution and quality, as well as technological prowess. Apart from a few larger contract manufacturers, the vast majority are relatively small companies or less well known (though they may

be a part of larger groups); examples include DA Corporation (electronic components, Republic of Korea), HTC[27] (mobile phones, Taiwan Province of China), Integrated Microelectronics Inc. (contract manufacturer, the Philippines), Trinunggal Komara (garments, Indonesia), Varitronix (electronic displays, Hong Kong (China)) and Yue Yuen[28] (footwear, Taiwan Province of China). Their major drivers are competition and the need to keep down costs, hence the primacy of efficiency-seeking FDI (section IV.B.3.b). Most are still East or South-East Asian companies, but increasing numbers are emerging from other developing countries, such as India and Mexico. For example, Bharat Forge (India) is now the world's second largest producer of forgings for car-engines and chassis components. Its customers include most major automobile companies and it has affiliates in China, Germany, Sweden and the United Kingdom.[29]

Other sources of advantage. Some TNCs derive their primary source of advantage from the other nine segments, which may also be important for specific home and host countries. Although the primary sources of advantage for developing-country TNCs might come from one particular segment (especially, 1, 2 and 4), most companies are likely to draw their advantages, and hence strategies, from more than one segment. Focusing on the latter point, box IV.3 provides a few examples which illustrate how developing-country TNCs harness and combine advantages from a number of sources. The deliberately diverse cases of Marcopolo, Hikma Pharmaceuticals, AIC, Olam and Acer exemplify the wide range of strategies that developing-country TNCs in almost any industry can adopt in their internationalization process, depending on the nature of their advantages. The use of networks and relationships,[30] organizational structures, the leveraging of cultural ties or institutional affinity and other heterogeneous sources of potential advantage are reflected in the cases discussed. Partly deriving from their "latecomer status" (hence not weighed down by "sunk costs") and willingness to adopt new technologies and ideas, developing-county TNCs have the opportunity, but must also think as outsiders and create or develop advantages in novel ways.

In sum, the industries in which developing-country TNCs are clustered can be conceptually explained by the nature of the competitive advantages they possess (table IV.1). Their *principal* sources of advantage are in "expertise and technology", "access to home country resources" and "production and service capabilities". These are within the realm of established theory and the types of advantages enjoyed by developed-country TNCs. However, the relative importance of these sources of advantages differs[31] between developing- and developed-country TNCs. In particular, the former are more likely to possess competitive advantages gained from access to home country resources or production process capabilities (to be discussed empirically in IV.B.1). This explains their relative concentration in industries such as natural resources, natural-resource-related manufacturing, infrastructural services, software consultancy, electronics and garments. It also helps explain their proportionally greater focus on investing in other developing countries compared to developed-country TNCs (chapter III). Moreover, looking beyond the numbers, the sources of advantage that developing-country TNCs utilize in their operations are diverse (ranging from cultural and institutional affinity between countries to alternative forms of governance). Importantly, these sources of advantage can be used jointly in various ways, leading to novel internationalization strategies. This requires the existing theory of FDI and TNCs as discussed in subsection 1 above, to be adapted and extended, a task already begun with the foregoing discussion.

B. Competitive advantages, drivers and motives

Following on from the conceptual framework above, this section examines the available empirical evidence on the competitive advantages of developing-country TNCs, the drivers behind their internationalization and the primary motives influencing their locational choices, drawing on the literature as well as surveys being conducted by UNCTAD and partner institutions (box IV.4).

1. Sources of competitive advantages

Because the surveys mentioned in box IV.4 were directed at executives in developing- country TNCs, this section deals with competitive advantages at the firm level (i.e. the types of advantages arising from the factors listed in the first substantive column of table IV.1). According

Box IV.3 A panorama of developing-country TNCs

Marcopolo is a Brazilian bus and coach manufacturer that possesses proprietary technology and expertise (segment 1 in table IV.1) which it has built up since it was established in 1949. Until the early 1990s, it had pursued a policy aimed at servicing regional and northern markets, including an investment in Portugal. Thereafter, it reorientated its strategy to service niche markets, especially in developing countries (segment 6 of table IV.1) and leveraged this strategy by means of institutional affinity (segment 12) and South-South inter-governmental initiatives (segment 9). This strategy has enabled it to sell buses in more than 80 countries, capture half of the Brazilian market and about 7% of the global market against strong competition from developed-country TNCs. Its success is based on: (a) its flexible production system (segment 4) enabling it to make tailor-made buses for clients – one of its strongest advantages); (b) focusing on the essentials – 70% of its revenue is accounted for by bus body segments. Other parts of the bus are secured from parts makers and the chassis are bought from major producers such as Mercedes-Benz; (c) producing in low-cost locations that offer appropriate production clusters, such as Argentina, Mexico and South America, to keep prices affordable for developing- country customers; and (d) efforts in creating brand loyalty on the part of customers (segment 7).

Hikma Pharmaceuticals, a Jordanian company, was established in 1978 to offer Arab countries cheap, diverse, high-quality pharmaceuticals, and thus was regionally orientated from the beginning, predicated on cultural affinity and South-South ties (segments 11 and 9). Cost was a primary consideration (segment 6); in addition, the company relied on the relatively highly skilled Jordanian labour force (segment 2) and the technology was sourced from licensors in developed countries, especially Fujisawa (Japan) (now Astellas Pharma). It now enjoys a strong market position in West Asia and North Africa, and has expanded to other parts of Africa, Central Asia and Eastern Europe (a mix of segments 11 and 12), and, more recently, to the United States and parts of Europe. It currently manufactures in two other Arab countries and Portugal, and has R&D centres in Jordan and the United States, thereby using the locational advantages of countries and facilitating its move to possessing knowledge-based proprietary advantages (segment 1).

AIC Corporation was established in 1990 and is Malaysia's largest integrated semiconductor manufacturer, with sizeable FDI in Singapore, China and Thailand. Local entrepreneurs established it by drawing upon the existing skills base in Malaysia, since the very large level of FDI by developed-country TNCs in electronics (including semiconductors) has meant that companies setting up in the country have access to a sizeable production cluster in this industry (segments 5 and 2). Most of the company's sales are to developing-country TNCs in Malaysia, East and South-East Asia and North America. For this it had to establish a distribution network, including the acquisition of a sales affiliate (in Singapore) from a developed-country TNC *before* any manufacturing took place. The company has developed strong manufacturing and service capabilities (segment 4) and is seeking to improve its proprietary knowledge and expertise (segment 1).

Olam International was established in 1989 in Singapore with a view to managing the supply of agricultural products and industrial raw materials, mostly in Africa (e.g. Nigeria, Ghana and Côte d'Ivoire) and South-East Asia (e.g. Indonesia and Viet Nam). The group has a very well-defined business model that stresses networks and relationships in 32 developing and transition economies, as well as some developed countries (segments 7 and 10). Because the company is fully integrated from the "farm gate" to the "factory gate" (including 115,000 suppliers) this results in cost advantages, a risk management capability, and expertise in services such as traceability, hygiene and organic certification and inventory management (segments 1 and 2).

Acer was established in Taiwan Province of China in 1976 and has since grown to become one of the top 10 branded makers of PCs and other IT products worldwide.[a] At inception it relied on what was by then a relatively well-advanced skills and production base in Taiwan Province of China (segments 2 and 5) to conduct R&D and develop software for computer games companies in developed countries. It soon turned also to the manufacturing of PCs under its own brand in the home economy and as a contract manufacturer for developed-country TNCs (segment 4). As its expertise and technology-based advantages increased (segment 1), it expanded into foreign markets (including through FDI), especially in North America, under its own brand name – which became well established, but at some cost to profitability. This led to a number of interrelated and ultimately successful innovations, including the shift to a network structure with high autonomy for strategic business units (later global business units) (segment 10); a partial move from acquisitions as an expansion strategy to partnerships with distributors and others (segment 7); and a greater focus on developing-country markets rather than those in developed countries (segment 6). This strategy of growing by focusing on South-South investment has also been used by other developing-country TNCs, including Cemex (cement, Mexico) and Kia (automobiles, Republic of Korea). More recently, Acer has partly shifted its focus back to developed countries.

Source: UNCTAD.

[a] The account of Acer is summarized from Mathews 2002, see also chapter III.

to the UNCTAD global survey, the most important firm advantage for TNCs as a whole (35% of responses) arises from production process capabilities. Networks and relationships are also very important (28% of responses). Ownership advantages such as expertise and technology are relatively less important for developing-country TNCs than for developed-country ones[32] (24% of responses). An effective organizational structure (13% of responses)[33] also provides a competitive advantage for a number of TNCs (see table IV.2). Overall, three-quarters of the competitive advantages referred to by developing country TNCs in the survey are not ownership advantages, in keeping with the analysis in section A.3.

Continuing with the UNCTAD global survey, developing-country TNCs in the secondary sector possess some ownership advantages (22% of responses in the sector) table IV.2 – reflecting capabilities of a limited number of firms in more advanced Asian and Latin American economies, such as Brazil, the Republic of Korea and Taiwan Province of China. Companies' technological base (including advanced technology, "technological savvy", R&D and design capabilities) is the ownership advantage most commonly mentioned, followed by expertise (e.g. experience, technical expertise and "expertise in turning around companies"). However production process advantages are significantly more important than ownership advantages for industries in this sector (38% of responses in the sector), while networks and relationships (especially business models in industries such as metal products, electronics and chemicals) are the second most important type of advantage (29% of responses). Finally, advantages related to organization structure are not insignificant (11% of responses).

In the primary sector, TNC advantages are also centred on the production process (42% of responses), but these are less important in the tertiary sector (including diversified companies). Interestingly, firms in both the primary and tertiary sectors indicate a higher reliance on ownership advantages than the secondary sector (25% and 27% of responses, respectively, compared to 22%), perhaps indicating the relative importance of expertise over technology for developing country TNCs. However, the gap between the sectors is not too great. More importantly, as implied by the analysis in section A.3, TNCs in all sectors rely on advantages related to networks and relationships and organizational culture, although there are differences between sectors. In particular, TNCs in the secondary and tertiary sectors are more likely to rely on networks and relationships than firms in the primary sector (table IV.2).

At the industry level, the UNCTAD global survey suggests differences: firms' advantages in transportation equipment, electrical and electronics manufacturing or IT services are much more likely to be based on ownership of expertise and technology, while pharmaceutical companies rely more on effective networks, especially because many of them produce low-cost generic drugs or Pharmaceuticals under licence (such as Hikma pharmaceuticals from Jordan, as discussed earlier). Heavy industries, such as cement, and many services (construction, trade and logistics) generally have competitive advantages stemming from production process capabilities.

The Indian, Chinese and South African surveys reveal a similar pattern, but with nuances. For example, Indian TNCs are more likely to have advantages arising from expertise and technology (ownership, 30% of responses) and production processes (46% of responses), reflecting a lower involvement in the primary sector and a higher involvement in the secondary and tertiary sectors (especially IT services). In the South African survey TNCs were only asked about competitive advantages arising from ownership and production process capabilities, but did so in relation to the host regions in which they have invested. The responses are interesting. For example, the secondary sector TNCs investing in developed countries are much more likely to base their strategy on advantages based on ownership (58% of responses) than if they are investing in developing countries (41% of responses for investments in Africa, 36% for South-South investments) (table IV.2). In the primary sector, production process capabilities are predominantly important, no matter where the investment; while the opposite mix of competitive advantages broadly prevails for South African TNCs in the tertiary sector. The Chinese survey indicates that production process are the main advantages of Chinese TNCs. This echoes China's role as a major global production base, but the relatively low self-assessment by the firms surveyed across different aspects of the value chain implies that they still see themselves as having, at most, an average level of competitiveness.[34] This suggests a powerful motive for created-asset-seeking by Chinese TNCs, especially in industries in which they face intense competitive pressures.

Box IV.4 Surveys of developing and transition economy TNCs

UNCTAD has cooperated with some international organizations and research institutes on interview surveys of TNCs from a number of major developing and transition economies.

UNCTAD's *global survey of developing-country TNCs, 2006* is a survey of developing country TNCs from around the world. Executives were asked about their firms' international operations, motivations, strategies and home-/host-country policies. A sample of 250 major developing-country TNCs was created. The number of companies selected for interview from each country was roughly proportional to the known population, but adjustment was made to ensure sufficient representation from all developing regions. The response rate so far has been 20% (50 companies). While the companies in the survey range from small to very large, 60% are large with global sales of over $2 billion. About 40% are in the secondary sector, another 40% in the tertiary sector and the rest in the primary or diversified sector, broadly representative of the industrial concentrations of the TNCs from developing and transition economies identified in chapter III. All of the major TNC home economies, including Brazil, China, Hong Kong (China), India, Mexico, Singapore, the Republic of Korea, South Africa, Taiwan Province of China and Turkey are represented among the respondents. In terms of ownership, 80% of TNCs are public listed companies (plcs), 12% are privately owned and 8% State-owned. This survey is referred to as the "UNCTAD global survey" in this chapter.

Survey of Indian transnational corporations, 2006 (conducted through the UNCTAD project, Strategies and Preparedness for Trade and Globalization in India). This survey used a similar methodology to the UNCTAD global survey. A questionnaire for executive interviews was devised and tested and included detailed questions on motivations, strategy, competencies, impact and international experience. Teams conducted interviews in Delhi, Hyderabad and Mumbai. The response rate so far has been about 27% (40 companies). The surveyed TNCs range in size from very small (less than $10 million revenues) to large (over $1 billion). About 40% of respondents are in the secondary sector, 45% in the tertiary sector and most of the rest are diversified companies. This is a reasonably representative sample of Indian TNCs, with respondents from key industries such as chemicals, pharmaceuticals, IT and infrastructural services. In terms of ownership, 56% are plcs, 33% privately owned and the remainder fall in the category of "other". This survey is referred to as the "India survey" in this chapter.

The *EDGE Institute, survey of outward FDI from South Africa, 2006*. This survey, covering a sample of 188 companies, included detailed questions on the parent TNC, as well as motivations, strategies and competencies in relation to investments in Africa, other developing countries and developed countries. The response rate so far has been 30% (57 companies). In terms of sectors and industries, the sample of respondents is broadly representative of South African TNCs, with 60%, 33% and 7% of firms, respectively, in the tertiary sector, secondary primary sectors. A broad range of industries is represented, including transportation, storage and communication, financial services, metals and metal products, and food, beverages and tobacco. In terms of ownership, 56% of companies are listed plcs, and the remainder are not listed. This survey is referred to as the "South Africa survey" in the chapter.

FIAS/MIGA/IFC/CCER survey on China's outward FDI, 2005. This survey interviewed 150 Chinese TNCs in eight major cities across the country. The questionnaire for these interviews included detailed questions of motivations, drivers, competencies, impact and policy. About 14% of surveyed TNCs employ over 10,000 workers; a little over 50% employ between 500 and 10,000; 25% employ between 100 and 500; and the remainder employ less than 100 people. About 56% of Chinese TNCs are in the secondary sector, followed by 33% in the tertiary sector and 11% in the primary sector. The main industries represented include, machinery and equipment, electrical and electronic manufacturing, garments and textiles, construction and trade. In terms of ownership, 49% of the TNCs were private, 34% State-owned, 6% collectives or cooperatives and the rest "other" (private listed companies in China are rare). This survey is referred to as the "China survey" in this chapter.

Source: UNCTAD.

Note: Because these surveys were conceived separately, the questions asked are comparable but not always equivalent. More importantly, since aspects of the methodologies differ, comparisons should be treated with caution. The questions asked in each survey, the methodology used and other relevant aspects are mentioned at relevant points in this chapter.

Table IV.2 Types of competitive advantages of developing-country TNCs, by sector
(Per cent)

Type of advantage	Survey				
	Global [a]	India [b]	South Africa [c]		
Ownership and access to resources and assets	Primary: 25 Secondary: 22 Tertiary: 27 Diversified: 18 *All sectors*: 24	Primary: .. Secondary: 23 Tertiary: 31 *All sectors*: 30 *All sectors*: 45	**Africa:** Primary: 25 Secondary: 41 Tertiary: 50 *All sectors*: 50	**South-South**: Primary: 33 Secondary: 36 Tertiary: 60 *All sectors*: 56	**Developed:** Primary: 33 Secondary: 58 Tertiary: 58
Products/services, production processes and value chain niches	Primary: 42 Secondary: 38 Tertiary: 31 Diversified: 27 *All sectors*: 35	Primary: .. Secondary: 53 Tertiary: 41 *All sectors*: 46 *All sectors*: 55	**Africa:** Primary: 45 Secondary: 59 Tertiary: 50 *All sectors*: 50	**South-South:** Primary: 67 Secondary: 64 Tertiary: 40 *All sectors*: 44	**Developed:** Primary: 67 Secondary: 42 Tertiary: 42
Networks and relationships	Primary: 17 Secondary: 29 Tertiary: 27 Diversified: 36 *All sectors*: 28	Primary: .. Secondary: 19 Tertiary: 22 *All sectors*: 20	..		
Organizational structure and business culture	Primary: 17 Secondary: 11 Tertiary: 14 Diversified: 18 *All sectors*: 13	Primary: .. Secondary: 7 Tertiary: 6 *All sectors*: 5	..		

Source: UNCTAD, based on surveys described in box IV.4.

[a] A total of 45 TNCs responded to a question asking them to indicate their three main competitive advantages. The percentage share of responses is given for each sector by type of advantage. For example, for the secondary sector's advantages the percentage of breakdown of responses was: 28% ownership-based, 36% production process capabilities, 7% networks and relationships and 14% organizational structure.

[b] A total of 40 Indian TNCs responded to a question asking them to indicate their three main competitive advantages. The percentage share of responses is given for each sector by type of advantage.

[c] South African TNCs responded to a question asking them to indicate the parent firm's most important asset to expand into (a) Africa (57 firms responded), (b) other developing markets (South-South FDI) (37 firms), and (c) developed markets (30 firms). The percentage share of responses is given for each sector by type of advantage. For example, the secondary sector's advantages in Africa are 42% ownership-based and 48% derived from production process capabilities. Because this was a closed question, firms did not respond on their network or organizational advantages.

Overall, allowing for variations between countries, while there is some evidence that the firm advantages of developing-country TNCs differ proportionally from those of developed-country TNCs (the advantages of the former are more likely to be related to production processes and networks and relationships), there is little to indicate that the essential nature of advantages are different. Irrespective of nuances in the nature of advantages possessed by developing-country TNCs, all TNCs face the same or similar competitive pressures in the global economy; moreover, many seek to take advantage of the same opportunities. There is thus a tendency towards convergence, which can result in similar patterns of behaviour and activity. An example of this tendency is the widespread corporate conformance to quality standards, which is especially important in this context because many developing-country TNCs are involved in manufacturing or servicing customer needs. The global and Indian surveys show that nearly all of the TNCs surveyed possess some form of quality certification, most commonly one of the International Organization for Standardization (ISO) standards. All TNCs in the electrical, electronic and textiles and garments industries, for instance, were ISO certified.

The relative differences in some types of competitive advantages possessed by developing-country TNCs (especially fewer ownership advantages), and the significantly higher reliance on other types (e.g. networks and relationships) reflects the subordinate position of many developing-country TNCs in global value chains and the international division of labour. The desire to move up the value chain and achieve parity can undoubtedly be a powerful driver for many of these TNCs.

2. Drivers to internationalization

The main types of competitive advantages aside, developing-country TNCs range widely in terms of country origins, their level of maturity, position in the value chain and strategies (chapter III, sections IV.A). The implication of this diversity is that the drivers of internationalization manifest themselves in a wide variety of ways. As mentioned in section A, drivers are factors that trigger a company's internationalization or further expansion. There are a number of ways to classify them, one of which is in terms of "push" (home country), "pull" (host country), and "policy" factors (in both home and host countries).[35]

a. Home country drivers (push factors)

Home country drivers, which refer to conditions that influence companies to move abroad, consist of four main types: market and trade conditions, costs of production (including constraints in factor inputs), local business conditions and home government policies. With regard to *market push factors*, many developing countries have a limited home market in terms of scale and opportunities to expand. The impact of this on a firm may be intensified by such factors as the existence of trade barriers in actual or potential markets (e.g. inducing companies to invest overseas to bypass those barriers), a lack of international linkages with customers in the target market or home-based industrial customers moving their production overseas.

Increases in *production costs* in the home economy, caused by rapid economic expansion or a scarcity of resources or inputs, are also a potentially significant driver. A common factor implicated in driving firms overseas is labour costs, but inflationary pressures can affect all factor inputs and therefore result in overseas investment. Home *country business conditions*, often in relation to those in other countries, can trigger internationalization in a variety of ways. Global and local competitive pressures appear most frequently as a driver and take many forms, for example competition with local firms or TNCs in the home market or competition with firms in overseas markets. Sometimes firms may pre-empt competitors by making the first move into a foreign market. Linked to this type of strategy is the broader one – already discussed in the context of asset augmentation – of using international operations to restructure a company and its resources to help boost its competitiveness and performance (chapter V).

b. Host country drivers (pull factors)

Many host country drivers "pulling" TNCs to invest in particular economies mirror the drivers discussed for home countries above. Thus, *market pull factors* are likely to be the foremost determinants of FDI in particular host economies. Developed countries may be more attractive because of their large markets, which may be more accessible as a result of regional integration agreements, especially in North America and Europe. The danger that these regional groupings might become protectionist could also persuade developing-country TNCs to invest in the member economies. In the case of developing countries, markets that are large or growing will be the most attractive, but considerations of market size will, of course, depend on the type of product. Some product markets might be relatively large even in "small economies" (e.g. because of per capita incomes in the case of consumer goods).

Rising *costs* of production in home economies, as mentioned above, are a potentially major push factor for developing-country TNCs. Consequently, all else being equal, host countries with low costs of labour or other required resources are more likely to receive inward FDI. It is also likely that, if suitable factors are unavailable in a neighbouring country, proximity will have a strong influence and retain the FDI in the region. Apart from factor costs, TNCs also invest in host countries because of their resources; these refer to a wide variety of potential factor inputs, including natural resources, labour and infrastructure.

In addition to the above drivers, and associated with them, there are a number of factors or determinants which might influence a TNCs specific location decision, including the host government's policy framework, business facilitation activities and business conditions (*WIR 1998*, chapter IV). A particularly important determinant at this juncture in the history of the international economy is the specific opportunities resulting from *host government liberalization and privatization policies*. Regulations and inducements encouraging inward FDI and multilateral or bilateral trade, and investment treaties facilitating FDI can all be pull factors for TNCs. Many of these policies will apply equally to TNCs from developing or developed countries. However,

among those which might have a differential affect are agreements that deepen or widen regional cooperation in the developing world (e.g. ASEAN, various southern African groupings and MERCOSUR). These increase the likelihood of attracting inward flows by TNCs, though perhaps more from neighbouring developing countries. Privatization policies in developing regions might also differentially attract TNCs from neighbouring countries because of closer communication or familiarity. Thus there are a number of reasons why developing-country TNCs are more likely to locate in other developing countries than developed-country TNCs, as mentioned in chapter III.

c. Empirical evidence on drivers (push and pull)

Market and trade conditions

Market-related factors come through very strongly in the surveys. In the case of India, the need to pursue customers for niche products (e.g. for IT services) and the lack of international linkages are very strong drivers.[36] For Chinese TNCs, the need to bypass trade barriers[37] (regarded as important by 36% of companies)[38] and the need to utilize domestic production capacity (40%), because the home market for their products is too small, are key drivers of internationalization. Trade barriers were also found to be a major driver pushing Latin American TNCs overseas (ECLAC 2006a).[39] Overdependence on the home market is also an issue for firms, and many TNCs from developing or transition economies in the surveys mention establishing facilities in other countries as a form of risk reduction.

Costs of production

Rising labour costs are a particular cause of anxiety for TNCs from East Asian and South-East Asian countries such as Malaysia, the Republic of Korea and Singapore (Schive and Chen 2004, Brooks and Mirza 2005) – and also from countries such as Mauritius, which has labour-intensive, export-orientated industries such as garments (Page and te Velde 2004). Crises or constraints in the home economy, for example where they lead to inflationary pressures, are reported to have been important drivers in countries such as Chile, India and Turkey during the 1990s (Caldaron 2006, Erdilek 2005, Banga 2006). However, interestingly, costs and resource constraints (other than raw materials) are less of an issue for China and India, two large and growing sources of FDI from the developing world. Indian TNCs gave an average rating of 1.8 out of 5 (i.e. unimportant) to shortages/labour costs, while Chinese TNCs are much more concerned about FDI for risk reduction (26% of companies) than cost-related issues. Clearly, this is because both are very large countries with considerable reserves of labour – skilled and unskilled – and other resources. Their main resource scarcity is in raw materials (section IV.B.3).

Business conditions

Home country business circumstances, often in relation to those prevailing in other countries, can trigger internationalization, especially through competitive pressures on the developing-country firm. These drivers can include *competition from low-cost producers*, particularly the efficient East and South-East Asian manufacturers. This has also been found to be the case for some companies from Latin American and parts of Africa (ECLAC 2006a, Farrell et al., 2005, Gaulier et al. 2006). India is relatively immune to this pressure, so far, perhaps because of its higher degree of specialization in services and its abundant supply of low-cost labour. Most TNCs in the UNCTAD global survey[40] appear to be relatively unconcerned about low-cost foreign competition (5% of responses). Instead, *competition from foreign and local companies in the home economy* is regarded as a more important driver to internationalization. Competition from foreign TNCs, widely seen as an important driver behind China's rapid increase in outward FDI (Nolan 2001, Mirza 2005, Jurgens and Rehbehn 2006), can also sometimes result in pre-emptive internationalization, as when Embraer (Brazil) and Techint (Argentina) invested abroad in the 1990s, ahead of liberalization of their respective home industries (Goldstein and Toulon 2005). Domestic and global competition is a significant issue for developing-country TNCs, especially when these TNCs are increasingly parts of global production networks in industries such as automobiles, electronics and garments (UNIDO 2004, McKinsey Global Institute 2003). A driver not directly related to competition is when a company is pushed overseas by *adverse business conditions in their home country*. These can stem from problems such as inadequate infrastructure or support services, undeveloped input or component industries, or labour issues. For example, in the South African survey, labour legislation was seen as an adverse condition limiting investment in the manufacturing sector in the home economy (possibly leading to outward FDI), while a few service firms were concerned about key suppliers. Another home country driver

(also a host country one) that emerges strongly from the UNCTAD global survey is the ability of firms to replicate their business operations or models (an interesting source of advantage, as discussed in section A.3) in other developing countries, thereby encouraging South-South FDI.

In the UNCTAD global survey, 31% of the responses on major drivers of internationalization relate to *host country* business opportunities. Chief among these are the benefits arising from liberalization and privatization programmes. These drivers are mentioned by a number of Latin American TNCs in the survey, as well as by companies in consumer goods, metal products and transportation and communication (though the numbers are small in each category). South African TNCs,[41] often investing in nearby African countries, mention a number of important host country pull factors, including opportunities arising from privatization, low cost of entry and a "positive" reception to their investment.

The national and global business and economic environment, manifesting most critically in competition, as discussed above, but also in terms of opportunities, results in various strategic options. For example, many Chinese firms are pursuing a strategy to make themselves significant international players in response to intense global competition in their home economy. In addition to boosting competitiveness, internationalization is also regarded as a tool for the structural transformation of State-owned enterprises (SOEs) through the learning effects of operating in the international marketplace (Deng 2004).

Government policies and the macroeconomic framework

Many developing-country TNCs, including those from China and India indicate the importance of home and, especially, host government policies in their decisions to go international. The Chinese TNCs surveyed regard home government policies as an important factor in their FDI;[42] while Indian firms consider regulations and incentives, appropriate competition and inward FDI policies of host governments as being important.[43] The importance of government policies is also underscored by respondents in the UNCTAD global survey (incentives are important) and, particularly, South African TNCs, which list a number of relevant policies that have determined their location choice. These include transparent governance, investment in infrastructure, property rights and minimal exchange-rate regulations. Other macroeconomic and political factors deemed important as push or pull factors by developing-country TNCs include macroeconomic uncertainty in the home economy, strong currencies and political stability in host countries, and a common monetary area (e.g. the euro area).

In sum, the empirical evidence underlines four common drivers of internationalization by developing-country TNCs, three push factors and one pull factor. The factors pushing firms out of their home countries are the limited size of domestic markets, rising costs of production in the home economy and intense competition from both local and foreign firms. The main factor pulling TNCs into host countries is the opportunities arising from liberalization. Each of these drivers influences choice of location, in the context of firm competitive advantages, industry and strategies, but, overall, there is a tendency to locate in other developing countries. Looking at these drivers in turn, TNCs locating overseas because of limited home markets are likely to invest in neighbouring countries due to familiarity, or in other developing countries that have similar consumption patterns or institutions. Since rising costs in the home economy are largely associated with labour costs, FDI for this purpose is likely to seek out a developing country that offers cheaper labour. Pressures of competition prompt various strategic options, including cost-cutting (leading to a probable investment in a developing country) or an upgrading of capabilities (which could result in the acquisition of created assets in developed countries). Furthermore, while opportunities arising from liberalization are to be found in both developed and developing countries, many – for example the privatization of SOEs – are more common in the latter.

Finally, although the drivers suggest that developing-country TNCs are more likely to invest in developing countries than developed ones, the precise location of FDI also depends on the motives behind the investment decision.

3. Motivations and strategies

Where do developing-country TNCs locate and why? The above discussion on drivers indicated the reasons why TNCs might internationalize and decide to invest abroad, by looking at both push (home country) and pull (host country) factors. The discussion also indicated the types of pull factors which influence the choice

of host country location. But pull and push factors are not sufficient to explain the final choice of host locations: an understanding of TNCs' motives, strategies and context is needed.[44]

For example, competitive pressures might influence a company to invest overseas, but it can still choose to respond to this pressure in a variety of ways, including looking for new customers (market-seeking FDI, perhaps in middle-income developing economies); reducing its costs (efficiency-seeking FDI, perhaps in lower income developing countries); accessing key factor inputs (resources-seeking FDI, perhaps in a country with abundant raw materials); or acquiring new technologies to improve productivity (created-asset-seeking FDI, perhaps in developed economies), or a mix of these. The same driver that has an impact on different TNCs might well lead to radically different motives and strategies, resulting in divergent locations being chosen for FDI by each TNC.

The discussion below examines the different motives of FDI separately for the sake of clarity, but it is worth noting that in many cases motives might be mixed, complementary or evolutionary (box IV.5).

a. Market-seeking

Market-seeking FDI is by far the most common type of strategy for developing- country TNCs in their process of internationalization. This is confirmed by the UNCTAD global survey, with 51% of responses referring to market-seeking as the most significant motive for FDI,[45] including TNCs from South Africa in developing host countries (70% of all responses),[46] as well as Indian[47] and Chinese TNCs.[48] Market-seeking FDI is common in most industries, although there is some variation, depending on the source country. For example, from the survey results, market-seeking FDI from South Africa is most common in industries such as chemicals, food and beverages, finance, and transport and communication, largely because of local TNCs' specializations. One interesting aspect of developing-country TNCs is that their motives can differ systemically from those of developed-country TNCs in the same industry. For example, in oil, gas and extraction, whereas most developed-country TNCs in these industries are increasingly conducting FDI for resource-seeking reasons (to secure supplies for their home – or other developed – markets), many developing-country counterparts are primarily investing overseas to *open or secure markets*, since they already have access to the raw materials.

Theory suggests that FDI in neighbouring countries (the region) will be a common feature of internationalization, especially at an early stage of a TNC's development, because of familiarity, ease of access, cross-border spillovers and similar factors. This pattern was observed for developing-country TNCs as a whole in chapter III, and an extensive assessment of the literature[49] confirms that FDI in a nearby region is the most common location for *market-seeking* affiliates in the case of most developing source economies, whether from Latin America, Africa or East and South-East Asia.[50] However, proximity must be balanced against where companies' ultimate markets might be located. Thus, for TNCs from a few developing countries – chiefly China (in many manufacturing industries), India (especially in IT services), the Republic of Korea (involving advanced manufactures such as consumer electronics and cars) and the Russian Federation (natural resources) – this consideration results in relatively greater importance being given to developed-country markets than to developing-country markets.[51] Apart from the sheer size of developed-country markets, some affiliates are established to get around trade barriers or avoid high transport costs for bulky goods and, more commonly, to adapt products or services to the requirements of customers.

Finally, non-regional South-South investment is uncommon where the motive is market-seeking, apart from some investments by TNCs from a few more advanced or larger developing countries.[52] This is because there is neither the comfort of familiarity, nor the pull of the market. Nevertheless, there are some emerging South-South investment and trade corridors that are encouraged by market size (e.g. some Brazilian, Chinese, Indian and South African TNCs see opportunities in each other's relatively large markets, including collaboration with each other) and putative cultural and institutional similarity.[53] A body of literature on these corridors (e.g. in terms of developing Latin American-Asian and Asian-African linkages) is already emerging (Kaplinsky and Morris 2006, Naidu 2005, Rios-Morales and Brennan 2006, Goldstein and Toulan 2005).

b. Efficiency-seeking

Efficiency-seeking FDI is an important motive, but its prevalence varies considerably among developing-country TNCs, especially in

Box IV.5 Mixed, complementary and evolutionary FDI motives

Mixed motives are when companies invest for more than one reason simultaneously. A good example is Singapore Technologies Telemedia (STT), which was established in 1994. Its main industry is telecommunications, and since 2002 it has entered a number of markets, including Indonesia, the United Kingdom, the United States and a number of Latin American economies. It now has 14,000 employees worldwide and a presence in some 30 countries. Its primary reasons for internationalization are to gain global presence and strength, but it does not differentiate between different types of motives: it believes that, because of the nature of the industry, *all* its overseas affiliates are established to access local markets, secure strategic assets and create synergies (efficiencies) across national boundaries.

Complementary motives are when companies combine more than one motive or strategy to secure a particular goal. An example is provided by Integrated Microelectronics Inc (IMI) is a Philippines-based company established in 1980 as a contract manufacturer (now in electronics manufacturing services, EMS), with some 20,000 employees (5,000 overseas). Its customers are original equipment manufacturing (OEM) companies in the electronics industry for which it manufactures a range of products, including magnetic storage devices, auto-electronics and semiconductors. These customers – originating from many parts of the world – mostly require these parts for further assembly in East and South-East Asia. Consequently, in order to improve its competitive position vis-à-vis other companies, IMI's first overseas affiliate was acquired in the United States in 2005 to enhance its R&D capabilities and establish a United States engineering footprint. At about the same time it bought a Singapore-based affiliate (from a United States TNC), with manufacturing facilities in China and Singapore, to gain access to OEM customers in China's electronics market. Thus its entry into the United States and China were for complementary reasons – created-asset-seeking in the former, and to improve its competitive position in the electronics market in the latter.[a]

Evolutionary motives. Motives can evolve over time. Embraer, a Brazilian manufacturer of small commercial and military aircraft, was established in 1969 as an SOE, but was privatized in 1994 with 60% of shares owned by private Brazilian interests (though the Government retains a controlling "golden share"). It invested overseas prior to privatization (the United States in 1979, Europe in 1988) primarily to offer sales and technical support to customers in developed-country markets. However, after 1994 – and especially in 1999 – it entered into a series of strategic alliances with European groups[b] such as EADS[c] and Thales (France) in order to gain technology (and for risk reduction by pooling resources), and later it made acquisitions to ensure brand recognition in specialist aerospace markets. In 2004 it established a manufacturing affiliate in China (in which it owns a 51% stake), which assembles final aircraft for the Chinese and regional market. With 90% of its global sales (75% in commercial aircraft) overseas, Embraer can be regarded as one of Brazil's (indeed Latin America's) few truly global players. During the course of its move from a national to a global player, its FDI motives have evolved from purely market-seeking, through created-asset-seeking and, increasingly, to efficiency-seeking. Of course, as a global TNC it combines all of these motives in its FDI strategies around the world.

Source: UNCTAD.

a This path has been previously trodden by many other companies. For example, in the 1990s, many electronic companies from the Republic of Korea, such as Daewoo, LG and Samsung, invested in integrated production networks across Europe, allowing them to simultaneously "satisfy" motives for markets (Europe), created assets (Western Europe) and efficiency (Eastern Europe) (McDermott 1991, Cherry 2001, Hwang 2003). In a similar vein, Hatem (2006, p. 26) gives more recent examples of greenfield affiliates established in 2003-2005 in new EU member countries by Hudong Zhonghua Shipbuilding (China), Hankook Tire (Republic of Korea), Asustek Computer (Taiwan Province of China) and many other East Asian TNCs, to link up with operations in other parts of Europe.

b These groups thereby gained 20% shares in Embraer.

c EADS is formally registered in the Netherlands, but its principal shareholders and operations are in France, Germany and Spain.

terms of their country or region of origin and industry. In the UNCTAD global survey, 22% of responses indicated this as a strategic motive. Most of the companies for which efficiency-seeking FDI is important are Asian and in three main industries, electrical and electronic products, garments and IT services. East Asian TNCs (e.g. those from Taiwan Province of China) mostly consider efficiency to mean low-cost labour. However, a close inspection of the survey results shows that

for Indian TNCs, which consider this also as a relatively important motive,[54] efficiency means primarily the synergies to be gained through the international integration of production and service activities, rather than "low-cost" inputs.[55] Efficiency- seeking FDI is relatively unimportant for Chinese and South African TNCs (10% of responses for the latter), possibly because of continuing relatively low costs in their respective home economies. Where it does occur as a motive, it is mentioned mostly for electrical and electronics products and transportation, storage and communication services.[56]

Overall, from the surveys and the literature, TNCs for which efficiency-seeking FDI appears to be the most important come mainly Hong Kong (China), Malaysia, Mauritius, the Republic of Korea, Taiwan Province of China and, to a lesser extent, a group of TNCs from China and Singapore (Chen and Lin 2005, Cherry 2001, Kazmi 2006, Page and te Velde 2004, Lim 2005, Moon 2005, Zainal 2005). These are essentially companies that are part of global value chains in highly competitive – often labour-intensive – industries such as electronics and garments. In most countries from which these TNCs have emerged, labour costs have become relatively high, compelling these firms to move into successively lower cost locations. In many cases this has resulted in regional integrated production systems. This is illustrated by Samsung, which has production facilities all over South-East Asia (Giroud 2004, O' Neil 1998).

The international location of efficiency-seeking investments depends on the nature of the product and the particular type of global production network in which it is located (UNIDO 2004, Hines et al 2000, Schmitz 2005). There are two main types of such networks: buyer-driven and producer-driven. In the first type, large buyers control branding, marketing and access to final markets and strive to organize, coordinate and control the value chain in industries such as agro-industries, garments, footwear, furniture and toys (Gereffi and Memedovic 2003, Kaplinski et al. 2003). These industries are quite well spread in developing countries and generally do not need to be located close to related firms, such as suppliers, especially at the lower value added end of activities. In contrast, in producer-driven production networks, key companies own crucial technologies and other firm-specific advantages, and take responsibility for the productivity and quality of other firms in the network, especially suppliers. Typical industries include electronics and automobiles (Humphrey and Memedovic 2003), and industry clusters are an important aspect of producer-driven global production networks. In both types of networks, developing-country TNCs are typically suppliers or intermediate producers, although a number – such as Daewoo, Acer, Tata Motors and Embraer, as mentioned in subsection A.3 – have become key players.

Because buyer-driven networks are less dependent on industry clusters, TNCs investing overseas for efficiency-seeking FDI in industries such as garments and footwear are able to invest in widely dispersed host countries, provided they are low-cost locations. Of course, initial FDI is often regional, as with garment and footwear producers from China, Hong Kong (China), Malaysia and Taiwan Province of China that invested in South-East Asian developing countries such as Cambodia and Viet Nam in the 1990s (Gereffi and Memedovic 2003, Mirza and Giroud 2004); and, similarly, Mauritian garment producers that invested in East Africa over the same period (Goldstein 2005a, Page and te Velde 2004). However because such industries are driven incessantly by competitive pressures, other cost-reducing factors, including national and international policies can affect the location choice quite markedly. Thus, for example, although there have been increasing Asian investments in the garments industry in many African countries for some time, a number of recent developed-country trade initiatives to encourage cheaper (duty-free) access[57] by firms based in African countries to their markets appear to have accelerated this trend. Companies from China and Taiwan Province of China have responded the most to these initiatives by investing in countries such as Lesotho, Malawi, Senegal and Swaziland (World Bank 2004, Page and te Velde 2004).[58]

In producer-driven global production networks such as automobiles and electronics close integration is important, with a considerable geographic clustering of firms. In the case of some types of electronic products, components and subassemblies are significant aspects of an intricately interconnected production process, with quality being paramount. Relatively close regional proximity is therefore an important consideration. A good example of such a process is the hard disk drive (HDD) industry in which global manufacturing is concentrated in a few countries such as Malaysia, Singapore and Thailand.[59] In such industries there is a tendency towards a deepening of production in their primary locations, where feasible, with a gradual widening of

production sites to nearby countries (in this case in South-East Asia and China, Bartels 2004). This widening process is driven by efficiency-seeking FDI. In the case of electronics, since a very large proportion of the *manufacturing* part of the industry is in East and South-East Asia, for most local TNCs regional investments are not only efficiency- seeking, they also keep them close to the customer.[60]

The geographical spread of developing-country TNCs motivated by efficiency-seeking depends to a great extent on the industry. TNCs in producer-driven global production networks, such as electronics, will tend to invest in countries close to their home country, with some consideration of where their customers are located. Those in buyer-driven global production networks, such as garments, are more likely to invest in low-cost locations beyond those in neighbouring home countries.

c. Resource-seeking

Overall, resource-seeking FDI is rated to be of moderate significance in the UNCTAD global survey, with 13% of responses stressing its importance as a major motive for investing overseas. Its relative importance compared to other motives is supported by the surveys of South African (17% of responses) and Chinese TNCs.[61] The following discussion focuses on *natural-resource-seeking* FDI, which emerged as the most common element of resource-seeking FDI in the surveys.

FDI in natural resources can be undertaken either by companies which are themselves based in the primary sector, or by those from other sectors, usually natural-resource-related such as metal manufacturing. FDI by companies in the primary sector can be further divided into that by TNCs from China, India or other resource-poor countries, and that by TNCs from resource-rich developing countries. FDI to access natural resources is very important for Chinese and Indian TNCs, as well as those from a number of other developing countries, because the security of supply of raw materials is deemed essential for their rapidly growing economies.[62] Because of the strategic importance of securing supplies of resources for the home economy, a large proportion of developing-country TNCs engaged in these efforts are State-owned, such as the Chinese firms CNPC, CNOOC (chapter III), ONGC (India) and TPAO (Turkey). ONGC, for instance, was established in the 1950s to tap into India's own reserves, but in the 1990s redefined its mission to explicitly secure foreign oil for Indian development as a prime goal. To achieve this goal it has established a series of oil and gas exploration, production and distribution projects overseas, many in cooperation with other developed- and developing-country firms. Because of the scale of resources it aims to secure, ONGC's operations are widely dispersed, including in Algeria, Brazil, Côte d'Ivoire, Cuba, the Islamic Republic of Iran, Kazakhstan, Nepal, Nigeria, Qatar, the Russian Federation,[63] Syrian Arab Republic, Sudan and Venezuela. The Turkish Petroleum Corporation's (TPAO) objectives have evolved in a similar way, but it seeks to secure oil and gas in a more limited region, primarily over a stretch reaching from the Turkic-speaking countries of Central Asia (e.g. Azerbaijan and Turkmenistan), through West Asia (e.g. Iraq and the Syrian Arab Republic) to oil-rich countries in North Africa (e.g. Algeria and the Libyan Arab Jamahiriya).

From the surveys, the resource-seeking motives of TNCs from countries poor in natural resources, such as China, India and Turkey, have led them to invest in locations determined not by regional proximity, but by the availability of assets. Thus, many developing-country companies in oil and gas are drawn to relatively untapped supplies in regions such as Central Asia, Africa and Eastern Russia. Indeed, a third of the 30 largest South-South M&As in the primary sector during the period 1995-2005 (UNCTAD database) were investments in crude petroleum and natural gas by TNCs such as China's CNOOC and India's ONGC. As international prices of raw materials and other commodities have been rising – increasingly driven by rapid economic growth in some developing countries – the competition for resources has intensified, especially in regions such as Africa, where Asian, North American, European and South African companies are vying for oil reserves, mines and other assets.[66] Because of this competition, some developing-country TNCs are extracting resources in countries beset with civil wars, ethnic unrest or other difficult conditions. For example, China National Petroleum Corporation (CNPC), ONGC and Petronas (Malaysia's national oil company), are heavily involved in oil exploration and production in the Sudan where a number of conflicts are raging (Patey 2006, ECOS 2006).[65]

TNCs from developing and transition economies *rich* in natural resources hail from many regions; but those from Latin America, the Russian Federation, South Africa and West Asia dominate this sector. In the case of Latin America – where

many firms in natural resources have achieved TNC status – most FDI occurs for a mix of resource-seeking and market-seeking motives. The former motive is however usually less important. Most of their resource-seeking FDI has been South-South, depending on the availability of resources and opportunities. For example, Petrobras (Brazil) and ENAP (Chile), both oil and gas companies, have pursued policies of acquiring reserves in West Asia and Europe. In contrast South African TNCs in natural resource industries have pursued a strategy of *regional* expansion into other African countries (Daniel et al. 2004, Page and te Velde 2004). This has involved acquisitions throughout the continent by companies such as AngloGold, Illova Sugar, Impala Platinum, Metorex, Randgold Resources and Sasol. One of the main reasons is the many opportunities that have arisen because of privatizations of State-owned interests across Africa. Apart from Latin America, South Africa and Malaysia,[66] TNCs from other natural-resource-rich countries are less active in resource-seeking FDI.[67]

Finally, many manufacturing companies that depend heavily on raw materials for their products (e.g. furniture, metal and pulp and paper manufacturers) might also pursue resource-seeking FDI strategies directly, either by moving production to a foreign site where a crucial raw material is located or by extracting and importing the material to their home country plants. The Brazilian State-owned TNC, CVRD, which is the largest global exporter of iron ore and pellets, embarked on a programme of exploration and production of iron ore in 2002 to ensure stable supplies for its world-scale operations (including recent investments in East Asia). It now has extensive operations in iron, manganese, copper and other minerals in the Americas, Africa, Asia and Europe (ECLAC 2006a). Hindalco, an Indian public limited company established in 1958, is smaller in scale, but it is a more typical example of resource- seeking investors in natural-resource-based industries. It operates a number of aluminium and copper smelting plants in Australia, the output from which is sold to Indian companies as well as exported to economies such as China, Saudi Arabia and Taiwan Province of China.

d. Created asset-seeking

At first sight, created-asset-seeking FDI is a relatively modest motive for developing- country TNCs in the survey. Only 14% of responses in the UNCTAD global survey indicated this as a significant current motive (compared to 51% for market-seeking FDI) for developing-country firms. The motive is given a particularly low level of importance by South African TNCs (3%), but this is because the question was aimed at FDI in developing host countries. It is also regarded as relatively unimportant, overall, by Indian TNCs (an average of 2.3 out of 5 in the survey). Chinese TNCs, on the other hand, regard created-asset-seeking as the second most important motive after market-seeking.[68] Its importance is highest in a relatively small number of industries (across all surveys) including electrical and electronics, chemicals and infrastructural services.

However, from the surveys, it is evident that very few affiliates are established purely to seek created assets, in marked contrast to market- or efficiency-seeking FDI.[69] Most are established for mixed reasons. In the case of Indian TNCs created-asset-seeking is closely correlated with market-seeking FDI,[70] especially in North America, Western Europe and East and South-East Asia. For example, Strides Arcolab is an Indian pharmaceutical company which was established in 1990 and currently has six overseas affiliates in Europe, the United States and Latin America,[71] all of which are market-seeking, including the first two (based in Brazil and the United States). However, its two most recently acquired affiliates – in Italy and Venezuela – were also motivated by the need to acquire created assets. Similar affiliates are being established for mixed motives by other Indian TNCs, especially in Europe. They include pharmaceutical producers such as Ranbaxy Laboratories and Dr Reddy's Laboratory, and software companies such as Infosys, Tata Consultancy Services (TCS) and Wipro.

One of the reasons why "pure" created-asset-seeking FDI might be rare is because developing-country firms seeking created assets must first master the capabilities to absorb them (section A.1). Companies such as Haier, Lenovo, TCL, Arcelik and Vestel (Chinese and Turkish companies in the electrical and electronics industry), for instance, all devoted a considerable part of their earlier manufacturing strategy to building up their firm-specific advantages (often in collaboration with foreign companies)[72], including the ability to manage the acquisition of new assets. Given the need to develop this absorptive capacity prior to outward FDI, it is unlikely that created-asset-seeking will be the primary motive for developing-country TNCs. Rather, this motive will go hand in hand with asset exploitation motives, especially market-seeking and efficiency-seeking. Haier and Arcelik were motivated by the need to establish

consumer brands in foreign markets, to complement their manufacturing and engineering knowledge and expertise, so these were the types of created assets they purchased or developed. Arçelik bought appliance brands in Europe, while Haier promoted its own brand in the United States (along with extensive manufacturing and R&D facilities) (box V.1). Lenovo has taken a more difficult route. By acquiring IBM's computer division (box V.2) – which is a huge worldwide operation – it is simultaneously seeking to establish itself as a global brand, as well as gain technology and expertise to complement its existing firm-specific advantages in China. (Goldstein et al. 2006, Giroud 2005, Erdilek 2005).

These examples do not necessarily mean that created-asset-seeking inevitably leads to an orientation towards developed countries. For example, TCL's merger with Thomson in Europe resulted in it also gaining considerable production facilities in East and South-East Asia. In addition, many corporate opportunities – such as the deregulation of the telecommunications industry worldwide – have also led to sizeable numbers of South-South acquisitions of created assets (UNCTAD 2005g, Guislain and Qiang 2006). It is worth noting that companies seize these opportunities for mixed motives, market-seeking usually being the primary one. Similarly, in consumer products, markets are the most important factor, but created assets are often bought to maintain a portfolio of brands; many Latin American TNCs, for example Mexico's Grupo Bimbo, are expanding regionally on this basis.

e. Other motives

A small, but significant proportion of TNCs in the surveys identified a number of "other" motives in their decisions to invest abroad, the most common being strategic and political objectives pursued on behalf of their home governments and countries. In certain circumstances governments assign goals to their TNCs, especially if they are State-owned. However, the SOE status of a TNC is not in itself a basis for assuming that it is pursuing State-directed objectives,[73] especially when the high proportion of SOEs in developing and transition economies is largely symptomatic of these countries' stage of development and the particular activities, such as natural resources and infrastructural services, in which these companies are primarily involved. Indeed most are motivated by similar considerations to privately owned companies.[74] Having said this, two main types of strategic motives for FDI can be discerned.

The first motive, partly touched upon under resource-seeking FDI above, is where the State encourages its companies to secure a vital input, such as essential raw materials for the home economy. For example, both Chinese and Indian TNCs are investing in resource-rich countries, especially in oil and gas, for this purpose.[75] In the case of Chinese TNCs, the quest for secure supplies of a wide range of raw materials is complemented by a parallel and sustained Chinese diplomatic effort in Africa, Central Asia, Latin America and the Caribbean and West Asia.[76]

The second type of motive is more fundamental and is aimed at underpinning a country's development and industrial competitiveness, in view of the latecomer nature of developing countries (Lall 2004). Singapore, for example, has encouraged FDI by government-linked companies (GLCs), in the past in order to develop its knowledge infrastructure (Mirza 1986) and today to bolster its regional position (Yeung 2006). Similarly, China (among other countries) is encouraging the development of globally competitive TNCs to meet the challenge of late industrialization, including the latecomer position of its companies (Nolan 2001, Sutherland 2003, Deng 2004, Child and Rodriguez 2005, Lee 2005, Mirza 2005).

Apart from motives linked to home government strategic objectives, TNCs in the surveys mentioned a number of further motives, many of which can be "transformed" into one or other of the four main motives discussed earlier in this section. For example, some companies mentioned *risk reduction or "anti-cyclical hedging"* as a motive. It is possible to consider this motive as a type of market-seeking FDI inasmuch as the intention is to reduce reliance on one or a small number of markets or sources of revenue.

C. Conclusions

The rise of TNCs from developing and transition economies, with their growing role in the world economy over the past two decades, is a structural phenomenon closely associated with the systemic, wide-ranging transformation that globalization is causing in all economies. An evaluation of the level of developing-country FDI on the basis of the IDP theory indicates that, while some internationalization can be explained by normal development processes,[77] FDI from many

countries is occurring much earlier (or to a greater degree) than expected from their level of development. The evidence suggests that this structural shift stems largely from intense international competition in a liberalizing world.

A number of significant drivers of internationalization by developing-country and transition-economy TNCs emerge from the empirical evidence from the surveys and other research. These include, the small size of the domestic market compared to TNCs' capabilities and ambitions; rising costs – usually of labour – impelling firms to look for efficiencies overseas; intense competition from local firms and, especially, foreign TNCs in the *home* economy, leading to strategies to become more competitive; and overseas opportunities arising from liberalization in potential host economies (including the privatization of SOEs). The first two of these drivers can be regarded as normal consequences of development.

The latter two drivers – global competition in the home economy and opportunities overseas – are a direct consequence of developed and developing countries increasingly liberalizing their policies on investment (and other international activity) over the past two decades. In addition, two other factors are perhaps less prevalent, but important. First, the rapid growth of many large developing countries – particularly China and India –have caused their governments concern about the risks of running short of key resources and inputs for their economic expansion. This is reflected in strategic and political motives underlying some FDI by developing-country TNCs. Secondly, there has been an attitudinal or behavioural change among the TNCs discussed in this chapter. They have developed an international vision, with the increasing realization that they are operating in a global economy, not a domestic one. Taken together – the threat of global competition in the home economy, increased overseas opportunities, concerns over the availability of essential imports and TNCs' international vision – these drivers and factors explain in large part the structural shift towards earlier and greater FDI by developing-country and transition-economy TNCs.

Firm-specific advantages possessed by TNCs from developing and transition economies are similar in kind to their developed-country counterparts, but differ in proportion. While the latter are most likely to possess advantages based on ownership of key assets, such as technologies, brands and other intellectual property, the empirical evidence shows that developing-country TNCs rely much more on advantages related to production process capabilities, networks and relationships, and organizational structure. There are, of course, significant variations by country, sector and industry. For example, TNCs in the secondary sector are most likely to possess and utilize advantages in production process capabilities and ownership of expertise and technology (in that order), with some reliance on advantages grounded in networks and relationships, and organizations. In contrast, for TNCs in the primary sector, production process advantages are preponderant, while in the tertiary sector, networks and relationships represent the main source of advantage. There is a tendency to convergence with developed-country TNCs, generally as economies become more developed (e.g. advantages of TNCs in the Republic of Korea lie increasingly in ownership of key technologies), but for the present a large diversity of advantages underly the internationalization of developing-country TNCs. Many of them enjoy non-firm-specific competitive advantages, for example deriving from access to natural resources and reservoirs of knowledge and expertise in their home country. These location-related advantages might be available to all firms based in an economy, but, as illustrated in subsection A.3, a number of developing-country TNCs are adept at combining various sources of advantage (including firm-specific ones) into a strong competitive edge.

Developing-country TNCs tend to invest in other developing countries, both within their region (i.e. neighbouring countries with which they are familiar) and in other developing countries (i.e. South-South FDI, for example because of similarities in consumer markets, technological prowess or institutions). There are, of course, variations to this pattern, arising from motives, industrial composition, TNC strategies and other factors. The empirical analysis shows that the most important motive for TNCs from developing and transition economies is market-seeking FDI, which primarily results in regional and intra-developing-country FDI. Within this, there are differences in patterns of FDI depending on the industry of the TNC: for example, those in consumer goods and services tend to be regional and South-South orientated; electronic components are usually regionally focused (because of the location of *industrial* customers); IT services are often regional as well as orientated towards developed countries (again because of industrial customers): and oil and gas TNCs focus on regional markets and some

developed countries (where their largest markets are located). Efficiency-seeking FDI is the second most important motive, but is more concentrated in TNCs from relatively more advanced developing countries (hence higher labour costs) and in some industries (e.g. electrical and electronics, and garments and textiles). Most FDI for this motive is in developing countries, with that in the electrical/electronics industry strongly regionally focused, and that in the garments industry more dispersed. Resource-seeking and created-asset-seeking motives for FDI are less important for TNCs. Not unexpectedly, most resource-seeking FDI is in developing countries and much created-asset-seeking FDI is in developed countries.

TNCs from developing and transition economies are here to stay. They are not exotic and can be analysed using existing theory, extended to allow for wider sources of advantage than ownership of expertise, technology and other intellectual property. As developing-country TNCs expand overseas, they gain knowledge, which potentially benefits them in two ways. First, they learn from their experience and improve their ability to operate internationally. Second, they gain expertise and technology to enhance their firm-specific advantages, thereby improving their competitiveness and performance. This improved competitiveness has implications for home countries. By the same token, developing-country TNCs can have an impact on host economies in a number of ways, ranging from increasing financial resource flows and investment to upgrading technology and skills. The implications of FDI for TNCs, as well as the impact on host and host economies, are taken up in chapter V.

Notes

1 The terms "firm-specific advantage" and "ownership-specific advantage" are often used interchangeably. Sometimes they are even treated as being equivalent to "competitive advantage". However, there are differences and nuances. In this chapter competitive advantages will be used to include both firm- specific advantages and *non-firm*-specific advantages. An example of a non-firm-specific competitive advantage is privileged access to natural resources in the home country; some other firms might also enjoy this privilege and therefore have an advantage over those that do not. Similarly, firm-specific advantages can involve both ownership and *non-ownership* advantages. Ownership advantages include assets such as patented technology or a recognized brand, while non-ownership advantages consist of a wider variety of assets, including efficient production process capabilities, networks and relationships, and organizational structure.

2 Hymer 1976; Kindleberger 1970; Dunning 1979, 1993, 1998, 2006; Caves 1982; Buckley 1990; Wernerfelt 1995; Cantwell and Narula 2003; Dunning and Lundan forthcoming. The notion of firm- and ownership-specific advantages is an application of the theory of industrial organizations; however the resource-based theory of the firm results in parallel conclusions, although the advantages here are expressed more in terms of valuable and unique resources possessed by the firm (e.g. entrepreneurial skills, engineering expertise, innovatory capacity) (Penrose 1959, Conner 1994, Deng 2004).

3 The notion of asset or competence augmentation is entirely consistent with resource-based theory because the view that all firms are constantly balancing resources in a bid to ensure the uniqueness of their capabilities, compared to other firms, is central to the original concept (Penrose 1959).

4 See Bartels 2005 on how developing-country TNCs can enhance their abilities to absorb new knowledge and technology.

5 As an example, franchising and management contracts are similar markets for knowledge and expertise.

6 The alternatives to FDI in this case include domestic creation of assets (e.g. through R&D), licensing and domestic utilization of knowledge from other firms (including foreign ones, an approach much used by Korean and Japanese firms in the past), and the setting up of joint ventures in the home economy with foreign TNCs.

7 A superior knowledge of regional markets is a valuable advantage over investors from outside the region. Sometimes this can be the result of unexpected changes in regimes or policies, conferring even more relative advantage to countries and TNCs that are well positioned geographically, politically, culturally or institutionally. This has been the case for Russian firms in the CIS, Hong Kong (China) firms in China, and Turkish firms in Central Asia (Crane et al. 2005, Culpan and Akcaoglu 2004, Chen and Lin 2005, Demirbag et al. 1998, Erdilek 2005).

8 Indeed it has been used to provide considerable insight into the internationalization processes of companies such as Hyundai and Daewoo (Choi et al. 2003a, 2003b).

9 The principles of the IDP essentially reflect those of mainstream thinking of the determinants of TNC activity. However, the exact nature and trajectory of the IDP is strongly country-specific (see below).

10 NOI per capita uses FDI stock data. GDP per capita is used here as a general measure of economic development.

11 For example, many countries are "dual economies" with faster growing sectors alongside poorer performing ones.

12 Shifting the two periods in figure IV.1 by a few years so that they finish earlier or later, does not significantly affect this conclusion.

13 Among others, Scheman 1973, Lecraw 1977, Wells, 1978, 1983, Lall 1983b, Buckley and Mirza 1988, Aggarwal and Agmon 1990, Yeung 1994, UNCTAD 1993, 1997, Mirza 2000, Moon and Roehl 2001, Mathews 2002 and 2006, Beausang 2003, Buckley 2004, Mortimore 2005a.

14 For example, Mathews 2002 proposed an alternative internationalisation framework for latecomer TNCs (mostly from developing countries), and Moon and Roehl 2001 suggested that a theory based on an

imbalance between a firm's resources and those it lacks (and hence tries to acquire internationally) would better explain FDI by developing country TNCs.

15 As opposed to an alternative theory or approach. In fact, most authors have opted for approaches which are, effectively, extensions or adaptations of the theoretical framework discussed in section A.1.

16 In addition to the literature mentioned in footnote 12 above, other sources include Oman 1986, Whitley 1999, Guillen 2000, Hwang 2003, Li 2003, Goldstein 2005a and 2005b, Chen (2003), Pradhan 2004, Williamson 2004, Dunning 2005, Freeman 2005, Naidu 2005 Goldstein and Toulan 2005, Roche 2005, Childe and Rodriguez 2005, Calderon 2005, OECD 2006, Financial Times, 28 April 2006, Liu and Buck 2006, Redding and Witt2006, Strange et al. 2006, Yeung 2006.

17 The fact that these segments are the principal, but not exclusive, sources of advantage is stressed, because any particular firm might draw various types of advantage from a number of sources (depicted in the segments of table IV.1). This can lead to a variety of strategies, as discussed later in this section.

18 *Business Week* 3 July 2006. The ranking was based on a weighted average of factors such as revenues, revenue growth, return on equity and profits.

19 See also "Korea: set to duel in digital TV", *Business Week online*, 7 June 2006. This does not preclude collaboration, for example in pooling resources for expensive manufacturing facilities such as those for liquid-crystal displays ("Sony and Samsung's big HDTV bet", *Business Week online*, 18 April 2006).

20 See, for example, Tsui-Auch (2003) who discusses the process of advantage-building by firms in Hong Kong (China), Singapore and Taiwan Province of China. Among others who have examined this process (including absorptive capacity) are Craig and Douglas 1997, Khanna and Palepu 2004, Frost and Zhou 2005, Kim 1997, Liu and Buck 2006, Moon 2005, Deng 2006, Pradhan 2004, Lane 2001, Wesson 1994 and Young and McDermott 1996.

21 See Holmström and Roberts on the issues determining the boundaries of the firm, including a discussion of the role of firm-specific ownership advantages and other relevant factors applied to the evolution of developed -country TNCs.

22 In a recent study, Marcel (2006) analyses the assets, "needs" and constraints of five developing-country TNCs in the oil and gas industry: Saudi Aramco, Sonatrech (Algeria), Kuwait Petroleum, ADNOC (Abu Dhabi) and the National Iranian Oil Company. Their assets are both home level factors (such as the reserves themselves, geography, State support and funds) and firm-specific factors (such as management processes and LNG (liquefied natural gas) expertise). However, among their "needs" are factors that will help internalize advantages and make them proprietary. ADNOC, for example, needs "capacity to manage large projects", "marketing expertise" and "ownership of technology", among others.

23 See Khanna and Palepu (2004). In fact, the growth is so rapid that insufficient supply of engineering and IT graduates in Bangalore (McKinsey & Co. 2005) has led to firms, such as Infosys, setting up their own universities ("Drought forecast for India's technology reservoir", *Financial Times*, 5 May 2006).

24 The *Economist* (2005), "the great thrift shift", September 24th and *Time* (2005), "Follow the money", December 5th, BCG 2006b. Another significant source of funds in some countries is monies repatriated to the home country by migrant workers overseas.

25 Of course, in most cases, the primary internationalization drivers in these industries are competition and the need to service foreign markets – hence market-seeking FDI. However, other drivers also come into play. For example, the privatization of companies in developed and developing countries has created overseas opportunities for many developing-country TNCs in infrastructural services.

26 Further, Yeung 2006 argues that in addition to firms' strategies in global production networks, home base (locational) advantages are essential to understand the success of East and South-East Asian TNCs. By home base advantages he is referring to the mutually reinforcing benefits arising from a government's strategic industrial policy, a firm's production specialization strategies and "cluster economies". In essence this source of advantage is depicted by segment 5 in table IV.1.

27 "The hottest tech outfit you never heard of", *BusinessWeek online*, 18 April 2006.

28 Yue Yuen, in fact a very large company, is discussed in section IV.B.3, under efficiency-seeking FDI.

29 See Now for the Hard Part: A Survey of India, *The Economist*, 3 July 2006.

30 The significance of diasporas, such as the overseas Chinese, Indians or Latin Americans, as a source of competitive advantages for TNCs established by members of the same cultural or ethnic groups is an under-researched topic. Most work appears to have been conducted on Chinese diaspora (e.g. see Nyaw et al. 2001 and Yang 2005).

31 Partly because most developing-country TNCs are not yet "mature", though other factors are in play. See "Emerging Giants", *Business Week*, 31 July 2006.

32 The surveys were not able to compare developed- and developing-country TNCS directly, but the main importance of ownership advantages for developed-country TNCs, especially those deriving from innovation-based technologies and expertise, is well documented in the literature (Cantwell and Moléro 2003, Dunning and Lundan forthcoming).

33 In addition, ownership advantages are more prevalent in tacit technology and expertise, and less in patents, brands and similar rights.

34 Chinese firms were asked to state their competitive advantages on a range of measures on a scale of 1 to 3; 142 firms responded and, apart from price/quality which scored 2.5, on average, advantages in all other potential measures (e.g. brand, technology, distribution channels) hovered just above 2 (i.e. they rated themselves as "average").

35 Facilitating factors are also mentioned in the literature but these are factors that benefit both developed and developing countries (for example advanced international communications or information and communications technology (ICT)). Examples include, technological developments, for example many firms, especially in East and South-East Asia, have adopted advanced ICT technology to improve supply chain management and ease communications with affiliates (Lorentz 2006); governance or corporate forms which enable easier or cheaper access to finance and other resources (Roche 2005) (see table IV.1); and partnerships and alliances (e.g. with developed-country TNCs in Latin America) (ECLAC 2006a).

36 Respondents from 36 firms replied to the question about home and host country drivers in their decisions to invest abroad, answering on a scale of 1 to 5 (5 being the most important). The results are reported in this section. The need to pursue customers was given an average importance rating of 3.9 out of 5 and the lack of trade linkages a rating of 3.4.

37 According to the survey the trade barrier issue is concentrated in a few industries, namely the electrical and electronics industry, machinery and textiles and garments, in all of which China has large trade surpluses.

38 Of the Chinese TNCs surveyed, 142 responded to the question on drivers. It asked companies to indicate whether a number of selected measures were important factors for propelling them to invest abroad.

39 Such barriers also played an important role in outward FDI by developing-country TNCs in the 1980s and 1990s (e.g. FDI by electronics and automobile companies from the Republic of Korea).

40 In the UNCTAD global survey, 44 TNCs responded to the question on drivers, which asked them to identify the three main reasons for their overseas operations. (The shares given are a percentage of the total responses by the firms.)

41 In response to a question asking for three positive reasons for investing in particular host countries, 56 South African TNCs (with 66 affiliates in selected developing host countries) replied. The reasons given, up to three for each affiliate, were then divided between reasons which could be regarded as drivers and those as motives. This subsection reports on the responses for drivers, and subsection B.3 below on those for motives.

42 Of the 140 Chinese TNCs surveyed, 42% responded to the question about which factors propelled them to invest abroad.

43 Regulations and incentives received an average rating of 3.6 out of 5 and competition/FDI policies 3.9.

44 Of course, drivers and motives are not entirely separable. For example, a driver such as a small home market normally results in the search for a foreign market.

45 TNCs in the UNCTAD global survey were asked to indicate the three main motives for their overseas operations, 44 companies responded and the percentages given are a share of the total responses (up to 3 per company) received.

46 For responses on motives received from South African TNCs, as discussed in this section, the percentages given are a share of total responses received from 66 affiliates of 57 TNCs. Note that all the host countries in the survey are developing countries.

47 In the Indian survey, 36 Indian firms responded to a question asking them to rate a number of motives for their overseas operations on a scale of 1 to 5, 5 being most important. Market-seeking received an average of 3.8 out 5, making it an important motive.

48 In the China survey, companies were asked to state whether a motive was important or not on a scale of 1 to 3. Of the 148 firms which responded to this question, 85% regarded marking-seeking as important or very important.

49 Among them, Asia Pacific Foundation of Canada 2005, Attapich and Uryos 2005, Beausang 2003, Bonaglia et al. 2006, Buckley et al. 2005, Caldaron 2006, UNCTAD 2005i, Crane et al. 2005, Culpan and Akcaoglu 2004, Akcaoglu and Aktas 2006, Chen and Lin 2005, Cherry 2001, Daniel et al. 2003, Deng 2004, ECLAC 2006a, *Energy Economist* 2005, Erdilek 2005, Mirza 2005, Giroud 2005, Lee 2005, Lim 2005, Mkenda and Mkenda 2004, Miller 2005, Moon 2005, Mortimore 2005, Pananond 2006a, 2006b, Podmetina and Selioukova 2005, Pradhan and Abraham 2004, Pradhan 2003, UNCTAD 2005e, Rios-Morales and Brennan 2006, UNCTAD 2005g, Svetlicic 2005, WEF 2006, UNCTAD 2005f, Yean 2005, UNCTAD 2005b, Zainal 2005 and World Economic Forum 2006.

50 Including, Argentina, Brazil, Chile, Egypt, Hong Kong (China), Malaysia, Mexico, Singapore, South Africa, Thailand and Turkey, certainly in recent years. The 50 largest South-South M&As in the secondary and tertiary sectors in 1995-2004 (mostly market-seeking) were by TNCs from a small number of economies – Argentina, Brazil, Chile, China, Hong Kong (China), Malaysia, Mexico, the Republic of Korea, Singapore and South Africa – and nearly all of them were regional in orientation.

51 From the various surveys (and the literature), it seems that Chinese FDI in developed countries is occurring along trade patterns with the intention of better securing existing markets (including FDI in supporting services such as shipping, communication and trade), with the parallel motive of created-asset-seeking (see below) to enhance the competitiveness of Chinese TNCs vis-à-vis their developed-country counterparts. This is a strategy similar to that of Japanese and Korean manufacturing companies in the past (Levy 1988, Young et al 1996, O'Neil 1998, FIAS 2005, Childe and Rodriguez 2005). Indian TNCs are similarly expanding into developed markets, mainly in the services sector, although some in manufacturing such as pharmaceuticals.

52 In Malaysia, for instance, the Government's South-South policies have also played a role in improving companies' familiarity and knowledge of distant markets.

53 New Hope Group (China), an agribusiness TNC, recently invested in Viet Nam, arguing that because of the earlier transition from a planned to a market economy in China, it is able to understand and work in an environment where current equivalent changes are under way as in Viet Nam (Wei 2005).

54 With an average firm rating of 3.2 out of 5.

55 Though a small number of Indian companies also mention unskilled (low cost) labour-seeking as a motive, especially in IT services.

56 The latter is only reported by Chinese TNCs, and may be more akin to the integration efficiencies discussed earlier for Indian TNCs.

57 For example, the United States enacted the African Growth and Opportunity Act (AGOA) in 2000, and the EU has the Cotonou Agreement (which covers all sub-Saharan countries, as well as some other developing countries) and the Everything But Arms (EBA) initiative (covering African LDCs).

58 Having said this, the scale of operations, sunk costs and logistics cannot be ignored even in buyer-driven global production networks, with a strong tendency towards regional efficiency-seeking FDI under such circumstances. Yue Yuen, a Hong Kong (China)-based footwear manufacturer established in 1988, is a good case in point. It was the largest global supplier of footwear in 2004, accounting for 17% of the branded wholesale athletic and casual footwear market worldwide (its major customers include Adidas, Nike, Reebok, Rockport and Timberland). Because of the scale of its operations and a strategy of reducing costs through R&D and vertical integration in upstream material

supply, its efficiency-seeking FDI is in nearby countries such as China, Indonesia and Viet Nam (in which it is planning to extend operations over the next few years). It also has affiliates in Taiwan Province of China and the United States for R&D and co-design with partner firms and production facilities in Mexico, which combine new business development with a combination of efficiency- and market-seeking FDI (for the North American market).

59 Since a network of companies are involved in manufacturing the components which go into an HDD, any FDI for cost-efficiency reasons (or resources-seeking) is likely to be regional (e.g. some subcontracting has shifted to the Philippines, which is nearby and has a skilled, but lower cost workforce) (McKendrick et al 2000). It is worth mentioning that the relevant developing-country TNCs are subcontractors or suppliers, such as the Malaysian firm Eng Technologi, which became an international investor after acquiring knowledge, skills and quality systems from working with developed-country TNCs (Rasiah, 2005).

60 For example, AU Optronics (AUO) was established in Taiwan Province of China in 2001 through a merger of the local firms, Acer Display Technology and Unipac Optoelectronics. It is the largest manufacturer worldwide of TFT LCD displays for products such as computer notebooks, monitors and televisions. Nearly all of its customers – whose production is eventually exported to the United States, Europe and Japan – are located nearby such as in China, Hong Kong (China), Japan, the Republic of Korea and Singapore. Consequently, most of its R&D is in Taiwan Province of China with efficiency-seeking manufacturing FDI also in nearby economies, preponderantly in China. In the case of another Taiwan Province of China company, Hon Hai Precision Ind. (also known as Foxconn), which was established in 1974 and which manufactures connectors, cables and enclosures for the PC industry, the largest efficiency-seeking affiliates are also in nearby countries such as China. However, because it also supplies smaller PC manufacturers and retailers that require a rapid response to meet demand in markets in North America and Europe, it has also recently established manufacturing affiliates in these developed regions. For efficiency reasons its affiliates are in countries such as the Czech Republic, Hungary, Ireland and Mexico.

61 It was regarded as an important motive by 40% of Chinese firms, but this is relatively low compared to market-seeking (85% of firms) and created-asset-seeking (51% of firms).

62 Taking a longer term perspective, this is a recurring theme. For example, in the 1970s and 1980s the Japanese Government and its TNCs, including *sogo shosha* (general trading companies), engaged in "resource diplomacy" because of the country's rapidly growing economy and concerns relating to securing supplies of raw materials and energy. As with Chinese and Indian TNCs, FDI occurred in both developing and developed countries, such as Canada and Australia (Ozawa 1980, Ross 1977, Yoshino and Lifson 1986).

63 On 26 May 2006, the *Financial Times* reported that the Russian Federation was reviewing the sale of exploration and production rights to oilfields in Sakhalin, one of which belongs to a consortium that includes India's ONGC.

64 See, for example, Christianson 2006 on recent large Chinese, United States and other Asian investments (and competition) in the oil industry in Africa.

65 Some developed-country TNCs are also present in the Sudan, including Talisman Energy (Canada) and Lundin Petroleum (Sweden). OMV (Austria), that was previously involved, has now withdrawn from the country.

66 In recent years, Malaysian companies such as Guthrie, Sime Darby, and Land & General have acquired farms, nurseries and timber tracts, mostly in nearby countries such as Indonesia.

67 For example, there is little Russian FDI in raw materials per se. The country's natural-resource-dependent TNCs tend to pursue a strategy of expanding into foreign markets by controlling downstream elements of the value chain. However, there is a limited amount of raw-materials- related FDI in the CIS; and, more significantly, Norilsk Nickel (Russian Federation) is buying up natural resource assets in Australia and Africa.

68 Among Chinese TNCs, 51% regard created-asset-seeking as an important motive for their FDI, compared to 85% for market-seeking. The equivalent figures for efficiency-seeking and resource-seeking FDI were 39% and 40% respectively.

69 For example, Kemwell Ltd is an Indian pharmaceuticals company established in 1980, which bought a Swedish company in 2006 for its technology and research staff. Kemwell does not have affiliates overseas for any other reasons. This is relatively rare and implies that outward FDI is not a primary route through which developing-country TNCs acquire competitive advantages at an early stage in their development. Instead, they create or develop firm-specific advantages through R&D, licensing, joint ventures or other linkages with foreign firms in their domestic economies (as discussed in section A).

70 Firms were asked to indicate their three most important motives for each region.

71 In fact 3 of the 6 are in Latin America, making this a good example of South-South FDI.

72 Bartels 2005, Deng 2006, Pradhan and Abraham 2004, Goldstein et al. 2006, Erdilek 2005, Asia Pacific Foundation of Canada 2003, Deng 2006b, Deng forthcoming.

73 Indeed the State and State-owned TNCs can differ considerably on issues. For example, when the Indian Government tried to spin off ONGC's overseas arm (OVL), this State-owned oil and gas company disagreed publicly, sparking off an intense debate, at the end of which OVL remained a part of ONGC. *Business on line*, 7 October 2007. In the case of PDVSA (Venezuela) there has been a disagreement between the Government and the company. Since 2000, the State has been taking measures to reduce the company's autonomy, especially in terms of FDI Ramirez (2005).

74 "The New State Capitalists", *Newsweek*, 1 May 2006.

75 However, in the case of ONGC – the main Indian TNC in the oil industry – it is not clear whether the Indian Government has explicitly directed the company to pursue this course of action or whether it is following market signals.

76 Wang 2002, World Bank 2004, Naidu 2005, Patey 2006, Goldstein et al 2006, Taylor and Smith 2006.

77 As countries develop, their indigenous firms become more proficient by acquiring or creating advantages, which enables them to expand to foreign economies.

CHAPTER V

IMPACT ON HOME AND HOST DEVELOPING ECONOMIES

Home as well as host economies can benefit from FDI from developing countries, but it may also carry some downside risks. The net outcome depends on various factors such as the level of development of a country, its economic structure and its policies, on the one hand, and the motivations of the TNCs, the industry of the investment and the mode of entry, on the other. The private gains of TNCs and the benefits to home and host countries may converge or diverge, depending on the precise context and on how effectively home- and host-country policy interventions are designed and implemented. This chapter examines the impact on home and host economies, while issues related to home- and host-country policies are analysed in chapter VI.

A. Impact on home economies

Traditionally, analyses of the impacts of FDI and TNC activities on developing economies have focused on their implications for host economies. With more developing and transition economies assuming importance as sources of FDI, it is relevant to pay attention to the implications for home countries as well. Outward FDI can contribute in different ways, directly and indirectly, to a home economy and its development. Arguably, the most important potential home-country gain from outward FDI is the improved competitiveness and performance of the firms and industries involved. Such gains may translate into broader economic benefits and enhanced competitiveness – defined as the ability to sustain growth in an open setting (*WIR99*, p. 313) – for the home country by contributing to industrial transformation and upgrading of value-added activities, improved export performance, higher national income and better employment opportunities. At the same time, outward FDI may pose several risks for the home economy: outflows of FDI can result in reduced domestic investment and lower additions to capital stock, a "hollowing out" of parts of the economy and loss of jobs. The net outcome for a home economy depends, among other things, on the firms' underlying motives and strategies for overseas investment and on the characteristics of the home economy.

Any analysis of the impact of outward FDI on home developing economies faces several problems. First and foremost, there are significant data limitations and few research results. Given that the expansion of FDI from developing countries is a fairly recent phenomenon, few studies have systematically assessed the impact of developing-country TNCs on their home economies. Thus any generalization of findings based on developed-country studies has to be interpreted with caution. Secondly, a complete assessment of potential impacts needs to consider the counterfactual (i.e. what would have happened had the investment not taken place). Such counterfactuals are typically hard to establish in practice. Finally, any analysis will partly draw on case studies of how individual firms have performed as a result of FDI. The pitfall of such partial assessments is that they risk leading to unjustified generalizations, and should therefore be interpreted with caution.

Bearing these caveats in mind, it is possible to identify potential benefits and costs for a home country. The starting point for the analysis of these various effects in the discussion below is to consider how internationalization via FDI may affect an investing firm's competitiveness and performance (section 1). The next question is how impacts at the firm level may translate into broader implications for the home economy, in terms of the competitiveness of its industries in general and various aspects of the economy as a whole (sections 2 and 3). Finally, there are a number of non-economic implications, such as those related to socio-economic, environmental and cultural concerns, which are briefly considered in the concluding section.

1. Outward FDI and the competitiveness of developing-country TNCs

The starting point for assessing the impact of outward FDI on the home economy is to examine how and to what extent internationalization via FDI influences an investing firm's competitiveness. Various approaches have been used to define and analyse competitiveness at different levels (firm, industry, region and country level) (Porter 1990, Boltho 1996, Fagerberg 1996).[1] In the context of an open market economy, the competitiveness of firms refers to their ability to survive and grow while attaining their ultimate objective of maximizing profits (and retaining or improving market share), and to adapt to changes in their internal and external environment in a way that guarantees their long-term operation.[2]

Generally speaking, an outward FDI project can benefit the home economy at large only if it has a positive impact on the overall performance of a parent company.[3] However, whether it actually does so will depend on the precise context and the extent to which the interests of the firm coincide with those of the home economy as a whole. For an analysis of the impact of outward FDI on a firm's performance, various aspects of business outcomes need to be considered, including, for instance, a firm's financial results and market position. In addition, it is important to take a long-term perspective, especially on the sustainability of performance.

While outward FDI can contribute to a firm's competitiveness, it is also subject to risks inherent in projects undertaken abroad. First, a newly established foreign affiliate has the disadvantage of being foreign, compared to established enterprises in the host economy. Second, additional problems related to cultural, social and institutional differences between home and host lead to higher coordination, governance and transaction costs (Hofstede 1980, Jones and Hill 1988, Roth and O'Donnell 1996).[4] Third, companies face higher levels of complexity as they establish their presence in an increasing number of locations. Additional needs to integrate and coordinate activities, and concomitant organizational and environmental requirements may eventually exhaust managerial capacity (Siddharthan and Lall 1982). Finally, there are specific risks related to outward FDI and overseas operations, including financial risks – such as exchange-rate fluctuations – and political uncertainties.[5] Some difficulties and risks are also associated with specific strategies adopted by developing-country TNCs in their processes of internationalization, such as entry through cross-border M&As.

In addressing the impact of outward FDI on the competitiveness of firms, it is useful to distinguish between asset-exploiting and asset-augmenting FDI (chapter IV, section A). An asset-exploiting FDI project may directly promote market expansion of a company, thereby contributing to a relatively quick improvement of financial as well as market performance. An asset-augmenting FDI project, on the other hand, will influence a firm's performance indirectly: access to resources and acquisition of strategic assets may help improve its competitiveness and, consequently, its long-term performance. The extent to which a firm benefits from such FDI depends on its ability to absorb and integrate the acquired assets into its activities.

As the contribution of outward FDI to market expansion takes place through various channels, and counterfactuals cannot easily be established, it is difficult to make a quantitative assessment of the contribution of outward FDI to market expansion of developing-country firms. However, results of many case studies and surveys confirm that it has enabled developing-country firms to enter new markets and expand their businesses in existing ones (Monkiewicz 1986, Yeung 1994, Hobday 1997, Hoesel 1999, Sachwald 2001, Mathews 2002, UNCTAD 2005l). In a range of industries, such as white goods (box V.1) and personal computers (box V.2), a number of Asian TNCs have successfully expanded their market access through FDI and grown into global players. Some companies from other developing regions

have also ventured beyond their borders and become successful players in regional and even global markets (chapter III, section B). For instance, CEMEX (Mexico) has become the third largest cement-making company in the world, with more than two thirds of its sales in developed countries in 2005. Cross-border M&As have contributed significantly to its market expansion in developed countries since 2000 (ECLAC 2006a). The UNCTAD global survey (box IV.4) also indicates that the most frequently mentioned benefit developing-country TNCs perceived from their projects abroad, was market expansion in a broad sense (including market diversification) (about 40% of the responses; figure V.1).

Through efficiency-seeking FDI, firms can improve their competitiveness by accessing cheaper inputs of production or achieving economies of scale through vertical and horizontal integration. Rising costs in the home economy have been among the prime forces driving the growth of outward FDI by firms from some developing economies, in particular the East and South-East Asian NIEs since the 1980s (chapters III and IV). By relocating to neighbouring countries with lower labour costs, TNCs from Hong Kong (China), the Republic of Korea, Singapore and Taiwan Province of China have enhanced their competitiveness in manufacturing (Tuan and Ng 1995, Nicolas 2001). In these economies rapidly rising labour costs have

Box V.1. How does outward FDI promote the market expansion of developing-country TNCs? The case of white goods

The global white goods industry is characterized by mature technologies and rapid relocation of production to developing countries where input costs are lower and growth rates of demand are higher, giving latecomer advantages to developing-country TNCs in the industry (Goldstein et al. 2006). In addition to global players from the Republic of Korea, such as LG and Samsung, Haier (China) (chapter III, section B.3.a) and Arçelik (Turkey) are emerging as important developing country TNCs in this industry, with noticeable internationalization of their business operations (box table V.1.1). The two firms are still in their early stages of international expansion, but their reach has become increasingly global through accelerated FDI.

Box table V.1.1. Internationalization of Arçelik and Haier, 2004
(Millions of dollars and number of employees)

		Assets		Sales		Employment	
Firm	Country	Foreign	Total	Foreign	Total	Foreign	Total
Arçelik	Turkey	434	2 593	1 499	3 442	..	10 841
Haier	China	561	5 220	1 463	12 305	3 200	52 835

Source: UNCTAD, based on firm reports.

Arçelik. Part of the Koç Group – which also includes the electronics firm, Beko – Arçelik is Turkey's largest household appliances producer. It started its internationalization process through original equipment manufacturing (OEM).[a] The company changed its technological orientation in 2000, when it bought a minority stake in the United States company Ubicom, which produces chips for smart household devices. The company then adopted an internationalization strategy based on M&As, mainly in Europe. In 2002, it acquired Arctic (Romania's only refrigerator maker), and Blomberg (Germany), Elektra Brengez and Tirolia (Austria), and Flavel and Leisure (United Kingdom). By June 2006, it had 12 foreign affiliates and 9 foreign plants.

Haier. After establishing a leading position for consumer electronics in the Chinese market, Haier made the decision to exploit foreign markets by gaining brand recognition and establishing local manufacturing facilities abroad.[b] Since the mid-1990s, it has established 10 information centres and 6 design units abroad. It has also set up 13 factories in a wide range of countries, including Indonesia, the Islamic Republic of Iran, Malaysia, the Philippines and the United States. The establishment of a refrigerator plant in South Carolina and a design centre in Los Angeles in 1999 helped Haier bypass non-tariff barriers, reorganize its production structure and expand its market share in the United States. In 2005, it attempted to acquire Maytag (United States) for furthering its market expansion in that country, but eventually dropped its bid.

Source: UNCTAD, based on Akçaoglu 2005, Goldstein et al. 2006, and information from companies.

[a] In 1998, it secured a contract in the United States to supply refrigerators under the Kenmore brand, followed nine years later by a European deal with Whirlpool for dishwashers (Root and Quelch 1997).

[b] The company was transformed from an ailing enterprise controlled by the Qingdao Municipal Government in the mid-1980s.

Box V.2. How does outward FDI promote the market expansion of developing-country TNCs? The case of personal computers

Lenovo (China) and Acer (Taiwan Province of China) are the two largest personal computer (PC) makers from developing economies and the third and fourth largest, respectively, in the global PC market.[a] Both companies are highly globalized, and their international market expansion has been driven by outward FDI. However, they have experienced different processes of global expansion and adopted different internationalization strategies.

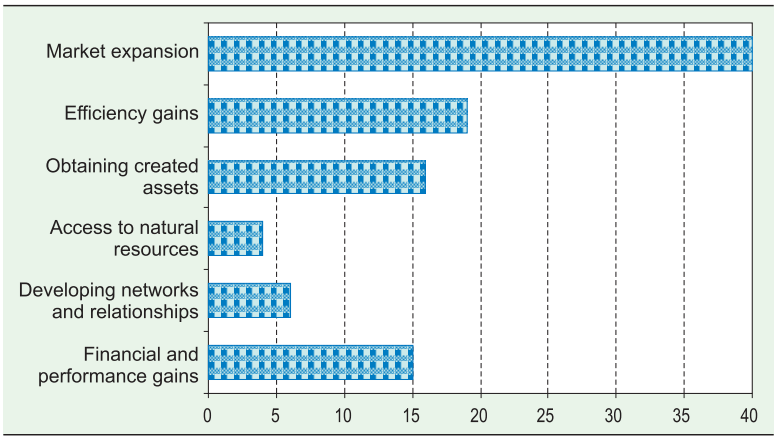
Acer's international expansion has been by far the most successful in Europe, which accounts for 60% of its sales. It established its first European affiliate in 1985. Since then, it has invested intensively in a distribution network in Europe. The company now ranks third in the European PC market and has become the largest supplier in the laptop segment of that market. In comparison, the international market expansion of Lenovo started much later, but has entered a much faster track based on an ambitious M&A strategy. In December 2004, Lenovo acquired IBM's PC business, which accounted for about two thirds of its revenue in 2005. This deal has provided it with valuable strategic assets, such as brands and distribution networks. More importantly, it has helped the company rapidly extend its market reach and become a global company. Since early 2006, Lenovo has begun to promote its own brand in the United States and other developed countries.

Source: UNCTAD, based on press reports.

[a] According to an estimate of the International Data Corporation, the global market shares of Lenovo and Acer were 7% and 4% respectively, following Dell (17%) and HP (15%) in 2005.

Figure V.1. Main benefits gained by developing-country TNCs from investing abroad: results of the UNCTAD global survey, 2006

(Per cent)



Source: UNCTAD global survey.

Note: Question: What are the three main benefits that conducting overseas operations have brought to your company? Responses were received from 41 companies. The figure gives the share of total responses for each type of benefit.

made outward FDI a necessity for companies in several industries during the past two decades. Many of them have successfully reduced production costs and maintained competitiveness by relocating part of their production abroad. According to one study, about 75% of the TNCs from the Republic of Korea surveyed for the study reduced their production costs by more than 20% through outward FDI (KCCI 2002). Similarly, electrical and electronic equipment manufacturers in Taiwan Province of China have improved their competitiveness by investing in mainland China since the mid-1990s. For example, Hon Hai Precision Industry (chapter III, section B.3.a) has become the world's leading electronics manufacturing company by leveraging a cheap, 100,000-plus workforce in China.[6] In the UNCTAD global survey, efficiency gains were reported to be an appreciable proportion of benefits (19% of responses, figure V.1) that developing-country TNCs obtained from FDI.[7]

Natural-resource-seeking FDI can also contribute to firms' competitiveness, a strategy increasingly adopted by developing-country TNCs in selected primary industries in recent years (chapters III and IV). Outward FDI allows developing-country TNCs to access resources beyond their national borders, and even on a global scale (chapter IV).[8] In oil and gas and other mining industries, it is also an effective way for them to expand their production and reserves and sustain competitiveness. The largest oil and gas companies from developing and transition economies have

Table V.1. Top 10 cross-border M&A deals in the oil and gas industry by companies from developing and transition economies, ranked by the value of sales, 1987-2005

Target company (country)	Acquiring company	Value of sales (Millions of dollars)	Equity shares acquired (%)	Reserves added (Millions of barrels)	Year
PetroKazakhstan (Canada)	CNPC (China)	4 141	100.0	503	2005
Nelson Resources (Canada)	Lukoil (Russian Federation)	2 000	100.0	..	2005
Maxus Energy (United States)	YPF SA (Argentina)	1 844	100.0	209	1995
Egyptian LNG (Egypt)	Petronas (Malaysia)	1 766	35.0	..	2003
Sakhalin-1 consortium (Russian Federation)	ONGC (India)	1 700	20.0	460[a]	2001
Gallo Oil Ltd (United States)	BT Bumi Modern (Indonesia)	1 311	97.5	..	2000
Perez Companc SA (Argentina)	Petrobras (Brazil)	1 028	58.6	730	2003
Greater Nile Petroleum (Sudan)	ONGC (India)	768	25.0	281[b]	2003
Repsol-YPF's oil fields in Indonesia	CNOOC (China)	592	100.0	360	2002
Mangistau Oil & Gas (Kazakhstan)	Central Asia Petroleum (Indonesia)	576	70.0	..	1997

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics). Reserves added are based on various newspaper accounts and company websites.

[a] Total reserves (2,300 million barrels) adjusted by equity shares acquired (20%).

[b] Total reserves (1,124 million barrels) adjusted by equity shares acquired (25%).

significantly increased their reserves through FDI, including through cross-border M&As (table V.1).

Part of outward FDI from developing countries is related to strategic-asset-seeking activities by their TNCs in developed countries (chapter IV, section B). Acquisition of assets such as technologies, skills, R&D facilities, brand names and distribution networks can permit leapfrogging by developing-country TNCs for the production of high-value products and services to enhance their competitiveness.[9] This helps them move up the value chain (from manufacturing to R&D, branding and distribution) and establish a reputation in international markets. TNCs from developing economies such as China, the Republic of Korea, Taiwan Province of China and Turkey have indeed aimed at technological catch-up through overseas investment (Lee 2001, Li 2003, Sigurdson 2005 and *WIR05*) (see also box V.1). In the UNCTAD global survey, too, a significant number of TNCs regarded the obtaining of created assets as an important benefit from FDI (16% of responses, figure V.1). Another 6% of responses referred to the benefit of establishing or expanding networks and relationships, which can be regarded as created assets.

FDI can be used by developing-country TNCs as a means of technology-sourcing and learning in addition to other forms of partnership with developed-country companies (chapter IV, section B). Organizational learning, for instance, usually accompanies the internationalization process of TNCs (Sullivan 1994a, Hitt et al.1997, Ruigrok and Wagner 2003). For example, Korean TNCs invested actively in the United States during the 1990s and successfully tapped into technological resources in that country through minority shares in joint ventures (Kim 1997, Miotti and Sachwald 2001).

Firms' performances can be conceptualized on two dimensions: financial (e.g. return on assets and profitability) and operational (e.g. efficiency and market share).[10] Early studies in the 1970s and 1980s hypothesized a linear and positive relationship between internationalization[11] and firms' performance, but yielded ambiguous results in empirical investigations due mainly to the omission of internationalization costs in the conceptual framework (Sullivan 1994a, Gomes and Ramaswamy 1999, Ruigrok and Wagner 2003). The findings of more recent studies indicate that the relationship exhibits a non-linear form, but they disagree on the shape of the curve.[12] Some studies, for instance (Lu and Beamish 2001), suggest a U-shaped relationship, which implies that a firm's performance declines in the early stages of internationalization, but improves later with more FDI.

Most of the empirical evidence in the literature on the performance of internationalization relates to TNCs from developed countries. Results of a few studies that focus on developing-country TNCs seem to support a positive impact of outward FDI on a firm's performance (Lecraw 1993, Pangarkar 2003, Chen and Chang 2005). For instance, Indonesian firms that invested abroad were found to have improved their performance dramatically after their investment, in terms of management expertise, exports, quality and assets, relative to their past performance and to the performance of firms in the sample that did not

make such investments (Lecraw 1993). A study on 100 business groups based in Taiwan Province of China generally supports a positive relationship between the degree of internationalization and financial performance, although the effect of internationalization on market value is not significant (Chen and Chang 2005). These findings are supported partly by the results of the UNCTAD global survey, with 15% of responses mentioning financial and performance gains as major benefits arising from FDI (figure V.1).

Case studies on latecomer TNCs from the East Asian NIEs provide additional evidence on the contribution of internationalization to the competitiveness and performance of firms (Hobday 1997, Oh et al. 1998, Hoesel 1999, Sachwald 2001, Mathews 2002, Sim and Pandian 2002, Li 2003). For example, a case study on Acer (Li 2003) shows that the company initially developed its ownership advantages through outward FDI, and its performance is positively correlated with its intensive use of strategic alliances in the process of internationalization. Another case study on Acer (Mathews 2002, chapter 3) shows that the company has leapfrogged its more traditional rivals through internationalization, expanding in developing countries in the mid-1980s (before tackling the Triad markets) and through global integration in the late 1990s. Some country studies suggest that outward investing firms are more profitable than their domestically oriented peers, and others demonstrate that companies' profits increase as a result of FDI (Jaklic and Svetlicic 2005, Rumney 2005, UNCTAD 2005c). Furthermore, a recent survey of Chinese TNCs found that foreign operations tended to be more profitable than domestic operations (Yao and He 2005). For example, the profitability of China State Construction Engineering Corporation (CSCEC), one of the largest Chinese TNCs (chapter III.B), is much higher abroad than at home (box V.3). However, other evidence from China shows that rapid internationalization jeopardized the profitability of some investing firms. For example, TCL Multimedia Technology and TCL Communication Technology,[13] two foreign affiliates of TCL Corp., reported greater losses due to difficulties in integrating their acquired overseas operations, including the television business of Thomson (France).[14] And, in a recent survey by the Foreign Investment Advisory Service (FIAS) of outward-investing firms from China (box IV.4), one third of the firms reported that their FDI performance did not meet their expectations (Yao and He 2005). Another study focusing on cross-border M&As by Chinese firms found that, while nearly two thirds of the deals created value in the first year after announcement of the transactions, there was considerable divergence in performance,

Box V.3. Internationalization and profitability: the case of CSCEC

China State Construction Engineering Corporation (CSCEC) is one of China's largest construction companies and by far the most internationalized. It was established in the 1950s as a State-owned enterprise, and assumed its current name in 1982. With foreign assets of $4.4 billion (37% of its total assets), the company is the third largest Chinese TNC (annex table A.I.12). Its profitability is much higher abroad than at home (box table V.3.1): for instance in 2005, foreign sales accounted for one quarter of its total sales, while foreign profits accounted for three quarters of its total profits. Thus internationalization has contributed significantly to the company's financial performance.

Box table V.3.1. Financial results of CSCEC, 2000 and 2005
(Millions of dollars)

		2000	2005
Value of contracts	Total	6 660	19 311
	Foreign	1 757	4 447
Sales	Total	5 853	14 163
	Foreign	1 889	3 359
Profits	Total	45	364
	Foreign	50	300
Assets	Total	8 256	13 083
	Foreign	2 985	5 578

Source: UNCTAD, based on information provided by CSCEC.

The high profitability of CSCEC's overseas operations can be attributed to a set of locational and organizational competitive factors. Most importantly, the experience gained in its overseas operations has helped the company control risks and costs in its further international expansion. As in the case of many Chinese companies, CSCEC's first stop in going global, its operations in Hong Kong (China) played an important role in giving it international experience and training its management team for further internationalization.

Source: UNCTAD, based on Sun 2006.

depending on the degree to which the deal required the integration of the two operations. Those that required comparatively low integration – either strategic investments in which the Chinese company bought a minority share and the foreign owner remained in control of operations, or acquisitions to gain access to natural resources or stand-alone assets – performed considerably better than the high integration deals including outright (100%) acquisitions (Boston Consulting Group 2006).[15]

To sum up, outward FDI can help firms achieve various strategic objectives, such as expanding market access, enhancing efficiency and acquiring natural resources and strategic assets. It also creates channels through which firms can move up the value chain, enter into higher value-added activities and improve their competitiveness. However, outward FDI is subject to various risks and difficulties, which can entail costs. Thus sound corporate strategies and adequate managerial capabilities are crucial for firms to maximize their net benefits from internationalization. Government policy can play a role in creating an environment conducive to investment, thereby helping firms take advantage of opportunities for internationalization and strengthen their competitiveness in a globalizing world economy (chapter VI).

2. Outward FDI and the competitiveness and restructuring of home-country industries

In developing as in developed countries, the interactions between the foreign and domestic operations of TNCs and the connections between their home-base operations and other domestic businesses will by and large determine the impact on the home economy. However, a positive contribution of an FDI project to a firm's competitiveness is not a sufficient condition for the project to be of net benefit to the economy at large. Due to the possible divergence of private and public interests, as well as the possibility of market or government failures, what is good for a company may not necessarily be good for its home economy.

Outward FDI affects a home economy through its direct effects on that country's economic activity, as well as indirect effects through various channels by which the improved competitiveness of outward investing firms can be transmitted to the rest of the economy. A key area of impact relates to effects on the competitiveness of industries (in terms of efficiency and productivity), and the consequent upgrading and restructuring of industries in the home economy – an issue examined in this section.

a. Industrial competitiveness

The enhancement of industrial competitiveness in an economy involves four interrelated types of upgrading of industries in general: process upgrading, product upgrading, functional upgrading (expanding activities in the value chain) and chain upgrading (moving to a new value chain) (Kaplinsky and Morris 2001, *WIR05*). Outward FDI can help promote competitiveness of all these types. In developing countries, a number of cases suggest that it has played a role in strengthening competitiveness of particular industries, for instance, IT services and software in India, telecom equipment manufacturing in China, PC peripherals and semiconductors in Taiwan Province of China and biotech in Singapore, and a range of manufacturing and service industries in Hong Kong, China.

As discussed above (section A.1), under appropriate conditions, international production through FDI can improve the competitiveness of developing-country firms. To the extent that outward-investor firms are an important part of particular industries, those industries are directly affected. More importantly, this improvement can be transmitted to other firms and economic agents in home countries – within the industries concerned as well as outside – through various channels, resulting in a wider influence on the performance of various industries. The channels include:

- Linkages with local firms;
- Spillovers to local firms;
- Competitive effects on local business (including crowding in/out);
- Linkages and interactions with institutions such as universities and research centres (i.e. the national innovation system in general).

In all economies, whether developed, developing or transition, the interaction of outward investing TNCs with home-country enterprises and other economic agents is one of the key determinants of the economic impact. For instance, the more supplier linkages parent companies have with businesses at home, the more likely it is that

the home base will share with the TNC the benefits of outward expansion. In Hong Kong (China), for example, over the past decade, the expansion of outward FDI to newer and higher technology industries (using "soft" technology) has produced important forward and backward linkages with home-based firms and activities (Chen and Lin 2005). Over time, these developments have led to the emergence of a cluster of producer services (supply chain management, customer relationship management, transportation and storage, product design and promotion), especially in support of enterprises based in Hong Kong (China) and operating in China.

The impact of developing-country TNCs on industrial competitiveness in their home economies through linkages with other firms depends to some extent on the internationalization path that the TNCs take (Yeung 2006). Differences in the degree of development of industries in developing countries are likely to result in an uneven internationalization of firms from an economy, led by the more advanced sectors/industries. That may have major implications for the development and competitiveness of less advanced industries. Again, much depends on the extent, nature and scope of linkages that exist between the internationalized and primarily domestic industries and between firms in the more and the less advanced groups of industries.

Spillovers from TNC parents to other domestic firms are often a function of the existence of industry clusters in the home economy. Such clusters tend to be the main venue for effective spillovers from firms engaged in outward FDI (Zander 1999, De Propris and Driffield 2006). In terms of competition effects, a key issue is whether the improved competitive strength of outward investing firms in the home base – a typical consequence of outward FDI – leads to efficiency-enhancing or anti-competitive behaviours on the part of TNCs. Which of the two effects dominates depends partly on the structure of the domestic market (to what degree domestic firms are competitive) and on a possible policy intervention by competition authorities (chapter VI). In terms of linkages with the national innovation system,[16] these will depend largely on the extent of clustering of private and public agents of technological progress located in the home territory, including partnering between TNCs and other firms, and between TNCs and universities, public research institutions and other public entities (UNCTAD 2005k). As TNCs have privileged access to sources of knowledge abroad, their contribution to such partnering can be crucial (Reddy 2000).

The impact of outward FDI on the technological base of the home country is of particular importance in the context of the industrial competitiveness of developing countries. Gains for the home economy include feedbacks in technology resulting from the FDI (particularly important where the investment is in a technologically more advanced economy); extra business for technology suppliers in the home country; and (unique to FDI compared with other forms of technology export) control over the use of the technology. Outward FDI can augment technological capabilities in the home economy through the provision of training and technology spillovers from operations abroad (Globerman et al. 2000). On the other hand, there is also scope for a spillover of knowledge to competing firms in the host countries (Zander 1991). Here, the motivation of TNCs is likely to be a determining factor. For example, in strategic-asset-seeking projects, which are gaining importance in developing-country FDI in developed countries, the net balance of technology flows can be expected to be positive for the home economy, while efficiency-seeking projects are more likely to have the opposite effect.

In general, the impact of FDI on the technological capacity of the home country depends on various factors such as the type of FDI, the conditions under which it occurs, the home and host countries involved and the time horizon being considered (Dunning and Lundan forthcoming). Moreover, a cost-benefit analysis of the technological implications of outward FDI has to take into account the alternative costs of other scenarios of technology links, such as the costs of not exporting technology, as well as the benefits of outward FDI in terms of a restructuring of domestic technological activities.

Reverse transfer of technology (Hobday 1995), whereby knowledge acquired by foreign affiliates is channelled back to the home country, is one of the most important ways of mitigating the risks and concerns about the potential erosion of the home country's technological edge. Furthermore, with the globalization of knowledge, technology flows are increasingly a two-way phenomenon, so that inflows and outflows may mutually reinforce each other. This makes it more difficult to base an evaluation of the impact on technology and skills simply on the balance of knowledge flows.

Reverse transfer and two-way flows of technology are particularly relevant issues for home developing economies, and they are likely to have a significant impact if the host country is relatively advanced technologically and the home country has sufficient absorptive capacity for effective use of the imported technologies (*WIR05*). Such technologies can be applied in the home country to develop new products and processes for global markets. In 2003, 21 of the 289 affiliates of TNCs from developing Asia in Japan were engaged in R&D. Moreover, their R&D expenditure per affiliate (238 million yen) came relatively close to that of United States affiliates (332 million yen) (Japan, METI 2006).

Concerning outward FDI as a means for strengthening technological capacity, the priorities of developed and developing home countries are expected to be similar. However, there may be strategic differences between TNCs from the two groups of countries: developed-country TNCs may focus more on controlling knowledge creation (Cantwell and Janne 1999, Kuemmerle 1999, Le Bas and Sierra 2002, Patel and Vega 1999, Roberts 2001) and developing-country TNCs more on accessing technologies abroad. Developing-country TNCs and their home countries in general tend to give considerable importance to technology monitoring units (*WIR05*), which shows that they rely heavily on outward FDI as a channel to acquire or upgrade technology. For example, a study of large Chinese TNCs in the mid-1990s found that the strategies of these firms were "strongly internationally oriented" (Young et al. 1996, p. 304), with an increasing emphasis on investment for technological progress, resulting in faster technological improvement than in their domestic (non-TNC) peers.

In the area of managerial expertise and knowledge, outward FDI has been found to be an important channel for example for Chinese TNCs to acquire marketing skills from abroad (Young et al. 1996, p. 312). It can also have a positive impact on managerial practices and affect the skills composition of employment in the home country, increasing the share of management jobs and reducing that of blue-collar jobs (Blomström et al. 1997 and Lipsey 2002b, for the United States). There are also large differences between industries. More mature and less technology-intensive industries typically provide less room for exchange of skills and knowledge than technology-intensive industries.

b. Industrial restructuring

To improve the competitiveness of their industries and indeed, their economies generally, countries need continuously to restructure their economies; that is, they need to change the composition of output, employment and exports, across sectors, industries or types of activities as they grow (*WIR95*). This can be accomplished by the successful transmission of TNCs' competitiveness to domestic business through the channels discussed above (subsection a). If the resources released due to improved performance or the relocation of low value-added activities are utilized in high value-added activities, this reflects an upgrading of the value chain, which suggests a stronger competitive position of the economy.

Restructuring and upgrading are particularly important areas for developing economies seeking to sustain economic growth and move towards higher value-added activities. Outward FDI is, of course, only one of several international channels for accessing the resources, markets and capabilities needed for industrial upgrading and restructuring in an open economy. Other channels include inward FDI, imports, contractual arrangements and alliances between domestic and foreign firms. Generally, a combination of various channels is involved. The link between outward FDI and home-country restructuring is not necessarily straightforward or automatic; for instance, in the case of efficiency-seeking FDI, new lines of production at home following relocation of activities to foreign sites may not be more productive than the ones replaced. Moreover, the economic gains from restructuring may involve high social costs, for example in the form of structural unemployment resulting from higher capital or skill intensity that may persist for an extended period (*WIR95*).

One area of concern regarding the impact of outward FDI on restructuring relates to the possible "hollowing out" of the domestic production base, leading to a loss of related skills. As "hollowing out" often denotes the loss of manufacturing capabilities, and not of capabilities in services, part of this concern may be a perception problem, where service activities are considered less valuable than manufacturing. Indeed, hollowing out, relocation and deindustrialization are terms usually used together (Chen and Lin 2005). However, to the extent that manufacturing carries unique knowledge and processes that service industries cannot

provide, concern about hollowing out, in the sense of loss of manufacturing industries, has some basis.

When large-scale relocation of manufacturing occurs, the creation of jobs and knowledge in services may well be more limited than the losses in manufacturing. Such a scenario is more probable in efficiency-seeking projects than in others, and more likely to occur in small high-income countries than in larger and lower income home countries. In the developing world, for instance, Hong Kong (China), Singapore and Taiwan Province of China are the most prominent cases of relatively important and rapid structural change in the home base and a massive transfer of manufacturing jobs.

Empirical evidence on outward FDI and restructuring in developing countries is limited and relates mainly to the East and South-East Asian NIEs.[17] In the case of Hong Kong (China), for instance, a massive transfer of labour-intensive manufacturing operations, mainly to China, since the 1980s has changed the nature of the home economy (Chen and Lin 2005), with the physical and human resources released from relocation shifting successfully to services. According to the Hong Kong Labour Department, from 1987 to 1992, almost 400,000 manufacturing jobs were lost in the territory, whereas 450,000 jobs in the services sector were created. The challenge was to help displaced manufacturing workers with retraining in vocational skills, with special emphasis on middle-aged workers. Retraining proved to be crucial as parent firms located in Hong Kong (China) moved quickly towards high-value-added activities, such as design, management and consumer-oriented production. Taiwan Province of China's experience with managing hollowing out has been somewhat different, reflecting the differences in the structure and size of the home economy (Schive and Chen 2004): it specialized more in electronics production, and its upgrading resulted in higher-value added manufacturing more than services.

The restructuring of the first group of NIEs in developing Asia – Hong Kong (China), the Republic of Korea, Singapore and Taiwan Province of China – through outward FDI has been viewed as the continuation and extension of the "flying geese" phenomenon. This phenomenon started in the 1960s when outward FDI from Japanese labour-intensive industries such as food, beverages, tobacco, textiles, apparel and leather (*WIR95*, p. 241) contributed to the industrial upgrading of the first-tier NIEs and their emergence as outward investors. Their successful restructuring helped create new home countries, and, combined with the liberalization of inward FDI policies in the region, their investments in turn helped in the restructuring of a second tier of NIEs (such as Malaysia, the Philippines and Thailand). This second group has since then also become a source of outward investment targeting lower income countries (such as China and Viet Nam). Increasingly, the restructuring has involved not so much a movement from lower technology industries to higher technology ones as much as from lower value-added activities along the value chain to higher ones (UN Millennium Project 2005).

The flying geese pattern of the division of labour through outward and inward FDI and trade, observed in East and South-East Asia, while not easily replicable in other regions, offers a notable example of continued and relatively smooth redeployment of economic activities between countries at different levels of development (Ozawa 1979). The efficiency-seeking strategies of Japanese and NIE-based TNCs that led to the emergence of this pattern have been complemented, as highlighted above, by outward FDI strategies aimed at acquiring assets and knowledge abroad, which helped reinforce the emerging comparative advantages in higher value activities. A similar pattern is emerging with respect to FDI from newer outward-investor economies from Asia that are investing within and beyond their region. There are also signs that countries in other regions are embarking on outward FDI in lower segments of industries built up with the help of inward FDI. One example is outward FDI and outsourcing of lower value segments of clothing production by firms from Mauritius, while they retain higher value activities in that country (UNCTAD 2005j).[18]

3. Macroeconomic, trade and employment effects in the home economy

While enterprise and industrial competitiveness is probably the most important development effect of outward FDI on the home economy, and an overriding concern guiding national and international policies in this respect (chapter VI), the implications of outward FDI for development go beyond industrial competitiveness. The discussion in the sections that follow looks at the potential impact of outward FDI on home-county financial flows and balance of payments,

investment and capital formation, employment and trade (especially exports), and reviews empirical evidence on these various aspects, all of which have implications for the sustainability of industrial competitiveness as well as economic growth generally.

a. Financial resource flows and balance of payments

Financial flows related to outward FDI include outflows of capital from the home country and a wide range of directly or indirectly related inflows such as investment income, royalties, fees and service charges associated with the FDI (*WIR95*, p. 220). Outward FDI projects tend to result in net financial outflows in the balance of payments of the home country in an initial phase. But this gradually changes to net inflows once the direct investment yields returns in the form of income and other payments (cf. Rodriguez 1980, UNCTC 1993, Whichard and Lowe 1998, *WIR99*). These can be quite important in countries with relatively large FDI outflows; for instance, in 2005 alone, Singapore derived almost 20% of its gross national income from factor income from abroad, predominantly in the form of overseas investment income (Toh 2006). However, the relationship between inflows and outflows can vary over time; subsequent investments or reinvested earnings can tilt the balance again towards increased net financial outflows.

Data for selected developing economies with a longer history of outward FDI in the United States show that balance-of-payments inflows directly associated with outward FDI tend to be significantly higher than the direct balance-of-payments outflows resulting from outward FDI (taking into account intra-firm trade, among others) (table V.2). For the Republic of Korea, that difference exceeded $16 billion while it was negative in Kuwait in 1992 and 1997, in Brazil in 1997 and in the United Arab Emirates in 1992.

Aside from the question of the balance of inflows and outflows, a major concern for some home countries relates to the potential for capital flight in a broad sense. The business environment of developing home countries tends to be less stable than that of developed home countries, hence there may be an incentive for some firms to create "safety nests" by investing abroad, even in situations where investment at home would be more profitable.[19] Furthermore, as highlighted in chapter III, some developing-country TNCs invest large amounts of FDI in offshore financial centres such as Bermuda, the British Virgin Islands and the Cayman Islands, or engage in round-tripping investment (e.g. Chinese TNCs – see box I.1). Such transactions are often less transparent than other FDI deals, requiring special care in their management.

Financial flows related to outward FDI could contribute potentially to either a gain or a loss of financial capital for investment in the home economy. Some developing-country TNCs invest abroad explicitly to gain access to developed-country financial markets in order to reduce reliance on or supplement funding from the home base. An example is South African TNCs investing in the United Kingdom in order to get listed on the London Stock Exchange (chapter III, section B.2). Although no comprehensive statistics are available to compare the extent of financing raised in host or third countries by developing-country versus developed-country TNCs, the relatively underdeveloped financial markets in the home bases of many of the former would suggest their greater dependence on foreign sources and earnings of affiliates abroad for financing foreign expansion.[20]

Moreover, in some developing home economies, outward FDI financed from domestic sources could be viewed as a loss of financial capital that could have been used for investment

Table V.2. Balance-of-payments impact [a] of FDI in the United States, selected developing home economies, 1992-2002
(Millions of dollars)

Economy	1992	1997	2002
Brazil	530	-296	1 762
Mexico	365	3 110	1 539
Venezuela	3 165	2 745	..
South Africa	..	120	7
Kuwait	-208	-167	..
United Arab Emirates	-12	9	..
Hong Kong, China	621	2 027	528
Korea, Republic of	1 978	4 564	16 787
Malaysia	380	761	296
Philippines	199	257	..
Singapore	1 207	18	1 046
Taiwan Province of China	179	1 855	1 719

Source: UNCTAD.

[a] Calculated by subtracting FDI outflows as reported in the balance of payments from the sum of all positive items associated with FDI outflows. The positive items include repatriated profits from affiliates in the United States; trade effects (exports less imports associated with FDI outflows, in this case between parent firms and their affiliates in the United States); and royalty and licence fee payments to the parent company.

at home (de Mooij and Ederveen 2003). This may be the case, for instance, when outward FDI occurs because certain developing-country firms (or State-owned TNCs) accumulate large financial resources – that may be derived, for example, from export revenues or high prices of natural resources – and envisage using them abroad for various reasons. From the TNCs' point of view there may be limited investment opportunities in the home country, but from the home country's perspective there may be many socially desirable projects that require additional investment, implying a divergence of TNC and country interests. Another reason may be the aspiration of firms to leapfrog to global status, prompting them to move to developed economies (chapter IV, section B.3.d).[21] In addition, TNCs from natural-resource-poor countries may invest abroad in a rush to secure the supply of those resources. Past experience, such as that of Japanese FDI in finance and real estate in the early 1990s (Farrell 2002), suggests that part of these outflows indeed result in losses, although the degree of net losses has not been quantified. Moreover, the counterfactual – investing at home – is difficult to quantify, especially where deficiencies in the domestic business environment are the main push factor for outward FDI (chapter IV).

The financial impact of outward FDI on the home-country's economy can also be influenced by the interactions between outward investing TNCs and the home-country's public finances. On the one hand, the government may subsidize the outward investment of firms, as in the case of the Chinese Government's support to the Lenovo-IBM and CNPC-PetroKazakhstan deals (chapter VI); and on the other, the government may use budget revenues to acquire control over outward investing TNCs as happened in 2004 and 2005 in the oil and gas industry in the Russian Federation. In both cases, the opportunity costs of these expenditures raises questions. Support or resources devoted to large companies can raise concerns generally about their implications for competition and welfare. For example, the close to $20 billion spent on the three main purchases in the Russian Federation (Locatelli 2006) could perhaps have been used for other, more welfare-enhancing purposes.

b. Domestic investment

From the perspective of development and growth, what happens to domestic investment or capital formation is perhaps the most common benchmark of the impact of outward FDI. This is so not only because domestic investment is a major source of GDP growth, but also because it allows measuring to what degree the allocation of resources to projects abroad leads to a fall or rise in domestic investment. It thereby throws light on complementarity versus substitution between foreign and domestic investment (Dunning and Lundan forthcoming).

Evidence of the impact of FDI from developed countries on domestic capital formation tends to support, with some exceptions, the hypothesis that it has a positive impact on home-country investment.[22] In most of the developing home economies, the impact may be expected to be similar to that observed in developed countries.[23] In the case of Singapore, a high-income developing country with one of the highest ratios of FDI outflows to GFCF (22% in 2005) (annex table B.3), outward FDI flows have been observed to have a delayed but marginally positive impact on GFCF with a two-year lag (Wu et al. 2003).[24] However, differences in impact can be expected due, for example, to differences in motivations or the stage of outward FDI, or to differences in domestic resource endowments. For instance, Chinese and Indian TNCs are, at least for the time being, less motivated by the search for more efficient locations (chapter IV), as their home countries offer efficient production bases. This pattern is different from that of the early internationalization of firms from Taiwan Province of China and Hong Kong (China), which started locating labour-intensive activities abroad much earlier. The motivation to access technologies abroad again can be interpreted as a factor leading to the elimination of an important bottleneck to development, and hence enhancing domestic investment.

c. International trade

The relationship between outward FDI and home-country trade depends to a large extent on the motivations of a country's TNCs. If the TNCs seek natural resources, outward FDI could enhance the imports of those resources and exports of the inputs required for extraction. Market-seeking FDI can be expected to boost exports of intermediate products and capital goods from the home to the host country. If the motivation is efficiency or cost-reduction, as in the case of some FDI from the Asian NIEs, outward FDI would be expected to enhance exports as well as imports, especially intra-firm trade, their extent and pattern depending on

the geography of the TNCs' integrated international production activities. The relationship between outward FDI and trade also depends on industry characteristics such as the tradability of the goods and services produced by that industry. If tradability is limited or non-existent, as in the case of many services, there will obviously be few, if any, measurable direct trade effects. It is only in tradable goods and services that the question of whether outward FDI enhances or displaces the exports of the home country assumes relevance, although it is important to note that FDI in tradable services – an important area for FDI from developing countries – can contribute to increased exports of tradable products from home countries.

Empirical evidence from developed countries, notably the United States and Sweden, has generally found FDI and home-country exports to be complements rather than substitutes, with a positive relationship between the two (Dunning and Lundan forthcoming). At the same time, evidence of substitution has been found in studies at a more disaggregated industry or product level (see, for example, Frank and Freeman 1978 for the United States, and Svensson 1996 for Sweden). In high-income developing home economies, outward FDI, especially when located in other developing countries, was found to be a contributory factor for enhancing exports (Lim and Moon 2001 for the Republic of Korea, Liu and Lin 2001 for Taiwan Province of China, Ellingsen et al. 2006 for Singapore). In the Republic of Korea, the intra-firm trade of outward investing TNCs was reported to create a trade surplus of $6.8 billion in 2003 alone (Moon 2005, p. 17). On trade in intermediate goods, the 1992 survey of the Hong Kong Census and Statistics Department found that 72% of total imports from China and 74% of total exports to China were related to outward FDI in processing in China (Chen and Lin 2005). Apparently, parent companies from those countries and their foreign affiliates maintain close ties via intra-firm trade. This intra-firm trade has forward linkages affecting other industries of the Hong Kong (China) economy and its export potential. In the case of Singapore, a model of the growth of non-oil exports from 1995 to 2000 found a clear-cut positive correlation with the growth of outward FDI stocks in both the manufacturing and non-manufacturing sectors (Wu et al. 2003). Singapore's non-oil exports to China and Taiwan Province of China grew robustly, at more than 6% per annum over the period of observation, in line with the strong growth of outward FDI between these economies.

Data for 1992, 1997 and 2002 on intra-firm trade by United States affiliates of TNCs from a number of developing countries indicate that, in the majority of cases, affiliates' imports from the foreign parent group exceeded their exports to the foreign parent group (United States, Department of Commerce, various issues).[25] For foreign affiliates of all the countries combined, the value of intra-firm imports was well over twice that of exports in all three years. Evidence on the activities of affiliates of developing-country TNCs in Japan also suggest that most of their FDI is trade supporting. In 2003, 178 of their 358 affiliates were engaged in wholesale or retail trade (Japan, METI 2006). Their imports from their parent firms based in South, East and South-East Asia alone amounted to 634 billion yen ($5.5 billion), accounting for 3% of Japan's total imports from the region.

When applying the past experience of developed-country TNCs to the current situation of emerging developing-country TNCs today, it is important to consider major changes in the world economy that have taken place since the 1960s and 1970s. There has been a shift in the world economy, and in global FDI, towards services. In services (other than trading) the potential replacement or generation of exports by FDI is limited by the fact that in many cases such investment is the only way to serve foreign markets (*WIR04*). The implications of greater trade liberalization and globalization are also worth noting. For instance, in global competition, the need for a quick reaction has resulted in "truncated" product cycles. In order to capture and retain foreign markets, TNCs from both developed and developing countries often need to engage in exports and FDI simultaneously, and sometimes FDI may even need to precede trade (see Aizenman and Noy forthcoming, Blonigen 2001, Markusen 2002, Markusen and Venables 1998). This development, as highlighted by the evidence above, is related not only to globalization but also to the growing importance of intra-firm transactions in TNC networks.

d. Employment

Employment is one area of impact where the interests of outward investing TNCs and their home governments may diverge. While a TNC may be interested in optimizing the use of labour or human resources within its global corporate network, the home government may be interested in maximizing the employment in its home base. A summary of evidence from various developed home countries

in the late 1980s and early 1990s (Agarwal 1997), however, concluded that the divergence of interests may be relatively small: on balance, the impact of outward FDI on employment in the home economy was small; it was only efficiency-seeking outward FDI that raised questions about job relocation.[26]

While most empirical evidence suggests a small and marginally positive impact of outward FDI on aggregate employment, certain activities and groups of employees could be seriously hurt (*WIR95*, p. 221), calling for active labour market policies (chapter VI). In particular, there is a perception in developed countries that outward FDI increases the insecurity and risk of loss of home-country employment and reduced wage levels (Scheve and Slaughter 2001).

Whether outward FDI reduces or increases employment in the home base depends on the kind of investment undertaken, the complementarity/substitutability of the activity abroad in comparison to the home country, and the degree to which inputs are sourced from the home country (Dunning and Lundan forthcoming). Efficiency-seeking FDI is likely to have a greater impact on home-country employment, especially when it involves relocation of activities at the lower end of the value chain. Under a best-case scenario for the home economy, investment abroad can boost demand for high-level skills and managerial services and exports of intermediate goods from the home country, leading to structural change, and not necessarily reduced employment, in the home economy. Under a less favourable scenario, investment abroad can substitute for activities in the home base. The latter is more likely to occur if the cost (or other business) conditions of the home country are unfavourable, at least in the initial phase of the investment.

Evidence on the employment effects of outward FDI on home developing countries is limited, but what little exists suggests that they are probably similar to those in developed countries. In the case of high-income developing economies such as Taiwan Province of China, outward FDI to all countries was found to generate additional jobs for technical workers and managers over the period 1993-2000, while employment of unskilled labour was adversely affected to a small degree by outward FDI directed to China (Chen and Ku 2003, p. 22). On balance, the job-creating effect of outward FDI exceeded its job-substituting effect. In the case of Singapore, the growth of outward FDI was estimated to create 33,600 jobs in the manufacturing sector between 1995 and 2000 (Wu et al. 2003). Another recent study concluded that concerns regarding adverse effects of outward FDI on Singapore's labour market are unfounded, in particular because there is no evidence that outward FDI has replaced exports (Ellingsen et al. 2006).

A survey of industrial firms in Brazil in 2000 throws light on the qualitative impact of outward investment on that middle-income country's employment. Compared to uniquely domestic firms, Brazilian TNCs with investments abroad employed people with higher levels of education, offered them more stable employment, and paid them almost three times the wages paid by their domestic counterparts (De Negri et al. 2005). In this respect, Brazilian TNCs with FDI abroad behaved in a manner similar to that of foreign affiliates located in Brazil. There is also some evidence of upgrading of human resources through professional training in the home base of some developing-country TNCs following their outward FDI (see Young et al. 1996 for China).

Some of the impacts of outward FDI from lower-income developing countries on home-country employment may be different from those of outward FDI from NIEs and other developing countries due to the nature of their home economies. For example, their manufacturing TNCs may continue to find the most cost-efficient locations for production at home, and their foreign affiliates may specialize in other activities such as sales or product development. In those cases, there may be limited, if any, export of jobs. On the other hand, there may be instances of management opportunities being limited in the home country, especially when developing-country TNCs invest in developed markets, as these TNCs may prefer to hire managers from the developed host countries.

4. Concluding remarks

The impact of outward FDI on the home economy arises from the improvement of competitiveness of outward investing firms, and depends on whether that leads to improved competitiveness for industries in general and the economy as a whole. The latter depends, in turn, on the improved competitiveness of a country's TNCs being diffused to other enterprises. It also depends on the effects of outward FDI on key economic variables such as the availability of financial resources for investment, exports and employment. In most of the cases observed (related

mainly to developed home countries), there appears to have been a net positive impact. Although evidence specific to FDI by developing-country TNCs is limited, given its relatively recent emergence, in many respects, it can be expected to have a similar impact on the home economy to FDI by TNCs from developed countries. Moreover, studies indicate that outward FDI from developing countries has a positive effect on the investor firms' performance and that in some developing countries, mostly in South-East and East Asia, outward FDI has been one of the factors of successful industrial restructuring, alongside sustained economic growth.

The effects of outward FDI on developing home countries go beyond its economic impact to include the political, social and environmental consequences for those countries. Rigorous analysis of those issues is scarce. Thus only certain concerns or considerations can be highlighted. For example, the political implications of outward FDI in a developing home country may be significant, as suggested by the fairly frequent intervention of the government in FDI-related decisions. In the area of environmental protection and corporate governance, global presence and investment in countries with stricter standards can have important demonstration effects on developing-country TNCs and their conduct of business in their home base. In matters such as transparency of corporate activities, for instance, the requirements for revealing information to stakeholders abroad spills over frequently to the home country.[27]

For policymakers, the fact that competitiveness is a key issue for the home economy has major implications (chapter VI). Moreover, as the impact is contextual, and depends on circumstances, policies can play a major role in maximizing the benefits and minimizing the negative impacts of outward FDI for the home economy. Policymakers have to weigh the potential social costs and benefits of allowing or supporting outward FDI in areas such as local production capabilities, productivity, employment and capacity for innovation. This is especially true with respect to policies dealing with the general economic conditions surrounding outward FDI. Moreover, to the extent that the difference between perceived social and private benefits of outward FDI outweigh the cost of measures to support it, such policies may be justified in the context of broader industrial development strategies. These issues are discussed in chapter VI.

B. Impact on host economies

FDI, whatever its source, affects the economic welfare, growth and development of host countries in a number of ways (*WIR93*, *WIR99*). First of all, in any host country, FDI manifests itself in the form of TNCs establishing local operations, usually through one or more affiliates each. These foreign affiliates interact with the local economy by building production facilities and hiring workers, many of whom will require training. Second, since the affiliates are constituent elements of the TNCs involved, they are parts of the TNCs' respective value chains, both within the host country and internationally. They establish backward (with suppliers) and forward linkages (with distributors and sales organizations), which can stimulate production in supplier and distributor firms and organizations in the host country and constitute a channel for the transfer of technology. To that extent, FDI has an amplified effect on the local economy beyond the initial direct effect of affiliates' operations. Third, the affiliates might have a variety of indirect, spillover effects on local firms, for example through the impact of competition that might spur local firms to improve their performance; or, conversely, they might induce failures because of affiliates' greater efficiency. Finally, potential increases in employment and income due to the entry of FDI projects might result in multiplier effects on the entire host economy while, at the same time, potential crowding out of that economy's domestic enterprises by FDI might have the opposite impact.

The extent and nature of these effects and the net outcome for a host economy depend, among other factors, on the scale of the initial FDI, the technology used, the number of people employed and the training and wages offered, the market orientation of foreign affiliates in the economy, the degree to which the affiliates procure goods and service inputs locally, and the proportion of profits reinvested, as well as the conditions prevailing in the host economy.

This section examines the impact that FDI from developing countries can have on host economies, focusing almost entirely on host developing economies. Section 1 below briefly outlines the potential areas of impact of FDI and problems related to its assessment. It also considers whether the distinction between FDI from

developed and developing countries matters when it comes to host-country impact. Section 2 reviews various areas of impact of developing-country FDI on host developing economies, drawing on relevant data and research findings. It focuses, to the extent possible, on whether the impact of FDI by developing-country TNCs differs from that of TNCs from developed countries. The concluding section highlights the main findings and their limitations, as well as the need for further work, and touches briefly on the implications of developing-country FDI for host developed economies.

1. Assessing host-country impact

FDI comprises a bundle of assets, some of which are proprietary and others are not. Key assets include, for instance, capital, technology, management techniques, skills and market access. Non-proprietary assets (e.g. finance, capital goods and intermediate inputs) can be obtained, at least in part, from international markets, but proprietary assets can be obtained only from the firms that create and possess them. Of the proprietary assets that TNCs make available to their affiliates in host countries, with direct effects on production quantity and quality and possible indirect effects and spillovers to the host economy, the most important is probably technology. But there are others such as brand names, skills, the ability to organize and integrate production across countries, and privileged access to markets (*WIR99*, p. 316). Taken together, these advantages mean that FDI can contribute to the economic performance of host countries and, in particular, to the development objectives of host developing countries. On the other hand, FDI entails risks for host developing countries when the objectives of TNCs and those of the host countries do not match.[28]

The economic impact of FDI is difficult to measure with precision. The FDI package varies from one host country to another, and is difficult to separate and quantify. Where FDI entry has large (non-marginal) effects, measurement is even more difficult: there is no precise method of specifying a counterfactual (i.e. what would have happened if a TNC or TNCs had not made a particular investment or investments). The assessment of the development effects of FDI generally resorts to one of two approaches. One is an econometric analysis of the relationships between inward FDI and various measures of economic performance. The second is a qualitative analysis of various aspects of TNCs' impacts, without any attempt at calculating a precise relationship or rate of return. The latter approach, which is the one adopted in the discussion of host-country impact below, includes, in particular, a consideration of the ways in which the unique characteristics of TNCs interact with the unique characteristics of countries (Dunning 1993, p. 284).

The above observations with respect to the impact of FDI and its assessment apply to FDI in general as well as to FDI from developing countries. However, as the analysis in the preceding chapters shows, developing-country FDI tends to differ in several respects from FDI from developed countries:

- It is located more in developing countries than in developed countries, and over the years South-South FDI has been increasing significantly in value (chapter III);
- It accounts for a larger share of inward FDI in developing countries, especially LDCs (chapter III); and
- The motivations, locational advantages sought, and competitive strengths or ownership-specific advantages of developing-country TNCs differ in several respects from those of TNCs from developed countries (chapter IV).

These differences have implications for the role and impact of developing-country FDI on host economies, and in particular, its role in development.

2. Impact on host developing economies

The entry of developing-country TNCs into host developing countries presents benefits as well as risks for the host economies. The main beneficial impacts are derived from the access to resources and markets that their foreign affiliates secure as a result of being part of the international production systems of the respective TNCs. The financial capital generated, mobilized and invested by developing-country TNCs can be important in terms of supplementing domestic savings and investment for output and productivity growth in the host economies. Advanced technologies that can be transmitted to local firms can also make important contributions, although perhaps to a lesser extent than those that developed-country firms can provide. Large developing-country TNCs have

established their own systems for generating new knowledge through R&D. Some TNCs from the Republic of Korea, such as Samsung Electronic, Hyundai Motor and LG Electronics, already figure prominently on the list of the 700 largest R&D-spending companies in the world (*WIR05*, pp. 150-151). The leading software firms of India, such as Infosys, Wipro, Birlasoft (part of Aditya Birla Group) and HCL Technologies, are also globalizing their R&D, focusing mainly on serving their customers in specific markets. In China, two electronics TNCs, Huawei and Haier, are illustrative of the trend of R&D units being located mainly in developed countries. Similarly, the IT company, Ingenuity Solutions (Malaysia), and the pharmaceutical firms, Bionova (Mexico) and Cordlife (Singapore), have targeted the knowledge base of the United States when investing in R&D abroad.

If the technological gaps between host-country firms and foreign affiliates of developing-country TNCs are smaller than those with affiliates of developed-country TNCs (as is likely to be the case), that may facilitate the transfer, absorption and diffusion of knowledge or competencies. Moreover, the production activities of developing-country TNCs can generate jobs that add to the level and quality of host-country employment. Furthermore, the privileged access of foreign affiliates to intra-firm markets within TNC-systems, and their advantageous access to the wider marketing networks established by the respective TNCs, provide opportunities for promoting host-country trade through exports by foreign affiliates as well as by other host-country firms.

The main advantage of developing-country FDI, compared to developed-country FDI, for host developing economies is in the similarity of the economic conditions between the home and host countries. To begin with, this means that it may be easier for the host countries to attract developing-country TNCs as the latter may be more comfortable operating in similar economies, even when their firm-specific competitive advantages are relatively less well-developed. Moreover, while developing-country TNCs often lag behind their developed-country counterparts in terms of technological assets and capabilities, their specific business models and competencies may make them more adept at operating in developing host countries. The greater tendency of developing-country TNCs to concentrate on labour-intensive industries and the higher likelihood of their using more labour-intensive manufacturing technologies, suggest that their potential for employment generation may also be greater than that of FDI from developed countries. Furthermore, some of the main source developing countries of South-South FDI, such as Brazil, China and India, are also fast growing markets, and therefore establishing trade links through hosting their TNCs can yield substantial benefits in terms of exports.

However, FDI from developing countries, like FDI generally, can also impose costs and create concerns for host developing economies. It can result in crowding out of domestic firms if the latter are less competitive or if the foreign affiliates operate in oligopolistic markets with weak regulatory frameworks. Foreign affiliates of developing-country TNCs may not establish strong linkages with domestic enterprises, and therefore the opportunities they offer for the dissemination of technologies and knowledge in host economies may be limited. The employment conditions and practices in foreign affiliates established by developing-country TNCs may fall short of norms and standards followed by other firms. These risks highlight the need for adequate and effective policies for maximizing the net benefits of FDI from developing countries, as with FDI from developed countries.

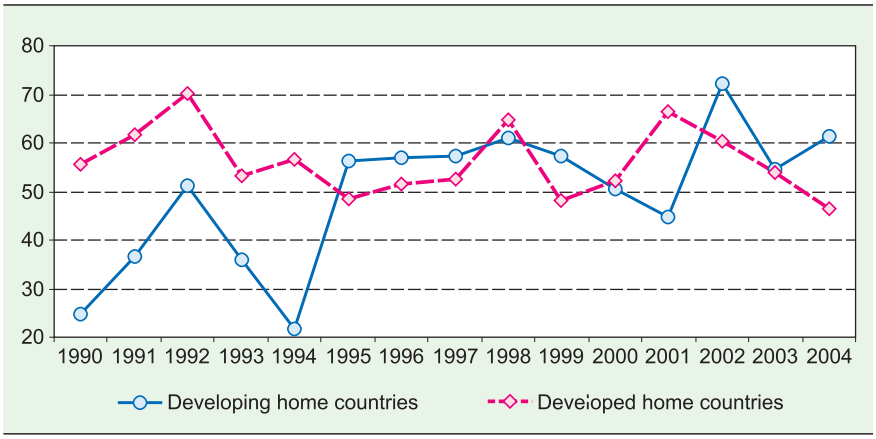
a. Financial resource flows and investment

As noted in chapter III, FDI from developing countries accounts for a larger share of FDI flows to developing countries than of flows worldwide. It constitutes a large part of FDI in many host developing countries, especially LDCs. Except in extractive industries, developed-country TNCs are less likely to invest in poorer economies with small markets, whereas developing-country TNCs tend to invest in neighbouring developing countries with a similar or lower level of development than their home country (chapter III). The latter also appear to have somewhat different priorities in selecting a location (chapter IV), and they are increasingly investing in poorer, riskier and more remote countries that are not necessarily the preferred locations of developed-country TNCs. The share of FDI from developing economies therefore tends to be greater in countries with lower real GDP per capita, and in some LDCs its share exceeds 50% (figure III.10 and table III.9). Thus, developing-country FDI flows, though modest in global terms, may be significant for many developing countries especially LDCs that are trying to supplement

domestic savings with external financial inflows, raise investment rates, and accelerate income and employment growth. And, as TNCs from developing countries are expected to invest increasing amounts in other developing countries, their importance in this respect could intensify. In the UNCTAD global survey (box IV.4), 70% of TNC responses to a question on favoured locations for new affiliates over the next five years cited developing countries. This is 15% higher than the share of developing locations in existing foreign affiliates.

Figure V.2. Share of repatriated profits in total income on outward FDI flows, 1990-2004

(Per cent)



Source: UNCTAD, based on the April 2006 *IMF Balance of Payments Statistics.*
Note: Data for "developing home countries" cover 43 developing economies and South-East Europe and CIS, and those for developed countries cover 33 developed economies. Only economies for which data on both FDI flows and repatriated earnings are available are included.

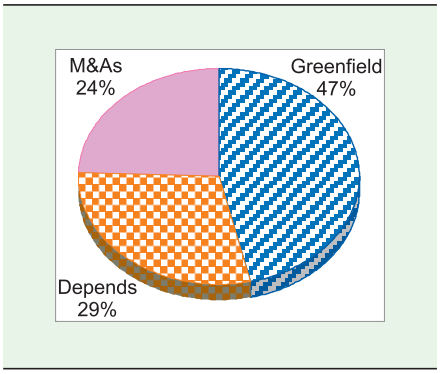
Like FDI from developed countries, FDI inflows from developing countries are generally likely to be more stable than foreign commercial debt or portfolio investment. Moreover, balance-of-payments data show that, compared with TNCs from developed countries, developing-country TNCs repatriated less of their income on FDI to their home countries in the first half of the 1990s (figure V.2). This suggests that they spent a higher share of profits for reinvestment than developed-country TNCs. However, since the mid-1990s, there has not been much difference between the two in terms of the propensity to repatriate profits and this share in total FDI income fluctuated at 50%-60% (figure V.2).

In the short run, the impact of FDI on investment or the establishment of new production facilities in host countries varies according to whether FDI is in the form of greenfield investments or cross-border M&As. Greenfield projects may be the only option in many LDCs, but where the choice exists, developing-country TNCs also engage in cross-border M&As. In general, however, developing-country TNCs use cross-border M&As less as a mode of investment than do developed-country TNCs (*WIR00*). This is also confirmed by UNCTAD's global survey of developing-country TNCs (figure V.3). But when it comes to host developed countries, they often use M&As, because, given their technological position vis-à-vis developed-country firms, in those countries it is easier for them to take over existing plants and adapt them for their own production purposes.

FDI from developing countries adds directly to investment and production capacity – immediately in the case of greenfield FDI, and through frequently occurring sequential investments in the case of cross-border M&As. Data on sales

Figure V.3. Preferred mode of establishment of overseas affiliates by developing-country TNCs, 2006

(Percentage of response from TNCs)

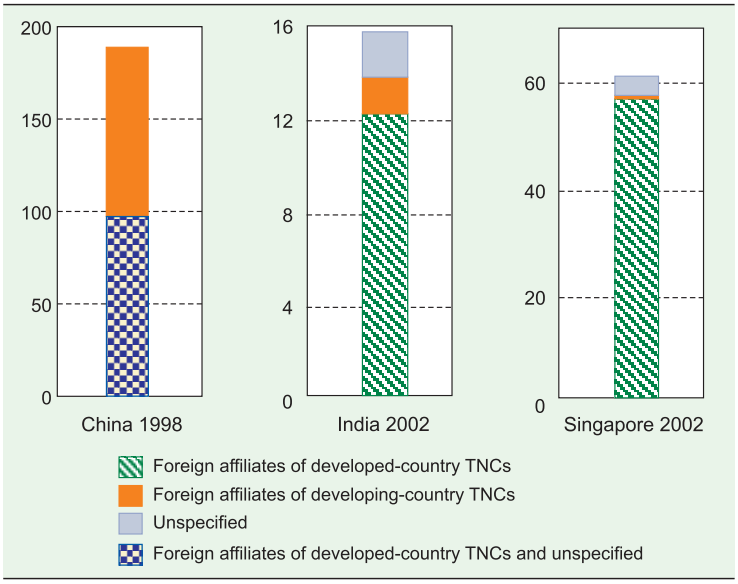


Source: UNCTAD, based on the global survey described in box IV.3.
Note: Based on 41 TNCs. Question: When establishing an overseas affiliate, do you prefer to establish a new company (greenfield) or buy an existing one (M&A)? Depends means that it depends on the individual investment case.

by foreign affiliates, albeit limited to a few countries, provide an idea of its relative importance in production: for example, affiliates established by TNCs from developing countries and transition economies accounted for a half and one tenth of total sales of all foreign affiliates in China (1998) and India (2002) respectively (figure V.4).

Figure V.4. Sales of foreign affiliates established by developed- and developing-country TNCs, various years

(Billions of dollars)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

Besides the activities that developing-country TNCs themselves undertake, the linkages and spillovers that they generate can catalyze domestic investment, enterprise development and supply capacity in host developing countries. This depends significantly on the extent of linkages that foreign affiliates establish with domestic firms, especially for sourcing supplies. Sourcing behaviour in turn depends on the motivations and strategies of TNCs, whether from developed or developing countries: efficiency-seeking FDI (in production of goods and services for international markets) can generally be expected to have fewer linkages with host-country firms for supplies. In general, certain attributes of developing-country TNCs suggest that they may establish strong linkages with domestic firms in host developing countries, at least in manufacturing.[29] The most important of these are their technologies and the markets in which they operate: foreign affiliates of developing-country TNCs are more likely to be engaged in producing standardized products with mature, non-proprietary technologies that are more conducive to the use of externalized, arm's length procurement of supplies. Thus, not only are developing country TNC affiliates less likely to need associate firms from home countries with special supplier capabilities but they are also less likely to have associate firms with sufficient capabilities to undertake investment abroad. Therefore, local firms can be expected to stand a better chance of becoming suppliers of affiliates of developing-country TNCs than suppliers of affiliates of developed-country TNCs.

However, finding new suppliers and forming relationships with them is not necessarily a simple task. Developing-country TNCs, many of which are newly expanding firms, may find it difficult to forge such linkages. Evidence from some surveys suggests that developing-country TNC may lag behind their developed-country counterparts with respect to local sourcing. For example a UNIDO survey of foreign firms in 15 sub-Saharan African host countries found that local sourcing (purchasing of materials) by affiliates of firms from developed countries accounted for an average of 43% of sales, while that by developing-country TNC affiliates accounted for an average of 34% (UNIDO 2006, p. x).[30] The lower ratio of local sourcing by developing-country TNC affiliates may be related to differences in date of entry and length of experience of the two groups of firms in the African host countries covered: older established firms in the sample were mainly from developed countries and newcomer firms, mainly from developing countries (UNIDO 2006, p. 52). Results of another, smaller survey of foreign affiliates in the ASEAN-5 countries[31] also showed that the share of locally sourced input was much larger (33%) for affiliates of developed-country TNCs than for those of developing-country TNCs (19%).[32] However, this difference was probably largely due to the predominance of the garments industry among the developing-country foreign affiliates in the sample surveyed, which rely heavily on imported inputs.

b. Technology and skills

Technology generation is concentrated in the more advanced developed countries and takes place mainly in large TNCs based in those countries, which in turn are among the main sources of new technology to developing countries. However, while technological advantage is a powerful determinant of outward FDI from developed countries, it plays a smaller role in the internationalization of production by developing-country firms. This limits the role of developing-country TNCs in the transfer and dissemination of technology to host developing countries. On the other hand, the technologies used by developing-country TNCs are likely to be more suitable for developing countries and, to the extent that the technologies are more advanced than those available domestically, FDI from developing countries may better contribute to technological upgrading in host developing countries than FDI from developed countries.

The tendency of developing-country TNCs to establish joint ventures with host-country enterprises may also enhance the prospects for technology transfer and dissemination. The UNCTAD global survey (box IV.4) has found that more than half of the 41 respondents to the question on the mode of entry to foreign markets[33] had some form of joint ventures abroad. For almost a quarter of respondents, joint ventures accounted for more than 40% of their foreign affiliates. A relatively high share (30%) of joint ventures is in primary activities. Given their limited experience, developing-country TNCs are more apt to involve a local partner who is familiar with host-country bureaucracy and the business environment in general. The advantage of forming a joint venture from the perspective of technology diffusion within the host economy is that the local partners and the affiliate, which would be vested with a certain amount of technological and managerial expertise transferred from the parent firm, are likely to have close contacts and exchanges of personnel. Forming a joint venture is therefore the most obvious - and possibly the most effective - means by which local firms can acquire knowledge from TNCs.

Another condition that appears to encourage spillovers of technology in the case of developing-country FDI in developing countries is that the gap in the levels of technology between foreign affiliates and local firms is sufficiently small. Studies on the impact of FDI from developed countries draw similar conclusions and suggest that positive spillovers are greatest in industries in which the technology gap between host and home countries and between foreign affiliates and local firms is small (Kokko 1996, for Mexican manufacturing and Liu et al. 2000, for United Kingdom manufacturing). A study on spillover effects of FDI on Turkish manufacturing concluded that where the initial technology gap was sufficiently small, domestic firms were able to close the gap, whereas where the gap was larger than a critical level, it would widen even further in subsequent years (Aslanoglu 2000).

These findings suggests that there is a greater advantage for host developing countries of entry by developing-country TNCs than entry by developed-country TNCs in terms of spillover effects for technology diffusion. A developing-country TNC might be able to make an investment project succeed precisely because it uses an alternative technology and a business model that are more suited to the absorptive capacity of the host economy. And, since their technologies can be demonstrated to work in such conditions, it would be easier for local firms to acquire and absorb the technologies used by developing-country TNCs.

The turnover of employees is a channel through which knowledge can be diffused from foreign affiliates to the rest of the economy. From the firm's point of view, however, the departure of trained workers is a loss. Thus, the more the workers who are trained (and hence valuable to the rest of the economy), the harder the firms will try to retain them. The findings of the above-mentioned survey of foreign affiliates in the ASEAN-5[34] indicate a higher turnover ratio of labour in affiliates of developing-country TNCs (5.0%) than in those of developed-country TNCs (3.6%). The difference between the two groups of TNCs can perhaps be explained by the differences in skill requirements as indicated by foreign affiliates' expenditures on human resource development: on average, developed-country TNCs devoted an amount equivalent to 2.6% of the foreign affiliates' payroll to human resource development while the corresponding figure for developing-country TNCs was 0.5%. However, as noted above in the context of local sourcing, the results of this survey may be biased by the fact that a majority of the developing-country affiliates were from the textile and garments industry. In Africa, according to the UNIDO survey, developing-country TNC affiliates spent more on training than those of developed-country TNCs. As discussed

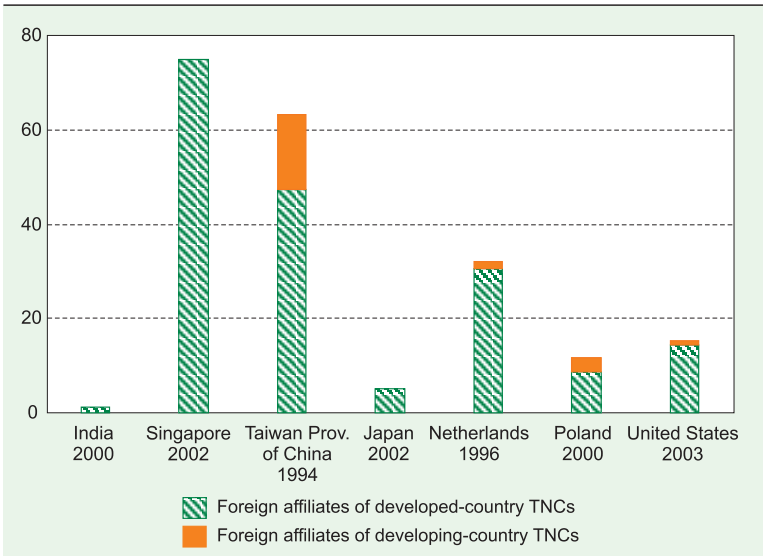
below (subsection B.2.d), the difference is due to significantly higher training expenditures by large affiliates of developing-country TNCs than those of similar size from developed countries. Other evidence, related to FDI in textiles and clothing in the export processing zone in Mauritius, in which Asian FDI plays an important role, also suggests that developing-country TNCs attach significant importance to training (Susanne and Pearce 2006).

The creation of linkages with host-country firms provides another channel for the transfer and diffusion of technology to host developing countries. In general, efficiency-seeking FDI and market-seeking FDI are often associated with the creation of linkages, while resource-seeking FDI and asset-seeking FDI tend to offer few such opportunities. In forming backward linkages, developing-country TNCs may provide technical assistance to local suppliers with a view to improving the quality (e.g. fewer defects) of the intermediate goods supplied to them and widening the range of products (e.g. products matching the specific requirements of the foreign affiliates). One example of such assistance involving a developing-country TNC is the cooperation between the Indian affiliate of LG Electronics (Republic of Korea) and its local suppliers (*WIR00*, p. 144). In another case, Tata Motors (India), which has assembly operations in Bangladesh, Malaysia, and South Africa was reported to be carrying out an SME upgrading support programme in these developing host locations, which included "technical support for development as well as quality, project guidance, tooling support, financial support, training support, guaranteed business and raw materials support in special nature" (UNCTAD 2005n, p. 14). To the extent that developing-country TNCs possess characteristics better suited to linkages with local suppliers than do developed-country TNCs (see subsection B.2.a above) their potential development impacts may be greater than those of developed-country TNCs.

In addition to the transfer and dissemination of technology, foreign affiliates can contribute towards strengthening host-country technological capabilities by locating R&D activities in host economies. Data on R&D expenditures by foreign affiliates in India show that developing-country foreign affiliates contributed about 15% of total R&D expenditures of all foreign affiliates in the country and to a low of 0.1% of total gross domestic expenditures on R&D (figure V.5). In the case of Taiwan Province of China where foreign affiliates contribute more than 60% of the country's business enterprise R&D expenditures, developing-country affiliates alone accounted for 16% of the total in 1994 (the most recent year for which the data are available) (figure V.5).

Figure V.5. Share of R&D expenditures of foreign affiliates of developed- and developing-country TNCs in total gross domestic R&D expenditure, selected host countries, various years

(Per cent)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
Note: Data for the Netherlands and Poland refer to majority-owned affiliates only.

c. International trade

The impact of FDI on host-country international trade will differ, depending on its motive – whether it is efficiency-seeking, market-seeking, resource-seeking or strategic asset-seeking. Output resulting from efficiency-seeking FDI is typically intended for export, and therefore the impact of such FDI is likely to be an increase in exports from the host country. If local firms supply inputs to affiliates producing goods for export, the local content of value-added exported would be that much greater. In cases where intermediate goods are imported from outside the host economy, efficiency-seeking FDI will increase exports as well as imports. Nevertheless, since certain value-adding processes take place within

the host economy, the overall impact will be an improvement in the trade balance in the long run.[35]

Given the differences in the motivation and characteristics of FDI from developing countries as compared with that from developed countries, it can be expected to differ somewhat from the latter in terms of impact on host-country trade. As noted in chapter IV, efficiency-seeking is a relatively less important motive for FDI from developing-countries than for FDI from developed countries. However, it is growing, and plays an important role in generating exports from developing countries – including LDCs – in specific industries, the most important of which is textiles and garments. In particular, TNCs from Asian NIEs have built up competitive advantages in the course of their export-oriented industrialization process. As wage levels at home have risen, they have extended their production activities to foreign locations in their quest for lower cost labour, especially for the manufacture of garments and some electrical and electronic products. In the garments industry, beginning with locations in Asia, their reach now extends to numerous host countries in all developing regions. The pattern of their geographic spread has also been influenced by the textile quotas and preferential market access offered under arrangements such as the African Growth and Opportunity Act (AGOA) of the United States. For example, Lesotho, a small African country, has attracted FDI into export-oriented manufacture of clothing (box V.4).

In the case of market-seeking FDI that is oriented primarily to the host-country market (rather than the regional market), the impact on trade will be mostly on imports, because foreign affiliates are likely to purchase some intermediate products from outside the host country, while their output is intended for the domestic market. The direction of the impact would, however, depend on whether, pre-FDI, the goods or services foreign affiliates produce were being imported into the host economy. Market-seeking FDI can reduce a host country's imports if FDI results in local production that replaces imports. If, however, the host economy is a completely new market for the TNC, it could result in an increase in imports of intermediate inputs. A substantial part of FDI by developing-country TNCs, especially in host developing countries is market-seeking in nature, much of it in trade-supporting and financial services. In manufacturing, it is often geared to producing goods more suited to the level of economic development of host countries – such as $50 television sets produced by TCL in Viet Nam and $2,000 cars produced by Maruti Suzuki in India (Battat and Aykut 2005). At least a part of such manufacturing FDI is likely to replace imports, or potential imports, of similar products by host countries.

Resource-seeking FDI, almost by definition, results in exports from the host economy. Such investment has been rising in importance in FDI from developing countries, including in host African and Latin American countries (chapters III and IV). In this context, the impact of developing-country FDI in oil and gas extraction in other developing countries is noteworthy. Since large oil and gas TNCs have traditionally originated from a handful of developed countries, recent resource-seeking investment by developing-country TNCs would allow the host economies to diversify their markets. However, much depends on the access of developing-country TNCs to the technology needed for exploiting challenging opportunities in oil and gas extraction.

In the case of asset-seeking FDI, the impact on trade will depend on the nature of the acquired assets. For example, when a TNC seeks a distribution network or the production of a brand name known to consumers in the host economy, its impact may primarily be to increase imports. On the other hand, if a foreign firm sets up an R&D facility to serve the regional or even the global market, such an affiliate would, in effect, be exporting R&D services abroad. However, asset-seeking FDI, although important for developing-country TNCs operating in developed countries, is a relatively unimportant motive for developing-country FDI in host developing countries.

Overall, foreign affiliates account for a significant share of trade in many countries (*WIR02*). But the extent to which developing-county affiliates contribute to trade varies. In host developing countries, the share of these affiliates in total exports was, for example, 0.6% in India (in 2000) and 11% in China (in 2002) (figure V.6). According to the survey of foreign affiliates in the ASEAN-5 countries, mentioned earlier, developing-country TNCs had a higher propensity to export from the host countries than did affiliates of developed-country TNCs: the former exported 77% of output, while the latter exported 67%.[36] In host countries of sub-Saharan Africa, on average, the export propensity of the foreign affiliates of

Box V.4. Impact of developing-country FDI in a small LDC: The experience of Lesotho

Lesotho is a small landlocked LDC, entirely surrounded by South Africa, with a population of less than two million, mostly engaged in subsistence agriculture. Unemployment is estimated at one third to one half of the working population. Gross domestic product per capita was $764 in 2004.[a]

Despite its paucity of locational advantages, since the mid-1990s, Lesotho has been quite successful in attracting increased inflows of FDI, as a result of government efforts combined with trade privileges (UNCTAD 2003, p. 3). FDI inflows in recent years have increased, from $27 million in 2002 to $52 million in 2005, and they go mainly into manufacturing, in particular apparel, mostly aimed at markets in industrialized countries.

The flows of FDI into the apparel industry in Lesotho are almost entirely from East Asia, led by TNCs based in Taiwan Province of China. Inflows started in the late 1980s: clothing firms of Taiwan Province of China began shifting their production facilities in South Africa to Lesotho, following the imposition of economic sanctions against the apartheid regime. The main attraction of Lesotho at that time was that it maintained its diplomatic relations with Taiwan Province of China and enjoyed quota and duty-free access to Europe under the Lomé Convention (Lall 2003). The introduction by the United States of the AGOA in 2000, which offered import concessions to poorer African countries, gave a new impetus to FDI inflows into Lesotho. The fact that some apparel TNCs from Taiwan Province of China had already operated there for over 10 years helped attract more investment.[b] In 2002, of the 41 largest foreign affiliates in the country, 26 were from Taiwan Province of China, one each from Fiji, Hong Kong (China) and Singapore and 12 from South Africa (UNCTAD 2003, p. 16).

FDI in apparel in Lesotho clearly succeeded in increasing the country's manufacturing exports. Around 87% of its total exports were in textiles and apparel.[c] In 2004, Lesotho's exports to the United States amounted to $467 million, of which $448 million worth were the direct result of preferential treatment under AGOA.

Textiles and clothing became Lesotho's main manufacturing industry, employing 56,000 workers at its peak and accounting for nearly all jobs in the manufacturing sector of the country (Gumisai 2006). However, its impacts in terms of creating linkages and fostering local skills development appear to have been limited. East Asian firms in Lesotho were apparently reluctant to train local workers or giving them high skilled or managerial tasks (Lall 2003).

In 2005, the system of quotas under the Multi-Fibre Arrangement was fully removed, and the AGOA entered its second phase, making conditions with regard to procurement tighter. In the same year, Lesotho's total exports fell by 14%, almost entirely accounted for by the decline of exports in textiles and apparel. By the end of 2004, 6 of the country's 50 clothing factories closed with a loss of 6,600 jobs. Other firms placed 10,000 workers on short-term work in response to declines in export orders (Gumisai 2006).

The experience of Lesotho illustrates both the benefits and potential costs of export-oriented FDI in manufacturing – in its case, mainly from developing countries. The benefits include employment generation, increased exports, industrial experience and some institutional development. The costs are related to low local value added, lack of local linkages, insufficient local participation at higher levels, inadequate training and productivity improvement and poor integration with the local population – all of which signify that the investments have not taken root and will vanish in the long term (Lall 2003). The balance between the benefits and costs depends to a large extent on effective policies to upgrade local capabilities and tap FDI potential.

Source: UNCTAD, based on Cobbe 2004; Lall 2003; Gumisai 2006 and UNCTAD 2003.

[a] UNCTAD Handbook of Statistics 2005 on-line.

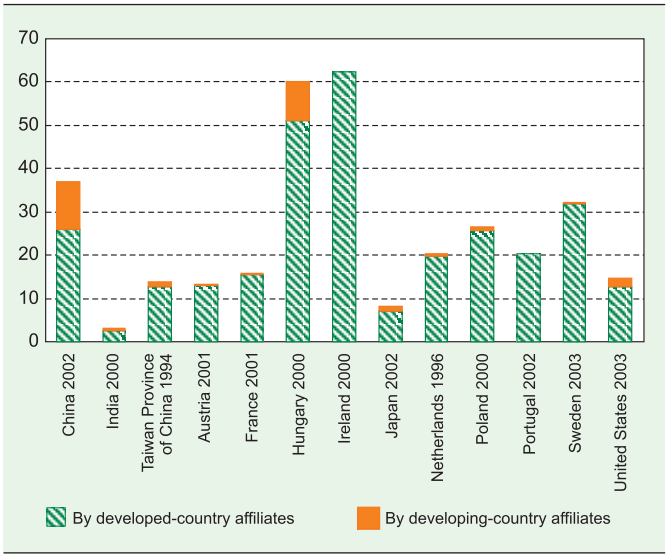
[b] "Textile companies turn to Africa for US access", *Taipei Times*, 18 July 2001 (www.taipeitimes.com/News/worldbiz/archives/2001/07/18/94706).

[c] Figures from the website of the United States International Trade Commission (reportweb.usitc.gov/africa/by_country.jsp).

developed-country TNCs was found to be slightly higher than that of the affiliates of developing-country TNCs in 2005 (17.6% versus 15.8%) (table V.3). The results however varied by industry: for instance, the affiliates of developed-country TNCs clearly showed higher export propensity in food and beverages, paper and automobile, while affiliates of developing-country TNCs exported relatively more in garments, textiles and non-metallic mineral products (UNIDO 2006).

Figure V.6. Share of exports of foreign affiliates of developed- and developing-country TNCs in total exports, selected countries, various years

(Per cent)



Source: UNCTAD, based on annex table A.V.1.
Note: Data for the Netherlands, Poland, Portugal and Sweden refer to majority-owned affiliates only.

Table V.3. Exports per unit of sales of affiliates of TNCs from developing and developed countries in 15 sub-Saharan African countries, by industry, 2005

(Per cent)

Sector/industry	Developing-country TNCs	Developed-country TNCs
Primary	**57.9**	**61.2**
Secondary		
Food and beverages	11.0	25.7
Textile	78.1	65.6
Garment	78.9	62.8
Paper	2.9	15.8
Publishing and media	...	3.0
Chemicals, plastics and rubber	8.2	14.0
Non-metallic mineral products	17.8	7.0
Basic and fabricated metals	12.4	9.4
Automobile, machinery and equipment	10.6	17.5
Wood products and furniture	...	30.4
Tertiary	**38.4**	**23.9**
Electricity, gas and water	...	6.8
Construction	0.1	1.7
Trade	10.4	12.0
Hotels	4.4	4.1
Transport and communication	13.5	19.7
Financial intermediation	1.8	1.8
Business services	11.8	7.9
Total	**15.8**	**17.6**

Source: UNCTAD, based on UNIDO 2006.

d. Employment

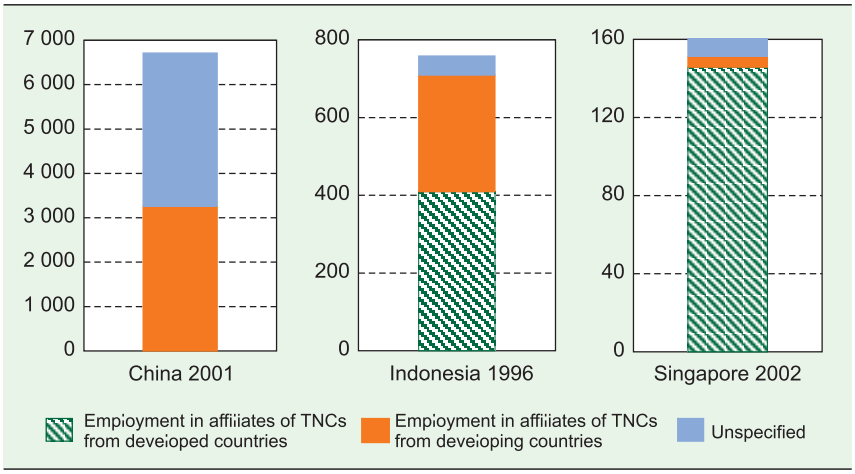
The employment effects of FDI are of considerable interest to host developing countries: in many of them, a key requirement for sustainable growth is the ability to absorb the human resources released from agriculture into manufacturing and services industries. The quantitative effects of FDI on employment globally have been found to be modest, but somewhat larger in host developing than host developed countries, and especially so in the manufacturing sector (*WIR94*, *WIR99*, chapter IX). The potential of FDI by developing-country TNCs to generate employment may be greater than that from developed-country TNCs, owing to certain basic characteristics such as its greater orientation towards labour-intensive industries or activities.

Job-creation as a result of developing-country FDI can be of considerable significance for low- and middle-income countries that attract sizeable amounts of such FDI. For instance, in China, where foreign affiliates employed 23.5 million people, accounting for 10% of the total workforce in 2003 (according to unpublished data of MOFCOM), half of the employment generated by foreign affiliates was associated with TNCs from developing countries (figure V.7). In Indonesia, that share exceeded 40%.

In terms of average employment per affiliate, some survey findings suggest that developing-country TNC affiliates hire more people than do affiliates of developed-country TNCs in host developing countries. In sub-Saharan Africa, according to data from a UNIDO survey, labour-intensity in 2005 was higher in the majority of the industries covered. Foreign affiliates of developing-country TNCs created, on average, more jobs per million dollars of assets than did foreign affiliates of developed-country TNCs in 10 of the 18 industries covered by the sample (table V.4). Their employment generation was similar to that of developed-country TNCs in one industry (non-metallic mineral products). The difference in terms of greater employment generated by developing-country TNCs was significant in some typically labour-intensive activities such as construction, textiles and wood products, and in six out of ten manufacturing industries. However, there were some notable exceptions such as the garments industry, in which TNCs from Hong Kong (China), India and Mauritius were less labour- and more

Figure V.7. Employment in foreign affiliates of TNCs from developing and developed countries, various years

(Thousands of employees)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

capital-intensive than their counterparts from developed countries (UNIDO 2006, p. 54). There were also exceptions in tertiary activities such as trade, hotels and telecommunications.[37] Because of this, the labour intensity of the affiliates of developed-country TNCs taken as a whole turned out to be slightly higher than that of the affiliates of TNCs from developing countries.

For developing host economies, the qualitative aspects of employment in foreign affiliates of developing-country TNCs, in terms of wages, working conditions and industrial relations, can be as important as the quantitative impacts. Evidence on TNC operations worldwide suggests that, in general, workers directly employed by foreign affiliates enjoy better wages, working conditions and social security benefits than those employed by domestic firms (*WIR94*).[38]

There are hardly any studies that analyse separately the impact of affiliates of developing-country TNCs on host-country wages. However, in some host countries, such as African countries and Indonesia, developing-country TNCs are important investors. Moreover, the wage differential observed among skilled labour is so large that there is a high probability that developing-country TNCs also pay higher wages than domestic firms. The situation may be more mixed in the case of low-skilled labour, for which the wage differentials observed between foreign affiliates and domestic firms is small. Survey data for sub-Saharan Africa indicate that affiliates of TNCs from developed countries paid higher wages than affiliates of TNCs from developing countries in 15 of the 18 industries analysed (table V.4). There was a large variation in some industries in which technological differences between TNCs from the two groups of firms may be expected to be high, such as electricity, gas and water, non-metallic mineral products and chemicals, plastics and rubber, but minimal in textiles, hotels and telecommunications. One exception was the garments industry where affiliates of developing-Asia-based capital-intensive garments TNCs paid higher wages than their developed-country rivals. Wage differentials were closely related to the skill-intensity of individual industries. In the majority of the industries in which developed-country TNCs paid higher wages, they also employed a relatively larger number of skilled workers (table V.4). In skill intensity as well, the exceptional case of developing-country TNCs in the garments industry of the host countries was further confirmed: they were not just more capital-intensive than their developed-country peers, and paid higher wages, but also employed relatively more skilled workers.

These findings suggest that the pattern of wages in foreign affiliates of developing-country TNCs in developing countries could be explained by factors such as the size of the foreign affiliate – larger firms tend to offer higher wages and better working conditions – and the capital- and skill-intensity of the industries or activities in which they are concentrated. TNCs in capital- and skill-intensive industries tend to employ more skilled labour and pay higher wages. Wages, skills and training are closely related and mutually reinforce each other. In the sub-Saharan African host economies, affiliates of large developing-country TNCs spent at least nine times more on training than affiliates of small or medium-sized developing country- TNCs (table V.5). Even more importantly, they spent twice as much on training than large TNCs from developed countries. As a result, on average, affiliates of all TNCs from developing countries combined spent more on training than affiliates of TNCs from developed countries.

Table V.4. Selected indicators of employment by affiliates of TNCs from developing and developed countries in 15 sub-Saharan African countries, 2005
(Averages)

Sector/industry	Workers per $ million of assets		Wages per month ($ thousand)		Ratio of skilled to unskilled workers (%)	
	Developing-country TNCs	Developed-country TNCs	Developing-country TNCs	Developed-country TNCs	Developing-country TNCs	Developed-country TNCs
Primary	59.2	61.6	1 764	1 966	58.1	61.8
Secondary						
Food and beverages	33.6	19.8	1 078	2 234	96.6	96.9
Textiles	60.3	21.8	1 812	1 922	164.5	175.4
Garments	61.0	137.5	985	489	208.9	116.2
Paper	10.6	41.6	502	472	75.6	131.1
Publishing and media	4.8	45.7	498	338	140.0	189.1
Chemicals, plastics and rubber	41.4	18.3	244	1 555	91.7	118.4
Non-metallic mineral products	11.8	11.9	203	3 096	186.1	100.8
Basic and fabricated metals	31.0	13.8	239	319	127.2	201.0
Automobiles, machinery and equipment	29.0	13.1	250	973	104.4	251.2
Wood products and furniture	57.0	37.1	61	359	120.1	105.9
Tertiary						
Electricity, gas and water	71.0	8.6	277	6 035	134.5	132.8
Construction	78.7	56.8	661	1 523	76.3	141.8
Trade	10.1	15.8	193	679	112.8	218.9
Hotels	16.2	41.4	603	667	265.4	135.9
Transport and communications	6.8	18.3	1 982	2 571	201.7	181.2
Financial intermediation	3.4	3.1	1 133	3 402	408.1	514.7
Business services	41.7	25.7	210	1 243	250.4	200.5
Total	**12.7**	**14.0**	**649**	**1 716**	**128.7**	**150.5**

Source: UNCTAD, based on UNIDO 2006.

From a dynamic perspective, the higher wage levels in foreign affiliates in developing host economies are likely to influence wage growth, at least for certain kinds of labour, in host developing economies. Regarding other work-related conditions, TNCs generally adopt standards that are not less favourable than those of comparable national employers and are sometimes above the national average. In an opinion survey of employees in a South African-owned retail firm in Zambia, workers considered their wages too low and their working hours too long, but had relatively good job satisfaction and a positive opinion of skills upgrading (Miller 2005).

Table V.5. Training expenditure per foreign affiliate in 15 sub-Saharan African countries, by size and origin of affiliate, 2005
(Thousands of dollars)

Criterion	Size	Affiliates of developing-country TNCs	Affiliates of developed-country TNCs
Sales	Small (<$1 million)	10.3	13.8
	Medium ($1-5 million)	21.2	15.5
	Large (>$5 million)	187.5	97.7
Assets	Small (<$1 million)	6.7	13.7
	Medium ($1-5 million)	13.3	24.4
	Large (>$5 million)	220.2	91.8
	Total	**57.9**	**43.2**

Source: UNCTAD, based on UNIDO 2006.

While it is a relatively well-established fact that foreign affiliates pay higher wages than domestic firms, workers and their representatives in developing host economies can still question whether those salaries are above or below the minimum wage. Foreign affiliates may pay less than the perceived minimum, for example in high-unemployment areas in which no alternative jobs exist. In host countries with minimum-wage legislation, it is also an issue for law enforcement (how to make sure that foreign affiliates comply with the relevant legislation). In countries where no minimum wages are set, it is not easy to establish whether salaries are below the subsistence level of survival or not. The Zambian study mentioned earlier, based on interviews with workers in an affiliate of a South African retail chain, notes the prevalence of the perception that the affiliate paid "starvation wages" (less than the perceived local minimum for survival) (Miller 2005).

In affiliates of developing-country TNCs, as in affiliates of developed-country TNCs, the level and quality of employment are influenced by the interaction between the human resource management of the TNC and the industrial relations framework of the host economy, covering such areas as union organization and action, access of workers to decision-making, and information disclosure and consultation (*WIR94*). Evidence on practices of developing-country TNCs is very limited. One case study (Baboo et al. 2005) suggests that the industrial relations of their affiliates are in part influenced by the common practices of their home country: if unions and collective action are accepted in the parent firm's home country, so are they in their foreign affiliates. For instance, the fact that South Africa has relatively advanced labour legislation – a Labour Relations Act (1995), a Basic Conditions of Employment Act (1997), an Employment Equity Act (1998) and a Skills Development Act (1999) – and enforcement affects the behaviour and practices of South African TNCs in sub-Saharan Africa. Moreover, TNCs tend to adapt their own practices to host-country norms (*WIR94*).

e. Other impacts

Although the injection of resources to poorer countries with few sources of external resources carries a number of potential benefits as discussed above, FDI from developing countries, like FDI generally, could present certain risks to the host economy. One such risk is that the entry of a TNC could result in the creation of a dominant monopoly in the host-country market. Such a situation might arise if the productivity of domestic firms is low and the market is perceived to be too small to entice other TNCs to enter it. Clearly, the likelihood of such a situation arising is greater in poorer and more remote countries where developing-country FDI has been seen to play an important role.

Furthermore, if a large share of FDI originates from one particular country, it may create a perception in the host economy that it has become too dependent on and dominated by the home economy concerned. Such fears are exacerbated by the fact that net inflows of capital may sometimes be accompanied by current-account deficits, including trade deficits. Consequently, it may lead to a concern in the host economy that large inflows of capital are buying up the country's assets while it is "suffering" from trade deficit. Such concerns have been expressed, for example, with regard to investment by South African TNCs in its poorer neighbouring countries (Naidu 2006). South Africa is the largest or second largest source of FDI in most of the SADC countries and has large trade surpluses with them (Rumney and Pingo 2004).

The political and social aspects of TNCs' activities can also give rise to controversies, partly due the size of their operations and partly to their transnational character. This can apply to developing-country FDI as well as to that from developed countries. In developing host economies, problems have often been exacerbated by the absence of an adequate regulatory framework and by disparity in the allocation of the economic benefits. In economies where domestic industries are underdeveloped, governments may not have the capabilities to ensure proper adherence to acceptable labour and environmental standards, for example, when foreign firms introduce new production processes or working methods. In other cases, tension can arise when vast amounts of wealth are created, for example through oil and gas extraction, where the local community not only receives little benefit, but also suffers as a result of damage to the environment.

In such situations, developing-country TNCs investing in developing host countries may have certain advantages. The strength of developing-country TNCs lies in their familiarity and experience with operating in underdeveloped economies, which may give them a better chance of avoiding problems.

Corporate governance is another frequently discussed issue. Typically the legal requirements concerning corporate governance in developing countries are more lax than in developed countries. Similarly, the pressure on TNCs to conform to a standard of "good conduct" and fulfil what has come to be known as corporate social responsibility (CSR) has not reached the same level as in developed countries, and this may have implications for the standards followed by developing-country TNCs. However, broad generalizations cannot be made regarding the CSR of developing-country TNCs.

There is also the issue of political influence on corporate strategy. Many of the leading developing-country firms investing abroad are State-owned. One of the implications is that the financing of the corporate activities has the support of the TNC's home country, at least implicitly. Similarly, the operation of State-owned companies

cannot completely be separated from the political aspirations of the home-country government. This may be particularly relevant with respect to emerging FDI by major State-owned oil TNCs in war-torn developing countries, where such companies dominate the oil industry. While many profit-seeking TNCs from developed countries have withdrawn their oil investments following accusations of their negative impacts on peace-making processes, as well as the mounting pressure in the context of human rights abuses by host governments, some major State-owned TNCs from developing countries have increased their presence in such conflict-ridden countries (chapter IV), despite the risk of insecurity and instability. They have done so partly by strengthening their political and economic relationships with host-country governments,[39] while some also demonstrate their commitment to the host economy and the host country's welfare and development through contributions to public and social welfare projects (e.g. building local hospitals and providing ambulance services for villages) (Patey 2006).

FDI might also entail certain risks for the host country – especially when it involves taking over control of infrastructure industries – resulting in creating a leverage with which the home-country government can exert political pressure on the host economy. For example, in recent years, the Government of the Russian Federation has tightened its control over some large energy TNCs or affiliates (Gazprom, Sibneft, Yuganskneftegas). There is concern that the strategies of these firms may thus have a political dimension, illustrated by Gazprom's changing approach to the pricing of its natural gas deliveries in some CIS countries at the end of 2005 (Vahtra 2006, Vahtra and Liuhto 2004). In another example, an acquisition of a stake in Hutchison Telecommunications International Limited (HTIL), an Indian telecom company, by Egypt's Orascom, which entitled the latter to a board seat on Hutch Essar (a joint venture between HTIL and the Essar Group) faced obstacles on security grounds.[40]

3. Concluding remarks

The discussion on host-country impact in the preceding sections has focused on host developing economies both because they are the principal recipients of FDI from developing countries and because it is the development impact of such FDI that matters the most. The impact of FDI from developing countries on host developed economies is likely to be much less significant than that on host developing economies, because of its much smaller size relative to total FDI (chapter IV) and GFCF in host developed countries.[41] Moreover, access to proprietary assets, particularly technology, and to markets that developing-country TNCs offer is likely to be relatively limited in comparison with what developed countries' own firms can provide. Nevertheless, the economic implication of developing-country FDI, especially in terms of additions to investible financial resources and to income and employment generation may not be negligible even in some developed economies,[42] as is evident from the promotion of such FDI by some host developed countries (chapter VI).[43] At the same time, specific developing-country FDI may cause concern in some developed host countries, for economic as well as non-economic reasons. For example, national security and related concerns have been expressed, particularly in the United States, regarding the entry into some business activities by TNCs from certain developing countries, such as DP World from the United Arab Emirates and Lenovo from China (chapter VI, section B.3).

Although modest in size relative to global FDI flows, FDI from developing countries assumes considerable importance for host developing countries. The direct and indirect effects of the FDI package on financial resource flows and investment, transfer and diffusion of technology, export activity and employment can usefully supplement domestic efforts of host developing countries in those areas. The industrial distribution of developing-country FDI and the technological attributes of developing-country TNCs suggest that developing-country foreign affiliates may be able to interact more effectively with domestic firms in host developing countries than affiliates of TNCs from developed countries.

However, apart from the potential economic benefits of FDI from developing countries – as also in the case of FDI from developed countries – there may also be a number of risks, economic as well as non-economic, for host developing economies. The challenge for host developing economies is to minimize the risks, and benefit to the maximum extent possible from these new sources of FDI. In that context, national and international policies matter.

C. Conclusions

As developing countries expand beyond their traditional involvement in international production as recipients of FDI to that of rising sources of FDI, the impact of their outward FDI on the home countries as well as on host countries, especially host developing countries, assumes increasing significance. For the home countries, questions arise as to whether the exports of capital, technology and other resources by their TNCs bring benefits to the firms undertaking them, as well as to the economy at large, and contribute to the development process. For the host developing countries of FDI from other developing countries, the main issues are to what extent such FDI adds to capital and other resources available for development, and whether the benefits and costs of such FDI differ in any way from those of FDI from developed countries.

Exploring how FDI and related production decisions by TNCs from developing countries affect the home countries is not a simple exercise, since the characteristics of FDI vary across TNCs, industries and countries, influencing both the behaviour of TNCs and the effects on home countries. Furthermore, data and research on the home-country impact of developing-country FDI are as yet limited. At the firm level, although it cannot be taken for granted that outward FDI necessarily contributes to enhancing competitiveness and performance, evidence from studies and surveys, related mainly to outward FDI from some East and South-East Asian economies, suggests that in a majority of cases, developing-country firms do attain their objectives: they expand markets, improve efficiency, acquire natural resources, or augment created and strategic assets, thus improving their performance by investing in foreign locations.

Under appropriate home-country conditions, including, in particular, adequate technological capacity and absorptive capabilities conducive to the formation of linkages between outward-investing firms and other firms and institutions, and to spillovers from the former to the latter, the improved competitiveness of outward investing firms can contribute towards enhancing industrial competitiveness in the home economy as a whole. Beginning with the industries in which outward FDI occurs, such effects can spread to other industries and, depending on the motivation or type of FDI, can help accelerate industrial upgrading and restructuring in the home economy. The scope for such dynamic transformation is illustrated by the experiences of East and South-East Asian NIEs and some other East and South-East Asian economies where firms have engaged in outward FDI, not only for market-seeking but also efficiency-seeking reasons. In addition, while strengthened competitiveness of firms due to outward FDI, especially in manufacturing and services, can benefit home industries and the home economy in general through linkages and spillovers, it can also raise concerns relating to monopoly power and competition, as the relative size of the investing firms can be large relative to that of other firms in the home developing countries.

Outward FDI may raise a number of concerns in home countries, mainly stemming from the outflow of finance and other resources in the FDI package. The most common ones relate to balance-of-payments problems that may arise due to the size of the financial outflows involved, diversion of investment activity from home to host economies and shifting of jobs from home to host economies. As regards the first, the limited evidence available (on direct effects of selected developing-countries' FDI in the United States through FDI flows, repatriated earnings and intra-firm trade) shows that outward FDI has contributed positively to the balance of payments of the home economies concerned, reflecting the fact that developing-country TNCs engage substantially in trade-supporting activities. It is relevant in this context to note that developing countries' focus on the balance-of payments impact of outward (or for that matter, inward) FDI per se has diminished somewhat, partly due to an improved overall balance-of-payments situation in many outward-investing developing countries, and partly because of a growing tendency to look at the balance of payments as a whole and manage it through an appropriate exchange-rate policy.

Whether outward FDI leads to a reduction in the financing available for domestic investment is a question that is difficult to answer definitively. Some indirect evidence seems to indicate that developing-country firms tend to rely more on external funding than on home-country finance for their investment activities abroad. On the other hand, if developing-country firms engage in FDI mainly because they have accumulated large financial resources or because their outward FDI is subsidized by the government, there may be grounds for concern over the diversion of resources from more welfare- or development-enhancing uses

at home. With regard to the impact of outward FDI on domestic investment or capital formation itself, evidence for developing countries specifically is limited, but what little there is suggests that outward FDI and domestic investment are likely to be, with some exceptions, complements rather than substitutes, as has been found to be the case for several home developed countries.

The trade and employment effects of outward FDI on home economies depend considerably on the motivations and type of investments abroad, and this applies to developing-country FDI as well. To the extent that market-seeking motivations drive the greater part of FDI from developing countries, and such FDI has been found to be generally complementary to home-country exports (excepting where host countries pursue import-substitution policies), a positive impact on home-country exports may be expected. Results of some studies on Asian NIEs as home economies and data on trade by affiliates of developing-country TNCs in the United States and Japan suggest a positive relationship, but more evidence is needed to confirm complementarity between outward FDI and home-country exports.

The effects of outward FDI on home-country employment have been a matter of concern for developed countries, especially in the context of relocation of activities by efficiency (or cost-reduction)-seeking TNCs, and can equally be a concern for developing countries. Evidence related to some Asian NIEs suggests that, as in some developed countries, under appropriate conditions outward FDI can generate additional jobs in higher-skilled technical and managerial categories and reduce those in unskilled ones; on balance, the job-creating effects of outward FDI may exceed its job-reducing effects. To a large extent, this would depend on the capacities of the human resources in the home country to adapt to changes in the structure of production. For some developing countries with large low-cost labour supplies (such as China and India), the possibilities of job losses at home due to outward FDI may be expected to be limited, at least for the present.

For host economies, especially developing ones, FDI from developing countries can add to inflows of other external financial resources, including FDI from developed countries, commercial bank lending, portfolio investment and ODA. For poorer developing countries, it can be significant, accounting for over half of total FDI inflows into several LDCs. Furthermore, because the motivations and competitive strengths of developing-country TNCs and the locational advantages sought by these firms differ in several respects from those of TNCs from developed countries, its impact on various aspects of host developing economies may differ somewhat from developed-country FDI, in some instances bringing greater benefits.

In general, developing-country TNCs tend to use the greenfield mode of entry more often than do developed-country TNCs, which show a greater preference for cross-border M&As, especially for investment in developing host countries. Thus developing-country investments are more likely to add immediately to investment in production capacity in developing countries, compared with FDI by developed countries.

Certain attributes of developing-country TNCs, especially in manufacturing, suggest that they may establish stronger linkages with domestic firms in developing countries than developed-country TNCs, and therefore they could have larger indirect effects on investment as well as technological capacity-building in those host countries. The main differentiating attributes are that they tend to be engaged in standardized production activities with non-proprietary technologies that are more conducive to the external procurement of supplies, and that the technological gap between foreign affiliates of developing countries and host-country firms is likely to be smaller, facilitating the transfer and dissemination of technology. Although data for selected African and ASEAN economies indicate a lower rate of local sourcing by developing-country firms as compared with those from developed countries, it seems likely that this is due to the relatively younger age of foreign affiliates of developing-country TNCs, since establishing local linkages takes time.

A key advantage for host developing-countries of FDI from developing countries compared with that from developed countries is the greater employment-generating potential that the former may have due to its greater orientation towards labour-intensive industries and the likely use of simpler and more labour-intensive technologies by developing-country TNCs, especially in manufacturing. Survey findings on African host countries, for example, indicate that foreign affiliates of TNCs from developing countries, on average, created more jobs per unit of assets in the majority of manufacturing industries

surveyed than did those of TNCs from developed countries. To the extent that firms from developing countries invest appreciable amounts in other developing countries, outward FDI provides a potential avenue for closer economic cooperation among them and greater gains therefrom.

While the limited evidence presented in this chapter suggests that for home as well as host developing countries, the positive effects of FDI from developing countries may outweigh the negative ones, it is important to emphasize the contextual nature of the impacts observed and the limitations of the information available. Further research and understanding is necessary of the benefits as well as risks, both economic and non-economic, for home and host countries. That would assist home-country policymakers to weigh the potential costs and benefits of allowing and, where appropriate, supporting outward FDI, and of host-developing country policymakers to consider how best to attract and benefit from developing-country FDI. The following chapter deals with some of the policies issues raised in that respect.

Notes

1 See Lall 2001 and Musik and Murillo 2003 for a discussion on the definition of competitiveness.

2 *WIR95,* p. 126.

3 Under certain circumstances of market failure and externalities, the underperformance of a firm due to an outward FDI project might lead to the coexistence of costs to the firm and net benefits to the home economy. However, these situations are likely to be rare.

4 For instance, communication and coordination problems may stem from cultural diversity within an organization.

5 See e.g. Reeb et al. 1998 for a systematic analysis of the risks.

6 "The Asian Businessweek 50 – Leaders: No. 12: Hon Hai Precision Industry", *Business Week* on-line, 24 October 2005 (www.businessweek.com/magazine/content/05_43/b3956417.htm).

7 Related benefits mentioned by firms include financial and performance gains (15% of responses), but these do not derive solely from greater efficiency.

8 See Xiang 2006 for a discussion on Chinese companies in this respect.

9 However, the related costs, risks and difficulties should not be overlooked (see later discussion and chapter VI).

10 See for instance Venkatraman and Ramanujam 1986 for a discussion.

11 Researchers typically use measures such as the ratio of foreign to total sales, foreign to total assets and foreign to total employment as indicators of internationalization.

12 See, for instance, Ramaswamy 1992, Sullivan 1994b, Annavarjula and Beldona 2000, and Ruigrok and Wagner 2003 for reviews of the literature.

13 They are two consumer electronics makers listed on the Hong Kong Stock Exchange (Hong Kong, China).

14 "TCL losses triple in third quarter", *The Standard* (www.thestandard.com.hk), 29 October 2005.

15 The study analysed 16 M&A transactions that took place since 2001. All the acquirers were listed in the Hong Kong (China), Shanghai and Shenzhen stock exchanges. None had completed any other transactions in the period under study.

16 Defined as a "network of institutions in the public and private sectors whose activities and interactions initiate, import, modify and diffuse new technologies" (Freeman 1987, p. 1).

17 Evidence on developed home countries suggests a positive impact on restructuring overall. In the United States, Japan and 11 European countries, total factor productivity – one of the possible benchmarks for success in upgrading domestic value added – reacted positively to outward FDI and imports, while inward FDI flows did not seem to contribute to (or detract from) productivity during the period 1971-1990 (Pottelsberghe de la Potterie and Lichtenberg 2001). In Australia, the reaction of TNC parent firms to external factors such as imports was found to be significantly stronger than in uninational firms (Williamson 1986). In Slovenia, one of the former economies in transition (now a high-income country) the majority of managers (52%) attributed a major role to outward FDI in the transformation of the home economy (Jaklic and Svetlicic 2003, p. 174).

18 In Mauritius, the textiles and apparel industry was created in the 1970s and 1980s mainly by TNCs from Hong Kong (China), and was largely taken over by Mauritians in the 1990s. One of the largest Mauritian-owned TNCs, Ciel Textile, closed seven factories in Mauritius in 2004 and formed a cluster of higher end clothing units with the remaining three (with finishing located in Reunion). Meanwhile, lower-end production has been expanded to Madagascar (Saminaden 2005, p. 1).

19 See Young et al. 1996, p. 310 for a discussion related to China, and Bulatov 1998 for the Russian Federation.

20 Anecdotal evidence suggests that TNCs from developing countries rely significantly on funds raised from stock markets and international banks in developed countries. For example, in 2003, in the case of foreign affiliates in Japan, those established by Asian TNCs raised 62% of total funds locally (through corporate bonds and/or commercial loans as well as own funds) compared to 50% for affiliates of United States TNCs and 72% of European TNCs (Japan, METI 2006).

21 This development is reminiscent of Japanese outward FDI in the 1970s (cf. Caves 1993, Pak and Park 2005, Wilkins 1990).

22 For instance, a recent study of the Canadian experience (Hejazi and Pauly 2003) concluded that the impact of outward FDI depended on the motivation of TNCs: market-seeking, natural-resource-seeking and strategic-asset-seeking FDI tended to have positive or no effect on GFCF over the period 1970-1998, while efficiency-seeking FDI had a slightly negative impact. Similarly, a summary of various studies (Lipsey 2002a) concluded that outward FDI did not result in any large movement of aggregate production capacity from the home country, although there may be important differences depending on the type of investment project (vertical or horizontal), industry (goods or services), target country (industrialized or developing), or technology (plant level or firm level economies of scale). Other studies (e.g. by Stevens and Lipsey 1992 for the United States and Bayoumi and Lipworth 1997 for Japan) reached similar conclusions regarding effects at the aggregate level. Empirical evidence indicating investment substitution is usually limited to selected industries or activities (Belderbos 1992 for food, metals and electronics industries in the

Netherlands, and Braunerhjelm and Oxelheim 2000 for R&D-intensive industries in Sweden).

23 Moreover, the fact that outward FDI is still relatively small in developing countries (on average, annual outflows of developing countries were less than 4% of GFCF during the period 1998-2005 as compared with about 13% for developed countries) (annex table B.3) may make this area of impact less important for those countries, at least for the present.

24 The approach of that study followed that of Hejazi and Pauly 2003.

25 Economies covered included Brazil, Mexico, Panama, South Africa, Hong Kong (China), the Republic of Korea, Malaysia, Singapore, Taiwan Province of China and the Philippines for 2002, and somewhat different groups of countries from 1997 and 1992.

26 In the case of the United States, the propensity of affiliates abroad to substitute for the employment of their parent firms was found to be low in the mid-1990s (Brainard and Riker 1997a and b); studies on TNCs from Italy (Mariotti et al. 2003), Slovenia (Jaklic and Svetlicic 2003, p. 165) and Sweden (Hatzius 1997, Hakkala and Kokko 2000, Fors and Kokko 2001) also tend to support the findings of a limited impact in terms of a reduced level of employment at home, with, however, some differentiation by industry.

27 Opinion polls of developing-country managers suggest that there may be important differences between individual home developing economies. In one survey, nearly 90% of the Indian managers interviewed endorsed the importance of the "public good" dimension of their business dealings, whereas "Chinese managers were more lukewarm, with 25% saying that investors should be the sole focus of corporate activity" (McKinsey 2006).

28 For a discussion of the impact of FDI on development, see *WIR99*, Part Two.

29 For a discussion of factors determining backward linkages of foreign affiliates with domestic firms in host economies, see *WIR01*, chapter IV.

30 Local purchase figures were provided by 436 manufacturing firms in the survey.

31 The ASEAN-5 consists of Indonesia, Malaysia, the Philippines, Singapore and Thailand.

32 The Bradford University School of Management survey, described in box IV.4.

33 The question was: What proportion of your overseas affiliates are joint ventures?

34 Bradford University Survey (see end-note 32 above).

35 In the short run, a worsening of the trade balance may occur if FDI is accompanied by the import of capital goods needed for establishing a production unit in the host economy.

36 Bradford University Survey, described in end-note 32. The difference in export propensities is largely accounted for by the industrial composition of the affiliates surveyed. Both developed and developing-country TNCs in the garments industry of the host countries export nearly all of their output, and nearly half of developing-country TNCs surveyed were in this industry. In addition, it must be noted that governments may require them to export a specific amount of output: for example, the required share of output required to be exported in ASEAN countries ranged from 15% to 100% (or an average of 76%).

37 It is also possible that there was underreporting of employment by some developing-country TNC affiliates (due, for example, to the undocumented status of some workers). However, there is no information to support this conjecture.

38 Various studies on the impact of foreign affiliates in general on wages in developing host countries have found that they tend to pay higher wages than comparable domestic firms (Aitken and Lipsey 1996 for Mexico and Venezuela, Lipsey and Sjöholm 2001 for Indonesia; te Velde and Morrissey 2001 for Cameroon, Ghana, Kenya, Zambia and Zimbabwe; Udomsaph 2002 for skilled workers in Thailand). A recent analysis utilizing Indonesian manufacturing census data for 1990-1999 (Harrison and Scorse 2005) found that foreign affiliates (of TNCs from all countries) paid 5%-10% higher wages to their unskilled workers, and 20%-35% higher wages to their skilled workers than domestic firms. These wage premiums were found to be robust in various industries and across various indicators, and to be related to differences in worker productivity between the two groups of firms. There are however some studies (e.g. Ramstetter 1999 for Hong Kong (China), Indonesia, Malaysia, Singapore, and Taiwan Province of China) that have found no systematic links between the higher productivity of foreign affiliates and employees' wages.

39 The major example is that of oil TNCs in the Sudan (Chapter II, box II.5).

40 When Orascom, the Egyptian telecom TNC, bought a 19.3% equity stake in HTIL, which has a 42% holding in Hutch Essar, it entitled Orascom to a board seat and about 10% indirect interest in Hutch Essar. The Essar group, apparently upset over the entry of Orascom, alleged that Orascom's acquisition of equity in HTIL was a threat to national security as Orascom was a dominant mobile operator in Pakistan and Bangladesh. Subsequently, the national security adviser of India wrote to the Department of Telecommunications agreeing to the national security concern raised by the Essar group. "Orascom-Hutch deal: a security risk", *The Economic Times* (http://economictimes.indiatimes.com), 8 March 2006. In July 2006, the case was still pending: while the Foreign Investment Promotion Board (and earlier the Department of Telecommunications) cleared the transaction, the National Security Council was still examining the security concerns. "Orascom's purchase in Hutch has got the final nod", *Moneycontrol India* (//news.moneycontrol.com/india/), 15 July 2006.

41 FDI from developing countries accounts for less than 1% of GFCF in developed countries (annex table B.3).

42 In sales and employment by affiliates established by TNCs, developing-country TNCs account for a marginal share, but in some countries such as the United States their share amounts to 10% (UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics)).

43 A case in point relates to Chinese FDI in Canada, which has been growing in recent years; it is actively promoted by Canada, which has been losing its share in global FDI inflows in recent years (Lituchy and Lizhan Du 2006).

CHAPTER VI

NATIONAL AND INTERNATIONAL POLICIES

Preceding chapters of this *WIR* have shown that the volume, nature and impact of outward FDI are influenced by government policies in various ways. The patterns of FDI today reflect the particular institutional and policy context in which the investing firms have evolved and developed their ownership advantages. Some companies expanded internationally as a safeguard against local market volatility, while others ventured abroad when protection under the import-substitution era came to an end and they became exposed to international competition. In other cases, FDI has been the direct result of active encouragement by the home-country government. Moreover, some large outward investors are State-owned, reflecting the priorities and strategies of their owners.

Corporate decisions are affected by the legal framework governing international capital flows as well as by proactive policy measures to assist companies in their internationalization process. Therefore, there is considerable scope for governments to influence outward FDI, ranging from general policies aimed at creating a competitive business environment in the home (or host) country to specific measures directly concerning FDI.

In a globalizing world economy, accessing international markets, sources of supply and knowledge networks becomes increasingly important. Outward FDI represents one way for a country and its firms to connect with the global production system. Other ways include international trade, licensing, migration and inward FDI. Moreover, the degree to which the home economy can benefit from outward FDI depends not least on the extent of investing firms' commercial and technological links to other economic sectors of the home country (chapter V). Consequently, policies specifically dealing with outward FDI need to be carefully coordinated, not only with other policies aimed at promoting internationalization (through, for example, trade, migration and inward FDI), but also with broader policy areas that may foster growth and upgrading of domestic enterprises. As summarized by one scholar (Dunning 2005, p. 15): "FDI policies are only as effective as are the general macroeconomic and microeconomic policies of which they are part".

However, there is no "one-size-fits-all" policy to apply to outward FDI. While important lessons can be drawn from the experiences of other countries, governments need to tailor their approaches to the specific conditions prevailing in their countries. Policies need to reflect a country's stage of development, comparative advantages, geopolitical position, structure and capabilities of the business sector, and, of course, the government's overall development strategy. As discussed below, there is significant variation in the way countries address outward FDI. Many developing countries have retained restrictions on capital outflows, but there is a trend towards greater openness. In fact, a growing, albeit still small number of developing economies are now implementing active policies to promote outward FDI. Moreover, as countries that have traditionally been capital importers emerge as significant sources of FDI, their emphasis in international investment negotiations may shift, which would have implications for policy-making at bilateral, regional and multilateral levels.

The expansion of FDI from developing and transition economies is also influencing policies in recipient countries. Throughout the world, the newly emerging sources of FDI are attracting increasing attention, raising both expectations and concerns.

This chapter considers the policy implications of outward FDI from developing and transition economies at both national and international level. The analysis draws on the existing literature, a large number of country case studies, and information obtained through UNCTAD surveys of governments, trade promotion organizations and investment promotion agencies. It begins by reviewing the role of home-country governments in promoting the benefits of outward FDI, distinguishing between general and specific policies. The second section focuses on the responses of host economies. The third section turns to implications for international rule making and the fourth section analyses the role of corporate social responsibility in the context of FDI from developing countries. The final section concludes.

A. The role of home-country policies

Policies that aim at furthering the objectives of a home country via FDI are of two kinds: *general* and *specific to outward FDI*, and they require an appropriate institutional framework to support their implementation. General policies cover a wide range of areas that influence the competitiveness of firms, which is not only a basis of sustainable economic development but also a key determinant of outward FDI and its related impacts. Specific policies on outward FDI reflect a government's overall stance on internationalization through FDI; they include measures to restrict, facilitate or promote such investment, as well as to maximize associated benefits. At early stages of development, there may be little attention given to specific policies on outward FDI, but the need for this grows as countries develop. To date, relatively few developing and transition economies have adopted an explicit policy relating to outward FDI, but there are signs that this is changing.

Based on assessments of the likely impact of outward FDI in different industries and activities, a government may design its general and specific policies with a view to fostering FDI that is beneficial to the home economy. Effective implementation of such an approach requires awareness of the evolving corporate strategies and locational determinants of FDI. To the extent that outward FDI contributes to structural transformation of the economy, governments may also need to implement policies that support local firms and individuals in coping with necessary adjustments.

1. Competitiveness policies and outward FDI

Outward FDI may help enhance the competitiveness of firms (chapter V). However, whether active promotion of outward FDI is warranted still deserves careful consideration. Most developing countries have not yet reached a stage at which a proactive approach to outward FDI is feasible or desirable. Instead, for many low-income countries the focus may rather be on the enhancement of domestic firms' capabilities. Thus, specific policies on outward FDI should be positioned within a national strategy aimed at enhancing international competitiveness.

Among the factors affecting national competitiveness, human resources and technological capabilities are fundamental. This means that well-crafted education and science and technology policies are of crucial importance. Firms are the major carriers and creators of national competitiveness, and governments need to create a favourable business environment, with well-functioning factor and product markets, stable economic, social and political conditions, sound legal and regulatory institutions (including tax, regulatory, liability and IPR policies as well as their implementation), and good infrastructure.

Policymakers should ensure that the business climate encourages entrepreneurship and promotes private investment, not just in fixed assets, but also in R&D and training. The lack of a sound business environment may weaken the foundation of the competitiveness of domestic firms. Furthermore, if firms have the capabilities to invest abroad, a poor domestic business climate may even lead them to relocate, thus further weakening national competitiveness. Indeed, in certain circumstances, outward FDI can be a means to escape from the domestic business environment rather than a way to create value for the home economy (chapter IV).

Economic openness can improve welfare and economic performance. The role of economic openness in promoting national competitiveness has been increasingly acknowledged, with most perceived benefits coming from trade, inward FDI and migration (see e.g. *WIR95, WIR01, WIR02*). In the context of developing countries, however, outward FDI as a contributing factor to competitiveness has not yet received much attention (chapter V).

Globalization opens up new channels through which developing countries can enhance their competitiveness, including via outward FDI. However, realizing such opportunities is not easy. It requires appropriate policy responses at both national and international levels. A number of developing-country firms, especially in Asia, have climbed the value chain, internationalized and established competitive positions in a range of industries (chapter III). The fact that four fifths of the top TNCs from the developing world are of Asian (mostly East and South-East Asian) origin partly reflects the effectiveness of industrial policies, based on a competitive and outward-oriented approach, in promoting industrial competitiveness (Amsden 1989, Wade 1990, Johnson 1982, 1995, Woo-Cumings 1999, Lall 2001, UNIDO 2002).[1]

Accordingly, policies on outward FDI may be best positioned within a framework aimed at enhancing industrial competitiveness. Such a framework comprises various key components:

- *SME policy.* Policymakers need to support entrepreneurship and foster the creation of start-up SMEs, especially in knowledge-based industries. In terms of enterprise development, countries can make up for the lack of entrepreneurial talents and start-up candidates through the promotion of new industries and the creation of "seed companies". Spin-offs from public research institutes or from leading universities may also be encouraged (see e.g. *WIR05*), backed by relevant financial institutions.
- *Trade policy.* The role of export promotion in enhancing industrial competitiveness is widely acknowledged. It can be done through various institutional arrangements, for instance, by making customs handling more efficient, establishing EPZs and strengthening the trade infrastructure *(WIR02).*
- *Inward FDI policy.* Investment liberalization and targeted promotion is important for attracting desired forms of FDI. The challenge is to ensure that foreign affiliates become embedded in the host economy in a way that helps domestic enterprises to develop competitive capabilities (*WIR01*). Export-oriented FDI (*WIR02*) or FDI that helps strengthen infrastructure services (*WIR04*) may be particularly relevant from this perspective.
- *Outward FDI policy*. In general, FDI from a developing country takes place once domestic enterprises have reached a certain level of development. For the majority of developing countries, whose firms and industries are still at an early stage of development, a specific policy on outward FDI may be premature. Instead, a focus on more general policies related to the promotion of industrial competitiveness may be more important.

The role of these policies needs to be defined in the context of a country's overall competitiveness or development strategy. Indeed, by applying policy instruments and institutions in innovative ways, developing countries can try to compensate for their shortcomings as "latecomers" in technology and market sophistication (UNCTAD 2005l). Traditionally, little attention has been paid to policies specifically related to outward FDI. With the rise of TNCs from developing and transition economies it is becoming increasingly relevant to consider the usefulness of such policies, taking due account of the particular situations of different industries and countries.

2. Policies specific to outward FDI

There is increasing recognition that FDI outflows represent one more way of strengthening the competitiveness of firms. However, few developing countries have explicit policies dealing with outward FDI. Some countries have taken major steps in establishing specific organizations to actively support the internationalization of their firms through FDI, but overall, it remains a relatively new area for most governments in developing and transition economies. Concerns related to the risk of capital flight or "hollowing out" have to be weighed against the potential gains that can be achieved through better linkages to

global markets and production systems. This section takes stock of these trends and considers possible options available to countries with regard to outward FDI policies.

a. More countries remove barriers to outward FDI

In determining the degree of openness to outward FDI, policymakers have to balance the need for the State to "control" the cross-border flow of capital outflows and the need of firms to internationalize. An excessive and/or non-transparent regulatory burden in the form of foreign exchange controls, approval procedures and reporting requirements may harm the international competitiveness of domestic enterprises. Indeed, excessive red tape and overly stringent exchange controls have been identified as obstacles to the internationalization of firms. Countries have chosen different approaches to deal with this challenge, which reflects varying priorities and economic situations. As of 2005, regulations concerning outward FDI spanned the full spectrum – from outright bans in some countries to full liberalization in others.

Most countries have at some stage exercised control over FDI outflows through various rules and regulations to mitigate potentially negative effects from such investments. In particular, restrictions have been used to avoid adverse effects on the balance of payments. Even most of the developed countries with relatively liberal home economies imposed licensing requirements for outward investment until the 1980s in order to be able to stop certain projects without imposing a total ban on outward FDI. Such restrictions were lifted as the international capital markets became more integrated, and concerns about detrimental effects on balance of payments diminished.[2] Today, Germany,[3] Japan,[4] Poland and the United States[5] retain certain limited controls on such capital flows (IMF 2005b). These typically have a narrow focus on FDI in sensitive activities (arms and ammunition), or are politically motivated.

Among developing countries, restrictions on outward FDI have mainly been used to reduce the risk of capital flight and to secure sufficient access to foreign exchange (see *WIR95*, p. 308). The decision to introduce such controls may not have been intended to restrict outward FDI, even if this was the effect. Exchange controls may have been established to encourage reinvestment by foreign investors in the host country, or in response to crisis situations where the risk of large-scale capital flight might have been apparent. Countries generally become less concerned with controls on capital outflows once they have developed an adequate current-account surplus (box VI.1).[6]

Box VI.1. Controls on international capital flows

Many developed countries have used capital controls in the past, but have largely abandoned them. In developing countries, however, their use remains widespread. This box discusses why there is such a divergence and how these controls relate to outward FDI.

Capital controls are a set of diverse legal and regulatory measures used by national authorities to influence the volume, composition and pattern of international capital flows. They can be direct or market-based (i.e. price-based) in nature. Direct controls limit directly the size of the capital flows to which they are applied through quotas, licensing requirements or outright prohibitions. Market-based controls work on price signals, discouraging capital flows subject to the controls by increasing their cost. Capital controls usually distinguish between different categories of inflows and outflows, and between residents and non-residents, and are generally used in a targeted manner with specific rules for different categories. Controls are often used in various combinations and may be adjusted over time; in some cases they have been utilized only for several months, but in others for a matter of years or even decades. The intensity of restrictions and the extent of their application to different types of flows vary greatly from country to country.

Many developed and developing countries have used capital controls over the past 50 to 100 years. Developed countries, however, generally liberalized capital-account transactions (in the balance of payments) during the 1970s and 1980s, and usually find little need for them today. Developing countries and economies in transition have also moved in the direction of liberalizing such transactions since the late 1980s, but many still retain various controls (Helleiner 1997, p. 9; UNCTAD 2005d). In a number of cases, restrictions on outward FDI have been

/...

The stringency and nature of restrictions differs by region and country. As of 2005, just over 60% of developing countries applied some form of outward FDI controls, with a lower incidence in Latin America and the Caribbean and Asia and Oceania than in Africa. In South-East Europe and the CIS, companies are commonly required to notify the authorities of FDI transactions.[7] Such notification systems are also applied by several countries for statistical and other purposes. During the past decade, the share of countries exercising controls on outward FDI declined especially in South-East Europe and the CIS and among the new members of the European Union (figure VI.1). In Africa or Asia and Oceania no clear trend in that direction was noticeable, while in Latin America

Box VI.1. Controls on international capital flows (concluded)

maintained. Of the 155 developing economies surveyed by the IMF in 2005 (IMF 2005b), 78 economies (40 in Africa, 23 in Asia and 15 in Latin America and the Caribbean) had restrictive measures. In terms of their nature, 40 were approval requirements combined with various kinds of restrictions (quantitative, sectoral and/or duty to declare, report, notify or register).[a]

Their wider use by developing countries is related to some characteristics that often distinguish them from developed countries: scarcity of foreign exchange; weaker financial systems and regulations; more common use of fixed exchange rates; and greater vulnerability to internationally and domestically generated economic volatility. In general, developing countries control their capital account (and not only outward FDI transactions) to a much greater extent than developed countries.

The use of capital controls may have various objectives, including to increase economic policy autonomy (especially monetary policy); to facilitate exchange-rate management or support a fixed exchange rate; to promote financial stability (including through prudential regulation) by reducing vulnerability to potentially volatile capital flows or currency speculation; to address an exchange rate or financial crisis; and to discourage certain types of inflows and outflows that are considered undesirable or potentially destabilizing. Common to all these objectives is the focus on supporting the effectiveness of domestic monetary policy, reinforcing exchange-rate management and safeguarding domestic financial stability.

Capital controls are often designed to discourage large short-term inflows (particularly short-term external borrowing) or to reduce capital flight. Many developing countries with binding foreign-exchange gaps often attempt to conserve scarce foreign exchange by limiting capital outflows, (including outward FDI) until this constraint has been overcome. In China, India and the Republic of Korea, for example, controls have been greatly reduced only in recent years, resulting in the proliferation of outward FDI.

Limited empirical research on the effectiveness of capital controls suggests a mixed record. In some cases, they appear to have achieved a degree of success in meeting their aims, although their effectiveness may be compromised over time as economic agents seek to circumvent them (Ariyoshi et al. 2000). They appear to be more effective when supported by broader, sound economic policies.

The use of capital controls also entails potential costs, including the risk of discouraging legitimate and desirable transactions, the administrative costs of enforcement, higher costs of accessing international capital markets, potential for corruption when administrative decisions determine access to foreign exchange, promotion of inefficient or unsound policies if controls are used to sustain inappropriate policies, and the possibility of inhibiting the development of the financial sector and risk-management skills of economic actors.

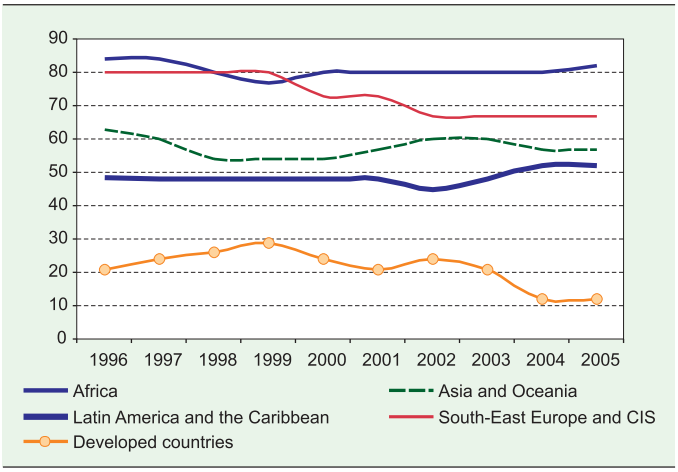
A cost-benefit assessment of capital controls is hard to make. For example, it is difficult to quantify the value of sustaining financial stability, reducing (perhaps avoiding) the impact of a currency crisis or maintaining exchange rate stability. This depends in part on the national priorities of a country. The costs that may arise will depend on specific country conditions and the nature of the controls envisaged. Policymakers therefore need to take into account their specific situation, policy priorities and development strategies when deciding whether to use capital controls and, if so, how to design and implement them.

Source: UNCTAD.

[a] For 32 economies the nature of restrictions was not specified.

Figure VI.1. Share of countries with controls on outward FDI or notification requirements, by region, 1996-2005[a]

(Per cent)



Source: UNCTAD, based on IMF, *Annual Report on Exchange Arrangements and Exchange Restrictions* (from 1996 to 2005), Washington, DC.

[a] To ensure comparability over time, 157 countries for which information was available for the full period 1996-2005 have been included in this figure. Developed countries here include EU-25 for the full period.

and the Caribbean, the percentage of countries using such controls increased somewhat.

It is not possible, on the basis of the information available, to assess the stringency of the controls that are retained by many developing countries. Restrictions may be more or less rigorous, involve a rather straightforward approval system, or apply only to FDI going to particular destinations. Developing countries with considerable outflows of FDI, despite the existence of controls, include Brazil, China, Malaysia, the Philippines, the Republic of Korea and South Africa (box VI.2).

Moreover, a number of countries in Latin America (e.g. Chile, Costa Rica, Mexico) and Asia (e.g. Hong Kong (China), Singapore, the United Arab Emirates) have completely liberalized FDI outflows (table VI.1). Several African countries have also removed their restrictions on outward FDI. Taiwan Province of China was among the first developing economies to initiate a process of dismantling barriers to outward FDI (*WIR95*).[8] Today, overseas direct investors from Taiwan Province of China that require foreign exchange of more than $50 million within one year need approval from the competent authority; for a capital flow of less than that amount, only a post-investment report (within six months) is required. With regard to investments in mainland China, however, an advance application is always required. Other examples of gradual outward FDI liberalization include Singapore – which today has no restrictions on outward FDI – and the Republic of Korea, which still retains some controls (box VI.3). The removal of barriers to capital outflows has been paralleled by increased outward flows from many economies. For example, in the Republic of Korea and Taiwan Province of China, the relaxation of controls led to significant outward investment in the late 1980s (Kumar 1995; *WIR95*, p. 324).

Only a few countries, such as Nepal and Sierra Leone, apply an outright (complete or partial) ban on outward FDI (IMF 2005b). However, more than 40 countries require their firms to obtain an approval, authorization or a licence from their Central Bank or Ministry of Finance before investing abroad. In some cases, approval is based on subjective criteria such as national interests,[9] while in others it depends on the value of a project.[10] In most countries, restrictions on outward FDI apply to all sectors and industries without discrimination. However, there are exceptions. For instance, the Republic of Korea requires prior notification to and approval by the Ministry of Finance and Economy for domestic financial institutions to invest in businesses other than financial and for any resident to invest abroad in banking and insurance.[11]

Finally, with a view to ensuring that FDI brings benefits to the home economy, some countries have imposed requirements upon firms that invest abroad. Serbia and Montenegro and Viet Nam, for example, both require the submission of reports on company activities or operations overseas, financial statements, the repatriation of dividends and profits and payment of taxes on corporate profits.[12]

Whether or not restrictions on outward FDI are efficient, they do little to address the problems related to the possible job losses and structural changes that may result from outward FDI. Little is known about the counterfactuals to outward FDI. Would the enterprises be able to survive and thrive even if they were not allowed to undertake their foreign investments, or would they just become weaker in comparison with those competitors that are allowed to invest abroad? Thus, for countries

Box VI.2. South Africa's outward FDI policy: emphasis on Africa

South Africa is the major source of outward FDI from Africa. The evolution of its post-apartheid policies governing such investment reflects the Government's objective to integrate the country into the region and the world and to play a leading role in regional development.

Over the past decade, South Africa selectively, but progressively, liberalized its outward FDI policies (Rumney 2005, p. 5). Until limits on outward FDI were eventually abolished in October 2004, the Government consistently allowed greater investments into Africa than into other parts of the world (box table VI.2.1). Even after October 2004, firms are required to obtain approval from the South African Reserve Bank. Requests for approval are considered on the basis of the likely impact of their investment abroad on the home economy's balance of payments. The Bank reserves the right to intervene in capital outflows for very large investments in order to manage potential adverse effects on the foreign-exchange market.

The observed involvement of South African State-owned enterprises in infrastructure projects throughout Africa partly reflects the country's commitment to promoting the NEPAD process (chapter III). Eskom, a State-owned energy company, has invested in a number of joint-venture projects in Angola, Botswana, the Democratic Republic of the Congo, Lesotho and Namibia. The national oil company, PetroSA, has interests in Algeria, Gabon and Nigeria, while Transnet, a State-owned enterprise in transportation, has invested in Madagascar, the United Republic of Tanzania and Zambia. These institutions not only provide finance, they also underwrite risk. In addition, the Industrial Development Corporation supports industrial development in the Southern African region by taking up equity stakes in overseas projects. It has equity interest in 89 projects and export finance transactions in 28 African countries (www.idc.co.za). The Development Bank of South Africa is engaged in the financing of infrastructure projects.

Box table VI.2.1. South Africa's gradual easing of restrictions on outward FDI

Year	Change in policy
Pre-1996	Firms were permitted to invest only in Lesotho, Namibia and Swaziland.
1997	Investments of up to 50 million rand were allowed in countries of the Southern African Development Community (SADC) and up to 30 million rand elsewhere.
1998	Limits increased to 250 million rand in SADC and 50 million rand elsewhere, although for approved projects 55 million rand could be invested.
1999	Limits increased to 750 million rand in SADC and 500 million rand in other African countries.
2002	Limits increased to 2 billion rand in Africa and 1 billion rand elsewhere.
Early 2004	Limits increased to 2 billion rand for each new and approved investment into Africa and 500 million rand for investments outside Africa. Consideration was to be given to requests by firms to utilize their local cash holdings to finance up to 20% of the excess costs of the new investment if the overall cost of the investment exceeded the respective limits. The remainder was to be financed through foreign borrowing, the terms of which had to be disclosed to the South African Reserve Bank.
October 2004	Limits on outward FDI were abolished.

Source: UNCTAD, based on IMF 2005b.

Source: UNCTAD.

Table VI.1. Economies with no controls on outward FDI, 2005

Region	Economy
Developed countries	Australia, Austria, Belgium, Canada, Czech Republic, Cyprus, Denmark, Estonia, Finland, France, Greece, Hungary, Iceland, Ireland, Israel, Italy, Luxembourg, Malta, Netherlands, New Zealand, Norway, Portugal, San Marino, Slovakia, Slovenia, Spain, Sweden, Switzerland, United Kingdom.
Africa	Angola, Botswana, Democratic Republic of the Congo, Egypt, Gambia, Kenya, Liberia, Mauritius, Nigeria, Uganda, Zambia.
Latin America and the Caribbean	Antigua, Bolivia, Chile, Costa Rica, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, Venezuela.
Asia and Oceania	Brunei Darussalam, Cambodia, Hong Kong (China), Indonesia, Iraq, Jordan, Kuwait, Maldives, Micronesia, Oman, Palau, Qatar, Saudi Arabia, Singapore, Timor-Leste, United Arab Emirates, Yemen.
South-East Europe and CIS	Armenia, Bosnia and Herzegovina, Croatia, Georgia, Kyrgyzstan, Romania.

Source: UNCTAD, based on IMF 2005b.

that have reached a certain level of development, and have domestic firms that could benefit from investing abroad, overly stringent restrictions on outward FDI may be counterproductive. However, there could be a need for policies targeting those groups in society that might be affected as a result of outward investment (section VI.A.3).

b. Active promotion of outward FDI

As highlighted in the previous chapter (section A), FDI can generate various benefits for the home economy. It may lead to an upgrading of jobs and productivity in the TNC's home country that focuses on more advanced activities – more

Box VI.3. The gradual liberalization of outward FDI policies in the Republic of Korea

Outward FDI from the Republic of Korea remained insignificant until the mid-1980s, being originally discouraged by the Government, except for the purpose of securing a stable supply of raw materials or facilitating exports. As the economy developed, the Government's policies on such FDI gradually changed. Four stages can be distinguished in this process.

Stage 1 (1968-1974)

Investing abroad was first permitted in 1968, leading some firms to venture abroad in the early 1970s, mainly in forestry, manufacturing and trading. However, given the concern over chronic current-account deficits the Government maintained various restrictions on outward FDI to mitigate the risk of capital flight.

Stage 2 (1975-1980)

During this period, the Government established guidelines for approval and monitoring of outward FDI. Prior authorization of investment projects was required and strict qualification requirements enforced. Applications for outward FDI projects were approved only for the following purposes: when they were expected to develop and import raw materials which could not be sourced domestically; to relieve bottlenecks in exports; secure a fishery area; or relocate an industry abroad to enable it to regain its international competitiveness.

Stage 3 (1981-1990)

In 1981, the procedure for investing abroad was simplified. Restrictions on investor qualifications were eased and the requirement for prior authorization of investment plans was abolished. However, it was not until 1987 that a liberalization began in earnest. The emergence of a current-account surplus led to an easing of foreign exchange constraints on outward FDI. Moreover, since traditional labour-intensive industries were losing competitiveness due to rising wages and an appreciating currency, relocation of production to lower-cost locations offered one way to cope with increasing competition. The Government established a system whereby firms were allowed to invest abroad in projects of less than $1 million simply by notifying the Bank of Korea. Both the application procedure and investor qualifications were further simplified.

Stage 4 (1991-present)

Despite a current-account deficit in 1991, and the lackluster performance of some outward FDI projects, liberalization continued. In 1994-1995, for projects up to a certain size, outward investors were required simply to obtain a certificate from foreign exchange banks. However, as a prudential measure, a self-financing requirement was introduced in October 1995, but later abolished.[a] From 1996, FDI was permitted in all business categories and the year after, procedures were transferred to the notification (reporting) system for all FDI projects from the authorization (permission) system. Since April 1999, regardless of project size, prior notification to and approval by a foreign exchange bank is the only requirement for overseas investments.[b] With burgeoning foreign exchange reserves and an appreciating currency, the Government has now begun actively to promote outward FDI.

Source: UNCTAD, based on ESCAP 1998, Moon 2005 and information from the Government of the Republic of Korea.

[a] Foreign affiliates with financial assistance of less than $100 million from the parent company were required to finance 10% of that amount. If financial support from the parent company exceeded $100 million, the foreign affiliate was required to raise 20% through self-financing. This requirement was later abolished.

[b] There are some exceptions. Prior notification to and approval by the Ministry of Finance and Economy are required for domestic financial institutions to invest in any other business and for any resident to invest abroad in banking and insurance business, and for investments of more than $10 million by financially vulnerable companies.

capital- and skill-intensive jobs – and typically pay higher salaries. Moreover, it may secure raw material sources and bring in new knowledge and valuable new technologies, both when the outward investment is of a "strategic asset-seeking" type and when there is no explicit motive to access technology: the mere presence in a foreign market is likely to generate various knowledge spillovers back to the home country. Indeed, as noted earlier developing home countries potentially have more to gain from outward FDI, especially in terms of accessing technology. However, certain local capabilities are needed in the investing firm to exploit foreign technologies. Indeed, the level of absorptive capacity in the domestic enterprise sector is an aspect that should influence the extent to which governments engage in active outward FDI promotion.

In general, countries should reach a certain level of development before undertaking outward FDI-enhancing measures. Many of the low-income countries may be well-advised to create a generally more conducive business environment for their firms. This may involve measures such as reducing red tape, improving access to skilled labour, developing the basic infrastructure and improving access to finance. For example, a survey of Chinese investors found that the main impediments to outward expansion were related to limits on foreign exchange, a lengthy application process, limited sources of finance, and costs associated with procedures and regulations (Yao and He 2005).

Several developing countries, mostly in Asia, have not only liberalized their outward FDI policies, but are also actively encouraging their firms to internationalize through FDI. A number of them now view outward FDI as an important vehicle to strengthen the competitiveness of their firms and industries. Similar trends are also apparent in other developing regions.[13] Recent official policy statements indicate that outward FDI promotion has become a priority for some governments, implying that the traditional, cautious attitude towards FDI is changing.

- Singapore declared 2004 as the year of internationalization (UNCTAD 2006, p. 13). The Government has implemented a range of measures to facilitate the international expansion of its public as well as private companies.
- China's "going global" strategy outlined in 2000 is among the most explicit policy initiatives taken by a developing country to boost FDI overseas (box VI.4).
- The Prime Minister of India has specifically stated that: "Our Government will remove all barriers to growth and encourage Indian companies to go global".[14]
- According to the Deputy Prime Minister of Thailand, "It is critical that the broadening and deepening of competitive edge be pursued in multiple dimensions... In the context of Asia, I am referring to the "Pan-Asia super companies"... Some Thai companies are now on the Pan-Asian track, partnering up with multinationals from other Asian countries" (Attapich and Uruyos 2005, p. 27).
- In his budget speech in 2001, South Africa's Minister of Finance recognized: "The global expansion of South African firms holds significant benefits for the economy – expanded market access, increased exports and improved competitiveness".[15]
- The Government of Brazil in 2003 urged its business people to "abandon their fear of becoming multinational businesspersons".[16] Indeed, it has set as a target for the country "to have 10 really transnational companies by the end of President Lula's term of office".[17]

(i) Main instruments used to promote outward FDI

Initial efforts by developing countries to promote internationalization of their firms through FDI may start small and proceed on an incremental basis. A first step may be to dismantle artificial barriers to outward FDI, including relaxing controls and raising financial limits for investments abroad. Once a country decides to use outward FDI as a strategic tool to integrate with global markets and production systems, the next promotional steps are likely to involve measures linked to provision of information, matchmaking and related services. Some governments may also decide to offer certain types of incentives and insurance coverage.

- Dissemination of information on actual or potential investment opportunities via publications, databases, face-to-face contacts and seminars may be particularly relevant for promoting FDI from developing economies with nascent private business support services. Smaller and inexperienced potential investors are likely to benefit most from such support.

Box VI.4. China's "going global" strategy

China's "going global" strategy was envisaged in the mid-1990s and formally adopted in 2000. Today, it is an integral part of the country's overall strategy of economic openness.

The essence of the strategy is to promote the international operations of capable Chinese firms with a view to improving resource allocation and enhancing their international competitiveness. It covers three areas: overseas investment by Chinese firms, overseas construction contracting and international service provision. The Ministry of Commerce (MOFCOM) is responsible for implementing and coordinating the strategy. Another central Government agency involved in the implementation of the strategy is the National Development and Reform Commission (NDRC).

Overseas investment has become the focal point of the "going global" strategy. In recent years, outward FDI has increasingly been encouraged through provision of information about foreign locations, the granting of incentives and a gradual relaxation of foreign exchange controls. A supporting mechanism with the participation of various departments of the central Government is being set up. The Government also facilitates and protects overseas investments of Chinese firms by actively participating in various bilateral and multilateral initiatives.[a]

China's policy on outward FDI has become increasingly formalized in a series of regulations, such as:

- 2004 *Interim Administrative Measures on the Approval of Overseas Investment Projects* (NDRC)
- 2004 *Circular on the Supportive Credit Policy on Key Overseas Investment Projects Encouraged by the State* (NDRC and the Export-Import Bank of China)
- 2005 *Provisions on Issues Concerning the Approval of Overseas Investment and Establishment of Enterprises* (MOFCOM).
- Various other regulations and circulars on foreign currency management, statistics, performance assessment and State-owned asset management.

A selective support policy has been adopted to encourage outward FDI. In October 2004, the NDRC and the Export-Import Bank of China (EIBC) issued a circular to promote (i) resource exploration projects to mitigate the domestic shortage of natural resources, (ii) projects that promote the export of domestic technologies, products, equipment and labour, (iii) overseas R&D centres to utilize internationally advanced technologies, managerial skills and professionals, and (iv) M&As that could enhance the international competitiveness of Chinese enterprises and accelerate their entry into foreign markets. To promote these selected types of FDI the Government offers preferential credit and other incentives.[b]

The "going global" strategy appears to have contributed to the expansion of outward FDI from China. A recent survey conducted by the Asia Pacific Foundation of Canada and the China Council for the Promotion of International Trade found it to be the second most important driving force behind Chinese outward FDI today (Asia Pacific Foundation of Canada 2005). At the same time the effectiveness of the strategy may have been hampered by certain government regulations. For example, in a 2005 survey of Chinese companies, the approval process was found to be unnecessarily complicated, while restrictions on the use of foreign exchange were considered too stringent (Yao and He 2005). The decision by the State Administration of Foreign Exchange to abolish quotas on the purchase of foreign exchange for overseas investment on 1 July 2006 may be an important step in addressing such concerns.[c]

Source: UNCTAD.

[a] As of February 2006, China had concluded BITs with 116 countries and is actively participating in various regional economic integration initiatives.

[b] The EIBC arranges "special loans for overseas investments" through its export credit plan and accelerates the process of project screening. The NDRC works with other agencies to improve the risk control mechanism for overseas investment.

[c] See MOFCOM website (www.mofcom.gov.cn/aarticle/b/bf/200605/20060502256191.html).

- Countries such as Malaysia, Mexico, Republic of Korea,[18] Singapore and Thailand provide *match-making services* that include inviting investors to participate in official missions to targeted countries to find investment opportunities and meet with high-level government officials. The Thai Board of Investment, for example, has set up country desks (dealing with China, Japan, the United

States, Europe and the Association of Southeast Asian Nations) to help interested Thai overseas investors find partners in these host countries.

- Some developing economies offer *training services* to actual and potential outward investors**.** Various *technical services*, such as organizing investment missions, provision of legal assistance, consultancy services and feasibility studies, are also sometimes provided.
- Some countries, including Singapore, the Republic of Korea and Mexico, have created *"comfort zones"* in host countries – a novel approach to facilitate outward FDI. An often-cited case is the China-Singapore Suzhou Industrial Park. The idea was to offer a one-stop point of access to various government ministries as well as Singapore-style education, health and recreation facilities, and an international school. Similar parks were subsequently set up in India and Indonesia.[19] Similarly, to support SMEs' efforts to penetrate IT markets abroad, the Government of the Republic of Korea operates overseas IT support centres ("iParks"), which offer marketing, legal and financial administrative services. The iParks also host seminars on regulations, patents and initial public offerings (IPOs).[20] By December 2005 eight iParks had been established in China, Japan, Singapore, the United Kingdom and the United States, which hosted a total of 67 resident companies.[21]
- *Incentives* can be used to reduce the cost of outward investment projects, and they may also influence a firm's locational as well as operational decisions. They take various forms, including preferential loans, equity finance, export credits and tax incentives. As in the case of incentives used to attract inward FDI, questions about their cost-effectiveness can arise. Incentives can distort the allocation of resources and imply a drain on scarce public resources. Before granting any incentives, countries should seek to assess whether such incentives are warranted in terms of priority and associated costs and benefits. Few such evaluations of outward FDI incentives are available, but a survey in Malaysia found that incentives were of limited importance to the investors that responded (Zainal 2005).[22] A review of the use of various incentives by developing countries that actively promote outward FDI confirms that governments assess the usefulness of incentives in different ways. In general, they are most frequently used by countries in developing Asia (box VI.5) and only rarely in Latin America or Africa.[23]
- *Investment insurance* is increasingly used to facilitate outward FDI. Insurance is provided mainly against political risk, and includes coverage for currency transfer restrictions, expropriation, war and civil disturbance and breach of contract.

Political risk – the risk to a project due to adverse government actions[24] – is becoming a growing concern for TNCs from developing countries, and perceptions of this risk are inhibiting FDI. While developed-country firms have long been aware of how to mitigate such risk, most developing-country TNCs are only just beginning to realize the potential pitfalls from failing to appreciate its importance.

The market for political risk insurance in developing countries is still small. This is because, first, significant South-South FDI is a recent phenomenon, and as a result, demand for political risk insurance from developing-country TNCs has been limited. There has been a general lack of awareness of the product, differing levels of risk perception and cost considerations that have affected demand. Second, on the supply side, the number of public political risk insurance providers in developing countries is limited, compared with developed countries, and there have been few private firms or agencies offering such insurance. Traditionally focusing on trade, export credit agencies (ECAs) in developing countries have not yet fully developed political risk insurance services for investors and their capacity to underwrite is limited.

There are, however, indications that concerns about political risk and awareness of risk mitigators are growing as investors from developing countries seek out business opportunities in other developing countries (box VI.6). This has led to a growing number of developing-country ECAs that offer political risk insurance, and these institutions are aiming to strengthen their programmes. At the end of 2005, there were 17 ECAs based in developing countries that were full members of the Berne Union, the international organization for the export credit and insurance industry. Another 17 agencies based in developing countries are members of the

Box VI.5. Incentives for outward FDI: Asian examples

Singapore offers various grants, loans, tax incentives, and equity financing to promote outward FDI (UNCTAD 2005b). Under its Internationalization Road-mapping Program, a maximum of 70% of the costs of a project of a certain size can be borne by International Enterprise Singapore. Equity financing is provided for overseas expansion that matches 1 Singapore dollar (S$) for every S$2 raised from third-party investors. A double deduction of up to S$200,000 per approval is permitted against the income of approved expenditures incurred in initiating and developing outward FDI. Tax exemption is allowed on 50% of the qualifying overseas income that exceeds a predetermined base.[a] A minimum loan of S$200,000 can help improve companies' access to offshore financing for investment. The Local Enterprise Finance (Overseas) scheme offers a number of fiscal incentives, such as tax exemption for up to 10 years.[b]

Malaysia grants tax exemption on remittances from income earned overseas, and tax deduction for "pre-operating expenses" (Ragayah 1999, p. 470). Investors can also deduct costs incurred in acquiring foreign-owned companies.

As part of its Overseas Investment Policy Package, the *Republic of Korea* has announced that more support will be offered to companies expanding abroad, including via FDI. Measures include an export insurance fund and credit risk cover. In addition, the EXIM Bank provides loans which can cover up to 80% (90% for SMEs) of the funds required for investment projects.

China offers medium- and long-term loans on preferential terms as well as investment insurance (UNCTAD 2005l). It allows foreign investing firms to retain all the foreign exchange they earn within five years of their establishment, after which they pay income tax and submit 20% of their stipulated foreign exchange quota (Giroud 2005, p. 25). The EIBC (Bank of China) and other State-owned banks have played a key role in financing some of the most highly publicized recent deals (Antkiewicz and Whalley 2006).[c] In late 2005, the Ministry of Finance established a special fund to support Chinese enterprises' overseas investments and other international operations by providing direct grants and subsidies for interest payments.[d]

Through its EXIM Bank, *Thailand* grants long-term loans of up to 85% of the cost of construction work to contracting parties in foreign countries who engage Thai firms, and short- to medium-term credit to be used as working capital for work under contract.[e] Long-term credits are available to support Thai investors' overseas investment projects. The EXIM Bank also extends loans for overseas FDI projects and arranges syndicated loans for capital-intensive projects. As part of the so-called Kitchen of the World programme, Thai investors who wish to open Thai restaurants in foreign countries can also benefit from special loans (UNCTAD 2005i).

Source: UNCTAD.

[a] Its firms can claim capital allowances for approved expenditure on plant and equipment used in overseas subsidiaries.

[b] Capital losses from the sale of shares can be deducted from the investor's other income, and double deduction of certain expenditures (e.g. feasibility studies, establishment of overseas office) is also allowed. Tax exemption is granted for gains from investment in shares, dividends from foreign investment and interest from convertible loans. Various forms of personal and family support is also given.

[c] For example, the EIBC Bank led a group of banks that agreed to lend $6 billion to China's National Petroleum Corporation (CNPC) when it sought a stake in the Russian oil company, Yukos.

[d] See www.mofcom.gov.cn/aarticle/b/bf/200605/20060502256191.html.

[e] See www.exim.go.th, accessed in April 2006.

Prague Club, an informal network for agencies that do not yet meet the membership requirements for the Berne Union.[25] In addition, foreign private providers and brokers of political risk insurance are increasingly looking to enter countries where the insurance industry is being deregulated.

(ii) Agencies promoting outward FDI

Countries differ considerably in their institutional set-up for implementing policies aimed at promoting outward FDI. While most developing countries do not have designated agencies for this purpose, a few governments have created various

Box VI.6. Political risk insurance as a tool for promoting South-South investment

Political risk insurance is becoming better known in the developing world as a risk mitigation tool. Developing-country TNCs are improving their management expertise and access to a variety of financial and risk management tools that help them capitalize on growth opportunities in developing and transition economies. The experience of Investcom Holding LLC (Investcom) offers an insight into how companies from developing countries may use political risk insurance to seize growth opportunities in operating environments that may be perceived by other investors as too challenging.

Investcom is a telecommunications company based in Lebanon. It recently merged with MTN Group Ltd. (South Africa). The company's portfolio of investments now spans underserved markets in countries such as Afghanistan, Guinea and Yemen. Its key advantage is its knowledge of working in environments seen by United States or European telecom companies as being too difficult, risky or remote. During the civil war in Lebanon, Investcom learnt some valuable lessons, which made it better equipped to invest in what were perceived as high-risk places.

Risk mitigation and access to financing have been critical to the management of its investments in difficult environments. The company has used political risk insurance not only to manage its non-operational risks but also to obtain the needed finance. It has partnered with MIGA – a World Bank institution that provides political risk insurance for the private sector – for three of its investments in West Asia and Africa.

It is a major benefit of political risk insurance that it can be used as collateral to obtain bank loans. In the case of Investcom, while the company would have contemplated taking political risk insurance in the countries it was planning to invest in, the fact that it could leverage the guarantee to obtain funds from banks was the deciding factor.

Source: MIGA.

bodies that specialize in providing different support to firms wishing to invest/expand abroad. Singapore stands out with the most sophisticated set of such policies that are integrated into broader efforts to promote competitiveness (box VI.7). Active promotion of outward FDI involves a series of policy instruments and agencies – public as well as private (box VI.8). The most important public bodies in this respect include: trade promotion agencies, investment promotion agencies (IPAs) and export credit and insurance agencies.

As exports and FDI represent alternative ways of serving foreign markets, some countries have added outward FDI promotion to the tasks of their *trade promotion organizations* (TPOs). An UNCTAD survey of TPOs conducted in early 2006 found that this is relatively common in developed countries (table VI.2). It also found that a number of developing and transition economies – including Brazil, Georgia, Jamaica, Kenya, Morocco, Oman and Singapore – are adopting a similar approach, and several others are planning to do so. While the nature of the support offered by TPOs for outward FDI promotion differs, market information and match-making services of some kind are the most commonly offered (table VI.3).

In some developing countries, *investment promotion agencies* (IPAs) responsible for attracting *inward* FDI, like some TPOs, have also become involved in the promotion of *outward* FDI, such as the Economic Development Board (EDB) in Singapore (box VI.5), the Foreign Investment Agency of Viet Nam, and the Malaysian Industrial Development Authority (MIDA).

Another key agency deployed by developing countries to increase their outward FDI is a specialized ECA, such as an *Export-Import (EXIM) bank* or other financial institution that can provide insurance cover and extend credit to overseas investors. Such agencies typically provide short-term export credit insurance and credit facilities (such as letters of credit) as well as medium- and long-term insurance, credit and guarantee programmes that are similar to those provided by their private-sector counterparts in advanced countries. In some countries, such as Malaysia, Thailand[26] and Turkey, the EXIM Bank is a key agency for the promotion of outward FDI. The EXIM Bank in Malaysia, for example, explicitly supports Malaysian companies, especially those in labour-intensive industries, to relocate to countries where labour is cheaper (box VI.9). The

Box VI.7. Singapore's outward FDI promotion strategy

Until the mid-1990s, FDI from Singapore was relatively insignificant, heavily concentrated in adjacent Malaysia, and focused on the manufacturing and financial services sectors. To promote outward FDI, in 1994 the Government introduced a regionalization strategy with two distinct objectives: to facilitate FDI by Singaporean enterprises and to transform Singapore into a regional headquarters for TNCs operating in Asia. The strategy sought to consolidate Singapore's comparative advantages in the region, attract high value-added industries to Singapore, and develop the international competitiveness of Singaporean firms. The three main agencies directly involved are: International Enterprise Singapore (IE Singapore), the Economic Development Board (EDB) and the Standards, Productivity and Innovation Board (SPRING). In addition, government-linked companies (GLCs) have assumed an important role.

IE Singapore's mission is to help Singapore-based enterprises grow and internationalize successfully. In Singapore as well as in 37 overseas centres it provides various services, including market information and assistance in building up business capabilities and in finding overseas partners. Its Regionalization Finance Scheme assists local SMEs to set up overseas operations and offers fixed rate loans for acquiring fixed assets for overseas projects. These overseas operations must complement the activities of the Singapore operations and result in economic spin-offs for Singapore. The Overseas Investment Incentive of IE Singapore provides a three-year support programme to encourage local companies to make overseas investments that will generate benefits for Singapore, such as the enhancement of operations in Singapore, and the creation or acquisition of new markets overseas that will increase production and export sales and services of companies from Singapore. The Enterprise Fund can also help find customized financial solutions to overseas investors.

The *EDB* was established in 1961 as a one-stop IPA to assist foreign firms in their operations in Singapore. While its main focus is still inward FDI, since 1993 the agency has a division specifically for promoting the regionalization of Singaporean firms. Among other things, it offers an Approved Foreign Loan Incentive to help improve companies' access to offshore financing. The Expansion Incentive for Partnerships provides tax exemption on 50% of the qualifying overseas income with a view to assisting Singaporean companies in establishing competence and conducting regional activities. The EDB also has an investment arm that acts as the "visible hand" of the Government for promoting productivity, innovativeness and competitiveness of local companies.

SPRING's mission is to enhance the competitiveness of local enterprises, particularly SMEs. It nurtures a pro-business environment that encourages enterprise formation and growth, facilitates the growth of industries, enhances productivity, innovation and capabilities of enterprises, and helps improve access to markets and business opportunities.

There is generally no restriction on using financial support from IE Singapore, EDB and SPRING for overseas operations or market expansion, as long as the core and highest value activities remain in Singapore.

Source: UNCTAD, based on Toh 2006 and UNCTAD 2005b.

Table VI.2. TPOs and outward FDI promotion: results from a survey

Region	TPOs that promote exports and outward FDI	TPOs that promote exports and that *are planning* to start promoting outward FDI	TPOs that promote exports and that *do not plan* to promote outward FDI
Developed countries	Austria, France, Hungary, Italy, Japan, Norway, Slovenia, Spain (Catalonia)	Czech Republic, Lithuania	Latvia, Malta, United Kingdom
Developing economies	Brazil, Jamaica, Kenya, Morocco, Oman, Singapore	Belize, Botswana, Fiji, Mongolia, United Republic of Tanzania	Argentina, Chile, Cook Islands, Cuba, Dominica, Hong Kong (China), Mozambique, Nepal, Turkey
South-East Europe and CIS	Georgia	Bulgaria	Croatia, Serbia and Montenegro

Source: UNCTAD survey of TPOs, January-March 2006.

Box VI.8. Private sector assistance to overseas investment - some examples

In some countries, such as India, Malaysia (box VI.9), South Africa, Thailand, Turkey and Viet Nam, there are instances of the private sector (e.g. business councils, business consortia and chambers of commerce) offering relevant services.

- The Federation of Indian Chambers of Commerce helps Indian businesses improve their competitiveness and enhance their global reach through research, interactions at the highest political level and global networking. India's Joint Business Councils have also opened up business opportunities abroad. Such councils have been established in over 69 countries, including Australia, China, Japan, the Republic of Korea and the United States. The Councils meet regularly to promote two-way trade and investment.
- The South African Institute of International Affairs publishes an annual *Business in Africa Report*, which tracks the experiences of companies' investments in Africa and provides policy recommendations. The Chambers of Commerce and Industry in South Africa also help in facilitating business opportunities and activities in a regional context and further afield.[a]
- In Thailand, the Federation of Thai Industries and the Thailand Board of Trade have recently become active in promoting Thai businesses abroad (Brimble and Sibunruang 2005, p. 13).
- In Turkey, Bilateral Business Councils offer information, organize meetings and provide various financial support to outward investors (Erdilek 2005, p. 15).
- The Viet Nam Chamber of Commerce and Industry offers various programmes including a comprehensive support services for foreign investment missions.

Source: UNCTAD.
[a] See www.saiia.org.za and www.chamsa.org.za/policy.html.

EXIM Bank in Turkey, contributed to the initial wave of Turkish FDI into the Balkans, the Russian Federation and Central Asia (Erdilek 2005, p. 14). In India, the EXIM Bank originally proposed the creation of an automatic approval system, and has since supported over 120 ventures in more than 40 countries (Subramanian 2005).

Relatively little is known about the effectiveness of individual policy instruments, as there have been few serious evaluations. However, all promotional measures involve costs of some kind. Every country therefore needs to determine the optimal level and form of support to outward FDI in the context of its particular situation. The

Table VI.3. Services offered by TPOs promoting outward FDI

Economy	Information provision	Match-making services	Incentives	Feasibility studies	Legal support	Support to training	Investment guarantees
Austria	X	X	X	X	X		
France	X	X		X	X		
Hungary	X	X		X			
Italy	X	X	X	X	X	X	
Japan	X	X		X	X	X	
Norway	X	X	X	X		X	
Slovenia	X	X		X	X	X	
Spain (Catalonia)	X	X	X	X	X	X	
Brazil	X	X					
Jamaica	X	X	X				X
Kenya	X	X		X		X	
Morocco	X	X					
Oman	X	X			X	X	X
Singapore	X	X	X	X	X	X	
Georgia	X	X		X			

Source: UNCTAD survey of TPOs, January-March 2006.
Note: Based on responses from those TPOs that stated that they promote outward FDI.

Box VI.9. Malaysia's approach to outward FDI promotion

Malaysia has a range of agencies involved in the promotion of competitiveness in general and outward FDI in particular. The institutions involved in facilitating overseas investment are the EXIM Bank, the Malaysian Export Credit Insurance Berhad (MECIB); the Malaysian South-South Association (MASSA); as well as such institutions under the Ministry of International Trade and Industry (MITI), such as the Malaysia External Trade Development Corporation (MATRADE) and the Small and Medium Industries Development Corporation (SMIDEC).

The primary responsibility lies with the EXIM Bank. It provides financial and advisory services to Malaysian overseas investors. Financial support is granted through four kinds of facilities:

- The Overseas Project Financing Facility supports Malaysian investors undertaking projects overseas (e.g. in manufacturing, infrastructure and other developmental projects);
- The Supplier Credit Facility aims to boost Malaysian exports to international markets;
- The Export Service Facility supports Malaysian companies involved in providing consultancy services in foreign countries in selected areas;
- The Export Credit Refinancing Scheme offers competitive interest rates and guarantees to lenders involved in high-value capital goods and service activities.

MECIB provides export credit insurance services to Malaysian corporations for exports as well as for their investments abroad. For example, its Overseas Investment Insurance assists Malaysian companies in protecting their overseas investments and profits against transfer restrictions, expropriation, war and civil disturbances, and breach of contract.

Specific attention is given to South-South relations. For example, *MASSA* aims to promote bilateral trade and investment ties with other developing countries, through such activities as organizing business forums/dialogue sessions, fact-finding, trade and investment missions abroad to developing countries, and information related to trade and investment opportunities in developing countries. MASSA's investment arm, *MASSCORP* is a consortium of 85 Malaysian firms from various industries that, among other things, also promotes overseas investment by Malaysian companies.

SMIDEC encourages SMEs to engage with the international economy through cross-border investments. It offers three main services: (i) the Funds for Cross-Border Investment in Manufacturing programme, which was designed to facilitate relocation or expansion of Malaysian SMEs' operations abroad;[a] (ii) overseas investment facilities (export credit insurance and gurantees); and (iii) the Malaysia-Singapore Third Country Business Development Fund, which assists firms from the two countries in identifying business opportunities in other countries, especially in South-East Asia. This Fund can also underwrite costs involved in conducting feasibility studies, commissioning market or business research, and organizing joint missions.

These three programmes are backed by other forms of institutional support, such as investment guarantee agreements negotiated between Malaysia and 64 other countries. These agreements cover insurance against non-commercial risks such as expropriation and they guarantee remittance of currency and profits – an area of major concern to potential investors abroad.

All the above programmes are backed by a network of offices abroad, operated by the MITI, which are able to offer Malaysian firms venturing abroad with various services. Firms can also receive various financial and tax incentives for cross-border investment, including tax relief on income earned outside Malaysia, tax deductions for pre-operating expenses, and incentives for acquisition of foreign-owned companies.

Source: UNCTAD, based on Zainal 2005.

[a] By end 2005, eight approvals had been granted to companies under this scheme, with funding of 54.6 million ringgit ($14.4 million), mainly for expansion to lower-cost locations within the ASEAN region.

impact of outward FDI depends in part on the specific capabilities of the domestic enterprises: the stronger they are, the more likely that benefits to overseas investors will generate spillovers to other domestic companies and institutions. For the same reason, it may make sense for a government to concentrate (target) its support to industries and activities in which the home country is particularly strong. The initiative by the Republic of Korea to set up iParks, targeting IT firms in particular, illustrates this point. Meanwhile, special attention may be needed to support SMEs by providing them with appropriate information, and helping them find partners or investment opportunities.

c. Home-country measures to promote South-South FDI

From the perspective of facilitating more FDI, technology and related financial flows to developing countries, increased FDI from developing countries implies new opportunities for "South-South" cooperation. As noted in chapter III, for many low-income countries, FDI from other developing countries accounts for the bulk of the capital they receive. This is partly linked to the nature of the ownership-specific advantages of the TNCs involved (chapter IV), which sometimes give them a competitive edge over developed-country rivals when entering a particular host economy. This may be particularly true of intraregional South-South investment, where developing-country TNCs may benefit from close geographic and cultural proximity to the destination. But there is also scope for policymakers to be proactive in encouraging South-South investment.

This point was recognized at the Second Summit of the Group of 77 held in Doha, Qatar in June 2005, where investment was identified as one area of enhanced collaboration. To further explore opportunities for such collaboration, the Plan of Action of the Summit, called on the Chairman of the Group of 77, with the support of UNCTAD and the Special Unit for South-South Cooperation, to

> "organize periodically a forum on investments among the countries of the South, for discussion and the publication of successful experiences among developing countries in that field…" (para. 88).

A number of developing countries are already explicitly promoting South-South FDI. In South Africa, the Government grants special treatment to FDI going to the Southern African region, and encourages its State-owned enterprises (e.g. Transnet and Eskom) to invest in infrastructure in that region (box VI.2).[27] These and other investments in the African region are supported by institutions such as the Development Bank of Southern Africa and the Industrial Development Corporation of South Africa.

During the 1978-1992 period, India accorded special treatment to investments going to other developing economies (UNCTAD 2005i). Singapore has launched various programmes, including Regionalization 2000, aimed at encouraging intraregional FDI by Singaporean companies (UNCTAD 2005b). In Malaysia, the Malaysian South-South Corporation Berhad (MASSCORP) promotes bilateral trade and investment ties between countries in the South by serving as a platform and link between Malaysian businesses and other developing countries (box VI.9, Zainal 2005).[28] Intraregional South-South FDI is also promoted through various regional integration schemes (discussed in section C below). While most South-South FDI is intraregional in nature, some Asian countries have adopted measures to promote interregional investment, particularly between Asia and Africa (see, for example, World Bank 2004, pp. 69-70).

There are also international organizations that provide political risk insurance to support South-South FDI. Key among these is the Multilateral Investment Guarantee Agency (MIGA), which has witnessed an increase in its coverage of South-South investments. In fiscal year 2000, MIGA supported six South-South projects, while in 2006, the agency issued guarantees worth more than $291 million for 15 such projects. The bulk of the South-South investments originated from companies in middle-income countries, for example, a Malaysian firm investing in a housing project in Ghana, and an Egyptian firm investing in the telecommunications industry in Bangladesh. Moreover, half of the investors investing in developing countries were from the same region or geographically close, such as a South African firm investing in Uganda, or a Colombian firm investing in Ecuador. MIGA also increases insurance capacity and expertise in developing countries through its work with local export credit agencies (box VI.10).

UNCTAD has been making efforts to enable the sharing of experiences among various institutions that can financially support South-

South trade and investment. Its proposal for the creation of a network of EXIM banks and development finance institutions (DFIs) was endorsed at the Doha High Level Forum on Trade and Investment in December 2004, and the first meeting of the Global Network of Export-Import Banks and Development Finance Institutions (G-NEXID) was held in Geneva in March 2006.[29] G-NEXID is intended to boost agreements between developing-country EXIM banks and DFIs to reduce costs of trade between the world's poorer nations. It will spur cross-border investment, make financing more readily available to new and innovative businesses and enable the growth of niche markets. The network will allow developing countries to learn from each other about effective practices for entering new markets, the financing of non-traditional goods and services, and risk-sharing methods for investments.[30]

Box VI.10. MIGA's assistance to export credit agencies

MIGA uses a range of reinsurance and co-insurance products with ECAs, partnering with them to leverage each others' guarantee capacities and to manage better the risk profiles of their portfolios. MIGA's partnership encourages other insurers to participate in projects they might otherwise avoid insuring and to venture into frontier markets. Insurers partnering with MIGA benefit from the agency's expertise in risk analysis, claims management and recoveries. Through facultative reinsurance and its cooperative underwriting programmes, MIGA can form syndicates of private and public sector insurers in order to be able to support projects that exceed their individual capacity. With respect to South-South investments, in recent years it has entered into a number of agreements and partnerships with agencies such as Islamic Corporations for the Insurance of Investment and Export Credit, Export-Import Bank of Thailand and the Export Credit Guarantee Agency of India.

MIGA also provides technical assistance and training to developing and transition economies' ECAs through seminars and training sessions. It has co-hosted with the Slovene Export Corporation a seminar for Central and Eastern European agencies, and conducted training seminars for the staff of Sinosure, the Chinese ECA, and local banks in China.

Source: MIGA.

3. Mitigating potential risks associated with outward FDI

Even in countries that have gone far in liberalizing outward FDI, there are concerns related to the ultimate impact on the home economy (chapter V). Potential risks for the home economy may include export of jobs, hollowing out and balance-of-payments problems. The expected effects depend on the motives for investing abroad, the conditions in the home economy and the relative position of the home country's industrial sectors in global value chains. Most importantly, if the home country does not provide competitive conditions for production, TNCs may decide to relocate the most attractive jobs to other countries. Thus, policies aimed at creating a favourable business environment in the home country may be the best way to secure benefits from outward FDI.

However, the increase in outward FDI may result in a loss of policy autonomy of the national government, since TNCs may make reasonably credible threats to move production if they find national economic policies not conducive to their requirements. Indeed, possibilities of using transfer pricing to shift profits (and tax revenue) out of the home country may be strong enough to compel a government to adjust its policies. Moreover, competition between different countries may result in industries being subject to only a minimum set of requirements, and costs if financing the public sector, for example, may increasingly have to be borne by the less mobile tax base – consumers and wage earners rather than firms and capital owners.

There are various options at hand for countries to address possible negative effects from outward FDI. Home-country policies might be used to neutralize or alleviate the potential negative effects of the investment. For example, one concern in middle-income developing countries is that FDI aimed at seeking out lower-cost locations will have negative effects on their domestic unskilled labour. In the Republic of Korea and in Turkey (Erdilek 2005), the search for lower production costs has indeed been a motive for overseas investments (chapter IV). In this process, low-paid jobs are shifted offshore, and the jobs that remain at home typically are those that require higher skills. It may be desirable, or even necessary, to introduce policies targeting those groups in society that may lose out in this process. Adult education and training programmes, as well as programmes to encourage SME development are examples of

policy responses that support adjustments without obstructing the internationalization process.

In the Republic of Korea, the Government has adopted several measures to counter the risk of industrial hollowing out. First, to balance or complement outward FDI by its firms, the Government actively promotes inward FDI, especially for its high-tech industries. Second, particular attention is given to supporting domestic industries that produce parts and materials for export to Korean firms that have shifted some production abroad. In this way, the Government aims at increasing trade surpluses through intra-firm trade between foreign affiliates and their domestic parent companies; its support to technological development in strategic parts and materials is one example (Republic of Korea, MOCIE 2003). Third, concerted efforts are being made to expand and develop future growth industries. The Government has selected 10 such industries and sources of technology with the aim of acquiring and developing world-class technologies and products in certain fields by focusing on the development of new technologies in high growth industries.[31]

B. Implications for host-country policies

Increased FDI from developing and transition economies also has implications for recipient countries. First, a larger number of sources of FDI implies a more diverse set of countries for investment promotion agencies (IPAs) to target. For many low-income countries, South-South FDI already accounts for a large share of their inflows (chapter III); this pattern may be accentuated in the future. More potential sources of FDI may also provide individual governments in developing host countries with greater bargaining power in their relations with TNCs from developed countries (Gelb 2005). The growth of South-North FDI is also generating various responses in developed countries. On the one hand, some countries are taking active steps to present themselves as attractive locations for investments by TNCs based in developing and transition economies. On the other hand, some stakeholders view the entry of new competitors as an unwelcome development, and are proposing various protective measures, especially when the TNCs have entered, or tried to enter, developed markets through M&As.

1. Host-country policies for maximizing the benefits from South-South FDI

Given the possible effects of South-South FDI on recipient countries (discussed in chapter V), what kinds of policies would enable developing host countries to maximize the net benefits? Should FDI from developing and transition economies be addressed in a different way than FDI from developed countries, and if so why?

Given the diversity in terms of levels of development, economic structure, industrial specialization and geographic location of host and home developing and transition economies in the universe of FDI, any discussion on the role of host-country policies needs to remain at a relatively general level. Policies appropriate to an LDC are likely to differ from those warranted in a middle-income country, because each will attract different kinds of FDI, and because they are likely to have very different levels of sophistication of their legal and institutional frameworks as well as the absorptive capacity of their local enterprises. It may still be useful to consider what policy areas are particularly relevant in this context.

In principle, to benefit from inward FDI from developing and transition economies, policies should not differ significantly from those applied to FDI from developed countries. Thus, the same basic policy instruments can be used to attract, benefit from and mitigate costs associated with inward FDI, regardless of whether it is from developed countries or from developing or transition economies.

An important starting point for designing policies to optimize the benefits from inward FDI is to have a basic understanding of a country's comparative advantage and development objectives. This helps in assessing what kind of FDI can realistically be attracted as well as the possible consequences of potential inflows (*WIR02)*. As noted in chapter III, low-income countries are relatively more dependent on FDI from other developing countries, possibly indicating that such investments are easier to attract at an early stage of development. Moreover, a large proportion of these flows is often intraregional in nature. In terms of an investment promotion strategy, it may therefore be rational for low-income countries to pay particular attention to investors originating from other developing countries within their own

region.[32] Regional cooperation can be one element of such a strategy (see section C below).

In terms of enhancing the positive impact of inward FDI, host-country governments need to consider the full range of policies that can influence the behaviour of foreign affiliates, and their interaction with the local business environment. This requires taking into account the specific characteristics of different industries and activities.

Investment policy will need to consider the economy's unique circumstances in terms of its endowments, potential and prospects, preferably compared with alternative locations. For developing countries that are highly dependent on natural resources, investment diversification is often an important objective of investment policies. This may lead governments to give strategic emphasis to manufacturing activities, while considering how FDI from developing and transition economies can contribute to such diversification. Focus may be placed on labour-intensive and resource-based processing, as well as export-oriented production in relatively low-technology manufacturing. Investor targeting, in this context, requires identification of the main players in the relevant industries and of their corporate strategies.

But FDI alone cannot ensure the development of productive capabilities; it is important to pay attention to the amount and quality of backward linkages between foreign affiliates and domestic firms. Such linkages represent an important channel through which intangible and tangible assets can be passed on to domestic enterprises. Host-country governments can introduce various measures to encourage linkages between domestic suppliers and foreign affiliates and strengthen the likelihood of spillovers in the areas of information, technology and training (*WIR01*).

2. More FDI sources for IPAs to target

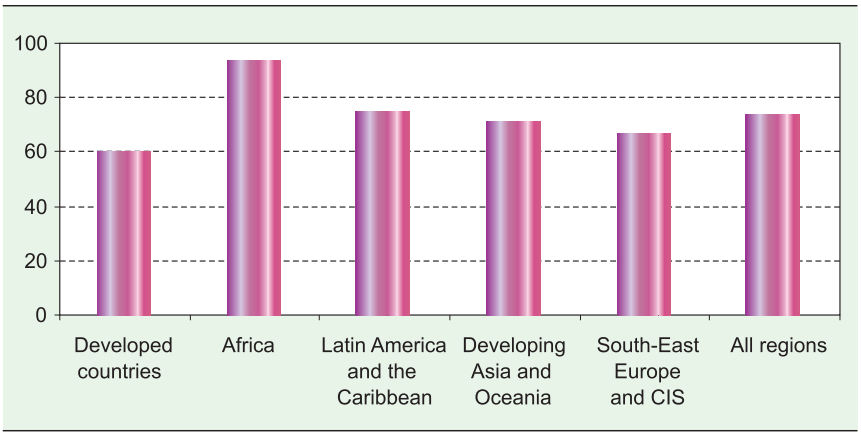
Various studies have concluded that lack of information on investment opportunities and knowledge of foreign cultures can be major obstacles to the overseas expansion of firms from emerging economies, especially SMEs (UNCTAD 2005l). The activities of IPAs in host economies can help bridge the information gap, and provide assistance to prospective investors.

Both developed and developing countries are already actively seeking to attract FDI from developing and transition economies. An UNCTAD survey conducted in February-March 2006 among members of the World Association of Investment Promotion Agencies (WAIPA) shows that IPAs attach importance to these relatively new sources of investment. In fact, out of the 68 responses, 50 IPAs (74%) stated that they target FDI from developing or transition economies (figure VI.2). The survey results confirm that developing countries attach particular importance to FDI from the South. For example, 94% of the African respondents target FDI from developing countries. However, even as many as 60% of developed-country IPAs participating in the survey also target such FDI.

The most favoured target is China, mentioned by 72% of all IPAs that target FDI from developing or transition economies (figure VI.3), followed by India, Malaysia, the Republic of Korea and South Africa in that order.[33] Among developed-country IPAs, China was the most commonly mentioned target source, followed by such other Asian economies as India, the Republic of Korea, Singapore and Taiwan Province of China. In the case of IPAs based in developing and transition economies, China and India remain in the first two positions, followed by Malaysia, South Africa and the Republic of Korea. Thus Malaysian and South African investors are relatively more important targets for IPAs in the South than for IPAs in the North. The opposite is true for FDI from Singapore and Taiwan Province of China.

Confirming the importance of intraregional South-South FDI, there are distinct regional variations in IPA targeting. Among the developing Asian agencies, almost all (97%) the targets mentioned are also in Asia. Similarly, in the case of respondents from Latin America and the Caribbean, two thirds of the targets indicated are in Latin America and the Caribbean (figure VI.4). And while for African IPAs, developing Asia was reported to be the most favoured target region (68%), a considerably higher share (31%) than for IPAs in other regions of the target countries were in Africa. In fact, the most often mentioned target economies by IPAs in the developing world were consistently a country within their own region. For African IPAs, South Africa tops the list, while in Latin America and the Caribbean, Brazil is the most targeted source country.

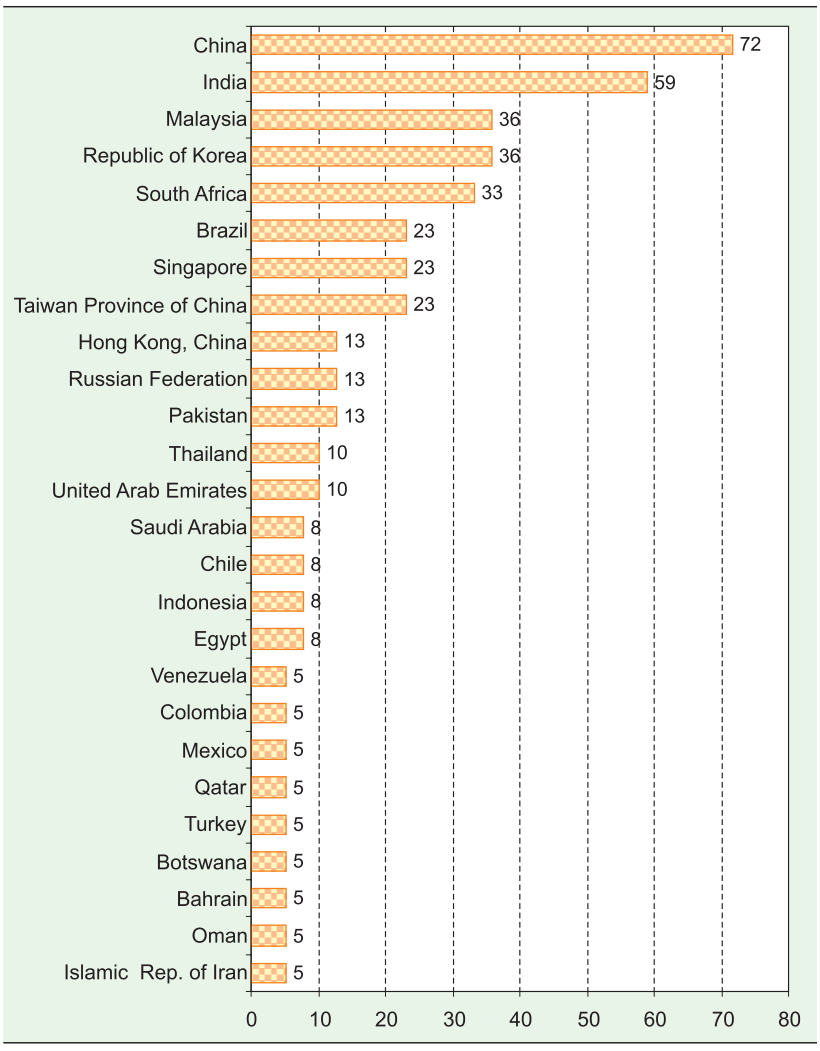
Figure VI.2. Percentage of IPAs that target FDI from developing or transition economies, by region of IPAs



Source: UNCTAD Survey of IPAs, February-March 2006.

Figure VI.3. Developing and transition economies targeted by IPAs as potential sources of FDI

(Percentage of IPAs)



Source: UNCTAD Survey of IPAs, February-March 2006.

A number of IPAs have set up offices in selected developing and transition economies to attract FDI. About 40% of developed-country IPAs have at least one such office, while the share of IPAs from developing countries is lower, ranging from 17% among IPAs in transition economies to 25% for those in Latin America and the Caribbean. Among those IPAs that have offices in developing or transition economies, China has so far been the preferred choice by both developed- and developing-country IPAs. Other relatively popular sites include India, the Republic of Korea and Singapore (table VI.4).

Of all respondents, 41% stated that they target FDI from developing and transition economies in particular industries, the main targets being tourism (mentioned by 50% of the 28 IPAs that target specific industries), followed by textiles and leather (46%), agriculture, forestry and fisheries (43%), information and communication technology (ICT) (36%) and electronics and electrical equipment (29%) (figure VI.5). Due to the small number of respondents, only a tentative picture can be drawn with regard to regional priorities. Developed-country IPAs seem to give priority to the ICT industry, African IPAs focus on FDI in textiles and leather, while most of the IPAs in developing Asia and Oceania mentioned (together with tourism) agriculture, forestry and fisheries, which is somewhat surprising, given that sector's relatively low importance in global FDI.[34]

In general, IPAs do not discriminate between investments from developed or other countries. However, four IPAs in the UNCTAD survey expressed a preference for FDI from the latter. The IPA from Afghanistan suggested that investment from developing countries might be more relevant to its priority sectors, while the Solomon Islands IPA indicated that it is able to attract only low to medium levels of investment and that FDI from developing countries is geographically more easily accessible. Four IPAs offer preferential measures for FDI from developing countries and transition economies:[35] the Zanzibar Investment Promotion Authority (United Republic of Tanzania) indicated preferential market access and other preferential treatment as specific measures, and the other three IPAs cited regional agreements or economic and trade agreements with developing countries.

3. Reactions to takeovers by TNCs from developing countries

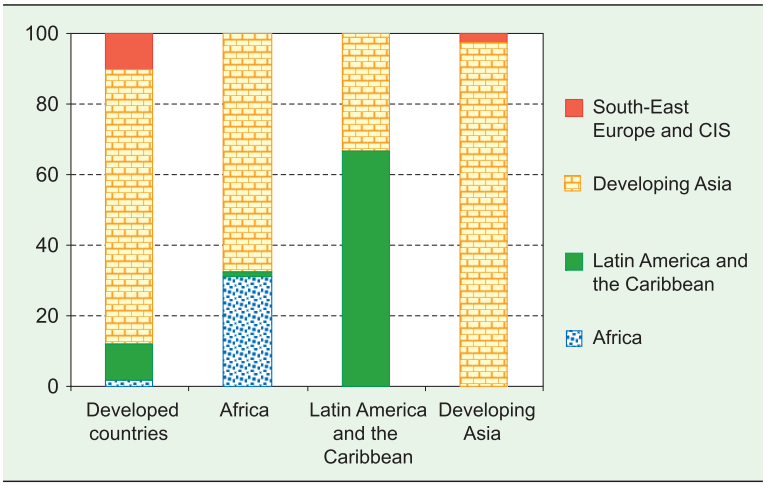
Despite the rising interest among IPAs in attracting capital from the new sources of FDI, not all stakeholders in recipient economies wholeheartedly support such inflows. As part of broad concerns related to the most recent wave of M&As (chapter I), the increased participation of firms from developing and transition economies in this process has triggered reactions in some host countries. Many of the most controversial M&As have involved Chinese companies, but some involved companies from Hong Kong (China), the Russian Federation, Taiwan Province of China and the United Arab Emirates. A few South-South deals have also provoked resistance in host countries.[36]

Two concerns have regularly surfaced. The first is associated with a perceived loss of control over natural or strategic assets, with implications for national security. The second is related to the fear of job cuts, especially when cross-border M&As involve TNCs from developing economies. A brief review of some of these transactions is illustrative.

The most controversial deals have been associated with concerns related to national security. Fears have been especially pronounced when

Figure VI.4. Regional distribution of targeted developing and transition economies by host region

(Per cent)



Source: UNCTAD Survey of IPAs, February-March 2006.

Table VI.4. IPAs known to have offices in developing or transition economies

IPA	Locations
Developed countries	
ITD Hungary	Bosnia and Herzegovina, Brazil, Bulgaria, China, Croatia, India, Indonesia, Iran, Kazakhstan, Kuwait, Romania, Russian Federation, Serbia and Montenegro, Turkey, Ukraine and Viet Nam
Invest Australia	China and Singapore
Invest in Denmark	China and India
Invest in France Agency[a]	China, Hong Kong (China), India, Republic of Korea, Singapore, Taiwan Province of China
Invest in Sweden Agency	China, India, Republic of Korea and Taiwan Province of China
Japan External Trade Organization	Brazil, China, Hong Kong (China), India, Republic of Korea, Singapore and Thailand
Latvian Investment and Development Agency	China, Kazakhstan and Russian Federation
Malta Enterprise	Libya and United Arab Emirates
UK Trade and Investment	China, Hong Kong (China), Mexico, Republic of Korea, Singapore, South Africa and Taiwan Province of China
Developing countries	
Bancomext (Mexico)	Argentina, Brazil, China, Colombia, Costa Rica, Guatemala, Republic of Korea, Singapore and Venezuela
Botswana Export Development and Investment Authority	South Africa
CORPEI (Ecuador)	Chile
Investment Promotion Agency, Ministry of Commerce (China)	Hungary
Mauritius Board of Investment	India
Namibia Investment Centre	Angola, India, Malaysia and South Africa
Philippines Board of Investment, Department of Trade and Industry	China, Hong Kong (China), Indonesia, Malaysia, Republic of Korea, Singapore, Taiwan Province of China and Thailand
Proexport (Colombia)	Brazil, Chile, China, Costa Rica, Ecuador, Peru and Venezuela
Saudi Arabian General Investment Authority	China and Singapore
South East Europe and CIS	
Armenian Development Agency	Russian Federation

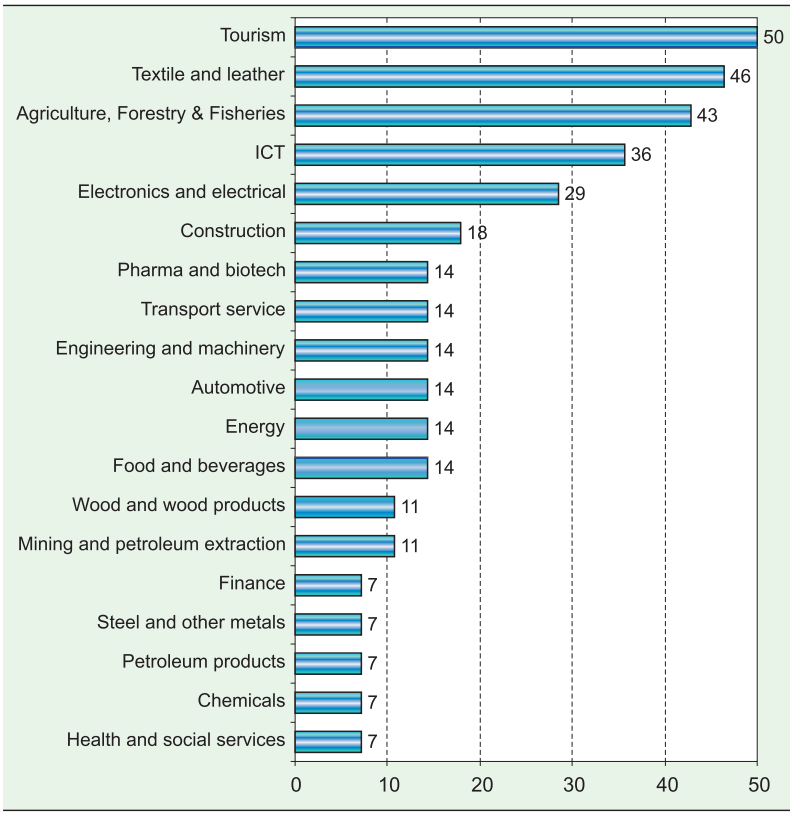
Source: UNCTAD Survey, February-March 2006.
[a] Based on information on the website of the Invest in France Agency.

bidding companies had close ties with their home-country government. Many of the Chinese companies that have made major bids on foreign companies are State-owned, or were founded by branches of the Government.[37] Moreover, national security concerns have primarily involved M&As or other forms of FDI in industries regarded as particularly sensitive, such as:

- *Oil, gas and other mining:* e.g. China National Offshore Oil Corporation (CNOOC) (China) - Unocal (United States), Minmetals (China) - Noranda (Canada), Gazprom (Russian Federation) - Centrica (United Kingdom);
- *ICT:* e.g. Lenovo (China)-IBM (United States),[38] Huawei and ZTE (both Chinese) investments in India;[39]
- *Other infrastructure services*: e.g. Dubai Port World (United Arab Emirates)-Peninsular & Oriental Steam Navigation (P&O) (United Kingdom); Hutchison Whampoa (Hong Kong, China)-container terminal in India.

The cases of CNOOC and Dubai Port World are illustrative. In July 2005, CNOOC announced a $18.5-billion bid for Unocal, the ninth largest oil firm in the United States. The proposed takeover triggered concerns related to national security, unfair competition and the risk of technology leakage (Antkiewicz and Whalley 2006). Due to strong political opposition, the offer was eventually withdrawn and Unocal was taken over instead by Chevron (United States). Some observers cautioned that blocking the Chinese bid might have negative repercussions in terms of the willingness of the Chinese Government to invest in United States bonds or the risk of retaliation against United States companies seeking to invest in China.[40] In the second case, following the acquisition of P&O by Dubai Port World (DPW), strong opposition in the United States was raised against the fact that DPW would take over the management of six port terminals in the United States previously operated by P&O. United States lawmakers and business representatives cited security concerns about an

Figure VI.5. Target industries for IPAs promoting FDI from developing and transition economies
(Per cent)



Source: UNCTAD Survey of IPAs, February-March 2006.

Arab company's taking over the running of the ports.[41] The strong reactions eventually led to DPW's undertaking to sell those terminals to a United States company within six months.

Concerns over foreign takeovers have been voiced in other countries as well. For example, the attempted takeover by the Chinese metal firm, Minmetals, of the Canadian nickel and zinc producer, Noranda, led critics in that host country to cite national security concerns as well as China's human rights record as reasons to stop the transaction.[42] Similarly, security concerns were behind the decision of the Government of India to block a bid in November 2005 by a subsidiary of Hutchison Whampoa (Hong Kong, China), for a container terminal in Mumbai.[43] In the United Kingdom, when it became known that Gazprom (Russian Federation) was considering a bid for Centrica, the largest gas supplier in the United Kingdom, concerns there related to allowing a State-owned company to gain control over gas distribution markets in Europe.[44]

The other main area of concern is employment-related. Trade unions in both North America and Europe have expressed fears that takeovers could result in sharp reductions in the workforce of the target firms. Takeover bids by Haier (China) of Maytag (United States), BenQ (Taiwan Province of China) of Siemens' Handset Division (Germany), and Mittal Steel (Netherlands/United Kingdom) of Arcelor (Luxembourg) are all examples over which such concerns have been voiced.

In June 2005, the Haier Group, a leading manufacturer of household appliances in China, participated in a bid for Maytag, the third-largest appliance maker in the United States. Haier eventually dropped its bid, and instead Maytag was taken over by Whirlpool (United States), following concerns that Chinese ownership would reduce the number of manufacturing jobs in the United States. The fear of asset-stripping led Maytag employees to favour takeover proposals by a United States firm.[45] When BenQ agreed to take over Siemens'

loss-making handset division in June 2005, concerns were expressed by the labour union, IG Metall, that BenQ would cut jobs at its production plant in Kamp-Lintfort. In the end, jobs at this plant were secured until mid-2006.[46]

In 2005, Mittal Steel made a bid for Arcelor. Arguments against the transaction alluded to risks due to the developing-country origins of the bidding company. Technically, Mittal Steel is not a developing-country TNC. It has its headquarters in the Netherlands, and its chairman and CEO, Lakshmi Mittal, resides in the United Kingdom. But of the nine-member Board of Directors, five are Indian citizens. At the same time, the Government of India made statements in favour of Mittal's plans, indicating that it viewed the company as reflecting certain Indian interests.[47] Although no concrete legislative steps were taken to block the transaction, politicians as well as trade union representatives expressed reservations. Trade unions from Belgium, France, Germany, Spain, Luxembourg and Italy unanimously declared that they strongly opposed the hostile takeover bid of Arcelor by Mittal.[48] According to the French Minister of Finance, Mittal was "free to do what it wanted. We could only reiterate the deep concern of the French government".[49] In June 2006, however, the two companies eventually agreed to a merger valued at i26.9 billion.[50]

What are the implications of the recent in political opposition to the M&As involving some TNCs from developing and transition economies?

As far as home countries are concerned, the ownership issue is of particular relevance. First, the level of State ownership in an economy is a political decision at the national level. However, countries in which State-owned, or government-linked companies embark on internationalization through FDI (including via M&As) need to be

Box VI.11. FDI and national security exceptions

In general, most States reserve the right to refuse certain M&As for national security reasons, either under international investment agreements (IIAs) to which they are party or under their national laws.

The majority of IIAs does not contain a national treatment obligation during the admission period. Instead it is left to the host State either to admit FDI outright, admit it conditionally, or reject it. However, IIAs that contain a national treatment obligation extending to the pre-establishment phase, typically apply public policy exceptions to filter out FDI that may pose a risk to their national security. The national security exception in such IIAs is regularly part of broader public policy exceptions that allow countries to block a deal for public policy reasons. The most commonly used are exceptions to safeguard the *national security* of a country, to protect *public order* and *health, life and the environment*.[a] A concern regarding these exceptions is that they could be used to hinder free admission for economic reasons on the pretext of public policy grounds. According to one observer: "difficulties can arise when a host State so interprets its vital national economic and security interests as to create a discriminatory regime for the exclusion of foreign investors from sectors where national firms are under threat from foreign competition" (Muchlinski 1999, p. 175).

Public policy exceptions normally are not well defined. However, differences exist between national security and other exceptions. Most of the latter exceptions, when included in IIAs, are not self-judging, meaning that a country cannot freely interpret the scope and application of the exception. National security exceptions are different. They are usually self-judging and the host State is the final interpreter of the law (i.e. only the host State can judge whether there is a threat to its essential security interests and how it should react to this menace).[b] However, a number of IIAs limit the scope of application of the national security exception by enumerating in an exhaustive list specific categories of cases in which the clause may be invoked (see, for example, Article XIV bis of the GATS). Whereas there exists jurisprudence for some public policy exceptions (such as environmental exceptions), this does not seem to be the case for national security exceptions.

In the context of blocking foreign investments, national security exceptions relate mainly to economic activities in the military sector, such as the trafficking of arms, ammunition

/...

Box VI.11. FDI and national security exceptions (concluded)

and any other transactions of goods, materials, services or technology for the supply of a military establishment which can represent a threat to national security (see, for example, NAFTA Article 2102). Another instance can be investment in infrastructure projects and other sectors that a country considers to be of strategic importance. Even the United States, which generally favours a liberal approach towards FDI, has annexed long lists of sectors to its BITs and free trade agreements (FTAs), making some sectors off-limits to foreign investors. Among the sectors where FDI is often barred are such diverse economic activities as nuclear energy or licences for broadcasting. Their inclusion in such negative lists may also reflect lobbying efforts by domestic interest groups (Pollan 2006, p. 79).

Similarly to IIAs, national laws often exclude or limit foreign ownership in certain sectors to safeguard national security. Bosnia and Herzegovina, for example, limits foreign ownership of enterprises engaged in the production and sale of arms, ammunition, or explosives for military use and military equipment to 49%. The investment code of the Philippines enumerates in its List B a number of activities, which are defense-related such as the manufacture of firearms, ammunition, and lethal weapons. Investing in these areas by foreigners requires special permission.

A prominent developed-country national security exception is the United States' "*Exon-Florio* provision" (Section 721 of the Defense Production Act), which allows the President of the United States to block an acquisition of a United States corporation by a foreigner if found that "(1) there is credible evidence that the foreign entity exercising control might take action that threatens national security and (2) the provisions of law, other than the International Emergency Economic Powers Act do not provide adequate and appropriate authority to protect national security."[c] The provision does not contain a definition of the term "national security", but mentions a number of factors that should be considered. The Committee on Foreign Investments in the United States (CFIUS) supervises its application, and receives notifications by foreign companies (or the company which is to be acquired) prior to, or after, the acquisition.[d]

Section 837(a) of the National Defense Authorization Act for Fiscal Year 1993, called the "Byrd Amendment," amended the "Exon-Florio provision". It *requires* an investigation in cases where the buyer is controlled by or acting on behalf of a foreign government; and the acquisition "could result in control of a person engaged in interstate commerce in the U.S. that could affect the national security of the U.S." This amendment has been of relevance in the context of outward FDI from developing and transition economies, in light of the prominent role that State-owned companies or government-linked companies play in some of these countries (chapter III).[e]

Between 1988 and 2005, a total of 1,593 notifications were made to the CFIUS, 25 investigations were initiated and only one case (China National Aero Tech's bid for MAMCO Manufacturing Inc. in 1990) was actually blocked (Graham and Marchick 2006, p. 57).

Source: UNCTAD.

[a] For exceptions to national security, see, for example, Article 18.2 of the United States model BIT, or Article 2102 of the NAFTA and Article 169 of the Economic Partnership Agreement between Japan and Mexico. For exceptions relating to the protection of human, animal or plant life or health, see, for example, Article 24 of the Energy Charter Treaty, or Article 13 of the Framework Agreement on the ASEAN Investment Area.

[b] The self-judging nature of national security exceptions also becomes evident in the message of the Unted States President to the Senate regarding the United States–Albania BIT: "Measures permitted by the provision on the protection of a party's essential security interests would include security-related actions taken in time of war or national emergency. Actions not arising from a state of war or national emergency must have a clear and direct relationship to the essential security interest of the party involved. Measures to protect a party's essential security interests are of self judging nature, although each party would expect the provisions to be applied by the other in good faith." See www.wais.access.gpo.gov.

[c] See www.treas.gov/offices/international-affairs/exon-florio/.

[d] CFIUS member agencies are: the Departments of Treasury (Chair), State, Defense, Justice, Commerce and Homeland Security, as well as the National Security Council, National Economic Council, United States Trade Representative, Office of Management and Budget, Council of Economic Advisors and the Office of Science and Technology Policy.

[e] See www.treasury.gov/offices/international-affairs/exon-florio/.

aware of the potential implications and reactions in recipient countries. In some countries (e.g. the United States), the fact that a bidder is State-owned significantly increases the chances that the deal will go through a review process (box VI.11). It is often feared that motives other than purely economic ones drive ownership bids by State-owned companies, particularly if the M&As relate to energy, infrastructure services or other industries with a "security dimension".

Secondly, whether private or State-owned, outward investors engaging in cross-border M&As may increasingly have to address issues related to corporate governance. This is important, as there are concerns in the North that the acquiring firm may not comply with codes of corporate governance and transparency to which companies in the host economy largely adhere. Thirdly, and more generally, firms need to be aware of the political sensitivities involved in cross-border M&As, and plan their transactions carefully, taking economic as well as non-economic aspects into account.[51]

There may also be a case for ensuring reciprocity with a view to being able to undertake M&As transactions in other countries. For example, in the case of the planned takeover of Unocal by CNOOC, a bill introduced in the United States Senate that specifically aimed "To prohibit the merger, acquisition, or takeover of Unocal Corporation by CNOOC Ltd. of China", made reference to the fact that the Chinese Government would not allow the United States Government or United States investors to acquire a controlling interest in a Chinese energy company.[52]

From a host-country perspective, recent reactions may partly indicate that many stakeholders are not prepared for the upsurge in M&A activity involving the new sources of FDI. Business leaders, trade unions and policymakers in developed countries may expect to see more of these kinds of transactions in the coming years. Future responses will have to be carefully balanced. What is to be regarded as a threat to the national security of a country is not well defined and therefore largely up to each country to determine (box VI.11). At the same time, countries need to be careful in their decisions, so as not to fuel a trend of increased protectionism that would be in no country's interest. In some developed host countries, there are fears that an increased politicization of the process through which foreign takeovers are scrutinized may lead to unwanted costs and reduced benefits without actually improving the ability to address national security risks (Graham and Marchick 2006).

There may be important benefits to a host country from having more companies competing to acquire local assets. Indeed, some observers in the relevant host countries have spoken out against stopping some of the deals reviewed above, and warned that opposition to inward FDI may have unwanted consequences. For example, it has been suggested that blocking Huawei's and ZTE's investments in India might imply higher costs for the local users of the kind of telecom equipment that the Chinese companies produce.[53] Moreover, the business community in the United States has done little to oppose acquisitions by Asian firms. Local shareholders are likely to benefit from having more potential buyers of their assets. Moreover, many business executives may feel that more is at stake in investments going the other way. A more negative stance towards inward FDI in the form of cross-border M&As might lead other countries to retaliate, which could result in widespread protectionism.[54]

Important parallels can be drawn with the job-related concerns noted above. In some cases, because of their roots in lower-cost locations, developing-country investors have in some cases been seen to present a greater risk of production relocation and job reduction for the host country. Such claims may be hard to substantiate. Companies involved in industries that face tough global competition are likely to be exposed to similar kinds of pressure to restructure and rationalize their operations. Thus it is unlikely that the nationality of the owner will have a major influence on the employment effects of a given company. Rather, the employment impact would primarily be determined by the competitiveness of the business unit concerned. It would be unfortunate if a developing-country origin would be used to hamper the internationalization of developing-country firms.

C. International agreements and FDI from developing and transition economies

The expansion of FDI from developing and transition economies also has implications for the role of international investment agreements (IIAs). The number of bilateral and regional agreements with investment provisions continues to rise, in part driven by increased negotiating activity among developing countries (chapter I). Such South-South agreements may facilitate investment flows among developing countries. At the same time, those economies that are emerging as significant sources of FDI are finding themselves in a new situation in the context of negotiating IIAs. They now have to consider not only the role of such agreements in facilitating inward FDI, but also in creating better opportunities for their own firms to expand abroad. In this section, particular attention is given to selected bilateral and regional agreements, which are of potential relevance to FDI from developing and transition economies.

1. The growing role of IIAs

Many developing and transition economies are actively contributing to the expansion of IIAs at the bilateral and regional level, partly because they view such agreements as helpful not only in attracting inward FDI, but also to facilitate the internationalization of their firms.

The conclusion of bilateral investment treaties (BITs) traditionally involved a developed country on the one hand, and a developing country on the other. In practice, the role of BITs was to protect developed-country firms against political risks, such as discrimination, expropriation and transfer restrictions, while at the same time helping developing countries to attract more FDI. Double taxation treaties (DTTs) were concluded with the objective of ensuring that TNCs (mainly from developed countries) would not be taxed twice for the same business activity.[55] With developing countries emerging as capital exporters, this simplified perspective is becoming increasingly complex. More and more countries find themselves being both recipients and sources of FDI, which means that they have to consider a wider spectrum of priorities when negotiating international agreements. Many developing and transition economies now explicitly mention the promotion of outward FDI as one of the reasons for them entering into BITs and DTTs.[56]

A growing number of bilateral IIAs – BITs, DTTs, free trade agreements (FTAs) or other forms of IIAs – are concluded between developing economies. As of end 2005, more than 1,100 such South-South IIAs had been concluded, of which the number of DTTs had reached 399 – or 14% of the total number of DTTs, up from 10% in 1995. Developing Asia has signed the largest share of DTTs, followed by Latin America and the Caribbean and Africa.[57]

By the end of 2005, the number of "South-South" BITs had grown to 644, representing 26% of the total number of BITs. Countries with large FDI outflows, such as China, Malaysia and the Republic of Korea, are among those with the highest number of BITs. Moreover, China, Egypt and Malaysia have each signed more than 40 such agreements with other developing economies. Asian countries are parties to 68% of all South-South BITs, followed by countries in Latin America and the Caribbean. But far from all outward FDI from the South is covered by BITs. In the case of FDI to other developing economies by nine southern economies that report outward FDI stock by destination, only 20% was covered by a BIT in force as of 2003. These economies represent about 58% of the total outward FDI flows of developing countries.[58]

Developing economies are also concluding FTAs among themselves (as well as with developed countries). Many of these agreements include specific investment provisions (chapter I). The earliest "South-South" FTAs with substantive investment provisions were concluded in Latin America and the Caribbean: between Mexico and Bolivia (1994), Colombia, Mexico and Venezuela (1994), Mexico and El Salvador, and Chile and Mexico (1998), Chile and Central America (1999), Guatemala and Honduras (2000), and Mexico and Uruguay (2003). More recently, other developing countries have followed suit. Singapore has set up a network of FTAs aiming, *inter alia*, at liberalizing the service sectors of its FTA partners and spurring the growth of services and other creative industries.[59] Similarly, the Republic of Korea has concluded a number of FTAs, including with Chile (2004) and Singapore (2005), and is pursuing negotiations with more than 20 economies and regional organizations, including India, Mexico and ASEAN.

South-South bilateral IIAs cover a wide range of cooperation activities and areas, such as trade and labour, aimed at achieving related development goals (UNCTAD 2005m). They differ from other IIAs, not so much in their overall objective, which is to promote and facilitate investment, but in terms of the depth and breadth of their coverage of investment issues (UNCTAD 2005m, p. 31). South-South BITs generally do not grant free access and establishment; they tend to exclude provisions prohibiting performance requirements; and they limit transparency requirements to the stage following the adoption of laws and regulations. Few specific South-South features are discernible in such IIAs, but they tend to address the development concerns of the parties involved more prominently than IIAs in general (UNCTAD 2005m).

It is likely that increased FDI from developing and transition economies will generate a growing demand from the business community in the home countries concerned for greater protection of their overseas investments. In interviews conducted in the context of the preparation of this *WIR*, more BITs and DTTs were mentioned by several TNCs from developing and transition economies when asked how home-country governments could help facilitate their international expansion through FDI. Most respondents also assigned relatively great importance to both BITs and DTTs for their overseas investments.

The focus of developing-country governments in BIT and DTT negotiations may shift from an exclusive emphasis on inward investment promotion to include protection of outward FDI. This has a number of implications. First, developing and transition economies exporting FDI may become more interested in actively demanding higher standards of protection for outward investors. Secondly, the most-favoured-nation (MFN) clause may gain in importance for developing countries, since it may provide their investors with higher standards of protection included in third-country BITs. Thirdly, developed countries may face a higher risk of disputes from investors from developing and transition economies. This might reinforce the already existing trend in some countries (e.g. Canada, United States) to refine the text of individual BIT articles and to review their BIT dispute settlement provisions. The combination of more IIAs with a developing-country party and the internationalization of TNCs from developing and transition economies is already reflected in the rise in the number of investment disputes involving TNCs from these economies (box VI.12).

Box VI.12. Investment disputes involving investors from developing and transition economies

In the wake of rising FDI from developing and transition economies, and the expansion of the IIA universe (chapter I), several investment disputes have emerged with investors from these economies as claimants.

By the end of 2005, 24 of the 226 known treaty-based investor-State disputes (approximately 10%) had been filed by investors from a developing or transition economy. With one known exception[a], all were filed against governments in other developing countries or economies in transition. The most cases have been filed against Chile (5), Argentina (3) and Peru (2). Claimants were predominantly from Chile (5), Argentina and the Russian Federation (3 each), followed by investors from Malaysia, Peru, Singapore and Turkey (2 each). Of the 24 disputes, 22 related to BITs; the remaining 2 concerned the ASEAN Agreement for the Promotion and Protection of Investments.

From the information available, the cases cover claims amounting to at least $1.1 billion. As of 1 May 2006, 18 disputes were still pending, 2 had been won by the foreign investor, and 3 by the host country. The outcome of one dispute is unknown. Sectors involved in these claims include, motorway and road construction, chemical products, electricity distribution and telecommunications. The IIA provisions most frequently invoked include the definition of "investment", the principle of fair and equitable treatment and expropriation.

Given that FDI from developing countries and transition economies is growing rapidly, investor-State disputes involving investors from these economies might increase in the coming years.

Source: UNCTAD.

[a] There is only one known case involving an investor from a developing country and a government of a developed country: the often-cited "Mafezzini vs. Kingdom of Spain" case, which the Argentinean investor eventually won.

2. Regional economic integration agreements and South-South FDI

Policy developments at the regional level are also of potential relevance. This applies in particular if the regional network of BITs is relatively thin. As noted above, there is a strong regional dimension to outward FDI from developing economies in Africa, Asia and Latin America (chapter III). In all these regions, various political initiatives have been taken to create regional trading blocs, often with important implications for investment. More research is needed to assess the impact of regional integration schemes on South-South FDI.

As of December 2005, at least 40 regional South-South trade agreements had been concluded (UNCTAD 2005m), many of them after 1995, thus constituting "a second wave of regionalism" (Cosbey 2004, p. 2).[60] Such integration can influence FDI in different ways. First, by integrating national economies the regional market size increases, making the region more attractive to market-seeking FDI. Secondly, by removing barriers to trade and investment among the members of the integrating area, the scope for production specialization and efficiency-seeking FDI may expand. A larger regional market combined with easier trade across borders within the region can imply greater economies of scale for producers based within the region, and may also attract new actors. Thus, regional integration may in theory facilitate inflows of FDI from outside the region, as well as intraregional flows.

But the extent to which regional integration affects FDI depends on several factors, including the size of the markets of the individual member States and the actual provisions of the agreements, and these can differ from one regional bloc to another. While more and more regional agreements are concluded in developing regions, not all of them deal with investment. In fact many regional South-South agreements have rather modest investment provisions (UNCTAD 2005m, p. 26).

A few salient features of investment-related aspects of South-South regional economic integration are worth noting. First, for some of the regional groupings, the amount of FDI in the South-South context remains small. In these cases, promotion of FDI from non-member States tends to receive the most attention. Second, the rather modest coverage of the investment provisions in many South-South regional economic integration agreements is partly explained by the economic and political diversity of the members. Third, a weak infrastructure connecting the production and trade systems of the different members may limit their ability to develop a larger regional market and hamper any substantial intraregional FDI flows.

Among those regional agreements that do deal with investment, some include provisions that can be seen as particularly relevant from the perspective of South-South FDI. Some agreements seek to boost intraregional FDI by easing the entry of companies from other member States. For example, ASEAN provides national treatment to regional investors both pre- and post-establishment. Others, including the Andean Community, explicitly encourage the establishment of regional TNCs – firms set up by investors from more than one member State and that enjoy the right of admission in all member States. The chosen strategies reflect the political and economic context in which they were developed.

In *ASEAN*, the most important agreements concerning investment are the ASEAN Agreement for the Promotion and Protection of Investments, its 1996 Protocol, and the Framework Agreement on the ASEAN Investment Area (AIA Agreement) (box VI.13). The first two agreements concern investment protection, and the AIA Agreement also focuses on facilitation, promotion and liberalization of FDI. Few studies have assessed empirically the impact of the AIA on intraregional FDI. One analysis concluded that regional integration efforts had generated intra-bloc trade, but that the effect on intraregional investment had been insignificant (Stone and Jeon 2000). Another study found that the AIA has boosted the volume of intra-ASEAN investment flows from Malaysia (Zainal 2005, p. 9). During the period 2001-2003, 17% of FDI inflows into ASEAN came from within the region (ASEAN Secretariat 2005b).

The Andean Group was established in 1988 with Bolivia, Colombia, Ecuador, Peru and Venezuela as founding members. In 1997, it became the *Andean Community*.[61] The main provision of direct relevance to South-South FDI is defined under Decision 292, which allows for the formation of Andean multinational enterprises. These are defined as enterprises in which investors from two or more Andean Community countries own more than 60% of the equity capital. Such enterprises enjoy national treatment in the public procurement of goods and services, the right to remit in freely

Box VI.13. The ASEAN Investment Area and South-South FDI

The original goal of the AIA Agreement was to create a more liberal, attractive and competitive investment area comprising about 530 million people (article 3). Its coverage was later expanded by the Protocol to Amend the Framework Agreement on the ASEAN Investment Area (AIA Protocol 2001), which now covers manufacturing, agriculture, mining, forestry and fishery, and services incidental to these industries. Originally, the first of two goals was to open all industries to ASEAN investors by 2010 and to all investors by 2020 (article 4(b)). The second was to grant national treatment by 2010 to all ASEAN investors and by 2020 to all investors (articles 4(b) and 7(b)). Those deadlines were brought forward. Consequently, reservations for ASEAN investors in the manufacturing sector were eliminated by January 2003.

This broad liberalization is subject to important exceptions. ASEAN member States can specify industries and include them in a "temporary exclusion list" or in a "sensitive list". Industries and investment measures in the sensitive list are not subject to liberalization, while those in the temporary exclusion list are to be phased in at specific agreed dates. In a first review of the temporary exclusion list in 2003 "[M]ember Countries opened up more industries and granted more investment measures to foreign investment by phasing in the list of sectors and investment measures in the Temporary Exclusion List".[a] The Agreement also contains a general exception to the national treatment provision in article 13. A country can impose measures, which do not conform with the national treatment obligation if it needs to protect national security and public morals (article 13(a)); or to protect human, animal or plant life or health (article 13(b)). But measures shall not be discriminatory or constitute a disguised restriction on investment flows. Finally, the Agreement only covers investment other than portfolio investment (article 2(a)).

Source: UNCTAD.
[a] See www.aseansec.org/6460.htm.

convertible currencies all dividends that are distributed, national treatment in tax matters, and the right to establish branches in other member countries.[62] It is not known to what extent the Decision has contributed to the formation of Andean multinational enterprises.

CARICOM was established in 1973, and now includes Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago. CARICOM's Protocol II (article 35b) establishes that members shall not introduce any new restrictions relating to the right of establishment of nationals of other members States except as otherwise provided in the Agreement. It stipulates that regional agreements on foreign investment should accord preferential treatment to investors in the following order (article 35c): nationals of the host CARICOM country, nationals of other CARICOM countries, nationals of the source country, and finally those of other countries.[63] However, some members have yet to enact Protocol II.

MERCOSUR, comprising Argentina, Brazil, Paraguay and Uruguay,[64] regulates intraregional FDI in the Colonia Protocol – a protocol that has not yet been ratified by any of the member States. Its article 2 provides for open admission of investments from member States and contains national treatment and most-favoured-nation (MFN) obligations. The protection of sensitive industries is guaranteed by a negative list approach. The annex to the Protocol contains a list of sectors that are exempted from national and MFN treatment, most of which are key sectors for the member States' economies. Common exemptions include exploration of various minerals, certain public utilities, telecommunications and mass media.[65] There are significant FDI flows among the member countries of MERCOSUR. For example, Argentina and Brazil are among the main sources of FDI into Paraguay.

In Africa, *COMESA* is the largest trading bloc, covering 20 member States with a combined population of over 374 million.[66] It aims, among other things, to establish "a secure investment environment and the adoption of common sets of standards".[67] Member States have agreed to "accord fair and equitable treatment to private investors, to adopt a program for the promotion of cross-border investment, to remove administrative, fiscal and legal restrictions to intra-common market investment and to accelerate the

deregulation of the investment process".[68] In principle COMESA's FDI dimension is twofold: it envisages the establishment of COMESA TNCs,[69] and it aims to encourage and facilitate investment flows into the common market.[70] The regional TNCs are intended to be enterprises that are able to compete internationally. However, progress has been hampered by lack of know-how and resources within the region. Member States are currently negotiating an Investment Framework Agreement for the COMESA Common Investment Area, with three negotiation rounds held in 2004 and 2005. The Draft Agreement focuses on liberalization, protection and promotion of investment and builds upon the Framework Agreement of the ASEAN Investment Area.[71] However, it is too early to assess the likely outcome of these negotiations.

The above review suggests that progress has been made in a number of important regional South-South agreements in terms of incorporating provisions that may support intraregional FDI. However, the impact of these provisions on investment patterns remains to be analyzed through empirical studies. Additional research aimed at assessing the investment plans of individual companies may be able to shed light on the interaction between regional integration and South-South FDI.

D. Corporate social responsibility and TNCs from developing and transition economies

Discussions pertaining to corporate social responsibility (CSR) have traditionally revolved around developed-country TNCs and their behaviour in developing countries. However as more and more companies from developing and transition economies expand overseas, their managements too will become increasingly judged on this basis. As noted in earlier chapters, a significant share of the investment from the emerging sources of FDI originates from countries that may be characterized by relatively weak legal and regulatory frameworks. In such situations, CSR issues assume increased importance. A number of developing-country TNCs have already incorporated CSR policies into their business strategies, some of them even becoming leaders in this area (box VI.14). While adherence to various CSR principles may require additional resources, it can also generate important advantages, not only for host countries, but also for investing firms and their home economies.

There is no universally accepted definition of CSR. According to the OECD, it relates to a set of policies often voluntarily adopted by an enterprise in order to reinforce the enterprise's ability "to comply with the law and with other societal expectations that might not be written down in law books" (OECD 2005, p. 3).[72] At the most basic level, socially responsible business behaviour means refraining from doing harm. The main areas considered under the umbrella of CSR include, in particular, environmental protection, human rights and labour practices (see *WIR03*, p. 165).[73] At the UNCTAD XI Conference in 2004, the economic development dimension was introduced in the discussion of corporate responsibility (Sao Paulo Consensus, paragraphs 45 and 58).

The main responsibility for ensuring that companies comply with internationally agreed standards and conventions rests with governments. Most international conventions contain obligations for States, but few legally binding obligations for TNCs (*WIR03*, p.166).[74] Host and home States are therefore obliged to create and implement a legal framework which adheres to standards of international law and gives clear guidelines to TNCs on various social and environmental issues. At a minimum, TNCs should respect in good faith the laws of their host countries without taking advantage of weak legal and administrative systems (*WIR03*, p. 165). In cases where the legal framework is inadequate, falls below internationally agreed minimum standards or is completely absent, TNCs might even be expected to adhere to standards higher than those stipulated by the host country.[75]

According to one study, "there is no vast difference in approaches to corporate responsibility between companies in high-income OECD countries and their emerging market peers", but "[I]n most emerging markets there appears to be a substantial gap between companies that are doing a great deal and those that are doing little or nothing" (OECD 2005, p. 4). Others claim that "generally the more developed the country the higher incidence of policies in the area of CSR" (Welford 2005, p. 52), or they suggest that on the whole TNCs from developing and transition

Box VI.14. Programmes to enhance the social impact of activities: the cases of Cemex and Petrobras

Some developing-country TNCs, such as Cemex (Mexico) and Petrobras (Brazil), are among the leaders in their respective industries in terms of adopting CSR principles.

Cemex, a participant in the United Nations' Global Compact (see box VI.15) since 2004, supports a number of CSR initiatives. Its initiative, Patrimonio Hoy, provides low-income families with access to low-cost materials to build or upgrade their homes. It addresses problems related to the limited financing options available to families that prevent them from residing in or improving their dwellings. The company has established 60 centres throughout Mexico that have so far aided 103,000 families. Between Patrimonio Hoy and Piso Firme (a company programme that has helped 200,000 disadvantaged families replace dirt floors with concrete ones), Cemex is making strides in Mexico to end slum housing and unsanitary conditions, which often have violent outcomes. Both programmes are also being implemented in Colombia.

Cemex is also involved in a wide array of community development projects around the world. It supports or leads educational initiatives in countries such as the Philippines (One Paper, One Pencil programme for children), Costa Rica (scholarships), Egypt (education for girls). For the programme in Egypt – part of the Government's plan to educate 500,000 girls in rural areas – Cemex has provided technical assistance and helped in the construction of schools since 2003. Other programmes include centres for the disabled in Venezuela, mobile health diagnostic teams in Nicaragua, a labour risk education programme in the Dominican Republic, dental care for children in the Philippines and a cultural centre in Colombia.

Another company that has acknowledged the importance of the social dimension in its activities is Petrobras (Brazil). Its operations span 21 countries, many of which have unstable social or political environments. In Brazil, the company has extensive programmes such as those relating to poverty reduction, education, child labour and sexual abuse, and fundamental rights for people with special needs. In a number of host countries, such as Angola, its CSR initiatives include reconstruction projects through humanitarian programmes related to schools, day-care centres, hospitals, rural communities, as well as support socio-cultural organizations. Petrobras also supports management training programmes to develop skills for the oil industry. In Colombia, one of the company's programmes includes the training of community health agents. In Nigeria, it has undertaken an HIV/AIDS prevention campaign in 40 secondary schools in coordination with a local civil society organization.

Source: UN Global Compact.

economies have less experience with CSR than their Northern counterparts (Aykut and Ratha 2004).[76]

Certain characteristics of FDI from developing and transition economies are worth recalling. First, some TNCs are based in home countries that lack a civil society that can freely voice its opinion (Smith 2003, p. 58). The practices of TNCs in such situations are not subjected to the same level of public scrutiny that has raised the level of awareness of CSR issues elsewhere. This makes it important for home-country governments to promote the adoption of universally recognized CSR principles by their TNCs. Secondly, a significant number of large TNCs from developing and transition economies are State-owned and active in extractive industries (chapter III), which raises potential issues related to corporate governance and transparency. Thirdly, a relatively high share of FDI from developing and transition economies flows to other developing countries.

1. Multilaterally agreed CSR principles

International organizations, often in cooperation with States or companies, also have an important role to play in facilitating consensus-building and promoting universally accepted principles that can serve as guidelines for TNCs investing in other developing countries. Prominent initiatives in this regard include the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (MNE Declaration) of the International Labour Organization (ILO),

the OECD Guidelines for Multinational Enterprises, the United Nations' Global Compact, and CSR work conducted by UNCTAD and the International Finance Corporation's Performance Standards on Social and Environmental Sustainability (see also *WIR03*).

The ILO's MNE Declaration is a non-binding universal instrument that articulates a set of principles to guide the global operations of enterprises and their social policies.[77] It aims to encourage TNCs to reinforce their positive contributions to economic and social development, and to minimize and resolve any difficulties that might result from their operations. Its principles provide guidelines for general economic and social policy, employment, working conditions, training and industrial relations.[78] The principles are intended to inspire good CSR practices on the part of enterprises from both developing and developed countries.

The OECD Guidelines for Multinational Enterprises, originally adopted in 1976 and revised in 2000, are a comprehensive and detailed CSR instrument of interest to developed and developing countries alike. The Guidelines provide government-backed recommendations covering such broad areas as human rights, supply chain management, labour relations, the environment, combating bribery, technology transfer, consumer welfare and taxation. The 39 adhering Governments (the 30 OECD member States and Argentina, Brazil, Chile, Estonia, Israel, Latvia, Lithuania, Romania and Slovenia) have signed a formal commitment to promote observance of these recommendations by companies operating in or from their territories. The Guidelines are part of a package of instruments that help to define both corporate and government responsibilities in relation to international investment. The OECD is actively seeking to expand the list of non-member adherents.

The Global Compact was launched by the United Nations Secretary-General in 2000. It is the world's largest voluntary corporate citizenship initiative, with more than 3,200 business participants and other stakeholders from 94 countries. More than half of the Global Compact's participating companies are based in developing countries. Derived from universally agreed international declarations and conventions, its 10 principles – in the areas of human rights, labour standards, the environment and anti-corruption – enjoy political and social legitimacy virtually everywhere in the world (box VI.15). Participants are expected to both internalize the principles within the company's strategies, policies and operations and undertake projects to advance the broader development goals of the United Nations. The Global Compact works closely with business, governments, labour, specialized United Nations agencies, and civil society organizations, such as Transparency International in the field of anti-corruption and Amnesty International in the area of human rights. Local networks, which carry the message to the grassroots, have emerged in 53 countries. The initiative has experienced strong and growing engagement by companies from economies such as Brazil, China, Egypt, India, Indonesia, Mexico, Pakistan, South Africa and Turkey.

In April 2006, the United Nations Secretary-General launched another initiative: the Principles for Responsible Investment (PRI). These Principles provide a framework for institutional investors – including asset owners and investment managers – to integrate consideration of environmental, social and governance issues into investment decision-making and ownership practices, a process which has been linked to better long-term financial returns as well as a closer alignment between the objectives of institutional investors and those of society at large.[79] Already in May 2006, investment funds representing more than $5 trillion in assets had declared their support for these principles.

The International Finance Corporation (IFC) has developed environmental and social standards that are applied when the IFC makes an investment. In 2004-2005, the IFC conducted an extensive consultation process during the review of its 1998 Safeguard Policies. Its standards were revised[80] and served as the model for the Equator Principles – a voluntary set of guidelines for managing environmental and social issues in project financing. The Principles were developed and adapted by leading financial institutions in 2003 (box VI.16). Forty-one of the most important institutions that finance projects in developing countries have signed up to the Principles. Consequently, enterprises involved in such projects, as well as the projects themselves, are increasingly being measured against CSR principles and performance.

UNCTAD's work relating to corporate responsibility has contributed to guidance on corporate transparency in the areas of environmental efficiency, corporate governance, and the social and economic impact of corporations

Box VI.15. The 10 principles of the United Nation's Global Compact

The Global Compact's 10 principles in the areas of human rights, labour, the environment and anti-corruption are based on universal consensus and are derived from the Universal Declaration of Human Rights, the ILO's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption. The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas covered by the Compact:

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

Labour Standards

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies

Anti-Corruption

- Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.

Source: UN Global Compact.

on host countries. This work has been part of the intergovernmental consensus-building process of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR).[81]

2. Benefits for TNCs from the South from addressing CSR issues

There are more than ethical reasons for TNCs from developing and transition economies to pay attention to CSR issues. Whereas it may in many instances incur costs for the company, it may still be money well spent, especially for those competing head-on with developed-country firms. Moreover, for TNCs that invest in "high-risk zones", where the regulatory framework is weak or absent, CSR behaviour becomes essential. Failure to adopt such behaviour may result in the TNC becoming embroiled in major governance failures that lead to adverse, possibly catastrophic, social consequences for the host community, for which the firm in question may be held to blame. In this regard companies may need to ensure that their risk assessment procedures allow for the effects of weak governance, by adhering to CSR approaches to corporate policy-making and decision-taking. This may include, for example, conforming with international CSR instruments and obeying national laws, ensuring that their management pays closer attention to auditing and other regulatory requirements, refraining from improper involvement in local politics, avoiding corruption and speaking out about any wrongdoing (see also OECD 2006e).

In recent years, CSR issues have received greater attention by corporate boards, with many companies deciding to pursue CSR policies. Adherence to accepted CSR principles has become so common among global firms that, in order to compete successfully, TNCs from developing and transition economies may also need to adopt similar practices. Companies have done so not merely for public relations purposes; increasingly they also recognize that good practices might influence corporate performance. In fact, some recent research suggests a positive link between CSR awareness and business performance. The so-called business case for CSR has been validated by a number of studies (e.g. IFC et al. 2002).[82] Some of them, such as the *Responsible Competitiveness Index*, indicate that increased competitiveness is positively related to an improvement in corporate

Box VI.16. The Equator Principles

The Equator Principles are a voluntary set of guidelines for managing environmental and social issues in project financing, developed by leading financial institutions with the IFC's advice and guidance. They apply to development projects in all sectors.

As of April 2006, 41 financial institutions had adopted the Principles, representing 80% of global project financing.[a] The list includes five Brazilian financial institutions. While the commitment given by these institutions is to apply the Equator Principles to projects with a total capital cost of $50 million or more, they are often applied also to smaller projects, and sometimes also in the context of advisory services.

In February 2006, the IFC's Board approved a new set of environmental and social policies for the institution, which incorporated a set of eight Performance Standards on Social and Environmental Sustainability, to be applied to all IFC investments. The financial institutions adhering to the Equator Principles had constituted an active stakeholder group during the consultation process for the new policies, and indicated the intention to update the Equator Principles once the new IFC policies were finalized. This commitment led to the revised Equator Principles, which became effective on 1 July 2006.

Source: IFC.

[a] Total loans for project finance in 2005 amounted to $120.7 billion, of which $97.5 billion or 80% were provided by banks participating in Equator. Current participants are: ABN Amro, Banco Bradesco, Banco do Brasil, Banco Espírito Santo Group, Banco Itaú, Banco Itaú BBA, Bank of America, Bank of Tokyo Mitsubishi, Barclays, BBVA, BMO Financial Group, Caja Navarra, Calyon, CIBC, Citigroup, Credit Suisse Grp, Dexia, Dresdner Bank, Eksport Kredit Fonden, FMO, HSBC, HVB Group, ING, JPMorgan Chase, KBC, Manulife Financial Corporation, Mediocredito Centrale, Millennium bcp, Mizuho Corporate Bank, Nedbank, Rabobank, Royal Bank of Canada, Royal Bank of Scotland, Scotiabank, Standard Chartered, Sumitomo Mitsui, Unibanco, Wells Fargo & Company, WestLB and Westpac.

responsibility practices (AccountAbility 2005). Increased awareness of CSR may enhance an enterprise's long-term competitive position through improvements in access to finance, partners and markets, and a reduction of legal and operational risk.

Enhancing access to funding. Corporations that go public face increased pressure to adhere to responsible business practices in order not to undermine the performance of their initial public offerings (IPOs). For example, the IPO of China National Petroleum Company (CNPC) on the New York Stock Exchange in 2000 was in part affected by the company's engagement in Sudan, which had been criticized by human rights groups. Despite an effort to restructure the IPO, a smaller sum was raised than originally expected. Moreover, CNPC has in the past been the subject of divestment campaigns.[83] The tendency for investors to make CSR considerations part of their investment decisions has gained importance in recent years. According to the 2005 United Nations Global Compact Shanghai Declaration, "the financial community is increasingly connecting environmental, social and governance performance to a company's overall valuation, thereby placing a premium on businesses that responsibly manage such risks and opportunities." As noted above, the CSR dimension is also assessed in the context of project financing by the IFC as well as various development banks.

Cooperation with partners from developed countries. During the past decade, developed-country firms have increasingly been pressured to improve their performance on CSR issues. In diverse industries they are increasingly held responsible for the behaviour of their business partners and for the entire value chain of which they are a part. Developing-country TNCs that aim to become members of these value chains, or otherwise partner with developed-country TNCs, need to be aware of the CSR dimension when they are evaluated as potential business partners.

Market access. TNCs from developing and transition economies that are entering developed-country markets, can expect to encounter the same set of pressures from these markets that have encouraged greater CSR practices among developed-country TNCs. The same degree of responsibility for supply chains that has been applied to developed-country enterprises can be

expected to be applied to TNCs from developing countries.

Reduction of legal risk. Investments in host countries with a weak legal infrastructure can expose a TNC to novel forms of legal risk. One significant development is the emerging practice of foreign direct liability litigation, which can allow a TNC to be held liable in one country for its actions in another. At present, the main example of foreign direct liability is the use of the Alien Tort Claims Act (ATCA) in the United States.[84] The United Nations Special Representative on Human Rights and TNCs has noted that, even though ATCA currently remains a limited tool, there are reasons to believe that corporate liability may become an issue under domestic criminal law in a number of jurisdictions (United Nations 2006, para 63). The situation is still fluid "with some indication of a possible future expansion in the extraterritorial application of home country jurisdiction over transnational corporations" (Ibid, para 64). These observations are of relevance also to TNCs from developing and transition economies.

Reduction of operational risk. Developing-country TNCs in the extractive sector are the most likely to invest in high-risk regions, which may entail exposure to weak governance or even conflict. On the one hand, TNCs that invest in such places can provide new jobs and livelihoods for the local population, thereby contributing to peace-building (Gerson 2000). On the other hand, such FDI has sometimes aggravated or reignited conflict, directly or indirectly contributed to the violation of human rights, or prolonged autocratic governance (Collier and Hoeffler 2000, Campbell 2002, United Nations Commission on Human Rights 2006). Enterprises investing in these areas should be aware of the potential risks and benefits, and may find the adoption of CSR policies, in particular in the field of human rights and anti-corruption, useful for enhancing the results of the overall investment.

Thus there are several reasons for developing-country companies as well as governments to consider ways of addressing the CSR dimension of international business. Of course, the content of CSR and the emphasis placed on different issues may vary by country, industry and firm. Nevertheless, the promotion of universally agreed principles could serve as a useful basis for further work in this field.

3. Encouraging good practices

Besides widely accepted CSR principles, such as those included in the Global Compact, an assessment of what is considered responsible behaviour needs to be analysed on a case-by-case basis. Given that many issues related to CSR are contextual, careful analysis is needed to define what standards and practices are the most appropriate in each country. Host countries may have to examine their own governance structures and systems, since the need for CSR often arises when a State's governance is weak or breaks down.

Home countries may seek to create a legal and institutional framework that promotes adherence by firms to widely recognized principles of CSR. CSR awareness can also be enhanced by active consumer organizations, trade unions, environmental groups and the media. Civil society actions can induce companies to become sensitive to stakeholder interests and to adjust internal procedures accordingly. Governments can also stimulate and facilitate dialogue between companies and their external stakeholders (see also Hamann and Acutt 2003). Both home and host country governments may also actively participate in the ongoing formulation of new guidelines and voluntary principles to ensure that standards being formed adequately reflect their particular interests.

Some developing-country governments are acknowledging the link between CSR and competitiveness. According to the Deputy Prime Minister of Malaysia (OECD 2005, p. 12):

> "CSR helps improve financial performance, enhance brand image and increases the ability to attract and retain the best work force contributing to the market value of the company by up to 30 per cent. All of these translate into better client and customer satisfaction, improved customer loyalty and ultimately into lower cost of capital as a result of better Risk Management. Finally from a national standpoint, a good reputation for CSR will help Malaysian companies compete in world markets by resolving the potential concerns end users may have in developed markets."

A number of developing economies are establishing a regulatory and cultural environment that supports CSR standards. Such initiatives are sometimes driven by governments and at other

times by business associations, non-governmental organizations or international organizations.

South African firms stand out in that they are embedded in an environment that gives prominence to CSR issues. In South Africa, the State has played a crucial role in defining CSR and in motivating companies to adopt such practices (Hamann and Kapelus 2004, p. 89). In 1994, the first King Report on Corporate Governance was published, and was followed by public discussion which resulted in the report's wide-ranging recommendations being implemented in laws (Institute of Directors in Southern Africa 2002). In addition, in July 2004 the Johannesburg Stock Exchange (JSE) was the first on the continent to launch a socially responsible investment index. Companies applying to be listed on the index have to meet 94 criteria related to environmental, economic and social sustainability (JSE 2005, Finlay 2004). They are regularly reviewed to assess their commitment to these criteria. The review also extends to the outward investment activities of companies listed on the JSE, even though some small adjustments in the criteria are made for such activities. Nevertheless, a company should show for all operations "that it applies a core set of principles, which at least meet globally accepted principles in relation to the relevant issues" (JSE 2005, p.6).

Actors other than the State can also play an important role in providing a conducive framework for CSR. In South Africa, the African Institute of Corporate Citizenship (AICC) is an NGO committed to promoting responsible business behaviour throughout Africa. Among its activities are the African Corporate Sustainability Forum (a multi-stakeholder platform), the Centre for Sustainability Investing (aimed at the financial sector), and a competitiveness and innovation programme. In Latin America, the Ethos Institute in Brazil is a leader in this area, representing some 900 companies that account for 30% of Brazil's GDP and about 1.2 million employees. The Institute is committed to helping companies become more socially responsible. It focuses on activities such as expanding the CSR movement in Brazil, deepening CSR practices and developing CSR criteria. Even though it currently works mainly in Brazil, it explicitly refers to CSR also as an international issue. In Asia, the Asia Pacific CSR Group was launched in July 2004, bringing together nine country-level CSR organizations in the region.[85] Members of the Group engage in active learning exchanges and practices, networking and sharing of information. Its goals include the recognition of standards and benchmarks for corporate governance and good business practices in the fields of environmental protection and equitable human resource management.

In the case of FDI in extractive industries, there are various resources that can help both companies and countries to address certain CSR-related issues, including ensuring the transparency of revenue flows originating from extractive industries[86] or dealing with human rights issues when confronted with weak governance.[87]

The participation of the TNCs themselves is an essential ingredient for the success of CSR initiatives. CSR issues pose new challenges to some enterprises from developing countries, whereas others have already incorporated them into their strategy.[88] For future planning it is not enough to evaluate only the risk in a company's undertakings, but also the risk a company's actions can pose for other stakeholders. The emergence of new developing-country TNCs and their participation in the global market will draw increasing attention to this issue. Moreover, as highlighted in chapter V, developing-country TNCs can be an important channel to transmit CSR-related values and standards to their home economies. Increased awareness of CSR can be expected to benefit the TNCs, as well as their home and host countries. It is therefore important that CSR-related issues be seen as part of a broader set of policies that support entrepreneurship, corporate governance and competitiveness.

E. Concluding remarks

In the context of FDI and development, there are important interactions between corporate strategies and public policies at the national and international levels. The rise of FDI from developing and transition economies is no exception. Proactive government policies can help countries – be they sources or recipients of such investment – to benefit from such investment activity. By providing the appropriate legal and institutional environment, home-country governments can create conditions that could induce their firms to invest overseas in ways that could benefit the home economy. Host-country policies can similarly affect the volume and net impact of inward FDI from developing and transition economies. Indeed, the emergence of

TNCs from these economies as key regional or global players in their industries is paralleled by important changes in policies governing FDI and related matters. Based on this chapter's review of these changes, some general observations can be made.

From a home-country perspective, more and more developing and transition economies are dismantling barriers to outward FDI. While many of them still have some forms of capital control to mitigate the risk of capital flight or financial instability, such a restriction is mostly aimed at limiting international capital flows other than FDI. Only a handful of developing countries today have outright bans on outward FDI, as they are increasingly recognizing its potential benefits. A number of governments, especially in developing Asia, are even using a variety of supportive measures to encourage their firms to invest abroad. Such measures include provision of information, match-making services, financial or fiscal incentives, as well as insurance coverage for overseas investment. Given the relatively short period of time that such measures have been in place, little is known about their effectiveness in facilitating outward FDI and its associated potential benefits.

There is no one-size-fits-all policy that can be recommended to deal with outward FDI. Every home country needs to adopt and implement policies that are appropriate to its specific situation. Whether a country will benefit by moving from "passive liberalization" to "active promotion" of outward FDI depends on many factors, including the capabilities of its enterprises and the links of the investing companies with the rest of the economy. Certain local capabilities are needed to be able to successfully exploit the improved access to foreign markets, resources and strategic assets gained from outward FDI. Moreover, domestic enterprises will need a certain level of absorptive capacity to benefit from outward FDI. In many low-income countries, it may therefore be more cost-effective to focus on creating a competitive business environment at home than to promote outward FDI.

Nevertheless, for those countries that decide to encourage their firms to invest abroad, it is advisable to incorporate policies dealing specifically with outward FDI within a broader policy framework aimed at promoting competitiveness. For example, given the importance of generating domestic capabilities to benefit from outward investment, it is appropriate to link policies on such investment with those relating to SME development, trade and innovation. Moreover, outward FDI is only one of several ways in which a country and its firms can connect with the global production system. Therefore, close coordination with policies aimed at attracting inward FDI, promoting imports or exports, migration and technology flows would also be advisable.

Among developing and transition economies, those in South, East and South-East Asia are the largest users of measures to promote outward FDI. Several of these countries do this through trade promotion organizations, IPAs, export credit agencies and/or EXIM banks. A variety of policy instruments are applied in innovative ways, often targeting specific types of outward FDI. Some governments in Africa and Latin America have also publicly stressed the importance of outward FDI, but have rarely followed up with concrete promotional measures. Indeed, in many developing countries, the promotion of investment overseas remains a sensitive matter.

Particular attention should be paid to the role of outward FDI in the context of South-South cooperation. Governments in Asia (e.g. Malaysia, India, Singapore) and Africa (e.g. South Africa) have outlined specific programmes to facilitate South-South investment. Some programmes are aimed at strengthening intraregional development (as in the case of infrastructure-related FDI by South African State-owned enterprises), and others are interregional in scope. This is an area that could be further explored and supported through closer collaboration among developing-country institutions. An interesting recent UNCTAD initiative in this area is the establishment of the G-NEXID network, aimed at promoting the sharing of experiences among EXIM banks from developing countries.

There are also implications for policy-making in host countries. For example, the scope for South-South FDI has led many developing host countries to adopt specific strategies to attract such investment. In a 2006 UNCTAD survey of IPAs, more than 90% of all African respondents stated that they currently target FDI from other developing countries, notably from within their own region. Indeed, for African IPAs, South Africa tops the list of developing home countries targeted, while in Latin America and the Caribbean, Brazil is the most targeted country. Meanwhile, developed-country IPAs also court investors from

the new home economies. A significant number of such agencies have already set up local offices for that purpose in countries such as Brazil, China, India, the Republic of Korea, Singapore and South Africa. This growing diversity of potential sources of FDI may give recipient countries greater bargaining power to the extent that they are able to attract a larger number of investors to compete for existing investment opportunities.

Notwithstanding the interest in FDI from developing and transition economies, some observers are less enthusiastic about the new investors. Some cross-border M&As by developing-country TNCs that have close links with their respective governments have generated national security concerns, and other deals have prompted fears of job cuts. Countries in which State-owned enterprises embark on internationalization through FDI need to be aware of the potential sensitivities involved. In some countries, State ownership is seen as presenting an increased risk of a transaction being undertaken for other than purely economic motives. This applies in particular to energy, infrastructure services or other industries with a "security dimension". Whether private or State-owned, outward investors from developing and transition economies that are anxious to tap the markets and resources of developed countries may also have to address more fully issues related to corporate governance and transparency.

As far as recipient countries are concerned, business leaders, trade unions as well as policymakers should expect to see a continued rise in transactions involving companies from developing and transition economies as buyers. There may be important benefits to a host country from having more acquiring companies competing for local assets. A negative stance vis-à-vis inward FDI might result in higher prices for consumers, lower returns for shareholders and may generate a wider protectionist sentiment. Countries therefore need to be prudent in their use of legislation aimed at protecting national security interests so as not to fuel a spate of protectionism that would be in no country's best interests.

Beyond the level of national policy-making, this chapter has noted that the interest of developing and transition economies in international investment agreements may also shift. Increased FDI from these economies is likely to generate growing demand from the business community in the home countries concerned for greater protection of their overseas investments. As a consequence, in addition to using international agreements as a means to promote inward FDI, developing-country governments will increasingly consider using them to protect outward investments. This may result in an additional challenge for developing country governments to balance their need for regulatory flexibility with the interest of their own TNCs investing abroad.

Finally, CSR issues are likely to become more important as companies in developing and transition economies expand abroad. Discussions related to CSR have traditionally revolved around developed-country TNCs and their behaviour in developing countries. The managements of latecomer TNCs from developing and transition economies will be exposed to similar issues. While adherence to various internationally adopted CSR standards may entail costs for the companies concerned, it can also generate important advantages, not only for the host country but also for the investing firms and their home economies.

In conclusion, policymakers in countries at all levels of development need to give greater attention to the emergence of new sources of FDI. There is scope for further sharing of experiences among policymakers from developing and transition economies with a view to maximizing the developmental impact of this recent phenomenon. For example, South-South cooperation may enhance the possibilities of cross-border investments contributing to development for both host and home countries. From the perspective of FDI between developing and transition economies on the one hand and developed countries on the other, there is also a need for dialogue, increased awareness and understanding of the factors driving this FDI and their potential impacts. UNCTAD and other international organizations have an important role to play in this context by providing analysis, technical assistance and, not least important, forums for exchanging of views and experiences to foster consensus-building and help developing and transition economies realize the full benefits from the rise of these newly emerging sources of FDI.

Notes

1 It seems that the more competitive and outward-oriented the regime, the more dynamic is the technology upgrading process (Lall 2000).

2 Another reason may have been the publication of the early research results discussed in Section 3, which suggested

that outward investment did not seem to pose any threat to home-country exports (Blomström and Kokko 1997).

3 In the case of Germany, the controls on outward FDI are imposed for security reasons on investments in certain public enterprises in Myanmar, in accordance with United Nations Security Council resolutions.

4 Outward direct investments in a limited number of industries, such as the manufacture of arms, require prior notice.

5 The United States imposes controls on certain investments such as transactions with or involving Cuba and Cuban nationals, the Islamic Republic of Iran, Iraq, the Libyan Arab Jamahiriya, Myanmar and Sudan, and with persons who commit, threaten to commit or support terrorism. Its rules on export controls may also limit outward FDI. Although the purpose of these rules is to keep military technologies outside the reach of potential enemies, they also limit certain kinds of civilian foreign investment. Recently, for example, this may have limited Boeing's ability to invest in production facilities in China.

6 Neither Taiwan Province of China nor the Republic of Korea began liberalization in earnest until they had accumulated a sizeable current-account surplus. Moreover, during the Asian financial crises, a number of countries restricted outward FDI and postponed the lifting of these restrictions until their balance-of-payments situation had improved.

7 For example, in Uzbekistan, the Agency for Foreign Economic Relations must be notified of the registration of an enterprise abroad (IMF 2005).

8 It began in 1962, when FDI was allowed, but still significantly restricted. In 1979, restrictions were relaxed further and in 1987, foreign exchange controls were eased, when a large reserve of foreign exchange had been accumulated. By 1995, approval was subject to a broad list of national interest criteria, including those related to the acquisition of needed natural resources, parts and components for domestic industries, for the improvement of regional trade imbalances, the encouragement of technical know-how through imports, and for assistance in domestic industrial restructuring (*WIR95*).

9 In the Bahamas, South Africa and the Solomon Islands approval for FDI projects takes into account the potential impact on the home economy, for example, as regards exports of goods and services and the balance of payments (IMF 2005).

10 This applies, *inter alia*, to the Bahamas, Brazil, Cameroon, India, Lesotho, Malaysia, Namibia, the Philippines, Swaziland and Turkey. For example, India offered an automatic clearance route for investments not exceeding $100 million in 1999, and any amount up to 200% of their net worth in 2005 (UNCTAD 2005e, p. 11).

11 It should be noted that controls on foreign investments of domestic financial institutions can be either prudential rules or capital controls, depending on whether there is a differentiation between domestic and foreign activities of the regulated entities. Limits on investments by banks in non-financial enterprises are an internationally accepted prudential rule. However, if only investments in non-financial enterprises abroad are limited or prohibited, it is considered a capital control.

12 UNCTAD Survey of Governments in developing countries and in South-East Europe and the CIS, January-March 2006.

13 Eritrea, for example, declared in its Macro-Policy of 1994 (item 15.2.d.) that it it will "encourage Eritrean investment abroad". This may have been part of the country's regional strategy to encourage its State-owned enterprises and private investors to invest in neighbouring countries such as Ethiopia and the Sudan. To that end, it opened an account with the Bank of Ethiopia so that Eritrean investors in these countries could use it for letter of credit transactions.

14 Speech given by Prime Minister Manmohan Singh at "The Indian CEO: Competencies for Success Summit", 22 January 2005 (www.ficci.com/media-room/speeches-presentations/2005/jan/jan22-ceo-pm.htm).

15 Budget Speech, Trevor A. Manuel, Minister of Finance, South Africa, 21 February 2001.

16 President Lula's address at the Portuguese Industrial Association, Lisbon, 11 July 2003.

17 Lecture given by the Minister for Development, Industry and Foreign Trade, Luiz Fernando Furlan, at Fundacao Dom Cabral, 22 March 2003.

18 In the Republic of Korea, the Bank of Korea, the EXIM Bank, the Center for Overseas Investment Services (COIS) in the Korean Trade-Investment Promotion Agency (KOTRA) all act as resource centres for the provision of information. In addition, the COIS assists companies in identifying potential business opportunities and joint venture partners abroad.

19 The Singapore-led investors in the Singapore-Suzhou Industrial Park, such as Temasek, downgraded their involvement from 65% to 35% in 2001, in favour of a local Chinese consortium, and they allowed commercial Singaporean consortia, including the real estate development consortium Ascendas, to take the lead. Ascendas is the lead partner not just in the International Tech Park in Bangalore, but also in more recent developments such as Cyber Pearl and The V in Hyderabad, and the International Tech Park in Chennai.

20 One of the programmes offered is called shared services, which is intended for all growth stages of IT SMEs. Various marketing and investor-relations programmes have been widely used by companies trying to establish a presence in markets abroad (Ministry of Information and Communication, Republic of Korea).

21 All resident companies at iParks are required to cover their own expenses.

22 Among developed countries, there were similar responses in Slovenia. In a survey, 70% of Slovenian firms covered under a special promotional programme during 2002-2004 (which offered financial grants to firms investing abroad) mentioned that they would have invested abroad even without the public support (Svetlicic, 2005, p. 4). As a result, the Government decided to abolish the programme.

23 In Latin America and the Caribbean, the Dominican Republic offers some loans, and Suriname offers equity finance for outward FDI.

24 Such risk can take the form of outright or "creeping" expropriation, breach of contract, currency inconvertibility and transfer restrictions, and war and civil disturbance, including terrorism.

25 The Berne Union (officially the International Union of Credit and Investment Insurers), is the leading organization for export credit and investment insurance

agencies aimed at facilitating cross-border trade and FDI. Its membership comprises private and public companies as well as multilateral organizations. In 1993, the Berne Union and the European Bank for Reconstruction and Development began the Prague Club, a network for exchanging information for new ECAs in Central and Eastern Europe that did not then meet the entrance requirements for the Berne Union. The Prague Club's membership later expanded to include agencies in Asia and Africa, reaching a total of 30 members in 2006.

26 The EXIM Bank of Thailand encourages FDI that augments foreign exchange income or savings by supplementing commercial banks' services that are lacking or not efficiently available; see: www.exim.go.th/eng/about_exim/vision_mission.asp.

27 For example, the State-owned company, Eskom, has established a dedicated NEPAD team to facilitate the mobilization of Eskom's resources to promote, develop and implement NEPAD's related projects in the energy and, in particular, the power sector.

28 MASSCORP has links with markets in Africa and Asia and organizes business forums/dialogue sessions between its members and visiting South-South Heads of State and their business delegations, undertakes trade and investment missions and exhibitions in other developing countries, and maintains a library of information on South-South investment opportunities.

29 In March 2005 a Memorandum of Understanding was signed by the Export-Import Bank of India, African Export-Import Bank, Andean Development Corporation, Export-Import Bank of Malaysia, and Eximbanka SR (Slovakia). And in March 2006, these institutions were joined by eight more agencies.

30 See UNCTAD/PRESS/IN/2006/005, 14 March 2006.

31 The aim is to commercialize more than 200 of the world's leading technologies or products in the global market by 2012 through the development of 80 core technologies in growth industries (Republic of Korea 2004).

32 The promotion of inward FDI into natural resources may call for a somewhat different approach.

33 Other target economies cited by at least 10% of IPAs that indicated specific targets include Brazil, Hong Kong (China), Pakistan, the Russian Federation, Singapore, Taiwan Province of China, Thailand and the United Arab Emirates.

34 Very few IPAs in Latin America and the Caribbean indicated that they target particular industries.

35 These IPAs are located in the United Republic of Tanzania, Venezuela, Serbia and Montenegro and the Solomon Islands.

36 Opposition in developed countries against takeover bids has not been confined only to transactions involving TNCs from the South; several deals among European companies, for example, have triggered similar reactions, in some cases leading the European Commission to stress that individual member countries should not favour national takeover bids. The Commission's President made the point that "defending national champions in the short-term usually ends up relegating them to the second division in the long-term" (See "EU commission warns against protectionism in Europe", *EU Business*, 15 March 2006 and "EU to sue Spain over 'illegal' energy-merger blocking law", *EUBusiness*, 24 February 2006).

37 Even Lenovo — a public company listed in Hong Kong (China) — has close ties to the Government. Its parent company and largest shareholder, Legend Holdings, is controlled by the Chinese Academy of Sciences, a Government institution that manages national scientific research efforts in China.

38 In May 2005, the Beijing-based Lenovo Group acquired IBM's personal computer business, thus becoming the world's third largest PC producer. The purchase met initial opposition in the United States. The Committee on Foreign Investment in the United States (CFIUS) had considered blocking the deal over national security concerns but eventually consented to the transaction. The transaction was also scrutinized by the Departments of Justice and Homeland Security. See "Security objections to IBM-Lenovo deal?", *eSecurity*, 24 January 2005.

39 Huawei's plans to set up a telecom equipment manufacturing affiliate in India were blocked for national security reasons by the Government as the Foreign Investment Promotion Board and the Department of Telecom. Investment plans of ZTE, another Chinese telecom equipment company, have been delayed for two years pending a decision by Indian security agencies to allow the start of manufacturing in India. See e.g. "Raising the red scare in India's telecom sector", *Asia Times*, 16 November 2005.

40 See e.g. "The Big Tug of War over Unocal", *New York Times*, 6 July 2005.

41 Ibid.

42 The Government of Canada also introduced Bill C-59 to amend the Investment Canada Act (ICA) in order to allow the Government to conduct an investment review on national security grounds, regardless of the size of the transaction. While some observers saw the Bill as a mechanism to stop investments that could be politically unpalatable, such as the takeover of Noranda by the Chinese State-owned Minmetals, the then Minister of Industry stated that the Bill was not aimed specifically at the oil or resource sectors. The Bill did not go beyond a first reading in the House of Commons so has not been passed into law. See, for example, "Bill C-59: Foreign investment will become unpredictable and politicized if Ottawa caves in to vague national interest concerns," *National Post* [Toronto], 19 July 2005, p. FP 19; and "National security bill not aimed at energy takeovers: Emerson," *The Globe & Mail* [Toronto], 15 July 2005, p. B1.

43 The company failed to pass the security investigation because of its "Chinese background". It was the second time that a planned investment by this company was blocked due to "security concerns". See "Li Ka-shing was disqualified for bidding for an Indian part", *International Finance News*, 8 November 2005.

44 Centrica is the largest utilities company in the United Kingdom, accounting for 58% of the country's residential gas market and 23% of the power market. In April 2006, the United Kingdom's Trade and Industry Secretary made it clear that the Government would not intervene if a takeover bid was announced: "Whatever the difficulties and challenges of globalization, the answers will not be found in the stagnant waters of protectionism," he said. See e.g. "UK will not block Gazprom bid", *Energy Business Review Online*, 26 April 2006 (www.energy-

business-review.com); "Gazprom warns EU to let it grow", *BBC News*, 20 April 2006 (www.bbc.co.uk).

45 See e.g. "Undue Fears of China Inc?", *YaleGlobal*, 29 September 2005, //yaleglobal.yale.edu/display.article?id=6320 and Antkiewicz and Whalley (2005).

46 See e.g. "IG Metall and BenQ Mobile Arrive at an Agreement", *IG Metall: Siemens Dialog*¸24 September 2005, (//dialog.igmetall.de).

47 See e.g. "Indian minister in France, expresses concern at resistance to takeover bids", *BBC Monitoring South Asia*, 1 June 2006; "France's economic patriotism", *The Statesman*, 21 May 2006; "Europe's fear of pinstriped Indian", *International Herald Tribune*, 4 Feb 2006.

48 "Unions declare united front against Mittal's bid for Arcelor", *EU Business*, 1 February 2006.

49 "Politicians stop short of quashing Mittal offer", *International Herald Tribune*, 30 January 2006.

50 "Arcelor succumbs to Mittal", *Financial Times*, 26 June 2006.

51 For example, in order to allow the Committee on Foreign Investments to become comfortable with Chinese takeovers, one study suggested that Chinese companies in the United States would be wise to invest in less sensitive sectors and build a track record before moving on to more sensitive areas (Graham and Marchick, 2006, p. 107).

52 Bill S 1412 IS. See //thomas.loc.gov/cgi-bin/query/z?c109:S.1412.

53 See e.g. "Raising the red scare in India's telecom sector", *Asia Times*, 16 November 2005.

54 See "DP World and U.S. trade: A zero-sum game", *The New York Times*, 10 March 2006.

55 Unlike in the case of BITs, the share of North-North DTTs is also significant.

56 In an UNCTAD survey conducted for the *WIR06*, such diverse economies as Bulgaria, Colombia, the Dominican Republic, Mauritius, Mexico, Republic of Korea, Russian Federation, Serbia and Montenegro, Thailand, Suriname and Venezuela all stated that the conclusion of such IIAs was part of their overall strategy to facilitate outward FDI. The same is likely to apply to home countries like China, India, Malaysia and Singapore.

57 In Latin America and the Caribbean, various regional agreements have also been adopted to avoid double taxation, in 1971 for the Andean Community and in 1994 for the Caribbean Community Member States (UNCTAD 1996).

58 The calculation is based on data for nine developing economies that report outward FDI stock by destination (Hong Kong, China; India; Kazakhstan; Malaysia; Pakistan; Singapore; South Africa; Thailand; and Tunisia).

59 So far, Singapore has concluded five FTAs with other developing countries: the Republic of Korea (2005), India (2005), Jordan (2004), Panama (2006) and Thailand (2004), in addition to the Trans-Pacific Economic Partnership Agreement, which includes Brunei and Chile (2005). Furthermore, the country is planning, discussing or negotiating FTAs with, China, Bahrain, Egypt, Kuwait, Mexico, Pakistan, Peru, Qatar, Sri Lanka and the United Arab Emirates. See //app.fta.gov.sg/asp/index.asp.

60 The first wave was driven by the import substitution policies of the 1960s and 1970s.

61 In April 2006, however, the Government of Venezuela announced that it was withdrawing from the Andean Community.

62 See www.comunidadandina.org/ingles/investements.htm.

63 CARICOM is in the process of developing a regional investment policy framework, which will include, a CARICOM investment code; a harmonized incentive regime; a streamlined approval process; and the implementation of national investment policy reforms; (see www.caribbeanbusinesscommunity.com/newsletters/csm.html).

64 In July 2006, Venezuela was also admitted as a member of Mercosur, although the treaty change had not yet been ratified at the time of the publication of this Report.

65 A less extensive range of provisions was established for non-MERCOSUR investors under the Buenos Aires Protocol in 1994, which has been implemented.

66 In 2005, it was announced that COMESA would extend its membership to the Libyan Arab Jamahiriya and conclude a customs union by 2008.

67 Article 100 (h), COMESA Treaty.

68 Article 159, COMESA Treaty.

69 Article 101, COMESA Treaty.

70 Article 159, COMESA Treaty. The COMESA Treaty does not stipulate a right of admission; it is up to the member States to incorporate further investor rights in their national laws.

71 The main provisions negotiated to date include a closed-list definition that includes portfolio investment and intellectual property rights; the opening up of all economic activities and national treatment extended to COMESA investors by 2010 and to non-COMESA investors by 2015, subject to exceptions through a temporary exclusion list and a sensitive list; fair and equitable treatment; transfer of funds; national treatment and MFN treatment at the pre- and post-establishment levels; transparency; general exceptions; emergency and balance-of-payment safeguard measures; institutional arrangements; guarantees against expropriation; compensation for losses; State-State as well as investor-State dispute settlement, provisions on accession and withdrawal of members.

72 The United Nations Global Compact defines CSR as "the combined practice of implementing universal principles into business practices and engaging in partnership projects to meet broad societal goals." It emphasizes that socially responsible behaviour often requires proactive actions that extend beyond the law.

73 The UNCTAD XI conference called for pro-active policies to encourage positive corporate contributions to the economic and social development of host developing countries. Economic contributions may include investing in the poor, providing affordable goods and services, transferring technology and training personnel, building up local and cross-border value chains, fostering employment and entrepreneurship, engaging in ethical business behaviour, contributing to public revenue generation, and minimizing the negative impacts of business restructuring (UNCTAD 2005o).

74 Even more specialized treaty instruments that directly address TNCs (such as IIAs) deal very little with this issue (UNCTAD 2001).

75 According to the United Nations Special Representative on Human Rights and TNCs, there tends to be a symbiosis between "the worst corporate-related human rights abuses and host countries that are characterized by a combination of relatively low national income, current or recent conflict exposure, and weak or corrupt governance" (United Nations Commission on Human Rights 2006, para 30). Thus, weak and/or corrupt governance poses a specific challenge to the observance of CSR principles and, in particular, to the established human rights regime.

76 Surveys of managers support the impression that differences among regions and economies exist. Nearly 90% of Indian managers interviewed in a recent survey endorsed a "public good" dimension in their business dealings whereas "Chinese managers were more lukewarm." (McKinsey 2006).

77 Full text of the MNE Declaration available on the ILO website: www.ilo.org.

78 For example, the MNE Declaration calls on enterprises to contribute to the realization of fundamental principles and rights at work and to refer to the principles underpinning these for guidance in their CSR policies. These include the abolition of forced labour, equal opportunity in employment, the elimination of child labour and freedom of association, and the effective recognition of the right to bargain collectively.

79 The PRI initiative is carried out through close coordination between the United Nations Environment Programme's Finance Initiative and the United Nations Global Compact.

80 The eight performance standards define the roles and responsibilities of IFC clients for managing the social and environmental risks in their projects, and include requirements to disclose information. As well as covering new areas of risk, such as labour and working conditions and community health and safety, and an emphasis on management systems, they embody an outcomes-based approach. The full text of the performance standards and supporting materials can be found at: www.ifc.org/ifcext/enviro.nsf/.

81 See www.unctad.org/ISAR.

82 See also the 2005 United Nations Global Compact Shanghai Declaration, which argues that "[P]roactive corporate policies and practices that respect human rights and ensure safe and decent workplace conditions, environmental protection and good corporate governance create more sustainable value and benefits for workers, communities and society at large. They also enable business to attract and retain skilled workers, save costs, enhance productivity, create trust and positive reputation with stakeholders, and build brands." (United Nations Global Compact 2005, para 4).

83 See e.g. "University of California Regents vote to divest from companies doing business in Sudan", Associated Press, 17 March 2006; or "Brown University agrees to divest from Sudan", Associated Press 25 February 2006.

84 Of the 36 ATCA cases to date involving companies, 20 have been dismissed, 3 settled and none decided in favour of the plaintiffs; the rest are ongoing (United Nations 2006, para 62). In addition, the United States Supreme Court had stipulated some strict prerequisites for ATCA claims. See Sosa v. Alvarez-Machain, 542 US 692, 732 (2004).

85 Economies represented in the Asia Pacific CSR Group include: Australia, Hong Kong (China), India, Indonesia, Pakistan, the Philippines, Singapore, Sri Lanka and Thailand.

86 See, for example, the Extractive Industries Transparency Initiative, at: www.eitransparency.org.

87 Guidelines such as the *Handbook on Conflict-Sensitive Business Practices: Guidance for Extractive Industries* (International Alert 2005) or *the Global Compact Business Guide for Conflict Impact Assessment and Risk Management* (United Nations Global Compact 2002) provide practical advice. Both publications contain information on risk assessment in conflict zones and on the correct behaviour of TNCs in such areas.

88 It has been argued that "most commercial risk assessment tools are not explicitly concerned with the reverse flow of risk: the risk of a company aggravating a conflict situation" (Campbell 2002, p. 2).

CONCLUSION

During the past two decades, FDI by TNCs from developing and transition economies has expanded at an unprecedented rate. This process has been encouraged by many factors, including soaring export revenues and rapid economic growth in a number of these economies, as well as the burgeoning industrial and business prowess of their firms. Perhaps most importantly, firms from these economies have been increasingly affected by global competition. They have come to realize the growing importance of accessing international markets and connecting to global production systems and knowledge networks. Accordingly, their view of business has become far more international and their ambitions increasingly regional or global in scope. This change, from a domestic vision to an international one, underscores the nature of the structural shift taking place in the global economy.

Developed-country TNCs still provide the larger proportion of global FDI, but the rapid growth in FDI by TNCs from developing and transition economies means that some of them are emerging as major players on the world stage. Moreover, as well as being important new sources of FDI, the TNCs analysed in this report are harbingers of the future. Many firms in developing countries and economies in transition have yet to establish their first foreign affiliates, but are encouraged to do so because of the globalization processes discussed in this *WIR*, including competition with compatriot firms that have already ventured overseas. This is an exciting outlook from the development perspective, adding a new dimension to the prospects for South-South cooperation.

Developing-country TNCs invest proportionally more in developing countries than do their developed-country counterparts. For a number of LDCs, their investments account for over a half of total FDI inflows. FDI can assist host developing countries in a number of ways, including adding to financial resources and productive capacity, supporting export activity, creating employment and transferring technology. FDI by developing-country TNCs can result in proportionally greater gains, where their competitive strengths, motives and strategies differ from developed-country TNCs. For example, they are more likely to establish greenfield operations, they more commonly use standardized, non-proprietary technology, and the technological gap between local firms and their affiliates is narrower than the equivalent gap with affiliates established by developed-country TNCs. All this augurs well for South-South development cooperation, with the aim of maximizing gains and avoiding pitfalls.

The rise of TNCs from developing and transition economies is part of a profound shift in the world economy. Since its high point in the mid-twentieth century, the share of developed economies in global GDP has steadily fallen, with consequences for international patterns of trade, financial flows and investment. This process might experience the odd interruption (e.g. the Asian financial crisis of 1997), but it is now virtually irreversible.

An understanding of this dynamic phenomenon is growing, including recognition of the diverse nature and unique characteristics of TNCs from developing and transition economies, which stem from a multiplicity of origins and sources of competitive advantage. Nevertheless, because it is a relatively new phenomenon in both scope and magnitude, further investigation will be necessary to refine our knowledge, in order to help developing countries, and particularly the poorest among them, realize the full benefits of the rise of these emerging sources of FDI.

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ANNEXES

Annex table A.I.1. Greenfield FDI projects, by investor/destination region, 2002-2005
(Number)

Partner region/economy	World as destination				World as source			
	2002	2003	2004	2005	2002	2003	2004	2005
	By source				By destination			
Total world	5 685	9 348	9 927	9 488	5 685	9 348	9 927	9 488
Developed countries	4 903	7 735	8 443	8 057	2 746	3 867	4 144	3 981
Europe	2 550	3 927	4 418	4 247	1 833	2 670	3 006	2 997
European Union	2 386	3 691	4 088	3 955	1 790	2 584	2 915	2 928
Austria	90	147	204	206	12	80	97	92
Belgium	45	75	77	108	63	64	101	101
Cyprus	9	4	9	5	9	8	6	4
Czech Republic	16	20	17	21	94	141	137	127
Denmark	56	103	137	131	25	73	88	64
Estonia	15	19	5	19	32	29	40	53
Finland	71	106	103	153	17	31	30	28
France	322	475	525	502	140	159	229	385
Germany	473	833	862	919	131	272	251	212
Greece	64	73	43	38	26	42	57	27
Hungary	23	26	26	10	211	214	212	173
Ireland	51	46	46	59	94	136	129	174
Italy	178	265	346	274	72	112	124	118
Latvia	14	18	9	11	38	43	27	69
Lithuania	14	16	9	53	36	43	23	60
Luxembourg	7	15	24	22	4	12	12	1
Malta	2	2	1	3	4	3	3	7
Netherlands	168	239	295	210	44	98	91	100
Poland	11	14	24	24	91	155	229	234
Portugal	26	50	40	19	42	58	69	23
Slovakia	-	2	4	-	44	63	84	96
Slovenia	27	46	28	38	13	23	16	18
Spain	142	172	254	130	154	218	247	127
Sweden	124	216	254	248	68	93	123	94
United Kingdom	438	709	746	752	326	414	490	541
Other developed Europe	164	236	330	292	43	86	91	69
Iceland	4	6	14	14	1	4	1	1
Liechtenstein	-	7	2	4	2	-	-	1
Norway	39	60	77	74	7	26	23	13
Switzerland	121	163	237	200	33	56	67	54
North America	1 769	2 724	2 803	2 869	636	831	805	723
Canada	165	327	296	390	219	242	221	196
United States	1 604	2 397	2 507	2 479	417	589	584	527
Other developed countries	584	1 084	1 222	941	277	366	333	261
Australia	66	147	124	129	138	182	139	102
Greenland	-	2	-	1	1	2	1	2
Israel	39	39	58	54	8	16	17	22
Japan	472	878	1 025	744	106	133	155	118
New Zealand	7	18	15	13	24	33	21	17
Developing economies	707	1 440	1 294	1 243	2 362	4 467	4 806	4 296
Africa	46	65	44	65	169	321	267	428
North Africa	3	17	8	21	74	127	107	188
Algeria	-	4	-	-	15	21	19	43
Egypt	2	9	6	11	23	40	32	42
Libyan Arab Jamahiriya	-	2	-	-	2	4	7	14
Morocco	1	1	-	4	23	36	35	54
Sudan	-	-	-	-	3	10	5	5
Tunisia	-	1	2	6	8	16	9	30
Other Africa	43	48	36	44	95	194	160	240
West Africa	-	1	4	7	27	58	30	72
Benin	-	-	-	-	-	1	-	-
Burkina Faso	-	-	-	-	-	1	1	3
Cape Verde	-	-	-	-	1	-	-	-
Côte d'Ivoire	-	-	1	3	-	1	-	2
Gambia	-	-	-	-	-	-	-	1
Ghana	-	-	1	-	2	15	4	14
Guinea	-	-	-	-	4	2	3	3
Guinea-Bissau	-	-	-	-	-	1	-	-
Liberia	-	-	-	-	-	-	-	2
Mali	-	-	-	-	-	-	-	3
Mauritania	-	-	-	-	1	2	1	3
Niger	-	-	-	-	-	1	-	-
Nigeria	-	1	2	3	17	27	18	38
Senegal	-	-	-	-	2	3	3	1
Sierra Leone	-	-	-	-	-	4	-	2
Togo	-	-	-	1	-	-	-	-
Central Africa	1	-	2	1	11	21	20	31
Angola	1	-	2	-	6	14	16	17

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Annex table A.I.1. Greenfield FDI projects, by investor/destination region, 2002-2005 (continued)
(Number)

Partner region/economy	World as destination				World as source			
	2002	2003	2004	2005	2002	2003	2004	2005
	By source				By destination			
Cameroon	-	-	-	1	2	1	1	-
Chad	-	-	-	-	1	-	-	-
Congo	-	-	-	-	-	1	1	-
Congo, Democratic Republic of	-	-	-	-	1	3	2	9
Equatorial Guinea	-	-	-	-	1	2	-	-
Gabon	-	-	-	-	-	-	-	4
Sao Tome and Principe	-	-	-	-	-	-	-	1
East Africa	11	11	2	6	22	47	50	64
Burundi	-	-	-	-	1	-	-	-
Djibouti	-	-	-	-	-	-	-	1
Eritrea	-	-	-	-	-	1	1	4
Ethiopia	-	-	-	-	-	2	1	1
Kenya	-	3	1	4	4	12	15	13
Madagascar	-	-	-	-	-	4	3	4
Mauritius	5	1	-	1	6	3	7	4
Mozambique	-	-	-	-	2	5	4	-
Rwanda	-	-	-	-	-	-	-	2
Seychelles	-	-	-	-	1	-	2	3
Somalia	-	-	-	-	-	-	1	-
Uganda	2	-	-	1	2	5	5	5
United Republic of Tanzania	-	-	-	-	2	7	6	11
Zambia	-	-	-	-	4	5	4	14
Zimbabwe	4	7	1	-	-	3	1	2
Southern Africa	31	36	28	30	35	68	60	73
Botswana	-	-	-	-	3	5	5	5
Lesotho	-	-	-	-	-	1	-	-
Namibia	-	-	-	-	1	3	3	7
South Africa	31	36	28	30	31	59	50	59
Swaziland	-	-	-	-	-	-	2	2
Latin America and the Caribbean	89	151	171	97	563	800	798	543
South and Central America	72	124	145	70	525	748	747	510
South America	62	94	108	59	367	535	558	350
Argentina	15	15	19	2	44	64	74	41
Bolivia	-	-	-	-	10	9	14	2
Brazil	20	40	40	31	175	291	260	158
Chile	12	20	16	11	38	61	55	37
Colombia	4	4	15	-	26	43	47	45
Ecuador	-	1	-	1	11	9	21	4
Guyana	-	1	-	-	-	-	1	3
Paraguay	-	-	-	-	1	3	2	-
Peru	4	3	14	3	26	30	31	29
Suriname	-	-	-	-	1	2	-	-
Uruguay	2	3	1	-	12	5	10	7
Venezuela	5	7	3	11	23	18	43	24
Central America	10	30	37	11	158	213	189	160
Costa Rica	-	-	1	-	7	13	7	10
El Salvador	-	1	1	-	6	4	7	4
Guatemala	-	-	-	1	3	5	3	1
Honduras	-	-	4	1	4	7	5	2
Mexico	10	29	29	9	129	169	156	134
Nicaragua	-	-	-	-	3	8	1	1
Panama	-	-	2	-	6	7	10	8
Caribbean and other America	17	27	26	27	38	52	51	33
Antigua and Barbuda	-	1	-	-	1	-	-	-
Aruba	-	-	-	-	-	1	-	1
Bahamas	-	-	-	1	2	3	1	4
Barbados	-	-	-	-	2	-	1	-
Bermuda	14	22	17	21	1	1	-	-
Cayman Islands	-	1	1	2	1	-	-	1
Cuba	-	1	-	-	4	6	5	5
Dominican Republic	-	1	-	1	7	11	9	7
Guadeloupe	-	-	-	-	-	1	-	-
Haiti	-	-	-	-	1	-	-	1
Jamaica	1	-	4	-	3	5	4	2
Martinique	-	-	-	-	-	1	-	-
Puerto Rico	1	1	4	-	12	19	29	7
Saint Lucia	-	-	-	1	-	1	-	-
Trinidad and Tobago	1	-	-	1	4	3	2	5
Asia and Oceania	572	1 224	1 079	1 081	1 630	3 346	3 741	3 325
Asia	572	1 224	1 079	1 081	1 627	3 339	3 734	3 323
West Asia	109	203	174	211	232	419	409	466
Bahrain	4	2	4	1	24	24	17	24

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Annex table A.I.1. Greenfield FDI projects, by investor/destination region, 2002-2005 (concluded)
(Number)

Partner region/economy	World as destination				World as source			
	2002	2003	2004	2005	2002	2003	2004	2005
	By source				By destination			
Iran, Islamic Republic of	2	2	8	7	10	29	23	7
Iraq	1	-	-	1	-	32	5	7
Jordan	-	6	2	4	4	15	11	22
Kuwait	8	13	15	11	4	7	20	11
Lebanon	6	4	8	5	8	20	23	10
Oman	-	1	1	-	10	11	14	14
Qatar	3	3	12	9	14	22	26	24
Saudi Arabia	7	14	20	20	21	31	37	49
Syrian Arab Republic	1	1	-	-	2	8	6	18
Turkey	54	105	62	57	45	69	66	62
United Arab Emirates	22	49	41	96	88	145	157	215
Yemen	1	3	1	-	2	6	4	3
South, East and South-East Asia	463	1 021	905	870	1 395	2 920	3 325	2 857
East Asia	259	564	475	477	749	1 628	1 868	1 513
China	35	107	96	128	586	1 303	1 547	1 196
Korea, Democratic People's Republic	-	-	-	-	-	1	-	-
Hong Kong, China	42	134	100	92	58	90	125	119
Macao, China	-	1	-	-	2	3	6	7
Mongolia	-	-	2	-	2	6	2	8
Korea, Republic of	117	179	169	173	60	110	104	115
Taiwan Province of China	65	143	108	84	41	115	84	68
South Asia	92	184	205	197	284	509	728	653
Afghanistan	-	-	-	-	3	6	4	4
Bangladesh	1	1	-	4	9	17	7	7
India	89	175	199	182	249	452	688	564
Maldives	-	-	-	-	1	-	-	-
Nepal	-	-	-	-	1	1	1	-
Pakistan	2	6	3	6	13	23	17	67
Sri Lanka	-	2	3	5	8	10	11	11
South-East Asia	112	273	225	196	362	783	729	691
Brunei Darussalam	-	-	-	2	1	2	2	4
Cambodia	-	-	-	-	1	5	7	6
Timor-Leste	-	-	-	-	-	1	-	1
Indonesia	4	9	9	9	31	61	59	76
Lao People's Democratic Republic	-	-	-	-	-	5	3	8
Malaysia	39	83	74	70	79	183	125	92
Myanmar	-	-	-	-	-	5	1	-
Philippines	2	31	14	6	28	74	76	64
Singapore	57	90	103	79	108	154	174	154
Thailand	4	37	18	18	60	161	123	117
Viet Nam	6	23	7	12	54	132	159	169
Oceania	-	-	-	-	3	7	7	2
Fiji	-	-	-	-	-	3	-	-
New Caledonia	-	-	-	-	2	-	3	1
Papua New Guinea	-	-	-	-	1	4	4	1
South-East Europe and the CIS	75	173	190	188	577	1 014	977	1 211
South-East Europe	21	21	39	27	299	355	403	506
Albania	2	-	1	-	12	10	7	13
Bosnia and Herzegovina	1	-	1	2	15	28	19	24
Bulgaria	1	10	15	6	77	97	110	130
Croatia	5	3	11	6	33	45	39	43
Romania	3	5	9	13	112	117	171	235
Serbia and Montenegro	7	2	2	-	42	48	50	51
TFYR of Macedonia	2	1	-	-	8	10	7	10
CIS	54	152	151	161	278	659	574	705
Armenia	-	1	-	2	2	16	6	11
Azerbaijan	1	4	1	4	9	25	25	19
Belarus	-	-	6	2	1	15	10	10
Georgia	1	-	1	-	4	4	6	10
Kazakhstan	-	3	7	12	6	36	30	26
Kyrgyzstan	-	2	-	1	-	6	1	3
Moldova, Republic of	-	-	-	-	5	8	14	12
Russian Federation	51	119	108	126	199	429	380	479
Tajikistan	-	-	-	-	-	6	4	6
Turkmenistan	-	-	-	-	5	13	3	1
Ukraine	1	23	28	14	28	71	80	116
Uzbekistan	-	-	-	-	19	30	15	12

Source: UNCTAD, based on information from OCO consulting, LOCOmonitor website (www.locomonitor.com).
Note: The database includes new FDI projects and expansions of existing projects both announced and realized. Because of non-availability of data on the value of most projects, only the number of cases can be used. Data from this database are available only from 2002 onwards.

Annex table A.I.2. Estimated world inward FDI stock, by sector and industry, 1990 and 2004
(Millions of dollars)

Sector/industry	1990			2004			
	Developed countries	Developing economies	World	Developed countries	Developing economies	South-East Europe and CIS	World
Primary	139 563	23 715	163 278	268 171	151 632	20 725	440 529
Agriculture, hunting, forestry and fisheries	3 193	4 063	7 256	7 739	14 339	483	22 561
Mining, quarrying and petroleum	136 371	17 601	153 972	256 642	137 294	20 242	414 177
Unspecified primary	-	2 051	2 051	3 791	-	-	3 791
Manufacturing	586 379	144 372	730 750	2 406 127	613 559	20 448	3 040 135
Food, beverages and tobacco	64 427	9 612	74 039	238 066	33 337	6 948	278 351
Textiles, clothing and leather	21 441	5 012	26 452	78 537	7 688	176	86 401
Wood and wood products	18 506	4 380	22 885	77 361	12 283	1 138	90 782
Publishing, printing and reproduction of recorded media	13 864	546	14 410	55 891	273	-	56 164
Coke, petroleum products and nuclear fuel	50 192	3 019	53 211	65 482	22 985	1 667	90 135
Chemicals and chemical products	114 240	43 654	157 893	651 821	76 995	3 003	731 819
Rubber and plastic products	11 923	1 764	13 688	38 916	5 424	16	44 356
Non-metallic mineral products	15 545	2 729	18 274	63 058	9 027	771	72 856
Metals and metal products	46 342	14 497	60 839	176 913	19 751	1 860	198 523
Machinery and equipment	48 950	9 615	58 565	164 470	25 093	2 340	191 903
Electrical and electronic equipment	65 548	16 617	82 165	183 569	62 629	57	246 254
Precision instruments	10 857	459	11 316	72 975	1 379	82	74 437
Motor vehicles and other transport equipment	43 274	7 797	51 071	278 559	30 812	3	309 375
Other manufacturing	17 682	2 380	20 062	96 640	12 381	21	109 043
Unspecified secondary	43 588	22 293	65 881	163 868	293 503	2 366	459 737
Services	716 544	151 589	868 133	4 624 699	1 224 356	34 286	5 883 341
Electricity, gas and water	6 531	2 674	9 205	167 346	47 477	1 189	216 012
Construction	15 356	5 080	20 436	57 517	24 210	1 006	82 733
Trade	188 023	23 422	211 445	859 664	182 686	7 183	1 049 533
Hotels and restaurants	19 455	3 845	23 300	62 990	18 369	1 041	82 401
Transport, storage and communications	15 130	11 294	26 424	366 345	118 731	11 926	497 003
Finance	272 686	85 308	357 995	1 518 066	299 813	6 736	1 824 614
Business activities	103 771	13 976	117 747	1 051 100	476 172[a]	4 456	1 531 728[a]
Public administration and defence	-	55	55	11 081	354	60	11 495
Education	87	-	87	519	64	9	592
Health and social services	914	-	914	8 554	2 316	221	11 090
Community, social and personal service activities	12 281	20	12 301	68 281	5 713	201	74 194
Other services	66 501	3 877	70 378	107 321	31 453	2	138 776
Unspecified tertiary	15 809	2 038	17 847	345 915	16 999	256	363 170
Private buying and selling of property	-	-	-	6 442	-	-	6 442
Unspecified	9 700	4 059	13 759	47 405	52 544	6 695	106 643

Source: UNCTAD.

a A considerable share of investment in this industry is in Hong Kong (China), which accounted for 76% of developing economies and 24% of the world total in 2004. Hong Kong (China) data include investment holding companies.

Note: Data should be interpreted with caution. The world total was extrapolated on the basis of data covering 52 countries in 1990 and 72 countries in 2004, or latest year available. They account for about four fifths of world inward FDI stock in 1990 and 2004. Only countries for which data for the three main sectors were available were included. The distribution share of each industry of these countries was applied to estimate the world total in each sector and industry. As a result, the sum of the sectors for each groups of economies is different from the totals shown in annex table B.2. In the case of some countries where only approval data were available, the actual data were estimated by applying the implementation ratio of realized FDI to approved FDI to the latter (38% in 1994 for Cambodia, 26% in 2002 for China, 15% in 1997 for Indonesia, 56% in 1994 and 45% in 2004 for Japan, 10% in 1990 and 7% in 1999 for Lao People's Democratic Republic, 44% in 2002 for Mongolia, 39% in 1990 and 60% in 2004 for Myanmar, 41% in 1990 and 35% in 1999 for Nepal, 62% in 1995 for Sri Lanka, 73% in 1990 and 53% in 2002 for Taiwan Province of China). The world total in 1990 includes the countries of South-East Europe and the CIS, although data by sector and industry are not available for that region.

Annex table A.I.3. Estimated world outward FDI stock, by sector and industry, 1990 and 2004
(Millions of dollars)

Sector/industry	1990			2004			
	Developed countries	Developing economies	World	Developed countries	Developing economies	Southeast Europe and CIS	World
Primary	155 899	982	156 881	425 417	10 902	518	436 837
Agriculture, hunting, forestry and fisheries	5 061	408	5 469	5 287	1 106	1	6 394
Mining, quarrying and petroleum	150 838	574	151 411	417 610	9 796	517	427 923
Unspecified primary	-	-	-	2 520	-	-	2 520
Manufacturing	765 750	27 902	793 652	2 554 224	116 680	366	2 671 271
Food, beverages and tobacco	72 952	2 452	75 404	248 398	2 188	55	250 641
Textiles, clothing and leather	18 865	1 459	20 324	149 545	3 037	6	152 588
Wood and wood products	20 736	752	21 488	56 560	1 584	-	58 144
Publishing, printing and reproduction of recorded media	2 186	-	2 186	14 032	-	-	14 032
Coke, petroleum products and nuclear fuel	37 943	-	37 943	27 691	256	6	27 953
Chemicals and chemical products	145 626	7 222	152 848	662 849	4 867	215	667 930
Rubber and plastic products	14 034	983	15 016	27 247	1 050	-	28 297
Non-metallic mineral products	12 660	1 773	14 433	23 993	1 077	5	25 075
Metals and metal products	64 024	790	64 813	222 389	2 877	-	225 266
Machinery and equipment	40 566	182	40 749	95 771	444	-	96 215
Electrical and electronic equipment	94 087	9 087	103 174	209 381	17 745	-	227 127
Precision instruments	13 054	-	13 054	41 230	453	-	41 683
Motor vehicles and other transport equipment	58 143	10	58 152	383 631	1 673	48	385 353
Other manufacturing	33 603	5	33 607	109 505	2	31	109 538
Unspecified secondary	-	-	-	14	-	-	14
Services	805 654	23 573	829 227	6 127 484	703 272	743	6 831 498
Electricity, gas and water	9 281	-	9 281	112 274	2 878	-	115 152
Construction	17 602	671	18 274	52 248	6 944	5	59 197
Trade	135 002	3 023	138 025	578 766	98 943	40	677 749
Hotels and restaurants	6 877	-	6 877	89 474	8 476	-	97 949
Transport, storage and communications	38 367	792	39 159	619 773	54 900	105	674 778
Finance	385 928	14 699	400 627	2 064 784	162 407	69	2 227 261
Business activities	53 179	1 264	54 443	2 148 490	350 081[a]	492	2 499 062
Public administration and defence	-	-	-	4 025	-	-	4 025
Education	416	-	416	1 176	1	-	1 178
Health and social services	826	-	826	1 513	-	-	1 513
Community, social and personal service activities	3 306	-	3 306	15 567	1 416	-	16 983
Other services	106 583	3 114	109 698	128 009	12 517	32	140 557
Unspecified tertiary	48 286	10	48 296	311 384	4 710	-	316 094
Private buying and selling of property	-	-	-	9 070	-	-	9 070
Unspecified	3 994	499	4 493	38 495	37 056	19	75 571

Source: UNCTAD.

[a] A considerable share of investment in this industry is in Hong Kong (China), which accounted for 87% of developing economies and 12% of the world total in 2004. Hong Kong (China) data include investment holding companies.

Note: Data should be interpreted with caution. The world total was extrapolated on the basis of data covering 25 countries in 1990 and 42 countries in 2004, or latest year available. They account for around four fifths of world outward FDI stock in 1990 and in 2004. The distribution share of each industry of these countries was applied to estimate the world total in each sector and industry. As a result, the sum of the sectors for the individual economy groups is different from the totals shown in annex table B.2. Approval data were used for India and Taiwan Province of China. In the case of Japan, the actual data were estimated by applying the implementation ratio of realized FDI to approved FDI to the latter (31% in 2004). For 1990, the world total includes the countries of South-East Europe and the CIS although data by sector and industry were not available for that region. Moreover, as major home developing economies were not covered due to lack of data, the respective shares for developing economies were underestimated in that year.

Annex table A.I.4. Estimated world inward FDI flows, by sector and industry, 1989-1991 and 2002-2004

(Millions of dollars)

Sector/industry	1989-1991			2002-2004			
	Developed countries	Developing economies	World	Developed countries	Developing economies	South-East Europe and CIS	World
Primary	9 103	3 340	12 443	36 398	16 328	4 909	57 635
Agriculture, hunting, forestry and fisheries	-6	608	603	131	2 341	132	2 604
Mining, quarrying and petroleum	9 072	2 732	11 804	36 493	13 987	4 777	55 257
Unspecified primary	37	-	37	-226	-	0	-226
Manufacturing	47 693	16 453	64 147	93 337	84 957	6 648	184 943
Food, beverages and tobacco	4 846	2 459	7 304	10 874	5 737	794	17 405
Textiles, clothing and leather	2 113	248	2 361	2 236	1 334	46	3 616
Wood and wood products	2 006	239	2 245	- 425	298	396	268
Publishing, printing and reproduction of recorded media	870	-	870	2 531	140	1	2 672
Coke, petroleum products and nuclear fuel	-997	309	-687	6 189	-70	532	6 651
Chemicals and chemical products	10 097	2 214	12 311	17 275	6 716	230	24 221
Rubber and plastic products	933	31	964	2 744	247	3	2 994
Non-metallic mineral products	1 298	225	1 523	3 672	611	883	5 166
Metals and metal products	3 972	1 275	5 247	15 145	1 653	770	17 567
Machinery and equipment	4 851	2 929	7 779	9 970	6 153	607	16 730
Electrical and electronic equipment	3 530	967	4 498	940	4 319	23	5 282
Precision instruments	837	-	837	-1 233	64	26	-1 144
Motor vehicles and other transport equipment	3 571	301	3 873	5 910	2 130	-0	8 040
Other manufacturing	2 336	801	3 137	5 464	1 374	8	6 846
Unspecified secondary	7 431	4 455	11 886	12 045	54 252	2 331	68 628
Services	83 607	11 302	94 909	336 513	92 418	7 243	436 174
Electricity, gas and water	827	1 183	2 011	21 397	5 970	43	27 411
Construction	481	562	1 043	3 119	2 103	278	5 500
Trade	16 474	2 479	18 953	31 299	16 346	2 585	50 229
Hotels and restaurants	3 596	919	4 515	1 249	1 715	131	3 095
Transport, storage and communications	1 681	1 193	2 874	30 710	11 303	822	42 835
Finance	30 353	2 408	32 761	112 664	19 663	952	133 279
Business activities	17 288	1 504	18 792	90 462	26 143[a]	1 637	118 242[a]
Public administration and defence	2 317	-	2 317	3 103	-	161	3 264
Education	7	4	11	3	40	3	46
Health and social services	67	23	90	-296	212	22	-62
Community, social and personal service activities	2 274	9	2 283	1 318	4 295	19	5 632
Other services	7 328	547	7 875	34 534	2 250	3	36 787
Unspecified tertiary	913	472	1 385	6 952	2 378	587	9 917
Private buying and selling of property	114	-	114	1 402	-	11	1 414
Unspecified	8 086	3 839	11 925	17 618	9 189	738	27 545

Source: UNCTAD.

a A considerable share of investment in this industry is in Hong Kong (China), which accounted for 49% of developing economies and 11% of the world total during 2002-2004. Hong Kong (China) data include investment holding companies.

Note: Data should be interpreted with caution. The world total was extrapolated on the basis of data covering 68 countries in 1989-1991 and 92 countries in 2002-2004, or the latest three-year period average available. They account for 87% and 81% of world inward FDI flows respectively in the periods 1989-1991 and 2002-2004. Only countries for which data for the three main sectors were available, were included. The distribution share of each industry of these countries was applied to estimate the world total in each sector and industry. As a result, the sum of the sectors for the individual economy groups is different from the totals shown in annex table B.1. Approval data was used for Israel (1994 instead of 1989-1991), Mongolia (1990-1992 instead of 1989-1991), Mozambique (2003-2004 instead of 2002-2004) and Sri Lanka (2000-2002 instead of 2002-2004). In the case of some countries, the actual data was estimated by applying the implementation ratio of realized FDI to approved FDI to the latter : Bangladesh (2% in 1989-1991), Cambodia (9% in 1994-1995), China (47% in 1989-1991), Indonesia (15% in 1989-1991), Islamic Republic of Iran (69% in 1993-1995 and 44% in 2001-2003), Japan (20% in 1989-1991 and 32% in 2002-2004), Jordan (74% in 2001-2003), Kenya (7% in 1992-1994), Lao People's Democratic Republic (1% in 1989-1991), Malaysia (52% in 1989-1991), Mauritius (72% in 1995), Mexico (93% in 1988-1990), Mongolia (47% in 2002-2004), Myanmar (70% in 1989-1991), Nepal (30% in 1989-1991 and 53% in 1996-1998), Papua New Guinea (20% in 1993-1995 and 36% in 1996-1998), Solomon Islands (1% in 1994-1995 and 3% in 1996), Sri Lanka (47% in 1995), Taiwan Province of China (65% in 1989-1991 and 35% in 2002-2004), Turkey (40% in 1989-1991) and Zimbabwe (23% in 1993-1995). The world total in 1989-1991 includes the countries of South-East Europe and the CIS, although data by sector and industry are not available for that region.

Annex table A.I.5. Estimated world outward FDI flows, by sector and industry, 1989-1991 and 2002-2004

(Millions of dollars)

Sector/industry	1989-1991			2002-2004			
	Developed countries	Developing economies	World	Developed countries	Developing economies	South-East Europe and CIS	World
Primary	9 863	77	9 941	48 976	1 980	171	51 128
Agriculture, hunting, forestry and fisheries	466	45	511	368	110	-	477
Mining, quarrying and petroleum	9 264	33	9 296	49 001	1 870	172	51 043
Unspecified primary	133	-	133	-393	-	-	-393
Manufacturing	80 003	3 468	83 471	156 887	8 635	4	165 526
Food, beverages and tobacco	12 226	212	12 438	23 063	46	6	23 115
Textiles, clothing and leather	1 946	178	2 124	267	46	-	314
Wood and wood products	4 535	69	4 605	8 327	15	-	8 342
Publishing, printing and reproduction of recorded media	137	-	137	1 910	-	-	1 910
Coke, petroleum products and nuclear fuel	2 941	-	2 941	1 465	307	-	1 772
Chemicals and chemical products	13 069	1 118	14 187	40 969	84	-	41 054
Rubber and plastic products	1 072	128	1 200	1 454	10	-	1 464
Non-metallic mineral products	636	163	800	1 613	1	-	1 614
Metals and metal products	6 427	241	6 668	16 478	23	-	16 501
Machinery and equipment	7 433	25	7 458	8 786	51	-	8 837
Electrical and electronic equipment	10 599	867	11 467	8 736	338	-	9 074
Precision instruments	577	-	577	9 501	23	-	9 524
Motor vehicles and other transport equipment	4 059	-	4 059	8 509	26	-2	8 533
Other manufacturing	7 566	-	7 566	1 317	2	-	1 319
Unspecified secondary	6 779	466	7 245	24 490	7 663	-	32 152
Services	110 596	2 083	112 679	448 104	28 314	21	476 438
Electricity, gas and water	1 022	-	1 022	3 487	113	-	3 600
Construction	2 245	95	2 340	4 838	24	-	4 862
Trade	14 211	332	14 543	55 579	5 765	4	61 347
Hotels and restaurants	405	3	408	6 844	418	-	7 262
Transport, storage and communications	6 766	53	6 819	23 841	3 420	3	27 264
Finance	43 689	1 232	44 922	170 859	6 155	6	177 020
Business activities	29 335	4	29 338	160 056	10 656[a]	8	170 720[a]
Public administration and defence	-	-	-	404	-	-	404
Education	18	-	18	206	-	-	206
Health and social services	-110	-	-110	153	10	-	163
Community, social and personal service activities	500	0	501	1 267	1	-	1 268
Other services	8 547	355	8 902	13 770	1 297	-	15 068
Unspecified tertiary	3 968	8	3 976	6 798	455	-	7 253
Private buying and selling of property	496	-	496	3 171	-	-	3 171
Unspecified	12 090	30	12 120	18 400	7 224	3	25 628

Source: UNCTAD.

a A considerable share of investment in this industry is in Hong Kong (China), which accounted for 49% of developing economies and 11% of the world total during 2002-2004. Hong Kong (China) data include investment holding companies.

Note: Data should be interpreted with caution. The world total was extrapolated on the basis of data covering 25 countries in 1989-1991 and 40 countries in 2002-2004, or the latest three-year period average available. They account for 93 and 81 per cent of world outward FDI flows respectively in the periods 1989-1991 and 2002-2004. Only countries for which data for the three main sectors were available, were included. The distribution share of each industry of these countries was applied to estimate the world total in each sector and industry. As a result, the sum of the sectors for the individual economy groups is different from the totals shown in annex table B.1. Approval data were used for Taiwan Province of China. In the case of Japan, the actual data were estimated by applying the implementation ratio of realized FDI to approved FDI to the latter : 75% in 1989-1991 and 87% in 2002-2004. The world total in 1989-1991 includes the countries of South-East Europe and the CIS, although data by sector and industry are not available for that region.

Annex table A.I.6. Number of parent corporations and foreign affiliates, by region and economy, latest available year

(Number)

Region/economy	Year	Parent corporations based in economy[a]	Foreign affiliates located in economy[a]
Developed economies		**55 490** [b]	**256 155** [b]
Europe		**44 922** [b]	**218 651** [b]
European Union		**39 018** [b]	**208 026** [b]
Austria	2004	1 006	2 665 [c]
Belgium	2003	991 [d]	2 341 [d]
Cyprus	2005	1 650	4 800
Czech Republic	1999	660 [e]	71 385 [f]
Denmark	1998	9 356	2 305 [g]
Estonia	2003	351	2 858
Finland	2001	900 [h]	2 030 [c, g]
France	2002	1 267	10 713
Germany	2004	5 851	9 029
Greece	2003	170	750
Hungary	2003	..	26 793 [i]
Ireland	2001	39 [j]	1 225 [k]
Italy	2005	5 750 [l]	7 181 [l]
Luxembourg	2003	43 [m]	726 [m]
Latvia	2005	15	530
Lithuania	2005	237	2 877
Malta	2005	29	155
Netherlands	2005	1 608 [n]	13 714
Poland	2001	58 [j]	14 469 [o]
Portugal	2005	1 300	3 000 [p]
Slovakia	2005	260	2 657
Slovenia	2000	..	1 617 [q]
Spain	2005	857 [r]	5 883
Sweden	2002	4 260 [s]	4 656 [c]
United Kingdom	2005	2 360	13 667
Other developed Europe		**5 904** [b]	**10 625** [b]
Gibraltar	2005	34	106
Iceland	2000	18	55
Norway	2004	1 346	5 105 [t]
Switzerland	2005	4 506 [u]	5 359
North America		**3 857** [b]	**28 332** [b]
Canada	1999	1 439	3 725 [c]
United States	2002	2 418	24 607
Other developed countries		**6 711** [b]	**9 172** [b]
Australia	2001	682	2 352
Israel	2004	154	37
Japan	2004	5 658 [v]	4 761 [w]
New Zealand	2004	217 [e]	2 022
Developing economies		**20 238** [b]	**407 001** [b]
Africa		**630** [b]	**6 359** [b]
North Africa		**158** [b]	**3 435** [b]
Algeria	2005	1	84
Egypt	2004	10	271
Morocco	2005	3	363
Sudan	2005	2 [x]	14
Tunisia	2005	142 [h]	2 703
Other Africa		**472** [b]	**2 924** [b]
West Africa		**18** [b]	**698** [b]
Benin	2005	..	20
Burkina Faso	2005	..	25
Côte d'Ivoire	2005	..	177
Gambia	2005	..	14
Ghana	2005	3	82
Guinea	2004	..	31
Guinea-Bissau	2005	..	6
Liberia	2005	..	28
Mali	2005	1	21
Mauritania	2005	2 [x]	8
Niger	2005	1 [x]	12
Nigeria	2005	1	171
Senegal	2005	6 [x]	78
Sierra Leone	2005	1 [x]	10
Togo	2005	3 [x]	15
Central Africa		**6** [b]	**377** [b]
Angola	2005	1	101
Cameroon	2005	..	107
Central African Republic	2005	1	6
Chad	2005	..	12
Congo	2005	..	57
Congo, Democratic Republic of	2005	4 [x]	24
Equatorial Guinea	2005	..	11
Gabon	2005	..	59
East and Southern Africa		**448** [b]	**1 849** [b]
East Africa		**291** [b]	**981** [b]
Burundi	2005	..	3
Comoros	2004	..	1
Djibouti	2005	1 [x]	4
Ethiopia	2005	4 [x]	24
Kenya	2005	18	199
Madagascar	2005	..	69
Malawi	2005	..	30
Mauritius	2005	32	99
Mozambique	2005	5 [x]	90
Rwanda	2004	2	13
Seychelles	2005	9	24
Somalia	2005	..	1
Uganda	2005	3	54
United Republic of Tanzania	2001	204	295
Zambia	2004	11	13
Zimbabwe	2005	2	62
Southern Africa		**157** [b]	**868** [b]
Botswana	2005	2	4
Lesotho	2005	..	1
Namibia	2005	1	6
South Africa	2005	142	796
Swaziland	2002	12	61
Latin America and the Caribbean		**3 006** [b]	**36 448** [b]
South and Central America		**2 371** [b]	**34 652** [b]
South America		**2 125** [b]	**7 516** [b]
Argentina	2005	79	1 468
Bolivia	2004	..	287
Brazil	2005	1 225	3 302
Chile	2005	478 [y]	600
Colombia	2005	302 [u]	473
Ecuador	2005	11	233
Guyana	2002	4 [h]	56
Paraguay	2005	2	47
Peru	2004	10 [e,z]	329
Suriname	2005	1	12
Uruguay	2002	..	164 [aa]
Venezuela	2004	13	545
Central America		**246** [b]	**27 136** [b]

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Annex table A.I.6. Number of parent corporations and foreign affiliates, by region and economy, latest available year (concluded)

(Number)

Region/economy	Year	Parent corporations based in economy[a]	Foreign affiliates located in economy[a]
Belize	2005	4	13
Costa Rica	2005	25	184
El Salvador	2003	..	304
Guatemala	2005	..	152
Honduras	2004	4	253
Mexico	2002	..	25 708
Nicaragua	2005	2	63
Panama	2005	211	459
Caribbean and other America	**635**	**1 796** [b]	[b]
Antigua and Barbuda	2005	..	9
Aruba	2005	..	34
Bahamas	2005	44	165
Barbados	2005	11	145
Bermuda	2004	362	348
British Virgin Islands	2005	..	4
Cayman Islands	2005	85	539
Dominica	2005	..	12
Dominican Republic	2005	2	147
Grenada	2005	..	16
Haiti	2005	1	14
Jamaica	2005	15	78
Netherlands Antilles	2005	101	179
Saint Kitts and Nevis	2005	11	11
Saint Lucia	2005	2	23
Saint Vincent & the Grenadines	2004	1	11
Trinidad and Tobago	2004	..	61
Asia and Oceania		**16 602** [b]	**364 194** [b]
Asia		**16 575** [b]	**363 765** [b]
West Asia		**2 003** [b]	**13 189** [b]
Bahrain	2005	13	87
Iran, Islamic Republic of	2005	50	55 [ab]
Jordan	2005	16	33
Kuwait	2005	34	49
Lebanon	2005	32	87
Oman	2004	92 [ac]	49
Qatar	2005	9	36
Saudi Arabia	2005	74	166
Syrian Arab Republic	2005	2	10
Turkey	2005	1 624	11 700
United Arab Emirates	2005	51	913
Yemen	2002	6 [x]	4
South, East and South-East Asia		**14 572** [b]	**350 576** [b]
East Asia		**12 489** [b]	**312 906** [b]
China	2005	3 429 [ad]	280 000 [ae]
Hong Kong, China	2003	948 [af]	9 072
Korea, Republic of	2005	7 460 [ag]	18 376
Macao, China	2004	46	1 024
Mongolia	1998	..	1 400
Taiwan Province of China	2005	606 [ah]	3 034

Region/economy	Year	Parent corporations based in economy[a]	Foreign affiliates located in economy[a]
South Asia		**1 766** [b]	**3 834** [b]
Afghanistan	2005	..	2
Bangladesh	2005	4	39
Bhutan	1997	..	2
India	2005	1 700 [ai]	1 493
Maldives	2005	2	7
Nepal	2005	1 [x]	16
Pakistan	2001	59 [aj]	582
Sri Lanka	2004	..	1 693
South-East Asia		**317** [b]	**33 836** [b]
Brunei Darussalam	2005	1	40
Cambodia	2002	..	23 [ak]
Indonesia	2004	313 [al]	721
Lao People's Democratic Rep.	2004	..	161 [am]
Malaysia	1999	..	15 567 [an]
Myanmar	2005	..	19
Philippines	2004	..	311
Singapore	2002	..	14 052 [ao]
Thailand	1998	..	2 721
Viet Nam	2005	3	221
Oceania		**27** [b]	**429** [b]
Fiji	2002	2	151 [e]
Kiribati	2005	5	23
New Caledonia	2005	..	3
Papua New Guinea	2004	..	208
Samoa	2005	7 [x]	2
Solomon Islands	2005	7 [x]	18
Tonga	2005	..	5
Vanuatu	2005	6	19 [ap]
South-East Europe and the CIS		**1 447** [b]	**109 863** [b]
South-East Europe		**361** [b]	**99 202** [b]
Albania	2005	..	16
Bosnia and Herzegovina	2005	7	65
Bulgaria	2000	26 [j]	7 153 [aq]
Croatia	2005	292	1 916
Macedonia, TFYR	2002	..	6
Romania	2002	20 [j]	89 911 [ar]
Serbia and Montenegro	2005	16	135
CIS		**1 086** [b]	**10 661** [b]
Armenia	2004	..	347
Azerbaijan	2005	2	49
Belarus	2005	3	39
Georgia	1998	..	190 [as]
Kazakhstan	2005	127	1 772
Kyrgyzstan	1998	..	4 004 [at]
Moldova, Republic of	2002	951	2 670
Russian Federation	2004	..	1 176
Ukraine	2004	1	367
Uzbekistan	2005	2	47
World		**77 175**	**773 019**

Source: UNCTAD, based on national sources.

[a] The number of parent companies/foreign affiliates in the economy shown, as defined by that economy. Deviations from the definition adopted in the *World Investment Report* (see section on "Definitions and sources" in annex B) are noted below. The data for Afghanistan, Albania, Algeria, Angola, Antigua and Barbuda, Argentina, Aruba, Azerbaijan, Bahamas, Bahrain, Bangladesh, Barbados, Belarus, Belize, Benin, Bermuda, Bosnia and Herzegovina, Botswana, Brazil, British Virgin Islands, Brunei Darussalam, Burkina Faso, Burundi, Cameroon, Cayman Islands, Central African Republic, Chad, Chile, Colombia, Congo, Costa Rica, Côte d'Ivoire, Democratic Republic of the Congo, Djibouti, Dominica, Dominican Republic, Ecuador, Equatorial Guinea, Ethiopia, Gabon, Gambia, Ghana, Gibraltar, Grenada, Guatemala, Guinea-Bissau, Haiti, India, Islamic Republic of Iran, Israel, Jamaica, Jordan, Kenya, Kuwait, Latvia, Lebanon, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Malta, Mauritania, Mauritius, Morocco, Mozambique, Myanmar, Namibia, Nepal, the Netherlands, the Netherlands Antilles, New Caledonia, New Zealand, Nicaragua, Niger, Nigeria, Panama, Paraguay,

Qatar, Saint Lucia, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Samoa, Saudi Arabia, Senegal, Serbia and Montenegro, Seychelles, Sierra Leone, Slovakia, Solomon Islands, Somalia, South Africa, Spain, Sudan, Suriname, Switzerland, Syrian Arab Republic, Togo, Tonga, Uganda, the United Arab Emirates, Uzbekistan, Vanuatu, Viet Nam, Western Samoa and Zimbabwe are from *Who Owns Whom* database (https://solutions.dnb.com/wow). For Argentina, Bermuda, Israel and South Africa, the number of parent corporations based in the economy refers to only those that have affiliates abroad and affiliates in the home economy. Therefore, the number of parent corporations is underestimated in those four countries.

[b] Includes data only for the countries shown below.
[c] Majority-owned foreign affiliates.
[d] Provisional figures by Banque Nationale de Belgique (2003).
[e] As of 1997.
[f] Of this number, 53,775 are fully-owned foreign affiliates; includes joint ventures.
[g] Directly and indirectly owned foreign affiliates (subsidiaries and associates), excluding branches.
[h] As of 1999.
[i] *Source*: Hungary Statistics Office.
[j] As of 1994.
[k] Refers to the number of foreign-owned affiliates in Ireland in manufacturing and service activities that receive assistance from the Investment and Development Authority (IDA).
[l] Based on Istituto nazionale per il Commercio Estero "*Italia Multinazionale 2005, Le partecipazioni italiane all'estero ed estere in Italia*", 2005.
[m] Excludes special purpose entities (SPEs), i.e. holding companies.
[n] Data refers to October 1993.
[o] Cumulative number of companies with foreign capital share which participated in the statistical survey.
[p] As of 2002.
[q] *Source:* Bank of Slovenia.
[r] Data refer to 1998; includes those Spanish parent enterprises which are controlled at the same time by a direct investor.
[s] Data provided by Sveriges Riksbank; includes those Swedish parent companies that are controlled, at the same time, by a direct investor.
[t] Data refers to Norwegian non-financial joint-stock companies with foreign shareholders owning more than 10 per cent of the total shares in 1998.
[u] As of 1995.
[v] Data refer to Japanese companies that had overseas affiliates as of fiscal year ending in March 2005, except for financial, insurance and real estates industries (source: Ministry of Economy, Trade and Industry, *Survey of Overseas Business Activities*) where Japanese firms had at least two foreign affiliates with a more than 20% equity share as of November 2004 (source: *Toyokeizai, Kaigai Shinshutsu Kigyo Soran 2005*, Tokyo: Toyokeizai Shimposha, 2005).
[w] Data refer to the number of foreign affiliates in which foreign investors hold more than one-third of the stocks or shares except for financial, insurance and real estate industries as at the end of March 2005 (source: Ministry of Economy, Trade and Industry, *Survey of Trends in Business Activities of Foreign Affiliates*) and the number of foreign affiliates in financial, insurance and real estates industries as of December 2004 (source: *Toyokeizai, Gaishikei Kigyo Soran 2005,* Tokyo: Toyokeizai Shimposha, 2005).
[x] As of 2001.
[y] Estimated by Comité de Inversiones Extranjeras 1998.
[z] Less than 10.
[aa] Number of enterprises included in the Central Bank survey (all sectors).
[ab] *Source*: Ministry of Economic Affairs and Finance.
[ac] As of May 1995.
[ad] *Source*: Ministry of Commerce (MOFCOM).
[ae] *Source*: Ministry of Commerce (MOFCOM) 2003.
[af] Number of regional headquarters as at 1 June 2002.
[ag] As of 1999. Data refer to the number of investment projects abroad.
[ah] Number of approved new investment projects abroad in 1998.
[ai] Data refer to the number of approved FDI projects as of 2003.
[aj] As of 1998.
[ak] Data refers to the number of approved foreign investment projects, including joint-venture projects with local investors. Wholly-owned Cambodian projects are excluded.
[al] As of 1996.
[am] Number of projects licensed since 1988 up to end 2004.
[an] May 1999. Refers to companies with foreign equity stakes of 51 per cent and above. Of this, 3,787 are fully-owned foreign affiliates.
[ao] Number of wholly-owned foreign companies.
[ap] Data refer to the number of projects implemented as of 2002.
[aq] The number refers to registered investment projects between 1992 and 2000, data from Bulgarian Foreign Investment Agency.
[ar] Data refer to the cumulative number of companies with FDI as at end December 2002.
[as] Number of cases of approved investments of more than 100,000 dollars registered during the period January 1996 up to March 1998.
[at] Joint-venture companies established in the economy.

Note: The data can vary significantly from preceding years, as data become available for countries that were not covered before, as definitions change, or as older data are updated.

Annex table A.I.7. Cross-border M&A deals with values of over $1 billion completed in 2005

Rank	Value ($ billion)	Acquired company	Host economy	Industry of the acquired company	Acquiring company	Home economy	Industry of the acquiring company
1	74.3	Shell Transport & Trading Co	United Kingdom	Crude petroleum and natural gas	Royal Dutch Petroleum Co	Netherlands	Crude petroleum and natural gas
2	18.3	Bayerische Hypo- und Vereins	Germany	Banks	Unicredito Italiano SpA	Italy	Banks
3	14.4	Allied Domecq PLC	United Kingdom	Wines, brandy, and brandy spirits	Goal Acquisitions Ltd	France	Investors, nec
4	12.8	Wind Telecomunicazioni SpA	Italy	Telephone communications, except radiotelephone	Weather Investments Srl	Egypt	Special purpose finance company
5	9.0	Innovene	United States	Man-made organic fibers, except cellulosic	INEOS Group Ltd	United Kingdom	Industrial organic chemicals, nec
6	9.0	Viterra AG	Germany	Real estate agents and managers	Deutsche Annington Immobilien	Germany	Real estate investment trusts
7	7.7	Auna	Spain	Telephone communications, except radiotelephone	Orange SA	France	Telephone communications, except radiotelephone
8	7.1	RAS	Italy	Life insurance	Allianz AG	Germany	Life insurance
9	6.9	Gecina SA	France	Real estate agents and managers	Metrovacesa SA	Spain	Real estate agents and managers
10	6.6	Exel PLC	United Kingdom	Arrangement of transportation of freight and cargo	Deutsche Post AG	Germany	Courier services, except by air
11	6.6	Turk Telekomunikasyon AS	Turkey	Telephone communications, except radiotelephone	Oger Telecom	Turkey	Telephone communications, except radiotelephone
12	5.8	Amadeus Global Travel Distn	Spain	Prepackaged software	Wam Acquisition SA	Luxembourg	Special purpose finance company
13	5.7	Basell NV	Netherlands	Plastics materials and synthetic resins	Investor Group	United States	Investors, nec
14	5.7	Hexal AG	Germany	Pharmaceutical preparations	Novartis AG	Switzerland	Pharmaceutical preparations
15	5.0	Intelsat Ltd	Bermuda	Communications services, nec	Investor Group	United Kingdom	Investors, nec
16	5.0	Absa Group Ltd	South Africa	Banks	Barclays PLC	United Kingdom	Banks
17	4.9	Edison SpA	Italy	Electrical services	Transalpina di Energia SpA	Italy	Electrical services
18	4.8	Kryvorizhstal	Ukraine	Steel foundries, nec	Mittal Steel Co NV	Netherlands	Steel works, blast furnaces, and rolling mills
19	4.5	InterGen NV	Netherlands	Electric services	Investor Group	United States	Investors, nec
20	4.4	Oskar Mobil as	Czech Republic	Telephone communications, except radiotelephone	Vodafone Group PLC	United Kingdom	Radiotelephone communications
21	4.3	Skype Technologies SA	Luxembourg	Prepackaged software	eBay Inc	United States	Information retrieval services
22	4.2	Molson Inc	Canada	Malt beverages	Adolph Coors Co	United States	Malt beverages
23	4.2	United Defense Industries Inc	United States	Tanks and tank components	BAE Systems North America	United States	Aircraft engines and engine parts
24	4.2	RMC Group PLC	United Kingdom	Fabricated structural metal	CEMEX UK Ltd	United Kingdom	Cement, hydraulic
25	4.1	PetroKazakhstan Inc	United Kingdom	Crude petroleum and natural gas	CNPC International Ltd	China	Crude petroleum and natural gas
26	3.8	Banknorth Group Inc,ME	United States	State banks,member fed reserve	Toronto-Dominion Bank	Canada	Banks
27	3.8	International Steel Group Inc	United States	Steel works, blast furnaces, and rolling mills	Ispat International NV	Netherlands	Steel works, blast furnaces, and rolling mills
28	3.5	Cesky Telecom	Czech Republic	Telephone communications, except radiotelephone	Telefonica SA	Spain	Telephone communications, except radiotelephone
29	3.5	Bavaria SA	Colombia	Malt beverages	SABMiller PLC	United Kingdom	Malt beverages
30	3.4	Celtel International BV	Netherlands	Telephone communications, except radiotelephone	Mobile Telecommunications Co	Kuwait	Radiotelephone communications
31	3.4	Aggregate Industries PLC	United Kingdom	Construction sand and gravel	Holcim Ltd	Switzerland	Cement, hydraulic
32	3.3	Korea First Bank	Korea, Republic of	Banks	Standard Chartered PLC	United Kingdom	Investment advice
33	3.3	Bank Austria Creditanstalt AG	Austria	Banks	Unicredito Italiano SpA	Italy	Banks
34[a]	3.1	Hanjaya Mandala Sampoerna Tbk	Indonesia	Cigarettes	Philip Morris Indonesia PT	Indonesia	Cigarettes
35	3.1	Kerr-McGee(GB)PLC	United Kingdom	Crude petroleum and natural gas	Maersk Olie og Gas AS	Denmark	Crude petroleum and natural gas
36	3.1	Terasen Inc	Canada	Natural gas transmission and distribution	Kinder Morgan Inc	United States	Natural gas transmission and distribution
37	3.1	Bank of China Ltd	China	Banks	Investor Group	United Kingdom	Investors, nec
38	3.0	Koninklijke P&O Nedlloyd NV	Netherlands	Deep sea foreign transportation of freight	AP Moller Maersk A/S	Denmark	Deep sea foreign transportation of freight
39	3.0	Roche Holding AG-Over-The	Switzerland	Pharmaceutical preparations	Bayer AG	Germany	Medicinal chemicals and botanical products
40	2.9	Warner Chilcott PLC	United Kingdom	Pharmaceutical preparations	Waren Acquisition Ltd	United States	Investors, nec
41	2.8	Thyssenkrupp Wohnimmobilien	Germany	Operators of apartment buildings	Investor Group	United States	Investors, nec
42	2.7	CalPERS/First Washington-Ret	United States	Operators of non-residential buildings	Investor Group	Australia	Investors, nec
43	2.6	Unilin Holding NV	Belgium	Floor laying and other floor work, nec	Mohawk Industries Inc	United States	Carpets and rugs
44	2.6	Rexel SA	France	Electrical apparatus and equip	Investor Group	United States	Investors, nec
45	2.5	National-North of England	United Kingdom	Natural gas distribution	Gas Network Ltd	United Kingdom	Natural gas distribution
46	2.5	GSM Network,CA,NV & NY	United States	Radiotelephone communications	T-Mobile USA Inc	United States	Radiotelephone communications
47	2.4	Spinnaker Exploration Co	United States	Crude petroleum and natural gas	Norsk Hydro ASA	Norway	Crude petroleum and natural gas
48	2.4	NTL Broadcast	United Kingdom	Radio broadcasting stations	Investor Group	Australia	Investors, nec

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Annex table A.I.7. Cross-border M&A deals with values of over $1 billion completed in 2005 *(continued)*

Rank	Value ($ billion)	Acquired company	Host economy	Industry of the acquired company	Acquiring company	Home economy	Industry of the acquiring company
49	2.3	Yellow Brick Road	Netherlands	Commercial printing, nec	European Directories SA	Australia	Investors, nec
50	2.3	AS Hansapank	Estonia	Security brokers, dealers, and flotation companies	FoereningsSparbanken AB	Sweden	Banks
51	2.3	Precision Drilling Corp-Energy	Canada	Drilling oil and gas wells	Weatherford International Ltd	United States	Oil and gas field machinery and equipment
52	2.3	SBS Broadcasting SA	Luxembourg	Television broadcasting stations	Investor Group	United Kingdom	Investors, nec
53	2.2	Gecina SA	France	Real estate agents and managers	Metrovacesa SA	Spain	Real estate agents and managers
54	2.2	NIB Capital NV	Netherlands	Investment advice	Investor Group	United States	Investors, nec
55	2.2	Budapest Airport Budapest	Hungary	Airports and airport terminal services	BAA International Holdings Ltd	United Kingdom	Airports and airport terminal services
56	2.2	Cablecom Holdings AG	Switzerland	Cable and other pay television services	Liberty Global Inc	United States	Information retrieval services
57	2.2	National-Wales & West Gas	United Kingdom	Natural gas distribution	Investor Group	Australia	Investors, nec
58	2.2	Foodland-New Zealand Bus	New Zealand	Grocery stores	Woolworths Ltd	Australia	Variety stores
59	2.1	Yapi Ve Kredi Bankasi AS	Turkey	Banks	Koc Finansal Hizmetler	Turkey	Investment advice
60	2.1	MobilTel AG	Bulgaria	Radiotelephone communications	Telekom Austria AG	Austria	Telephone communications, except radiotelephone
61	2.1	Abbey Natl-Ppty Portfolio(128)	United Kingdom	Operators of nonresidential buildings	Investor Group	Netherlands	Investors, nec
62	2.1	ish GmbH & Co KG	Germany	Cable and other pay television services	iesy Hessen GmbH & Co KG	Germany	Cable and other pay television services
63	2.1	Hylsamex SA de CV	Mexico	Steel foundries, nec	Grupo Techint	Argentina	Primary metal products, nec
64	2.1	Fournier Pharma	France	Pharmaceutical preparations	Solvay SA	Belgium	Pharmaceutical preparations
65	2.0	EnCana-Deepwater US Portfolio	United States	Crude petroleum and natural gas	Statoil ASA	Norway	Crude petroleum and natural gas
66	2.0	Nelson Resources Ltd	United Kingdom	Gold ores	Lukoil Overseas Holding Ltd	Russian Federation	Crude petroleum and natural gas
67[a]	2.0	Hanjaya Mandala Sampoerna Tbk	Indonesia	Cigarettes	Philip Morris Indonesia PT	Indonesia	Cigarettes
68	2.0	CP Ships Ltd	United Kingdom	Deep sea foreign transportation of freight	TUI AG	Germany	Travel agencies
69	1.9	American Ref-Fuel Hldg Co	United States	Electric services	Danielson Holding Corp	United States	Life insurance
70	1.9	Masonite International Corp	Canada	Millwork	Kohlberg Kravis Roberts & Co	United States	Investors, nec
71	1.9	Northern Bank Ltd	United Kingdom	Banks	Danske Bank A/S	Denmark	Banks
72	1.8	UCB SA-Surface Specialties Div	Belgium	Plastics materials and synthetic resins	Cytec Industries Inc	United States	Chemicals and chemical preparations, nec
73	1.8	Chicago Skyway Toll Bridge	United States	Inspection and fixed facilities for motor vehicles	Investor Group	Spain	Investors, nec
74	1.8	Ruhrgas Industries GmbH	Germany	Totalizing fluid meters and counting devices	CVC Capital Partners Ltd	United Kingdom	Investors, nec
75	1.8	Nileg Immobilien Holding GmbH	Germany	Land subdividers and developers, except cemeteries	Fortress Investment Group LLC	United States	Investors, nec
76	1.8	Novar PLC	United Kingdom	Glass products, made of purchased glass	Honeywell International Inc	United States	Motor vehicle parts and accessories
77	1.8	Northrock Resources Ltd	Canada	Crude petroleum and natural gas	Pogo Producing Co	United States	Crude petroleum and natural gas
78	1.8	Somerfield PLC	United Kingdom	Grocery stores	Violet Acquisitions Ltd	Cayman Islands	Special purpose finance company
79	1.8	IBM Corp-Personal Computing	United States	Electronic computers	Lenovo Group Ltd	Hong Kong, China	Electronic computers
80	1.7	Novelis Inc	United States	Primary production of aluminum	Shareholders	Canada	Investors, nec
81	1.7	Dyno Nobel ASA	Norway	Explosives	Investor Group	Australia	Investors, nec
82	1.7	Eon Labs Inc	United States	Pharmaceutical preparations	Novartis AG	Switzerland	Pharmaceutical preparations
83	1.7	Falconbridge Ltd	Canada	Copper ores	Xstrata PLC	Switzerland	Bituminous coal and lignite surface mining
84	1.7	Borealis A/S	Denmark	Plastics materials and synthetic resins	Investor Group	United Arab Emirates	Investors, nec
85	1.7	SPI Australia Grp-Energy Bus	Australia	Electric services	CLP Power Australia Energy	Australia	Electric services
86	1.6	Pirelli SpA-Cables & Sys Div	Italy	Drawing and insulating of nonferrous wire	GS Capital Partners LP	United States	Investors, nec
87	1.6	Turkcell Iletisim Hizmetleri	Turkey	Telephone communications, except radiotelephone	Alfa Group	Russian Federation	Investors, nec
88	1.6	Metris Cos Inc	United States	Personal credit institutions	HSBC Finance Corp	United States	Personal credit institutions
89	1.6	Transwestern Holdings LP	United States	Miscellaneous publishing	Yellow Book USA Inc	United States	Miscellaneous publishing
90	1.6	Turkiye Garanti Bankasi AS	Turkey	Banks	GE Consumer Finance	United States	Short-term business credit institutions
91	1.5	Priory Healthcare Ltd	United Kingdom	Skilled nursing care facilities	ABN-AMRO Holding NV	Netherlands	Banks
92	1.5	BellSouth-Latin American Cell	Argentina	Radiotelephone communications	Telefonica Moviles SA	Spain	Radiotelephone communications
93	1.5	Mid-Western Aircraft Systems	United States	Aircraft	Investor Group	Canada	Investors, nec
94	1.5	Tussauds Group Ltd	United Kingdom	Amusement and recreation svcs	Dubai International Capital	United Arab Emirates	Investors, nec
95	1.5	Elsam A/S	Denmark	Electric services	Vattenfall AB	Sweden	Electric services
96	1.5	IAM	Morocco	Telephone communications, except radiotelephone	Vivendi Universal SA	France	Motion picture and video tape production

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Annex table A.I.7. Cross-border M&A deals with values of over $1 billion completed in 2005 *(concluded)*

Rank	Value ($ billion)	Acquired company	Host economy	Industry of the acquired company	Acquiring company	Home economy	Industry of the acquiring company
97	1.5	National Foods Ltd	Australia	Dairy farms	San Miguel Corp	Philippines	Malt
98	1.5	Italenergia Bis SpA	Italy	Electric services	EDF	France	Electric services
99	1.4	Chr Hansen-Food Ingredient	Denmark	Food preparations, nec	PAI Partners SA	France	Investors, nec
100	1.4	Dometic International AB	Sweden	Electric housewares and fans	BC Partners Ltd	United Kingdom	Investors, nec
101	1.4	Grey Global Group Inc	United States	Advertising agencies	WPP Group PLC	United Kingdom	Advertising agencies
102	1.4	Italenergia Bis SpA	Italy	Electric services	EDF	France	Electric services
103	1.4	Bombardier-Inv Financing Div	Canada	Short-term business credit institutions	GE Commercial Finance Inc	United States	Personal credit institutions
104	1.4	IIR Holdings Ltd	Bermuda	Schools and educational services, nec	T&F Informa PLC	United Kingdom	Periodicals: publishing, or publishing and printing
105	1.4	debis AirFinance BV	Netherlands	Misc business credit	Cerberus Capital Management LP	United States	Investors, nec
106	1.4	Transkaryotic Therapies Inc	United States	Biological products, except diagnostic substances	Shire Pharmaceuticals Grp PLC	United Kingdom	Pharmaceutical preparations
107	1.4	ID Biomedical Corp	Canada	Biological products, except diagnostic substances	GlaxoSmithKline PLC	United Kingdom	Pharmaceutical preparations
108	1.3	Commercial Federal,Omaha,NE	United States	National commercial banks	Bank of the West,CA	United States	National commercial banks
109	1.3	Accor	France	Hotels and motels	Colony Capital LLC	United States	Real estate investment trusts
110	1.3	Moeller Holding GmbH & Co KG	Germany	Current-carrying wiring devices	Doughty Hanson & Co Ltd	United Kingdom	Investors, nec
111	1.3	Hutchison Telecommun Intl Ltd	Hong Kong, China	Radiotelephone communications	Orascom Telecom Holding SAE	Egypt	Telephone communications, except radiotelephone
112	1.3	CalEast Indl-Indl Portfolio	United States	Industrial buildings and warehouses	RREEF America LLC	United States	Investment advice
113	1.3	Deer Creek Energy Ltd	Canada	Crude petroleum and natural gas	Total E&P Canada Ltd	Canada	Crude petroleum and natural gas
114	1.3	Framatome Connectors Intl	France	Electronic connectors	Bain Capital Inc	United States	Investors, nec
115	1.2	Molnlycke Health Care AB	Sweden	Surgical and medical instruments and apparatus	Apax Partners Inc	United States	Investors, nec
116	1.2	North Caspian Sea Project	Kazakhstan	Crude petroleum and natural gas	Investor Group	Netherlands	Investors, nec
117	1.2	CSX World Terminals LLC	United States	Marine cargo handling	Dubai Ports International	United Arab Emirates	Marine cargo handling
118	1.2	Bavaria SA	Colombia	Malt beverages	SABMiller PLC	United Kingdom	Malt beverages
119	1.2	Grupo Corporativo Ono SA	Spain	Telephone communications, except radiotelephone	Investor Group	United States	Investors, nec
120	1.2	Sola International Inc	United States	Ophthalmic goods	Investor Group	Germany	Investors, nec
121	1.2	Ormen Lange Gas Field	Norway	Crude petroleum and natural gas	Dansk Olie og Naturgas A/S	Denmark	Crude petroleum and natural gas
122	1.2	IYG Holding Co	United States	Investors, nec	Seven-Eleven Japan Co Ltd	Japan	Grocery stores
123	1.1	Caribbean Property-PR Assets	Puerto Rico	Operators of nonresidential buildings	Developers Diversified Realty	United States	Real estate investment trusts
124	1.1	Nycomed A/S	Denmark	Pharmaceutical preparations	Nordic Capital Fund V	Sweden	Investors, nec
125	1.1	Turk dis Ticaret Bankasi	Turkey	Banks	Fortis Group	Belgium	Investment advice
126	1.1	CSM NV-Sugar Confectionery Div	Netherlands	Candy and other confectionery products	Investor Group	United Kingdom	Investors, nec
127	1.1	PANRICOdonuts	Spain	Bread and other bakery products, except cookies	Apax Partners Inc	United States	Investors, nec
128	1.1	Cesky Telecom	Czech Republic	Telephone communications, except radiotelephone	Telefonica SA	Spain	Telephone communications, except radiotelephone
129	1.1	Gullivers Travel Associates	United Kingdom	Travel agencies	Cendant Corp	United States	Real estate agents and managers
130	1.1	Lastminute.com PLC	United Kingdom	Travel agencies	Travelocity Europe Ltd	United Kingdom	Travel agencies
131	1.1	Frans Bonhomme SA	France	Plumbing and heating equipment & supplies(hydronics)	Cinven Group Ltd	United Kingdom	Investors, nec
132	1.1	Nextra Investment Management	Italy	Investment advice	CAAM Italia	Italy	Investment offices, nec
133	1.1	VA Technologie AG	Austria	Engineering services	Siemens AG Oesterreich	Austria	Telephone and telegraph apparatus
134	1.0	JSPPB Aval	Ukraine	Banks	Raiffeisen International AG	Austria	Investors, nec
135	1.0	Sirona Dental Systems GmbH	Germany	Dental equipment and supplies	Investor Group	United States	Investors, nec
136	1.0	Loma Negra CIA SA	Argentina	Cement, hydraulic	Camargo Correa SA	Brazil	Cement, hydraulic
137	1.0	Raffles Hldgs Ltd-Hotel Bus	Singapore	Hotels and motels	Colony HR Acquisitions LLC	United States	Real estate investment trusts
138	1.0	Aldeasa SA	Spain	Miscellaneous general merchandise stores	Autogrill SpA	Italy	Eating places
139	1.0	PCCW Ltd	Hong Kong, China	Telephone communications, except radiotelephone	China Netcom Grp Corp(BVI)Ltd	Hong Kong, China	Investors, nec
140	1.0	Findexa AS	Norway	Miscellaneous publishing	Eniro AB	Sweden	Miscellaneous publishing
141	1.0	Alibaba.com Corp	Hong Kong, China	Information retrieval services	Yahoo! Inc	United States	Information retrieval services

Source: UNCTAD, cross-border M&A database.

[a] These are two separate deals, announced in the beginning of March. The partial acquisition of 40% was effective at the end of March and the remaining 60% was acquired in May.

Note: Where the ultimate parent company is different, M&A deals within the same economy are still considered cross-border M&As.

Annex table A.I.8. Selected 50 large cross-border M&As involving collective investment funds,[a] completed during 1987-2005

Rank	Value in $ million	Target company	Target country	Industry of the target company	Year	Financial investors	Investors' country
1	11 078	De Beers Consolidated Mines	South Africa	Miscellaneous nonmetallic minerals, except fuels	2001	DB Investments	United Kingdom
2	5 267	Sema PLC	United Kingdom	Computer related services,nec	2001	Schlumberger Investments	United Kingdom
3	4 368	Seat Pagine Gialle-Directories	Italy	Books: publishing, or publishing & printing	2003	Silver SpA	United Kingdom
4	3 446	Cartier Monde SA,Dunhill	France	Watches, clocks, clockwork operated devices, parts	1993	Vendome Group PLC	United Kingdom
5	3 315	Jefferson Smurfit Group PLC	Ireland	Converted paper and paperboard products, nec	2002	MDP Acquisitions	Ireland
6	3 104	Canary Wharf Group PLC	United Kingdom	Land subdividers and developers, except cemeteries	2004	Songbird Acquisition Ltd	United States
7	3 016	Telefonica de Argentina SA	Argentina	Telephone communications, except radiotelephone	1990	Cointel	Spain
8	2 948	Warner Chilcott PLC	United Kingdom	Pharmaceutical preparations	2005	Waren Acquisition Ltd	United States
9	2 708	Source Perrier SA	France	Bottled & canned soft drinks & carbonated waters	1992	Demilac(Nestle SA,Banque Indo)	Switzerland
10	2 700	Slovensky Plenarenky Priemysel (SPP)	Slovakia	Crude petroleum and natural gas	2002	Gazprom, Ruhrgas and GdF	France
11	2 676	Le Meridien Hotels(Compass)	United Kingdom	Hotels and motels	2001	Grand Hotels(M)Acquisition Co1	United Kingdom
12	2 578	Telecom Argentina STET-France	Argentina	Telephone communications, except radiotelephone	1990	Nortel Inversora SA	Italy
13	2 223	Celanese AG	Germany	Industrial organic chemicals, nec	2004	Blackstone Group LP	United States
14	2 219	Japan Telecom Co Ltd	Japan	Telephone communications, except radiotelephone	2003	Ripplewood Holdings LLC	United States
15	2 122	Seat Pagine Gialle SpA	Italy	Commercial printing	2003	Silver SpA	United Kingdom
16	2 005	Laporte PLC	United Kingdom	Industrial organic chemicals, nec	2001	Degussa SKW Co	Germany
17	1 960	Cadillac Fairview Corp Ltd	Canada	Land subdividers and developers, except cemeteries	1987	CFCL Acquisition Corp	United States
18	1 885	Masonite International Corp	Canada	Millwork	2005	Kohlberg Kravis Roberts & Co	United States
19	1 875	Svyazinvest(Russia)	Russian Federation	Investors, nec	1997	Mustcom Ltd	Cyprus
20	1 845	WCM-Residential Ppty	Germany	Real estate agents and managers	2004	Blackstone Group LP	United States
21	1 829	Jefferson Smurfit Corp	United States	Paperboard mills	1989	SIBV/MS Holdings Inc	United Kingdom
22	1 819	Ruhrgas Industries GmbH	Germany	Totalizing fluid meters and counting devices	2005	CVC Capital Partners Ltd	United Kingdom
23	1 814	Nileg Immobilien Holding GmbH	Germany	Land subdividers and developers, except cemeteries	2005	Fortress Investment Group LLC	United States
24	1 750	ATU Auto-Teile-Unger GmbH	Germany	Auto and home supply stores	2004	Kohlberg Kravis Roberts & Co	United States
25	1 729	MTU Aero Engines GmbH	Germany	Aircraft engines and engine parts	2003	Kohlberg Kravis Roberts & Co	United States
26	1 711	Koppers Co Inc	United States	Cyclic crudes and intermediates, and organic dyes	1988	BNS Inc	United Kingdom
27	1 710	Brenntag AG	Germany	Chemicals and allied products, nec	2004	Bain Capital Inc	United States
28	1 687	Cellular Communications Intl	United States	Radiotelephone communications	1999	Kensington Acquisition Sub Inc	United States
29	1 666	Haarmann & Reimer GmbH(Bayer)	Germany	Chemicals and chemical preparations, nec	2002	EQT Northern Europe Fund	Sweden
30	1 660	Picard Surgeles SA	France	Grocery stores	2004	BC Partners Ltd	United Kingdom
31	1 648	Exor Group (IFI)	Luxembourg	Investors, nec	1999	Giovanni Agnelli & Co	Italy
32	1 614	Pirelli SpA-Cables & Sys Div	Italy	Drawing and insulating of nonferrous wire	2005	GS Capital Partners LP	United States
33	1 610	Kwik-Fit Holdings PLC	United Kingdom	Auto and home supply stores	1999	FAH Investments	United Kingdom
34	1 593	Turkcell Iletisim Hizmetleri	Turkey	Telephone communications, except radiotelephone	2005	Alfa Group	Russian Federation
35	1 586	Jacobs Suchard AG	Switzerland	Chocolate and cocoa products	1990	Colima Holding AG	Switzerland
36	1 560	Thorn PLC	United Kingdom	Equipment rental and leasing, nec	1998	Future Rentals PLC	United Kingdom
37	1 539	Verizon-Canadian Directory Bus	Canada	Miscellaneous publishing	2004	Bain Capital Inc	United States
38	1 495	Tussauds Group Ltd	United Kingdom	Amusement and recreation svcs	2005	Dubai International Capital	United Arab Emirates
39	1 484	Proprieta Immobiliari SpA(RAS)	Italy	Real estate agents and managers	2002	Aida(Morgan Stanley,Pirelli)	Italy
40	1 450	Sprava Post a Telekomunikaci	Czech Republic	Telephone communications, except radiotelephone	1995	Telsource	Netherlands
41	1 450	Immo & Bau Bankges Berlin GmbH	Germany	Real estate agents and managers	2001	Greico Inc	Cayman Islands
42	1 435	Newsquest PLC	United Kingdom	Newspapers: publishing, or publishing & printing	1999	Gannett UK Ltd(Gannett Co Inc)	United Kingdom
43	1 425	Chr Hansen-Food Ingredient	Denmark	Food preparations, nec	2005	PAI Partners SA	France
44	1 421	Dometic International AB	Sweden	Electric housewares and fans	2005	BC Partners Ltd	United Kingdom
45	1 400	debis AirFinance BV	Netherlands	Misc business credit	2005	Cerberus Capital Management LP	United States
46	1 394	Brierley Investments Ltd	New Zealand	Investors, nec	1996	Malex Industries Bhd	Malaysia
47	1 324	Moeller Holding GmbH & Co KG	Germany	Current-carrying wiring devices	2005	Doughty Hanson & Co Ltd	United Kingdom
48	1 296	Framatome Connectors Intl	France	Electronic connectors	2005	Bain Capital Inc	United States
49	1 295	Cia Valenciana Cementos Portla	Spain	Cement, hydraulic	1992	Sunward Acquisition NV	Netherlands
50	1 242	Molnlycke Health Care AB	Sweden	Surgical and medical instruments and apparatus	2005	Apax Partners Inc	United States

Source: UNCTAD, cross-border M&A database.

[a] Collective investment funds here refer to mainly private equity and hedge funds that are defined to include investors not elsewhere classified under investment and commodity firms, dealers and exchanges only (i.e. financial service industries excluding credit institutions, savings and loans, mutual savings banks, commercial banks, bank holding companies, investment and commodity firms, dealers and exchanges except investors not elsewhere classified – such as securities companies, commodity brokers, dealers and exchanges, investment offices, real estate investment trusts, management investment offices etc. and insurance firms). This classification is based on that used by the Thomson Financial database on M&As.

Annex table A.I.9. Inward FDI Performance and Potential Index rankings, 1990-2005[a]

Economy	Inward FDI Performance Index							Inward FDI Potential Index						
	1990	1995	2000	2002	2003	2004	2005	1990	1995	2000	2002	2003	2004	2005
Albania	..	33	86	49	50	54	56	..	114	100	80	80	84	..
Algeria	108	..	113	98	93	95	109	48	92	83	75	73	65	..
Angola	111	24	3	4	3	3	18	73	111	102	83	76	80	..
Argentina	40	58	44	83	99	86	83	59	49	44	69	65	67	..
Armenia	88	79	16	31	32	26	30	..	102	111	90	77	79	..
Australia	16	46	91	64	69	40	111	12	12	20	21	20	18	..
Austria	80	85	79	79	87	94	81	18	20	23	23	25	26	..
Azerbaijan	..	11	10	11	2	1	1	..	112	123	99	84	73	..
Bahamas	67	51	47	52	54	38	34	28	41	49	48	51	54	..
Bahrain	25	44	45	75	61	32	22	23	30	32	29	29	30	..
Bangladesh	109	127	110	115	121	119	116	102	118	107	114	113	117	..
Belarus	..	123	90	104	103	106	113	..	63	65	58	53	50	..
Belgium	..	..	..	..	..	11	11	..	..	..	..	..	14	..
Belgium and Luxembourg	7	22	1	1	4	..	..	10	10	10	6	6	..	..
Benin	18	104	95	97	101	100	108	113	135	132	133	134	136	..
Bolivia	33	25	12	16	22	44	138	87	89	75	82	83	86	..
Botswana	22	136	103	67	36	28	42	32	51	71	64	67	70	..
Brazil	75	100	48	39	56	72	82	52	71	67	70	70	71	..
Brunei Darussalam	93	18	7	5	1	2	2	29	31	35	41	43	49	..
Bulgaria	106	96	30	23	14	9	9	..	39	66	62	63	64	..
Burkina Faso	97	101	121	123	125	121	125	85	122	121	125	127	129	..
Cameroon	119	129	134	136	137	137	137	80	128	115	112	110	109	..
Canada	38	68	34	34	75	97	97	2	2	5	4	3	3	..
Chile	8	20	18	32	33	24	25	45	40	43	46	50	51	..
China	52	12	54	48	43	45	55	41	64	45	40	35	33	..
Colombia	46	65	82	73	72	76	37	58	84	87	97	101	104	..
Congo	85	7	14	45	30	10	10	72	109	97	96	100	99	..
Congo, Dem. Rep. of	116	131	120	101	83	91	17	105	137	139	140	140	140	..
Costa Rica	23	35	66	69	55	53	59	51	62	64	63	69	75	..
Côte d'Ivoire	82	55	80	86	89	92	100	91	110	108	122	120	126	..
Croatia	..	88	33	27	23	33	38	..	79	56	49	49	52	..
Cyprus	27	41	22	14	10	17	23	34	36	40	44	39	44	..
Czech Republic	91	31	17	13	19	29	32	..	38	38	38	38	39	..
Denmark	56	40	11	9	44	140	140	16	15	17	16	19	21	..
Dominican Republic	30	48	51	57	51	65	65	57	58	52	61	62	66	..
Ecuador	32	34	55	35	29	35	35	66	94	104	102	108	107	..
Egypt	15	57	105	116	126	98	66	70	86	70	74	82	81	..
El Salvador	92	117	57	85	86	84	85	97	52	77	91	95	100	..
Estonia	..	15	19	22	13	15	4	..	67	37	34	34	34	..
Ethiopia	102	118	84	51	31	22	39	112	126	114	123	122	125	..
Finland	68	76	24	33	49	69	88	9	14	9	11	12	13	..
France	54	75	75	62	63	83	80	7	7	12	15	15	16	..
Gabon	35	137	137	138	111	63	47	55	80	86	94	105	103	..
Gambia	10	27	15	12	21	48	90	60	103	101	106	107	108	..
Georgia	..	114	41	40	25	16	14	..	134	136	116	99	98	..
Germany	87	113	50	38	91	111	123	4	5	7	10	9	8	..
Ghana	90	37	87	90	95	93	94	81	96	113	111	109	110	..
Greece	37	80	122	119	119	118	121	33	37	34	32	33	36	..
Guatemala	24	92	94	102	107	120	122	103	108	92	98	98	102	..
Guinea	60	126	112	124	102	88	74	84	125	120	119	123	133	..
Guyana	59	1	21	18	28	41	31	107	53	69	78	92	101	..
Haiti	79	134	123	129	131	132	130	117	133	134	135	137	138	..
Honduras	29	63	62	61	59	51	52	88	95	98	104	116	113	..
Hong Kong, China	3	13	2	3	8	6	3	20	16	13	13	14	15	..
Hungary	51	3	26	28	39	43	40	50	54	42	36	37	37	..
Iceland	84	130	101	93	81	58	13	14	18	15	14	13	12	..
India	101	107	119	111	109	112	119	76	93	94	87	81	82	..
Indonesia	57	60	138	139	139	133	112	44	65	76	86	90	92	..
Iran, Islamic Rep. of	117	124	133	132	130	130	133	49	48	57	59	55	58	..
Ireland	49	47	4	2	5	5	89	27	23	16	8	8	9	..
Israel	81	78	72	71	70	85	63	31	26	22	22	22	23	..
Italy	65	109	117	103	98	104	107	17	24	24	26	26	28	..
Jamaica	26	36	32	26	18	18	21	64	68	85	92	94	90	..
Japan	110	128	128	133	136	134	131	13	9	11	19	21	22	..
Jordan	76	132	37	55	79	46	19	61	59	59	60	61	63	..
Kazakhstan	..	19	23	10	9	12	26	..	85	88	68	58	55	..
Kenya	74	120	126	125	128	127	129	86	97	118	126	124	127	..
Korea, Republic of	83	119	98	110	120	114	114	21	17	18	18	16	17	..
Kuwait	104	125	129	137	138	138	132	47	29	30	35	40	42	..
Kyrgyzstan	..	32	67	134	105	42	45	..	139	124	115	111	105	..
Latvia	..	29	38	68	77	50	48	..	99	63	47	44	45	..
Lebanon	99	116	31	20	7	8	7	74	57	51	57	59	60	..
Libyan Arab Jamahiriya	70	135	135	131	133	139	136	46	45	50	42	46	41	..

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Annex table A.I.9. Inward FDI Performance and Potential Index rankings, 1990-2005[a] (concluded)

Economy	Inward FDI Performance Index							Inward FDI Potential Index						
	1990	1995	2000	2002	2003	2004	2005	1990	1995	2000	2002	2003	2004	2005
Lithuania	..	95	36	47	65	68	68	..	87	60	50	45	40	..
Luxembourg	..	..	..	..	..	4	6	..	..	..	..	..	4	..
Macedonia, TFYR	..	103	70	24	34	82	79	..	105	109	117	118	118	..
Madagascar	73	110	102	100	96	102	99	100	129	126	130	132	135	..
Malawi	41	83	96	107	116	135	134	93	121	127	132	133	132	..
Malaysia	4	6	53	74	82	64	62	38	33	31	31	32	32	..
Mali	86	52	106	37	38	47	71	108	106	110	121	119	122	..
Malta	21	21	6	58	26	30	8	37	34	39	39	41	46	..
Mexico	36	42	74	65	62	77	75	43	55	48	51	52	53	..
Moldova, Rep. of	..	61	35	17	24	27	27	..	104	128	110	102	87	..
Mongolia	..	94	64	30	15	13	12	42	77	82	77	79	77	..
Morocco	61	62	83	56	35	67	43	68	90	99	93	89	89	..
Mozambique	89	53	28	25	17	23	51	111	131	122	101	97	97	..
Myanmar	14	38	29	81	74	81	73	118	116	89	76	75	83	..
Namibia	77	28	77	19	20	39	41	96	73	79	85	86	88	..
Nepal	100	..	131	135	135	136	135	109	130	129	131	135	137	..
Netherlands	13	39	9	7	16	66	50	8	11	8	12	11	11	..
New Zealand	5	10	58	50	58	60	70	25	25	27	28	30	31	..
Nicaragua	105	54	25	36	40	34	36	114	123	117	113	114	114	..
Niger	58	122	130	122	123	122	124	104	127	125	129	130	131	..
Nigeria	9	9	69	70	52	59	61	62	76	84	100	93	96	..
Norway	48	59	60	95	106	108	105	5	4	4	5	4	6	..
Oman	42	98	125	126	112	99	91	35	50	55	52	54	57	..
Pakistan	78	84	118	120	115	109	102	92	115	130	128	126	128	..
Panama	121	30	20	66	48	36	28	65	46	46	55	57	62	..
Papua New Guinea	2	8	52	96	92	101	104	89	61	95	109	121	121	..
Paraguay	62	69	88	113	124	128	98	69	81	91	107	106	106	..
Peru	95	14	78	80	71	74	72	79	91	78	81	87	91	..
Philippines	28	43	85	94	110	103	115	83	70	61	56	60	61	..
Poland	103	45	49	59	76	61	57	53	56	41	43	42	43	..
Portugal	12	70	68	43	41	71	69	39	35	33	33	36	38	..
Qatar	115	67	99	88	73	56	54	19	21	19	9	10	10	..
Romania	..	82	65	76	60	31	24	..	83	96	79	78	78	..
Russian Federation	..	111	104	112	97	87	87	..	32	36	37	27	25	..
Rwanda	63	121	127	128	133	129	127	115	140	138	136	129	124	..
Saudi Arabia	118	105	132	130	129	123	110	30	28	28	30	31	35	..
Senegal	69	89	92	105	108	105	118	94	124	106	105	103	111	..
Sierra Leone	39	133	93	89	127	110	93	101	136	140	139	139	139	..
Singapore	1	2	5	6	6	7	5	15	3	2	2	5	5	..
Slovakia	64	64	43	8	12	21	60	..	47	47	45	47	47	..
Slovenia	107	86	114	60	53	57	92	..	42	29	27	28	29	..
South Africa	113	106	115	82	85	124	103	54	60	68	72	72	72	..
Spain	20	56	56	29	42	55	76	24	27	25	25	24	24	..
Sri Lanka	72	71	108	108	100	96	106	99	107	105	108	115	119	..
Sudan	114	112	63	44	27	19	16	116	138	131	127	128	123	..
Suriname	122	138	140	140	140	141	141	75	82	93	95	91	85	..
Sweden	50	23	8	21	47	62	64	6	8	6	7	7	7	..
Switzerland	31	97	40	41	45	79	84	11	13	14	17	18	20	..
Syrian Arab Republic	53	77	107	118	122	113	101	77	78	80	84	85	95	..
Taiwan Province of China	47	99	111	106	118	125	126	22	22	21	20	17	19	..
Tajikistan	..	93	97	87	94	20	29	..	132	137	134	131	120	..
Thailand	17	72	46	84	90	107	96	40	44	53	54	56	59	..
Togo	44	73	89	53	57	73	78	95	120	116	124	125	130	..
Trinidad and Tobago	19	5	13	15	11	14	20	67	72	58	53	48	48	..
Tunisia	55	26	71	63	67	75	77	71	75	74	67	66	69	..
Turkey	71	102	124	109	104	115	95	63	74	72	71	71	68	..
Uganda	112	49	81	72	66	70	67	106	119	103	103	104	115	..
Ukraine	..	108	100	91	80	80	33	..	66	81	73	64	56	..
United Arab Emirates	96	90	136	114	64	25	15	26	19	26	24	23	27	..
United Kingdom	11	66	27	42	88	89	49	3	6	3	3	2	2	..
United Rep. of Tanzania	98	50	61	46	37	37	44	90	113	112	118	112	112	..
United States	43	91	76	92	113	116	120	1	1	1	1	1	1	..
Uruguay	66	87	109	99	84	78	58	56	69	62	89	96	94	..
Uzbekistan	..	115	116	121	117	126	128	..	98	119	120	117	116	..
Venezuela	34	74	59	77	78	90	86	36	43	54	65	74	76	..
Viet Nam	45	4	39	54	46	52	53	78	88	73	66	68	74	..
Yemen	120	17	139	117	114	117	139	110	101	90	88	88	93	..
Zambia	6	16	42	78	68	49	46	98	117	133	137	136	134	..
Zimbabwe	94	81	73	127	134	131	117	82	100	135	138	138	141	..

Source: UNCTAD.

Note: Covering 141 economies. The potential index is based on 12 economic and policy variables.

[a] Three-year moving averages, using data for the three previous years, including the year in question.

Annex table A.I.10. Top 50 economies signatories of BITs and DTTs, concluded as of end 2005

Rank	Economy	Number of BITs	Economy	Number of DTTs
1	Germany	133	United States	175
2	China	117	United Kingdom	164
3	Switzerland	110	France	140
4	United Kingdom	102	Netherlands	134
5	Egypt	98	Sweden	129
6	France	98	Switzerland	128
7	Italy	96	Canada	121
8	Netherlands	91	Denmark	120
9	Belgium and Luxembourg	84	Norway	118
10	Romania	83	Germany	117
11	Korea, Republic of	80	Belgium	106
12	Czech Republic	79	Italy	106
13	Turkey	74	China	95
14	Malaysia	66	Finland	95
15	Sweden	66	Austria	94
16	Bulgaria	65	Poland	91
17	Finland	63	Spain	91
18	Austria	61	India	83
19	Poland	61	Russian Federation	82
20	Spain	61	Romania	80
21	Ukraine	61	Czech Republic	73
22	Indonesia	59	Hungary	72
23	Argentina	58	Japan	72
24	Hungary	58	South Africa	68
25	Croatia	57	Korea, Republic of	65
26	Cuba	56	Pakistan	64
27	India	56	Bulgaria	62
28	Denmark	53	Indonesia	62
29	Iran, Islamic Republic of	53	Portugal	62
30	Morocco	53	Thailand	62
31	Russian Federation	53	Luxembourg	60
32	Belarus	51	Malaysia	60
33	Chile	51	Singapore	60
34	Tunisia	49	Slovakia	59
35	Viet Nam	48	Turkey	58
36	Pakistan	47	Ireland	55
37	United States	47	Australia	52
38	Lebanon	46	Croatia	49
39	Kuwait	45	Malta	49
40	Slovakia	44	Philippines	49
41	Latvia	43	Egypt	48
42	Lithuania	43	Greece	48
43	Portugal	43	Lithuania	48
44	Serbia and Montenegro	43	Latvia	47
45	Greece	41	Argentina	46
46	Uzbekistan	41	Tunisia	46
47	Mongolia	39	Viet Nam	45
48	Thailand	39	Israel	44
49	Slovenia	38	Sri Lanka	42
50	Israel	36	Estonia	41

Source: UNCTAD(www.unctad.org/iia).

Annex table A.I.11. The world's top 100 non-financial TNCs, ranked by foreign assets, 2004[a]
(Millions of dollars and number of employees)

Ranking by:						Assets		Sales		Employment			No. of affiliates		
Foreign assets	TNI[b]	II[c]	Corporation	Home economy	Industry[d]	Foreign[e]	Total	Foreign[f]	Total	Foreign	Total	TNI[b] (Per cent)	Foreign	Total	II[c]
1	68	55	General Electric	United States	Electrical & electronic equipment	448 901	750 507	56 896	152 866	142 000	307 000	47.8	787	1157	68.02
2	4	93	Vodafone Group Plc	United Kingdom	Telecommunications	247 850	258 626	53 307	62 494	45 981	57 378	87.1	70	198	35.35
3	67	65	Ford Motor	United States	Motor vehicles	179 856	305 341	71 444	171 652	102 749 [g]	225 626	48.7	130	216	60.19
4	90	71	General Motors	United States	Motor vehicles	173 690	479 603	59 137	193 517	114 612 [h]	324 000	34.0	166	290	57.24
5	10	44	British Petroleum Company Plc	United Kingdom	Petroleum expl./ref./distr.	154 513	193 213	232 388	285 059	85 500	102 900	81.5	445	611	72.83
6	38	37	ExxonMobil	United States	Petroleum expl./ref./distr.	134 923	195 256	202 870	291 252	52 968 [i]	105 200	63.0	237	314	75.48
7	25	88	Royal Dutch/Shell Group	United Kingdom/ Netherlands	Petroleum expl./ref./distr.	129 939 [j]	192 811	170 286 [j]	265 190	96 000	114 000	71.9	328	814	40.29
8	62	91	Toyota Motor Corporation	Japan	Motor vehicles	122 967	233 721	102 995	171 467	94 666	265 753	49.4	129	341	37.83
9	20	48	Total	France	Petroleum expl./ref./distr.	98 719	114 636	123 265 [k]	152 353	62 227	111 401	74.3	410	576	71.18
10	66	47	France Télécom	France	Telecommunications	85 669	131 204	24 252	58 554	81 651	206 524	48.7	162	227	71.37
11	49	60	Volkswagen AG	Germany	Motor vehicles	84 042	172 949	80 037 [k]	110 463	165 152	342 502	56.4	147	228	64.47
12	16	22	Sanofi-Aventis	France	Pharmaceuticals	82 612	104 548	15 418	18 678	68 776	96 439	77.6	207	253	81.82
13	61	54	Deutsche Telekom AG	Germany	Telecommunications	79 654	146 834	47 118 [l]	71 868	73 808	244 645	50.0	266	390	68.21
14	60	62	RWE Group	Germany	Electricity, gas and water	78 728	127 179	23 636	52 320	42 370	97 777	50.1	345	552	62.50
15	19	59	Suez	France	Electricity, gas and water	74 051	85 788	38 838 [k]	50 585	100 485	160 712	75.2	546	846	64.54
16	81	79	E.on	Germany	Electricity, gas and water	72 726	155 364	21 996	60 970	32 819 [j]	72 484	42.7	303	596	50.84
17	13	6	Hutchison Whampoa	Hong Kong, China	Diversified	67 638	84 162	17 039	23 037	150 687 [h]	180 000	79.3	94	103	91.26
18	39	49	Siemens AG	Germany	Electrical & electronic equipment	65 830	108 312	59 224	93 333	266 000	430 000	62.0	605	852	71.01
19	3	4	Nestlé SA	Switzerland	Food & beverages	65 396 [j]	76 965	68 586 [k,l]	69 778	240 406	247 000	93.5	460	487	94.46
20	92	28	Electricite De France	France	Electricity, gas and water	65 365	200 093	17 886 [l]	55 775	50 543 [m]	156 152	32.4	240	299	80.27
21	29	87	Honda Motor Co Ltd	Japan	Motor vehicles	65 036	89 483	61 621	79 951	76 763	137 827	68.5	76	188	40.43
22	52	73	Vivendi Universal	France	Diversified	57 589	94 439	11 613	26 607	23 377	37 906	55.4	245	435	56.32
23	48	83	ChevronTexaco	United States	Motor vehicles	57 186	93 208	80 034 [l]	150 865	31 000	56 000	56.6	121	250	48.40
24	34	23	BMW AG	Germany	Motor vehicles	55 726	91 826	40 198	55 050	70 846 [m]	105 972	66.9	124	153	81.05
25	93	80	DaimlerChrysler	United States/ Germany	Motor vehicles	54 869	248 850	68 928	176 391	101 450 [h]	384 723	29.2	324	641	50.55
26	79	34	Pfizer Inc	United States	Pharmaceuticals	54 055	123 684	22 977	52 516	50 287 [m]	115 000	43.7	82	104	78.85
27	65	42	ENI	Italy	Petroleum expl./ref./distr.	50 212	98 553	47 749 [k,l]	89 840	30 186	71 497	48.8	162	222	72.97
28	41	90	Nissan Motor Co Ltd	Japan	Motor vehicles	49 553	94 588	55 638	79 268	112 530 [m]	183 607	61.3	53	140	37.86
29	54	7	IBM	United States	Computer and related activities	47 928	109 183	60 656 [k]	96 293	175 832 [m]	329 001	53.4	338	371	91.11
30	85	78	ConocoPhillips	United States	Petroleum expl./ref./distr.	46 321	92 861	40 945 [l]	143 183	14 048 [m]	35 800	39.2	44	85	51.76
31	40	39	Hewlett-Packard	United States	Computer and related activities	45 816	76 138	50 543 [k]	79 905	93 188 [m]	151 000	61.7	106	144	73.61
32	87	68	Mitsubishi Corporation	Japan	Wholesale trade	43 867	87 879	5 476	38 319	22 485 [o]	51 381	36.0	212	357	59.38
33	76	97	Telefonica SA	Spain	Telecommunications	43 224 [i]	86 448	15 060 [k]	37 650	78 099 [i]	173 554	45.0	62	279	22.22
34	14	11	Roche Group	Switzerland	Pharmaceuticals	42 884	51 322	24 794	25 149	35 587 [h]	64 703	79.0	137	158	86.71
35	94	56	Telecom Italia Spa	Italy	Telecommunications	41 747	104 349	8 231 [k]	38 786	16 331	91 365	26.4	75	111	67.57
36	23	95	Anglo American	United Kingdom	Mining & quarrying	40 460 [j]	53 451	16 819 [j]	26 268	163 522 [h,j]	209 000	72.7	173	502	34.46
37	55	31	Fiat Spa	Italy	Motor vehicles	39 658	77 971	31 281	57 990	87 761 [h]	160 549	53.2	362	456	79.39
38	9	57	Unilever	United Kingdom/ Netherlands	Diversified	38 415	46 141	44 361	50 121	171 000 [j]	223 000	82.8	314	466	67.38
39	58	86	Carrefour	France	Retail	36 756	53 090	45 874	90 230	142 129 [j]	430 695	51.0	130	311	41.80
40	46	29	Procter & Gamble	United States	Diversified	36 128	61 527	31 399	56 741	62 731 [m]	110 000	57.0	357	447	79.87

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Annex table A.I.11. The world's top 100 non-financial TNCs, ranked by foreign assets, 2004[a] (continued)
(Millions of dollars and number of employees)

Ranking by:						Assets		Sales		Employment			No. of affiliates		
Foreign assets	TNI[b]	II[c]	Corporation	Home economy	Industry[d]	Foreign[e]	Total	Foreign[f]	Total	Foreign	Total	TNI[b] (Per cent)	Foreign	Total	II[c]
41	47	17	Sony Corporation	Japan	Electrical & electronic equipment	35 959	87 309	48 285	69 077	90 092 [h]	151 400	56.9	395	471	83.86
42	71	69	Mitsui & Co Ltd	Japan	Wholesale trade	35 749	72 929	14 071 [p]	32 587	17 614 [m]	38 210	46.1	243	411	59.12
43	97	18	Wal-Mart Stores	United States	Retail	34 525	120 223	56 277 [k]	285 222	410 000	1710 000	24.1	80	96	83.33
44	89	14	Deutsche Post AG	Germany	Transport and storage	33 178	208 888	25 560	53 601	149 201	379 828	34.3	710	834	85.13
45	26	33	Compagnie De Saint-Gobain SA	France	Non-metallic mineral products	31 952	42 071	27 144 [l]	39 765	129 034 [m]	181 228	71.8	622	787	79.03
46	50	72	Veolia Environnement SA	France	Water supply	31 946	49 396	13 788	30 636	146 249 [h]	251 584	55.9	484	852	56.81
47	7	38	Philips Electronics	Netherlands	Electrical & electronic equipment	30 330	41 848	36 155	37 646	134 814	161 586	84.0	313	425	73.65
48	12	12	Lafarge SA	France	Non-metallic products	30 127	33 742	15 146	17 925	52 365 [q]	77 075	80.6	397	460	86.30
49	72	81	Repsol YPF SA	Spain	Petroleum expl./ref./distr.	29 846	53 044	17 216	51 764	16 162 [h]	33 337	46.0	61	121	50.41
50	30	9	Novartis	Switzerland	Pharmaceuticals	29 081	54 469	27 917 [k]	28 247	43 163 [j]	81 392	68.4	253	280	90.36
51	32	50	GlaxoSmithKline	United Kingdom	Pharmaceuticals	28 971	43 607	34 057	37 275	44 679 [j]	100 019	67.5	196	277	70.76
52	80	82	Endesa	Spain	Electric services	28 786 [n]	65 423	10 407 [k,l]	27 472	12 953	26 985	43.3	87	175	49.71
53	56	41	Bayer AG	Germany	Pharmaceuticals/chemicals	28 577	51 493	20 913 [k,l]	36 950	48 700 [j]	112 500	51.8	214	293	73.04
54	83	20	Altria Group Inc	United States	Tobacco	28 545	101 648	48 388	89 610	64 023	156 000	41.0	199	242	82.23
55	53	24	BASF AG	Germany	Chemicals	27 771	46 197	27 715	46 609	35 289	81 955	54.2	241	298	80.87
56	5	5	Alcan Inc.	Canada	Metal and metal products	25 455	33 341	23 381	24 885	71 000	82 000	85.6	269	289	93.08
57	6	64	Koninklijke Ahold	United States/ Netherlands	Retail	24 659	28 202	51 668	64 567	206 057 [h]	231 003	85.6	173	287	60.28
58	74	53	Renault SA	France	Motor vehicles	24 406	83 009	33 004	50 555	54 390	130 573	45.4	143	208	68.75
59	95	46	Petronas - Petroliam Nasional Bhd	Malaysia	Petroleum expl./ref./distr.	22 647 [n]	62 915	10 567 [r]	36 065	4 016 [h]	33 944	25.7	167	234	71.37
60	51	26	Dow Chemical Company	United States	Chemicals	22 196	45 885	25 107	40 161	23 841	43 000	55.4	201	250	80.40
61	21	30	Volvo	Sweden	Motor vehicles	21 730	33 698	26 643 [k]	28 630 [m]	52 550	81 080	74.1	244	307	79.48
62	22	67	AES Corporation	United States	Electricity, gas and water	21 022	29 732	7 273 [k]	9 486	22 106	30 000	73.7	60	101	59.41
63	42	61	British American Tobacco	United Kingdom	Tobacco	20 664 [j]	34 139	12 496 [j]	22 721	40 275 [j]	60 953	60.5	204	319	63.95
64	35	84	McDonald's Corp.	United States	Retail	20 565	27 838	12 539	19 065	240 142 [s]	418 000 [s]	65.7	34	76	44.74
65	44	75	Pinault-Printemps Redoute SA	France	Wholesale trade	20 543	31 261	16 943	30 064	50 416 [m]	95 397	58.3	138	250	55.20
66	84	99	National Grid Transco	United Kingdom	Energy	20 315	47 727	7 356 [l]	16 504	8 565	24 406	40.7	259	223	13.90
67	82	74	Matsushita Electric Industrial Co., Ltd.	Japan	Electrical & electronic equipment	20 129	77 381	34 013	80 538	184 110 [m]	334 752	41.1	277	492	56.30
68	64	27	United Technologies Corporation	United States	Transport equipment	19 493	40 035	18 670	37 445	103 330	209 700	49.3	356	443	80.36
69	63	89	Metro AG	Germany	Retail	19 371	38 264	34 294	70 042	105 230	217 424	49.3	262	681	38.47
70	1	1	Thomson Corporation	Canada	Media	19 221	19 643	7 837	8 098	38 926	40 000	97.3	268	279	96.06
71	27	45	Coca-Cola Company	United States	Food & beverages	19 204	31 327	15 245 [l]	21 962	40 400	50 000	70.5	58	80	72.50
72	24	3	Nokia	Finland	Telecommunications	19 034	30 877	35 904 [k]	36 340	30 589 [m]	53 511	72.5	125	131	95.19
73	33	98	Singtel Ltd.	Singapore	Telecommunications	18 641	21 626	5 211	7 465	8 676	19 155	67.1	99	104	18.85
74	86	52	Johnson & Johnson	United States	Pharmaceuticals	18 339	53 317	19 578	47 348	41 622 [m]	109 900	37.9	138	732	68.95
75	17	92	Diageo Plc	United Kingdom	Consumer goods/distillers & vintners	18 147	25 661	13 715	16 544	29 922 [m]	38 955	77.0	171	248	36.07
76	18	2	Mittal Steel Company NV	Netherlands/ United Kingdom	Steel	17 720 [j]	19 153	20 186 [j,k]	22 197	150 437 [j]	164 000	77.0	110	305	95.42
77	36	15	Inbev	Netherlands	Consumer goods/brewers	17 177 [q]	25 330	6 452 [q]	10 639	49 457 [q]	77 000	64.2	115	136	84.56
78	11	32	Astrazeneca Plc	United Kingdom	Pharmaceuticals	17 176	25 616	20 318	21 426	52 700	64 200	81.3	166	210	79.05
79	15	43	L'Air Liquide Groupe	France	Commodity chemicals	17 166	19 648	9 053	11 642	24 412	35 900	77.7	266	365	72.88
80	57	35	Abbott Laboratories	United States	Pharmaceuticals	17 133	28 768	8 438	19 680	31 037 [m]	60 600	51.2	81	103	78.64

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Annex table A.I.11. The world's top 100 non-financial TNCs, ranked by foreign assets, 2004[a] (concluded)

(Millions of dollars and number of employees)

Ranking by: Foreign assets	TNI[b]	II[c]	Corporation	Home economy	Industry[d]	Assets: Foreign[e]	Assets: Total	Sales: Foreign[f]	Sales: Total	Employment: Foreign	Employment: Total	TNI[b] (Per cent)	No. of affiliates: Foreign	No. of affiliates: Total	II[c]
81	96	77	Hitachi Ltd	Japan	Electrical & electronic equipment	16 832 [n]	93 510	22 451 [k]	83 435	104 533	347 424	25.0	385	722	53.32
82	77	63	Thyssenkrupp AG	Germany	Metals and metal products	16 683	41 137	21 433	48 850	93 027	184 358	45.0	400	655	61.07
83	91	76	Marubeni Corporation	Japan	Wholesale trade	16 581	40 415	7 424	28 085	7 597 [i]	24 106	33.0	160	291	54.98
84	37	66	Bertelsmann	Germany	Media	15 973	28 563	14 847	21 128	48 916	76 266	63.4	334	561	59.54
85	31	10	Stora Enso	Finland	Paper	15 467	22 355	10 319	15 392	29 959	43 779	68.2	254	286	88.81
86	75	13	Samsung Electronics	Republic of Korea	Electrical & electronic equipment	15 399	66 665	55 604	71 563	21 259	61 899	45.0	75	87	86.21
87	78	21	Wyeth	United States	Pharmaceuticals	15 293	33 630	7 502 [k]	17 358	22 794 [m]	51 401	44.3	78	95	82.11
88	2	16	CRH Plc	Ireland	Lumber and other building material dealers	15 192	16 165	14 920	15 918	57 882	60 411	94.5	484	573	84.47
89	100	100	Verizon	United States	Telecommunications	15 170	165 958	2 127	71 300	12 731 [m]	210 000	6.1	32	467	6.85
90	88	85	Statoil Asa	Norway	Petroleum expl./ref./distr.	14 934	41 100	8 806 [l]	45 248	11 349	23 899	34.4	60	135	44.44
91	73	36	Scottish Power	United Kingdom	Electric utilities	14 760	27 708	5 096	12 539	6 934	16 142	45.6	87	115	75.65
92	70	25	Bristol-Myers Squibb	United States	Pharmaceuticals	14 708	30 435	8 767	19 380	20 116 [m]	43 000	46.8	74	92	80.43
93	99	94	Duke Energy Corporation	United States	Electricity, gas and water	14 669	55 470	2 305	22 503	3 944 [m]	21 500	18.3	33	94	35.11
94	98	96	CITIC Group	China	Diversified	14 452	84 744	1 746	6 413	15 915 [h]	93 323	20.4	14	59	23.73
95	28	19	BHP Billiton Group	Australia	Mining & quarrying	14 225	21 510	17 673	24 943	25 980 [m]	35 070	70.4	75	90	83.33
96	45	58	Christian Dior SA	France	Textiles	14 177	35 242	10 513 [l]	16 391	41 254	61 515	57.1	21	32	65.63
97	69	70	Alcoa	United States	Metals and metal products	14 084	32 609	8 994	23 478	71 200	119 000	47.1	114	194	58.76
98	59	51	Motorola Inc	United States	Telecommunications	13 900	30 889	17 729 [l]	31 323	34 544 [m]	68 000	50.8	65	93	69.89
99	8	8	Nortel Networks	Canada	Telecommunications	13 854	16 984	9 260 [k]	9 828	25 160	34 150	83.2	58	64	90.63
100	43	40	Lvmh Moët-Hennessy Louis Vuitton SA	France	Textiles and leather	13 685	27 919	10 160	15 674	37 118	56 509	59.8	313	426	73.47

Source: UNCTAD/Erasmus University database.

a All data are based on the companies' annual reports unless otherwise stated. Data on affiliates is based on the Dun and Bradstreets'*Who owns Whom* database.

b TNI, the Transnationlity Index, is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

c II, the"Internationalization Index", is calculated as the number of foreign affiliates divided by the number of all affiliates (Note: Affiliates counted in this table refer to only majority-owned affiliates).

d Industry classification for companies follows the United States Standard Industrial Classification as used by the United States Securities and Exchange Commission (SEC).

e In a number of cases, companies reported only partial foreign assets. In these cases, the ratio of the partial foreign assets to the partial (total) assets was applied to total assets to calculate the total foreign assets. In all cases, the resulting figures were sent for confirmation to the companies.

f Foreign sales are based on the origin of the sales, unless otherwise stated.

g Data for outside North America.

h Foreign employment data were calculated by applying the share of foreign employment in total employment of the previous year to total employment of 2004.

i Foreign data were calculated by applying the share of the foreign into the total component of 2002 to the total component of 2004.

j Data for outside Europe.

k Foreign sales are based on customer location.

l In a number of cases companies reported only partial region-specified sales. In these cases, the ratio of the partial foreign sales to the partial (total) sales was applied to total sales to calculate the total foreign sales. In all cases, the resulting figures were sent for confirmation to the companies.

m Foreign employment data were calculated by applying the share of both foreign assets in total assets and foreign sales in total sales to total employment.

n Foreign assets data were calculated by applying the share of foreign assets in total assets of the previous year to total assets of 2004.

o Foreign employment data were calculated by applying the average of the shares of foreign employment in total employment of all companies in the same industry (omitting the extremes) to total employment.

p Data were obtained from the company in response to an UNCTAD survey.

q Data for outside Western Europe.

r Foreign sales data were calculated by applying the share of foreign sales in total sales of the previous year to total sales of 2004.

s Employment data is based on the data of 2003.

Note: The list covers non-financial TNCs only. In some companies, foreign investors may hold a minority share of more than 10%.

Annex table A.I.12. The top 100 non-financial TNCs from developing countries, ranked by foreign assets, 2004[a]

(Millions of dollars and number of employees)

Ranking by:						Assets		Sales		Employment			No. of affiliates		
Foreign assets	TNI[b]	II[c]	Corporation	Home economy	Industry[d]	Foreign[e]	Total	Foreign[f]	Total	Foreign	Total	TNI[b] (Per cent)	Foreign	Total	II[c]
1	28	4	Hutchison Whampoa Limited	Hong Kong, China	Diversified	67 638	84 162	11 426	23 080	150 687 [g]	182 000	70.9	84	93	90.3
2	80	30	Petronas - Petroliam Nasional Bhd	Malaysia	Petroleum expl./ref./distr.	22 647 [h]	62 915	10 567 [i]	36 065	4 016 [g]	33 944	25.7	167	234	71.4
3	32	24	Singtel Ltd.	Singapore	Telecommunications	18 641	21 626	5 396	7 722	8 676 [g]	19 155	67.1	23	30	76.7
4	54	14	Samsung Electronics Co., Ltd.	Republic of Korea	Electrical & electronic equip.	14 609	66 665	61 524	79 184	21 259 [g]	61 899	44.7	75	87	86.2
5	86	71	CITIC Group [j]	China	Diversified	14 452	84 744	1 746	6 413	15 915 [k]	93 323	20.4	14	59	23.7
6	30	27	Cemex S.A.	Mexico	Construction	13 323	17 188	5 412	8 059	16 822	26 679	69.2	42	56	75.0
7	11	13	LG Electronics Inc.	Republic of Korea	Electrical & electronic equip.	10 420 [h]	28 903	36 082	41 782	41 923 [g]	32 000	84.5	32	37	86.5
8	62	66	China Ocean Shipping (Group) Co. [j]	China	Shipping	9 024	14 994	4 825	11 293	4 230	70 474	36.3	40	134	29.9
9	75	55	Petróleos De Venezuela	Venezuela	Petroleum expl./ref./distr.	8 868	55 355	25 551	46 589	5 157	33 998	28.7	30	65	46.2
10	37	1	Jardine Matheson Holdings Ltd	Hong Kong, China	Diversified	7 141	10 555	5 830	8 988	57 895	110 000	61.7	83	88	94.3
11	66	23	Formosa Plastic Group	Taiwan Province of China	Industrial chemicals	6 968	58 023	6 995	37 738	61 626	82 380	35.1	14	18	77.8
12	96	72	Petroleo Brasileiro S.A. - Petrobras	Brazil	Petroleum expl./ref./distr.	6 221	63 270	11 082	52 109	6 196 [g]	52 037	14.3	23	103	22.3
13	94	33	Hyundai Motor Company	Republic of Korea	Motor vehicles	5 899	56 387	15 245	51 300	4 954	53 218	16.5	13	20	65.0
14	33	12	Flextronics International Ltd.	Singapore	Electrical & electronic equipment	5 862 [l]	11 130	8 181	16 085	89 858 [g]	92 000	67.1	100	114	87.7
15	45	82	Capitaland Limited	Singapore	Real Estate	5 231	10 545	1 536	2 328	5 277 [g]	10 668	55.0	4	23	17.4
16	63	46	Sasol Limited	South Africa	Industrial chemicals	4 902	12 998	5 541	10 684	5 841	31 100	36.1	1	2	50.0
17	90	75	Telmex	Mexico	Telecommunications	4 734	22710	1 415	12 444	15 616	76 386	17.6	6	28	21.4
18	55	47	América Móvil	Mexico	Telecommunications	4 448	17 277	5 684	11 962	13 949	23 303	44.4	17	34	50.0
19	79	69	China State Construction Engineering Corporation [j]	China	Construction	4 357	11 130	2 513	11 216	21 456	130 813	26.0	4	16	25.0
20	43	22	Hon Hai Precision Industries (Foxconn)	Taiwan Province of China	Electrical and electronic equipment	4 355	9 505	7 730	16 969	140 518	166 509	58.6	32	41	78.0
21	19	2	Shangri-La Asia Limited	Hong Kong, China	Hotels and motels	4 209	5 208	571	726	14 013 [g]	18 100	79.0	29	31	93.5
22	77	89	New World Development Co., Ltd.	Hong Kong, China	Diversified	4 202	15 567	891	2 865	12 687 [m]	47 000	28.4	7	57	12.3
23	27	7	Sappi Limited	South Africa	Paper	4 187	6 150	4 351	4 762	8 936 [g]	16 010	71.8	33	37	89.2
24	100	95	China National Petroleum Corporation [j]	China	Petroleum expl./ref./distr.	4 060	110 393	5 218	68 952	22 000	1167 129	4.4	4	242	1.7
25	60	87	Companhia Vale do Rio Doce	Brazil	Mining & quarrying	4 025 [h]	16 382	9 395	10 380	2 736 [g]	36 176	40.9	6	48	12.5
26	97	92	Oil And Natural Gas Corporation	India	Petroleum and natural gas	4 018	18 599	1 263	14 492	4 296 [g]	36 185	14.1	2	37	5.4
27	71	20	Kia Motors	Republic of Korea	Motor vehicles	3 932	14 085	6 858	17 150	9 004 [m]	32 252	31.9	12	15	80.0
28	59	67	Sinochem Corp. [j]	China	Wholesale trade	3 801	7 031	13 950	20 853	407	18 511	41.1	20	72	27.8
29	88	77	CLP Holdings	Hong Kong, China	Electricity, gas and water	3 799	10 394	491	3 960	481 [g]	4 633	19.8	2	10	20.0
30	6	48	Asia Food & Properties	Singapore	Food and beverages	3 691	3 860	1 511	1 538	33 511	43 374	90.4	2	4	50.0
31	5	39	Guangdong Investment Limited	Hong Kong, China	Diversified	3 582	3 924	639	657	3 391	3 623	94.0	12	20	60.0
32	58	65	YTL Corp. Berhad	Malaysia	Diversified	3 359	6 986	571	1 160	1 423 [g]	4 590	42.8	37	115	32.2
33	56	76	Metalurgica Gerdau S.A.	Brazil	Metal and metal products	3 358	6 842	3 423	6 973	7 110	23 177	42.9	4	19	21.1
34	31	45	Orient Overseas International Ltd	Hong Kong, China	Transport and storage	3 342	3 838	1 430	4 140	4 722	5 546	68.9	58	115	50.4
35	24	81	China Resources Enterprises	Hong Kong, China	Petroleum expl./ref./distr.	3 335	5 061	3 613	6 162	81 480	84 000	73.8	6	33	18.2
36	23	49	Star Cruises [l]	Hong Kong, China	Transport	3 224	4 305	1 208	1 619	11 158 [m]	14 900	74.8	2	4	50.0
37	69	8	Quanta Computer Inc	Taiwan Province of China	Computer and related activities	3 181	5 434	1 046	10 403	6 624 [g]	19 873	34.0	8	9	88.9
38	15	37	Neptune Orient Lines Ltd. [l]	Singapore	Transport and storage	3 112	4 379	5 498	6 752	10 344	11 286	81.4	60	99	60.6
39	81	15	United Microelectronics Corporation	Taiwan Province of China	Electrical & electronic equipment	3 037	11 790	1 677	4 048	1 052 [g]	10 642	25.7	10	12	83.3
40	44	16	City Developments Limited	Singapore	Hotels	2 887	7 818	781	1 457	11 814 [g]	14 017	58.3	228	275	83.3

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Annex table A.I.12. The top 100 non-financial TNCs from developing countries, ranked by foreign assets, 2004[a] (continued)
(Millions of dollars and number of employees)

Ranking by:						Assets		Sales		Employment			No. of affiliates		
Foreign assets	TNI[b]	II[c]	Corporation	Home economy	Industry[d]	Foreign[e]	Total	Foreign[f]	Total	Foreign	Total	TNI[b] (Per cent)	Foreign	Total	II[c]
41	52	62	MTN Group Limited	South Africa	Telecommunications	2 819	5 216	2 068	5 150	2 713	6 258	45.9	6	16	37.5
42	74	9	Taiwan Semiconductor Manufacturing Co Ltd.	Taiwan Province of China	Computer and related activities	2 770	15 649	3 093	8 059	6 086	20 167	28.8	8	9	88.9
43	48	5	Steinhoff International holdings	South Africa	Household goods	2 747	4 345	1 599	3 395	17 000	41 500	50.4	9	10	90.0
44	35	38	TCL Corporation	China	Electrical & electronic equipment	2 708	3 748	2 401	4 860	47 231 [m]	65 370	64.6	23	38	60.5
45	49	36	Misc Corp. Berhad	Malaysia	Transport	2 625	6 692	1 797	2 803	3 785	9 651	47.5	16	26	61.5
46	83	63	Singapore Airlines Limited	Singapore	Transport and storage	2 423 [h]	13 368	3 629	7 353	2 367	28 554	25.3	4	11	36.4
47	92	93	China National Offshore Oil Corp. [j]	China	Petroleum and natural gas	2 269	18 517	2 993	8 569	1 500	37 000	17.1	1	24	4.2
48	1	19	First Pacific Company Limited	Hong Kong, China	Electrical & electronic equipment	2 181	2 229	2 055	2 055	49 139 [g]	49 165	99.3	28	34	82.4
49	57	86	Barloworld Ltd	South Africa	Diversified	2 170	4 592	2 935	6 514	9 084	25 233	42.8	4	31	12.9
50	82	94	FEMSA-Fomento Economico Mexicano	Mexico	Food & beverages	2 110	10 713	1 761	8 341	31 133	88 217	25.4	5	142	3.5
51	10	91	China Merchants Holdings International	Hong Kong, China	Diversified	2 025	2 340	259	310	2 732	3 082	86.3	1	13	7.7
52	17	25	Noble Group Limited	Hong Kong, China	Wholesale trade	1 927	1 952	3 888	8 628	859 [m]	870	80.8	23	30	76.7
53	13	31	Beijing Enterprises Holdings Ltd.	Hong Kong, China	Diversified	1 880	2 494	1 233	1 274	35 430 [m]	47 000	82.5	2	3	66.7
54	39	61	Fraser & Neave Limited	Singapore	Food & beverages	1 864	4 971	1 372	2 109	11 204 [g]	14 500	59.9	52	134	38.8
55	51	35	Sime Darby Berhad	Malaysia	Diversified	1 838	4 088	2 636	3 922	6 207	24 405	45.9	146	237	61.6
56	67	90	Naspers Limited	South Africa	Media	1 707	2 766	677	2 479	1 691 [g]	10 400	35.1	1	11	9.1
57	38	56	Benq Corp.	Taiwan Province of China	Computer and related activities	1 680	3 121	2 885	5 475	10 718	14 375	60.4	6	13	46.2
58	42	40	Acer Inc.	Taiwan Province of China	Electrical & electronic equipment	1 641	3 893	3 536	7 050	5 536 [g]	6 560	58.9	34	57	59.6
59	40	6	Nampak Limited	South Africa	Packaging	1 626	1 968	998	3 107	12 125	19 122	59.4	36	40	90.0
60	9	58	Li & Fung Limited	Hong Kong, China	Wholesale trade	1 419	1 463	5 894	6 068	4 361 [g]	6 685	86.4	2	5	40.0
61	99	84	Hong Kong Electric Holdings Limited	Hong Kong, China	Electricity, gas and water	1 372	7 586	2	1 467	285 [g]	2 022	10.8	1	7	14.3
62	25	42	Yue Yuen Industrial Holdings Limited	Hong Kong, China	Textile and leather	1 348	2 934	2 022	2 725	251 792 [g]	252 000	73.4	18	33	54.5
63	61	80	Keppel Corporation Limited	Singapore	Diversified	1 340	6 426	924	2 426	12 177	22 186	37.9	49	256	19.1
64	70	41	Sembcorp Industries Limited	Singapore	Diversified	1 315	4 908	1 730	3 638	4 590	17 134	33.7	30	51	58.8
65	34	83	Delta Electronics Inc.	Taiwan Province of China	Electrical & electronic equipment	1 286	2 033	1 203	1 769	2 358 [g]	3 600	65.6	13	78	16.7
66	64	57	Swire Pacific Limited	Hong Kong, China	Business services	1 283	11 184	1 496	2 357	20 017 [g]	60 400	36.0	16	37	43.2
67	2	34	Tianjin Development Holdings Limited	Hong Kong, China	Diversified	1 234	1 250	270	270	5 235 [m]	5 300	99.2	23	36	63.9
68	4	97	Pacific Century Regional Development	Singapore	Telecommunications	1 222	1 289	262	272	331 697 [m]	350 000	95.3	..	21	..
69	85	64	Gold Fields Limited	South Africa	Metal and metal products	1 183	4 262	775	2 088	1 200	52 100	22.4	2	6	33.3
70	41	79	Gruma S.A. De C.V.	Mexico	Food & beverages	1 168	2 238	1 528	2 219	8 875 [g]	15 735	59.1	10	51	19.6
71	73	70	Grupo Bimbo SA De Cv	Mexico	Food & beverages	1 166	3 020	1 483	4 592	16 263 [g]	74 000	31.0	17	71	23.9
72	93	74	China Minmetals Corp. [j]	China	Metal and metal products	1 145	4 849	2 283	12 171	2 816	33 775	16.9	17	79	21.5
73	29	28	Cheng Shin Rubber Industries Company	Taiwan Province of China	Rubber tyres	1 080	1 493	651	990	10 795	14 925	70.1	3	4	75.0
74	78	17	Advanced Semiconductor Engineering Inc	Taiwan Province of China	Computer and related activities	1 076	4 197	773	2 560	8 847 [g]	34 649	27.1	10	12	83.3
75	89	54	San Miguel Corporation	Philippines	Food & beverages	1 072	4 183	409	3 105	4 102 [g]	26 400	18.1	8	17	47.1
76	46	32	Orascom Construction	Egypt	Diversified	1 067	2 080	859	1 396	22 573 [m]	44 000	54.7	2	3	66.7
77	21	68	Malaysian United Industries Berhad	Malaysia	Diversified	1 042	1 550	476	613	8 612 [g]	10 500	75.6	39	146	26.7
78	7	43	Hong Leong Asia Limited	Singapore	Construction	1 024	1 181	1 143	1 261	11 753 [m]	13 549	88.0	24	46	52.2
79	12	50	Esprit Holdings Limited	Hong Kong, China	Textile and leather	1 017 [l]	1 291	2 414	2 654	6 085 [m]	7 720	82.9	4	8	50.0
80	53	98	Great Eagle Holdings Limited	Hong Kong, China	Business services	1 001	4 893	197	352	2 081 [g]	3 426	45.7	..	..	..

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Annex table A.I.12. The top 100 non-financial TNCs from developing countries, ranked by foreign assets, 2004[a] (concluded)

(Millions of dollars and number of employees)

Ranking by:						Assets		Sales		Employment			No. of affiliates		
Foreign assets	TNI[b]	II[c]	Corporation	Home economy	Industry[d]	Foreign[e]	Total	Foreign[f]	Total	Foreign	Total	TNI[b] (Per cent)	Foreign	Total	II[c]
81	72	18	Yang Ming Marine Transport Corporation	Taiwan Province of China	Transport	970	2 775	660	2 821	588	1 683	31.1	34	41	82.9
82	3	3	Datatec Limited	South Africa	Computer and related activities	944	987	2 552	2 631	2 314 [j]	2 232	98.8	47	51	92.2
83	65	73	Grupo Imsa	Mexico	Metal and metal products	934	3 120	1 625	3 291	3 222 [g]	12 270	35.2	5	23	21.7
84	8	99	Cofco International Ltd.	China	Food & beverages	917	1 101	1 892	2 029	5 417 [m]	6 507	86.6	..	..	..
85	14	51	Asia Aluminum Holdings Limited	Hong Kong, China	Metal and metal products	906	1 212	426	439	3 365 [g]	4 500	82.2	1	2	50.0
86	47	96	Kumpulan Guthrie Berhad	Malaysia	Forestry	857	2 430	279	662	43 514 [g]	58 164	50.7	1	74	1.4
87	20	59	Kinpo Electronics Inc	Taiwan Province of China	Computer and related activities	848	1 272	1 846	1 858	589 [m]	883	77.6	2	5	40.0
88	26	52	Unimicron Technology	Taiwan Province of China	Electrical & electronic equipment	839	980	347	730	9 462 [m]	11 045	73.0	1	2	50.0
89	68	78	BOE Technology Group Company Limited [j]	China	Computer and related activities	809	2 188	762	1 503	4 300	29 000	34.2	2	10	20.0
90	98	60	Pccw Limited	Hong Kong, China	Telecommunications	806	5 780	230	2 945	1 837	12 248	12.3	2	5	40.0
91	50	85	Hong Kong And Shanghai Hotels Ltd.	Hong Kong, China	Hotels	803	3 075	199	400	3 869	6 157	46.2	1	7	14.3
92	91	44	Imperial Holdings	South Africa	Transportation services	794	5 133	1 586	7 557	5 056 j	32 696	17.3	32	63	50.8
93	87	21	Chunghwa Picture Tubes	Taiwan Province of China	Computer and related activities	793	6 418	1 316	3 669	2 722	22 036	20.2	4	5	80.0
94	22	53	Wbl Corporation Limited	Singapore	Electrical & electronic equipment	780	1 332	828	1 120	15 704	17 041	74.9	31	63	49.2
95	16	26	Tom Group Limited	Hong Kong, China	Business services	759	1 016	314	334	2 540 [m]	3 400	81.1	39	51	76.5
96	84	10	PTT Exploration & Production Public Co	Thailand	Petroleum expl./ref./distr.	754	2 866	218	1 224	264 [m]	1 002	23.5	8	9	88.9
97	36	11	Road King Infrastructure Limited	Hong Kong, China	Transport	736	901	1	6	175 [m]	214	62.2	8	9	88.9
98	76	100	Cintra	Mexico	Transport	716	1 775	1 344	3 200	565 [g]	19 973	28.4	..	..	..
99	18	29	Elitegroup Computer System Com.	Taiwan Province of China	Computer and related activities	708	907	1 011	1 246	895 [m]	1 147	79.1	5	7	71.4
100	95	88	Hyosung Corporation	Republic of Korea	Diversified	699	5 470	1 237	5 505	788 [m]	6 165	16.0	1	8	12.5

Source:UNCTAD/Erasmus University database.

[a] All data are based on the companies' annual reports unless otherwise stated. Data of affiliates are from Dun and Bradstreet's *Who Owns Whom* database.

[b] TNI is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

[c] II is calculated as the number of foreign affiliates divided by number of all affiliates (Note: Affiliates counted in this table refer to only majority-owned affiliates).

[d] Industry classification for companies follows the United States Standard Industrial Classification as used by the United States Securities and Exchange Commission (SEC).

[e] In a number of cases, companies reported only partial foreign assets. In these cases, the ratio of the partial foreign assets to the partial (total) assets was applied to total assets to calculate the total foreign assets.

[f] Foreign sales are based on the origin of the sales. In a number of cases companies reported sales only by destination.

[g] Foreign employment data are calculated by applying the share of foreign employment in total employment of the previous year to total employment of 2004.

[h] Foreign assets data are calculated by applying the share of foreign assets in total assets of the previous year to total assets of 2004.

[i] Foreign sales data are calculated by applying the share of foreign sales in total sales of the previous year to total sales of 2004.

[j] Data were obtained from the company in response to an UNCTAD survey.

[k] Foreign employment data are calculated by applying the share of foreign assets in total asets to total employment.

[l] Data for foreign activities are outside Asia.

[m] Foreign employment data are calculated by applying the average of the shares of foreign employment in total employment of all companies in the same industry (omitting the extremes) to total employment.

Note: The list covers non-financial TNCs only. In some companies, foreign investors may hold a minority share of more than 10%.

Annex table A.I.13. The top 10 non-financial TNCs from South-East Europe and the CIS[a], ranked by foreign assets, 2004
(Millions of dollars and number of employees)

Ranking by: Foreign assets	TNI[b]	Corporation	Home country	Industry	Assets		Sales		Employment		TNI[b] (Per cent)
					Foreign	Total	Foreign	Total	Foreign	Total	
1		Gazprom	Russian Federation	Petroleum and natural gas	.. [c]	104 982	24 536	36 422	.. [c]	388 714	..
2		Lukoil	Russian Federation	Petroleum and natural gas	7 792	29 761	26 408	33 845	13 929 [d]	150 000	37.8
3		Norilsk	Russian Federation	Mining & quarrying	1 413	13 632	5 968	7 033	1 772	100 786	32.3
4		Novoship Co.	Russian Federation	Transport	1 296	1 413	350	419	55	4 032	58.9
5		PLIVA Pharmaceuticals industry	Croatia	Pharmaceuticals	1 032	1 910	939	1 130	3 394 [d]	6 574	62.9
6		Rusal	Russian Federation	Metal and metal products	743	6 544	4 412	5 436	5 490	63 458	33.7
7		OMZ	Russian Federation	Motor vehicles	347	901	271	524	8 484 [e]	22 030	42.9
8		Energoprojekt	Serbia and Montenegro	Heavy construction	216	261	108	172	423 [e]	1 600	57.3
9		Severstal	Russian Federation	Metal and metal products	174 [f]	6 584	3 954	6 664	7 098	54 597	25.0
10		Mechel	Russian Federation	Metal and metal products	120	3 679	2 203	3 636	10 689	82 324	25.6

Source: UNCTAD.
[a] Based on survey responses and annual reports.
[b] TNI is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.
[c] Data is not available.
[d] Foreign employment data are calculated by applying the share of foreign employment in total employment of the previous year to total employment of 2004.
[e] Foreign employment data are calculated by applying the share of foreign assets in total asets to total employment.
[f] Foreign assets data are calculated by applying the average of the shares of foreign assets in total assets of all companies in the same industry (omitting the extremes) to total assets.

Annex table A.I.14. The top 50 financial TNCs, ranked by the UNCTAD Spread Index, 2004 [a]
(Millions of dollars, number of employees)

Rank 2004	SI [b]	Rank 2003	SI [b]	TNB	Home economy	Assets	Employees	Number of affiliates		II [c]	Number of host countries
						Total	Total	Total	Foreign		
1	64.7	3	61.8	GE Capital Services	United States	566 708	76 300	1 425	1 085	76.1	55
2	63.0	1	64.0	Citigroup	United States	1 484 101	294 000	612	347	56.7	70
3	60.5	2	63.4	UBS	Switzerland	1 732 121	67 424	426	363	85.2	43
4	58.6	5	58.4	Allianz Group	Germany	1 302 894	162 180	778	569	73.1	47
5	58.6	11	51.3	BNP Paribas	France	1 230 071	94 892	622	403	64.8	53
6	58.5	6	57.4	Gruppo Assicurazioni Generali	Italy	372 996	58 354	368	323	87.8	39
7	57.2	4	60.9	Zurich Financial Services	Switzerland	346 083	53 246	358	345	96.4	34
8	54.4	24	34.4	Unicredito	Italy	359 903	68 571	1 044	998	95.6	31
9	53.6	9	53.2	HSBC Bank	United Kingdom	1 274 557	243 333	1 076	658	61.2	47
10	53.1	8	55.0	Société Générale	France	816 735	93 359	430	253	58.8	48
11	51.8	10	52.5	Deutsche Bank	Germany	836 368	65 417	698	493	70.6	38
12	51.5	13	46.9	AXA Group	France	642 988	76 339	481	387	80.4	33
13	51.0	7	55.5	Credit Suisse	Switzerland	953 967	60 532	334	280	83.8	31
14	47.8	14	45.3	ABN AMRO	Netherlands	825 388	99 271	851	432	50.8	45
15	43.7	15	43.8	Grupo Santander	Spain	774 462	126 488	455	311	68.3	28
16	42.8	16	42.8	Bayerishe HVB Group	Germany	629 981	57 806	935	572	61.2	30
17	41.9	17	42.4	Crédit Agricole	France	1 107 272	62 000	382	172	45.0	39
18	40.2	18	40.3	Merrill Lynch	United States	648 059	50 600	227	167	73.6	22
19	40.0	19	39.2	AIG Group	United States	798 660	92 000	368	147	39.9	38
20	40.0	21	36.5	ING Group	Netherlands	1 177 335	113 000	856	403	47.1	34
21	36.0	20	37.0	JP Morgan Chase Group	United States	1 157 248	160 968	400	200	50.0	26
22	34.8	22	35.8	Almanij	Belgium	384 781	51 802	343	245	71.4	17
23	34.7	23	34.8	KBC Group	Belgium	338 757	47 086	228	162	71.0	17
24	34.6	29	30.2	Royal Bank of Canada	Canada	351 231	62 566	180	135	75.0	16
25	34.5	35	26.3	Banca Intesa	Italy	371 306	56 958	131	82	62.6	19
26	30.8	25	33.9	Grupo BBVA	Spain	416 209	84 117	178	77	43.2	22
27	30.6	27	30.6	Morgan Stanley	United States	775 410	53 284	174	102	58.6	16
28	30.3	36	25.4	Nordea Bank	Sweden	373 940	28 929	127	106	83.5	11
29	30.3	40	22.7	Goldman Sachs	United States	530 753	20 722	200	141	70.5	13
30	30.1	31	29.2	Barclays Bank	United Kingdom	522 089	77 000	513	137	26.7	34
31	28.6	..	..	Manulife Financial Group	Canada	302 136	20 000	82	61	74.4	11
32	28.1	26	32.4	Aviva	United Kingdom	431 409	55 872	480	224	46.7	17
33	27.8	12	47.0	Mitsubishi Tokyo Financial Group [d]	Japan	1 017 963	43 627	98	54	55.1	14
34	27.6	28	30.6	Commerzbank	Germany	570 418	32 820	239	114	47.7	16
35	26.4	41	22.0	Danske Bank	Denmark	340 722	15 382	79	55	69.6	10
36	26.0	33	26.6	Mizuho Financial Group [d]	Japan	1 310 985	47 405	79	38	48.1	14
37	25.7	37	25.3	Sumitomo Mitsui Financial Group [d]	Japan	962 872	42 014	57	27	47.4	14
38	24.5	34	26.4	Rabobank Nederland	Netherlands	645 738	56 324	332	111	33.4	18
39	24.5	39	24.4	Aegon	Netherlands	342 017	27 906	355	177	49.8	12
40	23.6	42	21.1	The Royal Bank of Scotland Group	United Kingdom	583 467	136 600	1 126	262	23.3	24
41	23.4	55	9.2	Dexia	Belgium/Luxembourg	528 074	19 503	216	99	45.8	12
42	22.5	30	29.6	Prudential Financial	United States	401 058	39 418	108	42	38.9	13
43	21.7	32	27.2	Prudential Group	United Kingdom	333 145	21 715	240	63	26.3	18
44	20.9	45	19.7	Lehman Brothers	United States	355 081	19 579	293	107	36.5	12
45	19.5	51	14.4	Fortis Group	Belgium/Netherlands	774 557	49 468	568	108	19.0	20
46	18.2	59	7.6	LB-BW	Germany	463 634	12 184	82	21	25.6	13
47	17.6	48	17.6	DZ Bank Group	Germany	417 970	25 313	232	48	20.7	15
48	16.7	52	14.3	Bank of America	United States	1 110 457	175 742	301	60	19.9	14
49	16.6	50	15.9	Metlife	United States	356 808	54 000	73	25	34.2	8
50	13.1	47	19.6	National Australian Bank	Australia	296 938	47 025	139	80	57.6	3

Source: UNCTAD.

[a] All data are based on the companies' annual reports unless otherwise stated. Data on affiliates is based on Dun and Bradstreet, *Who owns Whom database*.

[b] SI, the "Spread Index", is calculated as the square root of the Internationalization Index multiplied by the number of host countries.

[c] II, the"Internationalization Index", is calculated as the number of foreign affiliates divided by the number of all affiliates (Note: Affiliates counted in this table refer to only majority-owned affiliates).

[d] Data refer to March 2005.

Annex table A.I.15. International Investment Agreements (other than BITs and DTTs) concluded in 2005

Agreement	Scope
Framework Agreement to Promote Economic Cooperation between India and Chile	Framework
Agreement on Closer Economic Partnership between New Zealand and Thailand	Substantive
Comprehensive Economic Cooperation Agreement between India and Singapore	Substantive
Trade and Investment Framework Agreement between Iraq and the United States	Framework
Free Trade Agreement between the Republic of Korea and Singapore	Substantive
Free Trade Agreement between China and Chile	promotion, more substantive Investment disciplines agreed in the future work programme article 120
Free Trade Agreement between the United States and Peru	Substantive
Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the Republic of Korea	Framework
Trans-Pacific Strategic Economic Partnership Agreement (Brunei Darussalam, Chile, Singapore, New Zealand)	Substantive
Free Trade Agreement between Taiwan Province of China and Guatemala	Substantive
Free Trade Agreement between Egypt and Turkey	Investment promotion (Article 28)
Free Trade Agreement between the EFTA States and the Republic of Korea	Substantive
Trade and Investment Framework Agreement between Mozambique and the United States	Framework
Free Trade Agreement between the United States and Oman [a]	Substantive

Source: UNCTAD.
[a] Negotiations concluded in 2005, agreement signed in January 2006.

Annex table A.I.16. International Investment Agreements (other than BITs and DTTs) under negotiation, as of end 2005

Closer Economic Partnership Agreement between Hong Kong (China) and New Zealand
Comprehensive Economic Cooperation Agreement between China and the Republic of India
Comprehensive Economic Cooperation Agreement between the Republic of India and the Republic of Mauritius
Economic Partnership Agreement between India and Sri Lanka
Economic Partnership Agreement between Japan and the Kingdom of Thailand
Economic Partnership Agreement between Japan and the Philippines
Free Trade Agreement between Japan and the Republic of Chile
Free Trade Agreement between Japan and Indonesia
Comprehensive Economic Cooperation Agreement between Japan and India
Economic Framework Agreement between Canada and Japan
Free Trade Agreement between Canada and Central America
Free Trade Agreement between Canada and the Republic of Korea
Free Trade Agreement between Canada and the Republic of Singapore
Free Trade Agreement between Canada and the Dominican Republic
Free Trade Agreement between the Republic of Singapore and Egypt
Free Trade Agreement between the Republic of Singapore and the Kingdom of Bahrain
Free Trade Agreement between the Republic of Singapore and the Kingdom of Kuwait
Free Trade Agreement between the Republic of Singapore and the Kingdom of Qatar
Free Trade Agreement between the Republic of Singapore and Sri Lanka
Free Trade Agreement between the Republic of Singapore and Mexico
Free Trade Agreement between the Republic of Singapore and Pakistan
Free Trade Agreement between the Republic of Singapore and Peru
Free Trade Agreement between the Republic of Singapore and the United Arab Emirates
Free Trade Agreement between the European Union and the Gulf Cooperation Council (GCC)
Economic Partnership Agreement between the European Union and the Economic and Monetary Community of Central Africa (CEMAC)
Economic Partnership Agreement between the European Union and Eastern and Southern Africa (ESA)
Economic Partnership Agreement between the European Union and the Caribbean Community (CARICOM)
Economic Partnership Agreement between the European Union and Economic Community of Western African States (ECOWAS)
Association Agreement between the European Union and MERCOSUR
Economic Partnership Agreement between the European Union and the Southern African Development Community (SADC)
Trade and Investment Enhancement Agreement between the European Union and Canada
Trans-Regional Trade Initiative between the European Union and ASEAN
Free Trade Agreement between ASEAN, Australia and New Zealand
Free Trade Agreement between ASEAN and the Republic of Korea
Free Trade Agreement between Australia and China
Free Trade Agreement between CARICOM and Canada
Free Trade Agreement between CARICOM and the United States of America
Free Trade Agreement between CARICOM and the European Free Trade Association (EFTA)
Free Trade Agreement between China and New Zealand
Free Trade Agreement between EFTA and Canada
Free Trade Agreement between EFTA and the Southern African Customs Union (SACU)
Free Trade Agreement between EFTA and the Kingdom of Thailand
Free Trade Agreement between EFTA and Egypt
Economic Complementation Agreement between Mexico and the Republic of Korea
Free Trade Agreement between the ANDEAN Community and Canada
Free Trade Agreement between the ANDEAN Community and the United States of America
Free Trade Agreement between the Gulf Cooperation Council (GCC) and MERCOSUR
Free Trade Agreement between the Gulf Cooperation Council (GCC) and China
Free Trade Agreement between the Republic of Chile and the Republic of Ecuador
Free Trade Agreement between the Republic of Chile and the Republic of Peru
Free Trade Agreement between the Republic of Costa Rica and the Republic of Panama
Free Trade Agreement between the Republic of Guatemala and Taiwan Province of China
Free Trade Agreement between the Republic of Nicaragua and Taiwan Province of China
Free Trade Agreement between the Republic of Peru and the Kingdom of Thailand
Free Trade Agreement between the United States of America and the Republic of Korea
Free Trade Agreement between the United States of America and the Republic of Thailand
Free Trade Agreement between the United States of America and Ecuador
Free Trade Agreement between the United States of America and Panama
Free Trade Agreement between the United States of America and the United Arab Emirates
Free Trade Agreement between the United States of America and Uruguay
Free Trade Agreement between the United States of America and SACU
Free Trade Agreement between the United States of America and Switzerland
Free Trade Area of the Americas (FTAA)
Partial Scope Trade Agreement between Belize and the Republic of Guatemala
South Asian Association for Regional Cooperation (SAARC) agreement for the promotion and protection of investment
Free Trade Agreement between the Republic of Peru and the Kingdom of Thailand (negotiations on investment and services continue)
Free Trade Agreement between MERCOSUR and Israel

Source: UNCTAD.

Annex table A.II.1. Big players in outward FDI from West Asia, 2005-June 2006

Year	Investee company	Industry	Host economy	Acquired share (%)	Value ($million)
Bahrain					
Investcorp Bank BSC					
2005	American Tire Distributors Inc	Chemicals and chemical products	United States	100.0	710
2005	Polyconcept	Durable goods, nec	France	100.0	554
2005	Cirrus Logic Inc-Digital Video	Semiconductors and related devices	United States	100.0	..
2005	Global Promo Group Inc	Chemicals and chemical products	United States	100.0	..
2006	Equity One	Trade	United States	80.0	388
2006	FleetPride Corporation	Trade	United States	100.0	..
Arcapita Bank BSC (former First Islamic Invest)					
2005	Falcon Gas Storage Co Inc	Crude petroleum and natural gas	United States	90.0	90
2005	Tensar Corp	Residential construction	United States	100.0	385
2005	Tender Loving Care Health Svcs	Home health care services	United States	100.0	148
2006	Roxar AS	Measuring and controlling devices	Norway	100.0	200
Kuwait					
Mobile Telecommunications Co					
2005	Celtel International BV	Telecommunications	Netherlands	85.0	3 400
2006	Mobitel	Telecommunications	Sudan	61.0	1 332
Kuwait Projects Company (state-owned KIPCO)					
2005	Dow Chem Co-Canadian Ethylene	Chemicals and chemical products	Germany	50.0	210
2005	Dow Chem-PET/PTA Bus	Gasoline service stations	Netherlands	95.0	92
Kuwait Projects Company (KIPCO)					
2005	Arab MISR Insurance Group SAE	Finance	Egypt	54.0	5
Saudi Arabia					
Kingdom Holding Company (state-owned private equity firm)					
2005	Mövenpick Royal Palm Hotel	Hotels and restaurants	United Rep. of Tanzania	96.0	37
2006	The Fairmont Hotels and Resorts	Hotels and restaurants	Canada	100.0	3 900 [a]
2006	Karon Beach Hotel	Hotels and restaurants	Thailand	100.0	99 [a]
Turkey					
Haci Omer Sabanci Holding AS					
2005	Sabanci Bank PLC	Finance	United Kingdom	28.0	60
2005	Acordis	Cellulosic manmade fibers	Netherlands	100.0	19
2005	Cobafi	Yarn spinning mills	Brazil	100.0	..
Koç Holding AS					
2005	Ramenka Company (greenfield)	Trade	Russian Federation	100.0	30
2005	Ramenka Company (greenfield)	Trade	Russian Federation	100.0	40
2005	Ramenka Company (greenfield)	Trade	Russian Federation	100.0	35
2005	Ramenka Company (greenfield)	Trade	Russian Federation	100.0	7
2005	Joint venture with a local partner	Electric devices	China	45.0	-
2006	Arcelik (greenfield)	Electric devices	Russian Federation	100.0	..
United Arab Emirates					
Dubai International Capital/Dubai Investment Group/Dubai Financial (subsidiaries of state-run Dubai Holding company)					
2005	Essex House Hotel	Hotels and restaurants	United States	100.0	500
2005	Hansecenter	Amusement and recreation services	Germany	100.0	100
2005	Tussauds Group	Amusement and recreation services	United Kingdom	100.0	1 495
2005	Interoute Communications Group	Telecommunications	United Kingdom	30.0	300
2006	Doncasters Group	Machinery and equipment	United Kingdom	100.0	1 200 [a]
2006	Markisches Zentrum Shopping	Trade	Germany	100.0	113
2006	Thomas Cook (India)	Travel agencies	India	80.0	..
DP World (state-owned by Dubai Government)					
2005	CSX World Terminals	Marine cargo handling	United States	100.0	1 222
2006	Peninsular and Oriental Steam Navigation Company (P&O)	Transport, storage and communications	United Kingdom	91.0	6 200 [a]
Istithmar (private equity firm of Dubai Government)					
2005	230 Park Avenue	Hotels and restaurants	United States	100.0	705
2005	One Trafalgar Square	Real estate	United Kingdom	100.0	273
2006	Inchcape Shipping Services	Transport, storage and communications	United Kingdom	100.0	3 880
2006	280 Park Avenue	Hotels and restaurants	United Stated	100.0	1 200
2006	Knickerbocker Hotel	Hotels and restaurants	United Stated	100.0	300
2006	Inchcape Shipping Services	Transport, storage & communications	United Kingdom	100.0	289
International Petroleum Investment Company (IPIC: investment firm of Abu Dhabi Government)					
2005	Borealis A/S	Chemicals and chemical products	Denmark	65.0	..
2005	Agrolinz Melamine GmbH	Chemicals and chemical products	Austria	50.0	310

Source : UNCTAD, based on news accounts and companies' websites.

[a] Transaction has not been completed.

Annex table A.V.1. Exports of foreign affiliates of developed- and developing-economy TNCs: share in host countries total exports
(Millions of dollars and per cent)

Country	Year	Country as a whole (A)	Foreign affiliates			Share (%) (D)/(A)
			Total (B)	of developed-economy TNCs (C)	of developing-economy TNCs (D)	
Austria	1993	67 615	22 170	12 520	58	0.1
	1994	73 442	26 342	15 633	68	0.1
	1995	89 644	32 562	20 140	98	0.1
	1996	91 620	33 757	20 883	97	0.1
	1997	88 023	32 610	20 711	82	0.1
	1998	91 906	35 769	23 663	49	0.1
	1999	95 492	24 882	12 732	61	0.1
	2000	88 074	25 697	11 725	243	0.3
	2001	92 411	24 855	11 869	412	0.4
China	1991	65 898	12 047	2 603	5 323	8.1
	1992	78 817	17 356	4 310	7 753	9.8
	1993	86 852	25 228	15 029	7 176	8.3
	1994	119 181	34 709	20 402	9 973	8.4
	1995	147 240	46 891	26 990	13 110	8.9
	1996	171 678	61 506	35 411	16 148	9.4
	1997	207 239	74 900	42 019	25 027	12.1
	1998	207 424	80 962	47 771	19 515	9.4
	1999	220 964	88 628	52 892	20 030	9.1
	2000	279 561	119 441	69 438	44 311	15.9
	2001	299 409	133 235	75 557	31 068	10.4
	2002	365 395	169 990	94 432	40 731	11.1
France	1995	349 958	71 327	69 676	1 225	0.3
	1996	358 143	75 578	74 114	1 085	0.3
	1997	358 508	74 342	72 604	1 401	0.4
	1998	379 151	76 018	74 287	1 425	0.4
	1999	372 992	68 939	67 644	1 060	0.3
	2000	379 335	63 270	61 860	1 132	0.3
	2001	376 736	59 267	58 028	1 055	0.3
Hungary	1998	29 137	17 752	14 513	3 138	10.8
	1999	30 905	20 026	17 087	2 811	9.1
	2000	34 802	21 042	17 778	3 193	9.2
India	1994	32 387	979	798	56	0.2
	1995	40 315	973	788	8	0.0
	1996	40 880	1 245	1 029	129	0.3
	1997	45 493	1 479	1 281	89	0.2
	1998	47 330	1 853	1 469	189	0.4
	1999	52 885	1 463	1 050	199	0.4
	2000	61 887	2 189	1 522	342	0.6
Ireland	1991	27 649	15 453	13 919	..	..
	1992	32 633	18 385	16 860	..	..
	1993	33 185	18 370	18 023	..	..
	1994	38 771	22 388	20 440	..	..
	1995	50 789	31 228	28 549	..	..
	1996	56 722	34 447	31 545	..	..
	1997	63 854	39 090	37 160	..	..
	1998	74 878	45 806	44 043	..	..
	1999	84 268	55 630	52 882	..	..
	2000	92 794	61 049	57 923	..	..
Japan	1988	292 083	11 671	9 009	2 207	0.8
	1989	306 406	9 130	5 856	2 709	0.9
	1990	316 752	13 021	10 135	2 594	0.8
	1991	346 440	14 266	11 126	2 831	0.8
	1992	373 373	14 544	10 892	3 262	0.9
	1993	396 671	14 116	11 051	2 813	0.7
	1994	433 133	20 081	17 125	2 436	0.6
	1995	480 866	23 917	19 191	4 280	0.9
	1996	455 608	21 353	18 319	2 630	0.6
	1997	463 453	20 582	18 573	1 572	0.3
	1998	420 542	18 408	8 998	6 585	1.6
	1999	448 993	42 839	38 168	4 338	1.0
	2001	432 547	43 902	36 793	4 170	1.0
	2002	445 251	42 392	31 910	4 874	1.1

Annex table A.V.1. Exports of foreign affiliates of developed- and developing-economy TNCs: share in host countries total exports (concluded)
(Millions of dollars and per cent)

Country	Year	Country as a whole (A)	Foreign affiliates			Share (%) (D)/(A)
			Total (B)	of developed-economy TNCs (C)	of developing-economy TNCs (D)	
Netherlands[a]	1996	210 528	42 957	41 425	1 567	0.7
Poland[a]	1999	40 530	9 096	8 792	269	0.7
	2000	46 375	12 278	11 935	308	0.7
Portugal[a]	1996	29 060	6 577	6 452	..	..
	1997	27 898	5 199	5 073	..	..
	1998	29 433	5 789	5 683	..	..
	1999	34 187	6 308	5 987	..	..
	2000	33 662	6 488	6 351	..	..
	2001	34 091	6 812	6 704	..	..
	2002	36 664	7 598	7 468	..	..
Sweden[a]	1998	105 439	26 313	25 458	855	0.8
	1999	107 147	38 483	37 413	1 068	1.0
	2000	111 167	44 542	41 514	3 025	2.7
	2002	107 111	34 138	32 655	463	0.4
	2003	132 345	44 133	42 120	411	0.3
Taiwan Province of China	1987	64 995	9 651	7 607	513	0.8
	1988	67 962	10 685	7 354	1 880	2.8
	1989	74 637	11 189	8 423	1 454	1.9
	1990	74 297	12 862	9 913	1 432	1.9
	1991	84 387	14 364	10 968	1 923	2.3
	1992	91 353	17 042	12 063	1 249	1.4
	1993	98 092	14 481	9 718	1 038	1.1
	1994	106 633	17 480	13 661	1 127	1.1
United States	1977	159 350	24 858	23 992	506	0.3
	1978	186 875	32 169	31 138	912	0.5
	1979	230 150	44 341	41 617	972	0.4
	1980	280 775	52 199	44 320	2 163	0.8
	1981	305 225	64 066	57 002	1 865	0.6
	1982	283 200	60 236	54 658	1 963	0.7
	1983	277 000	53 854	48 860	2 495	0.9
	1984	302 375	58 186	53 156	2 692	0.9
	1985	302 025	56 401	53 951	2 422	0.8
	1986	320 550	49 560	47 257	2 237	0.7
	1987	363 900	48 091	44 098	3 831	1.1
	1988	444 075	69 541	63 785	5 628	1.3
	1989	503 325	86 316	79 684	6 633	1.3
	1990	552 375	92 308	84 763	7 545	1.4
	1991	596 825	96 933	88 519	8 342	1.4
	1992	635 325	103 925	94 676	9 220	1.5
	1993	655 825	106 615	97 764	8 775	1.3
	1994	720 875	120 683	109 017	11 466	1.6
	1995	812 225	135 153	121 186	13 954	1.7
	1996	868 550	140 886	127 195	13 688	1.6
	1997	955 350	141 305	125 338	14 106	1.5
	1998	955 925	151 006	136 405	14 599	1.5
	1999	991 250	153 572	137 580	15 942	1.6
	2000	1 096 280	165 321	145 495	19 329	1.8
	2001	1 032 830	157 459	139 460	17 948	1.7
	2002	1 005 920	150 147	127 549	17 128	1.7
	2003	1 045 650	159 590	131 587	20 949	2.0

Sources: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
[a] Data on foreign affiliates refer to majority-owned affiliates only.

Annex table B.1. FDI flows, by region and economy, 2003-2005
(Millions of dollars)

Host region/economy	FDI inflows			FDI outflows		
	2003	2004	2005	2003	2004	2005
World	**557 869**	**710 755**	**916 277**	**561 104**	**813 068**	**778 725**
Developed economies	**358 539**	**396 145**	**542 312**	**514 806**	**686 262**	**646 206**
Europe	**274 095**	**217 696**	**433 628**	**316 956**	**367 989**	**618 810**
European Union	**253 728**	**213 726**	**421 899**	**286 106**	**334 915**	**554 802**
Austria	7 144	3 685	8 919	7 136	7 388	9 293
Belgium	33 375	42 044	23 691	38 899	33 526	22 925
Cyprus	891	1 079	1 166	490	619	432
Czech Republic	2 101	4 974	10 991	206	1 014	856
Denmark	2 595	- 10 722	5 309	1 126	- 10 363	9 328
Estonia	919	1 049	2 853	156	268	603
Finland	3 319	3 537	4 561	- 2 280	- 1 075	2 705
France	42 498	31 371	63 576	53 147	57 006	115 668
Germany	29 202	- 15 113	32 663	6 174	1 883	45 634
Greece	1 275	2 101	607	412	1 029	1 451
Hungary	2 137	4 654	6 699	1 644	1 122	1 346
Ireland	22 781	11 159	- 22 773	5 549	15 804	12 938
Italy	16 415	16 815	19 971	9 071	19 262	39 671
Luxembourg	3 943	3 958	3 685	- 53	4 245	2 935
Latvia	292	699	632	36	103	135
Lithuania	179	773	1 009	37	263	329
Malta	958	309	562	550	-	- 26
Netherlands	21 742	442	43 630	44 181	17 282	119 454
Poland	4 589	12 873	7 724	305	794	1 455
Portugal	8 593	2 367	3 113	8 028	7 958	1 146
Slovakia	756	1 261	1 908	22	- 141	146
Slovenia	333	827	496	472	551	568
Spain	25 926	24 761	22 987	27 529	60 532	38 772
Sweden	4 986	12 609	13 389	21 080	20 985	25 938
United Kingdom	16 778	56 214	164 530	62 187	94 862	101 099
Other developed Europe	**20 368**	**3 970**	**11 729**	**30 850**	**33 073**	**64 008**
Gibraltar	62 [a]	102 [a]	192 [a]	..	..	..
Iceland	318	645	2 329	372	2 561	6 690
Norway	3 484	2 473	3 413	15 037	3 675	14 461
Switzerland	16 503	750	5 795	15 442	26 838	42 858
North America	**60 761**	**123 910**	**133 265**	**150 868**	**265 691**	**21 369**
Canada	7 615	1 533	33 822	21 516	43 254	34 083
United States	53 146	122 377	99 443	129 352	222 437	- 12 714
Other developed countries	**23 682**	**54 539**	**- 24 581**	**46 982**	**52 583**	**6 027**
Australia	9 722	42 390	- 34 547	15 602	17 995	- 40 946
Israel	3 941	1 753	5 587	2 064	4 543	2 492
Japan	6 324	7 816	2 775	28 800	30 951	45 781
New Zealand	3 695	2 580	1 603	516	- 906	- 1 300
Developing economies	**175 138**	**275 032**	**334 285**	**35 566**	**112 833**	**117 463**
Africa	**18 513**	**17 199**	**30 672**	**1 159**	**1 885**	**1 054**
North Africa	**5 376**	**5 905**	**12 738**	**123**	**182**	**439**
Algeria	634	882	1 081	14	258	23
Egypt	237	2 157	5 376	21	159	92
Libyan Arab Jamahiriya	142	- 354	261	63	- 271	138
Morocco	2 429	1 070	2 933	20	32	174
Sudan	1 349	1 511	2 305	..	..	..
Tunisia	584	639	782	5	4	13
Other Africa	**13 137**	**11 294**	**17 934**	**1 036**	**1 704**	**616**
West Africa	**3 466**	**3 244**	**4 557**	**277**	**328**	**414**
Benin	45	64	21 [a]	-	- 1	- [a]
Burkina Faso	29	14	19 [a]	2	- 9	- 3 [a]
Cape Verde	14	20	19	..	..	..
Côte d' Ivoire	165	283	192 [a]	23 [a]	- 26 [a]	- 4 [a]
Gambia	- 1 [a]	2 [a]	24 [a]	7 [a]	10 [a]	13 [a]
Ghana	137	139	156	- [a]	- [a]	- [a]
Guinea	83	98	102 [a]	..	..	..
Guinea-Bissau	4	2	10 [a]	1	- 8	- 4 [a]
Liberia	372 [a]	207 [a]	194 [a]	80 [a]	92 [a]	186 [a]
Mali	132	101	159 [a]	1	1	2 [a]
Mauritania	214 [a]	5 [a]	115 [a]	- 1 [a]	..	..

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Annex table B.1. FDI flows, by region and economy, 2003-2005 (continued)
(Millions of dollars)

Host region/economy	FDI inflows			FDI outflows		
	2003	2004	2005	2003	2004	2005
Niger	11	20	12 [a]	-	7	3 [a]
Nigeria	2 171	2 127	3 403	167	261	200
Senegal	52	77	54 [a]	3	13	30 [a]
Sierra Leone	3	26	27	..	..	..
Togo	34	59	49 [a]	- 6	- 13	- 10 [a]
Central Africa	**6 340**	**4 584**	**4 618**	**4**	**40**	**1**
Angola	3 505	1 449	- 24	24	35	29 [a]
Cameroon	-	-	18 [a]	36 [a]	..	..
Central African Republic	3	- 13	6 [a]	-	..	..
Chad	713	478	705 [a]	-	..	..
Congo	323	668	402 [a]	2	..	..
Congo, Democratic Republic of	158 [a]	15 [a]	1 344 [a]	..	..	..
Equatorial Guinea	1 431	1 664	1 860 [a]	-	..	..
Gabon	206	323	300 [a]	- 57	5 [a]	- 28 [a]
Sao Tome and Principe	1 [a]	- 2 [a]	7 [a]	..	..	..
East Africa	**2 050**	**1 936**	**1 651**	**5**	**44**	**66**
Burundi	-	- 2 [a]	- 1 [a]	-	..	..
Comoros	1	- [a]	1 [a]	..	..	..
Djibouti	14	39	23	..	..	..
Eritrea	22 [a]	- 8 [a]	11 [a]	..	..	..
Ethiopia	465	545	205 [a]	..	..	..
Kenya	82	46	21	2	4	10
Madagascar	95	53	48 [a]	..	..	..
Malawi	4 [a]	- 1 [a]	3 [a]	..	..	..
Mauritius	63	14	24	- 6	32	48
Mozambique	337	245	108	..	..	..
Rwanda	5	8	8	..	..	..
Seychelles	58	37	82	8	8	8
Somalia	- 1 [a]	21 [a]	24 [a]	..	..	..
Uganda	202	222	258	..	..	..
United Republic of Tanzania	527	470	473	..	..	..
Zambia	172	239	259	..	..	..
Zimbabwe	4	9	103	-	-	1
Southern Africa	**1 281**	**1 530**	**7 108**	**750**	**1 292**	**134**
Botswana	418	391	346	206	- 39	57
Lesotho	42	53	47	-	-	..
Namibia	149	226	349	- 10	- 22	- 12
South Africa	734	799	6 379	565	1 352	68
Swaziland	- 61	60	- 14	- 11	1	21
Latin America and the Caribbean	**46 137**	**100 506**	**103 663**	**15 412**	**27 502**	**32 825**
South and Central America	**40 244**	**58 956**	**65 428**	**9 104**	**17 332**	**19 840**
South America	**23 994**	**37 419**	**44 697**	**4 968**	**11 382**	**11 966**
Argentina	1 652	4 274	4 662	774	442	1 157
Bolivia	197	65	- 277	3	3	3
Brazil	10 144	18 146	15 066	249	9 807	2 517
Chile	4 307	7 173	6 667	1 606	1 527	2 146
Colombia	1 758	3 117	10 192	938	142	4 623
Ecuador	1 555	1 160	1 913 [a]	..	..	..
Guyana	26	30	77	..	..	..
Paraguay	21	41	219 [a]	6	6	5 [a]
Peru	1 335	1 599	2 579	60	- 215 [a]	60 [a]
Suriname	- 76	- 37	41 [a]	..	..	..
Uruguay	416	332	600	15	18	- 4
Venezuela	2 659	1 518	2 957	1 318	- 348	1 460
Central America	**16 250**	**21 537**	**20 730**	**4 136**	**5 951**	**7 874**
Belize	- 1	128	107 [a]	-	-	- [a]
Costa Rica	575	617	653	27	61	- 43
El Salvador	142	376	518	19	- 53	217
Guatemala	131	155	208	2 [a]	..	..
Honduras	247	325	272	20	26	28
Mexico	14 184	18 674	18 055	1 253	4 432	6 171
Nicaragua	201	250	241	10 [a]	..	..
Panama	771	1 012	677 [a]	2 804 [a]	1 485 [a]	1 500 [a]
Caribbean and other America	**5 893**	**41 550**	**38 235**	**6 308**	**10 169**	**12 985**

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Annex table B.1. FDI flows, by region and economy, 2003-2005 (continued)
(Millions of dollars)

Host region/economy	FDI inflows			FDI outflows		
	2003	2004	2005	2003	2004	2005
Anguilla	34	92	103	..	..	..
Antigua and Barbuda	179	91	129	..	..	..
Aruba	156	143	119	2	- 1	5
Bahamas	190	274	360	..	..	..
Barbados	58	- 12	159 [a]	1	4	3 [a]
Bermuda	2 292 [a]	14 772 [a]	13 615 [a]	- 4 175 [a]	- 538 [a]	- 5 473 [a]
British Virgin Islands	3 111 [a]	17 580 [a]	9 620 [a]	5 285 [a]	5 880 [a]	15 994 [a]
Cayman Islands	- 2 575 [a]	5 969 [a]	11 222 [a]	4 892 [a]	4 679 [a]	2 241 [a]
Cuba	- 9 [a]	4 [a]	- 1 [a]	..	..	..
Dominica	30	25	27	..	..	..
Dominican Republic	613	758	899	- 38 [a]	..	..
Grenada	91	55	28	..	..	..
Haiti	14	6	10	..	..	..
Jamaica	721	602	601 [a]	116	91	94 [a]
Montserrat	2	3	1	..	..	..
Netherlands Antilles	- 81	- 26	48 [a]	- 1	25	1 [a]
Saint Kitts and Nevis	78	53	50	..	..	..
Saint Lucia	112	84	112	..	..	..
Saint Vincent and the Grenadines	55	66	34	..	..	..
Trinidad and Tobago	808	1 001	1 100 [a]	225	29	120 [a]
Turks and Caicos Islands	14 [a]	- 15 [a]	..	..	..	..
Asia and Oceania	**110 489**	**157 328**	**199 951**	**18 995**	**83 446**	**83 584**
Asia	**110 137**	**156 622**	**199 554**	**18 979**	**83 429**	**83 557**
West Asia	**12 314**	**18 581**	**34 461**	**- 2 241**	**7 427**	**15 942**
Bahrain	517	865	1 049	741	1 036	1 123
Iran, Islamic Republic of	482 [a]	100 [a]	30 [a]	- 356 [a]	19 [a]	76 [a]
Iraq	- [a]	90 [a]	300 [a]	..	..	..
Jordan	436	651	1 532	-	-	-
Kuwait	- 67	24	250	- 4 962	2 528	4 709
Lebanon	2 860	1 899	2 573	611	827	715
Oman	489	200	715	153	250	44
Palestinian Territory	.. [a]	- 3 [a]	..	..	..	..
Qatar	625 [a]	1 199 [a]	1 469 [a]	- 2 [a]	192 [a]	352 [a]
Saudi Arabia	778	1 942	4 628	83 [a]	709 [a]	1 183 [a]
Syrian Arab Republic	180	275	500	..	..	..
Turkey	1 752	2 837	9 681	499	859	1 078
United Arab Emirates	4 256	8 359	12 000 [a]	991	1 007	6 661 [a]
Yemen	6	144	- 266	..	..	..
South, East and South-East Asia	**97 823**	**138 041**	**165 093**	**21 221**	**76 002**	**67 615**
East Asia	**72 174**	**105 074**	**118 192**	**14 441**	**59 211**	**54 189**
China	53 505	60 630	72 406	- 152	1 805	11 306
Hong Kong, China	13 624	34 032	35 897	5 492	45 716	32 560
Korea, Democratic People's Republic of	158 [a]	197 [a]	113 [a]	- 1 [a]	2 [a]	..
Korea, Republic of	3 892	7 727	7 198	3 426	4 658	4 312
Macao, China	411	498	770 [a]	- 5	- 116	- 17 [a]
Mongolia	132	93	182	..	..	..
Taiwan Province of China	453	1 898	1 625	5 682	7 145	6 028
South Asia	**5 729**	**7 301**	**9 765**	**1 378**	**2 092**	**1 456**
Afghanistan	2 [a]	1 [a]	1 [a]	..	..	..
Bangladesh	350	460	692	6	6	10 [a]
Bhutan	1 [a]	1 [a]	1 [a]	..	..	..
India	4 585	5 474	6 598	1 325	2 024	1 364
Maldives	14	15	14 [a]	..	..	..
Nepal	15	-	5 [a]	..	..	..
Pakistan	534	1 118	2 183	19	56	44
Sri Lanka	229	233	272	27	6	38
South-East Asia	**19 920**	**25 666**	**37 136**	**5 402**	**14 700**	**11 970**
Brunei Darussalam	3 375	212	275	76 [a]	4 [a]	..
Cambodia	84	131	381	10	10	6
Indonesia	- 597	1 896	5 260	15 [a]	3 408	3 065
Lao People's Democratic Republic	19	17	28	- [a]	..	..
Malaysia	2 473	4 624	3 967	1 370	2 061	2 971
Myanmar	291 [f]	251 [f]	300 [a]	..	..	..

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Annex table B.1. FDI flows, by region and economy, 2003-2005 (concluded)
(Millions of dollars)

Host region/economy	FDI inflows			FDI outflows		
	2003	2004	2005	2003	2004	2005
Philippines	491	688	1 132	303	579	162
Singapore	10 376	14 820	20 083	3 143	8 512	5 519
Thailand	1 952	1 414	3 687	486	125	246
Timor-Leste	5 [a]	2 [a]	3 [a]	..	..	..
Viet Nam	1 450	1 610	2 020	..	..	..
Oceania	**352**	**705**	**397**	**16**	**17**	**27**
Cook Islands	..	- 1 [a]	..	- [a]	2 [a]	- [a]
Fiji	26	94	- 4	4	3	10
French Polynesia	58	6	45 [a]	..	..	..
Kiribati	16	19	17 [a]	..	..	..
Marshall Islands	5 [a]	513 [a]	157 [a]	..	..	..
Nauru	2 [a]	1 [a]	1 [a]	..	..	..
New Caledonia	116	27	122 [a]	14	11	10 [a]
Palau	2 [a]	7 [a]	3 [a]	..	..	..
Papua New Guinea	101	26	32	- 3	-	6
Samoa	1 [a]	- 11 [a]	- 4 [a]	..	..	..
Solomon Islands	- 2	1 [a]	- 1 [a]	..	..	..
Tokelau	- [a]	- [a]	- [a]	..	..	..
Tonga	12 [a]	1 [a]	5 [a]	..	..	..
Tuvalu	- [a]	- [a]	8 [a]	..	..	..
Vanuatu	15	22	15 [a]	1	1 [a]	1 [a]
South-East Europe and CIS	**24 192**	**39 577**	**39 679**	**10 731**	**13 973**	**15 056**
South-East Europe	**8 457**	**13 283**	**12 445**	**174**	**201**	**496**
Albania	178	332	260	..	..	..
Bosnia and Herzegovina	381	606	298	..	- 2	3 [a]
Bulgaria	2 097	3 443	2 223	27	- 217	316
Croatia	2 133	1 262	1 695	108	348	187
Macedonia, TFYR	95	157	100	-	1	3
Romania	2 213	6 517	6 388	39	70	- 13
Serbia and Montenegro	1 360	966	1 481	..	..	..
CIS	**15 736**	**26 295**	**27 234**	**10 558**	**13 772**	**14 560**
Armenia	157	217	220	-	2	7 [a]
Azerbaijan	3 285	3 556	1 680	933	1 205	1 221
Belarus	172	164	305	2	1	3
Georgia	340	499	450	4	10	- 89
Kazakhstan	2 092	4 113	1 738	- 121	- 1 279	17
Kyrgyzstan	46	175	47	-	44	-
Moldova,Republic of	78	154	225	-	3	-
Russian Federation	7 958	15 444	14 600	9 727	13 782	13 126
Tajikistan	14	272	54	..	..	..
Turkmenistan	100 [a]	- 15 [a]	62 [a]	..	..	..
Ukraine	1 424	1 715	7 808	13	4	275
Uzbekistan	70 [a]	1 [a]	45 [a]	..	..	..
Memorandum						
Least developed countries [b]	10 868	8 740	9 680	128	144	264
Major pertoleum exporters [c]	20 411	22 894	35 738	- 1 506	9 147	19 156
All developing economies, excluding China	121 633	214 402	261 879	35 719	111 028	106 157
EU-15	240 572	185 227	387 858	282 188	330 324	548 958
Landlocked developing countries	8 463	10 972	6 447	1 021	- 53	1 338
Small island developing States	14 189	19 689	25 418	4 195	9 734	6 935
Euro zone (of EU)	216 213	127 126	204 631	197 795	224 839	412 593

Source: UNCTAD, FDI/TNC database.

a Estimates. For details, see "Definitions and Sources" in annex B.

b Least developed countries include: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.

c Oil-exporting countries include: Algeria, Angola, Bahrain, Brunei Darussalam, Congo, Gabon, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates, Venezuela and Yemen.

Annex table B.2. FDI stock, by region and economy, 1990, 2000, 2005 [a]
(Millions of dollars)

Region/economy	FDI inward stock			FDI outward stock		
	1990	2000	2005	1990	2000	2005
World	**1 789 303**	**5 802 991**	**10 129 739**	**1 791 092**	**6 471 435**	**10 671 889**
Developed economies	**1 418 867**	**3 976 233**	**7 117 110**	**1 642 187**	**5 578 341**	**9 271 932**
Europe	**815 205**	**2 297 802**	**4 731 293**	**887 324**	**3 643 046**	**6 244 371**
European Union	**768 160**	**2 179 706**	**4 499 128**	**810 277**	**3 050 067**	**5 475 025**
Austria	10 972	30 431	61 344	4 747	24 821	67 243
Belgium and Luxembourg	58 388	195 219	..	40 636	179 773	..
Belgium	..	..	492 330	..	..	386 294
Cyprus	.. [a,b]	2 910 [a]	8 768	8 [a]	560 [a]	3 038
Czech Republic	1 363 [a]	21 644	59 459	..	738	4 239
Denmark	9 192	73 574	101 568	7 342	73 106	118 104
Estonia	..	2 645	12 274	..	259	1 968
Finland	5 132	24 272	52 821	11 227	52 109	74 413
France	86 845	259 776	600 821	110 126	445 091	853 159
Germany	111 231	271 611	502 790 [a]	151 581	541 861	967 298 [a]
Greece	5 681 [a]	14 113	29 312	2 882 [a]	6 094	13 345
Hungary	569	22 870	61 221	197	1 280	6 604
Ireland	56 512 [a]	127 089	211 190 [a]	17 204 [a]	27 925	117 909 [a]
Italy	59 998	121 170	219 868	60 184	180 275	293 480
Luxembourg	..	23 492	69 383 [a]	..	7 927	49 415 [a]
Latvia	..	2 084	4 783	..	24	294
Lithuania	..	2 334	6 461	..	29	708
Malta	465 [a]	2 385	4 195	..	203	859
Netherlands	68 731	243 733	463 416	106 899	305 461	641 259
Poland	109	34 227	93 329 [a]	408 [a]	1 018	4 671 [a]
Portugal	10 571	32 044	64 517	900	19 552	44 457
Slovakia	81	3 733	15 324 [c]	..	325	538 [c]
Slovenia	665 [a]	2 894	8 064 [a]	258	768	3 607 [a]
Spain	65 916	156 348	367 656	15 652	167 719	381 319
Sweden	12 636	93 970	171 517	50 720	123 230	202 805
United Kingdom	203 905	438 631	816 716	229 307	897 845	1 237 997
Other developed Europe	**47 045**	**118 095**	**232 165**	**77 047**	**592 979**	**769 346**
Gibraltar	263 [a]	529 [a]	980 [a]	..	..	..
Iceland	146	497	3 842	76	664	9 479
Norway	12 391	30 265	54 853 [a]	10 884	362 574	365 113 [a]
Switzerland	34 245	86 804	172 489	66 087	229 741	394 754
North America	**507 754**	**1 469 583**	**1 982 607**	**515 328**	**1 553 886**	**2 450 647**
Canada	112 843	212 716	356 858	84 807	237 639	399 363
United States	394 911	1 256 867	1 625 749 [a]	430 521	1 316 247	2 051 284 [a]
Other developed countries	**95 908**	**208 849**	**403 210**	**239 534**	**381 409**	**576 914**
Australia	73 644	111 138	210 890	30 507	85 385	159 191
Israel	4 476	22 573	36 343	1 188	9 091	20 096
Japan	9 850	50 322	100 899	201 441	278 442	386 581
New Zealand	7 938	24 815	55 077	6 398 [a]	8 491	11 046
Developing economies	**370 314**	**1 756 452**	**2 756 992**	**148 715**	**871 040**	**1 273 612**
Africa	**58 443**	**151 003**	**264 495**	**19 888**	**44 710**	**53 987**
North Africa	**23 420**	**43 888**	**85 279**	**1 836**	**3 293**	**4 433**
Algeria	1 521 [a]	3 497 [a]	8 272 [a]	183 [a]	249 [a]	652 [a]
Egypt	11 043 [a]	18 254 [a]	28 882	163 [a]	655 [a]	967 [a]
Libyan Arab Jamahiriya	678 [a]	472 [a]	533 [a]	1 321 [a]	1 943 [a]	1 911 [a]
Morocco	2 508 [a]	8 722 [a]	22 818 [a]	155 [a]	412 [a]	849 [a]
Sudan	55 [a]	1 398 [a]	7 850 [a]	..	..	..
Tunisia	7 615	11 545	16 924	15	33	53
Other Africa	**35 023**	**107 115**	**179 216**	**18 051**	**41 417**	**49 554**
West Africa	**13 768**	**33 558**	**50 440**	**1 862**	**6 960**	**8 372**
Benin	.. [a,b]	213	290 [a]	2 [a]	36 [a]	39 [a]
Burkina Faso	39 [a]	28	68 [a]	4 [a]	20 [a]	12 [a]
Cape Verde	4 [a]	173 [a]	247 [a]	1 [a]	7 [a]	7 [a]
Côte d'Ivoire	975 [a]	2 483	4 355 [a]	38 [a]	628 [a]	612 [a]
Gambia	157	216	289 [a]	22	44	76 [a]
Ghana	319 [a]	1 493 [a]	2 073 [a]	..	150 [a]	151 [a]
Guinea	69 [a]	263 [a]	578 [a]	..	7 [a]	19 [a]
Guinea-Bissau	8 [a]	38 [a]	58 [a]	..	..	.. [a, b]
Liberia	2 732 [a]	3 247 [a]	4 031 [a]	453 [a]	1 524 [a]	1 954 [a]
Mali	229 [a]	132	915 [a]	22 [a]	63 [a]	86 [a]
Mauritania	59 [a]	140 [a]	684 [a]	3 [a]	5 [a]	4 [a]
Niger	286 [a]	45	127 [a]	54 [a]	144 [a]	149 [a]
Nigeria	8 539 [a]	23 786 [a]	34 806 [a]	1 207 [a]	4 132 [a]	5 026 [a]

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Annex table B.2. FDI stock, by region and economy, 1990, 2000, 2005 [a] (continued)
(Millions of dollars)

Region/economy	FDI inward stock			FDI outward stock		
	1990	2000	2005	1990	2000	2005
Senegal	258 [a]	832 [a]	1 126 [a]	49 [a]	121 [a]	193 [a]
Sierra Leone	.. [a,b]	40 [a]	108 [a]	..	..	..
Togo	268 [a]	427 [a]	686 [a]	8 [a]	79 [a]	45 [a]
Central Africa	**4 769**	**13 133**	**32 204**	**373**	**701**	**802**
Angola	1 025 [a]	7 977 [a]	13 413 [a]	1 [a]	49 [a]	181 [a]
Cameroon	1 044 [a]	1 053 [a]	1 072 [a]	150 [a]	261 [a]	332 [a]
Central African Republic	95 [a]	104 [a]	112 [a]	18 [a]	43 [a]	45 [a]
Chad	250 [a]	577 [a]	3 857 [a]	37 [a]	70 [a]	70 [a]
Congo	575 [a]	1 893 [a]	3 500 [a]	..	..	..
Congo, Democratic Republic of	546 [a]	617 [a]	2 333 [a]	..	..	..
Equatorial Guinea	25 [a]	1 128 [a]	7 351 [a]	- [a]	.. [a, b]	3 [a]
Gabon	1 208 [a]	.. [a,b]	542 [a]	167 [a]	280 [a]	172 [a]
Sao Tome and Principe	- [a]	11 [a]	24 [a]	..	..	..
East Africa	**3 504**	**13 024**	**22 335**	**247**	**779**	**943**
Burundi	30 [a]	48 [a]	45 [a]	- [a]	2 [a]	2 [a]
Comoros	17 [a]	21 [a]	24 [a]	1 [a]	2 [a]	2 [a]
Djibouti	13 [a]	40 [a]	108 [a]	..	..	..
Eritrea	..	337 [a]	395 [a]	..	..	..
Ethiopia	124 [a]	933 [a]	2 752 [a]	..	..	..
Kenya	668 [a]	931 [a]	1 113 [a]	99 [a]	115 [a]	139 [a]
Madagascar	107 [a]	354 [a]	651 [a]	1 [a]	11 [a]	11 [a]
Malawi	228 [a]	358 [a]	503 [a]	..	8 [a]	13 [a]
Mauritius	168 [a]	672 [a]	777 [a]	1 [a]	132 [a]	217 [a]
Mozambique	42 [a]	1 094 [a]	2 386 [a]	1 [a]	2 [a]	2 [a]
Rwanda	213 [a]	253 [a]	279 [a]	2 [a]	4 [a]	5 [a]
Seychelles	204 [a]	537 [a]	828 [a]	61 [a]	136 [a]	177 [a]
Somalia	.. [a,b]	4 [a]	48 [a]	..	..	..
Uganda	6 [a]	807	1 830	..	133 [a]	133 [a]
United Republic of Tanzania	388 [a]	3 038	6 029	..	..	..
Zambia	1 022 [a]	2 360 [a]	3 183 [a]	..	..	..
Zimbabwe	277 [a]	1 238 [a]	1 383 [a]	80 [a]	234 [a]	242 [a]
Southern Africa	**12 982**	**47 400**	**74 237**	**15 570**	**32 977**	**39 437**
Botswana	1 309	1 827	1 084	447	517	791
Lesotho	83 [a]	330 [a]	527 [a]	- [a]	2 [a]	2 [a]
Namibia	2 047	1 265	2 440	80	45	68
South Africa	9 207	43 442	69 372 [a]	15 004	32 319	38 503 [a]
Swaziland	336	537	814	38	95	73
Latin America and the Caribbean	**118 097**	**539 030**	**937 420**	**60 598**	**211 726**	**345 320**
South and Central America	**96 455**	**404 831**	**690 923**	**56 315**	**108 508**	**178 194**
South America	**68 037**	**289 678**	**451 886**	**49 335**	**95 934**	**136 576**
Argentina	8 778 [a]	67 601	55 245 [a]	6 057 [a]	21 141	22 633 [a]
Bolivia	1 026	5 188	4 548	7 [a]	29	87
Brazil	37 243	103 015	201 183 [c]	41 044 [a]	51 946 [a]	71 556 [c]
Chile	10 067	45 753	73 620	154 [a]	11 154	21 286
Colombia	3 500	10 991	36 688	402	2 989	8 876
Ecuador	1 626	7 081	14 395 [a]	16 [a]	152 [a]	152 [a]
Falkland Islands	- [a]	58 [a]	76 [a]	..	..	..
Guyana	45 [a]	756 [a]	989 [a]	..	1 [a]	1 [a]
Paraguay	417 [a]	1 325	1 160	134 [a]	214	154 [a]
Peru	1 330	11 062	15 889	112	505	1 047
Suriname	.. [a,b]	.. [a,b]	.. [a,b]	..	..	..
Uruguay	671 [a]	2 088	2 748 [a]	186 [a]	126 [a]	118 [a]
Venezuela	3 865	35 480	46 237	1 221	7 676	10 665
Central America	**28 418**	**115 153**	**239 037**	**6 981**	**12 575**	**41 618**
Belize	89 [a]	300 [a]	617 [a]	20 [a]	43 [a]	44 [a]
Costa Rica	1 324 [a]	2 709	5 097 [a]	44 [a]	90	170 [a]
El Salvador	212	1 973	4 173	56 [a]	74	310
Guatemala	1 734	3 420	4 649 [a]	..	71 [a]	106 [a]
Honduras	293	1 392	2 604	..	..	..
Mexico	22 424	97 170	209 564	2 672 [a]	8 273	28 040
Nicaragua	145 [a]	1 414 [a]	2 461 [a]	..	19 [a]	57 [a]
Panama	2 198 [a]	6 775	9 873 [a]	4 188 [a]	4 004 [a]	12 891 [a]
Caribbean and other America	**21 642**	**134 199**	**246 497**	**4 282**	**103 217**	**167 126**
Anguilla	11 [a]	234 [a]	535 [a]	..	..	..
Antigua and Barbuda	290 [a]	644 [a]	1 235 [a]	..	..	..
Aruba	145 [a]	469	958 [a]	490 [a]	684 [a]	691 [a]
Bahamas	586 [a]	1 606 [a]	2 685 [a]	612 [a]	1 385 [a]	1 385 [a]

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Annex table B.2. FDI stock, by region and economy, 1990, 2000, 2005 [a] (continued)
(Millions of dollars)

Region/economy	FDI inward stock			FDI outward stock		
	1990	2000	2005	1990	2000	2005
Barbados	171	308	549 [a]	23	41	50 [a]
Bermuda	13 849 [a]	59 072 [a]	102 173 [a]	1 550 [a]	14 942 [a]	5 982 [a]
British Virgin Islands	126 [a]	32 093 [a]	67 359 [a]	875 [a]	64 483 [a]	123 167 [a]
Cayman Islands	1 749 [a]	24 973 [a]	43 703 [a]	648 [a]	20 553 [a]	33 747 [a]
Cuba	2 [a]	74 [a]	75 [a]	..	..	..
Dominica	66 [a]	282 [a]	400 [a]	..	..	..
Dominican Republic	572	1 673 [a]	5 229 [a]	..	113 [a]	59 [a]
Grenada	70 [a]	364 [a]	660 [a]	..	..	..
Haiti	149 [a]	95	128 [a]	..	2 [a]	2 [a]
Jamaica	790 [a]	3 317 [a]	6 335 [a]	42 [a]	709 [a]	1 174 [a]
Montserrat	40 [a]	76 [a]	83 [a]	..	..	..
Netherlands Antilles	408 [a]	78 [a]	23 [a]	21 [a]	11 [a]	38 [a]
Saint Kitts and Nevis	160 [a]	505 [a]	857 [a]	..	..	..
Saint Lucia	316 [a]	825 [a]	1 253 [a]	..	..	..
Saint Vincent and the Grenadines	48 [a]	500 [a]	710 [a]	..	..	..
Trinidad and Tobago	2 093	7 008 [a]	11 543 [a]	21 [a]	293 [a]	832 [a]
Turks and Caicos Islands	2 [a]	4 [a]	3 [a]	..	..	..
Asia and Oceania	**193 774**	**1 066 419**	**1 555 076**	**68 230**	**614 605**	**874 305**
Asia	**191 261**	**1 062 204**	**1 550 049**	**68 179**	**614 307**	**873 917**
West Asia	**39 428**	**62 469**	**150 177**	**7 585**	**11 119**	**36 305**
Bahrain	552	5 906	8 276	719	1 752	5 058
Iran, Islamic Republic of	2 039 [a]	2 474 [a]	3 695 [a]	..	411 [a]	163 [a]
Iraq	.. [a,b]	.. [a,b]	357 [a]	..	..	..
Jordan	615 [a]	2 284 [a]	5 116 [a]	16 [a]	.. [a, b]	.. [a, b]
Kuwait	37 [a]	608 [a]	708 [a]	3 662	1 677	5 403
Lebanon	53 [a]	4 988 [a]	15 107 [a]	43 [a]	586 [a]	2 741 [a]
Oman	1 706 [a]	2 506 [a]	4 025 [a]	10 [a]	33 [a]	480 [a]
Palestinian Territory	..	932 [a]	944 [a]	..	..	..
Qatar	63 [a]	1 912 [a]	6 124 [a]	..	74 [a]	612 [a]
Saudi Arabia	21 894 [a]	17 577	26 066	1 873 [a]	2 204 [a]	3 711 [a]
Syrian Arab Republic	374 [a]	1 699 [a]	8 439 [a]	..	..	..
Turkey	11 194 [a]	19 209	42 170 [a]	1 157 [a]	3 668	8 138 [a]
United Arab Emirates	751 [a]	1 061 [a]	28 168 [a]	99 [a]	819 [a]	10 087 [a]
Yemen	180	1 336	983 [a]	5 [a]	.. [a, b]	9 [a]
South, East and South-East Asia	**151 833**	**999 735**	**1 399 872**	**60 594**	**603 187**	**837 611**
East Asia	**84 065**	**707 900**	**962 909**	**49 032**	**509 636**	**651 012**
China	20 691 [a]	193 348	317 873 [a]	4 455 [a]	27 768 [a]	46 311 [a]
Hong Kong, China	45 073 [a]	455 469	532 956	11 920 [a]	388 380	470 458
Korea, Democratic People's Republic of	572 [a]	1 046 [a]	1 495 [a]	..	..	..
Korea, Republic of	5 186	37 474	63 199	2 301	26 833	36 478 [a]
Macao, China	2 809 [a]	2 801 [a]	4 748 [a]	..	..	472 [a]
Mongolia	- [a]	182 [a]	709 [a]	..	..	..
Taiwan Province of China	9 735 [a]	17 581	41 929 [a]	30 356 [a]	66 655	97 293 [a]
South Asia	**4 602**	**28 414**	**61 982**	**423**	**2 503**	**10 617**
Afghanistan	12 [a]	17 [a]	22 [a]	..	..	..
Bangladesh	324 [a]	2 162	3 508	46 [a]	69	104 [a]
Bhutan	2 [a]	12 [a]	16 [a]	..	..	..
India	1 657 [a]	17 517	45 274	124 [a]	1 859	9 569
Maldives	25 [a]	119 [a]	184 [a]	..	..	..
Nepal	12 [a]	72 [a]	129 [a]	..	..	..
Pakistan	1 892	6 919	10 401	245	489	775
Sri Lanka	679 [a]	1 596	2 447	8 [a]	86 [a]	169 [a]
South-East Asia	**63 165**	**263 421**	**374 981**	**11 138**	**91 048**	**175 982**
Brunei Darussalam	33 [a]	3 868 [a]	9 292 [a]	..	447 [a]	559 [a]
Cambodia	38 [a]	1 580	2 471	..	193	262
Indonesia	8 855 [a]	24 780 [a]	21 118 [a]	86 [a]	6 940 [a]	13 735 [a]
Lao People's Democratic Republic	13 [a]	556 [a]	669 [a]	..	28 [a]	28 [a]
Malaysia	10 318	52 747 [a]	47 771 [a]	2 671	22 874	44 480 [a]
Myanmar	281 [e]	3 865 [e]	4 862 [e]	..	..	..
Philippines	3 268	12 810	14 028 [a]	155	1 597	2 039 [a]
Singapore	30 468	112 633	186 926 [a]	7 808	56 766	110 932 [a]
Thailand	8 242	29 915	56 542	418	2 203	3 947
Timor-Leste	- [a]	72 [a]	167 [a]	..	..	..
Viet Nam	1 650 [a]	20 596	31 135 [a]	..	..	..

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Annex table B.2. FDI stock, by region and economy, 1990, 2000, 2005 [a] (concluded)
(Millions of dollars)

Region/economy	FDI inward stock			FDI outward stock		
	1990	2000	2005	1990	2000	2005
Oceania	**2 513**	**4 215**	**5 028**	**51**	**298**	**389**
Cook Islands	14 [a]	34 [a]	34 [a]	..	..	..
Fiji	284	388	327 [a]	25 [a]	35	54 [a]
French Polynesia	69 [a]	139 [a]	240 [a]	..	..	..
Kiribati	- [a]	69 [a]	151 [a]	..	..	..
New Caledonia	70 [a]	129 [a]	452 [a]	..	..	..
Niue	..	- [a]	8 [a]	..	..	..
Northern Mariana Islands	304 [a]	767 [a]	767 [a]	..	..	..
Palau	..	97 [a]	121 [a]	..	..	..
Papua New Guinea	1 582	2 007 [a]	2 246 [a]	26 [a]	263 [a]	321 [a]
Samoa	9 [a]	53 [a]	40 [a]	..	..	..
Solomon Islands	70 [a]	150 [a]	135 [a]	..	..	..
Tokelau	..	- [a]	1 [a]	..	..	..
Tonga	1 [a]	21 [a]	40 [a]	..	..	..
Tuvalu	..	.. [a,b]	33 [a]	..	..	..
Vanuatu	110 [a]	361 [a]	430 [a]	..	..	13 [a]
South-East Europe and CIS	**121**	**70 306**	**255 713**	**191**	**22 054**	**126 345**
South-East Europe	**112**	**15 083**	**56 562**	**191**	**1 170**	**2 625**
Albania	..	568 [a]	1 680 [a]	..	82 [a]	82 [a]
Bosnia and Herzegovina	..	398 [a]	2 067 [a]	..	40 [a]	41 [a]
Bulgaria	112 [a]	2 257	9 173	124 [a]	87	127
Croatia	..	3 523	12 516	..	825	2 127
Macedonia, TFYR	..	538	1 880 [a]	..	- [a]	5 [a]
Romania	-	6 480	23 818	66	136	242
Serbia and Montenegro	..	1 319 [a]	5 428 [a]	..	..	..
CIS	**9**	**55 223**	**199 151**	**-**	**20 884**	**123 719**
Armenia	9 [a]	632	1 225 [a]	..	3 [a]	32 [a]
Azerbaijan	..	3 735	13 876	..	474 [a]	3 686
Belarus	..	1 306	2 383	..	24	14
Georgia	..	730	2 320	..	..	..
Kazakhstan	..	10 078	25 152	..	16	.. [b]
Kyrgyzstan	..	447	522	..	33	60
Moldova,Republicof	..	439	1 129	..	23	28
Russian Federation	..	32 204	132 491 [a]	..	20 141	120 417 [a]
Tajikistan	..	136 [a]	522 [a]	..	..	..
Turkmenistan	..	944 [a]	1 360 [a]	..	..	..
Ukraine	..	3 875	17 209	..	170	466
Uzbekistan	..	699 [a]	964 [a]	..	..	..
Memorandum						
Least developed countries [f]	9 426	38 100	76 835	730	2 665	3 470
Major pertoleum exporters [g]	56 364	143 667	236 119	10 596	28 989	59 294
All developing economies, excluding China	349 624	1 563 104	2 439 119	144 260	843 272	1 227 301
EU-15, 1995	765 709	2 081 980	4 225 250	809 406	3 044 862	5 448 498
Landlocked developing countries	6 016	34 573	71 361	845	2 154	4 719
Small island developing States	38 984	141 374	234 269	9 872	62 377	121 056
Euro Zone (of EU)	481 588	1 280 587	3 135 449	481 402	1 770 908	3 889 591

Source: UNCTAD, FDI/TNC database.

[a] Estimates. For details, see "Definitions and Sources" in annex B.

[b] Negative stock value. However, this value is included in the regional and global total.

[c] As of September 2005.

[d] As of June.

[e] As of March.

[f] Least developed countries include: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.

[g] Major pertoleum exporters include: Algeria, Angola, Bahrain, Brunei Darussalam, Congo, Gabon, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates, Venezuela and Yemen.

Annex table B.3. FDI flows as a percentage of gross fixed capital formation, 2003-2005, and FDI stocks as a percentage of gross domestic product, 1990, 2000, 2005, by region and economy
(Per cent)

Region/economy		FDI flows as a percentage of GFCF			FDI stocks as a percentage of GDP		
		2003	2004	2005	1990	2000	2005
World							
	inward	**7.3**	**7.7**	**9.4**	**8.5**	**18.3**	**22.7**
	outward	***7.4***	***9.3***	***8.3***	***8.6***	***20.6***	***23.9***
Developed economies							
	inward	**6.4**	**6.3**	**8.0**	**8.2**	**16.2**	**21.4**
	outward	***9.2***	***10.9***	***9.5***	***9.6***	***22.8***	***27.9***
Europe							
	inward	**12.2**	**8.3**	**15.7**	**11.0**	**26.4**	**33.5**
	outward	***14.1***	***14.0***	***22.4***	***12.0***	***41.8***	***44.2***
European Union							
	inward	**11.8**	**8.6**	**16.1**	**10.9**	**26.3**	**33.5**
	outward	***13.3***	***13.4***	***21.1***	***11.5***	***36.8***	***40.7***
Austria							
	inward	13.0	6.0	14.1	6.6	15.7	20.0
	outward	*13.0*	*12.0*	*14.7*	*2.9*	*12.8*	*21.9*
Belgium and Luxembourg							
	inward	..	..	..	27.8	78.7	..
	outward	*..*	*..*	*..*	*19.4*	*72.5*	*..*
Belgium							
	inward	57.3	62.4	32.1	..	..	132.3
	outward	*66.8*	*49.8*	*31.0*	*..*	*..*	*103.8*
Cyprus							
	inward	39.0	37.8	39.0	.. [a]	31.9	52.7
	outward	*21.4*	*21.7*	*14.4*	0.1	*6.1*	*18.2*
Czech Republic							
	inward	8.6	17.2	34.0	3.7	38.9	48.1
	outward	*0.8*	*3.5*	*2.7*	*..*	*1.3*	*3.4*
Denmark							
	inward	6.3	- 22.7	10.6	6.9	46.5	39.1
	outward	*2.7*	*- 22.0*	*18.7*	*5.5*	*46.2*	*45.5*
Estonia							
	inward	34.6	32.9	79.1	..	48.4	93.6
	outward	*5.9*	*8.4*	*16.7*	*..*	*4.7*	*15.0*
Finland							
	inward	11.2	10.1	12.3	3.7	20.2	27.3
	outward	*- 7.7*	*- 3.1*	*7.3*	*8.2*	*43.5*	*38.5*
France							
	inward	12.5	8.0	15.5	7.1	19.6	28.5
	outward	*15.7*	*14.5*	*28.2*	*9.0*	*33.5*	*40.5*
Germany							
	inward	6.7	- 3.2	6.8	6.7	14.5	18.0
	outward	*1.4*	*0.4*	*9.5*	*9.1*	*29.0*	*34.6*
Greece							
	inward	2.9	4.0	1.1	6.8	12.4	13.2
	outward	*0.9*	*2.0*	*2.7*	*3.4*	*5.4*	*6.0*
Hungary							
	inward	11.6	20.4	26.5	1.6	49.0	55.9
	outward	*8.9*	*4.9*	*5.3*	*0.5*	*2.7*	*6.0*
Ireland							
	inward	63.4	24.6	- 42.3	119.5	133.8	105.7
	outward	*15.5*	*34.9*	*24.1*	*36.4*	*29.4*	*59.0*
Italy							
	inward	5.8	5.2	5.9	5.4	11.3	12.4
	outward	*3.2*	*5.9*	*11.8*	*5.5*	*16.8*	*16.6*
Luxembourg							
	inward	73.7	64.3	57.3	..	..	203.0
	outward	*- 1.0*	*68.9*	*45.6*	*..*	*..*	*144.6*
Latvia							
	inward	10.7	18.5	13.9	..	27.0	28.7
	outward	*1.3*	*2.7*	*3.0*	*..*	*0.3*	*1.8*
Lithuania							
	inward	4.6	15.8	17.7	..	20.5	25.1
	outward	*0.9*	*5.4*	*5.8*	*..*	*0.3*	*2.8*
Malta							
	inward	98.6	27.5	46.7	18.6	62.1	77.3
	outward	*56.6*	*-*	*- 2.2*	*..*	*5.3*	*15.8*
Netherlands							
	inward	21.2	0.4	36.0	23.3	65.8	74.1
	outward	*43.1*	*14.7*	*98.7*	*36.3*	*82.4*	*102.6*

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Annex table B.3. FDI flows as a percentage of gross fixed capital formation, 2003-2005 and FDI stocks as a percentage of gross domestic product, 1990, 2000, 2005, by region and economy (continued)
(Per cent)

Region/economy		FDI flows as a percentage of GFCF			FDI stocks as a percentage of GDP		
		2003	2004	2005	1990	2000	2005
Poland							
	inward	11.6	28.4	14.6	0.2	20.5	31.1
	outward	*0.8*	*1.8*	*2.7*	*0.6*	*0.6*	*1.6*
Portugal							
	inward	24.3	5.8	7.6	14.8	30.1	35.2
	outward	*22.7*	*19.6*	*2.8*	*1.3*	*18.4*	*24.2*
Slovakia							
	inward	9.0	12.4	15.7	0.5	18.4	32.8
	outward	*0.3*	*- 1.4*	*1.2*	*..*	*1.6*	*1.2*
Slovenia							
	inward	5.1	10.6	5.9	3.8	15.2	23.7
	outward	*7.2*	*7.0*	*6.7*	*1.5*	*4.0*	*10.6*
Spain							
	inward	10.9	8.5	7.0	12.5	26.9	32.6
	outward	*11.5*	*20.9*	*11.9*	*3.0*	*28.9*	*33.8*
Sweden							
	inward	10.3	22.4	22.1	5.3	39.2	47.8
	outward	*43.4*	*37.3*	*42.8*	*21.1*	*51.4*	*56.5*
United Kingdom							
	inward	5.8	16.2	45.0	20.6	30.5	37.1
	outward	*21.7*	*27.3*	*27.7*	*23.2*	*62.4*	*56.2*
Other developed Europe							
	inward	**18.8**	**3.1**	**8.6**	**12.9**	**27.6**	**33.8**
	outward	***28.6***	***26.7***	***46.8***	***21.3***	***139.1***	***112.0***
Iceland							
	inward	14.7	21.8	75.3	2.3	5.9	24.3
	outward	*17.2*	*86.8*	*216.3*	*1.2*	*7.9*	*59.9*
Norway							
	inward	8.9	5.4	6.2	10.7	18.1	18.5
	outward	*38.5*	*8.0*	*26.2*	*9.4*	*217.2*	*123.3*
Switzerland							
	inward	24.7	1.0	7.4	14.5	35.3	46.9
	outward	*23.1*	*35.7*	*54.8*	*28.0*	*93.4*	*107.4*
North America							
	inward	**2.8**	**5.1**	**4.9**	**8.0**	**14.0**	**14.6**
	outward	***6.9***	***10.9***	***0.8***	***8.1***	***14.8***	***18.0***
Canada							
	inward	4.5	0.8	14.6	19.7	29.8	31.6
	outward	*12.7*	*21.7*	*14.7*	*14.8*	*33.3*	*35.3*
United States							
	inward	2.6	5.5	4.0	6.9	12.9	13.0
	outward	*6.4*	*9.9*	*- 0.5*	*7.5*	*13.5*	*16.4*
Other developed countries							
	inward	**2.1**	**4.4**	**- 1.9**	**2.8**	**3.9**	**7.3**
	outward	***4.1***	***4.2***	***0.5***	***6.9***	***7.2***	***10.5***
Australia							
	inward	7.4	26.3	- 18.9	23.7	28.7	29.8
	outward	*11.9*	*11.2*	*- 22.4*	*9.8*	*22.0*	*22.5*
Israel							
	inward	20.0	8.5	25.9	7.9	18.7	29.4
	outward	*10.4*	*22.0*	*11.5*	*2.1*	*7.5*	*16.3*
Japan							
	inward	0.7	0.7	0.3	0.3	1.1	2.2
	outward	*3.0*	*3.0*	*4.3*	*6.6*	*5.9*	*8.5*
New Zealand							
	inward	20.2	11.1	6.2	18.2	47.6	50.7
	outward	*2.8*	*- 3.9*	*- 5.0*	*14.7*	*16.3*	*10.2*
Developing economies							
	inward	**9.3**	**10.7**	**12.8**	**9.8**	**26.3**	**27.0**
	outward	***1.6***	***4.8***	***5.1***	***4.3***	***13.4***	***12.8***
Africa							
	inward	**15.8**	**11.8**	**19.1**	**12.2**	**26.0**	**28.2**
	outward	***1.0***	***1.4***	***0.7***	***4.8***	***8.2***	***6.2***
North Africa							
	inward	**10.8**	**9.9**	**19.5**	**12.6**	**17.1**	**24.8**
	outward	***0.2***	***0.3***	***0.7***	***1.1***	***1.3***	***1.4***
Algeria							
	inward	4.0	4.2	4.9	2.5	6.4	8.1
	outward	*0.1*	*1.2*	*0.1*	*0.3*	*0.5*	*0.6*

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Annex table B.3. FDI flows as a percentage of gross fixed capital formation, 2003-2005 and FDI stocks as a percentage of gross domestic product, 1990, 2000, 2005, by region and economy (continued)
(Per cent)

Region/economy		FDI flows as a percentage of GFCF			FDI stocks as a percentage of GDP		
		2003	2004	2005	1990	2000	2005
Egypt							
	inward	2.0	16.8	33.6	26.4	17.7	31.0
	outward	*0.2*	*1.2*	*0.6*	*0.4*	*0.6*	*1.0*
Libyan Arab Jamahiriya							
	inward	5.2	- 12.2	8.6	2.4	1.4	1.4
	outward	*2.3*	*- 9.3*	*4.5*	*4.7*	*5.7*	*4.9*
Morocco							
	inward	23.1	8.7	22.1	9.7	26.2	43.9
	outward	*0.2*	*0.3*	*1.3*	*0.6*	*1.2*	*1.6*
Sudan							
	inward	41.8	35.8	52.2	0.3	12.1	28.3
	outward	*..*	*..*	*..*	*..*	*..*	*..*
Tunisia							
	inward	10.0	10.1	12.1	61.8	59.4	56.1
	outward	*0.1*	*0.1*	*0.2*	*0.1*	*0.2*	*0.2*
Other Africa							
	inward	**19.4**	**13.1**	**18.9**	**12.0**	**33.0**	**30.2**
	outward	***1.7***	***2.3***	***0.8***	***7.3***	***13.8***	***8.9***
West Africa							
	inward	**22.7**	**15.0**	**20.0**	**18.8**	**39.3**	**30.7**
	outward	***1.9***	***1.6***	***1.9***	***2.9***	***8.2***	***5.1***
Benin							
	inward	6.4	8.1	2.5	.. [a]	9.5	6.6
	outward	*-*	*- 0.2*	*-*	*0.1*	*1.6*	*0.9*
Burkina Faso							
	inward	3.4	1.3	1.6	1.4	1.3	1.2
	outward	*0.2*	*- 0.8*	*- 0.3*	*0.1*	*0.9*	*0.2*
Cape Verde							
	inward	6.4	6.9	5.9	1.2	32.0	24.9
	outward	*..*	*..*	*..*	*0.4*	*1.2*	*0.7*
Côte d'Ivoire							
	inward	12.8	15.5	10.1	8.2	23.2	26.9
	outward	*1.8*	*- 1.4*	*- 0.2*	*0.3*	*5.9*	*3.8*
Gambia							
	inward	- 1.6	2.2	23.1	47.0	51.3	62.9
	outward	*9.6*	*10.0*	*12.4*	*6.5*	*10.4*	*16.5*
Ghana							
	inward	7.8	5.6	6.0	5.1	30.0	19.4
	outward	*-*	*-*	*-*	*..*	*3.0*	*1.4*
Guinea							
	inward	23.1	24.1	23.9	2.4	8.5	17.5
	outward	*..*	*..*	*..*	*..*	*0.2*	*0.6*
Guinea-Bissau							
	inward	13.5	4.8	27.5	3.4	17.6	20.0
	outward	*1.7*	*- 21.6*	*- 9.9*	*..*	*..*	*..* [a]
Liberia							
	inward	967.9	340.8	304.9	710.6	599.5	832.6
	outward	*208.0*	*151.1*	*292.0*	*117.8*	*281.4*	*403.7*
Mali							
	inward	17.2	10.5	15.8	9.1	5.1	17.4
	outward	*0.2*	*0.1*	*0.2*	*0.9*	*2.4*	*1.6*
Mauritania							
	inward	81.9	1.4	33.3	5.8	15.1	35.3
	outward	*- 0.4*	*..*	*..*	*0.2*	*0.5*	*0.2*
Niger							
	inward	4.0	4.1	2.3	11.4	2.7	3.6
	outward	*-*	*1.5*	*0.6*	*2.2*	*8.7*	*4.3*
Nigeria							
	inward	32.4	20.5	31.2	26.3	48.6	35.1
	outward	*2.5*	*2.5*	*1.8*	*3.7*	*8.4*	*5.1*
Senegal							
	inward	3.6	4.3	2.9	4.5	19.0	13.5
	outward	*0.2*	*0.7*	*1.6*	*0.9*	*2.8*	*2.3*
Sierra Leone							
	inward	2.3	15.4	15.2	.. [a]	6.2	9.0
	outward	*..*	*..*	*..*	*..*	*..*	*..*

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Annex table B.3. FDI flows as a percentage of gross fixed capital formation, 2003-2005 and FDI stocks as a percentage of gross domestic product, 1990, 2000, 2005, by region and economy (continued)
(Per cent)

Region/economy		FDI flows as a percentage of GFCF			FDI stocks as a percentage of GDP		
		2003	2004	2005	1990	2000	2005
Togo							
	inward	9.9	13.6	10.7	17.1	32.2	32.5
	outward	*- 1.9*	*- 2.9*	*- 2.2*	*0.5*	*5.9*	*2.1*
Central Africa							
	inward	**69.2**	**42.6**	**40.0**	**10.5**	**37.5**	**39.5**
	outward	***0.1***	***1.0***	**-**	***1.1***	***2.6***	***1.2***
Angola							
	inward	198.3	62.2	- 1.0	10.0	87.4	46.5
	outward	*1.3*	*1.5*	*1.2*	-	*0.5*	*0.6*
Cameroon							
	inward	-	-	0.7	7.3	11.7	6.3
	outward	*1.7*	*..*	*..*	*1.0*	*2.9*	*2.0*
Central African Republic							
	inward	2.0	- 7.5	3.4	7.4	11.4	8.1
	outward	-	*..*	*..*	*1.4*	*4.7*	*3.2*
Chad							
	inward	49.7	45.9	64.5	16.2	44.3	71.0
	outward	-	*..*	*..*	*2.4*	*5.4*	*1.3*
Congo							
	inward	33.8	56.7	26.4	20.6	58.8	59.7
	outward	*0.2*	*..*	*..*	*..*	*..*	*..*
Congo, Democratic Republic of							
	inward	22.3	1.3	106.9	5.8	11.9	32.5
	outward	*..*	*..*	*..*	*..*	*..*	*..*
Equatorial Guinea							
	inward	258.2	285.3	304.2	15.6	92.8	108.9
	outward	-	*..*	*..*	*0.2*	*..* [a]	-
Gabon							
	inward	14.2	17.6	15.6	22.3	.. [a]	6.1
	outward	*- 3.9*	*0.3*	*- 1.5*	*3.1*	*5.6*	*1.9*
Sao Tome and Principe							
	inward	4.8	- 7.6	32.4	0.7	24.7	34.7
	outward	*..*	*..*	*..*	*..*	*..*	*..*
East Africa							
	inward	**15.6**	**12.9**	**10.5**	**6.6**	**21.4**	**24.7**
	outward	***0.1***	***0.4***	***0.7***	***0.8***	***1.7***	***1.4***
Burundi							
	inward	-	- 2.6	- 0.8	2.6	6.7	5.6
	outward	-	*..*	*..*	-	*0.3*	*0.3*
Comoros							
	inward	3.1	- 0.3	3.0	6.8	11.2	6.5
	outward	*..*	*..*	*..*	*0.4*	*1.2*	*0.6*
Djibouti							
	inward	18.3	47.1	26.4	2.8	7.2	15.4
	outward	*..*	*..*	*..*	*..*	*..*	*..*
Eritrea							
	inward	13.1	- 3.9	5.4	..	66.8	41.4
	outward	*..*	*..*	*..*	*..*	*..*	*..*
Ethiopia							
	inward	34.2	32.2	11.6	1.5	14.4	24.6
	outward	*..*	*..*	*..*	*..*	*..*	*..*
Kenya							
	inward	3.5	1.8	0.8	7.8	8.9	5.8
	outward	*0.1*	*0.2*	*0.4*	*1.2*	*1.1*	*0.7*
Madagascar							
	inward	10.8	4.8	4.2	3.5	9.1	13.8
	outward	*..*	*..*	*..*	-	*0.3*	*0.2*
Malawi							
	inward	2.1	- 0.4	1.6	13.0	20.5	24.3
	outward	*..*	*..*	*..*	*..*	*0.5*	*0.6*
Mauritius							
	inward	4.9	1.0	1.8	6.5	14.8	12.5
	outward	*- 0.5*	*2.3*	*3.5*	*0.1*	*2.9*	*3.5*
Mozambique							
	inward	44.9	20.0	8.4	1.5	28.6	35.5
	outward	-	-	*..*	-	-	-

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Annex table B.3. FDI flows as a percentage of gross fixed capital formation, 2003-2005 and FDI stocks as a percentage of gross domestic product, 1990, 2000, 2005, by region and economy (continued)
(Per cent)

Region/economy		FDI flows as a percentage of GFCF			FDI stocks as a percentage of GDP		
		2003	2004	2005	1990	2000	2005
Rwanda							
	inward	1.5	2.4	2.3	8.4	14.6	13.1
	outward	*0.1*	-	*0.1*	*0.1*	*0.2*	*0.2*
Seychelles							
	inward	92.3	54.7	114.9	55.4	89.6	119.3
	outward	*13.0*	*11.1*	*10.5*	*16.6*	*22.8*	*25.5*
Somalia							
	inward	..	..	..	.. [a]	0.2	2.3
	outward	..	..	..	..	..	..
Uganda							
	inward	14.5	14.7	16.3	0.2	14.1	21.0
	outward	..	..	..	..	*2.3*	*1.5*
United Republic of Tanzania							
	inward	24.4	19.9	19.1	10.3	33.4	49.6
	outward	..	..	..	..	..	..
Zambia							
	inward	16.0	18.0	18.6	25.1	72.9	45.1
	outward	..	..	..	..	..	..
Zimbabwe							
	inward	0.4	1.2	13.5	3.2	22.0	30.8
	outward	-	-	*0.1*	*0.9*	*4.2*	*5.4*
Southern Africa							
	inward	**4.3**	**3.9**	**15.9**	**10.9**	**33.0**	**28.7**
	outward	***2.5***	***3.3***	***0.3***	***13.0***	***23.0***	***15.3***
Botswana							
	inward	23.7	19.2	17.8	37.2	37.4	11.7
	outward	*11.7*	*- 1.9*	*3.0*	*12.7*	*10.6*	*8.6*
Lesotho							
	inward	9.6	9.9	8.4	13.4	38.3	41.5
	outward	-	-	..	-	*0.2*	*0.2*
Namibia							
	inward	11.4	15.7	23.2	87.5	36.6	39.9
	outward	*- 0.8*	*- 1.6*	*- 0.8*	*3.4*	*1.3*	*1.1*
South Africa							
	inward	2.8	2.3	15.8	8.2	32.7	29.0
	outward	*2.1*	*3.9*	*0.2*	*13.4*	*24.3*	*16.1*
Swaziland							
	inward	- 25.7	13.8	- 3.0	38.5	38.6	32.1
	outward	*- 4.4*	*0.3*	*4.7*	*4.4*	*6.8*	*2.9*
Latin America and the Caribbean							
	inward	**13.5**	**15.9**	**16.8**	**10.3**	**25.8**	**36.7**
	outward	***3.0***	***4.7***	***8.0***	***5.5***	***10.3***	***13.8***
South and Central America							
	inward	**13.1**	**15.6**	**14.4**	**9.1**	**21.0**	**29.4**
	outward	***3.0***	***4.7***	***4.5***	***5.4***	***5.7***	***7.6***
South America							
	inward	**13.9**	**16.5**	**15.5**	**8.8**	**22.8**	**30.3**
	outward	***3.0***	***5.2***	***4.2***	***6.4***	***7.5***	***9.2***
Argentina							
	inward	8.4	14.6	11.8	6.2	23.8	30.4
	outward	*3.9*	*1.5*	*2.9*	*4.3*	*7.4*	*12.5*
Bolivia							
	inward	19.0	5.9	- 23.8	21.1	61.8	47.1
	outward	*0.2*	*0.3*	*0.3*	*0.1*	*0.4*	*0.9*
Brazil							
	inward	11.3	15.3	9.5	8.5	17.1	25.4
	outward	*0.3*	*8.3*	*1.6*	*9.4*	*8.6*	*9.0*
Chile							
	inward	27.7	37.0	26.1	30.0	61.1	64.6
	outward	*10.3*	*7.9*	*8.4*	*0.5*	*14.9*	*18.7*
Colombia							
	inward	13.4	17.2	53.5	7.3	13.1	30.0
	outward	*7.2*	*0.8*	*24.3*	*0.8*	*3.6*	*7.3*
Ecuador							
	inward	25.1	17.7	27.8	15.2	44.4	43.5
	outward	..	..	..	*0.2*	*1.0*	*0.5*
Guyana							
	inward	16.8	16.2	39.5	11.3	106.1	126.5
	outward	..	..	..	..	*0.1*	*0.2*

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Annex table B.3. FDI flows as a percentage of gross fixed capital formation, 2003-2005 and FDI stocks as a percentage of gross domestic product, 1990, 2000, 2005, by region and economy (continued)
(Per cent)

Region/economy		FDI flows as a percentage of GFCF			FDI stocks as a percentage of GDP		
		2003	2004	2005	1990	2000	2005
Paraguay							
	inward	1.9	2.7	13.9	7.9	17.2	16.0
	outward	*0.5*	*0.4*	*0.3*	*2.6*	*2.8*	*2.1*
Peru							
	inward	12.3	14.3	19.0	4.5	20.8	20.2
	outward	*0.6*	*- 1.9*	*0.4*	*0.4*	*1.0*	*1.3*
Suriname							
	inward	- 11.1	- 5.2	5.5	.. [a]	.. [a]	.. [a]
	outward	*..*	*..*	*..*	*..*	*..*	*..*
Uruguay							
	inward	39.4	22.3	27.7	8.0	10.4	17.3
	outward	*1.4*	*1.2*	*- 0.2*	*2.2*	*0.6*	*0.7*
Venezuela							
	inward	20.4	7.9	14.6	8.0	29.3	34.8
	outward	*10.1*	*- 1.8*	*7.2*	*2.5*	*6.3*	*8.0*
Central America							
	inward	**12.0**	**14.4**	**12.6**	**9.6**	**17.7**	**27.7**
	outward	***3.1***	***4.1***	***4.9***	***2.5***	***1.9***	***4.9***
Belize							
	inward	- 0.7	68.3	54.4	22.0	39.6	57.7
	outward	*0.2*	*-*	*0.1*	*4.9*	*5.7*	*4.1*
Costa Rica							
	inward	17.1	17.8	18.0	18.2	17.0	25.8
	outward	*0.8*	*1.8*	*- 1.2*	*0.6*	*0.6*	*0.9*
El Salvador							
	inward	5.7	15.3	20.1	4.0	15.0	24.7
	outward	*0.7*	*- 2.2*	*8.4*	*1.1*	*0.6*	*1.8*
Guatemala							
	inward	3.6	3.8	4.9	22.7	18.1	17.0
	outward	*0.1*	*..*	*..*	*..*	*0.4*	*0.4*
Honduras							
	inward	15.2	16.5	14.0	9.6	23.6	31.5
	outward	*1.2*	*1.3*	*1.5*	*..*	*..*	*..*
Mexico							
	inward	11.7	13.9	12.2	8.5	16.7	27.3
	outward	*1.0*	*3.3*	*4.2*	*1.0*	*1.4*	*3.6*
Nicaragua							
	inward	19.8	21.1	19.4	4.0	35.8	49.1
	outward	*1.0*	*..*	*..*	*..*	*0.5*	*1.1*
Panama							
	inward	34.9	41.4	26.4	36.2	58.3	64.8
	outward	*127.0*	*60.8*	*58.6*	*68.9*	*34.5*	*84.6*
Caribbean and other America							
	inward	**24.6**	**22.3**	**87.1**	**25.2**	**82.7**	**120.0**
	outward	***2.9***	***1.8***	***228.2***	***8.2***	***78.6***	***100.2***
Anguilla							
	inward	98.5	249.6	266.4	19.9	216.4	404.1
	outward	*..*	*..*	*..*	*..*	*..*	*..*
Antigua and Barbuda							
	inward	45.9	22.2	29.9	86.8	110.0	144.1
	outward	*..*	*..*	*..*	*..*	*..*	*..*
Aruba							
	inward	35.0	30.5	24.2	13.4	25.2	45.2
	outward	*0.5*	*- 0.1*	*1.1*	*45.3*	*36.8*	*32.7*
Bahamas							
	inward	11.8	16.1	20.3	19.2	37.3	44.6
	outward	*..*	*..*	*..*	*20.1*	*32.1*	*23.0*
Barbados							
	inward	12.8	- 2.5	31.7	10.0	11.9	17.3
	outward	*0.1*	*0.8*	*0.6*	*1.4*	*1.6*	*1.6*
Bermuda							
	inward	*..*	*..*	*..*	693.5	1 748.7	2 419.4
	outward	*..*	*..*	*..*	*77.6*	*442.3*	*141.6*
British Virgin Islands							
	inward	*..*	*..*	*..*	52.4	4 644.4	7 003.0
	outward	*..*	*..*	*..*	*363.9*	*9 331.9*	*12 805.0*

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Annex table B.3. FDI flows as a percentage of gross fixed capital formation, 2003-2005 and FDI stocks as a percentage of gross domestic product, 1990, 2000, 2005, by region and economy (continued)
(Per cent)

Region/economy		FDI flows as a percentage of GFCF			FDI stocks as a percentage of GDP		
		2003	2004	2005	1990	2000	2005
Cayman Islands							
	inward	..	..	..	247.0	1 840.5	2 517.2
	outward	..	..	..	*91.6*	*1 514.8*	*1 943.8*
Cuba							
	inward	..	..	..	-	0.3	0.2
	outward	..	..	..	..	..	..
Dominica							
	inward	44.9	36.2	37.4	39.5	103.9	141.2
	outward	..	..	..	..	..	..
Dominican Republic							
	inward	16.3	17.1	19.4	6.3	6.7	17.9
	outward	*- 1.0*	..	..	..	*0.5*	*0.2*
Grenada							
	inward	48.4	28.1	13.4	35.1	104.3	139.3
	outward	..	..	..	..	..	..
Haiti							
	inward	1.6	0.6	0.8	5.7	2.5	3.0
	outward	-	..	..	..	*0.1*	-
Jamaica							
	inward	29.6	21.8	20.8	18.5	42.0	65.1
	outward	*4.8*	*3.3*	*3.2*	*1.0*	*9.0*	*12.1*
Montserrat							
	inward	8.9	11.4	3.7	59.5	218.7	161.1
	outward	..	..	..	..	..	..
Netherlands Antilles							
	inward	..	..	..	20.6	2.8	*0.7*
	outward	..	..	..	*1.1*	*0.4*	*1.2*
Saint Kitts and Nevis							
	inward	44.8	29.0	26.1	100.6	153.5	189.3
	outward	..	..	..	..	..	..
Saint Lucia							
	inward	73.9	52.9	67.3	75.9	120.7	151.9
	outward	..	..	..	..	..	..
Saint Vincent and the Grenadines							
	inward	43.4	44.4	21.5	24.3	149.2	168.2
	outward	..	..	..	..	..	..
Trinidad and Tobago							
	inward	39.7	40.5	42.5	41.3	85.9	72.7
	outward	*11.0*	*1.2*	*4.6*	*0.4*	*3.6*	*5.2*
Turks and Caicos Islands							
	inward	..	..	..	2.4	2.1	1.0
	outward	..	..	..	..	..	..
Asia and Oceania							
	inward	**7.7**	**9.4**	**11.1**	**9.0**	**26.5**	**23.2**
	outward	***1.4***	***5.0***	***4.7***	***3.5***	***15.8***	***13.3***
Asia							
	inward	**7.7**	**9.4**	**11.1**	**8.9**	**26.5**	**23.2**
	outward	***1.4***	***5.1***	***4.7***	***3.5***	***15.8***	***13.4***
West Asia							
	inward	**7.4**	**9.2**	**14.9**	**8.5**	**8.5**	**11.9**
	outward	***- 1.4***	***3.7***	***7.0***	***2.3***	***1.6***	***3.0***
Bahrain							
	inward	27.8	36.4	42.0	12.8	74.1	64.1
	outward	*39.8*	*43.5*	*45.0*	*16.8*	*22.0*	*39.1*
Iran, Islamic Republic of							
	inward	1.2	0.2	0.1	2.3	2.4	1.9
	outward	*- 0.9*	-	*0.2*	..	*0.4*	*0.1*
Iraq							
	inward	..	..	..	.. [a]	.. [a]	*1.3*
	outward	..	..	..	..	..	..
Jordan							
	inward	20.9	23.6	53.0	15.3	27.0	39.8
	outward	-	-	-	*0.4*	.. [a]	.. [a]

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Annex table B.3. FDI flows as a percentage of gross fixed capital formation, 2003-2005 and FDI stocks as a percentage of gross domestic product, 1990, 2000, 2005, by region and economy (continued)
(Per cent)

Region/economy		FDI flows as a percentage of GFCF			FDI stocks as a percentage of GDP		
		2003	2004	2005	1990	2000	2005
Kuwait							
	inward	- 1.0	0.3	3.0	0.2	1.6	0.9
	outward	*- 73.5*	*32.0*	*56.8*	*19.8*	*4.5*	7.2
Lebanon							
	inward	70.8	41.2	53.3	1.9	30.3	68.5
	outward	*15.1*	*17.9*	*14.8*	*1.5*	*3.6*	*12.4*
Oman							
	inward	14.4	4.3	14.7	14.6	12.6	13.3
	outward	*4.5*	*5.4*	*0.9*	*0.1*	*0.2*	*1.6*
Palestinian Territory							
	inward	..	..	..	..	20.1	25.3
	outward	*..*	*..*	*..*	*..*	*..*	*..*
Qatar							
	inward	10.0	18.1	21.2	0.9	10.8	16.2
	outward	*-*	*2.9*	*5.1*	*..*	*0.4*	*1.6*
Saudi Arabia							
	inward	2.0	4.5	9.4	20.9	9.3	8.5
	outward	*0.2*	*1.6*	*2.4*	*1.8*	*1.2*	*1.2*
Syrian Arab Republic							
	inward	3.6	5.4	9.5	3.5	8.6	31.9
	outward	*..*	*..*	*..*	*..*	*..*	*..*
Turkey							
	inward	4.7	5.3	13.6	7.4	9.6	11.6
	outward	*1.3*	*1.6*	*1.5*	*0.8*	*1.8*	*2.2*
United Arab Emirates							
	inward	21.4	37.8	51.8	2.2	1.5	21.1
	outward	*5.0*	*4.6*	*28.7*	*0.3*	*1.2*	*7.5*
Yemen							
	inward	0.3	6.8	- 12.0	4.4	14.0	6.5
	outward	*..*	*..*	*..*	*0.1*	*-*	*0.1*
South, East and South-East Asia							
	inward	**7.8**	**9.5**	**10.6**	**9.1**	**30.5**	**25.8**
	outward	***1.7***	***5.2***	***4.4***	***3.7***	***18.8***	***15.7***
East Asia							
	inward	**8.1**	**9.9**	**10.5**	**9.3**	**34.0**	**27.0**
	outward	***1.6***	***5.6***	***4.8***	***5.6***	***24.7***	***18.3***
China							
	inward	8.6	8.0	9.2	5.4	17.9	14.3
	outward	*-*	*0.2*	*1.4*	*1.2*	*2.6*	*2.1*
Hong Kong, China							
	inward	40.6	96.4	97.0	59.4	275.4	299.9
	outward	*16.4*	*129.5*	*88.0*	*15.7*	*234.9*	*264.7*
Korea, Democratic People's Republic of							
	inward	..	..	..	3.4	9.8	10.7
	outward	*..*	*..*	*..*	*..*	*..*	*..*
Korea, Republic of							
	inward	2.1	3.8	3.1	2.0	7.3	8.0
	outward	*1.9*	*2.3*	*1.9*	*0.9*	*5.2*	*4.6*
Macao, China							
	inward	36.7	29.8	67.2	86.1	45.2	45.3
	outward	*- 0.5*	*- 6.9*	*- 1.4*	*..*	*..*	*4.5*
Mongolia							
	inward	30.2	17.9	33.4	-	19.2	37.7
	outward	*0.1*	*..*	*..*	*..*	*..*	*..*
Taiwan Province of China							
	inward	0.8	2.8	2.3	6.1	5.7	12.1
	outward	*10.4*	*10.5*	*8.5*	*18.9*	*21.7*	*28.1*
South Asia							
	inward	**3.5**	**3.4**	**4.3**	**1.1**	**4.7**	**6.2**
	outward	***0.8***	***1.0***	***0.6***	***0.1***	***0.4***	***1.1***
Afghanistan							
	inward	0.4	0.1	0.2	0.3	0.6	0.3
	outward	*..*	*..*	*..*	*..*	*..*	*..*
Bangladesh							
	inward	2.9	3.4	4.9	1.0	4.4	5.7
	outward	*0.1*	*-*	*0.1*	*0.1*	*0.1*	*0.2*

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Annex table B.3. FDI flows as a percentage of gross fixed capital formation, 2003-2005, and FDI stocks as a percentage of gross domestic product, 1990, 2000, 2005, by region and economy (continued)
(Per cent)

Region/economy		FDI flows as a percentage of GFCF			FDI stocks as a percentage of GDP		
		2003	2004	2005	1990	2000	2005
Bhutan							
	inward	0.3	0.3	0.2	0.7	2.5	1.9
	outward	..	..	..	..	..	..
India							
	inward	3.4	3.1	3.5	0.5	3.8	5.8
	outward	*1.0*	*1.1*	*0.7*	-	*0.4*	*1.2*
Maldives							
	inward	7.2	5.4	4.8	11.6	19.0	22.6
	outward	*0.3*	-	-	..	..	..
Nepal							
	inward	1.3	-	0.4	0.3	1.3	1.7
	outward	..	..	..	..	..	..
Pakistan							
	inward	4.2	7.5	13.0	3.6	9.8	8.8
	outward	*0.1*	*0.4*	*0.3*	*0.5*	*0.7*	*0.7*
Sri Lanka							
	inward	5.7	4.7	5.2	8.5	9.8	10.4
	outward	*0.7*	*0.1*	*0.7*	*0.1*	*0.5*	*0.7*
South-East Asia							
	inward	**10.6**	**14.2**	**18.3**	**18.4**	**45.4**	**43.2**
	outward	***3.5***	***8.3***	***6.0***	***3.4***	***16.8***	***21.8***
Brunei Darussalam							
	inward	..	..	..	0.9	89.6	145.2
	outward	..	..	..	..	*10.3*	*8.7*
Cambodia							
	inward	9.0	11.4	31.5	2.2	43.8	45.6
	outward	*1.0*	*0.9*	*0.5*	..	*5.4*	*4.8*
Indonesia							
	inward	- 1.3	3.4	8.5	7.7	16.5	7.7
	outward	-	*6.2*	*5.0*	*0.1*	*4.6*	*5.0*
Lao People's Democratic Republic							
	inward	4.5	3.7	5.8	1.6	32.1	24.5
	outward	-	..	..	..	*1.6*	*1.0*
Malaysia							
	inward	10.8	19.1	15.2	23.4	58.4	36.5
	outward	*6.0*	*8.5*	*11.4*	*6.1*	*25.3*	*34.0*
Myanmar							
	inward	..	..	..	5.4	54.8	43.6
	outward	..	..	..	..	..	..
Philippines							
	inward	3.7	4.8	7.5	7.4	16.9	14.4
	outward	*2.3*	*4.1*	*1.1*	*0.3*	*2.1*	*2.1*
Singapore							
	inward	46.5	58.0	78.9	82.6	121.7	158.6
	outward	*14.1*	*33.3*	*21.7*	*21.2*	*61.3*	*94.1*
Thailand							
	inward	5.7	3.4	7.2	9.7	24.4	33.5
	outward	*1.4*	*0.3*	*0.5*	*0.5*	*1.8*	*2.3*
Timor-Leste							
	inward	4.5	2.3	..	0.2	22.3	47.0
	outward	..	..	..	..	..	..
Viet Nam							
	inward	11.0	10.5	11.3	25.5	66.1	61.2
	outward	..	..	..	..	..	..
Oceania							
	inward	**12.9**	**11.0**	**3.4**	**19.7**	**26.5**	**23.6**
	outward	***0.1***	***0.3***	***1.3***	***0.6***	***3.2***	***3.0***
Cook Islands							
	inward	..	..	..	24.1	42.6	20.9
	outward	..	..	..	..	..	..
Fiji							
	inward	6.9	22.9	- 0.9	21.2	23.6	11.4
	outward	*1.0*	*0.7*	*2.4*	*1.8*	*2.1*	*1.9*
French Polynesia							
	inward	..	..	..	2.4	4.2	4.8
	outward	..	..	..	..	..	..

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Annex table B.3. FDI flows as a percentage of gross fixed capital formation, 2003-2005 and FDI stocks as a percentage of gross domestic product, 1990, 2000, 2005, by region and economy (continued)
(Per cent)

Region/economy		FDI flows as a percentage of GFCF			FDI stocks as a percentage of GDP		
		2003	2004	2005	1990	2000	2005
Kiribati							
	inward	..	..	..	1.4	143.2	239.5
	outward	..	..	..	..	..	..
New Caledonia							
	inward	..	..	..	2.8	4.8	10.9
	outward	..	..	..	..	..	..
Palau							
	inward	..	..	..	..	82.7	88.9
	outward	..	..	..	..	..	..
Papua New Guinea							
	inward	15.8	3.6	4.3	48.2	51.9	56.7
	outward	*- 0.5*	-	*0.8*	*0.8*	*6.8*	*8.1*
Samoa							
	inward	..	..	..	4.5	23.1	11.9
	outward	..	..	..	..	..	..
Solomon Islands							
	inward	- 2.7	1.1	- 0.9	33.5	45.4	47.0
	outward	..	..	..	..	..	..
Tonga							
	inward	42.7	4.0	14.8	0.7	14.8	18.4
	outward	..	..	..	..	..	..
Tuvalu							
	inward	..	..	..	..	.. [a]	147.1
	outward	..	..	..	..	..	..
Vanuatu							
	inward	26.4	35.7	23.1	71.8	161.9	129.4
	outward	*1.2*	*1.3*	*1.1*	..	..	*4.0*
South-East Europe and CIS							
	inward	**16.9**	**20.9**	**17.0**	**0.2**	**15.9**	**21.2**
	outward	***7.8***	***7.6***	***6.6***	***0.3***	***5.4***	***11.1***
South-East Europe							
	inward	**26.8**	**33.2**	**25.4**	**0.2**	**16.6**	**26.7**
	outward	***0.7***	***0.6***	***1.2***	***0.3***	***1.5***	***1.4***
Albania							
	inward	13.5	18.5	13.8	..	15.4	20.1
	outward	..	..	..	..	*2.2*	*1.0*
Bosnia and Herzegovina							
	inward	26.4	34.1	16.0	..	8.9	21.9
	outward	..	*- 0.1*	*0.2*	..	*0.9*	*0.4*
Bulgaria							
	inward	54.3	68.1	35.1	0.5	17.9	34.3
	outward	*0.7*	*- 4.3*	*5.0*	*0.6*	*0.7*	0.5
Croatia							
	inward	25.2	12.5	15.4	..	19.1	33.3
	outward	*1.3*	*3.5*	*1.7*	..	*4.5*	*5.7*
Macedonia, TFYR							
	inward	12.2	15.9	9.7	..	15.0	37.5
	outward	-	*0.1*	*0.3*	..	-	*0.1*
Romania							
	inward	17.4	39.9	28.1	-	17.5	24.2
	outward	*0.3*	*0.4*	*- 0.1*	*0.2*	*0.4*	*0.2*
Serbia and Montenegro							
	inward	44.9	24.4	35.8	..	12.0	20.7
	outward	..	..	..	..	..	..
CIS							
	inward	**14.1**	**17.5**	**14.7**	**0.4**	**15.7**	**20.0**
	outward	***9.5***	***9.2***	***7.9***	***..***	***6.3***	***13.0***
Armenia							
	inward	24.4	26.9	26.0	0.4	33.0	32.5
	outward	*0.1*	*0.3*	*0.9*	..	*0.1*	*0.8*
Azerbaijan							
	inward	85.4	77.0	34.7	..	70.8	110.5
	outward	*24.2*	*26.1*	*25.2*	..	*9.0*	*29.3*

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Annex table B.3. FDI flows as a percentage of gross fixed capital formation, 2003-2005 and FDI stocks as a percentage of gross domestic product, 1990, 2000, 2005, by region and economy (continued)
(Per cent)

Region/economy		FDI flows as a percentage of GFCF			FDI stocks as a percentage of GDP		
		2003	2004	2005	1990	2000	2005
Belarus							
	inward	3.8	2.6	4.6	..	12.5	8.1
	outward	-	-	-	..	*0.2*	-
Georgia							
	inward	32.3	35.5	30.5	..	24.0	36.3
	outward	*0.4*	*0.7*	*- 6.1*	..	..	..
Kazakhstan							
	inward	29.5	44.5	18.0	..	55.1	44.8
	outward	*- 1.7*	*- 13.8*	*0.2*	..	*0.1*	.. [a]
Kyrgyzstan							
	inward	17.1	63.8	12.2	..	32.6	21.4
	outward	-	*16.0*	-	..	*2.4*	2.5
Moldova,Republic of							
	inward	23.6	28.0	31.7	..	34.0	37.9
	outward	-	*0.6*	-	..	*1.8*	*0.9*
Russian Federation							
	inward	10.0	14.3	10.5	..	12.4	17.3
	outward	*12.3*	*12.8*	*9.5*	..	*7.8*	*15.7*
Tajikistan							
	inward	7.9	151.4	28.9	..	14.4	22.6
	outward	..	..	..	..	..	..
Turkmenistan							
	inward	6.3	- 1.0	3.7	..	19.1	7.7
	outward	..	..	..	..	..	..
Ukraine							
	inward	13.8	11.7	45.2	..	12.4	21.1
	outward	*0.1*	-	*1.6*	..	*0.5*	*0.6*
Uzbekistan							
	inward	3.3	-	1.8	..	5.1	8.2
	outward	..	..	..	..	..	..
Memorandum							
Least developed countries [b]							
	inward	25.9	17.6	18.4	6.3	21.7	26.1
	outward	*0.4*	*0.4*	*0.7*	*0.9*	*2.1*	*1.7*
Major pertoleum exporters [c]							
	inward	8.0	8.8	12.6	9.0	15.2	14.9
	outward	*- 0.7*	*3.6*	*7.0*	*2.2*	*3.2*	*3.9*
All developing economies, excluding China							
	inward	9.6	12.1	14.5	10.3	27.9	30.5
	outward	*2.5*	*7.2*	*6.9*	*4.7*	*15.6*	*15.9*
EU-15							
	inward	11.8	7.8	15.6	11.1	26.2	33.1
	outward	*13.9*	*14.0*	*22.1*	*11.7*	*38.4*	*42.7*
Landlocked developing countries							
	inward	25.4	28.1	15.7	8.8	28.9	32.1
	outward	*3.3*	*- 0.2*	*3.8*	*2.2*	*2.5*	*2.8*
Small island developing States							
	inward	34.8	40.9	52.6	38.0	69.3	88.7
	outward	*10.9*	*25.1*	*17.7*	*14.7*	*36.6*	*54.4*
Euro zone (of EU)							
	inward	13.0	6.6	10.2	9.0	21.9	31.6
	outward	*11.9*	*11.8*	*20.6*	*9.0*	*30.3*	*39.2*

Source: UNCTAD, FDI/TNC database.

[a] Negative stock value. However, this value is included in the regional and global total.

[b] Least developed countries include: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Timore-Leste, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.

[c] Oil-exporting countries include: Algeria, Angola, Bahrain, Brunei Darussalam, Congo, Gabon, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates, Venezuela and Yemen.

Annex table B.4. Cross-border M&As, by region/economy of seller/purchaser, 2003-2005
(Millions of dollars)

Region/economy	Sales			Purchases		
	2003	2004	2005	2003	2004	2005
World	296 988	380 598	716 302	296 988	380 598	716 302
Developed countries	244 426	315 851	598 350	256 935	339 799	626 339
Europe	142 152	185 809	445 126	129 371	176 095	413 405
European Union	126 018	178 772	429 146	121 208	164 677	386 757
Austria	2 115	1 787	5 934	1 744	5 810	5 125
Belgium	3 182	2 345	7 851	3 166	9 309	6 035
Cyprus	19	-	24	5	-	137
Czech Republic	1 756	558	11 160	141	360	635
Denmark	1 384	5 893	8 928	2 724	4 703	11 728
Estonia	14	18	2 428	11	-	3
Finland	3 557	3 232	2 894	600	2 712	2 973
France	17 495	20 132	32 178	8 777	14 994	46 332
Germany	25 158	35 868	63 122	19 669	18 613	41 600
Greece	943	1 455	1 295	371	74	408
Hungary	1 109	453	3 203	949	317	501
Ireland	185	2 878	2 420	1 702	3 554	3 510
Italy	15 259	10 953	41 076	4 662	5 167	34 361
Luxembourg	958	72	8 013	613	558	9 391
Latvia	12	-	4	-	-	2
Lithuania	135	102	61	-	5	16
Malta	34	431	-	-	52	-
Netherlands	9 180	13 321	29 014	8 506	9 130	95 024
Poland	802	1 275	2 014	529	216	688
Portugal	1 732	1 233	1 856	107	3 105	647
Slovakia	160	432	178	-	232	3
Slovenia	1	168	148	15	59	59
Spain	5 110	7 143	23 601	5 538	32 492	23 520
Sweden	4 321	10 916	10 054	4 428	5 906	13 523
United Kingdom	31 397	58 107	171 689	56 953	47 307	90 535
Other developed Europe	16 134	7 038	15 980	8 163	11 418	26 648
Andorra	-	-	-	-	38	-
Gibraltar	-	92	4	-	-	13
Guernsey	17	-	98	339	775	10
Iceland	142	365	3	289	1 952	1 738
Isle of Man	-	4	452	3	3	78
Jersey	43	-	69	-	5	121
Liechtenstein	-	-	-	159	-	-
Monaco	382	198	-	77	-	4
Norway	5 579	1 603	7 969	303	3 080	8 242
San Marino	-	-	146	-	-	-
Switzerland	9 970	4 776	7 241	6 993	5 564	16 442
North America	74 827	101 574	132 574	98 436	144 068	170 056
Canada	5 157	19 635	27 014	16 041	34 047	22 505
United States	69 670	81 939	105 560	82 395	110 022	147 551
Other developed countries		28 467	20 651	29 128	19 636	42 878
Australia	9 713	15 128	12 051	14 549	10 492	32 261
Israel	808	171	2 053	1 357	4 003	1 446
Japan	10 948	8 875	2 512	8 442	3 787	8 131
New Zealand	5 979	4 292	4 033	4 780	1 354	1 041
Developing economies	40 166	54 700	100 633	31 060	39 809	83 150
Africa	6 427	4 595	10 509	1 067	2 718	15 505
North Africa	4 594	443	2 982	433	111	14 423
Algeria	3	25	-	-	-	-
Egypt	2 200	254	1 326	3	61	14 423
Libyan Arab Jamahiriya	-	-	-	430	50	-
Morocco	1 624	25	1 579	-	-	-
Sudan	768	136	-	-	-	-
Tunisia	-	3	77	-	-	-
Other Africa	1 832	4 153	7 527	634	2 607	1 082
West Africa	56	1 685	52	37	-	29
Burkina Faso	-	4	-	-	-	-
Ghana	55	1 509	9	-	-	-
Guinea	1	-	-	-	-	-
Liberia	-	-	-	37	-	6
Mali	-	13	-	-	-	-

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Annex table B.4. Cross-border M&As, by region/economy of seller/purchaser, 2003-2005 *(continued)*
(Millions of dollars)

Region/economy	Sales			Purchases		
	2003	2004	2005	2003	2004	2005
Mauritania	-	147	-	-	-	-
Nigeria	-	10	43	-	-	-
Senegal	-	-	-	-	-	23
Sierra Leone	-	2	-	-	-	-
Central Africa	-	65	36	-	-	-
Chad	-	-	-	-	-	-
Congo, Democratic Republic of	-	-	36	-	-	-
Gabon	-	65	-	-	-	-
East Africa	127	350	433	9	272	525
Kenya	-	265	32	2	-	12
Madagascar	5	-	16	-	-	-
Mauritius	32	19	94	-	22	370
Mayotte	-	1	-	-	-	-
Mozambique	88	-	-	-	-	-
Reunion	-	-	254	-	-	-
Rwanda	-	9	12	-	-	-
Seychelles	-	-	-	7	-	115
Uganda	-	-	-	-	250	-
United Republic of Tanzania	2	-	-	-	-	-
Zambia	-	48	25	-	-	29
Zimbabwe	-	7	-	-	-	-
Southern Africa	1 650	2 053	7 006	588	2 334	528
Botswana	20	70	-	20	-	-
Namibia	67	16	5	-	14	-
South Africa	1 563	1 935	7 001	568	2 320	528
Swaziland	-	33	-	-	-	-
Latin America and the Caribbean	12 085	25 284	30 675	11 460	16 487	14 045
South and Central America	10 162	21 067	21 290	9 293	11 551	9 752
South America	566	13 148	16 432	3 879	9 488	6 910
Argentina	2 467	285	2 696	679	103	2 308
Brazil	5 271	6 639	5 800	3 065	9 124	3 848
Chile	95	1 720	711	39	95	300
Colombia	37	1 421	6 056	2	28	258
Ecuador	273	848	-	-	-	-
Falkland Islands	-	-	-	-	-	123
Guyana	-	-	-	-	-	-
Peru	247	710	1 057	91	18	75
Uruguay	12	60	29	3	-	-
Venezuela	164	1 465	85	-	120	-
Central America	1 595	7 919	4 858	5 414	2 063	2 842
Belize	-	57	-	-	5	-
Costa Rica	23	20	59	13	81	-
El Salvador	417	295	220	-	-	-
Guatemala	-	175	10	-	-	-
Mexico	1 155	6 403	4 066	5 282	1 973	2 813
Nicaragua	-	206	-	-	-	-
Panama	-	763	503	120	4	29
Caribbean and other America	1 924	4 218	9 384	2 166	4 936	4 292
Antigua and Barbuda	47	40	64	-	-	-
Aruba	-	715	1	-	-	-
Bahamas	55	4	-	825	810	8
Barbados	44	33	-	-	-	108
Bermuda	1 414	1 580	6 532	428	1 883	725
British Virgin Islands	150	237	526	127	1 527	74
Cayman Islands	126	9	489	156	13	2 902
Jamaica	-	324	-	-	-	1
Netherlands Antilles	-	-	29	624	332	-
Puerto Rico	-	1 251	1 745	7	370	454
Saint Lucia	-	6	-	-	-	-
Trinidad and Tobago	87	18	-	-	-	-
United States Virgin Islands	-	-	-	-	-	21
Asia and Oceania	21 654	24 820	59 450	18 533	20 604	53 601
Asia	21 572	24 768	59 266	18 533	20 598	53 570
West Asia	1 404	575	14 134	1 555	1 280	18 221
Bahrain	9	-	85	432	-	554

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Annex table B.4. Cross-border M&As, by region/economy of seller/purchaser, 2003-2005 *(concluded)*
(Millions of dollars)

Region/economy	Sales			Purchases		
	2003	2004	2005	2003	2004	2005
Iran, Islamic Republic of	-	77	-	-	-	-
Iraq	-	9	-	-	-	-
Jordan	990	-	89	-	9	-
Kuwait	-	317	-	441	845	3 640
Lebanon	98	-	236	-	7	-
Oman	-	20	116	125	-	33
Qatar	-	-	-	15	192	352
Saudi Arabia	-	-	-	473	78	53
Syrian Arab Republic	-	7	-	-	-	-
Turkey	282	132	13 395	7	108	8 806
United Arab Emirates	26	14	213	62	40	4 783
South, East and South-East Asia	20 167	24 193	45 132	16 978	19 319	35 349
East Asia	14 105	16 743	25 811	6 730	5 207	16 834
China	3 820	6 768	8 253	1 647	1 125	5 279
Hong Kong, China	6 098	3 936	9 472	4 168	2 963	10 470
Korea, Republic of	3 757	5 638	6 542	662	409	451
Macao, China	-	-	695	-	-	0
Mongolia	7	3	93	-	-	-
Taiwan Province of China	422	398	756	253	710	634
South Asia	1 461	2 218	4 564	1 362	877	2 649
Bangladesh	437	60	143	-	-	-
India	949	1 760	4 210	1 362	863	2 649
Pakistan	-	398	207	-	14	-
Sri Lanka	76	-	5	-	-	-
South-East Asia	4 601	5 232	14 757	8 886	13 235	15 866
Brunei Darussalam	-	5	-	-	-	-
Cambodia	-	1	-	-	-	-
Indonesia	2 031	1 269	6 763	2	491	5 878
Lao People's Democratic Republic	-	85	71	-	-	-
Malaysia	84	638	1 454	3 685	816	1 678
Myanmar	417	-	-	-	-	-
Philippines	230	733	328	1	105	1 971
Singapore	1 766	1 190	5 802	5 018	11 638	6 106
Thailand	55	1 236	338	176	185	233
Viet Nam	18	74	-	4	-	-
Oceania	83	53	184	-	5	31
Fiji	1	-	1	-	4	-
Marshall Islands	-	6	-	-	-	4
New Caledonia	-	1	150	-	-	3
Niue	-	-	6	-	-	-
Northern Mariana Islands	-	33	-	-	-	-
Papua New Guinea	82	13	27	-	2	23
South-East Europe and CIS	12 395	10 047	17 318	8 992	991	6 812
South-East Europe	2 355	5 294	6 254	56	36	47
Albania	2	126	7	-	-	-
Bosnia and Herzegovina	-	110	154	-	-	-
Bulgaria	383	2 685	2 637	-	30	22
Croatia	613	51	396	32	6	15
Macedonia, TFYR	-	4	-	-	-	-
Romania	493	2 200	1 978	1	-	10
Serbia and Montenegro	-	38	1 065	-	-	-
Yugoslavia (former)	863	80	17	23	-	-
CIS	10 040	4 753	11 064	8 936	954	6 764
Armenia	25	-	4	-	-	-
Azerbaijan	1 387	-	-	-	-	-
Belarus	2	5	4	-	-	-
Georgia	1	-	79	-	-	-
Kazakhstan	507	428	1 526	170	5	-
Kyrgyzstan	5	3	150	-	-	-
Moldova, Republic of	19	16	49	-	-	-
Russian Federation	7 880	4 062	2 819	8 763	949	6 375
Tajikistan	-	-	12	-	-	-
Turkmenistan	-	-	47	-	-	-
Ukraine	194	41	6 374	3	-	390
Uzbekistan	21	199	-	-	-	-

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
Note: The data cover the deals involving the acquisition of an equity stake of more than 10 per cent.

Annex table B.5. Cross-border M&As, by region/economy of seller/purchaser, 2003-2005
(Number of deals)

Region/economy	Sales			Purchases		
	2003	2004	2005	2003	2004	2005
World	4 562	5 113	6 134	4 562	5 113	6 134
Developed countries	3 328	3 741	4 520	3 778	4 255	5 062
Europe	2 055	2 211	2 721	2 050	2 140	2 702
European Union	1 920	2 055	2 544	1 866	1 951	2 442
Austria	43	50	66	69	90	75
Belgium	74	66	92	63	70	68
Cyprus	2	-	4	2	4	7
Czech Republic	42	46	50	6	11	10
Denmark	54	77	74	47	64	82
Estonia	19	5	11	4	4	2
Finland	45	68	57	77	35	77
France	213	267	312	200	220	324
Germany	296	360	429	255	259	305
Greece	7	10	9	17	6	21
Hungary	39	22	33	20	12	14
Ireland	42	51	53	53	66	60
Italy	111	105	178	93	62	108
Luxembourg	6	9	15	19	23	39
Latvia	17	6	13	5	4	6
Lithuania	14	12	12	4	2	7
Malta	1	1	2	-	2	-
Netherlands	112	113	154	143	129	204
Poland	49	36	64	13	13	23
Portugal	34	25	44	16	20	20
Slovakia	18	10	11	2	5	5
Slovenia	4	9	8	8	8	5
Spain	136	119	130	121	104	104
Sweden	83	118	136	104	136	156
United Kingdom	459	470	587	525	602	720
Other developed Europe	135	156	177	184	189	260
Andorra	-	-	-	-	1	-
Faeroe Islands	-	-	1	-	-	-
Gibraltar	-	2	1	1	-	1
Guernsey	3	-	1	11	8	3
Iceland	2	4	4	11	14	38
Isle of Man	-	3	8	3	3	6
Jersey	2	-	4	-	1	4
Liechtenstein	-	-	-	6	-	-
Monaco	2	2	1	2	-	1
Norway	58	60	67	42	62	74
San Marino	1	-	1	-	-	-
Switzerland	67	85	89	108	100	133
North America	915	1 129	1 323	1 396	1 729	1 840
Canada	193	289	288	342	428	419
United States	722	840	1 035	1 054	1 301	1 421
Other developed countries	358	401	476	332	386	520
Australia	193	207	264	167	198	290
Israel	15	18	29	13	29	29
Japan	83	82	86	111	111	158
New Zealand	67	94	97	41	48	43
Developing economies	1 045	1 251	1 376	710	817	994
Africa	58	90	97	32	41	58
North Africa	9	18	22	2	5	8
Algeria	1	4	1	-	-	1
Egypt	4	7	8	1	2	4
Libyan Arab Jamahiriya	-	-	2	1	2	1
Morocco	2	4	5	-	1	2
Sudan	2	2	1	-	-	-
Tunisia	-	1	5	-	-	-
Other Africa	49	72	75	30	36	50
West Africa	8	11	10	1	1	5
Burkina Faso	-	2	-	-	-	-
Côte d'Ivoire	1	-	1	-	-	-
Gambia	-	-	1	-	-	-

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Annex table B.5. Cross-border M&As, by region/economy of seller/purchaser, 2003-2005 *(continued)*
(Number of deals)

Region/economy	Sales			Purchases		
	2003	2004	2005	2003	2004	2005
Ghana	2	3	4	-	1	-
Guinea	2	-	1	-	-	-
Liberia	-	-	-	1	-	2
Mali	-	1	-	-	-	-
Mauritania	-	2	-	-	-	-
Nigeria	2	2	3	-	-	1
Senegal	1	-	-	-	-	2
Sierra Leone	-	1	-	-	-	-
Central Africa	-	3	5	-	1	1
Angola	-	1	1	-	-	-
Cameroon	-	-	1	-	-	1
Chad	-	-	-	-	1	-
Congo, Democratic Republic of	-	-	3	-	-	-
Equatorial Guinea	-	1	-	-	-	-
Gabon	-	1	-	-	-	-
East Africa	8	21	24	6	8	25
Eritrea	-	1	-	-	-	-
Kenya	1	2	3	1	2	1
Madagascar	1	1	2	-	-	-
Malawi	-	-	-	-	1	-
Mauritius	1	2	8	2	4	20
Mayotte	-	1	-	-	-	-
Mozambique	1	1	-	-	-	-
Reunion	-	2	1	1	-	-
Rwanda	-	3	1	-	-	-
Seychelles	-	1	-	1	-	3
Uganda	2	2	2	-	1	-
United Republic of Tanzania	2	-	1	-	-	-
Zambia	-	2	4	-	-	1
Zimbabwe	-	3	2	1	-	-
Southern Africa	33	37	36	23	26	19
Botswana	1	1	-	1	-	-
Namibia	3	3	1	-	1	-
South Africa	29	32	33	22	25	19
Swaziland	-	1	2	-	-	-
Latin America and the Caribbean	281	294	241	138	145	134
South and Central America	242	247	187	88	94	74
South America	172	178	136	60	69	52
Argentina	40	29	23	16	7	7
Bolivia	4	2	1	-	2	-
Brazil	69	69	65	28	34	26
Chile	18	25	12	7	8	7
Colombia	11	13	14	2	8	5
Ecuador	5	7	1	-	-	-
Falkland Islands	-	-	1	-	-	3
Guyana	1	-	-	-	-	-
Paraguay	-	3	1	-	1	-
Peru	12	18	8	3	4	2
Uruguay	5	3	3	3	2	2
Venezuela	7	9	7	1	3	-
Central America	70	69	51	28	25	22
Belize	-	1	-	-	1	-
Costa Rica	3	3	4	1	1	2
El Salvador	2	2	3	-	-	-
Guatemala	1	1	2	-	1	-
Honduras	2	1	2	1	-	-
Mexico	59	52	35	22	19	18
Nicaragua	1	4	1	-	-	-
Panama	2	5	4	4	3	2
Caribbean and other America	39	47	54	50	51	60
Antigua and Barbuda	2	1	4	-	-	1
Aruba-	1	1	-	-	-	
Bahamas	4	1	2	4	3	3
Barbados	4	5	1	-	-	2

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Annex table B.5. Cross-border M&As, by region/economy of seller/purchaser, 2003-2005 *(continued)*
(Number of deals)

Region/economy	Sales			Purchases		
	2003	2004	2005	2003	2004	2005
Bermuda	8	6	8	18	16	15
British Virgin Islands	5	15	11	11	18	13
Cayman Islands	3	4	8	6	8	12
Dominican Republic	2	1	1	-	-	-
Grenada	-	1	-	-	-	-
Jamaica	-	1	3	1	-	6
Netherlands Antilles	-	1	7	5	2	2
Puerto Rico	6	7	5	2	1	4
Saint Lucia	-	1	1	-	-	-
Trinidad and Tobago	5	2	2	3	2	1
United States Virgin Islands	-	-	-	-	1	1
Asia and Oceania	706	867	1 038	540	631	802
Asia	699	859	1 018	538	623	792
West Asia	31	40	58	32	25	57
Bahrain	2	1	3	7	2	3
Iran, Islamic Republic of	1	2	-	-	-	-
Iraq	-	1	4	-	-	-
Jordan	6	-	5	-	1	5
Kuwait	-	1	1	3	3	10
Lebanon	2	-	3	4	1	-
Oman	2	4	2	1	1	2
Qatar	-	3	-	2	1	4
Saudi Arabia	-	-	1	4	3	7
Syrian Arab Republic	-	1	1	-	-	-
Turkey	11	18	23	3	4	8
United Arab Emirates	7	9	15	8	9	18
South, East and South-East Asia	668	819	960	506	598	735
East Asia	388	445	508	231	220	274
China	214	217	255	73	59	58
Hong Kong, China	108	143	182	114	128	172
Korea, Democratic People's Rep.	1	-	-	-	-	-
Korea, Republic of	37	55	36	28	18	26
Macao, China	-	-	8	1	-	1
Mongolia	2	7	1	-	-	-
Taiwan Province of China	26	23	26	15	15	17
South Asia	95	89	138	62	69	92
Bangladesh	3	2	3	-	-	1
India	83	80	126	57	64	91
Maldives	-	-	1	-	-	-
Pakistan	5	5	6	5	3	-
Sri Lanka	4	2	2	-	2	-
South-East Asia	185	285	314	213	309	369
Brunei Darussalam	-	1	-	-	-	-
Cambodia	1	2	1	-	1	-
Indonesia	38	45	61	6	14	25
Lao People's Democratic Republic	-	1	2	-	-	-
Malaysia	34	57	72	63	108	127
Myanmar	3	2	-	-	-	-
Philippines	20	24	21	8	7	9
Singapore	52	91	114	121	162	194
Thailand	29	54	42	14	17	13
Viet Nam	8	8	1	1	-	1
Oceania	7	8	20	2	8	10
Fiji	2	1	3	-	2	1
French Polynesia	-	1	-	1	1	-
Guam	-	-	2	-	-	-
Marshall Islands	-	1	-	-	-	1
New Caledonia	-	1	3	-	-	1
Niue	-	-	2	-	-	-
Northern Mariana Islands	-	1	1	-	-	-
Papua New Guinea	5	3	9	1	5	7

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Annex table B.5. Cross-border M&As, by region/economy of seller/purchaser, 2003-2005 *(concluded)*
(Number of deals)

Region/economy	Sales			Purchases		
	2003	2004	2005	2003	2004	2005
South-East Europe and CIS	189	121	238	74	41	78
South-East Europe	80	42	114	26	5	19
Albania	1	1	1	-	-	-
Bosnia and Herzegovina	4	3	5	-	-	-
Bulgaria	18	12	32	5	2	10
Croatia	11	7	8	8	2	2
Czechoslovakia (former)	-	-	-	2	-	-
Macedonia, TFYR	1	1	2	-	-	-
Romania	25	12	43	10	-	7
Serbia and Montenegro	-	4	22	-	1	-
Yugoslavia (former)	20	2	1	1	-	-
CIS	109	79	124	48	36	59
Armenia	6	3	2	-	-	-
Azerbaijan	7	1	-	1	-	-
Belarus	2	4	1	-	2	-
Georgia	3	1	5	-	-	1
Kazakhstan	11	6	10	5	2	4
Kyrgyzstan	1	3	2	-	-	-
Moldova, Republic of	6	2	2	-	-	-
Russian Federation	48	42	78	40	28	47
Tajikistan	-	-	1	-	-	-
Turkmenistan	-	-	2	-	-	-
Ukraine	17	12	20	2	4	7
Uzbekistan	8	5	1	-	-	-

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
Note: The data cover the deals involving the acquisition of an equity stake of more than 10%.

Annex table B.6. Cross-border M&As, by sector/industry, 2003-2005
(Millions of dollars)

Sector/industry	Sales			Purchases		
	2003	2004	2005	2003	2004	2005
Total	296 988	380 598	716 302	296 988	380 598	716 302
Primary	28 324	19 414	115 420	23 573	17 471	105 544
Agriculture, hunting, forestry, and fisheries	1 350	1 245	1 824	228	648	234
Mining, quarrying and petroleum	26 973	18 169	113 596	23 345	16 823	105 310
Manufacturing	106 705	120 747	203 730	93 256	106 795	148 742
Food, beverages and tobacco	29 597	23 870	44 816	23 307	22 735	24 904
Textiles, clothing and leather	676	1 585	2 133	681	256	4 646
Wood and wood products	2 765	3 769	5 280	2 671	3 916	3 671
Publishing and printing	11 886	8 965	9 961	11 370	4 578	7 493
Coke, petroleum and nuclear fuel	1 259	880	1 892	758	1 608	769
Chemicals and chemical products	22 927	41 788	54 438	16 927	29 940	37 914
Rubber and plastic products	1 582	570	2 443	893	747	1 356
Non-metallic mineral products	2 688	5 178	6 915	1 867	6 032	13 170
Metals and metal products	8 083	4 579	29 460	11 390	4 541	18 452
Machinery and equipment	4 332	6 688	5 274	1 932	4 722	5 187
Electrical and electronic equipment	5 409	12 998	15 055	7 817	18 216	14 365
Precision instruments	8 046	5 871	13 488	7 072	4 799	6 426
Motor vehicles and other transport equipment	5 760	3 639	11 052	6 322	4 010	9 455
Other manufacturing	1 694	367	1 525	250	696	934
Services	161 959	240 437	397 152	180 159	256 332	461 969
Electricity, gas and water	15 909	24 799	38 259	13 440	17 596	25 826
Construction	1 089	3 324	6 232	1 048	610	2 922
Trade	13 183	26 445	29 232	10 761	13 087	15 166
Hotels and restaurants	4 142	4 618	7 604	5 496	1 268	2 058
Transport, storage and communications	35 126	36 530	97 502	21 598	24 634	66 215
Finance	54 790	81 809	93 795	114 150	174 096	290 454
Business services	23 565	55 261	93 127	9 090	22 387	48 900
Public administration and defence	55	18	87	604	-	1 568
Education	77	79	1 499	41	88	74
Health and social services	1 115	2 726	6 201	541	321	1 704
Community, social and personal service activities	10 911	3 349	23 415	3 231	2 068	6 775
Other services	1 998	1 479	200	159	-	-
Unknown[a]	-	-	-	-	2	46

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
[a] Including non-classified establishments.
Note: The data cover the deals involving the acquisition of an equity stake of more than 10%.

Annex table B.7. Cross-border M&As, by sector/industry, 2003-2005
(Number of deals)

Sector/industry	Sales			Purchases		
	2003	2004	2005	2003	2004	2005
Total	4 562	5 113	6 134	4 562	5 113	6 134
Primary	343	366	368	257	327	306
Agriculture, hunting, forestry, and fisheries	40	37	42	23	33	30
Mining, quarrying and petroleum	303	329	326	234	294	276
Manufacturing	1 690	1 719	1 994	1 558	1 599	1 866
Food, beverages and tobacco	253	234	215	216	227	206
Textiles, clothing and leather	61	59	74	51	35	45
Wood and wood products	81	83	77	78	87	71
Publishing and printing	103	94	116	93	89	116
Coke, petroleum and nuclear fuel	13	16	19	11	14	12
Chemicals and chemical products	318	332	391	277	289	327
Rubber and plastic products	57	37	47	44	48	51
Non-metallic mineral products	73	74	84	70	70	91
Metals and metal products	133	142	214	131	106	185
Machinery and equipment	129	157	179	132	138	168
Electrical and electronic equipment	200	246	268	206	258	274
Precision instruments	139	121	155	131	115	147
Motor vehicles and other transport equipment	98	86	116	96	92	129
Other manufacturing	32	38	39	22	31	44
Services	2 529	3 028	3 772	2 743	3 184	3 956
Electricity, gas and water	102	123	135	93	96	98
Construction	71	70	91	47	46	75
Trade	376	381	551	264	284	371
Hotels and restaurants	74	94	99	53	50	53
Transport, storage and communications	293	386	445	249	308	370
Finance	510	584	652	1 117	1 292	1 573
Business services	909	1 171	1 481	771	942	1 200
Public administration and defence	10	3	11	10	-	12
Education	14	15	21	17	14	15
Health and social services	30	36	85	20	31	48
Community, social and personal service activities	122	146	172	75	96	119
Other services	18	19	29	27	25	22
Unknown[a]	-	-	-	4	3	6

Source: UNCTAD, cross-border M&A database (www.unctad.org/fdistatistics).
[a] Including non-classified establishments.
Note: The data cover the deals involving the acquisition of an equity stake of more than 10%.

Annex table B.8. Number of foreign affiliates in the host economy and of foreign affiliates of home-based TNCs, 2001-2003

Host/home economy	Foreign affiliates in the host economy			Foreign affiliates of home-based TNCs		
	2001 [a]	2002	2003	2001 [a]	2002	2003
Armenia	1 604 [e]	..	..	..	..	..
Austria	4 021	..	..	3 458	..	..
Bangladesh [b]	930 [e]	..	..	..	..	..
Cambodia [b]	27	23	..	..	..	..
China	31 423	34 466	..	..	..	..
Finland	2 448	..	..	..	..	..
France	9 057	..	..	8 409		..
Germany	13 979	9 462	9 314	34 401	22 721	22 551
Hong Kong, China	6 457	6 710	6 983	..	..	..
Hungary	26 645 [f]	..	..	..	..	..
India	465	490	..	..	..	..
Ireland	1 225	..	..	..	..	..
Italy	1 843 [e]	..	..	2 573 [e]	..	..
Japan	1 678	1 861	..	12 476	13 322	..
Lao People's Democratic Republic [b]	791 [e]	..	..	..	..	..
Luxembourg	764	..	..	673	..	..
Macao, China	560	..	723	29	..	35
Madagascar	8 797 [g]	..	..	..	..	..
Malaysia [b]	649	496	587	..	..	..
Myanmar [b]	7	9	..	..	..	..
Nepal [b]	524 [e]	..	..	..	..	..
Norway	5105 [g]	..	..	..	..	..
Pakistan	..	..	..	66	..	..
Papua New Guinea [b]	1887 [g]	..	..	..	..	..
Poland [c]	4 339 [f]	..	..	..	.. ..	
Republic of Korea	7 179 [h]	..	..	13 478	15 757	..
Romania	..	89 911	..	..	..	..
Singapore [d]	19 358 [g]	..	..	..	..	..
Slovenia	..	..	..	1 617 [f]	..	..
Sri Lanka [b]	1 343	1 430	1 562	..	..	..
Sweden	7 821	8 704	10 077	21 105	20 668	..
Taiwan Province of China [b]	13 697	14 839	..	8 205	9 130	..
Turkey	484	495	1 105	..	..	..
United Republic of Tanzania [b]	492 [f]	..	..	..	..	..
United States	8 978	5 664	..	23 957	24 564	25 112
Vanuatu	32	19	..	..	..	..

Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics).

[a] Or latest year available between 1998 and 2001.
[b] Approval data.
[c] Data refer to majority-owned affiliates only.
[d] Data refer only to the manufacturing sector.
[e] 1999.
[f] 2000.
[g] 1998.
[h] Approval data in 1998.

Annex table B.9. Assets of foreign affiliates in the host economy and of foreign affiliates of home-based TNCs, 2001-2003
(Millions of dollars)

Host/home economy	Foreign affiliates in the host economy			Foreign affiliates of home-based TNCs		
	2001 [a]	2002	2003	2001 [a]	2002	2003
Austria	217 102 [d]	..	..	84 775 [d]	..	..
China	342 578	380 725	..	..	..	..
Finland	48 209	..	..	..	..	..
Germany	665 116	..	..	1 467 450	..	..
India	11 324	12 154	..	..	..	..
Japan	170 369	205 407	..	669 629	..	..
Norway	88 167 [e]	..	..	..	..	..
Poland [b]	46 251 [d]	..	..	..	..	..
Singapore [c]	18 640	19 489	..	..	..	..
Slovenia	6 183 [d]	..	..	..	..	..
United States	5 436 996	5 229 812	5 811 755	5 884 388	6 802 399	8 194 207

Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics).
[a] Or latest year available between 1998 and 2001.
[b] Data refer to majority-owned affiliates only.
[c] Data refer only to the manufacturing sector.
[d] 2000.
[e] 1998.

Annex table B.10. Employment of foreign affiliates in the host economy and of foreign affiliates of home-based TNCs, 2001-2003
(Thousands of employees)

Host/home economy	Foreign affiliates in the host economy			Foreign affiliates of home-based TNCs		
	2001[a]	2002	2003	2001[a]	2002	2003
Austria	247.8	244.8	251.9	277.2	299.1	327.7
Belgium	..	..	..	245.0	236.8	209.7
Canada [b]	..	..	..	912.0	919.0	..
China	6 710.0	..	..	..	..	..
Czech Republic	613.6	599.4	600.1	13.1	9.9	16.8
Finland [b]	219.2	..	..	315.1 [b]	333.7 [b]	..
France	1 063.0	..	..	..	..	..
Germany	2 165.0	2 143.0	2 130.0	4 698.0	4 546.0	4 498.0
Hungary	606.7 [e]	..	..	..	..	..
Ireland	138.0	133.2	..	..	..	..
Italy	560.1 [f]	..	..	642.5 [f]	..	..
Japan	328.9	293.7	..	3 175.4	3 407.9	..
Luxembourg	72.9	..	..	103.3	..	..
Macao, China	34.8	..	28.6	4.8	..	5.2
Madagascar	193.8 [g]	..	..	..	..	..
Nepal [c]	73.5 [f]	..	..	..	..	..
Poland [b]	648.3	..	..	..	..	..
Portugal [b]	152.2	150.4	..	56.9	23.6	24.9
Singapore [d]	166.4	160.4	..	..	..	..
Slovenia	46.8 [e]	..	..	..	..	..
Sri Lanka [c]	363.6	380.7	397.2	..	..	..
Sweden	520.1	492.0	564.2	1 152.2	1 122.8	..
Switzerland	137.8	143.8	149.3	1 725.2	1 832.7	1 808.3
United Rep. of Tanzania	80.6 [e]	..	..	..	..	..
United States	6 268.2	5 925.1	5 735.0	9 803.6	9 776.0	9 878.9
Vanuatu	0.5	0.1	..	..	..	..

Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics).
[a] Or latest year available between 1998 and 2001.
[b] Data refer to majority-owned affiliates only.
[c] Approval data.
[d] Data refer only to the manufacturing sector.
[e] 2000.
[f] 1999.
[g] 1998.

Annex table B.11. Wages and salaries of foreign affiliates in the host economy and of foreign affiliates of home-based TNCs, 2001-2003
(Millions of dollars)

Host/home economy	Foreign affiliates in the host economy			Foreign affiliates of home-based TNCs		
	2001 [a]	2002	2003	2001 [a]	2002	2003
Finland	5 574	..	..	..	..	..
France [b]	24 677	..	..	..	..	..
Ireland [b]	4 106	..	..	..	..	..
Japan	19 524	17 191	..	27 387	31 589	..
Norway	9 667 [c]	..	..	..	..	..
Sweden	..	15 496 [b]	20 135 [b]	32 638	35 435	..
United States	344 730	341 935	344 558	309 670	311 395	342 955

Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics).
[a] Or latest year available between 1998 and 2001.
[b] Data refer to majority-owned affiliates only.
[c] 1998.

Annex table B.12. Sales of foreign affiliates in the host economy and of foreign affiliates of home-based TNCs, 2001-2003
(Millions of dollars)

Host/home economy	Foreign affiliates in the host economy			Foreign affiliates of home-based TNCs		
	2001 [a]	2002	2003	2001 [a]	2002	2003
Austria [b]	90 073 [d]	..	..	..	34 273	..
Belgium [b]	..	..	..	45 111 [f]	..	..
Canada [b]	..	..	..	234 084	229 924	..
China	314 388	376 820	..	..	..	..
Czech Republic	50 809	65 098	75 839	3 180	2 833	3 187
Finland [b]	47 389	..	..	104 399	120 730	..
France	278 132	..	..	336 569	..	..
Germany	711 492	760 587	941 950	1 262 628	1 334 086	1 526 916
Hungary	59 [d]	..	..	..	..	..
India	15 096	15 752	..	..	..	..
Ireland [b]	71 375	..	..	..	..	..
Italy	153 742 [e]	..	..	120 429 [e]	..	..
Japan	211 827	215 716	..	1 110 159	1 100 371	1 252 235
Luxembourg	16 320 [d]	..	..	31 802 [d]	..	..
Madagascar	1 181 [f]	..	..	..	..	..
Poland [b]	62 070 [d]	..	..	..	..	..
Portugal [b]	31 256	34 512	..	11 439	10 252	11 919
Singapore [c]	59 556	61 313	..	..	..	..
Slovenia	6 331 [d]	..	..	..	..	..
Sweden	..	146 428 [b]	193 592 [b]	286 203	305 966	..
United States	2 327 091	2 216 530	2 340 158	2 945 850	2 945 701	3 383 010

Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics).
[a] Or latest year available between 1998 and 2001.
[b] Data refer to majority-owned affiliates only.
[c] Data refer only to the manufacturing sector.
[d] 2000.
[e] 1999.
[f] 1998.

Annex table B.13. Value added of foreign affiliates in the host economy and of foreign affiliates of home-based TNCs, 2001-2003

(Millions of dollars)

Host/home economy	Foreign affiliates in the host economy			Foreign affiliates of home-based TNCs		
	2001 [a]	2002	2003	2001 [a]	2002	2003
China	86 119	103 578	..	..	..	..
Czech Republic	11 304	14 157	15 928	278	240	375
Finland	10 795	..	..	..	..	..
France	69 866	..	..	..	..	..
Hungary	11 060 [d]	..	..	..	..	..
Ireland [b]	25 004	..	..	..	..	..
Japan	..	36 893	..	..	..	..
Madagascar	359 [e]	..	..	..	..	..
Norway	29 315 [e]	..	..	..	..	..
Portugal [b]	5 910	6 156	..	1 223	870	1 115
Singapore [c]	19 443	21 290	..	..	..	..
Sweden	..	32 388 [b]	43 489 [b]	65 085	71 044	..
United States [b]	417 122	460 609	486 344	585 657	601 606	704 653

Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics).
[a] Or latest year available between 1998 and 2001.
[b] Data refer to majority-owned affiliates only.
[c] Data refer only to the manufacturing sector.
[d] 2000.
[e] 1998.

Annex table B.14. Profits of foreign affiliates in the host economy and of foreign affiliates of home-based TNCs, 2001-2003

(Millions of dollars)

Host/home economy	Foreign affiliates in the host economy			Foreign affiliates of home-based TNCs		
	2001 [a]	2002	2003	2001 [a]	2002	2003
China [b]	17 433	22 680	..	..	..	..
Finland	2 439	..	..	..	..	..
France [b,c]	18 670 [f]	..	..	..	..	..
India [b]	1 535	1 871	..	..	..	..
India [d]	1 057	1 288	..	..	..	..
Japan [b]	10 043	12 399	..	18 682	29 505	..
Japan [d]	3 975	4 290	..	6 896	12 958	..
Macao, China	289	400	494	-5	8	-5
Macedonia, TFYR	5 [g]	..	..	..	..	..
Paraguay	88	..	..	..	..	..
Poland [c]	2 004 [h]	..	..	..	..	..
Singapore [e]	5 687	7 779	..	..	..	..
Slovenia	181	..	..	..	..	..
Sweden	..	5 477 [c]	7 786 [c]	8 055	8 051	..
United States [b]	- 44 894	- 57 011	37 884	192 575	228 678	372 829

Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics).
[a] Or latest year available between 1998 and 2001.
[b] Profits before taxes.
[c] Data refer to majority-owned affiliates only.
[d] Profits after taxes.
[e] Data refer only to the manufacturing sector.
[f] 1998.
[g] 1999.
[h] 2000.

Annex table B.15. Exports of foreign affiliates in the host economy and of foreign affiliates of home-based TNCs, 2001-2003
(Millions of dollars)

Host/home economy	Foreign affiliates in the host economy			Foreign affiliates of home-based TNCs		
	2001 [a]	2002	2003	2001 [a]	2002	2003
Austria	24 855	..	..	23 724 [b]	..	..
China	133 235	169 990	..	..	..	..
Czech Republic	16 982	20 523	25 754	744	208	152
Finland	10 404	..	..	..	..	..
France	59 267	..	..	..	..	..
Hungary	21 042 [d]	..	..	..	..	..
India	2 122	2 330	..	..	..	..
Ireland [b]	61 049 [d]	..	..	..	..	..
Japan	43 902	42 392	..	389 699	368 918	..
Poland [b]	23 565 [d]	..	..	..	..	..
Portugal [b]	6 812	7 598	..	274	309	402
Singapore [c]	41 371	42 765	..	..	..	..
Slovenia	3 043 [d]	..	..	..	..	..
Sweden	..	34 138 [b]	44 133 [b]	64 189	66 663	..
United States	157 459	150 147	159 590	897 827 [b]	918 979 [b]	..

Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics).
[a] Or latest year available between 1998 and 2001.
[b] Data refer to majority-owned affiliates only.
[c] Data refer only to the manufacturing sector.
[d] 2000.

Annex table B.16. Imports of foreign affiliates in the host economy and of foreign affiliates of home-based TNCs, 2001-2003
(Millions of dollars)

Host/home economy	Foreign affiliates in the host economy			Foreign affiliates of home-based TNCs		
	2001 [a]	2002	2003	2001 [a]	2002	2003
Austria	27 448	..	..	16 945	..	..
China	125 863	160 286	..	..	..	..
Czech Republic	16 508	20 291	24 162	1 984	2 063	1 959
Finland	1 279 [c]	..	..	..	..	..
Hungary	24 552 [d]	..	..	.. ..	..	
India	1 695	1 810	..	..	..	..
Ireland [b]	12 328 [d]	..	..	..	..	..
Japan	39 822	32 954	..	512 631	453 779	..
Poland [b]	12 278 [d]	..	..	..	..	..
Portugal [b]	7 682	8 918	..	578	668	883
Sweden	..	33 234 [b]	42 256 [b]	46 517	48 863	..
United States	347 823	348 111	368 400	215 300	..	..

Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics).
[a] Or latest year available between 1998 and 2001.
[b] Data refer to majority-owned affiliates only.
[c] 1998.
[d] 2000.

Annex table B.17. R&D expenditures of foreign affiliates in the host economy and of foreign affiliates of home-based TNCs, 2001-2003

(Millions of dollars)

Host/home economy	Foreign affiliates in the host economy			Foreign affiliates of home-based TNCs		
	2001 [a]	2002	2003	2001 [a]	2002	2003
Finland	87.7	..	..	..	..	..
India	45.1	60.5	..	..	..	..
Japan	5 487.3	5 319.5	..	3 056.2	3 657.3	..
Poland [b]	48.1 [e]	..	..	..	..	..
Singapore [c]	969.7	884.7	..	..	..	..
Sweden	..	3 116.1 [b]	3 628.4 [b]	8 975.2	8 725.5	..
Switzerland	..	..	..	5 793.9 [f]	..	..
United Kingdom [b]	5 104.1 [f]	..	..	..	..	..
United States [d]	29 247.0	30 188.0	32 209.0	19 702.0	21 151.0	..

Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics).
[a] Or latest year available between 1998 and 2001.
[b] Data refer to majority-owned affiliates only.
[c] Data refer only to the manufacturing sector.
[d] Data refer to R&D performed by affiliates. The figures for foreign affiliates in home-based TNCs abroad refer to majority-owned affiliates only.
[e] 2000.
[f] 1998.

Annex table B.18. Employment in R&D of foreign affiliates in the host economy and of foreign affiliates of home-based TNCs, 2001-2003

(Thousands of employees)

Host/home economy	Foreign affiliates in the host economy			Foreign affiliates of home-based TNCs		
	2001 [a]	2002	2003	2001 [a]	2002	2003
Finland	7.2	..	..	..	..	..
Japan	-	..	..	13.5 [d]	..	..
Sweden [b]	15.7 [c]	..	..	16.8 [c]	..	..
United Kingdom [b]	37.0 [d]	..	..	..	..	..
United States	141.7	128.1 [b]	..	123.5 [b,c]	..	..

Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics).
[a] Or latest year available between 1998 and 2001.
[b] Data refer to majority-owned affiliates only.
[c] 1999.
[d] 1998.

Annex table B.19. Royalty receipts and payments of foreign affiliates in the host economy and of foreign affiliates of home-based TNCs, 2001-2003

(Millions of dollars)

Host/home economy	Foreign affiliates in the host economy			Foreign affiliates of home-based TNCs		
	2001 [a]	2002	2003	2001 [a]	2002	2003
(a) Royalty receipts						
Germany	744	1 025	1 176	859	839	..
United States	1 644 [b]	..	..	9 241 [c]	..	..
(b) Royalty payments						
Austria	572	..	..	..	..	..
Germany	2 224	1 617	1 658	1 481	1 754	..
India	33	35	..	..	..	..
Japan	2 752	1 200	..	..	..	..
Korea, Republic of	18 228 [d]	..	..	..	..	..
United States	7 738 [b]	..	..	35 845 [c]	..	..

Source: UNCTAD FDI/TNC database (www.unctad.org/fdistatistics).
[a] Or latest year available between 1998 and 2001.
[b] 1999.
[c] Data refer to majority-owned affiliates only in 1999.
[d] 1998.

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