2013

Inward and Outward FDI Country Profiles, Second Edition

Inward and Outward FDI Country Profiles, Second Edition 2013

Edited by Karl P. Sauvant, Padma Mallampally, and Geraldine McAllister (New York: VCC, 2013).

This second edition contains a series of 77 standardized country profiles dealing with the inward and outward foreign direct investment (FDI) performance of 40 economies. The profiles have been peer-reviewed by a global network of experts. The publication is intended to contribute to the analysis of trends in foreign direct investment and policy issues related to them. More specifically, the individual profiles discuss FDI trends and developments (country-level developments, the corporate players); effects of the recent global crises; and the policy scene. Each profile contains a standard set of tables, including on FDI stocks and flows, sectoral and geographical FDI distributions, the largest M&As and greenfield investments, the principal foreign affiliates (for inward FDI), and the principal multinational enterprises (for outward FDI). The standardized template used to produce the profiles allows cross-country comparisons. The volume is meant to be a reference tool for anyone interested in foreign direct investment.

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Vale Columbia Center
on Sustainable International Investment

A joint center of Columbia Law School and
the Earth Institute at Columbia University

INWARD AND OUTWARD FDI COUNTRY PROFILES

·SECOND EDITION 2013·

Edited By

Karl P. Sauvant Padma Mallampally Geraldine McAllister

VALE COLUMBIA CENTER
ON SUSTAINABLE INTERNATIONAL INVESTMENT
A JOINT CENTER OF COLUMBIA LAW SCHOOL AND THE EARTH INSTITUTE AT COLUMBIA UNIVERSITY

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The Vale Columbia Center on Sustainable International Investment (VCC), led by Lisa Sachs, is a joint center of Columbia Law School and the Earth Institute at Columbia University. It is the only applied research center and forum dedicated to the study, practice and discussion of sustainable international investment, through interdisciplinary research, advisory projects, multi-stakeholder dialogue, educational programs, and the development of resources and tools (www.vcc.columbia.edu).

The views expressed by the individual authors of the chapters in this eBook do not necessarily reflect the opinions of Columbia University or its partners and supporters. The *Columbia FDI Profiles* in which these originally appeared is a peer-reviewed series.

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Acknowledgments

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Karl P. Sauvant
Padma Mallampally
Geraldine McAllister

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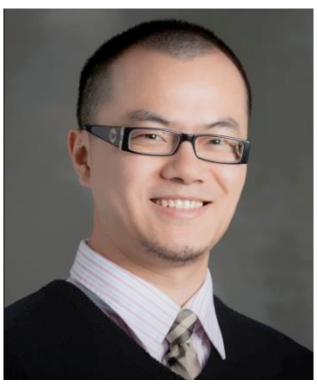

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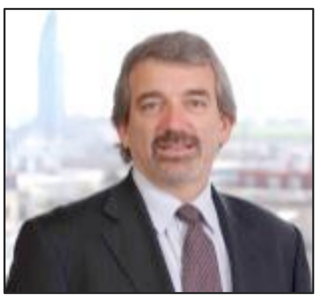

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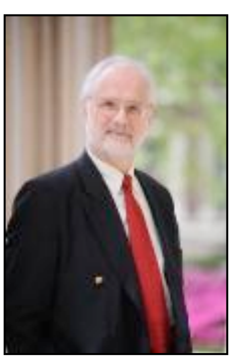

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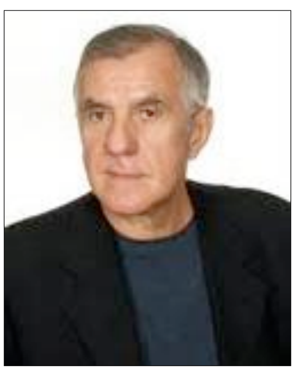

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List of abbreviations

BIT - bilateral investment treaty

BRIC - Brazil, Russia, India, China

FDI - foreign direct investment

FTA - free trade agreement

GDP - gross domestic product

IFDI - inward foreign direct investment

IMF - International Monetary Fund

M&A - mergers and acquisitions

MNE - multinational enterprise

NAFTA - North American Free Trade Agreement

OECD - Organisation for Economic Co-operation and Development

OFDI - outward foreign direct investment

R&D - research and development

SME - small and medium-sized enterprise

SOE – state-owned enterprise

SWF - sovereign wealth fund

UNCTAD - United Nations Conference on Trade and Development

WTO - World Trade Organization

Foreword

After a sharp decline of 33% in 2009 and growth of 14% in 2010, global foreign direct investment (FDI) inflows achieved further growth of 16% in 2011 to reach US$ 1.6 trillion – only to decline again in 2012, to an estimated US$ 1.3 trillion.[1] Although FDI flows in 2011 were still far below their 2007 peak of US$ 2 trillion, they nevertheless exceeded the average level of the three years preceding the global economic and financial crises. At a time of continued weak global demand and the ongoing debt crisis in Europe and the United States, the recovery of FDI in 2011, although patchy, gave grounds for cautious optimism about recovery in the global economy. However, the decline in 2012 suggests that FDI recovery itself may take longer than expected.

Behind these numbers lies evidence of a complex and changing global economy. In 2011, FDI flows to developed countries rebounded, increasing 20% year-on-year. In 2012, FDI inflows to developed countries declined sharply, falling 32%, to an estimated US$ 550 billion – a level last seen in 2004-2005. Inflows to Europe fell by 32%, to US$ 293.5 billion, and inflows to the United States fell 35%, to US$ 147 billion.

Over the same period, FDI flows to emerging markets as a whole also rose in 2011. In 2012, according to preliminary estimates, there was a small decline, but emerging markets' share of global FDI inflows rose to exceed that of the developed countries for the first time ever, accounting for 58% of global flows in 2012, up from 50% in 2011. But this rise masks significant regional variations. The growth of flows to Africa and Latin America and the Caribbean continued, with growth of 6% and 7%, respectively, while Asia and the transition economies saw declines of 10% and 13%, respectively.

In terms of outward FDI, state-controlled entities, state-owned enterprises principally, but also sovereign wealth funds, have become increasingly important players. This has led to a debate over competitive neutrality or the creation of a more level playing field for outward FDI through policies to mitigate the direct and indirect government benefits and other advantages that such entities may enjoy.

Investment liberalization and promotion have remained the dominant elements of recent investment policies. Nevertheless, in a number of countries, the investment climate is becoming less welcoming and the risk of investment protectionism has increased. Despite the fact that it is difficult to identify, investment protectionism is an issue that merits closer attention, especially when it is conflated with countries' industrial policies.

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[1] UNCTAD, *Global Investment Trends Monitor*, No.11, available at: http://unctad.org/en/PublicationsLibrary/webdiaeia2013d1_en.pdf*]*.

As enterprises with formidable knowledge, cutting-edge technology and global reach, multinational enterprises (MNEs) play an increasingly important role in the global effort to reduce greenhouse gas emissions and move toward a low-carbon economy. MNEs are providing more development opportunities to developing and transition economies through a broadening array of production and investment models, including non-equity forms of international production, such as contract manufacturing and farming, service outsourcing, franchising, and licensing, in addition to FDI. Together, these various equity- and non-equity forms of the international expansion of MNEs are making international production an increasingly central part of the world economy. This, in turn, gives rise to a myriad of policy issues, many of which are explored in a companion series of the Vale Columbia Center on Sustainable International Investment (VCC), the *Columbia FDI Perspectives*.

Policies, however, should be well-informed if the challenges posed by the rise of FDI and international production are to be addressed successfully. More precisely, we need comprehensive, comparable and reliable data on, and an understanding of, the inward and outward FDI of individual countries, and we must monitor the latest trends in each country's FDI policies. This requires thorough and meticulous work, precisely the type of work that VCC is sponsoring through its *Columbia FDI Profiles* series.[2]

This second edition of *Inward and Outward FDI Country Profiles* continues the tradition of providing access to concise and practical analysis of country experiences established by the *Columbia FDI Profiles*, by bringing together all the *Profiles* published to date. It will be a valuable reference for policymakers, investment promotion agencies, business, academia, civil society, and others interested in FDI issues. In a time of relentless social and political upheaval (with prospects for the global economy still uncertain) and growing emphasis on sustainable development, building a better world for all should be our common pursuit. I recommend this volume to all involved in this endeavor.

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Tianjing, May 2013

[2] Available at www.vcc.columbia.edu.

Introduction: Salient features of world FDI

by

Karl P. Sauvant, Padma Mallampally and Geraldine McAllister

This volume is the second edition of a collection of country profiles on inward and outward foreign direct investment (FDI) published by the Vale Columbia Center on Sustainable International Investment. It brings together the profiles included in the first edition3 and those published subsequently as individual electronic publications in the *Columbia FDI Profiles* series. The second edition includes a total of 77 profiles for 40 economies. Each of these profiles examines, in a concise and standardized format, the salient features of inward or outward FDI of a particular economy and the policy context in which they have to be seen. In some cases, there are two or more profiles on the inward and/or outward FDI of an economy, as one or more updated profiles followed the publication of the first profile. [4]This introduction provides the global context for the main trends and developments discussed in the country profiles with respect to FDI stock and flows, the sectoral and geographical distribution of FDI, leading corporate players, effects of the recent global crises, and the policy scene with respect to FDI.

Foreign direct investment by multinational enterprises (MNEs) plays an important role in the world economy today. The growth of FDI – investment involving a long-term relationship and a lasting interest and control by an entity resident in one economy in an enterprise located in an economy other than that of the investor – in recent decades reflects growing capabilities and motivation on the part of enterprises in developed and increasingly, emerging-market economies, to extend their production activities to foreign locations. It also reflects the continuing liberalization of policies relating to FDI and the opening up of economies around the world to the establishment of affiliates by foreign firms in various production activities.

The upward trend in global FDI is seen in the increasing size of the world's FDI stock and FDI flows since 1980 and, especially, from 1990 onwards. The world's inward FDI stock rose from US$ 700 billion in 1980 [5] to US$ 2 trillion in 1990, then to an annual average of US$ 15 trillion in 2005-2007, and US$ 20 trillion in 2011 (table 1). Annual inward FDI flows world-wide rose from US$ 54 billion in 1980 to US$ 207 billion in 1990, an average of US$ 1.4 trillion annually in 2005-2007, and US$ 1.5 trillion in 2011. International production by foreign affiliates of MNEs engaged in FDI has risen simultaneously: sales of foreign affiliates world-wide rose from

[3] Karl P. Sauvant, Thomas Jost, Ken Davies, and Ana-Maria Poveda Garces, eds., *Inward and Outward FDI Country Profiles* (New York: VCC, January 2011).
[4] The year mentioned at the end of the title of each of the profiles below indicates the year in which the profile was prepared and first published in the series.
[5] Data on inward FDI stock and flows in 1980 are from UNCTAD Statistics, available at: http://www.unctad.org/en/Pages/Statistics.aspx (last visited March 23, 2013).

an estimated US$ 3 trillion in 1982,[6] to US$ 5 trillion in 1990, an annual average of US$ 21 trillion in 2005-2007, and US$ 26 trillion in 2010, and stood at US$ 28 trillion in 2011 (table 1). (In comparison, world exports of goods and non-factor services amounted to US$ 2 trillion in 1982, US$ 4 trillion in 1990, an annual average of US$ 15 trillion in 2005-2007, US$ 19 trillion in 2010, and US$ 22 trillion in 2011). Employment by foreign affiliates around the world rose from a total of 20 million in 1982 to 21 million in 1990, an annual average of 52 million in 2005-2007, and 69 million in 2011.

Table 1. Selected indicators of FDI and international production, 1990-2011
(Billions of dollars, value at current prices)

Item	1990	2005–2007 pre-crisis average	2009	2010	2011
FDI inflows	207	1 473	1 198	1 309	1 524
FDI outflows	241	1 501	1 175	1 451	1 694
FDI inward stock	2 081	14 588	18 041	19 907	20 438
FDI outward stock	2 093	15 812	19 326	20 865	21 168
Income on inward FDI [a]	75	1 020	960	1 178	1 359
Rate of return on inward FDI [b]	*4.2*	*7.3*	*5.6*	*6.3*	*7.1*
Income on outward FDI [a]	122	1 100	1 049	1 278	1 470
Rate of return on outward FDI [b]	*6.1*	*7.2*	*5.6*	*6.4*	*7.3*
Cross-border M&As	99	703	250	344	526
Sales of foreign affiliates	5 102	20 656	23 866	25 622 [c]	27 877 [c]
Value added (product) of foreign affiliates	1 018	4 949	6 392	6 560 [c]	7 183 [c]
Total assets of foreign affiliates	4 599	43 623	74 910	75 609 [c]	82 131 [c]
Exports of foreign affiliates	1 498	5 003	5 060	6 267 [d]	7 358 [d]
Employment by foreign affiliates (thousands)	21 458	51 593	59 877	63 903 [c]	69 065 [c]
Memorandum:					
GDP	22 206	50 411	57 920	63 075 [e]	69 660 [e]
Gross fixed capital formation	5 109	11 208	12 735	13 940	15 770
Royalties and licence fee receipts	29	156	200	218	242
Exports of goods and non-factor services	4 382	15 008	15 196	18 821 [e]	22 095 [e]

Source: UNCTAD, *World Investment Report 2012: Towards a New Generation of Investment Policies* (New York and Geneva: United Nations, 2012), table I.8, p. 24 (footnotes omitted).

The global financial and economic crises of 2008-2009 and their aftermath did not leave FDI unaffected. World inward FDI stock fell from its hitherto record level of US$ 18 trillion in 2007 to US$ 15 trillion in 2008,[7] but it recovered in 2009 and rose to reach US$ 20 trillion in 2010 and a similar amount in 2011 (table 1). Inward FDI flows fell from a peak of US$ 2 trillion in 2007 to US$ 1.8 trillion in 2008 and US $ 1.2 trillion in 2009. They began recovering in 2010, with flows of US$ 1.3 trillion in that year and US$ 1.5 trillion in 2011. However, preliminary figures

[6] Data on foreign affiliates' sales and employment, and on world exports in 1982 are from UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (New York and Geneva: United Nations, 2009), table I.6, p. 18.
[7] Data on FDI stock and flows in 2007 and 2008 are from UNCTAD Statistics, available at: http://unctad.org/en/Pages/Statistics.aspx (last visited March 23, 2013).

indicate a decline in global FDI inflows to US$ 1.3 trillion in 2012,[8] suggesting that the recovery of FDI may take longer than expected. Furthermore, while the rate of growth of global FDI flows was higher than the growth rates of the world's GDP, gross fixed capital formation and exports of goods and services through most of the period 1987-2007, it fell below the latter rates in 2008, 2009 and 2012.[9]

Developed countries as well as emerging-market host economies have shared in the remarkable growth of FDI in recent decades. Developed economies attracted 69%, 74% and 75%, and developing economies, 31%, 24% and 24%, respectively, of world inward FDI flows in 1980-1982, 1990-1992 and 2000-2002; the transition economies of South-Eastern Europe and the Commonwealth of Independent States received 0.4% and 1%, respectively, of the flows in 1990-1992 and 2000-2002.10 In 2009-2011, however, the share of developed economies fell to 49%, while that of the developing economies rose to 45% and that of the transition economies, to 6%. Furthermore, in 2012, as flows to European Union economies and the United States declined in light of their continued uncertain economic prospects following the financial and economic crises, FDI flows to developing economies, at US$ 680 billion, exceeded those to developed economies (US$ 550 billion) for the first time ever, according to UNCTAD estimates.[11]

When it comes to outward FDI, developed economies remain the largest source, although the share of outward FDI from those economies fell from 80% or more of world outward FDI flows until 2008, to 71% in 2009-2011.[12] More enterprises from an increasing number of emerging markets are now establishing affiliates abroad, and their share in global outflows of FDI has risen to nearly a third of the world total in 2009-2011. Among emerging-market economies, the BRICS (Brazil, Russia, India, China, and South Africa) are becoming important sources of FDI: their outward FDI rose from US$ 7 billion in 2000 (1% of world FDI flows) to US$ 126 billion (9% of world FDI flows) in 2012, with Russia and China accounting for the lion's share of the investments.[13]

The growth of world FDI over time has been accompanied by a shift in its sectoral distribution toward services. According to UNCTAD estimates, by 1990, services already accounted for 49% of the world's inward FDI stock, while the manufacturing and primary sectors accounted for 41% and 9%, respectively.[14] By 2010, the share of services had risen to 64%, while that of manufacturing had fallen to 25%, and that of the primary sector to 7%. The dominant share of services is particularly noteworthy in the case of developing economies, which, as a group, had

[8] The figure for global FDI inflows in 2012 is a preliminary estimate by UNCTAD; see, *Global Investment Trends Monitor*, No. 11, January 23, 2013, available at: www.unctad.org/diae (last visited March 23, 2013).
[9]Based on data from UNCTAD, *World Investment Report 2009*, op. cit; table 1 above; and UNCTAD, *Global Investment Trends Monitor*, No. 11, op. cit.
[10] Based on data from UNCTAD Statistics, available at: http://www.unctad.org/en/Pages/Statistics.aspx (last visited April 20, 2013).
[11] Data for 2012 are from UNCTAD, *Global Investment Trends Monitor*, No.11, op. cit.
[12] Based on data from UNCTAD Statistics, available at: http://www.unctad.org/en/Pages/Statistics.aspx
[13] UNCTAD, *Global Investment Trends Monitor*, Special Edition, March 23, 2013, unedited version, available at: http://www.unctad.org/diae (last visited April 2, 2013).
[14] UNCTAD, *World Investment Report 2012: Towards a New Generation of Investment Policies* (New York and Geneva: United Nations), annex tables, web table 24, available at: www.unctad.org/wir (last visited April 19, 2013).

47% and 67% of their inward FDI stock in services in 1990 and 2010, respectively -- shares similar to those of the developed economies where services accounted for 49% and 64%, respectively, of total inward FDI in those two years. There are, of course, important differences among countries, especially in the developing world; for example, extractive industries continue to attract large shares of inward FDI in several African and Latin American economies; and a single economy (Hong Kong, China) accounted for 74% of developing economies' inward FDI stock in business activities (which hosted 37% of their FDI stock in services), according to UNCTAD estimates.

The universe of MNEs has been expanding steadily. In 2010, the number of parent MNEs was at least 100,000, spread over a large number of home economies, with at least 900,000 foreign affiliates around the world.[15] The largest corporate players engaged in FDI are, however, mostly MNEs based in developed economies. In 2011, 93 of the world's top 100 non-financial MNEs, ranked by foreign assets, were from developed economies, headed by the United States (home to 22 out of the 93 companies).[16] The top five on the list included General Electric (United States), Royal Dutch Shell (Netherlands/ the United Kingdom), BP Plc. (United Kingdom), Exxon Mobil Corporation (United States), and Toyota Motor Corporation (Japan). Five MNEs based in developing economies -- Citic Group (China), Hutchison Whampoa (Hong Kong, China), Vale SA (Brazil), Petronas (Malaysia), and Cemex S.A.B de C.V. (Mexico) figured among the world's top 100 non-financial MNEs in 2011.

As noted, the growth of FDI in recent decades reflects increasing capabilities and the interest of enterprises around the world to engage in international production in light of the advantages that various locations have to offer, as well as the growing liberalization of countries' policies with respect to FDI. An increasing number of developing economies and economies in transition that had earlier restricted or controlled the entry and operations of MNES have liberalized their policies with respect to FDI since the 1990s. The 2000s brought further institutional and policy changes, with the spread of investment promotion agencies in countries worldwide and the adoption of policies and measures to attract and facilitate FDI.

The majority of national regulatory changes affecting FDI undertaken since the early 1990s have been favorable to FDI. According to UNCTAD data, during 1992-2009, in most years, more than 80% of the national policy measures – the great majority directed toward inward FDI -- supported the liberalization and promotion of FDI.[17] However, since the early 2000s, there has been a trend toward a somewhat more stringent policy environment for FDI, and the share of regulatory changes making the investment climate more welcoming for MNEs in total regulatory changes has declined, although it generally remained above 70% (figure 1). Extractive

[15] UNCTAD, *World Investment Report 2011: Non-equity modes of international production and development* (New York and Geneva: UNCTAD, 2011), annex tables, web table 34, available at: www.unctad.org/wir (last visited April 30, 2013).
[16] UNCTAD, *World Investment Report 2012*, op. cit., annex tables, web table 28, available at: http://www.unctad.org/wir (last visited April 20, 2012).
[17] UNCTAD, *World Investment Report 2010: Investing in a Low-Carbon Economy* (New York and Geneva: United Nations, 2010), figure III.1, p.76.

industries, agribusiness and financial services were found to have relatively high shares of the less favorable regulatory changes, such as entry restrictions, implemented in 2011.[18]

Figure 1. National regulatory changes affecting FDI, 2000-2011
(Percent)

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Number of countries that introduced changes	45	51	43	59	80	77	74	49	41	45	57	44
Number of regulatory changes	81	97	94	126	166	145	132	80	69	89	112	67
Liberalization/promotion	75	85	79	114	144	119	107	59	51	61	75	52
Regulation/restriction	5	2	12	12	20	25	25	19	16	24	36	15
Neutral/indeterminate	1	10	3	0	2	1	0	2	2	4	1	0

Source: UNCTAD, *World Investment Report 2012: Towards a New Generation of Investment Policies* (New York and Geneva: United Nations), figure III.1, p. 76.

An increasing number of economies are also involved in international policy making on FDI through bilateral investment treaties (BITs) on the promotion and protection of investments and other international investment agreements (IIAs), such as free trade agreements or economic partnership agreements with investment components. By the end of 2011, the cumulative number of BITs signed by countries stood at 2,813, and that of other IIAs, at 331.[19] While BITs have played an important role and continue to dominate international investment policy making in quantitative terms, there is growing emphasis on regional cooperation as the basis for international investment policy. In addition to BITs and other IIAs, double taxation treaties (DTTs), which can also play a role in encouraging FDI, have increased steadily in number, to reach a global total of 3,091 in 2011.

At the turn of the millennium, various economies began to reap the fruits of opening up their economies to international investment years earlier and seeking integration into the world economy. Several developing economies in Asia, Latin America and the Caribbean, and transition economies in Europe and Asia are cases in point. The considerable and continued rise in their inward FDI – a package of tangible and intangible assets (capital, technology, organizational knowhow, and others) -- and the resulting job creation, production and exports (including through the integration in international value chains) have contributed to the GDP growth of those economies. The next challenge facing them and other emerging host economies is to ensure the quality of the FDI they receive in terms of its contribution to sustainable development, that is, to their social and human development, environmental sustainability and good governance, as well as economic growth and development. Such concerns, as well as national security and strategy considerations, may explain in part the increase in recent years noted above in the proportion of national regulatory changes that restrict FDI, alongside the continued preponderance of changes in the direction of FDI liberalization and promotion. At the same time, there is growing awareness of the need to avoid investment protectionism while incorporating sustainable development considerations into FDI policies.

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[18] UNCTAD, *World Investment Report 2012*, op. cit., pp. 76-77.
[19] UNCTAD, *World Investment Report 2012*, op. cit., p. 84.

Recent shifts in investment patterns suggest not only evolving national policy priorities, but also changing investor motivations. While less than a decade ago, resource-seeking motivations (relating to natural resources as well as low labor cost) were the major reasons why developed-economy MNEs sought to invest in many developing economies, today, that is changing. The Latin America and the Caribbean region, for example, continues to be sought after by investors – from developed as well as, increasingly, emerging markets -- for its vast supply of natural resources and its off-shore tax havens, and yet, after the recent crises, market-seeking motivations increasingly lead investment in the region. In East and South-East Asia, economies such as Taiwan Province of China and Singapore have begun to turn more to efficiency-seeking investment in the services sector that could contribute toward furthering their economies' structural transformation, while priorities in the previous half-decade focused on the spill-over of technologies (for instance, by actively attracting investment in manufacturing).

As noted, in 2011, nearly 70 million jobs were estimated to have been created world-wide by foreign affiliates of MNEs, and the value added by those affiliates, estimated at US$ 7 trillion, amounted to more than 10% of the world's GDP (table 1). In addition to their direct impact reflected in these and other indicators, there are numerous indirect effects of FDI and MNE activity on host and home economies, including, through transfers of technology and knowledge to and from host and home economies. The key role MNEs play in the global economy through international investment, and the changing landscape of such investment as MNEs as well as host and home economies adjust to changing conditions and objectives, make it important to understand trends and developments with respect to FDI and the policy context in which they take place.

This volume seeks to contribute to such an understanding by bringing together, in a single collection, the country profiles on inward and outward FDI prepared as part of the *Columbia FDI Profiles* series.20 Authored and peer-reviewed by scholars from around the globe, the profiles throw light on the diverse experiences of the economies that are covered with respect to inward and/or outward FDI. Each profile covers country-level developments with respect to inward or outward FDI, the leading corporate players, effects of the recent global crises or other special developments, and key aspects of, and developments with respect to, the national policy scene, following a standardized format as far as possible. We hope that the profiles in this volume contribute to an improved understanding of the evolving role of FDI around the world and the changing economic and policy context in which such investment takes place, and serve as a reference tool for further research on the subject.

[20] Each of the profiles in the series was posted on the website of the Vale Columbia Center, at http://www.vcc.columbia.edu.

PART 1

DEVELOPED ECONOMIES

Chapter 1 - Austria

Austria: Inward FDI and its policy context, 2010

*Christian Bellak and Susanne Mayer**

Since World War II, inward foreign direct investment (IFDI) has played an important role in Austria, contributing substantially to overall investment. Austria's IFDI stock increased every year except in two. The most recent decline occurred in 2008 as a result of the economic and financial crisis. In fact, valuation adjustments led to a fall of the country's IFDI stock by 4%. Yet, in real terms, as measured by employment, IFDI rose even during 2008, and projections for 2009 suggest renewed growth of the country's IFDI stock. This short Profile highlights a number of stylized facts on IFDI and describes the country's FDI policy environment.

Trends and developments

Country-level developments

In Austria, foreign affiliates traditionally have played an important role. In the mid-1970s, the share of foreign capital in the manufacturing sector was roughly one third, while the other two thirds were held by the state and the private sector in equal proportions. These shares have changed since, due to the privatization policy, the structural transformation toward a service economy and the increase in international mergers and acquisitions (M&As). IFDI still contributes considerable amounts to gross fixed capital formation (GFCF) (in 2009, the share of IFDI flows in GFCF was 13%).

Turning to more recent developments, in 2007 Austria's aggregate IFDI stock grew by 47% to US$ 163 billion (annex table 1) or to 41% in relation to its GDP. In 2008, the upward trend stopped and Austria's IFDI stock decreased. But already in 2009, it picked up again, almost reaching the value of 2007. Part of the decline in 2008 in dollar terms is due to the depreciation of the Euro against the dollar. In 2009, net IFDI flows to Austria (annex table 2) amounted to US$ 7.3 billion. They consisted of new equity of US$ 4.4 billion and equity divestments of US$ 5.0 billion (hence net equity investments decreased by US$ 0.6 billion), reinvested earnings of US$ 4.4 billion and other capital (US$ 3.5 billion).

Data for the first quarter of 2010 show a net IFDI flow of US$ 5.8 billion, which is a strong increase compared to the first quarter of 2009 (US$ 2.5 billion). Yet, on an annual basis, a sharp upswing cannot be expected, due to the low economic growth rates in some of the home economies of Austrian IFDI.

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The sectoral distribution of Austria's IFDI stock clearly reflects the structural transformation of the country's economy and its geographical advantages (annex table 3). In terms of total capital at market prices, the manufacturing sector accounts for only 14% of the total stock (in 1989 its share was 40%). Thus, today most IFDI is directed toward the services sector, with "professional, scientific and technical services" accounting for 45% of the total IFDI stock – a share that has increased strongly during the past decades (see annex table 3 for details). This sector *inter alia* includes engineering, applied research and consulting services. Also, the share of "financial intermediation" increased substantially, with important foreign banks taking over Austrian banks.

In contrast to the sectoral distribution, which has changed considerably over the past decades, the geographical distribution of the home countries of foreign investors in Austria has changed little. The figures presented in annex table 4 reveal that IFDI is still a very regional phenomenon.[1] The three neighboring countries (Germany, Switzerland, Italy) accounted for more than 50% of the total IFDI stock (US$ 159 billion) in 2007. Other European countries – except for the Netherlands, with a stake of US$ 9 billion – own negligible amounts, except the United Kingdom. Among the non-European home countries, even the stocks of large countries like Japan and the United States together amounted to only US$ 21 billion (or 11%) in 2007.

It should, however, be mentioned that transactions which seem to be unrelated to Austria at first glance may affect the regional composition of IFDI considerably. This can be illustrated by two large transactions that recently took place. First, between 2006 and 2007, Japanese FDI stock in Austria rose from US$ 1.8 billion to US$ 6.9 billion, mainly due to a takeover of British Tobacco by Japan Tobacco[2] as well as a direct investment of Japan Tobacco in Austria Tabak. Second, the takeover of Bayerische Hypo-Vereinsbank (of Germany) by the Italian Unicredit Group in 2006 led to a strong regional shift of foreign investors in Austria. So far, this investment was counted as a German investment. Due to the "ultimate beneficial owner principle" applied to inward investment, Bank Austria had to be re-classified as an Italian rather than a German investment – despite still being owned by Bayerische Hypo-Vereinsbank. This ended the relative dominance of Germany in Austria's IFDI stock, which accounted for almost one third of the total IFDI stock until 2006.

Few operational data on foreign affiliates in Austria are available in a concise manner, most notably data on employment, sales and profitability. After reaching a peak in 2000 with 252,400 employees, employment in foreign affiliates in Austria steadily decreased until 2007, to 235,200, back to the level of the early 1990s. In contrast, aggregate sales of foreign affiliates in Austria (due to the small market size only about US$ 137 billion in 2007) grew steadily. Concerning profitability, the overall median return on equity was 11.6% in 2007, with the median value for mature investments being twice as high as for young firms. Unfortunately, no comparable figures are available for the performance of domestic Austrian firms or the total population of firms. The only value – which is not directly, but closely comparable – is the median value for the return on equity in manufacturing, which was 18.5% in 2007; it is not known how the primary and the tertiary sectors together would influence this value and hence no firm conclusion based on this comparison can be drawn.

[1] Please note that the latest figures available in the required country classification are for 2007. Figures on the geographical distribution of FDI for 2008 are also available, yet they are classified differently.
[2] This is a merger by two foreign companies, which ultimately affects the ownership of an Austrian company.

A distinctive feature of Austrian IFDI is the large importance of "special purpose entities" (SPEs) or "shell companies". According to the current version of the Organization for Economic Co-operation and Development (OECD) benchmark definition, corporations without any economic activity in the host economy are termed "SPEs". These are holding companies located in Austria owned by non-residents that in turn hold shares of non-resident enterprises abroad. Austria is chosen by SPEs due to its favorable tax treatment of such investments. In 2005, the inclusion of only five SPEs resulted in an increase of Austria's IFDI stock by approximately US$ 71 billion. In 2007 and 2008, SPEs were still very important, accounting for about 40% of the total IFDI stock.[1]

Another particular feature of IFDI in Austria are regional holding companies. These Austrian firms are set up by a foreign-owned parent company to engage in domestic activities in Austria as well as in FDI. For example, Bank Austria is a "bridgehead" for Central and Eastern European markets; that is why the Italian owner (Unicredit) has placed its affiliates in Central and Eastern European countries under Bank Austria's control. These bridgeheads are important. If they were counted separately, Austria's IFDI stock would be adjusted by as much as US$ 61 billion. According to the Austrian Central Bank, multinational enterprises (MNEs) from over 30 countries have established their bridgeheads or regional headquarters in Austria.

SPEs and regional holding companies make up for the largest share in Austrian IFDI, the remaining share is accounted for by foreign firms either targeting the Austrian market or engaging in vertical FDI. The shares of SPEs and regional holding companies in IFDI are much smaller, if calculated on the basis of employment and of the number of investments.

According to a survey of Austrian Central Bank[2], and in line with "objective" location advantages of Austria, such as a high per capita income, favorable relative unit labor costs (despite high wage costs, which are, however, compensated by high productivity), a highly-skilled labor force, and the vicinity to the Central- and East European markets. Market-seeking motives play a smaller role in explaining foreign investments in Austria (20% in terms of total capital invested), whereas labor costs, taxation and sourcing account for 56%.

The corporate players

Annex table 6 lists the most important M&As during the past three years. In 2007, the outstanding transactions were first the shift of ownership of Bank Austria from a German to an Italian owner (described above) and second the transfer of ownership from Unicredit to Bank Austria of most of its activities in Central and Eastern Europe. The effect of this latter transaction was not only an increase in Austria's IFDI stock, but also a rise in the country's outward foreign direct investment (OFDI) stock due to the regional headquarter function of Bank Austria for the affiliates in Central and Eastern Europe. During 2008 and 2009, no comparable large transactions took place, which is reflected in much lower IFDI flows.

The most recent large divestment was reported in late 2009 and early 2010, when Hypo Alpe-Adria-Bank, owned by Bayerische Landesbank, went bankrupt and was re-nationalized by the Austrian Government. Only in 2007, Bayerische Landesbank had acquired a stake (50% plus 1 vote) of the

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[1] OeNB, *Internationale Vermögensposition Österreichs 2008* (Vienna: Statistiken Sonderheft, 2009), table 1a.
[2] www.oenb.at/de/stat_melders/datenangebot/aussenwirtschaft/direktinvestitionen/direktinvestitionen.jsp#tcm:14-149053.

Austrian Hypo Alpe-Adria-Bank (equal to a transaction amount of US$ 2.4 billion).[1] The whole transaction amounted to US$ 2.2 billion, of which US$ 1.2 billion were provided by Bayerische Landesbank and US$ 658 million by the Austrian Government, as well as the Carinthian local government and private firms. Therefore, the investor,[2] Bayerische Landesbank, gained from profits of its investment in Austria in earlier years, but did not have to bear the full losses. As in other countries, this event stimulated a new discussion in Austria about the role of the state in a market economy, where the Austrian Government provided large "rescue packages" for the banking sector ("too big to fail"), but not for other industries.

Effects of the current global crisis

The economic crisis led to a convergence of market and book values[3] of Austria's IFDI stock: the ratio approached one in 2008, while it had been 1.2 on average during 2005 to 2007. Stagnating or declining demand abroad required write-offs of assets of foreign affiliates, especially of an export-platform nature, due to lower expected future profitability. Capacity utilization in the Austrian economy is still low and, therefore, expansion can be achieved with existing assets. In addition, for a particular type of IFDI, i.e. affiliates set up by foreign firms in Austria as bridgeheads for markets in Central- and Eastern Europe, uncertainty about future growth prospects increased during the crisis.

Yet, the economic crisis did not have negative effects only, as the following example of "crisis-induced restructuring of MNEs" in the form of concentration of production shows. As Austria has no "own" automobile manufacturers (but a strong automotive supplier industry), international developments in the automobile industry have a very direct repercussion on large parts of the manufacturing sector. In this respect, the restructuring of GM's Europe activities is of interest, since Opel (a subsidiary of GM) owns a large plant in Austria. As far as one can assess the current restructuring of Opel's activities in Europe, the Austrian plant seems to benefit from the closing of other plants in Europe. It should be noted that the Austrian Government – at least so far – has not been willing to provide any subsidies to GM for keeping its plant in Austria.

The policy scene

Attracting FDI has always been high on the agenda of the Government, independently of its political orientation. While Austria was quite successful in attracting IFDI in the past, with few exceptions, it never introduced policies or laws specific to IFDI. Rather, the approach was to create an economic environment conducive to investment in general. Nevertheless, there are several areas in which policies have contributed directly to attracting IFDI, including those related to taxation, investment protection and research and development (R&D).

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[1] Reported figures on the value of the transactions vary slightly, depending on the date of publication and type of media (see also next footnote.)

[2] See e.g."HGAA-Deal: Österreich verstaatlicht Krisen-Tochter der BayernLB", *Spiegel Online*, August 24, 2010, available at: www.spiegel.de/wirtschaft/unternehmen/0,1518,666864,00.html.

[3] It should be noted that the most recent detailed figures refer to 2007 and were released by the Austrian National Bank in late 2009. This publication has brought major changes in the reporting practice, like the use of market values for listed firms. Thus, it should be kept in mind that de-listings (most recently Bank Austria; and Austrian Airlines which was acquired by Deutsche Lufthansa) have a big effect on the market values of Austrian IFDI, apart from business cycle effects. In addition, an extension of capital included in "other FDI capital", as well as the inclusion of the new category of FDI, namely "special purpose entities" and a change in the classification of "indirect" FDI, were introduced.

As a member of the European Union, the four freedoms of the Single Market apply (with restrictions of the freedom of movement of people), and hence there are no restrictions on IFDI from other EU members. Austria has steadily built a network of bilateral investment treaties (BITs), with 59 Austrian BITs in force in September 2010. The latest BIT was concluded in 2004 (with Ethiopia), and the latest BIT came into force in 2006 (with Algeria).[1] Currently, several BITs are under negotiation.[2]

The need to include the high environmental, social and labor standards codified in Austrian legislation into BITs has been argued in public debate, and an Austrian model BIT has been drafted, which includes provisions for investor conduct regarding the environment (art. 4)[3] and labor (art. 5).[4] Yet, so far, none of these provisions has been included in actual BITs.[5]

Austria offers a number of investment incentives in the areas of regional assistance, small and medium-sized enterprises (SMEs) (e.g. through loan guarantees), technology promotion (e.g. through grants and tax incentives), education, and training. Most of the incentives are granted to domestic and foreign firms alike without discrimination by ownership. The sophisticated system of export promotion developed in Austria also benefits foreign investors, since a considerable amount of IFDI is export oriented. Initially set up for exporters and outward investors, this system increasingly serves inward investors as well, through export credits granted by the Oesterreichische Kontrollbank AG, acting as the Austrian export credit agency on behalf of the Austrian Federal Ministry of Finance.

Austria increasingly feels the locational competition from neighboring countries in Central and Eastern Europe – even if many of its location factors are still very different from those of the latter. The Austrian Government has reacted with several measures to this competition from new locations. This is clearly visible, for example, in the drastic reduction of the statutory corporate tax rate from 34% to 25% in 2005

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[1] See Austrian Federal Ministry of Economy, Family and Youth, "Bilaterale Investitionsschutzabkommen – Länder", available at: www.bmwfj.gv.at/Aussenwirtschaft/Investitionspolitik/Seiten/BilateraleInvestitionsschutzabkommen-Länder.aspx.

[2] However, the Austrian Government does not reveal publicly, which countries are involved.

[3] This model BIT has never been published officially. However, from an unauthorized copy, the following quote is taken: "The Contracting Parties recognize that it is inappropriate to encourage investment by weakening or reducing the protections afforded in domestic environmental laws. Accordingly, each Party shall strive to ensure that it does not waive or otherwise derogate from, or offer to waive or otherwise derogate from, such laws in a manner that weakens or reduces the protections afforded in those laws as an encouragement for the establishment, acquisition, expansion, or retention of an investment in its territory. If a Party considers that the other Party has offered such an encouragement, it may request consultations with the other Party and the two Parties shall consult with a view to avoiding any such encouragement."

[4] See previous footnote for source. "The Parties recognize that it is inappropriate to encourage investment by weakening or reducing the protections afforded in domestic labor laws." Accordingly, each Party shall strive to ensure that it does not waive or otherwise derogate from, or offer to waive or otherwise derogate from, such laws in a manner that weakens or reduces adherence to the internationally recognized labor rights referred to in paragraph 2 as an encouragement for the establishment, acquisition, expansion, or retention of an investment in its territory. For the purposes of this Article, "labour laws" means each Party's statutes or regulations, that are directly related to the following internationally recognized labor rights:(a) the right of association; (b) the right to organize and to bargain collectively; (c) a prohibition on the use of any form of forced or compulsory labour; (d) labour protections for children and young people, including a minimum age for the employment of children and the prohibition and elimination of the worst forms of child labour, and (e) acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health."

[5] The national contact point for the OECD Guidelines for Multinational Enterprises provides information material at: http://www.bmwfj.gv.at/Aussenwirtschaft/Investitionspolitik/Seiten/OECD-LeitsaetzefuermultinationaleUnternehmen.aspx. ABA – Invest in Austria (governmental agency) provides information at: http://www.aba.gv.at/EN/ABA-Invest+in+Austria.aspx.

and subsequent changes in the tax law. Today, the favorable tax environment in Austria includes provisions like the cross-border intra-group loss relief ("Gruppenbesteuerung"), the international participation exemption and special legislation on trusts and foundations ("Stiftungsrecht") – all measures conducive to the establishment of SPEs and holding companies. Besides these purely national changes in the tax law, the number of double taxation treaties (DTTs) has increased steadily, and a number of treaties are currently being negotiated.[1]

Austria has set up a federal investment promotion agency in order to co-ordinate its inward investment promotion activities.[2] In addition, each of the nine provinces has set up some kind of regional agency. This is important, as there are substantial regional variations in subsidies and incentive schemes. The investment agency fulfils an important role in the provision of information. Over time, it has developed a one-stop-shop concept in order to facilitate investor attraction. The activities of these federal and local bodies are especially important in times of crisis, when foreign investors are reluctant to engage in new activities or to expand existing ones.

Whilst a big issue in other countries as well as in the Austrian political discussion and the media, sovereign wealth fund (SWF) investments in Austria are rather rare. Only the Abu Dhabi Investment Authority and the Libyan Investment Authority have undertaken FDI in Austria.[3] This low number explains why public action (e.g. a special law) has not emerged, but this topic will continue to be debated.

Conclusions and Outlook

IFDI in Austria was only slightly affected by the global economic and financial crisis as no major divestments occurred, yet strong valuation adjustments contributed to declining growth rates. The outlook for further growth of existing as well as new IFDI is positive as Austria's economic environment and the favorable taxation of companies are highly competitive with other locations in Europe. Thus, much will depend on developments in other countries, as a large part of Austria's IFDI is efficiency-seeking and export oriented.

Additional readings

Austrian Federal Ministry of Economy, Family and Youth, ed., *Jahrbuch: Österreichs Außenwirtschaft*. (Short English version: *Austria's External Economic Relations)* (Vienna, 2009).

Bellak, Christian, "The investment development path of Austria," *Transnational Corporations*, vol. 10, no. 2 (2001), pp. 107-134.

[1] See Austrian Federal Ministry of Finance, "Liste der österreichischen Doppelbesteuerungsabkommen auf dem Gebiet der Steuern vom Einkommen und vom Vermögen", available at: www.bmf.gv.at/steuern/fachinformation/internationalessteu_6523/diesterreichischend_6527/_start.htm.

[2] See Austrian Business Agency, available at: www.aba.gv.at.

[3] "Libysche Investoren werden stärkste Unicredit-Aktionäre", Die Presse, 05.08.2010 and "Gaddafi-Fonds kauft sich in Österreich ein", Die Presse, 14.09.2009.

Greul, Erich and René Dell'mour, *Statistik der Auslandsunternehmenseinheiten* (FATS-Statistik), available at:
www.statistik.at/web_de/statistiken/unternehmen_arbeitsstaetten/auslandsunternehmenseinheiten/index.html.

OeNB, "Direct investment 2007," *Statistiken, Special Issue* (Vienna: September 2009), available at: www.oenb.at.

Pfaffermayr, Michael, Christian Bellak and Michael Wild, "Firm performance after ownership change: a matching estimator approach," in *Applied Economics Quarterly*, vol. 52, no. 1 (2006), pp. 29-54.

Useful websites

For FDI data: Austrian Central Bank, available at:
www.oenb.at/de/stat_melders/datenangebot/aussenwirtschaft/direktinvestitionen/direktinvestitionen.jsp#tcm:14-149053.
For the most recent publication on Austrian FDI:
http://www.oenb.at/de/img/shst_2010_09_mon_tcm14-207927.pdf

Statistical annex

Annex table 1. Austria: inward FDI stock, 2000-2009 (US$ billion)

Economy	2000[a]	2001[a]	2002[a]	2003[a]	2004[a]	2005[a]	2006[a]	2007[a]	2008[a]	2009[a, b]
Austria	31	35	45	58	70.7	83	111	163	148	161
Memorandum: comparator economies										
Germany	272	272	298	395	512.1	476	592	676	701	….
Slovakia	5	6	9	15	21.9	28	34	45	46	….
Switzerland	87	89	125	162	197.7	170	265	338	374	….

Source: UNCTAD's FDI database, available at: http://stats.unctad.org/fdi; OeNB, 2010, zip file Stand/Beschäftigte der österreichischen ausländischen Direktinvestitionen nach Branchen – NACE 2003 von 1990 bis 2008, available at: www.oenb.at.

[a] Currency conversion rates US$ per Euro used for Austria: 2000: 0.9305, 2001: 0.8813, 2002: 1.0487, 2003: 1.2630, 2004: 1.3621, 2005: 1.1797, 2006: 1.3170, 2007: 1.4721, 2008: 1.3917, 2009: 1.4406.

[b] The value for 2009 is preliminary, since 2009 FDI flows were added to 2008 stocks.

Annex table 2. Austria: inward FDI flows, 2000-2009 (US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008[a]	2009[a]
Austria	8.8	5.9	0.4	7.1	3.9	10.8	7.9	29.6	11.9	7.3
Memorandum: comparator economies										
Germany	198.3	26.4	53.5	32.4	-10.2	47.4	57.1	56.4	24.9	….
Slovakia	1.9	1.6	4.1	2.2	3.0	2.4	4.7	3.3	3.4	….
Switzerland	19.3	8.9	6.3	16.5	0.9	-1.0	30.8	49.2	17.4	….

Source: UNCTAD's FDI database, available at: http://stats.unctad.org/fdi; and OeNB, *Pressedienst 30.4.2010: Österreichs Außenwirtschaft in ruhigerem Fahrwasser* (Vienna, 2010).
[a] Currency conversion rate US$ per Euro 2008: 1.4717, 2009: 1.3928.

Annex table 3. Austria: distribution of inward FDI stock, by economic sector and industry, 2000, 2008 (US$ million)

Sector/industry	2000[a]	2008[a]
All sectors/industries	31,165	147,785
Primary	290	404
Agriculture, mining	290	404
Secondary	6,514	17,963
Food products, beverages, tobacco products	182	1,150
Textiles and textile products, leather and leather products	193	335
Wood, paper, printing	618	2,597
Chemicals, petroleum products, pharmaceuticals	1,374	4,764
Non-metallic mineral products	458	710
Basic metals and fabricated metal products	505	1,253
Computers, electronic and optical products	1,983	2,035
Machinery and equipment	628	1,960
Manufacture of transport equipment	285	572
Other products, repair and installation	147	264
Electricity, water supply, waste collection and treatment	30	2,127
Construction	112	198
Tertiary	24,359	129,418
Trade	6,258	20,920
Transport and storage, postal and courier services	169	931
Accommodation and food services	143	391
Information and communication services	2,213	1,925
Financial intermediation	6,231	42,503
Real estate activities	924	3,116
Professional, scientific and technical services	8,125	58,097
Administrative and support services	287	1,557
Public and other services	9	-21

Source: OeNB, 2010, zip file Stand/Beschäftigte der österreichischen/ausländischen Direktinvestitionen nach Branchen – NACE 2003 von 1990 bis 2008, available at: www.oenb.at.

[a] Currency conversion rate US$ per Euro 2000: 0.9305, 2008: 1.3917.

Annex table 4. Austria: geographical distribution of inward FDI stock, 2000, 2007 (US$ million)

Region/economy	2000	2007
World	31,165	159,111
Developed economies	30,136	141,204
Europe	27,411	116,755
European Union	24,297	104,235
Germany	14,168	40,007
North America	1,925	16,464
Canada	41	1,980
United States	1,884	14,484
Other developed countries	801	7,986
Australia	20	120
Japan	782	6,873
Developing economies	797	13,301
Africa	1	3,314
Asia and Oceania	678	9,204
Latin America and Caribbean	117	783
South East Europe and the CIS	232	4,606

Source: OeNB, “Direct Investment 2007,” Statistiken, Special Issue, (Vienna, September 2009), available at: www.oenb.at and information provided by René Dell’mour of the Austrian Central Bank.

Annex table 5. Austria: foreign affiliates, ranked by assets, 2008 (US$ million)

Rank	Name	Industry	Total assets
1	Bank Austria	Banking	5,003
2	GM – Opel	Car industry	n.a.
3	Siemens AG Österreich	Electronics	4,547
4	Bawag	Finance and insurance	n.a.
5	BMW Magna	Automotive supplier industry	n.a.
6	T-Mobile	Communications	n.a.

Source: Information provided by the companies.

Annex table 6. Austria: main M & A deals, by inward investing firm, 2007-2009
(US$ million)

Year	Acquiring company	Home economy	Target company	Target industry	Shares acquired (%)	Estimated / announced transaction value
2009	Adesso AG	Germany	CFC	Prepackaged software	100.00	3.4
2009	Novo Invest Co Srl	Romania	Wettpunkt	Amusement and recreation services	100.00	7.4
2009	Bilfinger Berger AG	Germany	MCE AG	Special industry machinery, nec	100.00	515.2
2009	Aragon AG	Germany	MLP Finanz-dienstleistungen AG	Investment advice	100.00	7.3
2009	Barracuda Networks Inc	United States	Phion AG	Prepackaged software	79.75	13.9
2009	SIBUR Holding	Russia	CITCO Waren-Handels GmbH	Petroleum and petroleum products wholesalers, nec	100.00	269.8
2009	Novartis AG	Switzerland	Ebewe Pharma GmbH-Specialty	Pharmaceutical preparations	100.00	1,272.9
2009	Michael Huber Muenchen GmbH	Germany	Micro Inks GmbH	Printing ink	100.00	0.02
2009	Deutsche Lufthansa AG	Germany	Austrian Airlines AG	Air transportation, scheduled	53.84	1,443.7
2009	Deutsche Lufthansa AG	Germany	Austrian Airlines AG	Air transportation, scheduled	41.56	207.8
2008	Union Investment Real Estate	Germany	ARCOTEL Kaiserwasser	Hotels and motels	100.00	42.4
2008	IDEX Corporation	United States	iPEK Spezial TV GesmbH & CO KG	Electronic components, nec	100.00	42.3
2008	Net 1 UEPS Technologies Inc	South Africa	BGS Smartcard Systems AG	Personal credit institutions	80.10	106.6
2008	Radiant Systems Inc	United States	Orderman GmbH	Computer peripheral equipment, nec	100.00	30.9
2008	YIT Corp	Finland	MCE AG-Building Technology	Special industry machinery, nec	100.00	85.6
2008	Unicredito Italiano SpA	Italy	Bank Austria Creditanstalt AG	Banks	3.65	1,272.4
2008	Criteria CaixaCorp SA	Spain	Erste Group Bank AG	Banks	4.90	916.8
2008	Dubai Aerospace Entrp	United Arab Emirates	F:WZ	Prepackaged software	100.00	25.0
2008	Unibail-Rodamco SE	France	Shopping City Sued	Operators of nonresidential buildings	100.00	954.9
2008	Hungarian Telephone & Cable	United States	Memorex Telex Communications	Telephone communications, except	95.70	129.6

				radiotelephone		
2007	Novartis AG	Switzerland	Intercell AG	Biological products, except diagnostic substances	9.80	214.0
2007	VA Tech WABAG Ltd	India	VA Tech Wabag GmbH	Water supply	100.00	100.0
2007	Constantia Packaging BV	Netherlands	Constantia Packaging AG	Primary production of aluminum	12.83	147.2
2007	Mondi Packaging Paper Swiece	Poland	Unterland Flexible Packaging	Laminated plastics plate, sheet and profile shapes	100.00	100.0
2007	Investor Group	United Kingdom	ONE GmbH	Radiotelephone communications	82.55	1,876.7
2007	BayernLB Holding AG	Germany	Hypo Alpe-Adria-Bank	Banks	50.00	2,185.9
2007	Basic Element Co	Russia	Strabag SE	Industrial buildings and warehouses	30.00	1,427.2
2007	Rasperia Trading Ltd	Russia	Bauholding Strabag SE	Industrial buildings and warehouses	30.00	1,637.3
2007	Wacker Construction Equipment	Germany	Neuson Kramer Baumaschinen AG	Mechanical power transmission equipment, nec	n.a.	828.8
2007	Westcore Properties LLC	United States	Koninklijke-Ppty Portfolio	Operators of nonresidential buildings	100.00	108.0
2007	Investor Group	United States	BAWAG	Banks	100.00	4,209.6

Source: Thomson ONE Banker. Thomson Reuters.

Annex table 7. Austria: main greenfield projects, by inward investing firm, 2007-2009 (US$ million)

Year	Investing company	Home economy	Industry	Estimated / announced investment value
2009	International Petroleum Investment Company (IPIC)	United Arab Emirates	Plastics	107.6
2009	O. N. Sunde	Norway	Plastics	50.7
2009	International Petroleum Investment Company (IPIC)	United Arab Emirates	Plastics	75.3
2009	Accor	France	Hotels and tourism	58.2
2009	Dialog Semiconductor	Germany	Semiconductors	50.9
2009	Valiant Machine & Tool Inc	Canada	Automotive Components	66.6
2009	Four Seasons Hotels & Resorts	Canada	Hotels and tourism	59.8
2009	International Petroleum Investment Company (IPIC)	United Arab Emirates	Plastics	51.8
2009	HiPP	Germany	Food and tobacco	57.1
2009	Baxter	United States	Biotechnology	112.0
2008	Novartis	Switzerland	Pharmaceuticals	70.9
2008	Google	United States	Software and IT services	252.8
2008	Mahle	Germany	Automotive components	63.9
2008	Motel One Hotels & Resorts (Astron Hotels & Resorts)	Germany	Hotels and tourism	60.3
2008	Hotusa	Spain	Hotels and tourism	60.3
2008	Carlyle Group	United States	Real estate	159.2
2008	Sol Melia Hotels & Resorts	Spain	Hotels and tourism	60.3
2008	NH Hotels (NH Hoteles)	Spain	Hotels and tourism	60.3
2008	Wacker	Germany	Industrial machinery, equipment and tools	86.0
2008	ProLogis	United States	Real estate	103.8
2008	Brixxon	Hungary	Automotive OEM	236.4
2008	UniCredit (UniCredito Italiano)	Italy	Financial services	128.1
2008	Sony	Japan	Consumer electronics	111.5
2007	Viessmann Werke	Germany	Industrial machinery, equipment and tools	79.0
2007	General Motors (GM)	United States	Engines and turbines	80.9
2007	Global Crossing	Bermuda	Communications	133.9
2007	MAN	Germany	Automotive OEM	147.1

2007	McArthurGlen	United Kingdom	Real estate	196.0
2007	Fomento de Construcciones y Contratas (FCC)	Spain	Industrial machinery, equipment and tools	132.2
2007	O. N. Sunde	Norway	Plastics	83.2
2007	Rexam	United Kingdom	Metals	131.4
2007	Magna International	Canada	Healthcare	129.9
2007	International Petroleum Investment Company (IPIC)	United Arab Emirates	Plastics	84.0

Source: fDi Intelligence, a service from the Financial Times Ltd.

Austria: Outward FDI and its policy context, 2010

Christian Bellak and Susanne Mayer[*]

As a latecomer in OFDI, Austria's firms were mostly export-oriented until the mid-1990s. When Austria joined the European Union (EU) in 1995 OFDI started to grow. This process was further stimulated by the effects of the opening up of Eastern European markets. Austria's OFDI stock revealed positive growth rates ever since the 1990s. Still in 2008, Austria's OFDI flows recorded their second largest value in history and pushed the small Austrian economy among the 20 largest foreign investors globally.[1] Yet, a substantial change occurred in 2008, when the growth of its OFDI stock stopped – mainly due to valuation adjustments in the aftermath of the crisis. Austrian economic policy is conducive to FDI in general and recently the Austrian tax environment has been revised with several measures benefiting Austrian parent companies.

Trends and developments

Country-level developments

Until the mid-1990s, OFDI was limited in Austria as few firms set up foreign affiliates and the number of foreign affiliates per firm was low. OFDI then started to grow. In 2007 Austrian OFDI stock[2] increased no less than 41% year-on-year (annex table 1). One transaction accounted for more than half of the increase in Austria's OFDI stock in 2007. Both 2006 and 2007 were boom years as Austria's OFDI stock abroad reached record values. During the crisis year of 2008, Austria's OFDI stock remained constant measured in nominal US-dollar values. In 2009, OFDI stock started to grow again (by about US$ 10 billion).[3] Yet, this does not mean that the current economic crisis has had no effect on Austria's OFDI. As usual, the macro picture does not reveal the underlying changes of the aggregate OFDI stock on the industrial and geographical as well as the financial level. For example, the divestment/investment ratio[4] changed dramatically compared to the previous years, from 20% in 2007 to 81% in 2009.

The recent development in Austria's OFDI stock is clearly reflected in OFDI flows (annex table 2). In 2008, Austrian OFDI flows reached the second largest value ever (US$ 31 billion)[5], which at first glance seems to stand in contrast with the slow growth of the OFDI stock in 2008 reported above. The difference between the OFDI flow and the change in the stock between 2007 and 2008 can be explained by considerable valuation adjustments (caused by the current economic crisis) and substantial exchange

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[*] The authors wish to thank René Dell'mour and Susanne Sieber for their helpful comments. First published December 2, 2010.

[1] BMWFJ, *Direktinvestitionen Oesterreichs 2008* (Vienna, 2008), available at: http://www.bmwfj.gv.at/Aussenwirtschaft/Aussenhandelsdaten/Seiten/default.aspx

[2] Bellak, Christian, "Austrian manufacturing MNEs: long term perspectives", *Journal of Business History*, vol. 39, no. 1 (1997), pp. 47-71.

[3] Estimate of the Austrian Central Bank (OeNB).

[4] The difference between investment and divestment equals net outward FDI flows, which are revealed in annex table 2.

[5] OeNB, *Pressedienst 30.4.2010: Österreichs Außenwirtschaft in ruhigerem Fahrwasser* (Vienna, 2010); and OeNB, *Pressedienst 17.9.2009: Direktinvestitionen 2009 deutlich schwächer* (Vienna, 2010); see also Bundesministerium für Wirtschaft, Familie und Jugend, *Die Entwicklung der österreichischen Direktinvestitionen 2008* (Vienna 2010).

rate losses.[1] The situation changed in 2009, when OFDI flows dropped to US$ 6.7 billion. New equity investments of US$ 22.9 billion and reinvested earnings of US$ 1.8 billion were offset by outflows consisting of equity diverstments of US# 15.4 billion and other capital outflows of US$ 2.7 billion. Available data for the second quarter of 2010 show net OFDI flows of only US$ 1.5 billion, compared to US$ 5.7 billion in the second quarter of 2009.

In terms of sectoral distribution, Austrian OFDI stock originates from and is directed to the services sector, including the financial, trading or holding industry (partly for tax reasons) (annex table 3). The manufacturing sector, on the other hand, accounted for only one fifth of capital invested, but for 37% of employment in foreign affiliates in 2008. The steady increase in the share of the services sector in OFDI reflects the structural transformation of the Austrian economy towards a services economy.

Despite the strong increase during the last decade, Austrian OFDI remains largely regional rather than global. Austrian MNEs focus on other EU countries and on Central, East and South East European countries (annex table 4). Ranked by employment in 2008, the Czech Republic, Hungary and Romania are the three most important host countries for Austrian OFDI (with 81,000, 80,000, and 69,000 employees respectively) even before the larger and neighbouring Germany (67,000 employees). Ranked by capital, Austria is the most important foreign investor in six countries (Slovenia, Croatia, Bosnia Herzegowina, Romania, Serbia and Bulgaria); in turn, Austria ranks as the second in terms of OFDI stock in Slovakia and third in Hungary and the Czech Republic.

Few operational data of foreign affiliates are available, most notably data on employment, sales and profitability.[2] The number of employees in Austrian foreign affiliates has more than doubled since 2001, to slightly more than half a million employees working in 3,699 foreign affiliates. In contrast to the strong growth of employment abroad, employment in Austrian MNEs at home has remained stable since 2002, at about 300,000 employees. The increase in employment abroad has occurred primarily in the services sector, while the manufacturing sector has experienced a decrease (e.g. in the chemical and wood-products industries).

During the period 1998-2007, aggregate sales grew five-fold, reaching US$ 193 billion in 2007. This implies that the sales per foreign affiliate investment grew from US$ 12 million in 1998 to US$ 52 million in 2007, indicating a rise in the average size of investments. Data on the profitability of Austrian OFDI show on average a remarkable return on equity of about 11% in 2007, a year when many other affiliates already suffered from the crisis effects. The fact that the median value is only 7.8% confirms that the high profitability is due to the larger (and more mature) affiliates abroad and hence smaller and newer foreign affiliates are less profitable. During 1998-2007, Austrian foreign affiliates earned US$ 51 billion in total. More than half of these earnings (US$ 28 billion) were earned in Central and East European Countries (CEECs). Due to the Parent Subsidiary Directive of the EU, almost all income earned by Austrian foreign affiliates located largely in old and new EU member states is tax exempt in Austria. This implies that income earned abroad is not penalized compared to income earned in Austria and thus it does not influence the location choice abroad – as long as it is within the EU.

The corporate players

[1] OeNB, Presseaussendung 22. 7. 2010 by Johannes Turner, *Massive Wertberichtigungen stoppen das Wachstum der Direktinvestitionen: Ergebnisse der Direktinvestitionsbefragung der OeNB 2008* (Vienna, 2010).
[2] The most recent figures refer to 2007.

Austria has few large and global MNEs, unlike other small countries such as Switzerland or the Netherlands. There are only about 25 foreign affiliates listed as joint stock companies on foreign stock exchanges, including those like OMV (primary sector), Wienerberger AG (secondary sector) and Bank Austria (tertiary sector). Second, a good deal of Austrian OFDI is constituted by foreign-owned MNEs, which have been analyzed separately from 2006 onwards only. Hence, about one-third or approximately 280 Austrian affiliates abroad are owned by Austrian firms, which are themselves affiliates of foreign MNEs. These account for 37% of equity capital and 34% of employment of Austrian total OFDI.[1]

"Foreign controlled" affiliates fall into two distinct types of foreign control. One type is Regional Holding Companies (RHCs), Austrian firms set up by a foreign-owned parent company to engage in domestic activities in Austria as well as in FDI.[2] The second type is Special Purpose Entities (SPEs) or "shell companies", including private trusts.[3]

The overarching motive for Austrian firms to engage in OFDI is the market motive, as Austria is a small open economy relying heavily on exports. The importance of the market motive applies to affiliates in EU markets as well as CEECs alike. Measured in terms of capital invested, about 50% of FDI is carried out to secure sales abroad, partly complementing and partly replacing exports. Other motives like efficiency (labor costs, taxation) or sourcing are much less important (with about one third accounting for "other" reasons). Firms seem to overstate the market motive understating the weight of efficiency-seeking with regard to CEEC markets. Case study evidence[4] suggests that Austrian firms have taken advantage of the lower wage level in neighbouring countries, often coupled with local market supply in the CEECs. Wages can be considered the only location factor, where Austria may have a disadvantage compared to several other European countries.[5]

Annex table 5 lists the most important Austrian corporate players. Few firms are "truly global" (among them Wienerberger AG, the World's largest brick manufacturer), whilst most firms are rather regional MNEs. Annex table 6 shows that M&A activity in 2008 continued and is widespread across the service and manufacturing sector. M&As contributed considerably to the strong increase of the Austrian OFDI

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[1] Austrian National Bank figures, calculated from:
http://www.oenb.at/de/stat_melders/datenangebot/aussenwirtschaft/direktinvestitionen/direktinvestitionen.jsp#tcm:14-149053.

[2] These RHCs are included in the FDI figures. According to the Austrian Business Agency (http://www.aba.gv.at/DE/Headquarters/Headquarters-Standort+%c3%96sterreich.aspx), about 300 foreign firms have set up regional headquarters to serve the CEEC markets, among them about 28 Fortune 500 companies. More than 1000 international firms coordinate their CEEC activities from Austria (e.g. Siemens, Beiersdorf, Eli Lilly, Henkel or FedEx). For example, Bank Austria, owned by the Italian Uno Credito – and thus an inward FDI – is responsible for the activities of Uno Credito in Central and Eastern Europe, and thus a major outward investor with substantial activities in Austria.

[3] According to the current version of the OECD benchmark definition, corporations – contrary to Regional Holding Companies (listed under the first type) – without any economic activity in the host country are termed SPEs. These are not included in the FDI figures. They are holding companies located in Austria owned by non-residents that in turn hold shares of non-resident enterprises abroad. In 2005, the inclusion of only five SPEs resulted in an increase of Austria's OFDI stock by approximately US$ 88 billion. In 2007, they accounted for 40% of the OFDI stock.

[4] Christian Bellak, Elisabeth Beer and Wilfried Altzinger, "Fallstudien zu den Auswirkungen der Ostöffnung auf Beschäftigung und Zahlungsbilanz Österreichs", *Research Report*, Project funded by Jubiläumsfonds der Oesterreichischen Nationalbank, No. 6700 (Vienna, 2000).

[5] In contrast, Austria's infrastructure, education, productivity, and taxation advantages among others are superior to most other countries in Europe, where the bulk of Austrian OFDI is located.

stock in 2007 (annex table 6). Greenfield transactions are concentrated in resource and real estate sectors (annex table 7).

Effects of the current global crisis

A major economic crisis like the current one may affect the growth of Austria's OFDI in both financial and real terms, the sectoral and regional structure of OFDI, and its actual and expected profitability.

As market-oriented FDI usually takes the form of long-term projects, the fact that the OFDI stock show positive growth rates even during the crisis years 2008 and 2009 may simply reflect earlier management decisions, which result in investments spread over a certain number of years. Accordingly, Austria's OFDI stock did not decline (annex table 1).

The current economic crisis may affect the market valuation of foreign affiliates, but since only very few Austrian foreign affiliates are listed on the stock exchange (the precise number is not published by the Central Bank and is believed to be around 25 affiliates), the crisis has not so far affected the "market to book value" ratio of Austrian investments abroad (1.1 on average in 2005-2008). Another important effect of the crisis was the shift of the financing structure of OFDI from equity or loans to reinvested earnings, which clearly reflects the reluctance of parent companies to invest beyond the earnings of their foreign affiliates.

The development in financial terms reported in the previous paragraph went hand in hand with the development in real terms. In 2008, Austrian investors set up 50 additional foreign affiliates alone in Germany (worth US$ 1.9 billion), which accounted for about 17,000 jobs. In 2007 and 2008, total employment in Austrian foreign affiliates increased by 100,000, with the manufacturing sector contributing 23,000 jobs.[1] It seems that investments were not immediately put on hold in reaction to the financial crisis. Therefore, we conclude that neither in financial terms, nor in real terms, the effects of the crisis on Austrian OFDI were particularly strong.

The strong investment by Austrian investors and Austrian banks in particular in the Central and East European Countries has been criticized by some commentators for their large exposure in Eastern Europe – so large that it even might endanger macro-economic stability (e.g. Paul Krugman[2]). Yet, a so-called "stress test" applied to Austrian banks by the Bank of International Settlements using the "exposure/GDP"-ratio shows that Austrian banks rank lower than Swiss, Irish, Dutch, Belgium, Swedish, UK, and French banks (1.2 compared to a range between 3.7 and 1.3).[3] Austrian Central Bank has explained Austria's favourable ranking by the strong concentration of Austrian banks on Central and Eastern Europe, which has kept them from investing large amounts in "toxic assets", e.g. in Iceland, Spain etc.

In 2009, Austrian investors continued to expand their activities in the CEECs and the South and East European Countries (SEECs). Due to its regional focus, OFDI is likely to slow in line with the severe crisis in these markets. Projections of the Vienna Institute of International Comparative Studies (WIIW)

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[1] Figures for 2009 and 2010 are not yet available.
[2] http://krugman.blogs.nytimes.com/2009/04/15/austria/.
[3] See e.g., Rodrigo Alfaro and Mathias Drehmann , "Macro stress tests and crises: what can we learn?" *Bank of International Settlements (BIS), Quarterly Review*, part 3 (Basle, 2009).

show that GDP growth in CEECs will be 3.3% in 2011, while only a 1.6% growth rate is expected in the EU.[1] Therefore, many Austrian firms will try to survive the short term impacts of the crisis in order to participate in positive growth in the medium-term.

Third, the profitability of OFDI has been strongly affected by the crisis as earnings of Austrian foreign affiliates decreased by US$ 5.1 billion between 2007 and 2008. This is quite dramatic as only one fifth (US$ 1.3 billion) of profits was earned in the EU-15 countries, while 71% was earned in the CESEE-20 region. For example in Hungary, Austrian firms made a loss on aggregate. The only two countries where earnings of Austrian FDI increased markedly in 2008 were the Czech Republic and Germany. Expectations of a recovery of profitability seem premature, but some companies have announced a restructuring of their activities abroad (e.g., the MWS Industrieholding GmbH in the metal industry), which may lead to more efficiency and ultimately higher profitability.

The effects of the current economic crisis have been mixed. They are certainly less drastic than in many other countries, as Austria's OFDI stock has increased throughout the crisis. Growth rates, however, were dampened, which suggests that certain investment projects have been postponed or cancelled.

The policy scene

OFDI became a major policy topic in Austria only in the 1990s, before the policy focus was on promoting exports. Even when OFDI started to grow in the mid-1990s no major policy interventions occurred. Instead, the export promotion system was extended and adapted to serve OFDI (see below). As an EU member, Austria enjoys the four freedoms of the Single Market, including no restrictions on OFDI.

In the aftermath of the current crisis, public concern arose about declining growth rates and lower profitability of OFDI, viewed from the perspective of possible adverse effects on domestic parent firms. No laws or regulations have been so far passed to deal with the effects of the crisis, partly because it is largely unclear what is the "right" policy intervention?

While it has not produced laws or policies focused exclusively on OFDI, the Austrian Government has undertaken several measures that are conducive to OFDI. It has steadily built a network of BITs and 59 Austrian BITs are now in force. The latest BIT was concluded in 2004 (with Ethiopia) and the latest BIT came into force in 2006 (with Algeria).[2] Several BITs are currently being negotiated. Many double taxation treaties (DTTs) have been concluded, guaranteeing favourable tax treatment of the proceeds from FDI in addition to the Parent-Subsidiary Directive of the EU.[3] Third, the long-established network of trade delegates (Handelsdelegierte) of the Austrian Chamber of Commerce abroad has also increasingly helped Austrian firms to establish more permanent activities abroad. Most importantly, the export guarantee system has been extended to guarantee investments abroad. The "Oesterreichische Kontrollbank AG" (OeKB) is acting as Austria's export credit agency on behalf of the Austrian Federal

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[1] WIIW, "Will exports prevail over austerity?" *WIIW current analysis and forecasts*, No. 6 (Vienna, 2010).

[2] Austrian Federal Ministry of Economy, Family and Youth, "Bilaterale Investitionsschutzabkommen – Länder", available at: www.bmwfj.gv.at/Aussenwirtschaft/Investitionspolitik/Seiten/BilateraleInvestitionsschutzabkommen-Länder.aspx.

[3] Some DTTs are currently under negotiation, for an up-to-date number, see Austrian Federal Ministry of Finance, "Liste der österreichischen Doppelbesteuerungsabkommen auf dem Gebiet der Steuern vom Einkommen und vom Vermögen", available at: www.bmf.gv.at/steuern/fachinformation/internationalessteu_6523/diesterreichischend_6527/_start.htm.

Ministry of Finance. Since exports and OFDI are closely linked, the larger MNEs are the main "customers" or "beneficiaries" of the OeKB. The OeKB's Investment Guarantee G 4 provides political risk insurance related to the establishment of a new venture or the acquisition of/or investment in a company abroad.[1] [2]

The "go international" initiative of the Austrian government[3] in co-operation with the chamber of commerce includes a wide variety of measures, ranging from subsidies to the provision of information for investment opportunities. This initiative intends to stimulate exports as well as direct investment abroad. A special focus is put on the "TUBRICS" countries (Turkey, Ukraine, Brazil, Russia, India, China and South Africa) as well as the North American Free Trade Area (NAFTA).

The employment effects of investment by domestic and foreign holding companies in Austria are deemed so important[4] as to justify the reform of policy measures which should increase the quality of "headquarters location Austria". Such measures are primarily related to the tax environment. Today, the tax environment in Austria includes provisions on cross-border intra-group loss relief, international participation exemptions, special legislation on trusts and foundations and has been conducive not only directly to outward investment, but also to the establishment of special-purpose entities (SPEs) and holding companies, as described above. Since the area of direct taxation in the EU is largely in the realm of the nation state, this policy field is a primary decision variable for the attraction and sustainability of OFDI for national governments.

The need to include the high environmental, social and labor standards codified in Austrian legislation into BITs has been argued in the public debate and an Austrian model BIT has been drafted, yet not published officially, which includes provisions for investor conduct in these areas (Article 4: Investment and the environment and Article 5: Investment and labor). Recently, an arbitration case between an Austrian outward investor and Macedonia has arisen. Unfortunately, no details about the current status are available, except that it is "pending".[5]

Conclusions and Outlook

The growth and the profitability of Austria's OFDI suffered during the crisis. While raising the profitability of foreign affiliates abroad may not seem to be a primary policy goal of the home country government at first glance, a greater regional diversification of Austrian FDI abroad could guarantee the success of FDI. Greater regional diversification means that Austrian parent firms may cross-subsidize

[1] These can be minority stakes or investments which are fully-owned by the investing company as well as shareholder loans. The contribution can be made in cash, in kind or a combination of both. The political risk insurance covers risks such as: total or partial deprivation of equities or shareholder loans due to nationalization, expropriation, confiscation; total or partial destruction for political reasons of the project's tangible assets to an extent that prevents the business to be operated without loss; restrictions on the free disposal or transfer of dividends, proceeds or repayment of capital and payment of interest on shareholder loans, or proceeds of any disinvestment.

[2] See http://www.fdi.net/documents/WorldBank/databases/pri-center_mockup/oekb.html.

[3] http://www.go-international.at/go-international/foerderprogramme/index.php

[4] Susanne Sieber, Österreichs Attraktivität für ausländische Direktinvestitionen sowie als Standort für Headquarters-Funktionen, WIFO Studie im Rahmen des Leitprojekts "Forschungsschwerpunkt Internationale Wirtschaft (FIW)" des Österreichischen Instituts für Wirtschaftsforschung im Auftrag des Bundesministeriums für Wirtschaft und Arbeit, available at: www.fiw.ac.at/fileadmin/Documents/Publikationen/fiwstudie21.pdf .

[5] See EVN AG v. The Former Yugoslav Republic of Macedonia (ICSID Case No. ARB/09/10, available at: www.encharter.org/index.php?id=469) for details about Electricity distribution ("expropriation" under the Energy Charter).

foreign affiliates, as markets normally develop at different speeds. The government should adopt measures to increase the level of diversification to prevent negative repercussions of low market growth abroad on Austria. Measures should suit specific market failures. The concentration on a few markets abroad is inter alia due to market failure in the form of information asymmetries. This justifies government intervention in the form of the provision of information (e.g. about industry-specific market developments) or the creation of incentives for regional diversification (e.g. insurance schemes), especially in areas where the costs of collecting such information are high and smaller firms therefore would not gather such market-related information.

A major policy issue coming up – not specific to Austria, but affecting Austria as well – is the new competence of the EU for "investment", including FDI. In an extreme case, this could imply the shift of BITs to the supranational level and thus lead to a major policy shift in this area towards a new "level playing field".

Additional readings

Austrian Federal Ministry of Economy, Family and Youth, ed., *Jahrbuch: Österreichs Außenwirtschaft.* (Short English version: *Austria's External Economic Relations)* (Vienna, 2009).

Bellak, Christian, "Austrian manufacturing MNEs: long term perspectives," *Journal of Business History*, vol. 39, no. 1 (1997), pp. 47-71.

Bellak, Christian, "The investment development path of Austria," *Transnational Corporations*, vol. 10, no. 2 (2001), pp. 107-134.

Egger, Peter, "Bilateral FDI potentials for Austria," *Empirica*, Special Issue, edited by Yvonne Wolfmayr and Christian Bellak, vol. 37, no. 1 (2010), pp. 5-17.

FIW, "Österreichs Außenwirtschaft 2009" (Vienna, 2009).
http://www.fiw.ac.at/index.php?id=533

OeNB, "Direct Investment 2007," Statistiken, Special Issue, (Vienna, September 2009), available at: www.oenb.at.

Pfaffermayr, Michael, with Peter Egger and Yvonne Wolfmayr-Schnitzer, "The International Fragmentation of the Value Added Chain: The Effects of Outsourcing to Eastern Europe on Productivity and Wages in Austrian Manufacturing," *The North American Journal of Economics and Finance*, vol. 12, no. 3 (2001), pp. 257-272.

Useful websites

For FDI data: Oesterreichische Nationalbank, available at:
www.oenb.at/de/stat_melders/datenangebot/aussenwirtschaft/direktinvestitionen/direktinvestitionen.jsp#tcm:14-149053.

For the most recent publication on Austrian FDI:
http://www.oenb.at/de/img/shst_2010_09_mon_tcm14-207927.pdf

Statistical annex

Annex table 1. Austria: outward FDI stock, 2000-2009 (US$ billion)

Economy	2000[a]	2001[a]	2002[a]	2003[a]	2004[a]	2005[a]	2006[a]	2007[a]	2008[a]	2009[a, b]
Austria	24.8	28.5	42.5	56.0	69.8	71.8	105.7	148.8	148.6	160.6
Memorandum: Comparator economies										
Germany	541.9	617.8	695.8	830.7	925	927.5	1,081.3	1,294.5	1,450.9	n.a.
Slovakia	0.4	0.4	0.5	0.8	0.8	0.6	1.3	1.5	1.9	n.a.
Switzerland	232.2	252.2	292.2	341.4	400.6	432.0	559.9	657.9	724.7	n.a.

Source: UNCTAD's FDI database, available at: stats.unctad.org/fdi/; and OeNB, 2010, zip file Stand/Beschäftigte der österreichischen ausländischen Direktinvestitionen nach Branchen – NACE 2003 von 1990 bis 2008, available at: www.oenb.at.

[a] Currency conversion rates US$ per Euro end-of-year used for Austria: 2000: 0.9305, 2001: 0.8813, 2002: 1.0487, 2003: 1.2630, 2004: 1.3621, 2005: 1.1797, 2006: 1.3170, 2007: 1.4721, 2008: 1.3917, 2009: 1.4406.

[b] The value for 2009 is preliminary, since FDI flows 2009 were added to 2008 stocks.

Annex table 2. Austria: outward FDI flows, 2000-2009 (US$ billion)

Economy	2000[a]	2001[a]	2002[a]	2003[a]	2004[a]	2005[a]	2006[a]	2007[a]	2008[a]	2009[a, b]
Austria	5.7	3.1	5.8	7.1	8.3	11.1	13.7	33.4	30.5	6.7
Memorandum: Comparator economies										
Germany	56.6	39.7	18.9	5.8	20.5	75.9	127.2	179.5	156.5	n.a.
Slovakia	0.0	0.1	0.0	0.2	0.0	0.1	0.5	0.4	0.3	n.a.
Switzerland	44.7	18.3	8.2	15.4	26.3	51.1	75.8	49.7	86.3	n.a.

Source: UNCTAD's FDI database, http://stats.unctad.org/fdi/; and OeNB, 2010, Austrian Direct Investment Abroad (active), available at: www.oenb.at.

[a] Currency conversion rates US$ per Euro averages used for Austria: 2000: 0.9240, 2001: 0.8956, 2002: 0.9444, 2003: 1.1308, 2004: 1.2433, 2005: 1.2458, 2006: 1.2557, 2007: 1.3706, 2008: 1.4717, 2009: 1.3928.

[b] Revised value.

Annex table 3. Austria: distribution of outward FDI stock by economic sector and industry, 2000, 2008 (US$ million)

Sector/industry	2000	2008
All sectors/industries	24,821	148,622
Primary	212	1,950
Agriculture, mining	212	1,950
Secondary	6,667	40,400
Food products, beverages, tobacco products	460	2,790
Textiles and textile products, leather and leather products	84	202
Wood, paper, printing	736	4,550
Chemicals, petroleum products, pharmaceuticals	1,110	10,626
Non-metallic mineral products	1,083	4,114
Basic metals and fabricated metal products	1,302	3,038
Computers, electronic and optical products	639	3,642
Machinery and equipment	461	2,494
Manufacture of transport equipment	158	1,016
Other products, repair and installation	74	775
Electricity, water supply, waste collection and treatment	168	2,532
Construction	392	4,622
Services	17,940	106,270
Trade	4,032	15,967
Transport and storage, postal and courier services	34	668
Accommodation and food services	107	199
Information and communication services	193	4,611
Financial intermediation	9,852	66,495
Real estate activities	415	4,524
Professional, scientific and technical services	2,292	9,295
Administrative and support services	911	3,467
Public and other services	104	1,044

Source: OeNB, 2010, zip file Stand/Beschäftigte der österreichischen/ausländischen Direktinvestitionen nach Branchen – NACE 2003 von 1990 bis 2008, available at: www.oenb.at.

Annex table 4. Austria: geographical distribution of outward FDI stock, 2000, 2007 (US$ million)

Region/economy	2000	2007
World	24,821	151,014
Developed economies	21,909	113,643
Europe	19,380	106,607
European Union	17,690	98,124
Germany	4,718	21,671
North America	2,194	5,280
Canada	185	816
United States	2,010	4,465
Other developed countries	335	1,756
Australia	308	1,351
Japan	5	94
Developing economies	2,178	11,733
Africa	19	125
Asia and Oceania	646	8,905
Latin America and Caribbean	1,513	2,710
South East Europe and the CIS	733	25,625
Croatia	451	10,206

Source: OeNB, "Direct Investment 2007," Statistiken, Special Issue, (Vienna, September 2009), available at: www.oenb.at.

Annex table 5. Austria: principal foreign investors, 2008

(US$ million)

Rank	Name	Industry	Foreign assets
1	Wienerberger	Building material	n.a.
2	Erste Group Bank	Banking	n.a.
3	OMV	Energy	n.a.
4	Swarovski	Crystal cutting	n.a.
5	Raiffeisen Zentralbank	Banking	n.a.
6	AGRANA Zucker	Food	n.a.
7	Strabag	Banking	n.a.
8	Verbund	Electricity	n.a.
9	Wiener Städtische	Insurance	n.a.
10	Telekom Austria	Telecommunications	n.a.
11	Baumax Essl	Retail	n.a.
12	Immoeast	Real estate	n.a.

Source: authors calculations.
n.a.: not available.

Annex table 6. Austria: main M & A deals, by outward investing firm, 2007-2009 (US$ million)

Year	Acquiring company	Target company	Target industry	Target economy	Shares acquired (%)	Estimated / announced transaction value
2009	Investor Group	Colonia RE AG-RE Portfolio	Operators of apartment buildings	Germany	100.0	95.6
2009	bwin Interactive Ent AG	Gioco Digitale SpA	Amusement and recreation services	Italy	100.0	164.0
2009	UNIQA Versicherungen AG	Claris Assicurazioni SpA	Life insurance	Italy	90.0	106.1
2009	Verbund	E ON AG-Hydro Power Plants	Electric services	Germany	100.0	1,931.6
2009	Verbund	Poweo SA	Electric services	France	13.4	63.2
2009	Asamer Holding AG	Libyan Cement Mnfg JV Co	Cement, hydraulic	Libya	56.0	145.2
2009	DCM DECOmetal Intl Trading	Australian Zircon NL	Miscellaneous metal ores, nec	Australia	70.5	27.2
2009	Erste Donau-Dampfschiffahrts-gesellschaft	AD Jugoslovensko Recno	Water transportation of freight, nec	Yugoslavia	67.0	31.7
2009	Investor Group	Baskent Elektrik Dagitim AS	Electric services	Turkey	100.0	1,220.0
2009	Kapsch TrafficCom AG	Q-Free ASA	Electronic parts and equipment, nec	Norway	20.5	16.0
2008	VIG	BCR Asigurari SA	Accidental and health insurance	Romania	88.5	345.0
2008	Polytec Holding AG	Peguform GmbH	Automotive parts, supplies	Germany	100.0	280.5
2008	Raishop Holding	Poslovni sistem Mercator dd	Grocery stores	Slovenia	23.0	405.3
2008	Intercell AG	Iomai Corp	Pharmaceutical preparations	United States	100.0	176.6
2008	Strabag SE	Strabag AG	Residential construction, nec	Germany	21.1	343.9
2008	Labelux Group	Bally International AG	Women's footwear, except athletic	Switzerland	100.0	600.0
2008	Raiffeisen PPP Infrastruktur	Allami Autopalya Kezelo	Bridge, tunnel, and elevated highway construction	Hungary	n.a.	169.0
2008	CA Immobilien Anlagen AG	Vivico Real Estate GmbH	Real estate investment trusts	Germany	100.0	1,520.8
2008	Rail Cargo Austria AG	MAV Cargo Zrt	Railroads, line-haul operating	Hungary	100.0	590.00

2008	Bank Austria Creditanstalt AG	OJSC Ukrsotsbank	Banks	Ukraine	94.2	2,231.2
2007	Telekom Austria AG	Mobile Digital Communications	Telephone communications, except radiotelephone	Belarus	70.0	1,033.3
2007	Sparkassen Immobilien AG	Citec Immobilien-Residential	Operators of apartment buildings	Germany	100.0	251.6
2007	Immofinanz Immobilien Anlagen	Undisclosed logistics centres	Land subdividers and developers, except cemeteries	Germany	100.0	372.1
2007	OMV AG	MOL Group	Crude petroleum and natural gas	Hungary	8.6	1,346.4
2007	Bank Austria Creditanstalt AG	ATF Bank JSC	Banks	Kazakhstan	95.6	1,661.0
2007	Bank Austria Creditanstalt AG	International Moscow Bank	Banks	Russia	10.0	229.4
2007	Conwert Immobilien Invest SE	Undisclosed real estate	Real estate agents and managers	Germany	100.0	213.7
2007	Verbund	EnerjiSA	Electric services	Turkey	49.99	326.2
2007	Bank Austria Creditanstalt AG	Aton Institutional Business	Security brokers, dealers, and flotation companies	Russia	100.0	424.0
2007	CA Immobilien Anlagen AG	Hessen-Property Portfolio	Land subdividers and developers, except cemeteries	Germany	100.0	986.6

Source: Thomson ONE Banker. Thomson Reuters.

Annex table 7. Austria: main greenfield projects, by outward investing firm, 2007-2009
(US$ million)

Year	Investing company	Industry	Source economy	Estimated / announced investment value
2009	OMV	Coal, oil and natural gas	Romania	716.6
2009	Immofinanz	Real estate	Russia	281.7
2009	OMV	Coal, oil and natural gas	Kazakhstan	250.6
2009	OMV	Coal, oil and natural gas	Germany	211.6
2009	OMV	Coal, oil and natural gas	Turkey	663.2
2009	OMV	Coal, oil and natural gas	Romania	472.9
2009	OMV	Alternative / renewable energy	Romania	570.6
2009	Kapsch Group	Communications	Belarus	675.0
2009	Egger Group	Alternative / renewable energy	Romania	598.2
2009	Spinelli Euro Freight	Transportation	Russia	218.9
2008	OMV	Coal, oil and natural gas	Germany	870.9
2008	Supernova	Real estate	Croatia	720.3
2008	OMV	Coal, oil and natural gas	Turkey	740.0
2008	A-Tec Industries	Industrial machinery, equipment and tools	United Kingdom	645.2
2008	Asamer	Real estate	Ukraine	941.2
2008	intico solar	Electronic components	Germany	954.5
2008	OMV	Coal, oil and natural gas	Turkey	781.0
2008	Immofinanz	Real estate	Russia	715.1
2008	Kolm Pfluger	Food and tobacco	Serbia	776.3
2008	Kelag	Alternative / renewable energy	Romania	621.2
2007	Kronospan	Wood products	Russia	440.4
2007	Bau Holding Strabag	Building and construction materials	Hungary	286.7
2007	Bau Holding Strabag	Metals	Russia	254.1
2007	Meinl Bank	Coal, oil and natural gas	Hungary	222.2
2007	EVN	Alternative / renewable energy	Albania	1,500.0

2007	Immofinanz	Real estate	Romania	404.3
2007	Meinl Bank	Real estate	Russia	406.1
2007	Erste Bank	Real estate	Slovakia	243.0
2007	Erste Bank	Real estate	Hungary	394.1
2007	Erste Bank	Real estate	Bulgaria	283.3

Source: fDi Intelligence, a service from the Financial Times Ltd.

Chapter 2 - Belgium

Belgium: Inward FDI and its policy context, 2010

*Filip De Beule and Daniel Van Den Bulcke**

As a small open economy, Belgium has been actively and successfully attracting IFDI since the 1960s and consequently has one of the most internationalized economies in the world. Foreign affiliates represent approximately 35% and 21% of manufacturing and services jobs as well as 42% and 24% of value added by the manufacturing and services sector, respectively. Despite an overall drop in competitiveness of Belgian industry, the introduction of a new and innovative incentive, the notional interest deduction scheme, to lower corporate income tax for all firms in 2005 has led to an increase of inflows of equity capital from 2006 onward, although the financial crisis took its toll on inflows in 2008 and 2009. In addition, the risk capital allowance has done much to promote Belgium's role as a financial conduit, allowing a large proportion of the authorized capital to flow back to other countries in the form of loans. This trend was reinforced by the global financial crisis.

Trends and developments

Country-level developments

According to UNCTAD, Belgium has been among the top ten recipients of IFDI flows for many years. At the end of 2009, Belgium ranked fifth in terms of IFDI stock, behind the United States, the United Kingdom, France, and Hong Kong (China). With an IFDI stock of roughly US$ 830 billion (annex table 1), the country was ahead of such large economies as Brazil, Mexico, Russia, and China.[1] Largely as a result of its policy of attracting IFDI since the 1960s, Belgium has one of the most internationalized economies in the world. According to UNCTAD's transnationalization index, in 2005 Belgium ranked at the top of the list of the most "globalized" developed countries and second, only after Hong Kong (China) in the combined list of developing and developed economies.[2]

Despite its relatively small economic size of less than 3% of the European Union's GDP, Belgium also has a strong FDI position in the EU. Belgium attracted between 5% and 20% of EU's IFDI flows in the period 2002-2009, a higher share than that of most other similar-sized European countries. It is one of the most important host countries (third position) for IFDI in the EU, accounting for over 11% of cumulative EU IFDI. The highly globalized Belgian economy is characterized by a regionalized concentration of the source countries with investments in Belgium. The lion's share of Belgium's IFDI comes from European Union countries, especially from Belgium's immediate neighbors. These

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[1] UNCTAD, *World Investment Report 2010: Investing in a Low-Carbon Economy* (New York and Geneva: United Nations, 2010).

[2] UNCTAD, *World Investment Report 2008: Transnational Corporations and the Infrastructure Challenge* (New York and Geneva: United Nations, 2008).

neighboring countries account for about two-thirds of the country's IFDI, distributed as follows: France 25%, Germany 20%, the Netherlands 19%, and the United Kingdom 4%. US firms constitute one of the largest non-European sources of IFDI in Belgium, although their importance is waning.[1] This regional concentration of IFDI is related to Belgium's central geographical location, to the importance of Brussels as the political and administrative capital of the EU and, most importantly, to Belgium's role in the distribution of goods and services across the European continent.

IFDI flows into Belgium have been on a rising trend since 2002 (annex table 2).[2] In the crisis year of 2008, Belgium was able to maintain its level of FDI inflows at US$ 110 billion, while other countries like the Netherlands experienced a sharper drop. However, in 2009 Belgium's FDI inflow collapsed to US$ 34 billion (see also the section on the effects of the current global crisis on IFDI).

The majority of foreign affiliates in Belgium are services sector affiliates (annex table 3). These employ more than 336,000 people, with about 145,000 in the manufacturing sector and 190,000 in the service sector, which represents about 35% and 21% of sector employment, respectively. In terms of value added, foreign affiliates in both sectors contribute about US$ 15 billion each, which represents about 42% and 24% of the total value-added in the manufacturing and service sectors, respectively. The most important foreign affiliates in terms of size – as measured by total assets, turnover and employment – are in the chemical and pharmaceuticals sector, the automotive sector, personnel services, and coordination centers. Coordination centers usually have large total assets without much turnover or employment, while temporary personnel service companies have large employment figures without much turnover or total assets.

Europe is the predominant source of FDI flows into Belgium. In 2007, before FDI bore the brunt of the economic crisis, according to Bank of Belgium statistics, Europe was the source of US$ 99 billion of Belgium's US$ 105 billion inflows, while the United States supplied US$ 6 billion (annex table 4). The list of the most important foreign direct investors in terms of numbers of projects is headed by US companies, with 38 out of 142. Firms from Belgium's neighboring countries have also established a sizeable number of greenfield projects: France 17, Germany and the Netherlands 13 each, and the United Kingdom 11. The United States and Belgium's neighbors together represent about two-thirds of all greenfield investment projects in Belgium. Intra-European investments are the most important source of investment in Belgium, although firms from emerging economies like Brazil and China also seem to have discovered investment advantages in Belgium. Flanders has traditionally been the most successful region in attracting investment, although by 2009 Wallonia, with 57 greenfield investment projects, had almost caught up with Flanders' 64 such projects. Wallonia reportedly has less cumbersome environmental and spatial planning policies, making it easier for firms to invest there.

The corporate players

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[1] AMCHAM, *US Direct Investment in Belgium Report 2009* (Brussels: AMCHAM Belgium, 2009).

[2] Separate data for Belgium have only been available since 2002. Before 2002, the data were reported for the Belgium-Luxembourg Economic Union (BLEU). In January 2006, the National Bank of Belgium (NBB) switched to a new system for collecting the FDI data needed to draw upon balance-of-payment data. This revamped data collection system also required adjustments to the technical method of producing the balance of payments. The new system conforms to the administrative simplification requirement introduced by the Government. This means that financial institutions report only transactions for their own account and no longer for their clients; while specific surveys are used to supplement all components of the balance of payments. A change in the data collection method inevitably entails methodological breaks. Strictly speaking, it is therefore incorrect to compare data published since 2007 with the data available until 2006.

Many foreign chemical companies have plants in two or even all three of the Belgian regions. The chemical industry in the Flemish region represents 73% of the total sales of the chemical sector in Belgium. The port of Antwerp is located in the world's biggest and most diversified petrochemical cluster, the Antwerp-Rotterdam region. The chemicals sector in the Walloon region represented 19% of total turnover of the Belgian chemical sector in 2005. Base chemical manufacturing activities are mainly concentrated in the province of Hainaut. In addition, Wallonia has an important biotechnology pole and high-tech pharmaceutical industry in the province of Walloon Brabant and the North Hainaut area. Wallonia-based companies account for 28% of the total R&D expenditure of the chemical sector in Belgium. Although it makes a comparatively modest contribution to the sector's turnover (8%), the Brussels-Capital region remains an essential link in the chain of activities of the chemical sector in the country. This region has only few chemical production facilities but is home to various head offices, like those of BASF and Statoil (annex table 5), which are near to several international organizations and institutions. Brussels is clearly the preferred location for the establishment of regional headquarters (coordination centers), although there are some in other parts of the country.

Another sector in which Belgium has attracted large amounts of foreign investment is the automotive industry. US companies, such as Ford and General Motors (GM), have played an important role. Although GM was already assembling cars in Belgium a century ago, US firms intensified their search for market opportunities at the time of the establishment of the European Common Market at the end of the 1950s, as they sought to take advantage of economic growth and leap over the common external tariff. In Flanders, they found reliable workers who - at that time - were cheaper than in Wallonia and less prone to strike. Most European automotive companies, including Volkswagen, Renault and Volvo, also established production plants in Belgium. As the European automotive market became oversaturated and overcapacity was created in developed countries, these production plants have come under heavy strain. Renault, for instance, disinvested its Vilvoorde plant in 1997. GM recently decided to close down its Opel plant in Antwerp. Others were able to survive after restructuring. Volkswagen restructured its plant in Vorst, near Brussels, to produce the Audi A1. Ford Genk, the largest branch (of Ford Europe, Germany) plant in Belgium, is still in business after major downsizing a few years ago. The Volvo plant in Gent became a subsidiary of Geely Automotive of China when it acquired the former Swedish brand from the Ford group in 2010. Perhaps because of Geely's commitment to run Volvo as a multi-domestic business, the Volvo plant in Gent seems to have survived the recession unscathed. Meanwhile, the reduced activity of the car assemblers in Belgium due to disinvestments has affected the suppliers to this industry and caused much indirect unemployment.

In 2009, the largest foreign acquisition was in the banking sector, where BNP Paribas acquired 75% of Fortis Bank for US$ 12.8 billion. Other M&As included the purchase of a 51% stake in SPE by the French energy company EDF for US$ 1.8 billion and a variety of other deals in various sectors, including electrical services, courier services, machine manufacturing, software, pharmaceuticals, and clothing (annex table 6).

An analysis of the number of greenfield investment projects by sector (annex table 7) shows that sales and marketing activities lead the list in most years. The second place is taken up by manufacturing (production), while the third position is held by the logistics sector. Belgium has also proven an attractive location for European headquarters of MNEs as well as for their distribution centers. This attractiveness is not only the result of the large number of EU and international institutions based in

Brussels and the country's geographic location in the center of Western Europe, but also of investment incentives for holding companies and regional headquarters, the so-called "coordination centers" (see below), although these incentives were phased out by the end of 2010 to comply with EU rules. Since 2005, these four sectors have taken up the top four positions of greenfield investments in Belgium.

The total of greenfield projects and M&A deals declined from around 300 a year in 2005-2007 to 250 in 2008 and 224 in 2009. Greenfield investments outnumbered acquisitions, although between a quarter and half of the greenfield investments were expansion projects by foreign firms already present in the country.[1]

Effects of the current global crisis

IFDI flows in Belgium declined during the economic and financial crisis, although the IFDI stock grew sharply in 2009. FDI inflows peaked at US$ 118 billion in 2007 before declining to US$ 110 billion in 2008 and US$ 34 billion in 2009. A detailed analysis of the monthly net inflows of FDI indicates that equity capital investments remained rather stable in 2008 and 2009, while other capital flows, such as intra-company loans, occasionally turned extremely negative. These data suggest that coordination centers and other affiliates in Belgium were used as a conduit for intra-company loans in an effort to support their corporate parents or other affiliates (see further on the impact of the notional interest deduction scheme). Annex table 4 also indicates that these negative flows of IFDI were mainly due to non-European countries, while Europe sustained its equity investment in Belgium.

The policy scene

Belgium has traditionally welcomed foreign investment. The Belgian Government currently encourages new foreign investment as a means to promote innovation and employment. The Belgian federal government provides tax breaks for R&D and investment in capital goods, as well as fiscal incentives for hiring employees. As a result of some regional devolution, Flanders, Brussels and Wallonia now have substantial autonomy in courting potential foreign investors, as each deems appropriate. For more direct support, all three regions offer financing and subsidies that aim to attract new businesses and generate employment. The regions may favor certain industries when allocating subsidies, as part of their overall economic policy. These preferred investments are often environmental, biotechnology and information and communications technology projects, or others using innovative technologies.

The part of R&D expenditures by foreign-controlled firms is about 1.5 times the part of domestic-controlled firms. In the period 2000-2006, the annual growth rate (before correction for inflation) of FDI in R&D equaled 0.9%, and the share of R&D expenditures of foreign affiliates in the total of the business expenditures for R&D (BERD) remained stable at around 59%. However, the recent employment growth in foreign affiliates has declined since 2006.[2] FDI in R&D from other EU member states (and especially France and the Netherlands) decreased sharply, whereas the share of IFDI in R&D by US firms increased (despite the decrease in absolute terms of their investments). Together, Europe and the United States account for nearly 95% of total IFDI in R&D in Belgium. Until 2006, FDI in R&D from emerging and developing economies in Belgium were minor. More recently, the takeovers of

[1] Ernst & Young, *Barometer van de Belgische Attractiviteit 2010* (Brussels: Ernst and Young, 2010).

[2] According to Ernst & Young, 3,357, 3,391 and 4,379 jobs were created by foreign affiliates in Belgium in 2009, 2008 and 2007, respectively. See, Ernst & Young,, op. cit..

Arcelor by Mittal Steel and of Hansen Transmissions by Suzlon are examples with implications of foreign control by emerging markets (in this case India) over R&D expenditures in Belgium.
In order to attract regional headquarters of MNEs and to enhance Belgium's attractiveness as a favorable location for FDI in general, the Government began a fiscal incentive scheme at the beginning of the 1980s, when the "coordination centers" legislation was enacted.[1] When the European Commission ruled that the fiscal relief scheme had to be discontinued, the Belgian Government succeeded in obtaining a transition period (which ended in 2010), and it switched to a new promotional tool, the "notional interest deduction" (NID) to attract risk capital.[2] This measure was introduced in 2006 and applies to the existing capital stock.[3] Under the NID - an innovative measure in international tax law - all companies subject to Belgian corporate income tax are allowed to deduct from their taxable income an amount equal to the interest they would have paid on their capital in the case of long-term debt financing.

This measure was to a large extent intended to convince MNEs that perform coordinating activities on behalf of their groups to remain or establish themselves in Belgium, although all firms can take advantage of it. Around 280 coordination centers were active during the lifetime of the coordination center regime, most of which were European, although US firms constitute the single largest nationality.[4] As the Government and the industry itself feared that the end of the Belgian coordination center regime would create a negative image of the investment climate in Belgium, the worst case scenario was that the industry would vanish altogether and job losses were estimated in a range of 10,000-20,000 jobs.[5] With the new regime, Belgium wanted to keep existing coordination centers while also attracting new ones. Although data indicate that the number of coordination centers has dropped dramatically from around 250 in the mid 1990s and around 200 in 2005 to around 75 by 2008, the most important – in terms of employment and capital – coordination centers are still active using the NID scheme while other finance centers have picked up some of the slack. If Belgium can attract new finance centers belonging to multinational groups, that could stimulate employment and offset the job losses in coordination centers whose capital and activities have been transferred abroad. These new finance centers currently employ few people.

Since its introduction, the notional interest deduction has been criticized for its high budgetary cost, estimated at more than US$ 2 billion, although the net budgetary impact was estimated at between US$ 200 and US$ 500 million after taking account of payback effects.[6] Since the risk capital allowance

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[1] From 1983, after discussions with the European Commission, the Belgian authorities applied a favorable tax regime, including lower corporation tax, capital duty, property tax, and withholding tax, to these establishments. In 2003, the European Commission declared that the reliefs amounted to state aid and did not comply with the EC Treaty. Coordination centers whose ten-year period of approval was under way were allowed to avail themselves of the benefits of the scheme until the end of that period until December 31, 2010 at the latest. The EU Commission banned Belgium from renewing approvals when they expired after the end of 2005.
[2] Ministry of Finance, *NotionalIinterest Deduction: AnIinnovative BelgianTtaxIincentive* (Brussels: Ministry of Finance, 2009).
[3] Christian Valenduc, Les intérêts notionnels: une réforme fondamentale et controversée', *Courrier hebdomadaire* (Brussels : CRISP, 2009).
[4] M.P. Styczen, *A Comprehensive Case Study of Multinationals' Financial Centers in Belgium* (Oslo: Norway School of Economics and Business Administration, 2010).
[5] M. Quaghebeur, "Officials hope new tax regime will attract multinationals", *Tax Notes International*, January, 2005, pp. 140-41; B. Springael, "Notional interest deduction: investment in Belgian risk capital rewarded", *IBFD Derivatives and Financial Instruments*, January/February, 2006, pp. 47-56.
[6] K. Burggraeve, Ph. Jeanfils, K. Van Cauter, and L. Van Meersel, "Macroeconomic and fiscal impact of the risk capital allowance," *Economic Review*, September 2008, p. 41 (Brussels: National Bank of Belgium, 2008).

was introduced, there has been a noticeable rise in the authorized capital and hence in the shareholders' capital of companies established in Belgium. The considerable contribution of capital from other countries led to a rise in the authorized capital of Belgian companies while strengthening their financial autonomy, at least at the national level. These capital inflows partly reflect a move to substitute capital injections for current loans granted by foreign companies. In addition, the risk capital allowance has done much to encourage the formation of finance companies, allowing a large proportion of the authorized capital to flow back to other countries in the form of loans. The record capital contributions from abroad seem to indicate that the risk capital allowance has succeeded in making Belgium attractive from the tax angle. However, critics have claimed that it was not effective in preventing a decline in R&D and employment during the crisis years, and should therefore not be applicable for companies that have lain off their workforces. A bill was proposed, but never passed.[1] Belgium is also quite active in terms of international investment agreements. Belgium is in the top ten signatory countries of BITs. It has also concluded and renewed several BITs and double taxation treaties (DTTs) in recent years in order to renegotiate the agreements with additional provisions covering broader economic activities.[2]

Conclusions and Outlook

Although IFDI in Belgium has been strongly influenced by MNEs using Belgium as a financial platform for investments in other countries, it is important in most sectors of the Belgian economy and in the technologically-oriented sectors in particular. Since the 1980s, when it was created, the coordination centers framework promoted both inward and outward investment in Belgium. As this incentive scheme was brought to an end by a decision of the European Commission as part of its program against unauthorized state aid, the extent to which the new "notional interest" measure will be able to keep up Belgium's reputation as a country with a large "welcome mat" for FDI remains to be seen. IFDI for the Belgian economy is likely to remain important, provided Belgium succeeds in keeping up with the other EU countries in attracting foreign affiliates and convinces firms from emerging markets to locate in Belgium as a platform for conquering the European market. While Belgium's high labor costs may be a handicap, they may largely be offset by the high productivity of its workers and operational and environmental advantages such as excellent infrastructure and favorable living conditions.

Additional readings

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IBM Global Business Services, *Global Location Trends: Country Results 2009 Belgium* (Brussels: IBM, 2010).

[1] M. Arena, M. Mathot and G. Coëme, "Wetsvoorstel betreffende de notionele interestaftrek," *Doc 52, 2482/001*, p. 9 (Brussels: Belgische Kamer van Volksvertegenwoordigers, 2010).
[2] UNCTAD, "Recent developments in international investment agreements," *IIA Monitor*, No. 3, p. 15 (Geneva and New York: United Nations, 2009).

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Statistical annex

Annex table 1. Belgium: inward FDI stock, 2002-2009 (US$ billion)

Economy	2002	2003	2004	2005	2006	2007	2008	2009
Belgium	230	351	467	378	481	593	519	830
Memorandum: comparator economies								
Austria	45	58	71	83	111	163	159	169
Denmark	83	100	116	116	134	161	151	158
Netherlands	350	427	477	451	517	728	639	597

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/
Note: Data for Belgium are not available prior to 2002, as they were only reported as part of the Belgium Luxembourg Economic Union (BLEU).

Annex table 2. Belgium: inward FDI flows, 2000-2009 (US$ billion)

Economy	2002	2003	2004	2005	2006	2007	2008	2009
Belgium	16	33	44	34	59	118	110	34
Memorandum: comparator economies								
Austria	0	7	4	11	8	31	11	7
Denmark	7	3	-10	13	3	12	3	8
Netherlands	25	21	5	48	8	115	-8	27

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/
Note: Data for Belgium are not available prior to 2002, as they were only reported as part of the Belgium Luxembourg Economic Union (BLEU).

Annex table 3. Belgium: sectoral distribution of inward FDI, by sector aggregates of foreign affiliates, 2005

Sector / industry	Number	Employment	Net value added (US$ million)
All sectors / industries	3,355	336,412	30,550
Primary	30	1,134	150
Secondary	682	145,208	14,960
Services	2,643	190,070	15,450

Source: Filip De Beule and Ilke Van Beveren, "Belgium's competitiveness: A comparison of foreign and domestic enterprises", in D. Van Den Bulcke, A. Verbeke and W. Yuan, eds, *Handbook on Small Nations in the Global Economy: The Contribution of Multinational Enterprises to National Economic Success* (Cheltenham: Edward Elgar, 2009), pp. 30-49.

Annex table 4. Belgium: geographical distribution of inward FDI flows, 2007-2009
(US$ million)

Region/economy	2007	2008	2009
World	105,334	95,978	20,592
Europe	99,237	77,389	42,245
EU-27	88,926	71,149	21,335
Other European countries	10,311	6,240	20,910
Africa	-269	-1,145	-4,921
North Africa	-353	59	-691
Other African countries	83	-1,204	-4,229
America	6,048	6,915	-5,764
North and Central America	6,045	5,840	-5,612
South America	3	1,075	-152
Asia	-1,798	12,714	-11,207
Near and Middle East	201	1,010	-1,851
Other Asian countries	-1,999	11,704	-9,356
Oceania	2,116	102	239
Other	52	12,748	-16,040

Source: National Bank of Belgium's, available at http://www.nbb.be/app/cal/E/belgohome.htm
Note: Not including reinvested earnings, which are not available.

Annex table 5. Belgium: main foreign affiliates, ranked by the sum of total assets, employment and turnover, 2008

Name	Employment	Turnover (US$ million)	Total assets (US$ million)	Home economy	Industry
Exxonmobil Petroleum & Chemical	2,176	28,972	42,339	United States	Manufacture of refined petroleum products
Hewlett-Packard Coordination Center	23	3	72,676	United States	Activities of head offices
Arcelormittal Finance And Services Belgium	34	4	61,285	Luxembourg	Activities of head offices
Petrofina	551	21,054	19,662	France	Manufacture of refined petroleum products
Toyota Motor Europe	2,415	26,831	9,602	Japan	Activities of head offices
BASF Antwerpen	3,432	6,446	22,982	Denmark	Manufacture of other organic basic chemicals
Atlas Services Belgium	6	3	32,815	France	Activities of head offices
Suez-Tractebel	172	157	31,120	France	Engineering, architectural, and surveying services
Gdf Suez Cc	376	68	29,382	France	Activities of head offices
Glaxosmithkline Biologicals	5,748	3,753	16,302	Great Britain	Pharmaceutical and medicine manufacturing
Ikea Service Center	43	7	25,404	Netherlands[a]	Activities of head offices
BASF Coordination Center	58	25	21,432	Denmark	Activities of head offices
Statoil Asa	53	8	21,347	Norway	Activities of head offices
Carrefour Belgium	10,993	6,449	3,533	France	Grocery stores
Centre De Coordination Carrefour	16	1	19,768	France	Activities of head offices
Petrofina International Group	32	6	19,474	France	Activities of head offices
Randstad Belgium	15,372	973	2,352	Netherlands	Temporary employment agency activities
Janssen Pharmaceutica	3,913	5,242	9,272	United States	Pharmaceutical and medicine manufacturing
Eni Coordination Center	30	16	17,147	Italy	Activities of head offices
Arcelor Mittal Belgium	7,400	4,336	5,155	Luxembourg	Manufacture of basic iron and steel and of ferrous-alloys
Royal Park Investments	3	0	15,813	France	Miscellaneous business services
Gmr	2	1	14,512	France	Miscellaneous business services
Sabelfi	9	2	12,082	Canada	Business credit institutions
Manpower (Belgium)	11,491	344	103	United States	Temporary employment agency activities
Adecco Personnel Services	10,688	595	109	CH	Temporary employment agency activities

Source: Authors' calculations, based on the Amadeus database (Bureau Van Dijk).
[a] IKEA is owned by INGKA Holding B.V., a Dutch corporation; its operational headquarters are in Sweden.
Note: Unconsolidated accounts.

Annex table 6. Belgium: main M&A deals, by inward investing firm, 2009

Acquiring company	Target company	Target industry	Source economy	Shares acquired (%)	Transaction value (US$ million)
BNP Paribas SA	Fortis Bank SA/NV	Banking	France	74.9	12,765.3
EDF	SPE SA	Electric services	France	51.0	1,848.3
Centrica Overseas Holdings Ltd	Segebel SA	Electric services and other combined	United Kingdom	50.0	972.4
CVC Capital Partners Ltd	De Post-La Poste	Courier services	Luxembourg	49.9	478.2
Dean Foods Co	Alpro NV	Soybean oil mills	United States	100.0	448.0
Ecofin Ltd	Hansen Transmissions Intl	Machinery manufacturing	United Kingdom	10.0	115.0
Canon Europa NV	IRIS Group SA	Prepackaged software	Netherlands	17.0	99.0
Aquiline Capital Partners LLC	Clear2Pay NV	Prepackaged software	United States	n.a.	74.1
Sally Beauty Holdings Inc	Sinelco Group NV	Service establishment equipment	United States	100.0	36.6
Celesio AG	Laboratoria Flandria NV	Pharmaceuticals	Germany	n.a.	35.4
Amplifon SpA	Dialogue	Medical, dental, and hospital equipment	Italy	100.0	19.5
Investor Group	Cardio3 BioSciences SA	Biological products	Luxembourg	n.a.	17.9
Dorel Industries Inc	Baby Art bvba	Clothing and accessories	Canada	100.0	5.4
Skidata AG	Orcus	Prepackaged software	Austria	100.0	3.0
BNP Paribas SA	Fortis Insurance Belgium SA	Insurance	France	25.0	1.9
Logan Oil Tools Inc	Diamant Drilling Services SA	Metalworking machinery	United States	100.0	0.7

Source: Thomson ONE Banker, Thomson Reuters.

Annex table 7. Belgium: main greenfield projects, by inward investing firm, 2009

Investing company	Target industry	Business activity	Source economy	Estimated transaction value (US$ million)
GlaxoSmithKline (GSK)	Pharmaceuticals	Manufacturing	United Kingdom	542
ExxonMobil	Coal, oil and natural gas	Electricity	United States	449
COFRA Holding	Real estate	Construction	Switzerland	196
COFRA Holding	Real estate	Construction	Switzerland	196
France Telecom	Communications	Customer contact center	France	142
Eneco	Alternative/renewable energy	Electricity	Netherlands	128
Caterpillar	Industrial machinery, equipment and tools	Manufacturing	United States	126
TPG	Transportation	Logistics, distribution and transportation	Netherlands	80
Ciblex	Transportation	Logistics, distribution and transportation	France	80
Avient	Transportation	Logistics, distribution and transportation	United Kingdom	80
Astre	Transportation	Logistics, distribution and transportation	France	79
Pierre & Vacances	Hotels and tourism	Construction	France	58
Inditex	Consumer products	Retail	Spain	54
Hema	Consumer products	Retail	Netherlands	54
IKEA	Consumer products	Retail	Sweden	54
Inditex	Consumer products	Retail	Spain	54
DSM	Rubber	Manufacturing	Netherlands	51
Asahi Glass	Ceramics and glass	Manufacturing	Japan	48
Ashland	Chemicals	Manufacturing	United States	37
PolyOne	Chemicals	Manufacturing	United States	35

Source: fDi Intelligence, a service from the Financial Times Ltd.

Annex table 7a. Belgium: Number of greenfield projects and acquisitions in Belgium, 2005-2009

Entry mode	2005	2006	2007	2008	2009
Greenfield	179	185	175	142	146
Acquisition	119	106	126	108	78
Total	298	291	301	250	224

Source: Ernst & Young, *Barometer van de Belgische Attractiviteit 2010* (Brussels: Ernst and Young, 2010); Zephyr database, Bureau Van Dijk.

Annex table 7b. Number of greenfield projects in Belgium, by sector, 2005-2009

Sector	2005	2006	2007	2008	2009
Sales and marketing	56	63	71	48	60
Production	47	66	38	36	27
Logistics	43	28	28	33	26
Headquarters	8	9	20	8	8
Research and development	12	4	5	7	11
Services	13	15	13	10	14
Total	179	185	175	142	146

Source: Ernst & Young, *Barometer van de Belgische Attractiviteit 2010* (Brussels: Ernst and Young, 2010).

Chapter 3 - Bulgaria

Bulgaria: Inward FDI and its policy context, 2012

*Aristidis P. Bitzenis**

After the fall of the country's communist regime, Bulgaria faced great political instability, changing prime ministers eight times between 1990 and 1997. Three economic crises were associated with slow economic growth or even recession as well as high inflation rates that weakened the Bulgarian economy and discouraged inward foreign direct investment (IFDI) flows in the 1990s. The establishment of a currency board in July 1997 stabilized the economy and greatly increased foreign participation in the privatization process, leading to a major increase in IFDI flows. The entry of Bulgaria into the European Union (EU) in 2007 was a catalyst for IFDI. Bulgaria received US$ 28 billion of IFDI flows in 2007-2010, compared to only US$ 24 billion during the transition period from 1990 to 2006. A low corporate tax rate (10%) and EU membership have played a decisive role in attracting IFDI to Bulgaria.

Trends and developments

In 1989, Bulgaria was a manufacturing economy that produced low quality products that were distributed to the Council for Mutual Economic Assistance (CMEA) countries, especially the USSR. The collapse of both the CMEA and the USSR in 1991 resulted in a vacuum in Bulgaria's foreign trade. Bulgaria joined the International Monetary Fund (IMF) in 1990, after the collapse of the country's communist regime, and has been a member of the World Trade Organization since December 1, 1996. Bulgaria became a member of the EU in January 2007. In contrast to IFDI flows to the eight Central and Eastern European (CEE) countries that joined the European Union (EU) on May 1, 2004, IFDI to Bulgaria remained low for most of the 1990s due to an inadequate infrastructure and business environment, economic and political instability and a slow privatization process. Nevertheless, IFDI flows grew steadily in importance for Bulgaria's economy, rising from 25% to 50% of gross fixed capital formation in the second half of the 1990s. The growth of the Bulgarian economy continues to depend heavily on the level of FDI inflows. During 2000-2009, IFDI flows as a percentage of gross fixed capital formation ranged from a low of 39% in 2001 to a peak of 105% in 2007.[1] Economic growth in the first decade of the new century and a strong market potential have enhanced Bulgaria's ability to attract international investors. This is a remarkable development, since Bulgaria used to be a laggard in transition to a market economy for most of the 1990s. After its economic crisis in mid-1997, Bulgaria decided to fix the value of its currency to the Deutsche Mark, and in 1999 to the Euro,[2] a measure that stabilized the Bulgarian economy.

* The author wishes to thank Kalman Kalotay and Trajko Slaveski for their helpful comments. First published March 23, 2012.

[1] Author's calculations, based on data available at: http://unctadstat.unctad.org.

[2] The value of the Bulgarian currency (Bulgarian Lev –BGL) was fixed to the German D-Mark at a rate of 1,000 BGL for 1 DEM in 1997; on July 5, 1999 the Lev was redenominated at 1,000:1 – 1,000 old levs were exchanged for one new Lev– and one new Lev became equal to 1 Deutsche Mark (DEM). With the replacement of the Deutsche Mark by the Euro, the Lev's fixed exchange rate switched to 1.95583 BGL per 1 Euro.

Country level developments

Bulgaria began to receive sizeable FDI inflows in the early 2000s, partly driven by privatizations, as well as important greenfield investments. The pre-EU-accession process gradually transformed the business environment of Bulgaria and had a major impact on IFDI. As a result, Bulgaria's ranking by UNCTAD's IFDI Performance Index moved up from a position of 92 in 1990-1992 to a place among the global top ten in 2004-2007.[1] Competitive labor costs have been an important factor for efficiency-seeking FDI, but higher value-added industries have also attracted IFDI.

Annex table 1 contains data on Bulgaria's IFDI stock in 2000, 2009 and 2010. Although Bulgaria's IFDI stock was very low in the initial transition years compared to that in most other CEE countries, by 2009 Bulgaria's IFDI stock was the 8th largest (after those of Russia, Hungary, Poland, Romania, the Czech Republic, Kazakhstan, and Ukraine, in that order) in the CEE region, where IFDI growth has accelerated. FDI inflows increased strongly after Bulgaria signed the EU Accession Treaty, and then slowed during the recent global financial and economic crisis, with a fairly steep decline in IFDI flows during 2008-2010. This pattern is similar to FDI inflows to other CEE countries (annex table 2).

As annex table 3 indicates, the increase in Bulgaria's IFDI stock during 2000-2009 mainly took place in the tertiary sector, with significant FDI growth in transport, storage and communications, electricity, gas and water, financial intermediation, wholesale and retail trade, and real estate services. FDI in construction and manufacturing also rose substantially, but manufacturing FDI grew at a lower rate than FDI in several services. Within the services sector, FDI in trade and telecommunications played an important role in FDI inflows in the early 2000s as a result of privatization deals.[2] In addition, IFDI played a limited but significant role in business services and research and development (R&D) until 2003.[3] In South-East Europe and the Commonwealth of Independent States (CIS), the Russian Federation and Bulgaria were the only target economies for location of R&D, as mentioned by respondents of the 2005 UNCTAD survey on the largest multinational enterprise (MNE) spenders on R&D.[4]

Due to the gradual adoption of EU Law (*acquis communautaire*) Bulgaria has followed an overall policy trend of greater openness to IFDI in its energy/electricity industry and in the services sector generally, resulting, as noted, in a strong increase in IFDI stock in these industries (annex table 3).[5] Bulgaria's entry into the EU resulted in foreign banks taking dominant positions in the Bulgarian economy: 83% of

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[1] See UNCTAD, *World Investment Report 2007: Transnational Corporations, Extractive Industries and Development* (New York and Geneva: United Nations, 2002) and UNCTAD, *World Investment Report 2008: Transnational Corporations and the Infrastructure Challenge* (New York and Geneva: United Nations, 2008), p. 62.

[2] See UNCTAD, *World Investment Report 2005: Transnational Corporations and the Internationalization of R&D* (New York & Geneva: United Nations, 2005), p. 76.

[3] Bulgaria was among the largest Central and East European recipients of services FDI projects, including both greenfield investments and cross-border M&As, in 2002-2003, according to UNCTAD analysis. The greenfield projects included in the analysis were in five areas: financial services, telecommunications, headquarters and distribution centers, R&D, and share service call centers. See UNCTAD, *World Investment Report 2004: The Shift Towards Services* (New York & Geneva: United Nations, 2004, p.79). Also, among developing economies and the transition economies of South-East Europe and the CIS, Bulgaria and Brazil were the only countries in which foreign affiliates accounted for more than 20% of all patents assigned during 2001-2003 (UNCTAD, *World Investment Report 2005*, *op. cit.*, p. 134).

[4] See UNCTAD, *World Investment Report 2005*, *op. cit.*, p. 134.

[5] See UNCTAD, *World Investment Report 2007*, *op. cit.*

Bulgaria's banking sector was controlled by foreign owners at the time of the country's EU accession.[1] Bulgaria is also included in the group of developed countries receiving sizeable IFDI in agriculture.[2] However, as annex table 3 indicates, although IFDI stock in agriculture has grown considerably in the 2000s, its share in total Bulgarian IFDI stock remains extremely low (0.4% in 2009 compared to 0.6% in 2000). FDI in the manufacturing sector has remained important since the fall of the communist regime but its share has declined noticeably during 2000-2009 as a whole, while that of FDI in the services has risen (annex table 3).[3]

Bulgaria and Romania together accounted for 70% of IFDI stock in South-East Europe during the past decade, compared to a share of 59% in GDP.[4] Bulgaria ranks quite high in the regional preference list as an FDI destination.[5] As annex table 4 indicates, the major increase of Bulgaria's IFDI stock between 2000 and 2009 came from the EU member countries (the main sources of FDI in the country), the United States and Russia.

FDI by MNEs, through cross-border mergers and acquisitions (M&As) as well as greenfield projects, is attracted to EU member countries by the growing size of the EU single market. The location of FDI projects associated with the production of goods directed toward the single market depends mostly on a host country's unit labor costs[6] relative to the rest of the EU and not on its local market size.[7] Bulgaria has been an EU member since 2007, endowed with a relatively low-cost and skilled labor force, and therefore harbored expectations of an increase in the number of M&As and greenfield investments by MNEs from EU members after the country joined the EU in 2007. There is also an interest on the part of non-EU corporate players that choose Bulgaria as their location to serve the EU market through outsourcing as a part of their activities, and for IT projects in particular.[8]

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[1] In addition, the establishment of the currency board in July 1997 brought a significant increase in foreign participation in the privatization of the Bulgarian banking system. See UNCTAD, *World Investment Report 2008*, *op. cit.*

[2] Bulgaria is classified as a developed economy by UNCTAD. Bulgaria is included in the top ten ranking places among the developed countries regarding the production of several agricultural commodities (see Food and Agricultural Organization of the United Nations – http://www.fao.org). Bulgaria is also one of the countries where the relative importance of agriculture was greater than the relative importance of manufacturing during the period 2000-2005, according to a comparison done by UNCTAD. (See UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (New York and Geneva: United Nations, 2009), pp. 115, 236).

[3] According to data from the Bulgarian National Bank (http://www.bnb.bg) covering the period 1998-2008, real estate, renting and business activities ranked first in attracting FDI (22%), followed by financial services (20%) and manufacturing (18%).

[4] See UNCTAD's database, available at: available at: http://stats.unctad.org/fdi/.

[5] See UNCTAD, *World Investment Report 2003: FDI Policies for Development: National and International Perspectives* (New York and Geneva: United Nations, 2003), and UNCTAD, *World Investment Report 2007*, *op. cit.*

[6] Gross wages in Bulgaria are comparable with those of India and China. The skilled workforce and the relatively low cost of labor, and the low social security contributions paid by the employee (13%) and by the employer (18%) are considerable incentives for foreign investments, especially those from labor intensive companies. For the importance of labor costs as determinants of FDI in Bulgaria see Kalman Kalotay, "FDI in Bulgaria and Romania in the wake of EU accession," *Journal of East-West Business*, vol. 14 (2008), pp. 5-40.

[7] See S. Girma, "The process of European integration and the determinants of entry by non-EU multinationals in UK manufacturing," *Manchester School*, vol. 70 (2002), pp. 315-335.

[8] See UNCTAD, *World Investment Report 2004*, *op. cit.* There are also, however, some negative effects on Bulgaria's FDI inflows due to EU accession. From the late 1990s, Turkish textile and apparel manufacturers began investing in South East European countries, such as Romania and Bulgaria, where labor costs were lower than in Turkey. However, following Romania's and Bulgaria's accession to the EU in 2007, and as a consequence of their rising production costs, Turkish investment in these countries stopped. See UNCTAD *World Investment Report 2008*, op. cit.

The corporate players

Annex table 5 provides information regarding the assets, turnover and number of employees in several major foreign MNEs' affiliates in Bulgaria in 2009-2010. Foreign affiliates with assets worth over US$ 1 billion each are all in the tertiary sector (finance and telecommunications), except for one that is in the secondary sector (petrochemicals). The highest turnover, however, is exhibited by foreign affiliates in the secondary sector. The largest affiliates in terms of the number of employees are found in both the secondary and tertiary sectors. The largest MNE affiliates in Bulgaria in terms of assets come mainly from Austria, Italy and Greece.

Annex table 6 shows the major cross-border M&A deals in Bulgaria during 2003-2010, ranked by their transaction/investment values, and the MNE acquirers, domestic firms acquired and industries involved. Almost all of the 32 deals shown took place in the services sector. Investors from Greece and Austria signed seven deals with a total value of US$ 5.5 billion; another US$ 4 billion (three deals) came from the United Kingdom; US$ 2.6 billion (also three deals) came from the United States. About one third of the deals involved investors from neighboring countries such as Greece, Romania and Turkey. Another third were by MNEs from former CEE countries such as Russia, Hungary, Romania, and the Czech Republic. The biggest deals of around US$ 2 billion each were made by MNEs from the United Kingdom, the United States, Austria, and Greece.

Annex table 7 provides information on the largest greenfield FDI projects in Bulgaria in the more recent period 2008-2010. The biggest greenfield project in 2010 (over US$ 1 billion) is in construction. Earlier projects of similar size were in electricity (2009) and manufacturing (2008). While cross-border M&As were mainly concentrated in the tertiary sector –and especially in telecommunications (see annex table 6)- greenfield projects were mainly in electricity services and construction and manufacturing.[1]

Effects of the recent global crisis

In Bulgaria, as elsewhere, business cycle-sensitive industries, such as chemicals and other intermediate goods, professional equipment and the automobile industry have been severely affected by the recent financial and economic crisis, while agriculture, food, pharmaceuticals, and services in general seem to have been more resilient.[2] IFDI flows to Bulgaria declined as a percentage of GDP from 20% in 2008 to 9% in 2009,[3] while GDP levels remained relatively stable, suggesting that the decline of FDI that occurred mostly in business cycle-sensitive industries was not fully compensated for by a rise of FDI in others.

The impact of the recent global crisis on FDI and its prospects has differed across Bulgarian industries. The negative effects of the crisis –diminishing capital flows and declining demand– are concentrated in exporting sectors, mainly in manufacturing, construction and trade.[4] However, the situation in the

[1] According to data from the Bulgarian National Bank (http://www.bnb.bg) covering the period 1998-2008, greenfield investments from abroad, joint ventures, reinvestments, and additional investments in already acquired enterprises exceeded the levels of FDI generated from privatization, which had been the main source of FDI in the preceding period.
[2] See UNCTAD, *World Investment Prospects Survey 2009-2011* (New York and Geneva: United Nations, 2009).
[3] See UNCTAD's database, *op. cit.*
[4] Several MNEs, however, avoided closing their affiliates in Bulgaria despite declining demand. For example, Şişecam (the largest Turkish glass manufacturer) stopped production in its Bulgarian affiliate (Trakiya Otocam) in December 2008 due to a shrinking demand in Europe caused by the economic and financial crisis. Sisecam has made the largest greenfield

banking sector is different due to adequate levels of liquidity and the independence of foreign affiliates from parent companies.[1]

One of the key uncertainties regarding FDI recovery, in Bulgaria as elsewhere, is regarding the return of cross-border M&As, as they are the major mode of FDI entry to many economies. The uncertainty relates to a wide range of factors, such as the severity or duration of the slowdown in global growth, the efficiency of global policy responses to the crisis (especially of initiatives aimed at stimulating investment), the stabilization and recovery of the financial system and the capacities of emerging countries' MNEs to become a major engine of FDI growth.[2]

In the period 1996-2005, accumulated IFDI flows in Bulgaria totaled US$ 14 billion. In 2006, IFDI flows doubled compared to 2005 reaching US$ 7.8 billion. In 2007, IFDI flows increased again by 158% to reach US$ 12.4 billion.[3] However, due to the global financial crisis, IFDI flows started to decline in 2008, when they fell to US$ 9.9 billion. This negative trend continued in 2009 when they plunged further to US$ 3.4 billion and 2010 to US$ 2.2 billion (see annex table 2). Preliminary data for 2011 indicate that the bottom of the decline was reached that year, with only US$ 1 billion registered over the first 11 months of the year.[4]

Bulgaria experienced a steady increase in IFDI flows and IFDI stock over the pre-crisis years, but now seems to be facing an unstable external environment, as reflected in the decline in IFDI flows mentioned above. Bulgaria's relatively bleak prospects can partly be explained by a decline in opportunities for exports to the most advanced European markets and the precarious condition of many national financial systems.[5]

Bulgaria's economic recovery depends heavily on export growth.[6] Exports in 2010 grew by 33% compared to 2009 and by 2.3% compared to 2008. The latter is because exports such as chemicals and iron and steel still lag behind in comparison to those of 2008.[7] GDP in 2010 decreased by 1.8% compared to 2009 and by 7.6% compared to 2008.[8] As long as domestic demand and exports remain lower than the pre-crisis levels, IFDI will be at low levels.

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investment ever in Bulgaria in order to serve the European market. (See UNCTAD, *World Investment Report 2008*, *op. cit.*) Şişecam has four plants in Targovishte but none of these was threatened by closure although the parent company had already closed in 2008 three of its plants in Turkey due to the consequences of the global financial crisis.

[1] See S. Totev and G. Sariiski, "Facing the crisis: bitter pills for the transforming Bulgarian economy," in W. Bartlett and V. Monastiriotis, *South East Europe after the Economic Crisis: a New Dawn or back to Business as Usual?* (London: LSEE, 2010).

[2] See UNCTAD, *Assessing the impact of the current financial and economic crisis on global FDI flows* (New York and Geneva: United Nations, 2009), p. 38.

[3] For figures and percentages (current prices and current exchange rates), see annex table 2 and UNCTAD statistics – http://unctadstat.unctad.org.

[4] See UNCTAD, *Global Investment Trends Monitor*, No.8, Geneva, 24 January 2012, available at: http://www.unctad.org/en/docs/webdiaeis2012d1_en.pdf.

[5] See UNCTAD, *World Investment Prospects Survey 2009-2011* (New York and Geneva: United Nations 2009), pp. 51f.

[6] See B. Slay, "The macroeconomic and social impact of the global financial crisis on South East Europe," in W. Bartlett and V. Monastiriotis, *South East Europe after the Economic Crisis: a New Dawn or back to Business as Usual?* (London: LSEE, 2010).

[7] See statistics by Bulgarian National Bank at http://www.bnb.bg/Statistics/StExternalSector/StForeignTrade/StFTExports/index.htm

[8] Author's calculations from UNCTAD data and data from Bulgarian National Bank, *op.cit.*.

The policy scene

Bulgaria's EU accession in 2007 led to increased efforts toward the improvement of the business environment[1] and the completion of large privatization deals. By adopting the *acquis communautaire*, Bulgaria is expected to meet "benchmarks" established by the European Commission for compliance with EU standards. These "benchmarks" concern judicial independence, the fight against crime and corruption and mandatory structural reforms to increase transparency and accountability in public administration; their achievement is expected to have a positive effect on competitiveness.[2]

Liberalization of the domestic investment regime to attract foreign investors has been one of the top priorities of the Bulgarian Government. Bulgaria has signed 64 double taxation treaties (DTTs) and 67 bilateral investment treaties (BITs) on the mutual protection and promotion of foreign investment.[3] Investment promotion has been assigned to the Invest Bulgaria Agency (IBA), previously called the Bulgarian Foreign Investment Agency. The IBA was established in April 1995 as an executive agency under the power of the Ministry of Economy, Energy and Tourism to promote foreign investment in Bulgaria. The basic function of the Agency has been the encouragement and implementation of the state's investment policy. Its mission is to help potential and existing investors explore investment opportunities in Bulgaria and carry out investment projects, mainly greenfield, in the country. The Privatization Agency (PA), established in 1992, is responsible for the privatization of large enterprises, while divestment of smaller and medium enterprises implemented by line ministries.[4]

Bulgaria is one of the countries that have provided subsidies to infrastructure industries so as to promote the universal provision of services or regional development.[5] Incentives to foreign investors have also been offered in the form of corporate tax cuts. There were many changes to corporate taxation in 2004, when Bulgaria ranked among the top four of developed countries based on IFDI performance, after it cut its average corporate tax rate from 23.5% to 19.5%.[6] In 2005, as a prelude to EU accession, Bulgaria

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[1] Some light is thrown on the improvement of the Bulgarian business environment by the *Ease of Doing Business* Reports (IFC and the World Bank: http://www.doingbusiness.org/Data/ExploreEconomies/Bulgaria).
In the 2010 and 2011 Reports Bulgaria was ranked 51st regarding the overall "ease of doing business" (out of 183 economies). At the same time it ranked 43rd in 2011 and 50th in 2010 on the "starting a business" indicator; in the 6th place on "getting credit" in both years (2010–2011); in the 83rd place in 2011 and 79th place in 2010 on the "closing a business" indicator; in the 44th place in 2011 and the 41st in 2010 on the "protecting investors" indicator; in the 85th place in 2011 and the 95th in 2010 regarding the "paying taxes" indicator: and finally in the 62nd place in 2011 and in the 56th in 2010 on the "registering property" indicator.

[2] Progress in combating corruption, however, is still an issue: Bulgaria's rank on the Corruption Perceptions Index deteriorated from 64th in 2007 to 73rd in 2010, and to 86th in 2011 (see Transparency International, *Global Corruption Report 2011* (London and Washington D.C.: Transparency International, 2011), available at: http://www.transparency.org).

[3] UNCTAD, "Bulgaria: number of double taxation treaties concluded" (New York and Geneva: United Nations, 2011), as at June 1, 2011, available at: http://archive.unctad.org/Templates/Page.asp?intItemID=4505&lang=1; and, "Bulgaria: number of bilateral investment treaties concluded" (New York and Geneva: United Nations, 2011), as at June 1, 2011, available at: http://archive.unctad.org/Templates/Page.asp?intItemID=2344&lang=1

[4] For details on IBA see http://www.investbg.government.bg. For PA see http://www.priv.government.bg.

[5] See UNCTAD, *World Investment Report 2004*, op. cit, p.198. According to the report, other countries with such subsidies at the time included Canada, Chile, El Salvador, Namibia, and the United States.

[6] See UNCTAD, *World Investment Report 2005*, *op. cit.,* p. 23.

further reduced its corporate tax from 19.5% to 15%.[1] In 2007 it was reduced to 10%. Additional tax incentives were provided as a policy response to the recent crisis.[2]

Bulgaria's 10% corporate tax rate, much lower than the average corporate tax rate of 28% in the EU-27, has proved to be a cornerstone for the attraction of FDI inflows during the crisis. The corporate tax rate in Bulgaria remains the lowest in the EU. The Bulgarian legal framework for FDI comprises the revised Investment Promotion Act (State Gazette, issue 18 of 2010) and the Regulations for Application of the Investment Promotion Act (State Gazette, issue 93 of 2009).[3]

Conclusions

The pre-accession process for EU membership gradually and positively transformed the Bulgarian business environment and had a strong positive impact on IFDI. The entrance of Bulgaria into the EU in 2007 was an FDI catalyst and the very low taxation rates have played a decisive role in the attraction of IFDI in Bulgaria ever since. The manufacturing sector remains important for the attraction of IFDI in Bulgaria; the services sector is the largest recipient of FDI, with financial intermediation, banking, and real estate attracting significant IFDI in the last few years.

Bulgaria has experienced a steady increase in FDI inflows and its IFDI stock since the early 2000s, but IFDI flows have declined considerably in 2008-2011. However, Bulgaria is very likely to regain its pre-crisis level of IFDI flows in 2013-2016. Until then IFDI flows will likely remain below pre-crisis levels.

Additional readings

Bitzenis, Aristidis P., "What was behind the delay in the Bulgarian privatization process? Determining incentives and barriers of privatization as a way of foreign entry," *Emerging Markets Finance & Trade*, vol. 39, no. 5 (2003), pp. 58-82.

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[1] See UNCTAD, *World Investment Report 2006: FDI from Developing and Transition Economies: Implications for Development* (New York and Geneva: United Nations, 2006), p. 81.

[2] According to the Bulgarian Corporate Income Tax Act (in force as of January 1, 2008) there is a tax relief when the initial investment is made in municipalities where the unemployment rate for the year of retention is 35% or higher than the national average for the same period. Investors in agriculture, manufacturing (including toll manufacturing), high technology and infrastructure will be 100% relieved from corporate income taxation for five years under certain conditions (the invested amount in each one of the five years exceeds € 5.1 million), or when brand new assets are acquired. In addition, considerable incentives for foreign investors were announced in 2009 regarding the reduction of the labor cost.

[3] The radical changes in Bulgarian FDI laws are reflected in the many different names of the changing laws throughout the transition years. The first Law on the Business Activity of Foreign Persons and on the Protection of Foreign Investments (1991-1992) was adopted by the Parliament of Bulgaria in 1991 and was promulgated in the State Gazette, Issue No. 47 of 1991. In 1992, it was revoked and the Bulgarian Parliament adopted the Law on Promotion and Protection of Foreign Investments, or the Encouragement and Protection of Foreign Investment Act, promulgated in the State Gazette, Issue No. 8 of 1992. Bulgaria adopted the Encouragement and Protection of Foreign Investments Act in 1996 (published in the Official Gazette issue No 109 of December 27th, 1996) and the article 3 on the Right to Make Investments (Amended, Official Gazette issue No 109 of 1996). On 16-24 October 1997, the Parliament of Bulgaria adopted a new Law on Foreign Investments. This Law was revised in 1999 (published in the Official Gazette issue No 97, of 1997; supplemented, Official Gazette issue No 29 of 1998; No 153 of 1998, No 110 of 1999 amended and supplemented) and repealed the Law on Promotion and Protection of Foreign Investments (published, State Gazette, issue 8 of 1992; amended, issues 92 and 102 of 1995, issue 109 of 1996; corrigendum, issue 110 of 1996; amended, issues 55 and 58 of 1997).

Bitzenis, Aristidis P., "Universal model of theories determining FDI: Is there any dominant theory? Are the FDI inflows in CEE countries and especially in Bulgaria a myth?", *European Business Review*, vol. 15, no. 2 (2003), pp. 94-104.

Bitzenis Aristidis P., "Explanatory variables for the low western investment interest in Bulgaria," Eastern European Economics, vol. 42, no. 6 (2004), pp. 5-39.

Bitzenis, Aristidis P., "Is globalization consistent with the accumulation of FDI inflows in the Balkan countries?: Regionalization for the case of FDI inflows in Bulgaria", *European Business Review*, vol. 16, issue 4 (2004), pp. 406-425.

Bitzenis, Aristidis P., "Determinants of foreign direct investment: Evidence from Multinationals in the post-crisis era of Bulgaria in the late 1990s", *Southeast European and Black Sea Studies,* vol. 7, no. 1 (2007), pp. 83-111.

Bitzenis, Aristidis P. and Vasileios A. Vlachos, "International business in an EU candidate: the case of Bulgaria," *International Journal of Business Environment*, vol. 3, no. 4 (2010), pp. 412-426.

Useful websites

Bulgarian National Bank – http://www.bnb.bg

Invest Bulgaria Agency (IBA) - http://www.investbg.government.bg
National Statistical Institute - http://www.nsi.bg/indexen.php

Statistial annex

Annex table 1. Bulgaria: inward FDI stock, 2000, 2009 and 2010

(US$ billion)

Economy	2000	2009	2010
Bulgaria	2.7	49.2	48.0
Memorandum: comparator economies			
Poland	34.2	186.1	193.1
Czech Republic	21.6	125.8	129.9
Hungary	22.9	98.8	91.9
Romania	7.0	72.0	70.0
Greece	14.1	42.1	33.6
Slovenia	2.9	15.1	15.0

Source: UNCTAD database, available at: http://unctadstat.unctad.org.

Annex table 2. Bulgaria: inward FDI flows 2000-2010

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Bulgaria	1.0	0.8	0.9	2.1	3.4	3.9	7.8	12.4	9.9	3.4	2.2
Memorandum: comparator economies											
Poland	9.4	5.7	4.1	4.6	12.9	10.3	19.6	23.6	14.8	13.7	9.7
Czech Republic	5.0	5.6	8.5	2.1	5.0	11.7	5.5	10.4	6.5	2.9	6.8
Romania	1.1	1.2	1.1	2.2	6.4	6.5	11.4	9.9	13.9	4.8	3.6
Greece	1.1	1.6	0.1	1.3	2.1	0.6	5.4	2.1	4.5	2.4	2.2
Hungary	2.8	3.9	3.0	2.1	4.3	7.7	6.8	4.0	7.4	2.0	2.4
Slovenia	0.1	0.4	1.6	0.3	0.8	0.6	0.6	1.5	1.9	-0.6	0.8

Source: UNCTAD database, available at: http://unctadstat.unctad.org.

Annex table 3. Bulgaria: sectoral distribution of inward FDI stock, 2000 and 2009

(US$ million)

Sector/industry	2000	2009
All sectors/industries	2,703.7	51,126.5
Primary		
Agriculture, hunting and forestry	15.4	223.2
Fishing	0.9	6.3
Mining and quarrying	23.6	206.6
Secondary		
Construction	73.4	3,626.4
Manufacturing	1,141.1	9,333.2
Services		
Transport, storage and communication	200.5	6,321.5
Electricity, gas and water supply	63.0	1,943.5
Education	0.3	4.2
Public administration and defense; compulsory social security	0.00	0.3
Financial intermediation	493.9	9,256.7
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	402.7	6,825.7
Real estate, renting and business activities	192.4	11,531.9
Hotels and restaurants	53.5	808.46
Health and social work	0.7	17.1
Other community, social and personal service activities	15.4	239.7
Not allocated	26.8	781.5

Source: Bulgarian National Bank – http://www.bnb.bg

Note: Exchange rates between US$ and Euro (year-end exchange rates) were obtained from http://sdw.ecb.europa.eu/curConverter.do for conversion into US$.

Annex table 4. Bulgaria: geographical distribution of inward FDI stock, 2000 and 2009

(US$ million)

Region/economy	2000	2009
World	2,703.7	51,126.5
Developed economies	n.a.	n.a.
Europe	n.a.	n.a.
Austria	189.9	9,368.1
Belgium	0.00	535.3
Cyprus	272.6	2,367.2
Czech Republic	23.1	659.2
Denmark	2.6	411.9
Estonia	0.0	138.0
France	94.4	1,132.2
Germany	329.3	2,891.9
Gibraltar	7.4	87.2
Greece	217.0	3,789.1
Hungary	6.0	1,495.9
Ireland	11.1	1,127.0
Italy	293.1	704.5
Latvia	0.3	220.1
Liechtenstein	14.5	174.0
Lithuania	0.0	328.5
Luxembourg	0.00	2,060.6
Malta	4.9	427.3
Netherlands	187.8	9,220.4
Norway	6.2	177.2
Poland	0.9	167.8
Slovenia	0.9	81.7
Spain	1.9	1,349.4
Sweden	5.9	169.7
Switzerland	88.7	914.0
Romania	0.6	219.7
United Kingdom	205.0	4,058.5
North America	n.a.	n.a.
Canada	1.9	19.6
United States	261.9	2,258.7
Other developed countries	n.a.	n.a.
Australia	0.4	26.7
Japan	8.9	133.7
Developing economies	n.a.	n.a.
Africa	n.a.	n.a.
South Africa	1.2	4.0
Asia and Oceania	n.a.	n.a.
China	0.7	10.1
Hong Kong, China	0.1	12.1
Republic of Korea	0.0	24.4
Saudi Arabia	0.0	28.1
United Arab Emirates	0.0	24.9
Latin America and Caribbean	n.a.	n.a.
Belize	0.9	107.3
Cayman Islands	30.4	82.4
Panama	4.8	285.1

Saint Vincent and the Grenadines	-	120.3
Transition economies	n.a.	n.a.
Albania	0.1	7.5
Croatia	0.0	6.5
Serbia	n.a.	18.9
The FYR of Macedonia	2.9	-19.3
Ukraine	1.6	35.0
Others	n.a.	n.a
Israel	4.8	333.35
Turkey	53.8	308.14

Source: Bulgarian National Bank – http://www.bnb.bg

Note: US $ values were obtained by using exchange rates between US$ and Euro (the end-year exchange rates) obtained from http://sdw.ecb.europa.eu/curConverter.do.

Annex table 5. Bulgaria: major foreign affiliates in economy, ranked by assets, 2009-2010

Year	Name of Bulgarian affiliate	Name of parent MNE	Home economy	Activity	Assets (US$ million)	Turnover (US$ million)	Employees
2010	Bulbank	Unicredito	Italy	Finance	7,725.1	549.4	3,803
2010	Raiffeisen bank Bulgaria	Raiffeisen bank	Austria	Finance	4,495.7	367.2	3,478
2010	SG expressbank	Societe Generale	France	Finance	3,915.5	272.0	1,461
2010	Mobiltel ad	Telecom Austria	Austria	Telecommunications	2,048.9	763.8	2,391
2009	Neftochim, petrol	Lukoil	Russia, Netherlands	Petrochemical industry	1,572.5	3,114.7	2,821
2010	BTC ad	Viva ventures (advent international)	Austria	Telecommunications	1,247.5	754.4	3,141
2009	Globul, Cosmo mobile	OTE	Greece	Telecommunications	1,062.7	649.4	1,300
2009	Aurubis Bulgaria	Aurubis	Germany	Copper smelter	889.9	1,962.7	800
2009	Sodi Devnya	Solvay	Belgium	Chemical industry	453.6	180.0	580
2009	Metro Bulgaria	Metro	Germany	Trade	283.7	676.8	2,571
2009	OMV Bulgaria	OMV	Austria	Trade (petrol)	273.6	924.5	88
2009	Devnya cement a	Italchementi	Italy	Cement industry	256.3	112.3	319
2009	Ideal Standard, Vidima	American Standard	United States, Netherlands	Plumbing, sanity ware	230.4	211.7	1,504
2009	Kraft Foods Bulgaria	Kraft Foods	United States	Food industry	146.9	151.2	688
2009	Epiq Bulgaria	Epiq	Belgium	Electronics	102.2	164.2	2,185
2009	Zagorka	Brewinvest	Greece	Brewery	100.8	112.3	572
2009	Shell Bulgaria	Shell	United Kingdom	Trade (petrol)	93.6	352.8	1,500
2009	Nestle Bulgaria	Nestle	Switzerland	Food industry	90.7	188.6	1,427
2010	Kamenitza	Interbrew	Belgium	Brewery	71.0	76.4	772
2009	Digicom spltd	Siemens	Germany	Electrical engineering	60.5	95.0	360
2009	Somat	Willi Betz	Germany	Transport	54.7	92.2	609
2009	Hyunday Elprom	Hyundai	Republic of Korea	Power transformers	53.3	76.3	600

	Trafo						
2010	Miroglio Bulgaria, Interpred	Miroglio	Italy, Germany	Textile manufacturing	26.8	45.6	1,103
2009	Eko Petroleum	Hellenic Petroleum	Greece	Trade (petrol)	14.4	2.9	98

Source: Author's research, based on information found in published companies' profiles and annual reports.

Annex table 6. Bulgaria: top cross-border M&A completed deals, by inward investing firm[a]

Date	Acquiring company	Home economy	Target company	Target industry	Value (US$ million)
2010	Central European Media Enterp.	United States	Balkan News Corporation	Television broadcasting	403
2010	Gazprom Neft	Russia	200 gasoline stations; 10 oil storage depots	Gasoline stations	317
2009	CVC Capital Partners	United Kingdom	Kamenitza [b]	Breweries	3,032
2009	Time Warner	United Kingdom	Central European Media Enterprises (CME)	Television broadcasting	243
2009	EQT V Ltd	Guernsey	Eurocom Cable	Telephone communications, except radiotelephone	178
2009	Bulgarian Acquisition Co II	Luxembourg	Korporativna Targovska Banka	Banks	129
2008	Modern Times Group (MTG)	Sweden	Nova Televisia Bulgaria	Periodical publishers; televisión	967
2008	Groupama International	France	OTP Garancia [d]	Direct life insurance carriers	882
2008	Lukoil	Russia	75 filling stations; Petrolna Baza Iliyantsi	Gasoline stations	374
2008	Advance Properties (KG Maritime Shipping)	Germany	Navibulgar (Navigation Maritime Bulgare)	Deep sea freight transportation	369
2008	Arcapita Bank	Bahrain	Pinnacle Real Estate	General warehousing and storage	345
2008	Alfa Finance Holding	Turkey–Luxembourg	Landmark Property Bulgaria	Real estate	331
2008	Allied Irish Banks (AIB)	Ireland	Bulgarian American Credit Bank (BACB)	Commercial banking	319
2008	Assos Capital	Greece	Carrefour Tsarigradsko (project)	Real estate	316
2008	Miller Developments Ltd	United Kingdom	Mall Varna	Operators of nonresidential buildings	151
2007	AIG Capital Partners	United States	Bulgarian Telecommunications Company (BTC)	Wired telecommunications carriers	1,919
2007	KBC	Belgium	Cibank AD (formerly Economic and Investment Bank AD)	Commercial banking	419
2007	Bridgecorp	Turkey–Luxembourg	Landmark Property Bulgaria	Real estate	308

2007	KBC	Belgium	DZI Insurance	Insurance carriers	240
2007	BNP Paribas	France	JetFinance International	Consumer lending	233
2006	COSMOTE	Greece	Germanos	Electronics stores	2,006
2006	Petrom	Romania	OMV Bulgaria; OMV Romania Mineraloel; OMV Srbija d.o.o.	Gasoline stations	275
2006	CEZ	Czech Republic	TPP Varna	Fossil fuel electric power generation	259
2006	EFG Eurobank Group	Greece	DZI Bank	Commercial banking	200
2006	Panos Germanos – private investor	Greece	non-core assets of Germanos in SEE	Storage battery manufacturing	192
2005	Telekom Austria AG	Austria	MobilTel	Wireless telecommunications carriers	1,952
2005	COSMOTE	Greece	GloBul	Wireless telecommunications carriers	520
2004	3TS Capital Partners [d]	United Kingdom	MobilTel	Wireless telecommunications Carriers	1,452
2004	CEZ	Czech Republic	Elektrorazpredelenie Stolichno, Sofia Oblast and Pleven	Electric power distribution	363
2004	Advent International	United States	Bulgarian Telecommunications Company (BTC)	Wired telecommunications carriers	347
2004	EVN	Austria	Elektrorazpredelenie Plovdiv and Stara Zagora	Electric power distribution	344
2003	OTP Bank	Hungary	DSK Bank	Savings institutions	377

Source: The author, based on DealWatch – http://www.securities.com/dw.

[a] Exchange rates between US$ and Euro for conversion into US$ (on the day of the deal) were obtained from: http://sdw.ecb.europa.eu/curConverter.do
[b] Group of Borsodi Sorgyar; Zagrebacka Pivovara d.d.; Pivovary Staropramen; IPS Trebjesa; Apatinska Pivara; Inbev Romania.
[c] Group of OTP Garancia poistovna; OTP Garancia zivotna poistovna; OTP Garancia Asigurari; DSK Garancia.
[d] Additional companies participating in the deal: ABN AMRO Capital (UK); Citigroup Inc. (United States); Communication Venture Partners (CVP) (UK); Global Finance (Greece); Herbert Cordt (private investor) (Austria); Innova Capital (Poland); Josef Taus (Austria).

Annex table 7. Bulgaria: top greenfield projects announced, by inward investing firm, 2008-2010

Year	Investing company	Home economy	Industry	Business activity	Investment (US$ million)
2010	Equest Investments Balkans	United Kingdom	Hotels and tourism	Construction	1,100
2010	AES Corporation (AES)	United States	Alternative/renewable energy	Electricity	400
2010	Carrefour	France	Food and tobacco	Retail	270
2010	Great Wall Motors (GWM)	China	Automotive OEM	Manufacturing	211[a]
2010	Juwi	Germany	Alternative/renewable energy	Electricity	165[a]
2010	PNE Wind	Germany	Alternative/renewable energy	Electricity	165[a]
2010	Electra de Carbayin	Spain	Alternative/renewable energy	Electricity	165[a]
2010	Electricite de France (EDF)	France	Alternative/Renewable energy	Electricity	133
2010	HortiGreenPower	Netherlands	Food and Tobacco	Manufacturing	121
2010	Siemens	Germany	Alternative/Renewable energy	Electricity	101
2009	General Electric (GE)	United States	Alternative/renewable energy	Electricity	1,002
2009	Mitsubishi Corporation	Japan	Alternative/renewable energy	Electricity	254
2009	Enel	Italy	Alternative/renewable energy	Electricity	201[a]
2009	Enertrag	Germany	Alternative/renewable energy	Electricity	201[a]
2009	Copelouzos Group	Greece	Alternative/renewable energy	Electricity	180[a]
2009	Nobesol Levante	Spain	Alternative/renewable energy	Electricity	179[a]
2009	Preneal	Spain	Alternative/renewable energy	Electricity	155[a]
2009	Rewe	Germany	Food and tobacco	Retail	149
2009	Alpiq (ATEL)	Switzerland	Alternative/Renewable energy	Electricity	103
2009	Lukoil	Russia	Chemicals	Manufacturing	93
2009	Kardan Group	Netherlands	Real estate	Construction	78[a]
2009	Novator	United Kingdom	Pharmaceuticals	Manufacturing	77
2008	Lukoil	Russia	Coal, oil and natural Gas	Manufacturing	1,200
2008	Marivent	Greece	Alternative/renewable energy	Electricity	741
2008	Deutsche Bank	Germany	Alternative/renewable energy	Electricity	693
2008	ELCO Holdings	Israel	Real estate	Construction	473
2008	CEZ Group	Czech Republic	Coal, oil and natural Gas	Electricity	471[a]
2008	Wind Energy Solutions	Netherlands	Alternative/renewable energy	Electricity	407

2008	Italcementi	Italy	Building and construction materials	Manufacturing	389
2008	Tidhar Group	Israel	Hotels and tourism	Construction	360
2008	Immofinanz	Austria	Real estate	Construction	238
2008	Ciccolella SpA	Italy	Food and tobacco	Manufacturing	221
2008	ECE Projektmanagement	Germany	Real estate	Construction	204
2008	ECE Projekt Management	Germany	Real estate	Construction	192
2008	Dundee Precious Metals	Canada	Metals	Manufacturing	161
2008	EVN	Austria	Alternative/renewable energy	Electricity	136
2008	Gruppo Societa Gas Rimini	Italy	Coal, oil and natural Gas	Logistics, distribution and transportation	133

Source: The author, based on fDi Intelligence, a service from the Financial Times Ltd.
[a] Estimated investment amount.

Chapter 4 - Canada

Canada: Inward FDI and its policy context, 2010

Ram C. Acharya, Someshwar Rao, Subrata Bhattacharjee, and Leila Wright[*]

Canada has actively participated in the corporate globalization process and is a major importer of foreign direct investment (FDI). Canada's high levels of IFDI over the past 25 years reflect its improved business climate, reduced restrictions on foreign ownership and a prospering economy. Like other developed economies, Canada experienced declining FDI inflows in 2008 and 2009, largely due to the dramatic fall in M&As and the global economic recession. The outlook for 2010 and beyond however is promising because of the expected economic expansion in Canada and other countries, and improved global financial markets. Moreover, the Canadian Government has sent strong signals to foreign investors that Canada is open for business by, among other things, lifting restrictions on previously protected sectors and increasing the financial thresholds for the review of foreign investments.

Trends and developments

IFDI in Canada has risen steadily over the past decade, with cross-border M&As driving the most recent upsurge, especially in the primary sector. Canada is one of the G-7 economies most open to IFDI: slightly more than one-fifth of Canada's total assets are controlled by foreign companies. The ratio of the IFDI stock to the Canadian gross domestic product (GDP) was 34% in 2008, compared with, for example, a ratio of 37% for the United Kingdom. The impact of the global financial and economic crisis reduced IFDI in 2008 and 2009. Nevertheless, though still weaker than in the previous year, the Canadian M&A market strengthened in the third quarter of 2009, posting a 27% increase in deal value over the second quarter of 2009.

Country-level developments

Between 2000 and 2008, Canada's stock of IFDI grew by 120%, reaching US$ 474 billion by the end of 2008 (annex table 1). By way of comparison, growth of U.S. stock was much lower, while that of the United Kingdom was slightly higher. In contrast, Mexico's IFDI stock grew at nearly twice the pace of Canada's.

Between 2000 and 2008, Canada's IFDI flows were lowest in 2004 when they hit a negative value (because foreigners sold more of their existing interest in Canada than they bought), and highest in 2007 when they reached US$ 108 billion. There was a massive surge in foreign acquisitions of Canadian firms in 2006 and 2007, following the strong increase in commodity prices (annex table 2). In addition

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to the improved Canadian business climate, reduced restrictions on IFDI also contributed to the rise in M&A activity.

IFDI in Canada is concentrated largely in the service sector (44%), followed by manufacturing (34%) and the primary sector (22%) (annex table 3). The manufacturing sector's share of the stock of IFDI declined by 14 percentage points since 2000, due to a diversion of investments into the primary sector and, to a lesser extent, the service sector. Within manufacturing, the decline was most marked in the computer and electronics, transportation equipment, textiles, clothing, wood and paper industries. In the computer and electronics industry, Canada's IFDI stock in 2008 was lower than its 2000 level due to a post-2000 meltdown of asset values. In the primary sector, MNEs typically invest in Canada's oil and gas and other mining industries. Cross border M&As boosted investment in 2007, driven by rising commodity prices.

Canada's IFDI stock comes overwhelmingly from developed countries. In 2008, these accounted for 92% of inward stock; however, this share was six percentage points below the 2000 level (annex table 4). Of this FDI, 58% came from the United States and 26% from European Union countries. Developing countries, on the other hand, accounted for only 5% of Canada's IFDI stock in 2008, up from 2% in 2000. This growth is largely attributable to Brazil's growing investment in Canada. In more recent years, companies from Asia, particularly from China, and, to some extent from India, are acquiring Canadian companies especially in the resource sector.

The corporate players

Foreign affiliates are increasingly active in Canada. In 2007, 21% of assets and 29% of revenue in Canada were under foreign control. In 2007, about one-fifth of all foreign-controlled assets in Canada were in the primary sector, a disproportionately large share compared to its contribution to Canada's GDP, increasingly concentrated in the oil and gas and other mining industries. The shares of these two industries in foreign controlled assets rose by almost four percentage points between 2000 and 2007. The share of foreign controlled assets in the manufacturing sector, in comparison, declined from 33% in 2000 to 25% in 2008. The share of foreign assets in the service sector has remained more or less constant at 18%, and is concentrated predominantly in the wholesale, retail, real estate, renting, and leasing industries.

A list of the top 20 largest foreign companies operating in Canada (ranked by revenue) is provided in annex table 5. Among them, two are operating in the energy (oil and gas) and the metals and mining industries; three in the automobile industry; two in computer services; and one in the IT service industry.

There were 60 mega-deals (value of US$ 1 billion or more) with a combined value of US$ 275 billion announced in 2007 alone, a record high in terms of both volume and value. Of the total value of announced deals that year, 78% was cross-border in nature; all of the ten largest deals had an international component. The value of foreign-led acquisitions, the largest of which was worth US$ 48 billion (BCE) (annex table 6), surpassed the acquisitions by Canadians in foreign countries by a 2-to-1 margin. The pace of cross-border M&A activity declined dramatically in 2008 however, falling to less than one-third of its 2007 value. The decline continued through the first quarter of 2009, but had begun to rebound by the third quarter of 2009.

Annex table 7 provides a list of greenfield investments in Canada over the past three years (2007-2009).[1] In 2008, greenfield investments occurred mainly in the insurance industry, followed by the retail service industry. In 2009, in contrast, greenfield investment targeted the oil, metal and energy industries.

Effects of the current global crisis

The negative impact of the global economic and financial crisis is visible in the precipitous drop in IFDI flows in 2009. These were negative in the first half of 2009, as sales of assets by foreign investors were higher than incoming FDI. In the first quarter, FDI inflows into Canada were only US$ 743 million, while disinvestment amounted to US$ 1.1 billon in the second quarter. FDI inflows rose to US$ 19.3 billion by the end of 2009, but flows were still less than half the level attained in 2008, which in turn was less than in 2007 (annex table 1).

The fourth quarter of 2009 was the third consecutive quarter in which the Canadian M&A market expanded, ending a volatile year on a positive note and possibly indicating that financial markets have stabilized.[2] Strong M&A activity in the third quarter reflected a continued improvement in a number of market fundamentals, including the financing conditions for buyers, buyers' confidence, and company valuations.[3] The third quarter's largest and second largest M&As included China's Investment Corporation's investment in Teck Resources Ltd. and the US$ 1.5 billion takeover of Eldorado Gold Corp. by Australia-based Sino Gold Mining Ltd. The largest inward cross border M&A in the fourth quarter of 2009 was Korean National Oil Corporation's US$ 4.1 billion acquisition of Calgary-based Harvest Energy Trust. Despite the improvements in M&A markets over the second half of 2009, M&A activity remains well below the levels experienced prior to the global financial crisis and recession.[4] Consistent with the historical trends, the total number of acquisitions made by Canadian companies abroad exceeded the number of foreign takeovers of Canadian companies by a margin of 2.2 to 1.

The policy scene

Non-Canadians who acquire control of an existing Canadian business or who intend to establish a new Canadian business must comply with the Investment Canada Act (ICA). Canada has historically had relatively high regulatory barriers to IFDI among developed economies, including in services such as banking. However, through recent amendments to the ICA, the Canadian Government has revised its approach to foreign investment regulation to create a more liberal regime aimed at increasing its share of IFDI not just from traditional sources, such as the United States, but also from emerging markets, especially Brazil, Russia, India, and China.[5] Review thresholds will be increased significantly, reducing the number of investments subject to a review. Nevertheless, Canada continues to rely on sector-specific restrictions and its powers to review sovereign investments and any other foreign investments with the potential to threaten national security. In particular, when guidelines were introduced in 2007, the ICA did not include a national security review power. However, the recent amendments have added a stand-alone national security review test to the ICA.

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[1] Data on shares acquired and the transaction value are not available as they are confidential

[2] Crosbie, "M&A quarterly report-Q4/09", available at: http://www.crosbieco.com/pdf/ma/MA_Q409.pdf

[3] Ibid.

[4] Ibid.

[5] Note that these amendments were made in response to recommendations of the Competition Policy Review Panel. For further information see Competition Policy Review Panel, *Terms of Reference*, available at: http://www.ic.gc.ca/eic/site/cprp-gepmc.nsf/eng/h_00004.html.

This test is separate from the net benefit test that is generally applicable to reviewable investments under the ICA, and applies to a much broader range of proposed transactions. The national security test subjects investments that "impair or threaten to impair national security" to Ministerial and potentially Cabinet review, though no definition of what constitutes "national security" is given in the ICA or the regulations made thereto.[1] However, it is possible that investments impacting Canada's sovereignty, national defense and potentially strategic sectors of the economy (such as natural resources), and investments by state-owned enterprises (SOEs) may be considered under the national security test. Concerns have been raised that the test has the potential to be used as a tool for protectionism, given the high level of discretion provided to the Government. However, to date there has been no action taken to substantiate this concern.

Conclusions and Outlook

Canada's sound macro environment (including its fiscal, monetary and tax policies), its efforts to stimulate economic growth and open its borders to IFDI, an improved business climate, and a favorable natural resource endowment all contributed to the large increase in FDI in Canada over the past 20 years. Like other developed countries, cross-border M&As into Canada, and hence IFDI flows, were hit hard by the financial crisis and recession. The outlook for IFDI in 2010 and beyond looks promising because of the expected expansion of the Canadian and other economies, the improved situation in global financial markets and increased demand for resources. Canada still has higher barriers to IFDI compared to many developed countries in key services industries. Any progress on this front would be expected further to increase FDI in Canada.

Additional readings

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[1] *National Security Review of Investments Regulation*, S.O.R./2009-271.

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Statistical annex

Annex table 1. Canada: inward FDI stock, 2000, 2008 (US$ billion)

Economy	2000	2008	Growth (percent)	Share in GDP (percent)	
				2000	2008
Canada	215	474	120	33	34
Memorandum: comparator economies					
US	1,257	2,279	81	14	16
Mexico	97	295	203	20	27
UK	439	983	124	30	37

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/. The GDP data for all countries are taken from World Bank's World Development Index.

Annex table 2. Canada: inward FDI flows, 2000-2008 (US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008
Canada	66.8	27.7	22.1	7.5	-0.4	25.7	59.8	108.3	44.8
Memorandum: comparator economies									
US	314.0	159.5	74.5	53.1	135.8	104.8	237.1	271.2	316.1
Mexico	18.0	29.8	23.7	16.5	23.7	21.9	19.3	27.3	21.9
UK	118.8	52.6	24.0	16.8	56.0	176.0	156.2	183.4	96.9

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/

Annex table 3. Canada: distribution of inward FDI stock, by economic sector and industry, 2000, 2008 [a] (US$ million)

Industries based on NAICS [b] classifications	2000	2008	Growth (percent)
Primary	*23,009*	*103,322*	*349*
Agriculture, forestry, fishing and hunting	764	1,145	50
Oil and gas extraction	15,194	69,494	357
Mining (except oil and gas)	4,184	25,634	513
Construction and utility	2,867	7,049	146
Secondary	*104,071*	*160,970*	*55*
Chemical manufacturing	13,347	23,492	76
Computer & electronic manufacturing	9,948	6,119	-39
Transportation equipment manufacturing	16,224	18,685	15
Other manufacturing—group 1 [c]	41,416	57,887	40
Other manufacturing—group 2 [d]	23,135	54,786	137
Services	*87,813*	*206,554*	*135*
Transportation and warehousing	2,014	4,265	112
Information and cultural industries	5,408	8,170	51
Finance and insurance	25,057	56,704	126
Management of companies and enterprises	17,881	57,014	219
Other services industries	37,452	80,402	115
Unspecified	0	2760	
All sectors/industries	214,893	473,606	120

Source: Statistics Canada: CANSIM, Table No. 376-0052.
[a] The original data were in Canadian dollars and were converted into US dollars using average annual exchange rates (Canadian dollar per US dollar of 1.485 for 2000 and 1.066 for 2008).
[b] North American Industry Classification System.
[c] Other manufacturing—group 1 includes nine NAICS 3-digit industries: (1) food, (2) beverage & tobacco, (3) textile mills, (4) textile products, (5) clothing, (6) leather, (7) wood product, (8) paper, (9) petroleum and coal product manufacturing. Other manufacturing—group 2 includes eight NAICS 3-digit industries. They are: (1) plastics and rubber, (2) non-metallic mineral, (3) primary metal, (4) fabricated metal, (5) machinery, (6) electrical equipment, appliance and component, (7) furniture related and (8) miscellaneous manufacturing.
[d] Other services industries include the following five NAICS industries: (1) wholesale trade, (2) retail trade, (3) real estate and rental and leasing, (4) professional, scientific and technical services, (5) accommodation of food services.

Annex table 4. Canada: geographical distribution of inward FDI stock, 2000, 2008 (US$ million)

Region/economy	2000	2008	Growth (%)		2000	2008	Growth (%)
World	214,893	473,606	120.4				
Developed economies	*210,599*	*435,973*	120	*Asia/Oceania*	*2,815*	*9,575*	240
Europe	72,073	142,921	107	Hong Kong , China	2,272	[a]	
European Union	64,579	124,376	98	India	12	959	7809
Austria	153	229	93	Malaysia	79	64	-20
Belgium	1,939	2,314	50	China	129	2582	1897
Cyprus	NA	1,749		Philippines	1	2	39
Denmark	261	841	223	Saudi Arabia	[a]	2	
Finland	339	1189	251	Singapore	98	179	82
France	24,914	17,392	-30	Rep. of Korea	156	810	418
Germany	4,966	8,793	77	Taiwan Province of China	65	91	39
Ireland	710	646	-9	Thailand	1	5	597
Italy	616	1,226	99	UA Emirates	[a]	4,883	
Luxemburg	2,012	5,311	164	*Latin America and Caribbean*	*1,245*	*12,462*	901
Netherlands	10,327	3,1754	207	Argentina	[a]	41	
Poland	8	7	-19	Bahamas	133	337	154
Spain	440	271	-38	Barbados	162	370	129
Sweden	1763	1600	-9	Brazil	418	11,182	2574
United Kingdom	16,131	51053	216	British Virgin Islands	63	249	293
North America	*130,405*	275,430	111	Cayman Islands	22	[a]	
United States	130,405	275,430	111	Chile	6	[a]	
Other developed economies	*15,615*	36,167	132	Colombia	2	1	-54
Australia	1,152	3,840	233	Jamaica	1	[a]	
Bermuda	1,391	1,964	41	Mexico	145	231	59
Israel	197	721	267	Nether. Antilles	228	5	-98
Japan	5,415	12,207	125	Panama	63	47	-25
Liechtenstein	86	169	97	Peru	1	[a]	
New Zealand	68	38	-43	Venezuela	3	[a]	
Norway	3,370	2,843	-16	*Transition economies*	*6*	*348*	5642
Switzerland	3,937	14,384	265	Russian Federation	6	348	5642
Developing economies	*4,139*	*22,683*	448	*Unspecified*	*149*	*14,602*	9712
Africa	*79*	646	713				
South Africa	79	646	713				

Source: Statistics Canada: CANSIM, Table No. 376-0051

[a] Suppressed due to confidentiality.

Annex table 5. Canada: top 20 largest foreign affiliates in Canada, ranked by revenue, 2008

Rank	Company	Industry	Revenue [a] (US$ billion)	% of foreign ownership
1	Imperial Oil Limited	Oil and gas	29.3	69
2	Husky Energy Inc.	Energy	23.2	71
3	Wal-Mart Canada Corp.	Consumer services	15.6	100
4	Novelis Inc.	Metals and mining	10.9	100
5	Honda Canada Inc.	Automobile	10.8	100
6	Direct Energy Marketing Limited	Energy	10.7	100
7	Ultramar Ltd.	Oil and gas	10.4	100
8	Costco Wholesale Canada Ltd.	Consumer services	9.5	100
9	Ford Motor Company of Canada, Ltd.	Automobile	7.8	100
10	Canada Safeway Ltd.	Food retail	6.4	100
11	Home Depot Canada	Retailing	5.7	100
12	Gerdau Ameristeel Corporation	Metals and mining	8.5	66
13	Cargill Limited	Financial services	5.5	100
14	Best Buy Canada Ltd.	Computer	5.2	100
15	IBM Canada Ltd.	IT Services	5.1	100
16	Toyota Canada Inc.	Automobile	5.0	100
17	Hewlett-Packard (Canada) Co.	Computer	4.9	100
18	Sears Canada Inc.	Retailing	5.4	90
19	Conoco Phillips Canada Resources Corp.	Oil and gas	4.7	100
20	HSBC Bank Canada	Banks	4.0	100

Source: Financial Post Magazine, FP 500, 2009, Toronto.
[a] "Revenue" refers to sales by the Canadian business only, and not to the global revenue of the parent companies.

Annex table 6. Canada: M & A deals, by inward investing firm, 2007-2009

Year	Acquiring company	Target company	Target industry	Source economy	Shares acquired (%)	Estimated/ announced transaction value (US$ billion)
2009	Canada Pension Plan (Canada)	Macquarie Communications Infrastructure Group (Australia)	Financial services	Australia	100%	7.6
2008	Teck Cominco Limited (USA)	Fording Canadian Coal Trust (Canada)	Mining	USA	100%	13.2
2007	Western Oil Sands Inc. (Canada)	Marathon Oil Corporation (USA), WesternZagros Resources Ltd. (Canada)	Oil and gas	USA	100%	6.6
2007	- Madison Dearborn Partners, LLC (Chicago, Ill, USA) - Providence Equity Partners Inc. (Providence, New York, Los Angeles, London, Hong Kong and New Delhi) - Ontario Teachers' Pension Plan (Ontario, Canada)	BCE Inc. (Canada)	Communications	USA, UK, India	- OTPP 52% - Providence Equity Partners 32% - Madison Dearborn Partners 9% - Other, unidentified Canadian investors hold the balance of the equity.	48.1
2007	Rio Tinto Group (UK)	Alcan Inc. (Canada)	Aluminum production	UK	95.82%	38.1
2007	The Thomson Corporation (Canada)	Reuters Group PLC (England)	Financial news	UK	53%	17.4
2007	The Toronto-Dominion Bank (Canada)	Commerce Bancorp, Inc. (USA)	Financial services	USA	100%	8.5
2007	IPSCO Inc.	SSAB Svenskt Stal AB	Steel pipe manufacturer	Sweden	100%	7.7
2007	Alcoa Inc.	Alcan Inc.	Aluminum production	USA	100%	33.0
2007	Ontario Municipal Employees Retirement System (Canada), Apax Partners (International)	Thomson Learning assets The Thomson Corporation (vendor)	Higher education	International: North America, Europe, Asia	100%	7.8

Source: Financial Post Crosbie: Mergers & Acquisitions database in Canada, 2009: available at: www.fpinfomart.ca

Annex table 7. Canada: main greenfield projects, by inward investing firm, 2007-2009 [a]

Investing company	Joint venture partner (if any)	Target industry	Home economy
2009			
Bruno Blervaque		Management	France
Shanghai Zhongrong Property Group	Baizheng Song	Metals and mining	China
Pilatus Energy AG		Oil and gas	UAE
Renewable Energy Holdings PLC		Energy	Isle of Man
Takeda Canada, Inc.		Pharmaceuticals	Japan
DEGI Homburg Harris Limited Partnership		Real estate	Germany
2008			
AXIS Reinsurance Company		Insurance	Bermuda
Dunlop Sports Group Americas, Inc.		Retail	UK
Partner Reinsurance Company Ltd.		Insurance	Bermuda
Partner Reinsurance Europe Limited		Insurance	Ireland
Great Lakes Pork, Inc.		Farming	US
Cardiff-Assurances Risques Divers		Insurance	France
Cardif Assurance Vie		Insurance	France
Triton Insurance Company		Insurance	US
Bed Bath & Beyond Canada L.P.		Retail	US
EDS Group Holdings Limited		Other	UK
Louis Dreyfus Canada Ltd.		Other	US
Lowe's Companies, Inc.		Retail	US
2007			
ABC Learning Centres Limited		Real estate	Australia
Plavor III B.V.		Real estate	Netherlands
Alan Minty		Oil and gas	UK
Concession A25, L.P.		Construction	US
CS Automotive Tubing Inc.		Automobiles	Republic of Korea
Universal Power Transformer Inc.		Energy	India
Dalkia International S.A.		Health care	France
PMI Mortgage Insurance Co.		Insurance	US
Host International of Canada, Ltd.	Cancouver Uno, S.L. and Aldeasa Canada Inc.	Retail	Spain
BBPP North America S.a.r.l.		Construction	Channel Islands
Laing Investments Management Services		Financial	UK

Source: Industry Canada.
[a] Data are confidential.

Canada: Outward FDI and its policy context, 2010

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Canada was a major net importer of foreign direct investment prior to 1996. The stimulus for the surge in Canada's OFDI came from profitable investment opportunities abroad. Canada has diversified significantly its OFDI away from the United States over the past 20 years. The financial crisis significantly affected Canada's FDI outflows, but OFDI seems to have rebounded in the second half of 2009. While Canadian investment has historically gone mainly to developed countries, recent changes in Government policies seem to suggest that Canada is looking to build closer ties with developing countries as well. Canada has a longstanding commitment to multilateral cooperation and actively supports the World Trade Organization (WTO) framework as a way to promote international trade and investment. At the same time, Canada continues actively to negotiate foreign investment promotion and protection agreements (FIPAs).

Trends and developments

Country-level developments

In 2008, Canada was the tenth largest global investor measured by the value of its OFDI stock. Between 2000 and 2008, Canada's OFDI stock grew by 116%, reaching US$ 520 billion (annex table 1). However, the growth in Canada's OFDI stock during 2000-2008, though almost double that of the United Kingdom's (UK), was lower than the growth of the United States' (US) stock, and only one quarter that of Mexico's.[1] Despite growing more slowly than its continental neighbors, Canada's share of North America's OFDI stock (including intra-regional FDI stock) remained stable at around 15%.

In terms of the ratio of the OFDI stock to GDP, the United Kingdom stands out among the same four comparator countries. In 2008, the ratio of the OFDI stock to GDP was 57% for the UK, 43% for Canada, 22% for the US, and 4% for Mexico (annex table 1). Everything else being the same, smaller countries generally tends to be more outward-oriented in terms of both trade and FDI, which may explain why Canada's OFDI orientation is higher than that of the US. As regards the UK, it is not clear whether relatively weaker investment opportunities at home, better investment opportunities abroad, or a more market-seeking nature of UK companies would explain the UK's relatively high OFDI orientation.

Between 2000 and 2008, Canada's annual OFDI flows fluctuated between a low of US$ 23 billion in 2003 and a high of US$ 78 billion in 2008 (annex table 2a). There was a substantial increase in FDI outflows in 2007 and 2008. High commodity prices and the resulting increases in Canadian companies' stock valuations may have enabled Canadian firms to acquire more assets abroad.

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[1] We have chosen the United States, Mexico and the United Kingdom as comparator countries, for two reasons. First, the United States and Mexico are partner countries of the North American Free Trade Agreement, and it is interesting to know how Canada compares with them. Second, the United Kingdom is the most outward FDI oriented country among the G7 countries, and hence a benchmark country.

With regard to sectoral distribution, Canadian companies tend to concentrate their cross-border investments in the primary and tertiary sectors, with FDI in the secondary sector playing only a minor role. Between 2000 and 2008, the share of the primary sector in Canada's total OFDI stock increased from 13% to 18%. Similarly, the share of services rose from 55% to 63%, while the share of the manufacturing industry fell from 32% to 13% (annex table 3). All industries except chemicals contributed to manufacturing's relative decline. The largest decline (10 percentage points in just eight years) occurred in computers and electronic manufacturing. The deterioration in the competitive position of Canada's manufacturing industry and the decline of its importance in most potential host countries seem to have contributed to the decline of the manufacturing industry in Canada's outward flows.

Within the service industry, OFDI in the finance and insurance industry grew the most rapidly: its share in the total OFDI stock rose from 28% in 2000 to 40% in 2008. The deregulation of the financial services industry that took place in many countries around the world in the past decade may have paved the way for a massive increase in this sector's share, as both occurred during the same time period. However, there is no particular study (that we know of) that looks at the relationship between financial deregulation in other countries and Canada's OFDI flows. The increase in OFDI in the primary sector could be mainly due to post-2005 commodity price increases as Canadian firms were able to acquire more foreign firms, especially in the oil and gas extractive industries,

The geographical composition of Canada's OFDI stock in 2008 has changed little from 2000. The largest share, 79%, was destined to developed countries. The remaining 20% was invested in developing countries, with only a negligible share going to transition economies (annex table 4). The United States remains by far the largest destination market for Canada's OFDI, absorbing 49% of Canada's OFDI stock in 2008. Canada's historically close economic ties with the United States could be a major contributing factor for the US dominance. The other determinants might include geographical proximity, similarities in the regulatory climates and a common language.[1] Among other developed countries, the European Union (EU) received a little less than one-quarter of Canada's OFDI stock, with the remaining 7% broadly distributed among other industrialized OECD countries. In 2008, two countries accounted for about half of Canada's total OFDI stock in the developing world: Barbados and Cayman Islands, both tax havens. Canada's OFDI in all other developing countries was very small; the largest share was in Brazil (1.4%).

Altogether, four offshore centers −Barbados (7.1%), Bermuda (3.5%), Cayman Islands (3%), and Bahamas (2% in 2007, the data for 2008 are suppressed) − were the destination for 16% of Canada's OFDI stock in 2008.[2] The outward investments made in these offshore jurisdictions then make their way to other jurisdictions. Finally, Canada's low FDI in developing countries is not unusual compared to other developed countries, most of which likewise invest primarily in other developed countries.

[1] This fact is related to the assumptions underpinning gravity models, which hold that the size of two countries and the distance between them can be core determinants of FDI flows between two countries. The basic message of the model is that, after controlling for the influence of other variables, both trade and FDI flows between any two countries are positively correlated with the size of the two economies and negatively related with the distance between them. See, for example James E. Anderson, "Gravity, productivity and the pattern of production and trade", NBER Working Paper No. 14642, January 2009.

[2] Large investments in these offshore centers are motivated by special reasons (legal tax minimization, holding companies, offshore financial centers, special purpose entities). The FDI data for these offshore centers are corrected for flows to third countries from these centers. Otherwise, their share in Canada's OFDI would be even higher. However, the correction may not be 100%, because holding companies may not fully disclose where the capital flows from these offshore centers.

The corporate players

Canadian companies are actively engaged in cross-border M&As. Between 2007 and 2009, there were approximately 20 M&A deals worth more than US$ 1 billion each (annex table 5). Twelve of those mega-deals were concluded in 2009. The acquisitions were in various sectors. Six of them were in oil and mineral resources, indicating Canadian companies' strong comparative advantage in these industries.

The data show that sales of goods and services of foreign affiliates of Canadian MNEs rose by 74% between 2000 and 2007, reaching US$ 430 billion (annex table 6). The largest increase was in the primary sector affiliates' sales, which rose by 277%. Out of total sales of all Canadian affiliates, the share of affiliates in the US fell from 65% in 2000 to 52% in 2007.[1] Foreign affiliates of Canadian companies employed 1.13 million people in 2008. The employment in these affiliates rose by 28% during 2000-2007, much more than the growth realized in domestic employment during the same time period (with a growth of 16%).

Effects of the current global crisis

Canadian FDI outflows did not feel the impact of the global financial crisis and the recession that followed in 2008. Outflows were about US$ 39 billion in both the first and the second half of that year, making Canada an exception among most other developed countries, where OFDI fell in the second half of 2008. As a matter of fact, in 2008, outflows were at their highest level since 2000. These outflows were mainly greenfield investments, which contributed to 51% of total OFDI flows, while M&As contributed 29% and the remaining part was contributed by reinvested earnings. The relatively low contribution of reinvested earnings was possibly a consequence of falling profits abroad (annex table 2a). Yet, the other components, net outflows (which may include greenfield, M&A and loan investment as well), were quite strong, at almost double what they were in 2007.

The crisis did, however, result in a marked drop of Canadian OFDI flows in the first six months of 2009: they were less than US$ 6 billion in the first two quarters. But flows bounced back to US$ 41 billion by the end of 2009.

The renewed strength since the third quarter of 2009 was primarily attributable to a pickup in acquisition activity. In 2009, for the first time in five years, the "balance of trade" for cross-border M&A transactions favored Canadian buyers. The aggregate value of Canadian-led cross-border deals was higher than the value of foreign acquisitions of Canadian companies by a margin of 1.2:1. Moreover, Canadian companies were involved in a number of mega-deals (annex table 6).

Canadian firms mainly targeted the US for their M&As in 2009. This increased investment was facilitated by the sizeable appreciation of the Canadian dollar vis-à-vis the US dollar and the signs of an economic recovery in the United States in the third quarter. In spite of the rebound since the third quarter, Canadian OFDI flows in 2009 were only about half of what they were in 2008 (US$ 41 billion versus US$ 78 billion).

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[1] There are no data on the share of Canadian MNEs' real activities in other countries. There is also no information available on sales in host countries, and exports/imports to/from their Canadian parent companies and their affiliates in other countries.

Overall, OFDI allows Canadian firms to expand their production in international markets. Since trade and OFDI are complements, one helps to increase the other.

The policy scene

Canada is continually looking for ways to expand its economic presence internationally. In this effort, the Canadian Government actively promotes outward foreign investment through FIPAs, multilateral investment and trade agreements and institutional assistance abroad. Historically, Canada has focused its efforts on rule-based investment agreements with other developed economies. However, recent negotiations suggest that Canada is also looking to build stronger ties with key developing economies.

Canada has a longstanding commitment to multilateral cooperation and actively supports the WTO framework as a way to promote international trade and investment. At the same time, Canada continues to negotiate FIPAs, i.e. bilateral agreements aimed at protecting and promoting foreign investment through legally-binding rights and obligations. FIPAs accomplish their objectives by setting out the respective rights and obligations of the countries that are signatories to a treaty with respect to the treatment of foreign investment. Canada currently has 23 FIPAs in place. Since 2007, Canada has concluded negotiations with India, Jordan, Kuwait, Madagascar, and Peru. Negotiations are ongoing with Indonesia, Mongolia, Tanzania and Vietnam, while those with China are in the final stages. Exploratory discussions are being pursued with a number of countries in Asia, Africa and the Middle East. Furthermore, Canada has FIPAs with six of the new European Union member states (the Czech Republic, Hungary, Latvia, Poland, Romania, and Slovakia).

NAFTA is a significant tool for investment promotion among Canada, Mexico and the United States. Chapter 11 establishes a framework to provide NAFTA investors with rule-based investment, predictability and dispute settlement procedures. Increasingly, though, Canada is actively engaged in negotiations to establish FTAs with key countries outside of North America. For example, in early 2009, Canada and India agreed to initiate exploratory talks on an economic partnership agreement, and Canada and the EU announced in May 2009 their intentions to negotiate a Comprehensive Economic and Trade Agreement (the “CETA”). The CETA is expected to include, among others, competition policy, trade promotion and investment facilitation. Negotiations are currently underway.
The Canadian Government's new Global Commerce Strategy[1] highlights the importance of increasing both inward and outward flows of investment to enhance future Canadian competitiveness and productivity. Canada recently increased the size of its network of investment and trade commissioners posted in foreign locations, so as to assist Canadian companies seeking to enter and establish themselves in foreign markets. Historically, Export Development Canada (EDC) and the Canadian Commercial Corporation, both public agencies, have assisted in financing Canadian exports, particularly for large infrastructure projects and major procurements.[2] EDC currently has only a limited number of OFDI financing initiatives. However, new regulatory changes are expected to enhance EDC's ability to invest in private equity and venture capital funds. This reform should help Canadian companies expand and grow their businesses internationally, particularly in emerging markets.

Conclusions and Outlook

[1] Foreign Affairs and International Trade Canada, “Seizing global advantage,” available at: http://www.international.gc.ca/commerce/strategy-strategie/index.aspx.
[2] *Ibid.*

Canada has been a net exporter of FDI since 1996, with approximately half of its OFDI destined for the United States. In recent years, Canada's FDI outflows have been increasingly concentrated in the mining, oil and gas and finance and insurance industries. Lower commodity prices compared to 2008 may dampen somewhat Canadian investment in mining and oil industries at home and abroad. Similarly, as a result of the global financial crisis, foreign banking industries are expected to attract tighter regulations, which could discourage Canadian foreign investment in this industry.

Additional readings

Acharya, Ram C. and Someshwar Rao, "Foreign direct investment trends: a Canadian perspective," Industry Canada, Working Paper (2009), available at: www.ic.gc.ca/eic/site/eas-aes.nsf/eng/ra02066.html.

Competition Policy Review Panel, "Compete to win," Final Report (2008), available at: www.ic.gc.ca/eic/site/cprp-gepmc.nsf/eng/home.

Foreign Affairs and International Trade Canada, "Canada-European Union: trade and investment enhancement agreement," available at: www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/eu-ue/index.aspx.

Foreign Affairs and International Trade Canada, "Investment," available at: www.international.gc.ca/trade-agreements-accords-commerciaux/invest/index.aspx?lang=en.

Useful websites

For information on the Investment Canada Act: Industry Canada (www.ic.gc.ca/eic/site/ica-lic.nsf/eng/home).

Statistical annex

Annex table 1. Canada: outward FDI stock, 2000, 2008

(US$ billion)

Economy	2000	2008	2009	Growth 2000-2009 (%)	Share in GDP (%)		
					2000	2008	2009
Canada	238	524	567	138	33	35	42
Memorandum: comparator economies							
US	2,694	3,104	4,303	60	28	22	30
Mexico	8	46	53	562	1	4	6
UK	898	1,531	1,652	84	62	58	76

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/. The GDP data for all countries are taken from the World Bank's World Development Index.

Annex table 2. Canada: outward FDI flows, 2000-2008

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Canada	44.7	36	26.8	22.9	43.3	27.5	44.4	59.6	80.8	38.8
Memorandum: comparator economies										
US	142.6	124.9	134.9	129.4	294.9	15.4	224.2	393.5	330.5	248.1
Mexico	0.4	4.4	0.9	1.3	4.4	6.5	5.8	8.3	1.2	7.6
UK	233.4	58.9	50.3	62.2	91	80.8	86.3	318.4	161.1	18.5

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

Annex table 2a. Canada: outward FDI flows, by category of transaction, 2000-2008

(US$ billion)

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total outflows	44.7	36.0	26.8	22.9	43.3	27.5	44.4	59.6	77.7
Reinvested earnings	5.2	1.5	4.5	6.0	11.0	13.4	16.6	22.0	16.2
Other outflows	39.5	34.6	22.2	16.9	32.3	14.1	27.8	37.6	61.6

Source: Statistics Canada: CANSIM Table No.: 376-0015.

Annex table 3. Canada: distribution of outward FDI stock, by economic sector and industry, 2000, 2008 (US$ million)[a]

Sector/industry	2000	2008	Growth (%)
Primary	*32,215*	*109,926*	*241*
Agriculture, forestry, fishing and hunting	312	4,972	1491
Oil and gas extraction	12,578	56,553	350
Mining (except oil and gas)	16,647	31,661	90
Construction and utility	2,677	16,739	525
Secondary	*76,100*	*79,814*	*5*
Chemical manufacturing	3,563	14,323	302
Computer & electronic manufacturing	27,663	12,016	-57
Transportation equipment manufacturing	10,301	13,123	27
Other manufacturing—group 1[b]	15,398	19,021	24
Other manufacturing—group 2[c]	19,176	21,332	11
Tertiary	*131,311*	*378,299*	*188*
Transportation and warehousing	12,244	16,068	31
Information and cultural industries	21,281	19,696	-7
Finance and insurance	68,143	240,964	254
Management of companies and enterprises	15,018	64,189	327
Other services industries[d]	14,624	37,383	156
Unspecified	445	29,785	
TOTAL	240,071	597,825	149

Source: Statistics Canada: CANSIM Table No. 376-0052.

[a] The original data were in Canadian dollar and were converted into US dollar using average annual exchange rates (Canadian dollar per US dollar) of 1.485 for 2000 and 1.066 for 2008.

[b] Other manufacturing—group 1 includes nine NAICS 3-digit industries: (1) food, (2) beverage & tobacco, (3) textile mills, (4) textile products, (5) clothing, (6) leather, (7) wood product, (8) paper, and (9) petroleum and coal product manufacturing.

[c] Other manufacturing—group 2 includes eight NAICS 3-digit industries. They are: (1) plastics and rubber, (2) non-metallic mineral, (3) primary metal, (4) fabricated metal, (5) machinery, (6) electrical equipment, appliance and component, (7) furniture related, and (8) miscellaneous manufacturing.

[d] Other services industries include the following five NAICS industries: (1) wholesale trade, (2) retail trade, (3) real estate and rental and leasing, (4) professional, scientific and technical services, and (5) accommodation and food services.

Annex table 4. Canada: geographical distribution of outward FDI stock, 2000, 2008 (US$ million)

Region/economy	2000	2008	Growth (%)
World	240,071	597,825	149
Developed economies	189,799	464,782	145
Europe	57,001	141,574	148
European Union	53,486	127,928	139
Austria	432	493	14
Belgium	2022	1988	-2
Cyprus	73	85	17
Czech Republic	63	201	221
Denmark	52	536	933
Finland	30	248	717
France	3126	17575	462
Germany	3079	9858	220
Greece	328	S	-100
Hungary	2960	10102	241
Ireland	4886	19189	293
Italy	3307	1126	-66
Luxembourg	1066	3012	183
Netherlands	7,064	7,880	12
Poland	81	277	242
Portugal	315	166	-47
Romania	1	233	n.a.
Spain	451	2,330	417
Sweden	784	1,997	155
United Kingdom	23,684	50,632,	114
North America	119,827	291,471	143
United States	119827	291,471	143
Other developed economies	153,721	421,762	1741
Australia	2,090	6,625	217
Bermuda	6,385	20,886	227
Iceland	n.a.[a]	1,029	n.a.
Israel	307	341	11
Japan	3,780	2880	-24
New Zealand	409	1005	146
Norway	282	850	201
Switzerland	2,119	8560	3042
Developing economies	47,699	112,887	137
Africa	402	1,869	365
Algeria	68	205	201
Burkina Faso	15	n.a.[a]	n.a.
Egypt	26	361	1275
Eritrea	2	n.a.[a]	n.a.
Ghana	93	n.a.[a]	n.a.
Libya	19	n.a.[a]	n.a.
Asia/Oceania	9,394	20,354	117
China	380	3,358	783
Hong Kong , China	2,518	5,658	125
India	87	751	765
Indonesia	1,624	1,883	16
Korea, Republic of	512	755	48
Malaysia	340	1049	208
Mongolia	n.a.	255	n.a.
Pakistan	n.a.[a]	30	n.a.
Papua New Guinea	182	281	55
Philippines	265	629	137
Singapore	2137	2731	28
Taiwan Province of China	223	n.a.[a]	n.a.[a]
Thailand	663	1220	84
Turkey	463	1596	245
Vietnam	2	158	7701
Latin America and the Caribbean	37,903	90,665	139
Argentina	3,382	3,249	-4
Bahamas	4,718	n.a.[a]	n.a.
Barbados	13,244	42,200	219
Bolivia	35	123	251
Brazil	4,490	8,624	92
British Virgin Islands	188	717	281
Cayman Islands	2,585	17,984	596
Chile	3651	6036	65
Colombia	605	992	64
Costa Rica	78	38	-52
Dominican Republic	133	1498	1029
Ecuador	164	42	-74
Guyana	98	19	-81
Honduras	6	103	1603
Jamaica	399	n.a.[a]	n.a.[a]
Mexico	2,597	3,651	41
Netherland Antilles	81	139	70
Peru	1,296	2,212	71
Trinidad and Tobago	65	2241	3367
Venezuela	221	798	261
Transition economies	340	507	49
Kazakhstan	156	n.a.[a]	n.a.[a]
Russian Federation	185	507	175
Unspecified	2,234	19,648	780

South Africa	10919	1,275a	1069
Tunisia	51	n.a.[a]	n.a.
Zimbabwe	18	28	55

Source: Statistics Canada: CANSIM Table No. 376-0051.
[a] Suppressed due to confidentiality

Annex table 5a. Canada: trade and employment of Canadian foreign affiliates, 2000, 2007

Sector	Value of sales (US$ billions)			Number of employees (thousands)		
	2000	2007	Growth (%)	2000	2007	Growth (%)
Primary	30.4	111.8	267.6	122	171	4.6
Secondary	122.2	175.1	43.3	444	527	18.7
Tertiary	94.5	143.1	51.4	322	437	35.7
Total	247.2	430.0	74.0	888	1,135	27.8
(Of which: affiliates in the United States)	159.9	223.4	39.7	553	599	8.3

Source: Statistics Canada: CANSIM Table No.: 376-0061.

Annex table 6. Canada: main M&A deals, by outward investing firm, 2007-2009

Year	Acquiror	Target	Target industry	Target destination	Share acquired (%)	Estimated / announced transaction value (US$ billion)
2009	Bank of Montreal	Diners Club North American franchise	Com. services and supplies	US	100	0.93
2009 2009	Ontario Teachers' Pension Plan Canada Pension Plan	Transurban Limited	Transportation	Australia	100	5.75
2009 2009	Brookfield Infrastructure Partners L.P. Brookfield Asset Management Inc.	Babcock & Brown Infrastructure Limited	Diversified financials	Australia	100	1.01
2009	Fairfax Financial Holdings Limited	Odyssey Re Holdings Corp.	Insurance	United States	27	0.99
2009	Eldorado Gold Corp.	Sino Gold Mining Limited	Gold	Australia	80	1.35
2009	Viterra Inc.	ABB Grain Ltd.	Food, bev. and tobacco	Australia	100	1.26
2009	Canada Pension Plan	Macquarie Communications Infrastructure Group	Media	Australia	100	5.83
2009	Agrium Inc.	CF Industries Holdings, Inc.	Chemicals	United States	100	5.60
2009	Precision Drilling Trust	Grey Wolf, Inc.	Energy equipment and services	United States	100	1.81
2008 2008 2008 2008	AMP Capital Investors (Australia) Stichting Pensioenfonds Zorg en Welzijn (Netherlands) Public Sector Pension Investment Board (Canada) Deutsche Bank Aktiengesellschaft (Germany)	Compañia Logistica de Hidrocarburos CLH, S.A.	Oil, gas and consumable fuels	Spain	25	1.26
2008	New Gold Inc.	Peak Gold Ltd. Metallica Resources Inc.	Gold	Canada United States	100	1.29
2008	TransCanada Corp.	KeySpan-Ravenswood, LLC	Utilities	United States	100	2.79
2008	Barrick Gold Corp.	Cortez joint venture	Gold	United States	40	1.61
2007	Agrium Inc.	UAP Holding Corp.	Chemicals	United States	100	2.47
2007	EnCana Corporation	Deep Bossier natural gas and land interests	Oil, gas and fuels	United States	100	2.21

2007	Royal Bank of Canada	RBTT Financial Holdings	Banks	Trinidad and Tobago	100	2.04
2007	The T-D Bank	Commerce Bancorp, Inc.	Banks	United States	100	7.89
2007	Provident Energy Trust	Oil and gas assets	Oil, gas and fuels	United States	n.a.	1.41
2007	Royal Bank of Canada	Alabama National Ban Corp.	Financials	United States	100	1.66
2007	Canadian Pacific Railway Limited	Dakota, Minnesota & Eastern Railroad Corp.	Transportation	United States	100	1.44

Source: Financial Post Crosbie, Mergers & acquisitions database in Canada, 2009, available at: www.fpinfomart.ca.

Annex table 7. Canada: main greenfield projects, by outward investing firm, 2007-2009
(US$ million)

Year	Investing company	Target economy	Industry	Investment value
2009	Bombardier	United Kingdom	Aerospace	860 .0
2009	Cirrus Energy	Netherlands	Coal, oil and natural gas	505.7[a]
2009	EnCana	United States	Coal, oil and natural gas	1,900.0
2009	Cirrus Energy	Netherlands	Coal, oil and natural gas	505.7[a]
2009	Nexen	United Kingdom	Coal, oil and natural gas	504.5[a]
2009	Enbridge Energy	United States	Coal, oil and natural gas	4,400.0
2009	Fei Cui International	China	Coal, oil and natural gas	732.0
2009	Quadra Mining	Chile	Metals	704.0[a]
2009	Talisman Energy	Vietnam	Coal, oil and natural gas	1,100.0
2009	Methanex	Vietnam	Chemicals	1,000.0
2009	Talisman Energy	Norway	Coal, oil and natural gas	526.2[a]
2009	Canasia Power	India	Coal, oil and natural gas	646.2[a]
2009	TransCanada	United States	Coal, oil and natural gas	2,000.0
2009	Ivanhoe Mines	Indonesia	Coal, oil and natural gas	495.0[a]
2009	Ithaca Energy	United Kingdom	Coal, oil and natural gas	542.8[a]
2008	Vermilion Energy Trust	Australia	Coal, oil and natural gas	480.7[a]
2008	Methanex	Chile	Coal, oil and natural gas	600.0
2008	Cantex Mine Development Corporation	Yemen	Minerals	800.0
2008	Enbridge Energy	United States	Coal, oil and natural gas	487.3[a]
2008	CIC Energy	Botswana	Coal, oil and natural gas	727.7[a]
2008	Canasia Power	India	Coal, oil and natural gas	646.2[a]
2008	Bridge Resources	United Kingdom	Coal, oil and natural gas	542.8[a]
2008	Kinross Gold	Brazil	Metals	550.0
2008	Sterling Resources	United Kingdom	Coal, oil and natural gas	542.8[a]
2008	Homeland Energy Group	South Africa	Coal, oil and natural gas	521.9[a]
2008	TransCanada	United States	Coal, oil and natural gas	30,000.0
2008	TransCanada	United States	Chemicals	7,000.0
2008	Calvalley	Yemen	Coal, oil and natural gas	401.6[a]
2008	Asian Coast Development	Vietnam	Real Estate	4,200.0
2008	Western Goldfields	Nigeria	Coal, oil and natural gas	15,000.0
2007	Brookfield Power Corporation	United States	Alternative/renewable energy	262.7[a]
2007	Fairmont Raffles Hotels International	China	Hotels and tourism	283.9[a]
2007	Lignol Energy Corporation	United States	Alternative/renewable energy	716.6
2007	Magna International	Russia	Automotive	500.0

2007	National Industries Inc. (National Steel Car)	United States	Non-automotive transport	350.0
2007	Stratic Energy	Turkey	Coal, oil and natural gas	293.6[a]
2007	Fairmont Raffles Hotels International	China	Hotels and tourism	283.9[a]
2007	Eastern Platinum (Eastplats)	South Africa	Metals	328.5[a]
2007	Ivanhoe Mines	Mongolia	Metals	203.5[a]
2007	El Niño Ventures	Congo, Democratic Republic of	Metals	242.3[a]
2007	First Calgary Petroleum	Algeria	Coal, oil and natural gas	1,586.6[a]
2007	Goldcorp	Mexico	Metals	1,500.0
2007	Vermilion Energy Trust	France	Coal, oil and natural gas	526.2[a]
2007	Corriente Resources	Ecuador	Metals	300.0
2007	Bombardier	Switzerland	Non-automotive transport	297.3

Source: fDi Intelligence, a service from the Financial Times Ltd.
[a] Estimated.

Chapter 5 - Denmark

Denmark: Outward FDI and its policy context, 2013

Peter Gammeltoft [*]

Except for a peak in 2011 due to large one-off investments, Danish flows of outward foreign direct investment (OFDI) have been dampened since 2007 by the lingering European sovereign debt crisis, which continues to hamper the Danish economy. Over a longer time span however, the Danish corporate sector has developed a substantial international presence since the 1980s. Today, about half of the workforce in Danish manufacturing industries is employed abroad. Companies plan to expand their foreign operations further still, with 60% of companies with foreign operations planning to expand their production of goods and services abroad toward 2015. The Danish Government supports the internationalization of Danish companies, and recently more emphasis has been put on OFDI into the BRIC countries (Brazil, Russia, India, China) and other growth markets.

Trends and developments

Country-level developments

Denmark's OFDI stock has been growing consistently since the mid-1990s, to reach US$ 231 billion in 2011 (annex table 1). While several large Danish enterprises, such as the East Asiatic Company, Great Nordic, FLSmidth, and Chr.Hansen, established foreign operations as early as the late 19th century, OFDI on a broad scale is a more recent phenomenon. From 1900 to 1964, investment activity abroad was very sporadic and was primarily in manufacturing in locations with favorable factor conditions. Between 1965 and 1983, the establishment of affiliates abroad by Danish firms increased, predominantly in the form of sales operations to support export growth and develop new markets.[1]

The period 1984 to 2000 exhibited a strong growth in OFDI. The foreign presence of Danish industry grew to become similar to that of industries of other countries comparable in size and structure. This strong growth was driven initially by general international trade and investment liberalization, innovations in technology and transport, regulatory reforms in recipient countries, and, later, the further integration of the European Union and the opening up of the Eastern European economies. In this period, firms' foreign operations became more diverse and complex and more explicitly integrated into corporate strategies. Companies internationalized more activities in their value chain -- not only sales and manufacturing activities; service activities and R&D took on increasing importance in OFDI from Denmark.

[*]The author wishes to thank Morten Falch, Torben Huss and an anonymous reviewer for their helpful comments. First published May 10, 2013.

[1] Torben Pedersen, Poul Schultz and Harald Vestergaard, *Danske virksomheders etableringer i udlandet: Hovedresultater fra en empirisk undersøgelse* (Copenhagen: Handelshøjskolens Forlag, 1993).

Outward FDI flows from Denmark plummeted with the 2001 economic downturn and recovered only in 2005 (annex table 2). After peaking again in 2007, OFDI flows receded in subsequent years following the 2008 financial and economic crises and European sovereign debt problems. With unusually large one-off investment and merger and acquisition (M&A) transactions (including Maersk Oil's purchase of exploration licenses in Brazil), OFDI flows from Denmark bounced back in 2011 to above pre-crisis levels. However, they fell back again in 2012, according to the most recent data released by the Danish central bank,[1] which show that, from 2011 to 2012, Danish OFDI flows decreased by almost 70%, to a level only slightly above the 2010 level.

Danish multinational enterprises (MNEs) have traditionally invested abroad mostly in the services sector: prior to the mid-1980s mainly in sales operations; by 2004, that sector accounted for 70% of total outward FDI stock (annex table 3). However, more recently OFDI has been shifting toward manufacturing and, in 2010, the share of services had declined to 57% of total outward stock. The secondary sector accounted for 37%, increasing from 25% in 2004, while the share of the primary sector was a modest 6%.

Financial intermediation accounts for the largest portion of Danish OFDI stock in services – almost half in 2010, and more than a quarter of total stock (annex table 3). However, a significant part of this is accounted for by the activities of holding companies, which are often active in other industries. Trade and transport are also important, with 17% of total stock. Within trade and transport, sea transport and wholesale trade (excluding that of motor vehicles) account for the majority of stock, sea transport being a traditional stronghold of Danish industry.

Manufacturing accounts for 33% of total OFDI stock, equivalent to nearly all of the stock in the secondary sector (annex table 3). Most stock is in food products, beverages and tobacco, basic metals and machinery, and pharmaceuticals. This reflects inter alia the fact that Danish breweries have intensified the internationalization of their activities in recent years and that the pharmaceutical industry constitutes one of the country's strong industrial clusters. Food products, beverages and tobacco have experienced the highest growth of all industries between 2004 and 2010 in terms of share of total OFDI stock (annex table 3).

The overseas operations of Danish MNEs are primarily located in Europe, which was host to 70% of their total OFDI stock in 2010, with nearly 60% of it in the more narrowly defined EU27 states (annex table 4). A large share (10% of outward stock) is also invested in the United States. The single largest recipient of Danish OFDI is Sweden, with nearly 20% of the total stock; to a large extent however, this reflects the fact that investments in Russia by the Danish brewery Carlsberg are made through its subsidiaries in Sweden. Recently, FDI from Denmark has risen in most of the largest recipient countries, particularly Sweden, the United States, the United Kingdom, and Germany.
From 2004 to 2011, Danish FDI in emerging markets grew strongly.[2] Total Danish FDI stock in those economies grew by 164% over the period, compared to a growth of 104% of the stock in the rest of the

[1] Danmarks Nationalbank, *Quarterly flow statistics on direct investments, 4th quarter 2012*, February 14, 2013, available at: www.nationalbanken.dk/DNUK/Publications.nsf/side/Dirq20130214TT/$file/Dirq20130214tt.pdf.
[2] The group of emerging markets included the following: Brazil, Chile, Columbia, Mexico, Peru, Philippines, India, Indonesia, China, Malaysia, Republic of Korea, Taiwan Province of China, Thailand, Poland, Russia, Czech Republic, Turkey, Hungary, Morocco, South Africa, and Egypt.

world.[1] In spite of this growth, emerging markets still account for less than 10% of Denmark's FDI stock abroad. The share of the BRIC countries in particular was close to 4% in 2010, almost twice the share in 2004. Danish investments in emerging markets are associated with considerably higher return on investment than foreign investments overall (10.7% vs. 7.8%).[2]

Danish FDI in Central and Eastern European countries also grew considerably between 2004 and 2010, from US$ 4.2 billion to US$ 8.4 billion.[3] Even though the total stock in these countries doubled over the period, it remains modest compared to that in Western European countries and the United States. Poland accounted for nearly half of total Danish FDI stock in this sub-region (US$ 4.1 billion) in 2010.

When Danish enterprises invest in pre-2004 EU member states (EU15), they are more likely to invest in their own industry. When they invest in the new EU member states (EU10) and in the BRIC countries, they are more likely to invest in enterprises in industrial activities other than their own.[4] This reflects the fact that investments in developed markets tend to be aimed at strengthening the investor's position in the market in question (market-seeking investments), whereas investments in developing countries and in Central and Eastern Europe are relatively more motivated by lower production costs (efficiency-seeking investments).

OFDI has become a primary means for many Danish enterprises to service markets abroad, beyond trade, and of securing access to resources, including labor. It tends to strengthen competiveness in the corporate sector as it allows companies to build up portfolios of locational assets. It also tends to generate demand for Danish exports and hence contribute to investment and employment growth domestically. On the other hand, concerns are also heard about capital flight and the loss of jobs.

The corporate players

Since the late 1980s, many Danish companies have achieved a high degree of internationalization of their production, not only in terms of FDI but also in other respects, such as outsourcing production activities to enterprises abroad.[5] The largest Danish companies are highly internationalized and small and medium-sized companies are also increasingly exploiting international opportunities, sustained with public support initiatives where competence and experience is lacking. The traditional Danish industrial clusters such as shipping, pharmaceuticals, breweries, agricultural products, alternative energy, and medical equipment have all become heavily internationalized. This is also reflected in the list of the largest Danish MNEs (annex table 5), which comprise well-known Danish firms such as Maersk, Carlsberg, Novo Nordisk, Vestas, Lego, and Danske Bank, and in the list of the largest cross-border M&As by Danish MNEs (annex table 6).

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[1] Danmarks Nationalbank, *Direkte investeringer ultimo 2011*, October 12, 2012, available at: http://www.nationalbanken.dk/C1256BE2005737D3/side/DBCCA3E7D9C25FC5C1257A94002F30C1/$file/Dira20121012Nyt.pdf.

[2] *Ibid.*

[3] Retrieved from the statistical database of Denmark's central bank. Central and Eastern European countries are defined as Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Slovenia, Croatia, Bosnia-Herzegovina, Serbia, Albania, Montenegro, and Macedonia.

[4] Danmarks Nationalbank, *Monetary Review 2nd Quarter 2008,* available at: http://www.nationalbanken.dk/DNUK/Publications.nsf/8b8fe2a60c3a10cbc1256be50057a78e/B64D71067870626CC1257481004D88BE/$file/mon-2qtr_2008_web.pdf.

[5] Danmarks Statistik, "Danmark i front med outsourcing til udlandet," *NYT fra Danmarks Statistik*, Nr. 252, June 10, 2008, available at: http://www.dst.dk/pukora/epub/Nyt/2008/NR252.pdf.

In 2010, Danish MNEs controlled some 11,200 affiliates abroad, employing 1.2 million people.[1] This employment abroad was equal to some 50% of total employment and some 90% of private employment within Denmark. The pre-2004 EU member states (EU15) accounted for 36% of the employees abroad, Asia for 27% and the new EU member states (EU10) and the rest of Europe for 10% each. The ten countries with the largest number of employees – the United Kingdom, Sweden, India, China, Germany, Indonesia, France, United States, Thailand, and Poland – together accounted for 52% of the total workforce abroad. The difference between the set of countries with the largest OFDI stock and the set of countries holding the largest number of employees reflects different labor intensities of investments by Danish MNEs' in different countries abroad.

Effects of the global crisis and other recent shocks

As all major markets of Danish industry were hit by the global financial and economic crises that began in 2007, the crises severely affected Danish companies' exports, revenues and profits. This in turn impacted outward FDI flows, which, while remaining positive, declined significantly over the period 2007-2010. From a peak of US$ 21 billion in 2007, OFDI flows declined 83%, to a modest US$ 3 billion in 2010. The sustained effects of the crises along with the European sovereign debt problems continue to affect Danish OFDI adversely. The Danish economy appears to be recovering more slowly than other comparable European economies. As a result, while OFDI flows, according to the latest Danish central bank data mentioned in the discussion of country-level developments above, increased slightly in 2012 relative to 2010 (but not relative to those of 2011, given the one-off nature of the large increase in 2011), any substantial recovery of outward flows is yet to be seen.

The policy scene

Denmark's outward FDI is governed legally at three levels: by the European Treaty, by treaties concluded by the European Union and by national bilateral investment treaties. The EU Single Market guarantees the free movement of capital within the European Union, as one of its "four freedoms" (of movement of goods, capital, services, and people). The provision on capital movements is broader than the other three provisions and allows movements not only among member states, but also between member states and third countries, subject to certain exceptions. Violations can be brought before the European Court of Justice. The previous section showed that Danish FDI is predominantly located in other European countries and, hence, the European Treaty is the most important legal framework governing Danish FDI.

The Lisbon Treaty, which entered into force on December 1, 2009, established FDI as an area of exclusive EU competence. Previously, agreements on investment protection were concluded by individual member states, which had resulted in a complex regime where member states had entered into 1,200 bilateral agreements.[2] The EU is now to become the sole negotiator of international investment treaties so that member states can no longer independently negotiate international agreements on FDI with third countries. Existing bilateral agreements remain binding, though. A transitional regime is

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[1] Danmarks Statistik, "Danske virksomheders udenlandske datterselskaber," *NYT fra Danmarks Statistik*, Nr. 86, February 23, 2010, available at: http://www.dst.dk/pukora/epub/Nyt/2012/NR086.pdf.

[2] European Commission, "New EU Investment package set to boost trade and underpin investor rights," Press release, July 7, 2010, available at: http://europa.eu/rapid/press-release_IP-10-907_en.htm.

envisioned through which member states are empowered to conclude or modify bilateral agreements with the Commission's authorization, particularly to bring existing ones into compliance with Treaty obligations.[1]

Where bilateral EU treaties are concerned, the EU strives for liberalization of capital movements as part of negotiated free trade agreements (FTAs). The EU has signed an FTA with the Republic of Korea and is currently negotiating many FTAs, e.g., with Canada, India and Singapore.

As a small, open economy Denmark has favored liberalization. As a member of the OECD, Denmark acceded in 1961 to a code on liberalization of international capital movements, subject to certain exceptions.[2] When Denmark joined the European Community in 1973, it was subject to essentially the same obligations, with a faster abolition of the exceptions than originally envisioned. Today, Denmark is fully subject to EU requirements.

As regards bilateral investment treaties (BITs), UNCTAD has recorded 55 BITs concluded by Denmark as of June 1, 2012. These are entered into with countries in Eastern Europe, Asia, Africa, and the Middle East, which are in most cases still marginal for Danish OFDI flows. The first of these treaties was concluded with Indonesia in 1968. Many of the treaties were signed in the 1990s, which was a period of intensifying internationalization and opening up of new markets after the collapse of the Soviet Union and the Eastern Bloc.

In addition to the international legal framework, investment policy also includes the investment promotion efforts of the national government. Similar to activities in trade and export promotion, governments promote outward investment through a variety of instruments, ranging from investment incentives to assistance and support schemes. The Danish Trade Council under the Danish Ministry of Foreign Affairs offers advisory services, analyses and support to export and foreign investment efforts of Danish companies, particularly small and medium-sized ones. The Council focuses on both established and emerging markets and places emphasis on green technology, where Denmark exports considerably more than the EU average. It has 300 employees placed in Danish embassies and other diplomatic missions in 60 countries working to support companies overseas.

While the European Union undertakes activities to promote Europe as a destination for inward foreign investment, there are no plans to replace the outward investment promotion efforts of member states with efforts at the EU level.[3]

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[1] European Commission, Proposal for a Regulation of the European Parliament and of the Council Establishing Transitional Arrangements for Bilateral Investment Agreements between Member States and Third Countries, COM(2010)344 final, 2010, available at:
http://trade.ec.europa.eu/doclib/docs/2010/july/tradoc_146308.pdf.

[2] Carsten Freiberg Jensen and Jens Hald, "Valutaliberalisering og kapitalbevægelser," Danmarks National Bank, *Kvartalsoversigt*, 1. kvartal (*Monetary Review*, first quarter), 1986, pp. 8-16, available at:
http://www.nationalbanken.dk/C1256BE2005737D3/side/1E2D35367DE4CF0DC1256ED3002FE36B/$file/1986_KVO1_s8.pdf.

[3] European Commission, "Towards a comprehensive European international investment policy," Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, COM(2010)343 final, 2010, available at: http://trade.ec.europa.eu/doclib/docs/2011/may/tradoc_147884.pdf.

The Danish state-owned Export Credit Fund (EKF) offers, on commercial terms, to undertake 80% of the risk when a private bank finances an overseas investment in productive assets by a Danish company.[1] The Investment Fund for Developing Countries (IFU) is an independent government-owned fund offering advisory services and co-investing risk capital with Danish companies in 120 eligible developing countries. IFU also acts as an adviser during the initial phases of an investment. The fund makes annual investments of approximately US$ 90 million in 40-50 companies.[2] GoGlobal is a cooperative effort between the Danish International Development Assistance (Danida), the Danish Trade Council, IFU, and EKF, which offers financing options and advisory services for companies wishing to export or invest abroad, particularly in emerging markets.[3]

In May 2012, the Danish Government published a strategy for emerging markets.[4] The strategy proposes operational targets for stepping up commercial engagement with emerging markets and the BRIC countries in particular. The strategy calls inter alia for a more than 50% increase in goods exports to emerging markets between 2011 and 2016, and for emerging markets to invest twice as much in Denmark in that period as during the previous five-year period. While the promotion of outward investment may implicitly support these targets, the strategy does not explicitly address it.

More generally, while some provisions are made in support of outward FDI, the Government is less active in that respect than in other policy domains. The general policy position, possibly related to concerns over job losses and capital flight, seems to be that outward FDI is better left to industries or enterprises themselves.

Conclusion: the Outlook

In 2012, Danish OFDI fell back from its unusual peak in 2011 and reached a level slightly above the one that prevailed in 2010. Over the longer term, however, Danish enterprises are likely to increase their international presence, in terms of both the quantity and quality (activities) of their OFDI.

According to a survey conducted by the Confederation of Danish Industry, Danish companies plan to expand their activities abroad.[5] More than 60% of companies with foreign operations plan to expand their production of goods and services abroad up until 2015, 40% plan to expand in distribution and logistics and many also plan to expand in other activities such as R&D and human resources (HR) services. The expansions are predominantly driven by the conventional motives of developing new markets or better serving existing customers and accessing environments with lower production costs. Yet, one in four companies indicate that access to qualified labor and talent abroad is a motive. Only four out of 131 companies with operations abroad plan to bring jobs back to Denmark.

In addition to the conventional activities of sales and production, more advanced activities such as R&D, HR services and the recruitment of talent will become more internationalized. Investments in Central and Eastern European countries and in other emerging markets are likely to increase more than the average, even though outward investment in the latter are not addressed in the recently released government strategy on emerging markets. Given that Danish OFDI predominantly flows to neighboring

[1] EKF, "EKF in figures," available at: http://www.ekf.dk/en/about-ekf/Pages/default.aspx.
[2] IFU Investment Fund for Developing Countries, "IFU in numbers," available at: http://www.ifu.dk/en/About+IFU/IFU+in+numbers.
[3] GoGlobal.dk, available at: www.startvaekst.dk/goglobal.dk/forside/0/2.
[4] Regeringen, 'Regeringens Vækstmarkedsstrategi', Regeringen, maj.
[5] Confederation of Danish Industry, "Danske virksomheder udvider i udlandet de kommende år", July 21, 2010.

and other European countries, the recovery of Danish OFDI flows is highly contingent on the economic recovery in Europe more generally.

Additional readings

Danmarks Statistik, *Grænseoverskridende virksomheder: Danske datterselskaber i udlandet* (Copenhagen: Danmarks Statistik, 2010).
Danmarks Statistik, *Dansk erhvervsliv i internationalt perspektiv* (Copenhagen: Danmarks Statistik, 2006).
ITEK, Dansk Industri, *Globale muligheder og vækst: En analyse af danske virksomheders outsourcing* (Copenhagen: ITEK, Dansk Industri, 2004).

Useful websites

Statistics Denmark, available at: http://www.dst.dk/en/Statistik/emner/globalisering.aspx

Confederation of Danish Industry, available at: http://di.dk/English/Pages/English.aspx

The Danish Central Bank, Danmarks Nationalbank, available at:
http://nationalbanken.statistikbank.dk/statbank5a/default.asp?w=1600

Statistical annex

General introductory note

All FDI statistics in the tables below are compiled in accordance with the OECD Benchmark definition of foreign direct investment. When data are stated in national currency, the IMF exchange rate was used to convert them to US dollars. The taxonomy used in the different tables is based on what is considered appropriate in the context.

Danmarks Nationalbank (the Danish Central Bank) is responsible for the statistical recording of Danish FDI flow and stock data. Flow data are published quarterly and stock data are published yearly. The primary source for the compilation of stock data is reporting from a sample of Danish enterprises. These enterprises account for around 90% of total stock. More detailed information about the statistics can be found in the Danish Central Bank's *Declaration of contents: Annual Stock Statistics on Direct Investments* and *Declaration of contents: Quarterly flow statistics on direct investments*, available at www.nationalbanken.statistikbank.dk under table DNDIRA2 and DNDIRQ2, respectively.

Annex table 1. Denmark: outward FDI stock, 1995-2011

(US$ billion)

Economy	1995	2000	2005	2010	2011
Denmark	24.7	73.1	129.3	214.4	231.3
Memorandum: comparator economies					
Netherlands	172.3	305.5	643.9	961.5	943.1
Sweden	73.2	123.3	206.9	368.8	358.9
Norway	22.5	34.0	92.9	192.9	207.5
Finland	15.0	52.1	81.9	137.0	138.8

Source: UNCTAD's FDI database, available at http://unctadstat.unctad.org .

Annex table 2. Denmark: outward FDI flows, 2001-2011

(US$ billion)

Economy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Denmark	13.4	5.7	1.2	-10.4	16.2	8.2	20.6	13.2	6.3	3.5	23.4
Memorandum: comparator economies											
Netherlands	50.6	32.0	55.8	37.0	123.1	71.2	55.6	68.3	28.2	55.2	31.9
Sweden	7.3	10.6	21.1	22.2	27.7	26.6	38.8	31.3	25.9	18.0	26.9
Norway	0.8	5.8	6.1	5.3	22.0	20.8	13.6	25.7	34.4	23.1	20.0
Finland	8.4	7.4	-2.3	-1.1	4.2	4.8	7.2	9.3	4.9	10.5	5.4

Source: UNCTAD's FDI database, available at http://unctadstat.unctad.org.

Annex table 3. Denmark: distribution of outward FDI stock, by economic sector and industry, 2004, 2010

(US$ billion and percent of total)

Sector / industry	US$ billion 2004 (US$	US$ billion 2010 billion)	Per cent of total outward stock 2004 (Per	Per cent of total outward stock 2010 cent)
All sectors / industries	106.0	195.7	100.0	100.0
Primary	4.0	11.1	3.8	5.7
Agriculture, fishing, mining and quarrying	4.0	11.1	3.8	5.7
Secondary	26.8	71.9	25.3	36.7
Manufacturing, of which:	25.2	64.1	23.8	32.8
Food products, beverages and tobacco	7.0	32.8	6.6	16.8
Oil refinery, chemicals and plastic	7.0	7.6	6.6	3.9
Wood and paper	0.3	0.5	0.3	0.2
Pharmaceuticals	5.3	9.6	5.0	4.9
Basic metals and machinery	4.1	10.3	3.9	5.3
Electronic and electrical equipment	0.4	1.8	0.4	0.9
Construction	0.6	0.5	0.6	0.2
Services	74.3	110.9	70.1	56.7
Utility services	1.0	7.3	0.9	3.7
Trade and transport etc., of which:	19.4	32.5	18.3	16.6
Sale of motor vehicles and auto services	0.3	0.6	0.3	0.3
Wholesale trade excl. motor vehicles	10.2	9.7	9.6	4.9
Retail trade	0.4	2.3	0.4	1.2
Sea transport	6.4	18.2	6.1	9.3
Information and communication	4.6	4.5	4.3	2.3
Financial intermediation, of which:	31.9	53.6	30.1	27.4
Credit institutions etc.	4.6	7.3	4.4	3.7
Activities of holding companies (not head offices)	22.7	40.7	21.4	20.8
Insurance services	2.3	4.2	2.2	2.2
Real estate, buying and selling of real estate and renting real estate	0.5	0.9	0.5	0.5
Holiday homes	2.0	3.8	1.9	1.9
Business services, of which:	13.6	11.3	12.8	5.8
Activities of head offices	7.8	4.4	7.4	2.3
Unspecified other industries	0.9	1.8	0.8	0.9

Source: Danmarks Nationalbanks Statistikbank, table DNDIRA2, "Yearly stock statistics on direct investments," available at http://nationalbanken.statistikbank.dk. The end-of-year stock data in DKK were converted into US$ values by using end-of-year DKK-US dollar exchange rates of the IMF (International Monetary Fund, Exchange Rate Archives by Month, available at www.imf.org/external/np/fin/data/param_rms_mth.aspx).
Note: As from 2009, economic activities are broken down according to NACE Rev. 2 (statistical classification of economic activities in European Community). The breakdown is not comparable with the previously published breakdown levels. The industry is of the Danish enterprise.

Annex table 4. Denmark: geographical distribution of outward FDI stock, 2004, 2010

(US$ billion)

Region / economy	2004	2010
World	122.6	214.4
Developed economies	107.9	178.2
Europe	92.8	150.6
EU27	n.a.	124.0
Austria	3.0	1.0
Belgium	2.5	2.6
Finland	5.4	6.9
France	6.2	8.9
Germany	9.3	15.3
Ireland	1.4	0.4
Italy	1.5	2.5
Luxembourg	4.6	2.0
Netherlands	7.6	9.3
Sweden	12.2	39.9
United Kingdom	11.9	18.7
EFTA	16.9	23.5
Iceland	0.2	0.4
Norway	7.6	11.9
North America	15.6	24.5
Canada	1.4	3.3
United States	14.1	21.0
Other developed economies	n.a.	n.a.
Australia	0.4	5.3
Japan	0.7	1.0
Developing economies	n.a.	n.a.
Africa	1.2	2.0
South Africa	0.3	0.3
Asia and Oceania a/	5.4	20.1
China	1.3	3.7
India	0.2	0.7
Central America a/	3.1	5.4
South America a/	n.a.	3.0
Brazil	0.7	1.8
Transition economies	n.a.	n.a.
Russia	0.3	1.4

Source: OECD International direct investment database, available at: http://stats.oecd.org.
a/ Excluding countries that are members of the OECD.
Note:'n.a' denotes 'not available.'

Annex table 5. Denmark: top MNEs, ranked by world revenue, 2011

Name	Industry	Revenue (US$ billion)	Number of employees
A.P.Møller - Mærsk A/S	Deep sea freight transportation	53.4	117,080
Danske Bank Group	Commercial banking	21.4	21,522
Carlsberg A/S	Breweries	14.3	42,670
Novo Nordisk A/S	Pharmaceutical preparation, manufacturing	11.0	32,136
Arla Foods Gruppen	Dry, condensed, and evaporated dairy product manufacturing	9.1	17,417
Danish Crown Gruppen	Meat processed from carcasses	8.6	23,557
DSV A/S	General freight trucking, long-distance, truckload	7.2	21,678
Vestas Wind Systems A/S	Turbine and turbine generator set unit manufacturing	7.2	22,721
Danfoss A/S	Heating equipment (except warm air furnaces) manufacturing	5.6	23,430
TDC A/S	Wired telecommunications carriers	4.4	9,816
FLSmidth & Co. A/S	Other heavy and civil engineering construction	3.6	11,228
Grundfos Holding A/S	Pump and pumping equipment manufacturing	3.5	17,481
VKR Holding A/S	Other millwork (including flooring)	2.9	15,113
H. Lundbeck A/S	Pharmaceutical preparation manufacturing	2.7	5,736
Lego A/S	Game, toy, and children's vehicle manufacturing	2.6	8,365
NKT Holding A/S	Current-carrying wiring device manufacturing	2.6	9,038
Rockwool International A/S	Mineral wool manufacturing	2.3	9,368
Novozymes A/S	All other basic inorganic chemical manufacturing	1.7	5,751
Falck Holding A/S	All other transit and ground passenger transportation	1.7	25,262
Coloplast A/S	Surgical appliance and supplies manufacturing	1.7	7,328
IBM Danmark A/S	Electronic computer manufacturing	1.3	4,189
Ecco Sko A/S	Other footwear manufacturing	1.0	15,827
GNStore Nord A/S	Telephone apparatus manufacturing	0.9	4,675

Source: The above list of the largest Danish MNEs was constructed on the basis of a list of the largest MNEs headquartered in Denmark provided in Torben Pedersen, "The 30 largest firms in Denmark," SMG, Copenhagen Business School, Working Paper No. 12/2009. Data on companies' total global revenue and number of employees are from Gale Business Insights: Essentials Collection, "Business Insights: Essentials", Gale, Cengage Learning, 2012. Data on Danske Bank Group are from "Global 500", *CNN Money*, from the July 25, 2011 issue, available at: http://money.cnn.com/magazines/fortune/global500/2011/snapshots/7577.html

Note: Industry classification is according to NAICS (North American Industry Classification System).

Annex table 6. Denmark: main cross-border M&A deals completed, by outward investing firm, 2009-2011

Year	Acquiring company	Target company	Target industry	Target economy	Shares acquired (%)	Transaction value (US$ million)
2011	Novozymes A/S	EMD/Merck Crop BioScience Inc	Chemicals and chemical preparations	United States	100.0	283.0
2011	Scandinavian Tobacco Group A/S	Lane Ltd	Cigars	United States	100.0	205.0
2011	Carlsberg Breweries A/S	Hue Brewery Ltd	Malt beverages	Vietnam	50.0	86.4
2011	Fibertex Nonwovens AS	Tharreau Industries SA	Textile machinery	France	85.3	55.5
2011	FLSmidth & Co A/S	Essa Australia Ltd	General industrial machinery and equipment	Australia	n.a.	38.3
2011	Axcel IndustriInvestor A/S	Lemminkainen-Roofing Operation	Roofing, siding, and sheet metal work	Finland	n.a.	33.1
2011	Satair A/S	Aero Quality Sales	Electrical apparatus and equipment	United States	100.0	30.0
2011	DONG Energy A/S	Heron Wind Ltd	Cogeneration, alternative energy sources	United Kingdom	33.3	23.3
2011	Axcel IndustriInvestor A/S	Trelleborg AB-Roofing Ops	Brick and structural clay tile	Sweden	100.0	10.2
2011	Glunz & Jensen A/S	Degraf SpA	Printing trades machinery	Italy	83.5	6.8
2010	Rockwool International A/S	CSR-Insulation, Panels&Trading	Mineral wool	China	100.0	109.2
2010	ALK-Abello A/S	DBV Technologies SA	In vitro and in vivo diagnostic substances	France	n.a.	2.6
2010	William Demant Holding AS	Otix Global Inc	Orthopedic, prosthetic, and surgical supplies	United States	100.0	65.7
2010	Carlsberg A/S	Alivaria	Malt beverages	Belarus	20.8	0.2
2010	Coloplast A/S	Mpathy Medical Devices	Surgical and medical instruments and apparatus	United Kingdom	100.0	30.0
2010	Novo A/S	Aerocrine AB	Surgical and medical instruments and apparatus	Sweden	15.3	15.9

2010	Umbrella Holding	Farmaplace SL	Pharmaceutical preparations	Spain	100.0	10.9
2010	Aker Seafoods Denmark A/S	Pesquera Ancora SL	Canned and cured fish and seafoods	Spain	40.0	9.1
2010	DFDS A/S	Norfolkline	Deep sea foreign transportation of freight	Netherlands	100.0	496.3
2010	ALK-Abello A/S	Artu Biologicals NV	Pharmaceutical preparations	Netherlands	100.0	26.3
2009	LEO Pharma A/S	Warner Chilcott PLC-Certain	Pharmaceutical preparations	United States	100.0	1,000.0
2009	H Lundbeck A/S	Ovation Pharmaceuticals Inc	Pharmaceutical preparations	United States	100.0	900.0
2009	Maersk Tankers A/S	Brostroem AB	Deep sea foreign transportation of freight	Sweden	100.0	566.1
2009	LEO Pharma A/S	Peplin Inc	Pharmaceutical preparations	United States	100.0	268.4
2009	Hempel A/S	Hempel-Hai Hong(China)Ltd	Paints, varnishes, lacquers, & allied products	Hong Kong, China	64.0	148.0
2009	TrygVesta Forsikring A/S	Moderna Forsakringar Sak AB	Fire, marine, and casualty insurance	Sweden	100.0	138.5
2009	World Nordic SE	BW Gas Ltd	Natural gas distribution	Bermuda	5.3	69.7
2009	World Nordic SE	BW Gas Ltd	Natural gas distribution	Bermuda	4.5	61.1
2009	World Nordic SE	BW Gas Ltd	Natural gas distribution	Bermuda	12.5	46.4
2009	Investor Group	Neose Technologies Inc-Certain	Biological products, except diagnostic substances	United States	100.0	43.0

Source: The author, based on Thomson ONE Banker, Thomson Reuters.

Note: Industry classification is according to SIC (Standard Industrial Classification system of the U.S. Census Bureau).

Chapter 6 - Finland

Finland: Inward FDI and its policy context, 2011

Dan Steinbock[*]

From independence to the collapse of the Soviet Union, inward foreign direct investment (IFDI) in Finland was either marginal (1917-1939) or insignificant (1945-early 1990s). Throughout this period, the success of Finland's core production clusters in forestry, metal engineering, chemicals, and plastics was based on exports, not IFDI (or outward FDI). However, with the end of the Cold War and the globalization of Finnish industries (especially the mobile communications cluster) in a period of strong export-led economic growth, IFDI in Finland took off rapidly from the mid-1990s. This period of growth came to an end with the global crisis of 2008-2009. In 2009, the Finnish economy shrank roughly by 8%, the sharpest plunge since the country's civil war in 1918. The recovery since 2010 has been relatively strong in comparison to that in most European Union (EU) economies, but Finland remains vulnerable to the Eurozone crisis. Today, IFDI is seen as an untapped resource, and the Finnish Government hopes to develop an IFDI promotion strategy in cooperation with the private sector and integrated with the national innovation system.

Trends and developments

Since the late 1990s, Finland has been one of the most competitive economies in the world. With just 5.3 million people and a GDP per capita (PPP) of US$ 34,585, it ranked 22nd worldwide by per capita income in 2010, right after Germany and the United Kingdom, and before France and Japan.[1] It remains among the top EU performers in terms of growth and competitiveness. In the past half decade, however, shifts in global competitiveness rankings suggest that the country's competitive position may be eroding.[2] Recent gains in 2011 may have less to do with competitiveness per se, but more so with Finnish macroeconomic fundamentals, which currently offer a better macroeconomic position relative to other European economies in the Eurozone debt crisis.

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[*] The author wishes to thank Tuomo Airaksinen, Jorma Eloranta and Thomas Jost for their helpful comments. First published December 30, 2011.

[1] IMF, World Economic Outlook Database, available at: http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx.

[2] Finland fell from 6th rank in 2009-2010 to 7th rank in the 2010-2011 ranking by the Global Competitiveness Reports of the World Economic Forum, and from 9th in 2009 to 19th in 2010 in the World Competitiveness Yearbook ranking by the International Institute for Management Development. In 2011, both rankings improved: Finland was 4th in the ranking for 2011-2012 by the Global Competitiveness Report and 15th in the ranking for 2011 by the World Competitiveness Report. (See World Economic Forum, *Global Competitiveness Yearbook 2010-2011*, available at: http://www.weforum.org/reports/global-competitiveness-report 2010-2011, and *Global Competitiveness Report 2011-2012*, available at: http://www.weforum.org/reports/global-competitiveness-report-2011-2012; and International Institute for Management Development, *World Competitiveness Yearbook 2010* and *World Competitiveness Yearbook 2011*, available at: http://www.imd.org/research/publications/wcy/index.cfm).

As one of the most prosperous, secure and livable countries in the world, Finland might be expected to have long enjoyed the benefits of foreign capital, talent and ideas, including through IFDI. But the realities are more complex.

Country-level developments

From the 12th century until 1809, Finland was part of Sweden; then it became an autonomous Grand Duchy in the Russian empire, until its independence in 1917. As a result of that history, Finns grew wary of any kind of direct foreign participation in their country, including FDI, and implemented measures to restrict it. Most of this legislation occurred in Finland's autonomy period (1809-1917), but many laws remained valid until the mid-1980s.

Before World War I, Russia, fellow-Nordic countries[1] and Germany accounted for most IFDI in Finland.[2] After Finland's independence and the civil war that followed, foreign capital fled from the country; with the turmoil accompanying those events, the large foreign sawmill companies located in Finland sold their properties to Finns. Economic nationalism reigned, and the state played a vital role in the economy. In this period, IFDI originated mainly from Nordic neighbors (Sweden, Norway) and Finland's most active foreign trade partners (Germany, United Kingdom). Finland has been a market economy since its independence. In political geography, its position has been more precarious, which is intimately reflected by the evolution of Finnish IFDI. In the Cold War period, with Europe divided between the United States and Soviet Union, Finland engaged in a cautious balancing act between the West and the East. With Finland's special relationship with the Soviet Union and the related Finnish policies restricting foreign participation in the economy, that meant four decades of some OFDI, but little IFDI.

In the 1960s, Finland's IFDI stock was still less than 0.2% of GNP. While attitudes toward IFDI grew more favorable, restrictive foreign-ownership laws remained intact (see "The policy scene", below); foreign companies did play a role, however, in newer high-tech industries.[3] Until the 1980s, Swedish multinational enterprises (MNEs) were the most important single foreign-investor group in Finland, comprising more than half of foreign affiliates in the country.[4] Other foreign affiliates came from the larger Nordic countries, major European economies (such as Germany) and the United States. IFDI in Finland grew very slowly through the Cold War period, but took off dramatically in the aftermath of that period's end. As a percentage of IFDI stock to GDP, it rose from 1% to 4% in 1980-1990, but soared thereafter to 20% in 2000 and 35% in 2010.[5]

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[1] The term "Nordic" refers to Denmark, Finland, Iceland, Norway, and Sweden. "Scandinavian" typically refers to the Nordic countries minus Finland (which has a different linguistic legacy).

[2] Riitta Hjerppe and Juha-Antti Lamberg, "Changing structure and organisation of foreign trade in Finland after Russian rule", in Alice Teichova, Herbert Matis and Jaroslav Pátek, eds., *Economic Change and the National Question in Twentieth Century Europe* (Cambridge: Cambridge University Press, 2000), pp. 382-404.

[3] In the 1980s, some liberalization of foreign investment did occur. See C. Bellak and R. Luostarinen, *Foreign Direct Investment of Small and Open Economies: Case of Austria and Finland* (Helsinki: Helsinki School of Economics and Business Administration, 1994); H. Aintila, *Ulkomaisessa omistuksessa oleva yritystoiminta Suomessa* [Foreign-owned corporate activities in Finland] (Helsinki: Taloudellinen suunnittelukeskus, 1975).

[4] Ibid.

[5] Figures other than those for IFDI stock in 2010 (provided in annex table 1) are from UNCTAD statistics, available at: http://unctadstat.unctad.org/

Historically, inward investment in Finland has been much lower than the country's outward investment. Between 1995 and 2010, Finland's OFDI stock soared from US$ 15 billion to US$ 131 billion, whereas its IFDI stock increased from US$ 8 billion to US$ 83 billion (annex table 1). In absolute terms, both have risen almost tenfold during the period. In relative terms, IFDI has increased vis-à-vis OFDI. In 2010, the ratio of OFDI stock to GDP was 55%, and that of IFDI stock to GDP, 35%.[1]

Between 2000 and 2010, Finland's IFDI flows peaked, after falling during the technology downturn of the early 2000s, at US$ 12.5 billion in 2007 (annex table 2). In 2008-2009, IFDI flows turned negative after the global financial and economic crisis, but recovered to US$ 4.3 billion in 2010. The impact of the crisis differed from that in Sweden, Denmark and Norway; in the latter, IFDI declined, but did not fall below zero.

In terms of sectoral distribution, between 2000 and 2010, Finland's IFDI stock in manufacturing roughly doubled, from US$ 9 billion to nearly US$ 19 billion (annex table 3). More than half of the IFDI in manufacturing went to metals and engineering. At the same time, IFDI in services more than tripled from US$ 13 billion to US$ 60 billion. Almost half of the investments in services were in finance and insurance.

The rising FDI in Finland during most of the decade 2000-2010 has been led by investments from other European countries (annex table 4). The share of fellow economies from the EU-27 in Finland's IFDI stock was 95% in 2000 and increased to 97% in 2010; in particular, Scandinavian IFDI in Finland more than doubled during the period, remaining at around 60% of the total. Additionally, IFDI from the Netherlands and Germany accounted for some 24% of the total. IFDI from the United States was low, and that from Russia even less. Despite the important role of high-tech activities, led by the mobile communications giant Nokia, in the Finnish economy, US IFDI actually shrank from 3% of the total in 2000 to barely 1% in 2010 (annex table 4).[2]

Unlike many other Western European countries, Finland signed a science and technology cooperation agreement with the United States only at the end of the 1980s. US-Finnish factor/professional mobility, research and high-tech cooperation have remained marginal, compared with that between the United States and other Nordic and Western European nations.[3] This distance from the United States has recently limited the competitiveness of Nokia as well as of the Finnish national innovation system in general, which has been driven by the ICT sector, especially mobile communications. After all, US investors own half of Nokia, despite its low presence in the United States since the early 2000s.[4] In

[1] Ibid.

[2] During the global crisis, foreign MNEs have been restructuring their organizations and concentrating their Nordic operations increasingly in Copenhagen or Stockholm. The pressures for reduced investments and even divestitures in Finland have grown in the past few years. By summer 2010, the number of affiliates of US companies in Finland was 465, whereas in Denmark and Sweden the corresponding figures were 800 and 1,400, respectively. See Dan Steinbock, *The Greater Helsinki Metropolitan Report* (Helsinki: GHP 2010), p. 58, available at: http://www.helsinkibusinesshub.fi/ghp/files/2011/02/steinbock_metropolitanreport.pdf

[3] Dan Steinbock , "Together and separate: Finnish-U.S. mobility in business studies," Academy of Finland, March 2005.

[4] Although the United States accounts for less than 4% of Nokia's net sales and just over 6% of its personnel, US investors own almost 50% of the company shares, which is nearly as much as investors from Europe as a whole. This portfolio investment has served as a showcase for attracting investment into Finnish ICT, particularly mobile communications. See Dan Steinbock, *Winning Across Global Markets: How Nokia Creates Strategic Advantage in a Fast-Changing World* (New York: Wiley, 2010), p. 106.

2009-2010, US stock of FDI in Finland plunged over 25%, significantly more than in all other Nordic economies.[1]

The corporate players

In 2011, almost 40% of the leading 500 corporations in Finland ranked by sales were foreign affiliates, that is, at least partly foreign-owned. The net sales of these 500 companies amounted to US$ 451 billion, while foreign affiliates accounted for 19% of that total. The 500 companies employed some 1,058,500 people, with foreign affiliates accounting for 20% of the total. The leading foreign affiliates included Tamro (wholesale trade), Nordea Bank Finland (finance and investment), Nordea Life Insurance (insurance), Luvata (metal), ABB (electronics), Teboil (oil), RTF auto (car trade), and Telia-Sonera (telecom services) (annex table 5). Most of the largest foreign affiliates operated in metal products and engineering, wholesale trade and business services, and were heavily concentrated in or near Helsinki, the country's capital. Greater Helsinki accounted for two out of three (67%) foreign affiliates in Finland.[2]

In 2008-2010, the combined value of the top 30 cross-border merger and acquisitions (M&As) completed in Finland (annex table 6) was over US$ 4.0 billion. The average value of individual deals was US$ 136.2 million. US MNEs accounted for 31% of these deals and European MNEs for 26%, with German MNEs accounting for about half and Swedish about a fourth of the value of the European deals. The top M&A deals included the acquisition in 2008 of the Finnish M-Real mills by Sappi Ltd of South Africa (see annex table 6).

The largest greenfield FDI projects in Finland between 2008-2010 involved transportation, metal/mining as well as software & IT services (annex table 7). In turn, many smaller greenfield projects focused on consumer products (retail), hotels and tourism (construction), and electronic components (manufacturing). In half of the 30 major greenfield projects of 2008-2010, the source country was Nordic or Baltic. Most of the remaining projects were by MNEs from Germany, France, Switzerland, and the Netherlands. The three projects by US MNEs among the largest 30 involved electronic components (Sanmina-SCI, K2 Energy Solutions) and software and IT services (Google).

Effects of the recent crises

After the global crisis of 2008-2009, Finland along with other small and open economies reliant on export-led growth found itself at a crossroads. Even as its old growth engines – the paper and pulp, metal-engineering, chemicals, and ICT clusters – were decelerating, the country was coping with the fragile global recovery, the Eurozone debt crisis, the demise of Finland's old growth model based largely on export-led growth, and Europe's gradual and uneven recovery. Today, Finland trades mostly with the other Baltic Sea Region economies (40%) and the G-7 nations (30%). In the near- and medium-term, these countries have relatively low growth prospects. Despite a long and occasionally intense Finnish debate on "globalization", the future prospects of Finnish factor mobility, exports, FDI, and

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[1] Ibid.

[2] Information on the largest 500 corporations in Finland in 2011 and foreign affiliates on the list is from the *Talouselämä 500 Survey, 2011*, published by the Finnish financial newspaper *Talouselama*.

innovation are intertwined with the future of Europe.[1] Conversely, only 16% of Finland's trade is with the BRIC economies (Brazil, Russia, India, China), which have relatively high growth prospects. This can be problematic for Finland, because investment flows and foreign trade go hand in hand. The post-crisis conditions have also involved a decline of IFDI relative to OFDI.

In the medium-term, changing the Finnish national innovation system so that it would be more favorable for IFDI holds the greatest promise for the future, as Tuomo Airaksinen, CEO of Invest in Finland has suggested: "As Finland starts reforming its national innovation system, it is crucial to recognize that international companies and business networks are key resources in this process. Vast amounts of knowledge, know-how and capital are channeled through these companies and any reforms will not succeed without their active engagement."[2]

The policy scene

As noted, through much of the pre-Cold War period, Finland's special relationship with the Soviet Union and the restrictive policies accompanying it resulted in low FDI inflows. Strict currency and import regulations did not make Finland attractive for inward investment.

As EU membership required all capital controls to be abolished, the policy scene in Finland changed dramatically in the 1990s. Foreign ownership legislation in Finland changed in early 1993, as Finnish membership in the European Economic Association opened the doors to foreign MNEs in the industrial and services sectors.[3] Finland joined the EU in 1995 and subsequently became the first Nordic country to join the European Monetary Union (EMU). At the same time, the global focus strategy of Nokia kicked in, and the economy picked up; in turn, this facilitated a more IFDI-favorable policy scene.[4]

During the Cold War, Finnish industrial policy was heavily biased toward heavy industry, while seeking to avoid international (read: Western) capital. The postwar era witnessed the rise of Finnish state-owned enterprises (SOEs), which – unlike SOEs in many other countries – are relatively independent and operate much like their private-sector counterparts. With or without privatization, these SOEs are now increasingly seeking international investment.

Until recently, the promotion of IFDI activities in Finland has been seen as conflicting with decades of export-led growth. In some cases, the success of IFDI in Finland (especially in mining) has triggered a debate on the "erosion of national competitiveness" as some Finnish media continue to regard IFDI in Finland as a potential threat to domestic companies and investors. Although Finland is facing the

[1] Dan Steinbock, *Where Shall Finland Compete? Finland 2020: Between G-7 and the BRICs* (Helsinki: Ministry of Employment and Economy, 2010).
[2] "The system does not need of more taxpayers' money to make it work more effectively. Instead, the state should focus on establishing a well-functioning infrastructure and creating the most conducive environment possible for business and international cooperation." See Tuomo Airaksinen, "International companies can boost Finland's innovation system," *Baltic Rim Economies*, June 23, 2010, p. 15.
[3] For instance, of the ten largest advertising agencies in Finland, eight soon became foreign-owned. The biggest foreign-owned company is ABB Finland. It is among the five biggest industrial employers.
[4] On Nokia's strategy, Finnish industrial policies and the economy, see Dan Steinbock, *The Nokia Revolution* (New York: Amacom, 2001); and, by the same author, "Assessing Finland's wireless valley: can the pioneering continue?" in *Telecommunications Policy*, volume 25, issues 1-2 (February 2001), pages 71-100.

challenge of aging population and rapidly rising dependency ratios, the country's internationalization as measured by the share of foreign citizens, remains one of the lowest in Europe.[1]

Since the early 1990s, Invest in Finland, the national IFDI promotion agency, ha been pioneering a new mindset, but the idea of IFDI as providing opportunities for increased competitiveness and growth became more popular only on the eve of the global crisis. It was only then that Invest in Finland began to have a role in the Finnish national innovation system, its objectives were aligned with the Government's program and it was strengthened by the activities of the Greater Helsinki Promotion, which focuses specifically on IFDI in the greater Helsinki region, and other, smaller regional and municipal investment-promotion vehicles.[2] The personnel and resource allocation of these organizations, however, remain low relative to organizations promoting exports and OFDI.

Today, most investment opportunities in Finland can be placed in two broad and partly overlapping categories. On the one hand, there are the opportunities offered by the world-class clusters of the Finnish economy, particularly forestry, mobile communications, metals and engineering, and chemicals (including certain biotech niches). On the other hand, there are the investment opportunities promoted by Finnish government agencies during the past 10-15 years, particularly in two main areas: industry and technology (including cleantech, ICT, healthcare and wellbeing, mining), as well as in trade and other services (retail, finance and insurance, real estate, business services, travel and tourism).[3] In relative terms, IFDI has grown more in services, which reflects the opening of the economy since the early 1990s and increasing Finnish prosperity (in 2010, almost half of the investments in services were in finance and insurance. and more than a fifth in trade), than in industry and technology, which are more sensitive to cost pressures and commodification (which is reflected by Finnish OFDI and the intense competitive pressures of Nokia, the foundation of Finnish ICT, in these segments).[4]

Invest in Finland assists international companies in finding business opportunities in Finland and provides all the relevant information and guidance required to establish a business in Finland. It also provides sector-specific expert teams to assist investors in industry and technology, as well as in business services. More recent actors in investment promotion are *Business Oulu* in Northern Finland, which presents itself as a world research and development (R&D) hub for wireless services, offering innovative resources, competitive costs and a logistic hub, and the previously-mentioned Greater Helsinki Promotion, which seeks to enable dynamic international companies to achieve business success in Finland, especially in the Greater Helsinki region, as well as Russia and the Baltics. Just like Finnair (the national airline) promotes itself as the "fastest way from Europe to Asia", these agencies now hope to attract Chinese investments, with Finland serving as a springboard to Europe.

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[1] In 2009, the percentage of migrants as percentage of total population in the tiny and highly homogeneous Nordic countries ranged from 8% (Denmark) to 14% (Sweden). In Finland, it was much less, about 4%, only a little more than in relatively closed economies of Nepal and Iran (3% each). See United Nations, *World Population Policies 2009* (New York: United Nations, 2010).

[2] Prime Minister's Office, Finland, *Finnish Government Program*, June 22, 2011.

[3] Within these two categories, there are also other opportunities: The Finnish innovation system comprises sets of actors (e.g., Centers of Expertise, science parks and innovation centers) that are internationalizing their strategies. Finland's larger urban regions (not just Helsinki, but also Tampere, Turku, Oulu, and even Jyvaskyla) are increasingly seeking internationalization opportunities.

[4] See also the discussion above on shifts in sectoral distribution, under Country-level developments, and annex table 3.

In the summer of 2011, IFDI objectives were listed among national priorities in the current *Program of the Finnish Government:* "The Government will prepare a strategy for attracting foreign investments and capital to Finland. In this context, the role of Invest in Finland will be strengthened."[1] This strategy was coupled with the idea that Finland could "act as an international business center for Russia or between Russia and the rest of the European Union"; Moreover, as part of the national strategy for attracting foreign investments, the Government was committed to efforts to "attract investments in knowledge-intensive industries to Finland."[2]

Attempts to attract investments into knowledge-intensive industries have been increasing ever since the rise of Nokia and Finland's reputation for high-level science and technology (S&T) and R&D capabilities. On the other hand, Nokia's competitive challenges and increasing globalization have made attaining this objective more difficult since 2010.

Conclusions

During the past decade, there has been much debate on "globalization" in Finland. Nonetheless, the future prospects of the Finnish economy are intertwined with those of Europe. This is particularly the case with IFDI in Finland, which originates primarily from Scandinavian economies and secondarily from a handful of other European economies. At the same time, Finland has been one of the most competitive economies worldwide, despite a recent erosion in rankings. Usually, such economies attract FDI like magnets. That has not been the case in Finland – not least because of its small size, demanding climate conditions, and complex geopolitics. Until the end of the Cold War, Finland's restrictions on inward foreign investment were some of the strongest in the developed world. During the past three decades, Finland's inward FDI as percentage of GDP has soared from just 1% to 30%, although it remains well behind the country's OFDI and has been declining in the past few years.

In the past few years, the impact of the global crisis, intensifying competition and the innovation challenges faced by Nokia and the Finnish ICT industry in general have resulted in growing concern over the future prospects for IFDI in Finland. As a result, investment promotion efforts have been strengthened, IFDI is increasingly seen as an inherent part of the national innovation system and the Government seeks to embrace a policy of vigorous IFDI promotion. As yet, however, these initiatives are more aspirational and rhetorical than empirical and actual. Due to decades of export-led growth, the national focus remains disproportionately on exports, whereas IFDI attraction still plays a minor, if growing, role in public policies. However, as efforts to integrate these activities with the national innovation system indicate, IFDI remains a promising and relatively untapped opportunity for the Finns. The challenge is precisely to take advantage of this opportunity.

Additional readings

[1] Prime Minister's Office, Finland, *Program of the Finnish Government,* June 22, 2011, p. 65 http://www.vn.fi/hallitus/hallitusohjelma/pdf332889/en334743.pdf

[2] Prime Minister's Office, Finland, *Program of the Finnish Government,* June 22, 2011, p. 85 http://www.vn.fi/hallitus/hallitusohjelma/pdf332889/en334743.pdf In practice, the former goal – serving as a springboard for Russia – had attracted many MNEs to Finland after the collapse of the Soviet Union and until the late 1990s. Since then, the Russian investment climate has improved substantially and many MNEs are able and willing to establish operations in St Petersburg and Moscow; thus making it more difficult to promote Finland as a door to Russia.

Steinbock, Dan. *The Competitiveness of Finland's Large Urban Regions,* Finland's Ministry of Interior, 2007, available at : http://www.intermin.fi/intermin/biblio.nsf/20EF0D956C95D2CAC22572B2004A37AE/$file/steinbock_022007.pdf

Steinbock, Dan. "Finland´s inward FDI," *FDI Magazine/ Financial Times*, October 2005.

Useful websites

For statistical material about Finland, see Statistics Finland: available at: http://www.stat.fi/

For information about Finnish economy, foreign economic affairs and foreign trade, see especially:

- Finland's Ministry of Employment and Economy: http://www.tem.fi
- Bank of Finland: http://www.bof.fi/
- Ministry for Foreign Affairs of Finland: http:// www.formin.fi/english
- Ministry of Finance: http://www.vm.fi/vm/en/

On the key players in IFDI in Finland, see

- Invest in Finland: http://www.investinfinland.fi/
- Greater Helsinki Promotion: http:/www.helsinkibusinesshub.fi/

Statistical annex

Annex table 1. Finland: inward FDI stock, 2000-2010

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Finland	24.3	24.1	34.0	50.3	57.4	54.8	70.6	91.7	83.6	84.4	82.7
Memorandum: comparator economies											
Sweden	94	91.9	119.4	158.9	197.4	172.3	227.3	293.4	278.8	332	348.7
Norway	30.3	32.7	42.8	49.0	79.4	76.3	95.7	125.6	112.8	147.1	171.8
Denmark	73.6	75.5	82.8	100.2	116.7	116.4	133.8	162.5	153.7	152.5	139.2

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi.

Note: All figures are in US dollars at current prices and current exchange rates.

Annex table 2. Finland: inward FDI flows, 2000-2010

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Finland	8.8	3.7	8	3.3	2.8	4.8	7.7	12.5	-1.0	-4.5	4.3
Memorandum: comparator economies											
Sweden	23.4	10.9	12.3	5.0	12.1	11.9	28.9	27.7	36.8	10.3	5.3
Denmark	33.8	11.5	6.6	2.7	-10.4	12.9	2.7	11.8	2.2	3.0	-1.8
Norway	7.1	2.1	0.8	3.5	2.5	5.4	6.4	5.8	10.8	14.1	11.9

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi.

Note: All figures are in US dollars at current prices and current exchange rates.

Annex table 3. Finland: distribution of inward FDI stock by economic sector and industry, 2000 and 2010

(US$ million)

Sector/industry	2000	2010
Manufacturing	9,468	18,882
Metal and engineering	4,594	11,657
Chemical	1,611	3,982
Manufacturing other than metal and engineering and chemical	3,265	4,328
Services	13,294	60,007
Trade	2,933	13,291
Finance and insurance	7,676	26,847
Services other than trade, finance and insurance	2,686	19,868
Other	1,630	2,495
Household investments in real estate and dwellings	127	415
Total	24,520	82,942

Source: Bank of Finland, available at: www.bof.fi

Annex table 4. Finland: geographical distribution of inward of FDI stock, 2000, 2010
(US$ million)

Region / economy	2000	2010
World	24,520	82,942
Europe	23,233	80,466
Austria	153	594
Belgium	63	494
Czech Republic	--1.9	1
Denmark	1,653	4,551
Estonia	-14.1	157
France	124	2,116
Germany	631	7,157
Greece	0	-3
Hungary	--0.9	51
Iceland		
Ireland	99	315
Italy	22	575
Latvia	-16	-12
Lithuania	-6	-12
Luxembourg	108	2,943
Netherlands	4,808	12,667
Norway	707	947
Poland	189	-68
Portugal	--0.9	5
Russia	226	628
Spain	22	375
Sweden	12,422	41,623
Switzerland	674	486
United Kingdom	1,345	1,876
America	838	1,814
North America	851	764
Canada	25	66
United States	825	697
Central America		1,056
Mexico	-17.9	2
South America		-3
Brazil	-8	--16
Asia	257	630
China	-10	-5
Hong Kong (China)	-5	-20
Japan	273	273

Singapore	1	
Africa	35	-34
Oceania	31	64
Australia	31	64
Not classified	127	0

Source: Bank of Finland, available at: www.bof.fi

Annex table 5. Finland: principal foreign affiliates, ranked by net sales, 2011

Rank	Name	Industry	Net sales	Employees	Location
			US$ million	(Number)	
1	Tamro	Wholesale	5,922	5,455	Vantaa
2	Nordea Pankki Suomi	Finance and investment	4,907	10,038	Helsinki
3	Nordea Henkivakuutus	Insurance	3,741	157	Helsinki
4	Luvata	Metal	3,178	7,354	Espoo
5	ABB	Electronics	2,935	7,083	Helsinki
6	Teboil	Oil	2,704	481	Helsinki
7	RTF Auto	Car trade	2,381	3	Helsinki
8	Telia-Sonera Finland	Telecom services	2,295	4,385	Helsinki
9	Suomen Lähikauppa	Retail	1,553	3,980	Helsinki
10	Sampo Pankki	Finance and investment	1,295	3,026	Helsinki
11	Also Nordic Holding	Wholesale	1,231	725	Tampere
12	Norilsk Nickel Harjavalta	Metal	1,204	273	Espoo
13	Skanska	Construction	1,085	3,138	Helsinki
14	Sanitec	Construction	1,041	7,860	Helsinki
15	Vattenfall	Energy	1,029	443	Helsinki
16	Dynea	Chemicals & plastics	956	2,056	Helsinki
17	Lidl Suomi	Retail	830	2,524	Vantaa
18	Consolis	Construction materials	834	4,831	Vantaa
19	STX Finland	Metal	811	3,576	Helsinki
20	OMG Finland	Metal	806	1,003	Kokkola

Source: Talouselämä 500 Survey, 2011.

Annex table 6. Finland: main M&A deals, by inward investing firm, 2008-2010

Date	Acquiring company	Home economy	Target company	Target industry	Shares acquired (%)	Value of transaction (US$ million)
2010	Access Capital Partners Group	Belgium	PPEF	Investors	100.0	21.6
2010	Island Lux Sarl & Partners SCA	Luxembourg	Huhtamaki-Consumer Goods Op	Packing and crating	100.0	69.2
2010	AB Sagax	Sweden	NREP-Ppty,Helsinki(10)	Operators of nonresidential buildings	100.0	54.0
2010	Mediq NV	Netherlands	Oriola-KD Healthcare Oy	Medical, dental, and hospital equipment and supplies	100.0	107.3
2010	Ag Growth International Inc	Canada	Mepu Oy	Conveyors and conveying equipment	100.0	11.6
2010	OpenGate Capital	United States	Stora Enso Oyj-Kotka plant	Uncoated paper and multiwall bags	100.0	31.9
2010	Tanla Solutions Ltd	India	Tanla Oy	Prepackaged software	10.0	7.9
2010	Bondholders	Sweden	Elcoteq SE	Semiconductors and related devices	-	27.2
2010	EXFO Electro-Optical	Canada	NetHawk Oyj	Telephone communications, except radiotelephone	91.0	51.3
2010	Know IT AB	Sweden	Endero Oy	Computer facilities management services	100.0	12.8
2009	Ratos AB	Sweden	Inwido Finland Oy	Metal doors, sash, trim	25.0	12.8
2009	Vulcan Resources Ltd	Australia	Suomen Nikkeli Oy-Assets	Ferroalloy ores, except vanadium	100.0	7.1
2009	Rite Internet Ventures AB	Sweden	Verkkokauppa.com Oy	Catalog and mail-order houses	15.0	4.4
2009	Charles River Labs Intl Inc	United States	Cerebricon Ltd	Commercial physical and biological research	100.0	9.0
2009	AB Sagax	Sweden	Tibnor Oy-warehouse	Construction materials, nec	100.0	11.4
2009	Commerz Real AG	Germany	Swing Life Science Center	Operators of nonresidential buildings	100.0	168.4
2009	Nordnet AB	Sweden	eQ Pankki Oy	Banks	100.0	51.0
2009	Nordnet AB	Sweden	eQ Oyj	Security brokers, dealers, and flotation companies	100.0	50.6
2009	Bunge Ltd	United States	Raisio Oyj-Margarine Business	Edible fats and oils	100.0	109.1
2009	XCounter AB	Sweden	Oy AJAT Ltd	X-Ray apparatus and tubes and other irradiation equip.	49.8	6.1
2008	Sappi Ltd	South Africa	M-real Corp-Coated Graphic	Paper mills	100.0	1,081.78

2008	MASDAR	United Arab Emirates	WinWind Oy	Turbines and turbine generator sets	-	177.5
2008	Also Holding AG	Switzerland	GNT Finland Oy	Computers and peripheral equipment and software	49.9	73.7
2008	Rockwood Holdings-Titanium	Germany	Kemira Oyj-Titanium Dioxide	Chemicals and chemical preparations	100.0	393.3
2008	Protego Real Estate Investors	United Kingdom	Kauppakeskus Kamppi	Operators of nonresidential buildings	100.0	706.9
2008	Carlyle Group LLC	United States	Tapiola-Yhtiot-Properties(30)	Operators of nonresidential buildings	100.0	330.0
2008	GIC Real Estate Pte Ltd	Singapore	Iso Omena	Operators of nonresidential buildings	40.0	191.8
2008	Bank VTB	Russian Fed	Ruukki Group Oyj	Sawmills and planing mills	10.1	112.1
2008	Rohm & Haas Co	United States	OY Forcit AB-Polymer	Plastics materials and synthetic resins	100.0	88.7
2008	ING Vastgoed BV	Netherlands	Merikortelli Building	Operators of nonresidential buildings	100.0	103.9

Source: The author, based on Thomson ONE Banker, Thomson Reuters.

Annex table 7. Finland: main greenfield projects, by inward investing firm, 2008-2010

(US$ million)

Year	Investing company	Home economy	Sector	Business activity	Investment value
2010	Clas Ohlson	Sweden	Consumer products	Retail	53.7[a]
2010	Deutsche Bahn	Germany	Warehousing and storage	Logistics, distribution and transportation	40.7[a]
2010	Deutsche Bahn	Germany	Transportation	Logistics, distribution and transportation	87.5[a]
2010	Pan Village	Sweden	Hotels and tourism	Construction	58.2[a]
2010	M+W Group (M+W Zander)	Germany	Electronic components	Manufacturing	58.3[a]
2010	Bauhaus	Germany	Consumer products	Retail	53.7[a]
2010	Baltijas Aviacijas Sistemas (BAS) (Baltic Aviation Systems)	Latvia	Transportation	Logistics, distribution and transportation	87.5[a]
2010	airBaltic	Latvia	Aerospace	Logistics, distribution and transportation	270.9
2010	Hennes & Mauritz (H&M)	Sweden	Consumer products	Retail	53.7[a]
2010	Nord Stream AG	Switzerland	Coal, oil and natural gas	Logistics, distribution and transportation	599.6[a]
2009	LVMH Group	France	Consumer products	Retail	53.7[a]
2009	First Quantum Minerals	Canada	Metals	Extraction	400.0
2009	CapGemini	France	Software and IT services	ICT and internet infrastructure	85.3[a]
2009	Bigbank As	Estonia	Financial services	Business services	15.0[a]
2009	Heineken	Netherlands	Beverages	Manufacturing	34.4[a]
2009	Alcatel-Lucent	France	Communications	ICT and internet infrastructure	133.9[a]
2009	SMScredit Group	Latvia	Financial services	Business services	15.0[a]
2009	K2 Energy Solutions	United States	Electronic components	Manufacturing	44.0
2009	Google	United States	Software and IT services	ICT and internet infrastructure	86.5[a]
2009	EQT Partner	Sweden	Hotels and tourism	Construction	51.7[a]
2008	Sanmina-SCI	United States	Electronic components	Manufacturing	52.0[a]
2008	WPD	Germany	Alternative/renewable energy	Electricity	215.8[a]
2008	AB Sagax	Sweden	Real estate	Construction	35.3
2008	LVMH Group	France	Consumer products	Retail	51.9[a]
2008	Byggmax	Sweden	Consumer products	Retail	53.7[a]
2008	Axel Johnson AB	Sweden	Consumer products	Retail	51.9[a]
2008	Russian Railways (Russkiye Zheleznye Dorogi) (RZD)	Russia	Transportation	Logistics, distribution and transportation	1,254.2
2008	Yara International	Norway	Minerals	Manufacturing	81.7
2008	Enics	Switzerland	Electronic components	Manufacturing	52.0[a]

2008	Agnico-Eagle Mines	Canada	Metals	Extraction	225.6

Source: The author, based on fDi Intelligence, a service from the Financial Times Ltd.
[a] Estimated investment.

Chapter 7 - Germany

Germany: Inward FDI and its policy context, 2010

Thomas Jost[*]

With a stable economic and political system, open capital markets, the largest domestic market in Europe, and European Union (EU) membership, Germany has attracted competitive and export-oriented MNEs since the 1960s. In the 1990s —after German unification and the opening up of Eastern Europe— IFDI grew more slowly than expected despite the increased market potential. In recent years, the German economy strengthened and the wage and cost gap against its main competitors narrowed, contributing to higher IFDI. With the financial and economic crisis, German IFDI declined considerably in 2008 but started to rise again in 2009. At the end of 2008, Germany ranked among the top four developed countries as host for IFDI. Germany's open investment regime was tightened in 2009, in reaction to the emergence of SWFs.

Trends and developments

Country-level developments

The successful reintegration of Germany into the world economy after the Second World War, as well as the European unification process, stimulated IFDI in Germany. Already in the 1960s, many of the largest MNEs worldwide (like General Motors or IBM) had established affiliates in Germany. In 1990, the year of the German reunification, the consolidated primary and secondary IFDI stock amounted to US$ 111 billion.[1] Since then, it has risen six-fold, to reach US$ 666 billion at the end of 2008 (annex table 1). The primary IFDI stock at the end of 2008 amounted to US$ 911 billion, Germany therefore ranked on the 4th place among the G-5 countries listed in annex table 1. Foreign MNEs were attracted by the size of the German market (the largest market in Europe, producing 20% of the EU-27 GDP), the competitiveness of the German corporate sector with its efficient suppliers, high quality infrastructures, a skilled labor force, the country's strong trade ties and low financing costs on German capital markets.[2]

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[1] The German inward FDI stock figures that are used most for analysis in this article are consolidated primary and secondary direct investment stock figures. This is a very special calculation done by Deutsche Bundesbank, looking through dependent (majority foreign owned) holding companies in Germany and including their direct investment enterprises in Germany. These figures are not comparable with the figures of most other countries, taking only primary FDI into account. The primary FDI stock in Germany is much higher than the consolidated primary and secondary one, because FDI in the dependent holding companies is much higher than the FDI stock in their direct investment enterprises, which replace the dependent holding companies by the consolidation. The reason for this is that the holding companies receive more money from their foreign investors to buy the secondary foreign direct investment enterprises than these secondary FDI enterprises show in their balance sheets. FDI stocks are calculated by own funds at book value of the direct investment enterprises.

[2] Axel Jochem, "International financial competitiveness," Deutsche Bundesbank, *Discussion Paper Series 1: Economic Studies,* No. 29/2008 (Frankfurt: Deutsche Bundesbank, 2008), available at: www.bundesbank.de/download/volkswirtschaft/dkp/2008/200829dkp.pdf

At the end of 2008, the value of the German IFDI stock reached 50% of the value of the country's OFDI stock. From time to time, the gap between IFDI and OFDI has given rise to criticism about the quality of Germany as a business location.[1] In particular, high wages, a relatively inflexible and overregulated labor market and high marginal tax rates were seen as detrimental to investing in Germany.[2] In addition, low foreign investments in the Eastern part of Germany after reunification were criticized. The IFDI stock in East Germany amounted to US$ 22 billion at the end of 2008, only 5% of the total IFDI stock in Germany, whereas the East German GDP accounted for 12% of the total German GDP.[3] IFDI in East Germany has remained low since the mid 1990s.[4] It can be partially explained by the rapid adjustment of East German wages to the West German level after reunification, despite low labor productivity, as well as by the deindustrialization process that induced MNEs to supply the East German economy via their West German affiliates.

At the end of 2008, foreign companies employed 2.6 million workers in their affiliates in Germany. This employment was therefore much lower than employment of German MNEs in their affiliates abroad (5.9 million), reflecting the gap between OFDI and IFDI. However, foreign companies are very important for the German economy. In 2007, majority-owned foreign affiliates in the non-financial sectors produced 28% of the total value-added and employed 13% of the total workforce in these sectors.[5] The value-added of all foreign affiliates in Germany amounted to US$ 1.9 trillion in 2008.

Like in many other developed countries, IFDI flows in Germany evolved more irregularly than IFDI stocks and were influenced by single large transactions or tax changes (annex table 2). During the new technology boom at the turn of the century, the acquisition of Mannesmann by British Vodafone for US$ 202 billion led to a record IFDI flow of roughly US$ 200 billion in 2000.[6] In 2004, foreign MNEs withdrew US$ 10 billion on balance from Germany. This was mainly attributable to large net repayments of cross-border, intra-company loans by foreign affiliates, partly due to a revision of the German Corporation Tax Act, intended to encourage foreign companies to transform corporate loans to their foreign affiliates into equity capital.[7] In the second half of the past decade (2005-2009), IFDI flows increased to a relatively high annual average of US$ 60 billion in 2005-2007, and they only fell by 50% to an average of US$ 30 billion in 2008-2009, despite the economic and financial market crisis.

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[1] Thomas Jost, "Direct investment and Germany as a business location," *Discussion Paper 2/1997*, Economic Research Group of the Deutsche Bundesbank (Frankfurt: Deutsche Bundesbank, 1997).

[2] Maik Dietrich and Dirk Kiesewetter, "Schwedische Direktinvestitionen in Deutschland und in Österreich: Eine empirische Untersuchung der gefühlten Steuerbelastung", *Perspektiven der Wirtschaftspolitik*, Vol. 9 (2008), pp. 62-82.

[3] The regional FDI figures should be taken with care as they are classified to that Federal State where the legal place of the enterprise is and possibly not to that Federal State where production and economic activity takes place. In Deutsche Bundesbank's figures for East Germany East Berlin is not included.

[4] The stock statistics of the Deutsche Bundesbank classified by the 16 German Federal States ("Bundesländer") are not published but are available on request.

[5] These figures are the first results of the new FATS-statistics of the German Federal Statistics Office (Statistisches Bundesamt). The FATS-statistics include only majority-owned enterprises whereas FDI figures include all participating interests above a 10%-threshold. Some big enterprises in Germany with a large number of employees are minority-owned by foreign investors. See Jörg Feuerhake, Alexander Schulze and Kirsten Untz, "Inward FATS: Auslandskontrollierte Unternehmen in Deutschland 2007", *Wirtschaft und Statistik*, Statistisches Bundesamt 5/2010, available at: www.destatis.de. The Federal Statistics Office is responsible for the EU-wide "Foreign affiliates atatistics" (FATS) for foreign-controlled companies in Germany, whereas Deutsche Bundesbank is responsible for the statistics on foreign affiliates of German companies abroad.

[6] UNCTAD, *World Investment Report 2001: Promoting Linkages* (New York and Geneva: United Nations, 2001), p. 244. In the year 2000, the other investments and divestments of foreign companies in Germany (the Vodafone-Mannesmann deal excluded) were nearly in equilibrium.

[7] Deutsche Bundesbank, "German balance of payments for the year 2004," *Monthly Report* (March 2004), p. 39.

FDI in Germany is concentrated in the services sector, with a stable share of around 65% of the total IFDI stock during the past decade (annex table 3). Privatization and liberalization in the telecommunication sector as well as in the electricity, gas and water supply sectors drove up inward investment in the past decade (2000-2009). Manufacturing accounted for roughly one third of IFDI in Germany, whereby the mere nominal investment figures fail to show the real importance of foreign affiliates for the German economy in manufacturing. In order to compete successfully with domestic German companies, these firms are often highly competitive and world market leaders.[1]

Developed economies contributed more than 96% of the IFDI stock in Germany at the end of 2008 (annex table 4). The EU partner countries alone were responsible for more than three quarters of these investments. Geographic proximity, the single European market, strong trade ties, and a common currency among sixteen EU countries are the main factors explaining the dominance of the EU. The Netherlands and Luxembourg, both important locations for holding companies, were the two countries with the largest IFDI stock in Germany (US$ 152 billion and US$ 97 billion, respectively) in 2008. Other important investors in Germany were the United States (U.S.) (US$ 67 billion) and France (US$ 62 billion). Emerging markets' FDI in Germany plays only a marginal role. It is only in recent years that MNEs from these markets, from Russia and West Asian countries, have been able to increase their FDI in the country. Investments from SOEs and SWFs triggered policy reactions especially from the German Government (see below).

The corporate players

Early after World War II, many big MNEs (foremost from the U.S.) had begun to build production facilities and distribution and service centers in Germany. Foreign MNEs therefore contributed to the rebuilding and reintegration of Germany into the world economy by transferring capital and technology. In 2008, there were 12,659 foreign direct investment enterprises in Germany with participating interests of foreign investors of 10% or more.[2] Foreign-controlled companies in Germany that belong to the top 125 companies of the non-financial sector in Germany are listed in annex table 5. In the financial sector, more than 200 foreign banks and other financial institutions operate in Germany.[3]

In recent years, foreign MNEs have continued to enhance their presence in Germany by undertaking cross-border M&As (annex table 6). In 2007 and 2008, a large number of mega-deals, valued US$1 billion and more, were concluded in many industries and were the main driver of IFDI. In 2009, due to the economic and financial crisis, the number of mega-deals sharply declined, like in most other developed countries. Indeed, there were only two. The most eye-catching transaction was the investment of Qatar Investment Authority in Volkswagen AG for US$ 9.6 billion, raising its capital stake to 17%.[4] The largest greenfield investments that were announced in the past three years are listed in annex table 7. Most investors are well-known MNEs from developed countries. In recent years MNEs from Russia and the United Arab Emirates have been emerging as important investors in Germany. Profiting from high

[1] According to a study of Eurostat, six German regions are amongst the top 20 high-tech regions in the EU. Eurostat, "Regional employment in high-tech sectors," *Statistics in Focus*, 102/2007.

[2] Deutsche Bundesbank, "Bestandserhebung über Direktinvestitionen," *Statistische Sonderveröffentlichung 10* (April 20100, available at: www.bundesbank.de.

[3] In Spring 2010, the Association of Foreign Banks in Germany had more than 210 member institutions. Verband der Auslandsbanken e.V., "Pressemitteilung 1/2010," March 23, 2010, available at: http://213.83.8.9/owcms/frontend/downloads/Presse/2010/Pressemeldung%201-2010_end.pdf

[4] Volkswagen AG, "Geschäftsbericht 2009", available at: http://geschaeftsbericht2009.volkswagenag.com/anhang/sonstigeerlaeuterungen/mitteilungennachwertpapierhandelsgesetz.html

incomes from the export of oil and other natural resources Russian and Arabian SOEs and SWFs increased their investments in Germany. Several large greenfield investments of Russia's energy giant Gazprom motivated by a strategy to expand its downstream activities to supply gas to final consumers drove Russia's FDI stock in Germany from US$ 1 billion in 2005 to US$ 6.3 billion at the end of 2008.

Effects of the current global crisis

In reaction to the global economic and financial crisis, IFDI flows to Germany sharply declined in 2008, by 68%, from US$ 77 billion to US$ 25 billion. Net equity capital investments halved to US$ 23 billion, reinvested earnings turned negative and net lending of foreign MNEs to their affiliates in Germany heavily declined to a mere US$ 1.5 billion, which could point to increased financial needs of parent companies abroad. In contrast to most other developed economies (and comparable economies listed in annex table 2), IFDI in Germany already started to rise again in 2009, despite the sharp recession of the German economy (with a 5% decline of real GDP).[1] Germany profited from a general improvement of the business climate, starting in the second quarter of 2009.

Despite the strong decline in output in 2009, Germany has weathered the financial and economic crisis better than many other countries and is regarded as a new "engine" in Europe.[2] Some survey results point in the same direction. UNCTAD's World Investment Prospects Survey 2009-11 ranks Germany among the most attractive business locations among developed countries.[3] The Global Competitiveness Report (GCR) of the World Economic Forum ranks Germany on 7th place worldwide as a preferred investment destination.[4] Recent studies of the American Chamber of Commerce and the Boston Consulting Group, as well as of Ernst&Young, underline the increased attractiveness of Germany as a business location.[5]

The policy scene

Already in the 1950s, Germany had a very open investment regime and no barriers against IFDI. Like in several other developed countries, the rise of SWFs in recent years initiated a public debate in Germany that led to a tightening of the German investment law.[6] In April 2009, Germany's Government amended the German Foreign Trade and Payments Act and its implementing regulations. According to the new law, the Federal Ministry of Economics and Technology can review a planned acquisition of an existing German company by non-EU or non-European Free Trade Area purchasers and suspend or prohibit a transaction if it threatens national security or public order.

Only in very limited cases of a potential threat of national security or public order the Federal Ministry can initiate a review process. The procedure must also be in accordance with the requirements of the European Union treaties. In an explanatory memorandum on the new law,[7] the Government refers to the

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[1] Deutsche Bundesbank, "German balance of payments in 2009," *Monthly Report*, March 2010, pp. 17-31.
[2] The Economist, "Germany – Europe's engine," March 11, 2010.
[3] UNCTAD, "World Investment Prospects Survey 2009-2011" (New York and Geneva: United Nations, 2009), p. 55 f.
[4] World Economic Forum, *Global Competitiveness Report* 2009-2010 (Geneva: WEF, 2009).
[5] American Chamber of Commerce and Boston Consulting Group, op. cit., and Ernst&Young, "Waking up to the new economy: Ernst&Youngs 2010 European attractiveness survey", available at: www.ey.com/GL/en/Issues/Business-environment/2010-European-attractiveness-survey.
[6] Thomas Jost, "Sovereign wealth funds: size, economic effects and policy reactions," *Weidener Diskussionspapiere No. 13*, January 2009, available at: www.haw-w.de/fileadmin/user_upload/Aktuelles/Veroeffentlichungen/wen_diskussionspapier13.pdf.
[7] Federal Ministry of Economics and Technology, "Explanatory memorandum," available at: www.bmwi.de.

European Community Treaty (EC Treaty, articles 46 and 58(1), now articles 52 and 65 of the "Treaty on the Functioning of the European Union" that is part of the Lisbon Treaty) and to the case law of the European Court of Justice.[1] A screening of foreign investments in Germany is applicable to investors from outside the EU and the European Free Trade Association who seek to acquire 25% or more voting rights of a German company.[2] It is not limited to specific sectors or size of the target company. The new law does not explicitly distinguish between private and public foreign investors, but it was clearly motivated by the emergence of SWFs as important international investors.

According to the Federal Ministry of Economics and Technology, as of May 2010, 34 foreign companies had applied for a certificate of non-objection since the new law entered into force in April 2009. All companies received the certificate within on average two weeks. From April 2009 to May 2010, there was not a single review process initiated by the Government. Despite the rather positive experiences with the new law so far, this more restrictive investment law could send a wrong signal to potential foreign investors and was therefore heavily criticized by the German Council of Economic Advisors and the German Industry Federation.[3]

Notwithstanding the change in the investment law, the German Government has repeatedly emphasized that it welcomes foreign investors.[4] The Government has taken several measures to attract IFDI. Germany has concluded a large number of double taxation treaties (DTTs). As of May 2010, DTTs are in effect with 108 countries.[5] In January 2009, "Germany Trade and Invest", the foreign trade and inward investment agency of the Federal Republic of Germany, was formed after the merger of the "German Office for Foreign Trade" and "Invest in Germany". Its mission is to promote Germany as a location for industrial and technological investments and to identify investors for the German market. The organization advises foreign companies looking to expand their business activities on the German market and provides comprehensive and client-oriented economic and industry data as well as information about calls for proposals in foreign countries, investment and development projects and legal and customs regulations. The promotion of economic activity in Germany's new federal states, including Berlin, also forms an integral part of the agency's external trade and business location marketing remit. Last but not least, the German corporate sector (e.g., the Federation of German Industries) favors an open investment climate.[6]

Conclusions and Outlook

With the renewed uncertainty in the wake of the debt crisis in several EU countries, it is too early to forecast the medium-term investment behavior of MNEs in general and in Germany in particular. But

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[1] Thomas Jost, "Sovereign wealth funds and the German policy reaction," in Karl P. Sauvant, Lisa Sachs and Wouter P.F. Schmit Jongbloed eds, (2012), *Sovereign Investment: Concerns and Policy Reactions* (New York, Oxford University Press).
[2] An investment by a European Union resident company of which a Community-non-resident holds at least 25% of the voting rights can also be reviewed.
[3] Sachverständigenrat, "Jahresgutachten 2007/08: Das Erreichte nicht verspielen," (Wiesbaden: 2007); Bundesverband der Deutschen Industrie, "BDI kritisiert geplante Änderungen im Außenwirtschaftsgesetz," *Pressemitteilung* 81, August 4, 2008, available at: www.bdi.eu.
[4] Federal Ministry of Economics and Technology, "Investitionsfreiheit und Prüfung ausländischer Investitionen: kein Widerspruch," *Schlaglichter der Wirtschaftspolitik*, Monatsbericht März 2008, pp. 7-10, available at: www.bmwi.de.
[5] The most recent official list of German DDTs is published by the Bundesministerium der Finanzen, "Stand der Doppelbesteuerungsabkommen und der Doppelbesteuerungsverhandlungen am 1. Januar 2010," available at: www.bundes-finanzministerium.de/nn_318/DE/BMF__Startseite/Aktuelles/BMF__Schreiben/Internationales__Steuerrecht/009.html.
[6] Bundesverband der Deutschen Industrie, op.cit.

the German economy has made some strong progress to improve business conditions in the past few years and, in combination with a sound economic growth, this could pave the way for new IFDI.

Additional readings

Deutsche Bundesbank, "German foreign direct investment (FDI) relationships: recent trends and macroeconomic effects," *Deutsche Bundesbank, Monthly Report* (September 2006), pp. 43-58, available at: www.bundesbank.de/download/volkswirtschaft/mba/2006/200609mba_en_foreign.pdf.

Deutsche Bundesbank, "German balance of payments in 2009," *Deutsche Bundesbank, Monthly Report* (March 2010), pp. 17-32, available at: www.bundesbank.de/download/volkswirtschaft/mba/2010/201003mba_en_german.pdf.

Jörg Feuerhake, Alexander Schulze and Kirsten Untz, "Inward FATS: Auslandskontrollierte Unternehmen in Deutschland 2007", *Wirtschaft und Statistik*, Statistisches Bundesamt, 5/2010, available at: www.destatis.de.

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Useful websites

Deutsche Bundesbank, "Special statistical publication 10: foreign direct investment stock statistics," available at:

www.bundesbank.de/download/statistik/stat_soner/statso10_en.pdf.
www.bundesbank.de/statistik/statistik_zeitreihen.en.php

Statistical annex

Annex table 1. Germany: inward FDI stock, 1990-2008 (US$ billion)

Economy	1990	1995	2000	2005	2007	2008
Germany: consolidated primary and secondary inward FDI stock	111	166	272	476	696	666[b]
Germany: primary inward FDI stock[a]	120	193	471	640	952	911[b]
Memorandum: comparator economies						
United States	395	536	1,257	1,634	2,110	2,279
United Kingdom	204	200	439	841	1,264	983
France	98	191	260	628	950	991
Japan	10	34	50	101	133	203

Sources: For Germany, Deutsche Bundesbank, "Special statistical publication 10: foreign direct investment stock statistics," available at: www.bundesbank.de/download/statistik/stat_sonder/statso10_en.pdf (data converted from Euro in US-Dollar using end of year exchange rates from the International Monetary Fund, available at: http://www.imf.org/external/np/fin/data/param_rms_mth.aspx). For comparator economies, UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

[a] For international comparisons the German primary inward FDI stock should be used (see the explanation in footnote 1 of the text).

[b] The decline of the inward FDI stock in 2008 is only due to the depreciation of the Euro against the US-Dollar. Measured in Euro the inward FDI stock increased slightly.

Annex table 2. Germany: inward FDI flows, 2000-2009 (US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Germany	199	26	54	33	-10	47	56	77	25	37
Memorandum: comparator economies										
United States	314	160	75	53	136	105	237	271	328	136
United Kingdom	119	53	24	17	56	176	156	183	92	47
France	43	51	49	43	33	85	78	158	98	64
Japan	8	6	9	6	8	3	-7	23	25	12

Sources: For Germany, Deutsche Bundesbank, "Zahlungsbilanzstatistik, Statistisches Beiheft 3," March 2010, available at: www.bundesbank.de/volkswirtschaft/zahlungsbilanzstatistik/2010/zahlungsbilanzstatistik032010.pdf. For comparator economies, UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/; US Department of Commerce, Bureau of Economic Analysis, "Balance of Payments Statistics," available at: www.bea.gov/international/xls/table1.xls; Office for National Statistics, "Statistical Bulletin, Balance of payments, 4th quarter of 2009," available at: www.statistics.gov.uk/pdfdir/bop0310.pdf; Banque de France, "Bulletin de la Banque de France No. 178, 4éme trimester 2009," available at: www.banque-france.fr/fr/publications/telechar/
bulletin/cahier-statistiques-03-2010.pdf; JETRO (Japan External Trade Organization), "Japanese Trade and Investment Statistics," www.jetro.go.jp/en/reports/statistics/data/bpfdi02_e_1004.xls. Data converted from national currencies in US-Dollar using annual average exchange rates from the International Monetary Fund, available at: http://www.imf.org/external/np/fin/data/param_rms_mth.aspx)

Annex table 3. Germany: distribution of inward FDI stock by economic sector and industry,[a] 2000, 2008 (US$ billion)

Sector/industry	2000	2008
All sectors/industries	271.6	666.1
Primary	1.4	5.3
Agriculture, hunting, forestry, and fishing	0.2	0.3
Mining, quarrying and petroleum	1.2	5.0
Secondary	86.4	231.6
Food, beverages and tobacco	5.1	20.9
Chemicals and chemical products	18.4	54.8
Rubber and plastic products	4.0	8.4
Other non-metallic mineral products	3.3	9.5
Basic metals	3.4	11.6
Fabricated metal products, except machinery and equipment	3.2	7.5
Machinery and equipment	8.9	26.7
Electrical machinery and apparatus	4.6	8.2
Radio, television and communication equipment	8.3	20.2
Medical, precision and optical instruments	3.3	14.3
Motor vehicles, trailers and semi-trailers	11.3	18.6
Services	183.8	429.2
Electricity, gas, and water supply	2.3	13.8
Trade, repair of motor vehicles, motorcycles and personal and household goods	35.7	74.6
Transport and communication	6.5	60.3
Finance and insurance	41.9	101.5
of which: Monetary Intermediation	14.2	54.3
Other monetary intermediation	22.2	18.0
Insurance and pension funding (except compulsory social security)	5.1	29.2
Real estate, renting and business activities	93.6	169.0
of which: Holding companies	75.2	101.2

Source: Deutsche Bundesbank, "Bestandserhebung über Direktinvestitionen," *Statistische Sonderveröffentlichung*, April 10, 2010, available at: www.bundesbank.de.

[a] Primary and secondary (i.e., through dependent domestic holding companies) foreign direct investment in Germany (consolidated), by economic activity of the investment enterprise in Germany. Data converted from Euro in US-Dollar using end of year exchange rates from the International Monetary Fund (available at: http://www.imf.org/external/np/fin/data/param_rms_mth.aspx).

Annex table 4. Germany: geographical distribution of inward FDI stock, [a] 2000, 2008

(US$ billion)

Region/economy	2000	2008
World	271.6	666.1
Developed economies	264.8	643.0
Europe	.	557.2
Austria	6.8	23.0
Belgium	6.0	9.6
Denmark	3.7	5.7
Finland	1.9	7.1
France	26.9	61.9
Norway	1.6	2.9
Ireland	0.9	4.2
Italy	3.9	47.3
Luxembourg	41.8	97.3
Netherlands	57.0	151.8
Spain	1.7	10.7
Sweden	7.7	19.9
Switzerland	21.6	43.1
United Kingdom	18.2	57.9
Memorandum item:		
European Union	*176.7*	*500.2*
European Monetary Union	*146.9*	*416.1*
North America	41.5	71.0
Canada	2.3	3.8
United States	39.2	67.2
Other developed economies	.	
Australia	0.1	1.3
Japan	9.5	19.5
Developing economies	7.1	23.1
Africa	0.9	1.8
South-Africa	0.8	1.7
Asia and Oceania	4.5	10.7
China	.	0.8
India	0.1	0.4
Iran	0.7	1.8
Korea, Rep. of	1.7	5.1
Latin America and the Carribean	1.7	4.6
Bermuda	0.4	1.7
Brazil	0.1	0.3
South-East Europe and CIS	.	
Russia	0.7	6.0

Source: Deutsche Bundesbank, "Bestandserhebung über Direktinvestitionen," *Statistische Sonderveröffentlichung*, April 10, 2010, available at: www.bundesbank.de.

[a] Primary and secondary (i.e, through dependent domestic holding companies) foreign direct investment in Germany (consolidated). Data converted from Euro in US-Dollar using end of year exchange rates from the International Monetary Fund (available at: http://www.imf.org/external/np/fin/data/param_rms_mth.aspx).

Annex table 5. Germany: Main non-financial foreign affiliates, ranked by foreign assets, 2008
(US$ million)

Rank	Name	Industry	Value added (US$ million)	Employees
1	Shell Deutschland	Mineral oil	44,906	4,300
2	Deutsche BP AG	Mineral oil	43,892	5,800
3	Ford Werke GmbH	Automobiles	28,944	29,800
4	Adam Opel GmbH	Automobiles	21,597	20,300
5	Vattenfall Europe AG	Energy	19,800	21,200
6	Total Deutschland	Mineral oil	18,020	4,000
7	Exxon Mobil	Mineral oil	17,800	3,400
8	Vodafone D2	Telecommunications	13,843	15,000
9	OMV Deutschland	Mineral oil	9,293	610
10	C&A	Warehouses	9,266	34,000
11	Airbus Deutschland GmbH	Aeroplanes	8,589	22,000
12	Hewlett-Packard Deutschland	Computer and electronics	7,376	8,600
13	Kion Group	Material handling	6,698	21,000
14	Sanofi-Aventis	Pharmaceutics	5,883	10,000
15	Procter & Gamble	Consumer goods	5,516	15,000
16	Telefonica O2	Telecommunications	5,286	4,700
17	Nestlé	Food	5,274	12,400

Sources: *Frankfurter Allgemeine Zeitung*, "Deutschlands größte Unternehmen in Zahlen," July 8, 2009, available at: FAZ.net, and companies' websites.

Annex table 6. Germany: main M & A deals, by inward investing firm, 2007-2009 (US$ million)

Year	Acquiring company	Investor economy	Target company	Target industry	Shares owned after transaction (%)	Transaction value (US$ million)
2009	Qatar Investment Authority	Qatar	Volkswagen AG	Motor vehicles	17.0	9,569.5
2009	Verbund	Austria	E On AG Hydro	Electrity	100.0	1,931.6
2009	IPIC	Unitad Arab Emirates	MAN Ferrostahl AG	Machinery and equipment	70.0	951.4
2009	Electrabel SA-Coal &Electricity	Belgium	E On AG Farge und Zolling	Electricity	100.0	686.1
2009	Investor Group	Czech Republic	Mibrag	Coal mining and energy	100.0	513.9
2009	Thermo Fisher Scientific Inc	United States	Brahms AG	Medical and biotechnology	100.0	470.6
2009	Honeywell International Inc	United States	RMG Regel- und Messtechnik GmbH	Electrical machinery and apparatus	100.0	400.0
2008	Banque Federative du Credit Mutuel	France	Citibank Privatkunden AG&Co KGaA	Banking	100.0	6,617.5
2008	Whitehall Street Fund	United States	LEG Landesentwicklungs-gesellschaft NRW GmbH	Real estate	100.0	5,255.0
2008	CVC Capital Partners Ltd	Luxembourg	Evonik Industries AG	Electricity	25.0	3,705.4
2008	Cie de Saint Gobain SA	France	Maxit Holding GmbH	Building materials	100.0	3,270.8
2008	Xella International SPV	France	Xella International GmbH	Building materials	100.0	3,183.7
2008	Eaton Corp	United States	Moeller Holding GmbH & Co KG	Electrical machinery	100.0	2,220.0
2008	Unicredito Italiano SpA	Italy	Bayerische Hypo- und Vereinsbank	Finance	100.0	1,891.5
2008	HRE Investment Holdings LP	Cayman Islands	Hypo Real Estate Holding AG	Finance	24.9	1,796.4
2007	Mylan Laboratories Inc	United States	Merck KGaA-Generic Drugs	Pharmaceuticals	100.0	6,627.9
2007	Nycomed A/S	Denmark	Altana AG-pharmaceutical business	Pharmaceuticals	100.0	5,753.2
2007	UCB SA	Belgium	Schwarz Pharma AG	Biological products	87.6	4,772.7
2007	Lavena Holding 4 GmbH	United States	ProSiebenSat.1 Media AG	Media	50.5	4,100.0
2007	Red & Black Lux Sarl	Italy	Hugo Boss AG	Clothing	88.0	2,842.8
2007	Sapardis SA	France	Puma AG	Sports wear	62.1	2,500.9
2007	Investor Group	United Kingdom	Aurealis Real Estate GmbH	Real estate	100.0	2,231.3

Source: Thomson ONE Banker, Thomson Reuters.

Annex table 7. Germany: main announced greenfield projects, by inward investing firm, 2007-2009 (US$ million)

Year	Company name	Source economy	Investment	Industry	Business activity
2009	ConocoPhillips	United States	2,500.0	Coal, oil and natural gas	Manufacturing
2009	Texas Instruments	United States	1,039.0[a]	Semiconductors	Manufacturing
2009	Gazprom	Russia	986.1	Coal, oil and natural gas	Logistics, distribution and transportation
2009	Nord Stream AG	Switzerland	599.6[a]	Coal, oil and natural gas	Logistics, distribution and transportation
2009	Multi Development	Netherlands	599.6	Real estate	Construction
2009	Green Wind Energy	Denmark	568.7[a]	Alternative/renewable energy	Electricity
2009	GDF SUEZ	France	526.2[a]	Coal, oil and natural gas	Extraction
2008	Vattenfall	Sweden	1557.0	Coal, oil and natural gas	Manufacturing
2008	Blackstone Group	United States	1544.0	Alternative/renewable energy	Electricity
2008	Bulberry Properties	Ireland	1240.0	Real estate	Construction
2008	Econcern	Netherlands	1078.0	Alternative/renewable energy	Electricity
2008	Advanced Technology Investment Company	United Arab Emirates	1,039.0[a]	Semiconductors	Manufacturing
2008	Minera S.A.	United States	993.5	Metals	Extraction
2008	Intico solar	Austria	954.5	Electronic components	Manufacturing
2007	Suez	France	1,463.0	Coal, oil and natural gas	Electricity
2007	ING Group	Netherlands	1,262.9	Real estate	Construction
2007	Sirenza Microdevices	United States	1,039.2[a]	Semiconductors	Manufacturing
2007	Morgan Stanley	United States	872.7	Real Estate	Construction
2007	Gazprom	Russia	616.5	Coal, oil and natural gas	Logistics, distribution and transportation
2007	Gazprom	Russia	542.7	Coal, oil and natural gas	Electricity
2007	Abengoa	Spain	525.0	Alternative/renewable energy	Manufacturing

Source: fDi Intelligence, a service from the Financial Times Ltd.

[a] Estimated.

Germany: Inward FDI and its policy context, 2011

Thomas Jost[*]

During the 2009 worldwide financial and economic crisis, Germany kept its position as the fourth largest host economy for inward foreign direct investment (IFDI) among developed countries, although its IFDI stock measured in Euros decreased slightly due to valuation effects. IFDI flows strongly rose that year and further increased in 2010, reflecting the improved financial position of multinational enterprises (MNEs) operating in Germany and the strong economic upswing of the German economy at that time. In the first half of 2011, IFDI flows were low, as foreign parent companies sharply cut intra-company lending to their German affiliates. Economic reforms in recent years have further improved the attractiveness of Germany as a business location, reflected in excellent international competitiveness rankings. But, the ongoing European debt crisis and the economic slowdown of the European economy could dampen IFDI in the second half of 2011 and in 2012.

Trends and developments

Country-level developments

In the crisis year 2009, when the German economy – like those of most other developed economies - fell into the deepest recession since World War II, the consolidated primary and secondary IFDI stock in Germany measured in Euros slightly declined due to valuation effects.[1] Measured in US dollars, however, it rose slightly (by 1%), to US$ 677 billion (annex table 1), as the Euro appreciated against the US-dollar during 2009. The primary IFDI stock – a better measure for international comparisons - amounted to US$ 937 billion at the end of 2009; it also declined in Euro terms but rose slightly in US dollar terms. Germany therefore kept its position as the fourth largest host country for IFDI among developed economies, after the United States, the United Kingdom and France.

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[1] End-of-year German IFDI stock data are published with a time lag of 16 months; 2010 data are therefore not yet available. The German IFDI stock figures used for the analysis in this *Profile* are consolidated primary and secondary direct investment stock figures. Primary direct investment constitutes the direct capital links arising from non-residents' participating interests in enterprises in Germany. Secondary direct investment comprises foreign direct investment held via dependent holding companies in Germany. Consolidated primary and secondary direct investment is calculated by deducting the direct investment in holding companies from the total primary and secondary investment to avoid double counting of capital that is invested in holding companies and is used by them to finance their participating interests. (See Deutsche Bundesbank, "Foreign direct investment stock statistics," *Special Statistical Publication 10* (April 2011), p. 20f). These consolidated figures represent a special calculation by Deutsche Bundesbank and are not comparable with the IFDI stock figures of most other economies as these take only primary FDI into account. The primary IFDI stock in Germany is much higher than consolidated primary and secondary stock, because the FDI stock in the dependent holding companies is higher than the investments made by these holding companies in their direct investment enterprises, which replace the dependent holding companies by the consolidation. The reason for this is that the holding companies receive more money from their foreign investors to buy the secondary foreign direct investment enterprises than these secondary FDI enterprises show in their balance sheets. FDI stocks are calculated from the book values of the direct investment enterprises in Germany.

At the end of 2009, foreign companies employed 2.5 million workers in 13,232 German affiliates producing a turnover of US$ 1,665 billion that year.[1] In 2009, during the economic recession in Germany, employment in foreign affiliates declined by 4.7% and turnover by 11.3%.

Affiliates of foreign companies are an integral part of the German economy, contributing to employment growth, technological spillovers and enhanced competition. Although they represented only 1% of the total number of firms in Germany, majority-owned foreign affiliates in the non-financial industries accounted for 20% of total gross value-added, 27% of the total turnover and 12% of the total workforce employed in these sectors in 2008.[2] US- companies were the major foreign investors, controlling 16% of all foreign affiliates, earning 22% of the value-added and employing 630,000 workers in the non-financial industries.[3]

IFDI flows that had grown relatively strongly in 2009 continued to increase in 2010, to US$ 46 billion (annex table 2). They were driven by high long-term intra-company loans of foreign parent companies to their affiliates in Germany (US$ 28.6 billion). Equity capital investments (US$ 10.6 billion) and reinvested earnings (US$ 7.0 billion) also contributed to the rise in IFDI flows.

The upswing in IFDI flows stopped in the first half of 2011 – in fact flows fell to US$ 6.6 billion, declining by more than 70% against the first half of 2010, although the German economy performed remarkably well in the first half of 2011. Financial pressures on foreign MNEs could have caused the decline in inflows; a sharp decline of intra-company lending to their German affiliates (of only US$ 2.8 billion) and net equity divestments (of US$ 1.1 billion) suggest this. In contrast, reinvested earnings of foreign affiliates in Germany doubled, compared to the first half of 2010 (to US$ 4.9 billion).

FDI in Germany is concentrated in the services sector, which accounted for 66% of the total IFDI stock at the end of 2009 (annex table 3). During that year, the IFDI stock declined by 5% in manufacturing, whereas it rose by 11% in trade and 12% in financial services (including holding companies).[4]

In 2010, FDI flows into manufacturing were strong (38% of total inflows). Large-scale intra-company loans drove flows in the chemical industry (US$ 7.2 billion) and the motor vehicles and trailers industry (US$ 4.8 billion).[5]

Developed economies accounted for the lion's share of IFDI stock in Germany at the end of 2009, whereas the share of FDI from developing economies remained seemingly low (annex table 4). But, to the extent that investors from developing countries are channeling their investments via holding

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[1] Deutsche Bundesbank, *op. cit.*, p. 48.

[2] These figures are drawn from the "Foreign affiliates statistics" (FATS-statistics) of the German Federal Statistics Office (Statistisches Bundesamt) available for the year 2008. The FATS-statistics include only majority-owned enterprises, whereas FDI figures include all participating interests above a 10% threshold. See, Statistisches Bundesamt, "Auslandskontrollierte Unternehmen in Deutschland (inward-FATS-Unternehmen) 2008," available at: http://www.destatis.de/jetspeed/portal/cms/Sites/destatis/Internet/DE/Content/Statistiken/UnternehmenGewerbeInsolvenzen/Auslandsunternehmen/Aktuell.psml.

[3] Statistisches Bundesamt, *op. cit.*

[4] Deutsche Bundesbank, "Bestandserhebung über Direktinvestitionen," *Statistische Sonderveröffentlichung 10*, (April 2010), p. 55f.

[5] Deutsche Bundesbank, "Direct investment according to the balance of payments statistics (for the reporting period 2007-2010)," April 2011, available at: http://www.bundesbank.de/download/statistik/stat_direktinvestitionen_en.pdf, pp. 54f.

companies in developed economies, the "real" share of developing economies' FDI in Germany is higher than the rather low 4% share that is recorded in the German IFDI stock statistics.[1]

In 2010, the bulk of IFDI flows to Germany originated in developed economies. The European Union (EU) countries accounted for nearly 60% of those investments, with the largest investments being made by companies located in Belgium (US$ 12.1 billion), the Netherlands (US$ 6.1 billion) and Italy (US$ 4.2 billion).[2]

In recent years, there has been a debate about investments by sovereign wealth funds (SWFs) and a change of the investment policy regime in Germany (see section on "The policy scene" below). FDI by SWFs is not shown separately in the German IFDI stock statistics, but IFDI flows from economies that host SWFs (e.g. China, Iran, Russia, United Arab Emirates) have raised noticeably in the past decade – from less than US$ 2 billion in 2000 to US$ 8.5 billion at the end of 2009. At the end of 2009, Qatar acquired a large stake for US$ 9.6 billion in the German Volkswagen AG, raising its share in the world's third largest car producer to 17%. This investment was routed via its SWF, the Qatar Investment Authority, and holding companies in the Netherlands and Luxembourg, and therefore cannot be identified as an investment by Qatar in Germany in the German FDI stock statistics.[3]

The corporate players

Foreign affiliates that rank among the top 130 companies in the non-financial sector in Germany are listed in annex table 5. The largest five foreign companies in Germany in 2010 – ranked by their turnover – were two oil companies, two automobile producers and one energy producer. These five MNEs ranked top five also in 2008.[4] Deutsche BP AG ranked first in 2010 changing its place with Shell Deutschland compared to 2008. In the financial sector, more than 200 foreign banks and other financial institutions operate in Germany.[5]

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[1] There are no official and trustworthy data available on the extent to which developing economies MNEs channel there investments in Germany via holding companies in developed countries. In the financial press there are examples of such transactions, see the investment of Qatar in Volkswagen AG mentioned below. Information about the ultimate foreign owner is limited. Deutsche Bundesbank, which is responsible for the recording of the FDI stock statistics in Germany, only gets information about the immediate foreign investor. The data on foreign affiliates in Germany, on the other hand, is broader as the statistics can differentiate between primary and secondary participating interests. See the methodological notes in Deutsche Bundesbank, "Foreign direct investment stock statistics," *Special Statistical Publication 10*, op. cit., pp. 18ff.

[2] Like the stock data (of annex table 1), the German balance-of-payments flow data (annex table 2) only show the direct investor economy of German IFDI. As part of inward FDI is routed via holding companies and special purpose entities abroad (trans-shipped), the ultimate investor economy can differ. This is particularly true for a large part of FDI inflows from the Netherlands and Belgium, countries that are important locations for holding companies and special purpose entities (SPEs).

[3] Volkswagen AG, *Geschäftsbericht 2010*, p. 160, available at: geschaeftsbericht2010.volkswagenag.com, and Volkswagen AG, „Sonstige Erläuterungen zum Geschäftsbericht," available at: http://geschaeftsbericht2010.volkswagenag.com/anhang/sonstigeerlaeuterungen/mitteilungennachwertpapierhandelsgesetz.html?cat=m.

[4] See Thomas Jost, "Inward FDI in Germany and its policy context" in *Inward and Outward FDI Country Profiles,* Karl P. Sauvant et. al., eds. (New York: 2011), available at: http://www.vcc.columbia.edu/books.

[5] During the Spring of 2011, the Association of Foreign Banks in Germany had more than 210 member institutions. See, Verband der Auslandsbanken e.V., "Pressemitteilung: Auslandsbanken stehen zu deutschem Finanzplatz," March 23, 2011, available at: www.vab.de/Deutsch/Presse_Details/?id=Auslandsbanken_stehen_zum_Finanzplatz_Deutschland.

In developed economies, mergers and acquisitions (M&As) dominate as a mode of entry compared to greenfield investments,[1] and this is the case with Germany as well. In 2010, foreign MNEs continued to enhance their presence in Germany by undertaking cross-border M&As (annex table 6).[2] M&A activity was strong that year, but there were fewer large deals than in the pre-crisis period, before 2008.[3] In 2010, seven M&A transactions of US$ 1 billion or more were made. The biggest deal was the acquisition of Unitymedia GmbH by Liberty Media Corp. (United States) for US$ 5.2 billion.

The largest greenfield investments that were announced in the past three years are listed in annex table 7. In 2010, Scandinavian and US companies were very active in large-scale greenfield investments in Germany, especially in manufacturing and energy.

Special developments

The German economy is a favorite business location for United States' MNEs. In a recent survey by the American Chamber of Commerce (Amcham), US companies stated that Germany is especially important as a location for innovation.[4] In the first eight months of 2011, US investors acquired 84 German companies, in many cases motivated by the innovative power of their target. Particularly in the machinery, electronics, car manufacturing, and chemical industries, German companies are among world market leaders. For instance, General Electric is currently expanding its operations in Germany with the aim to sell more on the German market than in the United Kingdom, the most important market for General Electric in Europe in past years.[5]

The policy scene

In 2009, the German investment regime that was very investor friendly for decades was tightened in reaction to the emergence of SWFs of international investors.[6] According to the new law, the Federal Ministry of Economics and Technology (FMET) can review foreign investments and can suspend or prohibit transactions that threaten to impair national security or public order. The new law applies to a planned acquisition of an existing German company by non-EU or non-European Free Trade Area (EFTA) purchasers and does not explicitly discriminate between private or public foreign investors. It does not include measures against greenfield investments of foreign investors in Germany. The change of the German investment law was criticized by many economists and political commentators, whereas the Government argued that it only has a pre-emptive character and will not be used to discriminate against SWFs.[7] According to the Federal Ministry of Economics and Technology, as of September 2011,

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[1] UNCTAD, *World Investment Report 2011: Non-Equity Modes of International Production and Development* (New York and Geneva: United Nations, 2011), p. 10.

[2] The M&A data used in annex table 6 (similar to M&A data from other sources) are not compatible with the official Bundesbank FDI data. The M&A data, for example, include deals financed by both domestic and international capital markets in addition to those financed by parent companies – and only the latter are captured in the balance-of-payments FDI flow data).

[3] Deutsche Bundesbank, "The German balance of payments in 2010," *Monthly Report,* March 2011, p. 32.

[4] American Chamber of Commerce and Boston Consulting Group, "Germany remains the most important investment location for US companies – but a sustained upswing is at risk," Press release, May 2010, available at: www.amcham.de.

[5] *Frankfurter Allgemeine Zeitung*, "Die Amerikaner lieben deutsche Ingenieure," September 14, 2011, p. 16.

[6] Thomas Jost, "Sovereign wealth funds and the German policy reaction," in Karl P. Sauvant, Lisa Sachs and Wouter P.F. Jongbloed, eds., *Sovereign Investment: Concerns and Policy Reactions* (New York: Oxford University Press, forthcoming 2012).

[7] Ibid.

foreign companies had applied in 87 cases for a certificate of no-objection since the new law entered into force in April 2009. All companies received the certificate, on average, within two weeks. From April 2009 to September 2011, there was only one review process initiated by the Government. In this case, the potential foreign investor refrained from its investment for unknown reasons.[1]

Notwithstanding the tightening of the investment regime to prevent investments that could threat national security, the German Government welcomes inward FDI.[2] The economic reforms of the past ten years have improved Germany's attractiveness as a business location. The World Economic Forum's (WEF) *Global Competitiveness Report 2011-2012* ranks Germany 6th in the world on its Global Competitiveness Index rankings. The quality of its infrastructure (2nd rank), low dominance by large companies (3rd), high spending on R&D (5th), and a strong capacity for innovation (3rd) are among its major strengths.[3]

Germany has concluded a large number of double taxation treaties (DTTs). Since January 1, 2011, and in addition to the 89 previously signed DTTs in the area of income and wealth taxation, new DTTs are in effect with Bulgaria, FYR of Macedonia, Malaysia, Syria, and the United Kingdom, bringing the total number of DTTs to 94 in October 2011.[4] With a total number of 139 signed bilateral investment treaties (BITs) in mid October 2011 (of which 130 were in effect) Germany has the widest network of BITs worldwide. In 2010, two new BITs (with Iraq and Congo, Republic of.) were concluded, and in the first nine months of 2011 one BIT (with Panama) was changed.[5]

Germany has adopted a national sustainability strategy in 2002.[6] The German Government offers a wide range of investment incentives in different sectors to promote sustainable investments (e.g. in the renewable energy, R&D and agriculture sectors). These incentives are available for domestic and foreign investors without any discrimination between them. Foreign investors profit from these incentives.[7] Many large greenfield investments, for example, were made by foreign investors in the alternative energy sector (see annex table 7).

Conclusions

During the past few years, Germany has become more attractive for foreign investors as the country has improved its international competitiveness through economic reforms, as well as experienced relatively

[1] Information provided by the German Federal Ministry of Economics and Technology.
[2] Germany Trade & Invest, *Annual Report 2010*, p. 6 ff., available at: www.gtai.de.
[3] World Economic Forum, *Global Competitiveness Report 2011-2012*, p. 24, available at: www.weforum.org.
[4] The most recent official list of German DTTs in effect or currently being negotiated is published by the Bundesministerium der Finanzen, "Stand der Doppelbesteuerungsabkommen und der Doppelbesteuerungs-verhandlungen am 1. January 2011," available at: http://www.bundesfinanzministerium.de/nn_39818/DE/BMF__Startseite/Aktuelles/BMF__Schreiben/Internationales__Steuerrecht/007.html. This list gives also additional information on DTTs in other tax areas as well as about current negotiations on future DTTs.
[5] A list of existing BITs is available on the website of the Federal Ministry of Economics and Technology: http://www.bmwi.de/BMWi/Redaktion/PDF/B/bilaterale-investitionsfoerderungs-und-schutzvertraege-IFV,property=pdf,bereich=bmwi,sprache=de,rwb=true.pdf.
[6] Die Bundesregierung, "Perpektiven für Deutschland – Unsere Strategie für eine nachhaltige Entwicklung", Berlin 2002, available at: http://www.bundesregierung.de/Webs/Breg/EN/Issues/Sustainability/sustainability.html.
[7] German Trade and Invest, the German investment promotion agency, is giving guidance for foreign investors and informs about a wide array of funds available for investments in Germany.

moderate wage and cost growth compared with its main competitors in Europe. The German economy has made a strong recovery from the crisis of 2008-2009 and developed into a growth engine within Europe in 2010. The fourth largest market worldwide and the largest in Europe should attract rising IFDI in coming years. However, the longer-run positive outlook is overcast by the continuing European debt crisis, the renewed problems of European banks and the prospect of an economic downturn. Increased uncertainties curb international investment plans of MNEs, and could lower IFDI flows to Germany in 2011 and 2012.

Additional readings

Deutsche Bundesbank, "German foreign direct investment (FDI) relationships: recent trends and macroeconomic effects," Deutsche Bundesbank, *Monthly Report* (September 2006), pp. 43-58, available at: http://www.bundesbank.de/download/volkswirtschaft/mba/2006/200609mba_en_foreign.pdf.

Jochem, Axel, "International financial competitiveness and incentives to foreign direct investment," Deutsche Bundesbank, *Discussion Paper Series 1: Economic Studies*, 29 (2008), available at: www.bundesbank.de.

Schmidt, Peter, Bernd Waldmüller, Joerg Feuerhake, and Beatrix Stejskal-Passler, "Die künftige Statistik über ausländisch beherrschte Unternehmen in Deutschland (Inward FATS) und Tochterunternehmen deutscher Investoren im Ausland (Outward FATS)," *ASTA Wirtschafts- und Sozialstatistisches Archiv*, vol. 3 (2009), pp. 169-186.

Weichenrieder, Alfons J., "Profit shifting in the EU: evidence from Germany," *International Tax and Public Finance*, vol. 16 (2009), pp. 281-297.

Useful websites

Germany Trade and Invest at: www.gtai.de

Deutsche Bundesbank at: www.bundesbank.de/statistik/statistik_zeitreihen.en.php

Statistical annex

Annex table 1. Germany: inward FDI stock, 1990-2009

(US$ billion)

Economy	1990	1995	2000	2005	2008	2009
Germany: consolidated primary and secondary inward FDI stock	111	166	272	476	668	677
Germany: primary inward FDI stock[a]	120	193	471	640	915	937
Memorandum: comparator economies						
United States	540	1,006	2,783	2,818	2,486	3,027
United Kingdom	204	200	439	841	981	1,056
France	98	191	391	889	921	1,133
Japan	10	34	50	101	203	200

Sources: For Germany, Deutsche Bundesbank, "Bestandserhebung über Direktinvestitionen," *Statistische Sonderveröffentlichung 10* (April 2010). Data converted from Euro in US-Dollar using end of year exchange rates from the International Monetary Fund, available at: http://www.imf.org/external/np/fin/data/param_rms_mth.aspx). For comparator economies, see UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

[a] For international comparisons the German primary inward FDI stock should be used . Primary direct investment constitutes the direct capital links arising from non-residents' participating interests in enterprises in Germany. Secondary direct investment comprises foreign direct investment held via dependent holding companies in Germany. Consolidated primary and secondary direct investment is calculated by deducting the direct investments in holding companies from the total primary and secondary investments to avoid double counting of the capital which is invested in holding companies and is used by them to finance their participating interests. (See Deutsche Bundesbank, "Foreign direct investment stock statistics," *Special Statistical Publication 10* (April 2011), p. 20f.). The consolidated primary and secondary inward FDI figures represent a special calculation by Deutsche Bundesbank that is not comparable with the IFDI stock figures of most other economies as these take only primary FDI into account.

Annex table 2. Germany: inward FDI flows, 2003-2011

(US$ billion)

Economy	2003	2004	2005	2006	2007	2008	2009	2010	2010 1st half	2011 1st half
Germany	33	-10	47	56	80	4	38	46	22.1	6.6
Memorandum: comparator economies										
United States	53	136	105	237	216	306	153	228	n.a.	n.a.
United Kingdom	17	56	176	156	196	91	71	46	n.a.	n.a.
France	42	33	85	72	96	64	34	34	n.a.	n.a.
Japan	6	8	3	-7	23	24	12	-1	n.a.	n.a.

Sources: For Germany, Deutsche Bundesbank, "Zahlungsbilanzstatistik," *Statistisches Beiheft*, 3, (August 2011), available at: www.bundesbank.de/volkswirtschaft/zahlungsbilanzstatistik/2010/zahlungsbilanzstatistik032010.pdf. The annual and semiannual flow data in Euro were converted into US$ values by using annual and semiannual average US$/Euro exchange rates of the IMF (International Monetary Fund, Exchange Rate Archives by Month, available at: www.imf.org/external/np/fin/data/param_rms_mth.aspx). For comparator countries, see UNCTAD's FDI/TNC database, available at: http://unctadstat.unctad.org.

Annex table 3. Germany: distribution of inward FDI stock by economic sector and industry, [a] 2000, 2009

(US$ billion)

Sector/industry	2000	2009
All sectors/industries	271.6	676.6
Primary	1.4	6.6
Agriculture, hunting, forestry, and fishing	0.2	0.3
Mining, quarrying and petroleum	1.2	6.3
Secondary	86.4	224.4
Food, beverages and tobacco	5.1	9.7
Chemicals and chemical products	18.4	49.6
Rubber and plastic products	4.0	9.2
Other non-metallic mineral products	3.3	10.2
Basic metals	3.4	8.4
Fabricated metal products, except machinery and equipment	3.2	8.6
Machinery and equipment	8.9	31.1
Electrical machinery and apparatus	4.6	8.9
Radio, television and communication equipment	8.3	9.7
Medical, precision and optical instruments	3.3	15.7
Motor vehicles, trailers and semi-trailers	11.3	15.6
Services	183.8	445.6
Electricity, gas, and water supply	2.3	18.7
Trade, repair of motor vehicles, motorcycles		
and personal and household goods	35.7	88.2
Transport and communication	6.5	57.5
Finance and insurance	41.9	95.4
of which: Monetary Intermediation	14.2	60.8
Other monetary intermediation	22.2	13.7
Insurance and pension funding (except		
compulsory social security)	5.1	18.0
Real estate, renting and business activities	93.6	175.2
of which: Holding companies	75.2	94.2

Source: Deutsche Bundesbank, "Bestandserhebung über Direktinvestitionen," *Statistische Sonderveröffentlichung*, April 10, 2011, available at: www.bundesbank.de.

[a] Primary and secondary (i.e., through dependent domestic holding companies) FDI stock in Germany (consolidated), by economic activity of the investment enterprise in Germany. Data converted from Euro to US$ using end- of- year exchange rates from the International Monetary Fund (available at: http://www.imf.org/external/np/fin/data/param_rms_mth.aspx).

Annex table 4. Germany: geographical distribution of inward FDI stock,[a] 2000, 2009

(US$ billion)

Region/economy	2000	2009
World	271.6	676.6
Developed economies	264.8	653.2
Europe	n.a.	578.7
Austria	6.8	24.9
Belgium	6.0	9.5
Denmark	3.7	6.9
Finland	1.9	6.6
France	26.9	57.6
Norway	1.6	3.5
Ireland	0.9	4.6
Italy	3.9	52.4
Luxembourg	41.8	101.3
Netherlands	57.0	159.3
Spain	1.7	14.4
Sweden	7.7	21.3
Switzerland	21.6	45.7
United Kingdom	18.2	57.6
Memorandum item:		
European Union	176.7	520.6
European Monetary Union	146.9	433.9
North America	41.5	56.0
Canada	2.3	4.0
United States	39.2	52.0
Other developed economies	n.a.	n.a.
Australia	0.1	2.0
Japan	9.5	20.5
Developing economies	7.1	23.5
Africa	0.9	2.0
South-Africa	0.8	1.9
Asia and Oceania	4.5	15.0
China	.	0.9
India	0.1	0.4
Iran	0.7	2.2
Korea, Rep. of	1.7	6.2
United Arab Emirates	n.a.	1.3
Latin America and the Caribbean	1.7	4.5
Bermuda	0.4	1.9
Brazil	0.1	0.1
South-East Europe and CIS	n.a.	n.a.
Russia	0.7	3.9

Source: Deutsche Bundesbank, "Bestandserhebung über Direktinvestitionen," *Statistische Sonderveröffentlichung*, April 10, 2011, available at: www.bundesbank.de.

[a] Primary and secondary (i.e, through dependent domestic holding companies) FDI in Germany (consolidated). Data converted from Euro to US dollars using end-of-year exchange rates from the International Monetary Fund (available at: http://www.imf.org/external/np/fin/data/param_rms_mth.aspx).

Annex table 5. Germany: main non-financial foreign affiliates, ranked by turnover, 2010

Rank	Name	Industry	Turnover (US$ billion)	Employees
1	Deutsche BP AG	Mineral oil	53.0	9,700
2	Shell Deutschland	Mineral oil	31.7	4,200
3	Ford Werke GmbH	Automobiles	23.7 [a]	28,800
4	Vattenfall Europa AG	Energy	17.2	20,600
5	Adam Opel GmbH	Automobiles	14.6	23,300
6	Total Deutschland	Mineral oil	14.6	3,200
7	Vodafone D2	Telecommunications	12.3	12,000
8	Exxon Mobil Central Europe	Mineral oil	10.6	3,200
9	Gasprom Germania GmbH	Energy	10.6	500
10	C&A	Warehouses	8.7	36,000
11	Airbus Deutschland GmbH	Aeroplanes	8.8 [a]	17,100
12	OMV Deutschland	Mineral oil	7.3	600
13	Telefonica O2	Telecommunications	6.4	5,000
14	Sanofi-Aventis	Pharmaceutics	6.2	8,700
15	Hewlett-Packard Deutschland	Computer and electronics	5.6	8,500
16	IBM Deutschland	Computer and electronics	5.2	6,200
17	Nestlé	Food	4.6	12,700

Sources: *Frankfurter Allgemeine Zeitung*, “Deutschlands größte Unternehmen in Zahlen,” July 6, 2011, available at: FAZ.net, and companies’ websites. The data in Euro were converted into US$ values by using annual average Dollar/Euro exchange rates of the IMF (International Monetary Fund, Exchange Rate Archives by Month, available at: www.imf.org/external/np/fin/data/param_rms_mth.aspx).

[a] 2009.

Annex table 6. Germany: main M&A deals, by inward investing firm, 2008-2010

Year	Acquiring company	Home economy	Target company	Target industry	Shares owned after transaction (%)	Estimated/ annonounced transaction value (US$ million)
2010	Liberty Media Corp.	United States	Unitymedia GmbH	Television services	100.0	5,195.2
2010	Teva Pharmaceutical Industries	Israel	Ratiopharm Int. GmbH	Pharmaceuticals	100.0	4,931.3
2010	Investor Group	United Kingdom	Springer Science & Business	Publishing and printing	100.0	3,362.6
2010	TenneT Holding BV	Netherlands	Transpower Stromübertragungs GmbH	Electric services	100.0	1,648.9
2010	TenneTHolding BV	Netherlands	E.On AG-High Voltage Network	Electric services	100.0	1,490.3
2010	Telefonica	Spain	HanseNet Telekommunikation	Communications	100.0	1,338.7
2010	Investor Group	Belgium	50Hertz Transmission GmbH	Electric services	100.0	1,115.7
2010	NPS	Korea (Rep. of)	Morgan Stanley RE-Sony Center	Real estate	100.0	766.7
2009	Qatar Investment Authority	Qatar	Volkswagen AG	Motor vehicles	17.0	9,569.5
2009	Verbund AG	Austria	E.On AG-Hydro Power Plants	Electric services	100.0	1,931.6
2009	IPIC	United Arab Emirates	MAN Ferrostahl AG	Construction	70.0	951.4
2009	Electrabel SA-Coal & Electric	Belgium	E.ON AG-Farge and Zolling	Electric services	100.0	686.1
2009	Investor Group	Czech Republic	Mibrag	Mining	100.0	513.9
2009	Thermo Fisher Scientific Inc	United States	Brahms AG	Medical diagnostic	100.0	470.6
2009	Ingenico SA	France	Easycash Beteiligungen GmbH	Information services	100.0	425.3
2009	Honeywell Int. Inc	United States	RMG Regel- und Messtechnik GmbH	Machinery and equipment	100.0	400.0
2008	BFCM SA	France	Citibank Privatkunden AG	Banking	100.0	6,617.5
2008	Whitehall Streetfund	United States	LEG	Real estate	100.0	5,255.0
2008	CVC Capital Parners Ltd	United Kingdom	Evonik Industries AG	Electric services	25.0	3,705.4
2008	Cie de Saint-Gobain SA	France	Maxit Holding GmbH	Clay refractories	100.0	3,270.8
2008	Xella Int. GmbH SPV	France	Xella International GmbH	Concrete block and	100.0	3,183.7

				brick		
2008	Eaton Corp	United States	Moeller Holding GmbH& Co KG	Measuring and controlling devices	100.0	2,220.0
2008	Unicredito Italiano SpA	Italy	Bayerische Hypo- und Vereinsbank	Banking	4.5	1,891.5
2008	HRE Investment Holdings LP	Cayman Islands	Hypo Real Estate Holding	Banking	24.9	1,796.4

Source: The author, based on Thomson ONE Banker, Thomson Reuters.

Annex table 7. Germany: main announced greenfield projects, by inward investing firm, 2008-2010

Year	Investing company	Home economy	Industry	Business activity	Estimated/ announced investment value (US$ million)
2010	Global Foundries	United States	Semiconductors	Manufacturing	2,000.0[a]
2010	Vattenfall	Sweden	Alternative/renewable energy	Electricity	1,390.0[a]
2010	Statcraft	Norway	Alternative/renewable energy	Electricity	676.1
2010	Vattenfall	Sweden	Alternative/renewable energy	Electricity	560.1
2010	Amazon.com	United States	Consumer products	Logistics, distribution and transportation	446.2
2010	McDonalds	United States	Food and tobaccao	Retail	295.6
2010	Daikin Industries	Japan	Real estate	Construction	239.4
2010	Dubai World	United Arab Emirates	Real estate	Construction	235.1
2009	Texas Instruments	United States	Semiconductors	Manufacturing	1,039.0[a]
2009	Gazprom	Russia	Coal, oil and natural gas	Logistics, distribution and transportation	986.1
2009	Nord Stream AG	Switzerland	Coal, oil and natural gas	Logistics, distribution and transportation	599.6[a]
2009	Multi Development	Netherlands	Real estate	Construction	599.6
2009	Green Wind Energy	Denmark	Alternative/renewable energy	Electricity	568.7[a]
2009	GDF SUEZ	France	Coal, oil and natural gas	Extraction	526.2[a]
2009	Electricite de France (EDF)	France	Alternative/renewable energy	Electricity	456.3[a]
2009	Aero Simulators EU	Belgium	Industrial machinery, equipment and tools	Design, development and testing	447.9
2008	Vattenfall	Sweden	Coal, oil and natural gas	Manufacturing	1557.0
2008	Blackstone Group	United States	Alternative/renewable energy	Electricity	1544.0
2008	Bulberry Properties	Ireland	Real estate	Construction	1240.1
2008	Econcern	Netherlands	Alternative/renewable energy	Electricity	1078.0
2008	Advanced Technology Investment Company	United Arab Emirates	Semiconductors	Manufacturing	1,039.0[a]
2008	Minera S.A.	United States	Metals	Extraction	993.5

2008	Intico solar	Austria	Electronic components	Manufacturing	954.5
2008	ESKE Group AIS	Denmark	Real estate	Construction	915.5

Source: The author, based on fDi Intelligence, a service from the Financial Times Ltd. [a] Estimated.

Germany: Inward FDI and its policy context, 2012

Thomas Jost[*]

In 2011 and the first half of 2012, inward FDI (IFDI) flows to Germany continued to be relatively strong. Germany attracte market-seeking MNEs, as its economy showed remarkable economic growth despite the ongoing problems in many other countries of the Eurozone. In the second half of 2012, IFDI flows turned sharply negative, declining for the year as a whole to only US$ 7 billion, compared with US$ 49 billion in 2011. This decline reflects the difficult financial situation of many companies, including banks in the Eurozone, and could also dampen inflows in 2013. In the longer-term, Germany could profit again from rising FDI as its economy has successfully implemented reforms over the past decade, and the German Government has continued to keep its investment policy regime open.

Trends and developments

Country-level developments

In 2010, the consolidated primary and secondary IFDI stock in Germany, measured in Euros, increased by more than 7%, to € 523 billion at the end of the year. Measured in U.S. dollars, however, it slightly declined, by 1% to US$ 694 billion, due to the depreciation of the Euro against the U.S. dollar in 2010 (annex table 1).[1] The primary IFDI stock – a better measure for international comparisons – amounted at the end of 2010 to US$ 929 billion, which was lower than the IFDI stock in 2010 of three of the comparator countries (United States, United Kingdom, France) listed in annex table 1, but higher than that in Japan.[2] At the end of 2010, the value of the German primary IFDI stock reached 70% of the value of the country's OFDI stock.

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[1] End-of-year German IFDI stock data are published with a time lag of 16 months; 2011 and 2012 data are therefore not yet available. The German IFDI stock figures used for the analysis in this *Profile* are consolidated primary and secondary direct investment stock figures. Primary direct investment constitutes FDI held through direct capital links arising from non-residents' participating interests in enterprises in Germany. Secondary direct investment comprises FDI held via dependent holding companies in Germany. Consolidated primary and secondary direct investment is calculated by deducting the direct investment in holding companies from the total primary and secondary investment to avoid double counting the capital which is invested in holding companies and is used by them to finance their participating interests. (See, Deutsche Bundesbank, "Foreign direct investment stock statistics," *Special Statistical Publication 10* (April 2012), p. 20f). These consolidated figures represent a special calculation by Deutsche Bundesbank and are not comparable with the IFDI stock figures of most other economies, as the latter take only primary FDI into account.

[2] In Germany, "own funds at book value" (OFBV) are the basis for the valuation of FDI stocks, i.e., data are taken from the direct investment enterprises' balance sheets. In other countries, valuation is often based on market values, although only a part of the direct investment enterprise is listed on a stock exchange. For all non-listed direct investment enterprises, estimates are used (see, e.g., the valuation method of Banque de France, available at: http://www.banque-france.fr/en/economics-statistics/banking-and-financial-activity/frances-balance-of-ayments/foreign-direct-investment.html). In general (estimated) market values are higher than those based on OFBV.

Foreign companies employed 2.6 million workers across 14,094 foreign affiliates in Germany, producing a turnover of US$ 1,674 billion.[1] Employment in foreign affiliates in Germany was therefore much lower than employment in German MNEs' affiliates abroad (6.0 million), reflecting the gap between OFDI and IFDI stock and the different industry structures of the two, outward FDI being more labor-intensive than inward FDI.

Affiliates of foreign companies are an integral and prospering part of the German economy. Although they represented only 1% of the total number of firms in Germany, majority-owned foreign affiliates in the non-financial industries accounted for 20% of total gross value-added, 21% of the total turnover and 10% of the total workforce employed in those industries in 2010.[2] Most of the largest MNEs worldwide operate in Germany, profiting from the largest market in Europe and its central location in the continent.

IFDI flows to Germany continued to be strong in 2011 (US$ 49 billion) (annex table 2), but in the first half of 2012 flows amounted to US$ 11 billion only, according to Deutsche Bundesbank data. In 2011, they were driven by high intra-company loans of foreign MNEs to their affiliates in Germany (US$ 25.5 billion). Net equity investments (US$ 7 billion) and reinvested earnings (US$ 8 billion) also contributed to IFDI flows into Germany. In the second half of 2012, IFDI turned negative, causing a substantial decline of IFDI flows for the year as a whole, to only US$ 7 billion. This decline in IFDI flows reflects the strong downturn of FDI flows to the European Union in 2012,[3] and cannot be interpreted as a sign of weakness of the German economy.[4]

FDI in Germany is concentrated in the services sector, which accounted for 66% of the country's total IFDI stock at the end of 2010 (annex table 3), although the secondary sector – with a total inward FDI stock of US$ 233 billion – is relatively large in comparison with that of most other developed countries. Germany has retained a strong industrial base during the past several decades of the globalization process. Foreign MNEs are well positioned in the competitive and high-tech sectors of the automobile, chemical and machinery/equipment industries, profiting from the quality of Germany as a business location with a good infrastructure, a well-educated and trained workforce, engineering and design excellence, and clusters of production and supply networks with many small and medium-sized German firms. In 2010, the IFDI stock in manufacturing grew by 12% in Euro terms against the previous year, when it declined slightly in the aftermath of the 2008-2009 worldwide economic and financial crises.

Developed economies accounted for the largest share of the total IFDI stock in Germany at the end of 2010 (annex table 4). But the actual share of developing economies' FDI in Germany is higher than the rather low 4% share that is recorded in the German IFDI stock statistics, because developing countries'

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[1] Only German enterprises with a balance sheet total of more than € 3 million, or non-residents' branch offices or permanent establishments in Germany with operating assets in excess of € 3 million are required to report to the Bundesbank. Therefore, data for very small foreign affiliates in Germany are not included in these figures. The details of the reporting requirements for the stock and operational statistics can be found in Deutsche Bundesbank, "Foreign direct investment stock statistics," op. cit.

[2] These figures are drawn from the "Foreign affiliates statistics" (FATS-statistics) of the German Federal Statistics Office (Statistisches Bundesamt) available for the year 2010. See Statistisches Bundesamt, "Foreign-controlled enterprises in Germany (Inward FATS) 2010," available at: https://www.destatis.de/EN/FactsFigures/NationalEconomyEnvironment/EnterprisesCrafts/ForeignAffiliates/Current.html;jsessionid=D92E9ED7FB0E79A427D2E018A7925746.cae4.

[3] UNCTAD, *Global Investment Trends Monitor*, No. 11, January 23, 2013.

[4] Deutsche Bundesbank, "Die deutsche Zahlungsbilanz für das Jahr 2012," *Monatsbericht März 2013*, pp. 25f.

MNEs channel part of their investments via holding companies in developed economies; their FDI in Germany includes, for example, investments via holding companies and special purpose entities in the Benelux countries (Belgium, the Netherlands and Luxembourg).[1] Nevertheless, MNEs from EU partner countries and the United States continue to have the dominant position as foreign investors in the German corporate and banking sectors, driven by strong trade ties, and – in the case of EU firms – the single European market that has made it much easier to expand business activities across borders within the EU.

The corporate players

Foreign affiliates that rank among the top 500 companies in the non-financial sector in Germany in 2011 are listed in annex table 5. Among the largest five foreign companies in Germany in 2011 – ranked by their turnover – were two oil companies, BP Europa and Shell Deutschland Oil. Most MNEs strongly increased their turnover in 2011. In the financial sector, 210 foreign banks and other financial institutions operate in Germany.[2]

Foreign MNEs continued to enhance their presence in Germany by undertaking cross-border M&As (annex table 6). Since the global financial and economic crises in 2008-2009, M&A activity has been weaker, and fewer mega-deals of US$ 1 billion or more took place. In 2011, there were six such mega-deals in a variety of industries, with U.S. investors dominating.

The policy scene

In 2009, the German Government tightened its foreign investment law ("German Foreign Trade and Payments Act") in reaction to the emergence of Sovereign investors so that it now can review foreign investments and suspend or prohibit transactions that threaten to impair national security or public order.[3] Despite this new regulation, Germany has remained an open economy for IFDI due to the careful handling of the new law. In the first three years that the new law was in effect, no foreign acquisition of a German company was suspended or prohibited. Investment of state-controlled entities from countries like Russia, China and the Arabian Peninsula increased.[4] The German Federal Ministry of Economics and Technology has repeatedly emphasized that investment from China contributes to Germany's economic growth and employment. The number of investment projects by Chinese companies has risen considerably, mainly in small and medium-sized companies.[5]

The economic reforms of the past decade have improved Germany's attractiveness as a business location. The World Economic Forum's (WEF) *Global Competitiveness Report 2012-2013* ranks Germany sixth in the world on its Global Competitiveness Index rankings. The quality of its business sophistication and innovation are among its major strengths.[6] According to a survey of 840 international

[1] There are no official and trustworthy data available on the extent to which developing economies' MNEs channel their investments in Germany via holding companies in developed countries.
[2] Information from the Association of Foreign Banks in Germany, available at: www.vab.de/English/Members.
[3] Thomas Jost, "Sovereign wealth funds and the German policy reaction," in Karl P. Sauvant, Lisa Sachs and Wouter P.F. Jongbloed, eds., *Sovereign Investment: Concerns and Policy Reactions* (New York: Oxford University Press, 2012).
[4] Thomas Jost, "Much ado about nothing? State controlled entities and the change in German foreign investment law," *Columbia FDI Perspectives*, No. 71, June 2012.
[5] BMWI, "Schlaglichter der Wirtschaftspolitik," Monatsbericht September 2012, p. 14.
[6] World Economic Forum, *Global Competitiveness Report 2012-2013*, available at: www.weforum.org.

decision makers in 2012, Germany ranks sixth in the world and first in Europe as a business location. The high quality of its R&D, the stable legal environment and the high skills of its labor force were mentioned as Germany's major competitive strengths. In addition, the managers were highly satisfied with the economic policy of the German Government in recent years.[1] On the other hand, it is important that the reform momentum does not run out. Foreign investors expect, for example, that Germany will undertake stronger efforts to tackle a future skills shortage and rising energy prices due to the change in the German energy policy.[2]

Germany has concluded a large number of double taxation treaties (DTTs) in the area of income and wealth taxation. Since January 1, 2012, new DTTs have come into effect with Albania, Hungary and Cyprus, bringing the total number of DTTs to 92.[3] With a total number of 139 signed bilateral investment treaties (BITs) (of which 131 are in effect) Germany has the widest network of BITs worldwide. No new BITs were signed in 2011 and 2012.[4]

Conclusion

The uncertainty in connection with the ongoing European sovereign debt crisis and the fall of the Eurozone into recession at the end of 2012 makes it very difficult to forecast medium-term investment behavior of MNEs in general and in Germany in particular. Germany has undertaken many efforts to improve its position as a business location in the past, but it is now more affected by the economic and financial problems that confront many countries in the Eurozone. These regional problems could limit IFDI flows to Germany in 2013 as they did in the second half of 2012.

Additional readings

Dreßler, Daniel, "The impact of corporate taxes on investment: an explanatory empirical analysis for interested practitioners," *ZEW discussion paper,* No 12-040 (June 2012), Center for European Economic Research, Mannheim.

Arndt, Christian, and Julia Spies, "Nationality matters: the geographic origin of multinationals and the productivity of their foreign affiliates," *IAW Discussion Paper,* No. 79, 2012, Universität Tübingen.

Useful websites

[1] Ernst & Young, "Fels in der Brandung? Standort Deutschland 2012," available at: http://www.ey.com/Publication/vwLUAssets/Standort_Deutschland_Studie_2012/$FILE/Studie-Standort%20Deutschland%202012.pdf.

[2] American Chamber of Commerce and Roland Berger Strategy Consultants, "Wirtschaftsstandort Deutschland 2013: Wie US-Investoren Situation und Perspektiven einschätzen," *AmCham Business Barometer*, available at: http://www.rolandberger.com/media/pdf/Roland_Berger_AmCham_Business_Barometer_20130313.pdf.

[3] The most recent official list of German DTTs in effect or currently being negotiated is published by the Bundesministerium der Finanzen, "Stand der Doppelbesteuerungsabkommen und der Doppelbesteuerungs-verhandlungen am 1. Januar 2012," available at: http://www.bundesfinanzministerium.de/Content/DE/Downloads/BMF_Schreiben/Internationales_Steuerrecht/Allgemene_Informationen/016.html. This list also gives additional information on DTTs in other tax areas (e.g., inheritance tax, motor vehicle tax) and about current negotiations on future DTTs.

[4] A list of existing BITs is available on the website of the Federal Ministry of Economics and Technology: www.bmwi.de/BMWi/Redaktion/PDF/B/bilaterale-investitionsfoerderungs-und-schutzvertraege-IFV,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf.

Germany Trade and Invest, available at: www.gtai.de

Deutsche Bundesbank, available at:
www.bundesbank.de/Navigation/EN/Statistics/External_sector/Direct_investments/direct_investments.html?nsc=true

Annex table 1. Germany: inward FDI stock, 1990-2010

(US$ billion)

Economy	1990	1995	2000	2005	2009	2010
Germany: consolidated primary and secondary inward FDI stock	111	166	272	476	701	694
Germany: primary inward FDI stock[a]	120	238	471	640	964	929
Memorandum: comparator economies						
United States	540	1,006	2,783	2,818	2,995	3,397
United Kingdom	204	200	439	841	1,056	1,163
France	98	191	391	889	1,039	1,046
Japan	10	34	50	101	200	215

Sources: For Germany, Deutsche Bundesbank, "Bestandserhebung über Direktinvestitionen," *Statistische Sonderveröffentlichung 10* (April 2012). Data converted from D-Mark (1990, 1995) and from Euro (2000-2010) into U.S. dollars, using end-year exchange rates from the International Monetary Fund, available at: http://www.imf.org/external/np/fin/data/param_rms_mth.aspx. For comparator economies, UNCTAD's FDI/TNC database, available at: http://unctadstat.unctad.org.

[a] For international comparisons, data on the German primary inward FDI stock should be used. Primary direct investment constitutes the FDI held through direct capital links arising from non-residents' participating interests in enterprises in Germany. Secondary direct investment comprises FDI held via dependent holding companies in Germany. Consolidated primary and secondary direct investment is calculated by deducting the direct investments in holding companies from the total primary and secondary investments to avoid double counting of the capital that is invested in holding companies and is used by them to finance their participating interests. (See, Deutsche Bundesbank, "Foreign direct investment stock statistics," *Special Statistical Publication 10* (April 2012), pp. 20f.). The consolidated primary and secondary inward FDI figures represent a special calculation by the Deutsche Bundesbank that is not comparable with the IFDI stock figures of most other economies, as the latter take only primary FDI into account.

Annex table 2. Germany: inward FDI flows, 2004-2012

(US$ billion)

Economy	2004	2005	2006	2007	2008	2009	2010	2011	2012
Germany	-10	47	56	80	8	24	58	49	7
Memorandum: comparator economies									
United States	136	105	237	216	306	144	198	227	147
United Kingdom	56	176	156	196	91	71	51	54	62
France	33	85	72	96	64	24	31	41	59
Japan	8	3	-7	23	24	12	-1	-2	0.4

Sources: For Germany, Deutsche Bundesbank, *Monatsbericht März 2013*, annex table XI.7 "Kapitalverkehr der Bundesrepublik Deutschland mit dem Ausland," available at: http://www.bundesbank.de/Redaktion/DE/Downloads/Veroeffentlichungen/Monatsberichte/2013/2013_03_monatsbericht.pdf?__blob=publicationFile. The data in Euro were converted into U.S. dollar values by using annual average US$/Euro exchange rates of the IMF (International Monetary Fund, Exchange Rate Archives by Month, available at: http://www.imf.org/external/np/fin/data/param_rms_mth.aspx). For comparator countries, UNCTAD's FDI/TNC database, available at: http://unctadstat.unctad.org, except for data for 2012, which are preliminary estimates from UNCTAD, *Global Investment Trends Monitor*, No. 11, January 23, 2013.

Annex table 3. Germany: distribution of inward FDI stock, by economic sector and industry,[a] 2000, 2010

(US$ billion)

Sector/industry	2000	2010
All sectors/industries	271.6	693.9
Primary	1.4	6.1
Agriculture, hunting, forestry, and fishing	0.2	0.3
Mining, quarrying and petroleum	1.2	5.8
Secondary	86.4	232.8
Food, beverages and tobacco	5.1	17.9
Chemicals and chemical products	18.4	52.6
Rubber and plastic products	4.0	8.4
Other non-metallic mineral products	3.3	9.7
Basic metals	3.4	7.3
Fabricated metal products, except machinery and equipment	3.2	9.2
Machinery and equipment	8.9	28.6
Electrical machinery and apparatus	4.6	9.6
Radio, television and communication equipment	8.3	10.0
Medical, precision and optical instruments	3.3	16.3
Motor vehicles, trailers and semi-trailers	11.3	19.5
Services	183.8	455.0
Electricity, gas, and water supply	2.3	23.6
Trade, repair of motor vehicles, motorcycles and personal and household goods	35.7	82.1
Transport and communication	6.5	55.0
Finance and insurance	41.9	106.5
of which: Monetary intermediation	14.2	66.9
Other monetary intermediation	22.2	13.8
Insurance and pension funding (except compulsory social security)	5.1	24.3
Real estate, renting and business activities	93.6	176.4
of which: Holding companies	75.2	94.0

Source: Deutsche Bundesbank, "Bestandserhebung über Direktinvestitionen," *Statistische Sonderveröffentlichung 10*, April 2012, available at: http://www.bundesbank.de.

[a] Figures include consolidated primary and secondary (i.e., through dependent domestic holding companies) FDI stock in Germany, by economic activity of the investment enterprise in Germany. Data converted from Euro to U.S. dollars using end-of-year exchange rates from the International Monetary Fund (available at: http://www.imf.org/external/np/fin/data/param_rms_mth.aspx). A comparison of the 2010 and 2000 FDI stock figures should take into account that the Euro had appreciated by 44% against the U.S. dollar from end of 2000 to the end of 2010.

Annex table 4. Germany: geographical distribution of inward FDI stock,[a] 2000, 2010

(US$ billion)

Region/economy	2000	2010
World	271.6	693.9
Developed economies	264.8	669.7
Europe	n.a.	584.3
Austria	6.8	27.4
Belgium	6.0	11.4
Denmark	3.7	7.6
Finland	1.9	6.6
France	26.9	59.1
Norway	1.6	2.1
Ireland	0.9	4.1
Italy	3.9	49.8
Luxembourg	41.8	102.5
Netherlands	57.0	161.9
Spain	1.7	12.4
Sweden	7.7	21.2
Switzerland	21.6	44.4
United Kingdom	18.2	59.6
Memorandum item:		
European Union	176.7	528.0
European Monetary Union	146.9	438.5
North America	41.5	68.1
Canada	2.3	2.9
United States	39.2	65.2
Other developed economies	n.a.	n.a.
Australia	0.1	2.7
Japan	9.5	19.3
Developing economies	7.1	24.2
Africa	0.9	1.6
South Africa	0.8	1.5
Asia and Oceania	4.5	15.4
China	.	1.1
India	0.1	0.4
Iran	0.7	1.9
Korea, Rep. of	1.7	5.4
United Arab Emirates	n.a.	1.3
Latin America and the Caribbean	1.7	5.2
Bermuda	0.4	2.4
Brazil	0.1	0.3
South-East Europe and CIS	n.a.	n.a.
Russia	0.7	4.6

Source: Deutsche Bundesbank, "Bestandserhebung über Direktinvestitionen," *Statistische Sonderveröffentlichung 10*, April 2012, available at: www.bundesbank.de.

[a] Figures include primary and secondary (i.e., through dependent domestic holding companies) FDI stock in Germany (consolidated). Data converted from Euro to U.S. dollars using end-of-year exchange rates from the International Monetary Fund (available at: http://www.imf.org/external/np/fin/data/param_rms_mth.aspx).

Annex table 5. Germany: main non-financial foreign affiliates, ranked by turnover, 2011

Rank	Name	Industry	Turnover (US$ billion)	Employees
1	BP Europa (SE)	Mineral oil, energy, solar	71.8	9,602
2	EADS	Aerospace, military equipment	68.3	133,115
3	Shell Deutschland Oil GmbH	Mineral oil, gas, chemicals	40.4	3,396
4	Hochtief AG	Construction	32.4	76,739
5	Alstom Deutschland AG	Machinery, equipment	29.1	93,500
6	Ford Werke GmbH	Automobiles	25.3	29,116
7	TUI AG	Tourism	24.4	71,398
8	Total Deutschland	Mineral oil	18.8	3,700
9	Adam Opel AG	Automobiles	15.3	47,00
10	Vattenfall Europa AG	Energy	15.3	20,532
11	Exxon Mobil Central Europe GmbH	Mineral oil	14.9	65,500
12	Vodafone D2 GmbH	Telecommunications	13.2	12,000
13	Wingas GmbH	Energy	12.1	250
14	OMV Deutschland GmbH	Mineral oil	9.7	537
15	C&A Mode	Warehouses	9.5	37,500
16	Hewlett-Packard Deutschland	Computer and electronics	8.2	10,777
17	British American Tobacco Germany GmbH	Tobacco	7.5	1,852
18	Telefonica O2	Telecommunications	7.1	5,000
19	Sanofi-Aventis Deutschland GmbH	Pharmaceutics	6.5	9,200
20	IBM Deutschland GmbH	Computer and electronics	5.4	15,000

Sources: *Welt*, "Top 500 Deutsche Unternehmen," available at: http://top500.welt.de/.

Note: Data in Euro were converted into U.S. dollar values by using annual average US$/Euro exchange rates of the IMF (International Monetary Fund, Exchange Rate Archives by Month, available at: http://www.imf.org/external/np/fin/data/param_rms_mth.aspx).

Annex table 6. Germany: main M&A deals, by inward investing firm, 2009-2011

Year	Acquiring company	Home economy	Target company	Target industry	Shares owned after transaction (%)	Estimated/ announced transaction value (US$ million)
2011	NK Rosneft	Russia	Ruhr Oel GmbH	Petroleum refining	50.0	1,600.0
2011	Intel Corp.	United States	Infineon Technologies AG	Semiconductors	100.0	1,400.0
2011	Investor Group	United States	Evonik-Carbon Black Bus.	Chemicals	100.0	1,299.1
2011	Clariant AG	Switzerland	Sued Chemie AG	Chemicals	55.4	1,076.9
2011	Blackstone Group LP	United States	Jack Wolfskin	Clothes	100.0	1,016.4
2011	OM Group Inc	United States	Vacuumschmelze GmbH & Co KG	Porcelain electrical supplies	100.0	1,009.8
2011	Atos SA	France	SIS	Computer services	100.0	814.5
2011	Caterpillar Inc	United States	MWM Holding GmbH	Engines	100.0	807.6
2011	Clariant AG	Switzerland	Sued Chemie AG	Chemicals	96.2	776.7
2010	Liberty Media Corp.	United States	Unitymedia GmbH	Television services	100.0	5,195.2
2010	Teva Pharmaceutical Industries	Israel	Ratiopharm Int. GmbH	Pharmaceuticals	100.0	4,931.3
2010	TenneT Holding BV	Netherlands	Transpower Stromübertragungs GmbH	Electric services	100.0	1,648.9
2010	TenneTHolding BV	Netherlands	E.On AG-High Voltage Network	Electric services	100.0	1,490.3
2010	Telefonica	Spain	HanseNet Telekommunikation	Communications	100.0	1,338.7
2010	Investor Group	Belgium	50Hertz Transmission GmbH	Electric services	100.0	1,115.7
2010	National Pension Service	Rep. of Korea	Morgan Stanley RE-Sony Center	Real estate	100.0	766.7
2010	Lone Star Funds	United States	Düsseldorfer Hypothekenbank	Banking	100.0	642.5
2009	Qatar Investment Authority	Qatar	Volkswagen AG	Motor vehicles	17.0	9,569.5
2009	Verbund AG	Austria	E.On AG-Hydro Power Plants	Electric services	100.0	1,931.6
2009	IPIC	United Arab Emirates	MAN Ferrostahl AG	Construction	70.0	951.4
2009	Electrabel SA-Coal & Electric	Belgium	E.ON AG-Farge and Zolling	Electric services	100.0	686.1

2009	Investor Group	Czech Republic	Mibrag	Mining	100.0	513.9
2009	Thermo Fisher Scientific Inc	United States	Brahms AG	Medical diagnostic	100.0	470.6
2009	Ingenico SA	France	Easycash Beteiligungen GmbH	Information services	100.0	425.3
2009	Honeywell Int. Inc	United States	RMG Regelund Messtechnik GmbH	Machinery & equipment	100.0	400.0
2009	Suzion Energy Ltd.	India	Repower Systems AG	Turbines/generators	88.5	394.5

Source: The author, based on Thomson ONE Banker, Thomson Reuters.

Germany: Outward FDI and its policy context, 2010

Ralph Hirdina and Thomas Jost[*]

German companies started early to internationalize their operations. They ranked among the top three of foreign investors measured by the value of their OFDI stock by the end of 2008.[1] German FDI abroad increased in close connection with the rise of German exports, and received a new stimulus through the further integration of European markets and the opening up of Eastern Europe in the 1990s. After record FDI outflows in the boom years 2006 to 2008, German OFDI dropped markedly in 2009 - but less than in the previous downturn between 2002 and 2003. In recent years, the German Government has continued to provide a sound legal framework for German companies going abroad by creating a wide network of bilateral treaties and offering support as well as information services as the internationalization of the German corporate sector improves the competitiveness of the country's economy and promotes exports.

Trends and developments

Country-level developments

In search of new markets and to support export growth, market-seeking German companies started expanding abroad early in the 1960s and 1970s. In times of strong real appreciations of the German currency and an accompanying loss of price competitiveness, efficiency-seeking FDI in countries with lower wage costs gained importance.[2] At the end of the 1980s and during the early 1990s, OFDI of German MNEs received a new stimulus from the EU Single Market Program and the opening up of the Eastern European economies.[3] The European Monetary Union and the introduction of the Euro in 1999 further raised German OFDI. It grew nearly tenfold since 1990, to reach a stock of US$ 1,450 billion at the end of 2008, making Germany the third largest investor in the world (annex table 1).

In the boom years from 2006 to 2008, annual German OFDI flows climbed to record values of up to US$ 163 billion in 2007 (annex table 2). The worldwide financial and economic crisis started to dampen this growth in the beginning of the fourth quarter in 2008. In 2009, OFDI fell by 61% (compared to 2007), reaching a total of US$ 63 billion. The decline in FDI was in line with the worldwide downward trend and paralleled the fall of domestic investments of the corporate sector. Compared to the previous bust in 2002 and 2003, OFDI decreased much less in relative terms, and the 2009 level of outflows was still the seventh highest on record.

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[*] The authors wish to thank Alexandra Angress, Ulrich Gross, Alexander Lipponer, and Peter Nunnenkamp for their helpful comments. First published April 9, 2010.

[1] UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (New York and Geneva, United Nations, 2009).

[2] Thomas Jost and Horst Rottmann, "Umfang und Motive deutscher Direktinvestitionen in den Industrieländern," *LIST-Forum für Wirtschafts- und Finanzpolitik*, vol. 30 (2004), pp. 153-166.

[3] Nigel Pain, "Fiscal policies, European integration and structural changes in the location of German foreign direct investment," in Heinz Herrmann and Robert Lipsey, eds., *Foreign Direct Investment in the Real and Financial Sector of Industrial Countries* (Berlin: Springer, 2003), pp. 96-136.

In the past, German companies heavily invested abroad in the services sector: it accounted for nearly three quarters of the value of Germany's OFDI stock at the end of 2007, followed by the manufacturing sector (26%) (annex table 3).[1] Foreign investments in the primary sector (of less than 1%) play only a minor role. In the services sector, the major investments by value (46%) were made in the finance and insurance sector, reflecting the strength of several German banks and insurance companies (which belong to the major players in world financial markets).[2] The success of Germany in the export of automobiles, machinery and equipment led to strong investments abroad in the sector of trade and repair of motor vehicles and personal as well as consumer goods; these accounted for 17% of the German OFDI stock in the services sector at the end of 2007.[3]

In recent years, German OFDI grew strongly in the electricity, gas and water supply as well as in the transport and telecommunications sectors (annex table 3). The liberalization and privatization process in the European Union network industries led to a wave of large-scale cross-border investments of German MNEs. In the energy and water supply sectors, the OFDI stock grew 15-fold, starting out from a low level of US$ 4 billion in 2000, to reach US$ 58 billion in 2007. In the same period, FDI abroad in the transport and telecommunications sectors increased tenfold, from $7 billion to $67 billion.[4]

Manufacturing accounts for a quarter of the value of German OFDI. Within the manufacturing sector, German companies heavily invest in chemicals/chemical products, motor vehicles, trailers and semi-trailers, as well as machinery and equipment; they account for 30%, 20% and 10% of all German OFDI in the secondary sector, respectively. Foreign affiliates of German MNEs of the manufacturing sector employ 2.8 million workers - more than half of all people employed in all German foreign affiliates. The strong growth of employment in foreign affiliates of German firms in the 1990s – mainly resulting from investments in production facilities in new EU member countries (especially in the Czech Republic, Hungary, Poland, and Slovakia) - slowed down in the past decade. But from time to time, criticism arises in the German public as regards possible detrimental effects of German FDI abroad, especially concerning job relocations. In contrast to these fears, the strong increase in German OFDI was only partially motivated by lower wage costs abroad. It was mainly driven by the search for new markets as well as by marketing, distribution and customer service motives.[5] Overall, German OFDI has strengthened the competitiveness of the German corporate sector and has contributed to investment and employment growth at home.[6]

Foreign investments of German firms are mainly concentrated in developed countries that are also the main target regions for German exports and that offer the factor inputs that German MNEs need for

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[1] FDI stock data of the Deutsche Bundesbank based on a compulsory annual survey of German companies show FDI of German firms according to the sector of the final investment object. These data are published with a time lag of one-and-a-half year. Therefore, detailed stock data are only available as of end of 2007.

[2] Claudia Buch and Alexander Lipponer, "FDI versus exports: evidence from German banks," *Journal of Banking and Finance,* 31 (2007), pp. 805-826.

[3] Sebastian Krautheim, "Export-supporting FDI," *Discussion Paper Series 1: Economic Studies*, No 20/2009, Economic Research Centre, Deutsche Bundesbank.

[4] Part of the increase in the dollar value of the German outward FDI stock is due to the strong appreciation of the Euro against the US dollar (of 48%) in the period 2000 to 2007.

[5] In various surveys of the German Industry Federation, German MNEs ranked the market-seeking motive as the most important driver of foreign investments. See e.g. DIHK, "Auslandsinvestitionen in der Industrie: Frühjahr 2010," *Ergebnisse der DIHK-Umfrage bei den Industrie- und Handelskammern* (2010), available at www.dihk.de.

[6] Deutsche Bundesbank, "German foreign direct investment (FDI) relationships: recent trends and macroeconomic effects," *Deutsche Bundesbank Monthly Report*, September 2006, p. 43-58.

production (especially a highly qualified workforce). Developed countries account for 87% of the value of the OFDI stock (annex table 4). In the past decade, investments of companies abroad grew fastest in the new EU member countries and in certain other countries in Europe (notably the United Kingdom and Switzerland). The EU accounted for more than 57% of the German OFDI stock in 2007. In 2008 and 2009, German FDI in the European neighbor countries continued to be strong. This came partially at the cost of outward investment in North America and other developed countries outside Europe. Whereas OFDI in developing countries grew in line with the growth of total OFDI,[1] FDI outflows to Russia and Ukraine increased considerably during the past decade. The German OFDI stock in both countries grew 17-fold since 2000, to reach roughly US$ 30 billion in 2007. German investments in this region were mainly driven by several large-scale investments in the energy and gas sectors. Well-equipped with large profits generated in past years, German energy MNEs went east to increase the security of energy supply and to capture new markets.

The corporate players

German MNEs have successfully internationalized their production facilities and operations abroad. Most of the large companies in the chemical, motor vehicle, machinery and equipment, telecommunications, and energy sectors, as well as the major banks and insurance companies, are now operating worldwide (annex table 5). The 30 largest German companies listed at the German stock exchange (the DAX-30) are highly internationalized. They employ more than half of their workforce abroad (in 2008: 57%).[2] The largest outward M&As in recent years (annex table 6) were made by well-known global players like Volkswagen AG, RWE AG, Siemens AG, Deutsche Telekom AG, and Allianz AG. Not only large German MNEs, but also a growing number of small and medium-sized companies expanded their operations abroad. The total number of foreign affiliates of German companies reached 28,929 and the number of parent companies 6115 at the end of 2007.[3]

Effects of the current global crisis

The global financial crisis and recession seriously affected the German economy. German companies suffered from a sharp decline of exports and falling profits. In 2009, German OFDI fell by 53% against 2008, to reach US$ 63 billion. The decline in German OFDI in 2009 was mainly due to increased long-term credits of financing affiliates of German companies located in the Netherlands to their parents in Germany that were financed by the emission of securities abroad. These intra-firm financial transactions resulted in net disinvestments abroad via intra-company loans that explained three quarters of the decline in German OFDI abroad.[4] Despite the difficult economic situation, German equity capital investments abroad remained remarkably strong, declining by only 27% against the record value of 2008 and amounting to US$ 66 billion in 2009. Especially German energy providers like RWE AG and E.on AG were very active in cross-border M&As and greenfield investments to expand their market share and to improve their competitive position in foreign markets (annex tables 6 and 7).

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[1] On the determinants of German FDI in developing countries, see Thomas Jost and Peter Nunnenkamp, "Bestimmungsgründe deutscher Direktinvestitionen in Entwicklungs- und Schwellenländern," *Kieler Arbeitspapier* 1124, Kiel Institute for World Economics, 2002.
[2] Ernst&Young, "Entwicklung der Dax-30-Unternehmen 2007/08: Eine Analyse wichtiger Bilanzkennzahlen," available at: www.ey.com.
[3] In the German FDI stock statistics, the reporting threshold was changed several times. Therefore, a consistent time series of the development of the number of foreign affiliates is not available.
[4] Deutsche Bundesbank, "Die deutsche Zahlungsbilanz für das Jahr 2009," *Monatsbericht* (März 2010), p. 30.

The policy scene

There are three main international legal frameworks for German FDI: the European Treaty, Treaties concluded by the European Union and national BITs. German MNEs have concentrated a large part of their OFDI in the EU member states. Therefore, the European treaties are a very important framework for Germany FDI activities. The EU guarantees free trade of goods and services for all members of the European Union and the free movement of capital among EU member states and with third states. In case of violations of these rights, the European Commission can bring a case before the European Court of Justice.[1] The EU has concluded several FTAs that contain declarations of supporting FDI flows between the EU and its partner states.[2] Since the Lisbon treaty took effect on December 1, 2009, the EU has gained new competences concerning FDI.[3] However, the practical implications of the Lisbon Treaty for Europe's FDI-policy remain uncertain (e.g. the Lisbon Treaty fails to clarify the exact definition of FDI).[4]

The EU and the United States have the most important bilateral trade and investment relations in the world. The United States is the single most important target country for German OFDI. Among the triad of North America, the EU and Japan, FDI flows are not restricted in any way and are not governed by BITs.[5]

Already in the 1950s, Germany fully liberalized its capital exports and the German Government recognized the need for a reliable legal framework for OFDI.[6] In 1959, Germany signed its first BIT with Pakistan (renewed on December 1, 2009), also became the first BIT worldwide.[7] Until March 2010, Germany had signed 138 BITs; it was the leading position in the world - along with Switzerland (116 BITs) and China (123 BITs).[8] Most of Germany's BITs were concluded in the 1990s, corresponding to the worldwide increase in the number of BITs after the collapse of the former Soviet Unions and its partner states.[9] To date, 127 of the 138 signed BITs have been ratified.[10] For German companies, BITs are an important tool for protecting their investment interests abroad. For example, after the terrorist bombing of Mumbai in November 2008, German companies asked for higher security standards in India. The basis for such claims was the BIT with India that came into force in 1998. Volkswagen, a big German car producer, emphasized that its planned investment in India would need high legal investment

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[1] The Treaty of Lisbon, December 1, 2009: Article 34 TEU (ex-Art. 28 TEU), article 56 TEU (ex-Art. 49 TEU), article 63 TEU (ex-Art. 56 TEU), article 258 TEU (ex-Art. 226 TEU) EU; available at: http://eur-lex.europa.eu/en/treaties/index.htm.

[2] Jan Ceyssens and Nicola Sekler, "Bilateral investment treaties (BITs) of Germany: effects on economic, social and ecological regulation in host countries and models to implement the responsibility of transnational corporations," *Forschungsprojekt der Hans-Böckler-Stiftung an der Universität Potsdam* (2005), p. 7, available at: www.opus.kobv.de/ubp/volltexte/2005/612/pdf/BITSStudie.pdf

[3] The Treaty of Lisbon, op. cit.

[4] Daman Vis-Dumbar, "The Lisbon Treaty: implications for Europe's international investment agreements," *Trade Negotiations Insights*, vol. 8, no. 9, November 2009, available at: http://ictsd.org/i/news/tni/59585/; José Guimón, "It's time for an EU investment promotion agency," *Columbia FDI Perspectives*, No. 20, March 4, 2010, available at: www.vcc.columbia.edu.

[5] Ceyssens and Sekler, op. cit., p. 24.

[6] Ceyssens and Sekler, op. cit., p. 25.

[7] Karl P. Sauvant and Lisa E. Sachs, eds., *The Effect of Treaties on Foreign Direct Investment: Bilateral Investment Treaties, Double Taxation Treaties, and Investment Flows* (New York : Oxford University Press, 2009).

[8] UNCTAD, "Total number of bilateral investment treaties concluded," available at: www.unctad.org/sections/dite_pcbb/docs/bits; Bundesministerium für Wirtschaft und Technologie, "Bilaterale Investitionsförderungs- und Schutzverträge," available at: www.bmwi.de.

[9] Ceyssens and Sekler, op. cit., p. 23.

[10] Bundesministerium für Wirtschaft und Technologie, op. cit.

and security standards.[1] In 2009, the new Volkswagen group plant in India started its operation with a production capacity of 110,000 cars per year, the largest greenfield investment of a German company in India ever.

Within these legal frameworks, the German Government offers companies many services and support for FDI in developing countries. The German Government for example gives guarantees for FDI that may fail because of political risks. But those guarantees are only granted in case of a minimum of legal protection for FDI by the host countries - either in form of BITs or a stable legal system.[2] The state-owned German bank group "Kreditanstalt für Wiederaufbau" (KfW) and the "Deutsche Investitions- und Entwicklungs mbH" (DEG) offer credits for FDI and corresponding advisory services.[3] In 2009, the German Government granted investment guarantees for 76 FDI projects in 24 developing countries, with a total value of US$ 4.2 billion.[4] Beyond that, the German system of foreign chambers of commerce (Deutsche Auslandshandelskammern) helps to make German FDI successful by offering advisory services.[5] German foreign chambers of commerce can be found in 120 cities in 80 countries worldwide.[6]

Conclusions and Outlook

As a highly export-oriented country, Germany will continue to expand its presence in foreign markets via FDI. The pace of recovery of OFDI flows to pre-crisis levels will depend largely on the future development of the economies of Germany's major partner countries in the European Union and North America. East and South-East Asian markets are also expected to play a greater role as destinations for German OFDI in the future. According to a recent survey of the German Industry Federation (DIHK) German companies plan to step up investments in international sales and distribution networks as well as production facilities in key foreign markets in 2010.[7]

Additional readings

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[1] Volker Müller, "Deutsche Firmen fordern mehr Sicherheit in Indien", *Welt Online*, November 28, 2008, available at: www.welt.de/politik/article2799353/Deutsche-Firmen-fordern-mehr-Sicherheit-in-Indien.html.
[2] Bundesministerium für Wirtschaft und Technologie, "Ratgeber für kleine und mittlere Unternehmen", 30.10.2007, available at: www.bmwi.de/BMWi/Navigation/Service.html.
[3] Bundesministerium für Wirtschaft und Technologie, op. cit.
[4] Bundesministerium für Wirtschaft und Technologie, "Investitionsgarantien 2009: Starke Nachfrage auch in der Wirtschaftskrise," Pressemitteilung, January 7, 2010, available at: www.bmwi.de.
[5] Deutscher Industrie und Handelskammertag e.v., "Deutsche Außenhandelskammern, Aufgaben," available at: http://ahk.de/ueber-ahk/ahk-aufgaben/.
[6] Deutscher Industrie und Handelskammertag e.V., "Deutsche Außenhandelskammern, Standorte," availabe at: http://ahk.de/ahk-standorte/.
[7] DIHK, op. cit.

Deutsche Bundesbank, "Special statistical publication 10: foreign direct investment stock statistics," available at: www.bundesbank.de/download/statistik/stat_soner/statso10_en.pdf.

Deutsche Bundesbank, "Die deutsche Zahlungsbilanz für das Jahr 2009," *Deutsche Bundesbank Monatsbericht* (März 2009), pp. 17-32, available at: www.bundesbank.de/download/volkswirtschaft/monatsberichte/2010/201003mb_bbk.pdf.

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Useful website for FDI flows and stocks statistics
www.bundesbank.de/statistik/statistik_zeitreihen.en.php

Statistical annex

Annex table 1. Germany: outward FDI stock,[a] 1990-2008 (US$ billion)

Economy	1990	1995	2000	2005	2007	2008
Germany	151.6	268.4	537.8	978.1	1205.1	1450.9 [b]
Memorandum: comparator economies						
United States	430.5	699.0	1,316.2	2,241.7	2,916.9	3,162.0
United Kingdom	229.3	304.9	897.8	1,198.6	1,841.0	1,510.6
France	112.4	204.4	445.1	868.5	1,291.6	1,397.0
Japan	201.4	238.5	278.4	386.6	542.6	680.3

Sources: For Germany, Deutsche Bundesbank, "Special statistical publication 10: foreign direct investment stock statistics," available at: www.bundesbank.de/download/statistik/stat_soner/statso10_en.pdf. For comparator countries, UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

[a] Due to different statistical recording, the data for the selected economies are not fully comparable.
[b] UNCTAD estimate.

Annex table 2. Germany: outward FDI flows, 2000-2009 (US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Germany	56.7	39.7	19.0	5.9	20.5	75.9	118.8	162.7	135.2	62.9
Memorandum: comparator economies										
United States	142.6	124.9	134.9	129.4	294.9	15.4	224.2	378.4	311.8	
United Kingdom	233.4	58.9	50.3	62.2	91.0	80.8	86.3	275.5	111.4	
France	177.4	86.8	50.4	53.1	56.7	115.0	121.4	224.7	220.0	
Japan	31.6	38.3	32.8	28.8	31.0	45.8	50.3	73.5	128.0	

Sources: For Germany, Deutsche Bundesbank, "Zahlungsbilanzstatistik, Statistisches Beiheft 3," March 2010, available at: www.bundesbank.de/volkswirtschaft/zahlungsbilanzstatistik/2010/zahlungsbilanzstatistik032010.pdf. For comparator countries, UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

Annex table 3. Germany: distribution of outward FDI stock by economic sector and industry,[a] 2000, 2007 (US$ billion)

Sector/industry	2000	2007
All sectors/industries	537.8	1205.1
Primary	4.8	9.3
Agriculture, hunting, forestry, and fishing	0.6	1.2
Mining, quarrying and petroleum	4.2	8.1
Secondary	165.4	312.3
Food, beverages and tobacco	3.7	7.9
Chemicals and chemical products	49.0	93.7
Rubber and plastic products	5.4	14.4
Other non-metallic mineral products	7.2	19.2
Basic metals	2.3	11.0
Fabricated metal products, except machinery and equipment	4.5	12.7
Machinery and equipment	15.1	32.3
Electrical machinery and apparatus	16.4	21.1
Radio, television and communication equipment	5.7	10.1
Medical, precision and optical instruments	6.5	10.6
Motor vehicles, trailers and semi-trailers	38.8	61.5
Services	367.6	883.4
Electricity, gas, and water supply	3.9	57.7
Trade, repair of motor vehicles, motorcycles and personal and household goods	65.3	152.9
Transport and communication	7.3	66.9
Finance and insurance	215.8	410.5
of which: Monetary Intermediation	56.2	101.7
Other monetary intermediation	126.3	230.7
Insurance and pension funding (except compulsory social security)	24.0	54.1
Real estate, renting and business activities	69.2	182.3
of which: Holding companies	41.6	102.7

Source: Deutsche Bundesbank, "Bestandserhebung über Direktinvestitionen," Statistische Sonderveröffentlichung 10, April 2009, available at: www.bundesbank.de.

[a] Primary and secondary (i.e. through dependent holding companies abroad) German direct investment abroad (consolidated), by economic activity of the foreign investment enterprise.

Annex table 4. Germany: geographical distribution of outward FDI stock,[a] 2000, 2007 (US$ billion)

Region/economy	2000	2007
World	537.8	1205.1
Developed economies	479.6	1043.2
Europe	262.4	740.6
Austria	17.1	37.1
Belgium	22.1	50.8
Czech Republic	6.7	29.6
Finland	1.0	7.4
France	30.5	59.9
Hungary	6.6	23.6
Ireland	7.6	17.1
Italy	17.4	38.8
Luxembourg	18.5	57.0
Malta		33.6
Netherlands	33.7	58.4
Poland	7.3	25.9
Spain	12.5	28.1
Sweden	6.1	15.2
Switzerland	15.8	40.8
United Kingdom	50.1	169.0
North America	203.1	277.8
Canada	6.0	12.1
United States	197.1	265.7
Other developed economies	14.1	24.8
Australia	5.0	12.1
Japan	8.9	12.1
Developing economies	54.9	127.0
Africa	4.4	8.8
South-Africa	2.8	6.4
Asia and Oceania	17.5	70.0
China	5.2	20.8
India	1.4	6.0
Singapur	4.5	10.3
Korea, Rep. of	2.8	7.1
Latin America and the Carribean	24.4	48.2
Cayman Islands	3.1	14.1
Brazil	7.9	16.6
South-East Europe and CIS	3.3	34.8
Russia	1.4	23.3
Ukraine	0.3	6.2

Source: Deutsche Bundesbank, "Bestandserhebung über Direktinvestitionen," *Statistische Sonderveröffentlichung* 10, April 2009, available at: www.bundesbank.de.

[a] Primary and secondary (i.e. through dependent holding companies abroad) German direct investment abroad (consolidated), by economic activity of the foreign investment enterprise.

Annex table 5. Germany: top MNEs, ranked by foreign assets, 2008 (US$ million)

Rank	Name	Industry	Foreign assets	Transnationality Index (2007)[a]
	Non-financial MNEs			
1	E.ON AG	Electricity, gas and water	141,168	53.6
2	Volkswagen Group	Motor vehicles	123,677	56.9
3	Siemens AG	Electrical and electronic equipment	110,018	72.0
4	Daimler AG	Motor vehicles	87,927	55.5
5	Deutsche Telekom AG	Telecommunications	95,019	47.8
6	BMW AG	Motor vehicles	63,201	56.2
7	Deutsche Post AG	Transport and storage	72,135	46.4
8	RWE Group	Electricity, gas and water	53,557	42.3
9	BASF AG	Chemicals	43,020	57.9
10	Linde AG	Chemicals	29,847	89.5
11	Metro AG	Retail	24,983	57.8
12	Thyssenkrupp AG	Metal and metal products	30,578	54.5
13	Bayer AG	Pharmaceuticals	26,317	43.8
	Financial MNEs			Internationalization Index (2007)[b]
1	Deutsche Bank AG		3,150,820	74
2	Allianz SE		1,367,062	76
3	Hypo Real Estate Holding		600,363	37
4	Muenchener Rueckversicherung AG		308,179	65

Sources: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

[a] UNCTAD's Transnationality Index is the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.
[b] UNCTAD's Internationalization Index is calculated as the number of foreign affiliates divided by the number of all affiliates.

Annex table 6. Germany: main M&A deals, by outward investing firm, 2007-2009 (US$ million)

Year	Acquiring company	Target company	Target Industry	Target economy	Shares acquired (%)	Transaction value (US$ million)
2009	RWE AG	Essent NV	Electricity, energy	Netherlands	100.0	10,410.7
2009	E.on AG	Severneftegazprom	Coal, oil, natural gas	Russia	25.0	3,958.7
2009	BASF AG	Ciba Specialty Chemicals	Chemicals	Switzerland	82.9	2,576.3
2009	K+S AG	Morton International Inc	Mining	United States	100.0	1,675.0
2009	Deutsche Telekom AG	OTE SA	Telecommunications	Greece	5.0	1,043.6
2009	Nordzucker AG	Danisco Sugar	Consumer goods	Denmark	100.0	938.6
2009	Munich Re	HSB Group Inc.	Insurance	United States	100.0	739.0
2008	Fresenius SE	APP Pharmaceuticals Inc	Pharmaceutics	United States	100.0	5,628.0
2008	SAP AG	Business Objects SA	Software	United States	78.0	5,511.0
2008	Henkel AG & Co. KGaA	Natl Starch& Chem Co-Adh.	Consumer goods	United States	100.0	5,506.9
2008	Volkswagen AG	Scania AB	Motor vehicles, trucks	Sweden	16.8	4,377.5
2008	Deutsche Telekom AG	OTE SA	Telecommunications	Greece	20.0	4,009.3
2008	Allianz SE	Hartford Fin Svcs Group Inc	Insurance	United States	23.7	2,500.0
2008	Heinrich Bauer Verlag KG	EMAP Consumer Media	Media	United Kingdom	100.0	1,435.1
2007	Allianz SE	AGF	Insurance	France	35.4	11,106.6
2007	Merck KGaA	Serono	Pharmaceutics	Switzerland	66.0	8,560.1
2007	Hypo Real Estate	DEPFA Bk PLC	Banking	Ireland	100.0	7,847.1
2007	E.on AG	OGK-4	Coal, oil, natural gas	Russia	47.4	3,947.3
2007	Siemens Automation	UGS Corp	Electronics	United States	100.0	3,500.0
2007	Tui Travel	First Choice Holidays PLC	Travel industry	United Kingdom	100.0	3,366.9
2007	Eurex AG	Intl Sec Exchange	Financial services	United States	100.0	2,821.4

Source: Thomson ONE Banker, Thomson Reuters.

Germany: Outward FDI and its policy context, 2011

Thomas Jost[*]

In 2010, German companies strongly increased their investments in foreign affiliates, with outward foreign direct investment (OFDI) flows having reached their third highest value on record (US$ 105 billion).[1] *Flows were driven by rising exports and growing profits of the German corporate sector. In 2010, the German economy made a robust recovery from the worldwide economic and financial crisis and became a growth engine among European Union (EU) countries. A further increase of OFDI is expected in 2011, as German companies are seeking to strengthen their strategic position in their main markets, although the pre-crisis level of OFDI flows of US$ 171 billion in 2007 will be hard to achieve. The German Government has continued to support the internationalization process of the German corporate sector by expanding its network of bilateral investment treaties and providing financial support and information services.*

Trends and developments

Country-level developments

In 2009, German OFDI stock grew by 7%, to US$ 1,418 billion (annex table 1).[2] Germany ranked among the four largest outward-investing countries worldwide. German companies operated 31,283 foreign affiliates that employed 5.8 million workers, with an overall turnover of US$ 2,483 billion.[3]

In 2010, German OFDI flows grew by 34% over those of the crisis year 2009 in which flows stagnated at a level of US$ 78.5 billion, roughly the value of 2008 (annex table 2). At US$ 105 billion in 2010, German OFDI flows reached their third highest value on record. Germany's investments abroad were affected less in the aftermath of the worldwide financial and economic crisis than were the OFDI flows

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[1] The historical background and the longer-term development of German OFDI and its main determinants were analyzed in a previous *Columbia FDI Profile* (see Ralph Hirdina and Thomas Jost, "German outward FDI and its policy context," *Columbia FDI Profiles,* April 2010, available at: www.vcc.columbia.edu.)

[2] The German OFDI stock figures that are used for the analysis in this article are consolidated primary and secondary direct investment stock figures. This is a special calculation by the Deutsche Bundesbank that includes FDI stock in the direct investment enterprises of dependent (majority-owned) holding companies outside Germany. These figures are not comparable with the OFDI stock figures of most other countries, which only take primary FDI into account. Primary German OFDI stock is often lower than consolidated primary and secondary FDI because the FDI stock in the dependent holding companies is lower than the FDI stock of German companies in their foreign affiliates. The reason for this is that the dependent holding companies use not only the capital received from their German investors but also additional capital from other sources to finance their secondary FDI enterprises. FDI stocks are calculated from the book value of the foreign affiliates' own funds.

[3] Deutsche Bundesbank, "Bestandserhebung über Direktinvestitionen," *Statistische Sonderveröffentlichung 10*, April 2011, p. 12.

of France and the United Kingdom, which continued to decline in 2010 (annex table 2). The increase in German OFDI in 2010 was also much stronger than the 13% growth of worldwide OFDI flows in 2010.[1]

German companies increased their equity capital investments abroad by US$ 56 billion in 2010. Reinvested earnings in foreign affiliates rose by US$ 30 billion. The improved financial situation of the German corporate sector is reflected in an increase of net credits to their foreign affiliates of US$ 18 billion. In the crisis year 2009, German companies had withdrawn large amounts of funds (US$ 25 billion) from their foreign affiliates.[2] This swing in the lending behavior of German companies largely explains the performance of outflows.

In 2010, the German manufacturing sector invested heavily abroad (US$ 27 billion). The bulk of these investments were made by firms in the motor vehicles, trailers and semi-trailers industry (US$ 17 billion) and the chemical industry (US$ 9 billion).[3] With an outward FDI stock of US$ 87 billion and US$ 109 billion, respectively, at the end of 2009 (annex table 3), these industries are the biggest German investors abroad. The car industry is the industry with the largest share of companies with outward FDI (73%). Moreover, 65% of the German automobile manufacturers are planning higher OFDI in 2011.[4] The German banking and insurance industry, which comprised 37% of total German OFDI stock at the end of 2009, further expanded abroad, by US$ 23 billion in 2010.

More than half of German OFDI flows in 2010 were invested in the European Monetary Union (EMU) countries – a trend that has continued since the start of the EMU in 1999.[5] At the end of 2009, EMU-17 countries hosted 36% and EU-27 countries 57% of total German OFDI stock (annex table 4). In 2010, the Netherlands (US$ 13.5 billion), France (US$ 11.5 billion) and Belgium (US$ 9 billion) attracted the largest shares of German OFDI flows to the EU,[6] while German companies invested US$ 14 billion in the United States, and another $15 billion in developing emerging markets.[7]

The corporate players

In 2010, 11 German companies (annex table 5) were among the world's top-100 non-financial multinational enterprises (MNEs).[8] They included two of the big-four German energy suppliers, three of the large German car producers as well as two chemical companies. In fact, many of these companies recorded a higher value added abroad than on the domestic market. These companies were also very active in 2010 in expanding their worldwide production and distribution activities via mergers and acquisitions (M&As) (annex table 6) and greenfield FDI (annex table 7).

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[1] UNCTAD, *World Investment Report 2011: Non-equity modes of international production and development* (New York and Geneva, United Nations, 2011) p. 187.
[2] Deutsche Bundesbank, "The German balance of payments in the year 2010," *Monthly Report March 2010*, p. 32.
[3] Deutsche Bundesbank, "Direct investment according to the balance of payments statistics (for the reporting period 2007-2010)," April 2011, available at: http://www.bundesbank.de/download/statistik/stat_direktinvestitionen_en.pdf, p. 44f.
[4] Deutscher Industrie –und Handelskammertag (DIHK), *Auslandsinvestitionen in der Industrie: Frühjahr 2011 (Ergebnisse der DIHK-Umfrage bei den Industrie- und Handelskammern)*, available at: dihk.de, p. 3.
[5] Deutsche Bundesbank, 2011, *op. cit.*, p. 14.
[6] In contrast to the stock data (annex table 1), the German balance-of-payments flow data (annex table 2) only show the direct target economy of German OFDI abroad. As part of outward FDI is routed via holding companies and special purpose entities abroad (trans-shipped), the ultimate target economy can differ. This is particularly true for a large part of German investments in the Netherlands and Belgium that are trans-shipped to third countries.
[7] Deutsche Bundesbank, "The German balance of payments in the year 2010," *Monthly Report March 2010*, p. 32.
[8] Information on the world's largest MNEs from UNCTAD's FDI/TNC database, available at: http://www.unctad.org/templates.

German companies made fewer (only four) cross-border M&A mega-deals (i.e. of US$ 1 billion or more) in 2010 than in the pre-crisis boom years (annex table 6). The largest was the acquisition of Millipore, a US company, for US$ 6.9 billion by the German pharmaceutical company Merck KGaA. The largest German cross-border M&As were concentrated in Europe (seven out of ten). In contrast, the largest greenfield investments of German companies were concentrated in developing and Commonwealth of Independent States (CIS) economies (nine out of ten) (annex table 7). Several of these investments were made in alternative and renewable energy.

Five German financial MNEs were among the world's top-50 financial MNEs in 2010.[1] During the same year, German banks and insurance companies further expanded abroad. Three of the ten largest German cross-border M&As were made by German banks (annex table 6).

Special developments

A considerable part of the OFDI of the German corporate sector goes hand in hand with export activities. Many studies and surveys show that there is a positive correlation between German exports and OFDI, with exports stimulating OFDI and vice versa.[2] According to a recent survey by the German Industry Federation, German companies stated that their OFDI plans for 2011 are mainly market-seeking and related to distribution, sales and marketing activities, confirming similar findings in previous years.[3] Cost-motivation factors have become less important during the past few years as the German economy has gained international price competitiveness on account of relatively low increases in wages and prices in the past decade compared to its main competitors in world markets.

The policy scene

The German Government has built up a dense network of bilateral investment treaties (BITs) with other countries in the past five decades. In 2010, Germany expanded this network by signing two BITs (a first BIT with Iraq and a renegotiated BIT with the Republic of Congo); five BITs (with Bahrain, Libyan Arab Jamahiriya, Jordan, Oman, and Trinidad and Tobago) entered into force.[4] With a total of 139 BITs at the end of 2010, Germany maintained its leading position in the world as regards BITs, ahead of Switzerland (118 BITs) and China (127 BITs).[5]

Germany's BITs with other countries are a prerequisite for the German Government's guarantees to safeguard German OFDI against political risk. About 50% of requests made by German corporations to insure investment projects against political risk are made by small and medium-sized enterprises

[1] UNCTAD, *op. cit.*
[2] See Timo Mitze, Bjorn Alecke and Gerhard Untied, "Trade-FDI linkages in a system of gravity equations for German regional data," *Ruhr Economic Papers*, 84, January 2009, available at: rwi-essen.de; and, Deutsche Bundesbank, "German foreign direct investment (FDI) relationships: recent trends and macroeconomic effects," *Deutsche Bundesbank Monthly Report* (September 2006), pp. 43-58, available at: www.bundesbank.de/download/volkswirtschaft/mba/2006/200609mba_en_foreign.pdf.
[3] Deutscher Industrie- und Handelskammertag, 2011, *op. cit.*
[4] Bundesministerium für Wirtschaft und Technologie, "Übersicht über die bilateralen Investitionsförderungs- und Schutzverträge (IFV) der Bundesrepublik Deutschland," March 21, 2011, available at: www.bmwi.de.
[5] UNCTAD, "Total number of bilateral investment treaties concluded," available at: www.unctad.org/sections/dite_pcbb/docs/bits.

(SMEs).[1] The German Government favors the insurance of sustainable investments, in line with the commitments in its international investment agreements (IIAs). For instance, investment guarantees are only granted for projects that will have a positive impact on the host economy, such as by contributing to the creation of employment, training of local employees, transfer of knowhow and/or a high share of domestic value-added as well as exports of the host economy. The responsible institutions also evaluate the environmental impact of German FDI abroad by using screening, reviewing and monitoring instruments based on international standards.[2]

In 2010, the German Government granted investment guarantees for 83 FDI projects in 24 developing countries with a total value of US$ 7.7 billion.[3] The most important target countries were China, Russia and Ukraine. There were also many guarantees for investments in Africa (e.g. Ethiopia and Angola) that can contribute to the economic development of these economies even while operating in an unstable political climate or a weak legal framework. Total outstanding guarantees at the end of 2010 amounted to US$ 37.2 billion.[4] This volume is the highest in the world among all public- and private-sector risk insurers.[5]

Conclusions

A further increase in German OFDI flows can be expected in 2011. The strong performance of the German economy with an expected real GDP growth of 3.1%,[6] rising corporate profits and an easing of financing conditions[7] in combination with the recovery of Germany's main export markets are all factors supporting this forecast. According to the spring 2011 survey of the German Industry Federation on the investment behavior of 7,000 German manufacturing companies in 2011, 43% of the companies are planning to invest abroad, 44% are expecting higher investments abroad than in 2010, while only 9% are planning lower investments. The results of the survey show the highest positive difference on record between the proportion of respondents planning higher investments and those planning lower investments since the start of this annual survey in 1993.[8]

Additional readings

Arnold, Jens M., "Exports versus FDI in German manufacturing: firm performance and participation in international markets," *Review of International Economics*, vol. 18 (2010), pp. 595-606.

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[2] Bundesministerium für Wirtschaft und Technologie (BMWi), *"Investitionsgarantien der Bundesrepublik Deutschland,"* Jahresbericht 2006, available at: bwmi.de, p. 38f.
[3] Bundesministerium für Wirtschaft und Technologie (BMWi), *"Investitionsgarantien der Bundesrepublik Deutschland,"* Jahresbericht 2010, available at: www.bmwi.de, pp. 1-2.
[4] Bundesministerium für Wirtschaft und Technologie (BMWi), *op. cit.*, p. 2.
[5] BMWi, *op. cit.*, p. 11.
[6] Forecast of Deutsche Bundesbank as of June 10, 2011 (press release available at: www.bundesbank.de).
[7] In a recent study, Buch et al. found out that external financial frictions influence investment strategies of German companies. They restrict OFDI more than exports and large companies more than smaller ones. A lack of internal funds – on the other hand - constrains small companies more than big ones (see Claudia M. Buch, Iris Kesternich, Alexander Lipponer, and Monika Schnitzer, "Exports versus FDI revisited: Does finance matter?" *Deutsche Bundesbank Discussion Paper Series 1*, no. 3, 2010.
[8] Deutscher Industrie- und Handelskammertag, *op. cit.*

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Deutsche Bundesbank, “Direct investment according to the balance of payments statistics (for the reporting period 2007-2010) “, April 2011, available at: www.bundesbank.de/download/statistik/stat_direktinvestitionen_en.pdf.

www.bundesbank.de/statistik/statistik_zeitreihen.en.php

Statistical annex

Annex table 1. Germany: outward FDI stock,[a] 1990-2011[b]

(US$ billion)

Economy	1990	1995	2000	2005	2008	2009	2011
Germany: consolidated primary and secondary outward FDI stock	151.6	268.4	537.8	978.1	1,327.0	1,418.3	1,442
Germany: primary outward FDI stock[c]	148.5	258.1	484.0	794.2	1,190.0	1,285.2	n/a
Memorandum: comparator economies							
United States	731.8	1,363.8	2,694.0	3,638.0	3,103.7	4,302.9	4,500
United Kingdom	229.3	304.9	897.8	1,198.6	1,531.1	1,651.7	1,731
France	112.4	204.4	925.8	1,232.2	1,308.2	1,719.7	1,373
Japan	201.4	238.5	278.4	386.6	680.3	740.9	963

Sources: For Germany, Deutsche Bundesbank, "Special statistical publication 10: foreign direct investment stock statistics," available at: www.bundesbank.de. The end- of- year stock data in Euro (since 1999) and in D-Mark (before 1999) were converted into US$-values by using end of year Dollar/Euro and Dollar/D-Mark exchange rates of the IMF (International Monetary Fund, Exchange Rate Archives by Month, available at: www.imf.org/external/np/fin/data/param_rms_mth.aspx). For comparator countries, UNCTAD's FDI/TNC database, available at: http://unctadstat.unctad.org.

[a] Due to differences in statistical recording, data for the selected economies are not fully comparable.
[b] In Germany, the Deutsche Bundesbank is responsible for the statistical recording of FDI flow and stock data. Flow data are published monthly in the German balance-of-payments statistics. Statistical recording follows the international rules of the IMF and the OECD. German FDI stock statistics are based on reports by domestic enterprises and individuals and are published annually with a time lag of about 15 months. The German stock statistics are of a high quality. Detailed methodological notes are published in Deutsche Bundesbank, "Special statistical publication 10: foreign direct investment stock statistics," available at: www.bundesbank.de
[c] For international comparisons, the German primary outward FDI stock should be used (see the explanation in footnote 2 of the text).

Annex table 2. Germany: outward FDI flows, 2001-2011

(US$ billion)

Economy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Germany	39.7	19.0	5.9	20.5	75.9	118.8	170.9	77.5	78.5	105.0	54.4
Memorandum: comparator economies											
United States	124.9	134.9	129.4	294.9	15.4	224.2	414.0[a]	351.1[a]	268.7[a]	345.6[a]	396.7
United Kingdom	58.9	50.3	62.2	91.0	80.8	86.3	318.4	161.1	44.6[b]	24.7[b]	107.1
France	86.8	50.4	53.1	56.7	115.0	110.7	164.3	161.1	103.3[c]	84.2[c]	90.1
Japan	38.3	32.3	28.8	31.0	45.8	50.3	73.5	128.0	74.7	n.a.	114.4

Sources: For Germany, Deutsche Bundesbank, "Zahlungsbilanzstatistik, Statistisches Beiheft 3," April 2011, available at: www.bundesbank.de/volkswirtschaft/zahlungsbilanzstatistik/2011/zahlungsbilanzstatistik042011.pdf. The annual flow data in Euro were converted into US$-values by using annual average Dollar/Euro exchange rates of the IMF (International Monetary Fund, Exchange Rate Archives by Month, available at: www.imf.org/external/np/fin/data/param_rms_mth.aspx). For comparator countries, UNCTAD's FDI/TNC database, available at: http://unctadstat.unctad.org.

[a] U.S. Department of Commerce, Bureau of Economic Analysis, "U.S. international transactions, fourth quarter and year 2010," available at: www.bea.gov.

[b] United Kingdom Office for National Statistics, Statistical Bulletin, "Balance of payments, 4th quarter and annual 2010," available at: www.statistics.gov.uk.

[c] Bank de France, ''La balance de paiements de la France en mars 2011," Statinfo, le 11 mai 2011, available at: www.banque-france.fr.

Annex table 3. Germany: distribution of outward FDI stock, by economic sector and industry,[a] 2000, 2009

(US$ billion)

Sector/industry	2000	2009
All sectors/industries	537.8	1,418.3
Primary	4.8	15.6
Agriculture, hunting, forestry, and fishing	0.6	1.4
Mining, quarrying and petroleum	4.2	14.1
Secondary	165.4	383.6
Food, beverages and tobacco	3.7	8.6
Chemicals and chemical products	49.0	109.1
Rubber and plastic products	5.4	12.5
Other non-metallic mineral products	7.2	22.9
Basic metals	2.3	14.6
Fabricated metal products, except machinery and equipment	4.5	12.1
Machinery and equipment	15.1	34.7
Electrical machinery and apparatus	16.4	23.6
Radio, television and communication equipment	5.7	7.2
Medical, precision and optical instruments	6.5	29.0
Motor vehicles, trailers and semi-trailers	38.8	87.0
Services	367.6	1,019.1
Electricity, gas, and water supply	3.9	72.2
Trade, repair of motor vehicles, motorcycles and personal and household goods	65.3	172.6
Transport and communication	7.3	58.9
Finance and insurance	215.8	521.5
of which: Monetary intermediation	56.2	91.5
Other monetary intermediation	126.3	325.3
Insurance and pension funding (except compulsory social security)	24.0	72.8
Real estate, renting and business activities	69.2	175.0
of which: Holding companies	41.6	66.4

Source: Deutsche Bundesbank, "Special statistical publication 10: foreign direct investment stock statistics," available at: www.bundesbank.de. The end of year stock data in Euro were converted into US$-values by using end of year Euro-Dollar exchange rates of the IMF (International Monetary Fund, Exchange Rate Archives by Month, available at: www.imf.org/external/np/fin/data/param_rms_mth.aspx).

[a] Figures relate to FDI stock by economic activity of the foreign affiliate in the ultimate host economy (including that made by direct investors themselves as well as by their dependent holding companies abroad on a consolidated basis).

Annex table 4. Germany: geographical distribution of outward FDI stock,[a] 2000, 2009

(US$ billion)

Region/economy	2000	2009
World	537.8	1,418.3
Developed economies	479.6	1,234.2
Europe	262.4	907.6
Austria	17.1	42.2
Belgium	22.1	73.9
Czech Republic	6.7	31.7
France	30.5	66.1
Hungary	6.6	24.5
Ireland	7.6	12.8
Italy	17.4	48.7
Luxembourg	18.5	66.4
Malta	n.a.	36.4
Netherlands	33.7	80.0
Poland	7.3	28.4
Spain	12.5	42.8
Sweden	6.1	23.5
Switzerland	15.8	50.9
United Kingdom	50.1	174.2
EU-27	n.a.	809.0
EMU-17	n.a.	505.2
North America	203.1	327.9
Canada	6.0	15.3
United States	197.1	312.6
Other developed economies	n.a.	n.a.
Australia	5.0	19.2
Japan	8.9	17.1
Developing economies	54.9	184.3
Africa	4.4	10.8
South Africa	2.8	7.2
Asia and Oceania	17.5	120.0
China	5.2	31.7
India	1.4	8.4
Singapore	4.5	13.5
Korea, Republic of	2.8	6.9
Latin America and the Caribbean	24.4	52.0
Cayman Islands	3.1	3.0
Brazil	7.9	27.5
South-East Europe and the CIS	n.a.	n.a.
Russia	1.4	19.7
Ukraine	0.3	2.7

Source: Deutsche Bundesbank, "Special statistical publication 10: foreign direct investment stock statistics," available at: www.bundesbank.de. The end of year stock data in Euros were converted into US$-values by using end of year Euro-Dollar exchange rates of the IMF (International Monetary Fund, Exchange Rate Archives by Month, available at: www.imf.org/external/np/fin/data/param_rms_mth.aspx).

[a] Figures relate to FDI stock by economic activity of the foreign affiliates in the ultimate host economy (including that made by direct investors themselves as well as by their dependent holding companies abroad on a consolidated basis).

Annex table 5. Germany: top non-financial MNEs and financial MNEs, 2010, ranked by foreign assets

Rank	Name	Industry	Foreign assets (US$ billion)	Transnationality Index[a]	Number of foreign affiliates
	Non-financial MNEs				
1	Volkswagen Group	Motor vehicles	176.8	64.8	n.a.
2	E.ON AG	Utilities (electricity, gas and water)	135.3	57.1	n.a.
3	Siemens AG	Electrical, electronic equipment	114.6	80.1	n.a.
4	Deutsche Telekom AG	Telecommunications	104.3	52.8	n.a.
5	Daimler AG	Motor vehicles	80.8	53.9	n.a.
6	BMW AG	Motor vehicles	63.0	50.1	n.a.
7	RWE AG	Electricity, gas and water	62.3	46.1	n.a.
8	BASF AG	Chemicals	50.6	59.2	n.a.
9	Deutsche Post AG	Transport and storage	39.1	68.7	n.a.
10	Thyssenkrupp AG	Metal and metal products	38.5	62.9	n.a.
11	Linde AG	Chemicals	32.7	88.9	n.a.
	Financial MNEs			Internationalization Index[b]	
1	Deutsche Bank AG		2,547.1	76.0	571
2	Commerzbank AG		1,008.2	53.6	203
3	Allianz AG		835.3	78.8	685
4	DZ Bank AG		512.5	30.5	93
5	Muenchener Rückversicherungs AG		315.9	50.2	261

Source: UNCTAD's FDI/MNE database, available at: http://www.unctad.org/templates/Page.asp?intItemID=5545&lang=1

[a] UNCTAD's Transnationality Index is the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.
[b] UNCTAD's Internationalization Index is calculated as the number of foreign affiliates divided by the number of all affiliates.

Annex table 6. Germany: main M&A deals, by outward investing firm, 2008-2010

Year	Acquiring company	Target company	Target industry	Target economy	Shares acquired (%)	Transaction value (US$ million)
2010	Merck KGaA	Millipore Corp.	Pharmaceuticals	United States	100.0	6,869.0
2010	Deutsche Bahn	Arriva PLC	Rail transport	United Kingdom	100.0	3,706.8
2010	Volkswagen AG	Suzuki Motor Corp.	Motor vehicles	Japan	19.9	2,527.4
2010	Deutsche Bank AG	Sal Oppenheim jr & Cie SCA	Banking	Luxembourg	100.0	1,913.7
2010	Deutsche Bank AG	ABN AMRO – Business Unit	Banking	Netherlands	100.0	951.0
2010	Daimler AG	Renault SA	Motor vehicles	France	3.2	898.6
2010	Deka Immobilien Inv. AG	Chevron House	Real estate	Singapore	100.0	404.8
2010	Daimler AG	Nissan Motor Co Ltd.	Motor vehicles	Japan	3.2	778.4
2010	Investor Group	STOXX AG	Investors	Switzerland	33.3	306.0
2010	Pfeiffer Vacuum Technology AG	Adixen	Machinery (pumps)	France	100.0	282.7
2009	RWE AG	Essent NV	Electricity, energy	Netherlands	100.0	11,488.6
2009	BASF AG	Ciba Specialty Chemicals	Chemicals	Switzerland	82.9	4,549.0
2009	E.on AG	Severneftegazprom	Coal, oil, natural gas	Russia	25.0	3,958.7
2009	Fleet Investments BV	LeasePlan Corp NV	Car leasing	Netherlands	50.0	1,773.8
2009	K+S AG	Morton International Inc	Mining	United States	100.0	1,675.0
2009	MANSE	Volkswagen Caminhoes e Onibus	Motor vehicles	Brazil	100.0	1,611.6
2009	Deutsche Lufthansa AG	Austrian Airlines AG	Air transport	Austria	53.8	1,443.7
2009	Colexon Energy AG	Renewagy A/S	Alternative energy	Denmark	100.0	1,292.3
2009	Nordzucker AG	Danisco Sugar	Consumer goods	Denmark	100.0	938.6
2009	Munich Re	HSB Group Inc.	Insurance	United States	100.0	739.0
2008	E.on AG	Endesa Italia	Electricity, energy	Italy	80.0	14,342.2
2008	Fresenius SE	APP Pharmaceuticals Inc	Medical instruments and apparatus	United States	100.0	5,611.6
2008	Henkel AG & Co. KGaA	Natl Starch & Chem Co-Adh.	Consumer goods	United States	100.0	5,506.9
2008	SAP AG	Business Objects SA	Software	United States	78.0	5,131.3
2008	Volkswagen AG	Scania AB	Motor vehicles, trucks	Sweden	16.8	4,377.5
2008	Deutsche Telekom AG	OTE SA	Telecommunications	Greece	20.0	4,009.3
2008	E.on AG	Enel Viesgo SA	Electricity, energy	Spain	100.0	3,210.0
2008	Investor Group	Porterbrook Leasing Co Ltd	Investors	United Kingdom	100.0	3,111.2

2008	Allianz SE	Hartford Fin Svcs Group Inc	Insurance	United States	23.7	2,500.0
2008	Heinrich Bauer Verlag KG	EMAP Consumer Media	Media	United Kingdom	100.0	1,435.1

Source: The author, based on Thomson ONE Banker, Thomson Reuters.

Annex table 7. Germany: main greenfield projects, by outward investing firm, 2008-2010

(US$ million)

Year	Company Name	Destination economy	Investment	Industry	Business activity
2010	Thyssen Krupp	Brazil	6,800.0	Metals	Manufacturing
2010	Solar Millenium	United States	3,507.7[a]	Alternative/renewable energy	Solar electricity generation
2010	Siemens	Russia	3,000.0	Non-automotive transport OEM	Manufacturing
2010	Fuchs Petrolub	Sudan	1,701.0[a]	Coal, oil and natural gas	Manufacturing
2010	SIF&B	Russia	1,266.0	Real estate	Construction
2010	Volkswagen AG	Hungary	1,205.0	Automotive OEM	Manufacturing
2010	Daimler AG	Brazil	670.0	Automotive OEM	Manufacturing
2010	SMOTEC Plus	Saudi Arabia	611.9[a]	Chemicals	Manufacturing
2010	Volkswagen AG	Mexico	550.0	Engines & turbines	Manufacturing
2010	RWE AG	Romania	636.3[a]	Alternative/renewable energy	Electricity
2009	RWE AG	Netherlands	2,857.6	Coal, oil and natural gas	Electricity
2009	E.on AG	Equatorial Guinea	1586.0 [a]	Coal, oil and natural gas	Manufacturing
2009	Volkswagen AG	Spain	1068.7 [a]	Automotive OEM	Manufacturing
2009	Daimler AG	India	1,014.0	Automotive OEM	Manufacturing
2009	Wacker	United States	1,000.0	Chemicals	Manufacturing
2009	Mühlbauer AG	United States	986.1 [a]	Semiconductors	Manufacturing
2009	BASF AG	Qatar	899.9 [a]	Chemicals	Manufacturing
2009	Conergy	Turkey	881.0	Alternative/renewable energy	Electricity
2009	RWE AG	Turkey	812.8	Coal, oil and natural gas	Electricity
2009	Rohde & Schwarz	Mexico	800.0	Communications	Design, developing and testing
2008	ThyssenKrupp	Brazil	5,200.0	Metals	Manufacturing
2008	Q-Cells AG	Mexico	3,500.0	Electronic components	Manufacturing
2008	RWE AG	United Kingdom	2,400.0	Alternative/renewable energy	Electricity
2008	RWE AG	Poland	2,320.0	Coal, oil and natural gas	Electricity
2008	MAN	Russia	2,058.0	Wood products	Manufacturing
2008	BASF AG	Qatar	1,951.0[a]	Coal, oil and natural gas	Extraction
2008	Marquard & Bahls	United States	1,800.0	Coal, oil and natural gas	Logistics & distribution
2008	Daimler AG	Hungary	1,239.6	Automotive OEM	Manufacturing
2008	WPD	France	1,200.0	Alternative/renewable energy	Electricity
2008	Volkswagen AG	Mexico	1,000.0	Automotive OEM	Manufacturing

Source: The author, based on fDi Intelligence, a service from the Financial Times Ltd.

[a] Estimated investment.

Germany: Outward FDI and its policy context, 2012

*Thomas Jost**

In 2011, German outward foreign direct investment (OFDI) flows temporarily declined, regaining their growth momentum again in the first half of 2012. The German corporate sector further expanded its foreign operations to gain and expand market access and improve the efficiency of its international production networks. The European sovereign debt crisis had no major negative effects on German OFDI until mid-2012. Recently, however, several indicators have suggested that the foreign investment plans of German multinational enterprises (MNEs) are under revision due to the continuing European sovereign debt crisis and the economic downturn in many European economies. The German Government has continued to support the internationalization process of the German corporate sector.

Trends and developments[1]

Country-level developments

In 2010, Germany's OFDI stock grew by 9.7% in Euro value and 1% in US-dollar terms over its stock in 2009, to US$ 1,428 billion (annex table 1).[2] Germany therefore continued to rank among the four largest outward-investing countries worldwide. German companies had 32,366 foreign affiliates in 2010 that employed 6.0 million employees (15% of the domestic German workforce), generating an overall turnover of US$ 2.7 trillion.[3] In 2010, returns on the German FDI stock abroad amounted to US$ 84 billion, of which 31% were reinvested in foreign affiliates.[4] From 2000 to 2010, German direct investors generated an average cash flow return of 5.5% on their foreign shareholdings.[5]

In 2011, German OFDI flows strongly declined to US$ 54.4, only half of OFDI outflows of 2010 (annex table 2). Therefore, German OFDI flows - which were less affected than most other developed countries'

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[1] The historical background and the longer-term development of German OFDI and its main determinants were analyzed in two previous *Columbia FDI Profiles* (see, Ralph Hirdina and Thomas Jost, "German outward FDI and its policy context," *Columbia FDI Profiles,* April 2010, and Thomas Jost, "Outward FDI from Germany and its policy context: update 2011," *Columbia FDI Profiles*, September 2011, available at: www.vcc.columbia.edu). This *Profile* is an update of those *Profiles* and analyzes FDI flows in 2011 and the first half of 2012, as well as the German OFDI stock at the end of 2010.

[2] The German OFDI stock figures that are used for the analysis in this *Profile* are consolidated primary and secondary direct investment stock figures. This is a special calculation by the Deutsche Bundesbank that includes FDI stock in the direct investment enterprises of dependent (majority-owned) holding companies outside Germany. These figures are not comparable with the OFDI stock figures of most other countries, which only take primary FDI into account. FDI stocks are calculated from the book value of the foreign affiliates' own funds.

[3] Deutsche Bundesbank, "Bestandserhebung über Direktinvestitionen," *Statistische Sonderveröffentlichung 10*, April 2012, p. 12.

[4] Deutsche Bundesbank, "Zahlungsbilanzstatistik," *Statistisches Beiheft zum Monatsbericht*, August 2012, available at www.bundesbank.de.

[5] Deutsche Bundesbank, "Germany's balance of payments in 2011," *Monthly Report March 2012*, p. 26.

FDI outflows in the aftermath of the worldwide financial and economic crisis of 2008/09 - fell to their lowest level since 2004, although they still reached 70% of their annual average during the past decade. The decline in FDI outflows in 2011 stood in contrast to several surveys of investment behavior, where German companies expressed strong plans to further expand their operations abroad.[1] In the first half of 2012, German OFDI flows regained their growth momentum, rising to US$ 47.2 billion, up by 36% (in Euro value) from the first half of 2011.

The decline in OFDI flows in 2011 was due to lower equity capital investments abroad, which fell from US$ 65.8 billion in 2010 to US$ 27.6 billion in 2011. In addition, German parent companies withdrew funds via intercompany credit transactions from their foreign affiliates (on balance in the amount of US$ 15.2 billion).[2] These credit flows between German parent companies and their foreign affiliates are very volatile and mainly driven by tax incentives and the liquidity management of MNEs.[3] On the other hand, reinvested earnings of German MNEs in their foreign affiliates rose by 50%, to US$ 42.0 billion.

With an outward FDI stock of US$ 114 billion and US$ 100 billion respectively at the end of 2010 (annex table 3), the chemical industry and the automobile industry are the most important target industries for German direct investment enterprises abroad in the secondary sector. This sector accounts for 28% of the value of the German OFDI stock. The real importance of the industrial sector is however higher: with 3 million workers, it employs half of the workforce in German affiliates abroad and contributes to 38% of its turnover. In addition, parts of the OFDI stock in the services sector, which accounts for 70% of total OFDI stock, are related to the business and export activities of the German industrial sector. Trade, repair of motor vehicles and consumer goods account for US$ 183 billion or 13% of the total German OFDI stock.[4]

At the end of 2010, developed countries hosted 85% and developing countries 15% of the total German OFDI stock. From 2007 to 2010, the value of the OFDI stocks in developed countries rose by 18% and in developing countries by 26%. German MNEs increased employment in foreign affiliates in developing countries by 23%, whereas the workforce of German affiliates in developed countries stagnated. At the end of 2010, EMU-17 countries hosted 35% and EU-27 countries 54% of total German OFDI stock (annex table 4). The main target countries for German OFDI were the United States (US$ 320 billion), followed by the United Kingdom (US$ 142 billion), the Netherlands (US$ 87 billion), Belgium (US$ 76 billion), and France (US$ 62 billion). The Netherlands and Luxembourg are major locations for German holding companies abroad.[5] German direct investment in Brazil, Russia, India, China has been growing stronger in recent years, albeit the German OFDI stock in the BRIC countries is still at a relatively low level (7.1 % of total OFDI stock end of 2010).

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[1] See e.g. Deutscher Industrie – und Handelskammertag (DIHK), *Auslandsinvestitionen in der Industrie: Frühjahr 2011 (Ergebnisse der DIHK-Umfrage bei den Industrie- und Handelskammern)*, available at dihk.de.
[2] Deutsche Bundesbank, "Germany's balance of payments in 2011," *op. cit.*, p. 32.
[3] During the past decade, this component of German outward FDI led to capital outflows in 5 years and inflows in the other 5 years, with a changing position in almost every year, nearly equilibrating over the whole period. From a total (accumulated) OFDI outflow of € 548 billion during 2002-2011, 72% were net equity investments, 24% reinvested earnings in foreign affiliates and only 4% net credits.
[4] A sector analysis of German OFDI flows in 2011 and in the first half of 2012 is not possible as reinvested earnings are not yet assigned to individual sectors and industries.
[5] Deutsche Bundesbank, "Bestandserhebung über Direktinvestitionen," *op. cit.*

In 2011, the lion's share of OFDI flows went to developing countries (US$ 34.1 billion or 63% of total OFDI flows), whereas OFDI in the EU countries sharply declined to US$ 7.7 billion. The main recipients of German OFDI were China (US$ 14.6 billion), the United States (US$ 10.5 billion) and Austria (US$ 8.5 billion). The high investment in Austria was due to one major transaction in the automobile sector, whereas investments in China and the United States profited from large reinvested earnings and – in the case of the United States – from capital injections of German banks into their overseas affiliates.[1]

The corporate players

In 2011, twelve German companies (annex table 5) were among the world's top-100 non-financial MNEs.[2] They included three of the large German car producers, two German energy suppliers, as well as two chemical companies. In fact, eleven of these companies had a higher proportion of their business operations abroad than on the domestic market, measured by UNCTAD's transnationality index.[3]

Some of these companies were also very active in 2011 in expanding their worldwide production and distribution activities via mergers and acquisitions (M&As) (annex table 6). Overall, cross-border M&A transactions of German companies continued to be low in 2011 whereas greenfield investments remained the main mode of OFDI in 2011.

German companies made four cross-border M&A mega-deals (i.e., of US$ 1 billion or more) in 2011 (annex table 6). The largest German cross-border M&As were concentrated in Europe (three of the four mega-deals).

The policy scene

The German Government promotes and safeguards German FDI abroad. Over the past decades, it has developed several instruments for this policy aim. Germany has built up a dense network of bilateral investment treaties (BITs) with other countries. With 139 treaties signed by the end of 2011,[4] Germany remained the global leader in terms of the number of BITs, ahead of China (128 BITs) and Switzerland (118 BITs).[5] In 2011, no new BITs were signed. Worldwide, the growth of BITs has lost momentum in 2011. Under the 2009 Lisbon Treaty, the EU has taken over the responsibility to conclude international investment agreements for the EU as a whole. Therefore, Germany's BITs might well be replaced in the future by European treaties.[6] It remains to be seen how this development affects the content of future European international investment treaties.

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[1] Deutsche Bundesbank, "Germany's balance of payments in 2011," *op. cit.*, p. 32.

[2] Information on the world's largest MNEs from UNCTAD's FDI/TNC database, available at http://www.unctad.org/templates.

[3] See annex table 5 and footnote a of that table.

[4] Bundesministerium für Wirtschaft und Technologie (BMWI), "Übersicht über die bilateralen Investitionsförderungs- und Schutzverträge (IFV) der Bundesrepublik Deutschland," April 27, 2012, available at www.bmwi.de.

[5] UNCTAD, "Total number of bilateral investment treaties concluded," available at www.unctad.org/sections/dite_pcbb/docs/bits.

[6] UNCTAD, *World Investment Report 2012: Towards a New Generation of Investment Policies* (Geneva: United Nations, 2012), p. 85.

Germany's BITs with other countries are a prerequisite for the German Government's guarantees to safeguard German OFDI against political risk. In 2011, the German Government granted 131 investment guarantees in the amount of US$ 7.2 billion for 86 FDI projects in 26 developing countries.[1] The most important target countries were China, India and Turkey. There were also guarantees for developing economies in different regions of the world (e.g. Nicaragua, Sierra Leone, Sri Lanka) that were covered seldom or not at all in the past. Total outstanding guarantees at the end of 2011 amounted to US$ 40.1 billion.[2] This volume is the highest in the world among all public- and private-sector risk insurers.[3] The German Government favors the insurance of sustainable investments. In 2011, the Ministry of Economics and Technology implemented the revised OECD Guidelines for Multinational Enterprises in its approval process for the granting of investment guarantees.[4]

Conclusions

German OFDI abroad continued to expand in 2011 and in the first half of 2012 in a difficult economic and financial environment. The European debt crisis, the economic downturn in many European economies and the slower growth of the world economy did not prevent German companies from investing in foreign affiliates, seeking market access and helping to promote German exports. However, prospects for the near future are weakening. The ongoing problems in Europe are expected to dampen investment behavior of German firms on the domestic market and abroad.

Additional readings

Arnold, Jens M., "Exports versus FDI in German manufacturing: Firm performance and participation in international markets," *Review of International Economics*, vol. 18 (2010), pp. 595-606.

Deutsche Bundesbank, "Direct investment and financial constraints before and during the financial crisis," *Monthly Report December 2011*, pp. 57-68.

Useful websites

Deutsche Bundesbank, "Special statistical publication 10: foreign direct investment stock statistics," available at: www.bundesbank.de/download/statistik/stat_soner/statso10_en.pdf.

Deutsche Bundesbank, "Direct investment according to the balance of payments statistics (for the reporting period 2008-2011)", April 2012, available at: www.bundesbank.de/Redaktion/EN/Downloads/Statistics/External_Sector/Foreign_Direct_Investments/stat_direktinvestitionen_en.pdf?__blob=publicationFile

[1] BMWI, "Investment guarantees of the Federal Republic of Germany – direct investments abroad," Annual Report 2011, available at www.bmwi.de, p. 2.
[2] BMWI, "Investment guarantees", *op. cit.*, p. 2.
[3] BMWI, "Investment guarantees" *op. cit.*, p. 9.
[4] BMWI,"Investment guarantees" *op. cit.*, p. 14.

Statistical annex

Annex table 1. Germany: outward FDI stock,[a] 1990-2010[b]

(US$ billion)

Economy	1990	1995	2000	2005	2009	2010
Germany: consolidated primary and secondary outward FDI stock	151.6	268.4	537.8	978.1	1,412.4	1,428
Germany: primary outward FDI stock[c]	148.5	258.1	484.0	794.2	1,323.0	1,332
Memorandum: comparator economies (primary outward FDI stock)						
United States	731.8	1,363.8	2,694.0	3,638.0	4,287.2	4,767
United Kingdom	229.3	304.9	897.8	1,198.6	1,674.0	1,627
France	112.4	380.0	925.9	1,232.2	1,583.4	1,580
Japan	201.4	238.5	278.4	386.6	740.9	831

Sources: For Germany, Deutsche Bundesbank, "Special statistical publication 10: foreign direct investment stock statistics," available at www.bundesbank.de. The end-of-year stock data in Euro (since 1999) and in D-Mark (before 1999) were converted into US$ values by using end-of-year Dollar/Euro and Dollar/D-Mark exchange rates of the IMF (International Monetary Fund, Exchange Rate Archives by Month, available at: www.imf.org/external/np/fin/data/param_rms_mth.aspx). For comparator countries, UNCTAD's FDI/TNC database, available at http://unctadstat.unctad.org.

[a] Due to differences in statistical recording, the data for the selected economies are not fully comparable.
[b] In Germany, the Deutsche Bundesbank is responsible for the statistical recording of FDI flow and stock data. Flow data are published monthly in the German balance-of-payments statistics. Statistical recording follows the international rules of the IMF and the OECD. German FDI stock statistics are based on reports by domestic enterprises and individuals and are published annually with a time lag of about 15 months. The German stock statistics are of a high quality. Detailed methodological notes are published in Deutsche Bundesbank, "Special statistical publication 10: foreign direct investment stock statistics," available at www.bundesbank.de
[c] For international comparisons, the German primary outward FDI stock should be used (see the explanation in footnote 2 of the text).

Annex table 2. Germany: outward FDI flows, 2002-2011

(US$ billion)

Economy	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Germany	19.0	5.9	20.5	75.9	118.8	170.9	73.1	75.7	109.4	54.4
Memorandum: comparator economies										
United States	134.9	129.4	294.9	15.4	224.2	393.5	308.3	267.0	304.4	396.7
United Kingdom	50.3	62.2	91.0	80.8	86.3	272.4	161.1	44.4	39.5	107.1
France	50.4	53.1	56.7	115.0	110.7	164.3	155.0	107.1	76.9	90.1
Japan	32.3	28.8	30.9	45.8	50.3	73.5	128.0	74.7	56.3	114.4

Sources: For Germany, Deutsche Bundesbank, "Zahlungsbilanzstatistik, Statistisches Beiheft 3," Juli 2011, available at: http://www.bundesbank.de/Redaktion/DE/Downloads/Veroeffentlichungen/Statistische_Beihefte_3/2012/2012_07_zahlungsbilanzstatistik.pdf?__blob=publicationFile. The annual flow data in Euro were converted into US$ values by using annual average Dollar/Euro exchange rates of the IMF (International Monetary Fund, Exchange Rate Archives by Month, available at www.imf.org/external/np/fin/data/param_rms_mth.aspx). For comparator countries, UNCTAD's FDI/TNC database, available at http://unctadstat.unctad.org.

Annex table 3. Germany: distribution of outward FDI stock, by economic sector and industry,[a] 2000, 2010

(US$ billion)

Sector/industry	2000	2010
All sectors/industries	537.8	1,427.6
Primary	4.8	20.6
Agriculture, hunting, forestry, and fishing	0.6	1.7
Mining, quarrying and petroleum	4.2	18.9
Secondary	165.4	400.5
Food, beverages and tobacco	3.7	8.6
Chemicals and chemical products	49.0	113.5
Rubber and plastic products	5.4	12.4
Other non-metallic mineral products	7.2	21.9
Basic metals	2.3	14.2
Fabricated metal products, except machinery and equipment	4.5	11.0
Machinery and equipment	15.1	36.4
Electrical machinery and apparatus	16.4	25.0
Radio, television and communication equipment	5.7	7.6
Medical, precision and optical instruments	6.5	32.8
Motor vehicles, trailers and semi-trailers	38.8	100.1
Services	367.6	1,006.5
Electricity, gas, and water supply	3.9	66.3
Trade, repair of motor vehicles, motorcycles and personal and household goods	65.3	183.3
Transport and communication	7.3	52.7
Finance and insurance	215.8	493.8
of which: Monetary intermediation	56.2	94.2
Other monetary intermediation	126.3	293.6
Insurance and pension funding (except compulsory social security)	24.0	77.4
Real estate, renting and business activities	69.2	191.6
of which: Holding companies	41.6	81.7

Source: Deutsche Bundesbank, "Special statistical publication 10: foreign direct investment stock statistics," available at www.bundesbank.de. The end of year stock data in Euro were converted into US$ values by using end of year Euro-Dollar exchange rates of the IMF (International Monetary Fund, Exchange Rate Archives by Month, available at www.imf.org/external/np/fin/data/param_rms_mth.aspx).

[a] Figures relate to FDI stock by economic activity of the foreign affiliate in the ultimate host economy (including that made by direct investors themselves as well as by their dependent holding companies abroad on a consolidated basis).

Annex table 4. Germany: geographical distribution of outward FDI stock,[a] 2000, 2010

(US$ billion)

Region/economy	2000	2010
World	537.8	1,427.6
Developed economies	479.6	1,218.2
Europe	262.4	877.4
Austria	17.1	38.2
Belgium	22.1	75.8
Czech Republic	6.7	31.2
France	30.5	62.4
Hungary	6.6	22.4
Ireland	7.6	18.7
Italy	17.4	48.9
Luxembourg	18.5	60.0
Malta	n.a.	35.6
Netherlands	33.7	87.0
Poland	7.3	30.7
Spain	12.5	35.9
Sweden	6.1	27.4
Switzerland	15.8	52.3
United Kingdom	50.1	142.2
EU-27	n.a.	774.4
EMU-17	n.a.	499.5
North America	203.1	336.8
Canada	6.0	17.3
United States	197.1	319.5
Other developed economies	n.a.	n.a.
Australia	5.0	22.6
Japan	8.9	20.7
Developing economies	54.9	209.4
Africa	4.4	12.9
South Africa	2.8	8.6
Asia and Oceania	17.5	119.5
China	5.2	39.2
India	1.4	10.6
Singapore	4.5	14.5
Korea, Republic of	2.8	8.8
Latin America and the Caribbean	24.4	41.6
Cayman Islands	3.1	2.8
Brazil	7.9	31.3
South-East Europe and the CIS	n.a.	n.a.
Russia	1.4	20.7
Ukraine	0.3	2.9

Source: Deutsche Bundesbank, "Special statistical publication 10: foreign direct investment stock statistics," available at www.bundesbank.de. The end of year stock data in Euros were converted into US$ values by using end of year Euro-Dollar exchange rates of the IMF (International Monetary Fund, Exchange Rate Archives by Month, available at: www.imf.org/external/np/fin/data/param_rms_mth.aspx).

[a] Figures relate to FDI stock by economic activity of the foreign affiliates in the ultimate host economy (including that made by direct investors themselves as well as by their dependent holding companies abroad on a consolidated basis).

Annex table 5. Germany: top non-financial MNEs, 2011, ranked by foreign assets

Rank	Name	Industry	Foreign assets (US$ billion)	Transnationality Index[a]	Foreign employment
	Non-financial MNEs				
1	E.ON AG	Utilities (electricity, gas and water)	133.0	58.7	43,756
2	Volkswagen AG	Motor vehicles	115.1	61.8	277,105
3	Siemens AG	Electrical & electronic equipment	112.4	77.4	244,000
4	Deutsche Telekom AG	Telecommunications	102.0	54.4	113,568
5	Daimler AG	Motor vehicles	94.2	55.1	103,686
6	BMW AG	Motor vehicles	79.4	66.9	73,324
7	RWE AG	Utilities (electricity, gas and water)	66.4	46.8	30,436
8	BASF AG	Chemicals	55.4	67.2	59,092
9	Deutsche Post AG	Transport and storage	40.7	68.3	255,394
10	ThyssenKrupp AG	Metal and metal products	40.4	65.1	110,928
11	Bayer AG	Pharmaceuticals	39.2	69.6	76,000
12	Linde AG	Chemicals	37.9	90.2	43,056

Source: UNCTAD's FDI/TNC database, available at http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx

[a] UNCTAD's Transnationality Index is the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

Annex table 6. Germany: main M&A deals, by outward investing firm, 2009-2011

Year	Acquiring company	Target company	Target industry	Target economy	Shares acquired (%)	Transaction value (US$ million)
2011	Porsche Holding GmbH	Austria Volkswagen AG	Automobiles	Austria	100.0	4,546.1
2011	Deutsche Telekom AG	Polska Telefonia Cyfrowa Sp	Telephone communication	Poland	51.0	2,777.0
2011	Siemens AG	Siemens LTD	Electrical work	India	19.7	1,354.0
2011	RWE AG	EPZ NV	Electric services	Netherlands	30.0	1,073.6
2011	Alphabet Int.	ING Car Lease Int. BV	Car leasing	Netherlands	100.0	999.1
2011	Fresenius Medical Care	Euromedic Intl.-Dialysis Cntrs	Dialysis center, medical equipment	Netherlands	100.0	647.7
2011	Shareholders	Autoneum Holding AG	Motor vehicle parts	Switzerland	100.0	615.3
2011	Deutsche Telekom AG	OTE SA	Telephone communication	Greece	10.0	585.1
2011	GEA AG	CFS	Food products machinery	Netherlands	100.0	570.9
2011	K+S AG	Potash One Inc	Potash, soda, borate minerals	Canada	100.0	432.6
2010	Merck KGaA	Millipore Corp.	Pharmaceuticals	United States	100.0	6,126.5
2010	Deutsche Bahn	Arriva PLC	Rail transport	United Kingdom	100.0	2,426.1
2010	Volkswagen AG	Suzuki Motor Corp.	Motor vehicles	Japan	19.9	2,527.4
2010	Deutsche Bank AG	Sal Oppenheim jr & Cie SCA	Banking	Luxembourg	100.0	1,913.7
2010	Deutsche Bank AG	ABN AMRO – Business Unit	Banking	Netherlands	100.0	951.0
2010	Daimler AG	Renault SA	Motor vehicles	France	3.2	898.6
2010	Deka Immobilien Inv. AG	Chevron House	Real estate	Singapore	100.0	404.8
2010	Daimler AG	Nissan Motor Co Ltd.	Motor vehicles	Japan	3.2	778.4
2010	Investor Group	STOXX AG	Investors	Switzerland	33.3	306.0
2010	Pfeiffer Vacuum Technology AG	Adixen	Machinery (pumps)	France	100.0	282.7
2009	RWE AG	Essent NV	Electricity, energy	Netherlands	100.0	10,410.7
2009	BASF AG	Ciba Specialty Chemicals	Chemicals	Switzerland	82.9	2,576.3
2009	E.on AG	Severneftegazprom	Coal, oil, natural gas	Russia	25.0	3,958.7
2009	Fleet Investments BV	LeasePlan Corp NV	Car leasing	Netherlands	50.0	1,773.8
2009	K+S AG	Morton International Inc	Mining	United States	100.0	1,675.0
2009	MANSE	Volkswagen Caminhoes e Onibus	Motor vehicles	Brazil	100.0	1,611.6
2009	Deutsche Lufthansa AG	Austrian Airlines AG	Air transport	Austria	53.8	1,443.7
2009	Deutsche Telekom AG	OTE SA	Telephone communication	Greece	5.0	1,043.6
2009	Nordzucker AG	Danisco Sugar	Consumer goods	Denmark	100.0	938.6
2009	Munich Re	HSB Group Inc.	Insurance	United States	100.0	739.0

Source: The author, based on Thomson ONE Banker, Thomson Reuters.

Chapter 8 - Greece

Greece: Outward FDI and its policy context, 2011

Aristidis P. Bitzenis and Vasileios A. Vlachos[*]

With the fall of centrally planned economies in the Balkans, their liberalization and the opening of their borders to free trade and capital movements, Greece became more active in the generation of outward foreign direct investment (OFDI). Greece's OFDI stock increased from US$ 3 billion in 1990 to US$ 6 billion in 2000 and to US$ 38 billion in 2010. The Europeanization process of Turkey and the transition of the economies in the Balkans was accompanied by a gradual rise of FDI from Greece into those economies. More than half of Greece's OFDI stock – over US$ 20 billion in 2009 (67% of total) – is located in South-East Europe: in the Balkans, Cyprus and Turkey. While Greece's early OFDI flows were directed to the secondary sector to reduce costs, the bulk of later flows was directed to the services sector, as new markets were opened. This shift signifies the rise of major corporate players. The Greek Balkan policy, which commenced through the European Union, and the upgrading of the Athens Stock Exchange have positively affected Greece's position as a key regional investor. The expectations for sustaining this leading role, however, have been weakened recently since, due to the Greek sovereign debt crisis, Greek multinational enterprises (MNEs) disinvested US$ 1.6 billion from their FDI abroad in 2010.

Trends and developments

Greece has been a member of the European Union (EU) since 1981 and of the Economic and Monetary Union (EMU) of the EU since June 2000. The Greek economy expanded at an average annual rate of almost 4% during 2004-2007 (one of the highest annual growth rates in the euro area). However, due to the effects of the recent global economic and financial crises and the country's sovereign debt crisis, Greece's GDP decreased in 2009 by 3.8% and in 2010, by 0.9%; the decrease for 2011 is 6%.[1]

The Greek economy suffers from high levels of corruption and bureaucracy, indicating a weak business environment and low global competitiveness level compared with other EU, and especially, EMU-members. By the end of 2009 and especially at the beginning of 2010, as a result of the global crisis and uncontrolled government spending, economic scandals, huge black economy rates, high corruption, and bureaucratic procedures, the Greek economy faced its most severe crisis since 1974 as the Greek Government revised its deficit from an estimated 6% to 15.4% of GDP (2009).[2] The country's debt-to-

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[1] Authors' calculations from provisional and forecasted values of GDP at market prices (millions of PPS). Data available by Eurostat at http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database.

[2] For an early pre-crisis discussion of the need for sustained fiscal consolidation and the issues of productivity and competitiveness in Greece, see OECD, *OECD Economic Surveys: Greece 2005* (Paris: Organisation for Economic Co-operation and Development, 2005).

GDP ratio had risen to 154.3% by the end of the second quarter of 2011 – from 144.9% in 2010 – and is expected to grow further.[1]

In May 2010, the EU and the International Monetary Fund (IMF) developed a rescue package for Greece totalling €110 billion. In March 2011, an agreement was reached for this package to be repaid over an extended time period of 7.5 years and with a lower interest rate of about 4.2%. In July 2011, another rescue package for Greece was put forward (totalling €110 billion), with a voluntary participation ("haircut") of individual investors and private banking institutions. On 26 October 2011, this new rescue package was revised, and both the sum of financial assistance (an extra €130 billion) and the voluntary haircut increased (from 21% to 50%). This second rescue package is expected to provide the necessary timeframe required by Greece to restructure its economy, adopt shock therapy measures, reduce government spending, increase revenues, decrease the shadow economy, and increase competitiveness.

The developments outlined above have implications for outward FDI from Greece, which has grown since 1990 and particularly after 2000. The probable impact of the Greek crisis on the country's OFDI is seen in the sale of foreign affiliates by Greek MNEs to shore up parent enterprises. At the global level, the effect of the current crisis on the performance of MNEs from Greece is minimized due to resilience of the services sector, as this sector accounts for a major part of Greece's OFDI and the diversification into several emerging host economies. The contraction in demand, however, both domestically and globally, jeopardizes the future of Greek MNEs as leading players in South-East European neighbors (economies in the Balkans, Cyprus and Turkey).[2]

Country-level developments

Since the beginning of the 1990s, Greek enterprises have expanded dynamically abroad, fuelled in large part by opportunities for investment in neighboring economies that had begun the transition from centrally-planned to market-oriented economic systems. The early motives of cost reduction in response to competitive pressures were soon replaced by the potential of new markets in geographic proximity. The proximity with countries in South-East Europe (SEE) provides MNEs from Greece with a competitive advantage in those countries over rival MNEs from other developed countries.

Annex table 1 suggests that, despite the considerable growth of its OFDI stock since 1990 and particularly during the past decade,[3] Greece is still underachieving in comparison with most of the comparator countries, which are also EU/EMU members. Greece's OFDI stock in 2010 was higher than that of only two of the comparator countries – the neighboring EU countries Bulgaria and Cyprus, which had nominal GDPs that were approximately 16% and 8%, respectively, of the size of Greek nominal GDP.[4] Austria with a nominal GDP in 2010 that was approximately 124%, and Ireland with about 67% of that of Greece, have more than four and nine times higher OFDI than Greece. Portugal and Spain also

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[1] Provisional and forecasted values general of government's consolidated gross debt to GDP at market prices. Data available at: Eurostat, *op cit.*

[2] The term "Balkans" is used in this *Profile* to include Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the FYR of Macedonia, Moldova, Montenegro, Romania, Serbia, and Slovenia; the term "South-East Europe" (SEE) denotes Cyprus, Turkey and the Balkans.

[3] Data from Eurostat indicate that Greece's OFDI stock grew steadily until 2009, before declining in 2010 (latest data available); annex table 1.

[4] Data on nominal GDPs available by UNCTAD at http://unctadstat.unctad.org.

had larger OFDI stocks in 2010 than Greece: 1.7 times in the case of Portugal (with a GDP about three-quarters the size of Greek GDP) and 17 times higher in the case of Spain (with a GDP about four and a half times the size of Greece's GDP). In terms of OFDI performance over time, during 1990-2010, Greece's OFDI stock grew to 13 times its size in 1990 – during 1990-2010, a growth rate higher than that of Bulgaria, but lower than that of the rest of the comparators.

Annex table 2 indicates Greece's OFDI performance in terms of annual OFDI flows during 2000-2010. After a steady growth until 2007, flows have decreased from 2008 onwards due to the global economic and financial crises and Greece's own sovereign debt crisis. In contrast, Cyprus, a country of the Mediterranean basin with great cultural proximity to Greece and a much lower OFDI stock (and GDP), exhibits from 2008 onwards a higher rate of growth of OFDI flows than Greece. Greece's OFDI flows in 2010 are lower than those of all the comparator countries considered, except for Bulgaria and Portugal.

The size of Greece's OFDI relative to its inward FDI (IFDI) characterizes the country as one that is more a host than a home to FDI, with IFDI exceeding OFDI in terms of stock as well as recent flows (annex table 2a). This situation is not likely to change, at least in the short-term, due to mass privatization deals expected to take place in 2012-2015. However, the decline of IFDI stock in 2010[1] – mainly due to the Greek sovereign debt crisis and the contraction in domestic demand – has generated a positive net OFDI position (outflows exceeding inflows) that also continues in 2011.[2]

Greece's net FDI position[3] places the country at the third stage of the investment development path (IDP), where the ownership advantages of domestic firms allow them not only to compete locally with foreign firms but also to expand their activity abroad. The notion of the IDP clarifies further Greece's OFDI underachievement in relation to most of the comparator countries of annex tables 1 and 2. Austria, Ireland and Spain are in the fourth stage of the IDP, indicating a superiority of OFDI over IFDI. Bulgaria is in the second stage of the IDP, signaling an increasingly negative net FDI position due to small amounts of OFDI. Portugal and Cyprus, which are in the third stage of the IDP – like Greece – generate much greater amounts of OFDI stock per capita than Greece.[4]

Annex table 3 indicates the sectoral distribution of OFDI flows from Greece. There has been a shift in the composition of Greek OFDI flows from manufacturing to services in the 2000s. In 2000, OFDI was

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[1] In 2010, Greece's OFDI stock decreased by 4%, while IFDI stock declined by 20% (see annex tables 1 and 2). According to the Bank of Greece, however, the OFDI stock increased by 17% in 2010, while the IFDI stock decreased by 10% (Bank of Greece, International investment position data, available at: http://www.bankofgreece.gr/BogDocumentEn/International_Investment_Position-Data.xls.

[2] A negative net OFDI position will ultimately occur and persist at least until the end of the 2010-2020 decade. When the size of privatizations plan (approximately US$ 70 billion) – that will eventually be concluded by 2015-2020 – is compared to the size of Greece's OFDI (which peaked at approximately US$ 40 billion), the expectations for Greece to be characterized as a net outward investor are not realistic, at least in the medium-term.

[3] As already stated, the positive net FDI position from 2010 onwards (annex table 3) is circumstantial due to disinvestments influenced by the escalating sovereign debt crisis.

[4] For the placement of Greece and comparator countries in the IDP – except for Bulgaria and Cyprus – see J. Duran and F. Ubeda, "The investment development path: A new empirical approach and some theoretical issues," *Transnational Corporations*, vol. 10 (2001), pp. 1-34. For Cyprus' placement on the IDP, see M. Fonseca, A. Mendonca and J. Passos, "The investment development path hypothesis: A panel data approach for Portugal and the cohesion countries, 1990-2007," *The Business Review, Cambridge*, vol. 12 (2009). For Bulgaria's placement in the IDP, see B. Boudier-Bensebaa, "FDI-assisted development in the light of the investment development path paradigm: Evidence from Central and Eastern European countries," *Transnational Corporations*, vol. 17 (2008), pp. 37-67.

mainly directed to the secondary sector for cost reduction, e.g. to food products. In 2009, however, OFDI flows were directed primarily to the services sector (as new markets developed) and mainly to financial intermediation[1] and post and telecommunications.[2]

Annex table 4 portrays the geographical distribution of Greek OFDI flows. Between 2000 and 2009, there has been a considerable decrease of OFDI flows from Greece to the United States and an increase of OFDI flows to the euro area.[3] Investments made in the euro area flow mainly to Cyprus, Malta and the Netherlands. Other important EU investment destinations include the United Kingdom, Bulgaria and Romania. Albania, Serbia and the Former Yugoslav Republic (FYR) of Macedonia also play an important role as hosts to FDI from Greece. Most recently, there has been a significant increase of OFDI flows to Asia.[4]

The basic motives for the expansion of MNEs from Greece[5] are the search for new markets, the acquisition of strategic resources, low labor cost, geographical proximity, and the absence of decisive western investment interest in some locations.[6] MNEs from Greece offer mature products/services ready for consumption, adjusted to the needs of the host market, and their host-country activities are generally at the final stage of the production chain. Other factors such as market size, openness, capital productivity, and labor costs on the sectoral level also influence the decision of Greek firms to invest abroad.[7]

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[1] Greece's commercial banks, faced with a relatively small and increasingly saturated domestic market, have been expanding rapidly in the Balkans for the past decade, acquiring existing firms or establishing new branches. They have faced stiff competition from much larger European banks, but still managed to enjoy market shares in the Balkans that range in total between 16% and 28%. For example, the "big four" (National Bank of Greece – NBG – Alpha Bank, Eurobank EFG and Piraeus Bank) have an estimated market share of 28% in FYR of Macedonia, 25% in Albania and 16% in Serbia. See UNCTAD, *World Investment Report 2010: Investing in a Low-Carbon Economy* (New York: United Nations, 2010), p. 54.

[2] The interest of Greek enterprises in OFDI in the post and telecommunications industry dates to before 2000. For example, in 1996-2000, Greece was among the most important home countries for FDI inflows in Yugoslavia, and the Hellenic Telecommunications Organization was one of the top two investors. See UNCTAD, *World Investment Report 2001: Promoting Linkages* (New York: United Nations, 2001), p. 32.

[3] A rising trend of FDI flows from Greece should be expected within the euro area during the pre-crisis era, since it has been indicated that the euro has generally favored intra-euro area trade and FDI. See R. Baldwin et al., "Study on the impact of the Euro on trade and foreign direct investment," *European Economy Economic Papers no. 321* (Brussels: European Commission, Directorate-General for Economic and Financial Affairs, 2008).

[4] This increase occurred gradually. For example, the value of cross-border M&As in West Asia in 2006 rose by 26% over that in the previous year. M&As by MNEs from developed countries jumped considerably, from US$ 3 billion to US$ 15 billion: Greece, the United Kingdom and Belgium, followed by the United States, were the main home countries of those MNEs (in that order), accounting for over 75% of total M&As. See UNCTAD, *World Investment Report 2007: Transnational Corporations, Extractive Industries and Development* (New York: United Nations 2007), p. 49. The increase of Greek OFDI flows to East Asia is mainly due to an increase in flows to Hong Kong (China) and related primarily to serving the domestic market of the host country. Annex table 4a indicates a continuous rise of Greece's OFDI to Hong Kong (China).

[5] The determinants of OFDI from Greece do not differ from the general conclusions of the literature on the motives of FDI. MNEs investing abroad in the services sector are primarily market-seeking, while those investing abroad in the manufacturing sector are primarily resource and efficiency-seeking.

[6] For a discussion of these motives see A. Bitzenis, "Determinants of Greek FDI outflows in the Balkan region: The case of Greek entrepreneurs in Bulgaria," *Eastern European Economics*, vol. 44 (2006), pp. 79-96. With respect to the absence of decisive western investment interest, "investors in the economically developed countries are maintaining a 'wait-and-see' attitude." See page 25 of S. Karagianni and L. Labrianidis, "The pros and cons of SMEs going international," *Eastern European Economics*, vol. 39 (2001), pp. 5-28.

[7] See report published in Greek by M. Papanastasiou, *Subsidiaries of Greek Multinational Companies and Internationalisation Strategies* (Athens: Foundation for Economic and Industrial Research, 2009). In addition, see Bitzenis, *op. cit.).*

The majority of Greece's OFDI is directed to small open economies. MNEs from Greece are among the major foreign direct investors in countries of SEE.[1] Annex table 4a indicates that fourteen host economies/areas accounted, in 2010, for over 95% of Greece's OFDI stock;[2] the primary host being Cyprus that also acts as a channel for transhipped FDI. The motives behind the expansion of Greek MNEs mentioned earlier characterize the attractiveness of the key hosts, except for the case of offshore financial centers (e.g., Cayman Islands, Bouvet Island), where the motives to invest are tax-related.[3]

Annex table 4a also indicates that Luxembourg – where enormous disinvestments took place during 2008-2009 – used to be a key host before 2009.[4] Spain and the United Kingdom were also key hosts; the former for the period 2002-2005 and the latter for the period 1999-2004.[5] Finally, the share of Greece's OFDI to the euro area dropped in 2010 by 10%, mainly due to disinvestments in Netherlands' financial sector.[6]

Annex table 4a indicates, moreover, that, in 2010, 28% of Greece's OFDI stock (27% in 2008) was located in key host countries of the Balkans. These figures are the outcome of Greek Balkan policy and Greece's geographical and cultural proximity to the Balkans, and reflect the desire of Greek MNEs to play a leading role in that area. However, the share mentioned above does not represent the actual amount of Greece's OFDI that is directed to the Balkans. For example, MNEs from Greece often establish their headquarters for expansion to the Balkan region in countries with lower corporate tax rates (e.g., Cyprus and Luxembourg). Therefore, a certain amount of Greece's OFDI in these countries is actually transferred to the Balkans.[7]

The corporate players

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[1] Based on the authors' calculations for 2008, Greece accounted for a considerable share of the IFDI stock of several countries: 51% in Cyprus, 24% in Albania, 14% in the FYR of Macedonia, 13.3% in Serbia, 6.7% in Turkey, 6.6% in Romania, and 4.2% in Bulgaria (OECD FDI statistics available at http://stats.oecd.org/Index.aspx?DataSetCode=CSE_2010#). The share of Greece's OFDI to SEE rose from 68.4% in 2008 to 69.2% in 2010 (see annex table 4a).

[2] This number occurs by including the share of offshore financial centers indicated in 2009 by Eurostat, since the Bank of Greece has not provided relevant data.

[3] For example, the Cayman Islands do not have any income or corporation tax and are considered a major offshore financial center. In addition, the Bouvet Island is uninhabited and has offshore anchorage only. In addition, tax motives have a primary role for OFDI from Greece that is directed to Cyprus.

[4] Data from the Bank of Greece (Statistics Department, Balance of Payments Statistics Division) indicate that Greece's OFDI stock in Luxembourg's financial sector was reduced from US$ 1.37 billion in 2008 to US$ 131.1 million in 2009 (conversion to US dollars is based on IMF exchange rates archives by month at http://www.imf.org/external/np/fin/data/param_rms_mth.aspx.). In addition, annex table 4 indicates that Malta attracted 12.5% of Greece's OFDI flows in 2009, although it is not among the key hosts, defined in terms of the share of Greece's OFDI stock, shown in annex table 4a.

[5] Data available by Eurostat, *op cit.*

[6] Data from the Bank of Greece (Department of Statistics, Balance of Payments Statistics Division, Department of International Investment Position).

[7] More than half of Bulgaria's IFDI flows from tax havens such as Cyprus or Luxembourg reflect investments by Greek MNEs. See, for example, A. Bitzenis, "Explanatory variables for low Western investment interest in Bulgaria," *Eastern European Economics*, vol. 42 (2004), p. 12. Especially for Luxembourg, most of its share of EU FDI is explained by financial intermediation and the activities of "special purpose entities".

Early OFDI flows from Greece (1987-1994) took place through mergers and acquisitions (M&As) that were triggered by the consolidation of production capabilities within a few enterprises in the country.[1] Such consolidation provided them with a new powerful base in terms of technology and capital, making possible the transfer of production and commercial processes abroad. During that period, the constraints for undertaking international investment generally faced by small and medium-sized enterprises were common to Greek firms interested in investing abroad. However, this was not due to their size but rather to the lack of experience and the prevailing family ownership ethos.

Greek affiliates of MNEs from other countries were the first that expanded beyond the Greek borders. Purely domestic firms – ranging from small enterprises to large traditional firms – seized the opportunities for international expansion and engaged in foreign production afterwards, by using their accumulated experience and expertise.[2] The successful establishment of foreign affiliates by parent companies from Greece in the emerging Balkan region, which was triggered by the search for new markets, leads to the conclusion that it is not only diversification – in terms of the number of host countries – that was found desirable, but, also, and more importantly, the establishment of a leading role.[3]

A ranking of the top ten Greek MNEs in terms of outward investment through M&A deals conducted in 2000-2009 shows that the majority of those MNEs is in the services sector and has significant presence in the Balkans and Turkey (annex table 5). Top investing MNEs included: National Bank of Greece (NBG), HBC/3E and Eurobank EFG. NBG and Eurobank EFG led the way of the expansion of the Greek banking sector to the faster growing neighboring SSE countries. HBC/3E is the second largest bottler of soft drinks trademarked by Coca-Cola, globally.

Annex table 6 provides details of the main cross-border M&As by MNEs from Greece for the period 2007-2009. Although the largest transaction took place in the primary sector, the majority of the M&As occurred in the services sector. In addition, while more than half of Greece's OFDI stock is located in SEE, only one-fourth of the investment total of the main M&As went to this region in 2007-2009.

[1] See A. Kamaras, "A capitalist diaspora: The Greeks in the Balkans," *Hellenic Observatory (European Institute) Discussion Paper no. 4* (London: London School of Economics and Political Science 2001), p. 14.

[2] The accumulated experience of purely domestic firms, which was the product of both the spill-over effects from the activities of MNEs in Greece and the regional consolidation of production capabilities, led to imitation of the international expansion of the Greek affiliates of foreign MNEs. 3E, one of Coca-Cola's anchor bottlers, is an example of Greek affiliates of foreign MNEs engaged in FDI from Greece. On the other hand, the ice cream manufacturer Delta became the first Greek MNE. See Kamaras 2001, op. cit., pp. 14-15).

[3] This is illustrated by the role of Greek FDI in the banking industries of countries of SEE. Austrian and Greek banks have the lead in investment in banking in the Balkans, though the expansion of French and Italian banks is also noteworthy. Greek banks were extending their reach into neighboring countries of SEE, which were growing twice as fast as the Greek domestic market. By 2005, Greek banks had spent US$1 billion buying banking assets in the Balkans. During 2005-2007 the number of their M&As accelerated, with the five largest Greek banks (NBG, Alpha Bank, Eurobank EFG, ATE bank, Piraeus Bank) stepping up their commercial and retail banking investments. Notable M&As during that period were those of NBG in Turkey (Finansbank), Serbia (Vojvodjanska Banka), Romania (Banca Romaneasca), and Bulgaria; by Eurobank EFG in Turkey (Tekfenbank) and Bulgaria (DZI Bank and Postbanka); by Alpha Bank in Serbia (Jubanka); by ATE bank in Serbia (AIK Banka) and Romania (Mindbank); and by Piraeus Bank in Serbia (Atlas Banka) and Bulgaria (Eurobank EFG). During the same period, NBG pulled out of Central and Western Europe by closing uncompetitive branches in Frankfurt, Paris and Amsterdam. (UNCTAD, *World Investment Report 2008: Transnational Corporations and the Infrastructure Challenge* (New York: United Nations 2008), p. 32).

Annex table 7 shows greenfield projects abroad by MNEs from Greece for the period 2007-2009. More than half of the greenfield projects (accounting for around US$ 4.5 billion of investment) took place in SEE. In terms of value, the funds were allocated to the services sector (mainly financial and real estate services), the energy industry (both traditional and renewable energy sources) and the food industry, mainly beverages. These industries are among those the least affected to date by the global crisis.

Effects of the recent global crisis

Reduced access to finance, gloomy prospects for economic and market growth and risk aversion are the channels of transmission of the recent global financial and economic crisis to FDI flows.[1] Business-cycle-sensitive industries such as motor vehicles and equipment and retail trade have been severely affected,[2] while agrifood, pharmaceutical and service industries in general seem to have been more resilient.[3] As noted, the majority of Greek OFDI flows is directed to the services sector (annex table 3), and the biggest MNEs from Greece in terms of the accumulated value of cross-border M&A investments (2000-2009) belonged to service industries (financial intermediation, telecommunications, maritime transport among other activities), while one of them belongs to the food (beverages) industry (annex table 5).

As already mentioned, Greek MNEs' activities abroad relate mainly to the final stage of the production chain of mature products/services. Consequently, the short-term effect of the global economic crisis on the OFDI performance of Greek MNEs depends largely on the propensity to consume and competitive pressures due to price sensitivity in the host countries. The diversification of the expansion of Greek MNEs into several emerging markets helps to minimize the negative effects of the contraction of economic growth. In addition, since diversification and, in particular, the establishment of a leading role have been both the outcome and the basis for potential expansion in the emerging Balkan region, a potential strategy of major cut-backs in the activities of foreign affiliates as a means of cost reduction would have negative effects on the future of MNEs from Greece.[4]

The policy scene

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[1] UNCTAD, *Assessing the Impact of the Current Financial and Economic Crisis on Global FDI Flows* (New York: United Nations, 2009), p. 19.

[2] Industries providing goods that consumers and businesses can postpone purchasing during recessionary periods are sensitive to business-cycles fluctuations. See J. Berman and J. Pfleeger, "Which industries are sensitive to business cycles?", *Monthly Labor Review*, vol. 120 (1997), pp. 19-25.

[3] See UNCTAD, *World Investment Prospects Survey: 2009-2011* (New York: United Nations 2009), p. 33.

[4] The finding that Greek enterprises with internationalized activities are more competitive and have a competitive advantage over Greek enterprises that do not engage in international business supports the likelihood of such effects. See reports for several industries about the motives for and barriers to internationalization, undertaken by the Federation of Industries of Northern Greece in 2008. Titles in Greek are available online at: http://www.sbbe.gr/m2/m2_3.asp. This finding exemplifies further the motives for the expansion of MNEs from Greece and the desire for a part of their profits to be the outcome of this expansion (for this desire see consolidated annual reports of all major Greek banks operating abroad). For an overview of the negative effects that both the recession and the financing constraints on Greek MNEs have on Greece's OFDI – primarily of the banking sector – to the Balkans see L. Kekic, "The Greek crisis: The threat to neighboring Balkan economies," in W. Bartlett and V. Monastiriotis, eds., *South East Europe after the Economic Crisis: A New Dawn or Back to Business as Usual?* (London: LSEE, 2010); P. Economou and M. Thomas, "Greek FDI in the Balkans: How is it affected by the crisis in Greece?," *Columbia FDI Perspectives,* no. 51 (November 21, 2011).

The most important policy influencing Greek OFDI flows is the Europeanization process of the Balkan region.[1] Greece is a "bridge" between the EU and the Balkan countries, as indicated by the Greek Balkan policy, including initiatives through the EU. From the "Thessaloniki agenda for the Western Balkans"[2] to the admission of Bulgaria and Romania as full members of the EU and onwards, Greece has:

- provided full support for Bulgaria's and Romania's membership;[3]
- provided full support for the "Stabilization and Association Process";[4]
- increased the amount of the bilateral aid to the Balkan countries; and
- put forward the Hellenic Plan for the Economic Reconstruction of the Balkans (HiPERB 2002-2011).[5]

The Greek Balkan policy has positively affected the country's position as a key regional investor. Both the HiPERB and, at the national level, the upgrading of the Athens Stock Exchange (ASE) from a developing to a developed financial market[6] have contributed significantly to the economic penetration and activity abroad of Greek and Greece-based corporations.

Other policies have not been that successful. For example, subsidies promoting OFDI prior to HiPERB – such as Law 2601/98 – did not manage to boost its size, which accelerated greatly only after 2003. In addition, the Thessaloniki Stock Exchange Center (TSEC), which was founded in 1996 with the ambition of promoting OFDI in the Balkans and other neighboring countries, has failed to fulfill the expectations so far.[7]

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[1] Both the Single Market and the euro influence greatly in a positive manner the level of trade and FDI. See, for example, Baldwin et al. (2008), *op. cit.*

[2] For the EU-Western Balkans Summit-Declaration see online the European Commission Enlargement site at: http://ec.europa.eu/enlargement/enlargement_process/accession_process/how_does_a_country_join_the_eu/sap/thessaloniki_summit_en.htm.

[3] Greece also provides full support for the prospective membership of Albania, Croatia, the FYR of Macedonia, Montenegro, Serbia, and Turkey.

[4] For the Stabilization and Association Process (the framework for EU negotiations with the Western Balkan countries), see online the European Commission Enlargement site at: http://ec.europa.eu/enlargement/enlargement_process/accession_process/how_does_a_country_join_the_eu/sap/index_en.htm.

[5] Details of HiPERB provided by the Greek Ministry of Foreign Affairs are available at: http://www.mfa.gr//en-US/Economic+Diplomacy/HiPERB/). Four-fifths of the HiPERB fund contributes directly to the development of infrastructure and networks necessary for private ventures and one-fifth is a subsidy for private ventures in the primary and secondary sectors.

[6] Greece is regarded by the FTSE Group (among others) as a developed market after meeting criteria such as market capitalization and developing a derivatives market. For example, legal reforms during the 1990s that improved transparency and regulation and the establishment of a derivatives market in 1999 contributed to the increase of the market size of the ASE and enhanced its importance and reliability as a fundraiser. See E. Springler, "Financial liberalization, stock markets and growth in economies with underdeveloped financial markets," *European Political Economic Review*, vol. 3 (2006), pp. 70-71.

[7] Law 2601/1998 launched government subsidies in the late 1990s for ventures abroad by Greek entrepreneurs/enterprises and MNEs based in Greece. Although it managed to stimulate investment flows of GDR 2.24 billion – directed mainly to Tirana and Korce (Albania) – that led to the creation of 8.000 jobs abroad (announcement in Greek by Greek Ministry of Foreign Affairs at http://agora.mfa.gr/frontoffice/portal.asp?cpage=NODE&cnode=57&fid=14663), it had not managed to generate the boost on OFDI that commenced in 2004 – see annex table 2. Similarly, although the TSEC was founded in 1996 with the aim of attracting the headquarters of foreign MNEs wishing to expand in the Balkans, it has not yet met these expectations.

Finally, Greece has signed 43 (of which 39 are in force) bilateral investment treaties (BITs) and 46 double taxation treaties (DTTs) on income and capital.[1] The only key host economy of Greece's OFDI (see annex table 4) that have signed any of these two types of international investment agreements after 2000 – the decade that Greece's OFDI boomed – is Turkey. This leads to the conclusion that both BITs and DTTs have not played an important role to the development of Greece's OFDI.[2]

Conclusions

MNEs from Greece have been extending their reach into SEE with the aim of establishing a leading role in those economies. They have been largely successful in that respect, especially after 2000; to a considerable extent, Greece's geographical and cultural proximity to the SEE region provides a competitive advantage over rival MNEs from other developed countries. Although this aim has been realized as MNEs from Greece are among the major foreign direct investors in SEE countries, the effects of the global crisis and the Greek sovereign debt crisis weaken future expectations for sustaining this leading role.

The escalation of the Greek sovereign debt crisis since November 2009 has led to an unfavorable shift in expectations for the country's economic growth. The recession has deepened as the contraction in domestic demand continues in 2011. Both, the internal situation (recession) and the external conditions (in host economies of Greece's OFDI), force the major MNEs from Greece to disinvest. This problematic situation will sustain the decrease of Greece's OFDI flows that commenced in 2008, at least through 2011. Although the deterioration of IFDI stock in 2010-2011 has resulted in a positive net OFDI position for the time being, the current and expected decrease of OFDI stock, along with the increase of IFDI stock from the prolonged privatizations that have been planned, are expected to hold back Greece's advancement to a net outward investor till at least the end of the present decade.

The short-term aim of MNEs from Greece is survival until liquidity constraints are lifted and the economy regains growth. Until the advancement of recovery to a level at which the availability of funds will allow for further foreign expansion, MNEs from Greece are likely to aim for generating a part of their total annual profits from foreign affiliates only to the extent that liquidity constraints and cost reduction allows.[3]

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[1] See UNCTAD; for BITs at http://www.unctad.org/sections/dite_pcbb/docs/bits_greece.pdf, for DTTs at http://www.unctad.org/sections/dite_pcbb/docs/dtt_Greece.PDF.

[2] There are studies that examine Greece among others and find that both BITs and DTTs stimulate OFDI growth. For the case that BITs generally have a positive effect on OFDI see R. Desbordes and V. Vicard, "Foreign direct investment and bilateral investment treaties: An international political perspective," *Journal of Comparative Economics*, vol. 37 (2009), pp. 372-386. Similarly, for the case that DTTs lead to higher FDI stocks see F. Barthel, M. Busse and E. Neumayer, "The impact of double taxation treaties on foreign direct investment: Evidence from large dyadic panel data," *Contemporary Economic Policy*, vol. 28 (2010), pp. 366-377. Although the paper of Barthel et al. examines Greece as a host country, the general implication is that DTTs have a positive impact on OFDI. However, there is no consensus that these two types of international investment agreements increase OFDI from developed to developing countries. See K.P. Sauvant and L.E. Sachs, eds, *The Effect of Treaties on Foreign Direct Investment: Bilateral Investment Treaties, Double Taxation Treaties, and Investment Flows* (Oxford: Oxford University Press, 2009).

[3] In an example regarding the Greek banks operating abroad, after the outbreak of the sovereign debt crisis the contribution of profits from foreign affiliates allowed the compensation of losses reported in the Greek market. However, gloomy prospects of the Greek market, liquidity constraints, and recapitalization plans from the anticipated program for the Greek bonds exchange have negatively affected their international activities by forcing them to sale foreign affiliates.

Additional readings

Bitzenis, A., “Determinants of Greek FDI outflows in the Balkan region: the case of Greek entrepreneurs in Bulgaria,” *Eastern European Economics*, vol. 44 (2006), pp. 79-96.

Demos, A., F. Filippaios and M. Papanastassiou, “An event study analysis of outward foreign direct investment: the case of Greece,” *International Journal of the Economics of Business*, vol. 11 (2004), pp. 329-348.

Kalogeresis, A. and L. Labrianidis, “From spectator to walk-on to actor: An exploratory study of the internationalisation of Greek firms since 1989,” *European Journal of Comparative Economics*, vol. 7 (2010), pp. 121-143.

Kitonakis, N. and A. Kontis, “The determinants of Greek foreign direct investments in southeast European countries,” *Southeast European and Black Sea Studies*, vol. 8 (2008), pp. 269-281.

Stoian, C.R. and F. Filippaios, “Dunning's eclectic paradigm: A holistic, yet context specific framework for analyzing the determinants of outward FDI: Evidence from international Greek investments,” *International Business Review*, vol. 17 (2008), pp. 349-367.

Useful websites

Bank of Greece: (http://www.bankofgreece.gr/Pages/en/default.aspx).

The Hellenic Statistical Authority: (http://www.statistics.gr/portal/page/portal/ESYE).

Invest in Greece Agency: (http://www.investingreece.gov.gr/default.asp?pid=21&la=1).

Annex table 1. Greece: outward FDI stock, 1990, 2000, 2009, 2010, 2011

(US$ billion)

Economy	1990	2000	2009	2010	2011
Greece	2.9	6.1	39.5	37.9	43
Memorandum: comparator economies					
Austria	4.7	24.8	163.6	169.7	199.3
Bulgaria	0.1	0.0	1.4	1.5	2
Cyprus	0.0	0.6	16.7	20.6	8
Ireland	14.9	27.9	289.3	348.7	324.2
Portugal	0.9	19.8	68.5	64.3	68.1
Spain	15.7	12.9	64.6	660.2	640.3

Source: UNCTAD (http://unctadstat.unctad.org).

Annex table 2. Greece: outward FDI flows, 1995 and 2001-2011

(US$ billion)

Economy	1995	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Greece	0.0	0.6	0.7	0.4	1.0	1.5	4.0	5.2	2.4	2.1	1.3	1.8
Memorandum: comparator economies												
Austria	1.1	3.1	5.8	7.1	8.3	11.1	13.7	39.0	29.5	7.4	10.9	30.5
Bulgaria	0.0	0.0	0.0	0.0	-0.2	0.3	0.2	0.3	0.8	-0.1	0.2	1.9
Cyprus	0.0	0.2	0.5	0.6	0.7	0.6	0.9	1.2	4.1	5.1	4.2	1.8
Ireland	0.8	4.1	11.0	5.5	18.1	14.3	15.3	21.1	18.9	26.6	17.8	-2.1
Portugal	0.7	6.3	-0.1	6.6	7.5	2.1	7.1	5.5	2.7	0.8	-8.6	12.6
Spain	4.7	33.1	32.7	28.7	60.5	41.8	104.2	137.1	74.7	9.7	21.6	37.3

Source: UNCTAD (http://unctadstat.unctad.org).

Annex table 2a. Greece: net FDI position, 2008-2011

(US$ million)

Source	Net FDI position	2008[b]	2009[b]	2010[b]	2011[c]
OECD	Outward less inward FDI stock	-701.5	-2,625.6	n.a.	n.a.
	FDI outflows less inflows	-2,080.6	-379.6	n.a.	n.a.
UNCTAD	Outward less inward FDI stock	-886.5	-2,643.5	4,317.26	n.a.
	FDI outflows less inflows	-2,081.1	-381.3	-919.5	n.a.
Bank of Greece[a]	Net international investment position (Outward less inward FDI stock)	-886.5	-2,643.5	7,551	15,446.2

Sources: OECD (http://stats.oecd.org/index.aspx?); UNCTAD (http://unctadstat.unctad.org); Bank of Greece (http://www.bankofgreece.gr/Pages/el/Statistics/externalsector/international.aspx).

[a] Conversion to US dollars is based on IMF exchange rates archives by month at http://www.imf.org/external/np/fin/data/param_rms_mth.aspx.

[b] Noticeable differences in figures are assumed to be due to differences in methodology/coverage.

[c] End of third quarter 2011.

Annex table 3. Greece: sectoral distribution of outward FDI flows, 2000, 2009

(US$ million)

Sector/industry	2000	2009
Primary		
Agriculture and fishing	1.8	0.3
Mining and quarrying	14.0	11.7
Extraction of petroleum and gas	0.0	0.0
Secondary		
Manufacturing	1,579.2	-269.0
Food products	1,559.8	42.1
Textiles and wearing apparel	4.4	-2.3
Wood, publishing and printing	0.0	1.7
Refined petroleum products and other treatments	4.6	-378.7
Manufacture of chemicals and chemical products	1.1	27.4
Rubber and plastic products	1.1	30.5
Metal Products	-8.1	7.8
Mechanical products	1.1	-3.7
Office machinery and computers	0.2	1.7
Radio, TV, communication equipments	-1.5	4.8
Motor vehicles	-0.2	0.0
Other manufacturing	16.8	-0.1
Electricity, gas and water	0.1	7.1
Construction	16.9	45.8
Services		
Total services	142.2	2,016.4
Trade and repairs	65.7	171.6
Hotels and restaurants	0.3	67.9
Transport and storage	-0.4	53.2
Post and telecommunications	50.1	589.8
Financial intermediation	0.1	820.7
Real estate activities and private purchases and sales of real estate	0.3	173.6
Computer and related activities	0.1	4.5
Research and development	0.0	0.3
Other business activities (legal, accounting, market research, management, consultancy, architectural, advertising)	21.5	11.5
Education, health and social work	3.0	41.1
Recreational, cultural and sporting activities	0.0	0.0
Other services	1.3	82.4
Unspecified other sectors/industries		
Unspecified economic activity	404.8	94.1
TOTAL	2,159.1	1,906.3

Source: Data from the Bank of Greece (Department of Statistics, Balance of Payments Statistics Division, Department of International Investment Position). Conversion to US dollars based on IMF exchange rates archives by month, available at: http://www.imf.org/external/np/fin/data/param_rms_mth.aspx.

[a] The activity breakdown is based on Eurostat's classification in Balance of Payments Vademecum (December 2008).
[b] The activity breakdown is based on the sector of economic activity of the Greek direct investor company.
[c] From 2003 onwards, FDI data include reinvested earnings.

Annex table 4. Greece: geographical distribution of outward FDI flows, 2000, 2009

(US$ million)

Region/economy	2000	2009
Total	2,159.1	1,906.3
Developed economies		
Europe	1,933.6	1,861.7
European Union	1,876.0	1,643.5
Euro Area	135.0	1,667.1
Austria	-0.1	71.3
Belgium	6.3	4.3
Bulgaria	6.4	151.1
Cyprus	75.6	955.3
Czech Republic	0.0	-8.6
Denmark	1,718.7	0.0
Estonia	0.4	-0.1
Finland	0.0	0.1
France	2.2	6.1
Germany	46.0	31.4
Hungary	0.0	2.4
Ireland	1.8	-0.1
Italy	-6.1	-7.5
Latvia	1.7	0.0
Lithuania	0.0	0.1
Luxembourg	2.0	47.0
Malta	0.2	267.4
Netherlands	5.9	251.2
Poland	0.0	27.2
Portugal	0.0	2.9
Romania	15.1	146.9
Slovakia	1,741.0	-0.9
Slovenia	0.0	4.3
Spain	1.2	34.4
Sweden	1.3	0.9
United Kingdom	0.9	343.6
Other European economies	57.6	218.3
Albania	45.7	161.1
Serbia & Montenegro	-0.1	20.9
Croatia	0.0	1.4
FYR of Macedonia	4.6	37.9
Switzerland	-4.4	40.3
Turkey	11.2	6.3
Russian Federation	0.3	21.5
North America	165.0	15.3
United States	163.5	5.2
Canada	0.0	0.6
Oceania	-0.5	-111.1
Australia	-0.3	2.4
Asia	8.8	100.8
China	0.0	-5.3
Japan	4.4	2.3
Africa	1.8	2.6
Egypt	1.8	1.2
Unspecified economies	50.5	37.0

Source: Data from the Bank of Greece (Department of Statistics, Balance of Payments Statistics Division, Department of International Investment Position). Conversion to US dollars based on IMF exchange rates archives by month at http://www.imf.org/external/np/fin/data/param_rms_mth.aspx

[a] The geographical breakdown is based on Eurostat's classification in Balance of Payments Vademecum (December 2008);

[b] From 2003 onwards, FDI data include reinvested earnings.

Annex table 4a. Greece: key host economies[a] for outward FDI, 2006-2010

Host economy/area	Outward FDI stock				
	2006 (US$ million)	2007 (US$ million)	2008 (US$ million)	2009[b] (Per cent)	2010[b] (Per cent)
Albania	n.a.	649.7	677.8	1.8[c]	1.3
Austria	n.a.	n.a.	n.a.	1.4	1.0
Bouvet Island	n.a.	n.a.	908.7	n.a.	n.a.
Bulgaria	1,234.6	1,700.3	1,882.5	5.1	6.5
Cayman Islands	n.a.	575.7	1,311.7	n.a.	n.a.
Cyprus	7,002.0	10,405.1	10,757.4	28.3	27.7
Egypt	n.a.	n.a.	n.a.	*0.6*	2.0
The FYR of Macedonia	n.a.	622.8	599.7	1.6[c]	1.2
Germany	*442.2*	558.2	570.9	1.5	1.2
Hong Kong (China)	*131.2*	*361.7*	*460.3*	1.4	1.5
Luxembourg	806.9	821.2	1,414.9	*0.4*	*0.5*
Netherlands	*355.6*	1,066.5	3,194.3	16.5	7.6
Romania	3,236.5	5,800.9	4,509.5	11.1	11.8
Serbia	n.a.	2,422.6	2,517.0	6.7[c]	6.6
Turkey	2,961.4	5,602.4	4,689.4	12.3	14.1
United States	1,409.9	1,664.8	1,355.4	4.8	6.6
Offshore financial centers (Cayman Islands, Bouvet Island, etc.)	n.a.	n.a.	n.a.	6.7	n.a.
Total[d]	16,651.3	31,890.3	34,389.3	99.2	89.1
World	22,436.8	33,997.0	37,457.1	100.0	100.0
Euro area	n.a.	n.a.	n.a.	49.3	39.2
EU	n.a.	n.a.	n.a.	61.6	n.a.

Sources: OECD (http://stats.oecd.org/index.aspx?) for 2006-2008; Eurostat (http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database) for 2009; Data from the Bank of Greece (Department of Statistics, Balance of Payments Statistics Division, Department of International Investment Position) for 2010.

[a] Key host economies include economies with over US$ 500 million (or 1%) of Greece's OFDI stock.
[b] Allocation of OFDI stock in percentage of total.
[c] Estimated percentage in 2008.
[d] Figures for "total" do not include entries shown in italics , which in turn do not represent key host economies of Greece's OFDI stock in the year shown.

Annex table 5. Greece: top 10 MNEs headquartered in Greece, ranked by accumulated value of outward investment deals through M&As in 2000-2009

Rank	Acquirer	Destination economy	Industry	Total value of M&As, 2000-2009 (US$ million)
1	National Bank of Greece	Albania, Bulgaria, Egypt, Romania, Serbia & Montenegro, Turkey	Financial intermediation	6,873.1
2	HBC/3E -Coca Cola	Cyprus, Ireland, UK	Food products (beverages)	2,710.1
3	Eurobank EFG	Bulgaria, Cyprus, Netherlands, Poland, Romania, Serbia & Montenegro, Turkey	Financial intermediation	1,412.2
4	Titan	Cyprus, Netherlands, United States	Manufacturing (construction materials)	843.6
5	Cosmote	Albania, Cyprus, Romania	Telecommunications	769.6
6	Forthnet	Netherlands	Telecommunications	708.8
7	Piraeus Bank	Albania, Bulgaria, Egypt, Romania, Serbia & Montenegro, Ukraine, United States	Financial intermediation	524.4
8	Oikonomou Group/DryShips Inc.	Norway	Maritime (conglomerate)	499.9
9	Hellenic Telecommunications Organization (OTE in Greek)	Cyprus, Netherlands, Romania	Telecommunications	443.7
10	Alpha Bank	Romania, Serbia & Montenegro	Financial intermediation	384.6

Sources: Data from the Bank of Greece (Department of Statistics, Balance of Payments Statistics Division, Department of International Investment Position), unpublished data obtained by the authors. Conversion to US dollars based on IMF exchange rates archives by month, available at: http://www.imf.org/external/np/fin/data/param_rms_mth.aspx.

Annex table 6. Greece: main M&A deals, by outward investing firm, 2007-2009, ranked by value of transaction

Year	Acquiring company	Host economy	Target company	Target industry	% shares acquired	Estimated/ announced transaction value (US$ million)
2008	DryShips Inc	Norway	Ocean Rig A.S.A	Drilling oil and gas wells	50.1	1,494.3
2008	Forthnet Media Holdings SA	Netherlands	NetMed BV	Cable and other pay television services	100.0	778.9
2008	National Bank of Greece SA	Turkey	Finansbank AS	Banks	9.7	697.1
2008	Titan Cement Co SA	Egypt	Lafarge Titan Egypt	Cement, hydraulic	50.0	512.5
2007	DryShips Inc	Norway	Ocean Rig A.S.A	Drilling oil and gas wells	30.4	405.0
2008	Coca-Cola Hellenic Bottling Co	Italy	Socib SpA	Bottled and canned soft drinks and carbonated waters	100.0	353.1
2009	DryShips Inc	Norway	Primelead Shareholders Inc	Investors	25.0	330.0
2008	Vivartia SA	United States	Nonnis Food Co	Cookies and crackers	100.0	320.0
2008	DryShips Inc	Norway	Ocean Rig A.S.A	Drilling oil and gas wells	19.5	302.0
2009	Cosmote Telecommunications	Romania	Telemobil SA	Radiotelephone communications	100.0	291.3
2007	Navios Maritime Holdings Inc	Belgium	Kleimar NV	Deep sea foreign transportation of freight	100.0	261.9
2007	Coca-Cola Hellenic Bottling Co	Russian Fed	Aquavision	Bottled and canned soft drinks and carbonated waters	100.0	260.3
2007	EFG Eurobank Ergasias SA	Turkey	Tekfenbank AS	Banks	70.0	182.0
2008	Marfin Investment Group	Croatia	Sunce Koncern dd	Hotels and motels	49.9	141.7
2008	Titan Cement Co SA	Turkey	Adocim Cimento	Cement, hydraulic	50.0	132.6
2008	Navios Maritime Hldgs-Port Op	Argentina	Cia Naviera Horamar SA-Upriver	Deep sea foreign transportation of freight	100.0	112.2
2007	MIG Leisure Ltd	Cyprus	Hilton Cyprus Hotel	Hotels and motels	n.a.	78.6
2007	Bank of Piraeus SA	Ukraine	JSC	Banks	99.6	75.3

			International Commerce			
2009	Cosmote Telecommunications	Albania	Albanian Mobile Communications	Radiotelephone communications	12.6	62.1
2009	Club Hotel Casino Loutraki	Serbia	Grand Casino doo Beograd	Hotels and motels	51.0	56.7
2007	Inform Lykos SA	Austria	Austria Card GmbH	Semiconductors and related devices	n.a.	42.8
2007	Nireus Aquaculture SA	Norway	Marine Farms ASA	Animal aquaculture	29.9	42.1
2007	Coca-Cola Hellenic Bottling Co	Italy	Eurmatik Srl	Automatic vending machines	100.0	21.4
2007	Sciens International Holdings	Bermuda	Apollo Aviation Holdings Ltd	Business services	50.0	20.0
2009	EFG Eurobank Ergasias SA	Romania	BancPost SA	Banks	3.5	17.0
2009	Frigoglass SA	United States	Universal Nolin Co LLC	Refrigeration and heating equipment	100.0	11.5
2009	Andromeda SA	Spain	Niordseas SL	Animal aquaculture	100.0	10.4
2009	Andromeda SA	Spain	Piscicultura Marina	Animal aquaculture	100.0	7.7
2009	Sidenor SA	Italy	AWM SpA	Machine tools, metal cutting types	34.0	3.4
2009	Alapis SA	Turkey	Genesis Ilac ve Saglik	Pharmaceutical preparations	50.0	2.4

Source: The author, based on Thomson ONE Banker. Thomson Reuters.

Annex table 7. Greece: main greenfield projects, by outward investing firm, 2007-2009, ranked by value of investment

(US$ million)

Date	Investing company	Host economy	Sector	Investment	Estimated investment
2008	Global Finance	Romania	Financial services		1,270.3
2008	Marivent	Bulgaria	Alternative/renewable energy	741.4	
2009	HelioSphera	United States	Electronic components	500.0	
2008	Coca-Cola Hellenic Bottling (CCHBC)	Romania	Coal, oil and natural gas		471.2
2008	Titan Cement	Poland	Coal, oil and natural gas		449.5
2008	Public Gas Corporation of Greece (DEPA)	Italy	Coal, oil and natural gas		401.6
2009	Vegas Oil and Gas	Egypt	Coal, oil and natural gas		307.0
2008	Michaniki	Ukraine	Real estate	300.2	
2008	LAMDA Development	Turkey	Real estate		213.0
2008	Titan Cement	Albania	Building and construction materials		206.8
2009	Titan Cement	Egypt	Building and construction materials	180.0	
2009	Copelouzos Group	Bulgaria	Alternative/renewable energy		179.6
2009	Copelouzos Group	Bulgaria	Alternative/renewable energy		179.6
2007	Danaos	Bulgaria	Real estate	177.0	
2008	Coca-Cola Hellenic Bottling (CCHBC)	Romania	Beverages		176.7
2007	Coca-Cola Hellenic Bottling (CCHBC)	Russia	Beverages	161.3	
2008	Raptis Kavouras	Romania	Real estate		118.9
2008	Elmec Sport	Romania	Real estate		118.9
2008	Titan Cement	United States	Building and construction materials		113.7
2007	Gek Group	Bulgaria	Leisure and entertainment	98.1	
2008	Alpha Grissin Infotech	Bulgaria	Transportation		80.9
2007	Panhol Group	Romania	Real estate	77.9	
2007	Alapis	Hungary	Pharmaceuticals		73.7
2007	Folli Follie	Russia	Consumer products		72.3
2007	Fage Dairy Industry	United States	Food and tobacco	70.0	
2007	Global Finance	Bulgaria	Real estate	68.3	
2007	Sidenor	Cyprus	Metals		63.8
2007	Sidenor	Bulgaria	Metals		57.1
2009	Apriati	France	Consumer products		56.9
2008	Hellenic Telecommunications Organisation (OTE)	Romania	Communications	55.5	

2007	Titan Cement	Bulgaria	Building and construction materials	52.4	
2007	Korres	Japan	Consumer products		52.1
2007	Korres	Japan	Consumer products		52.1
2007	National Bank of Greece	Egypt	Financial services		48.3
2008	Bioter	Cyprus	Real estate		47.3
2007	Michaniki	Bulgaria	Real estate		47.3
2009	Vivartia	United States	Food and tobacco	27.0	
2009	Karamolegos Bakery Industry	Romania	Food and tobacco		23.6
2009	Folli Follie	United Kingdom	Consumer products		22.8
2009	Folli Follie	United Kingdom	Consumer products		19.3
2009	Folli Follie	United Kingdom	Consumer products		19.3
2009	Karatzis S.A.	United States	Paper, printing and packaging		18.7
2009	Folli Follie	United Kingdom	Consumer products		18.1
2009	Folli Follie	United Kingdom	Consumer products		18.1
2009	Publicworld	Bulgaria	Consumer electronics	15.0	

Source: The author, based on fDi Intelligence, a service from the Financial Times Ltd.

Chapter 9 - Hungary

Hungary: Inward FDI and its policy context, 2012

Magdolna Sass and Kalman Kalotay[*]

In the 1990s, Hungary used to be a front-runner among Central and Eastern European countries in terms of attracting foreign direct investment (FDI). At that time, it attracted FDI both through the privatization of state-owned enterprises to foreign multinational enterprises (MNEs), and through Greenfield investment by foreign MNEs in export-oriented manufacturing (especially automotive and electronics). Almost two decades later, the economy is still a major host of FDI, with inflows of US$ 4.7 billion in 2011, although it has lost its privileged status within the region. Its policy approach to inward FDI (IFDI), too, has undergone changes over the past two decades: from being a country that was the first in Central and Eastern Europe to open its economy fully to FDI and offer incentives for it, it has moved to being one with more selective policies. The Government still successfully encourages FDI in export-oriented production (particularly automotive); however, in utilities, banking and retail, it has recently imposed windfall taxes, which mostly affect foreign players, indicating a less favorable stance toward them. This change in policy is in partly a result of the recent global financial and economic crisis, which has hit the country hard.

Trends and developments

Country-level developments

Hungary was practically the first country in Central and Eastern Europe (CEE) to open up to foreign investors at the beginning of the region's transition to a market economy, and it was also the first to involve foreign investors to a great extent in the privatization process. Thus, it took the lead among CEE economies in the first decade of transition in terms of per capita IFDI stock and IFDI stock as a percentage of the gross domestic product (GDP), as reflected by data for 2000 (annex table 1). In 2000, Hungary's IFDI stock was also higher in absolute terms than that of any other CEE country except Poland, which is much larger in terms of population and GDP. However, in the second decade after the start of the transition process, Hungary lost its leading position. In 2011, Hungary's stock of IFDI was lower than that of Poland and the Czech Republic, and its per capita IFDI lower than that of the Czech Republic and Slovakia.[1] In terms of IFDI stock relative to GDP, Bulgaria and Estonia surpass Hungary. However, in international comparison, the Hungarian economy can still be considered one in which IFDI plays a major role.

The relative decline of Hungary's attractiveness for IFDI can be traced in its inflows, which became relatively lower, compared to those of the other CEE countries, starting from around 2004–2005 (annex

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[1] Per capita IFDI has been calculated on the basis of data from UNCTAD's FDI/TNC database (for IFDI) and World Bank data on population of countries.

table 2). A directly comparable economy in terms of size of population, the Czech Republic had a higher inflow in almost every year between 2000 and 2011. On the other hand, new competitor countries in a catching-up phase for IFDI appeared on the scene: from around 2000, Slovakia, and then Bulgaria and Romania had relatively high inflows from just before their joining the European Union in 2007. In addition, FDI flows to Hungary were hit hard especially during the crisis years of 2009 and 2010, both in absolute terms and relative to flows to other countries in the CEE region. The ratio of IFDI flows to gross domestic capital formation also declined noticeably in 2009–2010 (annex table 2a). Data for 2011 indicate an increase in FDI inflows, however, as a press release of the Hungarian National Bank[1] states; this is mainly due to a large capital in transit[2] flow in the fourth quarter of 2011. According to the same source, capital in transit accounted for around 83% of total inflows in 2011, which indicates that "real" FDI inflows have not recovered yet.

Until 1998, privatization played an important, and in certain years even dominant, role in the FDI inflows.[3] In comparison, between 2000 and 2011, only two years (2003 and 2005) witnessed large privatization projects involving FDI. In 2005, the largest privatization deal in the modern history of Hungary took place when 75% of the shares of Budapest Airport were sold to the British BAA International Ltd.[4]In2003, Postabank was sold to the Austrian Erste Bank.[5] Smaller transactions took place in other years, though they did not have a major impact on the level of annual FDI inflows.

Over the period 2000-2010, the composition of inward FDI in Hungary changed considerably. The share of equity capital diminished, even turning negative in certain years (2003, 2009). At the same time, reflecting the competitiveness and profitability of the foreign affiliates already operating in Hungary, reinvested earnings dominated during most of the decade, the main exceptions being the crisis years between 2008 and 2010. Other capital (mainly intra-firm lending) was strong in 2001, 2006 and 2009, while in 2010 (again presumably because of the impact of the crisis) it was strongly negative.[6]

There has been a significant change in the sectoral composition of IFDI during the two decades of significant FDI flows to Hungary. At the beginning of the 1990s, manufacturing attracted the bulk of FDI. The sector remained relatively important for IFDI in 2000 (annex table 3), accounting for 47% of total FDI stock. Its significance however gradually decreased. In 2009, the share of this sector declined to below one-quarter of total stock, although it rose again somewhat (to 30%) in 2010. Within manufacturing, some branches are dominated by foreign affiliates, for example the production of transport equipment and electrical equipment. On the other hand, FDI in services gradually gained importance, which is explained in the 1990s by the sequence of privatizations, and in the years after 2000, by the rising shares of "wholesale, retail trade and repair" (partly the building of big supermarkets)

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[1] See http://english.mnb.hu/Root/Dokumentumtar/ENMNB/Statisztika/mnben_statkozlemeny/mnben_fizetesi_merleg/CA11Q4_EN.pdf.

[2] "Capital in transit means that Hungarian companies receive capital or a loan from one member of a group of companies, which they transfer to another foreign member of the group at very short notice." See, *ibid*, p. 4. "Capital in transit means transactionswithin a multinational enterprise group that pass through the compiling economy without making any impact." *Ibid.*, p.8.

[3] KalmanKalotayand HunyaGábor, "Privatization and foreign direct investment in Central and Eastern Europe," *Transnational Corporations*, vol. 9, No.1 (April 2000), pp. 39–66.

[4] See http://news.bbc.co.uk/2/hi/business/4540316.stm.

[5] See http://www.erstegroup.com/content/0901481b/8000aaf5.pdf.

[6] See the balance-of-payments statistics of the Hungarian National Bank at http://www.mnb.hu/Statisztika/statisztikai-adatok-informaciok/adatok-idosorok/vii-kulkereskedelem/mnbhu_fizm_20090330.

and "real estate, computer and business services" (partly the offshoring and offshore outsourcing of certain business services to Hungary).[1]

Overall, FDI is more present in Hungary's tradable industries (even in services,[2] such as tradable business services or computer services) than in the tradable sectors of its competitor economies in the region.[3] Nevertheless, Hungary is also a host to large FDI projects in non-tradable service industries such as banking, retail and telecommunications, where foreign affiliates dominate the industry.

As in other new member states of the European Union,[4] investors from other EU member economies (especially Germany, the Netherlands, Austria, Luxemburg, France) dominate FDI in Hungary, together with those from other developed countries from outside Europe (especially the United States and, to a lesser extent, the Republic of Korea and Japan) (annex table 4).[5] The emergence of Central America as a source may be related to substantial outward FDI from Hungary in previous years and may serve tax optimization purposes; for example, some important Mexican investors (Cemex, Nemak) are present in Hungary, but data on FDI by source do not indicate investments that originate in Mexico (annex table 4).

Foreign affiliates play a determining role in the Hungarian economy. As noted, in comparison with other new member states of the European Union, the FDI stock as a percentage of GDP is among the highest in Hungary (annex table 1). Foreign affiliates are responsible for more than 80% of business R&D, for almost 80% of exports and for almost half of total gross value added. They own more than half of capital owned by companies, carry out more than half of investments and employ more than 20% of the workforce.[6] Practically all the top exporters of the country are foreign affiliates (see the next section on The Corporate Players).

One of the most important channels for a positive impact of IFDI on the host economy is backward linkage, i.e., the contacts of foreign affiliates with local suppliers. These linkages remained below expectations in Hungary, though anecdotal evidence points to their increase since the first MNEs started their operations in Hungary. The reasons for the limited linkages can be found both on the supply and demand sides. On the demand side, many affiliates do not have the independence to decide about their suppliers. In some cases, they do not require large enough quantities from local companies so that local firms are not interested in investing further amounts for becoming suppliers. On the supply side, many Hungarian companies are not able to supply the required spare parts and components in the required

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[1]MagdolnaSass and Martina Fifekova, "Offshoring and outsourcing business services to Central and Eastern Europe: Some empirical and conceptual considerations," *European Planning Studies,* vol. 19, No.9(2011), pp. 1593–1609.
[2] Jane Hardy, Magdolna Sass and Martina Fifekova, "Impacts of horizontal and vertical foreign investment in business services: The experience of Hungary, Slovakia and the Czech Republic", *European Urban and Regional Studies,* vol. 18, No. 4(2011), pp. 427–443.
[3]Yuko Kinoshita, "Sectoral composition of foreign direct investments and external vulnerability in Eastern Europe", IMF Working Paper WP/11/123, May 2011.
[4]KalmanKalotay, "Patterns of inward FDI in economies in transition", *Eastern Journal of European Studies,*vol. 1, No. 2 (2010), pp. 55–76.
[5] Registered countries of origin of FDI do not always represent the country of the parent company of a MNE because, in many cases, affiliates realize the actual investments due to tax, strategic, geographical, or cultural reasons. This is the case with respect to some important investments in Hungary (e.g., Siemens invested through its Austrian affiliate, GM and IBM through their German affiliates). This may be the reason for the high share of FDI from Central America as well.
[6] ZoltánPitti, "A gazdaságiteljesítményekvállalkozásiméretttőlfüggőjellemzőiMagyarországon" ("The characteristics of economic performance in relation to the size of the companies in Hungary"), *Köz-Gazdaság,* vol.VI, No.3 (October 2011), pp. 91–116.

quantity and/or quality, not able to meet other requirements (e.g., terms and timeliness of delivery) or are not able to meet the requirement of continuous productivity improvements. However, there are some Hungarian affiliates of foreign MNEs with a high level of local sourcing. For example, Knorr-Bremse acquires an estimated 30–40% of its inputs from Hungarian and locally owned companies.[1] In the case of Electrolux, for certain products the share of local, mainly Hungarian-owned suppliers, is around 80%.[2] At the other extreme, Audi has a very low number of local, and especially Hungarian-owned suppliers. Altogether, Audi buys locally only 4.5% of the parts and components used in the production of its cars.[3]

While market-seeking investments dominated in the first half of the 1990s, efficiency-seeking FDI gradually became more and more important. The latter were helped until the country's EU accession in 2004 by the special regulation on industrial customs-free zones,[4] in which companies assembled imported inputs into exportable outputs, using mainly local workers. Large projects in the electronics and car industries and in the white goods industry are motivated mainly by the availability of skilled but relatively cheap labor. After 2003, efficiency-seeking investments grew rapidly in certain service industries as well, for example in business and computer services. In certain industries, especially in pharmaceuticals, accumulated knowledge in Hungary is also a factor of attraction.

The corporate players

The largest foreign affiliates in Hungary can be classified into two distinct groups. In the first one concern the Hungarian affiliates of foreign MNEs, among which the largest ones by total sales are the local affiliates of Audi, Nokia, GE, Samsung, Philips, E.ON, Deutsche Telekom (M-Telekom), and Fibria Cellulose (annex table 5). In the second category, there are the formerly Hungarian-owned companies that were privatized through the stock exchange and are now in majority foreign ownership, such as MOL (one of the top ten by sales), OTP Bank and Richter. The specific feature of these latter companies is that they are under dispersed foreign ownership but not under foreign control; thus the local, Hungarian management takes all strategic decisions. These three companies, which are also very active outward foreign investors, are therefore not foreign affiliates in a strict sense.[5] The listing of the top ten is largely similar in terms of foreign affiliates' own capital or assets (annex table 5a). This ranking favors capital-intensive firms such as MOL, Audi and M-Telekom. A third ranking of the top foreign affiliates, by exports, which reflects the efficiency motive driving much FDI in Hungary, is headed by MOL and Audi (annex table 5b).

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[1] Magdolna Sass, "The use of local supplies by MNC affiliates: what are the determining factors?" ICEG EC, Opinion No. 10, September 2008, available at: www.icegec-memo.hu/hun/_docs/KESZ_20060131/opinion_mnc_affiliates.pdf.

[2] AndrásBakács, VeronikaCzakó and Magdolna Sass, "Beszállítókéshálózatosodás: az Electrolux-LehelKft. példája" ("Suppliers and networking: the case of Lehel-Electrolux"), *Külgazdaság,* vol. L, No. 7–8 (2006), pp. 44–59.

[3] Sass, (2008), *op. cit.*

[4] This regulation was abolished in 2004. See more details in Magdolna Sass, "FDI in Hungary: the first mover's advantage and disadvantage," *European Investment Bank Papers*, vol. 9, No. 2(2003), pp. 62–-90.

[5] See Magdolna Sass and KálmánKalotay, "Hungary: Outward FDI and its policy context, 2010", in: Karl P. Sauvant, Thomas Jost, Ken Davies, and Ana-Maria Poveda-Garcés, eds., *Inward and Outward FDI Country Profiles*(New York: Vale Columbia Center on Sustainable International Investment, January 2011), available at: http://www.vcc.columbia.edu/books, pp. 115–129.

As noted in the preceding section, some industries within Hungary's manufacturing and services sectors are dominated by foreign affiliates. For example, in the production of transport equipment, Hungary is host to production sites of Suzuki (Japan) and Audi (Germany); a new factory of Daimler AG (Germany) started its production in 2012. Some other companies such as General Motors' (United States) German affiliate Opel have important spare parts operations in Hungary. Important first-tier automotive suppliers also produce in Hungary, such as the German Knorr-Bremse and Robert Bosch. In electronics, the world's various leading branded and contract manufacturers are present in the country, including National Instruments, Jabil and GE (all United States), Flextronics (Singapore), Foxconn (Taiwan Province of China), Philips (the Netherlands), Samsung (Republic of Korea), Siemens (Germany), and Nokia (Finland). In services, examples include: in banking, MKB, majority owned by the German BayerischeLandesbank and CIB Bank owned by the Italian IntesaSanpaoloSpA; in retail, the French Auchan, the Belgian-owned Cora, the British Tesco, and the German Lidl; and in telecommunications, M-Telekom (owned by Deutsche Telekom) and the local affiliate of the Norwegian firm Telenor.

Annex table 6 lists the largest M&A deals by foreign MNEs in Hungary during the period 2009-November 2011, including the top five each year in terms of estimated/announced transaction values. The majority are in services, but the two largest deals are the acquisition of a 20% share in the oil and gas company MOL Nyrt by Russia's Surgutneftgaz in 2009 – a share that the Russian company subsequently agreed to resell to the Hungarian Government, as described in the section below – and the acquisition of a majority share in the chemicals manufacturer BorsodChemZrt by China's YantaiWanhua Synthesize Group in 2011. Among the top Greenfield FDI projects in Hungary during 2009-November 2011 (annex table 7), the largest is a US$1.2 billion investment by Volkswagen (Audi) in 2010.

Effects of the recent global crisis

The 2008-2009 global crisis hit FDI inflows to Hungary hard. This can be attributed not only to the supply side of FDI, but also the demand side: the Hungarian economy experienced the biggest slowdown in the CEE region. Domestic economic problems aggravated the impact of the global crisis. Because of a high and unsustainable budget deficit and rocketing state debt arising well before the crisis, a restrictive fiscal policy was implemented that deepened the decline of GDP.

During the crisis years, especially in 2009 and 2010, a strong decline characterized FDI inflows. While in previous years (except for 2003) annual inflows always exceeded US$ 3 billion, in 2009 and 2010 they fluctuated around US$ 2 billion. In 2009, both equity capital and reinvested earnings turned negative, while in 2010, the "other capital" component of IFDI went into the red. As it was already noted, the recovery indicated by 2011 data is only virtual because of the large share of transit capital in that year's inflow.[1]

The crisis also opened opportunities for MNEs from emerging markets to enter or expand in Hungary. Examples of MNEs from China include Huawei, which expanded its already existing affiliate in 2011; ZTE, which entered Hungary in 2010 in order to supply Telenor (Norway) from a closer location; and Wanhua, which acquired the chemical firm Borsodchem in 2011.[2] Even more prominently, Russian MNEs attempted to buy large assets in Hungary, building on traditional trade links between the

[1] See footnotes 2 and 3.
[2] http://www.ft.com/cms/s/0/1aadca66-2e2e-11e0-8733-00144feabdc0.html.

countries. As noted, in the energy industry where the links are particularly intense, Surgutneftegaz bought 21% of MOL from OMV Austria in 2009 (annex table 6). However, both the Hungarian Government and the target company blocked this takeover and, in the end, Surgutneftegaz agreed in 2011 to resell its stake to the Hungarian Government.[1] In another case, the Russian state-owned Sberbank agreed in 2011 to buy the foreign affiliates of Volksbank International (Austria) in eight transition economies, including Hungary.[2] The latter company intended to reduce its losses incurred in those countries, and in Hungary in particular, where a windfall tax on banking (see the following section on the policy scene) has plunged most foreign-owned banks into the red.[3]

The crisis had a dual effect on individual FDI projects. It accentuated the scaling down of some of the projects negatively affected by the combined effects of global competition and the global crisis.[4] As a result, FDI inflows remained low. At the same time, some large projects were announced recently, especially in the automotive industry, although they could not fully compensate for the decline experienced elsewhere. One of the biggest Greenfield investments, amounting to the US$ 1.2 billion, was that begun by the German Daimler AG in 2009 in Kecskemét.[5] The Hungarian affiliate produces Mercedes Benz cars in Hungary, starting from March 2012. Another significant project was the extension of production capacity by Audi, which is already present with an affiliate in Győr. This extension was initiated in July 2011 and its value was US$ 1.2 billion as well.[6] In the same year, General Motors/Opel announced a significant capacity extension in its affiliate in Szentgotthárd, which will result in a US$ 672.6 million inflow (annex table7). These large projects are spread over more than one year, and thus expected to influence FDI inflows in the coming years.

The policy scene

Hungary is a small open economy that, at the beginning of its transition to a market economy, embarked on a deep process of liberalization that to a large degree is irreversible. Although the Government's attitude has shifted in recent years toward more state intervention, Hungary is a founding member of the World Trade Organization, and therefore bound by its rules on trade and subsidies. In addition, it has been a full member of the European Union since 2004, benefiting from its customs union and, since 2007, also from the free movement of persons due to its entry into the Schengen zone. Hungary is bound by EU rules on state aid, which creates an even playing field with other new EU member economies in terms of FDI incentives, which are bound by exactly the same rules. Hungary has also signed the Lisbon Treaty (which entered into force in 2009), which envisages a gradual transfer of FDI policy responsibilities from member states to the European Union. The most visible effect of that change concerns bilateral investment treaties (BITs): the Commission is now entitled to negotiate BITs in the

[1] KalmanKalotay and Andrei Panibratov, "Developing competitive advantages of Russian multinationals through foreign acquisitions." Paper presented at the International Conference on Re-Assessing Emerging Market Multinationals' Evolving Competitive Advantage, Judge Business School, University of Cambridge, United Kingdom, March 25–27, 2011.
[2] http://www.bbj.hu/finance/sberbank-completes-volksbank-acquisition_62654.
[3] http://www.ft.com/cms/s/0/77fe45c8-9387-11e1-8c6f-00144feab49a.html#axzz21FNvp5Zm.
[4] On long-term trends in relocation, see GáborHunya and Magdolna Sass, "Coming and going: gains and losses from relocations affecting Hungary",wiiw Research Reports, No.323, The Vienna Institute for of International Economic Studies, Vienna, November 2005. On trends during the crisis, see Sergey Filippov and KalmanKalotay, "Global crisis and activities of multinational enterprises in new EU member states," *International Journal of Emerging Markets,* vol.6 (4) (2011), pp. 304–328.
[5] See http://media.daimler.com/dcmedia/0-921-656507-1-1246693-1-0-0-0-0-0-11701-614232-0-1-0-0-0-0-0.html.
[6] See http://www.reuters.com/article/2011/07/07/audi-idUSLDE7660OH20110707.

name of all 27 member countries, and the treaties of the latter have to be revised for their compatibility with the Lisbon Treaty. However, it seems that member countries are not yet fully prohibited to negotiate new treaties, and can keep the old ones once they have passed a compatibility test. This is an important consideration for Hungary, which had 56 ratified BITs at the end of 2011.[1]

Hungary has traditionally had an open investment regime, with national treatment, most-favored-nation treatment and fair and equitable treatment offered to most investors. In addition, EU investors have to be treated like local investors without exception. This situation however may change in the future, as some of the most recent policy measures adopted by the Government -- especially the windfall ("crisis") taxes on selected industries (banking, energy, retail, telecommunications) -- could be interpreted as problematic for the fair and equitable treatment of foreign investors as the latter are overrepresented in the group of firms affected by new taxes.[2]

Since a new conservative team gained a two-thirds majority in the Hungarian Parliament in May 2010, the Government has sent mixed messages to the international investment community. On the one hand, it continued supporting export-oriented projects, especially in the automotive industry, electronics production and shared service centers that build on the country's undoubted cost advantages and skills. Projects in those areas have continued to benefit from government subsidies within the limits that the EU has imposed on state aid. At the same time, the Government has explicitly and implicitly taken a hostile stance toward FDI in certain service industries, especially in banking, energy, retail trade, telecommunications, and water supply.[3] The first four of these five industries have been stricken by high windfall taxes, constructed such a way as to maximize their impact on foreign players.

An additional sign of a less enthusiastic welcome to foreigners in retail became evident when the Government introduced a voucher system offering tax benefits to employers and employees purchasing mostly food items. These vouchers have been offered for acceptance by locally owned hypermarkets, but not by any of the large foreign-owned chains. As for water supply, the Government has made it clear that it sees it as a regulated industry in the future,[4] largely incompatible with the profit motives of foreign investors. The current ruling party already demonstrated its hostility to FDI in water supply in September 2009, when nationally it was still in opposition but in control of the municipality of Pécs: the local city council de facto expropriated the assets of Suez (France), which had a water contract in Pécs.[5] In a country that traditionally had an investor-friendly environment in the 1990s and 2000s, this was the first "nationalization" of a foreign investor in more than two decades.

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[1]The BITs cover 57 countries (the same treaty applies to both Belgium and Luxembourg), of which 22 are EU members, four are other developed countries (the United States is nevertheless missing from this list), 11 are economies in transition and 20 are developing countries. Source: UNCTAD's Investment instruments On-line database, available at: http://unctad.org/en/Pages/DIAE/International%20Investment%20Agreements%20(IIA)/Investment-instruments-On-line-database.aspx.

[2] The EU has initiated investigations on the compatibility of these taxes with Hungary's membership. See "European Commission investigates controversial Hungary tax", *Eurotribune*, January 3, 2011 (http://www.eurotribune.eu/index.default.php/?p=17158&l=0&idioma=2), and "Brussels says Hungary's "crisis tax" on telecoms is illegal", *Eurotribune*, Seotember 29, 2011 (http://www.eurotribune.eu/index.default.php/?p=20656).

[3] http://www.budapesttimes.hu/2011/01/10/tax-bitten-multinationals-howling-in-brussels/.

[4] See, for example, "PM Orbán unveils National Protection Plan," *Budapest Business Journal,* September 12, 2011, available at: www.bbj.hu/economy/pm-orban-unveils-national-protection-plan_60167.

[5] "Suez to go to Vienna court over lost Hungary contract," *Budapest Business Journal,* January 27, 2011, available at: www.bbj.hu/business/suez-to-go-to-vienna-court-over-lost-hungary-contract_55699.

The Government is also delivering mixed messages to foreign firms in its institutional framework for investment promotion. On January 1, 2011, the Hungarian Investment and Trade Agency (HITA) replaced ITD Hungary Zrt., which used to operate as the Government's investment and trade development agency between 1993 and 2010, overseeing most of the country's successes as a front-runner in investment promotion. Investors have had to adjust to a new, less experienced team, which took over only some of the ITD employees, and on an ad-hoc basis. That could well disrupt various services based on long-term stability, such as aftercare.

HITA took over investment promotion at a difficult period of Hungary's external economic relations. Since 2010, the country has adopted a new Constitution and various key laws that provoked a debate both in Hungary and abroad about their compatibility with the rule of the law and democracy. Critics of Hungarian legislation have insisted that many of the legal instruments adopted in a revolutionary zeal were incompatible with Hungary's international democratic commitments.

This *Profile* does not take a position in the international debate on the changes mentioned above, as the purely political angle of the problematique is outside its scope. It notes only that Hungary's image has been affected negatively, and in the area of country image, perceptions often equal reality.

Conclusions

Hungary is still a very competitive location for many MNEs, as evidenced by the high level of inward FDI stock and the recent expansion of some of the foreign affiliates located there. However, it faces an emerging image problem, which at the end could slow down many otherwise highly profitable projects. For that reason, it needs to regain its positive image if it wishes to remain a magnet for FDI within its own region. That recovery of the lost positive image will by default be a long and painful process. This is so because reputation can be lost quickly, but to recover it takes time. In the Hungarian case, the Government and HITA have to convince investors that legal stability and rule of the law have now been irrevocably re-established. That re-establishment can be proven only by prompt actions, including a quick phasing out of the windfall taxes, a prompt treatment of investor-state disputes (that will inevitably follow from the current situation) and in the general policy framework of the country, guarantees of the Hungarian Government to international partners as regards the respect for international legal norms.

Once guarantees are provided to investors and foreign partners, HITA can try to embark on a sinuous road of new image building for Hungary, and once image building is successful, it can envisage investment attraction activities. In the meantime, it needs to strengthen its investor services (especially aftercare services) and policy advocacy (the latter is naturally weak in a newly established institution).

These are daunting tasks that will probably get results only in the long term. In the meantime, Hungary's investment potential, which is still very strong, risks being unfulfilled, especially in comparison with other new EU member economies that have not faced similar political problems since 2010.

Additional readings

Antalóczy, Katalin, Magdolna Sass and Miklós Szanyi, "Policies for attracting foreign direct investment and enhancing its spillovers to indigenous firms: The case of Hungary," in E. Rugraff and Michael W.Hansen, eds., *Multinational Corporations and Local Firms in Emerging Economies* (Amsterdam: Amsterdam University Press, 2011), pp. 181–209.

Bélyácz, Iván and Mónika Kuti,"The role of external debt in the international investment position in Hungary," Working Paper 03/2011, School on Local Development, University of Trento, Italy, available at: www.unitn.it/en/sld/11701/working-papers.

Czakó, Erzsebet, "Characterizing the patterns of inward and emerging outward FDI in Hungary," in Louis Brennan, ed., *The Emergence of Southern Multinationals: Their Impact on Europe* (Basingstoke: Palgrave Macmillan, 2011), pp. 92–113.

Koltay, Jenő, "Multinational companies and labour relations in Hungary: Between home country–host country effects and global tendencies," Discussion Papers of the Institute of Economics, Hungarian Academy of Sciences, MT-DP 2010/15, available at: http://econ.core.hu/file/download/mtdp/MTDP1015.pdf, pp. 1–22.

Useful websites

For FDI incentives, Hungary: http://www.hita.hu/Content.aspx?ContentID=1ffac861-6d88-4135-b5ee-7c5f3c9e8b5d

For FDI statistics: Hungarian National Bank, Hungary, available at:http://english.mnb.hu/Statisztika/data-and-information/mnben_statisztikai_idosorok/mnben_elv_external_trade/mnben_kozetlen_tokebef

For the Hungarian Investment and Trade Agency, Hungary: http://www.hita.hu/

Annex table 1. Hungary: inward FDI stock, 2000 and 2011

(US$ billion and percentage of gross domestic product (GDP))

Economy	2000	2011	2000	2011
	US$ billion		Percentage of GDP	
Hungary	23	84	48	60
Memorandum: other new EU member countries from Central and Eastern Europe				
Poland	34	198	20	38
Czech Republic	22	125	38	58
Romania	7	70	19	38
Slovakia	5	51	23	53
Bulgaria	3	48	21	89
Estonia	3	17	47	75
Slovenia	3	15	15	31
Lithuania	2	14	20	33
Latvia	2	12	27	43

Source: UNCTAD, FDI/TNC database, available at: http://unctadstat.unctad.org.
Note: Data exclude FDI in special purpose entities. Comparator countries are listed by the order of their inward FDI stock in 2011.

Annex table 2. Hungary: inward FDI flows, 2001–2011

(US$ billion)

Economy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Hungary	3.9	3.0	2.1	4.3	7.7	6.8	4.0	6.3	2.0	2.3	4.7
Memorandum: other new EU member countries from Central and Eastern Europe											
Poland	5.7	4.1	4.6	12.9	10.3	19.6	23.6	14.9	12.9	8.9	15.1
Czech Republic	5.6	8.5	2.1	5.0	11.7	5.5	10.4	6.5	2.9	6.1	5.4
Romania	1.2	1.1	2.2	6.4	6.5	11.4	9.9	13.9	4.8	2.9	2.7
Slovakia	1.6	4.1	2.2	3.0	2.4	4.7	3.6	4.7	-0.0	0.5	2.1
Bulgaria	0.8	0.9	2.1	3.4	3.9	7.8	12.4	9.9	3.4	1.6	1.9
Estonia	0.5	0.3	0.9	1.0	2.9	1.8	2.7	1.7	1.8	1.5	0.3
Slovenia	0.4	1.6	0.3	0.8	0.6	0.6	1.5	1.9	-0.7	0.4	1.0
Lithuania	0.4	0.7	0.2	0.8	1.0	1.8	2.0	2.0	0.1	0.8	1.2
Latvia	0.1	0.3	0.3	0.6	0.7	1.7	2.3	1.3	0.1	0.4	1.6

Source: UNCTAD, FDI/TNC database, available at: http://unctadstat.unctad.org.

Note: Data exclude FDI in special purpose entities. Comparator countries are listed by the order of their inward FDI stock in 2011.

Annex table 2a. Hungary: ratio of inward FDI flows to gross domestic capital formation

(Per cent)

Economy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Hungary	32.1	19.4	11.4	18.5	30.4	27.7	13.4	19.0	7.6	9.1	20.0
Memorandum: other new EU member countries from Central and Eastern Europe											
Poland	14.5	11.1	11.6	28.1	18.6	29.2	25.7	12.6	14.1	9.7	14.5
Czech Republic	32.4	40.7	8.6	17.5	37.5	15.4	23.7	12.4	6.8	15.1	10.5
Romania	13.9	11.6	17.2	39.0	27.6	36.2	19.3	21.3	11.7	8.3	5.7
Slovakia	26.2	61.5	26.2	29.9	19.1	31.7	18.2	20.0	- 0.0	3.0	10.0
Bulgaria	31.9	31.6	53.2	66.0	52.7	85.1	102.6	56.6	28.5	16.9	16.7
Estonia	32.7	13.3	29.9	25.8	64.3	29.7	36.5	25.6	44.3	41.9	5.4
Slovenia	7.3	30.4	4.4	9.8	6.5	6.2	11.5	12.4	- 5.5	3.4	10.3
Lithuania	18.2	25.2	4.6	15.4	17.4	23.9	18.2	16.3	1.0	12.9	16.2
Latvia	6.4	11.4	11.2	16.8	14.4	25.6	24.0	12.8	1.7	8.8	24.7

Source: UNCTAD, FDI/TNC database, available at: http://unctadstat.unctad.org.
Notes: Data exclude FDI in special purpose entities. Comparator countries are listed by the order of their inward FDI stock in 2011.

Annex table 3. Hungary: sectoral distribution of inward FDI stock, 2000, 2009

(US$ million)

Sector / industry	2000	2009
All sectors / industries	22,892	98,176
Primary	255	963
Agriculture, forestry, and fishing	185	534
Mining, quarrying and petroleum	70	429
Secondary	11,019	29,856
Food, beverages and tobacco	1,615	2,575
Textile and leather	727	3,884
Wood, pulp, paper and publishing	483	1,429
Coke, refined petroleum and nuclear fuel	2	1,991
Chemicals	1,097	2,592
Rubber and plastic	405	1,205
Other non-metallic minerals	522	2,003
Metals	442	1,665
Machinery and equipment n.e.c.	423	1,366
Electrical and optical equipment	2,068	4,212
Transport equipment	1,815	4,889
Furniture and manufacturing n.e.c.	62	188
Construction	299	882
Services	11,417	65,178
Electricity, gas and water	1,465	4,472
Wholesale, retail trade and repair	2,134	13,491
Hotels and restaurants	299	580
Transport and telecom	3,800	8,546
Financial intermediation	2,330	10,066
Real estate	978	8,990
Computer services	136	681
Business services	1,428	221,924
Other services	253	631
Acquisition of real estate	281	2,179
Unspecified other industries	21	0

Source: based on data from the National Bank of Hungary.http://english.mnb.hu/Statisztika/data-and-information/mnben_statisztikai_idosorok/mnben_elv_external_trade/mnben_kozetlen_tokebef .

Note: data converted using the IMF exchange rate of 31, December 2000: USD 1= HUF 221.73, and of 31 December 2009: USD 1= HUF 188.07.

Annex table 4. Hungary: geographical distribution of inward FDI stock, 2000–2009

(US$ million)

Region / economy	2000	2009
World	22,892	98,176
Developed economies	20,294	78728
Europe	18,320	72,880
European Union[a]	17,641	69,339
Austria	2,042	13,486
Belgium	485	2,991
Cyprus	166	2,749
Denmark	81	628
Finland	239	1,224
France	1,270	5,075
Germany	8,604	21,634
Ireland	182	847
Luxembourg	253	5,560
Netherlands	3,358	17,970
Sweden	223	684
Spain	37	1,402
United Kingdom	189	1,598
Other Europe	442	3,541
Liechtenstein	83	365
Switzerland	359	3,176
North America	1,822	4,662
Canada	76	498
United States	1,746	4,164
Other developed economies	244	2,475
Japan	152	1,186
Developing economies	267	13,643
Africa	5	180
Asia and Oceania	154	1689
Latin America and Caribbean	108	10,276
Transition economies	-1[b]	1,498[c]
Russian Federation	-48	1,674
International organizations	99	19
Unspecified origin	2,449	4,805

Source: based on data from theNational Bank of Hungaryhttp://english.mnb.hu/Statisztika/data-and-information/mnben_statisztikai_idosorok/mnben_elv_external_trade/mnben_kozetlen_tokebef.

[a] Values of FDI stock were negative for Greece (2000 and 2009), Ireland (2000), and Italy (2000 and 2009).
[b] Values of FDI stock were negative in the case of Albania, Bulgaria, the Czech Republic, the former Yugoslav Republic of Macedonia, and Ukraine.
[c] Values of FDI stock were negative in the case of Albania, The Former Yugoslav Republic of Macedonia and Ukraine.

Note: data converted using the IMF exchange rate of 31, December 2000: USD 1= HUF 221.73, and of 31 December 2009: USD 1= HUF 188.07.

Annex table 5. Hungary: Top 10 Hungarian firms with foreign ownership, including foreign affiliates, ranked by sales, 2010

Rank	Company	Share of foreign ownership	Foreign investor with the highest share of ownership	Industry	Sales (million US$)
1	MOL	64.5%	Dispersed; CEZ (Czech Rep.) (7.3%)	Energy	20,602
2	Audi Hungária	100%	Audi (Germany)	Automotive	6,357
3	Nokia	100%	Nokia Corp.(Finland)	Electronics	4,876
4	GE Hungary	100%	GE (United States)	Electronics	4,865
5	Samsung Electronics	100%	Samsung Electronics (Republic of Korea)	Electronics	4,734
6	Philips Industries	100%	Philips Electronics (Netherlands)	Electronics	3,703
7	E.OnHungaria	100%	E.ON Ruhrgas International (Germany)	Energy	3,258
8	Panrusgáz	90%	E.ON Ruhrgas International (Germany) (50%), Gazprom Export, (Russian Federation (40%))	Energy	2,999
9	Fibria Trading International	48.3%	FibriaCelulose SA (Brazil)	Wholesale trade (paper products)	2,979
10	Magyar Telekom	78.37%	Deutsche Telekom (Germany) (59.21%)	Telecommunications	2,922

Source: *HVG* (Hungarian economic weekly), October 8, 2011; WebPages and balance sheets of the companies.
Note: The exchange rate used is the IMF rate of 31, December 2010: USD 1=208.65 HUF.
MOL is majority foreign-owned but not foreign-controlled (see the text for explanation).

Annex table 5a. Hungary: largest non-financial firms with foreign ownership in the economy, including foreign affiliates, ranked by own capital, 2010

Rank	Name	Foreign parent company	Industry	Own capital of the Hungarian affiliate (US$ million)
1	MOL	n.a.	Energy	9,463
2	Audi Hungaria Motor Ltd.	Audi (Germany)	Car production	6,965
3	M-Telekom	Deutsche Telekom (Germany)	Telecommunications	2,547
4	Magyar VillamosMűvek	n.a.	Energy	2,502
5	HumantradeTeva Hungary	Teva (Israel)	Pharmaceuticals	2,171
6	GE Hungary	GE (USA)	Electronics	2,111
7	Richter Gedeon	n.a.	Pharmaceuticals	2,096
8	E.OnHungaria	E.ON Ruhrgas International (Germany)	Energy	1,681
9	Tesco Global	Tesco (United Kingdom)	Retail	1,281
10	MAVIR	n.a.	Energy	1,278

Source:Figyelő TOP 200 (an annual special issue of the Hungarian economic weekly *Figyelo*).
Note: The exchange rate used is the IMF rate of 31, December 2010: USD 1=208.65 HUF.
MOL and Richter Gedeon are majority foreign-owned but not foreign-controlled (see text for explanation)

Annex table 5b. Hungary: Top 10 Hungarian firms, ranked by exports, 2010

Rank	Company	Share of foreign ownership	Foreign investor with the highest share of ownership	Industry	Exports (million US$)	Export/sales (%)
1	MOL	64.5%	Dispersed, CEZ (Czech Rep.) (7.3%)	Energy	14,677	71.2
2	Audi Hungária	100%	Audi (Germany)	Automotive	6,333	99.6
3	GE Hungary	100%	GE (United States)	Electronics	4,772	98.1
4	Nokia	100%	Nokia Corp.(Finland)	Electronics	4,726	96.9
5	Samsung Electronics	100%	Samsung Electronics (Republic of Korea)	Electronics	4,392	92.8
6	Philips Industries	100%	Philips Electronics (Netherlands)	Electronics	3,485	94.1
7	Fibria Trading International	48.3%	FibriaCelulose SA (Brazil)	Wholesale trade (paper products)	2,979	100.0
8	Flextronics International	99.96%	Flextronics (Singapore)	Electronics	2,622	98.2
9	Magyar Suzuki	99.98%	Suzuki Motor Corporation (Japan)	Automotive	1,870	91.2
10	ChinoinGyógyszer-ésVegyészetiTermékekGyáraZrt.	Indirectly 100%	Sanofi-Aventis (France) (100%)	Pharmaceutical products	1,289	83.4

Source: HVG (Hungarian economic weekly), October 8, 2011; webpages and balance sheets of the companies.
Note: The exchange rate used is the IMF rate of 31, December 2010: USD 1=208.65 HUF.

Annex table 6. Hungary: main M&A deals, by inward investing firm, 2009–November 2011

Year	Acquiring company	Home economy	Target company	Target industry	Shares acquired (%)	Estimated/ announced transaction value (US million)
2011	YantaiWanhua Synthesize Group	China	BorsodChemZrt.	Chemicals	58.0	1,700.5
2011	Advent International Corp.	United States	Provimi Pet Food Zrt.	Animal food	100.0	264.8
2011	Cinema City International NV	Netherlands	Palace Cinemas Hungary Kft.	Movie theatres	100.0	37.7
2011	Medort SA	Poland	Rehab-Trade Kft.	Medical instruments	100.0	7.2
2011	Magyar Telekom (Deutsche Telekom Group)	Germany	DatenKontorKft.	Computer services	100.0	6.3
2010	YantaiWanhua Synthesize Group	China	BorsodChemZrt.	Chemicals	38.0	190.4
2010	Allianz	Germany	Allee Center Kft.	Life insurance	50.0	145.0
2010	EBRD	United Kingdom	IberdrolaRenovablesMagyarországKft.	Electricity	25.0	72.5
2010	Mid Europa Partners	United Kingdom	InvitelTávközlésiZrt.	Telecom	35.4	24.7
2010	FHB Kereskedelmi Bank Kft. (VCP Finanz Group)	Hungary	Allianz HungáriaBiztosító Kft.	Insurance	100.0	14.7
2010	SBI European Fund	Japan	CIG PannóniaÉletbiztosítóZrt.	Insurance	10.0	12.6
2010	Asseco Slovakia	Slovakia	StatlogicsZrt.	Software	70.0	11.6
2009	Surgutneftegaz	Russian Federation	MOL Nyrt.	Oil and gas	21.2	1,851.6
2009	Mid Europa Partners	United Kingdom	InvitelTávközlésiZrt.	Telecom	64.6	10.8
2009	Magyar Telekom (Deutsche Telekom Group)	Germany	KFKI-DirektKft.	Computer services	100.0	1.8

Source: Authors' calculations, based on UNCTAD, cross-border M&A database.

Annex table 7. Hungary: main greenfield projects, by inward investing firm, 2009–November 2011

Year	Investing company	Home economy	Industry	Key business function	Estimated number of jobs created	Estimated/ announced investment value (US$ million)
2011	General Motors	United States	Automotive	Manufacturing	800	670
2011	VerbioVereinigteBio Energie	Germany	Alternative/ renewable energy	Manufacturing	282	137
2011	KBC Group NV	Belgium	Financial services	ICT and Internet infrastructure	218	125
2010	Volkswagen	Germany	Automotive	Manufacturing	1,800	1 205
2010	Advanced Power AG	Switzerland	Coal, oil and natural gas	Electricity	102	717
2010	General Motors	United States	Engines and turbines	Manufacturing	1,000	673
2010	Alpiq (ATEL)	Switzerland	Coal, oil and natural gas	Electricity	71	503
2010	BNP Paribas	France	Real estate	Construction	3,000	485
2010	CEZ Group	Czech Republic	Coal, oil and natural gas	Electricity	533	240
2010	Atenor Group	Belgium	Real estate	Construction	2,576	240
2010	Givaudan	Switzerland	Food and tobacco	Manufacturing	1,582	167
2010	Ethanol Europe	Ireland	Alternative/renewab le energy	Manufacturing	77	142
2010	In Time	Germany	Transportation	Logistics, distribution and transportation	74	130
2010	RaluLogistika	Croatia	Transportation	Logistics, distribution and transportation	74	130
2010	Hankook Tire	Republic of Korea	Rubber	Manufacturing	450	108
2009	Vorskla Steel	Ukraine	Metals	Manufacturing	3,000	927
2009	GDF SUEZ	France	Coal, oil and natural gas	Electricity	44	308
2009	Ascent Resources	United Kingdom	Coal, oil and natural gas	Extraction	215	294
2009	Gazprom	Russian Federation	Coal, oil and natural gas	Extraction	215	294
2009	ING Groep	Netherlands	Real estate	Construction	3,000	293
2009	AES Corp.	United States	Coal, oil and natural gas	Electricity	533	197
2009	Gebrüder Weiss	Austria	Transportation	Logistics, distribution and transportation	74	130
2009	LEGO	Denmark	Consumer products	Manufacturing	1,300	119

2009	King Long United Auto Moto Industry	China	Automotive	Manufacturing	663	117

Source: The authors, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
Note: Data collection closed at 23 November 2011.

Hungary: Outward FDI and its policy context, 2010

Magdolna Sass and Kalman Kalotay[*]

OFDI from Hungary has weathered the current crisis relatively well, although its volume is still moderate for a country classified as "high income" – but not necessarily if compared with other new European Union (EU) members. The Hungarian OFDI stock is highly concentrated in five big companies. Government policy has so far focused more on a vigorous promotion of IFDI than on helping outward investors. However, it sometimes protects strategic Hungarian OFDI firms from hostile takeovers. The main question for the future of Hungarian OFDI is how its sustainability can be assured, especially by way of broadening the company base of capital exporters.

Trends and developments

In terms of the volume of its OFDI stock, Hungary is the second largest source of outbound investment among the new EU member countries, not far behind Poland, whose population is four times larger (annex table 1). Hungary was among the countries that, during the early stage of transition, based their strategy of development and reinsertion into the world economy on IFDI.[1] Nevertheless, as early as 1997, a handful of Hungarian firms had overcome the difficulties of transition, had managed to keep their management in local hands (although some of them have accumulated large amounts of foreign *portfolio* investment in their shareholding) and had started expanding abroad, especially in neighboring countries.[2] Hungarian affiliates of foreign MNEs also invested abroad. However, up till today, IFDI flows and stocks have exceeded OFDI flows and stocks.

Country-level developments

The growth of Hungary's OFDI accelerated after 2000, making Hungary a relatively important outward investor among the new EU members, both in terms of volume and of relative importance of OFDI for the country's economy. Compared to GDP, Hungary is clearly ahead of the Czech Republic and Poland in its OFDI stock, although the difference has diminished since 2005. Between 2000 and 2005, Hungary's OFDI stock increased more than sixfold, and doubled again between 2005 and 2007 (annex table 1). Therefore, the ratio of outward to inward FDI, which reached a historical low as a result of massive FDI inflows in 1995 (2.5%), rose steadily, reaching 18% in 2007 and 22% in 2008 (annex table 1a). However, this ratio is higher both in certain small new EU member countries (Estonia, Slovenia) and in the Russian Federation (with the exception of the crisis year 2009). Russia follows a different development str.ategy based on OFDI, while Estonia is used as a platform for OFDI by Scandinavian firms for investing in other Baltic countries and the Commonwealth of Independent States, and Slovenia

[*] The authors wish to thank F. Filippaios, H. Papapanagos, Y. Rizopoulos, and C. Stoian for their helpful comments. First published June 24, 2010.

[1] Magdolna Sass, "The effectiveness of host country policy measures in attracting FDI: the case of Hungary," in Americo Beviglia Zampetti and Torbjörn Fredriksson, eds., *The Development Dimension of FDI: Policy and Rule-Making Perspectives* (New York and Geneva: United Nations, 2003), pp. 49–58.

[2] UNCTAD, *World Investment Report 1997: Transnational Corporations, Market Structure and Competition Policy* (New York and Geneva: United Nations, 1997), pp. 98–99.

is capitalizing on its inherited connections with former Yugoslav republics. Hungary's position is similar when making a regional comparison of OFDI flows: for example, in 2005–2007 and in 2009, it was in third position, behind the Russian Federation and Poland, although in 2008 both Poland and Hungary were surpassed exceptionally by the Czech Republic (annex table 2).

The sectoral composition of Hungary's OFDI changed markedly in the 2000s. In 2000, services (including financial services and trade) represented almost four-fifths of the total OFDI stock (annex table 3). Manufacturing gradually gained importance, accounting for almost 40% of the total OFDI stock in 2008. There was also a marked increase in the share of mining and quarrying, reaching almost 7% in 2008. Other industries playing an important role in Hungarian OFDI include coke and refined petroleum, financial intermediation, chemicals (including pharmaceuticals), electrical and optical equipment, and business services.

The geographical distribution of Hungary's OFDI follows – on the one hand - the same patterns as the OFDI of other emerging markets:[1] Hungarian MNEs target mainly neighboring countries at a similar or lower level of development (annex table 4). Eleven geographically close countries, including Slovakia (20%), Croatia (8%) and Bulgaria (6%), host almost 55% of the total Hungarian OFDI stock.[2] On the other hand, speculative investments, sometimes aimed at tax optimization, explain the relatively important shares of Cyprus, Luxembourg, the Netherlands, and Switzerland. One-off large transactions result in (temporary) surges of shares for certain countries. Such is the case for the Republic of Korea in 2006 or, more recently, for Central America (one deal in the Netherlands Antilles).

The corporate players

One of the most important features of Hungarian OFDI is its concentrated nature in terms of investing companies. Altogether, the estimated number of Hungarian MNEs is 7,000, including many SMEs. However, according to our estimates, the country's five largest MNEs (MOL, OTP Bank, Magyar Telekom, MKB Bank, Gedeon Richter) accounted for at least 65% of the total OFDI stock in 2008 (annex table 5).

This concentration explains the volatility of annual OFDI flows, as well as the sectoral and geographical distribution of OFDI. This is the reason, for example, for the high share of mining and quarrying (MOL), coke and refined petroleum (MOL), financial intermediation (mainly OTP and MKB Bank), and pharmaceuticals and chemicals (Richter Gedeon, BorsodChem and TVK) in Hungarian OFDI. The manufacturing of electrical and optical equipment is the second most important industry within manufacturing, which may be connected to the foreign activities of Samsung[3] and Videoton. The largest cross-border acquisitions are also carried out by these few dominating firms, mainly in neighboring or geographically close countries, and often related to privatization deals (annex table 6), in which Hungarian MNEs benefit from first mover advantages. By the time privatization had started in neighboring countries, some Hungarian firms such as MOL and OTP had already become private firms, ready to invest abroad. The same large Hungarian MNEs, as well as the real estate firm TriGránit, are

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[1] Dilek Aykut and Andrea Goldstein, "Developing country multinationals: south-south investment comes of age," *OECD Development Centre Working Paper* No. 257 (Paris: OECD, 2006), mimeo.
[2] This is in line with the findings of gravity models on bilateral FDI in the region. See, for example, Christina Borrmann, Rolf Jungnickel and Dietmar Keller, "What gravity models can tell us about the position of German FDI in Central and Eastern Europe," HWWA Discussion Paper No. 328 (Hamburg: Hamburg Institute of International Economics, 2005), mimeo.
[3] Samsung (Republic of Korea) realized its Slovakian investment partly through its Hungarian affiliate.

also the most active ones in key foreign greenfield projects (annex table 7). Hungarian companies invest abroad predominantly with a market-seeking motive. There are a few efficiency-seeking MNEs, such as the electronics firm Videoton, which has acquired a company in Bulgaria with the aim of transferring there its most labor intensive activities.

At the other extreme, there are also SMEs investing abroad, some of them in faraway places (they could be called "born globals").[1] They establish offices on more developed markets (for example in Western Europe or in the United States) in order to be closer to their main customers – and competitors. In Hungary, such companies operate mainly in high-technology industries, such as information technology, software or medical instruments. For example, the 3DHistech company, a medical instruments producer, set up small affiliates in Germany and in the United States. Thales Nanotechnologies, a biotechnology firm, established offices in the United Kingdom and in the United States. However, this type of OFDI represents only a minor share of the total.[2]

Similarly to MNEs from other new EU member countries, Hungarian MNEs can be categorized into four main groups: "genuine", "foreign-controlled", "virtually foreign-controlled", and "formally headquartered elsewhere":

- "Genuine" MNEs' ownership is mostly local and their management is Hungarian. Examples include Jászplasztik, a first tier supplier of Samsung and Electrolux, which established an affiliate in Galanta, Slovakia, following Samsung's investment there.
- "Foreign-controlled" MNEs[3] are foreign affiliates located in Hungary that, for various reasons, have invested abroad from their Hungarian base. Examples include Magyar Telekom (majority-owned by Deutsche Telekom) or the Dunapack paper mill (controlled by Austria's Mosburger). The FDI carried out by these firms can be called "indirect investment."[4]
- In "virtually foreign-controlled" Hungarian MNEs, foreign *portfolio* investors hold the majority of shares, but do not have a controlling stake. As a result, the management is Hungarian, and all decisions are taken in Hungary. This group of MNEs deserves particular attention because, in the literature, it is assumed to be part of the foreign-controlled group, while, in substance, it is closer to genuine MNEs. We call FDI realized abroad by these firms "virtual" indirect investment, as opposed to the real indirect investment of firms such as Magyar Telekom. Out of the list of the most important investor companies, MOL, OTP and Richter (annex table 5), as well as Synergon (not in the table), belong to this category. The dispersion of ownership is a result of the fact that these firms were privatized through the Budapest Stock Exchange. As one example, the majority (more than 65%) of OTP Bank's shares were owned by foreigners in 2009, although none of them alone controlled more than 10%, and only three of them (Artio Global Management of United States, 9%; three Russian private persons, 8%; and Groupama, France, 8%) exceeded 5%. Domestic investors

[1] Tage Koed Madsen and Per Servais, "The internationalization of born globals: an evolutionary process?," *International Business Review,* vol. 6, no. 6 (1997), pp. 561–83.
[2] Katalin Antalóczy and Andrea Éltető, "Outward foreign direct investment from Hungary: trends, motivations and effects," in Marjan Svetlicic and Matija Rojec, eds., *Facilitating Transition by Internalization: Outward Direct Investment from Central European Economics in Transition* (Aldershot: Ashgate, 2003), pp. 155–74.
[3] Eric Rugraff, "Strengths and weaknesses of the outward FDI paths of the central European countries," *Post-Communist Economies,* vol. 22, no.1 (2010), pp. 1–17.
[4] Wilfried Altzinger, Christian Bellak, Andrea Jaklic, and Matija Rojec, "Direct versus indirect foreign investment from transition economies: Is there a difference in parent company/home country impact?," in Svetlicic and Rojec, *op cit.*, pp. 91–110; Wladimir Andreff, "The new multinational corporations from transition countries," *Economic Systems*, vol. 26, no. 4 (2002), pp. 371–79.

owned together 22%, the Government 0.5%, and the management 11%.[1] Decisions of strategic importance, including those about foreign acquisitions, are taken by the Hungarian management.

- The most salient example of Hungarian MNEs whose formal headquarters are located elsewhere but whose management is mostly Hungarian, and whose decisions are taken in the Hungarian base, is the real estate firm TriGránit (registered officially in Budapest but majority-owned by a Cyprus-based parent company owned by a Hungarian private person). For analytical purposes, these companies have to be considered Hungarian MNEs, although it is nearly impossible to include them in the statistics, given methodological difficulties such as the accounting of domestic versus foreign activities.

Effects of the current global crisis

The global crisis affected Hungarian OFDI relatively quickly, given the structural weaknesses of the Hungarian economy. In 2008, OFDI flows declined by 56%, followed by a modest recovery (5%) in 2009 (annex table 2).

The drop in 2008 was related to a halt in large cross-border M&A deals that year. In most other countries of the region (except Estonia), the decline in FDI outflows did not start before 2009. However, the decline in Hungarian OFDI was not exceptional by global standards. In 2008, the decline in outflows was larger than the world average (-13%), but its recovery in 2009 was going against a global decline of about 39%. As for OFDI stock, it grew till 2008 (annex table 1), and declined by 3% in 2009 as Hungarian assets abroad devalued. This depreciation of the OFDI stock was relatively mild in international comparison (annex table 1).

The relative resilience of OFDI is surprising given the sharp drop in Hungarian GDP (-6.3% in 2009, caused mostly by a 17.7% drop in manufacturing production)[2] and the contraction in the market value of Hungarian firms. In 2008, the index of the Budapest Stock Exchange (BUX), where most of the large Hungarian companies are quoted, contracted by 53%, although it recovered to 82% of the January 2008 value in 2009.[3] The decrease in home-country revenues reduced the scope of equity and other investments by Hungarian MNEs, while lower host-country revenues were translated into smaller reinvested earnings.

Anecdotal evidence shows that certain Hungarian MNEs had to postpone or reduce projects due to difficulties of financing, as was the case with TriGránit in Zagreb, Croatia. The crisis and the drying-up of financial resources also revealed the vulnerability of Hungarian MNEs to takeovers or take-over attempts by MNEs from other countries. To date, the most important attempt has been undertaken by Russia's oil firm Surgutneftegaz, which acquired 26% of the shares of MOL from Austria's OMV in March 2009. So far, MOL has prevented a take-over by invoking a company rule according to which no shareholder can have more than 10% voting rights, irrespective of the amount of shares it owns, and administrative difficulties in properly registering the new Russian shareholder for the company's general assembly.[4] However, the case is still abeyance at the moment of writing this analysis.

[1] https://www.otpbank.hu/portal/en/IR_Ownership_structure.
[2] According to data from the Central Statistical Office (www.ksh.hu).
[3] According to data from the Budapest Stock Exchanges (www.bse.hu).
[4] Kalman Kalotay, "The political aspect of foreign direct investment: The case of the Hungarian oil firm MOL," *The Journal of World Investment & Trade,* vol. 11, no. 1 (2010), pp. 79–90.

The policy scene

Being a EU member, Hungary's policies are framed by the Lisbon Treaty and the treaties concluded by the EU, as well as by the BITs signed by the Hungarian government (57 in force in 2009).[1] These cover all major target economies of Hungarian OFDI. There are also government agencies and institutes offering assistance to OFDI. The institutional framework has undergone changes over time; however, the three main areas of support (subsidized information and consultancy services; investment finance and insurance; lobbying abroad) have remained the same. Information and consultancy services are provided (and business meetings are organized) by the Hungarian Investment and Trade Development Agency ITDH (an integrated agency, promoting IFDI and OFDI, exports and SMEs), and some chambers of commerce (national, regional, bilateral). Finance and insurance is provided by the state-owned Corvinus Group and by the Hungarian Development Bank. Both of these agencies support mostly OFDI by Hungarian SMEs. Corvinus also maintains an information system on investment opportunities in Hungary and abroad, in and outside the EU. In addition, Hungarian MNEs and government agencies carry out some lobbying abroad, especially related to privatization deals, although no formal institution exists in that area.

According to company interviews, the first two services, namely subsidized information and consultancy services and investment finance and insurance, are mainly used by SME foreign investors, while large investors are more likely to rely on lobbying. The latter consider that the lobbying activity of the Hungarian Government and its foreign representatives is weaker than that of countries with a longer history of OFDI. This is especially problematic in the case of large privatization deals, which are particularly important as a mode of entry for large Hungarian investors abroad.[2]

Conclusions and Outlook

So far, Hungary's strategy of international competitiveness has been based on IFDI rather than on OFDI. However, over time, the latter has gained in importance, despite the financial crisis that has hit Hungary hard. The future of Hungarian OFDI is difficult to predict as the era of uncertainty is far from being over at the time of writing this *Profile* (June 2010). In addition, with a change in government (and potentially government policies) in Hungary, approaches toward Hungarian MNEs may change. One of the lessons drawn from Hungarian OFDI strategies is that foreign acquisitions are an imperative to prevent hostile takeovers by competitors. Thus, Hungarian MNEs will most probably continue to increase their presence in geographically close countries, reaping especially the benefits from privatization. Moreover, some indigenous firms, those that weathered the crisis well and are increasingly sensitive to wage costs, are expected to transfer in the future their most labor-intensive activities to nearby countries. These can be mainly SMEs in the labor-cost sensitive metal, plastic and machinery industries. High-technology SMEs could also be important sources for potential OFDI, though the volume of their transactions is expected to remain small.

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[1] See www1.pm.gov.hu/web/home.nsf/portalarticles/16E5406F25E730F2C1256E1A004373A4?OpenDocument.

[2] ICEG European Centre, "Background studies for the update of Hungarian External Economic Strategy" (2007) (www.icegec.hu/publications).

Additional readings

Antalóczy, Katalin and Andrea Éltető, "Outward foreign direct investment from Hungary: trends, motivations and effects," in Marjan Svetlicic and Matija Rojec, eds., *Facilitating Transition by Internalization. Outward Direct Investment from Central European Economics in Transition* (Aldershot: Ashgate, 2003), pp. 155–174.

Antalóczy, Katalin and Magdolna Sass, "Emerging multinationals: the case of Hungary," Conference on emerging multinationals: Outward Foreign Direct Investment from Emerging and Developing Economies, Copenhagen Business School, Copenhagen, Denmark, October 9–10, 2008 (available at: http://gdex.dk/ofdi/7%20Antaloczy%20Katalin.pdf).

Kalotay, Kalman, "The political aspect of foreign direct investment: the case of the Hungarian oil firm MOL," *The Journal of World Investment & Trade*, vol. 11, no. 1 (2010), pp. 79–90.

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Statistical annex

Annex table 1. Hungary: outward FDI stock, selected years

Economy	Outward FDI stock (US$ million)						Ratio of outward FDI stock to GDP (Percentage)				
	1995	2000	2005	2007	2008	2009	1995	2000	2005	2007	2008
Hungary	278	1 280	7 810	17 596	19 979	19 451	0.6	2.7	7.1	12.7	13.0
Memorandum: comparator economies											
Czech Republic	345	738	3 610	8 557	12 531	14 348	0.6	1.3	2.9	4.9	5.8
Estonia	68	259	1 940	6 174	6 657	6 534	1.8	4.6	14.1	29.5	28.7
Poland	539	1 018	6 277	21 201	22 560	26 211	0.4	0.6	2.1	5.0	4.3
Russian Federation	3 346	20 141	146 679	370 161	202 837	…	0.8	7.8	19.2	28.9	12.0
Slovenia	727	768	3 290	7 197	8 650	…	3.5	4.5	9.2	15.3	15.9

Source: Authors' calculation, based on UNCTAD's FDI/TNC database (available at: http//stats.unctad.org/fdi/) and national statistics.

Annex table 1a. Hungary: inward and outward FDI stock, selected years

Item	1990	1995	2000	2005	2007	2008	2009
Inward FDI stock (US$ million)	570	11 304	22 870	61 970	100 335	89 717	92 432
Outward FDI stock (US$ million)	159	278	1 280	7 810	17 596	19 979	19 451
Ratio of outward to inward FDI stock (%)	27.9	2.5	5.6	12.6	17.5	22.3	21.0

Source: Authors' calculation, based on UNCTAD's FDI/TNC database (available at: http://stats.unctad.org/fdi/) and national statistics.

Annex table 3. Hungary: sectoral distribution of outward FDI stock, 2000 and 2008 (Percent of total)

Sector/industry	2000	2008	Sector/industry	2000	2008
Agriculture, forestry and fishing	0.00	0.03	Electricity, gas and water	0.16	0.06
Mining and quarrying	1.89	6.88	Construction	0.28	0.31
Manufacturing	12.99	37.54	Services	79.98	52.70
Food, beverages and tobacco	1.50	0.15	Wholesale, retail and repair	19.57	6.48
Textile and leather	1.12	0.09	Hotels and restaurants	1.55	0.98
Wood, pulp, paper and publishing	1.13	0.53	Transport and telecom	1.29	0.97
Coke, refined petroleum and nuclear fuel	0.00	17.42	Financial intermediation	45.65	23.26
Chemicals	2.46	2.05	Real estate	0.31	0.20
Rubber and plastic	1.43	0.28	Computer services	0.04	0.04
Other non-metallic minerals	2.27	1.39	Business services	8.95	20.30
Metals	0.01	0.06	Other services	0.01	0.32
Machinery and equipment n.e.c.	0.02	0.03	Acquisition of real estate and OFDI by households	3.51	2.44
Electrical and optical equipment	0.18	14.57			
Transport equipment	2.84	0.84	Not identified	1.18	0.05
Furniture and manufacturing n.e.c.	0.01	0.12	Total	100.00	100.00

Source: Authors' calculation, based on data from the National Bank of Hungary.

Annex table 4. Hungary: geographical distribution of outward FDI stock, 2000 and 2008 (Percent of total)

	2000	2008	Region/economy	2000	2008
Total	100.00	100.00	*Other Europe*	3.40	29.15
Europe	87.61	74.56	Croatia	1.33	8.31
European Union	83.66	45.16	Montenegro	..	1.35
Austria	6.73	0.38	Russian Federation	0.50	1.76
Bulgaria	0.31	6.16	Serbia	..	3.15
Cyprus	6.95	3.78	Switzerland	0.35	6.93
Czech Republic	5.42	1.58	TFYR of Macedonia	0.00	3.94
Denmark	10.24	0.03	Turkey	0.00	0.81
France	0.11	0.06	Ukraine	1.22	2.90
Germany	2.90	0.39	North America	4.84	1.36
Ireland	2.80	0.01	Canada	0.01	1.03
Italy	0.10	0.78	United States	4.83	0.33
Luxemburg	0.11	4.29	Central America	0.10	7.20
Netherlands	32.01	1.53	Asia	0.26	14.61
Poland	1.08	1.34	Republic of Korea	0.00	14.33
Romania	4.96	4.11	China	0.10	0.02
Slovakia	8.73	20.25	India	0.07	0.05
Slovenia	0.37	0.26	Japan	0.03	0.01
Spain	0.04	0.13	Africa	0.13	0.00
United Kingdom	0.80	0.08	Not identified	7.00	2.36

Source: Authors' calculation, based on data from the National Bank of Hungary.

Annex table 5. Hungary: top 10 MNEs, ranked by foreign assets, 2008 (US$ million)

Rank	Company	Industry	Host economies of OFDI	Foreign assets[a]
1	MOL	Oil and gas	Austria, Bosnia-Herzegovina, Croatia, Cyprus, Czech Republic, Germany, Italy, Jersey, Kazakhstan, Oman, Poland, Romania, Russian Federation, Serbia, Slovakia, Slovenia, Syria, The Netherlands, Ukraine, United Kingdom, Yemen	4 800
2	OTP Bank	Banking	Austria, Bulgaria, Croatia, Cyprus, Luxemburg, Montenegro, Romania, Russian Federation, Serbia, Slovakia, The Netherlands, Ukraine, United Kingdom	2 500
3	Magyar Telekom (Deutsche Telekom Group)	Telecom	Bulgaria, TFYR of Macedonia, Montenegro, Romania, Ukraine	1 200
4	MKB Bank (Bayern LB Group)	Banking	Bulgaria, Romania	250
5	Gedeon Richter	Pharmaceuticals	Armenia, Germany, India, Italy, Japan, Republic of Moldova, Poland, Romania, Russian Federation, Ukraine	192
6	Danubius Hotels	Hotels	Czech Republic, Romania, Slovakia	171
7	BorsodChem	Chemicals	Czech Republic, Italy, Poland	100
8	Dunapack (Prinzhorn Holding)	Paper	Bulgaria, Croatia, Lithuania, Poland, Romania, Slovakia, Ukraine	75
9	Samsung Hungary	Electronics	Slovakia	30
10	Videoton	Electronics	Bulgaria	25

Source: Authors' estimates based on balance sheets of the companies and values of individual M&A transactions.
[a] Estimated values.
Note: TriGránit is not included.

Annex table 6. Hungary: main M&A deals, by outward investing firm, 1998–2009 (US$ million)

Acquiring company	Target company	Target industry	Target economy	Year	Transaction value (US$ million)	Shares acquired (%)
MOL	Italiana Energia e Servizi SpA	Oil and gas	Italy	2007	1 097.0	100.0
OTP Bank	Raiffeisenbank Ukraine	Banking	Ukraine	2006	832.7	100.0
MOL	INA Industrija Nafte	Oil and gas	Croatia	2003	508.1	25.0
OTP Bank	Investsberbank	Banking	Russian Federation	2006	477.0	96.4
OTP Bank	DSK Bank	Banking	Bulgaria	2003	358.6	100.0
MOL	Slovnaft	Oil and gas	Slovakia	2003	329.7	31.6
Magyar Telekom (Deutsche Telekom Group)	Macedonian Telecom (Maktel)	Telecom	TFYR of Macedonia	2001	323.5	51.0
OTP Bank	Nova Banka	Banking	Croatia	2005	316.7	95.6
MOL	Slovnaft	Oil and gas	Slovakia	2000	262.0	36.2
MOL	Slovnaft	Oil and gas	Slovakia	2004	242.3	28.5
OTP Bank	Kulska Banka	Banking	Serbia	2006	151.8	67.0
Magyar Telekom (Deutsche	Telecom Montenegro	Telecom	Montenegro	2005	150.7	51.0
Wizz Air	Wizzair Ukraine	Airlines	Ukraine	2007	137.0	100.0
OTP Bank	Crnogorska Komercijalna Banka	Banking	Montenegro	2006	132.0	100.0
Danubius Hotels	Ramada Plaza Regents Park Hotel	Hotels	United Kingdom	2005	112.2	100.0
MKB Bank (Bayern LB Group)	Unionbank	Bank	Bulgaria	2006	85.5	..
BorsodChem	Moravské Chemické Závody	Chemicals	Czech Republic	2000	54.9	97.5
MOL	Pearl Petroleum Company Ltd.	Oil and gas	Iraq	2009	54.1	10.0
OTP Bank	Banca Comerciala Robank	Banking	Romania	2004	47.5	100.0
Gedeon Richter	Polfa Grodzisk	Pharmaceuticals	Poland	2008	43.0	36.8
OTP Bank	Zepter Banka	Banking	Serbia	2006	41.3	75.1
OTP Bank	Donskoy Narodny Bank	Banking	Russian Federation	2008	41.0	100.0

Gedeon Richter	Polfa Grodzisk	Pharmaceuticals	Poland	2002	30.1	51.0
Magyar Telekom (Deutsche Telekom Group)	Telecom Montenegro	Telecom	Montenegro	2005	29.6	21.9
Waberer	Somitco Trans	Transport	Romania	2008	29.5	100.0
Danubius Hotels	Health Spa Piestany	Hotels	Slovakia	2002	27.0	..
TVK (MOL Group)	Hamburger Unterland	Chemicals	Austria	1998	27.0	74.0
OTP Bank	Niska Banka AD	Banking	Serbia	2006	16.9	89.4
Danubius Hotels	Lécebné Lázne Márianské Lázne	Hotels	Czech Republic	2000	15.5	65.0
OTP Bank	Investicni a Rozvojova Banka	Banking	Slovakia	2002	14.6	92.6

Source: Authors' collection and estimation, based on company reports and Thomson ONE Banker, Thomson Reuters.

Annex table 7. Hungary: top 10 greenfield projects, by outward investing firm, in 2007–2009

(US$ million)

Year	Investing company	Target industry	Target economy	Investment
2009	TriGránit	Real estate	Slovakia	2 230
2009	MOL	Oil and gas	Croatia	524 [a]
2009	WIZZ Air	Air transport	Czech Republic	128 [a]
2009	Omninvest	Biotechnology	Uzbekistan	70 [a]
2009	WIZZ Air	Air transport	Switzerland	61 [a]
2009	Genesis Energy Befektetési Nyrt.	Electronics / renewable energy	Spain	58 [a]
2009	MOL	Oil and gas	Pakistan	40
2009	CIG Central European Insurance	Financial services	Romania	23 [a]
2009	DKG East	Machinery	Qatar	18 [a]
2009	Domoinvest	Pharmaceuticals	Serbia	14 [a]
2008	TriGránit	Real estate	Romania	1 573
2008	TriGránit	Real estate	Poland	782
2008	MOL	Oil and gas	Slovakia	450 [a]
2008	TriGránit	Real estate	Croatia	311
2008	TriGránit	Real estate	Russian Federation	289 [a]
2008	TriGránit	Real estate	Russian Federation	289 [a]
2008	Brixxon	Automotive	Austria	236 [a]
2008	System Consulting Zrt.	Renewable energy	Russian Federation	197 [a]
2008	WIZZ Air	Air transport	Romania	150
2008	TriGránit	Real estate	Slovenia	145 [a]
2007	TriGránit	Real estate	Russian Federation	1 000
2007	Libri	Bookshops	Romania	194
2007	TriGránit	Real estate	Romania	188
2007	TriGránit	Real estate	Poland	130 [a]
2007	TriGránit	Entertainment	Russian Federation	40 [a]
2007	MOL	Oil and gas	Serbia	39 [a]
2007	OTP Bank	Banking	Ukraine	36 [a]
2007	OTP Bank	Banking	Russian Federation	36 [a]
2007	OTP Bank	Banking	Netherlands	25 [a]
2007	Cerbona	Food	Romania	24 [a]

Source: Authors' collection and estimation, based on information from the *fDi Intelligence*, a service from the *Financial Times Ltd*.
[a] Estimate made by *fDi Intelligence*.

Hungary: Outward FDI and its policy context, 2012

Erzsébet Czakó and Magdolna Sass[*]

The period of significant growth of outward foreign direct investment (OFDI) from Hungary was interrupted in recent years. The global financial and economic crisis has brought considerable changes with effects on Hungary's OFDI. The OFDI stock declined in 2010 after its impressive growth throughout 2000–2009, and the decline in OFDI flows that began in 2007 continued through 2010. However, recent data indicate a rise in both OFDI stock and flows in 2011. Hungary's OFDI stock of US$ 21 billion in 2010 continued to be highly concentrated in terms of the investing companies. These large multinational enterprises (MNEs) face the challenge of an international environment that is increasingly critical to their operations. Government policy and the institutional framework have changed to a great extent since 2010. In particular, the extent of state ownership in the most important outward investors has grown. In the policy field, the declared priorities focus on OFDI in new geographic areas and the promotion of the internationalization of small and medium-sized enterprises (SMEs). The main question for the future of Hungarian OFDI remains that of how its sustainability can be assured, especially in terms of broadening the company base of OFDI.

Trends and developments

The growth of Hungary's OFDI accelerated after 2000, making Hungary a relatively important outward investor among the new European Union (EU) members, both in terms of volume and of relative importance of OFDI for the country's economy. Taken as a whole, the first decade of the 2000s can be characterized as one of spectacular growth of OFDI from Hungary.[1] With an OFDI stock of US$ 21 billion in 2010 and US$ 24 billion in 2011, Hungary is among the largest source countries of FDI among the new EU member countries, just behind Poland, with a population four times larger than that of Hungary (annex table 1). However, the global crisis and economic slowdown did not leave Hungarian OFDI unaffected. The impact of the crisis was aggravated by the internal problems of the Hungarian economy, mainly due to large public and private debt, fiscal problems, low employment rate, and low GDP growth. This is reflected in the slowdown of outward flows during 2008-2010.

Country-level developments

OFDI from Hungary is quite sizeable in comparison with that from other former transition economies that are now members of the European Union. However, it lags behind the OFDI of older EU-member economies. In 2010 as well as 2011, Hungary's OFDI stock was smaller than that of Greece and Portugal, as well as Austria (among the old EU members), although the percentage ratio of OFDI stock relative to GDP was lower for Greece than for Hungary (annex table 1). While Hungary was ahead of the Czech Republic and behind Poland (among the larger of the new EU member countries) in terms of the OFDI stock, it was ahead of both economies as regards OFDI stock relative to GDP. On the other

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[*] The authors wish to thank Kalman Kalotay and Eric Rugraff for their helpful comments. First published August 26, 2012.

[1] *Ibid.*

hand, both Hungary's stock of OFDI and its ratio to GDP in 2010 and 2011 were higher than those of the smaller new EU members Slovenia and Slovakia (annex table 1). While the OFDI stock of Hungary exceeded that of Estonia, the ratio of OFDI to GDP was higher in the latter. Hungary's inward FDI remains much higher than its OFDI stock, but the ratio of outward to inward FDI stock has risen steadily, reaching 22.8% in 2009 before declining slightly (to 22.6%) in 2010 and rising again (to 28.2%) in 2011 (annex table 1a).

OFDI flows reached their peak in 2006, at US$ 3.9 billion (annex table 2). A declining trend can be observed since then, with a particularly large fall in 2010 when the value of outflows (US$ 1.6 billion) amounted to only 60% of that in 2009. However, Hungary is fairly similar in that respect to the comparator economies considered, all of which have seen a decline in their OFDI flows after 2007, although in a few cases (Austria, the Czech Republic), flows began to recover in 2010. Data for 2011 indicate a substantial rise in flows of Hungary's OFDI, which surpassed the previous peak of 2006 (annex table 2). However, according to the estimation of the Hungarian National Bank based on data for the first three quarters of 2011, more than 90% of the OFDI was related to so-called "transit capital".[1]

The sectoral composition of outward FDI from Hungary changed considerably between 2000 and 2010. The most obvious trend is the rising importance of the manufacturing sector, in which OFDI stock rose from US$ 166 million in 2000 to US$ 4.5 billion in 2010 (annex table 3), and which by 2010 accounted for 22% of total OFDI stock, a lower share than in 2008 when it was 38% but much higher than that in 2000 when it was only 13%. Within manufacturing, coke, refined petroleum and nuclear fuel was the leading industry in 2010, with a 9% share in total OFDI (compared with 17% in 2008), followed by chemicals with 7% (compared with 2% in 2008),[2] (annex table 3). These two industries have increased their shares considerably in recent years, as compared with 2000. The share of services in total OFDI stock dropped from 80% in 2000 to 53% in 2008, but rose slightly to 55% in 2010. Financial intermediation stands out, along with business services, as the largest recipient in the services sector. However, the share of business services in total OFDI stock in services rose noticeably during 2000–2010 (growing from 11% in 2000 to 45% in 2010), while that of financial intermediation declined from 57% in 2000 to 29% in 2010.

The geographical composition of OFDI by host economy also changed markedly in the 2000s. European Union member states are not the dominant hosts to Hungarian investments any more (annex table 4.) This is mainly due to the increase in the share of other European economies and the emergence of faraway destinations – the latter mainly due to one-off large transactions in individual countries, such as in the Republic of Korea and Singapore in Asia or in the Netherlands Antilles in Central America. Still, the dominant host economies with more than half of Hungarian FDI abroad are the neighboring and geographically close countries at a similar or lower level of development, such as Croatia (with 17% of Hungary's OFDI stock in 2010), Slovakia (10%), Bulgaria (6%), Romania and Ukraine (3% each), Czech Republic, Poland, Russia, Serbia, and Macedonia (2% each).[3] In that respect, Hungary is similar to other smaller emerging European economies, i.e., outward FDI is mainly located in host economies

[1] See the quarterly balance-of- payments data on the website of the Hungarian National Bank, available at: http://english.mnb.hu/Root/Dokumentumtar/ENMNB/Statisztika/mnben_statkozlemeny/mnben_fizetesi_merleg/CA11Q4_EN.pdf and http://english.mnb.hu/Statisztika/data-and-information/mnben_statisztikai_idosorok/mnben_elv_external_trade/mnben_kozetlen_tokebef

[2] Shares for 2000 and 2010 cited in this paragraph are based on the data in annex table 3 and those for 2008 are from Sass and Kalotay, *op. cit.*, annex table 3.

[3] Percentages are based on data in annex table 4.

that are in the neighborhood of the country. On the other hand, economies acting as "tax optimization sandwiches"[1] such as Cyprus, Switzerland, Luxemburg, and the Netherlands, also figure, in that order, among the relatively important destinations, with a combined share of more than one fifth of total OFDI stock from Hungary in 2010.

The corporate players

Hungarian OFDI is highly concentrated in terms of the number of investing companies, as described in detail in the previous *Columbia FDI Profile* of Outward FDI from Hungary.[2] While there are thousands of Hungarian firms investing directly abroad (the estimated number in 2008 was 7,000), a small number of them are responsible for the overwhelming majority of the OFDI stock: in 2008, the country's five largest MNEs (MOL, OTP Bank, Magyar Telecom, MKB Bank, Gedeon Richter) were estimated to have accounted for at least 65% of the OFDI stock. In 2010, there was one newcomer, KÉSZ, in the list of the top investors (annex table 5);[3] however, the most important companies remained the same. One of them, MOL, an oil and gas company that heads the list, experienced a significant change in its ownership structure in May 2011 when the Hungarian Government acquired more than a fifth of its shares,[4] which invites a closer look at ownership changes in that company as well as the extent and nature of state ownership in Hungarian MNEs (see section below on "Special issues").

The largest cross-border M&As abroad by Hungarian MNEs in 2010 were led by two transactions by Gedeon Richter in the pharmaceutical industry (annex table 6). They were both much larger in size than the largest cross-border deals in 2009 and 2010. Investments in air transport (by Wizzair) and in pharmaceuticals (by Omninvest, Nan Genex and Richter Gedeon) ranked at the top of the largest greenfield FDI projects undertaken by Hungarian MNEs in 2010 (annex table 7).

For companies engaged in OFDI from Hungary, the primary motive of investing abroad is market-seeking, similarly to that of MNEs from other former transition economies.[5] However, there are cases of efficiency-seeking investment, e.g., in the case of Videoton in the electronics sector, which has two plants in countries with considerably lower wages compared to Hungary: Bulgaria and Ukraine. The resource-seeking motive is also present in the case of certain investments realized by MOL, the oil and gas company, mainly in faraway locations, such as Iraq, Oman and Pakistan.

Special issues

[1] On the "old" and "new" "Dutch sandwiches", see George Kahale, "The new Dutch sandwich: The issue of treaty abuse", *Columbia FDI Perspectives*, no. 48, October 10, 2011, available at: http://www.vcc.columbia.edu/content/new-dutch-sandwich-issue-treaty-abuse

[2] See Sass and Kalotay, *op. cit.*

[3] See Sass and Kalotay, *op. cit.*

[4] See e.g. http://uk.reuters.com/article/2011/05/24/mol-surgut-idUKTST00206520110524

[5] See e.g. M. Svetlicic, A. Jaklic and A. Burger, "Internationalization of small and medium-sized enterprises from selected Central European countries", in *Eastern European Economics*, vol. 45, No. 4 (July–August 2007), pp. 36–65. See also, for Hungary: K. Antalóczy and A. Éltető, A.,"Magyar vállalatok nemzetköziesedése: indítékok, hatások, problémák (Internationalization of Hungarian companies: motives, impacts and problems)", *Közgazdasági Szemle,* vol. XLIX. 2, pp. 158–172.

The acquisition of part ownership by the Hungarian Government in the oil and gas company MOL, which can be considered by far the most important outward investor from Hungary,[1] draws attention to the issue of state ownership of Hungarian MNEs. Among the top Hungarian outward investors, besides MOL, there are other MNEs with some limited state ownership. In OTP, the most important MNE in financial services, the share of state ownership is negligible (0.4% at end-2011).[2] However, in Richter, an MNE operating in the pharmaceutical industry, the original 25% state share increased further last year, by 2.7 %, due to the nationalization of the private pension funds that held the latter share.[3] That same nationalization measure led to an increase in state ownership in MOL; together with the aforementioned acquisition, the extent of state ownership in the gas and oil company grew to 23.8% during 2011.[4] Thus, in two of the top five outward investors there is now considerable, though minority, state ownership.[5]

MOL is one of the largest petroleum companies in the East Central European region with an extensive network of foreign affiliates in both upstream and downstream activities. In recent years, the company has been a target of various takeover attempts. A recent case was that by the Austrian oil and gas firm OMV (it already owned a 21.1% share in MOL), which launched a series of hostile takeover bids in 2007–2008. The effort was abandoned when the European Commission conveyed its disapproval to OMV.[6] However, OMV then sold its share in MOL to the Russian Surgutneftegas in March 2009, an act seen as unfriendly by both the MOL board and the Hungarian authorities.[7] In May 2011, the Government of Hungary purchased the MOL shares from the Russian company for EUR 1.88 billion.[8]

Another special issue emerging with respect to FDI from Hungary relates to that of multinational enterprises as the "Janus face of globalization"[9] that has been observed and analyzed in both academic and policy papers for many years. In the 1990s, MNEs' foreign affiliates were considered beneficial for the host country, and their positive impacts were emphasized during the privatization of state-owned enterprises and the transition of former centrally-planned economies to market-based ones.[10] As a sign of a changing trend, several of the privatization deals of public utilities have been questioned by host-

[1] Magdolna Sass and Olivér Kovács, "Hungary's global players: a strong presence in the neighborhood in 2009," in Karl P. Sauvant, Vishwas P. Govitrikar and Ken Davies (eds.), *MNEs from Emerging Markets: New Players in the World FDI Market* (New York: Vale Columbia Center, 2011), pp. 119–142, available at: http://www.vcc.columbia.edu/books

[2] See https://www.otpbank.hu/portal/en/IR_Ownership_structure

[3] See http://www.richter.hu/EN/Archive/Investors%20and%20media/Annual%20reports,%20presentations/Richter20Annual20report202011[1].pdf

[4] See http://ir.mol.hu/en/about-mol/ownershipbrstructure/

[5] In the case of MOL, the State had special rights already. On the one hand, shareholders' rights are limited: none of them can exercise voting rights of more than 10%, even if they own more shares than that. On the other hand, there is the voting preference share owned by the Hungarian Government, which entitles it to veto certain strategic decisions, including those affecting the ownership changes in the company.

[6] See Sass and Kalotay, *op. cit.*

[7] Sass and Kovács, *op. cit.*

[8] See http://www.reuters.com/article/2011/05/24/mol-idUSLDE74N1FH20110524

[9] Lorraine Eden and Stefanie Lenway, "Introduction to the symposium Multinationals: The Janus Face of Globalization", *Journal of International Business Studies*, vol. 32, No. 3 (2001), pp. 383-400, and Mats Forsgren, *Theories of the Multinational Firm: A Multidimensional Creature in the Global Economy* (Cheltenham, and Northampton, MA: Edward Elgar), 2008.

[10] See, for more details on this issue, M. Szanyi, "An FDI-based development model for Hungary: New challenges?", Working Paper No. 141, Institute for World Economics of the Hungarian Academy of Sciences, , Budapest, December 2003.

country governments in recent years.[1] The pendulum now shows signs of moving in the other direction: Recently, governments have taken more liberty to tackle what they consider to be the negative aspects of FDI. For example, since 2010 extra taxes have been imposed that mainly affect foreign affiliates in Hungary, apparently to ensure that these affiliates pay a fairer share of total taxes.[2] The swing of the pendulum affects not only foreign MNEs' affiliates in Hungary but also some Hungarian-headquartered MNEs' affiliates in other countries. An example with respect to the latter is the MOL case in Croatia in 2011, where MOL's chairperson was accused of bribery in its Croatian affiliate acquisition deal.[3] The accusation came to light in parallel with the increase of Hungarian state ownership in MOL and after MOL's attempt to increase its shares in INA, the Croatian oil and gas company.[4] This case also throws some light on some emerging economies' approach to dealing with MNEs in both their home and host countries. One evolving and disputed issue is the role of the government in intervening in, and shaping, investment programs of MNEs for the benefit of the nation.[5]

Effects of the recent global crises

The global financial and economic crises of 2008–2009 impacted Hungarian investments abroad. As in other economies, the slowdown in GDP growth and high budget deficits affected the Hungarian economy and influenced Hungarian economic policies,[6] with implications for the ability of firms to invest abroad. Hungary was among the worst performing countries in the region in terms of GDP growth during the crisis years.[7] Moreover, Hungary's fiscal policy became contractionary well before the crisis

[1] See, for example, "Foreign investors in Hungary: less welcome. Are populist politicians turning on foreign capital?", *The Economist*, November 5, 2009, available at http://www.economist.com/node/14807099

[2] In 2010, extra taxes were imposed on the Hungarian telecom, energy and trade companies for three years (*Budapest Business Journal*, October 13, 2010, available at: http://www.bbj.hu/economy/hungary-government-to-levy-extra-tax-on-telecom-energy-and-trade-companies-for-three-years---pm-orban_54512). In December 2010, a letter was sent to Brussels by 12 foreign affiliates in Hungary complaining about the extra taxes and considering them as discrimination against foreign-owned companies (*Budapest Business Journal*, January 4, 2011, available at: http://www.bbj.hu/eu/official-rejects-notion-crisis-taxes-discriminate-against-foreign-owned-companies_55377). In March 2011, extra financial pressures were added to the ones introduced in 2007 for pharmaceutical manufacturers and wholesalers to manage the overspent reimbursement budget (*The Economist*, March 9, 2011, available at: http://viewswire.eiu.com/index.asp?layout=ib3Article&article_id=1537865538&pubtypeid=1152462500&country_id=1710000171&page_title=&rf=0). Tesco Hungary, the retail industry leader and the biggest employer in Hungary, has been subject to industrial disputes over job descriptions and compensations, and regular store quality inspections. (*Eurofound*, March, 2011, available at: http://www.eurofound.europa.eu/eiro/2010/10/articles/hu1010021i.htm?utm_source=EIRO&utm_medium=RSS&utm_campaign=RSS).

[3] See, for example, Zoran Radosavijevic, "Croatia says MOL CEO is suspect in bribe case," Reuters, available at: http://www.reuters.com/article/2011/11/10/croatia-sanader-mol-idUSLDE7A90JJ20111110

[4] The Hungarian state MOL share purchase was announced at the end of May 2011 (see: http://ir.mol.hu/en/hungarian-state-and-surgutneftegas-reached-agreement-mol-shares/) and the accusations in late June, 2011 (see: http://www.xpatloop.com/news/hungarys_mol_accused_of_bribery_in_ina_deal).

[5] Kalman Kalotay, "Russian transnationals and international investment paradigms", in *Research in International Business and Finance*, vol. 22, No. 2 (June 2008), pp. 85–107.

[6] See details of the economic policy changes, for example, in the Convergence program of Hungary, at: http://ec.europa.eu/europe2020/pdf/nrp/cp_hungary_en.pdf; and the introduction of extra taxes affecting mainly domestic market oriented affiliates of large MNEs in the energy and retail trade sectors, criticized by experts, at: http://euobserver.com/9/31055.

[7] See, for eample, Wlodzimierz Dymarski, "Differential impact of global crisis on CEE economies." Paper presented at the 16th Workshop on Alternative Economic Policy in Europe University of Crete, Rethymnon, 24-26 September 2010, available at: http://www2.euromemorandum.eu/uploads/wg2_dymarski_differential_impact_of_global_crsis_on_cee_economies.pdf

years, and it continued to be so during the crisis, due to a high and unsustainable fiscal deficit.[1] These factors together resulted in a large fall in domestic demand with adverse effects on the position of Hungarian enterprises and their ability to invest abroad.

The negative impact of the crises, at both host- and home-country ends, is reflected in the slowdown of Hungarian MNE activity abroad and FDI outflows after 2007 (see annex table 2). There is anecdotal evidence of the postponement of projects,[2] and evidence that the repatriation of profits on OFDI increased,[3] presumably in order to strengthen the domestic position of the investing companies. According to quarterly data on Hungary's balance of payments during 2009 and 2010,[4] while new (equity) investments abroad were more or less sustained even during the crisis years, additional investments by companies already present abroad in the form of reinvested earnings and especially other capital (mainly in the form of credit transactions between Hungarian parent companies and their affiliates abroad) turned negative[5] in the majority of the quarters. Many Hungarian investors have tried to compensate for their domestic losses through the repatriation of profits and taking credits from their foreign affiliates that operated in more favorable business environments compared to Hungary.

The policy scene

As noted in the previous *Columbia FDI Profile* on outward FDI from Hungary,[6] being an EU member, Hungary pursues policies with respect to OFDI that fall within the framework of the Lisbon Treaty and the treaties concluded by the EU. Policies are influenced as well by bilateral investment treaties (BITs) signed by the Hungarian Government (58 in force in June 2011),[7] covering all major target economies of Hungarian OFDI.[8]

The year 2010 brought changes in the declared national priorities and the institutional framework for OFDI. Promoting outward FDI by Hungarian businesses became one of the declared priorities, mainly because of its positive impact on the balance of payments through repatriated profits.[9]

In 2011, a draft titled "Hungarian External Economic Strategy" was formulated,[10] and a new institute was set up. The Central European region (especially the other Visegrad countries, Czech Republic,

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[1] See footnote 26.
[2] See cases in Sass and Kalotay *op. cit.*
[3] See the quarterly FDI and balance-of-payments data on the website of the Hungarian National Bank, available at: http://www.mnb.hu/Statisztika/statisztikai-adatok-informaciok/adatok-idosorok/vii-kulkereskedelem/mnbhu_fizm_20090330 and http://english.mnb.hu/Statisztika/data-and-information/mnben_statisztikai_idosorok/mnben_elv_external_trade/mnben_kozetlen_tokebef
[4] Ibid.
[5] According to the logic of the balance of payments, these are positive numbers in the respective statements of Hungary.
[6] Sass and Kalotay, *op. cit.*
[7] See http://unctad.org/Sections/dite_pcbb/docs/bits_hungary.pdf
[8] Kalman Kalotay, "The political aspect of foreign direct investment: The case of the Hungarian oil firm MOL," *The Journal of World Investment & Trade*, vol. 11, No. 1 (2010), pp. 79–90.
[9] "Government plans to support FDI of Hungarian businesses," *Budapest Business Journal*, April 18, 2011, available at: http://www.bbj.hu/economy/govt-plans-to-support-fdi-of-hungarian-businesses_57284
[10] Külgazdasági stratégia, Szakmai vitairat (Foreign Economic Strategy, Ministry of National Economy, Budapest). A draft on the Hungarian foreign economic strategy was published (in Hungarian) in May, 2011, and is available at: http://www.kormany.hu/download/1/d7/30000/kulgazdasagi_strategia.pdf US$ 1.5–2 billion OFDI flows per annum are projected in the medium term, available at: http://www.kormany.hu/download/1/d7/30000/kulgazdasagi_strategia.pdf

Poland and Slovakia) and fast growing emerging markets (like China) were identified as regional priorities for OFDI. The focus is on supporting the internationalization of Hungarian SMEs. The Hungarian Investment and Trade Agency (HITA), a government agency, commenced its operations to manage and support international trade and investments as of January 1, 2011.[1] HITA took over the tasks of the Hungarian Investment and Trade Development Agency (ITDH), which was previously responsible for promoting inward and outward FDI, exports and SME growth. The scope for independent action differs widely between ITDH (which was a joint stock company) and HITA, which is a government agency, controlled by the Ministry of National Economy. Moreover, the number of staff and the financial means of HITA are both lower than those of ITDH. HITA's priorities are in accordance with the declared aims of the Hungarian Government, namely, creating jobs, developing Hungarian businesses to reach new markets and investment promotion for foreign investors The published goals and means of HITA[2] signal a third generation of investment promotion, the main characteristics of which are considered to be the targeting of specific industries (or even individual firms) that are deemed a good match for the host country.[3] There are 17 industries named, including automotive, chemical, biotechnology, and logistics industries. Supporting the internationalization of Hungarian SMEs is a priority for HITA's activities.

Conclusions

The global financial and economic crises and internal problems of the Hungarian economy are the two main factors explaining why the increase of Hungarian OFDI stock came to a halt in 2010. Although OFDI stock as well as flows rose in 2011, the situation remains somewhat uncertain, due to external as well as internal factors. However, Hungary is still among the leading countries in the East and Central European region in terms of outward FDI. Noticeable changes took place in 2011, first in terms of the extent of state ownership in the most important outward-investing enterprises (most importantly, in the petroleum MNE MOL) and, secondly, in the policy scene, where the institutional background and priorities have changed considerably, increasingly favoring the internationalization of SMEs toward new destinations.

Additional readings

Antalóczy, Katalin and Magdolna Sass, "Emerging multinationals: the case of Hungary". Paper presented at the conference on Emerging Multinationals: Outward Foreign Direct Investment from Emerging and Developing Economies, Copenhagen Business School, Copenhagen, Denmark, October 9–10, 2008, available at: http://www.econ.core.hu/file/download/sass/emerging.ppt#256,1,Emerging%20multinationals:%20the%20case%20of%20Hungary.

[1] See www.hita.hu

[2] See in more details at http://www.hita.hu/Content.aspx?ContentID=acecbc06-9776-4d34-874b-01e7639b61a8

[3] Vale Columbia Center on Sustainable International Investment and World Association of Investment Promotion Agencies, "Investment promotion agencies and sustainable FDI: Moving toward the fourth generation of investment promotion," Report of the findings of the Survey on FDI and Sustainable Development, New York, June 25, 2010, available at: http://www.vcc.columbia./edu.content/reports

Czakó, Erzsébet, “Characterising the patterns of inward and emerging outward FDI in Hungary”, in L. Brennan, ed., *The Emergence of Southern Multinational:. Their Impact on Europe* (Basingstoke: Palgrave MacMillan, 2011), pp. 92–113.

Radlo, Mariusz-Jan and Magdolna Sass (2012). “Outward foreign direct investments and emerging multinationals from Central and Eastern Europe: Case of Visegrad countries,” *Eastern European Economics* (April - May), 50 (2), pp. 5-21.

Sass, Magdolna, Katalin Antalóczy and Andrea Elteto (2012). “Emerging multinationals and the role of virtual indirect investors: the case of Hungary,” *Eastern European Economics* (April -May), 50 (2), pp. 41-58.

Useful websites

For FDI policy and promotion: Hungarian Investment and Trade Agency, Hungary, available at: www.hita.hu
For FDI statistics: Hungarian National Bank, Hungary, available at: http://english.mnb.hu/Statisztika/data-and-information/mnben_statisztikai_idosorok

Statistical annex

Annex table 1. Hungary: outward FDI stock, 2000–2011

(US$ billion and per cent of GDP[a])

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Hungary	1.3	1.6	2.2	3.5	6.0	7.8	12.4	17.3	20.1	22.5	20.7	23.8
	(2.7)	(2.9)	(3.2	(4.2)	(5.9)	(7.1)	(11.0)	(12.6	(12.9)	(17.5)	(16.0)	(17.0)
Memorandum: comparator economies												
Austria	24.8	28.5	42.5	56.0	69.8	71.8	105.7	148.8	148.7	163.6	169.7	199.3
	(13.0)	(15.0)	(20.6)	(22.2)	(24.2)	(23.7)	(32.8)	(40.0)	(35.9)	(42.9)	(45.1)	(48.0)
Portugal	6.1	22.3	21.3	34.4	43.9	42.0	54.0	67.7	63.0	68.4	64.3	68.1
	(16.9)	(18.5)	(16.2)	(21.3)	(23.8)	(22.0)	(26.8)	(29.3)	(25.0)	(29.3)	(28.1)	(29.0)
Greece	6.1	7.0	9.0	12.3	13.8	13.6	22.4	31.6	37.2	39.4	37.9	42.9
	(4.8)	(5.4)	(6.1)	(6.3)	(6.0)	(5.6)	(8.5)	(10.3)	(10.8)	(12.2)	(12.5)	(14.4)
Poland	1.0	1.2	1.5	2.1	3.4	6.3	14.3	21.2	24.0	29.6	36.9	50.0
	(0.6)	(0.6)	(0.7)	(1.0)	(1.3)	(2.1)	(4.2)	(5.0)	(4.5)	(6.9)	(7.9)	(10.0)
Czech Republic	0.7	1.1	1.5	2.3	3.8	3.6	5.0	8.6	12.5	14.8	15.5	15.5
	(1.3)	(1.8)	(2.0)	(2.5)	(3.4)	(2.9)	(3.5)	(4.9)	(5.8)	(7.8)	(8.1)	(7.2)
Slovenia	0.8	1.0	1.5	2.4	3.0	3.3	4.6	7.2	7.9	7.9	7.6	7.1
	(3.9)	(4.8)	(6.5)	(8.1)	(9.0)	(9.2)	(11.7)	(15.3)	(14.5)	(16.1)	(15.9)	(14.4)
Estonia	0.3	0.4	0.7	1.0	1.4	1.9	3.6	6.2	6.6	6.6	5.8	4.7
	(4.6)	(7.1)	(9.2)	(10.4)	(11.8)	(14.0)	(21.4)	(28.4)	(28.1)	(34.4)	(30.1)	(21.3)
Slovakia	0.4	0.5	0.5	0.8	0.8	0.6	1.3	1.9	3.0	3.7	2.8	4.2
	(1.9)	(2.4)	(2.2)	(2.5)	(2.0)	(1.2)	(2.4)	(2.5)	(3.1)	(4.2)	(3.2)	(4.4)

Source: UNCTAD statistical website, UNCTADstat: http://unctadstat.unctad.org/

[a] Figures within brackets refer to outward FDI stock as a percentage of GDP.

Annex table 1a. Hungary: outward and inward FDI stock, 1990, 1995, 2000, 2005–2011

	1990	1995	2000	2005	2006	2007	2008	2009	2010	2011
Outward FDI stock (US$ billion)	0.2	0.3	1.3	7.8	12.4	17.3	20.1	22.5	20.7	23.8
Inward FDI stock (US$ billion)	0.6	11.3	22.9	61.1	80.2	95.5	88.5	98.8	91.9	84.5
Ratio of outward to inward FDI stock (%)	27.9	2.5	5.6	12.6	15.4	18.1	22.7	22.8	22.6	28.2

Source: UNCTAD statistical website, UNCTADstat: http://unctadstat.unctad.org/

Annex table 2. Hungary: outward FDI flows, 2000–2011

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Hungary	0.6	0.4	0.3	1.6	1.1	2.2	3.9	3.6	3.1	2.7	1.3	4.5
Memorandum: comparator economies												
Austria	5.7	3.1	8.8	7.1	8.3	11.1	13.7	39.0	29.5	7.4	7.7	30.5
Poland	0.0	-0.1	0.2	0.3	0.9	3.4	8.9	5.4	4.4	5.2	5.5	5.9
Czech Republic	0.0[a]	0.2	0.2	0.2	1.0	-0.0	1.5	1.6	4.3	0.9	1.2	1.2
Greece	2.1	0.6	0.7	0.4	1.0	1.5	4.0	5.2	2.4	2.1	1.0	1.8
Slovakia	0.0	0.0	0.0	0.2	-0.0	0.2	0.5	0.6	0.5	0.4	0.3	0.5
Slovenia	0.1	0.1	0.2	0.5	0.5	0.6	0.9	1.8	1.4	0.2	-0.2	0.1
Estonia	0.1	0.2	0.1	0.2	0.3	0.7	1.1	1.7	1.1	1.5	0.1	-1.5
Portugal	8.1	6.3	-0.1	6.6	7.5	2.1	7.1	5.4	2.7	0.8	-7.5	12.6

Source: UNCTAD statistical website, UNCTADstat: http://unctadstat.unctad.org/

Note: “0.0” denotes less than US$ 100 million in outward FDI flows.

Annex table 3. Hungary: sectoral distribution of outward FDI stock, 2000 and 2010

(US$ million)

Sector / industry	2000	2010
All sectors / industries	1,280.0	20,000.8
Primary	24.2	3,951.4
Agriculture, forestry, and fishing	0.0	11.3
Mining, quarrying and petroleum	24.2	3,940.1
Secondary	171.6	4,549.4
Food, beverages and tobacco	19.2	17.5
Textile and leather	14.3	3.0
Wood, pulp, paper and publishing	14.5	98.5
Coke, refined petroleum and nuclear fuel	0.0	1,741.0
Chemicals	31.5	1,336.4
Rubber and plastic	18.3	128.3
Other non-metallic minerals	29.1	296.3
Metals	0.1	21.7
Machinery and equipment	0.3	6.6
Electrical and optical equipment	2.3	732.5
Transport equipment	36.4	0.3
Furniture and manufacturing	0.1	60.7
Electricity, gas and water	2.0	53.3
Construction	3.5	50.1
Services	1,024.2	11,015.8
Wholesale, retail trade and repair	250.6	2,138.7
Hotels and restaurants	19.8	205.6
Transport and telecom	16.6	225.6
Financial intermediation	584.4	3,222.9
Real estate	4.1	98.0
Computer services	0.6	10.0
Business services	114.6	5,004.2
Other services	0.1	95.1
Acquisition of real estate and OFDI by households	44.9	484.2
Not identified	15.1	0.0

Source: Authors' calculations, based on data from the National Bank of Hungary. Data available at: http://english.mnb.hu/Statisztika/data-and-information/mnben_statisztikai_idosorok/mnben_elv_external_trade/mnben_kozetlen_tokebef

Note: US dollar values calculated using the average annual exchange rate for 2010: 1 US$ = 208.15 HUF; for 2000: 1US$ = 282.27 HUF. (Source: Hungarian National Bank, available at: http://english.mnb.hu/Root/ENMNB/Statisztika/data-and-information/mnben_statisztikai_idosorok/mnben_elv_exchange_rates).

Annex table 4. Hungary: geographical distribution of outward FDI stock, 2000 and 2010
(US$ million)

Region / economy	2000	2010
World	1,280.0	20,000.8
Developed economies	1,148.1	9,329.5
Europe	1,085.2	8,291.4
Switzerland	4.5	987.60
European Union	1,070.8	7,286.0
Austria	86.1	79.6
Bulgaria	3.9	1,244.9
Cyprus	89.0	994.1
Czech Republic	69.4	331.6
Denmark	131.1	9.2
France	1.4	144.5
Germany	37.1	100.4
Ireland	35.8	2.5
Italy	1.3	429.6
Luxemburg	1.4	455.5
Netherlands	409.7	156.0
Poland	13.8	371.7
Romania	63.5	682.3
Slovakia	111.7	2,058.2
Slovenia	4.7	78.0
Spain	0.5	20.5
United Kingdom	10.2	69.6
North America	61.9	1,026.3
Canada	0.1	28.9
United States	61.8	997.4
Other developed countries	1.02	29.6
Australia	0.65	17.9
Japan	0.37	11.7
Developing economies	6.3	4,494.7
Africa	1.7	7.9
Asia and Oceania	3.3	1,252.6
Republic of Korea	0.0	435.1
China	1.3	29.4
India	0.9	22.6
Singapore	0.0	476.0
Latin America and Caribbean	1.3	2,980.9
Transition economies	39.9	6,176.6
Croatia	17.0	3,436.2
Montenegro	n.a.	248.9
Russian Federation	6.4	467.5
Serbia	n.a.	484.8
FYR of Macedonia	0.0	463.4
Ukraine	15.6	603.5
Unspecified destination	85.71	472.3

Source: Authors' calculations, based on data from the National Bank of Hungary. Data available at: http://english.mnb.hu/Statisztika/data-and-information/mnben_statisztikai_idosorok/mnben_elv_external_trade/mnben_kozetlen_tokebef)
Note: US dollar values calculated using the average annual exchange rate for 2009: 1 US$ = 0.748 Euros; for 2000: 1 US$ =1.0827 Euros. (Source: Hungarian National Bank, available at: http://english.mnb.hu/Root/ENMNB/Statisztika/data-and-information/mnben_statisztikai_idosorok/mnben_elv_exchange_rates).

Annex table 5. Hungary: top 10 MNEs headquartered in the economy, ranked by foreign assets, 2010

Rank	Name	Industry	Host economies of OFDI	Foreign assets (US$ million) [a]
1	MOL Group [b]	Oil and gas	Austria, Bosnia-Herzegovina, Cameroon, Croatia, Cyprus, Czech Republic, France, Germany, India, Iraq, Ireland, Italy, Jersey (United Kingdom), Kazakhstan, Kosovo, Macedonia, Marshall Islands, Mexico, Montenegro, Oman, Pakistan, Poland, Romania, Russian Federation, Serbia, Slovakia, Slovenia, Switzerland, Syria, The Netherlands, Tunisia, Ukraine, United Arab Emirates, United Kingdom, Yemen	17.719
2	OTP Bank	Banking	Austria, Bulgaria, Croatia, Cyprus, Luxemburg, Montenegro, Romania, Russia, Serbia, Slovakia, The Netherlands, Ukraine, United Kingdom	2.500
3	Magyar Telekom (Deutsche Telekom Group)	Telecom	Bulgaria, TFYR of Macedonia, Montenegro, Romania, Ukraine	1.200
4	Gedeon Richter	Pharmaceuticals	Armenia, Austria, Czech Republic,, France, Germany, Hong Kong (China), India, Italy, Jamaica, Japan, Republic of Moldova, Poland, Romania, Russia, Slovakia, Spain, Switzerland, The Netherlands, Ukraine, United Kingdom, United States	861
5	Videoton	Electronics	Bulgaria, Ukraine	288
6	MKB Bank (Bayern LB Group)	Banking	Bulgaria, Romania	250
7	Danubius Hotels	Hotels	Czech Republic, Romania, Slovakia	219
8	BorsodChem	Chemicals	Czech Republic, Italy, Poland	100
9	Dunapack (Prinzhorn Holding)	Paper	Bulgaria, Croatia, Lithuania, Poland, Romania, Slovakia, Ukraine	75
10	KÉSZ	Construction	Germany, Romania, Russia, Serbia, Ukraine	74

Source: Authors' estimates based on the Magdolna Sass and Oliver Kovacs, "Hungary's global players: A strong presence in the neighborhood in 2009," in Karl P. Sauvant, Vishwas P. Govitrikar and Ken Davies, eds., *MNEs from Emerging Markets: New Players in the World FDI Market* (New York: Vale Columbia Center, January 2011), available at: http://www.vcc.columbia.edu/books, the balance sheets of the companies and values of individual M&A transactions, obtained from Thomson ONE Banker, Thomson Reuters.

[a] Estimated values.

[b] MOL Group: includes TVK, majority owned by MOL.

Annex table 6. Hungary: main M&A deals, by outward investing firm, 2008–2010

Year	Acquiring company	Target company	Target industry	Target economy	Shares acquired (%)	Estimated/ announced transaction value (US$ million)
2010	Gedeon Richter	PregLem SA	Pharmaceuticals	Switzerland	100	463.0
2010	Gedeon Richter	Grünenthal Contraceptives	Pharmaceuticals	Germany	100	334.0
2010	Reform, Mai nap	A.G.O. SAS	Business services	France	100	14.0
2010	Admiral Electronic Club	Hotel Carrera	Hotels	Peru	100	5.0
2010	Állami Nyomda	GPV Mail Services Srl	Mail services	Romania	50+50	2.0
2010	Tech in Central & Eastern Europe	Internet Corp Srl	Publishing	Romania	n.a.	3.0
2009	MOL	Pearl Petroleum Company Ltd	Oil and gas	Iraq	10	54.0
2008	Gedeon Richter	Polfa Grozdisk	Pharmaceuticals	Poland	36.8	43.0
2008	OTP Bank	Donskoy Narodny Bank	Banking	Russia	100	41.0
2008	Waberer	Somitco Trans	Transport	Romania	100	29.5

Source: The authors, based on Thomson ONE Banker, Thomson Reuters.

Annex table 7. Hungary: main greenfield projects, by outward investing firm, 2008 –2010

Year	Investing company	Host economy	Joint venture partner in host economy (if any)	Industry	Estimated/ announced investment value (US$ million)
2010	WizzAir	Lithuania	n.a.	Air transport	127.9
2010	Wizzair	Serbia	n.a.	Air transport	127.9
2010	Omninvest	Uzbekistan	Uzfarmszanoat (Uzbekistan)	Pharmaceuticals	100.0
2010	NanGenex	United Kingdom	n.a.	Pharmaceuticals	59.5
2010	Richter Gedeon	Hong Kong, China	Rxmidas Pharmaceuticals (China)	Pharmaceuticals	51.7
2010	Jeans Club	Slovakia	n.a.	Retail trade	11.1
2010	ELMIB	Serbia	n.a.	Renewable energy	6.5
2010	RFV	Romania	n.a.	Business services	5.4
2010	Vitafort	Laos	n.a.	Food and tobacco	3.4
2009	TriGránit	Slovakia	n.a.	Real estate/construction	2,230.0
2009	MOL	Croatia	n.a.	Oil and gas	524.0
2009	WizzAir	Czech Republic	n.a.	Air transport	128.0
2009	Omninvest	Uzbekistan	Uzfarmszanoat (Uzbekistan)	Biotechnology	70.0
2009	WizzAir	Switzerland	n.a.	Air transport	61.0
2009	Genesis Energy	Spain	None	Renewable energy	58.0
2009	Omninvest	Uzbekistan	Uzfarmszanoat (Uzbek)	Pharmaceuticals	56.0
2009	MOL	Pakistan	None	Oil and gas	40.0
2009	Friedman Corp.	Macedonia	n.a.	Real estate	26.5
2009	CIG Central European Insurance	Romania	None	Financial services	23.0
2008	TriGránit	Romania	n.a.	Real estate/construction	1,573.0
2008	TriGránit	Poland	n.a.	Real estate/construction	781.8
2008	MOL	Slovakia	CEZ (Czech)	Oil and gas	449.5
2008	TriGránit	Croatia	n.a.	Real estate/construction	311.0
2008	TriGránit	Russia	n.a.	Real estate/construction	289.0
2008	Brixxon	Austria	None	Car manufacturing	236.0
2008	System Consulting	Ukraine	None	Renewable energy	197.0
2008	Wizzair	Romania	n.a.	Air transport	149.0

2008	TriGránit	Slovenia	n.a.	Real estate/construction	144.0
2008	MOL	Serbia	None	Oil and gas	39.0

Source: The authors, based on fDi Intelligence, a service from the Financial Times Ltd.

Note: "n.a." indicates not applicable.

Chapter 10 - Ireland

Ireland: Inward FDI and its policy context, 2010

Louis Brennan and Rakhi Verma[*]

Ireland has one of the highest ratios of IFDI stock to GDP among the OECD countries. The surge in IFDI from the 1990s onwards is regarded as one of the factors that contributed to the "Celtic Tiger" era of rapid economic growth, rising living standards and full employment. However, stocks of IFDI fell in four of the six years from 2004 to 2009, largely due to outflows of capital from foreign affiliates in Ireland to their parent companies abroad. More recent data show an increase in IFDI stock in 2009, which continued into the first quarter of 2010. This rise is in large part due to the scale of reinvested earnings on the part of foreign affiliates in Ireland and the growing success in attracting knowledge intensive investment, while the lowering of the cost base since the advent of the crisis in Ireland has enhanced its attractiveness as an investment location. Changes in business taxation that have taken effect in 2010 have been designed to improve Ireland's attractiveness to knowledge intensive industries and as a location for company regional headquarters. The Irish Government is committed to maintaining the low rate of corporate taxation of 12.5%. While the current crisis has had the paradoxical effect of increasing Ireland's attractiveness as a location for FDI, future FDI prospects will also be enhanced by Ireland demonstrating a capacity to overcome its present difficulties.

Trends and developments

Country-level developments

Since the opening up of Ireland's economy in the 1960s, Ireland has embraced FDI as an integral part of its strategy of economic development. Its efforts to attract such investment have been highly successful. According to the OECD Factbook 2010, the country has the fifth highest ratio of IFDI stock to GDP among the OECD countries, and the highest ratio of employment in foreign affiliates in the manufacturing and services sectors.[1] The impact of IFDI on Ireland's economy is highly significant, with foreign owned firms accounting for just under 90% of the country's exports in 2008 and 73% of business expenditures on R&D in 2007.[2]

The country's IFDI stock grew by just over 50% between 2000 and 2009 (annex table 1). Ireland's ratio of IFDI stock to GDP increased sharply in the later years of the 1990s and into the early years of the past decade, peaking in 2002 at 149%. Since 2003, the ratio has turned downward, with the exceptions of 2007 and 2009, when it rose again. For 2009, the ratio stood at 85% (annex table 1).[3]

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[*] The authors wish to thank F. Filippaios, H. Papapanagos, Y. Rizopoulos, and C. Stoian for their helpful comments. First published October 7, 2010.

[1] OECD, OECD Factbook 2010: Economic, Environmental and Social Statistics (Paris: OECD, 2010), pp. 79 and 83, available at: www.oecd.org.

[2] Forfas Annual Competitiveness Report, available at: www.forfas.ie/media/NCC100723-acr_bip_2010.pdf.

[3] UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

Over the period 1997-1999, the average value of annual FDI inflows was US$ 9.7 billion, while over the period 2007-2009, it was US$ 9.9 billion (annex table 2).[3] A notable feature of Ireland's IFDI position is that, over the time period 2004-2009, net inflows were negative in four out of that six-year period. This indicates that inter-affiliate loan advances and repayments from Ireland-based foreign affiliates exceeded inward equity flows and reinvested earnings. This phenomenon may be partly explained by changes in the US tax code reducing taxes on repatriated profits from affiliates abroad. Following the American Jobs Creation Act of 2004 that taxed foreign profits at a rate of 5.25% compared to the regular rate of 35%, over 800 US corporations repatriated US$ 362 billion in foreign profits.[1] These were paid by their foreign affiliates as dividends. Of that amount, US$ 312 billion were deemed to be eligible for the tax break, giving those companies total tax deductions of US$ 265 billion claimed from 2004 through 2006. Almost a third of the amount repatriated was accounted for by companies in the pharmaceutical and medical manufacturing sectors, both heavily invested in Ireland. In the case of Ireland's chemicals sector (which includes pharmaceuticals at the level of secondary data aggregation considered), the IFDI stock fell from US$ 66 billion in 2003 to US$ 16 billion in 2006 (annex table 3). Given that Ireland was found to be world's most profitable foreign location for US companies in 2002,[2] it would be surprising if payment of dividends by US affiliates to their parent firms did not play a role in the reduction in Ireland's IFDI stock over the period 2004 to 2006. The rate of return on investment for US FDI in Ireland continues to be one of the highest in the world, exceeded only by that in Hungary in 2009.[3] It is also important to note that Irish data on FDI usually differentiate between FDI coming into Dublin's International Financial Services Centre (IFSC) and non-IFSC FDI. IFSC FDI is associated with financial intermediation by international banks, and is very different in terms of the effect on the local economy than traditional FDI; it is also volatile in its year-to-year movements (annex table 3). This volatility contributes to the fluctuations in Ireland's overall IFDI position.

As a result of these negative flows, Ireland's IFDI stock fell from a high of US$ 223 billion in 2003 to a level of US$ 193 billion in 2009. A further notable feature of the country's FDI flows is the extent to which these have benefited from reinvested earnings in recent years. Ireland continues to perform very well in terms of attracting IFDI. Ireland was ranked eleventh out of 141 countries in UNCTAD's 2009 IFDI performance index.[4] The National Irish Bank/fDi Intelligence Inward Investment Performance Monitor reported that Ireland attracted 0.7% of global FDI flows (based on the number of projects won, capital investment and the number of jobs created) in 2009 – a proportion larger than its 0.3% share of global GDP.[5] Likewise, Ireland's share of IFDI among the EU-27 was almost 6.9% – well in excess of its 1% share of the EU economy.[6] The Irish Industrial Development Authority (IDA) - the state agency responsible for attracting FDI to Ireland - had already in the first half of 2010 secured 63 new investments, of which 20 were from companies setting up operations in Ireland for the first time, 22 were expansion investments from existing client companies and 21 of the investments were in R&D.[7] IDA attributes this success to a number of factors, both external and internal. These include the growth in the US technology sector, growing trends in clean technology, an improvement in Ireland's

[1] *New York Times*, June 24, 2008.
[2] Martin Sullivan, "Data show dramatic shift of profits to tax havens," *Tax Notes*, September 13, 2004, pp. 1190–1200.
[3] Forfas Annual Competitiveness Report, op. cit.
[4] UNCTAD, *World Investment Report 2010: Investing in a Low-Carbon Economy* (Geneva: United Nations, 2010), Country Fact Sheet: Ireland, p. 2.
[5] National Irish Bank, *Press release*, February 24, 2010.
[6] UNCTAD, op. cit., p. 167, annex table 1.
[7] Revealed by the Minister for Enterprise, Trade and Innovation, Batt O'Keeffe, TD, Ireland, at a media briefing at IDA headquarters in Dublin, on July 14, 2010. *Irish Examiner*, July 15, 2010.

competitiveness, currency movements, and the overall global FDI recovery, combined with Ireland's excellent corporate tax regime,[1] talent, track record,[2] and technology capability.

Unlike in the 1980s and 1990s, Ireland is no longer a low-cost location. This was starkly demonstrated in early 2009 with the decision by Dell to close its manufacturing operations in Ireland while retaining its higher value functions. With its educated and flexible labor force, Ireland has increasingly attracted higher value-added, knowledge-intensive activities that are in many cases research and development and innovation (R&D&I)-driven.[3] For example, in 2008, 43% of FDI investments supported by the IDA were in R&D. This shift in the nature of FDI from being lower-value, employment-intensive to being more higher-value knowledge-intensive is the result of a deliberately evolving strategy on the part of the Government and its agencies that involves the scanning of the horizons of enterprise and the focusing on, and securing FDI in, new technologies, innovative business models and new markets. These developments are mirrored in the data for FDI stock: the share of manufacturing in the FDI stock has fallen from 45% in 2003 to 39% in 2008, while that of the services sector rose from 56% to 61% (annex table 3). Within the services sector, the finance and insurance industries and other business activities have tended to account for the bulk of IFDI stock. Along with the availability of an educated workforce, low taxation, light touch regulation, and ease and speed of doing business have been major factors in attracting IFDI in the financial sector. Such investment has mostly encompassed such activities as funds administration, treasury management, asset financing, and shared services and other back-office activities that have largely been unscathed by the crisis. However, since Ireland also served as a center for "shadow banking" a number of players have exited since the onset of the crisis. The other impact of the crisis on the financial sector from the perspective of IFDI has been the recent exit of some foreign players from the domestic banking sector, such as HBOS and BNP Paribas Fortis.

To date, virtually all of Ireland's IFDI stock has emanated from the developed world, with the major economies of the European Union (Netherlands, UK, Germany, Italy, France), along with Luxembourg and Switzerland, accounting for the total emanating from Europe (83% in 2008); the United States and Canada (and to a much lesser extent Japan) accounted for most of the remainder (16% in 2008) (annex table 4). However, it should be noted that the data in annex table 4 only correspond with the immediate investment source country; it does not necessarily equate to the ultimate investment source country. Some 1,000 MNEs,[4] of which some 60% are from the US,[5] have chosen Ireland as their European base. A key issue that arises in relation to IFDI is its sustainability. One indicator of FDI sustainability of foreign affiliates is the extent to which they are successful in attracting further investment in the form of

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[1] Ireland is committed to maintaining its 12.5% corporation tax rate; the corporation tax system is simple and transparent, and income taxes are relatively low. More information on taxes is available at: www.revenue.ie.
[2] Ireland is ranked third in Europe (seventh in the world) by the World Bank in terms of ease of doing business (World Bank, *Doing Business 2010*, available at: www.doingbusiness.org). Ease of paying taxes and starting a business, as well as investor protection, are some areas in which Ireland scores especially high.
[3] R&D&I is defined to include the setting up of a dedicated center to support either corporate research or an innovation agenda, through a stand-alone facility in Ireland, an investment in R&D&I that is co-dependent on a substantial collaborative engagement with an Irish or international academic institution and/or with a MNE or indigenous Irish company, R&D&I done at a manufacturing or service delivery site that improves the manufacturing or service delivery process, or R&D&I investments through which the outputs will be developed and produced in Ireland for export markets.

[4] IDA Ireland, *Guide to Tax in Ireland, 2010*, available at: www.idaireland.com/news-media/publications/library-publications/ida-ireland-publications/IDA%20Tax%20Brochure%202010.pdf.
[5] US Government, Department of Commerce, "Doing business in Ireland, 2010", available at: www.buyusa.gov/ireland/en/irelandcountrycommercialguide2010.pdf

new mandates. In a recent survey[1] of MNEs in Ireland, three out of four foreign affiliates stated that they had tried (or were currently trying) to secure new mandates. Sixty percent of those affiliates that had vied for new mandates had secured them.

The corporate players

Ireland has been successful in attracting investment in information and communications technology (ICT), life sciences, financial services, and globally traded business, including digital media, engineering, consumer brands, and international services. This is the result of a strategy that has focused on the three key areas of high-value manufacturing, global business services and R&D&I.[2] Ireland now hosts affiliates from many of the leading global companies (annex table 5) and hosts operations from 8 out of the top 10 ICT companies, 8 out of the top 10 pharmaceutical companies and 15 of the top 20 medical devices companies.[3]

The number of M&A sales peaked at 76 in 2007, declining to 41 in 2009.[4] However, the value of such sales peaked in 2001.[5] Even in 2008, which recorded the highest sales value since 2001, they were only about a third of the 2001 value. The largest deal in 2009 was the acquisition of a 18.46% share by Johnson and Johnson in Elan in the pharmaceutical sector, valued at US$ 0.8 billion, while in 2008 the largest deal was the acquisition of Airtricity by Scottish and Southern Energy for US$ 2 billion in the renewable energy sector (annex table 6). After a reduction in the number of greenfield FDI projects from 192 in 2005, the number rose again during the past two years, with 176 such projects in 2009.[6] The evidence to date suggests that a high level of activity will be sustained in 2010. Major corporate players in such industries as renewable energy, software and information technology, pharmaceuticals, and medical devices invested in greenfield projects in recent years (annex table 7).

Effects of the current global crisis

After falling sharply in 2008 and 2009, the Irish real GDP returned to growth in the first quarter of 2010, due to an impressive export performance. Ireland's GDP expanded by 2.2% relative to that of the fourth quarter of 2009, while exports grew by 6.9%. However, although exports continued their impressive growth in the second quarter, GDP declined by 1.2%. Paradoxically, Ireland's economic decline has had the effect of making it more attractive as a location for FDI. The European Commission forecasts that the cumulative fall in Irish unit labor costs will be 9% in the period 2008-2011.[7] Relative to the EU average, this represents an improvement of 13 percentage points. While Ireland's economy contracted sharply in the past two years, it still retains many of the gains that it attained from the Celtic Tiger era, such as infrastructure and human capital. For example, Ireland has advanced from twenty-ninth on the UN Human Development Index in 1990 to fifth position, ahead of countries such as The Netherlands, Sweden, France, Switzerland, and the US in 2009. These gains taken together with the greatly reduced cost of operating in Ireland as a result of the recession should continue to ensure Ireland's attractiveness

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[1] Irish Management Institute, *Survey of MNCs in Ireland* (Dublin: Irish Management Institute, 2009).
[2] IDA Ireland, *Horizon 2020 IDA Ireland Strategy* (Dublin: IDA, 2010).
[3] IDA Ireland, available at: www.idaireland.com/news-media/press-releases/tanaiste-launches-ida-ire/.
[4] UNCTAD, *World Investment Report 2010*, op. cit., annex table 10.
[5] UNCTAD, *World Investment Report 2010*, op. cit., annex table 9.
[6] UNCTAD, *World Investment Report 2010*, op. cit., annex table 18.
[7] European Economy Forecast - Spring 2010 (Luxembourg, European Economy 2/2010), p. 87, available at: http://ec.europa.eu/economy_finance/publications/european_economy/2010/pdf/ee-2010-2_en.pdf.

as a destination for FDI. However, given the openness of the Irish economy and the extent of its integration into the world economy, future prospects for IFDI will also be tempered by the outlook for the global economy. While tax increases are likely as a means of reducing the increased government budget deficit arising from the current crisis, there is a consensus among political parties and policy makers that Ireland's current rate of low corporate taxation must be maintained regardless of the current fiscal pressures.

The policy scene

Ireland has long used its tax system as a means of attracting FDI. Some recent changes in the business taxation system have been designed to enhance the country's attractiveness as a location for a range of knowledge-based activities and as a location for regional headquarters, by offering a scheme of tax relief for capital expenditure on intangible assets.[1] Irish tax legislation contains important measures to drive the development of Ireland as a hub for companies engaged in the ownership and development of intellectual property (IP)[2] assets.[3] Other recent changes include an increase in the R&D tax credit and the introduction of a payable credit and improvement in the tax benefits offered to senior executives and highly skilled workers who relocate to Ireland to work there for a period of time.[4]

Ireland is among the world's most competitive locations for R&D investment, according to a recent study[5] that evaluated the cost of global R&D initiatives after tax and other cost incentives in 20 countries. Ireland had an effective tax rate of 1%, making it the second most competitive of the countries evaluated. Grant aid and R&D credit can reduce the cost of investment by up to 60% of the investment costs for firms that chose to set up and establish in Ireland to carry out R&D&I.[6]

Recent legislation has been designed to enable Ireland to compete as a location with other established European holding company locations.[7] As a result, Ireland has started to emerge as an onshore location for MNEs establishing regional or global headquarters to manage the profits, functions and shareholdings associated with their international businesses. While the country offers tax advantages for holding companies, it is not, unlike some other destinations, seen as a tax haven, thus increasing the attractiveness of Ireland as a sustainable location.

Ireland has introduced new rules about transfer pricing to fall in line with OECD regulations, for both domestic and cross border transactions that will be in effect from January 1, 2011.[8] It is expected that these rules will align Ireland with best international practices, position Ireland better in intervening on behalf of companies where other jurisdictions adopt transfer pricing positions that do not accord with the

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[1] Department of Finance, Ireland, *Budget 2010: Financial Statement*, published 9th December 2009, available at: www.budget.gov.ie.
[2] IP is broadly defined and includes the acquisition of, or the license to use, patents, designs, inventions, trademarks, brands, copyrights, know how, and goodwill directly attributable to such IP.
[3] Ireland was ranked seventh out of 24 in the Global Intellectual Property Index in 2009 (Taylor Wessing Global Intellectual Property Index 2009, available at: www.taylorwessing.com/ipindex/). This was the first year Ireland was included in the index which assesses 24 leading economies for protection and enforcement of patents, trademarks, copyright and domain names.
[4] Department of Finance, Ireland, op.cit.
[5] Mazars, Review of Global R&D Tax Incentives (Dublin: Mazars, 2010), available at: www.mazars.ie.
[6] Deloitte & Touche, *Ireland as a Knowledge Economy* (Dublin: Deloitte and Touche, 2010), available at: www.deloitte.com/ie.
[7] Originally signaled in Department of Enterprise, Trade and Employment submission to Commission on Taxation, available at: www.commissionontaxation.ie/submissions/Government%20Depts%20-%20Political%20Parties//F01%20-%20Dept.%20Enterprise,%20Trade%20&%20Employment.doc,May 23, 2008.
[8] Revenue Commissioners, Ireland, available at: www.revenue.ie/en/practitioner/law/finance-bill-2010/transfer-pricing.pdf.

arm's length principle and also enhance Ireland's capacity to influence the direction of future developments in relation to transfer pricing in international taxation.

Ireland has signed comprehensive double taxation agreements (DTTs) with 56 countries, of which 48 are in effect and the remainder awaits ratification.[1] These agreements allow for the elimination or mitigation of double taxation. Two new tax agreements with Macedonia and Malta came into effect January 1, 2010. Ireland has only one BIT; it was signed in 1997 with the Czech Republic. With the Lisbon Treaty having entered into force on December 1, 2009, the EU, rather than individual member states like Ireland is now responsible for the negotiating of international investment treaties.[2]

Conclusions and Outlook

Ireland's IFDI strategy is based on its position as one of the most innovative economies in the world - a hub of innovation, R&D and high-end manufacturing and intellectual property opportunities. Recent trends suggest that Ireland should continue to attract R&D investments. In 2009, there was a 10% increase in the number of R&D&I investments compared to 2008. R&D&I investments accounted for 49% of all investments in 2009.[3] The PricewaterhouseCoopers (PwC) 2010 CEO Pulse Survey of Ireland-based CEOs of foreign affiliates conducted at the end of May 2010 found that a quarter more of MNE CEOs are considering additional investment in Ireland compared to last year.[4] In addition, Ireland is making a concerted effort to attract IFDI from the fast growing emerging markets, to benefit from the rapidly growing levels of outward FDI from these economies.

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[1] IDA Ireland, *2010 Guide to Tax in Ireland* (Dublin: IDA, 2010).

[2] Selen Sarisoy Guerin, *Do the European Union's bilateral investment treaties matter? The way forward after Lisbon*,,CEPS Working Document No. 333, July 2010.

[3] IDA Ireland, available at: www.idaireland.com

[4] PwC, *PwC Pulse 2010: What CEOs are Saying* (Dublin: PricewaterhouseCoopers, July 2010).

Statistical annex

Annex table 1. Ireland: Inward FDI stock 2000, 2008, 2009 (US$ billion)

Economy	2000	2008	2009
Ireland	127	168	193
IFDI stock as a percentage of GDP	132	62	85
Memorandum: comparator economies			
Belgium	n.a.	671	830
Netherlands	243	638	596
Singapore	110	326	343
UK	438	980	1125

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi.

Annex table 2. Ireland: Inward FDI flows, 2000-2009 (US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Ireland	25	9	29	22	-10	-31	-5	24	-20	24
Memorandum: comparator economies										
Belgium	n.a.	n.a.	16	33	43	34	58	118	109	33
Netherlands	63	51	25	21	4	47	7	115	-7	26
Singapore	16	15	6	11	21	15	29	35	10	16
UK	118	52	24	16	55	176	156	186	91	45

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi.

Annex table 3. Ireland: distribution of inward FDI stock, by economic sector and industry, 2003-2008 (US$ billion)

Sector/industry	2003	2004	2005	2006	2007	2008
All sectors/industries	222	207	163	156	193	163
Primary						
Agriculture, farming, fishing and forestry	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Mining	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Secondary						
Manufacturing	98	89	82	45	65	63
Textiles, wearing apparel, wood, publishing and printing	14	7	8	7	12	10
Food products	5	6	5	5	6	4
Chemical products	66	60	54	16	n.a.	1
Office machinery and computers	4	4	4	4	3	4
Metal and mechanical products	0.6	0.7	1	0.4	1.2	1.2
Motor vehicles and other transport equipments	0.1	0.2	0.2	0.3	0.4	0.4
Radio, TV, communication equipments	3	4	4 .8	5	4	3.9
Services						
Total services	124	117	80	110	127	99
Transports, storage and communication	2	2	1	3	4	2
Financial intermediation	110	104	64	88	108	62
Financial intermediation, except insurance and pension funding	87	76	38	53	67	33
Monetary intermediation	24	29	31	38	55	49
Activities auxiliary to financial intermediation	3	4	3	3	1	1
Other financial intermediation	63	46	6	14	12	-15
Insurance	20	24	21	31	38	26
Computer activities	1	1	1	1	5	4
Business and management consultancies	0.2	0.7	1	1	1	3
Other business activities	n.a.	n.a.	4	5	n.a.	20

Source: OECD.*Stat Extracts*, available at: http//:stats.oecd.org.

Annex table 4. Ireland: geographical distribution of inward FDI stock, 2003-2008 (US$ billion)

Region/economy	2003	2004	2005	2006	2007	2008
World	222	207	163	156	193	163
Developed economies						
Europe	170	171	131	128	128	136
European Union	149	154	129	122	117	128
Austria	0.1	0.6	0.2	0.2	0.4	0.5
Belgium	-0.1	2.4	-0.1	-0.6	-1.3	6.6
Cyprus	n.a.	0.8	1.4	0.5	0.4	0.6
Czech Republic	-0.0	-0.1	-0.6	n.a.	-0.9	-0.7
Denmark	0.1	-0.4	-1	-0.5	-1	-0.1
Finland	0.1	.-8	-1	n.a.	-1	0.2
France	2	3	6	8	6	3
Germany	10	7	1	4	4	6
Italy	6	6	6	7	8	8
Luxembourg	21	33	34	46	42	35
Netherlands	71	70	65	37	48	42
Poland	-0.2	-0.2	n.a.	0.0	-0.2	-0.2
Portugal	0.5	0.8	1.6	1.9	1.7	1.3
Slovakia	-0.0	-0.0	-0.1	n.a.	n.a.	-0.1
Spain	-0.9	-0.9	-2	-2	-6	-0.2
Sweden	3.8	-0.6	-0.2	5.2	3.5	6.9
UK	34	31	20	15	11	16
Other European economies						
Isle of Man	0.4	-0.6	-2.1	2.7	1.3	n.a.
Jersey	n.a.	6.8	-0.2	-0.8	0.8	-1
Norway	0.1	0.7	0.2	0.1	0.4	-0.1
Switzerland	6	7	4	5	7	7
Turkey	0.1	0.1	-0.0	0.1	n.a.	n.a.
Other developed economies						
Australia	-0.7	-0.5	-0.7	0.2	-0.0	-0.2
Canada	8.7	n.a.	6.1	10.9	17	12
Japan	-0.4	1.8	3.6	3.5	1.5	1.1
New Zealand	0.0	-0.0	0.0	0.1	-0.2	-0.1
USA	30.2	14.5	13.8	7.6	29	12.3
Developing and transition economies						
China	-0.2	0.3	0.1	0.2	0.3	0.2
Hong Kong (China)	0.2	n.a	n.a.	-0.9	-0.9	-0.4
India	0.0	-	-0.1	-0.1	-0.1	-0.1
Indonesia	-0.0	-0.0	n.a.	n.a	0.0	0.0
Mexico	-1	-0.5	0.2	-0.2	-0.1	-0.3
Republic of Korea	-0.1	-0.7	-1	-2	-2	n.a.
Russian Federation	-0.0	-0.0	-0.0	-0.1	0.6	0.1
Singapore	1	1	-0.2	-0.2	0.1	0.5
Unspecified destination	-2	-2	-0.5	-3	-0.4	-10

Source: OECD.*Stat Extracts*, available at: http//:stats.oecd.org.

Annex table 5. Ireland: principal foreign affiliates in Ireland, ranked by turnover, 2009

(US$ billion)

Rank	Name	Turnover	Industry
1	Dell	15	Manufacturer and sales of computer systems
2	Microsoft Ireland operations	13	Software manufacturer/distributions
3	Google Ireland	8	Internet search operator
4	BSC Int. Holdings Ltd (Boston Scientific)	5	Manufacturer of medical devices/ healthcare
5	Oracle Emea Ltd	5	Software manufacturer/sales
6	Tesco Ireland	3 [a]	Supermarket retail and petrol stations
7	Aryzta	4	Bakery products
8	ConocoPhillips Ireland Ltd	3	Mineral oil refining
9	Western Union International	2	Money transfer
10	Pfizer Global Supply	2	Wholesale of pharmaceutical goods
11	Forest Laboratories Holdings Ltd	2	Manufacture of basic pharmaceutical products
12	Apple Computer	2 [a, b]	Computer supply/R&D Centre
13	Diageo Ireland	2.2-2.5 [a]	Alcoholic beverages production/sales/distribution
14	Adobe Software Trading Co. Ltd	2	Software consultancy and supply

Source: *The Irish Times* Top 1000 Companies Magazine, June 30, 2010.
[a] Estimated accounts.
[b] Estimated based on global turnover divided by global employees multiplied by Irish employees.

Annex table 6. Ireland: main M&A deals, by inward investing firm, 2007-2009

Year	Acquiring Company	Home economy	Target Company	Target industry	Transaction value (US$ billion)	Shares acquired (%)
2009	Johnson & Johnson	USA	Elan Corp PLC	Pharmaceuticals	0.8	18.46
2009	Endesa SA	Spain	Electricity Supply Board-Power	Energy Supply	0.7	20
2009	Biovail Corp	Canada	Cambridge Laboratories	Chemicals	0.2	100
2009	Carbon Acquisition Co	UK	EcoSecurities Group PLC	Financial services	0.1	100
2009	Star Energy Group PLC	UK	Marathon Oil Ireland Ltd	Oil &gas	0.1	100
2009	MasterCard Inc	USA	Orbiscom Ltd	Business support	0.1	n.a.
2009	Popolare Vita SpA	Italy	The Lawrence Life Assurance Co	Financial services	0.03	100
2009	OASiS Group PLC SPV	USA	OASiS Group PLC	Business services	0.03	60
2009	Celsa Steel (UK) Ltd	UK	BRC McMahon Reinforcements Ltd	Building & construction	0.014	50
2009	Capita Group PLC	UK	Capmark Services Ireland Ltd	Financial services	0.013	100
2009	ISS Holding A/S	Denmark	Chubb Sec Personnel Ireland	Security services	0.005	100
2009	Genetix Group PLC	UK	SlidePath Ltd	Data management	0.004	100
2009	Corneal Laser Centre Ltd	UK	Eye Laser Ireland	Medical technology	0.004	100
2009	Norsat International Inc	Canada	Bluemoon 4G Ltd	Telecommunication services	0.003	100
2009	Sagem Securite SA	France	CardBASE Technologies Ltd	Business support	0.003	100
2008	Scottish & Southern Energy PLC	UK	Airtricity Holdings Ltd	Renewable energy	2	100
2008	Capital Research & Mgmt Co Ltd	USA	Kingspan Group PLC	Building & construction	0.1	6
2008	EAG Inc	USA	EAG Ltd	surface and materials analysis	0.1	100
2008	Investor Group	UK	Noonan Services Group Ltd	Facility services	0.1	100
2008	Dreamport Ltd	UK	NTR PLC	Renewable energy	0.1	39.6
2008	Investor Group	UK	Glanbia Meats Ireland	Food market	0.05	100
2008	Investor Group	Libya	Circle Oil Plc	Oil &gas	0.05	45.27
2008	Oxford Aviation Academy Ltd	UK	Parc Aviation Ltd	Personnel solutions & technical support	0.04	100
2008	DiaSorin SpA	Italy	Biotrin International	Diagnostics	0.03	100
2008	Amdocs Ltd	Guernsey	Changing Worlds Ltd	Digital service provider	0.03	100
2008	QUALCOMM Inc	USA	Xiam Technologies Ltd	Software development	0.03	100
2008	Barclays Capital	UK	Mainstream Renewable Power Ltd	Renewable energy	0.02	14.6
2008	Penninn hf	Iceland	Insomnia Coffee Co	Food & beverages	0.02	100
2008	Intersnack	Germany	Largo Food Exports Ltd	Food	0.02	15

	Knabbergebaeck					
2008	Charles Taylor Consulting PLC	UK	Santam Europe Ltd	Financial services	0.018	100
2007	Hypo Real Estate Holding AG	Germany	DEPFA Bk PLC	Banking services	7	100
2007	Britvic PLC	UK	C&C Group-Soft Drinks Business	Beverage	0.3	100
2007	Cardpoint PLC	UK	Alphyra Group PLC	Electronic solution services	0.3	100
2007	Telekom Austria AG	Austria	e Tel Group Ltd-6 Subsidiaries	Telecom	0.1	100
2007	Munich Re	Germany	Allfinanz	Business Processing Solution	0.06	100
2007	Credit Suisse Group	Switzerland	EcoSecurities Group PLC	Carbon finance expertise	0.05	9.9
2007	Level 3 Communications Inc	USA	Servecast	Internet broadcasting	0.04	100
2007	White Young Green PLC	UK	PH McCarthy Consulting	Building & construction	0.03	100
2007	Societa Cattolica di Assicurazioni SCRL	Italy	Vicenza Life Ltd	Financial services	0.03	50
2007	WeDo Consulting-Sistemas	Portugal	CAPE Technologies Ltd	Telecom software	0.02	100
2007	DataCash Group PLC	UK	EuroCommerce Call Centre	Business support	0.01	100
2007	G4S PLC	UK	Omada Fire & Security Group	Security services	0.01	100
2007	Computershare Ltd	Australia	Datacare Software Group Ltd	Business support	0.01	100
2007	SmartConnect Holdings PTE Ltd	Philippines	Blue Ocean Wireless Ltd	Mobile communication	0.01	30
2007	Crompton Greaves Ltd	India	Microsol Holdings Ltd	Automation	0.01	100

Source: Thomson ONE Banker, Thomson Reuters.

Annex table 7. Ireland: main greenfield projects, by inward investing firm, 2007-2009

Year	Company Name	Home economy	Industry	Investment/ estimated investment (US$ billion)
2009	Covanta	USA	Alternative/renewable energy	0.5
2009	Enel	Italy	Coal, oil and natural gas	0.3
2009	Green Wind Energy	Denmark	Alternative/renewable energy	0.2
2009	Scottish & Southern Energy	UK	Alternative/renewable energy	0.2
2009	Interxion	Netherlands	Communications	0.1
2009	Cable & Wireless	UK	Communications	0.1
2009	Boston Scientific	USA	Medical devices	0.1
2009	Activision Blizzard	USA	Software and IT services	0.1
2009	Takeda Pharmaceutical	Japan	Pharmaceuticals	0.1
2009	Leo Pharma	Denmark	Pharmaceuticals	0.1
2009	Hovione	Portugal	Pharmaceuticals	0.07
2009	Groupe de Recherche Servier	France	Pharmaceuticals	0.06
2009	Euro Construction Corp Ltd	UK	Real estate	0.06
2009	Intel	USA	Semiconductors	0.06
2009	Marks & Spencer	UK	Textiles	0.06
2008	Diageo	UK	Beverages	1
2008	Sosina	UK	Coal, oil and natural gas	0.5
2008	Houghton Mifflin	USA	Business services	0 .4
2008	Aldi Group	Germany	Food and tobacco	0.4
2008	Microsemi	USA	Semiconductors	0.33
2008	Coca-Cola	USA	Beverages	0.3
2008	Pfizer	USA	Biotechnology	0.2
2008	Intel	USA	Semiconductors	0.2
2008	Genzyme	USA	Pharmaceuticals	0.2
2008	Johnson & Johnson	USA	Consumer products	0.1
2008	EMC	USA	Communications	0.1
2008	Royal BAM Group	Netherlands	Real estate	0.1
2008	Millipore	USA	Medical devices	0.1
2008	Teva Pharmaceutical Industries	Israel	Pharmaceuticals	0.09
2008	EMC Instytut Medyczny	Poland	Healthcare	0.07
2008	Optical Express Group	UK	Healthcare	0.07
2007	Microsoft	USA	Software and IT services	0.05
2007	GlaxoSmithKline (GSK)	UK	Pharmaceuticals	0.03
2007	Merck & Co	USA	Pharmaceuticals	0.02
2007	Quinn Group	UK	Financial services	0.02
2007	Aldi group	Germany	Food and tobacco	0.01
2007	UCB SA	Belgium	Pharmaceuticals	0.01
2007	Baxter	USA	Medical devices	0.01
2007	Deutsche Post	Germany	Transportation	0.01
2007	Etex	Belgium	Building and construction materials	0.01
2007	New York Residence	USA	Real estate	0.008
2007	Gilead Sciences	USA	Biotechnology	0.008
2007	Equifax	USA	Financial services	0.007
2007	Regus	UK	Real estate	0.006
2007	Balcas	UK	Wood products	0.005
2007	Marks & Spencer	UK	Textiles	0.005

Source: fDi Intelligence, a service from the Financial Times Ltd.

Ireland: Inward FDI and its policy context, 2012

Louis Brennan and Rakhi Verma[*]

Despite the global financial and economic crises and a sharp downturn in the domestic economy between 2008 and 2009, Ireland managed to attract large inflows of foreign direct investment (FDI) in 2010. Inward FDI (IFDI) flows in 2010 were at a similar level to those in 2009, the second highest in Ireland's FDI history. However in 2011, there was a decline in such flows. While Ireland's economy has been greatly affected by the global crisis, Irish government initiatives have further fostered the country's attractiveness as an investment location for the world's firms. All indications are that Ireland's IFDI performance will continue to surpass that of most countries into the near future.

Trends and developments

Country-level developments

Since the opening up of Ireland's economy in the 1960s, Ireland has embraced IFDI as an integral part of its economic development strategy. The Irish economy experienced an extremely sharp downturn between 2008 and 2009, following strong economic growth in the late 1990s and 2000s. By 2010, there were some signs of recovery, particularly in IFDI. The value of the country's IFDI stock for 2010 and 2011 remained virtually unchanged (annex table 1), maintaining the highest IFDI stock recorded. Taking a longer view, it nearly doubled between 2000 (US$ 127 billion) and 2011 (US$ 243 billion).

In 2010, Ireland's IFDI flows remained at their 2009 level of US$ 26 billion, when inflows rebounded from a steep fall (annex table 2). They fell however by half in 2011, to US$13 billion. IFDI flows in 2010 (as well as 2009) surpassed the second highest level in Ireland's prior FDI flows history. The 2010 inflows were dominated by reinvested earnings.[1] In 2011 reinvested earnings amounting to US$ 32 billion and other capital of US$30 billion were partially offset by equity withdrawals of US$ 50 billion.[2] In 2010, world inward FDI flows represented 2% of total world GDP, whereas the percentage recorded for Ireland's IFDI relative to the country's GDP was 13%; in 2011, although the percentage for Ireland declined to 6%, it remained well above the percentage for the world (2%).[3] Ireland was the top destination worldwide in terms of the average value of investment projects and second-largest recipient of FDI jobs per head, after Singapore, in 2010.[4]

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[*] The authors wish to thank Seamus Grimes and Paddy Gunnigle for their helpful comments.

[1] Central Statistical Office, Ireland, "Foreign direct investment, 2010," September 23, 2011, available at: http://cso.ie/en/media/csoie/releasespublications/documents/economy/2010/Foreign%20Direct%20Investment%202010.pdf

[2] Central Statistical Office, Ireland, "Foreign direct investment, 2011," August 31, 2012, available at http://cso.ie/en/media/csoie/releasespublications/documents/economy/2011/fdi_2011.pdf

[3] UNCTAD statistics, available at: http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx

[4] National Irish Bank/fDi Intelligence, Inward Investment Performance Monitor, 2011, full report available at http://www.nationalirishbank.ie/PDF/About-the-Bank/Press-release/NIB-fDi-Investment-Performance-Monitor.pdf; and IBM Global Business Services, Global Location Trends: 2011 Annual Report (New York: IBM, November 2011).

Ireland has continued to attract investment by world-class multinational enterprises (MNEs) in diverse sectors and industries. In 2011, manufacturing, including, among others, chemical products, food products and office machinery and computers, accounted for US$ 52 billion (21%) of the total IFDI stock (annex table 3). Services, with US$ 198 billion (79%) were the dominant recipient sector. The largest host industry for FDI in services was financial intermediation, in which FDI at the end of 2011 amounted to US$ 108 billion. FDI in insurance and pension funding amounted to US$ 34 billion at the end of the same period (annex table 3).

The OECD countries accounted for the bulk of Ireland's FDI stock at the end of 2011, with 86% of the stock attributable to those countries. FDI stock from the United States rose to US$ 30.6 billion in 2010, compared to US$ 3 billion in 2009 and declined in 2011 to US$ 5.8 billion (annex table 4). It can be noted that given the geographic allocation principle followed in the compilation of Ireland's FDI statistics and the propensity on the part of many U.S. investors to invest in Ireland indirectly via subsidiaries located in other jurisdictions, the data for FDI in Ireland from the United States is likely to be understated.

On the other hand, the stock of FDI from European countries decreased from US$ 199 billion in 2009 to US$ 194 billion in 2010 (annex table 4). According to the Central Statistics Office of Ireland, this was mainly the result of withdrawals of equity by investors resident in the Netherlands. Earnings of foreign MNEs in Ireland increased to US$ 50 billion in 2010, from US$ 45 billion in 2009.[1] In 2011 the stock of FDI from Europe increased to US$214 billion.

Despite the on-going economic crisis, as noted, Ireland managed to attract large inflows of IFDI in 2010. According to the competitiveness rankings by the *World Competitiveness Yearbook*, the country ranked 21st out of 58 countries in 2010, and 24th out of 59 countries in 2011. In both years, Ireland was first for corporate taxes, fourth for having a culture that is open to new ideas, and seventh for flexibility and the adaptability of people.[2] In 2011, Ireland moved up in the rankings for the availability of skilled labour (4th to 1st), labour productivity (6th to 4th) and the availability of financial skills (7th to 3rd).[3] In 2010, Ireland was also ranked among the world's top 20 digital economies, occupying the 17th position out of 70 economies in the ranking, which assesses countries' ICT infrastructure and capabilities.[4] The attractiveness of Ireland for FDI has been attributed to its appropriate mix of available talent, a competitive tax environment, a supportive pro-business ecosystem in terms of incentives, and a cost-competitive place in which to live and work.

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[1] Central Statistical Office, Ireland, "Foreign direct investment 2010," op. cit.

[2] IMD, *World Competitiveness Yearbook 2010* (Lausanne: IMD World Competitiveness Center, 2010), available at http://www.imd.org.

[3] IMD, *World Competitiveness Yearbook 2011* (Lausanne: IMD World Competitiveness Center, 2010), available at http://www.imd.org.

[4] "Ireland in top 20 digital economies," *The Irish Times*, June 6, 2010, available at www.irishtimes.com.

The corporate players

In 2010, major foreign affiliates in Ireland included, at the top, those of PMI Trading, Microsoft, Dell, and Google (all from the United States) (annex table 5). Almost 1,000 foreign companies had chosen Ireland as the hub of their European networks,[1] and several as their European headquarters.[2]

There was an increase in cross-border M&A activity in Ireland in 2010: sales of Irish companies to foreign investors rose sharply, from 40 deals in 2009 to 71 deals in 2010.[3] The largest deal in 2010 was the acquisition of Irish aircraft-leasing group Avolon by the UK firm Investor Group, which was valued at US$ 750 million (annex table 6).

In 2010, Ireland secured a total of 187 greenfield FDI projects.[4] The Tayto group (United Kingdom) made the largest greenfield investment of US$ 225 million (annex table 7). However, the year 2010 saw a decrease in the value of the largest greenfield FDI project. In 2009, the top greenfield investment was a US$ 501 million project by Covanta (United States), and in 2008 it was a US$ 1 billion project by Diageo (United Kingdom).

It has been reported that the number of foreign companies investing in Ireland for the first time in 2010 was up 20% over that in 2009, despite greenfield FDI falling by 8% globally.[5] Among the new investors were Warner Chilcott, LinkedIn, EA, Riot Games, Genband Aspect, and FC Stone, all from the United States.[6]

In 2010, foreign affiliates in Ireland employed 250,000 people across a range of sectors. Ireland jumped from rank 13th in 2010 to 5th on UNCTAD's FDI Attraction Index, which measures countries' success in attracting FDI over a rolling three-year period.[7] The country has continued to be the destination of choice for many of the world's leading firms.

Special developments

A property crash and banking crisis forced Ireland to accept a € 67.5 billion bailout from the European Union and the International Monetary Fund in 2010. Consequently, Ireland's Government has placed a special emphasis on marketing Ireland overseas as an attractive location for investment, businesses and tourism in order to lay the foundations for economic recovery.[8]

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[1] Enterprise Ireland, "Irish economy returns to export-led growth," *Economic Highlights and News*, April 2011, available at http://www.enterprise-ireland.com/en/About-Us/News/Irish-economy-returns-to-export-led-growth-Economic-highlights-and-news-April-2011.pdf.

[2] Central Statistics Office, Ireland, "Business in Ireland, 2010," available at www.cso.ie/en/media/csoie/releasespublications/documents/multisectoral/2010/businessinireland2010.pdf.

[3] Patrick Spicer, "Ireland," in Simon Robinson, ed., *The Mergers and Acquisitions Review*, 5th edition, available at http://hb.betterregulation.com/external/The-Mergers-and-Acquistions-Review-5th-edition-Ireland.pdf.

[4] UNCTAD, *World Investment Report 2011: Non-Equity Modes of International Production and Development* (Geneva: United Nations, 2011), annex table I.9, p. 211, available at www.unctad.docs.org/files/UNCTAD-WIR2011-Annexes-Tables-en.pdf.

[5] Patrick Spicer, "Ireland," in Simon Robinson, ed., *The Mergers and Acquisitions Review*, 5th edition, op. cit.

[6] Enterprise Ireland, "Irish economy returns to export-led growth," op. cit.

[7] UNCTAD, *World Investment Report, 2012*, op. cit., p. 29.

[8] Forfas and the National Competitiveness Board, Ireland, *Annual Competitiveness Report, 2010, Volume 2: Ireland's Competitiveness Challenge*, available at http://www.forfas.ie/media/ncc101130-challenge_2010.pdf.

The policy scene

In order to safeguard existing investment and attract further FDI, the Irish Government has taken various measures. In 2010, Ireland had comprehensive double taxation agreements in force with 56 countries. The agreements generally cover income tax, corporation tax and capital gains tax (direct taxes).[1] By the end of 2011, Ireland had 64 double taxation treaties in place. New agreements are under negotiation (including with Argentina, Azerbaijan, Egypt, Tunisia, and Ukraine) and others are being updated (including Ireland's agreements with Cyprus, Italy, the Republic of Korea, Pakistan, and France). Ireland's comprehensive tax treaty network continues to be an important part of its overall attractiveness for inward investment.[2] Ireland is signatory to only one bilateral investment treaty, that concluded with the Czech Republic in 1996.

Ireland's investment promotion agency – the Industrial Development Authority (IDA) – continues to be highly proactive in engaging with foreign firms with a view to securing investment into Ireland. In recent years there has been a greater policy focus on attracting smaller, emerging, more knowledge-intensive firms. The preponderance of knowledge-intensive activities in recent inflows of FDI is the result of significant government initiatives such as the increase in R&D tax credits, the establishment of *Science Foundation Ireland* and increased university-industry linkages. The IDA has also taken steps such as the opening of offices in a number of the fast-growing emerging economies such as China and India to attract some of the increasing investment outflows from those economies.

In the face of pressure from some European partners to change Ireland's low rate of corporation tax in recent years, the Irish Government (with support from across the domestic political divide and other European partners) staunchly defended Ireland's corporate tax regime. In the face of such a resolute response from Ireland to such pressure, the current French Finance Minister Pierre Moscovici recently stated that there were no tensions between Ireland and France on the matter of corporation tax.[3]Though corporate tax regimes are increasingly under scrutiny[4] and the harmonization of the corporate tax base continues to be discussed within the EU, Ireland's low corporate tax regime is unlikely to undergo significant changes into the foreseeable future.

Conclusions

The pace of economic contraction in Ireland slowed in 2010. GDP declined 1% in 2010, with a fall in GNP of 2.1%.[5] At the same time, 2010 was a step toward recovery from the global economic crisis for Ireland, particularly in inward FDI which showed a robust performance that year. Though inward FDI halved in 2011, GDP grew for the full year in 2011 (+0.7%) for the first time since 2007, suggesting that FDI inflows will soon recover.[6]

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[1] "Ireland's double tax treaties," Lawandtax-news.com, available at http://www.lawandtax-news.com/html/ireland/jirlatintag.html.

[2] "Update on Irish double taxation agreements, 2011," available at http://hb.betterregulation.com/external/Update%20on%20Irish%20Double%20Taxation%20Agreements.pdf.

[3] "Moscovici says Irish bid for deal on bank debt has French support," *The Irish Times*, January 19, 2013, available at http://www.irishtimes.com/newspaper/finance/2013/0119/1224329044302.html.

[4] "Corporate tax avoidance: the price isn't right," *The Economist*, September 21, 2012.

[5] Finfacts, Irish economy, 2011, available at http://www.finfacts.ie/irishfinancenews/Irish_Economy/article_1021912_printer.shtml.

[6] "GDP rises for first time in four years," *The Irish Times*, March 23, 2012, available at

In addition, Ireland's FDI reputation has not suffered any sustained damage as a result of the country's EU-IMF agreement on a financial assistance package. Ireland's policy consensus in relation to FDI is a critical factor in sustaining Ireland's FDI attractiveness, alongside an innovative and a resourceful workforce, low corporate tax, strong manufacturing and compliance track record, and a high-standard R&D infrastructure.

Additional readings

Barry, Frank, "Trade, investment, integration: the economics of Irish foreign policy," Institute for International Integration Studies Discussion Paper No. 381, Trinity College Dublin, September 2011.

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Dublin, available at: http://www.tcd.ie/iiis/documents/discussion/pdfs/iiisdp321.pdf

Gunnigle, Patrick and David McGuire, "Why Ireland? A qualitative review of the factors influencing the location of US multinationals in Ireland with particular reference to the impact of labour issues," *Economic and Social Review*, vol. 32 (1), pp. 43-67.

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http://www.idaireland.com/news-media/publications/library-publications/ida-ireland-publications/IDA-Ireland-Strategy-2020.pdf

Useful websites

Central Statistical Office, Ireland, available at:
http://cso.ie/en/media/csoie/releasespublications/documents/economy/2010/Foreign%20Direct%20Investment%202010.pdf.

The American Chamber of Commerce in Ireland, available at: http://www.amcham.ie/
The Industrial Development Authority (IDA), available at: http://www.idaireland.com/

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http://www.irishtimes.com/newspaper/finance/2012/0323/1224313766383.html.

Statistical annex

Annex table 1. Ireland: inward FDI stock, 2000-2011

(US$ billion)

Economy	2000	2009	2010	2011
Ireland	127	247	247	243
Memorandum: comparator economies				
Belgium	195	948	901	958
Netherlands	243	660	593	589
Singapore	110	394	461	518
United Kingdom	438	1056	1162	1199

Source: UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics.

Annex table 2. Ireland: inward FDI flows, 2000-2011

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Ireland	26	10	30	23	-11	-32	-5	25	-16	26	26	13
Memorandum: comparator economies												
Belgium	n.a.	n.a.	16	33	43	34	58	93	194	61	81	89
Netherlands	64	52	25	33	12	39	14	119	5	36	-9	17
Singapore	15	17	6	17	24	18	37	47	12	24	49	64
United Kingdom	119	53	24	17	56	176	156	196	91	71	51	54

Source: UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics.

Annex table 3. Ireland: sectoral distribution of inward FDI stock, 2003-2011

(US$ billion)

Sector/industry	2003	2004	2005	2006	2007	2008	2009	2010	2011
All sectors/industries	222	207	163	156	203	193	250	285	252
Primary									
Agriculture, farming, fishing and forestry	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Mining	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Secondary									
Manufacturing	98	89	82	45	64	55	49	41	52
Textiles, wearing apparel, wood, publishing and printing	14	7	8	7	13	2	2	2	1
Food products	5	6	5	5	6	5	5	4	4
Chemical products	66	60	54	16	n.a.	33	1	1	3
Office machinery and computers	4	4	4	4	3	4	n.a.	5	5
Radio, TV, communication equipment	3	4	5	5	4	4	n.a.	n.a.	n.a
Services									
Total services	124	117	80	110	138	137	200	243	198
Trade and repairs	n.a.	n.a.	n.a.	n.a.	n.a	9	18	16	13
Transport, storage and communication	2	2	1	3	4	2	n.a.	n.a.	n.a.
Financial intermediation	110	104	64	88	108	78	129	169	149
Financial intermediation, except insurance and pension funding	87	76	38	53	68	45	92	130	108
Monetary intermediation	24	29	31	38	55	58	n.a.	n.a.	n.a.
Activities auxiliary to financial intermediation	3	4	3	3	2	1	1	1	7
Other financial intermediation	63	46	6	14	12	-13	n.a.	n.a.	n.a.
Insurance and pension funding	20	24	21	31	38	31	35	38	34
Real estate, renting and business activities	5	4	7	8	19	48	n.a.	n.a.	n.a.
Computer activities	1	1	1	1	5	15	19	25	11
Business and management consultancies	0.2	0.7	1	1	1	4	n.a.	n.a.	n.a.

Source: OECD *Stat Extracts*, available at: http//:stats.oecd.org. Accessed on 25th January 2013
Note: "n.a." indicates "not available."

Annex table 4. Ireland: geographical distribution of inward FDI stock, 2003-2011

(US$ billion)

Region/economy	2003	2004	2005	2006	2007	2008	2009	2010	2011
World	222	207	163	156	203	193	250	285	252
Developed economies									
Europe	170	171	131	128	142	155	199	194	214
European Union	149	154	129	122	132	146	187	152	207
Austria	0.1	0.6	0.2	0.2	0.4	0.5	0.3	0.5	0.3
Belgium	-0.07	2.4	-0.8	-0.6	2	8.3	11	0.01	-4.5
Cyprus	n.a.	0.79	1.4	0.5	0.4	0.9	0.9	1.2	0.6
Czech Republic	-0.03	-0.09	-0.62	n.a.	-0.9	-0.7	-0.1	-0.1	0.02
Denmark	0.1	-0.4	-1	-0.5	-1	-0.1	-0.8	0.9	1.5
Finland	0.07	-0.08	-1	n.a.	-1	0.2	n.a.	0.2	0.1
France	2	3	6	8	10	6	16	21	20
Germany	10	7	1	4	8	6	10	10	13
Italy	6	6	6	7	8	8	13	9	9
Luxembourg	21	33	34	46	43	35	44	35	74
Netherlands	71	70	65	37	46	49	51	37	35
Poland	-0.18	-0.17	n.a.	0.02	-0.21	-0.2	-0.2	-0.2	-0.1
Portugal	0.5	0.8	1.6	1.9	1.7	1.7	1.6	0.6	1
Slovakia	0	0	-0.07	n.a.	n.a.	-0.1	-0.1	0.06	0.07
Spain	-0.9	-0.9	-2	-2	-6	0.8	5.7	11	7.8
Sweden	3.8	-0.6	-0.2	5.2	3.5	7	3	4	4
United Kingdom	34	31	20	15	15	21	30	39	29
Other European economies									
Isle of Man	0.44	-0.5	-2.1	2.7	1.3	n.a.	0.1	0.01	0.01
Jersey	n.a.	6.8	-0.24	-0.77	0.83	-1	-0.9	4.3	3
Norway	0.1	0.7	0.2	0.09	0.4	0.5	1.4	1	0.08
Switzerland	6	7	4	5	6	8	10	15	15
Turkey	0.08	0.1	0	0.10	n.a.	0.002	-0.02	-0.03	0.01
Other developed economies									
Australia	-0.69	-0.53	-0.69	n.a.	-0.02	-0.1	0.7	1.5	1.5
Canada	8.7	n.a.	6.1	10.9	16	9.6	10.6	12	3.2
Japan	-0.4	1.8	3.6	3.5	1.5	1.1	2.3	0.03	0.85
New Zealand	0	0	0	0.1	-0.2	-0.09	n.a.	n.a.	-0.06
United States	30.2	14.5	13.8	7.6	28	17.9	3	30.6	5.8
Developing and transition economies									
China	-0.17	0.3	0.11	0.2	0.3	0.2	-0.1	-1.1	-0.03
Hong Kong (China)	0.17	n.a	n.a.	-0.9	-0.9	-0.1	-0.6	-0.1	-0.3
India	0	n.a.	-0.09	-0.14	-0.05	-0.04	-0.1	-0.2	-0.2.

Indonesia	0	0	n.a.	n.a	0	0.02	n.a.	-0.02	0.003.
Mexico	-1	-0.5	0.2	-0.2	-0.1	-0.3	0.03	0.1	0.02
Republic of Korea	-0.05	-0.7	-1	-2	-2	-1.5	-1.5	-1.2	-1.5.
Russian Federation	-0.02	-0.02	-0.04	-0.1	0.6	0.1	0.1	0.2	0.1
Singapore	1	1	-0.2	-0.1	0.1	0.5	2	4.6	n.a.
Unspecified destination	-2	-2	-0.5	-3	-0.4	-9	-1	4	-5.3

Source: OECD.*Stat Extracts*, available at: http://stats.oecd.org (accessed on 25th January 2013).
Note: "n.a." indicates "not available."

Annex table 5. Ireland: principal foreign affiliates in Ireland, ranked by turnover, 2011

Rank	Name	Industry	Turnover (US$ billion)
1	Microsoft Ireland operations	Software consultancy and supply	25
2	Google	Technical, sales and operations support	17
3	DCC	Marketing and distribution	15
4	Dell Ireland	Computers	13
5	Smurfit Kuppa group	Paper-based packaging	10
6	Pfizer Global Supply	Wholesale of pharmaceutical goods	10
7	Oracle	Technology business	8
8	Cooper Industries Public Limited Company	Electrical components and tools	6
9	Boston Scientific	Health and medical appliances	6
10	Apple	Technology	5
11	Kingston	Memory products	4
12	Tesco	Grocery and household	4
13	Peninsula Petroleum Ltd	Wholesale of solid, liquid and gaseous fuels and related products	4
14	Topaz	Energy	4
15	CMC	Coal products	4

Source: *The Irish Times*, Top 1000 Companies Magazine, June, 2012.

Annex table 6. Ireland: main M&A deals, by inward investing firm, 2008-2010

Year	Acquiring company	Home economy	Target company	Target industry	Transaction value (US$ million)	Shares acquired (%)
2010	Investor Group	United Kingdom	Avolon	Equipment rental and leasing	750	n.a.
2010	Mylan Luxembourg L3 SCS	Luxembourg	Bioniche Pharma Holdings Ltd	Pharmaceuticals	550	100
2010	William Grant & Sons Hldg Ltd	United Kingdom	C&C Group PLC-Spirits Division	Beverages	399	100
2010	AerCap Holdings NV	Netherlands	Genesis Lease Ltd	Equipment rental and leasing	301.2	100
2010	Diagnostica Stago SAS	France	Trinity Biotech-Coagulation	Medical diagnostics	90	100
2010	DIF Infrastructure II UK Ltd	Netherlands	East-Link Ltd	Inspection and fixed facilities for motor vehicles	68	100
2010	Duke Street Capital	United Kingdom	Payzone PLC	Data processing services	61	69
2010	Chrysalis Group PLC	United Kingdom	First State Media Grp (Ireland)	Patent owners and lessors	51.07	100
2010	Life Technologies Corp	United States	Stokes Bio Ltd	Biological products	44	100
2010	Xerox Corp	United States	Irish Business Systems Ltd	Office machinery	31	100
2009	Johnson & Johnson	United States	Elan Corp PLC	Biological products, except diagnostic substances	885	18.46

2009	Endesa SA	Spain	Electricity Supply Board-Power	Electric services	707	20
2009	Biovail Corp	Canada	Cambridge Laboratories	Pharmaceutical preparations	230	100
2009	Carbon Acquisition Co	United Kingdom	EcoSecurities Group PLC	Refuse systems	181	100
2009	Star Energy Group PLC	United Kingdom	Marathon Oil Ireland Ltd	Crude petroleum and natural gas	180	100
2009	MasterCard In	United States	Orbiscom Ltd	Prepackaged Software	100	n.a.
2009	Undisclosed Acquiror	Unknown	Doosan Techno Holding Co Ltd	Construction machinery and equipment	57	49.95
2009	Gold Fields Metals BV	Netherlands	Glencar Mining PLC	Gold ores	41	90.92
2009	Popolare Vita SpA	Italy	The Lawrence Life Assurance Co	Life Insurance	36	100
2009	OASiS Group PLC SPV	United States	OASiS Group PLC	Business services	35	60
2008	Scottish & Southern Energy PLC	United Kingdom	Airtricity Holdings Ltd	Renewable energy	2,145	100
2008	KPMG International	Netherlands	Tesco-distn facility	Operators of non-residential buildings	168	100
2008	Capital Research & Mgmt Co Ltd	United States	Kingspan Group PLC	Ceramic wall and floor tile	164	6
2008	EAG Inc	United States	EAG Ltd	Laboratory analytical instruments	163	100
2008	Investor Group	United Kingdom	Noonan Services Group Ltd	Building cleaning and maintenance	133	100

				services, nec		
2008	Dreamport Ltd	United Kingdom	NTR PLC	Inspection and fixed facilities for motor vehicles	115	5.98
2008	Investor Group	United Kingdom	Ely Property Group PLC	Real estate investment trusts	55	n.a.
2008	Investor Group	United Kingdom	Glanbia Meats Ireland	Sausages and other prepared meat products	53	100
2008	Investor Group	Libya	Circle Oil Plc	Crude petroleum and natural gas	51	45.27
2008	Oxford Aviation Academy Ltd	United Kingdom	Parc Aviation Ltd	Employment agencies	47	100

Source: Thomson ONE Banker, Thomson Reuters.
Note: "n.a." indicates "not available."

Annex table 7. Ireland: main greenfield projects, by inward investing firm, 2008-2010

Year	Company name	Home economy	Industry	Investment/ estimated investment (US$ million)
2010	Tayto Group	United Kingdom	Leisure and entertainment	225
2010	Betfair	United Kingdom	Leisure and entertainment	162
2010	Tesco	United Kingdom	Food & tobacco	144
2010	Verizon Communications	United States	Communications	134
2010	Level 3 Communications	United States	Communications	134
2010	Interxion	Netherlands	Communications	134
2010	Vue Entertainment	United Kingdom	Leisure and entertainment	95
2010	Hollister Inc	United States	Medical devices	90
2010	IBM	United States	Software & IT services	88
2010	ShareFile	United States	Software & IT services	85
2009	Covanta	United States	Alternative/renewable energy	501
2009	Enel	Italy	Coal, oil and natural gas	316
2009	Green Wind Energy	Denmark	Alternative/renewable energy	216
2009	Scottish & Southern Energy	United Kingdom	Alternative/renewable energy	215
2009	Cable & Wireless Worldwide (Cable & Wireless)	United Kingdom	Communications	134
2009	Boston Scientific	United States	Medical devices	126
2009	Activision Blizzard	United States	Software & IT services	124
2009	Takeda Pharmaceutical	Japan	Pharmaceuticals	123

2009	Leo Pharma	Denmark	Pharmaceuticals	121
2009	Bentley Systems	United States	Software & IT services	87
2008	Diageo	United Kingdom	Beverages	1000
2008	Sosina	United Kingdom	Coal, oil and natural gas	526
2008	Houghton Mifflin	United States	Business services	496
2008	Aldi Group	Germany	Food & tobacco	443
2008	Microsemi	United States	Semiconductors	336
2008	Coca-Cola	United States	Beverages	300
2008	Pfizer	United States	Biotechnology	297
2008	Intel	United States	Semiconductors	292
2008	Genzyme	United States	Pharmaceuticals	200
2008	EMC Corporation	United States	Communications	145

Source: fDi Intelligence, a service from the Financial Times Ltd.

Ireland: Outward FDI and its policy context, 2013

Louis Brennan and Rakhi Verma[*]

Although starting from a very low base and initially insignificant when compared to the growth of Ireland's inward foreign direct investment (FDI), Ireland's outward FDI flows have steadily increased over time. In particular, the decade following 2000 saw a rapid rise in outward FDI flows from Ireland, with its stock growing from US$ 28 billion in 2000 to US$ 324 billion in 2011. This reflects the remarkable growth of annual FDI outflows, from US$ 5 billion in 2000 to US$ 27 billion in 2009, the latter representing the highest recorded value. The year 2004 marked Ireland's emergence as a net direct investor for the first time in its history. With the global financial and economic crisis, Ireland's outward FDI flows recorded declines in 2010 and 2011 from the record value attained in 2009.

Trends and developments

Country-level developments

Inward FDI (IFDI) has played a crucial role in the rapid economic growth that Ireland has experienced over the past several decades. Since the 1960s, Ireland's economic model has been based on the promotion of inward FDI and exports. It is now well recognized that the country's extraordinary economic progress stems from its success in attracting IFDI. Historically, the importance of such investment has dominated the country's economic and political agenda. While indigenous enterprises traditionally engaged in overseas markets through exports, they have more recently been expanding their commercial presence and activities into overseas markets in the form of outward FDI (OFDI). Such investment by Irish companies has grown noticeably in recent years, albeit from a very low historic base.[1] The ratio of the stock of OFDI to the stock of IFDI remained unchanged at 0.3 over the years 1985-1998. As of 1998, that ratio was lower for Ireland than for any other advanced economy, and was significantly lower than for most other small European Union (EU) countries.[2] But thereafter, outward FDI started to grow at unprecedented rates. In 2011, the ratio of the stock of OFDI to the stock of IFDI reached 1.3. When compared to Ireland's gross domestic product (GDP), the ratio of the stock of OFDI to GDP increased from 0.5 to 1.6 over the period 1985 to 2011. Today, Ireland has a larger stock of OFDI relative to GDP than most EU countries, and a considerably higher one than the EU average.[3] Whereas the global financial crisis that began in 2007 did not initially impinge on Ireland's OFDI flows, the value recorded for 2011 shows that this is no longer the case.

Ireland's historical OFDI under-performance compared with other small EU countries partly reflects the fact that, with the exception of financial services, Ireland had few large corporations in the industries

[*] The authors wish to thank Seamus Grimes and John Managan for their helpful comments. First published February 12, 2013.

[1] Ireland, Department of Foreign Affairs, "Ireland in brief," available at http://www.dfa.ie/uploads/documents/TPD/english%20in%20brief%20dec%202011%20lo-res.pdf.

[2] Ireland, Forfas, "Statement on outward direct investment (2001)," available at http://www.forfas.ie/media/forfas011010_outward_direct_investment.pdf.

[3] Ireland, Forfas, "Enterprise statistics – at a glance (2006)," available at http://www.forfas.ie/media/forfas070117_enterprise_statistics.pdf.

that generate the bulk of global FDI deals (oil, automobiles, telecommunications, etc.). Other contributing factors include Ireland's relatively recent industrialization, its geographic location at the periphery of Europe, the active OFDI promotion by some other EU governments, and the high proportion of output and employment in Ireland accounted for by affiliates of foreign multinational enterprises (MNEs).[1]

In more recent times (and particularly in the past decade), the growth in OFDI has been very impressive, indicating the growing significance of Irish-owned MNEs. OFDI by Irish companies represents a natural progression as firms move along the development path due to customer demand and competitive pressures; it also signals the growing maturity of the Irish economy.[2] Ireland's experience is consistent with the investment development path theory, which predicts that a country or region's net OFDI position is systematically related to its level of economic development.[3]

While Ireland's OFDI stock remains small in absolute terms by the standards of most other EU countries, it has risen more than 11 times between 2000 and 2011 and has outperformed comparator countries such as Belgium, the Netherlands, Singapore, and the United Kingdom in terms of OFDI growth (annex table 1). This rapid growth also contrasts with the performance of the EU and global OFDI which experienced modest growth over that period.[4] The increase in Ireland's OFDI position during 2010 was mainly accounted for by FDI in Europe. As noted by Ireland's Central Statistics Office, this increase reflects the continued relocation of international group headquarters to Ireland during 2010 (from the United Kingdom and offshore centers), the first occurrence of which was in 2008. This relocation process has contributed to an increase in Ireland's OFDI stock.[5] Ireland's OFDI stock fell by US$ 25 billion from US$ 349 billion at the end of 2009 to US$ 324 billion at the end of 2011, mainly due to a fall in investment in Central American offshore centers. Increased investment in Europe partially offset this decline.[6]

Outward FDI flows from Ireland also recorded an upward trend during much of the period from 2000 up to 2009, when they reached US$ 27 billion (annex table 2). In light of the global crisis, outflows faltered to US$ 18 billion in 2010, and turned negative in 2011 (annex table 2). However, Ireland became a net investor abroad in 2004 for the first time, as FDI outflows exceeded inflows.[7]

In terms of sectoral distribution, manufacturing companies led OFDI during the 1980s. By the mid-1990s, financial service companies adopted aggressive FDI strategies too, when many of the largest overseas acquisitions were undertaken by service companies (e.g., AIB's take-over of Dauphin Deposits;

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[1] Ireland, Forfas, "International trade & investment report (2000)," available at http://www.forfas.ie/media/forfas001220_trade_and_investment.pdf.
[2] Ireland, Forfas, "International trade & investment report (2005)," available at http://www.forfas.ie/media/forfas060220_trade_and_investment.pdf.
[3] F. Barry, H. Görg, and A. McDowell, "Outward FDI and the investment development path in a late-industrialising economy: evidence from Ireland," *Regional Studies*, vol. 37(4) (2003), pp. 341-349.
[4] UNCTAD Statistics, available at http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx.
[5] Ireland, Central Statistics Office, "Foreign direct investment, 2010," available at http://www.cso.ie/en/media/csoie/releasespublications/documents/economy/2010/Foreign%20Direct%20Investment%202010.pdf.
[6] Ireland, Central Statistical Office, "Foreign direct investment, 2011," available at http://cso.ie/en/media/csoie/releasespublications/documents/economy/2011/fdi_2011.pdf.
[7] R. O'Toole, *Outward Direct Investment and Productivity*, in Ireland, Forfas, 2003, available at http://www.forfas.ie/media/productivity_chapter24.pdf, pp. 385-401.

Capital's take-over of Hermes Property). This feature reflected the increasing importance of the services sector in the Irish economy during the 1990s.[1] The sectoral composition of Irish OFDI changed markedly in the mid-2000s. Up until 2005, manufacturing was the most common form of activity undertaken by foreign affiliates of Irish firms (approximately 26% of the overseas affiliates). This was followed by "business services" (21%) and construction (12%).[2] While a broad range of Irish enterprises is now investing overseas, the bulk of OFDI is being undertaken by firms in a relatively small number of industries.[3] By the end of 2010, the services sector accounted for almost 91% of the value of Ireland's OFDI stock, followed by manufacturing (annex table 3). The steady increase in the share of the services sector reflects, among others, the structural transformation of the Irish economy toward a knowledge based economy.

Ireland's leading MNEs have expanded abroad successfully. Traditionally, the main target destinations have been the United States and the United Kingdom. The dominance of these two countries reflects obvious factors: they are geographically proximate locations with large markets, strong, politically stable economies, and a common language. It is also possible that similar legal systems, lower corporate tax rates and business-friendly governments in both countries have attracted Irish OFDI flows to these countries.[4] The Netherlands and Luxembourg were also important destinations for Ireland OFDI in 2010 (annex table 4).

The corporate players

The vast majority of indigenous companies in Ireland are small. However, there are a number of companies that, as well as being large by international standards, have set up affiliates abroad and acquired other companies in many different countries. Many of these companies are in the food-processing sector. This is understandable as agriculture and food have always been important to the Irish economy and still represent a significant share of economic activity. Examples of firms in the private sector that have invested overseas include Waterford Group, Jefferson Smurfit Group, CRH Group, Kerry, Glanbia, Golden Vale, Greencore, AIB, and Bank of Ireland. Large companies in the public sector that have invested overseas include the Electricity Supply Board, CIE (transport) and Irish Airlines.[5] In 2011, CRH was the Irish firm with the largest turnover (annex table 5); it is a diversified building materials group that manufactures and distributes building material products. CRH employs approximately 76,000 people at 3,600 operating locations in 36 countries (18 developed countries and 18 developing countries).

Ireland's MNEs have expanded abroad largely by foreign acquisitions. Over the period 2008-2009, CRH continued as one of the most acquisitive firms, making three significant acquisitions in the cement industry, involving China-based Yatai cement (US$ 0.2 billion), United Kingdom -based Ancon Ltd (US$ 0.1 billion) and India-based My Home Industries (US$ 0.4 billion) (annex table 6). In 2010,

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[1] C. O'Connor, E. O'Mara Walsh and C. Owens, "Irish outward foreign direct investment: The future impetus for economic growth," Trinity College, Economics Department, Dublin, 1998, mimeo., available at *www.tcd.ie/Economics/SER/sql/download.php?key=241.*

[2] Ireland, Forfas, "Statement on outward direct investment (2007)," available at http://www.forfas.ie/media/forfas071103_outward_direct_investment.pdf.

[3] Ireland, Forfas, 2007, op. cit.

[4] Ireland, Forfas, 2001, op. cit.

[5] T. P. O'Connor, "Foreign direct investment and indigenous industry in Ireland: Review of evidence," 2001, available at http://www.inti.gob.ar/cadenasdevalor/documentacion/ireland.pdf.

Ardagh Glass Group PLC, Electricity Supply Board, Macquarie Air Finance Ltd, and Covidien Ltd. were among the top firms that made major overseas acquisitions. San Leon Energy, Ryanair and NTR made the largest greenfield overseas investments (annex table 7).

Effects of the current global crisis

The global economic and financial crisis that began in 2007 greatly impacted the Irish economy. However, the positive growth trend of Ireland's outward FDI was not interrupted until 2011, even though flows recorded decreases compared to the preceding years in 2008, 2010 and 2011. However, despite the economic crisis, Irish OFDI flows attained their highest-ever level in 2009, reflecting the fact that the crisis has mainly impacted the domestic banking and construction while leaving many other industries relatively unscathed.

The policy scene

Ireland became a member of the European Union in 1973. EU membership has proven to be a key factor for MNEs to consider Ireland as a location for an offshore plant as the country provides easy access to the large EU market. Along with intensified competition in the Irish market, EU membership also created opportunities for Irish companies to expand in other developing and developed EU countries. Over the past decade, OFDI by Irish firms recorded impressive growth in their business investment in EU countries. In 2002, developing European economies alone attracted 7% of Irish outward FDI projects, and this share tripled to 21% from 2004 to 2006. This indicates the increased attractiveness of this region to Irish firms due to continued economic reforms in many Eastern European countries, alongside the accession to the EU of many of them in 2005.[1]

The Irish Government increasingly recognizes that, given the reality of the global economy, domestic firms must be given the opportunity to establish themselves abroad if they are to benefit from economies of scale and compete effectively against foreign competition. Outward FDI is therefore a strategic option that must be left open to firms. Growth in cross-border FDI flows between Ireland and the rest of the world is best supported at the macro level, by removing tax and regulatory barriers to investment flows between countries through international agreements.

Ireland does not provide direct or indirect financial assistance to companies interested in investing overseas. Instead, the government currently facilitates OFDI at two levels: (1) Ireland's network of double taxation treaties (DTTs), which promote trade and investment between Ireland and other countries that might otherwise be discouraged by the possibility of double taxation; and (2) support from the state agency Enterprise Ireland and Ireland's overseas diplomatic network.[2]

The support from the government has been via the expansion of Ireland's DTT network. In 2011, Ireland had comprehensive DTTs in force with 64 countries. The agreements generally cover income tax, corporation tax and capital gains tax (direct taxes).[3] New agreements are under negotiation with a

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[1] O'Toole, op. cit.
[2] Ireland, Forfas, "International trade & investment report (2000)," available at http://www.forfas.ie/media/forfas020206_trade_and_investment.pdf.
[3] "Ireland's double tax treaties," *Lawandtax-news.com*, available at http://www.lawandtax-news.com/html/ireland/jirlatintag.html.

number of countries (including Argentina, Azerbaijan, Egypt, Tunisia, Ukraine) and other agreements are being updated (including Ireland's agreements with Cyprus, Italy, the Republic of Korea, Pakistan, France). Ireland's comprehensive tax treaty network continues to be an important part of its overall attractiveness for inward investment.[1] Ireland is signatory to only one bilateral investment treaty, concluded with the Czech Republic in 1996.

Enterprise Ireland is the Irish leading state economic development agency, focused on helping Irish-owned businesses deliver new export sales. Its role is to accelerate the development of Irish companies to achieve strong positions in global markets. It supports indigenous Irish manufacturing and internationally traded services companies through start-up, growth and development, particularly in export markets. Ireland has realized that it is vital to find ways of enabling indigenous firms to perform better and take full advantage of export opportunities.

Conclusions

The growth in outward FDI from Ireland reflects the growing role of large indigenous MNEs developing their international reach and trading successfully overseas. The changing nature of production in Ireland is reflected in Irish companies increasingly winning export business in services activities and in Ireland's stock of OFDI emanating from the services sector. The continuing evolution of the Irish economy is reflected in OFDI flows. Studies carried out by Forfas have shown that OFDI by indigenous firms has a net positive impact on the economy. The research found that such investment has a positive impact on domestic employment levels within investing firms, particularly when it is vertical FDI.[2] It should be noted that not only does Irish industry have scale, but it is also increasingly well-positioned to drive growth, having reacted swiftly to the challenges posed by the recession.[3] The growth in Irish OFDI flows is expected to accelerate further, as barriers to overseas investment fall and Irish firms become more sophisticated. OFDI flows from Ireland are likely to be one of the more important features of Irish economic development over the coming years.

Additional readings

Barry, F., H. Görg and A. McDowell, "Outward FDI and the investment development path in a late-industrialising economy: evidence from Ireland", *Regional Studies,* 37(4) (2003), pp. 341-349.

McDonnell A., "Outward foreign direct investment and human capital development: A small country perspective," *Journal of European Industrial Training*, vol. 32 (6) (2008), pp. 452-471.

Useful websites

Forfas, Ireland's policy advisory board for enterprise, trade, science, technology and innovation, available at: www.forfas.ie
Central Statistics Office, available at: www.cso.ie

[1] "Update on Irish double taxation agreements, 2011," available at http://hb.betterregulation.com/external/Update%20on%20Irish%20Double%20Taxation%20Agreements.pdf.
[2] Ireland, Forfas, 2007, op. cit.
[3] "Rumours of the nation's demise greatly exaggerated," *The Irish Times.com*, November 11, 2010.

Statistical annex

Annex table 1. Ireland: outward FDI stock 2000, 2009, 2010 and 2011
(US$ billion)

	2000	2009	2010	2011
Ireland	28	289	349	324
Memorandum: comparator economies				
Belgium	180	907	917	944
Netherlands	305	956	962	943
Singapore	57	268	318	339
United Kingdom	897	1,674	1,627	1,731

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi.

Annex table 2. Ireland: outward FDI flows, 2000-2011
(US$ billion)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Ireland	5	4	11	5	18	14	15	21	19	27	18	-2
Memorandum: Comparator economies												
Singapore	7	20	0	3	11	12	19	37	7	18	21	25
United Kingdom	233	59	50	62	91	81	86	272	161	44	39	107
Belgium	86	101	12	38	34	33	51	80	221	9	56	71
Netherlands	76	51	32	56	37	123	71	56	68	28	55	32

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi.

Annex table 3. Ireland: distribution of outward FDI stock, by economic sector and industry, 2003-2010

(US$ billion)

Sector	2003	2004	2005	2006	2007	2008	2009	2010
All sectors	73	107	104	121	150	169	289	349
Primary								
Agriculture, forestry, and fishing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Mining, quarrying and petroleum	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Secondary								
Manufacturing	17	30	23	22	27	14	17	18
Food products	4	5	4	3	4	n.a.	3	4
Chemical products	n.a.	11	3	4	5	2	5	n.a.
Services								
Total services	56	76	81	98	122	154	258	316
Trade and repairs	1	3	4	5	5	9	18	23
Financial intermediation	30	38	37	43	43	33	45	40
Monetary intermediation	14	19	17	22	22	11	11	12
Other financial intermediation	15	16	17	18	19	21	32	27
Real estate, renting and business Activities	24	34	38	48	71	109	192	249
Other business activities	9	12	13	15	24	55	137	185
Business and management consultancy	7	9	10	13	21	41	106	150

Source: OECD. *Stat Extracts*, available at: http//:stats.oecd.org.

Note: “n.a.” indicates “not available.”

Annex table 4: Ireland: geographical distribution of outward FDI stock, 2003-2010
(US$ billion)

Countries	2003	2004	2005	2006	2007	2008	2009	2010
World	73	107	104	121	150	169	289	349
Developed economies								
Europe	49	74	79	92	108	121	177	217
European Union	44	68	71	84	101	114	166	198
United Kingdom	19	24	27	33	43	47	42	53
Netherlands	5	9	11	9	10	10	28	39
Germany	4	5	3	4	5	5	5	5
France	2	3	2	2	3	4	3	n.a.
Italy	0.8	1	0.8	1.5	0.3	0.5	0.4	1.1
Luxembourg	n.a.	n.a.	n.a.	11	7	19	51	53
Other European economies								
Isle of Man	1.7	2.1	2.1	2.6	2.8	2.5	n.a.	3.1
Switzerland	0.2	0.3	0.4	0.4	0.4	0.4	n.a.	n.a.
Other developed economies								
Australia	n.a.	n.a.	n.a.	0.6	0.9	1.2	1.8	n.a.
United States	9	17	9	15	21	26	36	44
Canada	0.3	0.2	0.3	0.3	0.6	0.8	1.6	1.6
Developing economies								
China	n.a.	0.040	0.005	0.123	0.42	0.55	n.a.	n.a.
Hong Kong (China)	0.006	0.046	0.048	0.068	0.066	0.1	0.2	0.09
India	n.a.	n.a.	n.a.	0.2	0.4	0.4	0.2	0.07
Unspecified destination	11	8	8	8	2	0.4	2.7	8.5

Source: OECD. *Stat Extracts*, available at: http://stats.oecd.org.

Note: “n.a.” indicates “not available.”

Annex table 5. Ireland: principal MNEs headquartered in Ireland, ranked by turnover, 2011
(US$ billion)

Rank	Name	Turnover	Sector
1	CRH Plc	25	Manufacturer and distributor of building materials
2	Kerry Group	7	Manufacturer of food products
3	Musgrave Group Plc	6	Wholesale of food, beverages and tobacco
4	Ryanair Holdings Plc	6	Scheduled passenger air transports
5	Dunnes Stores Ireland	5	Food, textiles and homeware
6	ESB	4	Electricity
7	Topaz Energy Group	3.8	Wholesale of petroleum and petroleum products
8	Glanbia	3.7	Cheese and nutritional production
9	Total Produce Plc	3.4	Wholesale of fruit & vegetables
10	IDB	2.7	Dairy products
11	Diageo	2.5	Food
12	United Drug	2.3	Pharmaceuticals
13	Eircom	2.3	Telecommunications
14	Bord Gais	2.2	Energy
15	Kingspan	2	Construction

Source: *The Irish Times* Top 1000 Companies magazine, June 2012.

Annex table 6. Ireland: main M&A deals, by outward investing firm, 2008-2010

Year	Acquirer	Target	Target economy	Value (US$ billion)	Shares bought (%)
2010	Ardagh Glass Group PLC	Impress Holdings BV	Netherlands	2.2	100.0
2010	Electricity Supply Board	Northern Ireland Electricity	United Kingdom	1.5	100
2010	Macquarie AirFinance Ltd	Intl Lease Fin-Aircraft Lease	United States	0.3	100
2010	Covidien Ltd	Somanetics Corp	United States	0.2	100
2010	Experian PLC	Mighty Net Inc	United States	0.2	100
2010	Inverness Med Innovations SK	Standard Diagnostics Inc	Rep. of Korea	0.1	59.6
2010	Shire PLC	Lexington Technology Park,MA	United States	0.1	100
2010	C&C Group PLC	Gaymer Cider Co	United Kingdom	0.07	100
2010	IFG Group PLC	James Hay Holdings Ltd	United Kingdom	0.05	100
2010	Accenture PLC	Ariba Inc-Sourcing BPO Asts	United States	0.05	100
2009	Warner Chilcott PLC	Procter & Gamble Pharm Inc	United States	3.1	100
2009	CRH PLC	Jilin Yatai Grp Cement Invest	China	0.2	26
2009	Universities' Superannuation	Great Western Industrial Park	United Kingdom	0.1	100
2009	Paddy Power PLC	SportsBet Pty Ltd	Australia	0.03	51
2009	DCC PLC	Bayford Oil Ltd	United Kingdom	0.03	100
2009	Covidien PLC	Power Med Interventions Inc	United States	0.03	100
2009	LearnVantage Ltd	ThirdForce PLC	United Kingdom	0.03	74.9
2009	Monaghan Mushrooms	Essex Kent Mushrooms Ltd	Canada	0.02	100
2009	DCC PLC	Dansk Shell-Oil Distribution	Denmark	0.01	100
2009	DCC PLC	Samuel Cooke & Co-Fuel Card	United Kingdom	0.01	100
2008	Industrial Equity Invest Ltd	Arysta LifeScience Corp	Japan	2.1	100
2008	CRH PLC	My Home Industries Ltd	India	0.4	50
2008	IAWS Group PLC	Hiestand Schweiz AG	Switzerland	0.3	32
2008	Sky Property Management Ltd	Hua Lei Holdings Pte Ltd	Singapore	0.3	100
2008	Allied Irish Banks PLC	Bulgarian American Credit Bank	Bulgaria	0.3	49.99
2008	Glanbia PLC	Optimum Nutrition Inc	United States	0.3	100

2008	Ion Equity Ltd	Blue Ocean Associates Group	United Kingdom	0.2	100
2008	William Ewart Properties Ltd	Victoria Place Shopping Centre	United Kingdom	0.1	---
2008	CRH PLC	Ancon Ltd	United Kingdom	0.1	100
2008	Vico Capital	Pennsylvania Avenue	United States	0.1	100

Source: Thomson ONE Banker. Thomson Reuters.

Annex table 7. Ireland: main greenfield projects, by outward investing firm, 2007-2010

Year	Company name	Destination	Sector	Investment/ estimated investment (US$ billion)
2010	San Leon Energy	Morocco	Coal, oil and natural gas	1.7
2010	Ryanair	Spain	Aerospace	0.3
2010	NTR	United States	Alternative/renewable energy	0.3
2010	Ryanair	Spain	Aerospace	0.2
2010	Ryanair	Portugal	Aerospace	0.1
2010	Shire	United States	Pharmaceuticals	0.1
2010	Carinae Group	France	Communications	0.1
2010	Ethanol Europe	Hungary	Alternative/renewable energy	0.1
2010	Ryanair	Lithuania	Aerospace	0.1
2010	Solaris Mobile	France	Communications	0.1
2009	Electricity Supply Board (ESB)	Poland	Coal, oil and natural gas	1.4
2009	Ryanair	United Kingdom	Aerospace	1.3
2009	Mainstream Renewable Power	Chile	Alternative/renewable energy	1
2009	EirGrid Plc	United Kingdom	Transportation	0.7
2009	Providence Resources Plc	United Kingdom	Coal, oil and natural gas	0.5
2009	Alburn Investment	United Kingdom	Real estate	0.5
2009	Circle Oil	Morocco	Coal, oil and natural gas	0.5
2009	Circle Oil	Morocco	Coal, oil and natural gas	0.4
2009	Mainstream Renewable Power	South Africa	Alternative/renewable energy	0.4
2009	Mainstream Renewable Power	South Africa	Alternative/renewable energy	0.4
2009	Mainstream Renewable Power	South Africa	Alternative/renewable energy	0.4
2009	Mainstream Renewable Power	South Africa	Alternative/renewable energy	0.4
2009	Mainstream Renewable Power	South Africa	Alternative/renewable energy	0.4
2009	Mainstream Renewable Power	South Africa	Alternative/renewable energy	0.4
2008	Treasury Holdings	United Kingdom	Real estate	7
2008	Bulberry Properties	Germany	Real estate	1
2008	Quinlan Private	Hungary	Hotel & tourism	0.6
2008	Ballymore Properties	Germany	Real estate	0.6
2008	First Equity Group	United Kingdom	Leisure & entertainment	0.6
2008	Electricity Supply Board (ESB)	United Kingdom	Coal, oil and natural gas	0.6
2008	Ballymore Properties	United Kingdom	Real estate	0.6
2008	Electricity Supply Board (ESB)	United Kingdom	Coal, oil and natural gas	0.4
2008	Glenkerrin Group	United Kingdom	Real estate	0.4
2008	Maple Energy	Peru	Alternative/renewable energy	0.2

Source: fDi Intelligence, a service from the Financial Times Ltd.

Chapter 11 - Israel

Israel: Inward FDI and its policy context, 2011

Yair Aharoni[*]

In the first four decades of its existence, Israel was not successful in attracting inward foreign direct investment (IFDI) despite attempts to do so. In the past two decades, Israel have become a haven for multinational enterprises (MNEs) that have taken advantage of its unique assets – among them a skilled, educated workforce and cutting-edge research-and-development (R&D) capabilities – by establishing production lines or R&D centers and acquiring dozens of successful start ups. Israel's IFDI stock sharply increased from US$ 4.5 billion in 1990 to US$ 71.3 billion in 2009. It is expected that IFDI will further accelerate following Israel's accession to the OECD in May 2010 and as more firms from emerging market economies, including China and India, will come to appreciate its characteristics as an ideal locational choice. Israel also weathered the global economic crisis well, even though IFDI declined sharply. Israel actively encourages IFDI, mainly in high technology areas. In 2010, the Government also created special incentives to attract research centers of financial institutions.

Trends and developments

Country level developments

Israel is a tiny parliamentary republic. Government intervention was very high until the mid-1980s, mainly in the form of an absolute control of the capital market and a high level of import protection. Since July 1985, responsible fiscal and monetary policies have accompanied reforms that have liberalized the economy, freed the capital markets from government's shackles, abolished foreign exchange controls, reduced the size of the public sector and public debt, accelerated the process of privatization, liberalized foreign exchange rules, and made the economy more competitive.

The high quality of human capital has become a great advantage to Israel in seeking a place in the world. Its R&D investment as a percentage of its gross national product (GNP) of 4.7% in 2008 is the highest in the world. So is the number of researchers in R&D per million inhabitants.[1] Since the 1980s, the Office of the Chief Scientist (OST) in the Ministry of Industry, Trade and Labor has been operating a variety of programs to support R&D. The Bi-national Industrial Research and Development Foundation (BIRD F) was founded in 1977 and a venture capital industry emerged. Indeed, over the past two decades, Israel has become famous for its capacity for innovation and its highly educated, skilled workforce. Israel's high-tech industry accounted for about 15% of the country's GDP in 2009 (of US$ 195 billion) and more than 75% of its industrial exports. In addition, exports of R&D and software amounted to 29% of

[*] The authors wish to thank F. Filippaios, H. Papapanagos, Y. Rizopoulos, and C. Stoian for their helpful comments. First published January 31, 2011.

[1] In 2005-2006, there were 4.5 researchers per one million inhabitants in Israel, compared to 2.6 in the United States and 1.3 in China. See UNCTAD, *World Investment Report 2007: Transnational Corporations, Extractive Industries and Development* (Geneva: United Nations, 2007), table A7.

services exports and nearly 48% of business services exports in that year. As a result, many high-tech MNEs have established R&D centers and production facilities in Israel. Today, the country's market economy can be characterized as resilient, globally-oriented and advanced-technology-based. The 2010-2011 World Competitiveness Yearbook ranked Israel in 24th place among 139 economies.[1]

Almost since it became an independent state, Israel tried to attract foreign investors. There were, however, at least four reasons why it was not very successful until the 1990s. First, the Arab countries rejected Israel's right to exist and boycotted firms doing business with Israel.[4] Many perceived Israel as synonymous with conflict and geopolitical instability. Second, Israel was not well developed, and its infrastructure was not at par with that of more developed nations. Telephone services were woefully inadequate and were allocated by the Government on the basis of a priority list. Road construction was inadequate, growing much less than the growth in the number of cars, resulting in congestion and many road accidents. Railways were very few. Even though the economy grew by leaps and bounds up to 1973,[3] by 1988 GNP per capita was only US$ 8,100.[4] Third, the tiny size of its domestic market was not very attractive for large MNEs. Finally, the leaders of the country believed in socialist ideology, and the Government intervened in all aspects of business.

Most foreign investments were small in size and seem to have been motivated by solidarity of businesspeople in the Jewish diaspora. By the end of 1980, the IFDI stock was US$ 3.2 billion. Annual IFDI flows during the 1970s were only a few US$ million – the highest being US$ 149 million in 1973. Even as late as 1990, Israel's IFDI stock as a percentage of GDP was 7.9%, compared to 9.0% for developed countries. In 2009, it was 36.6% compared to 31.5% in the developed world.[5] During the past two decades, major changes in Israel's economic policy, the liberalization of the economy and the encouragement of high technology firms and R&D were noticed by foreign MNEs. As a result, the IFDI stock zoomed up to US$ 22.6 billion in 2000 and US$ 71.3 billion in 2009 (annex table 1). Since 2000, annual IFDI flows have been more than US$ 1 billion (annex table 2). Their magnitude fluctuated considerably, with a peak value of US$ 15.3 billion (10.5% of GDP) reached in 2006 – largely because of two major transactions worth about US$ 4 billion each. The decline in IFDI flows in 2009 to US$ 3.9 billion seems to have been more the result of the crisis in the home countries of MNEs and much less of an economic recession in Israel.

The sectoral distribution of IFDI is slanted toward high-tech investments - more than half of foreign investments were made in high technology firms and the building up of research centers. The Israeli Central Bureau of Statistics is responsible for the collection of statistical data, including on IFDI. Unfortunately, it does not publish Israel's IFDI stock in a sectoral breakdown nor does it publish the geographical distribution of home countries. The latest figures available are on output and employment in foreign affiliates in different sectors in 2005 (annex table 3). In that year, foreign affiliates comprised

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[1] World Economic Forum, *Global Competitiveness Report 2010-2011* (Lausanne: WEF, 2010).
[2] On the Arab boycott see Aaron J. Sarna, ed., *Boycott and Blacklist: A History of Arab Economic Warfare against Israel* (Totowa N.J.: Rowman and Littlefield, 1986); Chaim Fershtman and Neil Gandal, "The effect of the Arab boycott on Israel: the automobile market," *Rand Journal of Economics*, vol. 29, no. 1 (1998), pp. 193-214; Dan S. Chill, *The Arab Boycott of Israel: Economic Aggression and World Reaction* (New York: Praeger, 1976).
[3] Israel's GDP per capita in relation to the United States increased from 25% in 1950 to 60% in 1970. See Dan Senor and Saul Singer, *Start-up Nation: The Story of Israel's Economic Miracle* (New York and Boston: Council of Foreign Relations, 2009), p. 115.
[4] For more information on Israel until 1990 see Yair Aharoni, *The Israel Economy: Dreams and R*ealities (London and New York: Routledge, 1991).

[5] UNCTAD's FDI/TNC database, available at: http://unctad.stats.org/fdi.

17% of total manufacturing output (by employing 13% of the total workforce in this sector) and produced 19% of the total output of the services sector (with only 4% of the sectoral workforce). The economic importance of foreign affiliates is very high in the R&D sector (60% of total output and 43% of employees), in computer and related services (38% of output and 23% of employees). IFDI output was also very high in electronic components (54% of output and 32% of employees) and electronic communication equipment (56% of output, 49% of employees). Foreign firms produce half of the value added of high technology firms in Israel.[1] Firms such as Intel, Google or Microsoft rely on their affiliates in Israel for major innovations of new products and processes. As Bill Gates observed "innovation going on in Israel is critical to the future of the technology business." [2]

In practice, Israel allows access to foreigners in all economic branches. The main driver for IFDI was the desire to take advantage of innovative entrepreneurs and researchers in Israel and to profit from the institutional arrangements that support them (for details see the policy section). Other drivers have been opportunities to acquire vital components for the value chain. A total of 60% of Israel's exports is done by MNEs – 40% by affiliates of foreign MNEs in Israel and 20% by Israeli MNEs. Most of the exports of these MNEs are directed to affiliated firms. 70% of the service exports of these firms are composed of computer and R&D services.[3] The annual average value of IFDI flows in the past decade was 5% of GDP and 28% of gross fixed capital formation in the past three years.[4] *The high-tech sector accounts for three quarters of all industrial exports.*

In terms of geographic distribution, official figures are not available. However, virtually all IFDI transactions are reported in the daily press and are also accumulated in a data bank of the Israel Venture Capital Association. In addition, cross-border M&As are published on the *Invest in Israel* website. One can therefore report that the largest number of parent companies is from the United States, followed by investors from the European Union.[5] Two of the largest food MNEs in Europe – Unilever and Nestlé – have invested in Israel, as has Siemens. Recently, Indian and Chinese MNEs have started to do the same. The first investment by a Chinese firm was made in January 2010 when the Sanhua group invested US$ 9.3 million in Helio Focus – a developer of solar heat systems using air. In late 2010, ChemChina was reported to have acquired a part of Machteshim-Agan, a producer of pesticides. This acquisition raised fears that the new owner would move production from Israel, thus reducing employment.

The corporate players

By the end of 2008, 489 foreign affiliates operated in Israel, compared to 278 in 2007, and only 37 in 2005.[6] The majority of them are in high technology industries. Practically every large MNE has opened or acquired a development center in Israel. The Israel Venture Capital Research Center's data base lists 286 foreign R&D centers, including those owned by Alcatel-Lucent, Applied Materials, Cisco, EMC, General Electric, Google, Hewlett Packard, IBM, Intel, Microsoft, and Siemens. Intel also invested in

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[1] Bank of Israel, *Annual Report 2009*, p. 285.
[2] Senor and Singer, op. cit., p. 151. For similar observations by Warren Buffett, see the website of the Israeli Ministry of Trade, available at: www.moital.gov.il.
[3] Bank of Israel, *Annual Report 2009*, p. 272.
[4] UNCTAD's FDI/TNC database, available at: http://stats.unctad.org.
[5] Official figures of the exact geographical distribution are not available. Given the small size of the population of foreign investors, the number of the different foreign investors was counted.
[6] Figures are from UNCTAD's FDI/TNC database, op. cit.

production facilities and has the largest foreign affiliate in Israel. Most foreign investments in Israel are relatively small in value. Only a handful of cross-border acquisitions were valued at US$ 1 billion or more.[1] The 15 principal foreign affiliates are listed in annex table 4. With the exception of Intel, the majority of IFDI are acquisitions of existing firms – many of them successful start-ups.

In 2009, M&A proceeds involving Israeli companies that were either acquired or merged, totaled US$ 2.5 billion, 7% lower compared to 2008, and 33% lower than in 2007. The top ten deals in 2009 yielded roughly US$ 2 billion, 80% of the total for the year. Four deals exceeded the US$ 200 million mark and five exceeded the US$ 100 million mark. Annex table 5 lists the largest cross-border M&As in 2007-2009.

According to the Israel Venture Capital Research data base, 63 Israeli companies were acquired or merged in 2009, a 28% drop from an average of 87 companies in the previous three years. However, the average deal size in 2009 was US$ 40 million, an increase of 21% from US$ 33 million in 2008. Venture capital backed deals (28) totaled US$ 1.6 billion, an increase of 3% compared to 35 transactions valued at US$ 1.5 billion in 2008. The most noteworthy M&As of 2009 were Siemens' US$ 418 million acquisition of Solel, Medtronic's acquisition of Ventor, estimated at US$ 325 million, and IBM's US$ 225 million acquisition of Guardium. In the period from January to October 2010, there were 50 cross-border acquisitions; only two of them – by 3M (US$ 230 million for Attenti) and by Roche (US$ 160 million for Medingo) - were valued at more than US$ 85 million.[2]

As to greenfield investments, there were about 20 of those every year, with a maximum of 41 in 2008.[3] Large greenfield investments have been undertaken by Intel and Marriott in recent years (annex table 6).

Effects of the current global crisis

The global economic and financial crisis occurred after five years of economic growth of Israel at the end of which the unemployment rate was 5.9% - the lowest level in 20 years. The financial system and the mortgage markets were managed conservatively and were not affected by the crisis, and the country accumulated a surplus on the current account. Thanks to its sound macroeconomic and structural fundamentals, the Israeli economy recovered quickly. Following a reduction of GDP of 1.5% in the first quarter of 2009, economic growth resumed: real GDP increased by 3.6% and 4.9% in the third and fourth quarters, respectively. For 2010 and 2011, a 4% annual growth rate of real GDP is forecast. Unemployment in the second quarter of 2010 fell to 5.9% (though it rose back up to 7.2% in the third quarter). Yet exports were 12.5% lower than in the same period of the previous year.

IFDI plummeted by 64% in 2009, to only US$ 3.9 billion, down from US$ 10.9 billion in 2008 – compared to a 37% decline in global IFDI flows. Israel fell from the 54th place in 2008 to the 80th in 2009 in terms of IFDI. The increased uncertainty large high-tech MNEs felt during the crisis explains

[1] Cross-border acquisitions valued more than US$1 billion since 1999 were: Lucent technology's acquisition of Chromatis for US$ 4.8 billion in 2000, HP's acquisition of Mercury in 2006 for US$ 4.5 billion, Berkshire Hathaway's acquisition of 80% of Iscar – a producer of metal cutting tools – for US$ 4 billion in 2006, Broadcom's acquisition of Galileo for US$ 2.7 billion in 2000, Intel's acquisition of DSPG for US$ 1.6 billion in 1999, Sandisk acquisition of M Systems for US$ 1.6 billion in 2006, and ECI's acquisition of Swarth for US$ 1.2 billion in 2007. In addition, Perrigo acquired Agis for US$ 0.9 billion, and Kodak acquired Creo for US$ 1 billion.
[2] The figures are from the data base of Israel Venture Capital Research.
[3] UNCTAD's FDI/TNC database, op. cit..

much of the decline in inward FDI. Indeed, cross-border investment in Israel in the high-tech sectors plunged to just US$ 1.4 billion in 2009, compared with US$ 3.2 billion in 2008.[1]

The policy scene

Since the 1990s, Israel has implemented a thorough unilateral trade liberalization program, exposing its domestic industry to foreign competition. The country made great efforts to attract IFDI to all economic sectors, with the possible exception of the military industry.

Investment incentives – which are the same for domestic and foreign investors - are outlined in the Law for the Encouragement of Capital Investment that was first enacted in 1950, and revised in 1959. Since 1959 there have been 60 amendments to the law; the most recent were made two years ago.[2] Under the Law, the country is geographically divided into three National Preference Zones: A, B and C. The most preferential benefits accrue to businesses located in Zone A - areas far from central Israel that are relatively weak economically. The Law allows an enterprise to choose the type of its benefit from two alternatives: grants plus tax benefits. It is coordinated by the Israel Investment Center (IIC). Israel offers a wide range of incentives and benefits to investors in industry, tourism, real estate, film production,[3] and (since August 2010) financial services. Special emphasis is given to high-tech companies and R&D activities.[4]

The Office of the Chief Scientist (OCS) of the Ministry of Industry and Trade is responsible for implementing the Government's policy of encouraging and supporting industrial R&D in Israel. The OCS provides a variety of support programs that have helped make Israel a major center of high-tech entrepreneurship.[5]

Israeli trade policy is aimed at maintaining the expansion of its network of bilateral trade agreements. Its network of international trade and economic cooperation agreements includes free trade area agreements (FTAs) with NAFTA member countries (the United States, Canada, Mexico) and an association agreement with the European Union. The FTA provides for import-duties exemptions for most Israeli-made products arriving in the EU. Israel has also signed FTAs with the EFTA countries, as well as with Turkey. Recently, Israel signed an FTA with Mercosur (comprising Brazil, Argentina, Uruguay, Paraguay). Israel has also signed an Agreement on Trade and Economic Cooperation with Jordan; it includes significant tariff reductions for bilateral trade. Israel is also negotiating an FTA with India.

Israel has also signed bilateral investment treaties (BITs) with more than 30 countries, including Argentina, China, Germany, India, Kazakhstan, Poland, Romania, the Republic of Korea, South Africa and Turkey. Treaties for the avoidance of double taxation (DTTs) were concluded with 40 countries, including the United States, Brazil, Canada, China, France, Germany, Italy, Japan, the Netherlands, and

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[1] Note, however that the data are skewed. Volatility is affected by the impact of large transactions. As an extreme example, in 2006 two individual acquisitions amounted to 50% of total IFDI.

[2] Details can be found at: www.investinisrael.gov.il. The new law differs from the previous one by adding a new path for incentives – an Automatic Tax Program.

[3] The *Law for the Encouragement of the Production of Films* was approved by the Israeli Knesset on October 28, 2008. Its main aim is to encourage the production of foreign films in Israel. To this end, the law offers generous tax benefits that reduce the cost of production by up to 20%.

[4] For details see www.investinisrael.gov.il

[5] See www.investinisrael.gov.il.

Russia. According to UNCTAD, as of May 2010 Israel had signed 86 international investment agreements (IIAs), of which 37 were BITs, 45 DTTs and 4 others.[1]

Israel has also developed an extensive network of international R&D accords that foster industrial and technological cooperation with many countries. These include bilateral R&D funds with the United States, the United Kingdom, Canada, Singapore, and the Republic of Korea, as well as with the Province of Ontario in Canada and the State of Victoria in Australia. Israel has also concluded bilateral R&D agreements with 13 countries, including France, Germany, Italy, India, and China. Israel is the only non-European Associated State participating as an equal member in the EU Sixth Framework Program.[2]

In May 2010, OECD countries unanimously agreed to extend membership to Israel, following three years of accession negotiations and careful review of its compliance with OECD standards and benchmarks. In August 2010, the Government of Israel launched a special program to encourage research centers of financial institutions, and several foreign banks are understood to be interested.

The many acquisitions of successful Israeli start-ups initiated a heated debate on appropriate national policies. Clearly, because the country is small, dependence on the very few Israeli-based large MNEs could make such firms "too large to fail", and also strong political players. Ideally, the country would nurture dozens of home-based MNEs out of the 3,800 start-ups that would increase value-added and employment in Israel, not confining them to research centers and development work. Israel boasts the most high-tech start-ups per capita in the world. Its entrepreneurs and perhaps more so venture capitalists prefer to exit by selling their firms to large (foreign) MNEs instead of turning them into large independent firms that can provide local jobs. In the public debate about what is best for the country and what policies the government should pursue, many argue that Israel does not have enough experts in marketing, nor does it have managers able to direct large firms. There is also a shortage of later stage financing. A *Wall Street Journal* article[3] has pointed out that short-term thinking is ingrained in Israel, so it is unable to turn its high-tech start-ups into mature companies that stay in the country. If this is so, the best policy is to encourage R&D and then exit. Yet it is inconceivable to assume that a large number of entrepreneurs would be able to make a series of innovations, creating one start up after another and exiting from all of them. It is more plausible to assert that Israel is losing much potentially highly-paid employment by selling off its new technologies.

Conclusions and Outlook

Though Israel is a small country with limited resources, responsible fiscal and monetary policies and a host of reforms aimed at liberalizing the economy have allowed it to stand out as one of the world's most competitive economies. Despite continuing tension in the region, Israel has evolved in just 20 years from an emerging to an industrialized economy. Israel's market economy is resilient, globally-oriented and technologically advanced. Over the past two decades, Israel has become well-known for its high-tech capacity, particularly in telecommunications, information technology, electronics, and life sciences. Its capacity for innovation, coupled with a highly-educated, skilled workforce, has played a key role in attracting IFDI.

[1] UNCTAD, *World Investment Report 2010: Investing in a Low Carbon Economy* (Geneva: United Nations, 2010).

[3] See http://online.wsj.com/article/SB10001424052748703632304575451211403181030.html?KEYWORDS=israel+high+tech#ixzz11smMk84W.

Additional readings

Aharoni, Yair, *The Israel Economy: Dreams and Realities* (London and New York: Routledge, 1991).

Senor, Dan and Saul Singer, *Start-Up Nation: The Story of Israel's Economic Miracle* (New York and Boston: Council of Foreign Relations Book, 2009).

Useful websites

Israel Ministry of Industry Trade and Labor, available at: www.moital.gov.il.

Israel Ministry of Industry Trade and Labor Investment Promotion Center, available at: www.investinisrael.gov.il.

Bank of Israel, available at: www.bankisrael.gov.il.

Israel Central Bureau of Statistics, available at: http://www.cbs.gov.il.

Israel Venture Capital Research Center with data base on foreign investors, available at: www.ivc-online.com/.

Israel Central Bureau of Statistics, available at: www.cbs.gov.il/www/hodaot2008n /09_08_223t20.pdf.

Statistial annex

Annex table 1. Israel: inward FDI stock, 2000-2009 (US$ billion)

Economy	2000	2005	2008	2009
Israel	23	38	64	71
Memorandum: comparator economies				
Finland	24	55	83	88
Ireland	127	164	168	193
Sweden	94	172	272	305
Switzerland	87	170	439	464

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi.

Annex table 2. Israel: inward FDI flows, 2000-2009 (US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Israel	7.0	1.8	1.6	3.3	2.9	4.8	15.3	8.8	10.9	3.9
Memorandum: comparator economies										
Finland	8.8	3.7	8.0	3.3	2.8	4.8	7.7	12.4	-2.0	2.6
Ireland	25.8	9.7	29.3	22.8	-10.6	-31.7	-5.5	24.7	-20.0	25.0
Sweden	23.4	10.9	12.3	5.0	11.0	9.9	27.3	27.2	33.7	10.9
Switzerland	19.3	8.9	6.3	16.5	0.9	-1.0	31.2	51.7	5.1	9.7

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi.

Annex table 3. Israel: output and employment of foreign affiliates in Israel in different sectors in relation to total output and employment, 2005

Sector	Output of foreign affiliates to total economy (in %)	Employment of foreign affiliates to total economy (in %)
Manufacturing	17	13
Food, beverages and tobacco products	12	13
Textiles and wearing apparel	7	6
Paper, publishing and printing products	14	10
Chemicals and chemical products	11	31
Plastic and rubber products	6	6
Non-metallic mineral products	19	15
Basic metall	29	29
Metal products and machinery and equipment	11	8
Electric motors and electric distribution apparatus	15	10
Electronic components	54	32
Electronic communication equipment	56	49
Industrial equipment for control and supervision	26	16
Transport equipment	15	7
Other manufactures	2	1
Services	19	4
Construction	2	1
Wholesale trade, retail trade and maintenance of vehicles	5	3
Hotels and accomodation services	20	4
Transport, storage and communications	5	1
Computer and related services	38	23
Research and development	60	43
Other industries	2	0

Source: Israel Central Bureau of Statistics

Annex table 4. Israel: 15 principal foreign affiliates, listed among Israel top 100 industrial and service companies in Dun's 100, 2009

Rank	Name	Industry	Number of Employees	Export (US$ million)	Turnover (US$ million)
1	Intel electronic Israel Intel Israel 74	Electronic devices	5,951	3,422	3,433
2	Berkshire Hathaway (Iscar)	Metal cutting devices	1,500	1,495*	1,531
3	Vishay Israel	Electronic devices	12,000	n.a.	1,148
4	Hewlett Packard Software Development Israel	Computers	880	n.a.	995
5	Sandisk IL	Electronic devices	500	865	913
6	Osem (Nestlé)	Food	4,720	166	867
7	Comverse	Software	5,000	n.a.	765
8	NDS (News Corp.)	Communication equipment	3,700	n.a.	765
9	Motorola	Electronic devices	2,589	304	686
10	IBM Israel	Computers	1,800	n.a.	548
11	Emblaze	Other		106	552
12	Formula systems	Software	4,200	n.a.	471
13	Perrigo Israel	Pharmaceuticals and cosmetics	1,700	n.a.	459
14	Kimberly Clark	Paper and cardboard	1,515	129	440
15	Unilever Israel	Food	1,800	n.a.	370

Source: Calculated by the author from Dun's 100.
*	Estimated.

Annex table 5. Israel: main M & A deals, by inward investing firm, 2007-2009

Year	Target company	Acquiring company	Investor economy	Percent of shares acquired	Transaction value (US$ million)
2009	Levantine Basin	Bontan Corp Inc	Canada	71.6	2.7
2009	AiPoint Ltd-Workforce	ClickSoftware Ltd	United States	100.0	1.5
2009	CopperGate Communications Ltd	Sigma Designs Inc	United States	100.0	164.5
2009	Arava Power Co	Siemens Project Ventures GmbH	Germany	40.0	57.2
2009	Dblur Technologies Ltd-Assets	Tessera Technologies Inc	United States	100.0	5.0
2009	Ventor Technologies Ltd	Medtronic Inc	United States	100.0	325.0
2009	Dmatek Ltd	Investor Group	United States	100.0	70.3
2009	Scopus Video Networks Ltd	Harmonic Inc	United States	100.0	78.9
2009	CMT Medical Technologies Ltd	Thales SA	France	87.4	26.4
2009	ABIC Biological Laboratories	Phibro Animal Health Corp	United States	100.0	46.0
2009	Aladdin Knowledge Systems Ltd	Investor Group	United States	86.0	137.1
2008	MediGuide Inc	St Jude Medical Inc	United States	100.0	300.0
2008	Ex Libris Group	Leeds Equity Partners LLC	United States	100.0	200.0
2008	Ness Tech Inc-SAP Sales	SAP AG	Germany	100.0	30.0
2008	Plastro Irrigation Systems Ltd	Deere & Co	United States	100.0	66.0
2008	Halman Aldubi Ltd	Capernaum Finance	Canada	49.9	35.6
2008	Avenue Israel Ltd-License	TomCo Energy PLC	United Kingdom	50.0	51.9
2008	BeInSync Ltd	Phoenix Technologies Ltd	United States	100.0	22.1
2008	Ness Technologies Inc	Citigroup Private Equity	United States	9.6	33.5
2008	Orca Interactive Ltd	Viaccess SA	France	100.0	21.4
2008	NUR Macroprinters Ltd	Hewlett-Packard Co	United States	100.0	117.5
2008	Taro Pharmaceutical Industries	Sun Pharmaceuticals Inds Ltd	India	9.4	38.1
2008	Dorot Water Technologies Ltd	Miya Luxemburg Holdings Sarl	Luxembourg	96.0	29.6
2008	Saifun Semiconductors Ltd	Spansion Inc	United States	100.0	421.1
2008	Fraud Sciences Ltd	Paypal Inc	United States	100.0	169.0
2008	Solel Solar Systems Ltd	Ecofin Ltd	United Kingdom	40.0	105.0
2007	Bank Hapoalim BM	Lazard Asset Management LLC	United States	5.0	323.2
2007	Maccabi Tel Aviv	Alex Shnaider	Canada	80.0	17.0
2007	Ester Neurosciences Ltd	Amarin Corp PLC	Ireland-Rep	100.0	32.1
2007	Clal Ind & Invest-Startup Co	Newbury Partners LLC	United States	-	20.0
2007	Golden Pages Ltd	Babcock & Brown Capital Ltd	Australia	100.0	212.3
2007	Bonei Arim Ltd	Undisclosed Acquiror	Unknown	-	63.0
2007	NaanDan Irrigation Sys CS Ltd	Jain Irrigation Systems Ltd	India	50.0	21.5
2007	SPL Software Ltd	Software AG	Germany	80.0	61.6
2007	Inolase Ltd	Candela Corp	United States	100.0	16.5
2007	Eyesquad	Tessera Technologies Inc	United States	100.0	18.0
2007	SigValue Technologies Inc	Amdocs Ltd	Guernsey	86.0	54.0
2007	Disc-O-Tech-Spine -Related Ast	Kyphon Inc	United States	100.0	220.0
2007	PowerDsine Ltd	Microsemi Corp	United States	100.0	275.1
2007	Alliance Tire Co(1992)Ltd	Warburg Pincus LLC	United States	100.0	150.0
2007	Delta Galil Industries Ltd	GMM Capital LLC	United States	21.3	27.7

Source: Thomson ONE Banker, Thomson Reuters.

Annex table 6. Israel: top 15 greenfield projects, by inward investing firm, 2007-2009 (US$ million)

Date	Company name	Source economy	Estimated Investment	Industry	Business activity
2009	Marriott International	USA	160.0[a]	Hotels & tourism	Construction
2009	Hewlett-Packard (HP)	USA	22.7	Software & IT services	Research & development
2009	ToLuna	UK	11.5	Business Services	Research & Development
2009	Intel	USA	120.2	Semiconductors	Manufacturing
2009	Dolphin Integration	France	19.1	Electronic components	Design, development & testing
2009	Phoenix Corporate Finance Partners	UK	15.1	Financial services	Business services
2009	France Telecom	France	26.0	Communications	Design, development & Testing
2009	Bank of Georgia (Sakartvelos Banki)	Georgia	15.1	Financial services	Business services
2009	Merchant Diamond Group	Cyprus	12.2	Minerals	Sales, marketing & support
2009	SunGard	USA	82.6	Software & IT services	ICT & internet infrastructure
2009	Thuasne	France	30.2	Textiles	Logistics, distribution & transportation
2009	Covance	USA	33.3	Pharmaceuticals	Research & development
2009	TANTK im. G.M. Beriyeva (Beriev Aircraft Company JSC)	Russia	15.2	Aerospace	Sales, marketing & support
2009	Namakwa Diamond	South Africa	12.7	Minerals	Sales, marketing & support
2009	HCL Group	India	8.7	Software & IT services	Sales, marketing & Support
2008	Software AG	Germany	15.3	Software & IT services	Design, development & testing
2008	Hennes & Mauritz (H&M)	Sweden	15.9	Textiles	Retail
2008	Intel	USA	20.0[a]	Industrial machinery, equipment & tools	Recycling
2008	Inditex	Spain	17.3	Textiles	Retail
2008	Skunkfunk	Spain	17.3	Textiles	Retail
2008	SAP	Germany	15.0	Software & IT services	Design, development & testing
2008	General Dynamics	USA	86.4	Aerospace	Manufacturing
2008	Inventure Chemical	USA	107.2	Alternative/renewable energy	Manufacturing
2008	Cognate BioServices	USA	87.5	Biotechnology	Manufacturing
2008	Microsoft	USA	18.5	Software & IT services	Design, development & testing
2008	GL Trade	France	121.2	Software & IT services	ICT & internet infrastructure
2008	IBM	USA	20.0	Software & IT services	Research & development
2008	Tata Group	India	61.6	Software & IT services	Design, development & testing
2008	Air Logistics	France	32.6	Transportation	Sales, marketing & support

	Group				
2008	Yahoo	USA	20.0	Software & IT services	Research & development
2007	eBay	USA	15.3	Software & IT services	Design, development & testing
2007	Sunshine Makers, Inc.	USA	40.7[a]	Consumer products	Manufacturing
2007	Dai-Ichi Kogyo Seiyaku	Japan	8.0[a]	Chemicals	Manufacturing
2007	Pfizer	USA	31.9	Pharmaceuticals	Research & development
2007	Continuity Software	USA	15.3	Software & IT services	Design, development & testing
2007	Sigma-Aldrich	USA	29.0[a]	Biotechnology	Manufacturing
2007	General Motors (GM)	USA	103.0	Automotive OEM	Research & development
2007	Credit Suisse Group	Switzerland	15.1	Financial services	Business services
2007	Criterium	USA	8.8	Pharmaceuticals	Sales, marketing & support
2007	Johnson & Johnson	USA	23.3	Medical devices	Research & development
2007	Babcock & Brown	Australia	15.1	Financial services	Business services
2007	Motorola	USA	41.6	Communications	Design, development & testing
2007	Netineo	France	27.1	Communications	Design, development & testing
2007	Smart Energy Solutions	USA	28.0	Automotive components	Manufacturing
2007	Hewlett-Packard (HP)	USA	18.5	Software & IT services	Design, development & testing

Source: fDi Intelligence, a service from the Financial Times Ltd.

[a] Actual investment (not estimated).

Chapter 12 - Italy

Italy: Inward FDI and its policy context, 2011

Marco Mutinelli and Lucia Piscitello[*]

The attractiveness of the Italian economy for inward foreign direct investment (IFDI) has been traditionally limited, despite the country's locational advantages such as a large domestic market and a skilled labor force. The recent global crisis worsened the country's IFDI position, with flows falling from US$ 40 billion in 2007 to -US$ 11 billion in 2008 before recovering to US$ 20 billion in 2009 but down again to US$ 9 billion in 2010. Although the country's IFDI stock had grown since 2000 at a rate similar to that of the European Union as a whole, in 2010 IFDI stock contracted vis-à-vis 2009, reflecting how Italy, compared to other key European countries and to its own potential, continues to underperform. The main obstacles to exploiting the country's potential for IFDI lie both in the largely insufficient actions undertaken to attract and promote IFDI, and especially in the lack of coordination with other relevant policy measures (e.g. infrastructure development) within a broader framework aimed at regional and national development.

Trends and developments

Country-level developments

Historically, the attractiveness of the Italian economy for foreign direct investment (FDI) has been limited, compared to that of most other European countries and to its own potential. Italy's inward FDI (IFDI) performance was particularly poor in 1990-2000, when cumulative IFDI flows in the country were only 13% of those in the United Kingdom, 17% of those in Germany, 21% of those in France, and 35% of those in Spain.[1] Since 2000, Italy's IFDI stock has almost tripled –a growth rate similar to that of FDI stock in the European Union (EU) as a whole – reaching US$ 364 billion in 2009, before falling to US$ 337 billion in 2010 (annex table 1). Annual IFDI flows rose steadily from 2000 to reach US$ 40 billion in 2007, then plunged to –US$ 11 billion in the global-crisis year of 2008, and partly recovered to US$ 20 billion in 2009 and a lower US$ 9 billion in 2010 (annex table 2). Despite the rise in FDI stock over the decade, the ratio of Italy's IFDI stock to GDP in 2010 was only 16%, compared with 20% for Germany, 39% for France, 44% for Spain, 48% for the United Kingdom, and 42% for the EU as a whole.[2]

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[*] The authors wish to thank Giovanni Balcet, Andrea Goldstein, Sergio Mariotti, and Fabrizio Onida for their helpful comments.First published December 2, 2011.

[1] UNCTAD, *World Investment Report 2011: Non Equity Modes of International Production and Development* (New York and Geneva: United Nations, 2010), available at: http://www.unctad.org).

[2] UNCTAD, *World Investment Report 2011: Non Equity Modes of International Production and Development* (New York and Geneva: United Nations, 2010), annex table 7, available at http://www.unctad.org/Templates/Page.asp?intItemID=5823&lang=1).

Notwithstanding the relatively low level of IFDI stock, foreign majority-owned affiliates play an important role in the Italian economy. At the end of 2008, almost 1,266,000 workers (7% of the total workforce) were employed in 14,375 foreign-controlled enterprises established in Italy; the turnover of these companies amounted to € 489.3 billion (16% of total turnover) and their value added to € 89 billion (12% of total value added). Between 2003 and 2008, the number of workers in foreign majority-owned affiliates increased by about 200,000. The contribution of foreign-controlled enterprises is even more crucial for research and development (R&D) expenditures (25% of the total) and for foreign trade of goods and services (22% of total exports and 37% of total imports).[1]

As in other European countries (e.g. Germany), the growth of IFDI in the last decade was driven by privatization and liberalization in telecommunications and particularly in the electricity, gas and water supply industries. Between 2000 and 2009, the share of energy products – a category that includes petroleum extraction and related industries as well as electricity, gas and water supply services – in total IFDI stock rose from 2% to 13% (annex table 3), mainly due to an increase in the IFDI stock in those services, where IFDI had been negligible in 2000.[2]

Today, FDI in Italy is concentrated in the services sector, which accounts for more than half of FDI stock, although this proportion fell slightly from 57% to 53% between 2000 and 2009 (annex table 3). In 2008, almost 10,500 enterprises in Italy's services sector, with more than 778,000 employees, were majority-owned by foreign multinational enterprises (MNEs). The highest shares pertained to the rental, travel agencies and business support services industry (16% of employees were in foreign-controlled affiliates), the information services and communication industry (14%), and the financial and insurance services industry (11%).[3]

Slightly above the average for services was the share of foreign affiliates in total workforce in trade and retail services (8%), which accounted for nearly 4,400 majority-owned affiliates and 280,000 employees.[4] In contrast, the activities of foreign MNEs are still marginal in education, health and other social and personal services (1% of employees in 2008), and in real estate (1%).[5] The share of foreign affiliates in services sector employment in 2008 (7% of the total workforce in the sector as a whole) was slightly lower than that of foreign affiliates in overall employment (7%).[6]

Although energy products accounted for 13% of total IFDI stock in 2009, majority-owned foreign affiliates accounted for a relatively modest share of the total workforce in those industries in Italy (4% in the petroleum extraction industry and 4% in the electricity, gas and water supply industry at the end of 2008).[7] The importance of foreign affiliates is much higher in the manufacturing sector, which accounts for more than one third of total IFDI (34% in 2009) (annex table 3).

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[1] ISTAT, "Struttura e competitività delle imprese a controllo estero, Anno 2008", *Statistiche in breve*, Roma, 20 December 2010.

[2] The acquisition of the Italian assets in the affiliate of Spain's Endesa in Italy by E.On was the most important foreign acquisition in Italy in the 2007-2009 period. (See annex table 6.)

[3] It is worth observing that the financial intermediation industry, excluding banking, accounts for 23% of total IFDI stock (annex table 3), but the financial and insurance services industry as a whole (including also the banking sector) accounts only for 5% of total employment of foreign affiliates.

[4] ISTAT, *op. cit.*

[5] Ibid.

[6] Ibid.

[7] Ibid.

At the end of 2008, roughly 3,900 foreign-controlled manufacturing enterprises employed nearly 465,000 workers, representing 11% of the total workforce in the sector; they accounted for 17% of the total value-added, 16% of investments and 26% of R&D expenditures of the manufacturing sector. Foreign affiliates play an important role in several key industries, such as the pharmaceutical industry, where they accounted for 60% of the total workforce and 67% of value added, in the chemical industry (33% of total workforce and 46% of value added), in coke and refined petroleum products (31% of total workforce and 41% of value added), and in the manufacture of motor vehicles and trailers (26% of the total workforce, mainly engaged in the manufacturing of components and parts of motor vehicles). In contrast, the presence of foreign MNEs is still marginal in the traditional "Made in Italy" industries, such as food and beverages (where foreign-controlled enterprises account for only 7% of the total workforce), textiles (3%), clothing, leather and leather products (2%), wood and wood products (1%), and furniture (2%).

FDI from developed economies accounted for more than 96% of the IFDI stock in Italy at the end of 2009, while emerging markets still play only a marginal role as sources of FDI in the country (annex table 4). EU partner countries alone accounted for more than three quarters of the IFDI stock (79%); this dominance is probably due to several factors: geographic proximity, the single European market, strong commercial ties, and a common currency among sixteen EU countries. The Netherlands is the source of the largest IFDI stock in Italy (26% of total IFDI stock in 2009), followed by France (13%), the United Kingdom (11%), Switzerland (8%), and Luxembourg (7%).

The distribution of IFDI stock, however, does not properly reflect the geographical breakdown of foreign MNEs investing in Italy. The large shares recorded by the Netherlands and Luxembourg are artificial, due to their importance as locations for many financial holdings (including many parent companies of non-foreign controlled Italian groups such as Ferrero and Prada). Furthermore, the role of non-EU MNEs is underestimated, as many of them have invested in Italy through their European headquarters (mainly located in the United Kingdom or in the Netherlands). In fact, United States companies rank first in terms of the number of employees among companies in Italy controlled by foreign MNEs (286,000 employees in majority-owned affiliates), followed by France (256,000), Germany (169,000), the United Kingdom (115,000), Switzerland (110,000), the Netherlands (60,000), Japan (27,000), Luxembourg (25,000), Spain (21,000), and Belgium (19,000).[1] MNEs from these economies altogether account for 86% of the total employment of foreign majority-owned affiliates in Italy (1,266,789 employees).

Reflecting their limited FDI in the country, MNEs from emerging markets account for much smaller employment in Italy. In total, MNEs from the BRIC countries (Brazil, Russia, India, China), the single largest investing group of all current emerging markets, account for only 1% of the total workforce of majority-owned foreign affiliates in Italy, with 16,500 employees (Russia 8,300; India 5,600; China 2,300; and Brazil only 300).

The relatively low attractiveness of Italy for FDI can be attributed to a number of factors: the lack of adequate infrastructure, the burdensome red tape and inefficient bureaucracy, the limited competition in

[1] It is worth observing that majority-owned affiliates of US MNEs accounted for 23% of employees, 22% of turnover and 24% of value added of all majority-owned affiliates of foreign MNEs in Italy in 2008, while the United States accounted only for 8% of the total IFDI stock.

many service industries, the high costs of energy, the high level of corruption and organized crime,[1] the extent of the black economy, the number of overlapping regulatory public authorities each acting independently from one another, the uncertainty (volatility) of the legal framework, and the inadequate assurance of the efficient enforcement of property rights.[2] Additional obstacles to IFDI stem from some of the characteristics of the Italian industrial system, such as the limited number of publicly traded companies and the relative lack of information that limit substantially the scope for cross-border merger and acquisition (M&A) activity.

The weaknesses of the national innovation system, the paucity and the uncertainty of public research grants (that could constitute an important incentive for MNEs to locate their research and innovation centers), and the modest international competitiveness of a large part of high-tech industries have led to a contraction of the activity of foreign affiliates in those industries. The financial market is underdeveloped, compared to other industrialized economies, with very few truly public companies listed on the Italian stock market.

Despite these factors, there are still many good reasons to invest in Italy. The first is Italy's GDP, ranking fourth in Europe and tenth worldwide (more than US$ 1.9 trillion in 2010). The second is the importance of the domestic market, which is the main reason for IFDI to Italy, related to its size (almost 60 million consumers) and potential growth rates. The country is acknowledged to be a "trend setter" for major consumer products (e.g., food, fashion and design, mobile phones). Moreover, Italy is centrally located in the heart of the Mediterranean and is (or should be) a crucial crossroads for trade through land, sea and air routes linking the North and the South of Europe.

In addition, the country has a diversified industrial economy. Italian manufacturing industry ranks second in terms of value-added and exports in Europe, behind Germany. "*Made in Italy*" represents excellence and creativity all over the world. Italy also offers a skilled workforce at relatively low cost compared to other advanced economies, and the Italian economy is characterized by a unique system of high-quality small and medium-sized enterprises (SMEs), often located in clusters of excellence that provide major external economies for specialist producers and thus offer significant opportunities for MNEs. Italian SMEs can be either very demanding customers that cooperate with their suppliers of machinery and intermediate goods for the development of advanced products (e.g., chemistry for the textile and leather industries, tiles, furniture, textiles and clothing, electronics and industrial machine tools) or efficient suppliers of specialized machinery and original technological solutions, thanks to their well-known design and engineering capabilities, or even flexible and efficient partners for the outsourcing of production processes.[3] The presence of strong local SMEs provides MNEs with an opportunity to take over specialized firms endowed with complementary resources and know-how. Last, Italy offers a high quality of life.[4]

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[1] See Vittorio Daniele and Ugo Marani, "Organized crime and foreign direct investment: the Italian case", *CESifo Working Paper Series No. 2416,* 2008, available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1281380#

[2] For a recent empirical analysis showing that the relatively limited attraction of Italian regions vs. other European regions is due to a so called "country effect", see Roberto Basile, Luigi Benfratello, and Davide Castellani, "Attracting foreign direct investments in Europe: are Italian regions doomed?", *Rivista di Politica Economica*, XCV (1-2), pp.319-354 (2010).

[3] See Paniccia I., *Industrial Districts: Evolution and Competitiveness in Italians Firms* (Cheltenham: Edward Elgar, 2002).

[4] For the latest report on the 2011 Quality of Life Index, available at: http://www1.internationalliving.com/qofl2011/.

The average size of foreign affiliates – 87 employees per firm – is about 20 times larger than that of domestic firms. This may partly explain why the overall performance of foreign-controlled enterprises is much better than that of domestic firms, both in terms of value-added per employee (€ 69,800 per employee, compared with € 37,600), and profitability (earnings before interest, taxes, depreciation, and amortization (EBITDA) represent 38% of value-added for foreign majority-owned affiliates, compared to 20% for domestic firms).

The better economic performance of foreign majority-owned affiliates is confirmed in most industries and services. However, a comparison between subsets of large firms of similar size (250 employees and over) shows a substantial reduction of the performance gap between large foreign affiliates and large national companies.

The distribution of foreign affiliates across Italian regions is strongly asymmetrical, even more than one might expect given the structural regional imbalances of the local economy. In fact, 63% of the headquarters of foreign affiliates are located in the north-western regions (52% in Lombardy alone) and 20% in the north-eastern regions; 13% of the headquarters are hosted by central regions (Tuscany, Umbria, Marche, Lazio), while only 4% are located in the southern regions.[1]

The corporate players

Annex table 5 lists the 20 main non-financial companies in Italy controlled by foreign MNEs, ranked by their sales, in 2009; it also provides data on the number of employees and value-added of the companies. Companies in telecommunications services, oil and gas, automobiles, and retail services comprise the majority of the top foreign affiliates.

Annex table 6 lists the 20 largest M&As by foreign investors in Italy between 2007 and 2009. Between 2007 and 2008, 17 cross-border M&As with a transaction value greater than US$ 1 billion were announced, while in 2009 this threshold was never reached; the largest M&A deal in 2009 was the acquisition of 25% of the personal credit firm Findomestic Banca for nearly US$ 900 million by France's BNP Paribas. The largest M&As by foreign companies in 2007-2009 were principally oriented toward service firms.

Between 2003 and 2009, only 1,123 greenfield FDI projects and expansion projects were established in Italy by foreign MNEs, compared with 4,995 projects in the United Kingdom, 3,160 in France, 3,093 in Germany, and 2,396 in Spain.[2] Annex table 7 shows the 20 largest greenfield projects undertaken by inward investing firms in Italy between 2007 and 2009; 12 or more than half of them took place in the energy industry. In contrast, only four projects were in manufacturing, three of them related to the expansion of existing activities.

The only large greenfield project in manufacturing activities announced in 2007, by the Indian Videocon Industries in the consumer electronic industry with a projected investment of more than US$ 1.5 billion, was subsequently withdrawn because of the economic crisis.

Effects of the recent global crisis

[1] See S. Mariotti and M. Mutinelli, *Italia Multinazionale 2010*, (Soveria Mannelli: Rubbettino Editore, 2010).
[2] Source: fDi Intelligence, a service from the Financial Times Ltd.

The global economic and financial crisis of 2008-2009 seriously affected the Italian economy, resulting in a sharp decline of exports (-24.8%) and real GDP (-5.0%) in 2009,[1] as well as falling profits. Accordingly, as noted, IFDI flows fell from the record level reached in 2007 (US$ 40 billion) to -US$ 11 billion in 2008, and rose only partly back to US$ 20 billion in 2009 and US$ 9 billion in 2010. As a matter of fact, Italy does not rank among the 21 top priority host economies for FDI for the 2010-2012 period, while the United Kingdom ranks 7th, Germany 10th, Poland 12th, France 14th, and Spain 20th.[2]

The policy scene

The Italian Government has not pursued an active policy with respect to inward FDI, opting rather for a *laissez faire* economic policy. Unlike some other OECD economies, Italy has not practised any FDI screening policy, and no special treatment has been provided to foreign investors for a long time.[3] Following the liberalization of exchange controls in the second half of the 1980s, the Italian economic and financial system underwent structural reforms in the 1990s: a privatization program was launched, covering a large number of industries and services, and substantial progress was made to open up the Italian economy to international competition. In that period, some sectoral restrictions on IFDI, applying to banking and financial services, radio and television and air and sea navigation were removed or relaxed.

Since the early 1990s, there have been no general restrictions on foreign ownership in most industries. Aircraft manufacturing is the only industry prohibited to foreign investors, while special authorization is required in some other strategic industries, such as banking and insurance services, petroleum exploration, air transportation (where some restrictions apply to non-European Union airlines operating in domestic routes), coastal shipping, and the media industry. In the other sectors, foreign investors do not face any authorization or screening procedures; there are no measures against planned acquisitions of an existing Italian company based on public order or essential security interests, and no performance requirements apply to foreign investors.[4]

However, concerns about an alleged "colonization" of Italian firms by foreign MNEs periodically re-emerge in the political debate. The most recent occasion was in March 2011, when the French group Lactalis acquired from foreign funds and other shareholders 29.9% of shares (just below the 30% threshold that is required for a full takeover bid by the Italian law) in Parmalat, the largest Italian dairy group. Just about a month earlier, the French luxury-goods maker LVMH S.A. had acquired the Italian jeweller Bulgari with a transaction of US$ 6.1 billion, and several efforts had been undertaken to prevent

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[1] ICE (Istituto nazionale per il Commercio Estero), *L'Italia nell'economia internazionale.* Rapporto ICE 2009-2010, (Rome: 2010).

[2] See UNCTAD, *World Investment Prospects Survey 2010-2012* (New York and Geneva: United Nations, 2010), available at: http://www.unctad.org/en/docs/diaeia20104_en.pdf.

[3] See OECD, *OECD Reviews of Foreign Direct Investments: Italy*, mimeo (1994) available at: http://www.oecd.org/dataoecd/4/8/34383839.pdf

[4] A relevant exception concerns the telecommunication services industry, where foreign investors are subject to performance requirements in order to obtain an operating license.

Electricité de France S.A., embroiled in a dispute with its Italian partners over management of the power company Edison, from gaining control of the Italian firm.[1]

While claiming a lack of reciprocity on European rules,[2] the Italian Government tried (unsuccessfully) to forge an alliance of Italian investors to counter Lactalis. The Government also announced further measures to bolster Italian food, energy, defence, and telecom firms against foreign takeovers, which would permit target companies to use similar defences to those allowed in France. In response to that, Lactalis announced in April 2011 the launch of a takeover bid of € 2.60 per share on the remaining capital of € 3.4 billion (US$ 4.9 billion), which received the green light by Consob, the Italian market regulator. Since these unexpected moves, the Italian Government has not undertaken further measures against foreign takeovers.[3]

Italy has signed 93 bilateral investment treaties (BITs), 71 of which have been ratified.[4] The first BIT was signed with Chad in 1969, but most of Italy's BITs were concluded in the 1990s (50) and in the 2000s (28). The most recent has been signed with Turkmenistan in November 2009. Italy has also signed double taxation treaties (DTTs) with 93 countries, within and outside the EU, to avoid double taxation on income and property.[5] Draft agreements with additional countries are at the discussion stages. Furthermore, there are forms drawn up unilaterally by the tax authorities that can also be used to facilitate FDI.

Italy has not pursued any active policy to attract and/or promote IFDI for many years. In 1993, a modest incentive program was approved (D.L. 78), but it did not alter the basic attitude of Italian policy toward IFDI. The first government one-stop shop agency for the attraction/promotion of IFDI, Sviluppo Italia, was established only in 1999. The agency, today named Invitalia, has been restructured three times over the past decade, but it was only recently that the key target industries in which the efforts for FDI promotion should be concentrated were identified (logistics, ICT, life sciences, renewable energy sources, tourism). As a matter of fact, the results of the agency's activity have been quite scant so far.[6]

Although the few actions mentioned above have been undertaken to attract/promote IFDI, the main issue (and the relatively scant results observed in terms of attracting FDI inflows) has to do with the lack of

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[1] Other relevant M&As by French MNEs had been recorded in previous years: in the banking sector, in 2006 BNL had become part of the French banking giant BNP-Paribas, while in 2007 Cassa di Risparmio di Parma e Piacenza (Cariparma) and Banca Popolare Friuladria had been acquired by Crédit Agricole; in the air transport industry, AirFrance-KLM had been involved in 2008 in the rescue of Alitalia, acquiring a 25% share; in the insurance industry, in 2007 Nuova Tirrena had become part of Groupama, while AXA had acquired in 2007 a 50% share in Montepaschi Vita.

[2] It is worth recalling here that in 2006, the Italian company Enel tried to buy French energy firm Suez, but the possible "Italian invasion" was prevented by a defensive merger of state-owned Gas de France and Suez itself, carried out in defiance of antitrust objections from several different sources.

[3] The traditional favorable Italian attitude toward IFDI appears not to be under discussion. Foreign firms may freely repatriate profits, dividends and capital, subject only to reporting requirements. Italian law guarantees the convertibility, at prevailing exchange rates, of profits and capital from duly registered investments. Government grants are equally awarded to both Italian and foreign affiliates (with some exceptions in the film industry and the shipping industry).

[4] A list of BITs signed by Italy is available at: http://www.unctad.org/sections/dite_pcbb/docs/bits_Italy.pdf.

[5] More information, available at: http://www.finanze.it/export/finanze/Per_conoscere_il_fisco/fiscalita_Comunitaria_Internazionale/convenzioni_e_accordi/convenzioni_stipulate.htm

[6] To be fair, it should be mentioned that some relevant results have been recently recorded in the tourism industry. Specifically, some large international hotel chains signed agreements with Invitalia aimed at purchasing and restructuring some state-owned resort villages along the coasts of Southern Italy. It is also worth noting that in 2010 a new law allowed EU firms establishing new firms in Italy to pay taxes according to their home country fiscal treatment.

consensus with other relevant policy measures (e.g., infrastructure development) within a broader framework aiming at regional and national development.

Conclusions

FDI stock in Italy has grown steadily during the first decade of the twenty-first century, until 2010 when it contracted below the 2009 level. FDI performance of the economy lags behind that of most other economies in Europe. A relatively low attractiveness of IFDI in Italy for IFDI is reflected in the UNCTAD survey of several prominent international companies and institutions.[1] Moreover, invariably, the most important international rankings that measure the health and competitiveness of nations, including the World Competitiveness Scoreboard and the Competitiveness Index, assign lower positions on the list to Italy, which is not only the last in the club of small and large advanced economies, but sometimes even behind many emerging markets. Italy ranks only 40th in the ranking on the World Competitiveness Scoreboard 2010 of the IMD[2] and 48th in the ranking by the Competitiveness Index 2010-2011 of the World Economic Forum.[3]

However, the potential of Italy as a host for IFDI is much higher than that indicated by the country's IFDI performance thus far. The current difficulties of the country, the Eurozone crisis and the recent OECD downward revision of growth forecasts certainly do not encourage a recovery in the short term of IFDI in Italy; but if the reforms that the newly installed Monti government is preparing achieve the objective of fiscal consolidation and at least partially mitigate the well-known inefficiencies of the country (energy cost, infrastructure, legislation, and bureaucracy), favoring the recovery of Italy's international credibility and competitiveness, foreign enterprises as well as Italian ones could increase their presence in the country by fully developing the growth potential stemming from the strengths of the Italian industrial system.

Additional readings

De Propris, L., N. Driffield, and S. Menghinello, "Local industrial systems and the location of FDI in Italy," *International Journal of the Economics of Business*, vol. 12 (2005) no.1, pp. 105–121.

Driffield, N., L. Love and S. Menghinello, "The multinational enterprise as a source of international knowledge flows: direct evidence from Italy," *Journal of International Business Studies,* vol. 41 (2009), pp. 350-359.

ICE, *Rapporto ICE 2009-2010: L'Italia nell'economia internazionale* (Roma: ICE,2010).

Mariotti S. and M. Mutinelli, "Investimenti diretti esteri in Italia: un preoccupante declino," *Economia e Politica Industriale*, vol. XXXVII (2010), no. 1, pp. 119-129.

[1] UNCTAD, *World Investment Prospects Survey 2010-2012*, *op. cit.*
[2] Available at http://www.imd.org/research/publications/wcy/upload/scoreboard.pdf.
[3] Available at http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf.

Mariotti S., L. Piscitello and S. Elia, "Spatial agglomeration of multinational enterprises: the role of information externalities and knowledge spillovers", *Journal of Economic Geography,* vol. 10 (2010), no. 4, pp. 519-538.

Menghinello S., L. De Propris and N. Driffield, "Industrial districts, inward foreign investment and regional development", *Journal of Economic Geography,* vol. 10 (2010), no. 4, pp. 539-558.

Useful websites

For FDI policy: www.ice.it/statistiche/pdf/Rapporto_ICE_2010_cap9.pdf; www.invitalia.it

For FDI statistics: www.istat.it

For information on foreign MNEs in Italy: www.ice.it/statistiche/pdf/Rapporto_ICE_2010_cap9.pdf;

http://actea.ice.it/ide.aspx

www.invitalia.com

Statistical annex

Annex table 1. Italy: inward FDI stock, 2000, 2009, 2010 and 2011

(US$ billion)

Economy	2000	2009	2010	2011
Italy	121	364	337	332
Memorandum: comparator economies				
France	391	1 133	1 108	963
United Kingdom	439	1 056	1 086	1 198
Germany	272	677	674	703
Spain	156	635	614	634

Source: UNCTAD'S FDI/TNC database, available at: http://stats.unctad.org/fdi/.

Annex table 2. Italy: inward FDI flows, 2000-2011

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Italy	13	15	15	16	17	20	39	40	-11	20	9	29
Memorandum: comparator economies												
France	43	50	49	42	33	85	72	96	64	34	34	40
Germany	198	26	54	32	-10	47	56	80	4	38	46	40
Spain	40	28	39	26	25	25	31	64	77	9	25	29
United Kingdom	119	53	24	17	56	176	156	196	91	71	46	53

Source: UNCTAD'S FDI/TNC database, available at: http://stats.unctad.org/fdi/.

Annex table 3. Italy: sectoral distribution of inward FDI stock, 2000, 2009[a]

(Percentage shares)

Sector/industry	2000	2009
All sectors/industries (excluding banking services)	100.0	100.0
Primary sector		
Agriculture, forestry and fishing	0.2	0.4
Energy products (petroleum; electricity, gas and water supply)	2.0	13.3
Secondary sector		
Industrial products	40.8	33.6
Mineral and metal products	2.1	2.3
Chemical products	7.3	4.6
Machinery	12.2	8.6
Transport equipment	5.9	5.7
Food products	4.9	5.4
Textiles and wearing apparel	2.0	2.4
Services	57.0	52.7
Wholesale and retail trade	5.9	5.8
Transport, storage and communication	4.7	5.6
Financial intermediation [b]	32.9	23.2

Source: Banca d'Italia, Relazione Annuale sul 2009, Roma, May 31, 2010; Banca d'Italia, Relazione Annuale sul 2000, Roma, May 31, 2001 (available at http://www.bancaditalia.it/pubblicazioni/relann).

[a] Classified according to the activity of the Italian operator. FDI in real estate services and in banking are not included.
[b] The banking sector is not included.

Annex table 4. Italy: geographical distribution of inward FDI stock, 2000, 2009

(Percentage share)

	2000	2009
World	100.0	100.0
Developed economies		96.3
Europe		87.1
European Union (EU)		
EU27		78.6
EU15		69.2
Belgium	1.9	2.0
France	12.7	12.8
Germany	8.9	3.1
Luxembourg	18.4	6.7
Netherlands	21.7	26.4
Spain	0.7	6.0
Sweden	2.3	1.1
United Kingdom	12.7	10.7
Liechtenstein	1.4	0.8
Switzerland	9.2	7.7
North America	14.2	8.0
Canada	0.5	0.3
United States	13.6	7.7
Other developed economies		
Japan	1.8	1.2
Developing economies		
Africa	n.a.	n.a.
Asia and Oceania	n.a.	n.a.
Latin America and Caribbean	n.a.	n.a.
Argentina	0.1	0.1
Brazil	0.1	0.2

Source: Banca d'Italia, Relazione Annuale sul 2009, Roma, May 31, 2010; Banca d'Italia, Relazione Annuale sul 2000, Roma, May 31, 2001 (available at http://www.bancaditalia.it/pubblicazioni/relann).

Annex table 5. Italy: Main non-financial foreign affiliates, ranked by sales, 2009

Rank	Name	Foreign investor	Sales (US$ million)	Value added (US$ million)	Employees	Industry
1	Vodafone Omnitel NV	Vodafone (United Kingdom)	8,874	4,531	8,164	Telecom services
2	Esso Italiana	Exxon Corp (United States)	8,544	-43	1,293	Oil and natural gas
3	Wind Telecomunicazioni	Orascom (Egypt)	5,281	2,402	6,414	Telecom services
4	Volkswagen Group Italia	Volkswagen (Germany)	4,596	111	906	Automobiles
5	Kuwait Petroleum Italia	KPC (Kuwait)	4,253	219	637	Oil and natural gas
6	Total Italia	Total (France)	3,159	130	455	Oil and natural gas
7	Nuovo Pignone	General Electric (United States)	3,071	592	4,417	Gas turbines
8	Auchan	Auchan (France)	2,938	491	13,952	Retail (food products, hypermarkets)
9	Shell Italia	Shell RD (Netherlands/United Kingdom)	2,886	75	563	Oil and natural gas
10	Ford Italia	Ford (United States)	2,866	67	142	Automobiles
11	Logista Italia	Imperial Tobacco (United Kingdom)	2,857	54	203	Tobacco
12	Sky Italia	News Corp (United States)	2,802	643	2,439	Satellite TV platform
13	SSC	Carrefour (France)	2,700 [a]	373 [a]	9,415 [a]	Retail (food products, hypermarkets)
14	BMW Italia	BMW (Germany)	2,503	-45	293	Automobiles
15	IBM Italia	IBM Corp (United States)	2,403	1,057	7,762	Computers and software
16	Tamoil Italia	Lafico (Libyan Arab Jamahiriya)	2,333	87	343	Oil and natural gas
17	Mercedes-Benz Italia	Daimler Benz (Germany)	2,302	31	683	Automobiles
18	SMA	Auchan (France)	2,251	318	9,198	Retail (food products, hypermarkets)
19	Mediamarket	Metro (Germany)	2,245	309	6,371	Retail (appliances, consumer electronics)
20	E.On Produzione	E.On (Germany)	2,123	555	897	Electrical energy

Source: Reprint database, Politecnico di Milano; Mariotti S. and M. Mutinelli, *Italia Multinazionale 2010*, (Soveria Mannelli: Rubbettino Editore, 2010).
[a] Data relate to 2008.

Annex table 6. Italy: main M & A deals, by inward investing firm, 2007-2009

Year	Acquiring company	Home economy	Target company	Target industry	Shares acquired (%)	Estimated/ announced transaction value (US $ million)
2008	E.On	Germany	Endesa Italia	Electric services	80.00	14,342.19
2007	Swisscom	Switzerland	Fastweb	Telecommunications	82.40	5,483.49
2007	Crédit Agricole	France	Cassa di Risparmio di Parma e Piacenza	Banks	100.00	4,757.61
2007	London Stock Exchange Plc	United Kingdom	Borsa Italiana	Security exchanges	100.00	2,153.93
2008	NK Lukoil	Russian Fed	Isab	Petroleum refinery	49.00	2,097.93
2007	Groupama	France	Nuova Tirrena	Life insurance	100.00	1,712.56
2007	Crédit Agricole	France	Banca Intesa – Branches (193)	Banks	100.00	1,665.16
2008	GE Commercial Finance Inc.	United States	Interbanca	Banks	100.00	1,582.53
2007	AXA	France	Montepaschi Vita	Life insurance	50.00	1,527.90
2007	Petronas	Malaysia	FL Selenia	Lubricating oils	100.00	1,407.46
2007	Fonciére des Regions	France	Beni Stabili	Real estate	34.20	1,239.83
2007	Fonciére des Regions	France	Beni Stabili	Real estate	33.80	1,225.33
2007	International Power Plc	United Kingdom	Trinergy Ltd-Trinergy Wind	Electric services	100.00	1,195.59
2007	Vodafone Group Plc	United Kingdom	Tele2 Italia	Telecommunications	100.00	1,096.05
2007	Credit Agricole	France	Banca Popolare Friuladria	Banks	76.05	1,047.30
2007	3I Investors in Industry	United Kingdom	GGP Italy	Garden equipment	100.00	1,036.64
2008	SOS Cuetara	Spain	Unilever PLC-Bertolli Olive	Olive oil	100.00	1,003.34
2009	BNP Paribas	France	Findomestic Banca	Personal credit	25.00	899.80
2008	Banque Sofinco	France	Agos	Personal credit	49.00	797.90
2008	Zoomlion	China	CIFA	Construction machinery and equipment	100.00	739.19

Source: The authors, based on Thomson ONE Banker, Thomson Reuters; and Reprint database, Politecnico di Milano.

Annex table 7. Italy: main announced greenfield projects, by inward investing firm, 2007-2009

Year	Investing company	Home economy	Industry	Business activity	Estimated/ announced investment value (US$ million)
2008	Sonatrach	Algeria	Transportation	Logistics, distribution and transportation	1,902
2007	Videocon Industries	India	Consumer electronics	Manufacturing	1,576
2007	IKEA	Sweden	Consumer products	Retail	658
2008	Nucor	United States	Metals	Manufacturing	658
2007	Novartis	Switzerland	Pharmaceuticals	Manufacturing	638
2009	E.On	Germany	Coal, oil and natural gas	Logistics, distribution and transportation	600 [a]
2009	Mediterranean Oil & Gas	United Kingdom	Coal, oil and natural gas	Extraction	526 [a]
2009	Northern Petroleum	United Kingdom	Coal, oil and natural gas	Extraction	526 [a]
2008	Po Valley Energy	Australia	Coal, oil and natural gas	Extraction	526 [a]
2008	Po Valley Energy	Australia	Coal, oil and natural gas	Extraction	526 [a]
2009	Renova	Russia	Warehousing and storage	Logistics, distribution and transportation	513
2009	Po Valley Energy	Australia	Coal, oil and natural gas	Extraction	506 [a]
2009	SunRay Renewable Energy	Malta	Alternative/renewable energy	Electricity	478 [a]
2009	Vodafone	United Kingdom	Communications	Headquarters	453
2008	Ratia Energie	Switzerland	Coal, oil and natural gas	Electricity	449 [a]
2007	DC Chemical	Republic of Korea	Coal, oil and natural gas	Electricity	449 [a]
2007	E.On	Germany	Coal, oil and natural gas	Electricity	449 [a]
2008	Sharp	Japan	Electronic components	Manufacturing	447
2008	ExxonMobil	United States	Coal, oil and natural gas	Logistics, distribution and transportation	402 [a]
2008	Gaz de France	France	Coal, oil and natural gas	Logistics, distribution and transportation	402 [a]
2008	Public Gas Corporation of Greece (DEPA)	Greece	Coal, oil and natural gas	Logistics, distribution and transportation	402 [a]

Source: The authors, based on fDi Intelligence, a service from the Financial Times Ltd.
[a] Estimated.

Italy: Outward FDI and its policy context, 2011

Marco Mutinelli and Lucia Piscitello[*]

Italian companies started to invest abroad in the 1960s in search of new markets. However, Italy's outward foreign direct investment (OFDI) performance is quite modest compared with that of other European Union (EU) countries, mainly due to structural characteristics like the low number of large firms, the specialization in traditional low- and medium-technology manufacturing industries and the almost negligible activity in advanced services. The global economic and financial crisis seriously affected the Italian economy. However, the positive trend of Italian OFDI was not interrupted, and in 2009 OFDI flows remained stable compared to 2008. Habitually silent on this policy area in earlier decades, the Italian Government has recently shown a more favorable stance toward OFDI, introducing specific policy measures addressed to small and medium-sized enterprises, which have started to expand strongly abroad – these now constitute almost 90% of Italian multinational enterprises (MNEs).

Trends and developments

Country-level developments

Italy's outward FDI performance is quite modest compared with that ofmost other EU countries. In 2009, the total OFDI stock reached US$ 578 billion (annex table 1). The ratio of its OFDI stock to gross domestic product (GDP) amounted to 27%, which is much smaller than the corresponding ratio for the whole EU (55%) or comparable economies like France (65%), Germany (41%), Spain (44%) and the United Kingdom (76%).[1] Several structural characteristics of the Italian economy play a role in explaining these figures, including the low number of large firms, specialization in "traditional", low- and medium-technology manufacturing industries and the almost negligible activity in advanced service sectors.

Italian companies started to invest abroad in the 1960s in search of new markets and/or export growth. Nevertheless, until the first half of the 1980s, the internationalization of Italian companies remained far lower than that of other large European countries. Outflows started to rise noticeably only in the second half of the 1980s, stimulated by the EU Single Market Program. In this phase, the international growth of Italian firms was also favored by the recovery of competitiveness of large Italian companies and the strengthening of the Italian Lira, whose weakness had previously favored internationalization strategies of Italian firms based on exports rather than OFDI. In addition, protectionist policies previously used to tackle the growing deficit of the balance of payments were relaxed. In addition, policies mainly aimed at the financial support of Southern Italy which had required heavy investments especially by State-owned firms, ended. Thus, the latter could initiate strategies for undertaking multinational expansion and

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[1] UNCTAD, *World Investment Report 2010*: Investing in a Low-carbon Economy (Geneva: United Nations, 2010).

international strategic alliances.[1] This favorable period, during which the significant growth of Italian OFDI was led by market-seeking mergers and acquisitions (M&As) of the largest Italian manufacturing firms (Fiat, Pirelli, Montedison, ENI, IRI, Olivetti), was abruptly interrupted by the sharp depreciation of the Italian Lira in September 1992, when the currency fell nearly 30% against the US dollar and the stronger European currencies.

In subsequent years, the decline in cross-border M&As of large Italian companies was counterbalanced by increasing outward investment by small and medium-sized enterprises (SMEs). The internationalization of Italian SMEs combined both market-seeking strategies, mainly in EU-15 countries, and offshoring strategies, aimed at regaining cost competitiveness. The latter prevailed in low-technology manufacturing industries, such as textiles and apparel, shoes and leather products, furniture and other household products, which together constitute the bulk of "Made in Italy".[2]

Italian OFDI stock increased strongly during the 2000s, from US$ 180 billion in 2000 to US$ 578 billion at the end of 2009. In particular, OFDI flows rose considerably after 2004, driven by a new wave of M&As made by a limited number of large Italian firms (annex table 2). Italian OFDI flows jumped from an average value of US$ 15.6 billion per year in 2000-2004 to US$ 52.6 billion in 2005-2009, peaking at US$ 91 billion in 2007. As a result, the Italian OFDI stock grew by 221% between 2000 and 2009, less than the Spanish OFDI stock (+400%) but much stronger than that of the EU-27 countries (+158%), Germany (+154%), France (+86%), and the United Kingdom (+ 84%).

In 2009, services accounted for 44% of Italian OFDI stock (annex table 3).[3] Industrial products maintained a significant weight (29.5%), while energy products (petroleum, electricity, gas and water supply) accounted for 26.1% of the total, mainly reflecting OFDI by ENI in the oil and gas industry and by ENEL in the electricity sector. Finally, agricultural, forestry and fishing products accounted for only 0.4% of total OFDI stock.

However, the sectoral breakdown changes significantly when considering the number of employees in foreign affiliates.[4] At the end of 2007, majority-owned foreign affiliates of Italian firms employed nearly 1,421,000 workers. Nearly 806,100 workers (56.7%) were employed in the secondary sector, compared with 583,300 (41%) in the tertiary sector and 31.600 (2.2%) in the primary sector. More than 752,300 workers (52.9% of the total) were employed in the manufacturing sector, where the textile and apparel industry (124,200) and the machinery industry (111,600) employed the largest shares.

OFDI by Italian firms is mainly concentrated in Europe (80% of total OFDI stock in 2009). In the past decade, Italian OFDI has grown faster in the EU-15 countries than in other regions. Italian OFDI remained low in North America (7.5% of OFDI stock in 2009, compared to 11.7% in 2000) and in

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[1] R&P-Ricerche e Progetti (a cura di), *Italia Multinazionale. L'internazionalizzazione dell'industria italiana* (Milano: Edizioni del Sole 24 Ore, 1986).

[2] Marco Mutinelli and Lucia Piscitello, "Differences in the strategic orientation of Italian MNEs in Central and Eastern Europe", *International Business Review*, vol. 6, no. 2 (1997), pp. 185-205; Marco Mutinelli and Lucia Piscitello, "The influence of firm's size and international experience on the entry mode choice: Evidence from the internationalization of the Italian industry", *Small Business Economics*, vol. 11 (1998), pp. 43–56; and Sergio Mariotti and Lucia Piscitello, "Localised capabilities and internationalization of manufacturing activities by SMEs," *Entrepreneurship and Regional Development*, vol. 13 (2001), pp. 65-80.

[3] The banking sector is not included.

[4] Data on foreign majority-owned affiliates of Italian companies are gathered by the Italian National Institute of Statistics (ISTAT) as a result of compulsory surveys. More recent data refer to 2007. See ISTAT, *Le imprese a controllo nazionale residenti all'ester, Anno 2007* (Rome, May 31, 2010).

developing countries (12%). BRIC countries (Brazil, Russia, India, China) accounted for less than 2%. The small average size of the Italian firms crucially hinders expansion toward the fastest growing regions (in particular, China), owing to the severe managerial and financial constraints that SMEs face when expanding abroad, especially into geographically and culturally distant countries.

FDI statistics collected by the Bank of Italy record direct or primary investments undertaken by Italian firms and not indirect investments made via holding companies established abroad. Thus, the distribution of OFDI data does not properly reflect the geographical breakdown of Italian firms' foreign activities. Some Italian firms manage their foreign activities through financial holdings established in the Netherlands and in Luxembourg, which together account for about 36% of total Italian OFDI stock, while their weight measured by the total number of employees in foreign affiliates, gathered by the Italian National Institute of Statistics (ISTAT) as a result of compulsory surveys, is less than 1%.

Data on the employment of foreign affiliates of Italian firms give a more valid representation of the geographical breakdown of their foreign activities. According to ISTAT, foreign majority-owned affiliates of Italian firms in the EU-27 countries employ nearly 655,000 workers, accounting for 46% of the total. The role of countries outside the EU is particularly important for manufacturing activities, which are mainly located in Central and Eastern European countries, as well as in the United States, Brazil and China. A significant presence of manufacturing activities controlled by Italian firms is also recorded in Russia, Argentina, India, Mexico, and Tunisia. The United States ranked first by the number of employees in foreign affiliates of Italian firms in 2007 (147,803), followed by Romania (147,542), Germany (116,875), France (100,719), Brazil (94,048), China (85,439), Poland (82,673), Spain (67,661), and the United Kingdom (55,810).

The corporate players

It is assumed that about 8.000 Italian enterprise groups have at least one foreign affiliate (either majority-owned or 50-50 or minority joint ventures). However, in 2009, only two Italian firms ranked in the top 100 non-financial MNEs in the world (compared with 18 from the United States, 15 both from France and from the UK, 12 from Germany, nine from Japan, five from Switzerland, and three from Sweden). ENI, the largest Italian non-financial MNE, ranked only 17th in the world's top 100 by foreign assets in 2009, while the Fiat Group ranked 52nd. Three Italian firms ranked in world's top 50 financial MNEs: Generali (rank 4), Unicredit (rank 7), and Intesa SanPaolo (rank 28).

The market-seeking motive is the most important driver of foreign investments for the few large Italian firms, combined with the resource-seeking motive in the case of ENI, in the oil industry. Efficiency-seeking strategies are often an important motivation of FDI by SMEs.[1] A recent survey of 15,000 European MNEs confirms that less than 40% of Italian firms which have undertaken foreign investment are pursuing strategies explicitly aimed at selling their own products in the host country or at using the investment as an export platform, the most important motive being exporting back to Italy. By contrast, market-seeking strategies are prominent for about 65% of German investors, while export-platform FDI is used by some 45% of French investors.[2]

[1] See Mutinelli and Piscitello,op. cit.
[2] See Giorgio Barba Navaretti et al., *The Global Operations of European Firms. The second Efige Policy Report* (Bruegel, 2010); see, in particular table 4.6., p. 28.

The breakdown of Italian MNEs by region reflects the long-term structural imbalances of the Italian economy. Nearly 80% of Italy's MNEs are located in the Northern regions; Central Italy hosts less than 15% of Italian MNEs, while the South ("Mezzogiorno") plays a negligible role.

Effects of the current global crisis

The global financial and economic crisis seriously affected the Italian economy similar to other European economies, causing a sharp decline in 2009 of 25% in exports and 5% in real GDP, as well as a fall in profits of Italian companies.

Nevertheless, despite the difficult economic situation of the country, the positive trend of Italian OFDI was not interrupted, and in 2009 OFDI flows remained stable compared with 2008 and divestments abroad[1] did not grow significantly in 2009 compared to previous years. In contrast, most of the other large EU countries, with the exception of France (-8.6%), experienced a sharp decline of OFDI flows (Germany -53.4%, Spain -78.1%, UK -88.5%). It is also worth observing that in 2009 Italian OFDI flows (US$ 43.9 billion) were higher than OFDI flows of the UK (US$ 18.5 billion) and Spain (US$ 16.3 billion) combined, two countries that in the past were among the main foreign investors worldwide.

The policy scene

Until the start of the first stage of the European Monetary Union (EMU) in July 1990, the foreign expansion of Italian firms was hampered by barriers to capital outflows. However, since the late 1980s, the Italian government has introduced specific policy measures aimed at supporting OFDI, particularly addressed to SMEs, which had started expanding abroad although facing severe managerial and financial constraints.

Launched by Act 49/87, Italian OFDI policy rests on four State-controlled agencies: SIMEST (Società italiana per le Imprese Miste all'ESTero – Italian Company for Foreign Joint-Ventures), FINEST (Finanziaria per gli Imprenditori del Nord-EST – Financial Company for North-Eastern Entrepreneurs), ICE (Istituto italiano per il Commercio Estero – Italian Institute for Foreign Trade, also known as Italian Trade Commission) and SACE (Società di Assicurazione e Credito alle Esportazioni – Company of Insurance and Credit to Exports). SIMEST[2] and FINEST[3] can acquire shares of up to 49% in the capital stock of joint ventures set up abroad by Italian firms. These shares must be transferred to third parties within eight years of their first intervention. They also grant soft loans[4] for the creation of joint ventures outside the EU and provide professional consultancy and technical support services, such as scouting activities (seeking out opportunities abroad), matchmaking initiatives (locating partners), pre-feasibility/feasibility studies, and financial, legal and corporate assistance related to foreign investment projects in which their subsequent involvement is foreseen. So far, SIMEST has approved more than

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[1] For a study of Italian firms' divestments, see Sergio Mariotti and Lucia Piscitello, "Is divestment a failure or part of a restructuring strategy? The case of Italian transnational corporations", *Transnational Corporations*, vol. 8(3) (1999), pp. 25-54.

[2] Founded in 1990 and in operation since 1991, SIMEST is controlled by the Ministry for International Trade and Commerce, along with private share-holders which include major Italian banks and industrial companies. For more information see http://www.simest.it.

[3] The main shareholders of FINEST, founded in 1991, are local administrations of the North-Eastern Italian regions, SIMEST and several banks. For more information see http:\\www.finest.it.

[4] A soft loan is a loan with a below-market interest rate.

1,000 FDI projects, investing more than Euro 1 billion. Moreover, SIMEST has set up a venture capital fund that may be added to its shares in the joint ventures set up in Central and Eastern Europe (excluding EU countries), Asia, Africa and Latin America. Support for 44 FDI projects was approved in 2009.

Advisory services to Italian firms are also offered by ICE, a government agency entrusted with promoting trade, business opportunities and industrial co-operation between Italian and foreign companies. ICE operates through 115 branch offices in 86 countries in the world and through the network of Italian foreign chambers of commerce, which can be found in 75 cities in 40 countries worldwide.[1]

By June 2010, Italy had signed 92 bilateral investment treaties (BITs), 71 of which had been ratified. The first BIT was signed with Chad in 1969, but most BITs were concluded in the 1990s (50) and in the first decade of the 2000s (28). The most recent BIT was signed with Turkmenistan in November 2009.[2] Italy has also entered into double taxation treaties (DTTs) with 86 countries, within and outside the EU, to avoid double taxation on income and property.[3] Draft agreements with additional countries are at the discussion stage. Furthermore, there are forms drawn up unilaterally by the foreign tax authorities that can equally be used to facilitate operations.

Conclusions

Italian OFDI surged in recent years after having stagnated in 2000-2004. It is worth highlighting that this increase continued in the crisis year of 2009. Notwithstanding the crisis, Italian companies have not divested abroad on a larger scale; on the contrary, they continue to grow. The recent trend of Italian OFDI can be characterized by a renewed leading role of larger companies, by an increasing amount of foreign investment in services sectors and by an increasing presence of Italian companies in countries outside the EU, especially in the United States and the newly emerging economies. However, the role of SMEs is also worth emphasizing; they operate independently from large MNEs and hold competitive advantages in high valued added market niches, and carry out M&As abroad as a vehicle to strengthen their position in international value chains, including knowledge sourcing strategies. This specific phenomenon, sometimes called by the press "Pocket MNEs", is possibly the most valuable and original contribution of Italy to global OFDI trends.
Italian OFDI abroad is expected, at least in the medium term, to evolve in a more similar fashion (both in quantity and in quality) to that of its main international partner and competitor countries.

Additional readings

Banca d'Italia, *Local Economies and Internationalization in Italy*, available at: http://www.bancaditalia.it/studiricerche/convegni/atti/econ_loc;internal&action=_setlanguage.action?LANGUAGE=en.

[1] For more information see http://www.ice.gov.it and http://www.assocamerestero.it.
[2] For the list of BITs signed by Italy, see http://www.unctad.org/sections/dite_pcbb/docs/bits_Italy.pdf.
[3] For more information see http://www.finanze.it/export/finanze/Per_conoscere_il_fisco/fiscalita_Comunitaria_Internazionale/convenzioni_e_accordi/convenzioni_stipulate.htm

ICE, *Rapporto ICE 2009-2010. L'Italia nell'economia industriale* (Roma, 2010) (http://www.ice.it/statistiche/rapporto_ICE.htm).
ISTAT, *Le imprese a controllo nazionale residenti all'estero*, Statistiche in breve, 31 maggio 2010, Rome (http://www.istat.it/salastampa/comunicati/non_calendario/20100531_00/).
Mariotti, Sergio and Marco Mutinelli, *Italia Multinazionale 2010* (Rubbettino Editore, 2011).

Useful websites

For FDI policy: www.ice.it/statistiche/pdf/Rapporto_ICE_2010_cap9.pdf

For FDI statistics: www.istat.it; www.bancaditalia.it

For information on Italian MNEs: www.ice.it/statistiche/pdf/Rapporto_ICE_2010_cap9.pdf; http://www.ice.gov.it/statistiche/pdf/Sintesi_Italia_Multinazionale_2008.pdf

Annex table 1. Italy: outward FDI stock, 2000, 2009

(US$ billion)

Economy	2000	2009
Italy	180	578
Memorandum: comparator economies		
France	926	1 720
Germany	542	1 378
Spain	129	646
United Kingdom	898	1 652

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

Annex table 2. Italy: outward FDI flows, 2000-2009

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Italy	12	21	17	9	19	42	42	91	44	44
Memorandum: comparator economies										
France	177	87	50	53	57	115	111	164	161	147
Germany	57	40	19	6	21	76	119	162	135	63
Spain	58	33	33	29	61	42	104	137	75	16
UK	233	59	50	62	91	81	87	318	161	18

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

Annex table 3. Italy: distribution of outward FDI stock, by economic sector and industry, 2000, 2009[a]

(Percentage shares)

Sector/industry	2000	2009
All sectors/industries (excluding banking services)	100.0	100.0
Agricultural, forestry and fishing products	0.3	0.4
Energetic products (petroleum; electricity, gas and water supply)	8.0	26.1
Industrial products	32.3	29.5
Minerals and metals	4.1	2.7
Chemical products	4.7	5.9
Machinery	8.0	9.0
Transport equipment	4.4	2.9
Food products	2.9	2.2
Textiles and wearing apparel	1.8	1.4
Services	59.5	44.0
Trade and repairs	4.5	3.8
Transports, storage and communication	3.0	0.8
Financial intermediation[a]	35.9	27.2

Source: Banca d'Italia, *Relazione Annuale sul 2009* (Roma, May 31, 2010); Banca d'Italia, *Relazione Annuale sul 2000* (Roma, May 31, 2001) (available at: http://www.bancaditalia.it/pubblicazioni/relann).

a Classified according to the activity of the foreign operator. FDI in the real estate sector and by the Italian banking sector are not included.
b The banking sector is not included.

Annex table 4. Italy: geographical distribution of outward FDI stock, 2000, 2009

(percentage shares)

	2000	2009
World	100.0	100.0
Developed countries	n.a.	88.0
Europe	n.a.	80.0
EU-27	n.a.	76.9
EU-15	n.a.	75.3
Belgium	1.8	3.2
France	10.0	7.9
Germany	6.7	4.7
Luxembourg	12.6	5.5
Netherlands	14.9	30.7
Spain	4.1	13.1
Sweden	0.4	0.2
United Kingdom	8.7	5.7
Liechtenstein	0.1	0.1
Switzerland	6.3	3.0
North America	11.7	7.5
Canada	0.6	0.4
United States	11.1	7.1
Other developed countries	n.a.	n.a.
Japan	0.9	0.4
Developing countries	n.a.	12.0
Africa	n.a.	n.a.
Asia and Oceania	n.a.	n.a.
Latin America and Caribbean	n.a.	n.a.
Argentina	1.5	0.5
Brazil	2.6	1.4
Transition economies	n.a.	n.a.
Unallocated	n.a.	n.a.

Source: Banca d'Italia, *Relazione Annuale sul 2009*, Roma, May 31, 2010; Banca d'Italia, *Relazione Annuale sul 2000* (Roma, May 31, 2001) (available at: http://www.bancaditalia.it/pubblicazioni/relann).

Annex table 5. Italy: principal non-financial MNEs, ranked by foreign sales, 2009

Rank	Company	Industry	Foreign sales (US$ million)	% of total sales
1	ENI	Oil & gas (ENI), engineering (Saipem)	77,016	66.4
2	Exor/FIAT	Motor vehicles and related components (Fiat, Iveco, Magneti Marelli); agricultural and construction machinery (CNH)	53,784	73.5
3	ENEL	Electricity and gas	43,793	50.6
4	Finmeccanica	Aeronautics, helicopters, space, defence electronics and systems, energy and transportation	19,786	78.1
5	Telecom Italia	Telecommunication services	9,189	24.6
6	Edizione (Benetton Group)	Wearing apparel (Benetton); food & beverage and retail services for travellers (Autogrill)	7,752	49.4
7	Luxottica Group	Eyewear	6,841	96.4
8	Italcementi	Cement, ready mixed concrete	5,668	81.3
9	Pirelli & C.	Tyres	5,162	83.0
10	Prysmian	Cables	4,176	80.3
11	Parmalat	Dairy products	4,141	75.0
12	Saras	Petroleum refining	3,836	52.6
13	Indesit Company	Electric domestic appliances	3,000	82.4
14	De Agostini	Publishing, media	2,813	56.2
15	Buzzi Unicem	Cement, ready mixed concrete	2,754	74.0

Source: Politecnico di Milano, *Reprint database.*
1 US$ = 0.737717 euro.

Annex table 5a. Italy: principal MNEs, ranked by foreign employees, 2009

Rank	Company	Industry	Foreign employees	% of total employees
1	FIAT	Motor vehicles and related components (Fiat, Iveco, Magneti Marelli); agricultural and construction machinery (CNH)	109,580	57.7
2	Unicredit	Banking and financial services	109,300	66.2
3	Generali	Insurance	69,366	81.3
4	Edizione	Wearing apparel and textiles (Benetton Group); food & beverage and retail services for travellers (Autogrill)	54,245	75.9
5	Luxottica Group	Eyewear	52,967	87.2
6	ENEL	Electricity and gas	43,087	53,1
7	ENI	Oil & gas (ENI), engineering (Saipem)	40,118	51.2
8	Intesa SanPaolo	Banking and financial services	32,914	31.7
9	Finmeccanica	Aeronautics, helicopters, space, defence electronics and systems, energy and transportation	29,953	41.0
10	Pirelli & C.	Tyres	25,116	84.9
11	Italcementi	Cement, ready mixed concrete	17,179	81.2
12	Parmalat	Dairy products	11,555	83.8
13	Indesit Company	Electric domestic appliances	11,257	69.1
14	Telecom Italia	Telecommunication services	10,285	14,7
15	Prysmian	Cables	10,054	85.9

Source: Politecnico di Milano, *Reprint database.*

Annex table 6. Italy: main M & A deals, by outward investing firm, 2007-2009

Year	Acquiring company	Target company	Target industry	Target economy	Shares acquired (%)	Estimated/ announced transaction value (US$ billion)
2007	ENEL SpA	Endesa SA	Electric services	Spain	45.6	26.4
2009	ENEL SpA	Endesa SA	Electric services	Spain	25.0	13.5
2007	ENEL SpA	Endesa SA	Electric services	Spain	11.6	6.3
2007	EniNeftegaz (ENI SpA 60%, ENEL SpA 40%)	OAO Arctic Gas Company ZAO Urengoil OAO Neftegaztechnologia OAO Gazprom Neft	Oil and gas field exploration services	Russian Fed	100.0 100.0 100.0 20.0	5.8
2008	Finmeccanica SpA	DRS Technologies Inc	Defense electronics	United States	100.0	5.5
2007	ENEL SpA	Endesa SA	Electric services	Spain	9.99	5.5
2008	Generali SpA-Central & Eastern	PPF Group-Central & Eastern	Insurance	Czech Republic	100.0	4.9
2007	ENI SpA	Dominion Resources-Exploration Assets	Oil and gas field exploration services	United States	100.0	4.8
2009	ENI SpA	Distrigaz	Distribution of natural gas	Belgium	100.0	4.5
2007	Mediaset-Telecinco (with Cyrte Fund e Goldman Sachs Private Equity)	Endemol	Broadcasting	Netherlands	33.0	3.6
2007	ENI SpA	Burren Energy	Extraction of petroleoum	United Kingdom	100.0	3.3
2007	Luxottica Group SpA	Oakley Inc	Sunglasses	United States	100.0	2.3
2007	Pirelli & C. Real Estate	Baubecon	Real estate	Germany	100.0	2.2
2007	Unicredit (via Bank Austria)	Ukrsotbank (USB)	Banking	Ukraine	94.2	2.2
2008	Unicredito Italiano SpA	Bayerische Hypo- und Vereins	Banks	Germany	4.5	1.9
2007	ENEL SpA	OGK-5	Electricity	Russian Federation	12.2	1.5
2007	ENI SpA	Maurel & Prom SCA-Congo	Crude petroleum and natural gas	Rep of Congo	100.0	1.4
2009	Edison SpA	EGPC-Abu Qir Concession	Crude petroleum and natural gas	Egypt	100.0	1.4
2008	Unicredito Italiano SpA	Bank Austria Creditanstalt AG	Banks	Austria	3.7	1.3
2008	ENI SpA	First Calgary Petroleums Ltd	Crude petroleum and natural gas	Canada	100.0	1.2
2008	Autogrill SpA	World Duty Free Europe Ltd	Liquor stores	United Kingdom	100.0	1.1
2007	ENEL SpA	Electrica Muntenia Sud SA	Electric services	Romania	67.5	1.1

Source: Thomson ONE Banker, Thomson Reuters.

Note : M&A by Italian companies controlled by foreign MNEs are excluded.

Annex table 7. Italy: main greenfield projects, by outward investing firm, 2007-2009

Year	Investing company	Joint venture partner (if any)	Industry	Target economy	Shares owned (%)	Estimated/ announced investment value (US$ billion)
2009	Telecom Italia SpA		ICT (internet broadband services)	Brazil	100.0	4.3
2009	ENI SpA	Calik Energy	Oil & gas (pipeline)	Turkey	n.a.	4.0
2007	Fiat SpA		Automotive OEM (motor vehicles)	Brazil	100.0	2.8
2008	Techint SpA		Metals (Iron)	Mexico	100.0	2.7
2007	ENEL SpA		Electrical energy (coal-powered energy plant)	Portugal	100.0	2.7
2008	Moncada Energy Group		Electrical energy (wind farm)	Tunisia	100.0	2.4
2007	ENI SpA		Oil & gas (oil extraction)	Angola	100.0	2.3*
2007	ENEL SpA		Electrical energy (thermoelectric power plant)	Albania	100.0	2.2
2008	Techint SpA		Metals (iron)	Mexico	100.0	1.6
2008	ENEL SpA	E.On (Germany)	Electrical energy (thermoelectric power plant)	Romania	n.a.	1.5
2008	Falcione Group		Oil & gas (liquified natural gas regasifier terminal)	Albania	100.0	1,5
2008	ENI SpA		Oil & gas (oil extraction)	United States	100.0	1,5
2009	ENI SpA	Allied Energy	Oil & gas (oil extraction)	Nigeria	40.0	1.3*
2007	ENI SpA		Oil & gas (oil extraction)	Algeria	100.0	1.2
2008	IT Holding		Real Estate	UAE	100.0	1.2
2008	Techint SpA		Metals	Argentina	100.0	1.2
2008	Fiat SpA		Automotive OEM (motor vehicles)	Serbia	100.0	1.1
2009	Finmeccanica SpA		Coal, oil and natural Gas	Syria	100.0	0.9
2009	Todini Finanziaria SpA		Hotels & tourism	Russia	100.0	0.9
2009	Moncada Energy Group		Electrical energy (wind farm)	Tunisia	100.0	0.8*

Source: fDi Intelligence, a service from the Financial Times Ltd.

* Estimated.

Italy: Outward FDI and its policy context, 2012

*Marco Mutinelli and Lucia Piscitello**

Italy's outward foreign direct investment (OFDI) performance is quite modest compared to that of other European Union (EU) countries, mainly due to structural characteristics like the low number of large firms, the specialization in "traditional" low- and medium-technology manufacturing industries and the almost negligible activity in advanced service industries. The global economic and financial crisis seriously affected the Italian economy and resulted in a decline in OFDI flows in 2009, owing to few large merger and acquisition (M&A) deals. However, due to the stagnation of the internal market, Italian firms continued to pursue growth opportunities abroad in 2010 and in 2011 through small-scale investments, in particular outside the EU.

Trends and developments

Country-level developments

Italy's outward FDI stock is low, in contrast with that of most other EU countries. In 2011, total Italian OFDI stock amounted to US$ 512 billion (annex table 1), up from US$ 488 billion in 2010. The ratio of its OFDI stock to gross domestic product (GDP) was 23%, which is much smaller than the corresponding ratio for the EU as a whole (56%) or comparable economies like France (49%), Germany (40%), Spain (43%), or the United Kingdom (73%).[1] Several structural characteristics of the Italian economy play a role in explaining these figures, including the low number of large firms, the specialization in low- and medium-technology "traditional" manufacturing industries and the almost negligible activity in advanced industries in the services sector.

In the most recent years, however, Italian firms have significantly stepped up their foreign activities. Driven by a new wave of M&As made by the largest Italian firms, Italian OFDI flows rose considerably between 2005 and 2008, jumping from an average value of US$ 10.0 billion per year in 2000-2004 to US$ 61.5 billion in 2005-2008 and peaking at US$ 96 billion in 2007 (annex table 2). The financial crisis had a negative impact on Italian OFDI flows, which fell to US$ 21 billion in 2009. Notwithstanding the negative economic situation, Italian OFDI flows rose again to US$ 47 billion in 2011. Despite the stagnation of the internal market, Italian firms have not ceased investing abroad, though the number of large-scale investment projects has significantly decreased compared to previous years.

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[1] UNCTAD, *World Investment Report 2012: Towards a New Generation of Investment Policies* (Geneva: United Nations, 2012), Annex Tables, web table 08, available at: http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx

In 2009, services accounted for 44% of Italy's OFDI stock (annex table 3).[1] Manufacturing industries also attracted a significant part of the stock (30%), while energy products (petroleum, electricity, gas), and water supply accounted for 26% of the total, mainly reflecting OFDI by ENI in the oil and gas industry and by ENEL in the electricity sector. Finally, agricultural, forestry and fishing products accounted only for less than 1% of the total OFDI stock.

However, the sectoral breakdown changes significantly when considering the number of employees in foreign affiliates of Italian multinational enterprises (MNEs). At the end of 2009, majority-owned foreign affiliates of Italian firms employed nearly 1,509,000 workers. Nearly 813,100 workers (53.8%) were employed in the secondary sector[2], 661,900 workers (43.9%) in the tertiary sector and 34,300 employees (2.3%) in the primary sector. More than 711,700 workers (47.2% of the total) were employed in the manufacturing sector, where the machinery industry (122,900 employees) and the textile and apparel industry (95,000 employees) employed the largest shares.[3]

OFDI by Italian firms is mainly concentrated in Europe; 12 European countries accounted for 72% of total Italian OFDI stock in 2010 (annex table 4). In the past decade, Italian OFDI has grown faster in EU-15 countries than in other regions. Italian OFDI remained low in North America (the United States accounted for 6% of OFDI stock in 2010, compared to 11% in 2000), and in developing countries (mainly the BRIC countries) among which Brazil and China each accounted for less than 2% in 2010. The small average size of the Italian firms crucially hinders expansion toward the fastest growing regions (in particular, China), owing to the severe managerial and financial constraints that small and medium-size enterprises (SMEs) face when expanding abroad, especially into geographically and culturally distant countries.

FDI statistics collected by the Bank of Italy record direct (or primary) investments undertaken by Italian firms and not indirect investments made via holding companies established abroad. Thus, the distribution of OFDI data does not properly reflect the geographical breakdown of Italian MNEs' foreign activities[4].

Data on employment in foreign affiliates of Italian firms may give a more accurate representation of the geographical breakdown of their foreign activities. According to ISTAT, EU-27 countries accounted for 50.4% of the total work-force of foreign majority-owned affiliates of Italian firms at end-2009. Countries outside the EU are particularly important destinations for manufacturing activities, which are mainly located in Central and Eastern European countries, as well as the United States, Brazil and China. A significant presence of manufacturing activities controlled by Italian firms also exists in Russia, Argentina, India, Mexico, and Tunisia. The United States ranked first by the number of employees in foreign affiliates of Italian firms in 2009 (152,888), followed by Romania (116,078), Germany (111,993), Brazil (101,404), China (95,313), France (88,994), Spain (79,980), Poland (75,163), the United Kingdom (47,258), and Turkey (34,098).

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[1] The banking sector is not included.

[2] Data cover the mining, manufacturing, construction and energy industries.

[3] Data on employment in foreign majority-owned affiliates of Italian companies are gathered by the Italian National Institute of Statistics (ISTAT) through compulsory surveys. The most recent data refer to 2009. See ISTAT, *Struttura, performance e nuovi investimenti delle imprese italiane all'estero* (Rome: ISTAT, December 2011)..

[4] For example, some Italian firms manage their foreign activities through financial holdings established in the Netherlands and Luxembourg, which together account for about 24% of total Italian OFDI stock; however, these holdings account for less than 1% of the total number of employees in foreign affiliates, according to data gathered by ISTAT.

The corporate players

About 8,000 Italian corporate groups have at least one foreign affiliate (either majority-owned, 50-50-owned, or minority joint ventures). In 2011, only three Italian firms (ENEL, ENI and FIAT) ranked among the top 100 non-financial MNEs by foreign assets in the world (compared to 22 from the United States, 16 from France, 12 from the United Kingdom and Germany, six from Japan, five from Switzerland, and three from Spain). However, these three firms, which also head the list of the largest Italian non-financial MNEs in 2011 in terms of sales (annex table 5) and figure among the largest in terms of employment (annex table 5a), are rising in rank globally: in 2011, ENEL (electricity), the largest Italian non-financial MNE in terms of foreign assets, became the world's 9th largest MNE by foreign assets, up from 15th in 2010; ENI (oil and gas) ranked 13th, up from 19th in 2010; and Fiat ranked 27th, up from 72nd in 2010.[1] Three Italian firms also ranked among the world's 50 largest financial MNEs by UNCTAD's Geographic Spread Index in 2010 and 2011: Assicurazioni Generali (7th in 2010 and 6th in 2011), Unicredit (10th in 2010 as well as 2011) and Intesa SanPaolo (46th in 2010 and 36th in 2011).[2]

The market-seeking motive is the most important driver of foreign investments for the few large Italian firms, while Italian SMEs most often engage in OFDI due to efficiency-seeking strategies.[3] A survey of 15,000 European MNEs confirms that fewer than 40% of Italian firms that have undertaken foreign investment pursue strategies explicitly aimed at selling their own products in the host country or at using the investment as an export platform; by contrast, market-seeking strategies are prominent for about 65% of German investors, while export-platform FDI is used by some 45% of French investors.[4]

The breakdown of Italian MNEs by region reflects the long-term structural imbalances of the Italian economy. Nearly 80% of Italian MNEs are headquartered in Northern Italy; Central Italy hosts fewer than 15% of Italian MNEs' headquarters, while the South ("Mezzogiorno") plays a negligible role.[5]

In the 2010-2011 period, the EU15 area was still the main destination for new foreign subsidiaries of Italian firms, accounting for 20.5% of the new majority-owned foreign subsidiaries, although down from 29.4% in the 2008-2009 period; similarly, the new EU member states saw a decline in their share of new majority-owned foreign affiliates (7.2%).[6] The geographical breakdown of new majority-owned foreign affiliates shows the growth of India (with 7.4%, up from 4.8%) and the other Asian and Pacific countries (with 14.4%, up from 7.1%) as destinations for Italian OFDI, while China's share remained stable (10.6%, marginally up from 10.3%). Shares were growing also for the United States and Canada (13%, up from 10.6%) and for Central and South America (10.9%, up from 7.8%).

[1] UNCTAD, *World Investment Report 2012*, op. cit., Annex Tables, web table 29, and UNCTAD, *World Investment Report* 2011: *Non-equity Modes of International Production and Development* (Geneva: United Nations, 2011), Annex Tables, web table 29; see http://archive.unctad.org/templates /Page.asp?intItemID= 5545&lang=1.
[2] UNCTAD, *World Investment Report 2012*, op. cit., Annex Tables, web table 30.
[3] See Marco Mutinelli and Lucia Piscitello, "Differences in the strategic orientation of Italian MNEs in Central and Eastern Europe", *International Business Review*, vol. 6, No. 2 (1997), pp.185-205.
[4] See Giorgio Barba Navaretti et al., *The Global Operations of European Firms. The Second EFIGE Policy Report* (Brussels: Bruegel, 2010), http://www.bruegel.org/publications/publication-detail/publication/581-the-global-operations-of-european-firms-the-second-efige-policy-report/; see in particular table 4.6, p. 28.
[5] S. Mariotti and M. Mutinelli, *Italia Multinazionale 2012* (Soveria Mannelli: Rubbettino Editore, 2012).
[6] See ISTAT, op. cit., p. 10.

In 2011, two cross-border merger and acquisition (M&A) deals with values higher than US$ 1 billion were signed by Italian firms (annex table 6). In February 2011, Prysmian SpA completed its tender offer to acquire the entire share capital of Draka Holding NV, an Amsterdam-based manufacturer of wire and cable products, while in May 2011 Fiat increased its interest in Chrysler (United States) from 30% to 46%. In consideration of the potential voting rights associated with options held by Fiat that also became exercisable on that date, under IAS 27 – Consolidated and Separate Financial Statements, Fiat was deemed to have acquired control of Chrysler. Accordingly, Chrysler was fully consolidated by Fiat from that date.

Among the largest Greenfield FDI projects abroad by Italian MNEs in 2011, there were three that exceeded US$ 1.00 billion in announced/estimated value (annex table 7). They included a project in Argentina by Telecom Italia, one in Mozambique by ENI SpA, and one in Serbia by SECI Energia SpA. Investments in energy-related activities (including alternative/renewable energy) and in telecoms accounted for the top ten Greenfield OFDI projects in 2011.

The policy scene

Italian OFDI policy is implemented through four state-controlled agencies: SIMEST (Società italiana per le Imprese Miste all'Estero – Italian Company for foreign joint-ventures), FINEST (Finanziaria per gli Imprenditori del Nord-EST – Financial Company for North-Eastern Entrepreneurs), ICE – Agenzia per la promozione all'estero e l'internazionalizzazione delle imprese italiane (Agency for the promotion abroad and internationalization of Italian firms), and SACE (Società di Assicurazione e Credito alle Esportazioni – Company for Insurance and Credit to Exports). SIMEST[1] and FINEST[2] can acquire shares in the capital stock of joint ventures set up abroad by Italian firms and grant soft loans for the creation of joint ventures outside the EU; they also provide professional consultancy and technical support services to foreign investment projects in which their subsequent involvement is foreseen.[3]

In 2011 and in 2012, the policy scene saw several important developments.

In July 2011, the Berlusconi Government announced the immediate abolition of the former ICE (Instituto italiano per il Commercio Estero – Italian Institute for Foreign Trade, also known as Italian Trade Commission, the government agency entrusted with promoting trade, business opportunities and industrial co-operation between Italian and foreign companies).[4] The functions assigned to ICE and its Italian staff and assets were transferred without liquidation procedure to the Ministry of Economic Development, while the staff of foreign offices was assigned to the Ministry of Foreign Affairs. In December 2011, the new Monti Government restored the agency, though with a strong reduction of human and financial resources.[5] The "new ICE" (named "ICE – Agenzia per la promozione all'estero e

[1] In November 2012, Cassa Depositi e Prestiti (CDP) acquired the control stakes (100% and around 76%, respectively) of SACE and SIMEST by the Ministry of Economic Development. The remaining 24% of SIMEST, founded in 1990 and in operation since 1991, is in charge of large Italian banks and industrial companies. For more information, see http://www.simest.it.
[2] The main shareholders of FINEST, founded in 1991, are local administrations of the North-Eastern Italian regions, SIMEST and several banks. For more information see http:\\www.finest.it.
[3] See Marco Mutinelli and Lucia Piscitello., "Outward FDI from Italy and its policy context", *Columbia FDI Profiles*, Vale Columbia Center on Sustainable International Investment, January 19, 2011. op.cit.
[4] Law No. 111, July 15, 2011.
[5] Law No. 214, December 22, 2011.

l'internazionalizzazione delle imprese italiane", i.e. Agency for the promotion abroad and internationalization of Italian firms) will maintain only two offices in Italy (Rome and Milan) and will mainly operate abroad, relying on diplomatic and consular missions. Moreover, a new operational tool, the "Cabina di Regia per l'Italia Internazionale" (i.e. Control Room for Italy's Internationalization), has been established, aiming at coordinating internationalization policies by defining a common strategy for the promotion of activities abroad by the ICE Agency and the other central and regional institutions supporting internationalization. The "Cabina di Regia" will promote the integration of various functions – such as, for example, the integration of the network of Italian Chambers of Commerce abroad with that of ICE – enabling significant economic savings. The foreign network of Italian institutions is being reorganized around the coordinating role of the Embassies, based on some basic criteria: market size and growth potential of the countries, composition of exports by product type and the history of Italian presence abroad. This will guide the promotional action and export to countries with the greatest potential for growth and where Italian companies, either due to distance or other reasons, are struggling most to operate alone. A balanced judgment about the real impact of this reform must be suspended, however, at least until the complex and lengthy administrative implementation is completed.

On October 25, 2012 the Start-Up Revolving Fund became fully operational. Established by Law No. 23/2009,[1] the Fund aims to strengthen public support to SMEs in their internationalization process in non-EU markets by encouraging the start-up phase. This Fund operates by contributing to the share capital of new companies established ad hoc (NewCo*s*), with registered offices in Italy (or in another EU country if necessary for the development of the project). Recipients benefiting from the new Fund are individual SMEs or SME groupings established as joint-stock companies; the Fund, managed by SIMEST, intervenes by subscribing to the capital in case of a NewCo, or subscribing to a capital increase of a NewCo founded no more than 18 months before the date of submission of the application. The contribution of the Fund cannot exceed 49% of the share capital and each assistance from the Fund can reach a maximum of € 200,000.The contribution of the Fund to the NewCo has a duration of between two and four years.

As in June 2012, Italy had signed 94 bilateral investment treaties (BITs), 74 of which have been ratified. By the end of 2011, Italy had entered into double taxation treaties (DTTs) with 90 countries to avoid double taxation on income and property.[2] DTTs with Croatia, Cyprus, Jordan, and Slovenia were ratified in 2010; DTTs with Azerbaijan, Canada, Lebanon, Moldova, and Qatar were ratified in 2011. Draft agreements with additional countries are in the discussion stage. Furthermore, there are forms drawn up unilaterally by the foreign tax authorities which can be used to facilitate operations.

Conclusions

Italy's outward FDI performance is still quite modest compared with most other EU countries. However, Italian OFDI flows experienced a considerable surge in the 2005-2008 period, driven by a new wave of large-scale M&A deals made by large Italian firms. After a deep fall in 2009, OFDI flows rose again in 2010 and in 2011, though mainly through small-scale investments.

[1] The Fund had been established by Law No. 99, July 23, 2009 (art. 14).
[2] For more information see:
http://www.finanze.it/export/finanze/Per_conoscere_il_fisco/fiscalita_Comunitaria_Internazionale/convenzioni_e_accordi/convenzioni_stipulate.htm

Recent trends in Italian OFDI can be characterized as involving a renewed leading role of larger companies, an increasing amount of FDI in the services sector and an increasing presence of Italian companies in countries outside the EU, especially in the Asian and Latin American emerging markets, and in the United States, even though Europe still plays a major role in Italian firms' foreign activities. Italian OFDI abroad is expected to grow to higher levels in the medium term, since Italy's present economic stagnation is pushing Italian companies to seek new growth opportunities in foreign markets.

Additional readings

Banca d'Italia, *Local Economies and Internationalization in Italy*, available at: http://www.bancaditalia.it/studiricerche/convegni/atti/econ_loc;internal&action=_setlanguage.action?LANGUAGE=en

ICE, *Rapporto ICE 2010-2011. L'Italia nell'economia industriale* (Rom: ICE, 2011), available at: http://www.ice.it/statistiche/rapporto_ICE.htm.

ISTAT, *Le imprese a controllo nazionale residenti all'estero* (Rome: ISTAT, 2010), available at: http://www.istat.it/it/archivio/4884.

ISTAT, *Struttura, performance e comportamenti delle multinazionali italiane* (Rome: ISTAT, March 2011), available at: http://www.istat.it/it/archivio/19542.

Useful websites

For FDI policy: www.ice.it/statistiche/pdf/Rapporto_ICE_2011_cap9.pdf

For FDI statistics: www.istat.it; www.bancaditalia.it;

For information on Italian MNEs: www.ice.it/statistiche/pdf/Rapporto_ICE_2011_cap8.pdf;

http://www.ice.gov.it/statistiche/pdf/Sintesi_Italia_Multinazionale_2010.pdf

Annex table 1. Italy: outward FDI stock, 2000, 2011

(US$ billion)

Economy	2000	2011
Italy	170	512
Memorandum: comparator economies		
France	926	1,373
Germany	542	1,442
Spain	129	640
United Kingdom	898	1,731

Source: UNCTAD's FDI/TNC database, available at: http://unctadstat.unctad.org

Annex table 2. Italy: outward FDI flows, 2000-2011

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Italy	7	16	11	2	14	39	44	96	67	21	33	47
Memorandum: comparator economies												
France	177	87	50	53	57	115	111	164	155	107	77	90
Germany	57	40	19	6	21	76	119	171	73	75	109	54
Spain	58	33	33	29	61	42	104	137	75	13	38	37
UK	233	59	50	62	91	81	86	272	161	44	40	107

Source: UNCTAD's FDI/TNC database, available at http://unctadstat.unctad.org.

Annex table 3. Italy: distribution of outward FDI stock, by economic sector and industry, 2000, 2009[a]

(Percentage share)

Sector/industry	2000	2009
All sectors/industries (excluding banking services)	100.0	100.0
Agricultural, forestry and fishing s	0.3	0.4
Energy (petroleum; electricity, gas and water supply)	8.0	26.1
Manufacturing	32.3	29.5
Minerals and metals	4.1	2.7
Chemical products	4.7	5.9
Machinery	8.0	9.0
Transport equipment	4.4	2.9
Food products	2.9	2.2
Textiles and wearing apparel	1.8	1.4
Services	59.5	44.0
Trade and repairs	4.5	3.8
Transports, storage and communication	3.0	0.8
Financial intermediation[b]	35.9	27.2

a Classified according to the activity of the foreign operation. FDI in the real estate sector and by the Italian banking sector are not included.
b The banking sector is not included.

Source: Banca d'Italia, *Relazione Annuale sul 2009*, Rom, May 31, 2010; Banca d'Italia, *Relazione Annuale sul 2000* (Rome, May 31, 2001), available at:
http://www.bancaditalia.it/pubblicazioni/relann.

Annex table 4. Italy: geographical distribution of outward FDI stock, 2000, 2010

(Percentage share)

	2000	2010
World	100.0	100.0
Developed countries	n.a.	n.a.
Europe	n.a.	n.a.
EU-27	n.a.	n.a.
EU-15	n.a.	n.a.
Austria	n.a.	6.7
Belgium	1.8	3.7
France	10.0	7.2
Germany	6.7	8.6
Ireland	n.a.	2.8
Luxembourg	12.6	2.4
Netherlands	14.9	21.4
Portugal	4.1	0.9
Spain	4.1	9.4
Sweden	0.4	n.a.
United Kingdom	8.7	3.6
Poland	n.a.	3.0
Liechtenstein	0.1	n.a.
Switzerland	6.3	2.1
North America	11.7	n.a.
Canada	0.6	n.a.
United States	11.1	5.6
Other developed countries	n.a.	n.a.
Japan	0.9	n.a.
Developing countries	n.a.	n.a.
Africa	n.a.	n.a.
Asia and Oceania	n.a.	n.a.
China	n.a.	1.7
Latin America and Caribbean	n.a.	n.a.
Argentina	1.5	n.a.
Brazil	2.6	1.5
Transition economies	n.a.	n.a.
Unallocated	n.a.	n.a.

Source: Banca d'Italia, *Relazione Annuale sul 2009 - Appendice*, Roma, May 31, 2010; Banca d'Italia, *Relazione Annuale sul 2011 - Appendice*, Roma, May 31, 2012), available at: http://www.bancaditalia.it/pubblicazioni/relann.
Note: "n.a." denotes that data are not available.

Annex table 5. Italy: principal non-financial MNEs, ranked by foreign sales, 2011

Rank	Company	Industry	Total sales (Euro million)	Foreign sales (Euro million)	% of total sales
1	ENI	Oil & gas (ENI), engineering (Saipem)	109,589	75,784	69.2
2	FIAT	Motor vehicles and related components	59,559	50,301	84.5
3	ENEL	Electricity and gas	79,514	46,895	59.0
4	Fiat Industrial	Trucks (Iveco); agricultural and construction machinery (CNH)	24,289	21,824	89.9
5	Finmeccanica	Aeronautics, helicopters, space, defence electronics and systems, energy and transportation	17,318	13,882	80.2
6	Telecom Italia	Telecommunication services	29.957	10.342	34.5
7	Prysmian	Cables	7,583	6,668	87.9
6	Edizione (Benetton Group)	Wearing apparel and textiles (Benetton Group); food & beverage and retail services for travellers (Autogrill); motorway concessionaries and related services (Atlantia)	12,253	6,191	50.5
7	Saras	Petroleum refining	11,037	5,385	58.1
8	Luxottica	Eyewear	6.222	5,050	81.2
9	Pirelli & C.	Tyres	5,602	5,175	92.4
10	Italcementi	Cement, ready mixed concrete	4,721	3,803	80.6

Source: S. Mariotti and M. Mutinelli, *Italia Multinazionale 2012* (Soveria Mannelli: Rubbettino Editore, 2012).

Annex table 5a. Italy: principal MNEs, ranked by foreign employees, 2011

Rank	Company	Industry	Total employees	Foreign employees	% of total employees
1	FIAT	Motor vehicles and related components	197,921	134,438	68.2
2	Unicredit	Banking and financial services	160,360	108,243	67.5
3	Generali	Insurance	81,997	65,017	79.3
4	Edizione (Benetton Group)	Wearing apparel and textiles (Benetton Group); food & beverage and retail services for travellers (Autogrill); motorway concessionaries and related services (Atlantia)	90,000*a*	60,000*a*	66.7
5	Luxottica	Eyewear	65,611	58,111	88.6
6	Fiat Industrial	Trucks (Iveco); agricultural and construction machinery (CNH)	66,998	48,573	72.2
7	ENI	Oil & gas (ENI), engineering (Saipem)	78,686	45,516	57.8
8	ENEL	Electricity and gas	75,360	38,518	51.1
9	Intesa SanPaolo	Banking and financial services	100,118	30,956	30.9
10	Pirelli & C.	Tyres	34,259	30,630	89.4
11	Finmeccanica	Aeronautics, helicopters, space, defence electronics and systems, energy and transportation	70,474	30,304	43,0
12	Telecom Italia	Telecommunication services	84,154	27,276	32.4
13	Prysmian	Cables	21,547	19,347	89.8
14	Perfetti Van Melle	Chewing-gum, confectionery	19,000	167700	93.2
15	Italcementi	Cement, ready mixed concrete	19,896	16,457	82.7

a Estimates.

Source: S. Mariotti and M. Mutinelli, *Italia Multinazionale 2012* (Soveria Mannelli: Rubbettino Editore, 2012).

Annex table 6. Italy: main M&A deals, by outward investing firm, 2009-2011

Year	Acquiring company	Target company	Target industry	Target economy	Shares acquired (%)	Estimated / announced transaction value (US$ million)
2011	Prysmian SpA	Draka Holding NV	Wires and cables	Netherlands	100.00	1,647.50
2011	FIAT SpA	Chrysler Group LLC	Motor vehicles	United States	16.00	1,268.00
2011	Cassa Depositi & Prestiti SpA	Trans Austria Gasleitung GmbH	Distribution of natural gas	Austria	89.00	926.65
2011	FIAT SpA	Chrysler Group LLC	Motor vehicles	United States	6.03	500.00
2011	Atlantia SpA	Sociedad Concesionaria	Toll motorways	Chile	50.00	412.58
2011	ENI SpA	Evans Shoal Gas Field	Oil and gas exploration and production	Australia	32,50	350.00
2011	Sogefi SpA	Mark IV Systemes Moteurs SAS	Automotive supplies (air intake and engine cooling systems)	France	100.00	216.05
2011	GWM Renewable Energy SpA	Greentech Energy Systems A/S	Wind energy farms	Denmark	50.37	194.38
2011	Luxottica Group SpA	Multiopticas Internacional SL	Optical equipment (eyeglasses, sunglasses, contact lenses, etc.)	Spain	57.00	133.45
2011	Recordati SpA	Dr F Frik Ilac Sanayi ve	Pharmaceutical products	Turkey	100.00	130.00
2011	Ansaldo Energia SpA	Yeni Elektrik Uretim AS	Power generation services	Turkey	40.00	121.74
2010	Atlantia SpA	Autostrade per il Cile-APC	Inspection and fixed facilities for motor vehicles	Chile	100.00	659.70
2010	Amplifon SpA	NHC Group Pty Ltd	Offices and clinics of doctors of medicine	Australia	100.00	444.91
2010	Sigma Tau SpA	Enzon Pharm Inc-Pharm Bus	Biological products, except diagnostic substances	United States	100.00	327.00
2010	Luigi Lavazza SpA	Green Mountain Coffee	Roasted coffee	United States	6.49	250.00
2010	Atlantia SpA	Sacyr Vallehermoso SA-Radial	Highway and street construction	Chile	100.00	200.00
2010	Davide Campari-Milano SpA	Carolans, Frangelico & Irish M	Distilled and blended liquors	United Kingdom	100.00	168.74
201	Actelios	Falck Renewables Plc	Cogeneration, alternative energy sources	United	100.	84.60

0	SpA			Kingdom	00	
2010	ENEL SpA	Stratic Energy Corp-West Don	Crude petroleum and natural gas	United Kingdom	100.00	60.84
2010	Prysmian SpA	Ravin Cables Ltd	Drawing and insulating of nonferrous wire	India	51.00	37.16
2010	ENEL SpA	Endesa Hellas SA-4 Power	Cogeneration, alternative energy sources	Greece	100.00	27.54
2009	ENEL SpA	Endesa SA	Electric services	Spain	25.01	13.469.98
2009	Edison SpA	EGPC-Abu Qir Concession	Crude petroleum and natural gas	Egypt	100.00	1.405.00
2009	Atlantia SpA	Los Lagos	Inspection and fixed facilities for motor vehicles	Chile	100.00	1.063.99
2009	Davide Campari-Milano SpA	Austin Nichols & Co-Wild	Wines, brandy, and brandy spirits	United States	100.00	581.00
2009	A2A SpA	Elektroprivreda Crne Gore AD	Electric services	Montenegro	29.00	361.81
2009	Alenia Aeronautica SpA	Grazhdanskiye Samolety Sukhogo	Aircraft parts, equipment	Russian Fed	25.00	250.00
2009	Weather Investments Srl	Tellas	Information retrieval services	Greece	50.00	239.30
2009	Cassa Depositi & Prestiti SpA	STMicroelectronics NV	Semiconductors and related devices	Switzerland	3.47	222.98
2009	Illva Saronno Holding SpA	Tia Maria Group Of Cos	Distilled and blended liquors	Canada	100.00	178.09
2009	Investindustrial SpA	Universal's Port Aventura SA	Amusement parks	Spain	50.00	138.19

Source: the authors, based on Thomson ONE Banker, Thomson Reuters.

Annex table 7. Italy: main greenfield projects, by outward investing firm, 2009-2011 10

Year	Investing company	Joint venture partner (if any)	Industry	Target economy	Shares owned (%)	Estimated/ announced investment value (US$ billion)
2011	Telecom Italia SpA		Communications (telecommunication services)	Argentina	100.00	2.5
2011	ENI SpA		Oil & gas (natural gas liquefier plants)	Mozambique	100.00	1.9
2011	SECI Energia SpA		Alternative/renewable energy (hydroelectric plant)	Serbia	100.00	1.1
2011	Telecom Italia SpA		Communications (fixed line infrastructure in optic fibre)	Brazil	100.00	0.8
2011	ENEL SpA		Alternative/renewable energy (wind farms)	Romania	100.00	0.7
2011	ENEL SpA		Energy (combined cycle gas plant)	Ireland	100.00	0.7
2011	Ansaldo Energia SpA		Energy (combined cycle gas-fired plant)	Turkey	100.00	0.6
2011	ENI SpA		Natural gas extraction	Mozambique	100.00	0.6
2011	ENEL SpA		Alternative/renewable energy (wind farms)	Portugal	100.00	0.6
2011	Chemtex Italia (Mossi & Ghisolfi Group)		Alternative/renewable energy (cellulosic ethanol plant)	Brazil	100.00	0.5
2010	FIAT Automobiles SpA	Soller	Automotive OEM	Russia	50.00	3,3
2010	FIAT Automobiles SpA		Automotive OEM	Brazil	100.00	1.8
2010	ENI SpA	Inpex Timor Sea (35%), Talisman Resources (25%)	Coal, Oil and Natural Gas	Timor-Leste	40.00	1.0
2010	Solar Ventures Srl	Kawar Energy and others	Alternative/renewable energy	Jordan	n.a.	1.0*
2010	Fiat Automobiles SpA		Automotive OEM	Serbia	100.00	0.9
2010	ENI SpA	Petróleos de Venezuela (60%)	Coal, Oil and Natural Gas	Venezuela	40.00	0.8*
2010	ENI SpA		Coal, Oil and Natural Gas	Norway	100.00	0.7
2010	Marfin SpA (Marcegaglia Group)		Metals	Brazil	100.00	0.7*

2010	FIAT Automobiles SpA	Guangzhou Automobile	Automotive OEM	China	50.00	0.6
2010	CNH Global (Fiat Group)		Industrial Machinery, Equipment & Tools	Brazil	100.00	0.5
2009	Telecom Italia SpA		ICT (internet broadband services)	Brazil	100.00	4.3
2009	ENI SpA	Calik Energy	Oil & gas (pipeline)	Turkey	n.a.	4.0
2009	ENI SpA	Allied Energy	Oil & gas (oil extraction)	Nigeria	40.00	1.3*
2009	Ansaldo Energia SpA (Finmeccanica Group)		Oil & gas (natural gas)	Syria	100.00	0.9
2009	Todini Finanziaria SpA		Hotels & tourism	Russia	100.00	0.9
2009	Moncada Energy Group		Alternative/renewable energy	Tunisia	100.00	0.8*
2009	FIAT SpA	Guangzhou Automobile	Automotive OEM	China	50.00	0.7
2009	ENEL SpA		Electricity	Russia	100.00	0.5
2009	Fomas Group SpA		Metals	India	100.00	0.5*
2009	Iveco SpA (FIAT Group)		Automotive OEM	Russia	100.00	0.4*

Source: fDi Intelligence, a service from the Financial Times Ltd.

Chapter 13 - New Zealand

New Zealand: Inward FDI and its policy context, 2012

Peter Enderwick[*]

New Zealand, with a low domestic savings rate, has long depended on inward foreign direct investment (IFDI) to facilitate growth and development. The country's IFDI stock reached US$ 70 billion in 2010, and averaged 51% of GDP over the decade 2000-2010. While recent inward FDI flows, US$ 636 million in 2010 and US$ 3.4 billion in 2011, have been lower than those of other comparable economies, reliance on IFDI is high. New Zealand's policy toward IFDI is based on the creation of an attractive investment climate (low costs of doing business, low levels of corruption, few restrictions); few specific incentives are offered. Major investment sources are Australia and the United States. IFDI is significant in mining, trade and the banking and finance industries. While there is considerable public disquiet regarding the levels and sources of inward investment, future prospects look strong with the recently re-elected Government committed to further privatization.

Trends and developments

New Zealand has adopted a liberal policy toward foreign investment since the economic reforms of the late 1980s. Prior to that, it was one of the most closed developed economies in the world. Policy since the late 1980s has always emphasized ease and security of doing business in New Zealand as opposed to offering strong incentives to investors. While New Zealand is a small economy (population of 4.5 million) and geographically remote, it is highly rated on measures of economic freedom, ranking third world-wide in the summary economic ratings for 2009 in the 2011 Annual Report of Fraser House,[1] and third world-wide in the World Bank's Ease of Doing Business rankings for 2011,[2] as well as considered the least corrupt country in the world in terms of the absence of corruption as measured by Transparency International's Corruption Perceptions Index 2011.[3]

Inward investment flows have been cyclical and have responded to particular economic situations. In the period following World War II, inward FDI was used to jump the onerous tariff levels that prevailed. Economic liberalization in the late 1980s and early 1990s saw a surge in investment, including FDI, into newly privatized former state-owned enterprises (SOEs), in telecommunications, banking, transport, and forests.

Country-level developments

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* The author wishes to thank Peter Drysdale and Val Lindsay for their helpful comments. First published July 17, 2012.

[1] James Gwartney, Robert Lawson and Joshua Hall, *Economic Freedom of the World: 2011 Annual Report* (Vancouver BC: The Fraser Institute, 2011), available at: www.freetheworld.com/2011.

[2] World Bank, *Ease of Doing Business 2011* (Washington: World Bank, 2011), available at: www.doingbusiness.org/rankings

[3] Transparency International, *Corruption Perceptions Index 2011* (Berlin: Transparency International, 2011).

As annex table 1 shows, IFDI stock in New Zealand, US$ 70 billion in 2010 and US$ 74 billion in 2011 (annex table 1), is relatively low when compared with that of other similar small open economies (Ireland, Finland, Switzerland, Denmark) included among the comparator economies considered in the table. Despite the low level, New Zealand's IFDI stock in 2010 was equal to 50% of GDP, a higher percentage than that of Finland (35%), Denmark (44%) and Australia (39%), but much lower than that of the other two comparator economies (Switzerland: 102% and Ireland: 121%).[1] The stock of IFDI in New Zealand more than tripled over the period 2001-2011, from US$ 21 billion to US$ 74 billion, a rate slightly higher than the world average. Over the decade 2000-2010, New Zealand's annual IFDI stock averaged 51% of GDP.

FDI inflows show some variability year to year, but no more than in the comparator economies (annex table 2). Indeed, flows were positive (if low) for most of the decade 2001-2010, but have been slow to recover from the effects of the 2008-2009 global financial and economic crisis. Inward flows in 2007 and 2008 were both strong and positive but became negative in 2009 and, while positive in 2010, they were low (US$ 0.6 billion); in 2011 IFDI flows into New Zealand returned close to pre-crisis levels, at US$ 3.4 billion (annex tale 2). One problem with data on IFDI flows to New Zealand is their sensitivity to a small number of large investments, usually the result of acquisitions of major businesses. Flows into New Zealand are low when compared with flows to an economy such as Ireland that has placed greater emphasis on the use of FDI for structural transformation of its economy toward greater technology and export-oriented industries.[2]

Data on the sectoral distribution of IFDI in New Zealand are limited. In part this is a result of the small number of firms involved in many cases and the need to main confidentiality. Annex table 3 provides data on the distribution of New Zealand's international liabilities, which include more than just IFDI. The table highlights the importance of foreign investment in a number of sectors and industries, particularly mining, manufacturing, utilities and finance and insurance. In financial services, all but one of New Zealand's major banks are foreign-owned, primarily by banks from Australia. The only domestically-owned competitor - Kiwi Bank - was established with significant government support and resources.[3]

Annex table 4 indicates the principal sources of IFDI stock in New Zealand in 2006 and 2011 and is of particular interest because of a popular belief that a growing proportion of such funds are coming from Asia and, in particular, China. The data show this is not the case: traditional sources of FDI (Australia, United States, the United Kingdom) continue to dominate. These three economies accounted for 70% of all IFDI in 2006 and in 2011. The share of the principal Asian investors (Japan, Singapore, Hong Kong (China)) is only around 5%. Investment from China remains low (US$ 1.8 billion, or roughly 1% of the total as at March 2011). While investment from the European Union economies (primarily the United Kingdom) has declined modestly, more than 80% of IFDI into New Zealand is from OECD economies. In the longer term, the share of IFDI from Asia may be expected to rise, both as a result of the growing economic importance of this region and of the efforts of New Zealand policy makers to develop trade and investment agreements with economies in this part of the world.

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[1] Based on UNCTAD statistics, available at: www.unctad.org/fdistatistics.

[2] F. Barry and C. Kearney, (2006) "MNEs and industrial structure in host countries: A portfolio analysis of Irish manufacturing," *Journal of International Business Studies*, 37(3), pp.: 392-406.

[3] L. Hull , "Foreign-owned banks: Implications for New Zealand's financial stability", Reserve Bank of New Zealand Discussion Paper DP 2002/05, Wellington, 2002.

The corporate players

Annex table 5 provides information on the relative importance of foreign affiliates operating in New Zealand in terms of their percentage share in total number of enterprises and employment by industry in 2005, and confirms the significance of FDI in the industries mentioned earlier.[1] The table also highlights the considerable size advantage that foreign firms have over their local competitors. While the number of foreign affiliates amounts to less than 1% of all enterprises, the former account for 14% of total employment. This size advantage is evident across all sectors.

Mergers and acquisitions (M&As) are important as an entry mode for FDI in New Zealand by foreign MNEs, accounting for almost half of all inward FDI between 2006 and 2010.[2] Annex table 6 shows the top cross-border M&As in 2009 and 2010. This table again highlights the dominance of Australian firms acquiring businesses in New Zealand. Such takeovers accounted for almost a third of the total by value in 2009-2010. Recent M&As have targeted both the primary sector (agriculture, mining, forestry) where New Zealand has strong comparative advantage, as well as business services. Also evident are a growing number of acquisitions by emerging market firms from China, South Africa and Russia.

Finally, annex table 7 identifies the major greenfield investments made by foreign MNEs in New Zealand during 2008-2010. The data again highlight the attraction to foreign investors of the primary sector and business services. When compared with M&As, greenfield FDI into New Zealand is more likely to come from other OECD economies.

Effects of the recent global crises

New Zealand has not been as badly affected by the global financial and economic crisis of 2008-2009 or the European debt crisis that began in 2009 as many other small open economies. It has benefited from having access to a diverse range of overseas markets, including Australia, the European Union, the United States, and various Asian economies. Strong demand for food products, particularly from the large emerging economies of China and India, has helped maintain production and employment. As noted, however, IFDI flows to New Zealand turned negative in 2009 and remained low in 2010. Government expenditure is under pressure as a result of the damaging earthquakes that occurred in Christchurch in 2010 and 2011, and these events have highlighted some skill shortages. Any significant slowdown in the Eurozone could adversely affect production, employment and growth in New Zealand, with potential consequences for IFDI.

The policy scene

New Zealand has adopted a liberal international investment regime since the mid 1980s. Foreign investments are screened by the Overseas Investment Office (OIO) –formerly the Overseas Investment Commission– if they are deemed sensitive under the terms of the 2005 Overseas Investment Act. "Sensitivity" arises when 25% or more of business assets valued at more than NZ$ 100 million (US$ 84

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[1] L. Hull, "Foreign-owned banks: Implications for New Zealand's financial stability", Reserve Bank of New Zealand Discussion Paper DP 2002/05, Wellington, 2002.

[2] UNCTAD, *World Investment Report 2011: Non-Equity Modes of International Production and Development* (Geneva and New York: United Nations 2011).

million) are acquired, where investment involves a land area greater than five hectares or where fishing quota are involved. Between 2006 and 2010, the OIO refused just 14 out of 738 applications, fewer than 2% of the total. Potential investors are assessed in terms of financial commitment, their business skills and being of "good character."[1] There are no restrictions in New Zealand on the movement of funds or the repatriation of profits, and no performance requirements are imposed on foreign investors. Foreign investments are subject to general business legislation, including the Commerce Act 1986 and the Resource Management Act of 1991, which covers environmental impacts such as water and land effects from mining activities.

There is modest promotion of IFDI in New Zealand, which is now undertaken by the New Zealand Trade and Enterprise Investment Team. Their primary focus is brokering links between overseas investors and high growth New Zealand businesses.[2]

A key influence on New Zealand's international investment relations is the significant number of bilateral and regional trade agreements the country has concluded, most recently with China, Singapore and Thailand.[3] Negotiations on a similar agreement with India are at an advanced stage. These agreements invariably encompass investment as well as trade issues. In addition, New Zealand has entered into five bilateral investment treaties (BITs) and fifty double-taxation treaties (DTTs).[4] There is some public concern regarding New Zealand's participation in the proposed Trans-Pacific Partnership (TPP) negotiations and the rights this agreement could give to overseas investors.[5]

There is significant public disquiet with inward FDI. This is the result of a number of factors. One is concern regarding the performance of past investments. For example, Tranz Rail is widely perceived to have been run down under foreign ownership, and New Zealand Telecom (the largest foreign-owned company in New Zealand) has been plagued with accusations that it restricts competition.[6] A second concern is the power that foreign investors enjoy. In a recent case, the movie company Warner Bros. (a subsidiary of the US company Time Warner Corporation) threatened to shift production of the movie *The Hobbit* in the face of labor issues. Following a meeting between Warner Bros' senior management and the New Zealand Prime Minister, legislation was hastily introduced ensuring that movie workers retain their contracting status. The company was also given sizeable promotion subsidies. Warner Bros. enjoys a considerable bargaining advantage since its stock market valuation is equal to 90% of that of all domestic companies on the New Zealand stock market.[7] A third concern has been a fear that strategic assets (in one case, Auckland International Airport) and now dairy farms could fall into foreign hands. This has triggered the creation of groups and websites such as New Zealand Not for Sale and Save Our Farms. The recent attempt by a Chinese investor, Shanghai Pengxin, to acquire 16 bankrupt dairy farms formerly owned by the Crafar family has created considerable policy uncertainty. While the Chinese bid was initially given OIO and ministerial approval, it was subject to a legal challenge by a competitor

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[1] Land Information New Zealand (LINZ), *Investor Test* (2012), available at: www.linz.govt.nz/overseas-investment/applications/technical-resources/the-investor-test.
[2] More information and contact details can be found at: business.newzealand.com/auspac/en/contact-us/
[3] More information on New Zealand's trade agreements can be found at mfat.govt.nz/Trade-and-Economic-Relations/2-Trade-Relationships-and-Agreement/index.php#force
[4] UNCTAD, *International Investment Agreements* (Geneva and New York: UNCTAD, 2012), available at: www.unctad.org
[5] Jane Kelsey, ed., *No Ordinary Deal: Unmasking the Trans-Pacific Partnership Free Trade Agreement* (Wellington: Bridget Williams Books, 2010).
[6] Susie Nordqvist," Record telecom fine for price hikes," *New Zealand Herald*, April 19, 2011.
[7] Brian Gaynor, "Why we're too weak to fight the Hobbits," *New Zealand Herald*, October 30, 2010.

group offering substantially less. The High Court overturned the Ministerial decision on the grounds that the economic benefits offered by Shanghai Pengxin were not substantial enough. Further evaluation by the OIO suggested that the purported benefits were likely to exceed those attributable to a domestic buyer and government approval was reiterated in April 2012. However, a further legal appeal is possible. While the damage from such policy uncertainty is not yet clear, it is likely that some other projects have been deferred or abandoned.

The Government (re-elected in late November 2011) is committed to a further round of privatization, in this case of state-owned energy companies.[1] There has been considerable public discussion regarding both the desirability of such privatization and the possibility of more infrastructure becoming foreign-owned. Maori, the indigenous people of New Zealand, have expressed a desire to be given preferential access to such assets as they now enjoy a considerable wealth base as the result of sizeable compensation for historical grievances.[2] Their political leadership includes in their policy manifesto a desire to be able to veto foreign investments.[3]

Conclusions

New Zealand, with its low savings rate, is highly dependent on foreign investment, including IFDI for maintaining its investment at desirable levels. While there is some public suspicion about the benefits of such investment, a new wave of IFDI is likely in the near future. Data on IFDI are limited, and we know very little about the impact of such investment, particularly the second round effects. Interestingly, New Zealand outward FDI, while directed to the same economies that provide most of its IFDI, is a fraction of inward FDI. A clearer understanding of the links between the two would be helpful in developing effective policy.

Additional readings

Enderwick, Peter, ed., *Foreign Direct Investment: The New Zealand Experience* (Palmerston North: Dunmore Press, 1997).

Scott-Kennel, Joanna, "Foreign direct investment to New Zealand," *The University of Auckland Business Review,* 6(2) (2004), pp. 41-49.

Useful websites

Overseas Investment Office, available at: www.linz.govt.nz/overseas-investment

Invest New Zealand, available at: www.investmentnz.govt.nz

[1] Adam Bennett, "Government's sell off – firms are top performers," *New Zealand Herald,* January 5, 2012.
[2] Claire Trevett, "Treaty clause complicates asset sales," *New Zealand Herald,* January 31, 2012.
[3] Derek Cheng, " Sharples: let iwi veto foreign investment," *New Zealand Herald,* October 31, 2011.

Annex table 1. New Zealand: inward FDI stock, 2001-2011

Economy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
New Zealand	21	29	36	55	52	63	68	52	65	70	74
Memorandum: comparator countries											
Switzerland	89	125	154	181	173	207	278	374	464	539	584
Australia	122	150	214	285	242	297	386	306	425	508	500
Ireland	138	168	193	229	211	179	187	173	193	247	244
Denmark	75	83	100	117	116	134	163	154	153	139	153
Finland	26	34	46	56	53	64	85	88	88	83	83

(US$ billion)

Source: UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics.

Annex table 2 New Zealand: inward FDI flows, 2001-2011

(US$ billion)

Economy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
New Zealand	2.0	.74	2.4	2.8	1.5	4.7	3.4	4.6	-1.3	0.6	3.4
Memorandum: comparator economies											
Switzerland	8.9	6.3	16.5	1.4	-.95	43.7	32.4	15.2	27.0	-6.6	-0.2
Australia	11.0	15.1	9.4	42.5	-24.3	31.1	45.4	46.8	25.7	32.5	41.3
Denmark	11.5	6.6	2.7	-10.4	12.9	2.7	11.8	2.2	3.0	-1.8	14.8
Ireland	9.7	29.0	22.8	-10.6	-31.7	-5.5	24.7	-16.5	26.0	26.3	13.1
Finland	3.7	8.0	3.3	3.0	4.8	7.7	12.5	-1.0	-.004	4.3	0.1

Source: UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics.

Annex table 3. New Zealand: sectoral distribution of international liabilities, 2006, 2011[a]

(per cent of total and total in US$ billion)

Sector	2006	2011
Primary		
Agriculture, forestry and fishing	1.3	1.4
Mining	1.0	1.4
Secondary		
Manufacturing	9.1	7.8
Construction	0.27	0.27
Services		
Electricity, gas, water supply	2.1	2.5
Wholesale trade	4.2	3.4
Retail trade	2.8	1.9
Transport and storage	1.4	1.4
Communication services	6.7	4.4
Finance and insurance	57.2	56.4
Property and business services	1.3	1.9
Total (per cent) Total (US$ billion)	100.0 162.0	100.0 249.3

Source: Statistics New Zealand, *Balance of Payments and International Investment Position: Year ended 31 March 2011*, table 24, available at: http://www.stats.govt.nz. Percentages calculated by the author.

[a] Years refer to year ending 31 March 2006 and year ending 31 March 2011..

Note: International liabilities are all financial claims owing to overseas entities by New Zealand companies, banks or Government. Thus they include not only claims held by foreign direct investors but also by foreign portfolio investors and foreign lenders including banks and other lenders.

Annex table 4. New Zealand: geographical distribution of inward FDI stock, 2006, 2011

(Per cent of total and total in US$ billion)

Home region/ economy	2006	2011
Region		
APEC [a]	74.4	74.6
ASEAN [b]	2.0	2.5
European Union	13.1	8.7
OECD [c]	80.8	80.3
Economy		
Australia	52.3	55.1
Hong Kong, China	0.8	1.0
Japan	2.2	2.8
Netherlands	4.0	3.3
Singapore	1.6	2.1
United Kingdom	6.5	2.6
United States	11.4	11.9
Total (per cent)	100.0[d]	100.0[d]
Total (US $ billion)	49.7	73.9

Source: Statistics New Zealand, *Balance of Payments and International Investment Position: Year ended 31 March 2011*, table 16, available at: www.stats.govt.nz. Percentages calculated by the author.

[a] Asian Pacific Economic Cooperation.
[b] Association of Southeast Asian Nations.
[c] Organization for Economic Co-operation and Development.
[d] Entries for the economies shown do not add up to totals because some home countries (with smaller FDI) are not included in the table.

Annex table 5. New Zealand: foreign affiliates and their share in total number of enterprises and employment in selected industries, 2005

Industry	Number of foreign affiliates	Percentage of foreign affiliates to total enterprises	Percentage of foreign affiliate employment to total employment
Primary			
Agriculture, forestry and fishing	84	0.1	0.7
Mining	41	10.2	26.0
Secondary			
Manufacturing	430	1.9	23.6
Services			
Electricity, gas and water	11	5.4	23.5
Wholesale trade	952	5.4	26.4
Retail trade	91	0.2	13.2
Transport and storage	183	1.5	19.9
Communications services	27	0.8	15.8
Finance and insurance	958	5.5	66.7
Property and business services	770	0.6	22.0
Total, all industries	3,779	0.9	14.5

Source: J. Attewell and W.van Lijf, "Investigation of New Zealand's inward foreign affiliate trade statistics (FATS), using existing data sources," *Official Statistics Research Series*, vol. 1 (Wellington: 2007).

Annex table 6. New Zealand: top 10 M & A deals, by inward investing firm, 2009-2010

Year	Acquiring company	Home economy	Target company	Target industry	Shares acquired (%)	Value (US$ million)
2010	Phaunos Timber Fund Ltd	United Kingdom	Matariki Forests.	Logging	n.a.	117.8
2010	Host Hotels and Resorts Inc	United States	Tourism Asset Holdings Hotels	Hotels	100.0	114.2
2010	CSG Ltd	Australia	Onesource Group Ltd	Photocopying services	100.0	77.9
2010	Olam International Ltd	Singapore	NZ Farming Systems Uruguay Ltd	Dairy farming	59.5	71.2
2010	Investor Group	Australia	Pernod Ricard NZ Wine Brands	Alcoholic beverages	100.0	67.3
2010	China Jin Hui Mining Corp	Hong Kong (China)	UBNZ Assets	Beef cattle	20.0	63.3
2010	Bright Dairy and Food Co Ltd	China	Synlait Milk	Milk	51.0	58.1
2010	Amalgamated Holdings Ltd	Australia	Sky City Entertainment	Motion picture theatres	100.0	42.8
2010	Bathurst Resources Ltd	Australia	L& M Coal Ltd	Coal and minerals	100.0	40.0
2010	Agria Corp	China	PGG Wrightson	Agricultural services	11.5	26.2
2009	Suntory	Japan	Frucor Beverages Group	Fruits and fruit juices	100.0	770.1
2009	Queensland Investment Corp	Australia	Powerco Ltd	Electric services	58.0	214.6
2009	ANZ Banking Group	Australia	ING (NZ) Funds	Investment funds	n.a.	47.6
2009	Toll Holdings Ltd	Australia	Express Int Logistics	Logistics	100.0	46.1
2009	Markit Group Ltd	United Kingdom	TZI Registry	Information retrieval systems	100.0	34.1
2009	Haier Group Corp	China	Fisher & Paykel Appliances	Household appliances	16.7	28.5
2009	ABB Grain Ltd	Australia	NRM Ltd	Animal feeds	100.0	20.4
2009	Ingram Micro Inc	United States	Vantex Tech Distn Ltd	Computer equipment	100.0	12.7
2009	Nutrinvestkholding	Russia	NZ Dairies	Milk	18.0	10.5
2009	Datatec Ltd	South Africa	Datastor (NZ) Ltd	Computer services	100.0	10.4

Source: The author, based on Thomson ONE Banker, Thomson Reuters.

Annex table 7. New Zealand: main greenfield projects, by inward investing firm, 2008-2010

Year	Investing company	Home economy	Industry	Investment/estimated investment (US$ million)
2010	Aviant Networks (Harris Stratex Networks)	United States	Communications	65.3
2010	McCain Foods	Canada	Food and tobacco	13.5
2010	Kaseya	Switzerland	Software and IT services	9.3
2010	Bank of Baroda	India	Financial services	7.4
2010	Hitachi	Japan	Business machines and equipment	7.0
2010	PRA International	United States	Pharmaceuticals	2.8
2010	Droga5	United States	Business services	2.6
2010	Nunwood	United Kingdom	Business services	2.6
2010	Jacobs Associates	United States	Business services	2.6
2010	Kimlun Group	Malaysia	Business services	2.6
2010	Knowledge to Action	United Kingdom	Business services	2.6
2009	Hellman Worldwide Logistics	Germany	Warehousing and storage	89.2
2009	IBM	United States	Software and IT services	80.0
2009	DSV	Denmark	Transportation	66.5
2009	Steinhoff Group	South Africa	Consumer products	51.1
2009	Hyundai Motor	Korea (Rep. of)	Automotive OEM	44.8
2009	Etika International Holdings	Singapore	Food and tobacco	25.3
2009	Arcadia Group	United Kingdom	Textiles	21.9
2009	Infosys Technologies	India	Software and IT services	17.7
2009	Hewlett-Packard (H-P)	United States	Software and IT services	15.1
2009	Nokia	Finland	Communications	15.1
2009	Deutsche Post	Germany	Transportation	8.8
2008	Origin Energy	Australia	Coal, oil and natural gas	362.1
2008	PTT	Thailand	Coal, oil and natural gas	362.1
2008	OMV	Austria	Coal, oil and natural gas	362.1
2008	Australian Worldwide Exploration	Australia	Coal, oil and natural gas	241.1
2008	Owens-Illinois (O-I)	United States	Ceramics and glass	85.0
2008	Kura Wood	United Kingdom	Wood products	56.1
2008	Daiken	Japan	Wood products	53.1
2008	IKEA	Sweden	Consumer products	52.1
2008	Unisys	United States	Software and IT services	47.9
2008	Safran Group	France	Engines and turbines	43.3

Source: The author, based on fDi Intelligence, Market Crossborder Investment Monitor, a service from the Financial Times Ltd.

Chapter 14 - Norway

Norway: Inward FDI and its policy context, 2011

Gabriel R. G. Benito and Leo A. Grünfeld[*]

Norwegian inward foreign direct investment (IFDI) has increased rapidly since 2000. A stock of US$ 30 billion in 2000 grew by almost 300 percent to US$ 116 billion by 2009, a growth stronger than that of most other OECD Member countries. The development of Norwegian IFDI has been rather uneven, with stable periods punctuated by boom years. IFDI in 2008 was lower than in 2007, partly reflecting the cooling down of the world economy as a result of the international financial and economic crisis. The latest available data indicate that IFDI remained in a slump in 2009. The composition of Norwegian IFDI largely follows the structure of Norway's private-sector economy, with a clear dominance of the oil and gas sector. The manufacturing sector is gradually losing its appeal to foreign investors, although more slowly than one would expect considering the reduced importance of this sector in the Norwegian economy.

Trends and developments

Inward foreign direct investment is a pervasive feature of the Norwegian economy, with about 2,000 enterprises having foreign investors holding at least 20% of their equity capital. According to the study "Who owns Norway"```[1] firms with foreign majority ownership generate approximately 25% of value added in the business sector, indicating that foreign-owned firms are large. The study also shows that foreign-owned firms in Norway tend to be more productive and support higher employment growth.[2]

Country-level developments

As shown in annex table 1, Norwegian inward foreign direct investment (IFDI) has increased rapidly since 2000; a stock of US$ 30 billion in 2000 had grown to US$ 116 billion by 2009, an increase of almost 300 percent. IFDI in Norway has grown faster than in most other European countries in the past decade. The Nordic countries as a whole appear to have become more attractive to foreign investors, offering a stable political climate, a generally business-friendly régime, and strong and persistent economic growth. In Europe, only the new EU member countries and the Iberian countries have been able to achieve similar IFDI growth. But in these other countries low factor costs play a more important role for investors than in Norway.

The development of IFDI flows into Norway has been rather uneven (annex table 2), with stable periods punctuated by boom years. The stock of IFDI (measured in US$ at current prices and exchange rates,

[*] The authors wish to thank Torunn Kvinge and Torben Pedersen for their helpful comments. First published April 8, 2011.

[1] Leo A. Grünfeld and Erik W. Jakobsen, *Hvem eier Norge?* (Who owns Norway?), (Oslo: Universitetsforlaget, 2006).

[2] See also Ragnhild Balsvik and Stefanie Haller, "Foreign firms and host country productivity: Does the mode of entry matter?", *Oxford Economic Papers*, vol. 63 (2011), pp. 158-186.

annex table 1) was lower in 2008 than in 2007, reflecting the cooling down of the world economy as a result of the international financial and economic crisis.[1] IFDI picked up somewhat in 2009, but the stock of IFDI in 2009 remained lower than in 2007, the peak year just before the crisis.

There was no major change in the sectoral distribution of Norway's IFDI stock from 2000 to 2008 (annex table 3). Although activity in the petroleum sector is slowly declining, inward FDI has grown in this sector and it still represents more than 25 percent of total IFDI. Manufacturing is slowly becoming less importantbecause of the reduction in the contribution of manufacturing output to the Norwegian economy. Foreign investment in the finance and real estate sectors are large. In those services, foreign players are often forced to enter through relatively expensive acquisitions. Apart from the large and partly state-owned bank DNB NOR, foreign banks acquired almost all major commercial banks in 2000-2008. Examples include Kreditkassen, Fokus Bank and BN Bank.

Traditionally, a large share of IFDI in Norway has come from neighboring countries in the EU (annex table 4). Sweden, Denmark, United Kingdom, the Netherlands, France, and Germany are the still the largest investing countries, although during the past ten years there has been a clear shift towards more investment coming from outside Europe, of which an increasing share stems from offshore financial centers

Investments from U.S. companies have steadily gained in importance, and countries like Singapore and the Republic of Korea have also become more active as home countries for IFDI into Norway. These countries are strongly tied to the Norwegian economy through maritime activities. So far, investment from China has been negligible. There has also been a shift among the home countries of Norway's IFDI within the EU, with countries that were peripheral in their relations with the Norwegian economy becoming more strongly involved in Norwegian business through cross-border investments. Firms from countries like Spain and Ireland have made large investments in Norway, illustrating the catch-up process these countries were experiencing before the financial crisis hit them. Developments during the last decade are consistent with a pattern in which globalization plays an increasing role in the international investment behavior of firms. FDI is gradually changing from being predominantly an activity that takes place between neighboring countries to being one that is distributed more evenly across the globe.

The corporate players

As already mentioned, the sector attracting most IFDI is oil and gas, which represents 30% of Norwegian GDP. The four largest foreign affiliates in Norway are in this sector (see annex table 5), which is highly capital-intensive, consisting of two separate sub-segments, E&P (exploration and production) and oil services. In the E&P segment, large foreign oil companies invest heavily in searching for oil and gas and developing oil fields. This kind of investment activity is dominated by greenfield investments made by global players like Total, Shell and the large North American oil companies. In addition, there are some larger purchases of oil rigs used for exploration and production. The market for oil rigs rocketed in the period before the financial crisis, but has now entered a more mature phase. In the oil services segment, foreign investment activities are to a much larger extent

[1] Measured in Norwegian Krone (NOK) at current prices, the value of IFDI stock increased slightly in 2008 and 2009. Hence, to some extent the effect was driven by changes in the relative exchange rates between NOK and US$.

driven by mergers and acquisitions, where some larger foreign players including Schlumberger, Haliburton, National Oilwell, and FMC have made large acquisitions over the last decades.

During the past three years, foreign acquisitions of several large Norwegian companies have drawn particularly strong attention from politicians, the press and the general public. The IT search engine company Fast Search and Transfer was acquired by Microsoft in 2008, but most of the company's activities remain in Oslo. The largest shipyard company, Aker Yards, was acquired by the Korean company STX in 2007, provoking worries among some local players concerned about the rapid offshoring of shipyard activity. However, STX appears to remain a central player in Norway. In 2007, Tandberg Television was sold to Ericsson and the chemicals company Borealis was sold to Ineos, a U.K.-based chemicals company. In 2008, the Swedish-Finnish company OMX (now part of the NASDAQ/OMX Group) acquired Nord Pool, a key player in energy trading in Northern Europe. In the same year, foreign private equity investors acquired the financial firm Lindorff. Private equity players have become increasingly aware of Norwegian business activity. Large international PE-funds including KKR, Warburg Pincus, Nordic Capital, and EQT have all made large investments in Norway in recent years, acquiring majority shares in firms like Visma, XXL, Master Marine, and Safe Road.

The relationship between inward and outward investment

Being a high-income country with an open economy and a large long-term current-account surplus, Norway has become a major capital exporter.[1] However, a high proportion of Norwegian outward FDI (OFDI) is related to foreign-owned companies and subsidiaries investing in other countries. Firms owned by foreign companies accounted for 14 percent of all firms with FDI positions out of Norway.[2] The strong relationship between IFDI and OFDI confirms a pattern in which multinationals become increasingly complex in their ways of organizing foreign operations.[3] Regional subsidiaries become hubs for investments in other countries in the same region.

Effects of the recent global crisis

Norway's IFDI since 2000 has grown considerably, albeit unevenly. As shown in annex table 2, the latest available data reveal that the recent global economic crisis barely slowed aggregate IFDI flows. In 2008 Norwegian IFDI flows were much less affected than, for example, those of its neighbor Finland (which increased).

Norway's IFDI stock declined in 2008, but it appears that this reduction may have been temporary as figures for 2009 already showed some recovery. Nevertheless, an apparent dip in investments is demonstrated when the values of major cross-border M&A deals completed in 2009 are compared to deals completed in the two preceding years (annex table 6): the three largest deals in both 2008 and 2007 were far larger than the single top deal of 2009.[4]

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[1] Gabriel R.G. Benito, "Norwegian outward FDI and its policy context," *Columbia FDI Profiles,* April 20, 2010.

[2] See Leo A. Grünfeld and Erik W. Jakobsen, *Hvem eier Norge?* (Who owns Norway?), op. cit.

[3] Julian Birkinshaw, Pontus Braunerhjelm, Ulf Holm and Siri Terjesen, "Why do some multinational corporations relocate their headquarters overseas?", *Strategic Management Journal*, vol. 27 (2006), pp. 681-700. See also Gabriel R.G. Benito, Randi Lunnan and Sverre Tomassen, "Distant encounters of the third kind: Multinational companies locating divisional headquarters abroad", *Journal of Management Studies*, vol. 48 (2011), pp. 373-394.

[4] In fact, in terms of value the single largest deal in 2009 would only just have made it into the top-10 list for 2008. The average value for the top-10 M&A deals dropped dramatically from US$ 629 million in 2007 and US$ 1060 million in 2008, to only US$ 178 million in 2009.

The policy scene

Norway has a long history of inward foreign direct investment. Foreign capital, technology and skills played key roles in the industrialization of the Norwegian economy in the latter part of the 19th century, especially in resource-based industries such as metals, paper and pulp, and electro-technical installations and equipment.[1] In the first systematic analysis of IFDI in Norway, Stonehill (1965) argued that multinational companies' operations in Norway were mostly a story of considerable success from the perspective of industrial development and technology transfer as well as that of key macroeconomic indicators such as employment and tax revenues.[2]

Later, with the discovery of oil and gas in the North Sea, foreign companies were central to the development of the sector throughout the 1970s and 1980s, and have remained important operators until recently.[3] However, the Norwegian authorities have, ever since concession laws were introduced early in the last century, generally taken a balanced view of foreigners' involvement in the Norwegian economy. Foreign investors have been welcomed, but only to the extent that their activities were perceived as having provided net social and economic benefits. Two key objectives have been (i) to retain as much as possible of the natural resource rent, and (ii) to develop a domestic manufacturing base with the help of foreign capital and technology.[4]

There have been occasional public debates about foreign take-overs, especially when prominent companies are involved. In the early 1990s notable cases included the acquisitions of Freia-Marabou (a chocolate and confectionery producer) by Philip Morris (United States) and of Viking-Askim (rubber and tires) by Continental (Germany), which in both cases led to closures and relocation of production. Likewise, the merger of Amersham (United Kingdom) and Nycomed (pharmaceuticals) in 1997 quickly led to a relocation of corporate headquarters to the United Kingdom and subsequently to further sell-offs in 1999 of Nycomed Pharma to Nordic Capital, and in 2004 of Amersham to GE Healthcare.

A much-publicized case occurred in 2007, when the Norwegian state became co-owner (30 percent) of a holding company, Aker Holding AS, deliberately set up to keep Aker Solutions, a major engineering and construction company, under Norwegian control.

Since the EEA agreement in 1994, Norwegian authorities have adopted a liberal and non-discriminatory investment policy regime, with few restrictions on foreigners' equity holdings in Norwegian businesses.

So far, the Norwegian authorities have not actively promoted foreign investment. An "Invest in Norway" agency was set up in the 1990s (it was operated by the Norwegian Industrial and Regional Development Fund (SND), now part of Innovation Norway), but its operations were modest and the agency was discontinued after a few years. In this respect, Norwegian policy has been more passive than in other

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[1] Gabriel R.G. Benito. "Utenlandsk eierskap i norsk næringsliv" (Foreign ownership in Norwegian business), in Torger Reve, ed., *Eierskap og kapital som konkurransefaktor* (Ownership and capital as competitive factors), (Bergen: Fagbokforlaget, 1996).
[2] Arthur Stonehill, "Foreign Ownership in Norwegian Enterprises", *Social and Economic Studies*, vol. 14 (Oslo: Statistics Norway, 1965).
[3] Arne Nygaard and Robert Dahlstrom, "Multinational corporation strategy and host country control", *Scandinavian Journal of Management*, vol. 8 (1992), pp. 3-13.
[4] Torunn Kvinge and Rajneesh Narula, "FDI in Norway's Manufacturing Sector," Working Paper No. 9 (Center for Technology, Innovation and Culture, University of Oslo 2001).

Nordic countries, where foreign investors and specialized foreign migrants are given alternative forms of transitory tax relief to attract foreign capital and human skills.

During the last decade, a large number of bilateral investment treaties (BITs) were signed by countries worldwide, focusing on improved and predictable investment conditions. However, Norway has not entered into any BITs since 1998. The choice of not involving itself in BITs is largely based on a legal interpretation of the Norwegian constitution, which forbids the transfer of judicial rights to overseas courts and tribunals. This policy stands in sharp contrast to the BIT activities of other Nordic countries, as well as other European countries,[1] and may harm both Norwegian firms operating abroad and the willingness of foreign firms to invest in Norway. Against this background, there is great potential for improving IFDI policy in Norway.

Conclusion

Inward FDI in Norway has increased sharply since 2000 and was only slightly affected by the recent global crisis. The source country composition of IFDI has undergone some remarkable changes in a relatively short period, with a noticeable increase of IFDI from non-EU countries. The presence of foreign companies is especially strong in the oil and gas sector, but also in metals, and increasingly in financial services such as banking and insurance. However, the outlook for IFDI in the energy and manufacturing sectors has became less positive as exploration and production activities in the North Sea stagnate and a comparatively high cost level leaves Norway's manufacturing sector in an increasingly disadvantaged position.

Additional readings

Balsvik, Ragnhild and Stefanie A. Haller, "Picking "lemons" or picking "cherries"? Domestic and foreign acquisitions in Norwegian manufacturing", *Scandinavian Journal of Economics* vol. 112 (2010), pp. 361-387.

Benito, Gabriel R.G., Birgitte Grøgaard and Rajneesh Narula, "Environmental influences on MNE subsidiary roles: Economic integration and the Nordic countries", *Journal of International Business Studies*, vol. 34 (2003), pp. 443-456.

Benito, Gabriel R.G., and Rajneesh Narula, eds., *Multinationals on the Periphery* (London: Palgrave, 2007).

Kvinge, Torunn, *Essays on Foreign Direct Investments and Host Country Effects*, Doctoral dissertation, University of Oslo 2007 (Also published as FAFO Report 45 (Oslo: Fafo Institute for Labour and Social Research 2008).

[1] For example, Hirdina and Jost mention that Germany was the pioneer of BITs, with its first BIT signed with Pakistan in 1959, and that it is currently the country with the highest number of BITs (138), followed by China (123 BITs) and Switzerland (116 BITs); see Ralph Hirdina and Thomas Jost "Outward FDI of Germany and its policy context," *Columbia FDI Profiles,* April 9, 2010. Similarly, Bellak and Mayer report that Austria has steadily built a network of BITs, with 59 Austrian treaties in force in September 2010; see Christian Bellak and Susanne Mayer. "Inward FDI in Austria and its policy context," *Columbia FDI Profiles,* December 2, 2010.

Lunde, Leiv, Henrik Thune, Eiler Fleischer, Leo A. Grünfeld, and Ole Jacob Sending, *National Interest: Foreign Policy for a Globalised World. The Case of Norway* (Oslo: Norwegian Ministry of Foreign Affairs, 2008).

Useful websites

For statistical material about Norway, see Statistics Norway, especially its *Focus on: External Economy,* available at: www.ssb.no/ur_okonomi_en/.

For trade policy issues, regulations and international relations the web portal www.government.no provides many useful links. The web pages of the ministry of foreign affairs (www.regjeringen.no/en/dep/ud) and the ministry of trade and industry (www.regjeringen.no/en/dep/nhd) are particularly relevant.

Statistical annex

Annex table 1. Norway: inward FDI stock, 2000-2011 [a]

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2011
Norway	30.3	32.7	42.8	49.0	79.4	76.3	95.7	125.6	109.4	116.1	172
Memorandum: comparator economies											
Denmark	73.6	75.4	82.8	100.2	116.5	116.4	133.8	161.5	150.9	157.6	153
Finland	24.3	24.1	34.0	50.2	57.4	54.8	70.6	91.6	83.1	88.4	83
Sweden	94.0	91.9	119.4	158.9	196.2	171.8	227.3	292.5	272.1	304.5	339

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi. Data for Norway are originally compiled by Statistics Norway, available at: www.ssb.no.

[a] All figures in US$ at current prices and current exchange rates.

Annex table 2. Norway: inward FDI flows, 2000-2011 [a]

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2011
Norway	7.1	11.5	0.8	3.5	2.5	5.4	6.4	5.9	8.0	6.7	3.6
Memorandum: comparator economies											
Denmark	33.8	11.5	6.6	2.7	-10.4	12.9	2.7	11.8	2.7	7.8	14.8
Finland	8.8	3.7	8.0	3.3	2.8	4.8	7.7	12.4	-2.0	2.6	5.4
Sweden	23.4	10.9	12.3	5.0	11.0	9.9	27.3	27.2	33.7	10.9	12.1

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi. Data for Norway are originally compiled by Statistics Norway, available at: www.ssb.no.

[a] All figures in US$ at current prices and current exchange rates.

Annex table 3. Norway: distribution of inward FDI stock by economic sector and industry, 2000 and 2008 [a, b]

(US$ billion)

Sector/industry	2000	2008
All sectors/industries	30.3	109.4
Distribution across sectors (in percent)	100	100
Primary		
Mining, quarrying and petroleum	26.9	28.5
Secondary		
Manufacturing, of which:	21.7	20.4
Chemicals	10.4	8.3
Paper and pulp	0.9	3.6
Basic metals	2.1	0.8
Foods and beverages	2.6	1.0
Automotive	6.1	1.6
Construction	2.2	0.7
Services		
Transport and communication	6.6	8.7
Banking, finance, and real estate	25.8	24.0
Wholesale and retail, incl. hotels and restaurants	13.3	8.1
Unspecified other sectors/industries	3.5	9.5

Source: Statistics Norway, available at: www.ssb.no.

[a] Figures in US$ at current prices and current exchange rates.
[b] Percentages may not add up to hundred due to rounding.

Annex table 4. Norway: geographical distribution of inward FDI stock, 2000 and 2008 [a, b]

(US$ billion)

Region/economy	2000	2008
World	30.3	109.4
Distribution across economies (*in per cent*)	100.0	100.0
Europe	79.1	61.6
European Union (EU)	77.1	58.1
Denmark	11.5	8.6
Finland	11.2	1.2
France	4.3	6.8
Germany	2.4	3.0
Netherlands	20.0	5.2
Sweden	16.3	15.8
United Kingdom	9.2	7.7
Other EU countries	0.1	15.0
Other European countries	2.0	3.5
North America	12.3	16.7
Canada	0.2	0.2
United States	12.1	16.5
Other developed countries	1.7	1.0
Australia	0.1	0.5
Japan	1.6	0.5
Other countries	6.9	20.7
Singapore	0.1	1.2
Bermuda	2.5	3.9
Cayman islands	0.3	1.5
Republic of Korea	0.0	0.9
Other	4.0	13.2

Source: Statistics Norway, available at: www.ssb.no.

[a] Figures in US$ at current prices and current exchange rates.
[b] Percentages may not add up to hundred due to rounding.

Annex table 5. Norway: main foreign affiliates, ranked by sales, 2008

(US$ million) [a]

Rank	Name	Industry	Sales in 2008
1	ExxonMobil E&P Norway AS	Oil and gas operations	12,057
2	Total E&P Norge AS	Oil and gas operations	10,146
3	AS Norske Shell	Oil and gas operations	7,486
4	Conoco Phillips Norge	Oil and gas operations	6,877
5	STX Europe AS	Ship Yards	5,594
6	Nordea Bank Norge ASA	Banking	5,524
7	Eni Norge AS	Oil and gas operations	3,730
8	National Oilwell Varco Norway AS	Oil and gas operations	3481
9	ICA Norge AS	Food retailing	3,080
10	Rolls-Royce Marine AS	Ship building and propulsion systems	1,920
11	ABB AS	Energy and automation technologies	1,529
12	BP Norge AS	Oil and gas operations	1,464
13	ExxonMobil Production Norway Inc	Oil and gas operations	1,443
14	Idemitsu Petroleum Norge AS	Oil and gas operations	1127
15	NCC Construction AS	Construction	1,059
16	Nordea Liv Norge AS	Insurance	960
17	Siemens AS	Energy and automation technologies	939
18	Eramet Norway AS	Metals	937
19	Alcoa Norway ANS	Metals	933
20	Dong E&P Norge AS	Oil and gas operations	904

Source: Norges Største Bedrifter (Norway's Largest Companies), www.norgesstorstebedrifter.no

[a] Average US$/NOK exchange rate in 2008 (1 US$ = 5.63 NOK).

Annex table 6. Norway: 10 main completed M&A deals, by inward investing firm, 2007-2009

(US$ million)

Year	Acquiring company	Source economy	Target company	Target industry	Shares acquired (%)	Transaction value
2009	Diamond Offshore Drilling Inc	United States	PetroRig I	Oil and gas	100.0	450
2009	DryShips Inc	Greece	Primelead Shareholders Inc	Oil and gas	100.0	330
2009	CGGVeritas	France	Wavefield Inseis ASA	Oil and gas	100.0	301
2009	Bucher Industries AG	Switzerland	Kverneland -Bale Equipment	Farm equipment	100.0	160
2009	VNG-Verbundnetz Gas AG	Germany	Endeavour Energy Norge AS	Oil and gas	100.0	150
2009	Rolls-Royce Group PLC	United Kingdom	Odim ASA	Ship equipment	33.0	109
2009	Avocet Mining PLC	United Kingdom	Wega Mining ASA	Mining	96.4	75
2009	Galderma Pharma SA	Switzerland	Metvix	Pharmaceutical	100.0	74
2009	Axel Springer AG	Germany	StepStone ASA	Business services	87.3	67
2009	SEB	Sweden	Polaris Media ASA	Media	36.3	62
2008	Investor Group	France	Steen & Strom ASA	Retail	100.0	4 274
2008	Microsoft Corp	United States	Fast Search & Transfer ASA	IT	100.0	1 191
2008	Eramet SA	France	Tinfos AS	Metals	56.0	937
2008	DryShips Inc	Greece	Ocean Rig A.S.A	Oil and gas	100.0	756
2008	STX Corp	Rep. of Korea	Aker Yards ASA	Ship yards	92.5	734
2008	Wintershall Norwegen	Germany	Revus Energy ASA	Oil and gas	100.0	724
2008	Investor AB	Sweden	Lindorff Group AB	Business services	50.0	556
2008	OMX AB	Sweden	Nord Pool Clearing ASA	Commodity trade	100.0	556
2008	FLC West	Luxembourg	Aker Yards Ukraine AS	Ship yards	70.0	454
2008	Centrica PLC	United Kingdom	Heimdal Field	Oil and gas	23.8	418
2007	Telefonaktiebolaget LM	Sweden	Tandberg Television ASA	Electronics	99.1	1 223
2007	GET SPV	United States	GET	Telecommunication	100.0	1 106
2007	INEOS Capital Ltd	United Kingdom	Kerling ASA	Chemicals	100.0	908
2007	STX Corp	Rep. of Korea	Aker Yards ASA	Ship yards	39.2	800
2007	Nemak SA	Mexico	Norsk Hydro ASA-European	Metals	100.0	588
2007	DryShips Inc	Greece	Ocean Rig A.S.A	Oil and gas	30.4	405
2007	Apax Partners LP	United States	Telenor Satellite Services AS	Telecommunication	100.0	403
2007	INEOS Enterprises Ltd	United Kingdom	Borealis A/S-Petrochemical	Chemicals	100.0	392
2007	Parker Hannifin Corp	United States	Scan Subsea ASA	Oil and gas	100.0	260
2007	Saab AB	Sweden	Aker Holding AS	Ship yards	7.5	203

Source: Thomson One Banker, Thomson Reuters

Annex table 7. Norway: main greenfield projects, by inward investing firm, 2007-2009

(US$ million)

Year	Investing company	Source country	Target industry	Investment
2009	The Lundin Group	Switzerland	Oil and natural gas	526[a]
2009	Talisman Energy	Canada	Oil and natural gas	526[a]
2009	Total	France	Oil and natural gas	506[a]
2009	Ryanair	Ireland	Aviation	200
2009	Teliasonera	Sweden	Telecommunications	134[a]
2009	GAC Group	United Arab Emirates	Transportation	88[a]
2009	Northern Iron	Australia	Metals	71[a]
2009	Note AB	Sweden	Electronic components	58[a]
2009	Rezidor Hotel Group	Belgium	Hotels & tourism	58[a]
2009	Craig Group	United Kingdom	Machinery, equipment & tools	24[a]
2008	Royal Dutch Shell Plc	Netherlands	Oil and natural gas	526[a]
2008	Total	France	Oil and natural gas	526[a]
2008	The Lundin Group	Switzerland	Oil and natural gas	526[a]
2008	Endeavour International	United States	Oil and natural gas	526[a]
2008	Puralube Inc	United States	Manufacturing	273[a]
2008	Deutsche Bahn	Germany	Logistics, distribution & transportation	105[a]
2008	Rezidor Hotel Group	Belgium	Construction	60[a]
2008	Rezidor Hotel Group	Belgium	Construction	60[a]
2008	Jula Postorder AB	Sweden	Retail	52[a]
2008	Clas Ohlson	Sweden	Retail	52[a]
2007	Aare-Tessin Fur Elektrizitat (ATEL)	Switzerland	Alternative/renewable energy	81
2007	Sjaelso Gruppen	Denmark	Real estate	62
2007	Clas Ohlson	Sweden	Consumer products	52[a]
2007	Kesko Food	Finland	Building & construction materials	49[a]
2007	GameStop	United States	Software & IT services	49[a]
2007	Bio Diesel International (BDI)	Austria	Alternative/renewable energy	48
2007	Aegis	United Kingdom	Software & IT services	46
2007	Umicore	Belgium	Metals	37
2007	Itella Logistics	Finland	Warehousing & storage	37[a]
2007	Electricite de France (EDF)	France	Oil and natural gas	36[a]

Source: fDi Intelligence, a service from the Financial Times Ltd.[a] Estimated investment.

Norway: Outward FDI and its policy context, 2010

Gabriel R.G. Benito[*]

Norwegian outward FDI (OFDI) has increased substantially since the turn of the millennium: the country's stock of US$ 30 billion in 2000 had grown to US$121 billion in 2008, that is. a 300 percent increase. That represents a notable average annual growth rate of 19 perent. But the development of Norwegian OFDI has been rather uneven, with stable periods punctuated by boom years. 2008 ended at the same level as the preceding year, reflecting the cooling down of the world economy as a result of the international financial crisis and recession. The latest available data indicate that OFDI remained in a slump in 2009. As a country with liberal policies regarding companies' foreign activities, the composition of Norwegian OFDI largely follows the structure of Norway's private sector economy, with a striking dominance of the manufacturing, oil and gas and shipping sectors.

Trends and developments

Norwegian OFDI has increased considerably since the turn of the millennium. The stock of Norwegian OFDI amounted to US$ 121 billion at the end of 2008 (annex table 1), the same figure as the preceding year.[1] That puts Norway between its – in terms of population – very comparable Nordic neighbors Denmark (US$ 150 billion) and Finland (US$ 88 billion), but considerably lower than its somewhat larger neighbor Sweden, whose OFDI stock in 2008 was US$ 253 billion.[2] All Nordic countries have highly internationalized and open economies. However, relatively speaking, that is, compared with the size of their national economies, it is actually Norway that is the "laggard" amongst the Nordic countries in terms of FDI. In 2008, the value of Norwegian OFDI stock amounted to 44 percent of its GDP, whereas the 2008 OFDI-stock/GDP ratios in Denmark and Sweden were 75 percent and 74 percent, respectively. In Finland, the OFDI stock amounted to 47 percent of its GDP in 2008.[3]

Country-level developments

The year-by-year pattern shows a rather uneven development of Norwegian OFDI. Stable periods punctuated boom years (annex tables 1 and 2). To some extent, this is due to general developments in the world economy, especially the boom period from 2003 to 2007. After a slow start at the turn of the millennium due to, above all, the bursting of the IT bubble, a number of years followed characterized by a somewhat uneasy international political situation. However, the pattern also reveals some unique and

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[1] This report deals with FDI made by companies. As is well-known, a considerable amount of Norwegian investment is managed by the country's sovereign wealth fund the *Government Pension Fund – Global* (www.regjeringen.no/en/dep/fin). The fund invests in both financial instruments and equity; the market value of its holdings amounted to more than US$ 400 billion at the end of 2009 (www.norges-bank.no/templates/report76238.aspx). However, the guidelines for the fund specifically state that equity holdings are limited to less than ten percent of the equity of any given company. Hence, the fund does not engage in FDI.

[2] Figures taken from UNCTAD's, foreign direct investment database, available at: http://stats.unctad.org/fdi/. The original data are compiled by Statistics Norway, available at: www.ssb.no.

[3] Calculated on the basis of OFDI figures taken from UNCTAD's foreign direct investment database, op. cit. and figures from the World Bank, available at: www.worldbank.org.

rather enduring characteristics of Norwegian OFDI,[1] of which the bulk stems from investments made by a rather small set of relatively large Norwegian companies such as Statoil, Aker, Kvaerner (now part of Aker), Norsk Hydro (which was split into Yara International, Hydro and StatoilHydro – which was recently renamed Statoil again), Norske Skog and Telenor.[2]

The combination of a small number of companies and the sometimes very large investments made by these companies typically results in a pattern where FDI flows may vary considerably from one year to the next. For manufacturing companies like Aker, Hydro and Yara International, increasing one's global or regional manufacturing capacity by acquiring an existing plant somewhere else typically entails a large investment for the company, but such investments are seldom done every year. Likewise, oil companies like Statoil strive to expand their production base by obtaining licenses to explore, develop and operate new fields, but new ventures tend to come in a lumpy way, both because the availability of attractive new projects is limited and considerable time and effort is needed to succeed in getting them, and because the capital requirements for taking on each new venture are formidable for even the largest oil companies. Finally, Telenor is a telecommunications company that has successfully expanded internationally during the past decade: but since each entry into a new country requires considerable capital investments and resource commitments – often over a period of some years after the initial entry – the company has to find a balance between its strategic ambitions and its means to carry them out; hence, it cannot enter into major new markets on an annual basis.

Aggregate returns on OFDI rose from US$ 5 billion in 2004 to US$ 11 billion in 2007, indicating that returns to OFDI slightly improved over that period, with returns on stock ratios moving from 6 in 2004 to 9 in 2007.[3] The bulk of returns are typically repatriated dividends. In 2007, 75 percent of total returns were dividends, 15 percent were reinvested earnings and 10 percent were net interest income.

The composition of Norwegian OFDI largely emulates the structure of the private sector in the Norwegian economy: close to half of the Norwegian OFDI stock is in manufacturing and in oil and natural gas exploration and extraction (annex table 3). The OFDI shares of these two sectors have been fairly stable over the past decade – the two sectors together represented 48 perent of the Norwegian OFDI stock in 2000 and 47 percent in 2008 – but there is a discernible trend toward a slightly lower importance of manufacturing over time. Conversely, the importance of the oil and natural gas sector has increased somewhat during the first decade of this millennium. The sectoral distribution of the Norwegian OFDI stock also shows that the shipping industry, which has traditionally been very important in Norway,[4] is highly international: together with telecommunications (i.e. mainly Telenor), the shipping industry counts for almost 17 percent of Norwegian OFDI in 2008.

At the turn of the millennium, the lion's share of OFDI went to other developed countries (annex table 4). The European Union (EU) in particular was the main recipient, with almost two-thirds of Norwegian OFDI, followed by Sweden and the United Kingdom (19 percent each) and the US (13 percent). Other

[1] See G.R.G. Benito, J. Larimo, R. Narula, and T. Pedersen, "Multinational enterprises from small economies: internationalization patterns of large companies from Denmark, Finland and Norway," *International Studies of Management and Organization* (32) (2002), pp. 57-78.
[2] According to Grünfeld (2005) about 70 % of all Norwegian OFDI is done by its five largest MNEs, and the twenty largest MNEs represent approximately 85% of total OFDI; see L.A. Grünfeld, "Kapitalens utvandrere: Norske investeringer og aktiviteter i utlandet (Capital emigrants: Norwegian investments and activities abroad)," *Økonomisk Forum*, 59 (2005), pp. 7-19.
[3] Figures provided by Statistics Norway, op. cit. Returns (US$ at current prices and exchange rates) were 5 billion in 2004, 12 billion in 2005, 9 billion in 2006, and 11 billion in 2007.
[4] G.R.G. Benito, E. Berger, M. de la Forest, and J. Shum, "A cluster analysis of the maritime sector in Norway," *International Journal of Transport Management* (1) (2003), pp. 203-215.

major host countries were The Netherlands and Denmark. Thus, as late as 2000, the geographical composition clearly retained much of its historical structure, with a heavy emphasis on countries that are geographically and culturally close to Norway.[1]

In just a few years, however, the picture had changed considerably. In 2006, the EU share of total OFDI stock had dropped to just 55 percent; even within the EU, there has been a small but evident shift from the traditional host countries (the Nordic countries, United Kingdom, France, Germany) to countries in Southern and Central Europe. Nevertheless, the most noticeable change is the increasing importance of countries outside the EU and US, that is countries such as Canada, Singapore and Brazil, and perhaps most dramatic, the influx of Norwegian investments into Algeria, Angola and Azerbaijan. The bulk of these investments were made by oil and gas companies looking for opportunities outside their traditional domain of North Sea exploration and production. In the case of Singapore, much of the investment has traditionally been shipping related, but in recent years it has also been in alternative and renewable energy technologies such as solar energy.

The corporate players

While the Norwegian economy is very open – international trade (imports plus exports) as percent of GDP has hovered at between 80 and 86 in the past decade – and there are quite many export firms and companies that have foreign affiliates of various sorts, there are very few truly large Norwegian MNEs; but, being a small country with slightly fewer than 5 million inhabitants, that is of course not surprising. Among Norwegian MNEs, only Statoil and Telenor are included in the *World Investment Report*'s 2007 top 100 list of non-financial MNEs, on places 62 and 99, respectively. The list of the twenty largest Norwegian MNEs (annex table 5),[2] comprises companies in a variety of industries. It is noteworthy that the four largest MNEs are partly state-owned, and six more companies on the list are also wholly or partially owned by either the Norwegian State or a public authority (e.g. municipalities): Aker Solutions (40 percent-owned by Aker Holding, where the state has a 30 percent share), DnBNor, KLP, Posten, Statkraft, and Hafslund.

Foreign direct investments are usually classified into four main types, based on the primary motivations behind them: (*i*) resource-seeking, (*ii*) market-seeking, (*iii*) efficiency-seeking, and (*iv*) asset-seeking.[3] Although Norwegian companies' OFDI can be grouped into all four categories, the three first mentioned motives are by far the most common:

- First, resource-seeking investments are typically made by oil and gas companies into exploration and production activities. Norwegian oil companies had operated mainly in the North Sea until about a decade ago, but have increasingly ventured into field exploration, development and production projects elsewhere -- lately in Africa and South America. The fish farming industry is another example – even though the total volume of investment is much lower – of resource-seeking investment, with significant projects in Chile, Canada and the United Kingdom (Scotland).

[1] R.P. Amdam, "The internationalisation process theory and the internationalisation of Norwegian firms, 1945 to 1980," *Business History* (51) (2009), pp. 445-461.
[2] Only Norwegian MNEs are listed in annex table 5. Hence, companies without foreign operations are excluded, as are foreign-owned Norwegian affiliates, some of which are quite large (for example in terms of revenues), especially in the oil and gas sector.
[3] J.H. Dunning and S.M. Lundan, *Multinational Enterprises and the Global Economy* (Cheltenham: Edward Elgar, 2008).

- Second, internationalization motivated by market-seeking is exemplified by Telenor's expansion since the mid-1990s into numerous European and Asian markets, with entries into Pakistan (2005) and India (2009) being the most recent. Telenor's entry into India in 2009, which involved greenfield investments as well as the acquisition of an equity stake in Unitech Wireless, was by far that year's largest foreign entry made by a Norwegian company (annex tables 6 and 7).
- Third, Norway's generally high-cost position has led to considerable efficiency-seeking OFDI activity by manufacturing companies, in recent times even affecting "high value-added" manufacturing activities in sectors such as energy generation and infrastructure, ship building and offshore facilities. A consistently strong currency (Norwegian kroner) throughout most of the decade, partly fuelled by a comparatively high interest rate level, has provided a steady impetus to move manufacturing activities offshore.

While asset-seeking investments are perhaps less conspicuous in the broader picture of Norwegian OFDI, asset-seeking motives have been strong drivers for some companies. The development of three companies in the solar energy area – REC, Scatec, Vetro Solar – is illustrative. Expanding by acquisitions as well as greenfield investments (annex tables 6 and 7), these companies have recently moved into selected locations in Germany (Vetro Solar; glass production and processing), Singapore (Scatec; silicone wafer production; REC, integrated production) and US (REC: R&D lab in Silicon Valley, CA, and silicon technology and production center in Moses Lake, WA).

For some companies, the motives are obviously more mixed, such as Statkraft's (SN Power) various electricity production projects using hydro, gas, wind, and solar technologies in numerous European countries, and recently in Peru (annex tables 6 and 7). FDI in (renewable) energy production and supply typically takes into account resource availability (waterfalls, wind, sun etc.) as well as market conditions (current and future electricity demand).

Effects of the current global crisis

As shown in annex tables 1 and 2, the latest available data reveal that the recent global economic crisis barely had a slowing down effect on aggregate FDI flows in 2008, with 2008 ending on about the same level as the preceding year; hence, Norwegian OFDI has been less affected than, for example, that of its neighbor Finland. However, the decline in OFDI may have begun late in 2008, with FDI outflows dropping more sharply in 2009.[1]

An apparent dip in investment can be seen when the values of major M&A deals completed in 2009 are compared to deals completed in the two preceding years (annex table 6): the three largest deals in each of the years 2008 and 2007 are far larger than the single top deal of 2009.[2]

Apart from Telenor's very substantial investment into the Indian market in 2009, a similar pattern emerges when comparing greenfield investments across the years 2007 to 2009 (annex table 7). The

[1] For example, a sharp drop in OFDI was revealed for 2009 in the case of Germany; see R. Hirdina and T. Jost, "Outward FDI of Germany and its policy context," *Columbia FDI Profiles*, April 9, 2010.
[2] The average value for the top 10 M&A deals dropped dramatically from US$ 867 million in 2007 and US$ 791 million in 2008, to only US$ 97 million in 2009.

average value for the ten largest greenfield projects in 2009 was US$ 659 million, down from US$ 893 million in 2008 and US$ 1,286 million in 2007.

It must be noted however that it may not be straightforward to compare asset prices before the crisis with those during and after it. Economic crises typically lead to lower prices for property, equity and various investment assets, which in turn will affect the values of M&A transactions and greenfield investments. Also, although an economic crisis *per se* might increase the risks associated with foreign investments, the strong Norwegian currency combined with lower asset prices abroad currently makes it relatively more attractive to pursue foreign investment opportunities. Nevertheless, a more marked downturn is likely to have happened in 2009. The most recently available balance-of-payments data from Statistics Norway show a large drop in foreign invested equity capital in 2009 (down 90 percent from 2008), but an equivalent increase in OFDI in the form of loans.[1]

The policy scene

Regulations – both in terms of concession laws regulating inward foreign investments and takeovers, and in terms of capital and foreign exchange permits needed to make outward investments – were loosened considerably in the early 1980s on both OFDI and IFDI.[2] Norway has been part of the European Economic Area agreement since 1994, which governs much of its economic relations with Europe. Beyond Europe, Norway generally favors multilateralism with the UN and WTO as key institutions.

Norwegian authorities have generally taken a *laissez faire* approach to Norwegian companies' foreign investments. The official policy is that such investments should be made on the basis of business interests and benefits, as long as due concern is taken of taxation, corruption and security issues.[3] A variety of assistance measures for internationalizing firms are available through the governmental agency Innovation Norway. The Norwegian Government also actively promotes and assists investments in less developed countries. An investment fund, NORFUND, dedicated to such investments has been operating since 1997, and GIEK, the state-owned Norwegian Guarantee Institute for Export Credits, provides an insurance scheme against political risk concerning foreign investments.

Despite the dominant position of the Norwegian State as an owner of several large commercial companies and businesses, national authorities tend to take a hands-off approach to their management, including their internationalization strategies.[4] Although concerns are sometimes raised about a possible "exporting of jobs" due to investments abroad, it is widely accepted that competitiveness is the only way to sustain domestic employment in the private sector.

Conclusions and Outlook

Norway was a relative latecomer to the OFDI scene, and it is only during the past few decades that it has become a home country for significant MNEs. Norwegian OFDI has increased considerably since the

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[1] Statistics Norway, available at: www.ssb.no/ur_en/tab-fin-aar-en.html.
[2] OECD, *Reviews of Foreign Direct Investment: Norway* (Paris: OECD, 1995).
[3] There are tight guidelines on ethical, environmental and social responsibility issues for investments made by the country's sovereign wealth fund, the *Government Pension Fund – Global* (available at: www.regjeringen.no/en/dep/fin), but private investments are generally left to the discretion of the companies and their owners.
[4] H. Hveem, "Norwegian foreign policy and investment abroad: confusing conditions?" *Internasjonal Politik,* (67) (2009), pp.380-411.

turn of the millennium, and the composition of that investment has undergone some noticeable changes during a relatively short period of time. Traditional efficiency-seeking and market-seeking OFDI remain important for most Norwegian MNEs, but, alongside them, resource-seeking investments have also risen appreciably in recent years. Norway's large energy companies – oil and gas as well as renewable energy – have become front runners in this millennium's wave of FDI, which has led them to countries that previously were seldom hosts to Norwegian companies.

Additional readings

Benito, Gabriel R.G, and Rajneesh Narula, eds., *Multinationals on the Periphery* (London: Palgrave, 2007).

Hodne, Fritz, "The multinational companies of Norway," in Geoffrey G. Jones and Harm Schröter, eds., *The Rise of Multinationals in Continental Europe* (Cheltenham: Edward Elgar, 1993), pp. 128-151 .

Lunde, Leiv, Henrik Thune, Eiler Fleischer, Leo A. Grünfeld, and Ole Jacob Sending, *National Interest: Foreign Policy for a Globalised World. The Case of Norway* (Oslo: Norwegian Ministry of Foreign Affairs 2008).

OECD, *OECD Economic Surveys: Norway 2010* (Paris: Organisation for Economic Co-operation and Development, 2010), available at: www.oecd.org/norway.

Van den Bulcke, Daniel, Alain Verbeke and Wenlong Yuan, eds., *Handbook of Small Nations in the Global Economy: The Contribution of Multinational Enterprises to National Economic Success* (Cheltenham: Edward Elgar, 2009).

Useful websites

For statistical material about Norway, see Statistics Norway, *Focus on: External Economy,* available at: www.ssb.no/ur_okonomi_en/.

For trade policy issues, regulations and international relations, the web portal www.government.no provides many useful links. The web pages of the Ministry of Foreign Affairs (www.regjeringen.no/en/dep/ud) and the Ministry of Trade and Industry (www.regjeringen.no/en/dep/nhd) are particularly relevant.

Statistical annex

Annex table 1. Norway: outward FDI stock,[a] 2000 to 2008 (US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008
Norway	30.3	32.7	42.8	49.0	79.4	76.3	95.7	121.6	121.5
Memorandum: comparator economies									
Denmark	45.9	43.5	53.1	65.8	82.5	94.0	108.0	120.5	150.5
Finland	24.3	24.1	34.0	50.3	57.4	54.8	70.6	92.1	87.9
Sweden	94.0	91.9	119.4	158.9	196.2	171.8	227.5	290.0	253.5

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/. Data for Norway are originally compiled by Statistics Norway, available at: www.ssb.no.

[a] All figures in US$ at current prices and current exchange rates.

Annex table 2. Norway: outward FDI flows, 2000 - 2008 [a] (US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008
Norway	7.1	2.1	0.8	3.5	2.5	5.4	6.4	4.4	-0.1
Memorandum: comparator economies									
Denmark	16.5	5.8	5.8	2.4	-0.9	8.9	8.2	9.4	10.9
Finland	8.8	3.7	8.0	3.3	2.8	4.8	7.6	12.4	-4.2
Sweden	23.4	10.9	12.3	5.0	11.0	10.1	27.2	22.1	43.7

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/. Data for Norway are originally compiled by Statistics Norway, available at: www.ssb.no.

[a] All figures in US$ at current prices and current exchange rates.

Annex table 3. Norway: distribution of outward FDI stock, by economic sector and industry, 2000 and 2008[a, b]

Sector / industry	2000	2008
All sectors / industries	US$ 30 billion	US$ 121 billion
Distribution across sectors (*in percent*)	*100*	*100*
Primary		
Mining, quarrying and petroleum	*22*	*23*
Secondary		
Manufacturing, of which:	*26*	*24*
• Chemicals	*8*	*4*
• Paper and pulp	*2*	*4*
• Basic metals	*1*	*4*
• Food and beverages	*2*	*2*
• Automotive	*5*	*3*
Services		
Transport and communication	*16*	*17*
Banking, finance, and real estate	*16*	*12*
Wholesale and retail, incl. hotels and restaurants	*4*	*3*
Unspecified other sectors/industries	*17*	*21*

Source: Statistics Norway, available at: www.ssb.no.

[a] Figures in US$ at current prices and current exchange rates.
[b] Percentages may not add up to hundred due to rounding.

Annex table 4. Norway: geographical distribution of outward FDI stock, 2000 and 2006.[a, b]

Economy / region	2000	2006
World (US$ billion)	US$ 30 billion	US$ 97 billion
Distribution across economies (*in percent*)	*100*	*100*
Europe	*70*	58
European Union	*68*	*55*
Denmark	*9*	*4*
Finland	*2*	*2*
France	*2*	*2*
Germany	*3*	*4*
Netherlands	*6*	*8*
Sweden	*19*	*21*
United Kingdom	*19*	*4*
Other EU countries	*9*	*11*
Other European countries	*3*	*3*
North America	*14*	*15*
United States	*13*	*10*
Canada	*1*	*5*
Other developed countries	*0*	*2*
Australia	*0*	*1*
Japan	*0*	*0*
Other countries	*16*	*26*
Algeria	*0*	*2*
Angola	*1*	*2*
Azerbaijan	*0*	*3*
Brazil	*2*	*2*
Singapore	*3*	*8*
Other	*10*	*9*

Source: Statistics Norway, available at: www.ssb.no.

[a] Figures in US$ at current prices and current exchange rates.
[b] Percentages may not add up to hundred due to rounding.

Table 5. Norway: twenty largest MNEs headquartered in the country, ranked by total sales in 2008 [a] (US$ billion)

Rank	Name	Industry	Total sales (US$ billion)
1	StatoilHydro ASA	Oil and gas operations	112.4
2	Telenor ASA	Telecommunications	16.8
3	Yara International ASA	Chemicals	15.3
4	Hydro ASA	Metals	15.3
5	Orkla ASA	Conglomerate	11.3
6	Aker Solutions ASA	Ship yards	10.0
7	Reitangruppen AS	Retailing	9.8
8	DnB Nor	Banking, insurance and finance	5.9
9	KLP	Banking, insurance and finance	5.0
10	Posten Norge AS	Postal services	4.9
11	Storebrand ASA	Banking, insurance and finance	4.8
12	Norske Skog ASA	Paper and pulp	4.4
13	Statkraft	Electricity and renewable energy	4.3
14	Veidekke ASA	Construction	3.3
15	Tine Gruppen	Food products	3.2
16	Gjensidige	Banking, insurance and finance	3.0
17	Nortura SA	Food products	2.9
18	Atea ASA	Business services	2.7
19	Schibsted ASA	Media	2.3
20	Hafslund	Electricity and renewable energy	1.9

Source: Dagens Næringsliv "DN 500" and the Amadeus Database.

[a] List only includes companies that are Norwegian (fully or partly) owned. Norwegian subsidiaries of foreign groups are excluded.

Table 6. Norway: the 10 most important completed M & A deals, by outward investing firm, 2007-2009

Year	Acquiring Company	Target company	Target industry	Target economy	Equity share (%)	Transaction value (US$ million)
2009	Telenor ASA	Unitech Wireless Ltd	Telecommunication	India	49.0	477
2009	StatoilHydro ASA	World Point Terminals	Oil and natural gas	Bahamas	100.0	258
2009	Statktaft SA	Yesil Enerji	Renewable energy	Turkey	95.0	137
2009	Schibsted ASA	InfoJobs SA	Media	Spain	98.5	49
2009	Telenor ASA	BiBoB AS	Telecommunication	Denmark	100.0	17
2009	Tilway Oil	Toreador Turkiye Ltd	Oil and natural gas	Turkey	100.0	11
2009	Cecon ASA	Davie Yards Inc	Ship yards	Canada	39.3	7
2009	Statkraft SA	Atlantis Resources Corp Pte	Renewable energy	Singapore	…	7
2009	Rocksource Geotech AS	TechnoImaging LLC	Oil and natural gas	USA	36.0	5
2009	Offshore Holding AS	Davie Yards Inc	Ship yards	Canada	28.5	5
2008	StatoilHydro ASA	Chesapeake Energy-Marcellus	Oil and natural gas	USA	32.5	3375
2008	StatoilHydro ASA	Anadarko Petroleo Ltda	Oil and natural gas	Brazil	100.0	1800
2008	Yara International ASA	Saskferco Products Inc	Chemicals	Canada	100.0	1590
2008	Revus Energy ASA	Palace Exploration	Oil and natural gas	United Kingdom	100.0	258
2008	Aker Solutions ASA	Qserv Ltd	Oil and natural gas	United Kingdom	100.0	197
2008	Herkules PEF	Gothia-AFS Business	Business services	Sweden	100.0	163
2008	Investor Group	Stena Fastigheter AB	Real estate	Sweden	100.0	142
2008	Imarex ASA	Spectron Group Ltd	Oil and natural gas	United Kingdom	100.0	138
2008	SeaDrill Ltd	Scorpion Offshore Ltd	Oil and natural gas	Bermuda	36.0	127
2008	Norsk Hydro ASA	Alumafel SA	Metals	Spain	100.0	119
2007	Storebrand ASA	SPP Livsforsäkring AB	Insurance	Sweden	100.0	2761
2007	Statoil ASA	North American Oil Sands Corp	Oil and natural gas	Canada	100.0	1961
2007	Investor Group	Aibel	Oil and natural gas	United Kingdom	100.0	900
2007	Acta Holding ASA	Property Portfolio	Real estate	Germany	100.0	693
2007	Kongsberg Automotive ASA	Teleflex Inc – Global Automotive	Automotive	USA	100.0	560

2007	Acta ASA	Kuwait Finance House - Malon	Real estate	Sweden	100.0	553
2007	Statkraft Norfund Power	Electroandes SA	Renewable energy	Peru	100.0	390
2007	PGS ASA	MTEM Ltd	Oil and natural gas	United Kingdom	100.0	276
2007	Block Watne AS	Prevesta AB	Construction	Sweden	100.0	272
2007	Tandberg ASA	Codian Ltd	Electronics	United Kingdom	100.0	270

Source: Thomson One Banker, Thomson Reuters.

Table 7. Norway: top 10 greenfield projects per year, by outward investing firm, 2007-2009 [a]

Year	Investing Company	Target industry	Target economy	Investment (US$ million)
2009	Telenor ASA	Telecommunication	India	3200
2009	KLP	Real estate	Denmark	804
2009	Statkraft	Renewable energy	United Kingdom	651
2009	StatoilHydro ASA	Oil and natural gas	Indonesia	525[a]
2009	Umoe Group	Renewable energy	Canada	480
2009	Bonheur ASA	Renewable energy	Sweden	216[a]
2009	StatoilHydro ASA	Oil and natural gas	Brazil	213[a]
2009	Norse Energy Corp ASA	Oil and natural gas	Brazil	200[a]
2009	InterOil E&P ASA	Oil and natural gas	Peru	160[a]
2009	InterOil E&P ASA	Oil and natural gas	Colombia	140[a]
2008	Intex Resources ASA	Metals	Philippines	2900
2008	StatoilHydro ASA	Oil and natural gas	Greece	1500
2008	REC Group	Electronics	Canada	1200
2008	StatoilHydro ASA	Oil and natural gas	Canada	820[a]
2008	Vetro Solar AS	Ceramics & glass	Germany	579
2008	Staur Holding AS	Real estate	Latvia	537
2008	TGS-NOPEC ASA	Business services	Nigeria	378[a]
2008	StatoilHydro ASA	Oil and natural gas	USA	356[a]
2008	Norse Energy Corp ASA	Oil and natural gas	USA	356[a]
2008	Scatec AS	Renewable energy	Singapore	300
2007	REC Group	Renewable energy	Singapore	4354
2007	Norsk Hydro ASA	Metals	Russia	4000
2007	Norsk Hydro ASA	Metals	Brazil	2200
2007	Larvik Cell AS	Paper and packaging	Russia	1086
2007	Yara International ASA	Chemicals	Netherlands	426
2007	Pronova BioPharma ASA	Pharmaceuticals	Denmark	264
2007	Norwegian Air Shuttle ASA	Aerospace	Denmark	194[a]
2007	Global Green One	Renewable energy	Hungary	140
2007	Odfjell	Oil and natural gas	China	107
2007	Norsk Hydro ASA	Metals	Tajikistan	90

Source: Based on information from fDi Intelligence, a service from Financial Times Ltd.

[a] Estimated investment.

Chapter 15 - Poland

Poland: Inward FDI and its policy context, 2010

Zbigniew Zimny[*]

By 2009, Poland had attracted the highest IFDI stock (US$ 182 billion) among the new members of the European Union (EU) from Central and Eastern Europe. Its FDI inflows increased considerably after the country's accession to the EU. They fell during the crisis, but rather modestly, remaining at higher levels than in other countries of the region. The combination of a competitive and constantly improving policy framework for FDI and investment in general, the best GDP growth performance among the Organisation for Economic Co-operation and Development (OECD) countries in 2009 and favorable projections for 2010 and 2011 augurs well for the recovery of IFDI in Poland. In fact, there are signs of strong recovery already in the first quarter of 2010, with FDI inflows over two times higher than during the same period of the previous year.

Trends and developments

Country-level developments

With an IFDI stock of US$ 182 billion in 2009 (annex table 1), Poland is, in absolute terms, by far the largest host country among new EU member countries from Central and Eastern Europe.[1] The Czech Republic comes next with a stock of US$ 122 billion and Hungary third (US$ 100 billion). During 2000–2009, Poland received the largest FDI inflows in the region in all years but two, reaching a record of US$ 23 billion in 2007 (annex table 2). After the accession to the EU, annual average inflows into Poland nearly tripled from US$ 6 billion during 2000–2003 to over US$ 16 billion during 2004–2008. Having reached a peak in 2007, IFDI flows declined during the subsequent crisis, to US$ 17 billion in 2008 and US$ 12 billion in 2009 (annex table 2).

During 2000–2008, the composition of Polish IFDI flows improved, reflecting the growing attractiveness of Poland as a business location. During 2000–2003, inflows consisted predominantly of equity capital, with some loans of parent corporations to their Polish affiliates and negative reinvested earnings. Since 2004, in every year but 2008, reinvested earnings were strongly positive, accounting for 30 percent of total FDI inflows while the share of equity capital fell to 45 percent. Foreign investors started reaping increasing benefits, as indicated by the surge in dividends transferred from affiliates to parent companies, which amounted to nearly US$ 12 billion in 2008.[2]

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[1] These countries include, apart from Poland, Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Romania, Slovakia, and Slovenia. They compete for FDI, especially export-oriented FDI, benefiting from free access to the EU market.

[2] The ratio of transfers from affiliates (including dividends and income on credit) to FDI inflows rose from 28% during 2000–2004 to 54% during 2005–2008. In 2008, transfers and FDI inflows were almost equal. See Narodowy Bank Polski (NBP), *Zagraniczne inwestycje bezpośrednie w Polsce w 2008 roku* (Warszawa: NBP, 2009) and for the years 2000–2007. These are annual publications of the National Bank of Poland on FDI in Poland (in Polish, with English subtitles in the tables).

Services accounted for 68 percent of Poland's IFDI stock in 2008 (up from 60 percent in 2000), with trading and financial services as the largest industries, each accounting for 17–18 percent of the total stock, followed by other business services (9 percent) and real estate services (8 percent) (annex table 3). Telecommunications and power generation have also attracted significant foreign investments. IFDI in the primary sector is minimal. In manufacturing (accounting for 31 percent of IFDI stock in 2008), the largest industries for FDI include food, metal products and motor vehicles (each 7—8 percent of the total stock).

Nearly all IFDI in Poland originates from developed countries and, among them, predominantly from the EU-15, accounting for over 82 percent of the total stock in 2008 (annex table 4). The four largest home countries in 2008 (similarly to 2000, although in a different order) were the Netherlands (holding 19 percent of the stock), Germany (16 percent), France (11 percent), and the United States (6 percent).[1] Between 2000 and 2008, the top four increased their IFDI stock by 280 percent, but their share in the total stock fell from 65 percent to 52 percent, because firms from many other countries invested vigorously in Poland during the 2000s. These included several West European countries, each holding by 2008 a stock of FDI between US$ 3 billion and US$ 5 billion (Ireland, Switzerland, Denmark, Spain) and US$ 5–8 billion (Belgium, Austria, Italy, the UK, Sweden). Significant new home countries also include Japan, increasing its stock to US$ 1.3 billion in 2008.[2] More than 60 percent of the US$ 5 billion FDI stock from developing economies is registered in Caribbean tax heavens. Only the Republic of Korea (US$ 1 billion) and China (US$ 300 million) are visible as increasingly significant developing home countries, undertaking "genuine" FDI.

The corporate players

The list of the largest 20 foreign affiliates in Poland reflects the importance of the corresponding industries in FDI (annex table 5). Metro Group (Germany), dealing in retail trading and featuring several chains of supermarkets, home, electric and electronic appliances leads the list (with sales of nearly US$ 14 billion in 2008), followed by the largest telecommunication company Telekomunikacja Polska (Telecom France) (US$ 11 billion) and Fiat (Italy), with sales of US$ 7.6. The list also features three MNEs in the automotive industry (in addition to Fiat, Volkswagen, Toyota and Delphi), three banks and six trading companies (in addition to Metro Group).

Cross-border acquisitions were quite important in the 1990s[3] when Poland implemented a large privatization program involving, among others, banks, a couple of power generating firms and manufacturing firms. During the 2000s, privatizations became less important, and cross-border purchases shifted toward Polish private companies that had emerged during the transition process and, sometimes, toward foreign affiliates changing hands among foreign investors (annex table 6). The

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[1] Luxembourg emerged in 2008 as one of largest home countries, with a stock of US$ 14 billion, and a share in the total IFDI stock equal to 9%. But most of FDI registered in Luxembourg originates from MNEs of other countries, choosing to channel funds to their affiliates through Luxembourg for tax reasons. Since 2006, funds called "capital in transit" have flown through Poland (much of them from Luxembourg and the Netherlands). These funds are registered as inward FDI flows. But in the same year, they have been typically "invested" in other countries, giving rise to FDI outflows from Poland.

[2] Narodowy Bank Polski (NBP), *Zagraniczne inwestycje bezpośrednie w Polsce w 2008 roku* (Warszawa: NBP, 2009).

[3] The ratio of M&A sales to FDI inflows was 35% during 1991–1995 and 46% during 1996–2000 (calculated from UNCTAD's FDI/TNC data base).

revival of the privatization program by the current government has added momentum to cross-border M&As.

The growing stock of IFDI in Poland has been accompanied by a growing role of foreign affiliates in the Polish economy, from 16 percent in 1995, to 34 percent in 2000 and around 40 percent in recent years, according to a transnationalisation index that calculates averaged shares of foreign affiliates in all firms in Poland for the following measures: employment, total sales and export sales, investment in fixed assets, value of fixed and current assets and equity and liabilities.[1] With increasing weight, foreign affiliates have made several positive contributions to the Polish economy:[2]

- The labor and capital productivity of foreign affiliates are higher than that of domestic firms by, respectively, 80 percent and 40 percent,[3] raising the productivity of the entire economy.
- Foreign affiliates in tradable goods and services exhibit a much higher export orientation than domestic firms: the share of exports in the revenues of the former was 26 percent in 2008 versus 7 percent for the latter.[4] The export propensity of foreign affiliates is increasing (in 2000 it was 16 percent) while that of domestic firms remains stagnant. Consequently, FDI is a driving force of Polish exports, accounting for over 63 percent of goods exports in 2007 (up from 50 percent in 2000).
- Foreign affiliates have improved the composition of exports (and that of manufacturing), shifting it toward medium-high and high technology goods (mainly to the former).
- Foreign affiliates employed over 1.5 million people in 2008 (or 28 percent of the employment of all enterprises in Poland or 11 percent of the total employment), compared to over 0.9 million in 2000. Given that during this period most FDI consisted of greenfield projects,[5] most of this increase of over 600,000 can be attributed to job creation. In addition, foreign affiliates pay significantly higher wages. For example, in 2007 the average monthly gross salary in manufacturing foreign affiliates was over 55 percent higher than that in domestic companies.[6]
- In the past few years, world renowned MNEs such as Bayer, IBM, Microsoft, LG Electronics, and Oracle, to name a few, have chosen Poland as a location for investment in corporate services, including in R&D. According to PAIiIZ,[7] the Polish investment promotion agency, the number of corporate service centers was nearing 50 in 2008, and that of R&D affiliates was close to 45, both with the tendency to grow. R&D affiliates already employ several thousand persons and conduct R&D in informatics, automotive, chemical, food, and aerospace industries.

Effects of the current global crisis

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[1] Institute for Market, Consumption and Business Cycles Research (IMCBCR), *Foreign Investment in Poland: Annual Report* (Warszawa: IMCBCR, 2009), pp. 182-83.
[2] If not otherwise indicated, sources of data in this section include annual publications of the Central Statistical Office on *Economic Activity of Entities with Foreign Capital* and those of the Institute for Market, Consumption and Business Cycles Research (IMCBCR) on *Foreign Investment in Poland.*
[3] Labor productivity is measured as sales per employee and capital productivity as sales per unit of fixed assets.
[4] The export propensity of manufacturing affiliates is much higher, at 50%. Manufacturing generates over 80% of Polish exports.
[5] This is indicated by a very low ratio of cross-border acquisitions to total FDI inflows, 4% during 2006–2008 (compared to 17% during 2001–2005). See UNCTAD's FDI/TNC data base.
[6] It was, however, 15% lower than in state-owned companies. Central Statistical Office (CSO), *Statistical Yearbook of Industry* (Warszawa: CSO, 2008), p. 309.
[7] The Polish acronym for the Polish Agency for Information and Foreign Investment.

During the crisis, Poland, as other host countries, has experienced lower IFDI flows. However, FDI reductions have not been drastic. In 2009, the decline by about one third, compared to 2008, was less than in comparator countries (annex table 2). In addition, foreign affiliates did not postpone or suspend their investment plans, at least in the first year of the crisis. Their investment expenditures[1] in fixed assets grew by 19 percent in 2008 – much faster than their annual average growth during 2004–2007 (16 percent).[2] Given the significance of the aggregated value of the main greenfield projects announced in 2008–2009 (US$ 22 billion, annex table 7), which will be turned into actual investment expenditures in the near future, the strong investment performance of foreign affiliates is likely to continue in the coming years. Moreover, PAIiIZ did not register any significant weakening of investors' interest in new FDI projects. As of March 2010, the agency had been servicing 122 FDI projects worth € 4.5 billions (or roughly US$ 6 billion), potentially creating over 33,000 jobs.[3]

Moreover, FDI inflows seem to be recovering strongly already in 2010. In the first quarter of 2010, they amounted to US$ 4.5 billion, and were more than two times higher than inflows in the same period of 2009. Half of these inflows were reinvested earnings, signifying their strong recovery.[4] The revival of the privatization program, implemented during 2008–2011, should support FDI recovery.[5]

This relatively good FDI performance during the crisis can be attributed to the relatively good economic performance during the crisis. The crisis affected Poland relatively mildly. Without any significant stimulus package, Poland was the only OECD country to register GDP growth of 1.7 percent in 2009. Projections for 2010-2011 are favorable, much better than for most other OECD countries, around 3 percent for each year.[6] So far, no bank or other financial institution in Poland has been threatened by the financial crisis. Polish public debt has been manageable. Amid the surrounding economic turmoil, Poland has been perceived by investors as an island of stability. As A.T. Kearney put it in its 2010 FDI Confidence Index, "the country's relatively strong performance during the crisis gives investors cause for confidence."[7]

The policy scene

With the beginning of the transition toward a market economy in the early 1990s, Poland declared IFDI as one of the key drivers of economic growth and development. Consequently, the country introduced FDI policies serving this purpose, and turned them into treaty commitments through BITs, OECD membership (1997), an association agreement with the EU during the 1990s, and full EU membership since 2004. As early as in 1990, Poland had signed a BIT with the United States, a country known for

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[1] In current prices and in national currency.
[2] Annual publications of the Central Statistical Office of Poland on *Economic Activity of Entities with Foreign Capital* (in Polish with English subtitles in the tables). The latest one, listed in the references, is: Central Statistical Office (CSO), *Economic Activity of Entities with Foreign Capital in 2008* (Warszawa: CSO, 2009).
[3] Communication from PAIiIZ.
[4] Communications from the National Bank of Poland on the balance of payments in January, February and March 2010; and Polish Information and Foreign Investment Agency, *Newsletter*, May 20, 2010, number 175.
[5] The government plans to privatize 802 firms for an estimated value of 30 billion of Polish zlotys (or close to US$ 10 billion). Privatization sales were over US$ 2 billion in 2009 and nearly US$ 2 billion in the first four months of 2010. The plan for 2010 is to reach US $ 8 billion of revenues (see the website of the Polish Ministry of Treasury www.msp.gov.pl). Of course, not all privatized firms have been or will be sold to foreign investors. But press reports indicate quite strong interest and participation of MNEs in the program, which will, most likely, add a few billions of dollars to FDI inflows into Poland.
[6] *The Economist*, June 5 – 11, 2010, p. 97.
[7] A.T. Kearney, *Investing in a Rebound: The 2010 A.T. Kearney FDI Confidence Index* (Vienna, Virginia, USA: A.T. Kearney, 2010), p. 17.

requiring partner countries to adopt above-average commitments regarding FDI policy. As a result, since the beginning of the transition, Poland's FDI policy has incorporated high international standards concerning the entry, treatment and protection of FDI. There are no restrictions on any types of FDI (including on M&As), privatization is generally open to foreign investors and the choice of buyers is based on non-discrimination and guided by economic considerations.

Since years, Poland has a viable Investment Promotion Agency, PAIiIZ. It also grants incentives (guided by the EU rules on state-subsidies) to greenfield investment projects in manufacturing and corporate services. Projects located in special economic zones are granted tax holidays or tax reductions. In addition, investment grants can be given to FDI projects in six industries of particular importance to the national economy[1] and to projects in other branches that exceed a certain size of employment or investment value. The total value of aid is capped at 15 percent of an investment's value for projects located in special economic zones and at 30 percent for others.[2] Real estate tax exemptions are also available to investors.

As of June 1, 2009, Poland had 59 BITs and 85 double taxation agreements.[3] As an EU member, it does not conclude bilateral trade or economic partnership agreements, but is a party to agreements concluded by the EU on behalf of member countries.

As in other countries, there have been investment disputes in Poland, though not too many, often involving SOEs. The most prominent dispute involved the largest state-controlled insurance company (Polish Insurance Company), and Eureko (Netherlands); it was settled amicably in 2009, when the Polish Government paid compensation for a broken promise to sell the insurance company PZU's majority shares to Eureko.[4]

Having had since years high standards of entry, treatment and protection of foreign investors, Poland has focused its efforts on improving the general investment climate for all investors. In one notable change also affecting foreign investors, the corporate tax rate was lowered in 2004 to 19 percent (from 40 percent prior to 1997 and 30 percent later on). Other efforts aimed at improving overall conditions of doing business have been rather slow-moving. Poland occupies a rather low position in a 2010 World Bank's ranking[5] of countries in this regard, being 72nd among 183 countries. Among the new EU members from Central and Eastern Europe, only the Czech Republic had a lower rank (74th). Poland ranks especially low on construction permits (163rd position) and the general tax burden (151).

This low position, indicative of several bureaucratic and regulatory hurdles to investment, coupled with poor transportation infrastructure (and in particular slow progress in building highways connecting the country to the West European highway system), explains why Poland, although the largest host country in the region in terms of the absolute size of FDI stock and/or flows, does no perform so impressively when the size of FDI is related to the size of the country. In 2008, in terms of the FDI stock as a

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[1] Including automobiles, aviation, biotechnology, IT and electronics, business process outsourcing, and R&D. See PAIiIZ and PricewaterhouseCoopers, *Why Poland?* (Warsaw: PAIiIZ, 2010), pp. 15–16.

[2] Ibid., p. 16. For example, Dell, which in 2009 started to expand its existing facility in Łódź into a computer assembly factory, has received a grant of 55 million Euro (or close to US$ 70 million), an equivalent to a quarter of the value of the investment. See *Rzeczpospolita*, September 24, 2009.

[3] UNCTAD data base on international investment agreements, available at: www.unctad.org/sections/dite_pcbb/docs/bits.

[4] Other disputes concerned difficulties in obtaining required permits or government actions in heavily regulated sectors. See, US Department of State, *2009 Investment Climate Statement: Poland*, February 2009, http://www.state.gov/e/eeb/rls/othr/ics/2009.

[5] World Bank, *Doing Business*, http://www.doingbusiness.org/ExploreEconomies/?economyid=154.

percentage of GDP, Poland was ninth among ten new member countries of the EU from the region, and it was eighth in terms of FDI stock per capita. Poland's ranking is similarly low when its record FDI inflows in 2007 are related to its GDP and the size of its population.[1] Needless to say, Poland still has a large room for improving its investment climate, including its FDI climate. If it does so vigorously, it may utilize better its FDI potential, which is much higher than its actual FDI performance.

Conclusions and Outlook

Poland, which opened to FDI only in the early 1990s, is rapidly climbing the ladder of the world's significant host countries, reaching the 21st position in 2008 as regards its IFDI stock.[2] FDI inflows reached the record of US$ 23 billion in 2007, but declined during the following crisis, though rather modestly. At the beginning of 2010, FDI inflows began to recover, owing, in addition to continued greenfield FDI and to the revival of the privatization program, to the country's good macroeconomic performance.

All in all, as foreign affiliates in Poland mature and their parent firms reap increasing financial returns on FDI in Poland, the country's benefits from FDI are shifting away from a contribution to net capital inflows toward contributions that include technology, access to international markets, new, more productive and better paid jobs, and, in general, more advanced types of FDI.

Additional readings

Hagemajer, J. and M. Kolasa, "Internationalization and economic performance of enterprises: evidence from firm-level data," Working Paper no. 51 (Warszawa: National Bank of Poland, 2008).

Institute for Market, Consumption and Business Cycles Research (IMCBCR), *Foreign Investment in Poland: Annual Report* (Warszawa: IMCBCR, 2009).

Invest in Poland and JP Weber, *Investor's Guide: Poland. How to do Business* (Warszawa: PAIiIZ, 2009).

Karaszewski, W., *Bezpośrednie inwestycje zagraniczne. Polska na tle świata* (Toruń: Dom Organizatora, 2004).

Kolasa, M., "How does FDI inflow affect productivity of domestic firms? The role of horizontal and vertical spillovers, absorptive capacity and competition," Working Paper no. 42 (Warsaw: National Bank of Poland, 2007).

Michałków, I., *Bezpośrednie inwestycje zagraniczne w Polsce w dobie globalizacji* (Warszawa: Wyższa Szkoła Ekonomiczna, 2003).

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[1] The ranking was calculated from the FDI/TNC data base of UNCTAD.
[2] UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (New York and Geneva: United Nations, 2009), pp. 251–54.

PAIiIZ and PricewaterhouseCoopers, *Why Poland?* (Warsaw: PAIiIZ, 2010).

Zorska, A., *Korporacje międzynarodowe w Polsce. Wyzwania w dobie globalizacji i regionalizacji* (Warszawa: Difin, 2002).

Useful websites

Information on how to establish firms and do business in Poland, business guides and analytical reports: PAIiIZ (investment promotion agency) (http://www.paiz.gov.pl/pl)

For FDI statistics: National Bank of Poland (http://www.nbp.pl).

For statistics on the activities of foreign affiliates: Central Statistical Office (http://www.stat.gov.pl/gus/index_ENG_HTML.htm).

For the privatization program 2008–2011: Ministry of Treasury (http://www.msp.gov.pl/portal/en).

Statistical annex

Annex table 1. Poland: inward FDI stock, 2000, 2008 and 2009 (US$ billion)

Economy	2000	2008	2009
Poland	34	161	182
Memorandum: comparator economies			
Czech Republic	22	114	122
Hungary	23	64	100
Romania	7	72	74
Bulgaria	3	46	51
Slovakia	5	46	50[a]

Source: UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (New York and Geneva: United Nations, 2009), p. 251; and websites of the national banks for 2009.
[a] *End of third quarter 2009.*

Annex table 2. Poland: inward FDI flows, 2000-2009 (US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Poland	9	6	4	5	13	10	20	23	17	12
Memorandum: comparator economies										
Czech Republic	5	6	8	2	5	12	5	10	11	3
Romania	1	1	1	2	6	6	11	10	13	6
Hungary	3	4	3	2	5	8	8	6	7	4
Bulgaria	1	1	1	2	3	4	8	12	9	5
Slovakia	2	2	4	2	3	2	5	3	3	0

Source: UNCTAD's FDI/TNC database for 2000-2008, available at: http://stats.unctad.org/fdi/ and websites of national banks for 2009.

Annex table 3. Poland: distribution of inward FDI stock, by economic sector and industry, 2000, 2008 (US$ billion)

Sector/industry	2000	2008
All sectors/industries	34	163
Primary	0.3	1.1
Secondary	13.2	50.6
Food	2.9	7.8
Metal products	0.7	7.4
Motor vehicles	2.1	6.7
Chemicals	1.4	5.1
Services	20.5	111.3
Financial	6.8	31.4
Trade	5.7	26.9
Business	1.3	15.1
Real estate	1.1	12.7
Telecommunications	2.3	7.9
Power	0.4	5.9

Source: *Zagraniczne inwestycje bezpośrednie w Polsce w 2008 roku* (Warszawa: National Bank of Poland, 2010); *Zagraniczne inwestycje bezpośrednie w Polsce w 2000 roku* (Warszawa: National Bank of Poland, 2001).

Annex table 4. Poland: geographical distribution of inward FDI stock, 2000, 2008 (US$ billion)

Region/economy	2000	2008
World	34.2	163
Developed economies	33.5	157
Europe	30.1	146
European Union – 15	27.1	134
Netherlands	8.4	31.1
Germany	6.5	21.6
France	4.2	17.6
Luxembourg	...	14.1
North America	3.3	10.2
United States	3.2	10
Other developed countries	0.2	0.9
Japan	0.1	1.3
Developing economies	0.7	5.1
Africa	0	0
Asia and Oceania	0.5	1.9
Rep. of Korea	0.5	1
China	0	0.3
Latin America and Car.	0.1	3.2

Source: *Zagraniczne inwestycje bezpośrednie w Polsce w 2008 roku* (Warszawa: National Bank of Poland, 2010); and *Zagraniczne inwestycje bezpośrednie w Polsce w 2000 roku* (Warszawa: National Bank of Poland, 2001).

Annex table 5. Poland: principal foreign affiliates, ranked by sales,[a] 2008 (US$ million)

Rank	Name of affiliate	Industry	Parent firm and home economy	Sales
1	Metro Group[b]	Trading	Metro Group, Germany	13,753
2	Telekomunikacja Polska[c]	Telecommunications	Telecom, France	10,920
3	Fiat[d]	Automotive	Fiat, Italy	7,634
4	Volkswagen[e]	Automotive	Volkswagen, Germany	5,217
5	Jeronimo Martins	Trading	Jeronimo Martins, Portugal	3,736
6	BP Polska	Trading	BP, United Kingdom	3,652
7	Tesco	Trading	Tesco, United Kingdom	3,362
8	Polska Telefonia Cyfrowa	Telecommunications	T-Mobile, Germany	3,082
9	Carrefour	Trading	Carrefour, France	3,030
10	Bank Pekao	Banking	UniCredit, Italy	2,962
11	Toyota[f]	Automotive and trading	Toyota, Japan	2,423
12	Bank BPH SA GK	Banking	General Electric, USA	2,099
13	Auchan	Trading	Auchan, France	1,992
14	Eurocash	Trading	Politra BV, Netherlands	1,963
15	Shell	Trading	Shell, United Kingdom	1,859
16	Vattenfall	Energy	Vattenfall, Sweden	1,661
17	Saint Gobain	Glass	Saint Gobain, France	1,619
18	Bank Zachodni	Banking	Allied Irish Bank, Ireland	1,613
19	Delphi Poland SA	Automotive	Delphi, USA	1,556
20	Philips Lighting	Lighting equipment	Royal Philips Electronics, Netherlands	1,523

Source: Author's compilation, based on: Rzeczpospolita, *Lista 500*, 29 April 2009; PAIiIZ, *List of Major Foreign Investors in Poland with Comment*, December 2008; and companies' websites.

[a] To the extent possible, foreign affiliates include a consolidated list of firms owned by individual MNEs, even if they are registered in Poland as separate companies. The list excludes affiliates, in which foreign shareholdings exceed 10%, when these affiliates are controlled by local investors. Sales of banks include revenues from interests, fees, commissions, shares, and other securities and gains from financial operations.

[b] Consolidated affiliates, including companies listed separately on the list of the top 500 largest firms: Makro Group, Makro Cash and Carry, Real, and Media Saturn Holding.

[c] Including also PTK Centertel, a mobile telephone affiliate owned by Telekomunkacja Polska.

[d] Including Fiat Auto Poland (an assembly plant) and two auto component plants: Fiat GM Powertrain (a joint venture of Fiat and General Motors) and Magneti Marelli.

[e] Includes an assembly plant in Poznan and an engine factory in Polkowice.

[f] Includes component factories in Walbrzych and Leg and a trading affiliate of Toyota, Toyota Motor Poland.

Annex table 6. Poland: main M&A deals, by inward investing firm, ranked by value (completed transactions), 2007-2009 (US$ million)

Year	Target company	Acquiring company	Home economy	Shares acquired (%)	Transaction value
2009	TC Debica	Goodyear Luxembourg Tires SA	Luxembourg	100	99
2009	Multimedia Polska SA	M2 Investments Ltd	United Kingdom	32	58
2009	Bukowa Gora SA	PCC SE	Germany	90	7
2009	Kredyt Bank SA	Investor Group	Belgium	5	61
2009	ICM Polska SP Zoo	Undisclosed Acquiror	Unknown	52	35
2009	Pol-Aqua SA	Dragados SA	Spain	66	165
2009	Poldrim Sp Zoo	Carpathian PLC	Isle of Man	100	9
2009	DT SPV15-Office Bldg	Deka Immobilien Invest GmbH	Germany	100	161
2009	Drumet SA	Penta Investments sro	Czech Republic	100	38
2009	Bankier.pl SA	MIH Allegro BV	Netherlands	83	20
2009	Sephora Polska Sp zoo	Sephora SA	France	24	16
2009	EMO-FARM Sp zoo	Valeant Pharm Intl Inc	United States	100	28
2009	Kakadu Sp zoo	Arx Equity Capital	Czech Republic	…	13
2009	Zara Polska Sp zoo	Industria de Diseno Textil SA	Spain	100	33
2009	The Polish Re	Fairfax Financial Holdings Ltd	Canada	100	72
2008	Grupa Energetyczna ENEA SA	Vattenfall AB	Sweden	19	608
2008	LC Corp Sky Tower Sp zoo	LC Corp BV	Netherlands	…	43
2008	Polkomtel SA	Vodafone Group PLC	United Kingdom	24	255
2008	GE Real Estate Central Europe-	Union Investment Real Estate	Germany	100	129
2008	Orbis SA	Accor SA	France	50	47
2008	Marynarska Business Park	DEGI	Germany	100	246
2008	Warsaw Office Tower	Wiener Stadtische	Austria	100	108
2008	Grodziskie Zaklady	Richter Gedeon Nyrt	Hungary	100	43
2008	Bioton SA	Polaris Finance	Netherlands	10	88
2008	Europa Eagle-Shopping Centers	Balmain European Property	United Kingdom	100	80
2008	Krakow hotel	Warimpex Finanz- und	Austria	100	46
2008	Conforama SA-Polish Operations	Leroy Merlin SA	France	100	67
2008	BPH-Branded Branches(200)	GE Money	United States	66	862
2008	Eolica Ceiplowody Sp zoo	Fersa Energias Renovables SA	Spain	100	338
2008	P4 Sp zoo	Investor Group	Cyprus	23	192
2007	Gadu-Gadu SA	Naspers Ltd	South Africa	96	150

2007	Stora Enso Poland SA	Stora Enso Oyj	Finland	94	88
2007	Forum Shopping Centre	Deka Immobilien Invest GmbH	Germany	100	176
2007	Zabka Polska SA	Penta Investments sro	Czech Republic	100	178
2007	Plaza Centers-Shopping Centers	Klepierre SA	France	100	122
2007	Zakopianka	Macquarie CountryWide Trust	Australia	100	83
2007	Turzyn Sp zoo	Macquarie CountryWide Trust	Australia	100	81
2007	PolCard SA	First Data International	United States	100	325
2007	Polmos Lublin SA	Oaktree Capital Management LLC	United States	40	80
2007	BA-CA Real Invest-Real Estate	TMW Pramerica Immobilien GmbH	Germany	100	256
2007	PZL-Mielec	Sikorsky Aircraft Corp	United States	100	84
2007	BOC Gazy Sp zoo-Industrial Gas	Air Products & Chemicals Inc	United States	100	485
2007	NCC Roads Polska Sp zoo	Strabag Oesterreich AG	Austria	100	146
2007	BISE Bank SA	Bank DnB NORD	Denmark	76	185
2007	Ahold Polska Sp zoo	Carrefour SA	France	100	500

Source: Thomson ONE Banker. Thomson Reuters.

Annex table 7. Poland: main greenfield projects, by inward investing firm (announced), 2007-2009

(US$ million)

Date	Investing company	Home economy	Sector	Announced value[a]
2009	IKEA	Sweden	Trading and construction	243
2009	American International Group	USA	Financial services	203
2009	Electricity Supply Board	Ireland	Energy	1400
2009	Asea Brown Boveri	Switzerland	Engines & turbines	221
2009	Dell Computer	USA	Business machines & equipment	277
2009	Mondi Group	UK	Paper, printing & packaging	505
2009	LM GlasFiber	Denmark	Industrial machinery, equipment	202
2009	FX Energy	USA	Energy	300
2009	IKEA	Sweden	Trading and construction	250
2009	Octapharma	Switzerland	Pharmaceuticals	188
2009	Fiat	Italy	Engines	506
2009	IKEA	Sweden	Wood products	522
2009	Cemex	Mexico	Building & construction materials	514
2009	Jeronimo Martins	Portugal	Retail trading, food & tobacco	330
2009	Vattenfall	Sweden	Energy	713
2008	Titan Group	Greece	Energy	449.5
2008	Vattenfall	Sweden	Energy	1090
2008	Toyota Motor	Japan	Automotive components	723
2008	Vattenfall	Sweden	Energy	3500
2008	Electricite de France (EDF)	France	Energy	713.2
2008	RWE	Germany	Energy	2320
2008	Electrolux	Sweden	Household appliances	464.6
2008	State Street	USA	Financial services	1494.5
2008	Lafarge	France	Building & construction materials	550.7
2008	TriGranit	Hungary	Real estate	781.8
2008	Auchan Group (Mulliez Group)	France	Retail trading	1134
2008	Stora Enso	Finland	Paper, printing & packaging	587.82
2008	EFG Group	Switzerland	Financial services	747.2
2008	Anglo American	UK	Paper, printing & packaging	437.66
2008	Prometheus Energy	USA	Energy	449.5
2007	Carlo Tassara	Italy	Financial services	586.84
2007	Fiat	Italy	Automotive OEM	400
2007	Suez	France	Alternative/renewable energy	735.31
2007	Euroglas	Germany	Ceramics & glass	283.55
2007	Suez	France	Energy	2942.3
2007	Schmack Biogas	Germany	Alternative/renewable energy	215.5
2007	Michelin	France	Rubber	342
2007	Anglo American	UK	Paper, printing & packaging	481.94
2007	LG	Korea, Rep. of	Electronic components	1080

2007	Electricity Supply Board (ESB)	Ireland	Energy	713.2
2007	Videocon Industries	India	Consumer electronics	1700
2007	Fiat	Italy	Automotive OEM	340
2007	Cemex	Mexico	Building & construction materials	260.3
2007	Ford	USA	Automotive components	276
2007	Nanette Real Estate Group	Netherlands	Real estate	251

Source: fdi Intelligence, a service from the Financial Times Ltd.

[a] Actual or estimated value of the investment project. Most are actual value.

Poland: Inward and its policy context, 2012

Zbigniew Zimny*

Good economic performance, one of the best in European Union (EU) economies during the global crisis of 2008-2009 and the subsequent economic slowdown in Europe in 2009 and 2010, did not save Poland from experiencing a decline in foreign direct investment (FDI) inflows during 2008-2010. Inflows in 2010, at US$ 9 billion, were only 38 percent of their peak value of 2007. In 2011, inflows started to recover, reaching US$ 14.3 billion. In 2010, the FDI stock in Poland surpassed US$ 200 billion for the first time and was by far the largest among the stocks held in the new member economies of the EU from Central and Eastern Europe. Economic prospects of Poland are favorable, but the ongoing debt crisis and the continuing economic slowdown in Western Europe, the dominant home region for multinational enterprises (MNEs) investing in Poland, put a question mark on the strength of any further recovery of FDI inflows.

Trends and developments

Country-level developments

Poland, the only country of the European Union (EU) that avoided the economic recession in 2009, was among the top 3-4 performers in the EU in terms of GDP growth during the economic slowdown of 2010 and 2011,[1] reaching in 2010 a record level of IFDI stock that surpassed US$ 200 billion; that was by far the largest stock among those EU economies from Central and Eastern Europe that had become new members of the EU in 2004 (annex table 1). Good economic performance and an improved position in the rankings of attractiveness of FDI host economies (see the section on "The policy scene" below) had not, however, saved Poland from experiencing declining inflows of FDI during 2008 and 2009. The contraction of inflows continued into 2010, when inflows (of US$ 9 billion), represented 38 percent of the record level of 2007 (annex table 2). This decline is comparable to that of FDI inflows in the entire EU-27 during the same period.[2] Apparently, poor economic conditions in major home economies reduced the appetite of those economies' MNEs for investing abroad, including in economically well-performing Poland (see the discussion below on FDI flows from major home economies). In 2011, inflows resumed positive growth, reaching a level of US$ 14.3 billion, considerably higher than that in 2010.

After a peak of more than US$ 9 billion in 2007, re-invested earnings by foreign affiliates turned negative in 2008, pulling down FDI inflows (annex table 2A). They partly recovered in 2009 to US$ 5 billion and to US$ 6 billion in 2010. There was also a sharp decline of intra-company lending by MNEs to their Polish affiliates, from US$ 7 billion in 2007 to US$ 6 billion in 2008, US$ 3 billion in 2009 and

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[1] See: Eurostat, available at:
http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsieb020

[2] In 2010, FDI inflows into the EU-27 represented 36% of the inflows in 2007 (see, UNCTAD FDI/TNC data base, available at: http://stats.unctad.org/fdi).

US$ 117 million in 2010, and of equity capital, from a peak of almost US$ 10 billion in 2008 to US$ 3 billion in 2010 (annex table 2A). The profitability of foreign affiliates has remained relatively strong: after declining from US$ 19 billion in 2007 to US$ 13 billion in 2008, the total income of foreign affiliates grew in the next two years, reaching US$ 15 billion in 2010. In 2010, for the first time, repatriated earnings of foreign affiliates in Poland, at US$ 9.1 billion, matched FDI inflows.[1]

The declining FDI inflows that reflect the reduced financing of investment in foreign affiliates by their parent companies mask a much better overall investment performance of foreign affiliates in Poland that takes FDI as well as other sources of financing into account. In 2008, the decline in FDI inflows by 45 percent in national currency terms (and by almost 37 percent in US dollars)[2] did not prevent foreign affiliates from increasing investment expenditures by 9 percent in *złoty* terms (and even more, by a quarter, in dollar terms, owing to a stronger *zloty*-dollar exchange rate) as affiliates turned to the financing of investment from non-FDI sources,[3] which increased 3.8 times, accounting for 56 percent of total investment of affiliates (in 2007, it was only 13 percent), (annex table 2A).

In 2009, FDI inflows were lower than those in 2007 by 32 percent in national currency terms (and by 45 percent in dollar terms). But the total investment of foreign affiliates in national currency was only 11 percent lower than that of 2007, reflecting again a strong financing of investment from non-FDI sources, which accounted for 40 percent of total investment. Strong financing of investment from non-FDI sources continued into 2010, with a share of 57 percent. While FDI inflows fell to 40 percent of 2007 levels, investment expenditures were only 18 percent lower (annex table 2A). To sum up, relatively high rates of growth of GDP in Poland in 2008-2010 did not prevent FDI inflows from declining steeply, but they prompted foreign affiliates to maintain investment expenditures at a relatively high level by drawing on other sources of finance.

Services accounted for 65 percent of Poland's FDI stock in 2009, with financial services as the largest industry, accounting for nearly 19 percent of the total stock, followed by trading services (16 percent) and other business services (10 percent), (annex table 3). The large stock in financial and trading services reflects the domination of Polish banking and supermarkets by foreign affiliates (see also the discussion below on the largest foreign affiliates). All top five trading companies in Poland are foreign; in banking, four out of top five are foreign.[4] Business services (see the section below on special developments), telecommunications and power generation have also attracted significant foreign investments.

IFDI in the primary sector is minimal. In manufacturing, which accounted for 32 percent of IFDI stock in 2009, the largest industries for FDI, as measured by FDI stock, include food (6 percent), motor

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[1] Narodowy Bank Polski (NBP), Statystyka bilansu płatniczego, Bilans płatniczy 1994-2011, dane roczne (USD), available at: http://www.nbp.pl/home.aspx?f=/statystyka/bilans_platniczy/bilansplatniczy_r.html.

[2] The discussion in national currency makes sense because foreign affiliates invest in this currency, not in dollars or Euros. Investment in dollar terms followed a pattern similar to that in the national currency, with certain modifications resulting from a stronger zloty in 2008, compared to 2007 (14% stronger vis-à-vis the US dollar, as measured by annual average exchange rates reported by the National Bank of Poland), and a weaker one in 2009 (by 13%, compared to 2007). Annex table 2A provides data in both currencies.

[3] Apart from equity capital, loans from parent firms and re-invested earnings, foreign affiliates can finance their investment from non-FDI sources such as loans from domestic and international financial markets.

[4] *Pięćsetka Polityki. Ranking największych polskich firm w 2010*. Lista 500 (Polityka Top 500) [The ranking of the largest Polish firms in 2010. The list of 500], available at: http://www.lista500.polityka.pl.

vehicles and parts (5 percent) and metal products (4 percent). During the crisis years of 2008 and 2009, FDI inflows into many industries fell (compared to 2007), and in some cases even turned negative – reflecting divestment (2010 industry data are not yet available). By sector, FDI inflows into manufacturing, which in 2008 fell to only one third of the 2007 level, partly recovered in 2009, more than doubling on a year-to-year basis.[1] FDI inflows in the services sector fell in both 2008 and 2009.

Nearly all IFDI in Poland originates from developed economies, predominantly the EU-15, which accounted for over 82 percent of the total IFDI stock in 2010 (annex table 4). The three home economies with the largest FDI in Poland in 2010 (similarly to earlier years) were the Netherlands (with 19 percent of the stock), Germany (15 percent) and France (13 percent). Luxembourg took the fourth place (9 percent)[2] and the United States the fifth (7 percent).[3] IFDI from economies such as the Netherlands and notably Luxembourg is often FDI from other economies that is routed via holding companies or regional headquarters located in these economies. Apart from the United States, the only significant non-European source-economy is Japan, with a stock of US$ 1.5 billion (less than 1 percent of the total stock) in 2010. The stock held in Poland by investors from developing economies is very small, US$ 2.8 billion in 2010, or 1.5 percent.

In 2010, inflows from a number of the largest home economies for FDI in Poland (including the Netherlands, France and the United States) that had previously been fuelling the economy's IFDI every year, turned negative, pulling down overall inflows.[4] Divestment by MNEs located in the Netherlands was particularly large that year, amounting to -US$ 2.8 billion, while that by those from the United States (-US$ 173 million) and France (-US$ 134 million) was much smaller. The reduction of equity capital and recalls of intra-company loans were the main forms of divestment in the case of FDI by the Netherlands and the United States (in contrast, re-invested earnings were quite large in both cases). In comparison, French MNEs increased their equity capital by more than US$ 400 million, but withdrew more than US$ 550 million, mainly in the form of intra-company lending.

The corporate players

With ever-growing FDI, foreign firms have become a prominent part of the Polish economic landscape. In 2010, 52 of the 100 largest firms in the economy, ranked by sales, were foreign.[5]Annex table 5 lists the largest 20 foreign affiliates, which include eight trading companies. The parent MNEs of the affiliates listed are mainly from France, Germany and the United Kingdom. Metro Group (Germany) is at the top of the list with sales of nearly US$ 14 billion in 2010, followed by the largest telecommunication company in Poland, Telekomunikacja Polska (Telecom France) (US$ 11 billion),

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[1] See, Narodowy Bank Polski (NBP), *Zagraniczne inwestycje bezpośrednie w Polsce w 2009 roku. Aneks Statystyczny* (2010), available at: http://www.nbp.pl/publikacje/zib/zib2009.pdf.

[2] Most of FDI by Luxembourg originates from MNEs of other countries that choose to channel their investments through Luxembourg for tax reasons. See Zimny, July 9, 2010, *op. cit.*

[3] FDI data underestimate investment by United States MNEs, because many of them have chosen to invest in Poland via subsidiaries or holdings located in Western Europe, often in the Netherlands. Out of 50 largest United States foreign affiliates in Poland, 24 have direct owners registered outside the United States (see, American Chamber of Commerce in Poland and KPMG, 2010, *20 lat amerykańskich inwestycji w Polsce*, Raport Amerykańskiej Izby Handlowej w Polsce i KPMG, Warsaw, AmCham, p. 22).

[4] NBP, *Foreign Direct Investment in Poland 2010. Annex* (Warsaw: NBP, October 2011), available at: http://www.nbp.pl/home.aspx?f=/publikacje/zib/zib.html.

[5] Rzeczpospolita, *Lista 500*, 20 April 2011, *op cit.*

and the Fiat group (US$ 7.6 billion) (annex table 5). The list also includes two affiliates of MNEs in the automotive industry (in addition to Fiat, Volkswagen and Toyota), as well as one bank and one mobile telecommunication provider (Polska Telefonia Cyfrowa, an affiliate of T-Mobile, Germany).

The list of the top 20 foreign affiliates also includes six manufacturing companies: one in the steel industry, three in tobacco, one in electronic appliances, and one in pharmaceuticals (annex table 5). The six manufacturing companies, along with the Lidl trading company, are new entrants to the list since 2008. Most MNEs present on both lists increased their sales in national currency between 2008 and 2010, sometimes very rapidly. For example, Jeronimo Martins, a Portuguese trading company, doubled its sales. Most of the other MNEs on both lists have also increased their sales in national currency, but owing to the depreciation of the Polish *złoty* against the US dollar, this has not always translated into increased dollar sales.[1] For example, sales of Fiat, which rose in national currency during that period by almost 25 percent, did not change in US dollar terms.

The geographical origin of principal foreign affiliates (annex table 5) corresponds only partly to the geographical origin of Polish FDI (annex table 4): seven firms are affiliates of MNEs based in France and Germany, which are major home economies for Polish FDI. But firms from Luxembourg, the fourth largest home economy, are absent. The Netherlands, the largest source of FDI in Poland, is represented on the list of largest affiliates by Philip Morris, a United States MNE, that has opted to register a subsidiary in the Netherlands to invest in Poland and thus appears as Dutch investment in FDI statistics. Another company registered in the Netherlands, Politra B.V., which is a majority owner of its Polish affiliate, Eurocash, is owned by a Portuguese investor. While there are Dutch MNEs that have invested in Poland, the position of the Netherlands as a large home economy (as well as that of Luxembourg, Switzerland and a couple of others) is associated to a significant degree with the activities of "Special Purpose Units" (SPUs), foreign affiliates in Poland through which MNEs channel funds for reasons of tax optimization.[2]

In recent years the lion's share of FDI inflows has been accounted for by greenfield projects, judging from the ratio of cross-border M&A sales to total FDI inflows, which was, on average, 5 percent during 2005-2010, increasing to 11 percent in 2010.[3] However, M&A activity related to FDI was quite significant during 2008-2010. Annex table 6 lists 30 main M&A deals that took place in Poland during 2008-2010, including the top 10 deals in each of the three years. The average size of a deal (US$ 214 million) was less than a third of that of the announced value of an average greenfield project (US$ 670 million), during the same period (annex table 7). Most M&A deals took place in the services sector (24 out of 30), with commercial and real estate services leading the number of deals (9).

Annex table 7 lists 30 main greenfield FDI projects announced in Poland during 2008-2010, including the 10 largest by actual or announced value in each of the three years. The largest number of greenfield projects announced were in the manufacturing sector (13 out of 30), with a strong representation of

[1] On average, the Polish złoty depreciated by 25%, from 2.4092 złotys per 1 US$ in 2008 to 3.0157 in 2010.
[2] SPUs have minimal or no employment and do not produce anything; rather, they serve to transfer capital among units of an MNE (often a financial group) located in different countries or undertake other (unspecified) financial operations on their behalf. The characteristic feature of this capital is that it arrives in a host country of transit (and, satisfying statistical concepts, is registered there as inward FDI flow) and, in the same year it is invested by an SPU in another country, often the same as the country of origin of the funds (and, satisfying statistical concepts, is registered as outward FDI flow). For details see Zimny, July 9, 2010, *op. cit.*
[3] See, UNCTAD FDI/TNC database, *op. cit.*

projects in the automotive parts industry (6). With several similar projects already under operation (among others by Toyota, Fiat and Delphi), Poland is becoming a power-house in the production of auto parts. Six large greenfield projects were announced in electricity, with values ranging from US$ 700 million to as much as US$ 3.5 billion. Mirroring the trend in FDI inflows into Poland in the same period, the value of the main announced greenfield projects declined from US$ 13 billion in 2008 to US$ 5 billion in 2009 and US$ 2 billion in 2010. Since, however, the implementation of an investment project can take several years, projects announced during 2008-2010, totaling US$ 20 billion, are fuelling (and will continue to fuel) FDI inflows in the next couple or more years.

Special developments

Poland has emerged in less than a decade as an important destination for FDI in knowledge-based business services in Europe.[1] By 2010, Poland was host to 282 business service centers belonging to 220 foreign investors, out of which 205 are in business process outsourcing (including also IT) and shared services centers, and 77 in R&D centers.[2] The centers employ close to 70,000 people, 90 percent of whom hold tertiary-education degrees. They are spread in more than 30 locations throughout the country, but the four largest cities account for more than half of them. Investors include dozens of world-renowned MNEs from the Global 500 *Fortune* list. After good experiences with an initial operation, an increasing number of investors have multiplied their investments. For example, IBM has four centers in four separate locations. More than 70 percent of the projects were implemented since 2004. The 2008-2009 global crisis slowed –but did not halt- the expansion of projects in business services: at least 20 new projects were launched in 2009 and in 2010; employment in the centers grew in 2010 by 50 percent compared to 2008, owing also to a significant expansion of employment inexisting operations.[3]

The EU's MNEs account for more than 52 percent of the centers but the single largest home economy for investments in such centers is the United States, with US MNEs operating 88 centers. An estimated 76 percent of foreign affiliates in business services have upgraded their operations, introducing more advanced services. Services are provided in 32 languages. Two thirds of the centers employ expatriate managers, but only in 7 percent of the centers are expatriates a majority among managerial personnel. FDI in business centers in Poland is set to grow rapidly and is expected to cross the mark of 100,000 employees in a couple of years, shifting overall FDI in Poland toward knowledge-based operations.

The policy scene

Having had a favorable FDI framework for years, including high standards of protection regarding entry and the treatment of foreign investors, as well as a viable system of FDI promotion, Poland has focused its efforts on improving the general investment climate for all investors. During the recent crisis years, and in spite of declining FDI inflows, good economic performance promoted Poland in global rankings of preferred locations for FDI, according to investor surveys.[4] An annual assessment of the investment

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[1] M. Kaczmarski, "Poland shifts to knowledge-based business landscape", *fDi Intelligence*, 09/12/2011, available at: www.fdiintelligence.com/Special Reports/Poland-shifts-to-knowledge-based-business-landscape?ct=true.

[2] Association of Business Services Leaders in Poland, *Business Services Sector in Poland* (Warsaw: 2011).

[3] Ibid. pp. 15-19.

[4] In 2010, Poland was sixth on the A. T. Kearney's global list of preferred host countries (although in 2012 it plummeted back to the 23rd position, nearly the same as in 2007, "as the glow from its strong showing through the global recession faded", The 2012 A. T. Kearney FDI Confidence Index, *Cautious Investors Feed a Tentative Recovery*, available at: http://www.at Kearney.com/index.php/Publications, p. 8). In 2011, it was also sixth in the world among host countries, as

climate in 2011, based on interviews with investors in Poland (most of them foreign) has also pointed to an improving investment climate. Over 60 percent of the surveyed firms evaluated the investment climate in 2011 as good or very good, giving it, on a scale from 1 (very bad) to 5 (very good) an average rating of 3.6, the highest since 2007, when the survey was done for the first time.[1]

Out of 19 areas assessed, the highest ratings were not given to policy factors but to economic and political factors: the size of the market (including access to the EU market), political stability and the availability and cost of skilled human resources. Infrastructure, and especially the road infrastructure remain weaknesses in the investment climate in the country,[2] and some policy and institutional factors were given the lowest ratings. As regards the regulatory framework, tax regulations (as well as the level of social taxes and VAT) and regulations regarding government procurement were assessed worst by the surveyed firms, although they registered slight improvement compared to 2007. Cooperation between investors and local administrations was evaluated as better than that with the central administration. In sum, the survey results indicate that the investment climate in Poland is improving, although the regulatory framework and the administration of business require greater attention.

In the years to come, Poland will increasingly face a formidable policy problem related to the planned termination of the functioning of its 14 special economic zones (SEZs) in 2020 (it agreed to adjust its legislation to the EU rules in this respect when becoming an EU member in 2004). Since their inception in 1995 until 2010, the zones attracted 1,354 projects with investments totaling US$ 25 billion, creating more than 167,000 jobs.[3] Many FDI operations, especially in the manufacturing sector, are located in SEZs, offering investors tax incentives. They include, for example, automotive companies such as Toyota, Volkswagen, General Motors, Delphi, Lear, and one of the Fiat plants; electronic firms such as LG Electronics, Sharp, Motorola, and Dell; and chemical firms such as Saint Gobain and Procter & Gamble.[4] Nearly all investors currently surveyed by Ernst & Young cited the exemption from the corporate income tax (CIT) as a major advantage that prompted them to locate their business in SEZs.[5] The rapidly approaching deadline for the discontinuation of the zones increases investor uncertainty and poses a danger that new investors will not be coming, as the nine remaining years might not be sufficient fully to benefit from investment incentives.

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indicated by MNEs surveyed by UNCTAD for preferred locations for FDI in 2011-2013 (UNCTAD, *World Investment Report 2011: Non-equity Modes of International Production and Development* (New York and Geneva: United Nations, p. 19). It was high in the ranking of 2010 locations produced by Ernst & Young (Ernst & Young, *Restart. Ernst & Young's 2011 European Attractiveness Survey*, available at: www.ey.com/attractiveness).

[1] TNS Pentor and Invest in Poland, *Investment Climate in Poland. Report from the Survey Conducted by TNS Pentor, September 2011*, PAIiIZ, 2011, available at: http://www.paiz.gov.pl/files/?id_plik=17314.

[2] Road infrastructure has improved, however, considerably, after the survey was done, when a new highway connecting central Poland (near the big city of Łódź) with the German border was completed at the end of 2011. In the first half of 2012, the highway should be extended to Warsaw, the capital of Poland. This highway and another one, in the South of the country, extending from the German border to the city of Kraków, connect a substantial part of southern and central Poland to its principal export markets in the European Union. In addition, the construction of a North-South highway, starting in a port city of Gdańsk, is well advanced. Moreover, airports are being upgraded in four major cities at the cost of more than US$ 500 million, in connection with European Soccer Championships 2012, to be held in Poland.

[3] Ernst & Young, 2011, *Specjalne Strefy Ekonomiczne po 2020 roku. Analiza dotychczasowej działalności i perspektywy funkcjonowania* (Warszawa, 2011), p. 6, available at: http://www.paiz.gov.pl/files/?id_plik=16335.

[4] KPMG and Polish Information and Foreign Investment Agency, 2009, *A Guide to Special Economic Zones in Poland* (Warszawa, 2009).

[5] Ernst & Young, 2011, op. cit., p. 7.

In addition, investors already operating in the zones may leave Poland and relocate to economies offering them better fiscal conditions. The survey of investors in the zones shows that the risk is real: more than 50 percent of investors would not consider new projects if the zones ceased to exist in 2020. By contrast, should the zones continue to operate after 2020, 81 percent of firms would undertake new investments.[1] The Government thus faces the challenge of keeping the zones operational beyond 2020 through re-adjusting the legislation regarding the zones in such a way that it complies with the rules of the common regional policy of the EU.[2] The sooner it is done, the lesser the risk of losing FDI projects.

Conclusions

After reaching an all-time high in 2007, FDI inflows to Poland declined during the next three years, at a rate similar to that in the entire EU. Smaller inflows translated into a slower build-up of IFDI stock, which nevertheless crossed for the first time the mark of US$ 200 billion in 2010. In 2008-2010, with the Polish economy performing well, foreign affiliates continued to invest quite strongly to increase their production capacity. Facing reduced financing from their parent firms, they turned to financing investment increasingly from non-FDI sources. The recovery of FDI inflows, which started in 2011, should continue into 2012, when large greenfield FDI projects, especially in electricity, real estate and financial services, announced during 2008-2010, will be implemented, at least partly. The latter projects are oriented toward the domestic market; with Polish GDP projected to grow at 2.5 percent in 2012 (much faster than the EU's expected GDP growth of 0.6 percent),[3] they should not be jeopardized by the ongoing financial crisis and economic slowdown in Western Europe. In addition, PAIiIZ, the Polish investment promotion agency, has reported recently that the value of projects it assisted was, at the end of 2011, higher by 170 percent on a year-to-year basis.[4] Prospects for FDI in export industries will, however, depend on how quickly Western Europe, not only a home for companies investing in Poland but also the dominant market for Polish exports, will overcome the crisis and return to faster economic growth. An improving investment climate and a depreciating Polish currency, if continued, should act favorably as factors stimulating further FDI in the country.

Additional readings

Instytut Badań Rynku, Konsumpcji i Koniunktur (IBRKK), *Inwestycje zagraniczne w Polsce 2009-2011* (Warszawa: IBRKK, 2011).

Useful websites

PAIiIZ, Polish Investment Promotion Agency: http://www.paiz.gov.pl/en?lang_id=12.
Central Statistical Office: http://www.stat.gov.pl/gus/index_ENG_HTML.htm.
National Bank of Poland: http://www.nbp.pl/Homen.aspx?f=/srodeken.htm.

[1] Ibid.
[2] Ernst & Young, 2011, op. cit., p. 69.
[3] See: Eurostat, *op. cit.*
[4] See: the website of PAIiIZ, available at: http://www.paiz.gov.pl/20120112/inwestycje_w_2012_przewaza_optymizm (retrieved 12 January 2012). While releasing this information, the agency referred to projects as "closed" in 2011, which means that they are ready for implementation.

Annex table 1. Poland: inward FDI stock, 2000, 2008, 2009 and 2010

(US$ billion)

Economy	2000	2008	2009	2010
Poland	34	164	186	201
Memorandum: comparator economies				
Czech Republic	22	113	126	130
Hungary	23	89	99	92
Romania	7	68	72	70
Bulgaria	3	49	48	48
Slovakia	5	51	53	51

Source: National Bank of Poland, *Międzynarodowa Pozycja Inwestycyjna Polski w 2010 roku* (Warsaw: NBP, September 2011), p. 41, available at: http://www.nbp.pl/statystyka/dwn/iip2010.pdf, for data on Poland;
UNCTAD, *World Investment Report 2011: Non-equity Modes of International Production and Development* (New York and Geneva: United Nations, 2011), p. 191; and UNCTAD FDI/TNCdata base, available at: http://stats.unctad.org/fdi for data on the comparator economies.

Annex table 2. Poland: inward FDI flows, 2000-2011

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Poland	9	6	4	5	13	10	20	24	15	13	9	13
Memorandum: comparator economies												
Czech Republic	5	6	8	2	5	12	5	10	6	3	7	n.a.
Romania	1	1	1	2	6	6	11	10	14	5	4	n.a.
Hungary	3	4	3	2	4	8	7	4	7	2	2	n.a.
Bulgaria	1	1	1	2	3	4	8	12	10	3	2	n.a.
Slovakia	2	2	4	2	3	2	5	4	5	0	1	n.a.

Source: The website of the National Bank of Poland, available at: http://www.nbp.pl/home.aspx?f=/statystyka/bilans_platniczy/bilansplatniczy_kw.html, for the data on Poland, and UNCTAD, FDI/TNC data base, available at: http://stats.unctad.org/fdi, for the data on other countries.

Annex table 2A. Poland: financing of investment expenditures of foreign affiliates (FAs), 2007-2010

(In national currency and US$)

Source and category	Polish złoty, billion				US dollars, billion			
	2007	2008	2009	2010	2007	2008	2009	2010
FDI sources, *of which*:	65.2	35.7	40.4	26.7	23.7	15	13	9.1
Equity capital	*21.1*	*23.6*	*16.5*	*9*	*7.7*	*9.9*	*5.3*	*3.1*
Reinvested earnings	*25.6*	*—2.3*	*15.5*	*17.3*	*9.3*	*—1.1*	*5*	*5.9*
Intracompany loans	*18.5*	*14.4*	*8.4*	*0.4*	*6.6*	*6.2*	*2.7*	*0.1*
Non-FDI sources	9.9	45.9	26.5	34.9	3.6	19.2	8.6	11.9
Total investment by FAs[a]	75.1	81.6	66.9	61.6	27.3	34.2	21.6	21

Source: Total investment: Central Statistical Office (CSO), *Economic Activity of Entities with Foreign Capital in 2007, 2008, 2009 and 2010* (Warsaw, CSO, 2008, 2009, 2010 and 2011); FDI data in both dollars and national currency: the website of the National Bank of Poland , available at; http://www.nbp.pl/home.aspx?f=/statystyka/bilans_platniczy/bilansplatniczy_kw.html. .

[a] Data in national currency are from the CSO (on total investment) and NBP (on FDI and FDI sources) sources indicated above. Data on total investment by foreign affiliates in dollars have been obtained by converting the national currency data at the exchange rates of the NBP, used for the conversion of FDI flows from the national currency into dollars. "Non-FDI sources" in both currencies are the difference between the total investment by foreign affiliates and "FDI sources".

Annex table 3. Poland: distribution of inward FDI stock by economic sector and industry, 2000 and 2009

(US$ billion)

Sector/industry	2000	2009
All sectors	34	186
Primary	0.3	1.1
Manufacturing	13.2	59
Food	2.9	11
Metal products	0.7	7.5
Motor vehicles	2.1	8.4
Wood, publishing and printing	1.5	5.9
Chemicals	1.4	5.7
Rubber and plastic products	0.8	4.1
Mechanical products	0.5	3.2
Services	20.5	121
Financial	6.8	34.5
Trade	5.7	29.4
Business	1.3	18.9
Real estate	1.1	13.6
Telecommunications	2.3	8.8
Power	0.4	7.6
Construction	2.3	4.6

Source: Narodowy Bank Polski (NBP), *Zagraniczne inwestycje bezpośrednie w Polsce w 2009 roku. Aneks Statystyczny* (2010), available at http://www.nbp.pl/publikacje/zib/zib2009.pdf;; and NBP , *Zagraniczne inwestycje bezpośrednie w Polsce w 2000 roku* (Warszawa: NBP, 2001).

Annex table 4. Poland: geographical distribution of inward FDI stock, 2000 and 2010

(US$ billion)

Economy/region	2000	2010
World	34.2	201
Developed economies	33.5	198
Europe	30.1	184
European Union – 15	27.1	166
Netherlands	8.4	35.8
Germany	6.5	27.2
France	4.2	24.9
Luxembourg	n.a.	17.5
North America	3.3	12.6
United States	3.2	12.4
Other developed countries	0.2	1.7
Japan	0.1	1.5
Developing economies	0.7	2.8
Africa	0	0.2
Asia and Oceania	0.5	2.8
Rep. of Korea	0.5	0.8
Hong Kong, China	n.a.	0.4
China	0.0	0.3
Latin America and the Caribbean	0.1	0.2

Source: Narodowy Bank Polski (NBP), *Foreign Direct Investment in Poland in 2010. Annex* (Warsaw, October 2011), available at: http://www.nbp.pl/publikacje/zib/zib2010.pdf; and NBP, *Zagraniczne inwestycje bezpośrednie w Polsce w 2000 roku* (Warszawa: NBP, 2001).

Annex table 5. Poland: principal foreign affiliates ranked by sales,[a] 2010

Rank	Name of affiliate	Industry	Parent company[b] and home economy	Sales (US$ million)
1	Metro Group[c]	Trading	Germany	11,420
2	Telekomunikacja Polska[d]	Telecommunications	Telecom, France	7,768
3	Fiat[e]	Automotive	Italy	7,532
4	Jeronimo Martins	Trading	Portugal	6,704
5	Volkswagen[f]	Automotive	Germany	4,647
6	Arcelor Mittal	Steel	United Kingdom	3,987
7	LG Electronics[g]	Electronic appliances	Rep. of Korea	3,775
8	Tesco	Trading	United Kingdom	3,552
9	BP Polska	Trading	United Kingdom	3,552
10	Bank Pekao	Banking	UniCredit, Italy	3,325
11	Carrefour	Trading	France	3,017
12	Philip Morris	Tobacco	The Netherlands	2,938
13	Eurocash	Trading	Politra BV, Netherlands	2,584
14	Polska Telefonia Cyfrowa	Telecommunications	T-Mobile, Germany	2,436
15	Imperial Tobacco[g]	Tobacco	United Kingdom	2,431
16	British American Tobacco[g]	Tobacco	United Kingdom	2,166
17	Auchan	Trading	France	2,072
18	Lidl	Trading	Germany	2,023
19	Toyota[h]	Automotive and trading	Japan	1,681
20	GlaxoSmithKline	Pharmaceuticals	United States	1,678

Sources: Author's compilation based on: Rzeczpospolita, *Lista 500*, 20 April 2011; PAIiIZ, *List of Major Foreign Investors in Poland with Comment*, December 2011, available at http://www.paiz.gov.pl/files/?id_plik=16982; Rzeczpospolita, *500 Największych Firm Europy Środkowo-Wschodniej*, 8 September 2011; *PięćsetkaPolityki. Ranking największych polskich firm,* available at http://www.lista500.polityka.pl; and companies' websites.

Note: To the extent possible, the above list of foreign affiliates includes a consolidated list of firms owned more than 10% by individual foreign MNEs, even if the affiliates are registered in Poland as separate companies. The list excludes affiliates in which foreign shareholding exceeds 10%, when those affiliates are controlled by local investors.

[a] Sales of banks include revenues from interest, fees, commissions, shares, and other securities and gains from financial operations.
[b] If the name of a parent firm is different from that of a foreign affiliate.
[c] Consolidated affiliates including companies listed separately on the list of top 500 largest firms: Makro Group, Real, Makro Cash and Carry, and Media Saturn Holding.
[d] Including also PTK Centertel, a mobile telephone affiliate owned by Telekomunkacja Polska.
[e] Including Fiat Auto Poland (an assembly plant) and two auto component plants: Fiat GM Powertrain (a joint venture of Fiat and General Motors) and Magneti Marelli.
[f] Includes an assembly plant in Poznan, an engine factory in Polkowice and a trading company, Skoda Auto Polska in Poznań.
[g] Consolidated affiliates in Poland.
[h] Includes component factories in Walbrzych and Jelcz and a trading affiliate of Toyota, Toyota Motor Poland.

Annex table 6. Poland: main M & A deals by inward investing firm, 2008-2010

Year	Acquiring company	Home economy	Target company	Target industry	% of shares acq.	Value [a] US$ million
2010	Industry Funds Mgmt	Australia	Dalkia Polska SA	Refuse systems	40	520
2010	MGPA Europe Fund III	United Kingdom	Mayland Sp Zoo-malls	Real estate	100	271
2010	UniImmo: Global	Germany	Horizon Plaza,Warsaw	Real estate	100	138
2010	EPISO	United Kingdom	Centrum Handlowe Jantar	Real estate	100	121
2010	AgustaWestland	United Kingdom	WSK PZL Swidnik SA	Aircraft	88	116
2010	Nordea Bank AB	Sweden	Nordea Bank Polska SA	Banking	22	114
2010	RREEF Investment	Germany	Globe Trade Centre SA-Office	Real estate	100	113
2010	EBRD	United Kingdom	Iberdrola Renewables Polska	Alternative energy	n.a.	109
2010	WP Holdings VII BV	Netherlands	AmRest Holdings SE	Restaurants	25	106
2010	Canon Inc	Japan	Optopol Technology SA	Medical instruments	89	85
2009	SAB Miller PLC	United Kingdom	Kompania Piwowarska SA	Malt beverages	28	1 114
2009	Dragados SA	Spain	PRI Pol-Aqua SA	Engineering services	66	165
2009	Deka Immobilien Invest	Germany	DT SPV15-Office Bldg	Real estate	100	161
2009	Goodyear Luxembourg Tires	Luxembourg	TC Debica	Tires and inner tubes	34	99
2009	Fairfax Financial Holdings	Canada	The Polish Re	Life insurance	100	72
2009	Investor Group	Belgium	Kredyt Bank SA	Banking	5	61
2009	M2 Investments Ltd	United Kingdom	Multimedia Polska SA	Television services	29	58
2009	Penta Investments Ltd	Czech Republic	Drumet SA	Metal products	100	38
2009	Undisclosed Acquiror	Unknown	ICM Polska SP Zoo	Business consulting services	52	35
2009	Industria de DisenoTextil	Spain	Zara Polska Sp zoo	Family clothing stores	20	33
2008	GE Money	United States	BPH-Branded Branches	Banking	66	862
2008	Vattenfall AB	Sweden	Grupa Energetyczna ENEA	Electric services	19	608
2008	Fersa Energias Renovables	Spain	Eolica Ceiplowody Sp zoo	Alternative energy sources	100	338
2008	Vodafone Group PLC	United Kingdom	Polkomtel SA	Telecommunications	5	255
2008	DEGI	Germany	Marynarska Business Park	Real estate	100	246
2008	Investor Group	Cyprus	P4 Sp zoo	Telecommunications	23	192
2008	Union Investment Real Estate	Germany	GE Real Estate Central Europe	Real estate	100	129
2008	Vienna Insurance Group	Austria	Warsaw Office Tower	Real estate	100	108
2008	Polaris Finance BV	Netherlands	Bioton SA	Pharmaceuticals	10	88
2008	Balmain European Property	United Kingdom	Europa Eagle-Shopping Centers	Real estate	100	80

Source: The author, based on Thomson ONE Banker, Thomson Reuters.

[a] Estimated or announced value of transaction.

Annex table 7. Poland: main announced greenfield FDI projects, 2008-2010

(US$ million)

Year	Investing company	Home economy	Industry and activity	Investment, actual or estimated
2010	Neinver	Spain	Real estate	265
2010	Lotte Group	Korea (Rep. of)	Food	262
2010	Volkswagen	Germany	Automotive OEM	196
2010	GAIG Stock (Guangzhou Automobile)	China	Automotive OEM	196
2010	General Motors (GM)	United States	Automotive OEM	196
2010	Willis Group Holdings	United Kingdom	Financial services	191
2010	ECE Projekt Management	Germany	Real estate	180
2010	Kraft Foods	United States	Food	156
2010	International Truck Alliance (Intrall)	United Kingdom	Automotive OEM	148
2010	Bridgestone	Japan	Rubber	141
2009	Electricity Supply Board (ESB)	Ireland	Electricity	1,400
2009	Vattenfall	Sweden	Electricity	713
2009	Cemex	Mexico	Construction materials	514
2009	Mondi Group	United Kingdom	Paper, printing and packaging	505
2009	IKEA	Sweden	Wood products	417
2009	Fiat	Italy	Engines	372
2009	Jeronimo Martins	Portugal	Food	330
2009	FX Energy	United States	Natural gas extraction	300
2009	Dell Computer	United States	Business machines and equipment	277
2009	IKEA	Sweden	Real estate, trading	250
2008	Vattenfall	Sweden	Electricity	3,500
2008	RWE	Germany	Electricity	2,320
2008	State Street	United States	Financial services	1,495
2008	Auchan Group (Mulliez Group)	France	Retail trading	1,134
2008	Vattenfall	Sweden	Electricity	1,090
2008	TriGranit	Hungary	Real estate	782
2008	EFG Group	Switzerland	Financial services	747
2008	Toyota Motor	Japan	Automotive components	723
2008	Electricite de France (EDF)	France	Electricity	713
2008	Stora Enso	Finland	Paper, printing and packaging	588

Source: The author, based on fDi Intelligence, a service from the Financial Times Ltd.

Poland: Outward FDI and its policy context, 2011

Zbigniew Zimny[*]

During the transition toward a market economy, for many years Poland's outward foreign direct investment (OFDI) was small and limited to trade-supporting activities in key export markets. It took off and started growing rapidly only five or six years ago, when the Polish private sector had matured enough to start generating home-grown multinational enterprises (MNEs). Some state-owned enterprises (SOEs) began also investing abroad, sometimes with the Government's encouragement. By contrast, in terms of private companies, Poland adopted a laissez-faire policy, leaving the emergence and expansion of private MNEs to market forces. In addition, Poland became a source and a transit country for large cross-border flows of funds among units of foreign and Polish firms, classified as FDI flows, artificially inflating OFDI. In the first year of the worldwide financial and economic crisis (2008) OFDI flows declined rather modestly to start growing again in 2009 and 2010 due to a relatively good performance of the Polish economy during the crisis.

Trends and developments

Poland is, in absolute terms, the largest source of outward FDI among the new European Union (EU) members, with an OFDI stock of nearly US$ 30 billion in 2009 (annex table 1). While being the largest country among the EU newcomers, Poland misses however the leading position, becoming an average or even below average performer among these economies when OFDI is compared to the size of its economy or its population. For example, Hungary, with an outward FDI stock much smaller than that of Poland, in 2008 had a ratio of OFDI stock to GDP three times higher (13% versus 4.3%). Other comparator economies such as the Czech Republic, Estonia and Slovenia were also ahead of Poland in regard to this ratio.[1]

Most OFDI stock (93%) has emerged since 2005. In the early 1990s, in the initial phase of the transition to a market economy and similarly to other countries in transition, Poland relied on inward FDI (IFDI) to realize one of the key tasks of transition: creating and strengthening the private sector. IFDI took the form of cross-border acquisitions related to privatizations in such industries as telecommunications, banking and, partly, power generation, as well as greenfield FDI projects in a wide range of industries.[2] At the same time, private Polish firms were emerging, although it took time until they could expand

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[1] Magdolna Sass and Kalman Kalotay, "Hungary. Outward FDI and its policy context, 2010", pp. 115-116, in Karl P. Sauvant, Thomas Jost, Ken Davies, and Ana-Maria Poveda-Garces, eds., *Inward and Outward FDI Country Profiles* (New York: Vale Columbia Center on Sustainable International Investment, 2011), available free at: http://www.vcc.columbia.edu/files/vale/content/Profile_eBook_PDF_2_11.pdf.

[2] Nowadays, foreign firms form an important part of the Polish economy, accounting for some 40% of the assets and sales of all enterprises in the country. They are interested mainly in the Polish market and/or are exporting from Poland. Few of them undertake FDI from Poland on behalf of their parents (see Zbigniew Zimny, "Poland: Inward FDI and its policy context, 2010" in Sauvant et al., op. cit., p. 185.

abroad via FDI. Companies that have remained under the control of the state were mostly commercialized, and some of them also started investing abroad, often encouraged by their owner.

As a result of the emergence and rapid growth of OFDI, not only IFDI but also outward FDI started contributing to the internationalization of the Polish economy through international production. Although the ratio of OFDI stock to IFDI stock is small (14% in 2009)[1] and will remain so for many years to come, the ratio of OFDI stock to GDP has increased from close to zero ten years ago to 7% in 2009.[2]

Country-level developments

Poland's OFDI took off and started growing rapidly only five or six years ago.[3] During 1994-2003, annual average FDI outflows were less than US$ 100 million, fluctuating between negative US$90 million in 2001 and US$ 316 million in 1998. Outflows were concentrated in trade-supporting activities such as trading and marketing, finance, logistics, and transportation in key export markets in Europe. Flows then jumped to an annual average of US$ 4.8 billion during 2004-2009, reaching a peak in 2006, when they totaled more than US$ 9 billion.[4] In 2006, the largest Polish oil distributing and processing state-owned company, PKN Orlen, purchased a refinery in Mozejki (Lithuania). This was by far the largest Polish FDI project ever.[5]

The rapid growth of Polish OFDI flows and, consequently, the country's OFDI stock, reflects two phenomena. First, the emergence of Polish public and private MNEs, initially domestic firms, which have become competitive enough to seek opportunities abroad -- not only in exporting but also in undertaking the production of goods and/or services in countries other than their own (see the section on corporate players). Second, intra-corporate flows of funds among units of MNEs (including Polish MNEs) in some economies are undertaken for tax and regulatory reasons.

Parts of these flows are called "capital in transit". They have occurred in Poland since 2005 and were listed separately in the FDI data for some years. Not representing an economic activity,[6] they distort both inward and outward FDI of the country concerned. During 2005-2007, capital in transit represented

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[1] UNCTAD, *World Investment Report 2001: Investing in A Low-carbon Economy* (New York and Geneva: United Nations, 2010), p. 172.

[2] Katarzyna Blanke-Ławniczak, "Rola polskich inwestycji bezpośrednich za granicą w internacjonalizacji polskichprzedsiębiorstw w latach 1990-2007" (Poznan: Poznań University of Economics, 2010), Ph.D. thesis, pp. 150-167.

[3] Narodowy Bank Polski, Departament Statystyki, "Polskie inwestycje bezpośrednie za granicą w latach 1996-2002" (Warszawa, luty, 2009).

[4] For the detailed analysis of Polish OFDI during 2003-2006, see K. Blanke-Ławniczak, "Outward FDI's from Central-East European economies in transition: Case Poland", in W. M. Grudzewski, I. Hejduk and S. Trzcieliński, eds., *Organizations in Changing Environment: Current Problems, Concepts and Methods of Management*,(Madison: IEA Press, 2007), pp. 128-141.

[5] In 2006, PKN Orlen acquired 53.7% of the shares of *Mazeiku Nafta* from a bankrupt Russian firm *Yukos International UK BV* for US$ 1.5 billion and an additional 30.66% from the Government of Lithuania for US$ 852 million (Ministerstwo Gospodarki, Departament Analiz i Prognoz "Polskie Inwestycje Bezpośrednie 2006/2007", mimeo. (Warszawa, marzec,2008), p. 16.

[6] Foreign affiliates in Poland, established to channel these flows, are called "Special Purpose Units" (SPUs). They have minimal or no employment and do not produce anything; rather, they merely transfer capital among units of an MNE (often a financial group) located in different countries or undertake other (unspecified) financial operations on their behalf. The characteristic feature of this capital is that it arrives in a host country of transit (and, satisfying statistical concepts, is registered there as inward FDI flow) and, in the same year, it is invested by an SPU in another country (and, satisfying statistical concepts, is registered as outward FDI flows).

40% to 47% of Poland's FDI outflows. In 2006, the share of Special Purpose Units (SPUs) in Poland's OFDI stock was 36%.[1] This would suggest that less than two-thirds of Poland's outward FDI represent international production of MNEs (i.e., "genuine" FDI).

Yet a closer look at the industry and geographical composition of OFDI stock suggests that the share of genuine FDI in total OFDI stock is even less, between one third and one half of the OFDI stock, for two reasons. First, as regards the industry composition of the outward stock, the category of "services non-classified elsewhere" (activities that do not fit the standard classification of industries) accounts for nearly two thirds of the total outward stock in 2006-2008 (see annex table 3 for 2008), resulting, most likely, from the transfers of funds.[2] Secondly, as regards the geographical composition of OFDI stock, 60% of it is located in five economies (the first three of them are top destinations of Polish FDI): Switzerland (US$ 6.7 billion), Luxembourg (US$ 5.9 billion), The Netherlands (US$ 2.3 billion), the United Kingdom (US$ 1.3 billion), and Cyprus (over US$ 0.8 billion).[3] These economies are known for being sources and destinations of intra-corporate fund transfers for tax and regulatory reasons (ease of establishing and doing business). High Polish FDI is not supported by information about FDI projects in these economies.[4] Nor is it confirmed by the inward FDI data of these economies.[5]

Without these economies the geographical composition of the Polish OFDI stock (annex table 4) becomes similar to that predicted by standard theory on OFDI and the internationalization of firms:[6] the largest destination of Polish FDI are its neighbors in Central and Eastern Europe (including members and non-members of the European Union), with an OFDI stock of over US$ 5.3 billion, followed by the remaining Western European members of the EU (US$ 3.8 billion), with Germany, Belgium and France in the lead.

Coming back to the sectoral composition of Poland's outward FDI stock, services are the largest sector (also after subtracting non-classified services), with business and real estate services the largest categories (US$ 2 billion in 2008), followed by financial services (US $ 1.1 billion). OFDI in manufacturing is steadily growing (from US$ 100 million in 2000 to US$ 2 billion in 2008 and 4.3 billion in 2009, annex table 3), originating from small and medium-sized Polish companies. Most large manufacturing companies are foreign-owned, but they do not undertake any significant FDI from Poland.

The corporate players

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[1] Ibid., p. 13, and Narodowy Bank Polski, Departament Statystyki, "Polskie inwestycje bezpośrednie za granicą w 2007 roku" (Warszawa: grudzien, 2008), p. 11.

[2] In 2009, "other non-classified services" were reported to be US$ 6.1 billion, down from an average of over US$ 13 billion during 2006-2008. The "missing" balance was transferred in that year to "banking", "other financial services" and "other business services", in an apparent attempt to assign it to industries. As a result, FDI stock in these industries "increased" drastically between 2008 and 2009, from US$ 0.8 billion to US$ 6.5 billion in banking and other financial services, and from US$ 0.3 billion to US$ 5.7 billion in other business services; see
NPB 2010, op. Cit.., pp. 48-49; and NBP, Departament Statystyki, "Polskie inwestycje bezpośrednie za granicą w 2008 roku", Aneks statystyczny (Warszawa: październik, 2009), pp. 48-49.

[3] Narodowy Bank Polski (NBP), Departament Statystyki, "Polskie inwestycje bezpośrednie za granicą w 2009 roku", Aneks statystyczny (Warszawa: wrzesień, 2010), pp. 34-39.

[4] The Ministry of the Economy verified this with Polish embassies in these countries in preparation of a report on OFDI (Ministerstwo Gospodarki, Warszawa, 2008).

[5] E.g., in 2006, Dutch data indicated a Polish FDI stock of US$ 21 million and those of the United Kingdom US$ 171 million (Ministerstwo Gospodarki, 2008, p. 23.).

[6] For a review of some of these theories by Polish authors, see R. Ławniczak and K. Blanke-Ławniczak, "Reverse globalization: the new phenomenon in the world economy of 21st century", in D. Kopycińska, ed., *Economic Challenges of Contemporary World* (Szczecin: University of Szczecin, Microeconomics Department, 2010), pp. 21-35.

Annex tables 6 and 7 suggest that major Polish MNEs include a couple of SOEs in the petroleum (PKN Orlen) and gas industries (PGNiG), as well as banking (PKO BP). PKN Orlen has become the largest Polish MNE through the purchase of the Mozejki refinery in Lithuania, as noted earlier. PGNiG made some investments in the Czech Republic, Egypt, Libya, and Norway, and PKO BP purchased a bank in Ukraine. As mentioned earlier, private Polish firms were established in increasing numbers during the transition process. Some of these firms, after the successful initial expansion in the domestic market, started their international expansion through exports and FDI, becoming MNEs.

Key players include:[1]

- Asseco Poland, the largest software company in Central and Eastern Europe, and number eight on the list of the largest software vendors in Europe, with sales of over US$ 970 million and employment of 8,500 (out of which 3,500 abroad) in 2009.[2]
- Maspex Wadowice Group, one of the largest food industry companies in Central and Eastern Europe, specializing in beverages, with sales of US$ 853 million and employment of 5,000 in 2009. Foreign sales are 40% of total sales and include exports to some 50 countries as well as foreign production.[3]
- BIOTON, a pharmaceutical company, has capitalized in its domestic and foreign expansion on the production and domestic and foreign sales of recombinant human insulin. Sales of the company were nearly US$ 96 million in 2009. The company has established several foreign affiliates through cross-border acquisitions in a number of countries (Russia, Singapore, Kazakhstan, Ukraine, China, Switzerland, Italy, and, most recently, Israel, among others).[4]
- Barlinek, a wood industry company producing floorboard, veneer, pellets, skirting board, is one of the world's largest suppliers of triple layer wooden floors. The company has production plants in Ukraine and Romania (a new production facility is under construction in Russia) and marketing affiliates in Norway, Germany and Russia.[5]
- FAKRO, established in 1991, has grown rapidly in the past decade, to become the world's second largest producer of roof windows, with a 15% share in the global market. FAKRO has 12 distribution foreign affiliates (in the United States, the United Kingdom, France, Spain, Germany, Austria, the Netherlands, Hungary, Russia, Ukraine, Slovakia, and China) and 12 foreign manufacturing affiliates (out of which seven are in Europe and one each in Russia and China).[6]

Effects of the global crisis

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[1] For other key players, see Instytut Badań Rynku, Konsumpcji i Koniunktur (IBRKK), Warsaw "Survey on Polish multinationals finds geographic concentration and industrial diversity", Warsaw and New York, March 31, 2011, available free at: http://ibrkk.pl/id/109/Projekt_Emerging_Market_Global_Players or http://www.vcc.columbia.edu/files/vale/documents/Poland_3_2011_4.pdf

[2] http://www.truffle100.com/2010/ranking.php; and http://www.asseco.pl/en

[3] http://www.maspex.com.pl/en/. For more on Maspex, see Katarzyna Blanke-Ławniczak, "Marketing dynamics and management excellence: the source of successful internationalization of food processing company from transition economy (Case: Maspex Poland)", *Journal of International Food and Agribusiness Marketing,* vol. 21, issue 2 (April 2009), pp. 134-148.

[4] "Consolidated Financial Statement as at 31 December 2009", p. 29, available at: http://www.bioton.pl/en/investor/investor/report_details/791.

[5] http://relacje.barlinek.com.pl/en/For_investors/Groups_strategy.html.

[6] http://www.fakro.com/.

As in many economies, Polish OFDI flows were lower during the worldwide financial and economic crisis of 2008-2009 than in the pre-crisis year (2007). But the decrease was not drastic and the annual levels of outflows were quite resilient, ranging between US$ 4.6 billion in 2008 and US$ 4.7 billion in 2010, and US$ 5.1 billion in 2009, compared to US$ 5.7 billion in the pre-crisis year. [1] Positive (though fluctuating) FDI outflows have increased the international production of Polish MNEs, as measured by the OFDI stock, from some US$ 20 billion in 2007, to US$ 23 billion in 2008 and nearly US$ 30 billion in 2009 (annex table 1).

The increase of OFDI stock in 2008 is mainly due to FDI growth in destinations of intra-MNE fund transfers (the United Kingdom, Luxembourg, The Netherlands as well as Switzerland and Cyprus), where OFDI stock rose by more than 20%. In destinations representing genuine FDI, notably in the transition economies of Europe and the EU members from Western Europe (excluding the three countries mentioned above), OFDI stock stagnated. In 2009, OFDI grew in all groups of economies (by 30%), but stagnated or fell in some significant host economies such as the United States, Sweden, China, Singapore, and Belarus.[2]

The positive record of OFDI during the crisis can be attributed, mainly, to a relatively good economic performance. At the hight of the crisis in 2009, Poland was the only European OECD member country with real GDP growth (1.7%), while in 2010 the economy grew at 3.8%, one of the best performances among OECD countries. Projections for 2011 and 2012 (4.2% in each year) put Poland again among the fastest growing OECD countries [3]

The policy scene

Most Polish OFDI is located in Europe and governed by EU and OECD FDI rules and treaties. By 2010, Poland had signed 63 bilateral investment treaties (BITs), of which 60 are in force, and 89 double-taxation treaties (DTTs). They cover all important host economies for Polish FDI. Among three non-ratified BITs, there is one with Russia, a significant host economy for Polish FDI (hosting US$ 0.8 billion, almost one third of Poland's OFDI stock in 2009).

Successive Polish governments have been neutral regarding OFDI or Polish MNEs. Consequently, private Polish MNEs are a product of market forces and *laissez-faire* policy, without any government intervention or support. The Ministry of the Economy noted in the only report on OFDI by a government agency that "all activities of Polish enterprises related to investment abroad result in the overwhelming majority from their very own initiative. Polish firms are able to identify, select and use alone their chances to grow and develop through FDI. It does not mean, however, that they do not need encouragement and support from adequate state institutions."[4] Possible or existing forms of such a support are not mentioned, because there are hardly any, as regards OFDI.[5]

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[1] Source: the website of the National Bank of Poland: http://www.nbp.pl/home.aspx?f=/statystyka/bilans_platniczy/bilansplatniczy_r.html, retrieved May 1st., 2011.
[2] NPB 2010, ibid. pp. 34-37; and NBP 2009, ibid., pp. 34-39.
[3] Economic forecast in *The Economist*, February 12, 2011, p. 97, and June 4, 2011, p. 105.
[4] Ministerstwo Gospodarki, Departament Analiz i Prognoz „Polskie Inwestycje Bezpośrednie 2006/2007", mimeo (Warszawa, marzec 2008), p. 3.
[5] A KPMG publication asked the surveyed firms about assistance of various institutions (private institutions such as consultancy firms and banks and government agencies including Polish embassies and consulates) as regards their foreign expansion (not distinguishing the forms of this expansion such as exports or FDI). Almost half of the respondents did not use any assistance. Around 30% used the services of business chambers and embassies and consulates, and 20% of business consultancy firms. Only 9% turned for assistance to government

Government involvement could be found in at least some foreign investments by SOEs. The biggest FDI project so far, the purchase of the Mozejki refinery in Lithuania by PKN ORLEN (mentioned earlier) — in spite of the claims of the former management that it was a transaction based purely on business considerations— was actively encouraged and discussed at political levels with Lithuanian counterparts by the Polish Presidency. Investments of PGNiG, the gas giant, have also been encouraged as a means to diversify the sources of gas imports. Quite recently the Government has been suspected of pursuing a policy of creating "national champions". First, it openly supported the (failed) acquisition of a foreign affiliate (BZ WBK) of an Irish transnational bank by a state-owned bank, PKO BP. Secondly, it chose to try to "privatize" a regional energy concern, Energa, by selling it to another SOE, PGE (Polish Energy Group), in spite of the warning from the competition authority that the transaction will significantly reduce competition in the energy market. Thirdly, these attempts have been related to the fact that Government advisors openly talk about the need to protect the remaining large Polish SOEs[1] (other large firms are typically foreign affiliates). Thus it remains to be seen whether these firms will become the future vibrant Polish MNEs.

Conclusion

At the beginning of the 21st century, Polish firms hardly engaged in the foreign production of goods and services, limiting OFDI to supporting only trading activities. Poland's OFDI stock ballooned ten times, from only US$ 3 billion in 2004 to US$ 30 billion in 2009, reflecting the emergence of Polish MNEs, both public and private, and the continued investment in the activities supporting ever growing exports of Poland as well as an increasing involvement of Poland in the transfers of intra-corporate funds for tax and other reasons.

The trend toward a further emergence and expansion of Polish private MNEs is set to continue, as a growing number of domestic enterprises discover benefits from investing abroad and acquire competitive advantages that allow them to undertake such investments. Annex tables 6 and 7 on cross-border acquisitions by Polish companies during 2007-2009 suggest several new firms are engaging for the first time in international production. *Laissez-faire* policy combined with relatively stable and good economic conditions in recent years, including during the crisis, and a general support by successive governments for competition in the domestic market, have helped Polish firms to expand abroad through both exports and FDI. [2] Whether Poland will adopt a policy to turn SOEs into national champions and, eventually into MNEs, will depend on the outcome of the current debate on the future and limits of further privatizations.

Additional readings

agencies other than consulates and embassies. Among the firms that used assistance, more than half of them assessed it negatively, because of excessive bureaucracy and the low quality of information (for further discussion see KPMG and Invest in Poland, *Ekspansja międzynarodowa polskich przedsiębiorstw produkcyjnych* (Warszawa, 2010), pp. 40-41).

[1]Jan Krzysztof Bielecki. Narodowe ciągoty liberała", in *businessman.pl*, No. 10 (37), paździemik 2010, pp. 10-14.

[2]As noted, for example, in the OFDI *Profile* of Chile, a successful country as regards OFDI, "the best policy to support OFDI is perhaps a sound policy to promote stability and competition in national markets" (Carlo Razo and Alvaro Calderon, "Chile's outward FDI and its policy context"' in Sauvant, et al., op. cit., p. 79).

Cieślik, Jerzy, *Internacjonalizacja polskich przedsiębiorstw. Aktualne tendencje – implikacje dla polityki gospodarczej* (Warszawa, Akademia Leona Koźmińskiego, 2010).

Instytut Badań Rynku, Konsumpcji i Koniunktur (IBRKK), „Polskie inwestycje za granicą", Studia i materiały, nr. 87, Warszawa, luty 2009.

Instytut Badań Rynku, Konsumpcji i Koniunktur (IBRKK), „Polskie inwestycje za granicą", Studia i materiały, nr. 90, Warszawa, kwiecień 2010.

Ministerstwo Gospodarki, Departament Analiz i Prognoz „Polskie Inwestycje Bezpośrednie 2006/2007"(Warszawa: marzec 2008), mimeo.

Rosati, Dariusz and Witold Wiliński "Outward foreign direct investment from Poland", in: Marjan Svetlicic and Matija Rojec, eds., *Facilitating Transition by Internationalization: Outward Direct Investment from Central European Economies in Transition* (Ashgate, 2003), pp. 175-204.

Useful websites

National Bank of Poland, http://www.nbp.pl/homen.aspx?f=/en/statystyka/bilansplatniczy.html for balance of payments data (in English) and Poland's OFDI data (only in Polish).

Ministry of the Economy for the only analysis of the OFDI by a government agency, listed above: http://www.mg.gov.pl/NR/rdonlyres/F91B004A-083D-439F-87CB-A964981E4B5F/44283/PBIZ2006fin3p2.pdf

Statistial annex

Annex table 1. Poland: outward FDI stock, 2000 and 2004-2011

(US$ billion)

Economy	2000	2004	2005	2006	2007	2008	2009	2011
Poland	1	3	6	14	20	23	30	50
Memorandum: comparator economies								
Hungary	1	6	8	13	18	20	19	24
Czech Republic	1	4	4	5	9	13	14	15
Slovakia	0	1	1	1	2	2	3	4
Romania	0	0	0	1	1	1	2	2
Bulgaria	0	0	0	0	1	1	1	2

Source: UNCTAD's, FDI/TNC data base, available at: http://stats.unctad.org/fdi); NBP, Department Statystyki, „Polskie inwestycje bezpośrednie za granicą ...", Warszawa, various years (Poland); and Magdolna Sass and Kalman Kalotay, "Hungary. Outward FDI and its policy context, 2010" (for Hungary), in Karl P. Sauvant, Thomas Jost, Ken Davies, and Anna-Maria Poveda Garces, eds., *Inward and Outward FDI Country Profiles* (New York: Vale Columbia Center on Sustainable International Investment, 2011), available free at: http://www.vcc.columbia.edu/files/vale/content/Profile_eBook_PDF_2_11.pdf.

Annex table 2. Poland: outward FDI flows, 2000-2011

(US$ million)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2011
Poland	16	-90	230	305	955	3,358	9,149	5,664	4,613	5,100	5,860
Memorandum: comparator economies											
Hungary	620	368	278	1,644	1,119	2,179	3,874	3,737	1,661	1,740	4,530
Czech Republic	43	165	206	206	1,014	-19	1,468	1,620	4,323	1,340	1,152
Slovakia	29	65	11	247	-21	150	511	600	258	432	490
Romania	-13	-16	17	41	70	-31	423	279	274	218	32
Bulgaria	3	10	27	26	-206	310	177	270	707	-136	190

Source: UNCTAD's, FDI/TNC data base, available at: http://stats.unctad.org/fdi; NBP, Balance of Payments in millions of USD - net transactions, website of NBP, http://www.nbp.pl/home.aspx?f=/statystyka/bilans_platniczy/bilansplatniczy_kw.html and Sass and Kalotay, op. cit. (for Hungary).

Annex table 3. Poland: sectoral distribution of outward FDI stock, 2000, 2008 and 2009

(US$ million)[a]

Sector/industry	2000	2008	2009
All sectors/industries	1,017	22,520	29,557
Primary	27	41	125
Manufacturing	113	2,019	4,255
Food	2	313	1,699
Chemicals	26	384	630
Refined petroleum	0	152	312
Metal products	11	164	281
Services	879	20,356	25,014
Financial total	452	1,083	6,624
Infrastructure	244	715	977
Trading	150	1,540	1,526
Business services, incl. real estate	10	2,022	9,353
Construction	23	126	423
Non-classified services		14,871	6,111

Source: Data from the National Bank of Poland, various years.

[a] Full references given in the text.

Annex table 4. Geographical distribution of outward FDI stock, 2000-2009

(US$ million)

Country/región	2000	2007	2008	2009
World	1,017	19,369	22,520	29,557
Developed economies	747	18,482	21,123	27,881
Europe	639	18,248	20,690	27,421
Norway	—0.2	477	542	1,096
Switzerland	62	3,893	4,906	6,724
European Union	404	8,607	9,900	13,243
Belgium	0,3	45	20	1,182
Czech Republic	33	1,294	1,370	1,520
Germany	72	815	833	1,068
Lithuania	12	1,151	1,030	1,234
Luxembourg	133	4,102	4,734	5,879
Netherlands	7	1,319	1,910	2,306
UK	118	1,145	1,132	1,304
North America	96	237	422	444
United States	95	227	411	431
Other developed economies	12	-3	11	16
Developing economies	185	770	1,259	1,663
Africa	20	131	162	174
Asia and Oceania	156	578	682	902
China	139	180	183	181
India		13	0.1	142
Malaysia		87	0	76
Singapore	6	84	102	113
Latin America	9	61	415	587
Memorandum:				
Transition Europe	76	4,721	4,749	5,343

Source: Data from the National Bank of Poland.

Annex table 6. Poland: main M & A deals, by outward investing firm, 2007-2009[a] (US$ million)

Date	Target company	Target economy	Acquiring company	Shares acquired, %	Value
2009	Terminal Systems SA	Spain	Asseco Poland AS	85	6
2009	OOO Kvadro sp zoo	Russia	Selena Co SA	100	1
2009	Raxon Informatica SA	Spain	Asseco Poland AS	55	20
2008	UAB Sintagma	Lithuania	Asseco Poland SA	56	6
2008	Ataxo sro	Czech Republic	Garvest	-	12
2008	Spiele Max AG	Germany	Smyk Sp zoo	100	13
2008	HEILBRONN Maschinenbau GmbH	Germany	Hydrapres SA	100	6
2008	Kofola as	Czech Republic	Hoop SA	100	203
2008	Antegra doo	Serbia	Asseco Poland SA	70	14
2008	Trader.com	Turkey	Agora SA	100	54
2008	VT-Soft Kft	Hungary	Teta SA	86	14
2008	Invia.cz	Czech Republic	MCI Management SA	50	5
2008	Nong Investment Ltd	Cyprus	Bioton SA	-	35
2008	Tricel SA	Luxembourg	Bioton SA	100	23
2008	Tecresa Cotalunya Sl	Spain	Mercor SA	100	52
2008	DianaForest SA	Romania	Barlinek SA	100	33
2008	Arbor Informatika doo	Croatia	Asseco Adria SA	70	16
2008	Logos doo	Croatia	Asseco Adria SA	60	11
2007	AB Dvarcioniu Keramika	Lithuania	Opoczno SA	78	3
2007	HaeMedic AB	Sweden	HTL-Strefa SA	100	33
2007	AT Computer Holding	Czech Republic	AB SA	100	40
2007	Zeljezara Split dd	Croatia	Zlomrex SA	89	2
2007	UAB Limedika	Lithuania	Polska Grupa Farmaceutyczna SA	50	31
2007	Unterland Flexible Packaging	Austria	Mondi Packaging Paper Swiece	100	100
2007	Avtis LLC	Russia	Cersanit SA	100	63
2007	Rosan Agro	Ukraine	Polski Koncern Miesny Duda SA	100	6
2007	Tire Kutsan Oluklu Mukavva	Turkey	Mondi Packaging Paper Swiece	54	106
2007	BioPartners Holding AG	Switzerland	Bioton SA	100	75
2007	RM S HOLDING AS	Czech Republic	Asseco Poland SA	100	26
2007	Voestalpine Stahlhandel GmbH	Austria	Zlomrex SA	100	33
2007	Prikarpattya Bank	Ukraine	Getin Holding SA	82	21
2007	HVB Bank Ukraine AG	Ukraine	Bank Pekao	100	23
2007	Kaucuk AS	Czech Republic	Dwory SA	100	253

Source: Thomson ONE Banker. Thomson Reuters. a Including Polish firms and foreign affiliates.

Annex table 7. Poland: main greenfield projects, by outward investing firm,[a] 2007-2009

(US$ million)

Date	Company name	Destination economy	Investment	Sector	Business activity
2009	Tauron	Czech Republic	333	Coal, oil and natural gas	Sales, marketing and support
2009	Polskie Gornictwo Naftowe i Gazownictwo SA (PGNiG)	Egypt	333	Coal, oil and natural gas	Sales, marketing and support
2009	Polskie Gornictwo Naftowe i Gazownictwo SA (PGNiG)	Czech Republic	90	Coal, oil and natural gas	Logistics, distribution and transportation
2009	KGHM	Germany	112	Metals	Extraction
2009	Iberia Motor	Ukraine	120	Automotive OEM	Manufacturing
2009	The Outlet Company (TOC)	Russia	133	Real estate	Construction
2009	Morpol SA	France	193	Food and tobacco	Manufacturing
2008	The Outlet Company (TOC)	Ukraine	201	Real estate	Construction
2008	EMC Instytut Medyczny	Ireland	78	Healthcare	Construction
2008	Barlinek	Russia	186	Wood products	Manufacturing
2008	Centrozap	Russia	120	Wood products	Manufacturing
2008	Caelum Development	Romania	936	Real estate	Construction
2008	Polskie Gornictwo Naftowe i Gazownictwo SA (PGNiG)	Libya	108	Coal, oil and natural gas	Extraction
2008	Can-Pack Group	India	193	Metals	Manufacturing
2008	PKN Orlen	Lithuania	100	Coal, oil and natural gas	Logistics, distribution and transportation
2007	Polnord	Russia	800	Real estate	Construction
2007	PKN Orlen	Azerbaijan	589	Coal, oil and natural gas	Extraction
2007	Herkules	Romania	186	Wood products	Manufacturing
2007	Echo Investment	Romania	142	Real estate	Construction
2007	Petrolinvest	Kazakhstan	200	Coal, oil and natural Gas	Extraction
2007	Maspex Wadowice Group	Ukraine	69	Beverages	Manufacturing
2007	Bioton	Russia	96	Pharmaceuticals	Manufacturing
2007	Solaris Bus & Coach	India	182	Automotive OEM	Manufacturing
2007	Barlinek	Russia	85	Wood products	Manufacturing

Source: fDi Intelligence, a service from the Financial Times Ltd.[a] Including Polish firms and foreign affiliates.

Poland: Outward FDI and its policy context, 2012

*Zbigniew Zimny**

During the transition toward a market economy, Poland's outward foreign direct investment (OFDI) was small and limited to trade-supporting activities in key export markets for many years. It took off and started growing rapidly only from 2005, when the Polish private sector had matured enough to start generating home-grown multinational enterprises (MNEs). Some state-owned enterprises (SOEs) also began investing abroad, sometimes with the Government's encouragement. In contrast, Poland adopted a laissez-faire policy toward private companies, leaving the emergence and expansion of private MNEs to market forces. In addition, Poland became a source and a transit country for large intra-corporate cross-border flows of funds within both foreign and Polish MNEs, classified as FDI flows, and inflating OFDI data. During the global economic turbulence of 2008–2011, Polish MNEs continued to invest abroad at quite elevated levels. Their profitability still depends to a considerable extent on the domestic market, and the Polish economy has performed well during the crisis and the subsequent economic slowdown in Europe.

Trends and developments

Poland is, in absolute terms, the largest source of outward FDI among the new European Union (EU) members, with an OFDI stock of US$ 50 billion in 2011 (annex table 1). However, it loses the leading position, becoming an average performer among those countries when OFDI is compared to the size of its economy or its population. For example, in 2011, Hungary, with an outward FDI stock much smaller than that of Poland, had a much higher ratio of OFDI stock to GDP (17% versus 10%). Other new EU member countries, such as Estonia and Slovenia, were also ahead of Poland in terms of the OFDI to GDP ratio and OFDI stock per capita.[1]

Most of Poland's OFDI stock (93%) has been accumulated since 2005. In the early 1990s, in the initial phase of the transition to a market economy, Poland (like other economies in transition) relied on inward FDI (IFDI) to realize one of the key tasks of the transition: creating and strengthening the private sector. IFDI took the form of cross-border acquisitions related to privatizations in such industries as telecommunications, banking and, partly, power generation, as well as greenfield FDI projects in a wide range of industries.[2] At the same time, private Polish firms were emerging, although it took time before

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[1] Author's calculations and UNCTAD FDI/TNC data base, available at: http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx.

[2] Today, foreign firms form an important part of the Polish economy, accounting for some 40% of the assets and sales of all enterprises in the country. Some of them undertake FDI from Poland on behalf of their parent firms (see, Zbigniew Zimny, "Poland: Inward FDI and its policy context, 2010," in Karl P. Sauvant, Thomas Jost, Ken Davies, and Ana- Maria Poveda Garces, eds., *Inward and Outward FDI Country Profiles* (New York: Vale Columbia Center on Sustainable International Investment of Columbia University, 2011), available at: http://www.vcc.columbia.edu/files/vale/content/Profile_eBook_PDF_2_11.pdf.

they could expand abroad via FDI. Most of the companies that have remained under the control of the State were commercialized, and some of them also started investing abroad, often encouraged by their owner.

As a result of the emergence and rapid growth of OFDI, not only IFDI but also outward FDI started contributing to the internationalization of the Polish economy through international production. Although the ratio of OFDI stock to IFDI stock is still rather small (25% in 2011, compared to 126% in the European Union), it has grown rapidly from 3% in 2000 and 7% in 2005.[1]

Country-level developments

Poland's OFDI took off and started growing rapidly only six or seven years ago. During 1994–2003, average annual FDI outflows were less than US$ 100 million, fluctuating between US$ 90 million in 2001 and US$ 316 million in 1998. Outflows were concentrated in such trade-supporting activities as trading and marketing, finance, transportation, and storage in key export markets in Europe.[2] Flows then jumped to an annual average of over US$ 5 billion during 2004–2011, reaching a peak in 2006, with more than US$ 9 billion (annex table 2).[3] In 2006, the largest Polish oil refining and distribution company, the state-owned PKN Orlen, purchased a refinery in Mažeikiu (Lithuania). This was by far, until very recently (see below), the largest Polish OFDI project.[4]

As in many economies, Polish OFDI flows were lower during the worldwide financial and economic crisis of 2008–2009 than in the pre-crisis year, 2007, when they amounted to US$ 5.7 billion. But the decreases were not drastic, and the annual levels of outflows were quite resilient, at US$ 4.6 billion in both 2008 and 2009. After that, outflows recovered, reaching around US$ 7.4 billion in both 2010 and 2011 (annex table 2). Positive and quite elevated FDI outflows have augmented the country's OFDI stock significantly, from some US$ 21 billion in 2007, to US$ 50 billion in 2011 (annex table 1).

The positive OFDI record during the crisis can be mainly attributed to Poland's relatively good economic performance. At the height of the crisis in 2009, Poland was the only EU member with a real GDP growth (1.6%), while in 2010 the economy grew at 3.9%, and in 2011 at 4.3% — one of the best

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[1] Calculated on the basis of data from Narodowy Bank Polski, Międzynarodowa pozycja inwestycyjna – dane roczne, available at http://www.nbp.pl/home.aspx?f=/statystyka/m_poz_inwest.html; and UNCTAD, *World Investment Report 2012: Towards a New Generation of Investment Policies* (New York and Geneva: United Nations, 2012), p. 173.

[2] The share of these activities in total OFDI stock was 90% in 1996, and still as high as 73% in 2000. Later on, FDI in trade-supporting activities continued to grow, but as FDI in other activities took off, its share fell to 20% in 2005 (data are from Narodowy Bank Polski, Departament Statystyki, "Polskie inwestycje bezposrednie za granica w latach 1996-2002" (Warsaw, February 2009).

[3] For a detailed analysis of Polish OFDI during 2003–2006, see K. Blanke-Ławniczak, "Outward FDI from Central-East European economies in transition: Case of Poland", in W. M. Grudzewski, I. Hejduk and S. Trzcieliński, eds., *Organizations in Changing Environment: Current Problems, Concepts and Methods of Management* (Madison: IEA Press, 2007), pp. 128–141.

[4] In 2006, PKN Orlen acquired 53.7% of the shares of *Mažeikių Nafta* from the bankrupt Russian firm *Yukos International UK BV* for US$ 1.5 billion and an additional 30.66% from the Government of Lithuania for US$ 852 million; see Ministerstwo Gospodarki, Departament Analiz i Prognoz "Polskie Inwestycje Bezpośrednie 2006/2007" (Warsaw: March 2008), mimeo., p.16.

performances among the EU countries.[1] Polish MNEs still rely mostly on the domestic market for their sales, and a good situation at home meant that the crisis did not adversely affect their profitability and capacity to invest abroad.

The rapid growth of Polish OFDI flows and, consequently, Poland's OFDI stock, reflects two factors. The first is the emergence of Polish public and private MNEs—that is, domestic state-owned and private firms that became competitive enough to seek opportunities abroad not only through exports but also by producing goods and/or services in countries other than their own (see the section on corporate players below).

Second, a substantial amount of recorded FDI flows from (and to) Poland consists of intra-corporate flows of funds within units of MNEs (including Polish MNEs) to other economies, undertaken for tax and regulation-related reasons. This "transit capital" FDI has been reported separately in the statistics since 2004 (when it occurred for the first time), but only for selected years for flows (but all years for stocks). Not representing investment involving lasting interest in production activity in the host economy,[2] such flows of funds distort the picture of both inward and outward FDI of the countries concerned. During 2005–2007, transit capital represented 33% to 44% of Poland's FDI outflows, and two host countries (Luxembourg and Switzerland) accounted for all of it.[3] During 2010–2011, this share was lower, some 27%. [4] As regards Poland's OFDI stock, during 2005–2011, the share of such Special Purpose Entities (SPEs) fluctuated between over 41% in 2006 and over a quarter in 2010–2011.[5] This suggests that, at least recently, less than three quarters of Poland's outward FDI represents international production of MNEs, or "genuine" FDI.

However, a closer look at the industry and geographical composition of Poland's OFDI stock suggests that the share of genuine FDI in total OFDI stock may be less than one half of the OFDI stock, and perhaps even less than that. First, as regards the industry composition of the outward stock, the category of "activities non-classified elsewhere" (i.e., activities that do not fit the standard classification of industries) accounted for nearly half of the OFDI stock in 2005 (annex table 3), and two thirds of the total outward stock in 2006–2007, resulting, most likely, at least partly from the transfers of funds,[6] And

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[1] See, Eurostat, Real GDP growth rate – volume, available at http://epp.eurostat.ec.europa.eu/tgm/printTable.do?tab=table&plugin=1&language=en&pcode=tec00115&printPreview=true#.

[2] Foreign affiliates in Poland, established to channel these flows are called "Special Purpose Entities" (SPEs). They have minimal or no employment and do not produce anything; they only transfer capital among units of an MNE (often a financial group) located in different countries or undertake other (unspecified) financial operations on their behalf. The characteristic feature of this capital is that it arrives in a transit host country (and, satisfying statistical concepts, is registered there as inward FDI flow) and, typically in the same year it is invested by an SPE in another country (and, satisfying statistical concepts, is registered as outward FDI flow).

[3] Narodowy Bank Polski, Departament Statystyki, "Polskie inwestycje bezpośrednie za granicą w 2007 roku" (Warsaw: December 2008), p. 11.

[4] Narodowy Bank Polski, Departament Statystyki, "Polskie inwestycje bezpośrednie za granicą w 2011 roku" (Warsaw: October 29, 2012), pp. 1 and 3.

[5] Narodowy Bank Polski, "Międzynarodowa pozycja inwestycyjna Polski w 2007 roku" (Warsaw: 2008), p. 44; and "Międzynarodowa pozycja inwestycyjna Polski w 2011 roku" (Warsaw: September 2012), p. 44.

[6] In 2008, OFDI stock in "other non-classified activities" was reported to be US$ 5.7 billion, down from an average annual stock of over US$ 12 billion during 2006–2007. The difference represented a re-allocation of stock in that year to "banking", "other financial services" and "other business services", in an apparent attempt to assign it to industries. As a result, the OFDI stock in these industries "increased" drastically between 2007 and 2008, from US$ 0.8 billion to US$ 5.7 billion in banking and other financial services, and from US$ 0.2 billion to US$ 4.6 billion in other business services (see

although the non-allocated category's share has gone down considerably since 2008 (annex table 3), the decline is due to a re-allocation of FDI stock data that may not reflect the real picture. Secondly, and more importantly, as regards the geographical composition of OFDI stock, in 2011 over 57% of the stock was located in six economies (annex tables 4 and 4a): Luxembourg (US$ 11.8 billion), the United Kingdom (US$ 5.4 billion), Cyprus (US$ 3.3 billion), the Netherlands (US$ 3 billion), Switzerland (US$ 2.5 billion), and Belgium (US$ 2.5 billion). These economies are known for being sources and destinations of intra-corporate fund transfers as well as convenient locations for registering companies (including holding companies) for tax and financing reasons. Thus, the genuine Polish FDI stock is not confirmed by the inward FDI data from these countries.[1] Nor are records of Polish OFDI stock supported by information on other indicators of production activities of Polish foreign affiliates in these economies (see discussion below, of the geographic distribution): as shown in annex table 4a, the six economies mentioned accounted for less than 1% of the total employment and 5% of total sales of Polish foreign affiliates world-wide.

When, instead of FDI stock, foreign affiliates' sales or employment numbers are taken as measures of the international production of Polish MNEs, the geographical distribution of this production becomes similar to that predicted by the theory of the internationalization of enterprises:[2] with one exception (Cyprus for the sales of foreign affiliates), the most important five (for sales) to six (for employment) host countries for Polish foreign affiliates are its neighbors or nearby countries of Central and Eastern Europe (including both members and non-members of the European Union): Germany, Czech Republic, Ukraine, Russia, Slovakia, Romania, and Belarus. Together, they account for 50% of the total number and total employment of Polish foreign affiliates and, excluding Cyprus, for 56% of those affiliates' total sales (annex table 4b).

NBP, Departament Statystyki, "Polskie inwestycje bezpośrednie za granicą", issues for years 2006, 2007, 2008 and 2009). OFDI stock in non-allocated activities was similarly low in 2009, at US$ 6.1 billion. Beginning in 2010, the industry codes have been changed from Polish ones to Eurostat codes. This has resulted in the reduction of OFDI stock in non-allocated activities to 3.5 per cent of the total and in skyrocketing OFDI stock in some industries, which does not seem to be supported by economic reality. Notably, the stock in banking increased to US$ 7.7 billion (from US$ 3.6 billion in 2008, not only at the cost of non-allocated activities but also "other financial services", where the stock was reduced from US$ 2.7 billion to US$ 0.4 billion), that in business services to US$ 7.2 billion in 2011 and that in manufacturing to over US$ 17 billion in both 2010 and 2011, from US$ 4.2 billion in 2009 (NBP, Departament Statystyki, "Polskie inwestycje bezposrednie za granica," issues for 2010 and 2011).

[1] For 2006, e. g., Dutch data indicated a Polish FDI stock of US$ 21 million and those for the United Kingdom US$ 171 million (Ministerstwo Gospodarki, op. cit., 2008, p. 23). In an updated 2011 report, the Ministry of the Economy stated that information collected from monitoring specialized press and Polish embassies in at least three of these countries (Luxembourg, the Netherlands and Switzerland) "does not indicate that Polish investors have undertaken [in these countries] investment projects suggested by statistical data" (Ministerstwo Gospodarki, Departament Analiz i Prognoz "Polskie Inwestycje Bezpośrednie w 2009 roku", Warsaw, May 2011, mimeo., pp. 20–21). The OECD reports for 2010 inward FDI stock from Poland amounting to US$ 1.6 billion in the Netherlands (up from US$ 357 million in 2009), US$ 750 million in Belgium (up from some US$ 268 million in 2009), US$ 41 million in the United Kingdom and no stock in Luxembourg (OECD.StatExtracts, available at http://stats.oecd.org/). But, according to the same source, Polish affiliates in the Netherlands produced merely US$ 11 million of value added (in 2009), suggesting that their investments are of a purely financial nature.

[2] John Dunning and Sarianna Lundan, *Multinational Enterprises and the Global Economy* (Cheltenham: Edward Elgar, 2008), pp. 91–93. For a review of some of these theories by Polish authors, see R. Ławniczak and K. Blanke-Ławniczak, "Reverse globalization: the new phenomenon in the world economy of 21st century", in D. Kopycińska, ed., *Economic Challenges of Contemporary World* (Szczecin: University of Szczecin, Microeconomics Department, 2010), pp. 21–35.

As regards the sectoral composition of Poland's outward FDI stock, services account for the largest stock, with business services (US$ 11.4 billion in 2011, including, since 2010, head offices and "management consultancy activities", accounting for the bulk of this category) and financial services (US$ 8 billion in 2011, including, since 2010, holding companies) the largest service-categories for OFDI (annex table 3). They are followed by trading services (US$ 5.7 billion in 2011, which increased from US$ 1.5 billion in 2009, after the 2010 re-classification of OFDI by activities). The steadily growing OFDI in manufacturing, which rose from a stock of US$ 100 million in 2000 to US$ 1 billion in 2005 and US$ 4.3 billion in 2009, originating from small and medium-sized Polish companies, is noteworthy. Most large manufacturing companies are foreign-owned, and they do not undertake significant FDI from Poland. After re-classification, as mentioned earlier, the OFDI stock in manufacturing skyrocketed to US$ 17.2 billion. Because of re-classification, the industry data on OFDI stock should be treated with caution, in particular, as regards comparisons over time. As noted below (see the next sub-section on the corporate players), when the employment in foreign affiliates of Polish MNEs is taken as a measure, services remain the largest sector for OFDI; in terms of sales, however, foreign affiliates of manufacturing parents account for the largest share of the total.

The corporate players

Major Polish MNEs include a number of state-owned (or state-controlled) enterprises (SOEs) in the petroleum (PKN Orlen, LOTOS), gas (PGNiG) and chemical (Ciech) industries (annex table 5). PKN Orlen had become the largest Polish MNE through the purchase of the Mažeikiu refinery in Lithuania, as noted earlier. PGNiG made some investments in Libya, Norway, Egypt, and the Czech Republic. Another SOE in the copper industry, KGHM Polska Miedź, joined the ranks of the largest Polish MNEs in terms of foreign assets in March 2012 after acquiring a Canadian copper mining company, Quadra FNX Mining, for US$ 2.8 billion.[1] On this occasion, it changed its name to KGHM International.

In addition to SOEs that are MNEs, selected key private players are listed in table 5. The largest among them (in terms of foreign assets) is, quite unexpectedly, Asseco Poland. It operates in the software industry, which is not characterized by large physical assets and large companies. It has grown large abroad through an aggressive foreign acquisitions campaign pursued over a decade. In 2009 and 2010, Asseco acquired a further six companies in Croatia, Denmark, Romania, Spain, and Turkey, for a total of US$ 67 million (annex table 6). Consequently, it became the largest software company in Central and Eastern Europe, and number seven on the list of the largest software firms in Europe, with total revenues of over US$ 1.6 billion and employment of 14,000 (out of which 9,500 were abroad) in 2011.[2] Two other IT industry companies in annex table 5, Comarch (also a software producer, 50th among Europe's top 100 software vendors) and AB (a distributor of software and IT equipment), are much smaller than Asseco. All other private MNEs listed in the table are manufacturing companies.

Three additional MNEs in the food, wood and roof windows industries (not included in annex table 5) are worth mentioning:

- Maspex Wadowice Group, one of the largest food industry companies in Central and Eastern Europe, specializes in beverages, with sales of US$ 853 million and employment of 5,000 in

[1] "Inwestycja KGHM szansą dla innych", *Rzeczpospolita*, March 7, 2012, p. B4.
[2] Ranking of the top 100 European software vendors, Truffle 100, available at http://www.truffle100.com/downloads/2012/TruffleEurope-2012-v9.pdf; and http://www.asseco.pl/en.

2009. Foreign sales are 40% of total sales and include exports to some 50 countries, as well as foreign production.[1]

- Barlinek, a wood industry company producing floorboard, veneer, pellets, and skirting boards, is one of the world's largest suppliers of triple layer wooden floors. The company has production plants in Ukraine and Romania (and a new production facility is under construction in Russia) and marketing affiliates in Norway, Germany and Russia.[2]
- FAKRO, established in 1991, has grown rapidly to become the world's second largest producer of roof windows, with a 15% share in the global market. FAKRO has 15 distribution foreign affiliates (in the United States, the United Kingdom, France, Spain, Germany, Austria, the Netherlands, Hungary, Russia, Ukraine, Slovakia, Italy, Czech Republic, Latvia, and China) and 12 foreign manufacturing affiliates (out of which seven, among others, in Europe and one in each Russia and China).[3]

In all, by 2010, Poland had a total of some 1,443 MNEs, out of which the largest number were in manufacturing (488), followed by MNEs in trading (328) and in construction (189) (annex table 5a). These MNEs had 2,988 foreign affiliates, out of which 921 affiliates were owned by manufacturing parent firms and 709 by trading parent firms. Most foreign affiliates in construction, trading, information and communication services, finance, and business services were in the same industry as their parent firms. Manufacturing MNEs had 45% of their affiliates in the same sector and 38% in trading services, with the balance spread over several industries such as business services, construction and finance. Foreign affiliates generated in 2010 US$ 35 billion of sales and employed close to 150,000 people in host countries (annex table 5a). This is not yet much: in 2010, just one company, General Electric, the world's largest MNE (in terms of foreign assets) had employment in its foreign affiliates larger than that of all 2,988 foreign affiliates of Polish MNEs. Its sales were more than twice as large.[4] Foreign affiliates of Polish MNEs in the services sector accounted for the largest share of employment in Polish foreign affiliates abroad, while those of Polish firms in manufacturing generated the largest share (67%) of foreign affiliates' sales (annex table 5a).

As annex table 6 shows, a number of Polish MNEs are expanding through cross-border mergers and acquisitions (M&As). The largest M&A transactions in 2011 were headed by the acquisition of the Spanish firm Restauravia by AmRest Holdings for US$ 284 million, and that of Novaservis (Czech Republic) by FERRO for US$ 68 million.

The policy scene

Most Polish OFDI is located in Europe and governed by EU and OECD rules and treaties concerning FDI. As of June 1, 2012, Poland had signed 63 bilateral investment treaties (BITs), of which 60 were in force, and 92 double-taxation treaties (DTTs).[5] They cover all important host economies for Polish FDI.

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[1] See, http://www.maspex.com.pl/en/. For more on Maspex, see Katarzyna Blanke-Ławniczak, "Marketing dynamics and management excellence: the source of successful internationalization of a food processing company from transition economy (Case: Maspex Poland)", *Journal of International Food and Agribusiness Marketing,* vol. 21, issue 2 (April 2009), pp. 134–148.

[2] See, http://relacje.barlinek.com.pl/en/For_investors/Groups_strategy.html.

[3] See, http://www.fakro.com/.

[4] Data on General Electric are from UNCTAD's TNC/FDI data base, available at www.unctad.org/wir.

[5] UNCTAD BITs and DTTs database, available at: www.unctad.org/iia.

One of the three non-ratified BITs is with Russia, a significant host economy for Polish FDI (hosting over US$ 1.1 billion of Poland's OFDI stock in 2011).

Successive Polish governments have been neutral about OFDI or Polish MNEs. Consequently, private Polish MNEs are a result of market forces and *laissez-faire* policy, without any government intervention or support. The Ministry of the Economy admitted that in a report on OFDI: "all activities of Polish enterprises related to investment abroad result in the overwhelming majority from their very own initiative. Polish firms are able to identify, select and use alone their chances to grow and develop through FDI. It does not mean, however, that they do not need encouragement and support from adequate state institutions."[1] Possible or existing forms of such a support are not mentioned, because there are hardly any, as regards OFDI.[2] An FDI insurance scheme offered since a number of years by a state-owned corporation for export credit insurance (KUKE) does not seem to be working, as so far no foreign investor from Poland has used it.[3]

Government involvement could be found in at least some foreign investments by SOEs. The biggest FDI project until 2012 (when KGHM International acquired Quadra FNX Mining), the purchase of the Mažeikiu refinery in Lithuania by PKN ORLEN, mentioned earlier — in spite of the claims of the former management that it was a transaction based purely on business considerations — was actively encouraged and discussed at the political level with Lithuanian counterparts by the Polish Presidency. Investments by PGNiG, the gas giant, had also been encouraged as a means to diversify the sources of gas imports. In the past two years, the Government has been suspected of pursuing a policy of creating "national champions". First, it openly supported the (failed) acquisition of a foreign affiliate (BZ WBK) of an Irish multinational bank by a state-owned bank, PKO BP. Secondly, it chose to try to "privatize" a regional energy concern, Energa, by selling it to another SOE, PGE (Polish Energy Group), in spite of a warning from the competition authority that the transaction will significantly reduce competition in the energy market. Thirdly, these attempts were related to the fact that Government advisors openly talk about the need to protect the remaining large Polish SOEs[4] (other large firms are typically foreign affiliates). Fourthly, in the second half of 2011, a new dimension was added to the debate, as some prominent economists and government advisors started talking openly about the need to "re-polonize" foreign-owned banks (through buy-backs, not through nationalization). Some officials, including the President of the National Bank of Poland, have spoken in favor of this idea.[5]

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[1] Ministerstwo Gospodarki, Departament Analiz i Prognoz, Polskie Inwestycje Bezpośrednie w 2009 roku" (Warsaw: May 2011), mimeo., p. 7.

[2] A KPMG publication asked surveyed firms about assistance by various institutions (private institutions such as consultancy firms and banks and government agencies including Polish embassies and consulates) as regards their foreign expansion (not distinguishing the forms of this expansion such as exports or FDI). Almost half of the respondents had not used any assistance. Around 30% used the services of business chambers and embassies and consulates, and 20%, of business consultancy firms. Only 9% had turned for assistance to government agencies other than consulates and embassies. Among the firms that had used assistance, more than half assessed it negatively, because of excessive bureaucracy and the low quality of information (for further discussion see KPMG and Invest in Poland, *Ekspansja międzynarodowa polskich przedsiębiorstw produkcyjnych* (Warsaw: 2010), pp. 40–41.

[3] KUKE, *Raport roczny za rok 2011* (Warsaw: 2012); and Najwyższa Izba Kontroli, *Informacja o wynikach kontroli funkcjonowania systemu wspierania kredytów eksportowych* (Warsaw: March 2010).

[4] Jan Krzysztof Bielecki, „Narodowe ciągoty liberała", in *businessman.pl*, No. 10 (37), October 2010, pp. 10–14.

[5] "Czasy są takie, że trzeba być orłem", interview with Marek Belka, President of the NBP, November 14, 2011, available at http://wyborcza.biz/biznes/2029020.

While the discussion at the national level continues, action has taken place at the local level: quite recently, in 2012, the city of Wrocław, which has attracted FDI by a number of prominent MNEs such as Google, IBM, HP, Nokia–Siemens, and McKinsey & Company, has launched a program called "Polish Champions" in co-operation with the Ministry of Economy and Polish Agency for Information and Foreign Investment. The objective of the program is to support the worldwide expansion of firms from the city. The program has signed up 11 Polish companies headquartered in Wrocław, including two firms that are already MNEs, AB and Selena (annex table 5). In the future, the city hopes to attract headquarters of new Polish MNEs. Several Polish cities have shown interest in joining the program. The means of support are still rather vague. So far the program has generated a series of workshops, a communication platform and media interest.[1] It remains to be seen if it results in a meaningful support to companies wishing to invest abroad.

Conclusion

At the beginning of the 21st century, Polish firms hardly engaged in the foreign production of goods and services, limiting OFDI to the support of trading activities. The build-up of Poland's OFDI has taken place only since around 2005. In only seven years, Poland's OFDI stock ballooned nearly fifteen times, from US$ 3.4 billion in 2004 to US$ 50 billion in 2011, reflecting the emergence of Polish MNEs, both public and private, their continued investment abroad to support the country's ever growing exports, as well as an increasing involvement of both Polish and foreign MNEs in the intra-corporate transfers of funds for tax optimization reasons.

The trend toward a further growth of Polish private MNEs is set to continue, as a growing number of domestic enterprises discover the benefits of investing abroad, and acquire competitive advantages that allow them to undertake such investments. In two years only, from 2008 to 2010, the number of Polish MNEs increased by 337 companies.[2] Data on cross-border acquisitions by Polish companies during 2009–2011 suggest that several new firms are engaging for the first time in FDI. *Laissez-faire policy* combined with relatively stable and good economic conditions in recent years, including during the global crisis, and a general support by successive governments of competition in the domestic market have helped Polish firms to expand abroad through both exports and FDI.[3] Whether Poland will adopt a policy to turn SOEs into national champions and, eventually, into MNEs, will depend on the outcome of the current debate on the future of, and limits to, further privatizations.

Additional readings

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[1] http://polskiczempion.pl/o-programie-polski-czempion; and "Polscy Czempioni idą w świat", *Rzeczpospolita*, April 10, 2012.

[2] Główny Urząd Statystyczny (GUS), *Działalność podmiotów posiadających udziały w podmiotach z siedzibą za granicą w 2010 roku*, Wyniki wstępne, Informacje bieżące (Warsaw, April 30, 2012); and Główny Urząd Statystyczny (GUS), *Działalność podmiotów posiadających udziały w podmiotach z siedzibą za granicą w 2008 roku*, Wyniki wstępne, Informacje bieżące (GUS, Warsaw, June 10, 2010).

[3] As noted, for example, in the case of Chile, a successful country as regards OFDI, "the best policy to support OFDI is perhaps a sound policy to promote stability and competition in national markets" (Carlo Razo and Alvaro Calderon, "Chile's outward FDI and its policy context"' in Sauvant, et al., op. cit., p. 79).

Cieślik, Jerzy, *Internacjonalizacja polskich przedsiębiorstw. Aktualne tendencje – implikacje dla polityki gospodarczej* (Warsaw: Akademia Leona Koźmińskiego, 2010).

Instytut Badań Rynku, Konsumpcji i Koniunktur (IBRKK), „Polskie inwestycje za granicą", Studia i materiały, no. 93 (Warsaw: June 2012).

Instytut Badań Rynku, Konsumpcji i Koniunktur (IBRKK), „Polskie inwestycje za granicą", Studia i materiały, no. 90, (Warsaw: April 2010).

Ministerstwo Gospodarki, Departament Analiz i Prognoz, „Polskie Inwestycje Bezpośrednie w 2009 roku," Warsaw, May 2011, mimeo.

Rosati, Dariusz and Witold Wiliński "Outward foreign direct investment from Poland," in Marjan Svetlicic and Matija Rojec, eds., *Facilitating Transition by Internationalization: Outward Direct Investment from Central European Economies in Transition* (Aldershot: Ashgate, 2003), pp. 175–204.

Useful websites

National Bank of Poland, for data on Polish OFDI:
http://www.nbp.pl/homen.aspx?f=/en/statystyka/bilansplatniczy.html for balance of payments data (in English) and Poland's OFDI data (only in Polish).

Ministry of the Economy for the only two analyses of the OFDI by a government agency, listed above (Ministerstwo Gospodarki, Departament Analiz i Prognoz "Polskie Inwestycje Bezpośrednie w 2009 roku", Warsaw, May 2011; and "Polskie Inwestycje Bezpośrednie 2006/2007", Warsaw: March 2008): http://www.mg.gov.pl/NR/rdonlyres/F91B004A-083D-439F-87CB-A964981E4B5F/44283/PBIZ2006fin3p2.pdf.

Statistial annex

Annex table 1. Poland: outward FDI stock, 2000–2011

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Poland	1.0	1.2	1.5	2.1	3.4	6.3	14.3	21.2	24.0	29.6	44.4	49.7
Memorandum: comparator economies												
Bulgaria	0.03	0.03	0.04	0.1	-0.2	0.1	0.5	0.8	1.4	1.4	1.5	1.7
Czech Republic	0.7	1.1	1.5	2.3	3.8	3.6	5.0	8.6	12.5	14.8	14.9	15.5
Hungary	1.3	1.6	2.2	3.5	6.0	7.8	12.4	17.3	17.6	19.2	20.0	23.8
Romania	0.1	0.1	0.1	0.2	0.3	0.2	0.9	1.2	1.5	1.4	1.5	1.5
Slovakia	0.4	0.5	0.5	0.8	0.8	0.6	1.3	1.9	3.0	3.2	3.3	4.2

Sources: For Poland, annual publications of the National Bank of Poland (NBP), "Polskie inwestycje bezpośrednie za granicą", various years, available at http://www.nbp.pl/home.aspx?f=/publikacje/pib/pib.html;
for other countries, UNCTAD, UNCTADstat, available at: http://unctadstat.unctad.org/TableViewer/tableView.aspx

Annex table 2. Poland: outward FDI flows, 2000–2011

(US$ million)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Poland	16	-90	230	305	955	3 392	9 168	5 664	4 613	4 562	7 484	7 335
Memorandum: comparator economies												
Bulgaria	3	10	27	26	-206	310	177	282	765	-95	229	190
Czech Republic	43	165	206	206	1 014	-19	1 468	1 620	4 323	949	1 167	1 152
Hungary	620	368	278	1 644	1 119	2 179	3 877	3 621	2 234	1 984	1 307	4 530
Romania	-13	-16	17	41	70	-31	423	279	274	-88	-20	32
Slovakia	29	65	11	247	-21	150	511	600	530	904	327	490

Sources: For Poland, the website of the National Bank of Poland, available at http://www.nbp.pl/home.aspx?f=/statystyka/bilans_platniczy/bilansplatniczy_r.html;
for other countries, UNCTAD, UNCTADstat, available at http://unctadstat.unctad.org/TableViewer/tableView.aspx.

Annex table 3. Poland: sectoral distribution of outward FDI stock, by the industry of affiliates, 2000, 2005 and 2009–2011

(US$ million)

Sector/industry	2000	2005	2009	2010	2011
All sectors/industries	1 018	6 279	29 557	44 444	49 657
Primary	27	9	125	643	909
Manufacturing	113	1 076	4 255	17 095	17 200
Refined petroleum products	0	89	312	4 627	3 609
Vehicles and transport equipment	62	149	261	1 435	2 565
Food and beverages	2	179	1 699	3 099	2 464
Metal products	11	110	281	1 483	1 961
Rubber and plastic	3	51	200	1 150	1 203
Chemicals	26	36	630	1 052	1 079
Services	878	2 108	19 066	24 504	29 788
Business[a]	14	159	5 784	7 161	11 415
Financial[b]	355	623	6 377	8 520	7 994
Trading	150	383	1 526	5 376	5 662
Construction	23	212	423	1 439	2 090
Real estate	2	149	2 794	1 950	2 003
Power, gas and water	0	5	664	978	1 202
Transport and storage	242	244	345	508	419
Hotels and restaurants	1	2	82	172	261
Not allocated	0	3 086	6 111	2 202	1 760

Source: Annual publications of the National Bank of Poland, “Polskie inwestycje bezposrednie za granica”, various years, available at: www.nbp.pl/home.aspx?f=/publikacje.pib.html

a Including head offices since 2010.

b Including holding companies since 2010.

Annex table 4. Poland: geographical distribution of outward FDI stock, 2000, 2005 and 2009–2011
(US$ million)

Country/region	2000	2005	2009	2010	2011
World	1 018	6 279	29 557	44 444	49 657
Developed economies	733	5 803	27 877	42 865	47 954
Europe	639	5 667	27 422	40 837	45 744
Switzerland	62	1 958	6 724	3 054	2 487
Norway	0	14	1 096	1 293	1 422
European Union – 15	406	1 859	13 243	25 245	28 503
European Union – 27	492	3 032	17 823	33 442	38 329
Luxembourg	133	185	5 879	9 030	11 816
United Kingdom	118	284	1 304	5 600	5 457
Cyprus	32	153	826	1 909	3 271
Netherlands	7	471	2 306	3 153	3 007
Belgium	0	2	1 182	2 281	2 463
Lithuania	12	68	1 234	2 178	2 463
Czech Republic	33	713	1 520	2 415	2 453
North America	95	141	444	2 027	2 200
United States	95	138	431	1 964	2 115
Other developed countries	-1	-4	11	1	10
Developing economies	198	385	1 569	1 572	1 562
Africa	20	90	174	197	202
Asia and Oceania	169	261	808	1 241	1 239
Singapore	6	17	113	350	295
India	0	5	142	174	182
China	139	153	181	115	127
Latin America	9	34	587	134	121
Memorandum:					
Transition Europe[a]	83	1 541	5 365	8 668	9 098

Source: Annual publications of the National Bank of Poland, "Polskie inwestycje bezposrednie za granica", various years, available at: www.nbp.pl/home.aspx?f=/publikacje.pib.html.
a Including new 2004 EU members, South-East Europe, Belarus, Russia, and Ukraine.

Annex table 4a. The largest host countries for Poland's OFDI stock and their shares in the OFDI stock, 2011, and in the sales, employment and number of Polish foreign affiliates, 2010

(Percent)

Host country	FDI stock, 2011	Sales of FAs[a/], 2010	Employment of FAs[a/], 2010	Number of FAs[a/], 2010
Luxembourg	23.8	0.7	0.1	1.7
United Kingdom	11.0	1.1	0.3	2.1
Cyprus	6.6	2.3	0.03	3.4
Netherlands	6.1	0.4	0.3	2.2
Switzerland	5.0	0.5	0.02	0.8
Belgium	5.0	0.1	0.1	0.7
Total above	*57.4*	*5.0*	*0.9*	*11.0*

Sources: The National Bank of Poland, "Polskie inwestycje bezpośrednie za granicą w 2011 roku", available at http://www.nbp.pl/home.aspx?f=/publikacje/pib/pib.html; and Główny Urząd Statystyczny, "Działalność podmiotów posiadających udziały w podmiotach z siedzibą za granicą w 2010 roku", Informacje bieżące (Warsaw: April 30, 2012), available at: http://www.stat.gov.pl/cps/rde/xbcr/gus/pgwf_dzialalnosc_podm_posiad_udzialy_2010.pdf.

a/ 'FAs' indicates foreign affiliates.

Annex table 4b. The largest host countries for Poland's OFDI and their shares in the OFDI stock, 2011, and in the sales, employment and number of foreign affiliates, 2010

(Percent)

Largest host countries	FDI stock, 2011	Largest host countries	Sales of FAs[a/]	Largest host countries	Employment in FAsa/	Largest host countries	Number of FAsa/
Luxembourg	23.8	Czech Republic	22.1	Germany	14.9	Germany	13,3
United Kingdom	11.0	Germany	22.0	Czech Republic	9.2	Ukraine	11,9
Cyprus	6.6	Russia	4.6	Ukraine	8.8	Czech Republic	8,2
Netherlands	6.1	Ukraine	2.7	Russia	8.4	Russia	7,7
Switzerland	5.0	Slovakia	2.5	Romania	5.1	Romania	5,0
Belgium	5.0	Cyprus	2.3	Belarus	3,3	Slovakia	4,2
Total above	57.4	Total above	*56.2*	Total above	49,7	Total above	50,3

Sources:
The National Bank of Poland, "Polskie inwestycje bezpośrednie za granicą w 2011 roku", available at http://www.nbp.pl/home.aspx?f=/publikacje/pib/pib.html ; and Główny Urząd Statystyczny, "Działalność podmiotów posiadających udziały w podmiotach z siedzibą za granicą w 2010 roku", Informacje bieżące (Warsaw: April 30, 2012), available at: http://www.stat.gov.pl/cps/rde/xbcr/gus/pgwf_dzialalnosc_podm_posiad_udzialy_2010.pdf.
a/ 'FAs' indicates foreign affiliates.

Annex table 5. Poland: selected major non-financial MNEs, 2010, ranked by foreign assets

Rank	Company	Industry	Foreign assets (US$ million)
1	Polski Koncern Naftowy Orlen (PKN Orlen)	Petroleum	6 222
2	Asseco	IT	1 194
3	Polskie Górnictwo Naftowe i Gazownictwo (PGNiG)	Gas	1 149
4	Synthos	Chemical	619
5	Morpol	Food	505
6	LOTOS	Petroleum	452
7	Ciech	Chemical	430
8	Bioton	Pharmaceuticals	293
9	Złomrex	Metallurgy	252
10	Selena FM	Building materials	160
11	Polimex–Mostostal	Construction and machinery and equipment production	139
12	Koelner	Fixings for construction and industry	135
13	AB	IT	100
14	Boryszew	Metal, chemical and automotive products	85
15	KGHM Polska Miedź	Copper	82
16	Comarch	IT	54
17	Grupa Kęty	Metal products	24
18	Decora	Building materials	24
19	Fabryki Sprzętu i Narzędzi Górniczych "Fasing"	Machinery and equipment	19
20	Ferro	Sanitary and installation equipment	17

Source: Instytut Badań Rynku, Konsumpcji i Koniunktur (IBRKK) and Vale Columbia Center on Sustainable International Investment, "Polish multinationals go beyond Europe" (Warsaw and New York: June 14, 2012), available at http://ibrkk.pl/id/109/Projekt_Emerging_Market_Global_Players or http://www.vcc.columbia.edu/files/vale/documents/EMGP-Poland-Report-2012-_FINAL_0.pdf.

Annex table 5a. Profile of Polish non-financial MNEs and their affiliates in host countries, total and by industry of parent MNE, various measures, 2010

A. Values

Category	Total	Manufacturing	Construction	Trading	Business services	Other
Number of parent MNEs	1 443	488	189	328	113	325
Number foreign affiliates	2 988	921	288	709	258	812
Sales of foreign affiliates (US$ million)	34 774	23 346	879	4 149	3 105	3 296
Employment foreign affiliates(number)	148 083	47 567	11 561	24 863	36 954	27 138
Exports of foreign affiliates (US$ million)	9 196	7 879	81	621	59	557
Imports of foreign affiliates (US$ million)	14 135	11 807	42	1 649	94	542
GFCF[a]/ of foreign affiliates (US$ million)	1 170	381	18	105	33	634
B. Composition by industry, percent						
Number of parent MNEs	100	34	13	23	8	23
Number of foreign affiliates	100	31	10	24	9	27
Sales of foreign affiliates	100	67	3	12	9	9
Employment	100	32	8	17	25	18
Exports	100	86	1	7	1	6
Imports	100	84	0	12	1	4
GFCF	100	33	2	9	3	54

Source: Główny Urząd Statystyczny, "Działalność podmiotów posiadających udziały w podmiotach z siedzibą za granicą w 2010 roku", Informacje bieżące (Warsaw: April 30, 2012), available at: http://www.stat.gov.pl/cps/rde/xbcr/gus/pgwf_dzialalnosc_podm_posiad_udzialy_2010.pdf.

Note: Values converted from Polish złoty into US dollars using the average exchange rate for 2010, 3.0157 Polish złoty = 1US$.

Annex table 6. Poland: main M&A deals, by outward investing firm, 2009–2011

Year	Target company	Target economy	Acquiring company	Industryof the acquiring company	Shares acquired (%).	Value US$ million
2011	Restauravia Grupo Empresarial	Spain	AmRest Holdings	Eating places	76	284
2011	Novaservis	Czech Republic	FERRO	Plumbing fixture fittings	100	68
2011	Mecom Poland Holdings AS	Norway	Gremi Media	Publishing & printing	-	30
2011	AKRIKHIN	Russian Federation	Polpharma	Pharmaceuticals	26	20
2011	Rehab-Trade Kft	Hungary	Medort	Medical instruments	100	7
2011	WoodinterKom GmbH	Austria	Pronox Technology	IT facilities management	19	6
2011	KBP Kettenwerk Becker-Pruente	Germany	Grupa Kapitałowa Fasing	Hardware	40	3
2011	Global Bioenergies SA	France	Synthos	Synthetic rubber	4	2
2011	Audit Diagnostics Ltd	Ireland	PZ Cormay	Laboratory equipment	99	2
2011	Automotorsport Centrum SRO	Slovakia	Fota	Transportation equipment	20	0,3
2011	COGNOR Stahlhandel GmbH	Austria	COGNOR	Steel	25	-
2011	BM Partners as	Czech Republic	Fortuna	Amusement devices	100	-
2011	AdMarket.cz as	Czech Republic	Grupa Allegro	Business services	100	-
2011	PostalNL NV-Mail Activities	Czech Republic	ID Marketing	Air courier services	100	-
2011	Transfinance as	Czech Republic	BRE BankA	Banks	50	-
2011	OLT GmbH	Germany	Amber Gold	Investment advice	100	-
2011	Comarch AG	Germany	Comarch	IT facilities management	40	-
2011	Weco Polstermoebel GmbH	Germany	Mebelplast	Fabricated metal products	100	-
2011	Rehab-Trademark Kft	Hungary	Medort	Medical instruments	100	-
2011	Khimfarm	Kazakhstan	Polpharma	Pharmaceuticals	-	-
2011	Vilniaus Pergale-factory	Lithuania	ZPC Mieszko	Confectionery products	100	-
2011	Euro MGA Product SRL	Romania	Selena FM	Adhesives and sealants	100	-
2011	Provus Services Provider SA	Romania	Innova Capital	Investors	96	-
2011	AKRIKHIN	Russian Federation	Polpharma	Pharmaceuticals	20	-
2011	PostNL NV-Mail Activities	Slovakia	ID Marketing	Air courier services	100	-
2011	Quilosa	Spain	Selena FM	Adhesives and sealants	49	-
2011	Markafoni.com	Turkey	Grupa Allegro	Business services	71	-
2011	TS3 Services Ltd	United Kingdom	Platforma Mediowa Point Group	Advertising	100	-

2010	Fesenko	Ukraine	Broad Gate	Chemicals	100	-
2010	Agroton PLC	Cyprus	BPH TFI	Investment advice	5	-
2010	Prodavalnik.com	Bulgaria	Grupa Allegro	Business services	100	-
2010	GVA Grimley-Outlet Business	United Kingdom	Liebrecht & Wood Poland	Land development	100	-
2010	Scop Computers SRL	Romania	ABC Data	Computers and software	51	8
2010	Romcolor SA	Romania	Atlas	Industrial chemicals	-	-
2010	Maflow Components-Plant	Spain	Boryszew	Chemicals	100	-
2010	Syzranskaya Keramika	Russian Federation	Cersanit	Iron and metal ware	100	-
2010	Dial Telecom AS	Czech Republic	GTS Central Europe	Telecommunications	100	-
2010	Biro Data Servis doo	Croatia	Asseco South Eastern Europe	IT	100	5
2010	Man Servizi Srl	Italy	Boryszew	Chemicals	100	2
2010	WMG AS	Estonia	Enterprise Investors	Investors	36	9
2010	Maflow BRS Srl	Italy	Boryszew	Chemicals	100	8
2010	Kahibah Ltd	British Virgin Islands.	Designer Export	Apparel and stores	100	-
2010	AG Foods Group as	Czech Republic	Avallon	Investors	100	15
2010	Iletisim Teknoloji Danismanlik	Turkey	Asseco South Eastern Europe	IT	35	4
2010	Hedef Menkul Degerler AS	Turkey	X-Trade Brokers	Security brokers	100	1
2010	Warimpex Finanz	Austria	BZ WBK AIB TFI	Investors	10	13
2010	Afton-Ajax Copper-Gold	Canada	KGHM Polska Miedz	Copper ores	51	37
2010	Geonafta AB	Lithuania	Petrobaltic SA	Petroleum and gas	59	-
2010	Profi Rom Food SRL	Romania	Polish Enterprise Fund VI	Investment offices	100	99
2010	Grycksbo Paper Holding AB	Sweden	Arctic Paper	Paper mills	100	91
2010	UNYLON POLYMERS GmbH	Germany	Azoty Tarnów	Plastics and synthetics	100	-

2009	PROBASS	Romania	Asseco South Eastern Europe	IT	100	20
2009	Plaza Centers NV	Netherlands	BZ WBK AIB Asset Mngmnt.	Investment advice	6	-
2009	Copecresto Enterprises Ltd	Russian Federation	CEDC	Liquors	15	70
2009	Terminal Systems SA	Spain	Asseco Poland	IT	85	6
2009	IT Practice A/S	Denmark	Asseco Poland	IT	52	18
2009	Quilosa	Spain	Selena FM	Adhesives and sealants	51	-
2009	Cortria Corp	United States	Pharmena	Pharmaceuticals	50	-
2009	AOZST Energopol-Ukraina	Ukraine	Wschodni Invest	Investors	51	-
2009	SwePol Link AB	Sweden	Polska Grupa Energetyczna	Electric services	16	-
2009	Electro World Hungary	Hungary	EW Electro Retail	Household appl. stores	100	-
2009	Velvet Telecom LLC	United States	Mediatel	Telecommunications	100	3
2009	Russian Alcohol CJSC Group	Russian Federation	CEDC	Liquors	36	84
2009	OOO Kvadro	Russian Federation	Selena	Chemicals	100	1
2009	Raxon Informatica SA	Spain	Asseco Poland	Prepackaged	55	20

				software		
2009	Pernod Ricard SA-Lubuski Brand	France	Vinpol	Wines and brandy	100	-
2009	PL350	Norway	PGNiG	Petroleum and gas	-	-
2009	Marila Balirny-Coffee & Bakery	Czech Republic	Mokate	Roasted coffee	100	-

Source: The author, based on fDi Intelligence, a service from the Financial Times Ltd.

Note: '-' indicates that data are not available.

Chapter 16 - Portugal

Portugal: Inward FDI and its policy context, 2011

Vitor Corado Simões and Rui Manuel Cartaxo[*]

Portugal's performance in attracting inward foreign direct investment (IFDI) during the economic and financial crisis in 2009 was poor, below the low figures that it had already recorded in the previous couple of years, although Portugal did not record negative FDI inflows like competing countries such as Ireland (in 2008) and Hungary (in 2009). The country's difficulties in attracting IFDI are, however, structural. The "golden" years of the early 1990s, when Portugal emerged as an attractive and fashionable location, are past. The country's IFDI performance throughout the first decade of the 21st century was, in general, weak. In 2009, Spain, France and Brazil were the main sources of IFDI in Portugal. In spite of the Government's commitment to attracting IFDI, policy design and implementation have fallen short in the increasingly fierce competition for international investment.

Trends and developments

Country-level developments

Portugal has traditionally been a net recipient of foreign direct investment. Since the early 1960s, following Portugal's involvement in the creation of the European Free Trade Area, IFDI has played a very important role in Portugal's economic development, including the development of exports. Portugal's entry into the European Economic Community in 1986 gave a further impetus to IFDI by encouraging investment aimed at serving Portugal's domestic market, which experienced strong demand growth. The main effect, however, was the expansion of efficiency-seeking investments mainly aimed at profiting from favorable location conditions, namely lower wages compared to many European economies. This stimulated exports to its European partners.[1] The early 1990s marked the zenith of this trend. The AutoEuropa automobile factory, a joint venture between Ford and Volkswagen, was the most emblematic project in this phase. However, the developments in Central and Eastern Europe, with the fall of communism, the gradual setting up of market economies and the later entry of most of those countries into the European Union, undermined Portugal's traditional advantages in attracting IFDI. Portugal was to some extent "caught in the middle", between the most innovative and dynamic European locations and other European countries and/or regions competing on the basis of low labor costs. The country's appeal faded. This relative decline was aggravated by globalization, in particular by the increasing attractiveness of emerging Asian economies. In 1995, for the first time in the post-war period, Portugal's outward foreign direct investment (OFDI) exceeded its IFDI. This may be seen as a

[*] The authors wish to thank Joaquim Ramos Silva and Armando Jose Garcia Pires for their helpful comments. First published June 27, 2011.

[1] Vitor Corado Simões, *INNO-Policy TrendChart: Policy Trends and Appraisal Report Portugal 2009* (Brussels: European Commission, 2009).

manifestation of the investment development path,[1] since there was a marked increase in OFDI, but IFDI declined throughout the 1990s. Furthermore, the creation of the Euro area, while generating significant benefits, deprived Portugal of monetary and foreign exchange policy instruments to promote exports and enhance competitiveness as a location for export-oriented foreign investment.

Portugal's IFDI stock rose from US$ 29 billion to US$ 111 billion from 2000 to 2009 (annex table 1). However, if one takes into account the US dollar's depreciation against the Euro, the increase was more modest, with average annual growth slightly exceeding 10%. Average annual IFDI flows clearly did not increase between 2000-2002 and 2007-2009, and, during the decade as a whole, they showed signs of stagnation at a level below US$ 5 billion (annex table 2).

There is a dual perception of Portugal as a host for foreign investment: According to recent market research undertaken by Ernst & Young for AICEP, Portugal is more valued by those companies already in the country than by those not yet there.[2] Future prospects are bleak, however, due to three inter-related factors: the economic and financial crisis, the decline in Europe's attractiveness for international investors and the consequences of increased globalization.

The 2000s were characterized by a relatively volatile behavior of IFDI flows to Portugal, although the signs of stagnation are clear (annex table 2). The crisis played a role in this stagnation, but it is not the only reason for Portugal's relatively poor performance.

In comparative terms, Portugal's IFDI stock rose faster than that of competing countries like Ireland or Greece (annex table 1), while losing ground to Spain and Hungary. The latter comparison may be in part biased by the low starting level of Hungary, which only opened up to IFDI 20 years ago. However, with the exception of 2009, Hungary attracted more IFDI than Portugal in the second half of the past decade. More troubling is the decline in competitiveness as a host country relative to Spain. Spain performed better on two indicators: the 2009 IFDI to 2000 IFDI ratio (4.2 for Spain against 3.8 for Portugal), and the IFDI/GDP ratio in the period 2007-2009 (an average of 4.8% for Spain versus 2.2% for Portugal).

The sectoral breakdown of Portugal's IFDI flows for 2000-2009 (annex table 3) suggests a declining importance of manufacturing. The share of investment in manufacturing in total IFDI was only 3% during this period, declining further in the second half of the past decade, when IFDI in manufacturing was negative. Although this may be partly due to an under-reporting of FDI in manufacturing in the form of investments undertaken by holding companies and financial vehicles, there is a clear trend away from manufacturing. Portugal is losing its appeal as a manufacturing location, as confirmed by a look at the target industries in mergers and acquisitions (M&As) and greenfield projects (annex tables 6 and 7). Services accounted for the largest share of IFDI, comprising almost 80% of total IFDI flows in 2000-2009. In 2009, the services share leaped to almost 98%. The largest target for FDI in the services sector was real estate, accounting for 70% of IFDI in 2000-2009, followed by financial services with 22%.

Information available from the Bank of Portugal on the geographical distribution of IFDI flows is restricted to the main sources of investment and to Portuguese-speaking countries. Tax havens are not

[1] The concept of an investment development path was coined by John H. Dunning. See John H. Dunning, *International Production and the Multinational Enterprise* (London: Allen & Unwin, 1981) and John H. Dunning and Rajneesh Narula, eds., *Foreign Direct Investment and Governance: Catalysts for Economic Restructuring* (London: Routledge, 1996).
[2] Personal communication by a member of the Board of AICEP.

mentioned, and the figures for the European Union as a whole are not available from 2005 onward. The main finding is the leading position held by Spain, with a share that amounts to 38% of the total for the period 2000-2009 (annex table 4). This is not surprising, since Spain is Portugal's only geographically contiguous neighboring country and a bigger economy. The weight of investments from Spain is also partly due to the fact that Spanish affiliates of multinational enterprises (MNEs) from third countries often play an intermediary role, undertaking investments in Portugal on behalf of their headquarters or European regional divisions. Such an approach is particularly common for US and Japanese MNEs, and it helps explain the low share of Japan and the United States as investment sources. Nevertheless, it explains only in part the surprisingly low share of US FDI in Portugal (2% of total IFDI for 2000-2009). France ranks second[1] to Spain, but with only an 8% share. The United Kingdom, with 6%, ranks in the third place.[2] Two interesting findings are the increasing importance of Brazil and the declining share of Germany. FDI flows from Germany to Portugal were negative during all but one of the years 2003-2009, and especially in the last three years of the period (annex table 4), German firms seem to be divesting from Portugal. This is troubling because German firms have traditionally been strongly committed to developing their presence in Portugal.

The corporate players

Because of Portugal's long history of IFDI, many foreign investors operate in Portugal. Some of them, particularly in manufacturing, are geared toward exports. The majority, especially in services, are focused on the domestic market.

The biggest non-financial firms with foreign equity in Portugal (annex table 5) are in four main industries:

(1) Oil and gas, with three firms in the top 10 foreign affiliates; two of them are Spanish (Repsol and Cepsa), and are newcomers in historical terms, since they were established in Portugal less than 30 years ago; the other one is British (BP), which has long been in Portugal.

(2) The automotive industry, with four firms, three of which have plants in Portugal: AutoEuropa, now fully owned by Volkswagen; PSA; and the component manufacturer Delphi (the last has recently reduced its presence in Portugal). AutoEuropa has consistently been among Portugal's top three exporters.

(3) Retailing, where French firms have taken the lead; however, the French retailer Auchan has divested from Portugal, selling its network to a Portuguese retail group.

(4) The food industry, with the Portuguese affiliates of the two largest European MNEs (Unilever and Nestlé) coming just after the top 10; both MNEs are long-standing investors in Portugal, the joint venture between Unilever and the Portuguese group Jerónimo Martins being an outstanding example of a long-lasting cooperative venture.

[1] The data and analysis only refer to the countries whose investments are disclosed in Bank of Portugal statistics. It may be the case that other countries, for which amounts are not disclosed, have higher shares.
[2] The same reasoning as in the previous footnote applies here.

Major greenfield projects[1] (annex table 7) were in oil and natural gas (by the Italian company Enel in 2007) and renewable/alternative energy (nine projects, the biggest being undertaken by the Spanish company Iberdrola). Also relevant were the projects in real estate and in the automotive sector (mainly by Volkswagen). Among investments through M&As (annex table 6), services dominated the scene. The largest M&A deals, measured by announced transaction value, were in the following activities: electrical services and renewable energy, mostly undertaken by Spanish and Italian investment groups, the latter gaining an equity hold of 15% in REN, the company managing the Portuguese electricity network infrastructure; highway construction and management, with Babcock & Brown (Australia) and Abertis (Spain) acquiring equity shares in Brisa, the Portuguese leader in the field; media, the Spanish Vertix group acquiring almost 74% of Media Capital;[2] and hotels (acquisition of Méridien Penina, in Algarve, by the British company JJW Hotels & Resorts).[3] The main investment in manufacturing was undertaken in pharmaceuticals, with Magnum Capital, an investor group based in Spain and the United Kingdom but with Portuguese partners, acquiring a majority share in Generis Farmacêutica, to profit from the government policy of promoting generic drugs.

Effects of the global crisis

Portugal was severely hurt by the financial and economic crisis that has affected the global economy since 2008. The country's persistent trade deficit and the growth of its public deficit increased the need for foreign capital. Financial market pressures hit the country and lending conditions deteriorated, in spite of the support provided by the European Central Bank. This led in 2010 to successive revisions of the European Stability and Growth Pact and to a heavy austerity program embodied in the Government budget proposal for 2011.[4]

One of the consequences of the crisis was the tightening of credit to firms. Although burdened with relatively low shares of toxic assets, Portuguese banks became very risk-averse in lending to companies. The Government launched five successive packages to enhance the conditions for granting credit to small and medium-sized enterprises (SMEs), but this was not enough for credit conditions to revert to the *status quo ante*. Meanwhile, with the difficulties in getting acceptable interest-rate conditions in the international inter-bank market, Portuguese banks further tightened the conditions on company finance, particularly for SMEs.

The crisis had significant consequences for IFDI in Portugal, explainable by four factors. First, the credit crunch and the difficult conditions felt all over Europe (and in the United States) reduced companies' appetites for investing in Europe. Second, Portugal faced increased competition as a host for FDI, particularly from emerging markets not hit by the crisis, which are perceived by international investors as more appealing locations. Third, in this context Portugal was not attractive as a location for FDI, either as a production platform for exports (as neighboring countries were suffering similar problems) or as a growing domestic market. Finally, the decline in demand and the credit crunch together led

[1] The concept of greenfield investment used here is somewhat different from the one traditionally used in the international business literature, which considers greenfield projects as the creation of new companies. All subsequent increases of the company's equity are no longer classified as greenfield. In annex table 7, a greenfield project includes not just investment undertaken in connection with the creation of a new company but also subsequent increases in company equity.

[2] The Spanish group has since disposed of its stake, due to financial problems in their Spanish and international operations.

[3] The operation by the Brazilian banking group Itaú was not included in our identification of the main investments, since it corresponded more to a redesign of Itaú's European holdings than to a "real" acquisition.

[4] European Commission, "Stability and Growth Pact", available at: http://ec.europa.eu/economy_finance/sgp/index_pt.htm.

established foreign affiliates in the country to postpone projects, reducing the level of reinvested earnings. It should be recognized, however, that IFDI in Portugal declined less during the crisis than in several other countries, e.g. Ireland (annex tables 1 and 2).

As a result of the crisis, there were several divestments from the country. The closure of the semiconductor plant of the German group Quimonda, due to earlier weaknesses that were aggravated by the crisis, was one of the most problematic. This investment was a case of more highly-skilled activities, in line with the government policy of changing the skill content of manufacturing activities in Portugal.[1] There were also divestments in the automotive industry, especially by automotive components companies, as a result of the heavy contraction of the automotive market in Europe. However, in part due to the specific program launched to support this industry (see below), it was possible to keep the existing car-assembly plants, namely those of AutoEuropa, the affiliate of Volkswagen.

The policy scene

Since Portugal's entry into the European Economic Community in 1986, the legal framework for IFDI has been rather stable, and in line with European principles of non-discrimination between national and foreign investors.

Portugal actively seeks to attract IFDI. There is a broad consensus in public opinion and among the main political parties that IFDI has played, and should play, a very important role in the development of the Portuguese economy. Successive governments have expressed in their programs the commitment to attract IFDI. A specific organization is responsible for promoting international investment (both inward and outward) and foreign trade (AICEP), the Portuguese agency for investment and foreign trade. In 2005-2009, the Government created the National Interest Projects (PIN) concept, aimed at streamlining the decision process on important investment projects undertaken by Portuguese or foreign investors. Portugal is open to IFDI, and this is recognized as very important for the upgrading the economic structure, for increasing employment and exports, for promoting innovation, and for establishing linkages that might prepare Portuguese companies to perform better in international markets.

Portugal's performance in IFDI attraction has, however, left much to be desired. There have been positive developments in cutting red tape, in facilitating the creation of new companies and in promoting e-government. But there are still some bureaucratic practices that are perceived as negative by foreign investors, and the legal system is very inefficient.[2] In addition, a clear strategy and commitment to the international marketing of Portugal as an investment location is lacking. Together with the difficulties associated with the crisis and the declining importance of Europe, this contributes to the stagnation of IFDI.

In reaction to the recent crisis, an important policy measure was the launching of a support program specifically addressed to the automotive sector. This program provided training support and paid part of the wages of the workers as a means to keep jobs and fight divestments and plant closures. Significant shares of companies that have benefited from the program were foreign-owned. An important objective of the program was to provide mechanisms that might play a temporary countervailing role against the

[1] Plano Tecnológico, *Plano Tecnológico: Uma estratégia baseada no conhecimento, na tecnologia e na inovação* (Lisboa, 2005). (Technological Plan, *Technological Plan: A Knowledge, Technology and Innovation-based Strategy* (Lisbon, 2005).
[2] World Economic Forum, *Global Competitiveness Report 2010/2011* (Geneva: World Economic Forum, 2010).

slump in the international demand for cars. It was also envisaged as an instrument to sustain existing innovative capabilities and inter-company linkages while investing in human skills upgrading. This is especially important for sustaining Portugal's "anchor" in the automotive industry, namely Volkswagen, as well as to support Portuguese component suppliers.[1]

The last two Socialist governments, in power between 2005 and June 2011, established electric mobility as a policy priority.[2] Some FDI projects have been announced in electric cars, such as that by Renault/Nissan. While the projects may contribute to the objective of promoting the mass use of electric vehicles, the employment effects of these projects, at least in the short-term in which jobs are a major concern, are not likely to be very big.

Another field in which public policy has enticed IFDI is renewable energy. The support provided to new energy sources has led several foreign investors to announce investments designed to profit from the conditions offered by Portugal, namely in the fields of sun and wind energy. Investments were mainly greenfield, and were undertaken by companies from several countries (annex table 7).

Conclusion and outlook

Portugal's record in attracting IFDI during the past decade was relatively poor. Although the global economic and financial crisis that emerged in 2008 played a role in reducing IFDI flows, the problems are deeper, related on the one hand to the erosion in Portugal's traditional advantages as a location for FDI due to competition from the Central and Eastern European economies after their opening up and the entry of several of them into the European Union, and on the other, to the declining economic significance of Europe and the move of the center of the world economy toward Asia. GDP growth prospects in Europe (and in Portugal) are not favorable. This will make it even more difficult to achieve significant growth in IFDI in Portugal in the future. The prospects are not bright.

However, IFDI is essential for Portugal. The main changes in Portugal's economic structure in the past 50 years were due, at least in part, to the positive influence of IFDI. Portugal could further explore the opportunities stemming from nearshore activities and outsourcing by MNEs based in other countries in Europe. The dual perception of Portugal, with Portugal's image being more favorably perceived by existing foreign investors than by those who have not yet invested there, has to be changed. While keeping and upgrading the activities of existing foreign affiliates, a strong effort needs to be made to court new investors, especially from emerging markets. Such an effort is essential to achieve the much-needed turnaround in attracting IFDI.

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[2] http://www.mobie.pt

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Useful websites

http://www.portugalglobal.pt/PT/InvestirPortugal/Paginas/investir%20em%20Portugal.aspx

http://www.portaldaempresa.pt/CVE/pt/LojaEmpresa/

http://www.bportugal.pt/EstatisticasWEB/(S(nr2yh53yiybhmlrxbsybj345))/Default.aspx

Statistical annex

Annex table 1. Portugal: inward FDI stock, 2000-2009

(US$ billion)

Economy	2000	2009
Portugal	29	111
Memorandum: comparator economies		
Greece	14	45
Hungary	23	249
Ireland	127	193
Italy	121	394
Spain	156	671

Source: For Portugal, Boletim Estatístico, Banco de Portugal, available at: http://www.bportugal.pt/pt-PT/Estatisticas/PublicacoesEstatisticas/BolEstatistico/Paginas/BoletimEstatistico.aspx); and for comparator economies, UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi.

Annex table 2. Portugal: inward FDI flows, 2000-2009

(US$ million)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Portugal	6,804	5,897	1, 776	8, 612	2,331	3, 931	10,926	3,067	4,684	2,883
Memorandum: comparator economies										
Greece	1,108	1,589	50	1,275	2,102	623	5,355	2,111	4,499	3,355
Hungary	2,764	3,936	2,994	2,137	4,506	7,709	19,802	71,485	61,993	-5,575
Ireland	25,779	9,651	29,324	22,781	-10,608	-31,689	-5,542	24,707	-20,030	24,971
Italy	13,375	14,871	14,545	16,415	16,815	19,975	39,239	40,202	17,031	30,538
Spain	39,575	28,408	39,223	25,819	24,761	25,020	30,802	62,264	73,293	15,030

Source: Boletim Estatístico, Banco de Portugal for Portugal, available at: http://www.bportugal.pt/pt-PT/Estatisticas/PublicacoesEstatisticas/BolEstatistico/Paginas/BoletimEstatistico.aspx and for comparator economies, UNCTAD's FDI/TNC database , available at: http://stats.unctad.org/fdi.

Annex table 3. Portugal: distribution of inward FDI flows, by economic sector and industry, 2000-2009

(US$ million)

Sector/industry	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
All sectors/industries	6,804	5,897	1,776	8,612	2,331	3,931	10,926	3,067	4,684	2,883
Primary	29	27	5	13	120	106	196	-55	252	120
Agriculture, forestry, hunting and fishing	14	16	5	11	13	41	31	71	-11	66
Mining	15	11	0	2	107	64	165	-126	263	54
Secondary	153	700	-143	609	1,204	-393	1,266	356	473	316
Manufacturing	168	606	-201	530	948	-492	355	-156	264	-569
Electricity, gas and water	-50	8	75	17	176	12	449	239	353	86
Construction	35	86	-18	62	80	87	462	273	-145	799
Services	6,032	4,955	1,571	7,359	120	3,665	8,433	1,563	3,535	2,817
Retail	593	2,778	13	367	-3,413	-603	-4	-2,169	-2,232	-1,466
Transport, storage and communications	435	275	492	668	-216	66	-711	143	775	-586
Financial services	1,210	303	798	-1,172	88	1,390	2,639	1,496	1,263	926
Real estate	3,794	1,598	267	7,496	3,660	2,811	6,509	2,094	3,729	3,942
Unspecified other sectors/industries	590	215	344	631	888	553	1,031	1,202	425	-370

Source: Boletim Estatístico, Banco de Portugal, available at: http://www.bportugal.pt/pt-PT/Estatisticas/PublicacoesEstatisticas/BolEstatistico/Paginas/BoletimEstatistico.aspx.

Annex table 4. Portugal: geographical distribution of inward FDI flows, 2000-2009

(US$ million)

Country/region	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
World	6,804	5,897	1,776	8,612	2,331	3,931	10,926	3,067	4,684	2,883
Developed economies										
Europe										
Switzerland	32	-25	138	-276	164	-37	-159	-84	-42	183
European Union	6,543	5,606	1,487	1,861	5,068	n.a.	n.a.	n.a.	n.a.	n.a.
France	190	164	-54	270	-196	993	1,538	294	207	635
Germany	327	497	198	-108	-27	-277	328	-422	-176	-2,003
Spain	2,439	880	1,035	2,543	3,317	2,379	2,901	2,262	659	983
United Kingdom	475	2,751	295	821	-2,999	668	549	1042	906	-1,363
North America										
Canada	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
United States	-78	144	175	-209	154	-390	474	469	109	180
Other developed countries										
Australia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Japan	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Developing economies										
Africa	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5	62	140
Asia and Oceania										
Latin America and the Caribbean										
Brazil	127	211	184	-6	-7	81	101	46	46	256

Source: Boletim Estatístico, Banco de Portugal, available at: http://www.bportugal.pt/pt-PT/Estatisticas/PublicacoesEstatisticas/BolEstatistico/Paginas/BoletimEstatistico.aspx.

[a] Statistics disclosed by the Bank of Portugal do not include separate data for all regions and countries, and not all data are available for the whole period.
[b] Blank spaces indicate that data are not disclosed separately.
[c] "n.a" indicates that data are not available.

Annex table 5. Portugal: principal foreign affiliates in the country, ranked by sales, 2008

(US$ million)

Rank	Name	Economy of origin	Industry	Sales
1	REPSOL	Spain	Oil and gas	3,842
2	BP Portugal	United Kingdom	Oil and gas	3,212
3	Autoeuropa (Volkswagen)	Germany	Automotive industry	2,272
4	Vodafone Portugal	United Kingdom	Telecommunications	2,166
5	PSA	France	Automotive industry	2,141
6	Companhia Portuguesa de Hipermercados (Auchan)	France	Retail	1,892
7	NA - netjets aviation, Lda	United States	Transport	1,626
8	Cepsa	Spain	Oil and gas	1,477
9	Dia Portugal - supermercados, sociedade unipessoal, lda	France	Retail	1,219
10	OCP-portugal - produtos farmaceuticos, s.a.	Germany	Pharmaceutical	826
11	Unilever Jerónimo Martins, Lda	United Kingdom	Food and beverages	824
12	Nestlé - Portugal, S.A.	Switzerland	Food and beverages	744
13	Makro cash & carry Portugal, s.a.	Germany	Retail	731
14	Continental Mabor - indústria de pneus, s.a.	Germany	Rubber	718
15	Mercedes-Benz Portugal, s.a.	Germany	Automotive trade	712
16	Delphi automotive systems - Portugal, s.a.	United States	Automotive components	701
17	Zagope - construções e engenharia, s.a.	Brazil	Construction	653
18	Siemens, s.a.	Germany	Electrical machinery, electronics	643
19	Turbogás - produtora energética, s.a.	United Kingdom	Electricity	622
20	Somague - engenharia, s.a.	Spain	Construction	581

Source: Based on "500 maiores e melhores empresas" *Exame*, November 2009, available at: http://aeiou.expresso.pt/gen.pl?p=stories&op=view&fokey=ex.stories/612847).

Annex table 6. Portugal: main M&A deals, by inward investing firm, 2007-2009

(US$ million)

Year	Acquiring company	Home economy	Target company	Target industry	Shares acquired (%)	Estimated/ announced transaction value
2009	Banco Itau Holding Financeira	Brazil	Banco Itau Europa SA	Security and commodity services	89.3	498
2009	Magnum Capital Industrial	Spain	Generis Farmaceutica SA	Pharmaceutical preparations	80.0	260
2009	Banco Bradesco SA	Brazil	Banco Espirito Santo SA	Banks	6.0	132
2009	Union Investment Real Estate	Germany	Torre Oriente Tower	Operators of non-residential buildings	100.0	100
2009	Suzano Holding SA	Brazil	MDS SGPS SA	Insurance agents, brokers, and service	49.9	71
2009	Barclays Bank PLC	United Kingdom	Citibank Portugal-Credit Card	Personal credit institutions	100.0	66
2009	Undisclosed Acquiror	Unknown	Lapa Palace Hotel	Hotels and motels	100.0	42
2009	Stericycle Inc	United States	Grupo AmbiMed	Refuse systems	100.0	23
2009	Investor Group	Spain	Sanchez SA	Investors,	100.0	18
2009	GED Iberian Private Equity SAU	Spain	Fase-Estudos e Projectos SA	Business consulting services,	70.0	17
2009	Shin-Etsu International Europe	Netherlands	Cires SA	Plastics materials and synthetic resins	96.3	15
2009	Domino Printing Sciences PLC	United Kingdom	Labeljet SA	Printing trades machinery	100.0	9
2009	Undisclosed Acquiror	Unknown	Branfarma SA	Drug stores and proprietary stores	100.0	6
2009	Europac	Spain	Manuel Rodrigues de Almeida &	Paper mills	100.0	2
2008	Investor Group	Spain	Babcock & Brown-Enersis Wind	Electric services	50.0	1824
2008	JJW Hotels & Resorts Ltd	United Kingdom	Le Meridien Penina Golf &	Hotels and motels	100.0	268
2008	Fertiberia SA	Spain	CUF Adubos de Portugal SA	Nitrogenous fertilizers	100.0	152
2008	Undisclosed Acquiror	Unknown	Sierra Portugal Fund	Management investment offices	18.0	86
2008	LogicaCMG PLC	United Kingdom	Edinfor-Sistemas Informaticos	Computer related services	100.0	84
2008	Arriva PLC	United Kingdom	Barraqueiro SGPS SA	Local passenger transportation	31.5	73

2008	Pillar Retail Europark Fund	United Kingdom	Santarem Retail Park	Operators of nonresidential buildings	100.0	52
2008	Undisclosed Acquiror	Unknown	Edificio Omni,Lisbon,Portugal	Operators of nonresidential buildings	100.0	26
2008	Cryo-Save Group NV	Netherlands	Valor Conexo	Offices of holding companies	100.0	25
2008	Undisclosed Acquiror	Unknown	Linha d'Agua - Engenharia e	Engineering services	72.4	1
2008	SDI PLC	United Kingdom	Perseu-Comercio de Equipamento	Photographic equipment and supplies	100.0	0.4
2007	Babcock & Brown Ltd	Australia	Brisa Auto Estradas	Highway and street construction	10.0	797
2007	Investor Group	Italy	Rede Electrica Nacional SA	Electricity services	15.0	488
2007	Abertis Infraestructuras SA	Spain	Brisa Auto Estradas	Highway and street construction	4.6	404
2007	Vertix SGPS SA	Spain	Grupo Media Capital SGPS SA	Radio broadcasting stations	73.7	323
2007	Win Reason SA	United States	Oni SGPS SA	Telephone communications	100.0	204
2007	Vertix SGPS SA	Spain	Grupo Media Capital SGPS SA	Radio broadcasting stations	94.4	196
2007	Babcock & Brown Wind Partners	Australia	Babcock & Brown Riva Holdings	Investors	50.0	184
2007	MIPS Technologies Inc	United States	Chipidea Microelectronica SA	Electronic parts and equipment	100.0	152
2007	Electrabel SA	Belgium	Gamesa-Wind Farms	Electric services	100.0	136
2007	Klepierre SA	France	Parque Nascente	Operators of nonresidential buildings	100.0	95
2007	Deka Immobilien Invest GmbH	Germany	LoureShopping	Operators of nonresidential buildings	50.0	93
2007	Electrabel SA	Belgium	Undisclosed Portuguese Wind	Alternative energy sources	100.0	74
2007	Welspun India Ltd	India	Sorema	Carpets and rugs	76.0	15
2007	Grupo Mayaguez SA	Colombia	Imysa Holdings	Offices of holding companies	100.0	15
2007	Gen de Alquiler de Maquinaria	Spain	Viasolo	Equipment rental and leasing	100.0	11
2007	Grupo Tompla Sobre-Expres SL	Spain	Copidata Lda	Envelopes	100.0	7

2007	Body Shop International PLC	United Kingdom	Dibel-Sociedade Importadora	Drugs, drug proprietaries	100.0	6
2007	Kagome Co Ltd	Japan	Holding da Industria do Tomate	Canned fruits and vegetables	43.0	4
2007	JPMorgan Chase & Co	United States	Imopolis	Investment advice	100.0	2

Source: Thomson ONE Banker. Thomson Reuters.

Annex table 7. Portugal: main greenfield projects, by inward investing firm, 2007-2009

(US$ million)

Year	Investing company	Industry	Source economy	Estimated/ announced investment value
2009	Iberdrola	Alternative/renewable energy	Spain	1,700
2009	Principle Power	Alternative/renewable energy	United States	639
2009	Chamartin Inmobiliaria	Real estate	Spain	409
2009	Nissan	Automotive electronic components	Japan	236
2009	Multi Development (Multi Vastgoed)	Real estate	Netherlands	207
2009	Ryanair	Air transportation	Ireland	140
2009	Auchan Group (Mulliez Group)	Real estate	France	131
2009	Auchan Group (Mulliez Group)	Real estate	France	131
2009	Eiffage	Real estate	France	131
2009	Compagnie dAffretemant et de Transport	Transportation	France	88
2009	Imperial Tobacco	Transportation	United Kingdom	88
2009	Transportes Souto	Transportation	Spain	88
2008	Auchan Group (Mulliez Group)	Consumer products	France	951
2008	Siemens	Electrical and electronics	Germany	919
2008	Union Fenosa	Alternative/renewable energy	Spain	639
2008	Scottish & Southern Energy	Alternative/renewable energy	United Kingdom	639
2008	Scottish & Southern Energy	Alternative/renewable energy	United Kingdom	639
2008	Shanghai Union Technology	Electronic components	China	327
2008	Sacyr Vallehermoso	Real estate	Spain	312
2008	Intel	Semiconductors	United States	292
2008	IKEA	Real estate	Sweden	269
2008	Mitsubishi Corporation	Automotive OEM	Japan	257
2007	Enel	Coal, oil and natural gas	Italy	2,686

2007	National Toll Roads (NTR)	Alternative/renewable energy	Ireland	1,074
2007	Levicor	Automotive components	Belgium	721
2007	Volkswagen	Automotive OEM	Germany	659
2007	XL Telecom & Energy	Alternative/renewable energy	India	550
2007	La Seda de Barcelona	Chemicals	Spain	455
2007	Electricite de France (EDF)	Alternative/renewable energy	France	445
2007	Auchan Group (Mulliez Group)	Real estate	France	381
2007	Volkswagen	Automotive OEM	Germany	257
2007	Electricite de France (EDF)	Alternative/renewable energy	France	239

Source: fDi Intelligence, a service from the Financial Times Ltd.

Portugal: Outward FDI and its policy context, 2012

*Vitor Corado Simões and Rui Manuel Cartaxo**

In 2010, Portugal's outward foreign direct investment (OFDI) was severely affected by the global economic and financial crisis, with flows recording a negative figure of -US$ 8.4 billion, the lowest in an ever-steeper declining trend exhibited since 2005. Nevertheless, Portugal's OFDI stock increased almost three-fold between 2000 and 2010. During this period, Portugal's OFDI annual growth rates were lower than those of comparator economies, such as Spain or Ireland, and only slightly above those of Italy. OFDI flows in the 2001-2010 period were concentrated in the services sector, particularly in real estate, followed by retail and manufacturing. In contrast, there has been a clear decline of investment in financial services (largely explaining the negative figures recorded in 2010) and in the construction industry. Excluding 2010, the Netherlands has attracted a significant share of Portugal's OFDI. Investment in non-traditional destinations has gained importance in recent years, both in Europe (Romania, Bulgaria) and outside Europe (the United States, India), but their weight remains limited. The crisis affected OFDI policy, leading to growing concern regarding the localization of value-added activities in Portugal. There has been a shift in government policy in the past three years, prioritizing exports over direct investment as a mode of entry into foreign markets.

Trends and developments

Country-level developments

The growth of Portugal's OFDI is a relatively new phenomenon. Portugal's rising OFDI in the early 1970s stopped during the political change and the democratization of Portugal in 1974. The nationalization of the former Portuguese economic conglomerates (which involved a significant part of the economy) and the independence of the former colonies in 1975 led to a significant decline of outward investment.[1]

Although there were some investment abroad in the 1980s, especially after Portugal's entry into the European Economic Community, it was only in the early 1990s, with the launching of the first PAIEP (Support Program for the Internationalization of Portuguese Companies), that Portugal's OFDI gained importance. During the 1990s, the balance between OFDI and inward foreign direct investment (IFDI)

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[1] See Vitor Corado Simões, "Portugal", in J. H. Dunning, ed., *Multinational Enterprises, Economic Structure and International Competitiveness* (Chichester: John Wiley and Sons, 1985), pp. 337-78.

flows switched in favor of the former.[1] The OFDI/IFDI ratio increased sharply, from 0.15 in 1988-1992 to 1.34, in 1999-2001.[2] It then declined to 0.34 in 2005-2010.

Portugal's OFDI stock more than tripled between 2000 and 2011, from US$ 20 to US$ 68 billion (annex table 1). However, its growth lagged behind that of other European periphery economies, like Greece, Hungary, Ireland, and Spain. In 2011, the OFDI stock to GDP ratio was 0.29, higher than in Greece (0.14) and Italy (0.23), but lower than in Ireland (1.49) and Spain (0.43).[3]

After being roughly constant during 2000-2004, Portugal's annual average of OFDI flows dropped for the 2005-2009 period, exhibiting a declining trend on a yearly basis after 2006 (annex table 2). In 2010, flows declined even further, recording a negative figure (i.e. disinvestments) of -US$ 7.5 billion. The annual average during the 2008-2009 period was slightly below US$ 2 billion, compared to almost US$ 5 billion during the decade as a whole. This decline probably resulted from the global financial and economic crisis that began in 2008. It seems that Portuguese firms adopted a more cautious and risk-avoiding behavior, opting to reduce the risks associated with venturing abroad. This behavior was reinforced by the credit crunch that reduced access to financing for new investment projects; this is probably behind the negative outflow recorded for 2010. Investors appear to have sold assets abroad to withstand the consequences of the international crisis, the decline of the domestic market and especially the national financial crisis. In 2011, when outflows rose to reach US$ 12.6 billion, an opposite move appears to have taken place. There are indicators that, after the signing of the Memorandum of Agreement with the International Monetary Fund, the European Central Bank and the European Commission, which enabled the granting of a rescue package to Portugal, several Portuguese companies undertook moves to strengthen their positions abroad to improve access to international funding. This is probably the main explanation for the significant increase in outward FDI in that year.

Annex table 3provides data on the sectoral distribution of Portugal's OFDI flows during 2000-2010, which were dominated by investment in the services sector (annex table 3).[4] Services accounted for more than 90% of total OFDI flows in 2001-2010. A significant share of the OFDI disinvestment in 2010 was due to the sale of the 50% equity stake of Portugal Telecom in the Vivo joint venture in Brazil. However, since a holding in the Netherlands held the stake, it was recorded in the financial services sector. As the year 2010 so far is an outlier in the time series of Portugal's OFDI stock and flows, and there has been a change in classification criteria,[5] a detailed sectoral analysis is carried out below mainly

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[1] See Peter J Buckley and Francisco Castro, "The investment development path: the case of Portugal," *Transnational Corporations*, vol. 7(1), 1998, pp. 1-15.

[2] See Vitor Corado Simões, "Outward foreign direct investment by Portuguese companies: relevance and lessons for transition," *in* M. Svetlicic and M. Rojec, eds., *Facilitating Transition by Internationalization: Outward Direct Investment from Central European Economies in Transition* (Ashgate: Aldershot, 2003), pp.29-48.

[3] Based on OFDI stock data from UNCTAD, *World Investment Report 2011: Towards a New Generation of Investment Policies* (New York and Geneva: United Nations, 2012), annex table I.2, available at: http://www.unctad-docs.org/files/UNCTAD-WIR2012-Annexes-Tables-en.pdf; and GDP data from The World Bank, available at: http://data.worldbank.org/indicator/NY.GDP.MKTP.CD

[4] It is important to underline that the source for annex tables 3 and 4 is not the same as that for annex tables 1 and 2. While the former are based on data from the Bank of Portugal, the latter contain data taken form UNCTAD's FDI/TNC database and *World Investment Report 2012*. Therefore, information from tables 1 and 2 is not fully comparable with that in f tables 3 and 4.

[5] The item "Real estate and services to firms" includes investments not just in real estate but also in holding companies abroad. Since October 2010, there is a new series, where investments in real estate are separated from other financial activities, which include investments in holding companies.

on the basis of data for the 2001-2009 period. Investments in real estate and business services have driven Portugal's OFDI, accounting for more than three-quarters of the total in 2001-2010. The weight of this item has, however, been declining since 2008.

Financial services constitute the second most important industry in Portugal's OFDI, having accounted, on average, for 18% of OFDI flows in 2000-2009, with an upward trend in both absolute and relative terms. Average annual OFDI in financial services rose from US$ 782 million in 2000-2006, to US$ 1,048 million in 2007-2009; their share in total OFDI jumped from 14% in 2000-2006 to 35% in 2007-2009. However, as pointed out above, financial services were mainly responsible for the disinvestment recorded in 2010. Around 7% of the OFDI in 2001-2009 was oriented toward the retail industry. In the secondary sector, which represented slightly less than 4% of total OFDI in 2001-2009, manufacturing is the main activity (6%). In spite of an increasing trend observed between 2005 and 2009, this share is relatively low. There are two complementary explanations for this. The first is related to the general weakness of Portuguese manufacturing firms, especially in terms of innovative capabilities.[1] The second is that most of these firms have not developed the managerial capabilities that they would need if they were to internationalize.[2] Together, these factors constrain the development of ownership advantages to support venturing abroad. Nevertheless, OFDI in manufacturing has risen, particularly between 2005 and 2009. In contrast, OFDI in construction has recently been contracting, with negative OFDI figures (i.e. disinvestment) in 2007-2010. This is the industry in which the crisis had its severest effect.

Information on the geographical distribution of Portugal's OFDI is limited (annex table 4). It does not differentiate clearly between OFDI in various European Union (EU) economies (in particular, data on the Netherlands are only available from 2007), or between that in various Portuguese-speaking economies in Africa, which are lumped together. The item entitled "unspecified destination" most probably includes tax havens; it accounts for about 28% of Portuguese OFDI flows during 2001-2010. The lack of data is a serious limitation to the analysis of the geographical breakdown of Portuguese OFDI. The increasing recourse to financial holding companies abroad, particularly in the Netherlands and in tax havens, also undermines the understanding of OFDI trends by destination country, since these have been used as platforms for channeling investments to other countries.

As Portugal's OFDI in the newer EU member economies is low (with the exception of Poland, and recent investments in financial services in Romania), it appears, although precise data are lacking, that much of Portugal's OFDI in the EU in 2001-2006 was directed toward the Netherlands, where conditions for the establishment of holding companies are particularly attractive. This interpretation is strongly supported for the period for which specific data on the Netherlands are available: in 2007-2009, for instance, the Netherlands' share in Portugal's OFDI in the EU amounted to 74%. This fact, together with the above-mentioned relevance of "unspecified destinations'", suggests that a very high share of OFDI is channeled through locations providing special tax and financial advantages. However, there has been significant disinvestment in 2010, especially from the Netherlands. This is to a large extent due to

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[1] Manuel Godinho and Vítor Corado Simões, *ERAWATCH Country Report 2009: Analysis of Policy Mixes to Foster R&D Investment and to Contribute to the ERA Portugal* (Luxembourg: Office for Official Publications of the European Communities, 2009), available at: http://cordis.europa.eu/erawatch/index.cfm?fuseaction=home.downloadFile&fileID=1072

[2] Pedro Oliveira, "Segmentation of SME clients of AICEP Portugal global: a proposal based on real data" (Porto: University of Porto, 2011), Master's dissertation, mimeo.

the above-mentioned disinvestment by Portugal Telecom from the Brazilian Vivo joint-venture: as the 50% equity stake in *Vivo* was held by the holding company in the Netherlands, the operation was reported in statistics as a disinvestment from the Netherlands.

Since 2010 appears to be an outlier, as mentioned above, the country-specific analysis here will focus on 2001-2009 only. During 2001-2009,Spain was the most important FDI destination (after the Netherlands) (annex table 4), accounting for roughly 18% of OFDI flows during the period as a whole, and reflecting Spain's attractiveness for Portuguese companies. A higher share might be expected, since Spain is Portugal's only geographically contiguous neighbor and its main trading partner. There are two reasons that might explain the fact that it is not higher. First, the data limitations and biases pointed out above may be part of the explanation. Second, Portugal's investments in Spain are not capital-intensive, and Portugal is still being used as a manufacturing platform to supply the Spanish market. While Portuguese OFDI in Spain has declined in recent years, investments in the biggest EU economies (France, Germany, the United Kingdom) have shown an increasing trend, reaching 23% of total OFDI for 2007-2009. However, for the 2001-2009 period, their share is much lower (around 8%). Brazil's attractiveness for such investment seems to be increasing. In fact, in 2001-2006 Portugal's OFDI to Brazil was negative, but it reached almost 16% in 2007-2009. In spite of a negative outflow in 2010, the positive trend seems to be partly due to the strong growth of the Brazilian economy.

Surprisingly, OFDI flows to the Portuguese-speaking economies in Africa (PALOP) as a group were negative (annex table 4) in each of the four years 2007-2010. This may be related, in part, to the withdrawal by construction companies mentioned above. However, the figures do not correspond to the perception one has from the business press and from Portuguese businesspersons. A possible explanation is that investment in Portuguese-speaking countries, mainly in Angola, is mostly channeled via offshore financial centers. Portuguese OFDI in the United States only accounted for 5% of total OFDI flows in 2000-2010, but there are signs of recently increasing interest of large Portuguese firms in the US market, as in the case of investment in wind power (by EDP Renováveis) and electrical machinery (by EFACEC).

The corporate players

As no information is available on employment, assets or turnover of Portuguese multinational enterprises (MNEs) abroad, we have ranked Portuguese firms that control at least one foreign affiliate by their 2010 sales in Portugal (annex table 5). The top 10 MNEs operate in a wide range of industries. There are five construction companies in the top 20. The largest company is in oil and gas. Other large MNEs in which the Government still had "golden shares",[1] are in utilities (telecommunications, electricity, gas). The level of internationalization of these firms varies, although there is a clear trend toward an increased international commitment.

Some companies, like Cimpor, have most of their turnover outside Portugal. Recent investments by Energias de Portugal (EDP), a Portuguese electricity and power company, in Brazil and in the United States, and by Petrogal in Brazil, are making them less dependent on domestic activities. Conversely, Portugal Telecom, which generated most of its earnings in Brazil, has divested out of its joint venture with the Spanish company Telefónica.

[1] As a result of the Memorandum of Understanding signed by the Portuguese Government and the European Commission, the European Central Bank and the International Monetary Fund, all "golden shares" were abolished.

In 2007-2009, three of the top five cross-border mergers and acquisitions (M&As) by Portuguese companies were in the United States (annex table 6) (in 2010 none of the top 10 M&A deals were in that country). Strategic considerations and the appreciation of the Euro against the US dollar might explain these investments. The biggest M&A transaction was the entry of EDP into wind energy generation in the US, through the purchase of Horizon Wind Energy in 2007. This was a strategic move to develop the company into a major global player. Many acquisitions have been undertaken in cogeneration and alternative energy sources in several countries, including Germany, Romania and Brazil. The acquisition of a Turkish cement company, earlier owned by Lafarge, by Cimpor, the biggest and most internationalized Portuguese cement company in 2007 was another important deal. Also worth mentioning is an expansion of the geographical spread: although most M&As are concentrated in EU countries, growing investment was made through M&As in China (pharmaceutical products), New Zealand (wine) and Australia (coal products, electrical services). Interestingly, the size of cross-border M&As by Portuguese MNEs in 2010 is relatively low: the biggest transaction (an acquisition in Spain in the insurance industry) ranked only eighth in the four-year period 2007-2010.

The lion's share of greenfield investments abroad was made by EDP, projects that comprised more than one-third of the top ten announced in 2007-2010 (annex table 7). Most are related to investment in wind energy in the US, following the acquisition of Horizon Wind Energy. Projects in pulp and paper rank second, accounting for two of these top greenfield investments, both of them carried out by the Portucel Soporcel Group, Portugal's biggest player in this field, in Uruguay and in Mozambique. Real estate plays an important role in greenfield investments as well, with Sonae responsible for more than half of the top greenfield investments announced in real estate. Sonae is a large diversified group operating in a wide range of activities, from retail trade and telecommunications to wood products. Investments in real estate mainly refer to the international expansion of Sonae Sierra, Sonae's arm for the shopping centers building and management business. As annex table 7 indicates, such investments were undertaken in Brazil and in Europe (Germany, Italy, Romania).

Effects of the recent global crises

The global economic and financial crisis of 2008-2009 hit Portugal hard, leading to a tightening of credit conditions. Portuguese banks turned very risk-averse in lending to companies. Although the previous Government has launched five successive packages to enhance the conditions for granting credit to small and medium-sized enterprises (SMEs), especially to exporting firms, this was not enough to overcome the credit crunch. Meanwhile, with difficulties in getting acceptable interest conditions in the international inter-bank market, Portuguese banks further tightened financing conditions for corporate customers, particularly SMEs.

The crisis had significant consequences for Portugal's OFDI, leading to a decline in average annual OFDI flows in 2007-2009 to around US$ 3 billion from an average of US$ 5.7 billion in 2000-2006 and, in 2010, to a disinvestment from positions abroad. This may be explained by three main factors. First, the credit crunch and the difficulty in financing mentioned above. Second, the perception of "difficult times ahead" led companies to be more conservative and risk-averse, reducing the size of planned investments abroad, postponing projects and even undertaking disinvestments. This is particularly evident in the case of the construction industry; it recorded a negative OFDI balance between 2007 and 2010. Third, the decision taken by some financial services firms to fight the turmoil by selling assets abroad in order to meet the prudential requirements defined by the Bank of Portugal and the European Central Bank. The last factor is likely to be the main explanation for the negative OFDI figures recorded in that sector for 2010.

On the other hand, in some instances the crisis encouraged Portuguese firms to invest abroad, especially companies that were well endowed with cash or could easily get financing in international markets. The decision by EDP to acquire Horizon Wind Energy in the United States was partly fostered by the Euro-US dollar exchange rate at that time, as well as by the fact that the crisis hit the United States first. Other investments, particularly in Brazil, stemmed from the perception that business growth prospects were much brighter there than in a languishing Europe. The sovereign debt crisis in Europe also played a role in outbound investments toward other European countries, with a view to hedge against an uncertain future of Portugal in the Euro Zone as well as to improve the conditions for access to international financing.

The policy scene

Since Portugal's entry into the European Economic Community (EEC) in 1986, the legal framework for OFDI has been rather unchanged. In line with European principles of free capital movements, there are no restrictions on OFDI, either to other EU member economies or elsewhere. Since the late 1980s, the Portuguese Government has encouraged firms to venture abroad, assuming that the internationalization of the Portuguese corporate sector is essential to foster its international competitiveness.

As mentioned above, the first PAIEP (Support Program for the Internationalization of Portuguese Companies) was launched in the early 1990s, followed by a second PAIEP (Decree-Law 290/94). Their purpose was to encourage the internationalization of Portuguese companies by providing financial support to export initiatives, franchising networks and direct investment abroad. The pattern and extension of the support provided were, of course, subject to the overall EU competition rules. In the second half of the 1990s, a new impulse was given to internationalization, and Brazil was defined as one of the key targets. A new financial fund to support internationalization (FIEP, the Fund for the Internationalization of Portuguese Enterprises) was launched by the Council of Ministers Resolution 168/97. FIEP was, however, closed in 2003 when the new Government argued that the key thrust should be to attract investment into Portugal, and not so much to encourage Portuguese companies to go abroad. It may be argued, however, that this policy has focused too much on financial aspects, while providing scant attention to the development of in-house conditions and capabilities to venture abroad.

In the late 2000s a new policy impetus was given to company internationalization. This was expressed in the "2007-2013 QREN", the National Strategic Reference Program.[1] This program includes a measure specifically addressed to the modernization and internationalization of SMEs. Under this measure, SMEs are provided support to undertake international activities as regards improved market knowledge, market research and prospection, international trademark promotion, and international marketing. More recently, in order to stimulate company internationalization, particularly exports, the Government announced the intention to create a fund of one billion Euros (under Decree- Law 57/2010). By mid-

[1] See http://www.pofc.qren.pt/media/noticias/entity/apoios-a-internacionalizacao.

2010, Portugal also had double taxation agreements in force with more than 60 countries and, according to ICSID, bilateral investment treaties with 45 countries.[1]

The recent crises led policy makers to put a stronger emphasis on the promotion of employment and exports. Unemployment growth together with the persistence of trade deficits made clear that the desired performance and growth of the Portuguese economy would not be sustainable without improving the conditions offered by Portugal as a business location. Particularly acute was the need to promote the production of internationally tradable goods and services. A policy shift toward promoting investment in Portugal and servicing foreign markets through exports is emerging. Although this does not entail a negative stance toward investment abroad (it is recognized that some investment abroad is key to foster companies' competitiveness), it is expected that emphasis will be put on the attraction of IFDI, and not on encouraging Portuguese firms to undertake direct investment abroad. The environmental policy implemented by the previous government, particularly the support to the development of non-renewable energy sources, had an indirect positive influence on OFDI in this field, since the experience obtained at home provided companies with the basic capabilities and the will to venture abroad in this field.

Conclusions

Portugal's OFDI surged in the 1990s, and exceeded IFDI in the second half of the 1990s as well as in the first years of the past decade. However, since the mid-2000s, OFDI flows declined. Therefore, in spite of the relatively poor performance in attracting IFDI, OFDI fell short of IFDI again. The decline in OFDI and IFDI flows during the crisis in recent years raises doubts about whether Portugal is able to strengthen its competitiveness in the global economy. Both types of flows are needed.[2] Rather than mutually conflicting, inward and outward FDI flows are complementary: internationalization is a systemic phenomenon.[3]

One of the consequences of the crisis and the difficulties faced by the Portuguese economy, particularly growing unemployment, is an increasing concern as to how Portugal could improve its attractiveness as an international business location for both Portuguese and foreign-owned MNEs. Therefore, though Portugal will keep a favorable stance with regard to international inward and outward capital movements, it is likely that the policy focus will turn more toward inward FDI. This means that, in the near future, the country's policy will not be so concerned with the support of outward FDI as it has been in the recent past. This approach risks, however, the possibility of being self-defeating, if it forgets the systemic nature of internationalization processes. OFDI is not necessarily at odds with investment at home. In the present circumstances, investing abroad may be the way for companies to thrive, and

[1] Celeste A. Varum and Miguel M. Torres, "Inside the entrepreneur's mind: the perceived importance of public support on outward foreign direct investments" Paper presented to the Iberian International Business Conference, ISEG-Instituto Superior de Economia e Gestão, Lisboa, 2011, mimeo.
[2] See John H Dunning and Rajneesh Narula, "The investment development path revisited: some emerging issues," in J. H. Dunning and R. Narula, eds., *Foreign Direct Investment and Governments: Catalysts for Restructuring* (London and New York: Routledge, 1996).
[3] See Reijo Luostarinen and Lawrence Welch, *International Business Operations* (Helsinki: Helsinki School of Economics, 1990)]; and Vitor Corado Simões, Alberto de Castro and Vasco Rodrigues, *A Internacionalização das Empresas Portuguesas: Uma perspectiva genérica*, GEPE, Semanário Económico: Lisboa, 2000.

escape from a depressing climate at home, while keeping the most value-adding activities at home. This means that, taking into account the limited resources available for public policy in this regard, increased attention should be given to IFDI and OFDI policy evaluation and learning.

Additional readings

Banco de Portugal, *Annual Report 2009* (Lisbon: Banco de Portugal, 2010).

Banco de Portugal, Annual Report 2010 (Lisbon, Banco de Portugal, 2011).

Annex table 1. Portugal: outward FDI stock, 2000, 2010 and 2011

(US$ billion)

Economy	2000	2010	2011
Portugal	20	64	68
Memorandum: comparator economies			
Spain	129	660	640
Italy	180	476	512
Ireland	28	349	324
Greece	6	38	43
Hungary	1	21	24

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi and UNCTAD, *World Investment Report 2012: Towards a New Generation of Investment Policies* (New York and Geneva: United Nations, 2012), annex table I.2, available at: http://www.unctad-docs.org/files/UNCTAD-WIR2012-Annexes-Tables-en.pdf

Annex table 2. Portugal: outward FDI flows, 2000-2011

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Portugal	7.5	7.6	-0.2	8.0	7.9	2.1	7.1	5.5	2.7	0.8	-7.5	12.6
Memorandum: comparator economies												
Spain	58.2	33.1	32.7	28.7	60.5	41.8	104.2	137.1	74.8	13.1	38.3	37.3
Italy	12.3	21.5	17.1	9.1	19.3	41.8	43.8	96.2	67.0	21.3	32.7	47.2
Ireland	4.6	4.1	11.0	5.5	18.1	14.3	15.3	21.1	18.9	26.6	17,8	-2.1
Hungary	0.6	0.4	0.3	1.6	1.1	2.2	3.9	3.6	2.2	2.0	1.3	4.5
Greece	2.1	0.6	0.7	0.4	1.0	1.5	4.0	5.2	2.4	2.1	1.0	1.8

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi and *World Investment Report 2012: Towards a New Generation of Investment Policies* (New York and Geneva: United Nations), annex table I.1, available at: http://www.unctad-docs.org/files/UNCTAD-WIR2012-Annexes-Tables-en.pdf

Annex table 3. Portugal: distribution of outward FDI flows, by economic sector and industry, 2000-2010

(US$ million)

Sector/industry	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
All sectors/industries	7,531	7,570	-150	8,046	7,859	2,112	7,151	5,500	2,753	820	-8,385
Primary	4	6	3	5	-2	4	-1	2	22	0	3
Agriculture, forestry, hunting and fishing	4	6	3	4	-1	4	-1	1	n.a.	n.a.	n.a
Mining	0	0	0	1	-1	0	0	1	n.a.	n.a.	n.a.
Secondary	439	135	-46	270	-101	740	226	14	-27	365	-361
Manufacturing	374	110	33	259	-60	752	122	294	390	610	260
Electricity, gas and water	2	3	5	2	-66	-14	0	221	70	-75	-60
Construction	63	22	-84	8	26	2	105	-501	-487	-171	-561
Services	7,057	7,393	-137	7,723	7,861	1,251	6,626	5,344	1,824	1,478	-8702
Retail	85	2852	-2897	69	481	1063	290	253	385	454	584
Transport, storage and communications	-1,330	-29	68	-11	-24	-16	-4	-10	n.a.	n.a.	n.a.
Financial services	173	1,817	-83	42	386	992	2,144	802	1306	1,037	-9,310
Real estate and services to firms	8,129	2,754	2,776	7,624	7,018	-788	4,195	4,299	132	-12	25
Unspecified other sectors /industries	31	37	29	48	101	117	299	140	934	-1023	675

Source: Banco de Portugal, *Boletim Estatistico*, available at: http://www.bportugal.pt/pt-PT/Estatisticas/PublicacoesEstatisticas/BolEstatistico/Paginas/BoletimEstatistico.aspx

Annex table 4. Portugal: geographical distribution of outward FDI flows, 2000-2010

(US$ million)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
World	7,531	7,570	- 150	8,046	7,859	2,112	7,151	5,500	2,753	820	-8,385
Developed economies											
Europe											
European Union	3,325	6,208	2,896	3,472	6,574	1,754	4,680	3,400	2,392	2,835	-7,751
France	22	19	-3	-98	163	73	-67	43	403	-65	-10
Germany	40	9	-32	-149	-28	19	122	92	281	464	56
Spain	1,683	2,771	-1,090	1,050	2,611	218	912	749	-136	212	275
United Kingdom	296	242	-49	74	144	41	239	595	246	-85	88
Netherlands	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3,823	1,246	1,279	-10,039
Switzerland	8	8	19	11	25	17	26	50	-38	11	30
North America											
Canada	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
United States	169	55	43	14	235	117	199	413	13	358	227
Other developed countries											
Australia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Japan	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Developing economies											
Africa	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Portuguese-speaking countries	192	-132	-109	41	38	219	271	-1096	-894	-467	-287
Asia and Oceania	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Latin America and Caribbean											
Brazil	2,706	868	-1,931	-25	363	-545	16	464	394	617	-125
Unspecified destination	3,805	911	-2,508	4,533	1,248	138	2,201	2,733	1,279	-307	-836

Source: Banco de Portugal, *Boletim Estatistico*, available at: http://www.bportugal.pt/pt-PT/Estatisticas/PublicacoesEstatisticas/BolEstatistico/Paginas/BoletimEstatistico.aspx.

Note: Statistics published by the Bank of Portugal do not provide data separately for all regions and countries and not all data are available for the whole period.

"n.a." indicates that the data are not available.

Annex table 5. Portugal: largest companies with affiliates abroad, ranked by sales in Portugal, 2010 [a]

(US$ million)

Rank	Name	Industry	Sales
1	EDP - Energias de Portugal	Water, electricity and gas	18,786
2	GALP Energia	Oil and gas	18,557
3	Jerónimo Martins - distribuição alimentar	Food retail	11,522
4	Sonae	Wood, food retail, and telecommunications	7,734
5	Portugal Telecom	Telecommunications	4,961
6	Transportes Aéreos Portugueses	Air transport	3,076
7	Cimpor - Indústria de cimentos	Cement	2,968
8	Mota-Engil, Engenharia e Construção	Construction	2,658
9	Portucel/Soporcel - Sociedade Portuguesa de Papel	Paper	1,836
10	Teixeira Duarte - Engenharia e Construções	Construction	1,829
11	EFACEC	Electrical and energy	1,371
12	Sociedade de construções Soares da Costa	Construction	1,185
13	Brisa - auto-estradas de Portugal	Services	894
14	Secil - Companhia geral de cal e cimento	Cement	711
15	Sovena Portugal - Consumer goods	Food	700
16	Unicer	Food and beverages	659
17	Amorim corticeira	n.a.	606
18	MSF - Moniz da Maia, Serra & Fortunato - Empreiteiros	Construction	551
19	Edifer - Construções	Construction	536
20	BA Vidro	Glass	467

Source: The authors, based on companies' annual reports online.

[a] Includes the largest Portuguese companies that control at least one affiliate abroad.

Annex table 6. Portugal: main M & A deals, by outward investing firm, 2007-2010

Year	Acquiring company	Target company	Target industry	Target economy	Shares acquired (%)	Estimated/ announced transaction value (US$ million)
2010	Cia de Seguros Tranquilidade	Pastor Vida SA de Seguros y	Life insurance	Spain	50.0	135.5
2010	Grupo Auto Sueco	ASC Turk Makina AS	Automotive parts, supplies	Turkey	100.0	62.9
2010	Grupo Auto Sueco	Vocal Comercio de Veiculos	Motor vehicle dealers (new and used)	Brazil	100.0	61.2
2010	Banco Espirito Santo SA	Al Aman Bk For Commerce & Inve	Banks	Libya	40.0	54.1
2010	GRUPO SUMA	Geo Vision Solucoes Ambientais	Refuse systems	Brazil	50.0	27.4
2010	Grupo Onyria	Begonvil Turizm Yatirim-Carpe	Hotels and motels	Turkey	57.0	25.0
2010	Investor Group	Idinsa	Non-residential building construction	Mexico	50.0	23.3
2010	EDP Renovaveis SA	Italian Wind Srl	Cogeneration, alternative energy sources	Italy	85.0	16.8
2010	Fomentinvest SGPS SA	Albaida Solar Plantas	Electric services	Spain	30.0	11.2
2010	CIN	Industrias de la Pintura SL	Paints, varnishes, lacquers, and allied products	Spain	100.0	9.4
2009	Investor Group	Cintra Aparcamientos SA	Automobile parking	Spain	99.9	634.0
2009	Investor Group	Northwest Parkway LLC	Highway and street construction	United States	100.0	603.0
2009	CSN Madeira LDA	Riversdale Mining Ltd	Bituminous coal and lignite surface mining	Australia	16.3	175.3
2009	Investor Group	Controlar SA	Facilities for motor vehicles	Brazil	55.0	95.4
2009	EU-Steel Holding	Inferaco	Cold-rolled steel sheet, strip and bars	Brazil	n.a.	5.9
2008	Oceanico Group	Little River Golf & Resort,NC	Hotels and motels	United States	100.0	500.00
2008	Novas Energias do Occidente	EOLE 76 Group-Wind Assets	Cogeneration, alternative energy sources	France	100.0	148.6
2008	RAR Sociedade De Controle SA	Vitacress Salads Ltd	Vegetables and melons	United Kingdom	100.0	99.7
2008	Investor Group	Saxo Bank A/S	Security brokers	Denmark	5.0	92.2
2008	ESSI Sociedade Gestora de	Evolution Group PLC	Security brokers	United Kingdom	10.5	52.2
2008	MDS SGPS SA	Cooper Gay & Co Ltd	Insurance agents, brokers, and service	United Kingdom	32.1	47.6
2008	Investor Group	Oceanlinx Ltd	Electric services	Australia	100.0	18.7
2008	Teixeira Duarte-Engenharia	Empa SA Servicios de	Engineering services	Brazil	100.0	13.0

2008	EDP Renovaveis SA	Renovatio Power SRL	Cogeneration, alternative energy sources	Romania	85.0	11.3
2008	Martifer Renewables	Ventania	Cogeneration, alternative energy sources	Brazil	55.0	10.2
2008	Corticeira Amorim SGPS SA	US Floors Inc	Home furnishings	United States	25.0	10.0
2008	Civipartes SGPS SA	Civipartes Espana SL	Auto and home supply stores	Spain	100.0	5.8
2008	Amorim Revestimentos SA	Cortex GmbH	Wood products	Germany	100.0	5.5
2008	Banif Banco de Investimentos	Banco Caboverdiano de Negocios	Banks	Cape Verde	46.0	4.5
2007	EDP	Horizon Wind Energy	Cogeneration, alternative energy sources	United States	100.0	2,930.0
2007	Cimpor Cimentos de Portugal	Lafarge-Yibitas Orta Anadolu	Cement, hydraulic	Turkey	100.0	703.8
2007	Eviva SGPS SA	Macquarie Bank Ltd-German Wind	Cogeneration, alternative energy sources	Germany	100.0	131.3
2007	Sonae Industria SGPS SA	Tafisa	Reconstituted wood products	Spain	100.0	81.8
2007	WeDo Consulting-Sistemas	CAPE Technologies Ltd	Pre-packaged software	Ireland	100.0	28.5
2007	Corticeira Amorim SGPS SA	Francisco Oller SA	Wood products, nec	Spain	n.a.	18.8
2007	Jaime Teixeira	Plysorol SAS	Hardwood veneer and plywood	France	40.0	13.5
2007	Inapa SA	Inapa Schweiz AG	Paper mills	Switzerland	100.0	7.2
2007	Chipidea Microelectronica SA	Nordic Semiconductor ASA-Data	Data processing services	Norway	100.0	6.0
2007	Brisa Auto Estradas	Kapsch Telematic Services	Radio and TV equipment	Austria	26.0	3.9
2007	Grupo Salvador Caetano SGPS SA	Motordos SA	Motor vehicle dealers (new and used)	Spain	100.0	2.6

Source: The authors, based on Thomson Reuters, Thomson ONE Banker.

Annex table 7. Portugal: main greenfield projects, by outward investing firm, 2007-2010

Year	Investing company	Host economy	Industry	Estimated/ announced investment value (US$ million)
2010	Portucel Soporcel Group	Mozambique	Paper, printing and packaging	2,300
2010	Energias de Portugal (EDP)	United States	Alternative/renewable energy	616
2010	Energias de Portugal (EDP)	United States	Alternative/renewable energy	267
2010	Cimpor	Brazil	Building and construction materials	212
2010	CTT Correios de Portugal	Spain	Transportation	129
2010	Sonae	Greece	Real estate	108
2010	Cimpor	Brazil	Building and construction materials	106
2010	JP Sa Couto	Georgia	Business machines and equipment	101
2010	Energias de Portugal (EDP)	Spain	Coal, oil and natural gas	98
2010	Jeronimo Martins (JM)	Poland	Food and tobacco	90
2009	Energias de Portugal (EDP)	United States	Alternative/renewable energy	4,000
2009	Sonae	Germany	Real estate	396
2009	Energias de Portugal (EDP)	United States	Alternative/renewable energy	372
2009	Jeronimo Martins	Poland	Food and tobacco	330
2009	Sonae	Germany	Real estate	247
2009	Rangel Group	Angola	Transportation	194
2009	Galp Energia	Mozambique	Alternative/renewable energy	171
2009	Imocom	Angola	Building and construction materials	164

2009	Jeronimo Martins (JM)	Poland	Food and tobacco	93
2008	Portucel Soporcel Group	Uruguay	Paper, printing and packaging	4,000
2008	Mota Engil Group	Angola	Real estate	603
2008	Martifer	India	Metals	528
2008	Energias de Portugal (EDP)	United States	Alternative/renewable energy	263
2008	Cimpor	Brazil	Building and construction materials	251
2008	Capitalinvest	Spain	Real estate	233
2008	Sonae	Italy	Real estate	227
2008	Banco Espirito Santo	Angola	Building and construction materials	200
2008	Sonae	Brazil	Real estate	192
2007	Energias de Portugal (EDP)	United States	Alternative/renewable energy	600
2007	Energias de Portugal (EDP)	Spain	Coal, oil and natural gas	400
2007	Cotinfor	Brazil	Business machines and equipment	330
2007	Energias de Portugal (EDP)	Spain	Alternative/renewable energy	317
2007	Energias de Portugal (EDP)	United States	Alternative/renewable energy	263
2007	Sonae	Romania	Real estate	222
2007	Jeronimo Martins (JM)	Poland	Food and tobacco	202
2007	Sonae	Romania	Real estate	201
2007	Cimpor	China	Building and construction materials	147

Source: The authors, based on fDi Intelligence, a service from the Financial Times Ltd.

Chapter 17 - Slovenia

Slovenia: Outward FDI and its policy context, 2011

Andreja Jaklic[*]

High export orientation originating from a small domestic market and experience in outward foreign direct investment (OFDI) from the pre-transition period helped Slovenian enterprises to internationalize early on after their country's independence and separation from the former Republic of Yugoslavia, making Slovenia one of the first outward investors among transition economies in South-East Europe. This facilitated a reorientation of international trade and investment toward developed economies after the loss of the Yugoslav market triggered by Slovenian independence. OFDI flows increased rapidly after the end of the 1990s. Following the global financial and economic crisis, OFDI flows fell significantly in 2009 and 2010, and in 2010, the OFDI stock decreased for the first time since 2000. With the help of OFDI, Slovenia's enterprises have grown considerably beyond the constraints imposed by the country's dynamic, but small, economy. Their foreign expansion is in line with national strategic priorities that include entrepreneurship, business internationalization and innovation.

Trends and developments

Country-level developments

The process of internationalization in the former socialist economies in Central and Eastern Europe (CEE) in the course of their transition to market-based economies often appears surprisingly quick. Slovenia's case shows that it may actually be that escape from central planning and autarky serves as a strong incentive for OFDI in the early stages of development of a country's FDI. The internationalization pattern of Slovenia is thus the reverse of the usual path, in that OFDI preceded inward FDI (IFDI) instead of following it. The policy environment in Slovenia has gradually become more supportive to outward investing firms, through the acceptance of their bottom-up internationalization initiatives. Before 1999, government policies discouraged outward investment; since then, it has facilitated it and even provided some internationalization incentives. The European Union (EU) accession agreement signed in 1999, along with increasing cross-border trade and investment within CEE, speeded up capital movement liberalization.

Slovenia's OFDI stock has risen consistently since the 1990s, achieving average annual growth of 24% in 1993–2008. The accumulation of OFDI stock accelerated from a 3.4 times increase during 1993-2000 to a 6.9 times increase between 2000 and 2008. In 2009, however, Slovenia's OFDI stock remained unchanged from the previous year, and in 2010, fell to US$ 7.6 million (annex table 1). The

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stagnation in 2009 was mainly due to valuation adjustments.[1] Slovenia's OFDI stock relative to GDP remains larger than that of some other new EU members (e.g. Slovakia, the Czech Republic), but lags behind that of Estonia and Hungary (annex table 1) and prior EU members like Austria and Denmark.

Equity investments abroad by Slovenian multinational enterprises (MNEs) amounted to US$ 5.5 billion at the end of December 2009 (72% of total OFDI stock), about the same proportion as in 2008.[2] Commercial banks accounted for 12.5% of the value of FDI equity; other industries accounted for the remainder.[3] The stock of other capital (net outstanding intra-company loans) decreased by 11% from 2008, and amounted to US$ 2.2 billion. The largest share of equity (87%) was invested in unlisted companies.

Annual OFDI flows have increased steadily since the end of the 1990s and reached a peak of US$1.8 billion in 2007 (annex table 2). After 2007, the economic crisis, declining profits and tighter liquidity, which delayed direct investment plans, have resulted in a fall in flows, particularly to countries in the CEE region. In 2010, OFDI flows were a mere US$151 million.

The industry structure of OFDI has been changing rapidly in the past decade. The internationalization of the Slovenian economy started in the manufacturing sector, and most of Slovenia's OFDI in the early 1990s was in manufacturing. However, the share of services in the OFDI stock rose from 38% in 2000 to 69% by end-2009 (annex table 3). Within services, financial (19% of the total), retail and wholesale (21%) MNEs were the most dynamic investors abroad. The structure of OFDI is largely determined by a handful of large investors.

The geographical concentration of OFDI from Slovenia (annex table 4) does not match that of the country's exports. While over two thirds of Slovenian exports go to the EU, 69% of the country's total OFDI stock is located in former Yugoslavian countries that are less developed than Slovenia. The top four host countries for Slovenia's OFDI in 2009 were Serbia (30%), Croatia (20%)[4], Bosnia and Herzegovina (12%), and FYR of Macedonia (7%). Slovenian OFDI has benefited from its first mover advantage, a narrow cultural gap and historic trade ties with these markets. As these advantages have begun to evaporate and investment from other European economies in the region intensified, the share of former Yugoslavian economies in Slovenia's OFDI has decreased. In recent years, emerging market economies, especially the BRIC (Brazil, Russia, India, China), have become more attractive destinations for Slovenian MNEs. While new ventures have been initiated in China and India, with a 6% share Russia is the largest host economy among the BRIC group (Russia ranks fifth in the list of target countries for Slovenia's OFDI). The Netherlands and Germany come after Russia.

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[1] Changes in capital affiliation within individual MNEs were the main reason of stock decrease. See Bank of Slovenia, *Direct investment 2009*,(Ljubljana, December 2010), available at: www.bsi.si

[2] Equity capital payments of US$ 595 million were recorded, but losses of US$ 218 million, dividend payments of US$ 202 million and exchange rate difference and other changes of US$ 190 million contributed to the decrease in the stock of FDI equity held abroad (Bank of Slovenia, *op. cit.*).

[3] Since 2007, the market value of equity has been taken into account for obtaining data on investments in joint stock companies, while the book value of equity is taken into account for data on investments in other kinds of companies. At the end of 2009, 87% of the value of Slovenian investors' equity in enterprises in the rest of the world was in unlisted companies, an increase of 0.6 percentage points over that in 2008, while 13% of FDI equity was in companies listed on foreign stock exchanges. The market value of companies listed on foreign exchange companies was 33.7 % higher than their book value.

[4] Croatia was the most preferred investment location until 2006 for Slovenian OFDI.

The corporate players

At the end of 2009, there were 2,498 affiliates abroad established by 1,011 Slovenian parent companies.[1] Although companies with FDI abroad represent only about 2% of Slovenian companies, they are vital players in exports, employment, innovation, and value-added of the Slovenian corporate sector.[2] Small and medium-sized enterprises (SMEs) dominate and represent over three-quarters of Slovenian outward investors, yet large enterprises provide the bulk of the total value of OFDI flows. The list of the largest MNEs from Slovenia was relatively stable in most of the past decade, but in 2009 there were several changes and enterprises dropped out of the top 25 ranking.[3] Only the top five MNEs retained their positions (annex table 5). Most of the largest Slovenian MNEs are regional players, and 18 of the 25 are among the top outward investors from Central and Eastern Europe. They are highly internationalized in terms of sales and assets abroad.[4]

One of the most successful recent mergers and acquisitions (M&As) (annex table 6) was carried out by Kolektor (ranked 15th largest among Slovenian MNEs), a global producer of automotive parts, which realized the best operating results in its history in 2010. Similarly, the takeover of Netherlands' ATAG by Slovenia's Gorenje, a maker of household appliances, was the largest takeover in Gorenje's history. Synergies in sourcing, marketing, product portfolio, and production have improved Gorenje's profitability and market position in Western European markets.

More than half (54%) of investments (representing 42% of equity) in 2009 were in newly-established companies.[5] Investments in existing companies accounted for 24% of the total number (but 51% of the value of equity). Other investments, mainly in real estate, accounted for 23 % of the total by number and 7% by value.

Recent top greenfield projects (annex table 7) were mainly in retail and business services in Southern and Eastern Europe, reflecting the prevailing strategy of becoming regional MNEs. Mercator, the largest Slovenian MNE (annex table 5), has built mega-supermarkets in Macedonia and Bulgaria and invested in retail services in a number of other countries as well. The economic and financial crisis slowed down greenfield investment, the dominant type of Slovenian outward FDI (in terms of number of investments) in 2009, although to a lesser extent than the slow-down in cross-border M&As.[6]

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[1] Bank of Slovenia, *op. cit.*

[2] Outward investors provide over a third of employment and about 40% of exports of the Slovenian corporate sector (Andreja Jaklic and Marjan Svetličič, *Multinationals from Slovenia: nano size, but giga important*. in Louis Brennan, (ed.). *The Emergence of Southern Multinationals: Their Impact on Europe* (Basingstoke: Palgrave Macmillan, 2011), pp. 130-148.

[3] See the survey ranking of Slovenian multinationals in 2009, in Karl P. Sauvant, Vishwas P. Govitrikar and Ken Davies (eds), *MNEs from Emerging Markets: New Players in the World FDI Market*, January 2011, available at: http://www.vcc.columbia.edu/books.

[4] 49% of total sales revenues of top 25 MNEs were realised abroad and 33% of total assets of top 25 MNEs were abroad in 2009. See the survey ranking of Slovenian multinationals in 2009, in ibid.

[5] Bank of Slovenia, *op. cit.* The Bank of Slovenia classifies FDI into new, existing and other investments. New investments (greenfield) refer to cases where a Slovenian resident is the founder or co-founder of a company abroad. Existing investments are those made by residents in existing companies that they themselves have not established. Other investments refer to investments made in institutions, branches, foundations, real estate, and companies in bankruptcy.

[6] Bank of Slovenia, *op. cit.*

Consistent with global trends, there are differences in the regional concentration of M&A and greenfield investments abroad by Slovenian MNEs. Judging from the host-country patterns of the largest M&A transactions and greenfield projects, greenfield investments mainly take place in transition economies, whereas M&As are more common in industrialized economies and China (annex tables 6 and 7). While greenfield investors mainly consolidated their OFDI positions in existing markets in the region, some investors have used the crisis as an opportunity to upgrade their export position in old markets and/or expanded into new markets via cross-border M&As.

Effects of the recent global crisis

Slovenia was hit by the financial and economic crisis of 2008-2009 later than other Central and Eastern European economies. At the beginning of the crisis, two major reactions were identified at the corporate level.[1] The first was a defensive reaction of cost-cutting, freezing internationalization plans (or even divesting), and adjusting market portfolios -- but also more intensive sales promotion. The second was the more proactive response of increasing investment abroad, including through M&As and an intensification of innovative efforts. Companies with foreign affiliates mainly in Central and Eastern Europe suffered from declining sales, tightening liquidity and inability to finance and complete investment projects. However, delayed restructuring, delayed privatization with leveraged management buy-outs and political interference in management were among the major and most frequent reasons for the poor performance or even collapse of some of the firms that were previously listed among top Slovenian MNEs.

Slovenian MNEs were among the first among Slovenian enterprises that faced the global economic and financial crisis, yet the consequences of the crisis were not the gravest for them. A survey of the effects of the global economic crisis among the top 25 Slovenian MNEs (in June 2009 and supplemented by interviews) revealed that the consequences of the crisis varied among top MNEs, with the effects less dramatic than daily media clippings suggested.[2] Although the response has not been uniform, most Slovenian MNEs have not divested or substantially curtailed their internationalization process. Generally, lower sales were accompanied by cost-cutting and reduced investment and employment, but much less so than in firms operating in domestic markets only.
Frequently, the crisis triggered dismissals of employees to increase efficiency, dismissals that had been postponed during good times. Although financial constraints slowed down or postponed some investment decisions, MNEs in general faced less tightening as they had better access to capital and were also able to take advantage of their own sources (retained earnings). A slowdown in OFDI activity at the aggregate level did not occur until 2009, when Slovenia's stock remained the same as in 2008, and 2010, when it fell slightly.

The policy scene

In the past two decades, Slovenia liberalized capital flows gradually, allowing the country's OFDI to expand. The Foreign Trade Law of 1993 permitted capital outflows, but maintained some restrictions (requiring, for instance, official permission in selected cases, mainly in response to fear of large capital outflows and the depletion of enterprises in the privatization process). The liberalization of outward capital flows after 1999 with the New Foreign Exchange Law (based on standards of the Organisation

[1] See Jaklič and Svetličič, *op. cit.*
[2] Sauvant, et al., *op. cit.*

for Economic Co-operation and Development (OECD) in preparation for Slovenia's accession to the OECD) and the EU accession process, combined with growing trade integration, have led to higher levels of OFDI and less hostile public opinion toward OFDI (present in the early 1990s). Policy makers have continued to promote greater openness for trade and FDI, even during and after the global crisis, as Slovenian competitiveness largely depends on the international expansion of Slovenian companies.

As outward investment complements international trade and helps stabilize foreign market shares and sales growth,[1] outward investors are relatively more involved in international sourcing[2] and innovation than purely domestic firms.[3] The Slovenian Government has also gradually come to realize that OFDI can be an instrument for restructuring, and thus has started to facilitate this instrument with specific incentives, such as promoting internationalization through training for international operations or setting up representative offices and Slovenian business clubs abroad. The promotion of internationalization and especially the internationalization of SMEs is guided particularly by the Public Agency of the Republic of Slovenia for Entrepreneurship and Foreign Investments (JAPTI).[4]

As a member of the EU, the World Trade Organization and, since 2010, the OECD, Slovenia conforms to the requirements of those organizations, which makes Slovenian legislation compatible with their standards. Slovenia also aims to strengthen its economy by developing a network of free trade agreements (FTAs) and international investment agreements (IIAs), including bilateral investment treaties (BITs) and double taxation treaties (DTTs). In fact, the initial redirection of trade from former Yugoslavia to EU in the early 1990s and the increase of investment flows and trade activity within the Balkan region in the late 1990s have been supported by a number of BITs (35) and DTTs (52) in the last decade. The geography of BITs reflects the geography of FDI. BITs were signed with Russia and Belarus, while negotiations were in progress with Iran and India. The promotion of international economic cooperation, providing institutional cooperation and assistance to investors (with diplomats and high authorities joining economic delegations, offering support and facilities for start-ups in diplomatic or consular missions in selected hard-to-access foreign markets)[5], have become major priorities of foreign policy.

Conclusions

OFDI has remained dynamic and one of the key drivers of growth and restructuring in Slovenia, not only for the largest Slovenian enterprises but even for SMEs in recent years. Increased efforts by enterprises to overcome the effects of the recent global financial and economic crisis, expand their presence in foreign markets, get closer to their customers, permanently innovate, and enter new and more distant emerging markets are recognized as necessary strategies and are reflected in national

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[1] Jaklič and Svetličič, *op. cit.*

[2] According to the Statistical Office of the Republic of Slovenia, as much as 75% of enterprises involved in international sourcing use their own foreign affiliates for sourcing. Still, offshore outsourcing (sourcing from non-affiliated enterprise) is more frequently used by enterprises directly investing abroad than investors, available at: http://www.stat.si/novica_prikazi.aspx?id=2125.

[3] The share of innovative enterprises among firms with OFDI (78%) is much above the Slovenian average (51%), and innovation capacity was recognized as one of the most important drivers of OFDI in firm-level analysis, Andreja Jaklič, "Creating multinational enterprises in transition economies: examining the impact of firms' factor endowments in Slovenia", *Economic and Business Review*, vol. 9, no. 1 (2007), pp. 79-102.

[4] See http://www.japti.si/home

[5] In Russia, China and India for example "starting offices" are available.

economic policy. Realizing that Slovenia has a relatively low share of trade with the BRIC economies and Africa has motivated economic policy and supporting institutions (particularly the Chamber of Commerce) to promote cooperation outside the EU with economies relatively less hit by the economic crisis.[1]

Additional readings

Jaklič, Andreja and Marjan Svetličič, *Enhanced Transition through Outward Internationalization: Ooutward FDI by Slovenian Firms* (Aldershot, Burlington: Ashgate 2003).

Jaklič, Andreja, "Slovenian outward foreign direct investment," in Marjan Svetličič and Matija Rojec (eds.), *Facilitating Transition by Internationalization: Outward Direct Investment from Central European Economies in Transition* (Burlington: Ashgate, 2003), pp. 205-225.

Jaklič, Andreja, "Creating multinational enterprises in transition economies: Examining the impact of firms' factor endowments in Slovenia," *Economic and Business Review*, vol. 9, no. 1 (2007), pp. 79-102.

Svetličič, Marjan and Matija Rojec, eds., *Facilitating Transition by Internationalization: Outward Direct Investment from Central European Economies in Transition* (Burlington: Ashgate, 2003).

Svetličič, Marjan, "Slovenian outward FDI," *Transnational Corporations*, vol. 16, no. 1 (2007), pp. 55-81.

Useful websites

For FDI statistics: Bank of Slovenia, available at: www.bsi.si.

For FDI international FDI statistics: UNCTAD's FDI/TNC database, available at: stats.unctad.org/fdi/.

For FDI policy and regulation: Government of Slovenia, Ministry of Economy, available at: http://www.mg.gov.si/en/.

Public Agency of the Republic of Slovenia for Entrepreneurship and Foreign Investments (JAPTI) available at: http://www.japti.si/home

[1] See Programme for stimulating the internationalization of companies for the period 2010–2014, available at: http://www.mg.gov.si/en/.

Statistical annex

Annex table 1. Slovenia: outward FDI stock, 2000–2011

(US$ billion)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Slovenia	0.8	1.0	1.5	2.4	3.0	3.3	4.5	7.2	7.9	7.9	7.6	7.1
% of GDP	3.9	4.8	6.5	8.1	9.0	9.2	11.7	15.3	14.5	16.1	15.9	-
Memorandum: comparator economies												
Austria	24.8	28.5	42.5	56.0	69.8	71.8	105.7	148.8	148.7	163.6	169.7	199.3
% of GDP	13.0	15.0	20.6	22.2	24.2	23.7	32.8	40.0	35.9	42.9	45.1	-
Czech Republic	0.7	1.1	1.5	2.3	3.8	3.6	5.0	8.6	12.5	14.8	15.5	15.5
% of GDP	1.3	1.8	2.0	2.5	3.4	2.9	3.5	4.9	5.8	7.8	8.1	-
Denmark	73.1	78.3	86.7	102.6	126.3	129.3	147.0	183.5	190.7	207.4	194.9	231.3
% of GDP	45.7	48.8	49.9	48.3	51.6	50.2	53.6	59.1	56.0	66.9	62.5	-
Estonia	0.3	0.4	0.7	1.0	1.4	1.9	3.6	6.2	6.6	6.6	5.8	4.7
% of GDP	4.6	7.1	9.2	10.4	11.8	14.0	21.4	28.4	28.1	34.4	30.1	-
Hungary	1.3	1.6	2.2	3.5	6.0	7.8	12.4	17.3	20.1	22.5	20.7	23.8
% of GDP	2.7	2.9	3.2	4.2	5.9	7.1	11.0	12.6	12.9	17.5	16.0	-
Slovakia	0.4	0.5	0.5	0.8	0.8	0.6	1.3	1.9	3.0	3.7	2.8	4.2
% of GDP	1.9	2.4	2.2	2.5	2.0	1.2	2.4	2.5	3.1	4.2	3.2	-

Source: UNCTAD's FDI/TNC database, available at: stats.unctad.org/fdi/

Annex table 2. Slovenia: outward FDI flows, 2000–2011

(US$ million)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Slovenia	66	144	156	475	548	641	862	1,802	1,390	167	151	112
Memorandum: comparator economies												
Austria	5,740	3,138	5,807	7,136	8,300	11,145	13,670	39,025	29,452	7,381	10,854	30,451
Czech Republic	43	165	206	206	1014	-19	1,468	1,620	4,323	949	1,702	1,152
Denmark	26,549	13,361	5,687	1,215	-10,363	16,193	8,206	20,574	14,142	6,865	3,183	23,413
Estonia	61	202	132	155	269	691	1,107	1,746	1,114	1,549	133	-1,458
Hungary	620	368	278	1,644	1119	2,179	3,877	3,621	3,111	2,699	1,546	4,4698
Slovakia	29	65	11	247	-21	150	511	600	530	432	328	490

Source: UNCTAD's, FDI/TNC database, available at: stats.unctad.org/fdi/.

Annex table 3. Slovenia: distribution of outward FDI stock, by economic sector and industry, 2000, 2009

(US$ million)

Sectors/industries	2000	2009
Manufacturing (percentage share)	38.8	31.7
Services (percentage share)	43.5	68.7
Total	762.1	7,650.3
Manufacturing	288.3	1,804.9
Manufacturing of food products	43.1	364.6
Chemicals and chemical products	19.9	55.1
Manufacturing of rubber and plastic products	7.2	104.3
Manufacturing of other non-metallic mineral prod	13.2	38.4
Manufacturing of basic metals	0.4	100.6
Manufacturing of fabricated metals products, except machinery	11.1	143.2
Manufacturing of computers, electronic and optical devices	17.0	37.9
Manufacturing of electrical equipment	87.4	438.5
Other machinery and equipment	3.1	59.1
Manufacturing of motor vehicles, trailers, semi-trailer.	25.6	282.7
Services	364.9	5,026.3
Financial intermediation except insurance and pension funds	115.5	1,438.6
Head offices, business and operations	9.9	286.1
Wholesale trade,	23.9	579.0
Retail trade,	36.1	1,051.7
Warehousing and support activities for transport	0.0	342.6
Telecommunications	0.6	495.3
Insurance, reinsurance and pension funding	0.4	223.9
Real estate activities	0.0	75.7

Source: Bank of Slovenia, "Direct investment 2009," available at: www.bsi.si
End year US dollar/euro exchange rate was used from European Central Bank. http://sdw.ecb.europa.eu/browse.do?node=2018779.

Annex table 4. Slovenia: geographical distribution of outward FDI stock, 2000, 2009

(US$ million)

Economy/region	2000	2009
World	762.2	7, 650.3
Developed economies		
Europe	695.4	7,260.7
European Union	188.3	1,182.9
Belgium	-9.9	1.9
Austria	37.9	111.6
Germany	40.7	256.2
Hungary	4.5	35.4
Bulgaria	1.1	54.2
Poland	56.0	154.1
Romania	5.5	68.3
Other Europe	530.2	3,756.2
Croatia	351.2	1,544.6
Bosnia and Herzegovina	62.7	935.0
Serbia	0.0	2,255.5
North America	27.6	36.2
Developing economies		
Africa	0.9	27.4
Latin America and Carribbean	1.6	22.3
Asia and Oceania	3.0	21.4
Russia	-	408.8

Source: Bank of Slovenia, "Direct investment 2009," available at: www.bsi.si
End year US dollar/euro exchange rate was used from European Central Bank.
http://sdw.ecb.europa.eu/browse.do?node=2018779.

Annex table 5. Slovenia: top 25 non-financial MNEs, in terms of foreign assets, 2009

Rank	Name	Industry	Foreign assets (US$ million)
1	Poslovni sistem Mercator, d.d.	Retail trade	1,489
2	Gorenje gospodinjski aparati, d.d.	Electricity supply, manufacturing	1,204
3	Krka, tovarna zdravil, d. d.	Manufacturing (pharmaceutical)	958
4	Telekom Slovenije d.d.	Telecommunication	564
5	Petrol d.d.	Oil supply	495
6	Splošna plovba d.o.o.	Transportation	422
7	Intereuropa	Transportation, logistic	404
8	Helios Domžale d.d.	Trade	170
9	Perutnina Ptuj d.d.	Manufacturing	167
10	Unior	Manufacturing	84
11	Impol 2000 d.d.	Manufacturing	82
12	Gen-I d.o.o.	Electricity supply	82
13	Iskra Avtoelektrika d.d.	Manufacturing	82
14	Trimo	Manufacturing	68
15	Kolektor group	Manufacturing	66
16	Hit, d. d.	Entertainment	56
17	JUB-h, d.d.	Manufacturing	46
18	Hidria d.d.	Manufacturing	43
19	EtiElektroelement d. d.	Manufacturing	32
20	Kovintrade A d.d.	Wholesale	29
21	MK Založba	Publishing, retail	28
22	TAB d.d.	Manufacturing	25
23	SIJ-Slovenska industrija jekla,d.d.	Manufacturing	22
24	Kovinoplastika Lož d.d.	Manufacturing	21
25	HSE Holding Slovenske Elektrarne d.o.o.	Electricity supply	18
TOTAL			6,658

Source: Centre of International Relations data base, 2010 (internal data base). Faculty of Social Science. University of Ljubljana.

Annex table 6. Slovenia: main M & A deals, by outward investing firm, 2007–2009

Year	Acquiring company	Target economy	Target company	Target industry	Shares acquired (%)	Estimated/ announced transaction value (US$ million)
2009	Kolektor Group	Germany	ECS Magnet Engineering GmbH	Electronic components, nec	100.0	-
2009	Telekom Slovenije d.d.	Greece	OTE MTS Holding BV	Radiotelephone communications	100.0	250.9
2009	Prevent Global dd	France	Rioglass France SA	Flat glass	100.0	-
2008	Krka Novo mesto d.d.	China	Anhui Menovo Pharm Co Ltd	Pharmaceutical preparations	7.5	0.8
2008	Krka dd Novo mesto	China	Cejang Menovo Pharm Co Ltd	Pharmaceutical preparations	7.5	0.8
2008	Gorenje gospodinjski aparati d.d.	Netherlands	ATAG Europe BV	Household appliances, nec	100.0	200.9
2008	Findale Enterprises	Italy	Diners Club Italia Srl	Personal credit institutions	100.0	117.6
2008	Kolektor Group	Germany	E Missel GmbH & Co KG	Nonclay refractories	100.0	-
2007	Helios Domžale d.d.	Ukraine	OOO Avrora	Paints, varnishes, lacquers, & allied products	100.0	-
2007	Telekom Slovenije d.d.	Bosnia	ANEKS doo	Telephone communications, except radiotelephone	70.0	4.7
2007	Adria Mobil d.o.o.	Spain	Sun Roller SA	Mobile homes	80.0	13.7
2007	HSE Holding Slovenske Elektrarne d.o.o.	Bulgaria	Toplofikatzia Ruse EAD	Electric services	100.0	46.7
2007	Poslovni sistem Mercator d.d.	Croatia	Presoflex doo	Grocery stores	100.0	-
2007	Telekom Slovenije d.d.	Gibraltar	Gibtelecom	Telephone communications,	50.0	50.0

				except radiotelephone		
2007	Nova Ljubljanska Banka d.d.	Serbia	Kasabanka	National commercial banks	50.1	-
2007	Pozavarovalnica Sava d.d.	Macedonia	Tabak Osiguranje	Life insurance	53.7	9.1

Source: The author, based on Thomson ONE Banker, Thomson Reuters.

Annex table 7. Slovenia: main greenfield projects, by outward investing firm, 2007-2009

Year	Investing company	Destination country	Industry	Estimated / announced investment value (US$ millions)
2009	Poslovni sistem Mercator d.d.	Bulgaria	Retail	21.20
2009	Merkur d.d.	Serbia	Retail	37.3
2009	Poslovni sistem Mercator d.d.	Macedonia	Retail	146.8
2009	Bisol	Italy	Sales, marketing and support	4.7
2009	Bisol	Belgium	Sales, marketing and support	14.7
2009	Poslovni sistem Mercator d.d.	Serbia	Retail	43.8
2009	Poslovni sistem Mercator d.d.	Albania	Retail	27.3
2009	Smeh	Serbia	Logistics, distribution and transportation	7.7
2009	Tuš	Serbia	Retail	31.9
2009	Merkur d.d.	Croatia	Retail	28.2
2009	Tus	Bosnia and Herzegovina	Construction	8.6
2009	Nova Ljubljanska banka (NLB)	Macedonia	Business services	39.9
2009	ELRAD International	Serbia	Manufacturing	14.9
2009	Slovenske Zeleznice	Italy	Sales, marketing and support	15.0
2009	Mosen	Macedonia	Electricity	236.8
2008	Poslovni sistem Mercator d.d.	Bulgaria	Retail	113.2
2008	Meblo Jogi	Serbia	Manufacturing	16.6
2008	Perutnina Ptuj d.d.	Serbia	Manufacturing	28.8
2008	Gorenje gospodinjski aparati, d.d.	Croatia	Maintenance and servicing	16.0
2008	Trimo	Russia	Construction	289.1
2008	Gorenje gospodinjski aparati, d.d.	Croatia	Maintenance and servicing	16.0
2008	Tus	Macedonia	Retail	793.3
2008	Pozavarovalnica Sava	Macedonia	Business services	35.8

2008	Merkur d.d.	Bosnia and Herzegovina	Retail	35.0
2008	KD Group	Macedonia	Business services	35.8
2008	Iskra Avtoelektika d.d.	Macedonia	Manufacturing	37.7
2008	KD Group	Croatia	Sales, marketing and support	24.1
2008	Poslovni sistem Mercator d.d.	Serbia	Retail	22.8
2008	Poslovni sistem Mercator d.d.	Serbia	Retail	27.7
2008	Luka Koper	Italy	Logistics, distribution and transportation	105.3
2007	Hit d.d.	Austria	Construction	63.1
2007	Cimos	Bosnia and Herzegovina	Manufacturing	27.4
2007	Intereuropa	Germany	Logistics, distribution and transportation	57.0
2007	NLB	Ukraine	Business services	35.8
2007	Maksim Concern	Serbia	Manufacturing	20.1
2007	Poslovni sistem Mercator d.d.	Serbia	Retail	24.4
2007	Perutnina Ptuj	Bosnia and Herzegovina	Manufacturing	24.0
2007	Triglav Group	Slovakia	Sales, marketing and support	24.1
2007	Istrabenz Group	Bosnia and Herzegovina	Manufacturing	34.6
2007	Intereuropa	Russia	Logistics, distribution and Transportation	59.4
2007	Intereuropa	Ukraine	Logistics, distribution and transportation	20.7
2007	Telekom Slovenije d.d.	Serbia	ICT and internet infrastructure	157.0
2007	Gorenje gospodinjski aparati, d.d.	Serbia	Manufacturing	15.4
2007	Triglav	Serbia	Sales, marketing and support	24.1
2007	Cimos	Serbia	Manufacturing	20.7

Source: The author, based on FDI Intelligence, a service from the Financial Times Ltd.

Chapter 18 - Spain

Spain: Inward FDI and its policy context, 2011

Judith Clifton and Daniel Díaz-Fuentes with Eduardo Ruiz[*]

Inward foreign direct investment (IFDI) into Spain boomed during most of the 2000s, with IFDI stock quadrupling from US$ 156 billion at the end of 2000 to a record high US$ 604 billion by the end of 2010. The bulk of this investment originates in Europe: it represented over three quarters of the total in 2003, reaching 85% by 2009. In recent years, Spain has started to receive increasing investment flows from Latin America and the Gulf Arab countries, in addition to investment from other emerging markets, particularly China. Leading industries attracting inward FDI have traditionally included automobile and retail businesses, while the sale of former monopolies, such as the utilities, and Spain's emerging move toward world leadership in renewable energies are providing fresh impetus for investment. Despite a slow-down in 2009 as a consequence of the global financial and economic crises, Spain has been successful in retaining its FDI stock over the decade 2000-2010, which augurs well for its future performance. Although FDI inflows fell noticeably in 2009, FDI inflows in 2010 confirm that a substantial recovery has been achieved. The Government maintains an active inward FDI policy focused on ensuring that Spain is an easy and attractive place for investment, offering incentives for investment in designated sectors regarded as important for economic growth.

Trends and developments

In the 1970s, Spain was a relative backwater as regards inward FDI. This changed by the mid-1980s, thanks to Spain's re-emergence as a democracy, its incorporation into the European Union in 1986, as well as its continued commitment to market liberalization, spear-headed by membership in the General Agreement on Trade and Tariffs (GATT).[1]

Country-level developments

In the 1990s, moderate increases in Spain's inward FDI occurred, when the stock rose by 90%; but it was in the decade from 2000 that FDI stock soared dramatically, rising by 300% during 2000-2009, to reach US$ 628 billion by the end of 2009 (annex table 1).

As regards capital stock in Spain, it is worth emphasizing how Spain has generally been more successful than its peers in retaining capital. During 2007-2008, the United Kingdom and Germany saw their stocks fall by 21% and 9% respectively, while in France it remained almost constant. In contrast, the Spanish stock grew moderately, by 0.5%. The latest figures released on FDI inflows in 2010 show growth of nearly 42% with respect to the previous year, at US$ 33.6 billion. Of this, nearly 60% was accounted for

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[1] Julio Tascón, *La inversión directa en España* (Madrid: Minerva-Universidad de Oviedo, 2008).

by the expansion of previously existing foreign firms in Spain, and the rest, by acquisitions.[1] As we discuss in the conclusions, the crisis has engendered an increase in inward FDI from sovereign wealth funds particularly from China and Gulf Arab countries.

FDI inflows during this decade started at US$ 40 billion in 2000, dropped to US$ 25 billion by the middle of the decade, but then saw momentous increase in 2007 with US$ 64 billion and in 2008 with US$ 77 billion (annex table 2). The upward trend was interrupted by a steep decline in flows (to US$ 9 billion) in 2009, following the global financial and economic crises, but IFDI began to recover in 2010, when inflows rose to US$ 21 billion.

As regards the sectoral distribution of inward FDI during the 2000s, the services sector dominated overall. During 2005-2008, services accounted for between twice and thrice the inward FDI (IFDI) stock in the secondary sector (annex table 3). Much of these investments in services were concentrated in the large urban areas, particularly Catalonia, the Basque Country and Madrid.[2] Despite this domination by FDI in the services sector in the late 2000s, FDI in the primary sector, mainly agricultural, grew fastest (243%) between 2005 and 2008, followed by that in the secondary sector (168%) and then that in the services sector, dominated by financial services (113%). IFDI stock in the services sector actually fell slightly toward the end of the decade.

Within manufacturing, the highest growth of IFDI between 2005 and 2008 took place in metal and mechanical products (661%) and radio, television and communication equipment (363%), while in services, high growth occurred in transport, storage and communications (11,646%) and financial intermediation, except insurance and pension funding (4,300%).

From the 1980s to the present, the vast majority of FDI into Spain has originated in other European countries. In absolute terms, the leading sources in 2003 and 2004 were the United Kingdom, United States, and the Netherlands, with Germany in fourth place in 2003, to be replaced by Luxembourg the following year (annex table 4). The Netherlands (247%), Luxembourg (160%) and France (138%) are the countries that most increased their FDI in Spain over the period 2003-2009. By 2009, as Spain felt the consequences of the global crisis, the leading sources were the Netherlands, Luxembourg and Italy.

The key role of FDI from small European economies such as the Netherlands and Luxembourg, not only in Spain but also in other European economies as well as the United States, is perhaps related to arbitrage opportunities in the former economies and the significant tax advantages that help facilitate the free movement of capital in transit from across the European Union. One reason why inflows from Switzerland (a little over US$ 6 billion in 2009) are low is that, although that country may enjoy several advantages similar to those of the Netherlands and Luxembourg, its non-membership status in the European Union bars it from enjoying the same ease as regards capital movements.

Outside Europe, the largest source of IFDI stock in Spain was the United States in 2009, followed at some distance by Uruguay (an economy that also enjoys arbitration and tax advantages), Canada and Brazil (annex table 4). Other economies that grew their FDI stock in Spain during the 2000s are the Gulf Arab economies (1,016% increase between 2007 and 2009), Asia (mainly East Asia) (167% between

[1] Invest in Spain, "Note on 2010 inward FDI data: Investment Registry" (Madrid: Invest in Spain, 2011).
[2] Invest in Spain, "Informe 2010" (Madrid: Invest in Spain, 2010), p. 8.

2005 and 2009) and the Mercosur economies – Argentina, Brazil, Paraguay, and Uruguay- (107% increase between 2005 and 2009).

Finally, as a consequence of the recent global financial and economic crises, the geography of inward FDI to Spain is undergoing some changes, although as yet modest. For example, data in annex table 4 show that the share of the Gulf Arab countries in Spain's IFDI stock rose from less than 0.1% in 2007 to nearly 1% in 2009 and that of Asia, from 1% in 2005 to 1.6% in 2009. In light of the crisis, the Spanish Government and firms have been looking to court new forms of international investment, particularly, from sovereign wealth funds (SWFs) based in Gulf Arab countries and China. This approach is consistent with the increased importance of outward FDI from the South, which has been well documented.[1]

More recently, as regards investment by SWFs from the Gulf Arab countries, the most important investment in Spain was the acquisition by Qatar Holdings in March 2011 of a 6.16% (US$ 2.82 billion) stake in Iberdrola. Another significant move was Abu Dhabi's Sovereign Wealth Fund IPIC's announcement that it would acquire a 48.8% stake in Cepsa (owned previously by Total) at a price of US$ 5.2 billion. This was in addition to the 47% stake it previously acquired in 2009, and served to increase dramatically Abu Dhabi oil refining and distribution capacity in Europe and Latin America.[2]

Recent developments with respect to FDI from China are perhaps even more dramatic. In January 2011, Vice Premier Li Keqiang visited Spain and signed twelve business and investment agreements worth US$ 7.5 billion.[3] The Spanish Government reciprocated this visit in April 2011, when the Prime Minister visited China. According to China Investment Corporation's (CIC) Vice President, Xie Ping, CIC was studying potential investments to bolster the privatization of Spain's savings banks.[4] It is little wonder, then, that the Spanish flagship national newspaper, *El País*, refereed to China's Vice Premier, Mr. Li, as the new "Mr. Marshall".[5]

The corporate players

Since 1990, Spain successfully attracted FDI into two major parts of its economy: its export-oriented manufacturing industries[6] and services for the local market. In the latter case, multinational enterprises

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[1] For instance, see Andrea Goldstein, *Multinational Companies from Emerging Economies: Composition, Conceptualization and Direction in the Global Economy* (New York: Palgrave Macmillan, 2009); Karl P. Sauvant and Geraldine McAllister, with Wolfgang Maschek, eds., *Foreign Direct Investment from Emerging Markets. The Challenges Ahead* (New York: Palgrave Macmillan, 2010); and Louis Brennan, ed., *The Emergence of Southern Multinationals: Their Impact on Europe* (New York: Palgrave Macmillan, 2010).

[2] "Spanish businesses looking to sovereign wealth funds for investment," *Iberian Lawyer*, April 26, 2011. Retrieved from http://www.iberianlawyer.com/home/news/2409-spanish-businesses-looking-to-sovereign-wealth-funds-for-investment

[3] Jiang Shixue, " China-Spain-Latin America triangulation in a Chinese perspective," January 14, 2011, retrieved from http://www.realinstitutoelcano.org/wps/portal/rielcano_eng/Content?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/ari4-2011

[4] These are known as "cajas" in Spanish.

[5] "Espaldarazo chino a la deuda española," *El Pais*, January 5, 2011, retrieved from http://www.elpais.com/articulo/espana/China/comprara/deuda/espanola/pondra/dinero/sanear/cajas/elpepuesp/20110412elpepunac_11/Tes

[6] Rajneesh Narula and John Dunning, "Industrial development, globalization and multinational enterprises: new realities for developing countries," *Oxford Development Studies*, vol. 28, No.2 (2000), pp. 141-67.

(MNEs) increased their market share in non-tradable services.[1] This pattern is reflected in the industrial distribution of the largest foreign affiliates in the country in 2007-2009 (annex table 5).

The most important export-oriented industry in Spain is the automobile industry, which began to attract FDI by large MNEs from the 1960s onwards. Major MNEs that have established affiliates in Spain in this industry include Ford, Renault, Peugeot, Citröen, Volkswagen, Volvo, Opel, General Motors, Nissan, and Zahave. Most investment is greenfield. Spain had been originally attractive to MNEs in the 1960s because workers' wages were relatively low in comparison to those in more advanced European economies, and this facilitated export to the whole European market from Spain. During the 1980s, inward FDI was welcomed as it helped to prevent closures of firms, as in the case of the privatization and subsequent takeover of SEAT by Volkswagen.[2]

Despite growing competition from Eastern European countries from the 1990s onward, Spain emerged as Europe's largest manufacturer of industrial vehicles and the second largest European manufacturer of automobiles by number of passenger vehicles produced. By 2010, around 9% of Spain's working population was employed across automobile clusters and technological centers. The bulk of production is still destined for export. It comes as no surprise, then, that the foreign affiliates of Ford (3), Renault (4), Peugeot (6), General Motors (9), and Daimler AG (10) are all featured in the top ten affiliates of MNEs in Spain during the period 2008/2009 by volume of business (annex table 5).

The second major area of inward FDI is oriented to the local services market. Here, leading MNEs investing in Spain include Cemex (Mexico), the Spanish affiliate of which ranks as the second largest foreign affiliate in Spain (annex table 5). Cemex has thrived on the boom in the construction industry across Spain in recent years. Other important Spanish affiliates of MNEs in services include those of the French retail supermarket MNEs Carrefour (ranking at number 11) and Famille Mulliez (at number 14). Another major attraction for inward FDI has been the so-called network industries, especially utilities. From the 1980s, the socialist party Government commenced the partial privatization of many of Spain's network industries. Privatization was then intensified by the conservative party Government a decade later.

Many of these industries were also liberalized according to European Union directives, and deregulated. As a result, huge inflows of FDI entered, often in conjunction with national capital.[3] Inward FDI flowed in particular to enterprises in electricity generation and distribution (Endesa, Iberdrola, Red Eléctrica Española), the gas industry (Gas Natural), petroleum refineries (Repsol, CEPSA), air transportation (Iberia), and communications (Telefónica, Retevisión-AUNA).

Mergers and acquisitions (M&As) were also common in these industries (annex table 6 provides data for 2007-2009). For example, France Télécom acquired AUNA (Retevisión's mobile telephony division) in 2005; Italian ENEL acquired Endesa in two steps, in 2007 and 2009; and German E.On AG acquired Energi E2 Renovables Ibéricas and Enel Viesgo in 2007 and 2008, respectively. Abu Dhabi's sovereign

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[1] Kewei Zhang and James Markusen: "Vertical multinationals and host country characteristics," *Journal of Development Economics, vol.* 59, No. 2 (1999), pp. 223-52.

[2] Judith Clifton, Francisco Comín and Daniel Díaz-Fuentes, "Transforming networks in Spain", in Judith Clifton, Francisco Comín and Daniel Díaz-Fuentes, eds., *Transforming Public Enterprise in Europe and North America* (New York: Palgrave Macmillan, 2007), pp. 90-105.

[3] Ibid. See also, Judith Clifton, Francisco Comín and Daniel Díaz-Fuentes, *Privatization in the European Union* (Dordrecht: Kluwer Academic Publishers, 2003).

wealth fund International Petroleum Investment Company (IPIC) acquired CESPA, in two stages, first in 2009 (47%) and then in 2011 (nearly 49%).[1] Finally, Iberia and British Airways completed a complex merger, most recently, in 2011.

Effects of the recent global crisis

In 2007, Spain's IFDI stock to GDP ratio was nearly 40%,[2] while in 2008, when inflows to European peers such as France, Italy and Germany were plummeting, volumes to Spain peaked and IFDI stock to GDP ratio reached 37%. So, in contrast with events in other major European economies, in Spain, the negative effects of the global financial and economic crises came slightly later. In 2008, though Germany, the UK and France saw significant falls, in Spain, inward FDI flows were still actually increasing. The crisis hit Spain from 2009, when FDI inflows virtually collapsed, falling by 90%, to barely US$ 9 billion. By that time, in Germany, FDI inflows had started to recover, to US $ 38 billion, whilst the losses in the UK and France were significant, but not as sharp as those in Spain.

Nevertheless, there is room for cautious optimism about the future of FDI in Spain. Inflows during 2010 surpassed US$ 20 billion. Moreover, though FDI inflows rose and fell over the 2000s, overall stock grew continuously, except for a small decline in 2010 -- underlining Spain's success at capturing and retaining foreign capital.

The policy scene

Spain has, for many years, sought to promote inward FDI via greenfield projects and M&As. Recent policies strive to ensure that the setting up of firms in Spain is relatively easy and flexible and that Spain complies with the measures to liberalize FDI as recommended by the European Union. Spanish FDI policy aims to position Spain as the ideal hub for European and Asian-based MNEs wishing to invest and operate in Latin American and North Africa. In addition, policy also encourages Latin American MNEs that wish to extend their businesses across Europe to use Spain as their base.[3]

Fiscal pressure in Spain, measured as the percentage of tax and social security to GDP, is around six points below the average in the EU 27.[4] It is possible that, in the ongoing Eurozone crisis, fiscal pressure will increase. In addition, the central Government has offered a range of financial incentives (such as soft loans and subsidies) as well as tax incentives, to investors in particular industries that they have identified as being a national priority due to their potential for growth and their economic impact, such as biotechnology. As regards research & development (R&D), the *Spanish Plan R&D 2008-2011* targets five key sectors with incentives for investment: health, biotechnology, energy and climate change, information and communication technologies (ICTs), and nanoscience and nanotechnology.[5]

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[1] Chemicals Technology, "IPIC Eyes Complete Takeover of CEPSA", March, 2011, available at: http://www.chemicals-technology.com/news/news112133.html
[2] OECD, *OECD Factbook* (Paris: OECD, 2009).
[3] Mauro Guillén, Emilio Ontiveros, and Javier Santiso,: "España: un hub latinoamericano incompleto" *El País*, November 14, 2006, retrieved from http://www.elpais.com/articulo/opinion/Espana/hub/latinoamericano/incompleto/elpporopi/20061114elpepiopi_6/Tes
[4] Invest in Spain, "Spain: taxes", in *Invest in Spain* (2011) last accessed on 6 May 2011 at: http://www.investinspain.org/icex/cda/controller/interes/0,5464,5322992_6261576_6278938_0,00.html
[5] Invest in Spain, "R&D investment" (2011), available at: http://www.investinspain.org/icex/cda/controller/interes/0,5464,5322992_6261692_6278959_0,00.html

In 2009, the OECD ranked Spain second only to France in its scoreboard on tax subsidies for R&D.[1] The Government has also established additional incentives in the fields of renewable energies, tourism, audiovisual and cultural industries and other activities that stimulate employment and training.[2] Under the PSOE, the Ministry of Industry set up a project "Renewables Made in Spain" in order to publicize the strong presence of renewable energies. A range of subsidies and instruments were introduced to attract inward FDI into such sectors as wind power, solar thermoelectric, solar photovoltaic, and biofuels. However, all this may change, as the recently elected government will implement its austerity program, which aims to reduce spending drastically. It is expected that many of the subsidies established by the PSOE Government will be reduced, or even eliminated.[3]

By June 2010, Spain had concluded double taxation treaties (DTTs) with over 84 economies. Between 2008 and 2009, agreements were signed with countries in Eastern Europe (Bosnia and Herzegovina, Serbia, Kazakhstan); South and Central America (Uruguay, El Salvador, Jamaica, Trinidad and Tobago); and the Middle East and Africa (Kuwait, Nigeria).[4] These agreements allow for the elimination or mitigation of double taxation. Spain also has bilateral investment treaties (BITs) with some 75 economies; recent BITS concluded include treaties with China, Kuwait and Mexico in 2008 and Libyan Arab Jamahiriya in 2009.[5]

Conclusions

For over a decade, the Spanish Government designed its FDI policy to channel inward FDI into areas designated as being priority, that is, where its economy was competitive and toward high value-added sectors. Of particular importance were information and communications technology (ICT), the automobile industry and renewable energies. The Spanish ICT sector has grown in recent years at one of the fastest rates across Europe. Spain is now included in the top five most important European economies in this sector. Though this sector has been negatively affected by the global financial and economic crisis, its market value was set at US$ 151 billion in 2009, after experiencing an average growth rate of over 4% over the past seven years. This represents a contribution to GDP of around 6%; moreover, growth is set to increase, not least, because of the financial and tax incentives promised by the Government over the next few years.[6]

The automobile sector remains important for Spain, providing work for nearly 9% of the active Spanish working population and over 18% of national exports. Much of this industry is associated with high R&D investment. In 2009, Spain produced around 2.2 million vehicles and exported nearly 90% of these. Spain has become specialised in the production of medium and low ranges in models that are compatible

[1] OECD, *Science, Technology and Industry Scoreboard* (Paris: OECD, 2009).
[2] Invest in Spain includes a searchable database on forms of incentives available (2011) at: http://www.investinspain.org/icex/cda/controller/interes/0,5464,5322992_6286850_6278941_0,00.html
[3] "Spain's incoming government may seek outside aid", *Reuters*, November 25, 2011, available at: http://news.yahoo.com/exclusive-spains-incoming-government-may-seek-outside-aid-170946565.html
[4] UNCTAD, "Spain: number of double taxation agreements concluded" (Geneva: UNCTAD, 2011), accessed on June 1, 2011, available at: http://www.unctad.org/templates/Page.asp?intItemID=4505&lang=1
[5] UNCTAD database on bilateral investment treaties (2011), available at: http://www.unctad.org/Templates/Page.asp?intItemID=2344&lang=1
[6] Invest in Spain, "ICT technologies",(2011, available at: http://www.investinspain.org/icex/cda/controller/interes/0,5464,5322992_6261761_6279208_0,00.html

with electric car prototypes. In addition, Spain has developed projects for the manufacture of electric and hybrid cars in the country by national and multinational manufacturers Renault, Daimler, Ford, and Seat.[1]

Spain has tried to position itself as a global leader in the development of renewable energies, from both a technological and industrial perspective. Areas of specialization included solar thermoelectric, wind and photovoltaic energy.[2] Interestingly, much of the activity comes from both Spain's former utility monopolies as well as new entrants; Spain is seeking both to attract inward FDI to this sector as well as to establish the presence of its MNEs around the world. Finally, the incoming government, in the face of the ongoing Eurozone debt crisis, may reduce or eliminate subsidies and aid, though it is not expected to change the direction of national FDI policy in the medium-term.

Additional readings

Clifton, Judith and Daniel Díaz-Fuentes, "Is Europe ready for foreign direct investment from emerging markets?" in Karl P. Sauvant and Geraldine McAllister, with Wolfgang A. Maschek, eds., *Foreign Direct Investments from Emerging Markets: The Challenges Ahead,* (New York: Palgrave Macmillan, 2010), pp. 335-358.

Clifton, Judith and Díaz-Fuentes, Daniel, "The European Union, southern multinationals and the question of the strategic industries", in Louis Brennan, ed., *The Emergence of Southern Multinationals* (New York: Palgrave Macmillan, 2010), pp. 226-241.

Useful websites

Banco de España "Estadísticas de inversión extranjera directa en España," available at:
http://www.bde.es/webbde/es/estadis/infoest/indeco.html#chapa_45

Invest in Spain, "Most important sectors to foreign investment," available at:
http://www.investinspain.org/icex/cda/controller/interes/0,5464,5322992_6261604_6279133_0,00.html

OECD, "Foreign direct investment database," available at:
http://www.oecd.org/document/8/0,3746,en_2649_33763_40930184_1_1_1_1,00.html

UNCTAD "Foreign direct investment data base," available at:
http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx

[1] Invest in Spain "Automobile sector" (2011), available at:
http://www.investinspain.org/icex/cda/controller/interes/0,5464,5322992_6774890_6279208_0,00.html

[2] Invest in Spain – Spanish Government "Renewable energies" (2011), available at:
http://www.investinspain.org/icex/cda/controller/interes/0,5464,5296169_6256607_6258041_0,00.html

Statistical annex

Annex table 1. Spain: inward FDI stock at the end of the year, 2000, 2007-2010

(US$ billion)

Economy	2000	2007	2008	2009	2010
Spain	156	586	589	628	604
Memorandum: comparator economies					
World	5,323	16,370	15,365	17,431	16,792
France	260	956	953	995	965
Germany	463	1,012	920	1000	957
European Union	2,410	7,529	6,849	7,545	7,197
United Kingdom	463	1,230	975	1057	1.086

Source: OECD International direct investment database based on Eurostat and IMF, available at: www.oecd.org/investment/statistics. Data extracted on August 9, 2011.

Annex table 2. Spain: inward FDI flows, 2000-2010

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Spain	40	28	39	26	25	25	31	64	77	9	21
Memorandum: comparator economies											
World	1,513	805	619	560	688	1,002	1,453	1,960	1,692	1,104	1,134
European Union	809	360	285	258	214	487	563	857	485	344	299
Germany	198	26	54	32	-10	47	56	80	4	38	46
United Kingdom	122	54	25	28	57	178	156	201	91	71	46
France	43	51	49	43	33	85	72	96	64	34	34

Source: OECD International direct investment database based on Eurostat and IMF, available at: www.oecd.org/investment/statistics. Data extracted on August 9, 2011

Annex table 3. Spain: distribution of inward FDI stock, by economic sector and industry, 2005-2008

(US$ billion)

Sector / industry	2005	2006	2007	2008
All sectors / industries	384.5	461.5	585,.9	591.4
Primary				
Total primary	0.9	1.4	1.9	2.9
Agriculture, forestry, and fishing	0.5	0.5	0.7	0.6
Mining, quarrying and petroleum	0.4	0.8	1.2	2.3
Secondary				
Total secondary	56.3	118.9	141.3	151.0
Textiles, wearing apparel, wood, publishing and printing	2.7	8.5	11.6	7.9
Food products	6.4	11.5	14.9	14.6
Chemical products	10.2	22.2	16.4	17.1
Wood, publishing and printing	1.9	7.1	9.6	7.1
Refined petroleum and other treatments	5.5	11.3	14.2	14.0
Chemical products	10.2	22.2	16.6	17.1
Office machinery and computers	n.a.	n.a.	n.a.	n.a.
Metal and mechanical products	4.5	24.7	29.9	33.9
Motor vehicles and other transport equipment	11.2	9.6	19.3	19.4
Radio, TV, communication equipments	0.5	2.5	2.3	2.2
Services				
Total services	154.7	297.7	340.7	329.4
Transport, storage and communication	0.4	40.9	47.8	47.2
Hotels and restaurants	1.6	5.0	6.2	7.0
Financial intermediation	4.8	34.3	45.9	43.0
Financial intermediation, except insurance and pension funding	0.6	18.8	25.0	25.6
Monetary intermediation	n.a.	11.2	15.1	16.4
Activities auxiliary to financial intermediation	0.5	5.7	8.4	1.8
Other financial intermediation	0.6	7.7	10.0	9.2
Insurance	3.7	9.8	12.4	15.6
Real estate, renting and business activities	125.0	161.0	173.7	169.8
Computer activities	1.0	2.6	3.0	2.2
Business and management consultancies	116.8	108.3	102.7	99.7
Other business activities	117.7	115.1	118.6	115.3
Unallocated	168.6	8.7	4.1	8.0
Private purchases and sales of real estate	n.a.	6.2	14.8	21.4

Source: Foreign Direct Investment (FDI) Statistics – OECD Data, Analysis and Forecasts, available at : www.oecd.org/investment/statistics

Annex table 4. Spain: geographical distribution of inward FDI stock, 2000, 2003-2009

(US$ billion)

Country / region	2003	2004	2005	2006	2007	2008	2009
World	339.6	395.9	384.5	461.5	585.8	591.4	631.4
Developed economies							
Europe	262.5	310.4	313.6	378.4	496.3	502.1	535.4
Austria	n.a.	n.a.	1.5	2.0	2.4	1.9	2.4
Belgium	n.a.	n.a.	16.8	18.5	24.3	24.4	22.6
Denmark	0.9	1.2	1.4	2.1	2.2	2.2	2.2
Finland	n.a.	n.a.	0.6	0.5	n.a.	n.a.	n.a.
France	27.8	27.0	36.1	52.6	64.1	65.3	66.1
Germany	30.9	31.5	26.8	29.3	29.9	39.5	35.6
Ireland	n.a.	n.a.	6.7	9.0	10.9	9.3	8.9
Italy	n.a.	n.a.	10.5	12.5	53.0	41.0	61.0
Luxembourg	26.9	41.8	54.8	66.3	82.8	67.1	70.2
Netherlands	42.4	45.3	80.4	95.7	114.3	132.9	147.1
Portugal	13.0	16.8	11.3	13.0	14.6	14.3	14.2
Sweden	2.9	4.6	5.4	6.8	7.1	8.5	6.1
Switzerland	13.4	15.5	13.7	14.1	15.6	16.6	18.5
United Kingdom	68.9	79.0	42.0	47.4	64.0	65.6	66.1
Other developed economies							
Canada	3.0	4.2	45.0	6.6	5.4	4.8	4.9
Japan	2.6	2.9	2.3	3.3	2.9	2.5	2.6
United States	61.0	67.0	53.0	58.0	66.4	62.3	60.6
Russia	n.a.	n.a.	1.0	1.0	1.5	2.1	2.7
Developing economies							
Argentina	0.3	0.3	0.6	0.6	0.7	0.6	0.7
Brazil	0.7	0.9	3.4	6.3	3.6	4.7	4.9
Chile	1.2	1.3	0.7	n.a.	n.a.	n.a.	0.6
México	1.7	1.8	1.4	1.7	2.2	1.5	2.1
Uruguay	n.a.	n.a.	0.8	1.0	3.2	5.2	5.4
Venezuela	n.a.	n.a.	0.6	0.7	0.8	1.0	1.2
Gulf Arabian countries [a]	n.a.	n.a.	n.a.	n.a.	0.5	0.5	5.5
Asia	n.a.	n.a.	3.8	5.0	5.1	4.7	10.2
Unspecified destination	77.1	85.6	-0.4	0.4	0.4	0.4	0.4

Source: www.oecd.org/investment/statistics

[a] Gulf Arab countries include: Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Yemen.

Annex table 5. Spain: principal foreign affiliates in country, ranked by turnover, 2009

Rank	Name of parent company	Name of affiliate in Spain	Industry	Turnover (US$ millions)	Number of employees
1	Enel	Endesa SA	Electrical	36.0	26,770
2	CEMEX S.A.B.	CEMEX España SA	Construction	16.7 [a]	44,758 [a]
3	Ford Motor	Ford España	Automotive	14.5 [a]	10,136 [a]
4	Renault	Renault España	Automotive	10.3 [a]	11,183 [a]
5	Imperial Tobacco Group PLC	Compañía de Distribución Integral Logista S.A	Tobacco	8.2	4,965
6	Peugeot SA	Peugeot Citroen Automóviles España SA	Automotive	7.9	11,713
7	Bayer AG	Bayer Hispania SL	Chemical	6.8	9,306
8	Familien Porsche/Piech	Volkswagen Audi España SA	Automotive	6.6	361
9	General Motors	General Motors España SLU	Automotive	6.0	6,893
10	Daimler AG	Mercedes-Benz España SA	Automotive	5.8 [a]	3,516 [a]
11	Carrfeour	Carrefour España SA	Retail	5.8	17,873
12	BP P.L.C.	BP Oil España SA	Oil and gas	5.6	465
13	France Telecom	France Telecom España SA	Telecommunications	5.5	3,233
14	Famille Mulliez	Alcampo SA	Retail	4.7	13,785

Source: The authors, based on Amadeus Database, available at: https://amadeus.bvdinfo.com/version-2012126/home.serv?product=amadeusneo

[a] Turnover and number of employees figures for 2008.

Annex table 6. Spain: main M & A deals, by inward investing firm, 2007-2009

Year	Acquiring company	Home economy	Target company	Target industry	Shares acquired (%)	Transaction value (US$ million)
2009	Enel SpA	Italy	Endesa SA	Electric services	92.1	13,470.0
2009	IPIC	United Arab Emirates	CEPSA	Crude petroleum and natural gas	47.0	4,371.9
2009	Investor Group	United States	BBVA-Branches (948)	Banks	100.0	1,695.1
2009	CNP Assurances SA	France	Barclays Vida y Pensiones SA	Life insurance	50.0	825.5
2009	Investor Group	Portugal	Cintra Aparcamientos SA	Automobile parking	99.9	634.0
2009	British Sugar PLC	United Kingdom	Azucarera Ebro SL	Cane sugar refining	100.0	509.3
2009	HgCapital LLP	United Kingdom	AIGP-Photovoltaic Plants (3)	Alternative energy sources	100.0	405.6
2009	RREEF Infrastructure	Germany	BBG	Natural gas transmission	25.0	318.6
2009	Undisclosed Acquirer	Unknown	Caixa Catalunya-Branches (146)	Banks	100.0	248.1
2008	Imperial Tobacco Overseas Hldg	United Kingdom	Altadis SA	Cigarettes	100.0	17,872.7
2008	E ON AG	Germany	Enel Viesgo SA	Electricity services	100.0	3,210.0
2008	Investor Group	United Kingdom	Ciudad Financiera Santander	Operators of non-residential buildings	100.0	2,804.0
2008	Undisclosed Acquiror	Unknown	Reyal Urbis SA-RE Asts	Dwelling operators	100.0	2,208.9
2008	Zurich Financial Services AG	Switzerland	BanSabadell Vida SA de Seguros	Life insurance	50.0	1,419.6
2008	Imperial Tobacco Group PLC	United Kingdom	Logista	Trucking except local	100.0	1,398.5
2008	Investor Group	Australia	Cia Logistica de Hidrocarburos	Natural gas	25.0	1,359.2
2008	Credit Agricole SA	France	Bankinter SA	Banks	19.5	1,186.5
2008	E ON AG	Germany	Endesa-Spanish Thermoelectric	Alternative energy sources	100.0	1,186.0
2008	Unibail-Rodamco SA	France	La Maquinista	Operators of non-residential buildings	100.0	687.9
2007	Investor group	Italy	Endesa SA	Electricity services	91.6	26,437.8
2007	Enel SpA	Italy	Endesa SA	Electricity services	21.6	6,301.6
2007	Enel SpA	Italy	Endesa SA	Electricity services	10.0	5,459.8

2007	Investor group	United Kingdom	Banco Santander SA-Ppty Asts	Operators of non-residential buildings	100.0	3,027.2
2007	Investor group	Belgium	Iberdrola SA	Electricity services	5.0	2,968.4
2007	Investor group	United States	Applus Servicios Technologicos	Testing laboratories	100.0	2,044.5
2007	E ON AG	Germany	Energi E2 Renovables Ibericas	Electricity services	100.0	992.6
2007	Cinven Group Ltd	United Kingdom	United Surgical Partners SL	Hospitals	100.0	920.3
2007	National Express Group PLC	United Kingdom	Continental Auto SA	Local passenger transportation	100.0	895.3
2007	Unicredito Italiano SpA	Italy	Banco de Sabadell SA	Banks	4.0	562.9

Source: The authors, based on Thompson Reuters, Thomson ONE Banker.

Annex table 7. Spain: main greenfield projects, by inward investing firm, 2007-2009

Year	Investing company	Home economy	Industry	Investment/ estimated investment (US$ million)
2009	Vodafone	United Kingdom	Communications	563.0
2009	Volkswagen	Germany	Automotive OEM	395.0
2009	Leni Gas&Oil	United Kingdom	Coal, oil and natural gas	394.8
2009	Nissan	Japan	Automotive OEM	386.7
2009	Ryanair	Ireland	Aerospace	360.0
2009	PSA Peugeot-Citröen	France	Automotive OEM	328.5
2009	Renault	France	Automotive OEM	312.7
2009	Grace Biotech	Taiwan, Province of China	Plastics	266.4
2009	E.On	Germany	Alternative/ renewable energy	225.0
2009	Ryanair	Ireland	Aerospace	195.6
2008	Peel	United Kingdom	Real estate	977.5
2008	Dubai Holding	United Arab Emirates	Hotels and tourism	862.8
2008	FPL Group	United States	Alternative/ renewable energy	857.6
2008	Hutchison Whampoa	Hong Kong, (China)	Transportation	761.3
2008	Hutchison Whampoa	Hong Kong, (China)	Warehousing and storage	716.8
2008	Hanjin Group	Korea, (Rep. of)	Transportation	501.6
2008	Enel	Italy	Coal, oil and natural gas	475.6
2008	Sonatrach	Algeria	Coal, oil and natural gas	401.6
2008	Kronospan Holding	United Kingdom	Wood products	382.0
2008	BP	United Kingdom	Coal, oil and natural gas	347.3
2007	Hutchison Whampoa	Hong Kong, (China)	Warehousing and storage	855.0
2007	Hines	United States	Real estate	672.3
2007	Carrefour	France	Food and tobacco	595.0
2007	Ford	United States	Automotive OEM	578.0
2007	Carrefour	France	Food and tobacco	486.6
2007	Arcelor Mittal	Luxembourg	Metals	423.7
2007	Energias de Portugal (EDP)	Portugal	Coal, oil and natural gas	400.0
2007	Volvo	Sweden	Automotive OEM	372.0
2007	Energias de Portugal (EDP)	Portugal	Alternative/ renewable energy	316.6
2007	Pirelli	Italy	Rubber	244.7

Source: The authors, based on Bureau Van Dijk (2011), Amadeus Database, available at: http://bvdinfo.com/Products/Company-Information/International/AMADEUS.aspx

Chapter 19 - Switzerland

Switzerland: Inward FDI and its policy context, 2010

Philippe Gugler and Xavier Tinguely[*]

Switzerland has constantly sought to build an open economy in which foreign actors have been a crucial element of the economic growth process. The quality of the business environment, the central geographic location in Europe and the stability of the political, legal and social system have traditionally attracted a relatively high-level of IFDI to the country. However, this success should not be taken for granted. The current economic crisis and the globalization of the world economy are challenging the attractiveness of Switzerland as a FDI location. In a context of fierce competition among countries to attract FDI, Switzerland has constantly to improve the quality of its business environment in order to remain a competitive location for foreign investors.

Trends and developments

Country-level developments

Despite the current global financial and economic crisis, Switzerland remains an attractive location for foreign investors. The FDI stock in Switzerland constantly rose over the past years, to reach US$ 439 billion in 2008 (annex table 1); between 2007 and 2008 alone, it rose by 30%.[1] The decline in 2005 stands out as a special case. The "American Jobs Creation Act" passed in October 2004 by the US Government temporary allowed US companies to repatriate their reinvested earnings at a tax-privileged rate.[2] Nevertheless, Switzerland hosts a relatively high level of IFDI:[3] among selected comparable economies (annex table 1), Switzerland recorded the second largest stock of IFDI in 2008, behind the Netherlands. Moreover, the ratio of the country's IFDI stock as a percentage of GDP rose to 76%, while it amounted to 34% in Austria, 53% in Sweden, 64% in Ireland, and 74% in the Netherlands.[4]

While the IFDI stock in Switzerland grew steadily during the period 2000-2008, IFDI flows evolved more irregularly (annex table 2). The past years under review bore out this erratic trend. Whereas new acquisitions and increased reinvested earnings boosted IFDI flows to US$ 49.2 billion in 2007 (the highest flow ever recorded),[5] this unusually high figure did not last more than one year as FDI inflows

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[1] It is necessary to keep in mind that, although FDI flows influence FDI stocks, a change in FDI flows does not necessarily provide any direct indication about FDI stocks, and vice versa. Changes in FDI stocks can be due to various factors that do not result in FDI flows. For instance, changes in FDI stocks may also be due to exchange rate movements, the raising of investment capital in third or domestic markets, new valuation principles (e.g. adjustment to international accounting standards), etc. For more information, see Swiss National Bank, *Direct Investment 2008* (Bern and Zurich: SNB, 2009), p. 18.

[2] Swiss National Bank, *Development of Direct Investment in 2005* (Bern and Zurich: SNB, 2006).

[3] UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (Geneva: UNCTAD, 2009).

[4] UNCTAD, *World Investment Report 2009*, op. cit.

[5] Swiss National Bank, *Direct Investment 2007* (Bern and Zurich : SNB, 2008).

sharply declined to US$ 5.1 billion in 2008.[1] Provisional data for 2009 seem to confirm a relatively low level of FDI flows.[2]

FDI in Switzerland is concentrated in the services sector, accounting for 84% of the total IFDI stock in 2008 (annex table 3). This share remained relatively stable between 2000 and 2008. Within services, finance and holding companies were responsible for nearly 70% of the total foreign investment in services. Manufacturing traditionally attracts less FDI (16%). More than half of the foreign FDI in manufacturing (55%) was in chemicals and plastics, reflecting the attractiveness of the chemical and biopharmaceutical industry in Switzerland, mainly clustered in the Basle area.[3]

Developed economies contributed to more than 90% of the IFDI stock in Switzerland in 2008 (annex table 4). Among developed economies, inflows from the EU amounted to US$ 309 billion (70% of the total inward stock). Of this, nearly two-third came from the Netherlands (US$ 88 billion), Austria (US$ 57 billion) and Luxembourg (US$ 55 billion), three well-known holding company locations.[4] By owning a FDI stock of more than US$ 80 billion in Switzerland, the United States is one of the country's most important foreign investors. Developing economies accounted for 10% of the IFDI stock (US$ 42 billion), of which 93% originated from offshore financial centers in Central and South America (US$ 39 billion).

The sectoral and regional breakdown of the Swiss IFDI stock reflects the motivation of foreign companies to invest in Switzerland. On the one hand, the attractive corporate tax system attracts a high level of investment by holding companies. On the other hand, the quality of the business environment[5] makes Switzerland the appropriate location for high value-added functions and explains the large number of strategic-asset seeking investments in knowledge-intensive sectors by companies mainly from developed countries.[6]

In line with IFDI growth, foreign companies in Switzerland steadily increased their employment, from around 130,000 in 2000 to 395,000 in 2008.[7] This corresponded to around 10% of the total workforce in Switzerland (estimated at 4 million at the end of 2008).[8] In 2008, the number of staff employed by foreign investors in Switzerland rose by 16,000 individuals. The breakdown by investing country is relatively similar to the IFDI distribution: some 80% of the workforce of foreign investors was employed by European firms, 15% by North American companies and 5% by developing country ones.[9] Looking at the sectoral level, 38% was active in manufacturing and 62% in services. It is worth noting

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[1] Swiss National Bank, *Swiss Balance of Payment (Quarterly Estimates) 4th Quarter 2009* (Bern and Zurich: SNB, 2009).
[2] The fall in investments will be analyzed in the section devoted to the effects of the current global crisis.
[3] P. Gugler and M. Keller, "The economic performance of Swiss regions," Center for Competitiveness, University of Fribourg, Switzerland (2009), available at: http://www.isc.hbs.edu/econ-natlcomp_resources.htm.
[4] The breakdown by ultimate beneficial owner gives a different picture as the share of these three countries in the total investment by EU countries dropped to only one-third. For more information about ultimate investors, see Swiss National Bank, *Direct Investment 2008*, op. cit., pp. 14-16.
[5] In particular the availability of skilled and multilingual labor, access to leading research and academic institutions, a stable macroeconomic, political, legal and social context, and high-quality infrastructure.
[6] For further information about the sectoral and regional breakdown of the IFDI stock in Switzerland, see The Swiss-American Chamber of Commerce and The Boston Consulting Group, *Multinational Companies on the Move: How Switzerland Will Win the Battle* (Zurich, 2007), and to R. J. Allen and P. R. Altenburger, *Switzerland: More than just Taxes*, Swiss-American Chamber of Commerce Yearbook 2009/2010 (Zurich: 2010).
[7] Swiss National Bank, *Development of Direct Investment in 2002* (Bern and Zurich: SNB, 2003), and Swiss National Bank, *Direct Investment 2008*, op. cit.
[8] Swiss National Bank, *Direct Investment 2008*, op. cit.
[9] Ibid.

that, whereas finance and holding companies generated 58% of the total foreign investment in Switzerland, they accounted for only 4% of the total work force employed by foreign companies. This suggests that some holding companies are set up in Switzerland to avoid double taxation of income earned by foreign affiliates.[1]

The corporate players

For decades, MNEs from across the globe have chosen Switzerland as a location for their foreign operations.[2] In 2007, Switzerland recorded the second highest concentration of *Fortune 500* companies per million inhabitants (1.6), behind Luxembourg.[3] Furthermore, the *World Investment Report 2009* identified 6,852 foreign affiliates located in Switzerland in 2008.[4] By generating around 10% of the total Swiss GDP, foreign MNEs play a pivotal role in the domestic economy.[5] Annex table 5 lists a sample of the main foreign affiliates established in Switzerland, ranked by number of employees in Switzerland. In order to illustrate the strong presence of foreign companies in Switzerland, a look at the structure of the banking industry is interesting. At the end of 2008, Switzerland hosted 154 foreign banks, representing 48% of all banks, 17% of gross profit of all banks, 15% of domestic employees of all banks, and 20% of taxes paid by all banks, and approximately 2% of the Swiss GDP.[6]

Foreign MNEs continued to strengthen their position in Switzerland by undertaking new investment. On the one hand, between 2000 and mid-2009, foreign MNEs concluded 946 M&As in Switzerland, worth more than US$ 100 billion.[7] Annex table 6 lists the ten largest M&As by foreign investors in Switzerland between 2007 and 2009. By acquiring 98% of the shares of the Swiss biotechnological firm Serono for some US$ 9 billion, the German pharmaceutical company Merck undertook the largest foreign investment in a Swiss company. It is interesting to note that M&As by foreign companies were principally oriented toward high-value added firms, highlighting thus the strategic asset-seeking nature of foreign investors. But foreign MNEs were also very active through greenfield investment. During the period 2004-March 2009, 611 greenfield FDI projects were established by foreign investors.[8] Annex table 7 shows the ten biggest greenfield transactions between 2007 and 2009: five projects were in the hospitality and tourism industry, two in the pharmaceutical industry, two in IT services and one in the food and tobacco industry.[9]

Effects of the current global crisis

As illustrated in the previous sections, despite the global financial and economic crisis, the IFDI stock in Switzerland continued to grow between 2007 and 2008. Furthermore, this trend was corroborated in

[1] Although these firms are often depicted as "letter-box" companies, they undertake key activities that allow parent firms to maximize the effectiveness of their global business.
[2] Allen and Altenburger, op. cit.
[3] Swiss-American Chamber of Commerce and The Boston Consulting Group, op. cit.
[4] UNCTAD, *World Investment Report 2009*, op. cit.
[5] M. Naville and P. Tischhauser, "Comment la Suisse peut gagner la course difficile aux faveurs des multinationales," *La Vie Economique*, (3) (2008), pp. 32-34.
[6] Association of Foreign Banks in Switzerland, *Foreign Banks in Switzerland and their Association: Who are they?* (Zurich, 2009).
[7] UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi, and UNCTAD, *World Investment Report 2009*, op. cit.
[8] UNCTAD, *World Investment Report 2009,* op. cit.
[9] Although it can be surprising that five of the ten biggest greenfield transactions in Switzerland between 2007 and 2009 were in the hospitality and tourism industry (instead of in traditional attractive and competitive Swiss sectors such as pharmaceuticals or financial services), the inherent characteristics of greenfield investment (i.e. investment to construct a project in basic components) make investments in hospitality and tourism a common phenomenon.

2009 as IFDI stock rose by US$ 25 billion, to US$ 464 billion. Whereas IFDI flows reached a new record peak of US$ 49 billion in 2007, they sharply decreased by US$ 44 billion to US$ 5 billion in 2008.[1] This impressive fall, more accentuated than the global trend and the slowdown of the economic activity, resulted from a strong decline in reinvested earnings, a drop in acquisitions and significant disinvestments. Investors from the EU withdrew more than US$ 4 billion from Switzerland in 2008, while they invested US$ 48 billion the previous year.[2] Looking at the sectoral level, FDI inflows in manufacturing and services dropped between 2007 and 2008 by 99%, to US$ 0.1 billion (compared to US$ 23 billion in 2007), and by 80% to US$ 5 billion (compared to US$ 28 billion).[3] Within manufacturing, chemicals and plastics recorded the largest decrease, shrinking from an investment of US$ 14 billion in 2007 to a disinvestment of US$ 0.4 billion in 2008. With regard to services, although finance and holding companies remained the largest foreign investors in the country, they recorded the highest decline, reducing their investment from US$ 15 billion in 2007 to US$ 6 billion in 2008.[4]

Provisional data for 2009 also indicate low inflows. Although inward flows of US$ 6.3 billion recorded in the first quarter hinted at a probable recovery (they exceeded total inflows of the previous year by US$ 1.2 billion), IFDI flows dropped again during the second, third and fourth quarters, to, respectively, US$ 1.9 billion, US$ 2.2 billion and an outflow of US$ 0.7 billion.[5] Provisional data for 2009 show therefore total FDI inflows of US$ 9.7 billion. Although this figure was almost twice that of 2008 (US$ 5.1 billion), it remained 33% lower than the average of the nine previous years (US$ 14.5 billion).

The financial and economic crisis also triggered the emergence of SWFs as new investors in Switzerland.[6] Between 2007 and 2009, Asian and Middle East SWFs invested in six Swiss companies.[7] Three transactions were effectively classified as FDI: (i) Abar Investment (UAE) acquired 100% of AIG Private Bank, (ii) Mubadala Development Company (UAE) obtained 40% of the Swiss engineering firm SR Technics and (iii) Kuwait Investment Authority acquired 24% of the Swiss hotel group Victoria-Jungfrau Collection.[8] Furthermore, due to liquidity needs resulting from the financial crisis, SWFs also invested in the two largest Swiss banks, Credit Suisse and UBS. Qatar Investment Authority acquired 9.9% of Credit Suisse and the Government of Singapore Investment Corporation (GIC) injected almost US$ 10 billion in UBS.[9] Although SWFs flows into Switzerland triggered a debate about the need for legislative change and the possible strategic nature of these investments, the Government seems to have reached the conclusion that there is no justification to discriminate against SWFs and that protectionism could generate unnecessary negative trade-offs.[10]

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[1] It is important to keep in mind that the unusual high 2007 figure accentuated the extent of the fall.
[2] Swiss National Bank, *Direct Investment 2008*, op. cit.
[3] Swiss National Bank, *Direct Investment 2008*, op. cit.
[4] This fall was mainly due to lower profits retained.
[5] Swiss National Bank, *Swiss Balance of Payment (Quarterly Estimates) 4th quarter 2009*, op. cit.
[6] Although SWFs were traditionally more active in portfolio investment, they recently sharply increased their involvement in FDI and cross-border M&As by acquiring 10% or more of equity, with voting power, in enterprises abroad. Even though the amounts invested in FDI by SWFs remain relatively low proportionally to the size of these funds (estimated to be about US$ 4 trillion), they dramatically increased since 2005. In fact, cumulative FDI by SWFs over the past two decades reached US$ 65 billion in 2008, of which US$57 billion were invested in the past four years. For more information on SWFs, see UNCTAD, *World Investment Report 2008: Transnational Corporations and the Infrastructure Challenge* (Geneva: UNCTAD, 2008), UNCTAD, *World Investment Report 2009*, op. cit.; P. Gugler and M. Keller, "The Role of SWFs in shaping the neopolar world: the Asia-Europe perspective," in Lars Oxelheim, Eds.(2012) *The Re-Polarization of the Global Economic Area*, (Singaore: World Scientific Publishing Co. Pte. Ltd.).
[7] Information obtained from an internal database on SWFs, established by the Center for Competitiveness, University of Fribourg, Switzerland.
[8] Ibid.
[9] The third portfolio investment by SWFs in a Swiss company was in Glencore, a Swiss commodity trader firm.
[10] KPMG, *Sovereign Wealth Funds: The New Global Investors* (Zurich: KPMG, 2008).

The policy scene

Despite the competitiveness of the Swiss economy, the country has to tackle several challenges to maintain its leading position and strengthen the attractiveness of its business environment *vis-à-vis* a growing number of new players that are aggressively seeking to attract FDI, including with special tax schemes and better infrastructure. For example, whereas Switzerland used to be a major location for investment funds, a lack of flexibility in the regulatory framework and the tax regime has allowed Luxembourg and Ireland to outperform Switzerland in this area of business.[1] The financial industry is particularly illustrative of the fierce competition among countries to attract FDI, and the necessity to constantly reassess a country's institutional, regulatory and tax framework.

In order to safeguard the interests of the Swiss economy abroad and to improve Switzerland's attractiveness as a business location, the Swiss Government seeks to set up a strong network of FTAs and BITs.[2] In 2009, Switzerland signed 14 double taxation agreements (DTTs).[3] After having been placed by the OECD and the G-20 states on a "grey list" of "uncooperative tax havens" in April 2009, the Federal Council decided to extend administrative assistance in tax matters and to adopt Art.26 of the OECD Model Convention.[4] The signature of these DTTs is likely to facilitate the activities of the export sector, promote investment in Switzerland and contribute to prosperity of the country.[5]

Nevertheless, other reforms of the domestic economy are necessary to respond to the challenge of globalization. The *Global Competitiveness Report* (GCR) offers an overview of the main strengths and weaknesses of the Swiss business environment compared with those of 132 other countries.[6] Although Switzerland topped the overall ranking in 2009-2010, it performed relatively badly in certain categories that are important to foreign investors. For example, Switzerland ranked only 27th in the intensity of local competition, 30th in business impact of rules on FDI, 60th in time required to start a business, 93rd in the prevalence of trade barriers or 122th in strength of investor protection.[7] The Swiss Government wants to overcome these shortcomings. For instance, in the past years, the competencies of the competition authorities were reinforced, and the Swiss authorities started a liberalization process of traditionally protected sectors such as agriculture in which a FTA with the EU is under negotiation. Recognizing the crucial importance of foreign investors in Switzerland's international economy, the Swiss government also set up a special institution to promote Switzerland as a business location.[8] Moreover, in the framework of the OECD Code of Capital Movements, Switzerland is committed

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[1] For more details about the Swiss financial industry, see the website of the Swiss Bankers Association, available at: http://www.swissbanking.org.
[2] For more information about the Swiss network of international agreements and treaties, see the website of the State Secretariat of Economic Affairs SECO available at: http://www.seco.admin.ch, and Philippe Gugler and Xavier Tinguely, "Swiss outward FDI and its policy context," *Columbia FDI Profiles*, April 29, 2010.
[3] Between March 2009 and May 2010, Switzerland signed DTTs (with OECD Art. 26) with Austria, Denmark, the Färöer Islands, Finland, France, Luxembourg, Mexico, the Netherlands, Norway, Poland, Qatar, Spain, the United Kingdom, and the United States.
[4] Federal Department of Finance, *International Double Taxation* (Bern: FDF, 2010). Detailed information is available at: http://www.efd.admin.ch.
[5] For more information see OECD, Centre for Tax Policy and Administration, available at: http://www.oecd.org.
[6] World Economic Forum, *Global Competitiveness Report 2009-2010* (Geneva: WEF, 2009).
[7] The apparent lack of investor protection has to be seen in perspective, as Swiss law provides a high level of investor protection. Switzerland's low ranking is likely to be explained by the fact that the country lies outside the applicable scope of the markets in financial instruments directive (MiFID). For more information, see M. Hess and H.-L. Chou, *MiFID: Challenge for Swiss Investment Firms as well?* (Zurich: Wenger & Vieli, 2007).
[8] For more information, see OSEC Business Network Switzerland available at: www.osec.ch.

progressively to abolish restrictions on the movement of capital.[1] It is worth noting that, although reservations apply to certain sectors subject to special conditions (such as real estate or financial operations), Swiss investment laws do not establish a general screening mechanism for foreign investment in Switzerland.[2]

Conclusions and Outlook

Even if the global financial and economic crisis affected FDI inflows in 2008 and 2009, Switzerland continued to attract a relatively high level of FDI. However, even though the country ranks among the world's most competitive economies, this success is not set in stone. International competition has become stronger, and many countries are becoming more attractive and more active in approaching foreign investors. As foreign companies play a crucial role in the dynamism of the Swiss economy, the constant improvement of the business environment is an essential prerequisite to maintain Switzerland's attractiveness, competitiveness and prosperity in the future.

Additional readings

Gugler, Philippe and Lamia Ben Hamida, "Are there demonstration-related spillovers from FDI? Evidence from Switzerland," *International Business Review,* 18 (5) (2009), pp. 494-508.

Naville, Martin and Pia Tischhauser, "Comment la Suisse peut gagner la course difficile aux faveurs des multinationals," *La Vie Economique,* 3 (2008), pp. 32-34.

Swiss-American Chamber of Commerce and Boston Consulting Group, *Foreign Companies in Switzerland: The Forgotten Sector* (Zurich, 2006).

Swiss-American Chamber of Commerce and Boston Consulting Group, *Multinational Companies on the Move: How Switzerland Will Win the Battle!* (Zurich, 2007).

Swiss-American Chamber of Commerce and Boston Consulting Group, *Creative Switzerland? Fostering an Innovation Powerhouse!* (Zurich, 2008).

Useful websites

For FDI policy: Swiss Government, Federal Department of Economic Affairs, available at: www.evd.admin.ch.

For FDI statistics: Swiss National Bank, available at: www.snb.ch.

[1] OECD, *Code of Liberalisation of Capital Movements* (Paris: OECD, 2009).
[2] For more information, see ibid.

Statistical annex[1]

Annex table 1. Switzerland: inward FDI stock, 2000 – 2009 (US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Switzerland	86.8	89.3	125.1	161.8	195.9	169.0	218.0	337.5	439.1	463.8[a]
Memorandum: comparator economies[b]										
Austria	31.2	35.0	44.9	57.6	70.7	82.6	111.1	163.4	139.3	-
Ireland	127.1	134.1	182.9	222.8	207.6	163.5	156.5	193.5	173.4	-
Netherlands	243.7	282.9	350.0	426.6	477.2	451.2	513.3	724.1	644.6	-
Sweden	94.0	91.9	119.4	158.9	196.2	171.8	227.3	290.0	253.5	-

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi and authors' calculations, based on SNB, *Development of direct investment 2001, 2002, 2003, 2004, 2005, 2006* (Zurich and Bern: SNB 2002-2007); *Direct Investment 2007, 2008* (Zurich and Bern: SNB 2008 - 2009).

[a] Provisional data from SNB, *Monthly Statistical Bulletin March 2010* (Zurich and Bern: SNB, 2010).
[b] Comparator economies have been chosen because of the comparable size of their population, GDP per capita and/or institutional framework.

[1] As Swiss FDI data are published in Swiss Franc (CHF), they were converted in US$ using the official CHF/US$ conversion key provided by the Swiss National Bank and used by UNCTAD to harmonize data in US$. In the statistics on direct investment, the Principality of Liechtenstein is included in the Swiss domestic data.

Annex table 2. Switzerland: inward FDI flows, 2000-2009[a] (US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Switzerland	19.3	8.9	5.6	16.6	0.7	-1.3	26.3	49.2	5.1	9.7[b]
Memorandum: comparator economies[c]										
Austria	8.8	5.9	0.4	7.1	3.9	10.8	7.9	29.6	13.6	-
Ireland	25.8	9.7	29.3	22.8	-10.6	-31.7	-5.5	24.7	-20.0	-
Netherlands	63.9	51.9	25.0	21.0	4.6	47.8	7.5	118.4	-3.5	-
Sweden	23.4	10.9	12.3	5.0	11.0	10.0	27.2	22.1	43.7	-

Source: UNCTAD's FDI/TNC database, available at http://stats.unctad.org/fdi and authors calculations, based on SNB (2002-2007), "*Development of direct investment 2001, 2002, 2003, 2004, 2005, 2006*", Zurich/Bern and SNB (2008-2009), "*Direct Investment 2007, 2008*", Zurich/Bern.

[a] A minus sign (-) indicates an outflow of capital (disinvestment).
[b] Provisional data from SNB, *Swiss Balance of Payments (Quarterly Estimates) 4th Quarter 2009* (Bern and Zurich: SNB, 2010).
[c] Comparator economies have been chosen because of the comparable size of their population, GDP per capita and/or institutional framework.

Annex table 3. Switzerland: distribution of inward FDI stock, by economic sector and industry, 2000, 2008[a] (US$ billion)

Sector / industry	2000	2001	2002	2003	2004	2005	2006	2007	2008
Manufacturing	15.4	14.9	17.9	26.6	35.3	30.3	39.1	55.9	67.9
Chemicals and plastics	4.6	5.9	6.4	9.4	16.2	12.6	18.8	27.3	37.1
Metals and machinery	2.1	2.0	2.6	3.8	4.8	4.5	5.6	8.3	9.1
Electronics, energy, optical and watchmaking	5.7	4.3	5.9	7.9	8.8	8.4	10.2	14.8	13.8
Other manufacturing and construction	3.0	2.7	3.0	5.5	5.5	4.8	4.5	5.5	7.9
Services	71.4	74.4	107.2	135.2	160.6	138.7	178.9	281.6	371.2
Trade	12.2	11.5	14.0	16.6	25.0	24.2	28.7	38.2	39.3
Finance and holding companies[b]	38.7	37.8	67.1	85.5	95.9	77.4	98.8	179.8	253.8
Banks	13.0	13.8	17.4	21.1	24.1	22.0	26.3	31.8	36.1
Insurance companies	3.4	2.9	2.8	3.3	4.9	4.6	13.7	16.4	19.6
Transportation and communications	2.3	3.7	3.3	5.2	5.1	5.2	5.9	8.5	12.0
Other services	1.8	4.7	2.6	3.5	5.6	5.3	5.5	6.9	10.4
Total	86.8	89.3	125.1	161.8	195.9	169.0	218.0	337.5	439.1

Source: Authors' calculations, based on SNB (2002-2007), *Development of Direct Investment 2001, 2002, 2003, 2004, 2005, 2006* (Zurich and Bern: SNB 2008-2009), *Direct Investment 2007, 2008* (Zurich and Bern: SNB 2008-2009),

[a] Capital stock at year-end (book value); The breakdown by sector and economic activity refers to a company's core business in Switzerland. Until 2003, classification according to the General Classification of Economic Activities, ASWZ 1985 (*Allgemeine Systematik der Wirtschaftszweige*); from 2004 onwards, classification according to the General Classification of Economic Activities, NOGA 2002 (*Nomenclature générale des activités économiques*); Expansion of the reporting population in 2004.
[b] Expansion of the reporting population in 2006.

Annex table 4. Switzerland: geographical distribution of inward FDI stock, 2000, 2008[a] (US$ billion)

Economy / region	2000	2008
World	86.8	439.1
Developed economies	85.5	397.0
Europe	51.7	312.7
European Union [b]	51.6	309.6
Austria	0.4	57.5
Denmark	1.2	10.8
France [c]	8.3	32.5
Germany	12.4	35.8
Luxemburg	3.0	54.9
Netherlands	17.4	88.0
United Kingdom	3.1	9.1
Other European economies [d]	0.1	3.1
North America	31.9	82.8
Canada	1.4	1.5
United States	30.5	81.3
Other developed economies	1.9	1.5
Developing economies	1.3	42.1
Asia, Africa and Oceania	0.4	2.0
Central and South America	0.9	40.1
of which		
Offshore financial centers [e]	-	38.8

Source: Authors' calculations, based on SNB, *Development of Direct Investment 2001* (Zurich and Bern: SNB, 2002); *Direct Investment 2008* (Zurich and Bern: SNB, 2009).

[a] Capital stock at year-end (book value); Expansion of the reporting population in 2004; The definition of countries is based on the Eurostat geonomenclature.
[b] As of 2004, EU25; as of 2007, EU27.
[c] As of 2000, incl. Monaco, Réunion, French Guiana, Guadeloupe, and Martinique.
[d] As of 2000, incl. Guernsey, Jersey and the Isle of Man, excl. Monaco; until 2003, incl. Baltic countries, Malta, Poland, Slovakia, Slovenia, Czech Republic, Hungary, and Cyprus; until 2006, incl. Bulgaria and Romania.
[e] Virgin Island (US), Anguilla, Antigua and Barbuda, Bahamas, Barbados, Belize, Bermuda, Virgin Island (British), Dominica, Grenada, Jamaica, Cayman Islands, Montserrat, Netherlands Antilles, Panama, St Kitts and Nevis, Santa Lucia, St-Vincent and the Grenadines, Turks and Caicos Islands.

Annex table 5. Switzerland: some main foreign affiliates, ranked by number of employees in Switzerland, 2008-2009 (US$ millions)

Rank	Name	Economy	Industry	Number of employees
1	IBM	United States	Software and services	3,320
2	Johnson & Johnson	United States	Drugs and biotechnology	3,150
3	Procter & Gamble	United States	Household and personal products	2,700
4	HSBC Private Bank (Suisse) SA	United Kingdom	Banking	2,669
5	Hewlett-Packard	United States	Technology hardware and equipment	2,000
6	BSI SA	Italy	Banking	1,827
7	BNP Paribas (Suisse) SA	France	Banking	1,756
8	Sarasin & Cie AG	Netherlands	Banking	1,537

Source: Association of Foreign Banks in Switzerland, *Economic Figures 2008* (Zurich: AFBS, 2009); Bilan, *Les 20 Patrons Qui Font la Suisse* (Genève: Bilan, October, 18 - 21 2010).

Annex table 6. Switzerland: the ten largest M & A deals, by inward investing firm, 2007-2009 (US$ billion)

Year	Acquiring company	Target company	Target industry	Source economy (IFDI)	Shares acquired (%)	Estimated/ announced transaction value
2009	Mirror Lake Oil & Gas Co Ltd	Addax Petroleum Corp	Oil and gas operations	Canada	100	7.2
2009	BASF SE	Ciba Specialty Chemicals	Chemicals and biopharmaceuticals	Germany	96	2.6
2009	Berkshire Hathaway Inc	Swiss Reinsurance Co Ltd	Insurance	United States	23	2.6
2008	General Dynamics Corp	Jet Aviation International SA	Aviation services	United States	100	2.2
2008	BlackRock Inc	UBS AG - Mortgage Assets	Diversified financial	United States	100	1.5
2007	Merck KGaA	Serono International SA	Chemicals and biopharmaceuticals	Germany	98	8.6
2007	SCOR	Converium Holdong AG	Insurance	France	96	2.7
2007	Medi-Clinic Luxemburg Sarl	Klinik Hirslanden AG	Healthcare	Luxemburg	100	2.4
2007	Rank Group Ltd	SIG Holding	Packaging and filling machines	New Zealand	100	2.3
2007	Allianz Capital Partners GmbH	Selecta Group	Vending services	Germany	100	1.5

Source: UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (Geneva: UNCTAD, 2009); Thomson ONE Banker. Thomson Reuters.

Annex table 7. Switzerland: the ten largest greenfield projects, by inward investing firm, 2007-2009 (US$ million)

Year	Investing company	Target industry	Business activity	Source economy (IFDI)	Estimated/ announced transaction value
2009	Rezidor Hotel Group	Hotels and tourism	Construction	Belgium	92
2009	Starwood Hotels & Resorts	Hotels and tourism	Construction	United States	92
2008	Aldi Group	Food and tobacco	Headquarters	Germany	95
2008	Carlson Companies	Hotels and tourism	Construction	United States	92
2008	Orascom Group	Hotels and tourism	Construction	Egypt	92
2008	Accor	Hotels and tourism	Construction	France	92
2008	Merck & Co	Pharmaceuticals	Manufacturing	United States	80
2007	Cambridge Solutions	Software and IT services	ICT and internet infrastructure	United States	91
2007	Yahoo	Software and IT services	ICT and internet infrastructure	United States	91
2007	Baxter	Pharmaceuticals	Manufacturing	United States	80

Source: fDi Intelligence, a service from the *Financial Times Ltd.*

Switzerland: Outward FDI and its policy context, 2010

Philippe Gugler and Xavier Tinguely[*]

Switzerland's OFDI has traditionally been relatively high. The small size of the country, a natural resources shortage and the geographical location at the heart of Europe induced Swiss firms constantly to expand their activities abroad. This exposure to global markets is reflected in its OFDI. Although the global financial and economic crisis pushed the country into a recession and triggered a sharp decrease of OFDI flows, the Swiss OFDI stock continued to grow in 2008 and 2009. Thanks to a well-balanced economic structure based on innovation and knowledge and coherent government policies, Switzerland weathered, at least in the short-term, the effects of the crisis and set the path for a sustainable growth of OFDI.

Trends and developments

Country-level developments

Despite the global financial and economic crisis, Swiss OFDI remained at a high level in 2008.[1] As illustrated by annex table 1, the stock of Swiss OFDI has continuously grown since 2000, to reach US$ 760 billion in 2008. This represented a 15% increase from the 2007 stock. Among comparable economies (selected in annex table 1), Switzerland recorded the second highest OFDI stock in 2008, behind the Netherlands. Furthermore, the ratio of its OFDI stock to GDP rose to 148% whereas it amounted to 37% for Austria, 59% for Ireland, 67% for Sweden, and 97% for the Netherlands.[2]

While the OFDI stock recorded a steady growth during 2000-2008, OFDI flows evolved more irregularly (annex table 2).[3] Although comparable economies have higher fluctuations (annex table 2), three distinctive phases characterize Switzerland's. First, FDI outflows sharply decreased from US$ 45 billion in 2000 to only US$ 8 billion in 2002 (the lowest level since 1993). This spectacular decline, in line with the global trend, was mainly attributable to a large drop of the number of M&As after the record year 2000 and a decrease in reinvested earnings reflecting the losses of banks, insurance and holding companies in the United States and the United Kingdom.[4] In a second phase, OFDI flows gradually soared to US$ 70 billion in 2006, a new peak. This recovery was principally due to a substantial increase in reinvested earnings and a rapid growth of acquisitions, favored by a flourishing

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[1] Swiss National Bank, *Direct Investment 2008* (Bern and Zurich: SNB, 2009).

[2] UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (Geneva: UNCTAD, 2009).

[3] It is necessary to keep in mind that, although FDI flows influence FDI stocks, a change in FDI flows does not necessarily provide any direct indication about FDI stocks, and vice versa. Changes in FDI stocks can be due to various factors not related to FDI flows. For instance, changes in FDI stocks may be due to exchange rate movements, new valuation principles (e.g. adjustment to international accounting standards) or the raising of capital in domestic or international markets. For more information, please refer to Swiss National Bank, *Direct Investment 2008*, op. cit., p. 18.

[4] Swiss National Bank, *Development of Direct Investment in 2001* (Bern and Zurich: SNB, 2002) and Swiss National Bank, *Development of Direct Investment in 2002* (Bern and Zurich: SNB, 2003).

international economy and a high level of liquid funds held by companies.[1] Finally, OFDI flows dropped again to US$ 57 billion in 2007 and US$ 51 billion in 2008. This new fall, parallel to the slowdown of the global economy, resulted from a combination of reduced expenditure on acquisitions abroad, a decline in reinvested earnings and a repatriation of foreign equity.[2] According to the quarterly estimates, this decline seems to be even more pronounced in 2009. After nine months, Swiss OFDI flows amounted to US$ 14 billion, constantly decreasing from US$ 6 billion in the first quarter to US$ 4 billion in the third quarter.[3]

At a more disaggregated level, annex table 3 shows that some 40% of the capital stock abroad emanated from the manufacturing industry in 2008 (US$ 305 billion). This share constantly rose after reaching its lowest level at 29% in 2001.[4] Within manufacturing, chemicals and plastics accounted for the largest amount (US$ 131 billion). Services however continued to hold the majority of OFDI stock, namely US$ 455 billion on a total of US$ 760 billion. Among services, financial activities (finance and holding companies, banks, insurance) contributed to nearly 90% of the services' stock abroad. The numbers in annex table 3 bear out the notion that Switzerland has a quite diversified base of FDI.

With regard to the geographical distribution of Swiss OFDI stock in 2008, 72% was still held in developed economies (annex table 4). This share however decreased by 8 percentage points since 2000. The EU held around 37% (US$ 284 billion), including 7% in Germany, 6% in the United Kingdom and 4% in France. The Swiss OFDI stock in North America rose from US$ 59 billion in 2000 to US$ 171 billion in 2008. It corresponded thus to 22% of the total stock abroad. Although the share of the Swiss OFDI stock in Canada rose from 5% in 2000 to 17% in 2008, the United States still gathered more of the Swiss OFDI stock in North America. Regarding developing economies, Africa accounted for 2%, Asia and Oceania for 6% and Latin America and the Caribbean for 19% of the Swiss OFDI stock, of which 74% stemmed from offshore financial centers. It is interesting to note that the share of the Swiss FDI stock in the BRIC countries rose from 2% to 6% between 2000 and 2008, in line with the global trend reflecting the higher share of BRICs in global FDI. The most impressive increase occurred in Brazil, where it jumped from US$ 3.5 billion in 2000 to US$ 31 billion in 2008. It is also worth observing that offshore financial centers, which serve almost exclusively as hubs for investments in other countries, hosted some 21% of the Swiss OFDI stock in 2008.

The sectoral and regional breakdown of the Swiss OFDI stock corroborates some of the major precepts of the theory of the MNE.[5] On the one hand, as the possession of some kinds of ownership-specific advantages *vis-à-vis* foreign competitors is necessary to engage in cross-border activities, Swiss OFDI stock is mainly distributed among sectors in which Swiss MNEs possess specific skills and knowledge, such as the financial sector or the chemical industry.[6] On the other hand, as Switzerland is a small innovation-driven country in which competitiveness and prosperity strongly depend on the use of the most sophisticated processes, Swiss OFDI stock is mainly dispersed within the most technologically advanced regions, namely Europe and North America. Swiss MNEs are therefore particularly prone to

[1] Swiss National Bank, *Development of Direct Investment in 2003* (Bern and Zurich: SNB, 2004) and Swiss National Bank, *Direct Investment 2006* (Bern and Zurich: SNB, 2007).
[2] Swiss National Bank, *Direct Investment 2007* (Bern and Zurich: SNB, 2008) and Swiss National Bank, *Direct Investment 2008*, op. cit.
[3] Swiss National Bank, *Swiss Balance of Payment Q3 2009* (Bern and Zurich: SNB, 2009).
[4] Ibid.
[5] For an exhaustive overview of the theory of the multinational enterprise, see John H. Dunning and Sarianna M. Lundan, *Multinational Enterprises and the Global Economy* (Cheltenham: Edward Elgar, 2008).
[6] In terms of the motivations for investment, market access in services is likely to be relatively more important, whereas pharmaceutical investments are driven by knowledge acquiring motives. Either way, OFDI by Swiss MNEs is mainly oriented toward advanced economies.

undertake strategic-asset seeking investment constantly to enhance their knowledge and technological assets.

As FDI data provided by the Swiss National Bank (SNB) allow for a relatively detailed analysis, it is possible to explore the evolution of the workforce employed by Swiss affiliates in foreign territories. In parallel to the observed OFDI growth, Swiss affiliates abroad increased their employment by 94,000 to 2.44 million in 2008, confirming thus the positive trend of the past six years.[1] Looking at the sectoral distribution, manufacturing accounted for 52% and services for 48% of employment abroad. Within manufacturing, the "chemicals and plastics", "metals and machinery" and "other manufacturing and construction" sectors employed 78% of the manufacturing labor abroad. Regarding services, 18% out of 48% were employed by Swiss-domiciled but foreign-controlled finance and holding companies. Whereas the share of staff employed by Swiss companies in Europe (around 50%) and in North America (around 16%) remained relatively stable between 2004 and 2008, Swiss-companies increased their share of employees in Asia from 16% in 2004 to 21% in 2008.

The corporate players

The *World Investment Report 2009* reported 2,616 parent corporations established in Switzerland in 2008.[2] Among these, 40 Swiss MNEs ranked among the Forbes 2000 list of the world's biggest companies.[3] By comparison, Ireland classed 9 companies, Austria 13, the Netherlands 22 and Sweden 22. Annex table 5 lists the twelve Swiss MNEs recording sales higher than US$ 20 billion worldwide in 2008. These flagship firms depict the strengths, international scope and structure of the Swiss economy. Moreover, Nestlé, Roche, Holcim, and Novartis also appeared on the list of the world's top 100 non-financial MNEs, and Zurich Financial Services, UBS, Credit Suisse, and Swiss Reinsurance Company on the list of the top 50 financial MNEs.[4]

Swiss MNEs continued to strengthen their international stake by undertaking new investment abroad. Between 2000 and mid-2009, Swiss MNEs concluded 1,327 cross-border M&As worth more than US$ 1,846 billion.[5] Annex table 6 lists the ten largest M&As undertaken by Swiss MNEs between 2007 and 2009. Six of the ten were conducted by enterprises mentioned in annex table 5. By acquiring the U.S. firm Genentech for US$ 46.7 billion in March 2009, the Swiss biopharmaceutical Roche concluded the largest M&A in terms of transaction value of the period.[6] It is worth noting that four M&As were carried out by chemical and biopharmaceutical companies and three by firms active in the resources seeking industry. Regarding geographical distribution, the United States were the most targeted economy, with five M&As. Swiss MNEs were also particularly active in greenfield investment. During the period 2004-2009, 1,670 greenfield FDI projects were conducted by Swiss MNEs. A record peak of 459 projects had

[1] Swiss National Bank, *Direct Investment 2008*, op. cit.
[2] UNCTAD, 2009, op. cit.
[3] "Forbes global 2000 lists of the world's biggest companies," *Forbes*, 2009.
[4] Both lists are published annually by the *World Investment Report* (Geneva: UNCTAD).
[5] UNCTAD, 2009, op. cit.; UNCTAD,FDI/TNC database, available at: http://stats.unctad.org/fdi.
[6] This impressive transaction contrasts with the provisional outflow figure for 2009 (annex table 2: US$ 14 billion). Because of confidentiality restriction, no comments on individual transactions are provided by the SNB. However, a general explanation can give an insight on why M&A figures do not always match FDI figures. Swiss FDI flows only include cross-border transactions (Switzerland-abroad). MNEs headquartered in Switzerland sometimes buy enterprises abroad via affiliates abroad. In other words, company "X" in Switzerland owns company "Y" in country "B", and this company "Y" buys company "Z" in country "C". In this case, the acquisition is included in the outward FDI figures of country "B" and not in the FDI outward figures of Switzerland. When it comes to Swiss FDI stocks and numbers of staff, a different methodology is applied. There, the SNB looks through intermediate companies and shows the ultimate owner abroad. In the previous example, the Swiss OFDI stock and the number of staff in country C will increase following the acquisition.

even been reached in 2008.[1] Annex table 7 lists the ten biggest greenfield transactions concluded by Swiss investors. Interestingly, eight projects were conducted in emerging markets.

Effects of the current global crisis

Despite the weight of the financial sector in economic activity and massive losses of large Swiss banks in the US subprime mortgage market, Switzerland has weathered the financial and economic crisis better than many other countries – at least in the short term.[2] The diversification of the Swiss economy, the specialization in innovative niches, a proactive monetary policy and a coherent government blueprint helped Switzerland to respond quickly to one of the worst economic downturns of the past decades.[3] As illustrated above, Swiss direct investment abroad confirmed this analysis by remaining at a relatively high level in 2007 and 2008. In 2009, the Swiss OFDI stock continued to grow.[4] In contrast, Swiss OFDI flows gradually decreased from nearly US$ 70 billion in 2006 to US$ 57 billion in 2007, US$ 51 billion in 2008 and US$ 14 billion in the first three quarters of 2009 (annex table 2). The first decline in 2007 was mainly attributable to a strong drop in cross-border M&As of Swiss manufacturing companies: capital outflows shrank by US$ 24 billion, to US$ 21 billion.[5] Furthermore, OFDI flows of banks fell by 42%, to US$ 10 billion.[6] This investment fall in the bank industry would have been even sharper if it had not been influenced by two reverse forces: on the one hand, losses contracted in the US real estate market generated negative (results in) reinvested earnings, while, on the other hand, banks injected new equity capital into their struggling foreign affiliates.[7] In other words, the downward pressure on OFDI flows generated by negative reinvested earnings was partially counterbalanced by the injection of fresh equity capital.[8]

Although new acquisitions led OFDI flows in manufacturing to rise to US$ 34 billion and additional fresh equity slightly enhanced OFDI flows by banks, direct investment flows abroad still diminished in 2008.[9] This trend seems to be confirmed in 2009 as OFDI flows amounted to only US$ 14 billion after the first three quarters.[10] The slowdown in Swiss OFDI flows has nevertheless to be considered in perspective. Indeed, Swiss direct investment flows abroad in 2007 and 2008 remained nearly 60% higher than the average of the preceding seven years. Second, the US$ 51 billion flow recorded in 2008 can be broken down into an outward flow of US$ 54 billion in equity capital, a withdrawal of US$ 24 billion in reinvested earnings and an outflow of US$ 21 billion in other capital.[11] Income from direct investment abroad plummeted from US$ 50.5 billion in 2007 to US$ 7.6 billion in 2008.[12] This collapse was mainly due to the massive losses realized by Swiss banks abroad. After recording losses reaching US$ 8 billion in 2007, banks suffered losses exceeding US$ 51 billion in 2008.[13] Finally, it seems that

[1] UNCTAD, 2009, op. cit.
[2] OECD, *Economic Survey of Switzerland 2009 – Getting out of the Crisis* (Paris: OECD 2010).
[3] Ibid.
[4] Swiss National Bank, *Monthly Statistical Bulletin February 2010* (Bern and Zurich: SNB, 2010).
[5] Swiss National Bank, *Direct Investment 2007*, op. cit.
[6] Ibid.
[7] Ibid.
[8] Swiss FDI flows can be broken down in equity capital, reinvested earnings and other capital.
[9] Swiss National Bank, *Direct Investment 2008*, op. cit.
[10] Swiss National Bank, *Swiss Balance of Payment Q3 2009*, op. cit.
[11] Swiss National Bank, *Direct Investment 2008*, op. cit.
[12] Ibid.
[13] Ibid.

this weak income performance might last. Although the Swiss economy slowly regained momentum in 2009, OFDI flows are likely to remain at the 2007-2008 level throughout the period 2009-2010.[1]

The policy scene

Despite the gloomy performance of the world economy and the resulting protectionist pressure, the overall global policy trend continues to foster greater openness and FDI.[2] As prosperity increasingly depends on greater international cooperation, Swiss policy makers constantly seek to build an optimal environment conducive to the growth of the Swiss economy and the international expansion of Swiss companies. As an economy characterized by a pronounced outward orientation, Switzerland's competitiveness depends to a large extent on international trade and cross-border investment activities.[3] The improvement of access to foreign markets represents therefore a core objective of Swiss foreign economic policy.

Beside the multilateral approach (within the WTO framework), Switzerland aims to strengthen its economy by setting up a strong network of BITs and FTAs. At the beginning of 2010, Switzerland had 124 agreements on the promotion and reciprocal protection of investment with economies such as Argentina, China, Hong Kong (China), India, Indonesia, Japan, Russia, Saudi-Arabia, South Africa, and Singapore. Furthermore, in addition to the EFTA Convention and the FTA with the EU, Switzerland has concluded 22 FTAs with 31 partners outside the EU. Between 2008 and 2009, two new FTAs came into force, one with Canada and one with the South African Custom Union.[4] FTAs have also been signed with Albania, Serbia, the Cooperation Council of the Arab States of the Gulf, Columbia, and Peru. They will come into force in the course of 2010. Negotiations are currently being undertaken or will start soon with Algeria, China, Hong Kong (China), India, Indonesia, Russia, Thailand, Ukraine, and Vietnam. The foreign policy conducted by the Swiss Government seems to pay off as FTAs generated significant benefits for Swiss direct investors. In fact, the accumulated capital flows from Switzerland to its 31 partners outside the EU (FTAs) totaled more than US$ 19 billion from 1988 to 2007. They represented some 5% of Switzerland's accumulated total capital exports. Moreover, while total Swiss OFDI increased on average by 13% in the years 1988-2007, the growth of OFDI in the partner countries was on average 18% in the first four years after the respective FTAs came into force.

Conclusions and Outlook

Although the world economic recession curbed the growth of Swiss OFDI, the operations of Swiss companies abroad remained extensive in 2008. Despite a slowdown of economic activity in 2009 and unsure forecasts for 2010, foreign investments of Swiss firms are expected to be relatively stable compared to their 2007-2008 level.[5] The foreign policy pursued by the Swiss authorities, the diversification of the Swiss economy and the strong integration of Swiss firms into the world economy will continue to limit the impact of the current economic downturn by stimulating entrepreneurship and favoring the development of new partnerships abroad.

[1] Swiss National Bank, *Quarterly Bulletin 4/2009* (Bern and Zurich: SNB, 2009).
[2] UNCTAD, 2009, op. cit.
[3] State Secretariat for Economic Affairs, *Free Trade Agreements* (FTAs), 2010, available at: http://www.seco.admin.ch/themen/00513/00515/01330/index.html?lang=en, also for the information in the following paragraph.
[4] South Africa, Botswana, Lesotho, Namibia and Swaziland.
[5] Swiss National Bank, *Monthly Statistical Bulletin February 2010*, op. cit.; Swiss National Bank, *Swiss Balance of Payment Q3 2009*, op. cit.

Additional readings

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Michel, Julie, *Investissements Directs à l'étranger dans les Activités de Recherche et Développement: Fondements Théoriques et Application aux Entreprises Suisses* (Bern: Peter Lang Publishing Group, 2009).

Useful websites

For FDI policy: Swiss Government, Federal Department of Economic Affairs, available at: www.evd.admin.ch.

For FDI statistics: Swiss National Bank, available at: www.snb.ch.

Statistical annex [1, 2]

Annex table 1. Switzerland: outward FDI stock, 2000-2009 (US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2008 [a]	2009 [b]
Switzerland	233	248	295	343	396	426	518	658	760	762	810
Memorandum: comparator economies											
Austria	25	29	43	56	70	72	106	156	153	-	-
Ireland	28	41	59	73	107	104	121	146	159	-	-
Netherlands	306	332	397	523	587	616	758	877	844	-	-
Sweden	123	123	147	186	215	209	266	327	319	-	-

Source: Authors calculations, based on UNCTAD, FDI/TNC database; Swiss National Bank, *Development of Direct Investment* (2001-2006); Swiss National Bank, *Direct Investment* (2008-2009).

[a] Data at the end of the third quarter.
[b] Provisional data at the end of the third quarter. Authors calculation based on Swiss National Bank, *Monthly Statistical Bulletin February 2010* (Bern and Zurich: SNB, 2010).

[1] As Swiss FDI data are published in Swiss Franc (CHF), they have been converted into US$ on the basis of the official CHF/US$ conversion key provided by the Swiss National Bank and used by UNCTAD to harmonize data in US$.
[2] In the statistics on direct investment, the Principality of Liechtenstein is included in the Swiss data.

Annex table 2. Switzerland: outward FDI flows, 2000-2009 (US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2008 [a]	2009 [b]
Switzerland	45	17	8	15	27	54	70	57	51	30	14
Memorandum: comparator economies											
Austria	6	3	6	7	8	11	14	33	28	-	-
Ireland	5	4	11	6	18	14	15	21	14	-	-
Netherlands	76	51	32	44	29	132	65	29	58	-	-
Sweden	41	7	11	21	21	27	24	38	37	-	-

Source: UNCTAD, *World Investment Report 2003: FDI Policies for Development. National and International Perspectives* (Geneva: UNCTAD, 2003); UNCTAD, *World Investment Report 2006: FDI from Developing and Transition Economies: Implications for Development* (Geneva: UNCTAD, 2006); UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (Geneva: UNCTAD, 2009).

[a] Data for the first three quarters of 2008.
[b] Provisional data for the first three quarters of 2009. Authors calculation based on Swiss National Bank, *Monthly Statistical Bulletin February 2010* (Bern and Zurich: SNB, 2010).

Annex table 3. Switzerland: sectoral distribution of outward FDI stock, 2000 – 2008 (US$ billion) [a]

Sector / industry	2000	2001	2002	2003	2004	2005	2006	2007	2008
Manufacturing	76.6	73.5	97.9	115.6	140.5	150.8	209.6	268.9	305.4
Textiles and clothing [b]	1.4	0.9	1.0	7.7	8.7	6.2	13.0	19.1	17.4
Chemicals and plastics	34.3	33.4	44.9	50.3	64.6	73.3	98.7	113.5	130.7
Metals and machinery	10.9	11.1	14.9	16.3	18.8	18.1	29.3	42.0	47.2
Electronics, energy, optical and watchmaking	9.7	6.7	11.1	10.1	10.9	10.8	16.6	30.0	33.8
Other manufacturing and construction	20.3	21.4	26.0	31.2	37.5	42.4	52.0	64.3	76.3
Services	156.8	174.3	197.5	227.0	255.9	275.4	308.5	389.0	454.7
Trade	7.2	7.3	8.9	8.7	12.2	17.4	18.0	24.2	25.8
Finance and holding companies	55.3	59.9	82.2	93.9	106.6	121.0	122.9	186.3	229.0
of which									
Swiss-controlled [c]	12.6	11.2	15.4	20.8	26.7	23.1	26.7	30.4	37.5
Foreign-controlled [d, e]	42.7	48.7	66.8	73.1	79.9	97.9	96.2	155.9	191.5
Banks	33.1	33.2	39.1	48.1	48.7	53.3	73.3	77.1	87.2
Insurance companies	52.5	62.3	57.8	65.5	76.5	72.9	79.3	75.0	91.1
Transportation and communications	2.2	4.3	3.0	3.1	2.8	2.7	4.7	10.7	11.1
Other services	6.5	7.3	6.5	7.7	9.1	8.1	10.3	15.7	10.5
Total	233.4	247.8	295.4	342.6	396.4	426.2	518.1	657.9	760.1
Total excluding foreign-controlled finance and holding companies	190.7	199.1	228.6	269.5	316.5	328.3	421.9	502.0	568.6

Source: Authors calculations, based on Swiss National Bank, *Development of Direct Investment* (2001-2006); Swiss National Bank, *Direct Investment* (2007-2008).

[a] Capital stock at year-end (book value). The breakdown by sector and by economic activity refers to a company's core business in Switzerland. Until 2003, classification according to the General Classification of Economic Activities, ASWZ 1985 (Allgemeine Systematik der Wirtschaftszweige); from 2004 onwards, classification according to the General Classification of Economic Activities, NOGA 2002 (Nomenclature générale des activités économiques). Expansion of the reporting population in 2004.
[b] Expansion of the reporting population in 2003.
[c] A company is considered to be Swiss-controlled if a majority share of its capital is in Swiss hands.
[d] A company is considered to be foreign-controlled if a majority share of its capital is in foreign hands.
[e] Expansion of the reporting population in 2006.

Annex table 4. Switzerland: geographical distribution of outward FDI stock, 2000, 2008

(US$ billion) [a]

Economy / region	2000	2008
World	233.4	760.1
Developed economies	185.9	553.6
Europe	121.5	352.1
European Union [b]	113.9	284.1
France [c]	11.2	33.1
Germany	14.0	52.7
Luxemburg	10.2	23.9
Netherlands	12.3	32.8
United Kingdom	35.9[5]	47.7
Other European countries [d]	7.7	68.0
Russian Federation	0.4	5.1
Offshore financial centers [e]	…	54.3
North America	58.6	170.8
Canada	3.2	30.3
United States	55.4	140.5
Other developed economies	4.9	30.7
Australia	1.9	15.2
Japan	2.9	14.0
Developing economies	47.6	206.5
Africa	2.0	12.6
Egypt	0.4	1.6
South Africa	0.8	8.3
Asia and Oceania	15.7	46.1
China	1.0	6.4
Hong Kong (China)	1.6	4.3
India	0.2	2.2
Indonesia	0.3	5.6
Singapore	7.5	7.7
United Arab Emirates	0.1	8.0
Latin America and Caribbean	29.9	147.8
Brazil	3.5	31.0
Offshore financial centers [f]	19.3	106.2

Source: Authors calculations, based on Swiss National Bank, *Development of Direct Investment* 2001; Swiss National Bank, *Direct Investment* 2008.

[s] Capital stock at year-end (book value). Expansion of the reporting population in 2004. The definition of economies is based on the Eurostat geonomenclature.
[b] As of 2004, EU25; as of 2007, EU27.
[c] As of 2000, incl. Monaco, Réunion, French Guiana, Guadeloupe, and Martinique.
[d] As of 2000, incl. Guernsey, Jersey and the Isle of Man, excl. Monaco; until 2003, incl. Baltic countries, Malta, Poland, Slovakia, Slovenia, Czech Republic, Hungary, and Cyprus; until 2006, incl. Bulgaria and Romania.
[e] Gibraltar, Guernsey, Jersey, and the Isle of Man.
[f] Anguilla, Bahamas, Barbados, Bermuda, Virgin Island (British), Jamaica, Cayman Islands, Montserrat, Netherlands Antilles, Panama, and St Kitts and Nevis; as of 2000, incl. Virgin Islands (US), Antigua and Barbuda, Belize, Dominica, Grenada, Santa Lucia, St Vincent and the Grenadines, Turks, and Caicos Islands.

Annex table 5. Switzerland: principal MNEs headquartered in the country, ranked by world total sales, 2009 (US$ billion)

Rank	Name	Industry	Sales [a]	Profits [a]	Assets [a]
1	Nestlé	Food, drink and tobacco	103.01	16.91	97.12
2	UBS	Diversified financial	61.23	-18.52	1,894.85
3	Credit Suisse Group	Diversified financial	45.64	-7.70	1,089.61
4	Roche Holding	Drugs and biotechnology	42.75	8.41	69.77
5	Novartis	Drugs and biotechnology	42.01	8.30	73.22
6	ABB	Capital goods	34.91	3.12	31.99
7	Zurich Financial Services	Insurance	32.35	3.04	325.04
8	Swiss Re Group	Insurance	31.08	-0.81	214.16
9	Adecco	Business services and supplies	29.56	0.73	10.51
10	Petroplus Holdings	Oil and gas operations	28.26	-0.51	6.93
11	Xstrata	Materials	27.95	3.60	55.31
12	Holcim	Construction	23.58	1.67	42.21

Source: Authors elaboration, based on "Forbes global 2000 lists of the world's biggest companies," *Forbes*, 2009.

[a] Sales, profits and assets are world totals.

Annex table 6. Switzerland: the ten largest cross-border M & A deals, by outward investing firm, 2007-2009 (US$ billion)

Year	Acquiring company	Target company	Target industry	Target economy	Shares acquired (%)	Estimated/ announced transaction value
2009	Roche Holding AG	Genentech Inc	Chemicals and biopharmaceuticals	United States	100	46.7
2009	Holcim Ltd	Cemex SAB de CV-AU Assets	Construction	Australia	100	1.6
2008	Novartis AG	Alcon Inc	Chemicals and biopharmaceuticals	United States	77	10.5
2008	Roche Holding AG	Ventana Medical Systems Inc	Chemicals and biopharmaceuticals	United States	94	3.7
2008	Xstrata PLC	Jubilee Mines NL	Materials	Australia	100	2.8
2008	Glencore International AG	Century Aluminium Co	Coal, oil and natural gas	United States	38.9	1.8
2008	STMicroelectronics NV-Wireless	NXP Semiconductors-Wireless Op	Semiconductors	Netherlands	100	1.5
2007	Nestle SA	Gerber Products Co	Food, beverages and tobacco	United States	100	5.5
2007	Swisscom AG	Fastweb SpA	Telecommunications	Italy	82	5.5
2007	Givaudan SA	Quest InternationalBV	Chemicals and biopharmaceuticals	Netherlands	100	2.3

Source: UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (Geneva: UNCTAD, 2009); Thomson ONE Banker. Thomson Reuters.

Annex table 7. Switzerland: the ten largest greenfield transactions, by outward investing firm, 2007-2009 (US$ billion)

Year	Investing company	Target industry	Business activity	Host economy	Estimated/ announced transaction value
2009	Novartis	Chemicals and biopharmaceuticals	Research and development	China	1.0
2008	Glencore International	Coal, oil and natural gas	Manufacturing	Colombia	3.0
2008	Glencore International	Alternative and renewable energy	Electricity	Zambia	1.5
2008	STMicroelectronics	Semiconductors	Manufacturing	France	1.3
2008	Advanced Power AG	Coal, oil and natural gas	Electricity	Netherlands	1.2
2008	Holcim	Building and construction materials	Manufacturing	Brazil	0.7
2008	EFG Group	Financial services	Business services	Poland	0.7
2007	Xstrata PLC	Metals	Extraction	New Caledonia	3.8
2007	Vimetco	Metals	Manufacturing	Kyrgyzstan	3.2
2007	Jelmoli	Real estate	Construction	Algeria	1.3

Source: fDi Intelligence, a service from the Financial Times Ltd.

Chapter 20 - United Kingdom

United Kingdom: Inward FDI and its policy context, 2012

Nigel Driffield, Sandra Lancheros, Yama Temouri, and Ying Zhou*

Over the past 30 years, the United Kingdom (UK) has performed exceptionally well in consistently attracting significant volumes of inward foreign direct investment (IFDI). Of all foreign affiliates located in the EU-27 in 2010, 15% were in the United Kingdom (more than 45,000 affiliates). These foreign affiliates employed over 3.7 million workers, representing 13% of the employed UK labor force. IFDI stock represented an impressive 48% of the United Kingdom's GDP in 2009, as well as in 2010, when it reached US$ 1.1 trillion, the second largest globally after that of the United States. IFDI flows, which declined considerably in 2008 as well as 2009 and 2010, amounted to US$ 51 billion in 2010 and were just over 20% of gross fixed capital formation. According to UNCTAD data, in 2011, IFDI stock in the United Kingdom rose to US$ 1.2 trillion and IFDI flows, to US$ 54 billion. The recent global financial and economic crisis has had a significant negative impact on the investment of foreign multinational enterprises (MNEs) and has interrupted the upward trend in UK IFDI seen till then. However, it is hoped that the continued strength and the location of the UK economy, together with coordinated policy measures by the Government, will lead to a renewed surge in IFDI.

Trends and developments

Country-level developments

Among developed economies, the United Kingdom consistently ranks second or third in terms of attracting IFDI.[1] The stock of IFDI has been gradually increasing, and rose from around US$ 444 in 2000 to US$ 1,242 billion in 2007 (annex table 1). This compares to the stock level in France, but is almost twice as high as that in Germany and nearly ten times that in Japan. In terms of IFDI flows, the trend is similar: flows reached a reached a peak during the IT or dot.com bubble of early 2000, and then declined in subsequent years before reaching record levels in 2005 and 2007 (annex table 2). However, with the onset of the global financial crisis in 2008, the IFDI stock fell by 14% in 2009, while flows fell by 51% in 2008 and continued to fall in 2009 and 2010. IFDI stock has made a modest recovery and amounted to US$ 1,131 billion in 2010 and, according to UNCTAD data, to US$ 1,199 billion in 2011 (annex table 1). UNCTAD data also indicate a modest rise in IFDI flows to the United Kingdom in 2011 (annex table 2). IFDI stock as a percentage of GDP was as high as 48% in 2009 as well as 2010,

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[1] UNCTAD, *World Investment Report 2012: Towards a New Generation of Investment Policies* (New York and Geneva: United Nations); UNCTAD, *World Investment Report, 2011: Non-equity Modes of International Production and Development* (New York and Geneva: United Nations, 2011).

while IFDI flows in 2010 amounted to US$ 51 billion in 2010, representing 20% of gross fixed capital formation.[1]

The decrease in inward FDI flows since 2007 has been mainly driven by a significant reduction in net equity transactions, which fell from US$ 137 billion in 2007 to US$ 74 billion in 2010. Reinvested earnings also fell notably during 2007-2010 (from US$ 40 billion in 2007 to a disinvestment of US$ 1 billion in 2010).[2]

In terms of sectoral distribution, in 2010, 65% of all IFDI stock in the United Kingdom was targeted toward the services sector, followed by around 23% in the manufacturing sector and 13% in the primary sector (annex table 3). The shares of the primary and services sectors in IFDI stock have risen since 2000, at the expense of that of the manufacturing sector. In 2010 the main industries in the manufacturing sector that attracted significant IFDI were the food, chemical, textile and wood, metal and mechanical products industries, whereas in the services sector the financial services, transport and communication and retail/wholesale trade industries were the leading industries that attract IFDI.

The overwhelming share of the United Kingdom's IFDI comes from other developed economies (annex table 4). In 2010, 58% of the total IFDI stock came from other countries in Europe, 30% from North America and 7% from Asia (including Japan). Between 2000 and 2010, foreign investment from Europe and Asia saw a three-fold increase, whereas FDI from North America doubled. Although negligible in 2000, FDI by some developing and emerging economies in the United Kingdom (e.g. India, Singapore, Republic of Korea and Middle Eastern countries such as the United Arab Emirates) has increased considerably.

The corporate players

More than 45,000 affiliates of foreign MNEs were located in the United Kingdom in 2010, comprising 15% of foreign affiliates located in the EU-27. These foreign affiliates employed over 3.7 million workers – 13% of the employed labor force in the United Kingdom.[3] These figures in themselves may understate the importance of foreign ownership in the United Kingdom. Typically official data use a definition of 50% foreign ownership to designate a firm as "foreign," though holdings below this may still represent a good degree of control.

Among the top 10 foreign affiliates in non-financial industries in 2010, the largest in terms of total assets was in mining and quarrying, followed by several in the services sector (annex table 5). The largest was Hanson Quarry Products, with total assets of US$ 81 billion, followed by eight services-sector firms with assets ranging from US$ 21.5 billion to US$ 7.9 billion. The only firm in the top 10 foreign affiliates from the manufacturing sector was Chivas Brothers Limited.

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[1] Ibid.

[2] Office for National Statistics, United Kingdom (2010), "Foreign ownership of businesses in the United Kingdom", table 5(a), on Count, Employment and Turnover of VAT and/or PAYE based Enterprises by Country of Immediate Foreign Ownership by Region and Country of the UK for 2010, available at www.ons.gov.uk/ons/publications/re-reference-tables/html.

[3] Ibid

The top 10 foreign affiliates in financial services located in the United Kingdom in 2010 were owned by world-renowned leading financial MNEs (annex table 5). The majority of these MNEs parent firms are located in the United States and from other countries in Europe. The top affiliates' total assets range for banks from over US$ 750.7 billion (Goldman Sachs International) to US$ 65.9 billion (RBC Europe Limited) and for insurance firms, and pension funds they are between US$ 116.5 billion (Blackrock Asset Management Pension Ltd) and US$ 61.3 billion (Hanson Overseas Holdings Ltd).

Annex table 6 shows that the majority of the top merger and acquisition (M&A) deals in the United Kingdom by foreign companies during 2008-2010 were investments within the same broad industry. In common with cross-border M&As in other countries, these can be dominated in individual years by certain very large transactions, such as the acquisition of Cadburys by Kraft, for example. The attractiveness of UK firms to be either acquired or merged with is truly global, with investor firms coming from a range of countries, including the United States, India, Qatar, and Singapore. The acquired shares in the target companies were overwhelmingly majority-owned by the MNEs involved after the transactions, which is not uncommon in M&A deals. Annex table 6 shows that the amounts recorded on the top M&A deals fell in 2009, following a peak in 2008, and then recovered in 2010.

Annex table 7 shows the main greenfield projects announced in the United Kingdom by foreign companies during 2008-2010. Most of the greenfield investments were concentrated in the electricity and construction industries. There were four greenfield projects in the manufacturing sector, two in extractive industries and seven in the services sector. Like the top M&A deals which were predominantly by MNEs from other developed countries but included several by MNEs from emerging markets, the greenfield investments show that MNEs from a few emerging markets around the world are also attracted to the United Kingdom economy (e.g. India, Singapore, Russia).

Effects of the recent global crises

While there is some evidence of reduced IFDI in the United Kingdom since the financial and economic crisis of 2008-2009, the biggest impact has been, not on the volume of FDI, but on the types of FDI that the United Kingdom has attracted, and the way that it is funded. While there has been a general decline in inward investment projects globally since the crisis, it is questionable whether all of the investment in many of the projects that have been historically registered as "inward investment" projects in the United Kingdom represents FDI inflows. While it is undeniable that foreign firms or individuals have undertaken the investment, it is also clear that much of the financing, particularly in terms of debt, was raised from United Kingdom financial institutions. Perhaps the best-known examples of this have been the various purchases of English Football teams by foreign investors using debt finance raised from UK banks. It is this type of investment that has seen the biggest decline since the crisis, as UK banks retrench their lending.

Furthermore, in the ten years up to the Asian financial crisis of 1997, the United Kingdom had attracted more than its fair share of FDI, thanks to investment motivated by cheap capital at home, particularly from the United States. There is now significant evidence that overvalued stock markets in the world's richest economies fuelled FDI, up to the Asian crisis of 1997.[1] After that crisis, the process was re-started, with capital flows between parent firms and foreign affiliates driven by cheap capital in home

[1] See David Schmidt, Nigel Driffield and Jim Love "Financial market bubbles, the funding of FDI and future crises" Working Paper, Aston Business School, Birmingham (2010).

countries. This resulted either from the availability of capital in large financial centers such as the United States or Germany, or alternatively the biases in capital markets that supported borrowing by leading firms in emerging markets. This level of finance was sustained by high share prices. This type of investment has also dried up since the onset of the current crisis. The United Kingdom Trade and Investment (UKTI) recently reported that inward FDI project numbers from most countries were down again in 2011, but it is noticeable that the number of projects from India rose.[1]

The United Kingdom is seeking to attract inward investment from emerging markets, particularly from the cash-rich firms in India and China. What is noticeable however is that these firms are, in common with global trends, eschewing greenfield investments in favor of M&As. It is also the case that M&A activity by MNEs from these countries in the United Kingdom is focused, not merely on the acquisition of technology in general, but on the acquisition of brand names, presumably to reach larger markets within and outside the United Kingdom.

The policy scene

The United Kingdom has had an open-door policy regarding inward FDI for over 40 years. Historically, the United Kingdom was for many years second only to the United States in terms of inward FDI flows, though the United Kingdom has been overtaken by China in recent years. Nevertheless, the United Kingdom still remains a major recipient of inward FDI. A major focus of the country's policy agenda with respect to FDI was on attracting investment to those regions of the country that experienced structural unemployment through the 1980s and 1990s.

The national agency for the promotion of inward investment in the United Kingdom is UK Trade and Investment. The bodies responsible for development at a regional level for much of the past 30 years evolved into the Regional Development Agencies, which were created in their final form in 1999 (though most existed in similar form prior to this). In turn, they reported to the Department for Business Innovation and Skills (BIS, formally the Department for Trade and Industry, DTI). The Regional Development Agencies (RDAs) were the main agents for the promotion of inward investment at the local level until the announcement of their abolition in 2011; the agencies were closed down by the end of March 2012.[2] With the decentralization of industrial policy to RDAs, there was a good deal of inter-regional competition, not only for inward FDI, but also with RDAs seeking to retain the benefits from the investment they had received, in terms of buyer-supplier links, spillovers or technology transfer agreements within the host region. Typically, the marketing of regions for inward investment promotion has been better resourced in Wales, Scotland and Northern Ireland, which in part is reflected in their performance in attracting inward investment. This became synonymous with policies seeking to develop clusters of activity. Indeed, it could be argued that, for the United Kingdom, regional policy was synonymous with inward investment policy, where regions sought to attract inward investment, using EU regional policy funds, and UK Government Regional Selective Assistance to provide financial incentives.

[1] UK Trade and Investment, *UKTI Inward Investment Report* 2010/2011 (London: UK Trade and Investment, July 2011), available at: www.ukti.gov.uk.

[2] For further discussion of the inception of the English RDAs see www.parliament.uk/briefing-papers/RP02-50.pdf. For details of their demise see http://www.bis.gov.uk/policies/economic-development/englands-regional-development-agencies

For the British regions at least, the emphasis has been on using inward investment to (i) reduce structural unemployment; and (ii) to reduce inequalities, both intra-regionally and inter-regionally, by raising productivity through technology transfer and spillover effects. It is interesting to note that successive UK Governments and regional policy agencies have placed a heavy emphasis on the scope for inward investment to boost regional performance in this way, despite the fact that much of the evidence suggests that FDI projects that create large-scale employment typically do not involve much technology transfer, and vice versa.[1] This has led to concerns that, while the attraction of inward investors to peripheral regions of the UK has become a fundamental area of UK regional policy, it also makes regions particularly vulnerable to the repositioning of activities and supply chains by inward investors, particularly where that investment is not well embedded into the local economy.[2]

Since the announcement of the abolition of the RDAs in 2011, there is something of a vacuum, with the onus to develop strategies placed on Local Enterprise Partnerships made up of volunteers from the local business communities. These have in turn charged organizations with the role, which has historically been one of location marketing, to develop inward investment strategies. In practice, the demise of the RDAs means that the body responsible for IFDI promotion nationally, UKTI, is now the only policy body with respect to FDI in England, with some devolved powers to the other regions of the United Kingdom.

The specific policy stance of the United Kingdom Government with respect to IFDI is outlined above; beyond that, it is important to note that successive Governments have sought to emphasize the "business friendly" aspect of policy. The World Bank declared the United Kingdom to be the best place in the EU and G8 to do business in 2011.[3] The only other policy setting relating to FDI that has been discussed in recent years has been the United Kingdom's membership of the Euro area, with businesses arguing that the country would become less appealing for inward investment were it to remain outside the Eurozone.[4] The debate on this issue has however died down since the Euro crisis.

Conclusions

There is a wide body of academic evidence that points to the beneficial effects that inward FDI has had on the United Kingdom.[5] While some of the findings are open to debate, such as the extent to which

[1] See Nigel Driffield, Jim Love and K.Taylor , "Productivity and labor demand effects of inward and outward FDI on UK industry," *The Manchester School* vol. 77 (2), (March 2009), pp 171-203.

[2] For a historical position analysis of this in the context of the United Kingdom, see Nigel Driffield and David Bailey, "Hymer and uneven development revisited: FDI and regional inequalities," *Contributions to Political Economy*, vol. 21 (1) (2002), pp. 55-69, and, Nigel Driffield and David Bailey, "Industrial policy, FDI and employment: still 'missing a strategy' *Journal of Competition, Industry and Trade*, vol.7 (3) (2007), pp. 189-211.

[3] The World Bank and the International Finance Corporation, *Doing Business 2011: Making a Difference for Entrepreneurs* (Washington, D.C.: The World Bank, 2011), available at: www.worldbank.org.

[4] See for example "Head to head: inward investment" in *BBC News*, July 3, 2000, available at: http://news.bbc.co.uk/1/hi/business/817058.stm

[5] See for example Nigel Driffield, Jim Love and Karl Taylor, "Productivity and labor demand effects of inward and outward foreign direct investment on UK industry," *op.cit.*; Sourafel Girma, and Katharine Wakelin, "Local productivity spillovers from foreign direct investment in the U.K. electronics industry," *Regional Science and Urban Economics*, vol. 37 (3) (2007) , pp. 399-412; Sourafel Girma, David Greenaway, Katharine Wakelin, "Wages, Productivity and Foreign Ownership in UK Manufacturing," *Scottish Journal of Political Economy*, vol. 48 (2001), pp. 119-33; R.I.D. Harris and C. Robinson, "The impact of foreign acquisitions on total factor productivity: plant level evidence from UK manufacturing 1987-1992," *Review*

inward FDI generates technology or productivity spillovers for domestic firms, in general the findings are that inward FDI has generated new employment, protected existing employment and led to an increase in skill levels. While some issues surrounding this are still worthy of investigation -- such as employment substitution (the extent to which some jobs created by inward investors replace ones lost through increased competition in goods or labor markets), the extent to which multinational enterprises may reallocate resources away from the United Kingdom, or switch to foreign suppliers, impacting particularly on certain sectors or regions of the country, and the extent to which some employment is transitory, with firms being "footloose" -- overall the benefits far outweigh the costs.

Traditionally, FDI into the United Kingdom has come overwhelmingly from economies and sectors with a technological advantage over the corresponding UK sectors, and this is reflected in the effects that IFDI has. Technology differences matter much more than labor cost differences in terms of the effects of inward FDI, at least in an advanced economy such as the United Kingdom: acquiring technology through inward investment increases the demand for skilled labor, decreases demand for unskilled labor and produces positive spillovers to domestic productivity. More recently, the United Kingdom has attracted a higher proportion of its inward investment from industries and countries with lower unit labor costs than the UK equivalents, coupled with some evidence of a trend toward technology-sourcing FDI into the country. These factors suggest that the policy preoccupation with a flexible labor market as a major attractor of inward investment may be overstated.

There are also other specific events that are being used as vehicles to promote investment in the UK. London hosts the Olympics later in 2012, and there are a succession of large-scale transport infrastructure projects that are being marketed, not only as beneficial for business, but also as large-scale investment opportunities.

The United Kingdom remains an attractive location for inward investment for a number of reasons. Possibly the most important is the United Kingdom's flexible labor market and a relatively low minimum wage. The flexible labor market means that firms can adjust employment levels easier than in other parts of the EU-15, making expansion perhaps less risky in that country than elsewhere. This shows up in the latest UKTI figures, suggesting that there are three times as many expansions by inward investors as there are M&As by foreign firms in the United Kingdom.[1] Equally important, the United Kingdom has a low effective corporate tax rate, after considering investment allowances and support for investment in research and development.

Additional readings

Driffield, N.L., M. Munday and A. Roberts, . "Inward investment, transactions linkages, and productivity spillovers," *Papers in Regional Science*, paper number 83 (2004), pp. 699-722.

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of Economics and Statistics, vol. 84 (3) (August 2002), pp. 562-568; J. Jones and C. Wren, *Foreign Direct Investment and the Regional Economy* (Aldershot: Ashgate, 2005).

[1] UK Trade and Industry, *UKTI Inward Investment Report, 2010/2011*, *op. cit.*

Taylor, K. and N. Driffield. "Wage dispersion and the role of multinationals: Evidence from UK panel data," *Labour Economics*, vol. 12 (1)(2005), pp. 223–249.

Hart, M., N. Driffield, S. Roper, and K. Mole, "Evaluation of regional selective assistance (RSA) and its successor, selective finance for investment in England (SFIE)," BERR occasional paper number 2, United Kingdom Department for Business, Enterprise and Regulatory Reform (March 2008).

M. Hart, N. Driffield, S. Roper, and K. Mole, "Evaluation of regional selective assistance (RSA), in Scotland 2000-2004," Scottish Executive Social Research, Edinburgh (2008).

N. Driffield and J. Love, "Linking FDI motivation and host economy productivity effects: conceptual and empirical analysis," *Journal of International Business Studies*, vol. 38 (3) (2007), pp 460-473.

Useful websites

Department of Business, Innovation and Skills, United Kingdom, available at: http://www.bis.gov.uk/

"Who really gains from inward investment? A national and regional analysis" (research project), available at: http://esrc.ac.uk/my-esrc/Grants/RES-000-22-0468/read:

Investment Promotion Agencies' listing portal, by region, United Kingdom, available at: http://www.locations4business.com/europe/uk/

NESTA (National Endowment for Science, Technology and the Arts), United Kingdom, available at: http://www.nesta.org.uk

UKTI, "The UK economy at a glance," UKTI information sheet (UKTI: 2011), United Kingdom, available at: http://www.ukti.gov.uk/

UKTI, *UK Inward Investment Report 2010/11* (UKTI: 2011), United Kingdom, available at: http://www.ukti.gov.uk/

UK Statistics, United Kingdom, available at: http://www.statistics.gov.uk/hub/index.html

Statistical annex

Annex table 1. United Kingdom: inward FDI stock, 2000-2010 [a]

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
United Kingdom	444	503	488	555	666	888	1,069	1,242	1,245	1,067	1,131	1,199
Memorandum: comparator economies												
United States	2,783	2,560	2,022	2,455	2,717	2,818	3,293	3,551	2,487	3,027	3,451	3,509
France	391	385	441	653	868	889	1,107	1260	921	1,133	1,008	964
Germany	272	272	298	395	512	476	592	696	668	677	674	714
Japan	50	50	78	90	97	101	108	133	203	200	215	226

Source: Data for 2009 and 2010 for the United Kingdom are from the Office for National Statistics (ONS), United Kingdom, "Foreign direct investment involving UK companies, 2010" in *Statistical Bulletin*; data for 2000-2008 are from ONS, "Business monitor MA4: foreign direct investment, 2009," available at: www.statistics.gov.uk.

Figures in the *Statistical Bulletin* and the *Business Monitor MA4* are based on annual surveys of business. The Bank of England collects information for the banking sector, and the ONS surveys other sectors. The banking surveys collect information from all banks. Other sector surveys are based on samples only.

(Data converted from British pounds sterling to US dollars using end of the year exchange rates (US$ 1.00 = GB£ 0.67 for 2000, US$ 1.00 = GB£ 0.70 for 2001, US$ 1.00 = GB£ 0.62 for 2002, US$ 1.00 = GB£ 0.56 for 2003, US$ 1.00 = GB£ 0.52 for 2004, US$ 1.00 = GB£ 0.58 for 2005, US$ 1.00 = GB£ 0.51 for 2006, US$ 1.00 = GB£ 0.50 for 2007, US$ 1.00 = GB$ 0.69 for 2008, US$ 1.00 = GB£ 0.62 for 2009, and US$ 1.00 = GB£ 0.65 for 2010) from the International Monetary Fund, available at: http://www.imf.org/external/np/fin/data/param_rms_mth.aspx.)

Data for comparator economies for 2000-2010 are from UNCTAD, *World Investment Report 2010: Transnational Corporations, Agricultural Production and Development* (New York and Geneva: United Nations, 2010), pp. 191-194, and UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics.

Data for 2011 for the United Kingdom as well as the comparator economies are from UNCTAD, *World Investment Report 2012: Towards a New Generation of Investment Policies* (New York and Geneva: United Nations), annex table I. 2).

Note: The UK Offshore Islands consisting of the Channel Islands (Guernsey and Jersey) and the Isle of Man are excluded from the definition of the economic territory of the United Kingdom from 1997 onwards.

Annex table 2. United Kingdom: inward FDI flows, 2000-2011

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
United Kingdom	118.9	52.6	24.1	16.8	56.0	193.8	156.4	186.5	90.6	76.7	50.7	53.9
Memorandum: comparator economies												
United States	314.0	159.5	74.5	53.1	135.8	104.8	237.1	216.0	306.4	152.9	228.2	226.9
China	40.7	46.9	52.7	53.5	60.6	72.4	72.7	83.5	108.3	95.0	105.7	124.0
France	43.3	50.5	49.0	42.5	32.6	84.9	71.8	96.2	64.2	34.0	33.9	40.9
Germany	198.3	26.4	53.5	32.4	-10.2	47.4	55.6	80.2	4.2	37.6	46.1	40.4
Japan	8.3	6.2	9.2	6.3	7.8	2.8	-6.5	22.5	24.4	11.9	-1.3	-1.8

Source: For the United Kingdom between 2000 and 2010, Office for National Statistics (ONS), "Foreign direct investment involving UK companies, 2010" in *Statistical Bulletin*, and *Business Monitor MA4: Foreign Direct Investment, 2009*, available at: www.statistics.gov.uk

Figures in the *Statistical Bulletin* and the *Business Monitor MA4* are based on annual surveys of business. The Bank of England collects information for the banking sector and the ONS surveys other sectors. The banking surveys collect information from all banks. Other sector surveys are based on samples only.

(Data converted from British pounds sterling to US dollars using end-of- the- year exchange rates (US$ 1.00 = GB£ 0.67 for 2000, US$ 1.00 = GB£ 0.70 for 2001, US$ 1.00 = GB£ 0.62 for 2002, US$ 1.00 = GB£ 0.56 for 2003, US$ 1.00 = GB£ 0.52 for 2004, US$ 1.00 = GB£ 0.58 for 2005, US$ 1.00 = GB£ 0.51 for 2006, US$ 1.00 = GB£ 0.50 for 2007, US$ 1.00 = GB$ 0.69 for 2008, US$ 1.00 = GB£ 0.62 for 2009, and US$ 1.00 = GB£ 0.65 for 2010) from the International Monetary Fund, available at: http://www.imf.org/external/np/fin/data/param_rms_mth.aspx).

For comparator economies, data for 2000-2011 are from UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics

Data for 2011 for the United Kingdom as well as the comparator economies are from UNCTAD, *World Investment Report 2012: Towards a New Generation of Investment Policies* (New York and Geneva: United Nations), annex table I. 1).

Note: The UK Offshore Islands consisting of the Channel Islands (Guernsey and Jersey) and the Isle of Man are excluded from the definition of the economic territory of the United Kingdom from 1997 onwards.

[a] The UK FDI inflow data are collected and published on a net basis. UNCTAD data on FDI inflows for the comparator countries and for the United Kingdom inflows in 2011 are also on a net basis.

Annex table 3. United Kingdom: sectoral distribution of inward FDI stock, 2000, 2008 and 2010
(US$ billion)

Sector/industry	2000	2008	2010
All sectors/industries	438.6	905.7	1064.9
Primary	39.0	126.8	134.5
Agriculture, forestry and fishing	0.2	1.3	3.2
Mining and quarrying (including oil/gas)	38.8	125.4	131.3
Secondary	104.1	189.5	241.3
Food products	9.5	46.1	61.3
Textile and wood, printing and publishing	24.4	14.8	8.9
Chemical, plastic and fuel products	21.4	52.1	46.9
Metal and mechanical products	16.2	20.6	24.5
Office, IT and communications equipment	10.6	13.3	23.7
Transport equipment	11.6	15.2	22.9
Other manufacturing	10.5	27.5	53.1
Services	295.5	589.4	689.2
Electricity, gas and water	17.6	36.6	56.1
Construction	2.7	12.8	7.6
Retail/ wholesale trade and repairs	45.1	117.2	100.5
Transport and communications	81.8	125.0	181.6
Financial services	89.5	208.7	257.6
Other services	58.7	89.0	85.8

Source: Office for National Statistics, United Kingdom, *Business Monitor MA4: Foreign Direct Investment 2002*, and *Business Monitor MA4: Foreign Direct Investment 2008*, available online at http://www.ons.gov.uk
(Data converted from British pounds sterling to US dollars using end of the year exchange rates of (US$ 1.00 = GB£ 0.67 for 2000, and US$ 1.00 = GB£ 0.65 for 2010) from the International Monetary Fund, available at:
http://www.imf.org/external/np/fin/data/param_rms_mth.aspx).

Notes:
The UK Offshore Islands consisting of the Channel Islands (Guernsey and Jersey) and the Isle of Man are excluded from the definition of the economic territory of the United Kingdom from 1997 onwards.

The figures show the book value of net liabilities at year-end.

Annex table 4. United Kingdom: geographical distribution of inward FDI stock, 2000, 2010[a]

(US$ billion)

Economy	2000	2010
World	443.9	1,133.9
Europe	226.8	662.7
European Union	206.8	564.0
Austria	0.9	1.7
Belgium	3.3	11.9
Cyprus	0.2	3.6
Denmark	4.2	7.0
Finland	1.6	1.1
France	73.9	105.1
Germany	39.5	78.5
Greece	n.a.	1.0
Hungary	0.0	0.0
Irish Republic	5.2	15.2
Italy	3.6	6.2
Luxembourg	2.8	101.0
Malta	0.0	0.2
Netherlands	62.8	177.8
Poland	0.1	0.0
Portugal	0.3	1.4
Spain	0.7	47.3
Sweden	5.9	4.9
Other developed Europe	15.0	54.0
Norway	1.3	2.7
Switzerland	13.7	51.3
North America	166.9	337.4
Canada	14.1	27.1
United States	152.9	310.4
Other developed economies	n.a.	n.a.
Australia	14.9	14.7
Japan	15.9	42.5
New Zealand	1.2	0.4
Developing economies	n.a.	n.a.
Africa	2.0	2.4
South Africa	1.5	0.9
Asia	11.1	41.9
Other Asian economies	9.0	35.4
China	0.1	0.6
Hong Kong (China)	n.a.	15.0

India	0.3	4.3
Singapore	2.5	9.7
Korea (Rep. of)	-0.4 [b]	4.5
Middle East countries	2.1	6.5
Other European economies	4.8	43.1
Russia	n.a.	1.9

Source: Office for National Statistics, United Kingdom, *Foreign Direct Investment involving UK companies 2010, Business Monitor MA4 Foreign Direct Investment 2008*, available at: http://www.ons.gov.uk/ons
(Data converted from British pounds sterling to US dollars using end of the year exchange rates of (US$ 1.00 = GB£ 0.67 for 2000, and US$ 1.00 = GB£ 0.65 for 2010) from the International Monetary Fund, available at:
http://www.imf.org/external/np/fin/data/param_rms_mth.aspx).

Note: The figures show the book value of net liabilities at year-end.

[a.] Data for the UK Offshore Islands are not included. The UK Offshore Islands consist of the Channel Islands (Jersey and Guernsey) and the Isle of Man, excluded from the definition of the economic territory of the United Kingdom from 1997 onwards.
[b] The negative sign before the value shown indicates a net disinvestment from the United Kingdom.

Annex table 5. United Kingdom: principal foreign affiliates in non-financial and financial industries of the economy, ranked by total assets, 2010

Rank	Name	Industry	Total assets (US$ billion)
Affiliates in non-financial industries			
1	Hanson Quarry Products	Mining and quarrying	81.1
2	Telefonica UK Limited	Information and communication	21.5
3	Heathrow Airport Limited	Transportation and storage	19.8
4	EDF Energy Nuclear Generation Limited	Electricity, gas, steam and air conditioning supply	18.2
5	ASDA Stores Limited	Wholesale and retail trade	12.8
6	Credit Susse BG Strategy Investment (UK)	Real estate	9.0
7	RWE Npower PLC	Electricity, gas, steam and air conditioning supply	8.8
8	Chivas Brothers Limited	Manufacturing	8.1
9	Pfizer Limited	Wholesale and retail trade	7.9
10	ESSO Exploration	Mining and quarrying	7.4
Affiliates in financial industries			
1	Goldman Sachs International.	Bank	750.7
2	Merrill Lynch International	Bank	325.9
3	JP Morgan Securities Ltd	Bank	294.0
4	Citigroup Global Markets Limited	Bank	265.7
5	UBS Limited	Bank	255.2
6	Blackrock Asset Management Pension Limited	Mutual and pension fund	116.5
7	UDS	Financial and insurance	67.3
8	RBC Europe Limited	Bank	65.9
9	Zurich Assurance Ltd	Insurance	61.5
10	Hanson Overseas Holdings Ltd	Financial and insurance	61.3

Source: Orbis Company information, Bureau van Dijk, available at: https://orbis2.bvdep.com
(Data converted from British pounds sterling to US dollars using end-of the year exchange rate of (US$ 1.00 = GB£ 0.65) from the International Monetary Fund, available at: http://www.imf.org/external/np/fin/data/param_rms_mth.aspx).

Note: The UK Offshore Islands consisting of the Channel Islands (Guernsey and Jersey) and the Isle of Man are excluded from the definition of the economic territory of the United Kingdom from 1997 onwards.

[a.] Industry categorization according to NACE Rev. 2 from Eurostat, available at:
http://epp.eurostat.ec.europa.eu/portal/page/portal/product_details/publication?p_product_code=KS-RA-07-015.

Annex table 6. United Kingdom: main M&A deals, by inward investing firm, 2008-2010

Year	Acquiring company	Home economy	Target company	Target industry	Shares acquired (%)	Estimated/ announced transaction value (US$ million)
2010	Kraft Foods Inc	United States	Cadbury PLC	Confectionery products	100	18,768.5
2010	Investor Group	Hong Kong (China)	EDF Energy-PLC	Electric services	100	9,056.4
2010	Pinafore Acquisitions Ltd	Canada	Tomkins PLC	Mechanical power transmission equipment	100	4,380.4
2010	Investor Group	United States	RBS WorldPay	Depository banking	80	3,018.7
2010	KNOC	Korea (Rep. of)	Dana Petroleum PLC	Crude petroleum and natural gas	100	2,570.8
2010	Deutsche Bahn AG	Germany	Arriva PLC	Local bus charter service	100	2,426.1
2010	Qatar Holding LLC	Qatar	Harrods	Clothing and accessory stores	100	2,227.1
2010	JPMorgan Chase & Co	United States	JPMorgan Cazenove Ltd	Security brokers, dealers, and flotation companies	50	1,665.5
2010	JPMorgan Chase & Co	United States	RBS Sempra Commodities LLP-Ops	Commodity contracts brokers and dealers	100	1,600.0
2009	Thomson Reuters Corp	United States	Thomson Reuters PLC	Information retrieval services	100	4,938.4
2009	Global Infrastructure Partners	United States	London Gatwick Airport Ltd	Airports and terminal services	100	2,473.5
2009	Blackstone Group LP	United States	British Land Co PLC-Broadgate	Operators of non-residential buildings	50	1,749.8
2009	Watson Pharmaceuticals Inc	United States	The Arrow Group	Pharmaceutical preparations	100	1,737.5
2009	Mitsubishi Rayon Co Ltd	Japan	Lucite International Ltd	Plastics materials and synthetic resins	100	1,600.0
2009	Investor Group	Qatar	Songbird Estates PLC	Land sub-dividers and	n.a.	1,456.2

				developers, except cemeteries		
2009	Liberty Acquisition Holdings	British Virgin Islands	Pearl Group Ltd	Life insurance	100	1,169.4
2009	OAO Gazprom Neft	Russia	Sibir Energy PLC	Crude petroleum and natural gas	33	1,000.6
2009	Protium Finance LP	Cayman Islands	Barclays PLC-Credit Market	Mortgage bankers and loan correspondents	100	861.2
2009	Oman Investment Fund	Oman	Bishops Square	Operators of non-residential buildings	75	725.2
2008	Shareholders	Switzerland	British American Tobacco PLC	Cigarettes	27	19,826.7
2008	Thomson Corp	United States	Reuters Group PLC	News syndicates	100	17,628.1
2008	Akzo Nobel NV	Netherlands	ICI PLC	Paints, varnishes, lacquers, and allied products	100	16,258.2
2008	Shining Prospect Pte Ltd	Singapore	Rio Tinto PLC	Gold ores	12	14,284.2
2008	Investor Group	Australia	Angel Trains Ltd	Rental of railroad cars	100	7,011.0
2008	Qatar Holding LLC	Qatar	Barclays PLC	Banks	8	3,482.8
2008	Jarpeno Ltd	Cyprus	Imperial Energy Corp PLC	Crude petroleum and natural gas	100	2,608.1
2008	Banco Santander SA	Spain	Alliance & Leicester PLC	Banks	100	2,518.0
2008	Tata Motors Ltd	India	Jaguar Cars Ltd	Motor vehicles and passenger car bodies	100	2,300.0

Source: The authors, based on Thomson ONE Banker, Thomson Reuters.

Note: The UK Offshore Islands consisting of the Channel Islands (Guernsey and Jersey) and the Isle of Man are excluded from the definition of the economic territory of the United Kingdom from 1997 onwards.

Annex table 7. United Kingdom: main greenfield projects announced, by inward investing firm, 2008-2010

Year	Investing company	Home economy	Industry	Business activity	Investment (US$ million)
2010	Orascom Development Holding	Switzerland	Hotels and tourism	Construction	1,600.0
2010	Ford	United States	Automotive OEM	Manufacturing	1,500.0
2010	GMR Group	India	Coal, oil and natural gas	Electricity	794.1
2010	McDonalds	United States	Food and tobacco	Retail	655.5
2010	Apache	United States	Coal, oil and natural gas	Extraction	504.5
2010	The GEO Group	United States	Real estate	Construction	447.2
2010	Tata Group	India	Automotive OEM	Manufacturing	443.1
2010	RWE	Germany	Renewable energy	Electricity	372.4
2010	Iberdrola	Spain	Renewable energy	Electricity	370.4
2010	Stena Line	Sweden	Transportation	Logistics, distribution and transportation	313.2
2009	Best Buy	United States	Consumer electronics	Retail	2,105.4
2009	Statkraft	Norway	Renewable energy	Electricity	1,829.0
2009	Ryanair	Ireland	Aerospace	Logistics, distribution and transportation	1,368.6
2009	Wal-Mart	United States	Food and tobacco	Retail	980.8
2009	Bombardier	Canada	Aerospace	Manufacturing	860.0
2009	EirGrid Plc	Ireland	Transportation	Logistics, distribution and transportation	798.0
2009	Dong Energy	Denmark	Renewable energy	Electricity	746.9
2009	Statkraft	Norway	Renewable energy	Electricity	651.2
2009	Fraser & Neave (Fraser and Neave)	Singapore	Real estate	Construction	588.9
2009	Royal BAM Group (Koninklijke BAM Groep)	Netherlands	Real estate	Construction	588.9
2009	Mirax Group	Russia	Real estate	Construction	588.9
2009	Multi Development	Netherlands	Real estate	Construction	588.9

	(Multi Vastgoed)				
2008	Treasury Holdings	Ireland	Real estate	Construction	7,986.0
2008	Total	France	Coal, oil and natural gas	Extraction	3,724.1
2008	Dong Energy	Denmark	Renewable energy	Electricity	3,595.4
2008	RWE	Germany	Renewable energy	Electricity	2,804.0
2008	Iberdrola	Spain	Renewable energy	Electricity	2,565.0
2008	RWE	Germany	Renewable energy	Electricity	2,400.0
2008	News Corporation	United States	Paper, printing and packaging	Manufacturing	1,300.0
2008	Wal-Mart	United States	Food and tobacco	Retail	1,261.0
2008	Econcern	Netherlands	Renewable energy	Electricity	1,212.8.0
2008	ING Groep (ING Group)	Netherlands	Real estate	Construction	682.5

Source: The authors, based on fDi Intelligence, a service from the Financial Times Ltd.
Note: The UK Offshore Islands consisting of the Channel Islands (Guernsey and Jersey) and the Isle of Man are excluded from the definition of the economic territory of the United Kingdom from 1997 onwards.
[a] Estimated investment

United Kingdom: Outward FDI and its policy context, 2012

Nigel Driffield, Sandra Lancheros, Yama Temouri, and Ying Zhou*

The United Kingdom consistently has ranked among the biggest investor economies in terms of outward foreign direct investment (OFDI). However, the recent financial and economic crisis has had a strong negative effect on OFDI from the United Kingdom. OFDI flows fell from their peak in 2007 (US$ 272 billion) to their lowest level of the decade in 2010 (US$ 40 billion). This sharp decline in OFDI flows was reversed in 2011, with flows recovering to around US$ 107 billion. The OFDI stock of the United Kingdom fell by 17% in 2008 compared with that in 2007. However, by 2011 the country's OFDI stock had recovered some of the lost ground and was only 6% lower than at the peak of 2007. With regard to FDI policy, while the United Kingdom Government has long supported inward investment with general and specific measures, and systematically supported exporting, it has not either supported or discouraged outward FDI for at least 30 years. As United Kingdom OFDI is diversified both across industries and globally, it may be advisable in the current economic climate for the Government to increase its support to outward FDI in order for United Kingdom firms of all sizes to reap the benefits of overseas markets.

Trends and developments

Country-level developments

Along with Germany, the United States, France, and Japan, the United Kingdom (UK) has more than doubled the stock of its OFDI around the world between 2000 and 2007 (annex table 1). The years 2006 and 2007 represented boom years in which OFDI stock increased by at least 20% year-on-year. However, with the onset of the recent global financial and economic crisis, this trend was reversed, particularly in 2008 when the stock of OFDI fell by 17% due to a number of high-profile disinvestments where ownership was transferred to domestic companies in host countries. Figures for 2009 show a 9% increase in the stock, followed by a modest 3% fall in 2010 before growing again at 6% in 2011.

OFDI flows from the United Kingdom show a similar pattern of significant, gradual increase from 2002, to just before the crisis in 2007 (annex table 2). However, since the crisis and especially in 2009 and 2010, flows of OFDI collapsed to a mere 15% of the level recorded at the peak of 2007. During this difficult period, FDI flows from France, Japan and the United States fell less sharply, while German OFDI flows rose modestly in 2009 and 2010, due to the improved financial situation of German private companies, which in turn led them to lend more to their foreign affiliates. However, figures for 2011 show that German OFDI halved from the previous year. There are suggestions that UK firms are in part retrenching as a result of the global downturn, so market-seeking OFDI has declined. However, it is

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clear that the downturn has put pressure on costs in certain sectors, and led to more offshoring or efficiency-seeking FDI.[1]

In terms of sectoral distribution, in 2008, 60% of the OFDI stock of the United Kingdom went to the services sector, followed by around 25% to the manufacturing sector and 15% to the primary sector (annex table 3). These shares of OFDI stock have remained constant since 2000. The main industries in the manufacturing sector that attract FDI from the United Kingdom are the food and chemical industries, whereas the financial, trade, transport, and communications industries are the leading industries in the services sector in terms of UK FDI stock.

The spread of OFDI from the United Kingdom is global (annex table 4). In 2010, 50% of the total OFDI stock was located within the European Union and 20% in North America. The remainder was in many other economies, most of which have special and historical relationships with the United Kingdom. Some economies have seen at least a doubling in their stocks of FDI from the United Kingdom during 2000-2010. They include Australia, Belgium, Canada, France, Gulf Arabian countries, Luxembourg, Hong Kong (China), India, Republic of Korea, Mexico, Russia, Spain, Singapore, and Switzerland. The motives of UK multinational enterprises (MNEs) for locating in these economies vary, ranging from cheaper factor costs to market access and tax reasons.

The corporate players

The United Kingdom was home to 14 of the world's top 100 non-financial MNEs in 2010 (annex table 5). They can be found in the primary sector (Royal Dutch Shell, BP, Anglo American, Rio Tinto), the secondary sector (GlaxoSmithKline, Astra Zeneca, British American Tobacco, SABMiller, BAE Systems) as well as the tertiary sector (Vodafone Group, BG Group, Tesco, National Grid, WPP). Their foreign assets ranged from US$ 271.7 billion (Royal Dutch Shell) to US$ 31.2 billion (BAE Systems).

Seven UK companies were among the world's top 50 financial MNEs as ranked by UNCTAD's Geographical Spread Index in 2010.[2] HSBC, Barclays and the Royal Bank of Scotland each recorded foreign assets of over US$ 2 trillion (annex table 5). They were followed by insurance companies such as Aviva, Standard Chartered, Prudential, and Old Mutual, with foreign assets ranging from US$ 577 billion to US$ 201.8 billion. Similar to their rival MNEs based in other countries, most of the sales and value added for the majority of these large MNEs are generated abroad rather than at home.[3]

Annex table 6 shows that the majority of the top cross-border M&A deals undertaken by UK MNEs during 2008-2011 were investments within the same broad industry (except, for example, Barclays, which acquired a crude petroleum and natural gas company in 2010). The acquired shares in the target companies are overwhelmingly majority-owned, which is not uncommon in M&A deals. Most of the top deals occurred in other developed markets. However, there have also been deals in Bermuda, Brazil, Eastern Europe, and South Africa.

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[1] Y. Temouri, Y. N. Driffield and D. Anon Higon, "Offshoring: A multi-country study of FDI in high-technology sectors," *Futures* (special edition on the future of international business), vol. 42 (9) (2010), pp. 960-970.
[2] UNCTAD, *World Investment Report 2011: Non-Equity Forms of International Production* (New York and Geneva: United Nations, 2011), web table 31, available at: http://www.unctad.org.
[3] UNCTAD, *World Investment Report 2012*, "Country fact sheet: United Kingdom," available at http://unctad.org/sections/dite_dir/docs/wir12_fs_gb_en.pdf.

Annex table 7 shows the main greenfield projects abroad by United Kingdom companies during 2008-2010. Most of the greenfield investments were concentrated in the manufacturing and extraction industries. There were three greenfield transactions in business services, by Standard Chartered in China, India and Singapore. One retail investment was undertaken by Marks and Spencer in India in 2010. Unlike their M&A deals, which take place predominantly in developed markets, UK MNEs tend to makegreenfield investments in emerging and other less developed markets.

The policy scene

The United Kingdom has not had a stated policy stance on outward FDI for at least the past thirty years. It has been the implicit position of successive governments that openness, both in terms of inward and outward FDI, is the best policy. Indeed, governments have embraced firms such as Dyson moving their manufacturing operations to lower cost locations, on the basis that it secures the company's future, increases its competitiveness and retains the core technology of the firm in the United Kingdom. There is no official organization that encourages outward FDI, though the UK Trade and Investment Department puts significant resources into encouraging both exports and inward investment, both of which may be considered precursors to outward FDI.

The United Kingdom has also seen much outsourcing and offshoring in the services sector, with many large UK MNEs setting up call centers in India, for example. The Government has been silent on this issue, despite the apparent loss of jobs at home. In this respect, the United Kingdom pursues policies designed to make its labor market as flexible as possible, so that efficiency-seeking FDI by UK firms relocating activities abroad is easier than it would be for French or German firms. Finally, one could argue that tax policy in the United Kingdom supports outward FDI, with many UK firms establishing offshore operations through overseas subsidiaries.
As UK OFDI is diversified both across industries and globally, it may be advisable in the current economic climate for the Government to increase its support to outward FDI in order for United Kingdom firms of all sizes to reap the benefits of overseas markets.

At the international level, as of June 1, 2012, the United Kingdom had concluded 105 bilateral investment treaties with foreign economies, of which 93 were in force. The United Kingdom had also concluded, as of June 1, 2011, 115 double taxation treaties.[1]

Conclusions

The United Kingdom is one of the world's major sources of outward FDI; the impact of such investment on its economy is therefore of considerable interest. In manufacturing, outward FDI from the United Kingdom is dominated by investment abroad in sectors and industries that have lower unit labor costs than the United Kingdom, but there is evidence of an increasing trend toward technology sourcing by UK firms, leading to productivity growth at home.[2] UK productivity increases are also associated with OFDI in low-cost locations, as high-skill activities are retained at home, and average productivity at home increases. The dominance of outward FDI in low-cost locations also has implications for labor in

[1] Data on BITs and DTTs are from UNCTAD's IIA databases, available at: http://www.unctad.org.
[2] Nigel Driffield, Jim Love and Karl Taylor, "Productivity and labour demand effects of inward and outward FDI on UK industry," *Manchester School*, vol. 77 (2) (2009), pp. 171-203.

the United Kingdom, markedly reducing the demand for unskilled labor, and to some extent also for skilled labor. The only form of outward investment that increases labor demand is technology-sourcing FDI, which typically accounts for less than 10% of total UK OFDI.[1]

A recent study on the outward investment strategies of UK MNEs, examining employment growth at home, has found that MNEs that invest in low-wage economies are engaged in vertical FDI, and the employment in the United Kingdom in these firms is orientated toward high-technology activities and lower employment growth.[2] Such firms are also more likely to close down plants in the United Kingdom, and have a lower propensity to open new ones in low-skill manufacturing industries within the United Kingdom.

This backs up earlier work which found that large firms are the most likely ones to engage in outsourcing and offshoring, and that domestic jobs have been lost as a result of outward FDI.[3] However, the same study also argued that companies have become more competitive as a result, and that in 1995-2005, such activity created some 100,000 new jobs in the United Kingdom. Overall, while total employment in these firms has increased as a result of this strategy, there has been a reduction in the proportion of those jobs that are based in the United Kingdom.

Additional reading

Allen, G. and A. Dar, "Foreign direct investment (FDI)," *Economic Policy and Statistics*, House of Commons Library Standard, Statistics Resource Unit, Note: SN/EP/1828, 2011.

HM Treasury: EU membership and FDI: http://www.hm-treasury.gov.uk/d/foi_eumembership_fdi.pdf

Office of National Statistics (UK) Foreign Direct Investment involving UK companies, 2010 Release. http://www.ons.gov.uk/ons/dcp171778_245878.pdf

UKTI : International Trade and Investment – the Economic Rationale for Government Support. http://www.bis.gov.uk/files/file32297.pdf

Useful websites

Official Statistics, United Kingdom: http://www.statistics.gov.uk/hub/index.html

Department of Business, Innovation and Skills, United Kingdom: http://www.bis.gov.uk/

UNCTAD, 2011 UK Country Fact Sheet available at http://unctad.org/sections/dite_dir/docs/wir12_fs_gb_en.pdf

Statistical annex

[1] Ibid.; Helen Simpson, "How do firms' outward FDI strategies relate to their activity at home? Empirical evidence for the UK," *The World Economy*, vol. 35 (3), 2011, pp. 243-272.

[2] Ibid.

[3] Alex Hijzen et al.,"International outsourcing and the skill structure of labour demand in the United Kingdom," *Economic Journal*, vol. 115 (506) (2005), pp. 860-878.

Annex table 1. United Kingdom: outward FDI stock, 2000-2011[a]

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
United Kingdom	898	870	994	1,187	1,247	1,199	1,455	1,836	1,531	1,674	1,627	1,731
Memorandum: comparator economies												
Germany	5412	618	696	831	925	928	1,081	1,332	1,327	1,412	1,437	1,442
United States	2,694	2,315	2,023	2,729	3,363	3,638	4,470	5,275	3,102	4,287	4,767	4,500
France	926	798	639	947	1,154	1,232	1,610	1,795	1,268	1,583	1,580	1,373
Japan	278	300	304	336	371	387	450	543	680	741	831	963

Source: UNCTAD's FDI database, available at http://unctadstat.unctad.org

[a] Due to differences in statistical recording, data for the selected economies are not fully comparable.

Annex table 2. United Kingdom: outward FDI flows, 2000-2011[a]

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
United Kingdom	233	60	50	62	91	81	86	272	161	44	40	107
Memorandum: comparator economies												
Germany	57	40	19	6	21	76	119	171	73	75	109	54
United States	143	125	135	129	295	15	224	394	308	268	304	397
France	177	87	50	53	58	115	111	164	155	107	77	90
Japan	32	38	32	29	31	46	50	74	128	75	56	114

Source: UNCTAD's FDI database, available at http://unctadstat.unctad.org

[a] Due to differences in statistical recording, data for the selected economies are not fully comparable.

Annex table 3. United Kingdom: sectoral distribution of outward FDI stock[a], 2000, 2008

(US$ billion)

Sector/industry	2000	2008
All sectors/industries	897.8	1,531.1
Primary	84.7	230.3
Agriculture, forestry and fishing	0.4	0.2
Mining and quarrying (including oil/gas)	84.3	230.1
Secondary	239.7	388.9
Food products	59.4	118.7
Textile and wood, printing and publishing	14.1	15.3
Chemical, plastic and fuel products	98.8	137.0
Metal and mechanical products	13.8	42.8
Office, IT and communications equipment	3.0	6.0
Transport equipment	18.9	29.2
Other manufacturing	31.7	39.9
Services	573.4	896.1
Electricity, gas and water	23.1	48.4
Construction	4.5	44.4
Retail/ wholesale trade and repairs	48.1	130.1
Hotels and restaurants	10.1	28.4
Transport and communications	278.2	227.7
Financial services	114.8	268.9
Real estate and business services	77.9	62.4
Other services	16.6	85.8

Source: United Kingdom Office for National Statistics, Foreign Direct Investment and Business Monitor MA4 2002-2008, available at: www.statistics.gov.uk. The end-of-year stock data in pounds sterling was converted into US$-values by using the end of year US dollar/pound sterling exchange rates of the International Monetary Fund (IMF, Exchange Rate Archives, available at: http://www.imf.org).

[a] Figures correspond to the industry of the foreign affiliate. Data in this table are based on the 2003 version of the SIC system.

Annex table 4. United Kingdom: geographical distribution of outward FDI stock, 2000, 2010

(US$ billion)

Region/economy	2000	2010
World	897.8	1,626.9
Developed economies	820.9	1,337.5
Europe	573.3	954.7
European Union	533.8	832.4
Netherlands	273.0	227.6
Luxembourg	78.3	213.6
France	32.6	83.5
Irish Republic	49.7	64.1
Belgium	10.9	63.7
Spain	8.8	54.6
Sweden	28.4	36.2
Germany	34.8	35.4
Italy	5.4	17.6
Denmark	3.2	12.3
Poland	1.5	5.6
Portugal	1.6	5.6
Greece	1.5	3.1
Malta	0.1	2.1
Finland	0.9	1.8
Romania	0.0	0.9
Cyprus	0.1	0.9
Austria	1.6	0.8
Hungary	0.6	0.8
Czech Republic	0.7	0.8
Slovakia	- 0.1	0.4
Bulgaria	- 0.0	0.2
Estonia	..	0.1
Latvia	0.0	- 0.0
Lithuania	..	..
Slovenia	..	..
EFTA	16.0	42.5
Switzerland	9.6	33.9
Norway	6.3	8.3
Other European economies	23.5	79.8
UK Offshore Islands	22.3	53.3
Russia	0.4	15.5
North America	226.1	334.8
United States	210.9	284.5
Canada	15.1	50.3
Other developed economies	21.5	47.9

Australia	12.1	43.1
Japan	6.9	4.1
New Zealand	2.5	0.7
Developing economies	77.0	281.1
Africa	14.0	46.4
South Africa	5.6	16.3
Nigeria	1.4	2.4
Kenya	0.6	0.7
Zimbabwe	0.2	0.0
Asia and Oceania	30.3	150.8
Hong Kong	7.1	46.1
Gulf Arabian countries	1.1	25.2
India	1.8	16.7
Singapore	4.9	14.7
China	2.2	9.3
Republic of Korea	0.7	6.1
Indonesia	0.9	4.1
Malaysia	3.6	2.1
Thailand	1.0	2.4
Latin America and the Caribbean	32.7	83.9
Bermuda	9.0	24.8
Brazil	4.9	9.8
Mexico	1.5	5.3
Colombia	2.5	3.9
Chile	2.2	0.8
Panama	0.3	0.3

Source: United Kingdom Office for National Statistics, Statistical Bulletin, "Foreign direct Investment involving UK companies, 2010" and "Business Monitor MA4 Foreign Direct Investment, 2009", available at: www.statistics.gov.uk. The end-of-year stock data in pounds sterling was converted into US$-values by using the end of year dollar/pound exchange rates of the International Monetary Fund (IMF, Exchange Rate Archives by Month, available at: http://www.imf.org).

Annex table 5. United Kingdom: principal MNEs headquartered in economy, ranked by foreign assets, 2010

Rank	Name	Industry	Foreign assets (US$ billion)
	Non-financial MNEs		
1	Royal Dutch Shell PLC	Petroleum	271.7
2	BP PLC	Petroleum	244.0
3	Vodafone Group PLC	Telecommunications	224.4
4	Anglo American PLC	Mining and quarrying	62.2
5	Rio Tinto PLC	Mining and quarrying	61.6
6	GlaxoSmithKline PLC	Pharmaceuticals	53.5
7	BG Group plc	Electricity, gas and water	43.4
8	British American Tobacco PLC	Food, beverages and tobacco	42.9
9	AstraZeneca PLC	Pharmaceuticals	39.0
10	SABMiller PLC	Food, beverages and tobacco	38.8
11	Tesco PLC	Retail & trade	37.5
12	National Grid PLC	Utilities (electricity, gas and water)	37.4
13	WPP PLC	Business services	33.1
14	BAE Systems PLC	Aircraft	31.2
	Financial MNEs		
1	HSBC Holdings PLC		2,454.7
2	Barclays PLC		2,322.5
3	Royal Bank Of Scotland Group PLC		2,266.3
4	Aviva PLC		577.0
5	Standard Chartered PLC		516.5
6	Prudential PLC		406.6
7	Old Mutual PLC		201.8

Source: UNCTAD's FDI/TNC database, available at: http://www.unctad.org/templates/Page.asp?intItemID=5545&lang=1

Annex table 6. United Kingdom: main M&A deals, by outward investing firm, 2008-2010

Year	Acquiring company	Target company	Target industry	Target economy	Shares acquired (%)	Value of Transaction (US$ bilion)
2011	International Power PLC	GDF Suez Energy Europe	Natural gas transmission	Belgium	100.00	25.06
2011	BHP Billiton PLC	Petrohawk Energy Corp	Crude petroleum and natural gas	United States	100.00	11.78
2011	BP PLC	Reliance Industries Ltd-21 Oil	Crude petroleum and natural gas	India	30.00	9.00
2011	Ensco PLC	Pride International Inc	Drilling oil and gas wells	United States	100.00	7.31
2011	BP PLC	Devon Energy Corp-Assets	Crude petroleum and natural gas	United States	100.00	7.00
2011	Vedanta Resources PLC	Cairn India Ltd	Crude petroleum and natural gas	India	30.36	4.54
2011	Rio Tinto PLC	Riversdale Mining Ltd	Bituminous coal and lignite surface mining	Australia	100.00	3.91
2011	Unilever PLC	Alberto-Culver Co	Perfumes, cosmetics, and other toilet preparations	United States	100.00	3.84
2011	Vodafone Group PLC	Hutchison Essar Ltd	Telephone communications, except radiotelephone	India	22.00	3.32
2011	BC Partners Ltd	Com Hem AB	Cable and other pay television services	Sweden	100.00	2.68
2010	CVC Capital Partners Ltd	Sunrise Communications AG	Radiotelephone communications	Switzerland	100.00	3.27
2010	Lion Capital LLP	Picard Surgeles SA	Grocery stores	France	100.00	2.03
2010	Apax Partners Worldwide LLP	Advantage Sales & Mktg LLC	Management consulting services	United States	-	1.90
2010	Unilever PLC	Sara Lee Corp-European Bus	Specialty cleaning and polishing preparations	Netherlands	100.00	1.87
2010	Man Group PLC	GLG Partners Inc	Investment advice	United States	100.00	1.54
2010	Barclays Bank PLC	Chesapeake Energy Corp-Barnett	Crude petroleum and natural gas	United States	100.00	1.15
2010	Cinven Ltd	Sebia SA	In vitro and in vivo diagnostic substances	France	-	1.09
2010	Birds Eye Iglo Group Ltd	Findus Italy	Frozen specialties, nec	Italy	100.00	1.04
2010	Lion Capital LLP	Bumble Bee Foods LLC	Canned and cured fish and seafoods	United States	100.00	0.98

2010	BG Group PLC	EXCO Resources Inc-Producing &	Crude petroleum and natural gas	United States	50.00	0.84
2009	GlaxoSmithKline PLC	Stiefel Laboratories Inc	Pharmaceutical preparations	United States	100.00	3.60
2009	CVC Capital Partners Ltd	Anheuser-Busch Inbev-Central	Malt beverages	Bulgaria	100.00	3.03
2009	Vodafone Group PLC	Vodacom Group(Pty)Ltd	Radiotelephone communications	South Africa	15.00	2.41
2009	SABMiller PLC	Kompania Piwowarska SA	Malt beverages	Poland	28.10	1.11
2009	BG Group PLC	EXCO Resources Inc-Upstream	Crude petroleum and natural gas	United States	50.00	1.06
2009	Centrica Overseas Holdings Ltd	Segebel SA	Electric and other services combined	Belgium	50.00	0.97
2009	Autonomy Corp PLC	Interwoven Inc	Prepackaged software	United States	100.00	0.78
2009	BG Group PLC	Pure Energy Resources Ltd	Bituminous coal and lignite surface mining	Australia	100.00	0.72
2009	GlaxoSmithKline PLC	UCB-Commercial Op	Drugs, drug proprietaries, and druggists' sundries	South Africa	100.00	0.67
2009	Balfour Beatty PLC	Parsons Brinckerhoff	Engineering services	United States	100.00	0.64
2008	Imperial Tobacco Overseas Hldg	Altadis SA	Cigarettes	Spain	100.00	17.87
2008	Serafina Holdings Ltd	Intelsat Ltd	Telephone communications, except radiotelephone	Bermuda	76.00	16.00
2008	British American Tobacco PLC	House of Prince A/S	Cigarettes	Denmark	100.00	4.14
2008	Reed Elsevier Group PLC	ChoicePoint Inc	Credit reporting services	United States	100.00	3.79
2008	CVC Capital Partners Ltd	Evonik Industries AG	Electric services	Germany	25.01	3.71
2008	Anglo American PLC	IronX Mineracao SA	Iron ores	Brazil	63.50	3.49
2008	BG Group PLC	Queensland Gas Co Ltd	Crude petroleum and natural gas	Australia	91.30	3.27
2008	Investor Group	Ciudad Financiera Santander	Operators of non-residential buildings	Spain	100.00	2.80
2008	Reckitt Benckiser Group PLC	Adams Respiratory Therapeutics	Pharmaceutical preparations	United States	100.00	2.27
2008	Scottish & Southern Energy PLC	Airtricity Holdings Ltd	Cogeneration, alternative energy sources	Ireland-Rep	100.00	2.15

Source: The authors, based on Thomson ONE Banker. Thomson Reuters.

Annex table 7. United Kingdom: main greenfield projects, by outward investing firm, 2008-2010

Year	Company Name	Destination country	Sector	Business Activity	Investment (US$ billion)
2010	Tullow Oil	Uganda	Coal, oil and natural gas	Manufacturing	5.00
2010	Rio Tinto Group	Paraguay	Metals	Manufacturing	3.50
2010	BG Group	Egypt	Coal, oil and natural gas	Extraction	2.00
2010	Standard Chartered Bank	Singapore	Financial services	Business services	1.58 [a]
2010	Albright International Ltd	Turkey	Electronic Components	Manufacturing	1.50
2010	Standard Chartered Bank	China	Financial services	Business services	1.47 [a]
2010	Vodafone	Italy	Communications	ICT & Internet Infrastructure	1.39
2010	Marks & Spencer	India	Consumer products	Retail	1.35
2010	Rio Tinto Group	Guinea	Metals	Extraction	1.35
2010	Rio Tinto Group	Australia	Metals	Extraction	1.20
2009	Anglo American	Brazil	Metals	Extraction	3.63
2009	Cairn Energy	India	Coal, oil and natural gas	Extraction	2.80
2009	British Petroleum (BP)	United States	Coal, oil and natural gas	Manufacturing	2.50
2009	Antofagasta	Chile	Metals	Extraction	2.30
2009	Hydrogen Energy	UAE	Alternative/Renewable energy	Electricity	2.00
2009	British Gas Group (BG)	Tunisia	Coal, oil and natural gas	Manufacturing	1.70 [a]
2009	Standard Chartered Bank	India	Financial services	Business services	1.58 [a]
2009	Afren	Nigeria	Coal, oil and natural gas	Extraction	1.26 [a]
2009	British Gas Group (BG)	Egypt	Coal, oil and natural gas	Extraction	1.00
2009	Jumbo Lane Investments	China	Coal, oil and natural gas	Manufacturing	0.81 [a]
2008	Klesch & Company	Libya	Coal, oil and natural gas	Manufacturing	8.00
2008	British Gas Group (BG)	Australia	Coal, oil and natural gas	Manufacturing	7.44
2008	Vedanta Resources	India	Metals	Manufacturing	5.00
2008	Tullow Oil	Ghana	Coal, oil and natural	Extraction	3.20

			gas		
2008	British Petroleum (BP)	Angola	Coal, oil and natural gas	Extraction	2.34 [a]
2008	Rio Tinto Group	Oman	Metals	Manufacturing	2.30
2008	Vedanta Resources	India	Metals	Manufacturing	2.00
2008	Starbay Holdings	Vietnam	Hotels & tourism	Construction	1.60
2008	Energy Equity Resources (EER)	Nigeria	Coal, oil and natural gas	Extraction	1.26 [a]
2008	Rio Tinto Group	Australia	Minerals	Extraction	1.26

Source: The authors, based on fDi Intelligence, a service from the Financial Times Ltd.

[a] Estimated investment.

Chapter 21 - United States

United States of America: Inward FDI and its policy context, 2013

Lucyna Kornecki*

Inward foreign direct investment (IFDI) represents an integral part of the United States (U.S.) economy, with its stock growing from US$ 83 billion in 1980 to US$ 3.5 trillion in 2011. The United States, which had earlier been primarily a home for multinational enterprises (MNEs) rather than a host for affiliates of foreign MNEs, has become a preferred host country for FDI since the 1980s. Foreign MNEs have contributed robust flows of FDI into diverse industries of the U.S. economy, and total FDI inflows reached US$ 227 billion in 2011, equivalent to 15% of global inflows, the single largest share of any economy. Inflows of FDI, with a peak of US$ 314 billion in 2000 and another of US$ 306 billion in 2008, have been an important factor contributing to sustained economic growth in the United States. The recent financial and economic crises negatively impacted FDI flows to the United States and opened a period of major uncertainty. The effectiveness of government policy responses at both the national and international levels in addressing the financial crisis and its economic consequences will play a crucial role for creating favorable conditions for a rebound in FDI inflows.

Trends and developments

Inward foreign direct investment is an essential component of the U.S. economy, contributing to production, exports and high-paying jobs for the country's workers. As the world's largest economy, the United States is well positioned to participate in the increasingly competitive international environment for FDI that has emerged as both advanced and developing economies have recognized the value of such investment. The U.S. hosts the largest stock of IFDI among the world's economies and continues to be at the top as a destination for inward FDI flows.

Country-level developments

The IFDI stock of the United States grew from US$ 83 billion in 1980 to US$ 540 billion in 1990 to US$ 2,783 billion in 2000, reaching $3,509 billion in 2011[1] (annex table 1). It exceeds by far the inward FDI stock of other large developed economies such as the United Kingdom (US$ 1,199 billion), Germany (US$ 714 billion) and the largest emerging market economy, China (US$ 712 billion) (annex table 1).

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[1] Data for 1980 and 1990 are from UNCTAD, FDI/TNC database, available at: www.unctad.org/fdistatistics

The IFDI stock in the United States as a percentage of GDP rose from 14% in 1995 to 17% in 2008 and further to 23% in 2011.[1] The relatively high percentage of the FDI stock relative to GDP indicates the important role that FDI plays in the U.S. economy. Research on FDI stock and output growth indicates that FDI stock contributes greatly to the country's output growth and constitutes a crucial factor determining economic growth.[2]

The United States continues to be the leading destination for FDI flows, with inflows reaching US$ 227 billion in 2011; in comparison, FDI flows that year to China were US$ 123 billion, to the United Kingdom, US$ 54 billion, and to Germany, US$ 40 billion (annex table 2). Between 2000 and 2011, the United States received the largest FDI inflows of any economy in the world, reaching a peak of US$ 306 billion in 2008. Between 2008 and 2009, during the recent financial and economic crisis, FDI inflows decreased by 50%, from US$ 306 billion to US$ 153 billion, but grew again to US$ 197 billion in 2010 and further to US$ 227 billion in 2011. Inward FDI flows as a percentage of GDP reached their peak of 3.2% in 2000, in comparison with 1.1% in 1996,[3] 1.4% in 2010 and 1.5% in 2011.[4]

The largest part of FDI flows went to four states: Texas, California, New York, and Illinois. These four states have been the top recipient states of FDI since 1990.[5] In 2007, a year before the financial crises, the IFDI stock in Texas reached US$ 128,424 million and in California US$ 108,572 million, followed by New York (US$ 80,474 million), Illinois (US$ 48,626 million) and Ohio (US$ 43,438 million).[6] Unfortunately, state-based statistics after the recession are not yet available.

Among the components of FDI flows (equity investment, reinvested earnings, intra-company loans), equity investment is the one that is related most directly to long-term international investment strategies. The reinvested-earnings component of U.S. IFDI flows grew in 2011 and equity capital and intra-company loans continued to decline during 2008-2010 as parent firms withdrew or were paid back loans from their affiliates, in particular those in developed host economies. In order to strengthen their balance sheets amid fears of a sovereign debt crisis spreading in many parts of the Eurozone, European MNEs

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[1] UNCTAD, *World Investment Report 2011: Non-equity Modes of International Production* (Geneva: United Nations, 2011), annex tables, web table 07, available at: http://archive.unctad.org/sections/dite_dir/docs/WIR11_web%20tab%207.pdf; and UNCTAD, *World Investment Report 2012: Towards a New Generation of Investment Policies* (Geneva: United Nations, 2012), annex tables, web table 07, available at: unctad.org/en/ages/DIAE/world%20Investment%20Report/Annex-Tablesaspx?A.

[2] See Lucyna Kornecki and Vladislav Borodulin, "A study on FDI contribution to output growth in the U.S. economy," *Journal of US-China Public Administration*, vol. 8, number 1 (January 2011), pp. 104-110, available at http://www.davidpublishing.com/journals_info.asp?jId=403. The paper presented the results of a regression analysis that indicated that FDI stock in the U.S. economy showed a relatively higher rate of growth in comparison with that of domestic capital and contributes about 23% to GDP growth in comparison with domestic capital contributing 20%. Another study applied the Cobb-Douglas production function to data from 1988 to 1999 and found that foreign capital accounted for almost 16% of overall U.S. productivity growth (see Ernie Goss, John R. Wingender and Megan Torau, "The contribution of foreign capital to U.S. productivity growth", *The Quarterly Review of Economics and Finance*, vol. 7(3) (July 2007), pp. 383-396). Based on the empirical results indicating the existence of a positive and significant relationship between FDI and U.S. economic growth, it is beneficial for the U.S. economy to continue attracting foreign direct investment.

[3] See Kornecki and Borodulin, op. cit., p. 106.

[4] UNCTAD FDI/TNC data base, available at: http://unctadstat.unctad.org/.

[5] E.M. Ekanayake and Lucyna Kornecki, "Factors affecting inward FDI flows into the United States: Evidence from state-level data", *Quantitative Methods of Economics*, vol. XII, no.1, pp. 53-67.

[6] Available at: http://www.bea.gov/iTable/index_MNC.cfm

significantly reduced loans to their affiliates in the United States in 2010, a trend expected to continue in 2011.[1]

A.T. Kearney's FDI Confidence Index measures investor sentiment on the basis of a survey of senior executives in the world's largest enterprises, and ranks present and future prospects for FDI flows to different economies with respect to the factors that drive corporate decisions to invest abroad.[2] The FDI Confidence Index Report of 2010 ranked China and the United States as the most attractive FDI locations in the world, recording unprecedented levels of investor confidence. According to the ranking for 2011, however, although the United States remained a strong magnet for FDI in the world economy, China, India and Brazil occupied the top spots in terms of the Confidence Index.

The United States is a very attractive investment destination for FDI due to its strong economic FDI determinants, its low-risk profile as compared to other leading global economies and its leading role in international investment diplomacy around the world[3]. However, the 2008-2009 economic downturn has contributed to the erratic behavior of FDI flows into the United States, already somewhat volatile since their peak in 2000 at US$ 314 billion with the exception of the deep decline in 2003 to US$ 53 billion following the 9/11 attacks.

While, over the period 2000-2011 as a whole and in most years, the services sector accounted for the largest IFDI flows, the manufacturing sector overtook services in 2005, 2007, 2010, and 2011, with inflows to the sector peaking in 2007 at US$ 103 billion (annex table 3), accounting for 48% of total flows (annex table 3a). Within services, financial services represented the largest recipient category in most years between 2000 and 2011, but were overtaken by wholesale trade in 2002, 2005, 2007, and 2011.

Between 2000 and 2011, most FDI flows into the United States originated from Europe (annex table 4). Based on the most recent data, in 2011 FDI inflows mainly came from Europe (58.6%), followed by North America, mostly from Canada (8%), and Asia and Oceania, mostly from Japan (8.5%) and Australia (7.5%). Most of the FDI flows from Europe originated in the United Kingdom (20.7%), Luxembourg (9.7%), Germany (6.1%), and Belgium (4.5%) (annex table 4a). FDI inflows from Europe in 2011 stood at US$ 133 billion, down from US$ 150.3 billion in 2010. There was significant drop in FDI inflows from Europe during the recent economic recession, from a record high of US$ 234.3 billion in 2008 to US$ 99 billion in 2009 (annex table 4).

The corporate players

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[1] UNCTAD, "Global and regional FDI trends in 2010", *Global Investment Trends Monitor*, No.5, Geneva, January 17, 2011.

[2] A.T. Kearney, **"**Cautious investors feed a tentative recovery: The 2012 A.T. **Kearney FDI Confidence Index,"** available at: http://www.atkearney.com/index.php/Publications/foreign-direct-investment-confidence-index.html

[3] See E. M. Ekanayake & L. Kornecki**, "Latest trends in finance and economic sciences",** volume 1, No 3 (2011) and "Factors affecting inward foreign direct investment flows into the United States: Evidence from state level data"., available at: http://ojs.excelingtech.co.uk/index.php/IJLTFES/article/view/352/150. This research investigated factors affecting the inward FDI flows in the United States using annual data for the period from 1997 to 2007 and identified several state-specific determinants of FDI. The result showed that, among the major determinants influencing FDI flows, the real per capita state income, real per capita state expenditure on education, state FDI related employment, state real research and development expenditure (R&D), and state capital expenditure are found to have a significant and positive impact on FDI inflows.

As the large shares of European economies in U.S. IFDI suggest, the list of principal foreign affiliates in the United States, ranked by revenue for 2010, was largely dominated by affiliates of European MNEs (annex table 5). Shell Oil, the U.S. affiliate of Royal Dutch Shell (Netherlands) topped the list, followed by BP America, an affiliate of British Petroleum (BP) (United Kingdom). Foreign affiliates in manufacturing featured prominently on the list. Included in the top twenty foreign affiliates by revenue were the affiliates of five automobile manufacturing firms: Toyota Motor, Honda Motor, and Nissan Motor from Japan, as well as Daimler and Volkswagen from Germany; U.S. affiliates of foreign MNEs in electronic manufacturing, with established names like Siemens (Germany), Sony (Japan) and Samsung (Republic of Korea) were also among the top twenty, ranking 10th, 15th and 8th, respectively.

The largest M&As in the United States by foreign MNEs in 2008-2011 are listed in annex table 6. The largest cross-border acquisitions in 2011 were headed by a deal by Sanofi-Aventis (SA), a French biological products company, valued at US$ 21.2 billion, and one by BHP Billiton Ltd., a crude petroleum and natural gas company from Australia, valued at US$ 11.8 billion. In 2010, the largest cross-border acquisition in the United States was that by the German pharmaceutical company Merck KGaA (the world's largest maker of liquid crystal), of the U.S. biotechnology equipment manufacturer Millipore Corp, valued at US$ 6.2 billion. The oil and gas industry continued to account for a significant portion of cross-border M&As in the United States in 2010 and 2011. M&A transactions like Goldcorp's US$ 3.3 billion acquisition of Andean Resources Ltd. in 2010 formed part of a critically important growth strategy for metals and mining companies benefiting from higher metal prices (annex table 6).

In 2008 and 2009, several foreign pharmaceutical companies undertook large multi-billion M&A deals in the United States. Swiss Roche Holding AG targeted Genentech Inc. (valued at US$ 46.7 billion), and InBevNV from Belgium targeted Anheuser-Busch in a deal valued at US$ 52.2 billion. During this period, the bulk of M&As by foreign MNEs in the United States occurred in the financial sector and, in particular, involved commercial banks, as part of the efforts to re-restructure balance sheets and prevent further systemic risk and liquidity crises set in motion by the multi-billion dollar fall of Lehman, prefaced just months earlier by that of Bear Stearns. In 2009, M&As involving U.S. commercial banks continued, mainly by MNEs from home countries that had been relatively immune to the liquidity crisis, such as Canada and Singapore.

Annex table 7 provides data on the largest announced or implemented greenfield projects by foreign MNEs investing in the United States between 2008-2010. The largest greenfield FDI projects between 2008 and 2010 were in energy and manufacturing. The dramatic surge in large greenfield investments in 2010 in manufacturing and energy included investments valued at more than US$ 1.1 billion each by Iberdrola (Spain), Solar Millennium (Germany), Blue Chip Energy Gmbh. (Austria), and the Gestamp Group (Spain). The largest greenfield FDI project of 2010 was in the manufacturing sector, by Samsung of the Republic of Korea, with an investment of US$ 3.6 billion.

Annual greenfield investment by foreign companies is reported to have risen from US$ 46.2 billion in 2007 to US$ 88.7 billion in 2008, followed by sharp drops to US$ 70.6 billion in 2009 and to US$ 54.9 billion in 2010.[1] Annual employment created by greenfield foreign investment in the United States

[1] Organization for International Investment, "Greenfield insourcing projects, 1st half 2011," August 2011, available at http://www.ofii.org/docs/Greenfield_Findings_Jan_June_2011.pdf.

increased from 72,701 in 2006 to 97,270 in 2007, then dropped to 96,817 in 2008, increasing again to 107,180 in 2009 and to 123,443 in 2010.[1]

Effects of the recent global crises

The financial crisis, which began during in 2007, led to a progressive deterioration of the investment situation in the world economy. Various indicators during the first half of 2008 already suggested a decline in world growth prospects, as well as in investors' confidence. This deteriorating climate began to leave its first negative marks in investment programs, including FDI, in early 2008. According to UNCTAD's 2008-2010 *World Investment Prospects Survey,* conducted April-June 2008, 40% of the respondent companies already mentioned at that time that the financial instability had a "negative" or "very negative" impact on their investment.[2]

Between 2008 and 2009, FDI flows to the United States decreased, as noted, by 50%. IFDI flows into the services sector decreased from US$ 168,874 million in 2008 to US$ 54,380 million in 2009 (by 68%). The services sector, led by finance and wholesale trade, was most impacted by the financial crisis. Between 2008 and 2009, FDI flows in the financial sector declined by 70% and in wholesale trade by 65%. Manufacturing was been less affected, with IFDI flows to the sector having decreased from US$ 77,098 million in 2008 to US$ 53,416 million in 2009 (by 31%).[3]

Most IFDI flows into the United States originate from the developed European economies, and they decreased dramatically during the crisis. Between 2008 and 2009, IFDI flows from The Netherlands decreased by 93% (from US$ 75,327million to US$ 5,018 million), followed by a decrease from the United Kingdom by 65% (from US$ 52, 609 million to US$ 18, 373 million), Switzerland by 77% (from US$ 45,660 million to US$ 10,710 million) and from Germany by 28% (from US$ 17,122 million to US$ 12,320 million). Additionally, the inflows from Japan between 2008 and 2009 decreased by 71% (from UD$ 22,321 million to US$ 6,544 million).[4]

A decrease in cross-border M&As had a significant impact on global FDI flows, which are strongly correlated with the value of cross-border M&A transactions. Cross-border M&As in general were strongly affected as a direct consequence of the crisis, with a 35% decline in their value in 2008 compared with 2007. There was a global reduction in the number and value of mega deals (i.e., cross-border M&As valued at more than $ 1 billion). The number of such deals fell by 21% and their value by 31%.[5]

Cross-border M&As in the United States were particularly affected, while international greenfield investments in the United States were less impacted during the beginning of the crisis; however, from

[1] Ibid.
[2] UNCTAD, World Investment Prospects Survey 2008–2010 (Geneva: United Nations, 2010), available at unctad.org/en/docs/wips2008_en.pdf.
[3] United States Department of Commerce, Bureau of Economic Analysis, FDI database, available at www.bea.gov/international.
[4] Ibid
[5] UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (Geneva: United Nations, 2009), available at http://unctad.org/en/docs/wir2009pt1_en.pdf.

September 2008 onwards, there was a continuous decline in greenfield investments as various industries cancelled or postponed many projects.[1]

The value of M&As and greenfield investment in the United States by foreign MNEs picked up again in 2010, contributing to a rise in FDI flows from US$ 153 billion in 2009 to US$ 198 billion in 2010 and further to US$ 227 billion in 2011 (annex table 2). Although not yet back at their pre-crisis level, FDI inflows in 2010 and 2011accounted for 15% of global inflows in both years, still by far the single largest share of any economy in the world.[2]

The policy scene

The United States, like a number of other economies with strong FDI inflows, has a policy designed to address national security concerns arising from IFDI, especially regarding M&As by foreign MNEs.[3] The Committee on Foreign Investment in the United States (CFIUS) was tasked in 1975 with monitoring the impact of foreign investments and acquisitions in the United States.[4] An increasing number of acquisitions of U.S. companies by Japanese firms led to the adoption of the Exon-Florio provision by Congress in the 1980s.[5] The Exon-Florio amendment to the Defence Production Act of 1950 authorized the President to suspend or prohibit foreign acquisitions of U.S. companies that may harm national security.[6] The Foreign Investment and National Security Act of 2007 (FINSA) amended Exon-Florio. These regulations completed the reform of CFIUS as an inter-agency committee chaired by the U.S. Treasury, to which the President's review and decision-making authorities provided by the Exon-Florio amendment are delegated.[7] According to a B&I Schwartz report, an effectively implemented national security review regime could actually facilitate additional FDI by reducing protectionist pressures while building confidence that national security is being protected.[8]

For dealing effectively with the financial crisis and its economic aftermath, as well as benefiting from the positive contributions of FDI to output growth and employment, it is important that policymakers maintain an overall favorable business and investment climate.

When discussing the policy context for FDI in the United States,, it is important to keep in mind that inward FDI contributes significantly to employment in the U.S. economy. Over the past ten years, majority-owned U.S. affiliates of foreign companies employed 5-6 million workers and supported 2 million manufacturing jobs. FDI-supported manufacturing jobs tend to be more stable during economic

[1] Ibid
[2] See, www.unctadstat.unctad.org/TableViewer/tableView.aspx.
[3] United States Government Accountability Office, "Foreign investment: foreign laws and policies addressing national security concerns," Report to the Chairman, Committee on National Security, House of Representatives, April 1996.
[4] Committee on Foreign Investment in the United States (CIFUS), Annual Report to Congress, December 2011.
[5] J. Jackson, "The Exon-Florio national security test for foreign investment," CRS Report for Congress, 2006.
[6] U.S. Government Accountability Office, "National security reviews of foreign acquisitions of U.S. companies could be improved," March 23, 2007, available at http://wwwq.gao.gov/assets/120/11604.5.pdf.
[7] Cleary Gottlieb Steen and Hamilton LLP , "Recent revisions to Exon-Florio "national security" reviews of foreign investment in the United States," December 22, 2008, available at http://www.cgsh.com/files/News/63d37f78-b20b-4c45-914b-0ce3def68bf4/Presentation/NewsAttachment/11f5787c-aa9d-439e-953c-0f074c473122/CGSH%20Alert%20-%20Exon%20Florio%20CFIUS%20Reform.pdf
[8] David M. Marchick and Mathew J. Slaughter, "Global FDI policy: correcting a protectionist drift," The Bernard and Irene Schwartz Series on American Competitiveness, CSR No. 34, Council on Foreign Relations, June 2008.

recessions than domestic manufacturing jobs. Workers at majority-owned U.S. affiliates of foreign companies receive 30% higher pay than those in non-FDI supported jobs. [1]

Employment in majority-owned U.S. affiliates of foreign companies increased systematically between 1980 and 2009, reaching a peak of 6,268,300 in 2000. Employment declined in 2009 to 5,279,700 from 5,636,700 in 2008,[2] decreasing further to 5,270,400 in 2010.[3] The share of such foreign affiliates in total U.S. private industry employment amounted to 4.7% in 2010, almost unchanged from 2009 and down slightly from 4.8% in 2008. The decline in 2010 resulted largely from partial and complete selloffs of affiliates to U.S. purchasers.[4]

In 2010, the largest share of majority-owned foreign affiliates in U.S. private industry employment was in mining (16%), followed by that in manufacturing (14%). British-owned affiliates accounted for the largest share of total majority-owned U.S. affiliates employment (16.7%), followed by Japanese-owned affiliates (12.4%). The share of employment accounted for by such affiliates was highest in New Hampshire (7.5%), then Connecticut (7.3%) and Delaware (7.2%).[5]

In order to promote foreign investment, the United States has entered into a number of international investment agreements, including bilateral investment treaties (BITs) and double taxation treaties (DTTs). The total number of BITs concluded by the United States as of June 1, 2012 was 48,[6] and the total number of DTTs concluded as of June 1, 2011 was 164.[7] For over 70 years, the United States has negotiated bilateral tax treaties with its trading partners to facilitate economic flows and investments between the treaty partners, eliminate double taxation, and provide certainty to taxpayers where overlapping taxing jurisdictions can cause confusion. The major focus of these treaties is to provide clear rules as to which taxing authority has the authority to tax income that has some connection to entities or persons in both the United States and the country with which a treaty was negotiated. Some of the other key features of these treaties include prevention of income tax evasion, avoiding double taxation, reducing barriers to cross border investment, and avoidance of discriminatory tax treatment.[8]

There are several priorities being pursued by the U.S. Government to attract foreign companies. In addition to an ongoing review of trade, tax and regulatory policies and legislation to assure competitiveness in a rapidly evolving global marketplace, strategies with a focus on technology,

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[1] David Payne and Fenwick Yu, "Foreign direct investment in the United States," Department of Commerce. Economics and Statistics Administration, June 2011, available at: http://www.esa.doc.gov/sites/default/files/reports/documents/fdiesaissuebriefno2061411final.pdf.

[2] Bureau of Economic Analysis, Comprehensive Financial and Operating Data Archive, Tables F7 and G7 for years 1999-2009, available at: http://www.bea.gov/international/di1fdiop.htm.

[3] Thomas Anderson, " U.S. affiliates of foreign companies operations in 2010," *Survey of Current Business*, August 2012, Vol. 92, no.9, pp. 213-228, available at: http://www.bea.gov/scb/pdf/2012/08%20August/0812_us_affiliate_operations.pdf.

[4] Ibid.

[5] Ibid.

[6] UNCTAD, "Country-specific lists of bilateral investment treaties (BITs)," available at http://unctad.org/en/Pages/DIAE/International%20Investment%20Agreements%20%28IIA%29/Country-specific-Lists-of-BITs.aspx.

[7] UNCTAD, "Country-specific lists of double taxation treaties (DTTs)," available at http://archive.unctad.org/Templates/Page.asp?intItemID=4505&lang=1.

[8] Organization for International Investment, *The Purpose and Scope of U.S. Income Tax Treaties*, 2012, available at: http://www.ofii.org/docs/Background_on_Tax_Treaties.pdf.

innovation, education, and supporting infrastructure are being implemented to assure that the country can find its place in an increasingly competitive environment. "SelectUSA", established by the President and housed within the U.S. Department of Commerce, represents a Government-wide effort to encourage, facilitate and accelerate business investment in the United States, by both domestic and foreign firms —as a major engine of economic growth and job creation. It provides enhanced coordination with existing resources across all federal departments and agencies with operations relevant to business investment. It works in partnership with state, regional and local economic development organizations to promote and facilitate business investment overall in the United States.[1]

A number of organizations in the United States deal with IFDI promotion. The state and local economic development organizations include state, regional, city, and county or local organizations. These refer to investment promotion agencies, economic development agencies, economic development corporations, industrial development corporations, or various other organizations. Many of these organizations are closely associated with local chambers of commerce, but generally are operated separately and play a key role in pursuing policies aimed at retaining existing activities by foreign companies and in implementing targeted investment promotion programs on promising activities.[2]

Over the past five to ten years, these state and local economic development agencies have used the Internet to create search engines and databases that offer foreign as well as domestic investors useful information on matters such as business and personal tax structure, infrastructure and utilities, work force and training resources, population and demographics, business and industry profiles, financing and incentive programs, and available sites and buildings. These web-based resources have streamlined the location process by allowing foreign MNEs to conduct a great deal of research. The state development agencies have an established framework of financial incentives to influence the final business location decision. Typical state inducements may include low-interest loans, reduced income, sales, or property tax liability, and grants for training or infrastructure improvement.[3]

Conclusions

The recent economic crises negatively impacted world FDI flows in 2008 and 2009 and opened a period of major uncertainty. IFDI flows into the United States fell in 2009 but rose in 2010 and 2011, recovering toward the pre-crisis level, but remaining well below their pre-crisis peak. The effectiveness of government policy responses at both the national and international levels in addressing the financial crisis and its economic aftermath will play a crucial role for creating favorable conditions for a continued recovery of FDI inflows into the United States. Public policies will obviously play a major role in the implementation of favorable conditions for such a recovery. Structural reforms aimed at ensuring more stability in the world financial system, a renewed commitment to an open environment for FDI and the implementation of policies aimed at favoring investment and innovation are key issues in this respect.[4]

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[1] SelectUSA, "Programs and incentives to help your business succeed," available at http://selectusa.commerce.gov/why-select-usa.

[2] For a list of such organizations, see, "Global direct investment solutions: Corporate development for a networked world", available at: http://www.gdi-solutions.com/directory/invest_usa.htm.

[3] SELECTUSA, "Federal programs and incentives for business", available at: http://www.selectusa.commerce.gov/investment-incentives.

[4] UNCTAD, "Assessing the impact of current financial and economic crisis on global FDI flows," January 2009, available at: https://wpqr1.adb.org/.../0918 BE1C4C9148EC48257567000D8869/...

In the midst of the global recession, U.S. FDI inflows and especially inbound M&As were particularly affected. The bulk of M&A purchases by foreign firms during this time took place in financial services and largely involved commercial banks attempting to restructure balance sheets and mitigate losses. A number of greenfield investments were cancelled or postponed. Despite the reduction in FDI inflows, the United States remains the largest host economy for FDI, and European MNEs and their affiliates continue to dominate FDI in that country. The position of the United States as the largest recipient of FDI inflows stems in part from its open policy toward foreign investment. The Committee on Foreign Investment in the United States monitors the impact of M&As in the United States by foreign MNEs for any national security concerns. A careful implementation of this national security regime can enhance the effectiveness of the country's open policy in promoting FDI by reducing protectionist pressure that security concerns might otherwise generate.

According to UNCTAD, global FDI flows rose moderately to US$1.3 trillion in 2010 and US$1.5 trillion in 2011, recovering toward their pre-crisis level, but still well below their 2007 peak of US$ 1.9 trillion. UNCTAD has predicted slower growth in 2012, with flows levelling off at about US$ 1.6 trillion, in line with trends observed in the first five months of 2012. Longer-term projections suggest a moderate but steady rise, to US$1.8 trillion in 2013 and US$ 1.9 trillion in 2014, barring any macro-economic shocks. [1]

Unlocking the full potential of the future global IFDI developments for the United States, as elsewhere, will depend on wise policymaking and institution building by governments and international organizations. Global FDI has not yet bounced back to pre-crisis levels, though some regions experienced a better recovery than others. One reason is the risk factor in the post-crisis business environment, such as the unpredictability of global economic governance, a possible spread of the Eurozone debt crises and fiscal and financial sector imbalances in the global economy.

Additional readings

Barefoot, Kevin B., and Marilyn Ibarra-Caton, "Direct investment positions for 2011: country and industry detail", July 2012, available at: www.bea.gov/scb/pdf/2012/07%20July/0712_dip.pdf.

Bode, E., P. Nunnenkamp and A. Waldkirch, "Spatial effects of foreign direct investment in US states", *Canadian Journal of Economics*, 45 (1) (2012), pp. 16-40.

Desai, Mihir, A. Foley, C. Fritz, and James R. Hines Jr., "The internal markets of multinational firms", *Survey of Current Business*, vol. 92. No. 9 (September 2012), available at www.bea.gov/scb/index.htm.

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[1] UNCTAD, *World Investment Report 2012*, op. cit., chapter 1.

Kornecki, Lucyna and E.M. Ekanayake, “State-based determinants of inward FDI flow in the U.S. economy”, *Modern Economy*, vol. 3, no.3 (2012), available at: http://www.scirp.org/journal/me/.

Nguyen, Elena L, “The international investment position of the United States at yearend 2011,” Survey of Current Business, July 9, 2012, available at: https://www.bea.gov/scb/pdf/2012/07%20July/0712_iip.pdf.

Useful websites

http://www.census.gov/compendia/statab/cats/foreign_commerce_aid/foreign_investment.html

http://www.commerce.gov/category/tags/foreign-direct-investment

http://www.treasury.gov/resource-center/international/Pages/Committee-on-Foreign-Investment-in-US.aspx

http://www.usa.gov/Business/Foreign-Business.shtml

http://selectusa.commerce.gov/welcome-selectusa

https://iiusa.org/

http: www.nber.org/digest/aug08/w13908.htmlwww.sec.gov/investor/pubs/ininvest.htm

http://www.bea.gov/international/di1fdiop.htm#

http://trade.gov/promotingtrade/index.asp

Annex table 1. United States: inward FDI stock, 2000-2011

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
United States	2,783	2,560	2,022	2,455	2,717	2,818	3,293	3,551	2,486	3,027	3,451	3,509
Memorandum: comparator economies												
United Kingdom	439	507	523	606	702	841	1,139	1,243	981	1,056	1,086	1199
Germany	272	272	298	395	512	476	591	695	668	677	674	714
China	193	203	217	228	245	272	293	327	378	473	579	711
Russia	32	53	71	97	122	180	266	491	216	382	423	457
Japan	50	50	78	90	97	101	108	133	203	200	215	226

Source: UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics.

Annex table 2. United States: inward FDI flows, 2000-2011

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
United States	314	159	75	53	136	105	237	216	306	153	198	227
Memorandum: comparator economies												
China	41	47	53	54	61	72	73	84	108	95	115	124
United Kingdom	119	53	24	17	56	176	156	196	91	71	51	54
Germany	198	26	54	32	-10	47	56	80	4	38	47	40
Russia	3	3	3	8	15	13	30	55	75	36	41	53
Japan	8	6	9	6	8	3	-7	23	24	12	-1	-2

Source: UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics.

Annex table 3. United States: sectoral distribution of inward FDI flows, 2000 – 2011

(US$ billion)

Sector / industry	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
All sectors / industries	314.0	159.5	74.5	53.1	135.8	104.8	237.1	216.0	306.4	144.0	198.0	227.0
Services	139.0	95.1	27.4	22.2	100.7	30.3	106.4	63.6	169	54.4	83.5	64.5
Wholesale trade	16.2	6.0	9.2	-5.3	26.6	19.9	20.9	31.8	32.9	11.6	29.6	25.7
Retail trade	4.2	5.9	0.3	4.0	0.6	0.1	2.8	-2.2	7.2	4.1	1.1	3.5
Information	25.2	51.5	5.2	1.4	15.5	-11.9	27.3	9.0	8.6	-7.8	-2.3	0.6
Depository institutions	5.8	6.4	2.1	4.2	17.9	9.4	13.8	-0.8	24.8	16.6	9.3	17.9
Finance	51	18.2	7.9	19.5	31.6	3.9	37.6	9.5	95.4	28.5	38.9	8.5
Real estate	2.5	-2.2	1.6	-3.6	2.6	1.1	0.4	7.8	-4.8	-1	-0.08	1.9
Other services	34.1	9.3	1.1	2.0	5.9	7.8	3.6	8.5	4.9	2.4	7	6.4
Manufacturing	105.1	51.1	26	18.2	21	55.5	98.5	102.8	77.1	53.4	86	91
Food	2.3	0.3	3.8	1.7	2.2	3.0	6.6	-0.5	1.3	2.8	16.3	1.8
Beverages and tobacco	5.1	2.8	3.2	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Textiles, apparel, & leather	-0.3	-0.1	-0.3	-0.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Wood products	0.4	-0.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Paper	4.4	1.4	-0.7	-0.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Printing and related activities	0.2	-0.3	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Petroleum and coal	-0.8	-1.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Chemicals	25.5	16.8	-6	8.8	11.9	16.7	30.4	42.1	-2.8	12.4	19	48.5
Plastics and rubber	2.9	-1.2	1.6	0.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nonmetallic minerals	4.9	2.5	2	0.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Primary & fabricated metals	8.2	-3.1	0.5	0.5	2	7.8	8.3	9.8	9.6	3.9	0.8	2.7
Machinery	2.2	3.6	3.9	2.1	0.5	7.3	10.0	16.7	9.2	5.5	0.5	0.8
Computers and electronics	33.1	-1.4	-6.7	2.4	-2.7	8.0	23.3	0.8	10.0	-4.0	5.0	3.0
Electrical equipment	13.3	20.5	4.5	-1.9	0.0	0.8	3.2	8.8	1.0	2.0	-0.2	3.9
Transportation equipment	1.7	9.7	6.2	3.0	2.9	6.3	-4.1	12.2	-6.2	16.0	7.0	2.0
Furniture and related	0.5	0.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other manufacturing	1.6	1.2	13.9	0.8	4.2	5.7	20.8	12.9	54.9	14.8	37.6	28.3
Other industries[a/]	32.7	13.3	21.1	12.9	14.2	19.1	32.1	49.7	60.4	36.2	28.5	71.5

Source: United States Department of Commerce, Bureau of Economic Analysis, FDI database, available at www.bea.gov/international.

[a/] Other industries include agriculture, mining, utilities, construction, transportation, holding companies, health care, accommodation, and food services.

Annex table 3a. United States: sectoral distribution of inward FDI flows, 2000 – 2011

(Percentage of total inward FDI flows)

Sector / industry	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
All sectors / industries	100	100	100	100	100	100	100	100	100	100	100	100
Services	44.3	59.6	36.8	41.8	74.2	28.9	44.9	29.4	55.2	37.8	42.2	28.4
Wholesale trade	5.2	3.8	12.3	-10.0	19.6	19.0	8.8	14.7	10.7	8.1	14.9	11.3
Retail trade	1.3	3.7	0.4	7.5	0.4	0.1	1.2	-1.0	2.3	2.8	0.6	1.5
Information	8.0	32.3	7.0	2.6	11.4	-11.4	11.5	4.2	2.8	-5.4	-1.2	0.3
Depository institutions	1.8	4.0	2.8	7.9	13.2	9.0	5.8	-0.4	8.1	11.5	4.7	7.9
Finance	16.2	11.4	10.6	36.7	23.3	3.7	15.9	4.4	31.1	19.8	19.6	3.7
Real estate	0.8	-1.4	2.1	-6.8	1.9	1.0	0.2	3.6	-1.6	-0.7	-0.04	0.8
Other services	10.9	5.8	1.5	3.8	4.3	7.4	1.5	3.9	1.6	1.7	3.5	2.8
Manufacturing	33.5	32.0	34.9	34.3	15.5	53.0	41.5	47.6	25.2	37.1	43.4	40.1
Food	0.7	0.2	5.1	3.2	1.6	2.9	2.8	-0.2	0.4	1.9	8.2	0.8
Beverages and tobacco	1.6	1.8	4.3	0.0	n.a.	n.a.	n.a	n.a.	n.a.	n.a.	n.a.	n.a.
Textiles, apparel, & leather	-0.1	-0.1	-0.4	-0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Wood products	0.1	-0.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Paper	1.4	0.9	-0.9	-0.6	n.a.	n.a,	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Printing and related activities	0.1	-0.2	0.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Petroleum and coal	-0.3	-1.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Chemicals	8.1	10.5	-8.1	16.6	8.8	15.9	12.8	19.5	-0.9	8.6	9.6	21.4
Plastics and rubber	0.9	-0.8	2.1	0.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nonmetallic minerals	1.6	1.6	2.7	1.7%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Primary & fabricated metals	2.6	-1.9	0.7	0.9	1.5	7.4	3.5	4.5	3.1	2.7	0.4	1.2
Machinery	0.7	2.3	5.2	4.0	0.4	7.0	4.2	7.7	3.0	3.8	0.3	0.4
Computers and electronics	10.5	-0.9	-9.0	4.5	-2.0	7.6	9.8	0.4	3.3	-2.8	2.5	1.3
Electrical equipment	4.2	12.9	6.0	-3.6	0.0	0.8	1.3	4.1	0.3	1.4	-0.1	1.7
Transportation equipment	0.5	6.1	8.3	5.6	2.1	6.0	-1.7	5.6	-2.0	11.1	3.5	0.9
Furniture and related	0.2	0.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other manufacturing	0.5	0.8	18.7	1.5	3.1	5.4	8.8	6.0	17.9	10.3	19.0	12.5
Other industries	10.4	8.3	28.3	24.3	10.5	18.2	13.5	23.0	19.7	25.1	14.4	31.5

Source: United States Department of Commerce, Bureau of Economic Analysis, FDI database, available at www.bea.gov/international.

Note: "n.a." denotes "not available".

Annex table 4. United States: geographical distribution of inward FDI flows, 2000-2011
(US$ billion)

Region / economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
World	314	159.5	74.5	53.1	135.8	104.8	237.1	216	306.4	146.6	197.9	226.9
Developed economies												
Europe	251	140.7	45.4	22.8	80.7	77.9	182.6	124.6	234.3	99.0	150.3	133.0
Austria	-0.2	-0.2	1.1	0.0	0.2	-1.0	-0.2	0.6	0.4	0	0.1	0.2
Belgium	3.9	0.2	-2.7	1.8	1.3	-1.6	0.5	12.8	-1.0	13	7.4	10.3
Denmark	-0.5	-0.9	3.0	0.6	0.2	1.0	0.9	0.2	0.5	1.2	0.6	1.0
France	51.0	14.5	4.6	4.5	10.7	10.1	29.1	5.8	13.0	25.4	9.0	4.0
Germany	14.1	40.2	2.0	12.3	7.1	12.1	39.5	-12.7	17.1	12.3	17.0	13.9
Ireland	5.1	1.9	2.0	-4.8	-5.2	1.9	6.5	5.0	-0.3	-1.4	6.0	-2.2
Italy	2.0	0.5	0.4	-0.2	1.2	0.6	3.2	5.5	5.9	-2.5	1.3	3.0
Luxembourg	30.9	-21.5	-1.1	14.3	7.3	4.2	17.9	16.1	6.8	17.4	28.4	22.0
Netherlands	33.5	24.0	4.3	6.4	8.2	-1.9	25.5	26.0	75.3	5	26.8	1.0
Spain	6.4	-0.2	0.0	0.7	0.5	2.3	7.2	15.3	9.3	4.6	4.0	6.0
Sweden	3.5	-0.4	0.0	0.0	2.5	-1.2	-2.4	20.3	-7.7	1.4	11.0	3.0
United Kingdom	82.7	2.8	21.3	-4.4	28.1	36.1	38.5	25.4	52.6	18.4	24.0	47.0
Other	6.7	17.8	0.7	-5.3	6.2	8.7	15.0	8.6	16.7	4.2	14.7	23.8
North America												
Canada	27.3	9.2	4.6	7.1	33.2	14.9	14.8	43.9	16.8	30.4	5.5	18.7
Asia and Oceania												
Australia	4.9	6.5	6.6	3.4	3.1	-5.3	2.2	6.0	4.6	-3.9	3.2	17.0
China			-0.1	-0.1	0.2	0.1	0.3	0.0	0.5	0.5	1.2	0.6
Japan	7.8	-3.1	6.5	8.5	17.5	14.2	16.5	21.1	22.3	6.5	17.7	18.6
Hong Kong (China)	0.7	0.1	0.7	0.0	1.9	0.8	0.1	0.4	0.4	-0.01	0.2	0.5
Developing economies												
Africa	0.7	-0.3	0.0	0.0	-0.6	0.3	0.3	-0.1	1.0	-0.7	1.1	2.1
South Africa	0.2	-0.1	-0.1	0.0	-0.1	-0.2	0.1	-0.3	0.4	-0.2	0.1	0.3
Other	0.5	-0.2	0.1	0.0	-0.5	0.5	0.1	0.2	0.5	-0.5	1.0	1.8
Latin America and the Caribbean	12.7	8.2	10.3	9.2	-2.9	-3.2	11.8	2.5	8.8	8	15	18.4
Bermuda	3.0	-6.5	-0.1	-3.5	-0.6	-5.4	7.0	-4.8	4.5	1.1	5	-1.5
Brazil	0.1	-0.3	0.3	-0.3	0.7	1.0	-0.5	0.5	0.3	-1.5	2.47	3.7
Mexico	5.1	-0.7	2.3	2.2	-0.6	0.0	2.3	0.3	0.7	2.5	0.17	2.3
British Virgin Islands	3.8	13.0	2.1	3.8	-3.9	0.0	3.8	8.3	3.7	2.5	7	12.2
Venezuela	0.6	-0.3	0.1	-0.1	0.6	0.3	-1.4	-2.0	-1.5	0.2	0.3	1.0
Other	0.2	3.1	5.5	7.1	0.9	1.0	0.5	0.3	1.1	3.2	0.1	0.7
Other economies	8.9	-1.7	0.5	2.3	2.9	5.0	8.7	17.7	17.6	6.8	3.7	18.0

Source: United States Department of Commerce, Bureau of Economic Analysis, FDI database, available at: www.bea.gov/international.

Annex table 4a. United States: geographical distribution of inward FDI flows, 2000-2011

(Percentage of total inward FDI flows)

Region / economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
World	100	100	100	100	100	100	100	100	100	100	100	100
Developed economies												
Europe	80.0	88.2	60.9	42.8	59.4	74.3	77.0	57.7	76.5	67.5	75.9	58.6
Austria	-0.1	-0.1	1.5	0.1	0.2	-1.0	-0.1	0.3	0.1	0.0	0.1	0.1
Belgium	1.2	0.2	-3.6	3.3	1.0	-1.5	0.2	5.9	-0.3	8.9	3.7	4.5
Denmark	-0.2	-0.6	4.1	1.1	0.1	1.0	0.4	0.1	0.2	0.8	0.3	0.4
France	16.2	9.1	6.2	8.5	7.9	9.6	12.3	2.7	4.2	17.3	4.5	1.8
Germany	4.5	25.2	2.7	23.1	5.2	11.5	16.7	-5.9	5.6	8.4	8.6	6.1
Ireland	1.6	1.2	2.7	-8.9	-3.9	1.8	2.8	2.3	-0.1	-1.0	3.0	-1.0
Italy	0.6	0.3	0.5	-0.4	0.9	0.6	1.4	2.5	1.9	-1.7	0.7	1.3
Luxembourg	9.8	-13.5	-1.5	27.0	5.4	4.0	7.6	7.4	2.2	11.9	14.4	9.7
Netherlands	10.7	15.1	5.8	12.0	6.0	-1.8	10.8	12.0	24.6	3.4	13.5	0.4
Spain	2.0	-0.1	0.1	1.3	0.3	2.2	3.0	7.1	3.0	3.1	2.0	2.6
Sweden	1.1	-0.2	0.0	0.0	1.8	-1.2	-1.0	9.4	-2.5	1.0	5.6	1.3
United Kingdom	26.3	1.8	28.5	-8.3	20.7	34.5	16.3	11.8	17.2	12.6	12.1	20.7
Other	2.1	11.1	0.9	-10.0	4.5	8.3	6.3	4.0	5.5	2.9	7.4	10.5
North America												
Canada	8.7	5.8	6.2	13.3	24.4	14.2	6.2	20.3	5.5	20.7	2.8	8.2
Asia and Oceania												
Australia	1.6	4.1	8.9	6.4	2.3	-5.0	0.9	2.8	1.5	-2.7	1.6	7.5
China	0.0	0.0	-0.2	-0.1	0.1	0.1	0.1	0.0	0.2	0.3	0.6	0.3
Japan	2.5	-2.0	8.7	16.1	12.9	13.5	6.9	9.8	7.3	4.4	8.9	8.2
Developing economies												
Africa	0.2	-0.2	0.0	-0.1	-0.4	0.3	0.1	0.0	0.3	-0.5	0.5	0.9
Latin America and Caribbean	4.1	5.2	13.9	17.3	-2.2	-3.0	5.0	1.2	2.9	5.5	7.6	8.1
Other countries	3.0	-1.0	1.6	4.2	3.5	5.5	3.7	8.4	5.9	4.6	1.9	8.0

Source: U.S. Department of Commerce, Bureau of Economic Analysis, FDI database, available at: www.bea.gov/international.

Annex table 5. United States: principal foreign affiliates, ranked by revenue, 2010

Rank 2010	Rank 2000	Foreign investor	Home economy	Name of affiliate	Industry	Revenue (US $ billion)
1	6	Royal Dutch Shell	Netherlands	Shell Oil	Oil	285.1
2	7	BP	United Kingdom	BP America	Oil	246.1
3	8	Toyota Motor	Japan	Toyota Motor North America	Automobile	204.2
4	20	AXA Group	France	AXA Group	Insurance	175.3
5	9	ING Group	Netherlands	ING America Insurance Holdings	Diversified finance	163.2
6	36	Volkswagen	Germany	Volkswagen of America	Automobile	146.2
7	38	Daimler AG	Germany	Daimler (U.S.)	Automobile	109.7
8	890	Samsung	Korea, Rep. of	Samsung Electronics	Semiconductor equipment and products	108.9
9	1	HSBC Holdings	United Kingdom	HSBC Bank USA	Banking	103.7
10	50	Siemens	Germany	Siemens	Electrical engineering, electronics	103.6
11	45	Nestle	Switzerland	Nestle USA	Food, nutrition, health care, cosmetics	99.1
12	68	Honda Motor	Japan	Honda North America	Automobile	92.4
13	172	Deutsche Telekom	Germany	T Mobile	Telecom services	89.8
14	96	Nissan Motor	Japan	Nissan Motor (U.S.)	Automobile	80.9
15	182	Sony	Japan	Sony Corporation of America	Consumer electronics, entertainment	77.7

Source: Information compiled by the Organization for International Investment & RSM McGladrey, available from: http://www.ofii.org/resources.

Annex table 6. United States: main M&A deals, by inward investing firm, 2008-2011

Year	Acquiring company	Home economy	Target company	Target industry	Shares Acquired (%)	Value (US$ million)
2011	Sanofi-Aventis SA	France	Genzyme Corp	Biological products	100.0	21,230
2011	BHP Billiton Ltd	Australia	Petrohawk Energy Corp	Crude petroleum and natural gas	100.0	11,766
2011	Mitsubishi UFJ Finl Grp Inc	Japan	Morgan Stanley	Offices of bank holding companies	100.0	7,800
2011	Ensco PLC	United Kingdom	Pride International Inc	Drilling oil and gas wells	100.0	7,306
2011	Teva Pharmaceutical Industries	Israel	Cephalon Inc	Pharmaceutical preparations	100.0	6,311
2011	Toronto-Dominion Bank	Canada	Chrysler Financial Corp	Personal credit institutions	100.0	6,300
2011	BHP Billiton Ltd	Australia	Chesapeake Energy Corp.	Crude petroleum and natural gas	100.0	4,750
2011	Bank of Montreal	Canada	Marshall & Ilsley Corp.	National commercial banks	100.0	4,095
2011	ABB Ltd	Switzerland	Baldor Electric Co	Motors and generators	90.0	3,895
2011	Unilever PLC	United Kingdom	Alberto-Culver Co	Perfumes, cosmetics	100.0	3,842
2011	Grifols SA	Spain	Talecris Biotherapeutics Holdings Corp	Pharmaceutical preparations	100.0	3,560
2011	Investor Group	Singapore	Frac Tech Holdings LLC	Oil and gas field services	100.0	3,500
2010	Merck KGaA	Germany	Millipore Corp	Laboratory instruments	100.0	6,126.5
2010	Royal Dutch Shell PLC	Netherlands	East Resources Inc	Crude petroleum and natural gas	100.0	4,700.0
2010	Reynolds Group Holdings Ltd	New Zealand	Pactiv Corp	Plastics foam products	100.0	4,516.6
2010	KDDI Corp	Japan	Liberty Global-Subsidiaries(3)	Cable and other pay television services	100.0	4,000.0
2010	Nestle SA	Switzerland	Kraft Foods Inc-North American	Frozen specialties	100.0	3,700.0
2010	Goldcorp Inc	Canada	Andean Resources Ltd	Gold ores	100.0	3,373.9
2010	Brookfield Asset Mgmt Inc	Canada	General Growth Properties Inc	Real estate investment trusts	35.5	3,270.0
2010	PRISA	Spain	Liberty Acq Hldgs Corp	Investment offices	100.0	2,220.0
2010	Noble Corp	Switzerland	FDR Holdings Ltd	Drilling oil and gas wells	100.0	2,160.0

2010	Hexagon AB	Sweden	Intergraph Corp	Prepackaged software	100.0	2,125.0
2009	Roche Holding AG	Switzerland	Genentech Inc	Biological products, except diagnostic substances	47.8	46,694.8
2009	Preferred Shareholders	Unknown	Citigroup Inc	Nat. commercial banks	38.8	28,078.3
2009	Preferred Shareholders	Unknown	Bank of America Corp	National commercial banks	10.4	9,498.5
2009	Electricite de France Intl SA	France	Constellation Energy Nuclear	Electric services	50	4,500.0
2009	Sanofi-Aventis SA	France	Merial Ltd	Pharmaceutical preparations	50	4,000.0
2009	GlaxoSmithKline PLC	United Kingdom	Stiefel Laboratories Inc	Pharmaceutical preparations	100.0	3,600.0
2009	Warner Chilcott PLC	Ireland	Procter & Gamble Pharm Inc	Pharmaceutical preparations	100.0	3,100.0
2009	Advanced Tech Invest Co LLC	United Arab Emirates	Advanced Micro-Mnfg Facilities	Semiconductors and related devices	65.8	2,900.0
2009	Grupo Bimbo SAB de CV	Mexico	Dunedin Hldg-US Bread Making	Bread and bakery products	100.0	2,500.0
2009	Grupo Industrial Minera Mexico	Mexico	ASARCO LLC	Copper ores	100.0	2,200.0
2009	Banco Santander SA	Spain	Sovereign Bancorp Inc	Chartered Saving institutions, fed.	75.7	1,910.2
2009	K+S AG	Germany	Morton International Inc	Chemicals and chemical prep.	100.0	1,675.0
2008	InBev NV	Belgium	Anheuser-Busch Cos Inc	Malt beverages	100.0	52,177.7
2008	Teva Pharmaceutical Industries	Israel	Barr Pharmaceuticals Inc	Pharmaceutical preparations	100.0	8,810.2
2008	Toronto-Dominion Bank	Canada	Commerce Bancorp,New Jersey	National commercial banks	100.0	8,638.2
2008	Nokia Oyj	Finland	NAVTEQ Corp	Prepackaged Software	100.0	7,953.6
2008	Mitsubishi UFJ Finl Grp Inc	Japan	Morgan Stanley	Offices of bank holding companies	21.9	7,839.2
2008	Abu Dhabi Investment Authority	United Arab Emirates	Citigroup Inc	National commercial banks	4.9	7,500.0
2008	Government of Singapore Invest	Singapore	Citigroup Inc	National commercial banks	4.2	6,880.0
2008	Investor Group	Australia	MidCon Corp	Natural gas transmission	80	6,575.0
2008	Fresenius SE	Germany	APP Pharmaceuticals	Pharmaceutical	100.0	5,628.0
2008	SAP AG	Germany	Business Objects SA	Prepackaged software	78	5,511.0

Source: The author, based on Thomson ONE Banker, Thomson Reuters.

Annex table 7. United States: main greenfield projects, by inward investing firm, 2008-2010

Date	Company Name	Source country	Sector	Business activity	Investment (US$ billion)
2010	Samsung	Rep. of Korea	Semiconductors	Manufacturing	3.6
2010	Solar Millennium	Germany	Alternative/renewable energy	Electricity	3.5[a]
2010	Nissan	Japan	Electronic components	Manufacturing	1.7
2010	Blue Chip Energy Gmbh	Austria	Electronic components	Electricity	1.5[a]
2010	Iberdrola	Spain	Transportation	Logistics, distr. & transportation	1.4
2010	Gestamp Group	Spain	Alternative/renewable energy	Electricity	1.2[a]
2010	Shin-Etsu Chemical	Japan	Plastics	Manufacturing	1.1
2010	Iberdrola	Spain	Alternative/renewable energy	Electricity	1.1[a]
2010	Formosa Plastics Group (FPG)	Taiwan Province of China	Chemicals	Manufacturing	0.9
2010	Tower Semiconductor	Israel	Semiconductors	Manufacturing	0.9[a]
2009	Royal Dutch Shell Plc	Netherlands	Coal, oil and natural gas	Manufacturing	7.0
2009	Enbridge Energy	Canada	Coal, oil and natural gas	Logistics, distribution. and transportation	4.4
2009	Energias de Portugal	Portugal	Alternative/renewable energy	Electricity	4.0
2009	British Petroleum (BP)	United Kingdom	Coal, oil and natural gas	Manufacturing	2.5
2009	TransCanada	Canada	Coal, oil and natural gas	Logistics, distribution and transportation	2.0
2009	Shin-Etsu Chemical	Japan	Semiconductors	Manufacturing	2.0[a]
2009	EnCana	Canada	Coal, oil and natural gas	Manufacturing	1.9
2009	Albiasa Gestion Industrial SA	Spain	Alternative/renewable energy	Electricity	1.0
2009	GDF SUEZ	France	Coal, oil and natural gas	Electricity	1.0
2009	Lukoil	Russia	Coal, oil and natural gas	Manufacturing	1.0
2009	Wacker	Germany	Chemicals	Manufacturing	1.0
2009	GTL Energy	Australia	Coal, oil and natural gas	Manufacturing	1.0[a]
2009	Tianjin Pipe	China	Industrial machinery, equipment and tools	Manufacturing	1.0
2008	TransCanada	Canada	Coal, oil and natural gas	Logistics, distribution and transportation	30.0
2008	TransCanada	Canada	Chemicals	Logistics, distribution and transportation	7.0
2008	Advanced Technology Investment Company	United Arab Emirates	Semiconductors	Manufacturing	2.8[a]
2008	Areva Group	France	Alternative/renewable energy	Manufacturing	2.7
2008	Areva Group	France	Alternative/renewable energy	Manufacturing	2.7
2008	Total	France	Coal, oil and natural gas	Manufacturing	2.2
2008	Areva Group	France	Alternative/renewable energy	Manufacturing	2.0
2008	Marquard & Bahls	Germany	Coal, oil and natural gas	Logistics, distribution. and transportation	1.8
2008	Essar Group	India	Metals	Manufacturing	1.6

2008	Eni SpA (Eni)	Italy	Coal, oil and natural gas	Extraction	1.5

Source: The author, based on fDi Intelligence, a service from the Financial Times Ltd.
[a] Expected value.

United States of America: Outward FDI and its policy context, 2010

Marilyn Ibarra-Caton and Raymond Mataloni Jr.[*]

United States (U.S.) OFDI was $65 billion during the third quarter of 2009 (annex figure 1). The average flow during the seven quarters of the current recession (Q1:2008 to Q3:2009) decreased 17 percent, compared with the last seven quarters of the expansion that preceded it (Q2:2006 to Q4:2007; henceforth "expansionary period"). The pronounced decline in U.S. OFDI parallels the broader falloff in business investment worldwide in the current economic recession. Despite the slowdown in U.S. OFDI flows, they remained over 25 percent higher than the average for the preceding five years, which is partly attributable to the continuing attraction of big emerging markets.

A protracted recession

The current recession, which began in December 2007, could rank as the longest U.S. economic downturn since the Great Depression. In addition to the severe economic downturn of the U.S. economy, global economic indicators have registered sharper declines than in the previous two global recessions of 1981 and 1990.[1] Has the severity and duration of the current global recession corresponded with a severe and sustained reduction in flows of U.S. OFDI? During the current recession, these flows fell 17 percent in current dollars, to $483 billion, from $585 billion in the expansionary period. Over three-fourths of the decline occurred in net equity capital flows—largely payments to acquire or establish new foreign affiliates (annex figure 1). During the current recession, equity capital flows were $101 billion, or 50 percent lower than the $202 billion in the expansionary period. Changes in the two other components of FDI—reinvested earnings and intercompany debt—accounted for a small decline in flows of U.S. OFDI. Reinvested earnings—the parent firms' share of affiliates' earnings that are reinvested--declined 5 percent during the current recession. Intercompany debt flows—loans between parent firms and affiliates—are a very small component of U.S. OFDI and are extremely volatile; they change direction frequently because the loans, which are often for the purpose of providing short term financing for intra-firm trade, tend to be repaid soon after they are created.

Equity capital flows for new investments experienced a sharp decline (49 percent) during the current recession. The pronounced decline in equity capital flows for new investment coincided with a worldwide decline in global merger and acquisition activity. According to Thompson Reuters, global merger and acquisition activity fell by 40 percent during the current recession, from the expansionary period. In Europe, the value of merger and acquisition activity decreased 34 percent and, in Asia Pacific, it decreased 27 percent. A sharp decline also occurred in the average size of U.S. OFDI transactions which fell by 34% from $230 million in the expansionary period to $150 million in the current recession. This tracks the 34% decline that Thompson Reuters reports in the average size of global transactions between the two periods.

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[1] M. Ayhan Kose, Prakash Loungani and Marco E. Terrones, "Out of the ballpark," 46 (2) *Finance & Development* (June 2009).

Long term trends in equity capital flows for new investments become more apparent when viewed in the context of a moving average because a single large transaction can dominate flows in any given period. A four-quarter moving average reveals that movements in equity capital flows for new investments have not always paralleled movements in the business cycle (annex figure 2). For example, the increase that began in the third quarter of 2003 peaked in the fourth quarter of 2004 and then began a decline that lasted until the second quarter of 2006; this decline was not associated with a worldwide drop in economic activity, according to data from the United Nations, or with a drop in worldwide M&A activity, according to data from Thompson Reuters (annex figure 2).

The increase in equity capital flows for new investments that began in the third quarter of 2006 and continued through 2007 was propelled by acquisitions or establishments of affiliates in various industries, including finance (except banks) and insurance; oil and gas extraction; wholesale and retail trade; professional, scientific, and technical services; and several manufacturing industries, such as pharmaceuticals, transportation equipment, and machinery.

The decline in equity capital outflows for new investments has been accompanied by a decline in equity capital *in*flows, resulting from the sale of foreign affiliates. Selloffs declined by 48 percent during the current recession compared with the expansionary period; this decrease is similar to the 51 percent decline in outflows. The paucity of sell-offs and new investments may be related to difficulties in financing deals in the current risk-averse environment and to banks' reluctance or inability to renew and extend credit lines and insistence on tighter credit terms. These factors may have played a role in shrinking the pool of potential buyers.

During the current recession, U.S. parents firms chose to reinvest about the same share of their affiliates' earnings as they did in the expansionary period. Unlike equity capital flows which declined at the onset of the recession—in the first quarter of 2008—reinvested earnings and total earnings held up through the second quarter of 2008 as affiliates' earnings were boosted by the depreciation of the dollar against many foreign currencies and by growth in global economic activity through the first quarter of 2008. The share of earnings reinvested trended upward through 2008, indicating that parent firms were still choosing to invest in their foreign affiliates rather than remit their earnings to the United States (annex figure 3).

The attraction of emerging markets

Despite weak economic conditions, U.S. multinationals have continued to expand their investments in newly emerging markets at a more rapid rate than in advanced economies. Average quarterly U.S. OFDI decreased 14 percent for low-to-middle-income countries during the current recession, compared with 39 percent for high-income countries.[1] This pattern primarily reflects the attraction of new, rapidly growing consumer markets in emerging markets where foreign affiliates of U.S. multinationals typically sell most of their output to local customers. To illustrate the potential of one of these new markets,

[1] These figures exclude investments in countries that tend to host a disproportionate number of holding companies. A significant portion of direct investment capital flows associated with these countries are ultimately destined for use by affiliates in other countries. See, for example, "Holding companies in the data on U.S. direct investment abroad," in Marilyn Ibarra and Jennifer Koncz, "Direct investment positions for 2008: country and industry detail," *Survey of Current Business,* 89 (July 2009), p.25.

consider that there were only about 10 automobiles per 1,000 people in China in 2005, compared with 500 per 1,000 people in the United States.[1]

These burgeoning national markets present attractive business opportunities that are at least partially sheltered from the effects of business cycles elsewhere in the world. The rate of return for U.S. FDI abroad has remained significantly higher in the big emerging markets than in the more advanced economies during the current recession. In high income countries, it was roughly 10 percent, compared with nearly 20 percent in low-to middle-income countries.[2] U.S. multinationals have tended to reinvest their affiliates' profits to expand their business ventures abroad and to seek out new opportunities; this pattern has continued in the emerging markets.

Many U.S. firms find that they must serve these foreign markets through direct investment rather than through exports from the United States. Having a local presence allows firms to be more responsive to customers and, in many cases, to offer a lower price. For large markets, like China, foreign affiliates are increasingly conducting their own R&D in order to tailor products to local tastes and to comply with local regulations. R&D expenditures by Chinese affiliates of U.S. companies, for example, increased from less than $50 million in 1997 to over $1.1 billion in 2007.[3] Production of goods in the host country also allows firms to avoid the shipping costs that would have to be incurred if they chose to serve these markets by exporting from the United States. Production of services in the host country is often necessary, either because proximity to the customer is necessary to deliver the service or because of restrictions on the provision of certain services by nonresidents. Nearly three-quarters of total sales by Chinese and Indian affiliates of U.S. companies were to local customers in 2007.[5] An additional attraction of emerging markets is that labor costs there are usually significantly lower than those in the United States, although finding workers with the necessary skills can be difficult.

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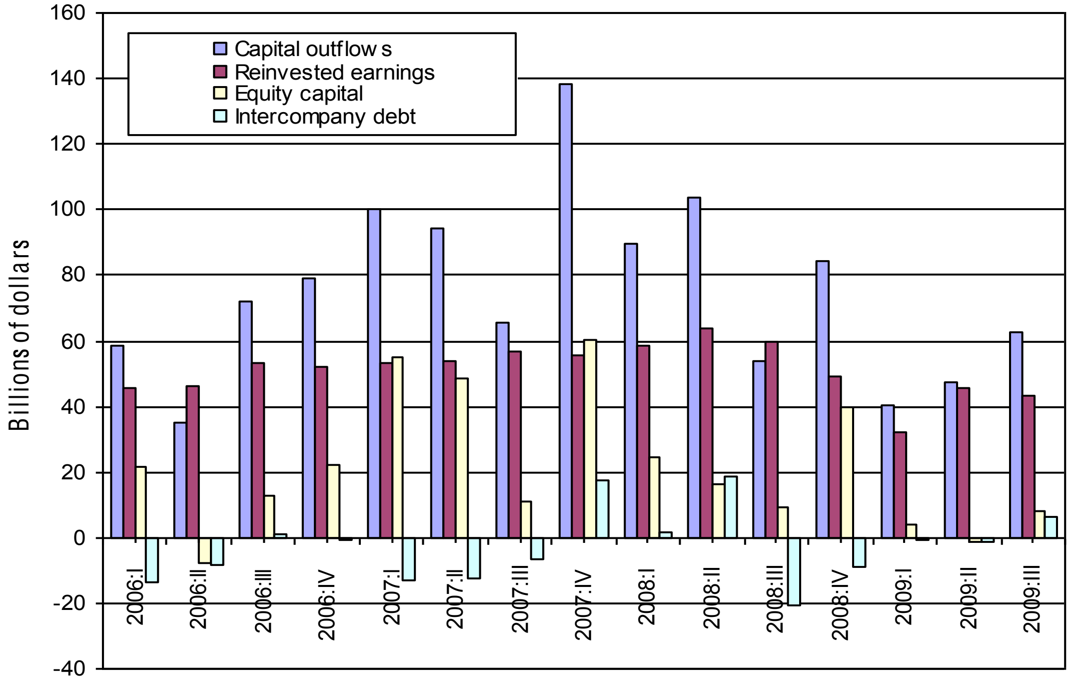
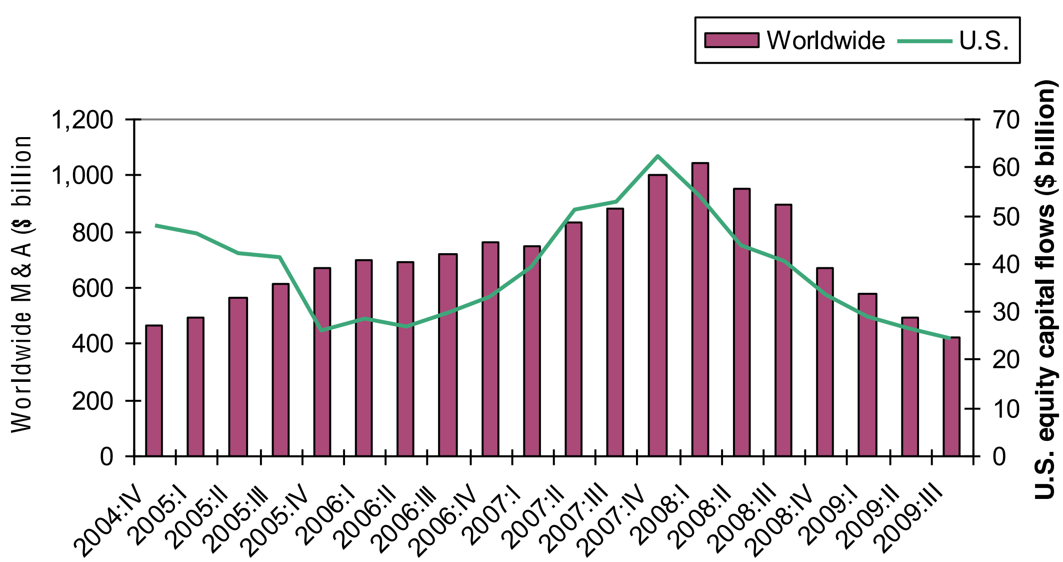
[1] L. Alan Winters and Shahid Yusef (eds.), *Dancing with Giants: China, India, and the Global Economy* (Washington D.C.: World Bank, 2007).
[2] These rates of return were calculated as the ratio of direct investment income to the average of the beginning- and end-of-period direct investment positions. The imprecision of the resulting estimates is a result of the denominator being at historical cost, which, in most cases, is the original cost of the investment. Under normal (inflationary) price conditions, older assets will be undervalued relative to newer assets and, thus, yield an overstated rate-of-return. For this reason, the estimates presented here are intended *only to give a rough impression* of the relative rates of return in highly developed economies and in emerging markets. For an exposition of the valuation issues involved, and for a description of methods to estimate rates of return in current-period prices, see Ned G. Howenstine and Ann M. Lawson, "Alternative measures of the rate of return on direct investment," *Survey of Current Business*, 71 (August 1991), pp. 44-45.
[3] U.S. Bureau of Economic Analysis, https://www.bea.gov.

Annex figure 1. Quarterly flows on U.S. outward foreign direct investment, by component, seasonally adjusted, 2006:Q1-2009:Q3



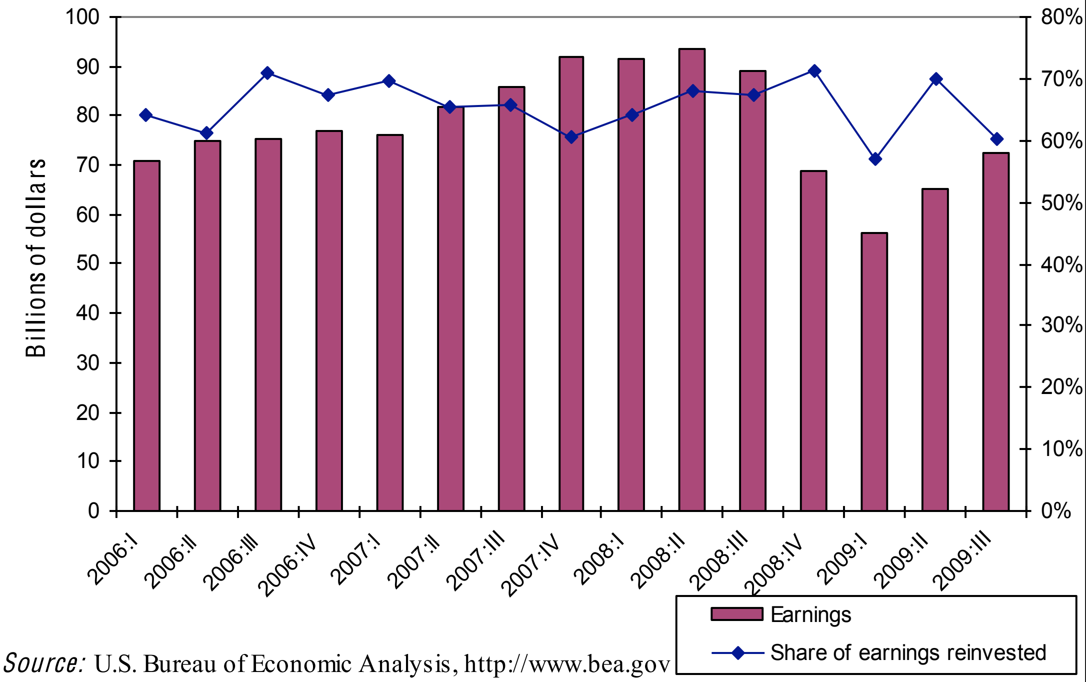
Source: U.S. Bureau of Economic Analysis, http://www.bea.gov

Annex figure 2. Equity capital flows for new U.S. investments abroad and value of worldwide mergers and acquisitions, four-quarter moving average, 1999:Q1 to 2009 Q3



Source: U.S.Bureau of Economic Analysis, http://www.bea.gov, and Thomson Reuters M&A

Annex figure 3. Seasonally adjusted quarterly earnings and the share of earnings reinvested, 2006:Q1 to 2009:Q3



Source: U.S. Bureau of Economic Analysis, http://www.bea.gov

PART II

EMERGING MARKETS

Chapter 22 - Argentina

Argentina: Inward FDI and its policy context, 2010

Beatriz Nofal and Carolina Fernandez[*]

With a long-standing tradition of an international business presence, Argentina followed an open investment policy since its early stages of development. The most recent wave of foreign direct investment (FDI) growth took place between 2004 and 2008, with investments primarily in the manufacturing, natural resources and new technology sectors. In 2008, IFDI flows reached US$ 10 billion, positioning the country as a relevant investment destination worldwide. Moreover, with a 50% annual increase, Argentina was one of the ten fastest growing FDI destinations in the world.[1] In 2009, IFDI contracted due to the global economic crisis in line with the rest of the world.

Trends and developments

Country-level developments [2]

Beginning in the late 19th century, Argentina registered four distinct waves of IFDI, the first under the agro-export model of development and the following under import substitution industrialization. In the following wave in the 1990s, FDI was fuelled initially by a broad privatization process and later driven by a widespread series of M&As, both mainly targeting services, public utilities and the oil sector. The two trends were reflected in the high share of changes in ownership in FDI inflows in the period, which accounted for 57% of total flows. As a result, while FDI inflows reached an annual average of US$ 7 billion during the 1990-2000 period,[3] flows net of privatizations averaged US$ 5 billion,[4] and flows net of all changes in ownership recorded a lower annual average of US$ 4 billion for the same period.

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* The authors wish to thank Alicia Caballero, Diego Finchelstein, Nicole Moussa, and Carlos Razo for their helpful comments. First published May 17, 2010.

[1] ProsperAr based on UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (New York and Geneva: United Nations, 2009). The ranking is based on all countries receiving more than US$ 5 billion in FDI inflows in 2008.

[2] FDI data cited in this section and in annex tables 1 through 4 come from the two main official sources responsible for recording FDI statistics in Argentina: the National Office for International Statistics at the National Institute of Statistics and Census (INDEC) and Argentina's Central Bank (BCRA). Both sources follow the methodology established in the International Monetary Fund's *Balance of Payments Manual* (fifth edition). Data on FDI flows are based on INDEC statistics, which are also the source for UNCTAD and IMF. FDI stock data from 2000 to 2003 are also cited from INDEC reports. Stock data from 2004 to 2008 are cited from BCRA reports, which offer more details for those years.

[3] This average figure includes the extraordinary FDI inflow received in 1999 (US$ 24 billion) mainly due to Repsol's purchase of the oil and gas company YPF, the country's largest company. This unique operation accounted for more than 60% of FDI flows that year and included the purchase of outstanding shares still held by the public sector and the associated purchase of YPF's publicly traded shares dispersed among minority shareholders.

[4] Figure corresponds to average annual inflows net of privatizations and net of Repsol's associated purchase in 1999 of YPF publicly traded shares. Figures net of privatizations are presented with the sole purpose of providing a homogeneous measure of comparison of FDI inflows over time. State-owned companies in Argentina (in the public utilities and energy sectors) were all sold during the wave of privatization of the 1990s, resulting in exceptional inflows of FDI. Given that privatizations are one-off events, a comparison of total FDI flows received during the 1990s with those corresponding to the period under analysis (2000-2008) could lead to inaccurate conclusions.

Growing foreign investments were reflected in an expanding FDI stock that reached US$ 80 billion in 2001 (annex table 1).

IFDI flows declined sharply in 2001 due to domestic and international developments. The effects of the global decline in FDI flows (41%) were magnified locally by the convertibility crisis in Argentina, severely impacting FDI inflows to the country: they dropped by 79% (annex table 2). Furthermore, the effect of the peso devaluation resulted in a sharp drop in the dollar value of the IFDI stock, which was cut by almost half to US$ 43 billion in 2002.

During the period 2002-2003, foreign affiliates underwent a phase of reorganization and restructuring after the local crisis, with FDI inflows contracting at the domestic level as well as globally. By 2002, following the peso devaluation, debt levels of foreign affiliates in Argentina rose to 67% of assets.[1] In this context, many companies were forced to reduce and restructure their debt, returning to healthy balance sheets remarkably fast.

Between 2004 and 2008, rapid economic growth, increased domestic demand, high levels of profitability, and renewed competitiveness - combined with a favorable international environment - contributed to a vigorous expansion of FDI inflows. For five consecutive years, inflows expanded at a compound annual growth rate of 43%, substantially higher than the growth rate for the world (25%) and developing countries (28%) over the same period. As a result, annual inflows reached an average of US$ 6 billion during 2004-2008, surpassing since 2005 average annual flows net of privatizations registered in the 1990s.

The IFDI stock rose steadily, to reach the 2001 level of US$ 80 billion again in 2008 (annex table 1), a level that placed Argentina among the leading FDI recipients in Latin America, below Brazil, Mexico and Chile. In a broader context, Argentina ranked 14th among emerging markets in FDI stock in 2008.

During the 2004-2008 growth phase, FDI was mainly driven by greenfield investments by both already established foreign affiliates and new international companies entering the local market. As a result, changes in ownership (i.e. M&As and privatizations) represented only a fraction (7%) of total FDI flows in the five year period, down from 57% during the 1990s. The new composition of FDI flows is evidence of improvements in the quality of foreign investment in Argentina, as greenfield investments tend to make greater contributions to capital formation and employment than M&A operations.[2] The rise in reinvested earnings as a share of total FDI, which accounted for an average of 25% between 2005-2008, is also noteworthy.

The sectoral distribution of the IFDI stock of Argentina has been relatively stable since 2004 (annex table 3). Manufacturing, natural resources and services (including financial services) each accounted for approximately one third of the total stock on average during this phase (35%, 34%, 31%, respectively). A closer look at FDI flows reveals a trend of a growing share of manufacturing at the expense of natural

[1] G. Bezchinsky, M. Dinenzon, L. Giussani, O. Caino, B. Lopez, and S. Amiel, "Inversión extranjera directa en la Argentina. Crisis, reestructuración y nuevas tendencias después de la convertibilidad," in B. Kossacoff, ed., *Crisis, Recuperación y Nuevos Dilemas: La Economía Argentina 2002-2007* (Buenos Aires: ECLAC, 2007), p. 162.

[2] Both greenfield and M&A operations can foster technology transfers that result in productivity gains. However, part of the productivity gains associated with M&As tend to be a consequence of employment rationalization.

resources. Specifically, the manufacturing sector's share in FDI inflows rose from 40% in 2005 to 58% in 2008, while natural resources, which accounted for 30% in 2005, declined to 12% in 2008. The recent dynamism of the IT and software sector in Argentina is also worth highlighting as the presence of leading global companies in this sector has continued to increase in recent years.[1]

In terms of the geographical distribution of the IFDI stock, Europe remained the main source for FDI in Argentina, followed by North America and South America. The top five investors measured by the value of their FDI stock in Argentina in 2008 were Spain, the United States, the Netherlands, Brazil, and Chile. In terms of flows, Spain led most years, but was surpassed by Brazil for the first time in 2008 (annex table 4).

The importance of Brazil as a home country for FDI in Argentina is a relatively new phenomenon. The upward trend of Brazilian investments since 2002 is a consequence of a combination of four factors: first, opportunities brought about by the recovery and rapid expansion of the Argentine economy following the 2001-2002 crisis; second, Brazil's economic growth combined with the financial support provided by BNDES[2] for the internationalization of its firms; third, the fact that top-tier Argentine companies were, and in some cases still are, relatively undervalued, creating an acquisition opportunity for Brazilian companies, underscored by the relative strength of the Brazilian currency *vis-à-vis* the Argentine peso. Finally, the fourth factor was the regional integration and the close partnership between the two countries, institutionalized by MERCOSUR, which played a key role in making Argentina a natural first step in the internationalization process of Brazilian companies. Brazil's greater share of FDI reflects a broader trend in which capital from developing countries has a growing role in overall FDI in Argentina.

The profitability of foreign affiliates in Argentina rose considerably in recent years. Earnings as a percentage of the FDI stock reached 9.1% on average between 2004 and 2008, compared to 6.1% on average between 1992 and 2000. A national survey of the 500 largest non-financial companies in Argentina also revealed that gross margins (profits/sales) were considerably higher for foreign affiliates (15.3%) than for domestic companies (7.0%).[3]

In sum, FDI's good performance over the past years was driven by three main factors: fast economic growth, high levels of profitability and a favorable international context which prevailed until the onset of the global financial and economic crisis in the second half of 2008.

The corporate players

An estimated 1,800 foreign affiliates operate today in Argentina.[4] MNEs are active in a wide array of sectors and industries. Around 330 of the 500 largest non-financial companies (national and international) in the country were foreign affiliates and accounted for around 405,000 jobs and US$ 121 billion in sales in 2007. Foreign affiliates also produced 84% of gross value added and 90% of total

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[1] Recent investments in the IT and software sector include: Google, Microsoft, Symantec, IBM, Intel, Sap Motorola, NEC, Sabre, and Oracle.

[2] Brazilian Development Bank.

[3] National Bureau of Statistics and Census (INDEC), *Survey of Big Companies in Argentina* (Buenos Aires: Ministry of Economy and Public Finance, February 2009). Data correspond to 2007, last available year.

[4] UNCTAD, *World Investment Report 2009*, op. cit.

profits of the 500 companies that year.[1] These figures are evidence of the large presence and successful operation of MNEs in the Argentine economy, most of them doing business in the country with a long-term time horizon.

The presence of MNEs in Argentina is particularly relevant in such sectors as oil and gas, telecommunications, the automotive industry, and agribusiness, as reflected in the list of the 20 main foreign affiliates in the country (annex table 5). A further analysis of the affiliates of the top 20 MNEs in Argentina also reveals a high degree of concentration. In 2008, assets in Argentina held by these foreign affiliates represented more than half (53%) of the total FDI stock in the country. Moreover, their combined sales accounted for around 37% of total sales made by the 330 largest non-financial foreign affiliates.[2]

The main greenfield projects announced by MNEs in the past three years are also geared toward the oil and gas and telecommunications sectors, and include large mining projects as well (annex table 7). Changes in ownership were led by metal and steel, food and beverages, agriculture, and cement. The main M&A deals included the sale of a significant share of the steel company Acindar to Arcelor Mittal, the purchase of Grupo Guerrero by the Mexican beverage bottling company Embotelladoras Arca, and the acquisition of a 50% share of the cement plant Cementos Avellaneda by Votorantim L.E., consolidating Brazil's predominance in the sector in Argentina (annex table 6).

Effects of the current global crisis

Until the third quarter of 2008, FDI kept rising in Argentina, reflecting the delayed impact of the international financial and economic crisis. However, beginning in the fourth quarter of 2008, and as a result of the global downturn, a lack of financing and the postponement of investment projects in light of growing international uncertainty, this positive trend was reversed. In 2009, FDI inflows were 50% lower than in 2008, a decline consistent with the contraction registered in Latin America and the Caribbean (-41%) and worldwide (-39%).[3] The contraction was the result of a decrease in equity contributions, a standstill in M&As and a reversal in intercompany debt flows. MNEs operating locally followed a pattern observed elsewhere whereby head offices recalled debt and increased profit remittances from their foreign affiliates as a result of the global economic crisis.

Notwithstanding the effects of the global crisis, and the slow recovery expected for world investment flows, domestic FDI prospects remain positive in the medium term. Argentina could benefit from projected global trends: increased demand for food products and clean and renewable energies, a growing decentralization of global value chains with opportunities to integrate in higher value added segments, and a growing localization of R&D activities in emerging markets, among others. The country's competitive and comparative advantages are well aligned with these emerging structural trends, creating potential investment opportunities. Addressing challenges at the macroeconomic and microeconomic levels would better position Argentina to capitalize fully on these opportunities.

[1] National Bureau of Statistics and Census (INDEC), *Survey of Big Companies in Argentina* (Buenos Aires: Ministry of Economy and Public Finance, February 2009). Data correspond to 2007, last available year.
[2] National Bureau of Statistics and Census (INDEC), *Survey of Big Companies in Argentina* (Buenos Aires: Ministry of Economy and Public Finance, February 2009). Data correspond to 2007, last available year. The data correspond to the year 2007, the last available year.
[3] As an additional reference, FDI to the two largest economies in Latin America, Brazil and Mexico, dropped 50% and 41%, respectively, in 2009. Source: UNCTAD, *Global Investment Trends Monitor*, No. 2 (New York and Geneva: United Nations, January 2010).

The policy scene

The Argentine Constitution guarantees equal treatment and rights for local and foreign investors. The Foreign Investments Act[1] defines the legal framework for foreign investments and establishes that foreign investors may remit abroad profits; repatriate their investments; make use of any of the legal forms of incorporation foreseen by Argentine legislation; and use domestic credits and loans with the same rights and under the same conditions as domestic companies.

In terms of international treaties, Argentina has signed 58 BITs, 55 of which are in effect. The 2001 economic and financial crisis, the most severe in the country's history, had negative effects on domestic and foreign companies alike.[2] Given the impact of the crisis, some foreign investors chose to file 44 claims against Argentina at the International Centre for Settlement of Investment Disputes.[3] To date, two claims have concluded the annulment process; four awards have been rendered pending annulment proceedings; 13 have been discontinued (concluded); 11 claims have been suspended; and 14 claims are pending.[4]

Argentina has argued that the "essential security" clause contemplated within the signed BITs applies in the context of the 2001 crisis. In support of this stance, UNCTAD stated in reference to the case of Argentina that "several arbitration awards confirmed that the scope of 'essential security' exceptions is not necessarily limited to military threats, but may also cover emergency measures taken in times of major economic crises. Tribunals disagreed, however, on the degree of severity of an economic crisis that would justify invocation of the national security exception."[5] Some international agreements signed in subsequent years reflect Argentina's position.[6] The events that have unfolded during the recent international financial and economic crisis are likely to trigger additional discussions on the conditions under which countries can adopt certain measures in emergency situations.

Conclusions and Outlook

Argentina benefited from the global wave of FDI between 2004 and 2008. The annual growth rate of FDI inflows to the country was twice the rate worldwide for the same period. As a result, Argentina's

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[1] Foreign Investments Act No. 21382, enacted in 1976 and regulated by decree Executive Order 1853/1993.

[2] For more detailed information on the 2001 economic and financial crisis, see B. Nofal, *"Las causas de la crisis de la Argentina," Boletín Informativo Techint* (310) (May-August 2002); J. Stiglitz, "Argentina, shortchanged. Why the nation that followed the rules fell to pieces," *Washington Post*, May 12, 2002; R Hausmann and A. Velasco, *"Hard money's soft underbelly: understanding the Argentine crisis," in* D. Rodrik and S. Collins, eds., *Brookings Trade Forum: 2002* (Washington, DC: Brookings Institution Press, 2003).

[3] Eight additional cases have been filed for arbitration under the rules of the United Nations Commission on International Trade Law while three other cases have been filed for arbitration under the rules of the International Chamber of Commerce (ICC) International Court of Arbitration.

[4] Information based on official data provided by *Procuracion del Tesoro de la Nacion*, consistent with data available at International Centre for Settlement of Investment Disputes.

[5] UNCTAD, *World Investment Report 2009*, op. cit, p. 35.

[6] For example, the US-Peru Free Trade Promotion Agreement, signed in 2006, establishes in Article 22.2: Essential Security that "Nothing in this Agreement shall be construed: […] (b) to preclude a Party from applying measures that it considers necessary for the fulfillment of its obligations with respect to the maintenance or restoration of international peace or security, or the protection of its own essential security interests.[2]" and further clarifies within footnote n°2: "For greater certainty, if a Party invokes Article 22.2 in an arbitral proceeding initiated under Chapter Ten (Investment) or Chapter Twenty-One (Dispute Settlement), the tribunal or panel hearing the matter shall find that the exception applies."

share of world FDI inflows doubled between 2003 and 2008. Primarily comprised of equity contributions and reinvested earnings (with M&As representing a low percentage), the improved quality of FDI in the country contributed to the expansion of the economy's productive capacity.

Following the sharp decline registered in 2009 as a consequence of the global crisis, FDI inflows are expected gradually to recover in 2010 as growth in the world, and in Argentina, resumes.[1] The evolution of inflows will depend on two main factors. On one hand, how Argentina faces some pending challenges, such as the full normalization of access to international financing, a process initiated in 2005; and, on the other, how the country takes advantage of an auspicious global scenario in which demand patterns match Argentina's competitive and comparative advantages.

Looking ahead, with the lessons learned from the international crisis in mind, the quality of FDI—and not only its quantity—is key to ensure long-term economic benefits. Policies aimed at the development of FDI should encourage long-term projects that integrate locally with global value chains and promote innovation and high environmental and social standards. Attracting sustainable and innovative investments needs to be at the center of Argentina's FDI policy strategy in the new global scenario.

Additional readings

Bezchinsky, G., M. Dinenzon, L. Giussani, O. Caino, B. López, and S. Amiel, "Inversión extranjera directa en la Argentina. Crisis, reestructuración y nuevas tendencias después de la convertibilidad," in B. Kossacoff, ed., *Crisis, Recuperación y Nuevos Dilemas: La Economía Argentina 2002-2007* (Buenos Aires: ECLAC, 2007), pp. 149-185.

Bianco, C., P. Moldovan and F. Porta, *La Internacionalización de las Empresas Brasileñas en Argentina* (Buenos Aires: ECLAC, 2008).

Lopez, A., and D. Ramos, "Inversión extranjera directa y cadenas de valor en la industria y servicios," in B. Kosacoff and R. Mercado, eds., *La Argentina Ante la Nueva Internacionalización de la producción: Crisis y oportunidades* (Buenos Aires: UNDP-ECLAC, 2009), pp. 142-215.

ProsperAr 2008, *2008 Investment Report* (Buenos Aires: ProsperAr, 2008).

[1] Growth projections for Argentina in 2010 are estimated at 4%, in line with growth expected for Latin America and the Caribbean; see ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean 2009* (Santiago: United Nations, December 2009).

Statistical annex

Annex table 1. Argentina: inward FDI stock, 2000-2008 (US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008
Argentina [a]	68	80	43	48	56	62	68	77	80
Memorandum: comparator countries									
Mexico	97	140	164	181	204	226	246	273	295
Brazil	122	122	101	133	161	181	221	310	288
Chile	46	44	42	54	61	74	80	100	101
Colombia	11	15	18	21	25	37	45	56	67
Peru	11	12	13	13	13	16	21	27	30

Source: ProsperAr, based on data from the National Office for International Statistics, at the National Institute of Statistics and Census (INDEC); Argentina's Central Bank (BCRA); and UNCTAD.

[a] Data from 2000 to 2003 cited from INDEC reports. Data from 2004 to 2008 cited from BCRA reports. There was a change in the series in 2001 because of methodological improvements. The abrupt change in stock between 2001 and 2002 is due to the end of the Convertibility Law (1:1 Argentine peso-US dollar parity) and the subsequent devaluation of the Argentine peso.

Annex table 2. Argentina: inward FDI flows, 2000-2009 (US$ million)

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Argentina	10,418	2,166	2,149	1,652	4,125	5,265	5,537	6,473	9,726	4,895
Reinvested earnings	261	-3,306	-924	-808	71	1,156	3,108	2,050	396	3,090
Equity contributions	2,793	3,650	4,516	3,011	2,967	3,813	1,939	2,297	3,839	2,056
Intercompany debt	1,088	1,000	-2,992	-515	1,029	-481	263	1,846	4,777	-251
Changes in ownership	6,276	821	1,549	-36	59	777	227	280	714	0
Memorandum: comparator countries										
Brazil	32,779	22,457	16,590	10,144	18,146	15,066	18,822	34,585	45,058	22,800
Chile	4,860	4,200	2,550	4,307	7,173	6,984	7,298	12,577	16,787	12,900
Colombia	2,436	2,542	2,134	1,720	3,016	10,252	6,656	9,049	10,564	8,600
Peru	810	1,144	2,156	1,335	1,599	2,579	3,467	5,491	4,808	6,200

Source: ProsperAr, based on data from the National Office for International Statistics, INDEC, and UNCTAD.

[a] Preliminary data based on INDEC and UNCTAD.

Annex table 3. Argentina: sectoral distribution of inward FDI stock, 2000-2008 [a] (US$ million)

Sector / industry	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total	67,601	79,504	43,146	48,298	55,731	61,920	68,219	76,778	79,902
Natural resources	17,657	19,042	12,105	13,372	18,918	21,781	23,674	26,607	26,097
Petroleum	16,888	18,104	11,749	12,951	15,392	17,161	17,919	19,907	18,031
Mining	769	938	356	421	1,252	1,895	2,750	2,978	3,866
Agriculture, forestry and fishing	...	...	...	...	2,274	2,724	3,005	3,722	4,200
Manufacturing	19,919	22,562	13,721	14,818	19,865	21,139	23,214	26,412	29,441
Chemicals, rubber and plastics	5,740	7,340	4,230	4,638	6,412	6,500	6,563	7,360	7,768
Food products, beverages and tobacco products	5,805	6,751	3,958	3,904	3,342	3,482	3,433	3,755	4,243
Basic metals and fabricated metal products	1,402	1,392	1,115	1,785	2,445	2,639	3,687	4,036	4,655
Machinery and equipment	1,280	1,329	845	585	1,142	1,249	1,422	1,792	1,986
Motor vehicles and transport equipment	3,162	3,146	2,042	2,207	...	...	...	...	...
Automotives	...	...	...	...	2,892	3,356	4,055	4,945	6,227
Paper and paper products	1,517	1,460	832	913	...	...	...	...	...
Paper, publishing and printing	...	...	...	...	928	1,028	1,037	1,101	1,086
Cement and ceramics	750	839	524	618	...	...	...	...	...
Textiles and leather products	262	305	175	168	...	...	...	...	...
Other manufacturing	...	...	...	...	2,704	2,886	3,017	3,423	3,477
Financial services	7,206	7,012	2,610	2,934	2,307	2,425	2,723	3,087	3,392
Other services	22,819	30,888	14,710	17,173	14,639	16,576	18,608	20,672	20,972
Electricity, gas and water supply	7,951	9,043	3,969	4,876	4,989	5,039	4,932	4,977	4,345
Wholesale and retail trade	2,938	5,253	3,086	2,958	2,092	2,266	2,632	3,092	3,423
Communications and transport	6,997	9,473	4,785	4,349	...	...	...	...	...
Communications	...	...	...	...	2,672	3,518	4,267	4,416	4,390
Other services	4,933	7,119	2,870	4,991	4,887	5,752	6,777	8,187	8,814

Source: ProsperAr, based on data from the National Office for International Statistics, INDEC, and Argentina's Central Bank (BCRA).

[a] Data from 2000 to 2003 cited from INDEC reports. Data from 2004 to 2008 cited from BCRA reports. Industry classifications change in some cases due to the combination of two different data sources.

Annex table 4. Argentina: geographical distribution of inward FDI stock, 2000-2008 [a] (US$ million)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
World	67,601	79,504	43,146	48,298	55,731	61,920	68,219	76,778	79,902
Europe	36,873	44,029	23,714	26,234	32,491	36,372	39,783	44,432	44,173
Spain	16,612	18,413	10,063	11,786	16,901	18,986	21,413	23,259	22,991
Netherlands	5,470	6,426	3,151	3,230	4,115	5,162	5,090	5,662	6,421
France	4,971	6,734	2,685	2,888	2,564	2,597	2,213	2,607	2,400
United Kingdom	2,359	2,239	1,543	1,619	1,349	1,335	1,502	1,451	1,588
Germany	2,090	1,876	1,166	1,472	1,712	1,679	1,702	2,150	2,425
Italy	2,729	3,107	1,215	1,248	1,063	1,211	1,214	1,407	1,295
Other Europe	2,642	5,234	3,891	3,991	4,787	5,401	6,648	7,895	7,053
North America	17,641	21,777	12,321	12,232	11,869	13,501	14,307	16,522	17,219
United States	15,864	19,392	10,888	10,858	10,248	11,794	12,151	13,482	13,622
Canada	...	...	...	...	1,280	1,385	1,600	1,946	2,190
Mexico	...	...	...	...	341	321	555	1,094	1,407
Other North America [b]	1,777	2,385	1,433	1,374	...	...	...	...	...
South America	5,113	6,638	4,899	5,391	5,264	6,289	7,495	9,152	11,357
Chile	3,445	3,616	2,090	2,118	1,878	2,598	2,974	3,493	4,181
Brazil	...	...	...	...	1,727	2,374	2,661	3,567	4,786
Uruguay	...	...	...	...	1,602	1,251	1,767	1,869	1,951
Venezuela	...	...	...	...	23	29	48	113	226
Other South America	1,667	3,022	2,809	3,273	35	39	45	109	213
Central America and Caribbean	6,388	5,014	1,267	3,607	5,209	4,892	5,617	5,426	5,773
Other regions	1,586	2,046	945	833	897	866	1,017	1,247	1,379
Africa	...	...	...	...	11	15	20	23	24
Asia and Oceania	...	...	...	...	710	849	986	1,210	1,332
Australia	...	...	...	...	356	445	573	584	579
Japan	...	...	...	...	132	169	165	252	250
China	...	...	...	...	13	11	44	118	157
Other Asia and Oceania	...	...	...	...	209	225	204	257	347
Other	...	...	...	...	176	2	11	14	24

Source: ProsperAr, based on data from the National Office for International Statistics, INDEC, and Argentina's Central Bank (BCRA).

[a] Data from 2000 to 2003 cited from INDEC reports. Data from 2004 to 2008 cited from BCRA reports. Country classifications change in some cases due to the combination of two different data sources. [b] Data for 2000-2003 correspond to Canada and Mexico together since they are not available for each individual country. For 2004-2008, this category does not apply since individual country data is available.

Annex table 5. Argentina: principal foreign affiliates, ranked by total foreign assets, 2006-2008 [a]
(US$ million)

Rank	Name	Industry	Country of origin	Foreign assets [b]			Net sales [b]		
				2006	2007	2008	2006	2007	2008
1	Repsol YPF	Oil and gas	Spain	11,419	12,017	10,949	7,725	8,743	10,170
2	Petrobras Energia	Oil and gas	Brazil	5,079	5,268	5,183	2,439	2,741	3,054
3	Pan American Energy	Oil and gas	United Kingdom	2,335	2,764	3,390	1,743	1,778	1,927
4	Telefonica S.A.	Telecommunications	Spain	4,025	4,219	3,713	2,891	3,333	3,956
5	Telecom Argentina S.A. [c]	Telecommunications	Italy	3,090	3,246	3,230	2,407	2,938	3,425
6	Cargill S.A.	Food and beverage	United States	1,509	1,465	2,101	4,046	3,187	6,808
7	Claro Argentina	Telecommunications	Mexico	1,489	1,731	1,880	1,527	1,985	2,410
8	Shell C.A.P.S.A.	Oil and gas	Netherlands	1,138	1,205	1,257	1,690	1,950	2,177
9	Volkswagen Argentina	Automotive	France	757	828	1,252	1,749	2,257	2,638
10	Peugeot Argentina	Automotive	Germany	840	972	1,169	1,252	1,732	2,135
11	Bunge Argentina S.A.	Food and beverage	United States	570	1,089	1,145	1,836	2,458	3,083
12	Acindar-Arcelor Mittal Group	Metal and steel	Belgium	967	1,083	1,056	891	982	1,245
13	Minera Alumbrera Limited	Mining	Switzerland	1,378	1,033	953	1,584	1,565	1,234
14	Ford Argentina	Automotive	United States	789	856	872	1,561	1,877	2,112
15	Cerveceria y Malteria Quilmes S.A.I.C.A. y G.	Food and beverage	Brazil/ Belgium	801	841	885	721	861	1,061
16	Nidera S.A.	Food and beverage	Netherlands	502	663	764	846	1,186	1,644
17	General Motors	Automotive	United States	426	568	622	1,019	1,614	1,800
18	Toyota Argentina S.A.	Automotive	Japan	439	549	608	1,009	1,504	1,700
19	Fiat Auto Argentina	Automotive	Italy	244	342	524	560	771	1,266
20	Wal Mart Argentina S.R.L.	Retail	United States	313	421	491	426	625	948

Source: Investment Observatory, ProsperAr.

[a] Excludes financial companies.

[b] The following Argentine Peso/USD exchange rates, based on the rates of the International Monetary Fund (http://www.imf.org) at the end of each year, were used throughout for asset values of companies whose financial statements closing date is at the end of each year (the majority): 3.45 (2008); 3.15 (2007); 3.06 (2006). For sales values, the following annual average exchange rates, based on the rates of Argentina's Central Bank, were used throughout for these companies: 3.16 (2008); 3.11 (2007); 3.07 (2006). For those companies whose financial statements closing dates differ from December 31, exchange rates at the end of their accounting year were used for asset values and average exchange rates during their accounting year were used for sales values.

[c] 50% Telecom's shares are owned by Argentine Werthein Group while the remaining 50% of the shares are owned by Telecom Italia.

Annex table 6. Argentina: main M&A deals, by inward investing firm, ranked by value, 2007-2009[a] (US$ million)

Year	Acquiring company	Target company	Target industry	Home country	Announced transaction value (US$ million)	Shares acquired (%)	State of transaction
2009	Alternative Investment Corporation	El Tejar	Agriculture	Europe/ United States	150	17	In process
2009	Votorantim L.E	Cementos Avellaneda	Cement	Brazil	200	50	In process
2008	Marfrig Group	Mirab S.A.	Food and beverage	Brazil	36	100	Completed
2008	Baldwin Enterprises	Cresud	Agriculture	United States	45	9	Completed
2008	Lupatech/Axxon	Aspro	Oil and gas	Brazil	49	100	Completed
2008	Alicorp	The Value Brands Argentina	Chemicals	Peru	66	100	Completed
2008	Cargill Inc.	Friar S.A.	Food and beverage	United States	70	100	Completed
2008	Embotelladora Arca	Yege Argentina	Food and beverage	Mexico	80	100	Completed
2008	Fundo de Investimento em Participacoes (PCP)	Los Grobo	Agriculture	Brazil	100	25	Completed
2008	PSAI-IPH	Exlogan ITL	Transport	Singapore	100	80	Completed
2008	Navios Maritime Holding	Horamar	Transport	Greece	112	64	Completed
2008	Embotelladora Arca	Grupo Guerrero	Food and beverage	Mexico	250	100	Completed
2008	Arcelor Mittal Group	Acindar	Metal and steel	Belgium	542	36	Completed
2007	Arcelor Mittal Group	Compañia Naviera Horamar S.A.	Metal and steel	United Kingdom	50	100	Completed
2007	Grupo Televisa S.A.	Editorial Atlantida	Publishing	Mexico	79	100	Completed
2007	Marfrig Group	Quickfood	Food and beverage	Brazil	141	71	Completed

Source: Investment Observatory, ProsperAr.

[a] Excludes financial companies.

Annex table 7. Argentina: main greenfield projects, by inward investing firm, 2007-2009 [a]
(US$ million)

Year	Investing company	Home country	Sector	Announced value (US$ million)
2009	Libra Holdings	United States	Hotels and restaurants	475
2009	Occidental Argentina Exploration & Production, Inc	United States	Oil and gas	342
2009	Wal Mart	United States	Retail	280
2009	Telefonica S.A.	Spain	Telecommunications	433
2009	Grupo Beltrame	Italy	Metal and steel	400
2009	Barrick Gold	Canada	Mining	1,500
2009	Yamana Gold Inc.	Canada	Mining	652
2009	Vale do Rio Doce	Brazil	Mining	2,500
2009	Casino Club S.A.	Argentina-Spain	Media and entertainment	270
2008	Quantum Fund	United States	Agriculture	511
2008	Jumeirah International	United Arab Emirates	Hotels and restaurants	680
2008	British Petroleum/Bridas	United Kingdom	Oil and gas	1,250
2008	Repsol YPF	Spain	Oil and gas	11,700
2008	Telefonica S.A.	Spain	Telecommunications	875
2008	Grupo Mall	Spain	Hotels and restaurants	600
2008	Telecom Italia	Italy	Telecommunications	682
2008	Fiat Automobiles	Italy	Automotive	307
2008	Petroleos Brasileños S.A.	Brazil	Oil and gas	2,400
2008	Gerdau	Brazil	Metal and steel	310
2007	Agco Allis	United States	Machinery and equipment	625
2007	Telefonica S.A.	Spain	Telecommunications	1,069
2007	Xstrata Plc	Chile	Mining	950
2007	Cencosud	Chile	Retail	700
2007	El Plomo	Chile	Construction and real estate	600

Source: Investment Observatory, ProsperAr.
[a] Excludes financial companies. Announcements may correspond to investments to be implemented in a period of up to five years.

Argentina: Inward FDI and its policy context, 2011

Alicia Inés Caballero[*]

Inward foreign direct investment (IFDI) flows to Argentina recorded a substantial increase in the 1990s, when Argentina was one of the main destinations for FDI inflows among emerging markets. Affiliates of multinational enterprises (MNEs) had then major presence in the Argentine economy. After the country's economic crisis that began in 1999 and the subsequent devaluation of the Argentine peso in January 2002, there has been an increasing but fluctuating trend in IFDI flows, affected by changing policies. The recent global crisis of 2008-2009 caused a 50% drop in IFDI flows, followed by a partial recovery in 2010. The variety of resources available – crops, livestock, minerals – constitute an attraction for FDI in Argentina, which could be enhanced with a better investment climate.

Trends and developments

After the peso devaluation in January 2002, FDI flows to Argentina declined sharply during 2002-2003. Inflows have recovered since 2004, fueled by exchange rate improvements, the upsurge in commodity prices and internal market dynamics. However, in relative terms, Argentina has lost attractiveness for FDI, both at the global and regional levels: the country's share in world FDI inflows fell from nearly 1.5% in the 1990s to less than 0.4% between 2002-2010.[1] The ratio of the country's FDI inflows to GDP increased from 1.3% in 1993 to its historical maximum of 8.6% in 1999, dropped to an annual average of 2% during the 2000-2002 crisis, and rose again from 2003, to reach 8% in 2008. In 2009, as a result of a decline in IFDI inflows due to the world economic and financial crisis, the ratio fell by half and declined further in 2010 to 1.8%, a ratio comparable to that of Brazil (2.4%) and of Mexico (1.7%), but much lower than that of Chile (8%) and of Peru (4.8%).

Country-level developments

Argentina's IFDI stock stood at US$ 87 billion in 2010, rising by about 10% from its level in 2009 (annex table 1). IFDI flows, which had fallen by nearly 50% in 2009 during the global economic crisis, recovered to reach US$ 6 billion in 2010 (annex table 2). Considering the decade of 2000-2010 as a whole, FDI flows to Argentina suffered a setback in 2000-2003, following the country's economic crisis and peso devaluation, and recovered from 2004 onwards as their value climbed steadily until 2008 before falling again in 2009 and recovering partially in 2010. Economic growth, improved expectations, increased profits, and the recovery of competitiveness caused by devaluation of the Argentine peso stimulated a new phase in IFDI growth in the country. Taking 2003 as the baseline, IFDI flows grew by an annual average rate of 40% until 2008, when flows fell by nearly 50% in the global-crisis year of 2009, but recovered to rise by 54% in 2010, although their value was lower than in 2008.

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[2] UNCTAD, FDI/TNC database, available at http:// www.unctad.org/fdistatistics.

Argentina ranks sixth in Latin America in terms of FDI inflows in 2010, behind Brazil, Mexico, Chile, Peru, and Colombia (annex table 2). In terms of IFDI stock, however, it stands fourth, after Brazil, Mexico, and Colombia (annex table 1).

Regarding the components of IFDI flows to Argentina, in the 2009-2010 period, reinvested earnings were its main component, reaching US$ 2.9 billion in 2009 and US$ 2.4 billion in 2010, representing an average annual increase of 500% over reinvested earnings in 2008 – a growth offset by the reduction in other capital contributions. However, the debt component or lending by parent companies to local affiliates also increased again in 2010.[1]

In terms of industry distribution, in 2010, the manufacturing was the leading recipient of FDI, with 37% of the total IFDI stock in Argentina (annex table 3), including a recovery in the number of announced projects, as compared with 2009. The natural resources sector (33%), as well as services including non-financial services (24%) and financial services (5%) followed in importance. IFDI stock in services as a whole (financial and non financial), which had been the highest in value and share among the three sectors in 2000, fell to the lowest position in 2010. There were no significant variations in the participation of this sector as compared with years 2008 and 2009.

At the industry-level, the more dynamic recipients of IFDI were petroleum, followed by the chemical, rubber and plastic industries, the automotive industry and, to a lesser extent, metals and metal products, mining (other than petroleum) and quarrying, wholesale and retail trade, private financial services, and commercial services (call centers, technical assistance and sales offices, among others).[2]

In 2010, the main FDI recipient sectors in Latin America as a whole were natural resources (43% of the total FDI amount) and services (30%), showing a tendency toward increased IFDI in the primary sector.[3] In comparison, in Argentina, during 2010 there has been an increase in medium to high technology investment (45% of total FDI stock), for example medical devices; low technology activities, such as food, textile, wood and paper industries, received a 31% share.

In terms of geographical distribution, FDI from developed economies accounted for the largest share (nearly three quarters) of Argentina's IFDI stock in 2010 (annex table 4). Europe remains the largest origin source, accounting for over half of Argentina's IFDI stock, while Spain still leads as the single largest home economy, with its MNEs accounting for nearly a quarter of the Argentine FDI stock in 2010; the United States follows Spain in importance as source economy. The share of developing economies – mainly from within Latin America – has risen, accounting for more than a fifth of the total.

[1] Banco Central de la República Argentina, *Las inversiones directas en empresas residentes* (Buenos Aires, December 2010), pp. 47-49.

[2] IFDI in agriculture, forestry and fisheries has also performed well, with FDI stock in those activities rising 12-fold during 2000-2010, although it remains much smaller than that in mining and quarrying (annex table 3).

[3] United Nations Economic Commission for Latin America and the Caribbean (ECLAC). "La inversión extranjera directa en América Latina y el Caribe 2010" (Santiago, Chile: ECLAC, May 2011), pp 41-42, available at: www.eclac.org.

Among Latin American economies, Brazil[1] followed by Chile and to a lesser extent, Mexico, were the most important sources of FDI.

The increasingly active presence of Brazilian MNEs in Argentina since 2001 has occurred mainly through the purchase of existing companies and not through the development of greenfield projects (excepting Mega, a petrochemical company, 34%-owned by Petrobras). Among the purchases of firms made by Brazilian companies in Argentina were Acindar (steel), Pecom (oil), Quilmes (beer), Loma Negra (Cement), and to a lesser extent Swift Armour (meatpacking). These purchases helped place Brazil among the five major home countries of FDI in Argentina in 2010.[2]

Several factors explain the strong growth of the Brazilian FDI in Argentina in recent years:[3] a favorable economic situation in Argentina coupled with the internationalization policy adopted by many Brazilian firms; the most recent policy adopted by Brazil's BNDES (Banco Nacional de Desenvolvimento Economico e Social), to support that strategy financially; and the firm sense of purpose of Brazilian MNEs to secure a higher production capacity in key sectors for Brazil exports (meat, beverages, etc.).[4]

The corporate players

Of the top foreign affiliates in Argentina ranked by net income in 2009 (which accounted for more than half the total FDI stock in Argentina), 19 companies were from the oil sector (Repsol YPF being the largest); ten firms were from the chemical industry (Dow Argentina the most prominent player); ten companies were from the automotive industry (including Volkswagen, Peugeot, Ford, Nissan, Toyota, and General Motors); eight companies were from the financial services industry; eight companies were from the telecommunications industry (including affiliates of Telefónica, Telecom and Claro); and seven companies were from the mining industry (including Minera Alumbrera Limited).[5]

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[1] An important development since the early 2000s with respect to the origin of Argentina's IFDI is the emergence of Brazil as a highly relevant home country (annex table 4). Brazilian companies did not play an important role during the FDI wave in the 1990s (while, for example, Chilean companies played a key role). In recent years, however, Brazilian companies have acquired an important position in several sectors of economic activity in Argentina (such as meat-packaging plants, beverages and cement).

[2] The interest of Brazilian companies to acquire assets in Argentina was not balanced by a similar entry of Argentine companies into Brazil. During the whole period under consideration, no significant FDI inflows from Argentina were received in Brazil.

[3] Argentina´s Central Bank (BCRA), available at: www.bcra.gov.ar.

[4] Broadly, two important sectors of interest to Brazilian MNEs can be distinguished. First, there are several industries engaged in exploitation and exportation of natural resources and their early stages of processing, including those of a mineral origin, e.g. oil (Petrobras), iron or alumina (Vale) and their processing (Votorantim) and the agricultural and livestock sector, especially poultry and porcine meat (Sadia) and citrus (Citrosuco Paulista; Cutrale). Secondly, the engineering and building industries also have an outstanding presence of Brazilian companies (Camargo Corrêa). To a lesser extent, the automotive and auto parts industries (Marcopolo), electro-mechanics (Weg), aerospace industry (Embraer), food and beverages (AmBev), footwear (Calçados Azaléia), and cosmetics (Natura), though not a general trend, constitute particular cases within their respective branches of production.

[5] ProsperAr (National Investment Agency, Argentina), available at: http://www.prosperar.gov.ar/es/biblioteca-virtual.html.

The top 20 foreign affiliates in 2009 are listed in annex table 5. Although they do not appear among the top 20, foreign affiliates such as Walmart (United States), Carrefour (France) and Falabella (Chile) play an important role in retail services.

Among the most important cross-border mergers and acquisitions (M&As) of Argentine companies in 2010, within natural resources-based industries, special reference should be made to the purchase of Bridas by the Chinese company CNOOC for US$ 3.1 billion, and the purchase of a minority share of YPF by a US holding company for US$ 499 million (annex table 6). In manufacturing, the purchase of the Phoenix Laboratory by GlaxoSmithKline for US$ 253 million is of particular importance. In 2009, the largest M&A deal was the purchase of the mining Río Tinto´s project Potasio Río Colorado, by Vale (Brazil).

Among greenfield FDI projects announced in 2010, the largest was a project by China National Machinery and Equipment (annex table 7). In 2009, the largest greenfield projects included several in the primary sector, such as those by Canadian mining companies Barrick Gold and Yamana Gold and the Australian companies Troy Resources and Orocobre.

Effects of the recent global crises

The global economic and financial crisis that began in late 2008 had a negative impact on FDI flows to Argentina. The drop in commodity prices at the end of 2008 resulted in lower investment in the exploitation of natural resources. Overall, the international crisis, along with policies that implied a change in domestic rules, led, as noted above, to a large drop in FDI inflows in 2009, although flows made a partial recovery in 2010. The dynamics of domestic consumption, which had a strong impact on certain sectors such as the automotive industry, and the constant increase in commodity prices, largely explain the recovery. In spite of the increase in 2010, pre-crisis FDI level, which had, among others, provided a support for the agriculture and livestock sector, was not reached. However, in comparative terms, Argentina did not have a bad performance. In 2010, IFDI flows recovered at different speeds, depending on the region of origin. Flows from developed economies shrank even more that year (-7% over 2009), while flows to developing countries as a whole had a 10% increase (to Argentina in particular, growth exceeded 50%).

The policy scene

Since 2002, policies implemented by Argentina's administration (in a partial return to Peronist principles) have been quite discouraging for investment, although most companies in such industries as food, home electronics, automobiles, and laboratories showed high profit margins. Among others, the nationalization of pension funds (AFJP) and the expropriation of Aerolineas Argentinas and its subsidiary Austral (owned by the Spanish company Marsans), approved by the National Congress, had an adverse impact on the investment mood and partly explain the drop in FDI inflows during 2009.

However, steady GDP growth and high profitability in many economic sectors (automotive, pharmaceutical, household appliances, agriculture, livestock) and increased real salaries keep internal consumption at a high level and explain the rise in FDI flow in 2010, as well as the wide and clear political support (majority of 54%) obtained by the governing party at the elections held in October 2011.

The Foreign Investments Act N° 21,382 (approved in 1976 and amended by decree 1853 of 1993) defines the legal framework for foreign investment. It allows foreign investors to remit earnings and repatriate their investments, and it guarantees equal treatment of local and foreign investors. Argentina has also subscribed to many international investment agreements, especially bilateral investment treaties (BITs) and double taxation treaties (DTTs), although no new BITs or DTTs have been signed since 1997.[1]

The Argentine Government has confirmed the full enforcement of legal security and other guarantees for foreign companies in Argentina. However, the distortion in relative prices (particularly public utility rates), restrictions on energy services, export-revenue withholdings, long term financing scarcity, powerful trade union, and the tendency toward an increasing economic shutdown, which have characterized the economy since the early 2000s, are all negative factors for attracting significant IFDI flows.

Conclusions

Argentina has a huge potential as a host for IFDI. As a country endowed with abundant natural resources (agricultural, mineral, forests, energy), climate diversity and qualified manpower, Argentina could assume regional leadership in attracting FDI flows by improving investment conditions and gradually eliminating distortions.

Recent FDI developments in Argentina show new dynamics, not only for traditional sectors (agriculture, automotive industry, hotels) but also for new ones (tradable services, mining, renewable energy). This brings new challenges for the design of sustainable policies in areas such as the training of qualified human resources in technical fields, venture capital industries, innovation support, and the design of an infrastructure with a positive impact on competitiveness. Additionally, a clear legal framework for foreign investment, the establishment of a predictable fiscal horizon and capital markets development are key conditions for strengthening the investment environment and competing successfully in attracting sustainable FDI inflows.

Additional readings

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Useful websites

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[1] Organisation of American States (OAS), « Foreign Trade Information System (Argentina) », available at: http://www.sice.oas.org/ctyindex/ARG/ARGDisciplines_e.asp

Statistical annex

Annex table 1. Argentina: inward FDI stock, 2000-2011

(US$ billion)

Economy	2000	2009	2010	2011
Argentina	68	80	87	95
Memorandum Comparator Economies:				
Brazil	122	401	473	670
México	97	280	327	302
Chile	46	121	140	158
Colombia	11	75	82	96
Peru	11	35	42	51

Source: UNCTAD ´s FDI/ TNC database, available at: www.unctad.org/fstatistics

Annex table 2. Argentina: inward FDI flows, 2000-2011

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Argentina	10.4	2.2	2.1	1.7	4.1	5.3	5.5	6.5	9.7	4.0	6.2	7.2
Memorandum: comparator economies												
Brazil	32.8	22.5	16.6	10.1	18.1	15.1	18.8	34.6	45.1	25.6	48.5	66.7
Mexico	18.1	27.6	15.1	11.4	16.6	22.4	19.8	29.7	25.9	15.2	17.7	19.6
Chile	4.9	4.2	2.6	4.3	7.2	7.0	7.3	12.6	16.8	12.9	15.1	17.3
Colombia	2.4	2.5	2.1	1.7	3.1	10.3	6.7	9.0	10.6	7.1	6.8	13.2
Peru	0.8	1.1	2.2	1.4	1.6	2.6	3.5	5.5	6.9	5.6	7.3	8.2

Source: UNCTAD ´s FDI/ TNC database, available at: www.unctad.org/fstatistics

Annex table 3. Argentina: sectoral distribution of inward FDI stock, 2000, 2010[a]

(US$ million)

Sector / industry	2000	2010
All sectors / industries	67,769	86,685
Natural resources	17,657	28,889
Agriculture, forestry, and fishing	200	3,136
Mining, quarrying and petroleum	17,457	23,160
Mining and quarrying	769	4,940
Petroleum	16,688	18,220
Other natural resources	…	2,593
Manufacturing	19,919	32,487
Chemicals, rubber and plastic	5,740	8,476
Food products, beverages and tobacco products	5,805	4,847
Basic metals and fabricated metal products	1,402	4,847
Machinery and equipment	1,280	2,760
Automotive	4,442	5,692
Other manufacturing	1,249	5,865
Services		
Financial services	7,374	4,206
Other services	22,819	21,103
Communications	6,997	5,631
Wholesale and retail trade	2,938	4,074
Electricity, gas and water supply	7,951	2,179
Other services	4,933	9,219

Source: based on data from the National Office for International Statistics, INDEC and Argentina's Central Bank (Banco Central de la República de Argentina), "Las inversiones directas en empresas residentes a fines del 2010" (Buenos Aires, 2010).

[a] Data for 2000 cited from INDEC reports. Data for 2010 cited from BCRA reports.

Annex table 4. Argentina: geographical distribution of inward FDI stock, 2000 and 2009-2010[a]

(US$ million)

Region / economy	2000 [b]	2009	2010
World	67,769	79,871	86,685
Developed economies	55,334	60,050	65,771
Europe	36,873	43,718	47,605
Spain	16,612	22,597	23,242
Netherlands	5,470	6,873	7,328
Germany	2,090	2,586	2,940
Switzerland	…	2,293	2,900
Luxembourg	…	2,656	2,704
France	4,971	2,428	2,560
United Kingdom	2,359	1,502	1,494
Italy	2,729	1,318	1,420
Other Europe	2,642	2,524	3,017
North America	17,641	15,543	18,740
United States	15,864	14,012	14,814
Canada[b]	1,777	2,415	2,128
México	---	1,425	1,797
Other developed countries	460	789	1,224
Australia	110	363	539
Japan	250	426	684
Developing economies	11,501	18,182	20,659
Africa	---	38	53
Asia and Oceania	---	469	954
Asia	---	464	652
China	---	137	190
Singapore	---	63	111
Malaysia	---	76	80
Hong Kong (China)		59	79
Korea, Republic of		44	67
Israel	---	54	64
Oceania	---	5	302
New Zealand	---	5	302
Latin America and Caribbean	11,501	17,675	19,652
South America	5,113	12,607	14,252
Chile	3,445	4,363	5,509
Brazil	---	4,319	5,367
Uruguay	---	2,578	2,750
Venezuela	---	123	366
Other South America	1,667	274	260
Central America and Caribbean	6,388	5,068	5,401
Cayman Islands	---	1,156	1,815
Bermuda		1,231	1,679
Panama		622	598

Other Central America and Caribbean		1,561	1,309
Unspecified destination	934	2,764	255

Source: National Office for International Statistics, INDEC, *op.cit.*; BCRA, *op.cit.*

[a] Data for 2000 cited from INDEC reports. Data for 2009 and 2010 cited from BCRA reports.

[b] Data for 2000 are for Canada and Mexico together since they are not available for each individual country. For 2009, this does not apply since individual country data are available.

Annex Table 5. Argentina: principal foreign affiliates, ranked by net sales, 2009

Rank	Name	Industry	Net sales [a] (US$ million)
1	YPF	Oil and gas operations	9,352
2	Cargill S.A.	Food and beverage	5,150
3	Petrobras Energia	Oil and gas operations	4,069
4	Bunge Argentina S.A.	Food and beverage	2,606
5	Pan American Energy	Oil and gas operations	2,359
6	Grupo Carrefour ARG.	Retail	2,303
7	Volkswagen Argentina	Automotive	2,210
8	Jumbo Retail Argentina	Retail	2,184
9	Esso Petrolera ARG.	Oil	2,136
10	Telefónica S.A.	Telecommunications	2,082
11	Claro Argentina	Telecommunications	2,042
12	Shell C.A.P.S.A.	Oil and gas operations	1,845
13	Peugeot Argentina	Automotive	1,825
14	Ford Argentina	Automotive	1,790
15	Telecom Argentina S.A	Telecommunications	1,769
16	Nidera S.A.	Food and beverage	1,717
17	Toyota Argentina S.A.	Automotive	1,604
18	Minera Alumbrera Limited	Mining	1,542
19	Dow Argentina	Chemical	1,419
20	General Motors	Automotive	1,402

Source: ProsperAr (National Investment Agency, Argentina).

[a] Argentine Peso/USD exchange rate, obtained from International Monetary Fund (http://www.imf.org) as at 12/31/2009, used throughout when deriving net sales values (ARG Peso 3.72: 1 US$).

Annex Table 6. Argentina: main M & A deals, by inward investing firm, 2008-2010

Year	Acquiring company	Home economy	Target company	Target industry	Announced transaction value (US$ million)	Shares acquired (%)
2010	CNOOC Ltd	China	Bridas Corp	Oil and gas	3,100	50
2010	Investor Group	United States	YPF SA	Oil and gas	499	3.3
2010	GlaxoSmithKline PLC	United Kingdom	Laboratories Phoenix SACyF	Pharmaceutics	253	100
2009	Vale	Brazil	Río Tinto-Potasio Rio Colorado	Mineral	850	100
2009	Alternative Investment Corporation	United States	El Tejar	Agriculture	150	17
2009	Votorantim LE	Brazil	Cementos Avellaneda	Cement	202	50
2008	Marfrig Group	Brazil	Mirab S. A.	Food and beverage	36	100
2008	Baldwin Enterprises	United States	Cresud	Agriculture	45	9
2008	Lupatech Axxon	Brazil	Aspro	Oil and gas	49	100
2008	Alicorp	Peru	The Value Brands Argentina	Chemicals	66	100
2008	Cargill INC.	United States	Friar S.A.	Food and Beverage	70	100
2008	Embotelladora Arca	Mexico	Yege Argentina	Food and beverage	80	100
2008	Fundo de Investimento em Participacoes (PCP)	Brazil	Los Grobo	Agriculture	100	25
2008	PSAI-IPH	Singapore	Exlogan ITL	Transport	100	80
2008	Navios Maritime Holding	Greece	Horamar	Transport	112	64
2008	Embotelladora Arca	Mexico	Grupo Guerrero	Food and Beverage	250	100
2008	Arcelor Mittal Group	Belgium	Acindar	Metal and steel	542	36

Source: The author, based on Thomson ONE Banker, Thomson Reuters; and Argentina's National Investment Development Agency, ProsperAr.

Annex Table 7. Argentina: main greenfield projects, by inward investing firm, 2008-2010

Year	Investing company	Home economy	Industry	Estimated/ announced investment value (US$ million)
2010	Huawei	China	Telecommunications	20
2010	Midea	China	Electronic equipment	120
2010	Pony International	China	Textil	20
2010	Energía y Química	China[a]	Agro-chemical	1,000
2010	San He Hopefull Grain & Oil Group	China	Mining	350
2010	China National Machinery & Equipment	China	Machinary and equipment	10,000
2009	Troy Resources	Australia	Mining	100
2009	Orocobre	Australia	Mining	100
2009	Libra Holdings	United States	Hotels and restaurants	475
2009	Occidental Argentina Exploration & Production, INC	United States	Oil and gas	342
2009	WalMart	United States	Retail	280
2009	Telefonica S.A.	Spain	Telecommunications	433
2009	Grupo Beltrame	Italy	Metal and steel	400
2009	Barrick Gold	Canada	Mining	1,500
2009	Yamana Gold Inc.	Canada	Mining	652
2009	Casino Club S.A.	Argentina-Spain [b]	Media and entertainment	270
2008	Quantum Fund	United States	Agriculture	511
2008	Jumeirah International	United Arab Emirates [c]	Hotels and restaurants	680
2008	British Petroleum/Bridas	United Kingdom	Oil and gas	1,250
2008	Repsol YPF	Spain	Oil and gas	11,700
2008	Telefónica S.A.	Spain	Telecommunications	875
2008	Grupo Mall	Spain	Hotels and restaurants	600
2008	Telecom Italia	Italy	Telecommunications	682
2008	Petroleos Brasileños S.A.	Brazil	Oil and gas	2,400

Source: fDi Intelligence, a service from the Financial Times Ltd., Argentina´s Central Bank (BCRA) and CEPAL.
[a] Joint venture partnert: Roggio S.A. [b] Joint venture partner: CIRSA. [c] Joint venture partner: New Side.

Chapter 23 - Brazil

Brazil: Outward FDI and its policy context, 2009

Luís Afonso Lima and Octavio de Barros[*]

The internationalization of Brazilian companies is a relatively recent phenomenon. From 2000 to 2003, OFDI averaged USD 0.7 billion a year. Over the four-year period 2004–2008, this average jumped to nearly USD 14 billion. In 2008, when global FDI inflows were estimated to have fallen by 15%, OFDI from Brazil almost tripled, increasing from just over USD 7 billion in 2007 to nearly USD 21 billion in 2008 (annex figure 1 below). Central Bank data put the current stock of Brazilian OFDI at USD 104 billion, an increase of 89% over 2003. Caution is in order about these figures, however, as in Brazilian outflows it is difficult to separate authentic FDI from purely financial investment under the guise of FDI. According to the most recent data, 887 Brazilian companies have invested abroad.

Along with other emerging economies, Brazil is suffering from the effects of the global financial crisis. The OECD forecasts that M&A spending from Brazil, Russia, India, China, South Africa, and Indonesia will be reduced by 85% in 2009, in comparison to 2008.[1] This matches the partial performance captured in the data already released: in the period January-May 2009, Brazilian OFDI shrank by 87% in comparison to the same period in 2008, from somewhat under USD 8 billion to somewhat under USD 1 billion. If this trend persists, OFDI from Brazil will be no higher than USD 4 billion in 2009, as against USD 21 billion in 2008.

Notwithstanding its remarkable recent growth, OFDI from Brazil needs additional support through sound public policies. As we indicate below, this is one lesson that comes home to those who observe Brazilian outward investors closely.

Characteristics of OFDI from Brazil

Despite its relative novelty, the internationalization of Brazilian companies has achieved a wide geographic spread. Brazilian OFDI can today be found in 78 countries. Admittedly, some destinations matter more than others. Putting aside investment in tax havens, which accounts for 67% of the total, by 2007, half the stock of OFDI from Brazil had gone to Denmark, the United States and Spain, with developed economies together accounting for 75% (annex figure 2). Among emerging markets, Argentina leads, followed by Uruguay. When it comes to sectoral distribution (and including tax havens), Central Bank data indicate that 54% of OFDI stock from Brazil had gone into financial services by 2007 (annex table 1). Given the distortion introduced by the inclusion of flows to tax havens, however, it is difficult to arrive at a realistic picture of the final destination of these flows, be it geographical or otherwise.

[*] The authors are grateful to Afonso Fleury, Marcílio Moreira, Michael Mortimore, and Marcia Tavares for their suggestions. First published August 17, 2009 under the title "The growth of Brazil's direct investment abroad and the challenges it faces."

[1] *OECD Investment News*, June 2009, Issue 10.

The internationalization of Brazilian companies is dominated by the private sector, although SOEs also play a role. Petrobras, for example, has expanded its overseas activities to 15 countries in three continents. In Latin America, the company has energetically pursued a strategy of regional integration in natural gas.

Why are more and more Brazilian companies going abroad? The most frequently cited reason is that they are following clients into international markets. But there are many other reasons as well, such as defending their competitive position, monitoring the competition in international markets, meeting international demand and reducing their dependence on a single (domestic) market. Many Brazilian companies are also interested in natural resources. Yet others are looking for lower costs, better infrastructure and more attractive fiscal incentives. Broadly speaking, Brazilian outward investors are in search of three things: markets, natural resources and investment climates superior to the one they find at home.

In keeping with the usual pattern of early internationalization, one of the main ways in which OFDI from Brazil begins is by setting up offices for overseas sales. This is especially common in the consumer goods industry and the services sector. However, the overseas manufacture of goods and provision of services account for a substantial share of OFDI as well. According to a SOBEET survey[1] of 211 companies, which had a 30% response rate, the OFDI of 38% of the companies consisted of sales offices and only 23% had productive units abroad. However, the latter accounted for a much larger portion of outward investment than the former. Brazilian overseas units also tend to expand into new functions, such as manufacturing goods and providing services, even if not initially set up to do so. It is interesting too to note how other, more sophisticated, functions such as logistics and R&D, already figure among their overseas activities.

Despite the speed and scale of the Brazilian internationalization process since 2004, there are some surprises when it comes to the sources of funding. Most Brazilian companies investing abroad indicate their own capital as the main source of funding. However, many of those that do *not* mention their own capital also do not mention other Brazilian sources. This suggests that access to funds from BNDES (the Brazilian Development Bank) or from domestic banks is still limited. If this were remedied, the process of internationalization might well become more dynamic. But the lack of Brazilian financing is not the only internal barrier to the internationalization of Brazilian companies. Many Brazilian companies also mention the lack of personnel with the necessary skills and the knowledge of potential markets.

Among external obstacles, the tax burden is pre-eminent. According to SOBEET's 2008 survey of Brazilian multinationals, taxation − and especially the prospect of double taxation − is a major problem for internationalization. Brazil has signed only 12 double taxation treaties in the past 10 years. As a matter of fact, the lack of double taxation treaties is a major concern for Brazilian multinationals.

Conclusion: The need for public policies to remove obstacles for Brazilian OFDI

The internationalization of Brazilian companies, like the internationalization of their counterparts in other emerging markets, is not a flash in the pan. And this internationalization is just beginning. Among

[1] *Carta Sobeet nº. 46*, "Brazilian transnational companies: survey results", November 2008.

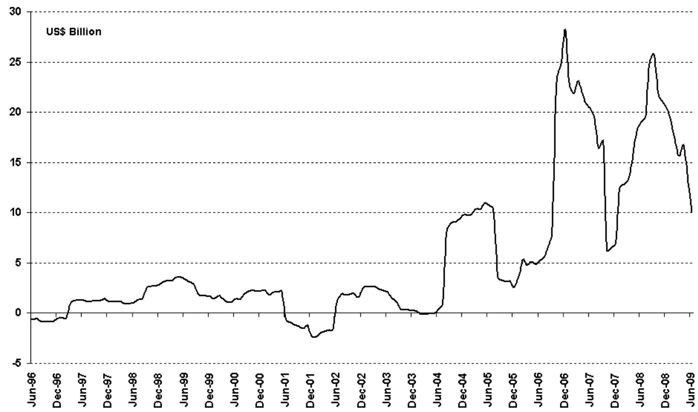
the known benefits of OFDI is the fact that it stimulates exports.[1] Another is the improved competitiveness of Brazilian enterprises. Given this, it is important that the Government of Brazil rethink its policies and, in particular, undertake an overhaul of those policies that inhibit Brazilian OFDI.

One group of policies that need rethinking is policies on international taxation. Another group concerns bilateral treaties to protect and promote investment. Perhaps the most important kind of policy that needs reform, however, relates to financing. Despite the fact that BNDES does have specific credit lines for OFDI, a greater availability of funds would be helpful to companies considering cross-border investment, especially at a time when the credit crunch that followed the financial crisis has become near universal.

[1] See Glauco Arbix, Mário Sérgio Salemo and João Alberto De Negri, *Inovação, via internacionalização, faz bem para as exportações brasileiras* (Brasília: Ipea, 2004). (Texto para Discussão, n. 1.023).

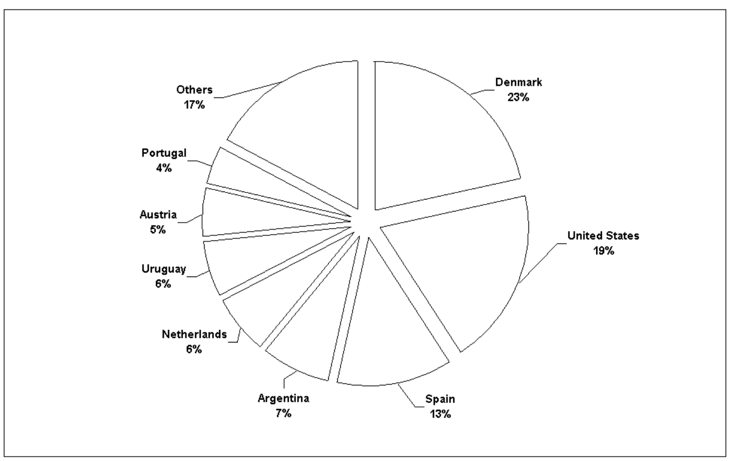
ANNEX

Annex figure 1: Outward foreign direct investment, June 1996−June 2009



Source: Central Bank of Brazil.

Annex figure 2: Destinations of Brazilian OFDI stock as of 2007, excluding tax havens.



Source: Central Bank of Brazil.

Annex table 1: Sectoral distribution of Brazilian OFDI stock as of 2007, as percentage of total (including tax havens)

Activities related to financial services	53.8
Administrative support	10.5
Other technical activities	8.8
Consulting	5.9
Auxiliary financial services	3.5
Whosale activities	3.4
Oil and natural gas	1.9
Others	12.3

Source: Central Bank of Brazil.

Brazil: Outward FDI and its policy context, 2012

*Milton de Abreu Campanario, Eva Stal and Marcello Muniz da Silva**

Brazil became a significant source of outward foreign direct investment (OFDI) only in the 2000s. Concentrated in the secondary and tertiary sectors, OFDI from Brazil goes primarily to neighboring economies and the United States and Europe. OFDI flows from Brazil include large amounts in tax havens to escape domestic regulations and taxes. Brazil's OFDI flow was negative (-US$ 10 billion) in 2009 during the global financial and economic crisis, due to the repatriation of capital, mainly through intra-firm lending by foreign affiliates of Brazilian multinational enterprises (MNEs) to their parent firms. However, in 2010, OFDI flows from Brazil were positive again, at US$ 12 billion. The stock jumped from US$ 52 in 2000 to US$ 181 billion in 2010. Except for loans provided selectively by the state investment bank BNDES, Brazil still has no institutionalized policy measures to support OFDI. Always lower than inward FDI so far, Brazil's OFDI follows Brazilian economic growth and local currency appreciation that generate increased savings, and its recent growth reflects market opportunities abroad that are open to Brazilian national champions with competitive advantages and large-scale operations.

Trends and developments

In the 1990s, after monetary stabilization and pro-market reforms, Brazil consolidated its position as a significant global recipient of FDI flows. In the decade since 2000, it also became a significant investor abroad together with other emerging economies. Annex table 1 shows that a noticeable increase in OFDI is a new development, common to all the BRIC (Brazil, Russia, India and China) economies, driven by their domestic economic growth coupled with monetary stability and stimulated by market opportunities globally. In Brazil, the expansion of export-led industries, mainly commodities, resulted in an increasing trade surplus. Large inward FDI (IFDI) flows and the trade surplus have boosted foreign-exchange reserves, coupled with an appreciation of the Brazilian currency, the Real. This scenario has favored OFDI by Brazilian firms. Export-led enterprises have enjoyed increasing access to domestic capital markets for financing market-seeking[1] investments abroad, particularly in industries in which Brazilian firms are competitive, such as soybeans, meat, iron ore, steel, sugar, coffee, aluminum, cocoa beans, orange juice, and tobacco.[2] Investments in other, non-export-led sectors such as infrastructure, energy and construction have also been important in the FDI strategies of large Brazilian firms.

Country-level developments

* The authors wish to thank Marcos Amatucci and Milton de Freitas Chagas for their helpful comments. First published May 10, 2012.

[1] John H. Dunning defined the concepts of market-seeking, resource-seeking and efficiency-seeking FDI. See, John H. Dunning and Rajneesh Narula, *Multinationals and Industrial Competitiveness: A New Agenda* (Northampton: Edward Elgar, 2001).

[2] Diego Finchelstein, "Different states, different internationalizations: a comparative analysis of the process of firms' internationalization in Latin America," Paper presented at the 28th LASA International Congress, Rio de Janeiro, June 2009), pp. 11-14.

Brazilian MNEs are playing a noticeable role in outward FDI from emerging economies. Annex table 1 presents the OFDI stock from Brazil and comparator economies: Russia, China, India, and Mexico. In the period 2000-2010, the stock of OFDI of these economies showed a strong upward trend. It was dominated by the growth of OFDI from Russia and India, and to a lesser extent by that of OFDI from China. During 2000-2010, the relative weight (share) of OFDI from Brazil in total OFDI from these selected economies was, on average, 27%. By 2008, as annex table 1 shows, Brazil had a larger stock of OFDI than all of the other large emerging economies considered, except for Russia. Only in 2009 did China surpass Brazil.

For the BRICs, high OFDI growth has only taken place in the 21st century. Between 2000 and 2010, Russia and China had higher rates of growth of their OFDI stocks than that of Brazil's. On average, the growth rate in 2000-2010 of Brazilian's OFDI was 14% below the average of the BRICs. In 2009, most likely in response to the world-wide economic and financial crisis, OFDI outflows from Brazil were negative, with Brazilian companies repatriating US$ 10 billion from their foreign affiliates through intra-company loans. Annex table 2 shows a peak outflow in 2006 of US$ 28 billion from Brazil. Outflows were high in 2006 (and larger than its FDI inflows in that year) due to the acquisition of the Canadian INCO by Vale, a Brazilian MNE in the mineral sector. This investment was made by means of a special purpose entity (SPE) outside Canada. Besides this operation, Canada has never been a significant receiver of Brazilian OFDI, so it is not included in annex table 4.

Annex table 3 shows the distribution of OFDI stock from Brazil by sector in the period 2001-2010, with a sharp change in the general trend in 2009 and 2010. Between 2001 and 2008, data show a concentration of investments in the services sector (about 90%). The finance and insurance service industries accounted, on average, for 55% of OFDI stock in 2000-2008. In the same period, the primary sector accounted for 2% and the secondary sector accounted for 7%. Within the secondary sector, manufacturing accounted for 35%, and construction for 27%, followed by food, beverages and tobacco, which accounted for 11%. In 2009 and 2010 OFDI in the primary sector shows a marked increase relative to total OFDI stock, with a large increase in mining and quarrying. Due to this increase (mainly driven by investments by Vale), the share of the primary sector rose from 2% in 2008 to about 31% in 2010. This rise was accompanied by an almost unchanged stock in the secondary sector and a decline of the stock in the services sector. As a result, in 2010 the secondary sector accounted for about 8% and the services sector for 61% of Brazil's total OFDI stock. The bulk of OFDI in services is largely accounted by investments made in tax havens through SPEs, foreign affiliates established with the purpose of managing foreign exchange risk, facilitating financing and avoiding tax, and as financial services FDI.

Annex table 4 presents the distribution of OFDI by selected host economies; it shows a high level of regional concentration, particularly in North America, Latin America and the Caribbean, which together accounted, on average, for 79% of all FDI stock from Brazil between 2001 and 2008, followed by Europe (21%); Asia, Africa and Oceania together accounted for the remaining 1%. The largest recipients are the Cayman Islands, the British Virgin Islands and the Bahamas –fiscal regulations in Brazil seemingly induce investments in tax havens to escape regulatory and tax obligations. This suggests that Brazilian MNEs undertake trans-shipping FDI in tax-haven economies while waiting for good opportunities to make productive investments in third countries. This behavior is different from that of

Chinese companies that tend to be involved in round-tripping FDI likely due to some extent to the favorable conditions offered by the Chinese Government to foreign investments.[1]

The distribution of Brazil's OFDI and its concentration in the Americas has changed somewhat over time. Data from BACEN suggest that, between 2001 and 2010, there has been a systematic decrease in the participation in Latin America and the Caribbean, coupled with an expansion in Europe and the United States (annex table 4). However, on average, in 2001-2010 as a whole, the top host economies of Brazilian OFDI were tax havens in the Caribbean such as the Cayman Islands (34%), British Virgin Islands (11%) and the Bahamas (10%). In 2008, the Cayman Islands stood at 43% of Brazil's total OFDI stock and 91% of the annual cross-border intra-company loans of Brazilian MNEs.[2] In 2010, these shares declined to 17% and 79%, respectively. FDI outflows to tax havens often flow back to Brazil (so-called "round tripping"), mainly in the form of intra-company loans, but there is no formal research on this phenomenon and, as noted earlier, it is likely that some of them represent trans-shipping rather than round-tripping FDI. The concentration of Brazilian OFDI in these economies is probably due to the high levels and complexity of regulations and taxes imposed on businesses at home.[3]

In 2010, the United States was host to around 8% of Brazil's OFDI stock (nearly double its share in 2000) (annex table 4) and 4% of intra-company loans. Until 2008, the presence of Brazilian MNEs in Europe was concentrated in Denmark and Spain, each representing 22% of Brazil's FDI stock in Europe, followed by Luxembourg (16%), Netherlands (11%), United Kingdom (6%), and Portugal (5%). Other European economies received less than 1.5% each. In 2010, however, the share of Austria jumped to 46% and that of the Netherlands to 13%, while those of Denmark and Spain fell to levels close to 11% each. In other regions of the world, the presence of Brazilian MNEs adds up to about US$ 200 million, which pales in comparison to Brazil's OFDI stock in the Americas of US$ 56 billion or Europe of US$ 23 billion. In 2001-2010, Brazil's OFDI stock grew most strongly in the United States (from US$ 2 billion to US$ 14 billion), Spain (from US$ 2 billion to US$ 10 billion) and Denmark (from US$ 1 billion to US$ 10 billion).

Brazil's Central Bank (BACEN) records data for all of the country's inflows and outflows of capital.[4] Firms must declare the purpose of outflows, whether a short-term movements in the financial market (portfolio, deposits, derivatives, currency loans, etc.) or long-term capital movements for the purpose of making an FDI transaction (mergers and acquisitions (M&As) or greenfield projects). Brazilian firms channel OFDI, in most cases, through SPEs. They are holding companies or regional headquarters, specializing in finance and insurance (around 62% of Brazil's OFDI is in these industries). SPEs by companies from Brazil and other emerging markets as well as developed economies tend to be established in tax havens. In 2008, about 56% of Brazil's OFDI stock was located in the Cayman Islands;

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[1] Eva Stal and A. Cuervo-Cazurra "The investment development path and FDI from developing countries: the role of pro-market reforms and institutional voids," *Latin American Business Review*, vol. 12 (2011), pp. 209-231.
[2] See, Banco Central do Brasil (BACEN), www.bacen.gov.br.
[3] In fact, the *Ease of Doing Business 2011* report of the World Bank ranks Brazil 126th in the world in terms of the overall "ease of doing business" and the 150th place in terms of the criterion "paying taxes" in a comparison of 183 economies (http://www.doingbusiness.org/reports/subnational-reports/brazil).
[4] BACEN registers all operations and foreign investments of Brazilian firms abroad and foreign companies in Brazil. It publishes statistics on stock of capital and flow, classified by foreign deposits, derivatives, currency loans, financial leasing, and FDI (including intra-company loans) and portfolio investments. BACEN also records the allocation of resources in terms of economic sectors and country of destination. Annex tables 3 and 4 this information. Rules and statistics are available at: http://www4.bcb.gov.br/rex/cbe/port/ResultadoCBE2007.asp

by 2010, this share was below to 36%. Once sent to an SPE, FDI can either be re-directed back to the domestic economy (round-tripping FDI) or invested in a third economy (trans-shipping FDI). There is no information on the final destination of the FDI, in terms of either the sector or the economy ultimately receiving the investment. The data collection responds to the residence principle, i.e., the central bank authority reports investments in "mailbox" locations rather than in the actual address of operations. So the data do not necessarily reflect the true bilateral holding of financial assets.[1]

The corporate players

The number of Brazilian MNEs is steadily increasing.[2] Annex table 5 provides a list of top Brazilian MNES and their foreign assets and suggests that there is a concentration of foreign assets in the seven top-ranked MNEs; Itausa, a banking holding company is the largest Brazilian MNE. It is closely followed by Vale (mining), Odebrecht (engineering and construction), Petrobras (oil and gas), Gerdau (steel), Votorantim (conglomerate), and JBS (food). Other MNEs on the list are far behind in the raking of foreign assets. This is part of a new trend toward the internationalization of firms from emerging markets.[3]

In the mining sector, Vale, a former state-owned enterprise, leads large Brazilian M&As and greenfield projects abroad, as can be seen in annex tables 6 and 7. Vale operates in all continents. Today it is a diversified, export-driven MNE, the world second-largest mining company, having a complex logistical system. Vale is the largest producer of iron ore and pellets, as well as the second largest producer of nickel and a huge logistics operator. In the energy sector, the company currently operates nine hydroelectric plants.[4]

Petrobras, the largest Brazilian company, ranks fifth in the list by foreign assets in annex table 5; it is a leading technology player in the sector, including in bio-fuels. The Government controls 56% of the voting shares in Petrobras.[5] The company has drilled the world's deepest exploration well: the Tupi

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[1] Christian Daude and Marcel Fratzscher, "The pecking order of cross-border investment," *Journal of International Economics*, 7 (2008), pp. 94-119.

[2] In Brazil, only aggregate figures on MNEs are available from official sources. BACEN reported a total number of nearly 1,876 companies with OFDI and 116 destination countries in 2009 (www.bacen.gov.br). Two private institutions collect data ranking MNEs: Fundação Dom Cabral (FDC), *Ranking das Transnacionais Brasileiras* (Belo Horizonte: FDC, 2010); and Sobeet/Valor, "The most internationalized: globalized Brazilian companies and sectors," in *Valor Econômico*, "Anuário Multinacionais Brasileiras*,"* September 2010. Both take into account foreign sales, assets and jobs in relation to total sales, assets and jobs of the MNEs covered. Other sources of information on top outward investors are: Boston Consulting Group, 100 New Global Challengers (http://www.bcg.com), *Financial Times*, FT Global 500 (http://www.ft.com/reports/ft500-2010); *Forbes* Global Special Report: The Forbes Global 2000, Scott DeCarlo, ed. (http://www.forbes.com/2005/03/30/05f2000land.html), and "Ranking Multilatinas," *America Economía* (http://rankings.americaeconomia.com/2010/multilatinas/).

[3] For a general perspective on Brazilian firms' internationalization see, Edmund Amann, "Technology, public policy and the emergence of Brazilian multinationals," in Lael Brainard and Leonardo Martinez-Diaz, eds., *Brazil as an Economic Superpower? Understanding Brazil's Changing Role in the Global Economy* (Washington, D.C.: Brookings Institution Press, 2009); and Afonso Fleury and Maria Tereza Leme Fleury, "Brazilian multinationals: surfing the waves of internationalization," in Ravi Ramamurti and Jitendra V. Singh, eds., *Emerging Multinationals in Emerging Markets* (Cambridge: Cambridge University Press, 2009), pp. 200-243.

[4] Lourdes Casanova and Hoeber Henning, "Vale: a leading emerging multinational", in José Ramsey and Andre Almeida, eds., *The Rise of Brazilian Multinationals* (Rio de Janeiro: Elsevier Editora, 2009).

[5] For an overview of Petrobras international activities, see Andrea Goldstein, "The emergence of multilatinas: the Petrobras experience", *Universia Business Review*, special issue on Multilatinas, 2010.

offshore oil field (7,000 meters below sea level). It has the potential to turn Brazil into a global energy producer. Today, Brazil has reserves of 26.9 billion barrels of oil. Due to these new resources, the company set a new record for an initial public offering (IPO), selling US$ 67 billion in new common and preferred stock.

Brazilian companies have a competitive advantage in the steel sector. Gerdau is the largest Brazilian private company dedicated to the production and sale of steel products, most recently completing large M&A deals and greenfield projects and operating plants in 13 economies. This company achieved its highest degree of internationalization in 2008, with foreign sales representing 76% of total revenues. In the construction industry, the largest Brazilian company, Odebrecht, is penetrating the international market as well, starting in 1979 in neighboring Latin American economies.

Brazil has a large presence in the global food market. An important player in this sector is JBS, a meat-packing firm that has expanded internationally, having completed some large M&A deals. Since 2005, JBS has completed significant acquisitions in Argentina, the United States, Australia, and Italy.[1] Then in 2007, after the acquisition of Swift Foods, JBS Friboi increased its assets to hold about 45% of global meat market. It became the largest global producer of beef, accounting for 40% of the international trade of beef world-wide, the largest processor of leather and third in pork production.[2]

Embraer is the largest Brazilian MNE in the high-technology aerospace industry. Founded in 1969 as a state-owned enterprise, this firm became the world's third largest manufacturer of commercial aircraft and a leading producer of regional jets with up to 120 seats, operating in 78 economies. Embraer's main strategy is the construction of risk-sharing international partnerships, as it depends heavily on a global supply chain and the corresponding foreign alliances.[3] In 2002, it opened a factory in China (Harbin Embraer Aircraft Industry – HEAI), in association with China's state-owned company AVIC in which it holds a 51% stake, for assembly, sale and post-sale support.

Effects of the recent global crises

Global FDI flows declined sharply during the financial crisis of 2008-2009. Brazil's large negative FDI outflow of US$ 10 billion in 2009 (annex table 2) resulted from a surge in the repayment of intra-company loans from Brazilian affiliates abroad to their parent companies, which reached a net value of US$ 14.6 billion in 2009. The combination of Brazilian currency appreciation and loss of market value of overseas equity did not result in more ventures abroad for Brazilian companies. MNEs were hit by tightened international credit conditions and uncertainty regarding the outcome of the economic crisis, now affecting the Euro zone in particular.[4]

Outward M&As by Brazilian firms plummeted sharply in 2009, although the effects of the crisis in Brazil were relatively limited. In 2010, Brazil's GDP growth was 7.5%. Equity investments made by Brazilian MNEs in foreign affiliates reached US$ 11.5 billion in 2010, 3.9% of world outward equity

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[1] Giuliana Aparecida Santini and Gessuir Pigatto, "Internacionalização das empresas Brasileiras frigoríficas," *47º Congresso da SOBER*, Porto Alegre, julho 2009, available at: www.sober.org.br/palestra/13/832.pdf.
[2] Eliana Ribeiro and Márcio Todeschini, "A maior do mundo", *Época Negócios* (São Paulo, ano 3, nº 32, 2009), pp. 160-171.
[3] See http://www.scribd.com/doc/17352804/Embraer-Strategic-Management. For a comprehensive analysis of Embraer see, Maria Cecília Spina Forjaz, "As origens da Embraer," *Tempo Social*, vol. 17, no.1 (São Paulo, June 2005).
[4] James P. Wash and Jiangyan Yu, "Determinants of foreign direct investment: A sectoral and institutional approach," *International Monetary Fund Working Papers*, WP/10/187, July 2010.

investment flow, reaching the 5th position in the world, behind the United States, China, Hong Kong (China), and Belgium.[1]

FDI can be indirectly financed through trans-shipment investment by using foreign affiliates in third countries or institutions such as SPEs, which are constructed in hubs, such as Luxembourg, Austria and Hungary, in that order. In 2009 and 2010, the stock of Brazilian OFDI in the Cayman Islands and other tax havens was considerably lower than in any year during 2000-2008. Also, in 2009 and 2010, the stock of Brazilian OFDI in Europe rose considerably, mainly due to an increase in FDI in Austria, through SPEs and also by means of "financial intermediation" due to relevant foreign banking takeovers of Austrian banks.[2] As a result, Austria was able to attract Brazilian OFDI of US$ 887 million a year from 2001 to 2006 to US$ 33,7 million a year from 2007 to 2010.

At the same time, FDI from Brazil in the primary and secondary sectors increased, while that in the tertiary sector, and in financial services in particular, decreased. Further research could throw light on the relationship, if any, between these sector and geographic changes and their possible links to MNEs' risk-mitigating strategies during and immediately following the financial crisis of 2008-2009.

In general, the outlook in Brazil is rather optimistic about the recovery of FDI flows.[3] Brazilian MNEs expect to continue internationalizing their operations, in the midst of the burdensome internal tax system, high interest rates and exchange rate uncertainty. Firms in industries sensitive to the business cycle, led by automobiles and chemicals, have more conservative views concerning their FDI plans, while those in less affected industries, such as pharmaceuticals, food and beverages and services, have a more optimistic view. Commodities prices, however, will probably be an important factor determining the future rhythm of Brazilian OFDI, particularly the investment plans of Vale (mining), Gerdau (steel), Petrobas (oil), and several agribusiness firms, like JBS, Bertin and Marfrig.

The policy scene

The use of their own savings in their activities abroad, as seen in the cases of JBS, Marfrig, Bertin (food sector), Itausa (IT), AMBEV (beverages), and other firms. In 2009, as a counter-cyclical policy intervention, BNDES[4] lent US$ 8 billion to foster the expansion of Brazilian MNEs in agribusiness, capital goods, construction, engineering, consumer electronics, energy, technical services, and information technology. The Bank operates a line of credit called "*Investimento Direto Externo*" (literally "Foreign Direct Investment") to stimulate investments of Brazilian MNEs, offering interest rates lower than market's and covering the construction of new installations abroad, acquisition of equipment, M&As, turnover capital, and export support.[5]

[1] UNCTAD, *World Investment Report 2011: Non-equity Modes of International Production and Development,* (New York and Geneva: United Nations, 2011).
[2] C. Bellak and S. Mayer, "Inward FDI in Austria and its policy context," *Columbia FDI Profile* (New York: Vale Columbia Center on Sustainable International Investment, 2010).
[3] *Boletim SOBEET,* 71/2010 and 72/2010, available at: www.sobeet.org.br/boletim.php
[4] BNDES is the major development bank in Brazil. It has a steady source of financial resources from the Government, asset monetization and return on operations. It operates with lower interest rates than the market (www.bndes.gov.br).
[5] See, information on the Banco de Desenvolvimento Econômico e Social (BNDES), particularly IDE and FINEM lines of credit in www.bndes.gov.br

Moreover, two main economic policies indirectly encouraged FDI. First, a steady reduction in tax barriers to imports, mainly in the capital goods and the final consumer goods industries, has opened the country to higher levels of international trade, particularly imports of capital goods. This process has directly increased industrial productivity and strengthened the competitiveness of Brazilian enterprises. Second, the privatization of industries such as steel, energy, mining, chemical products, and telecommunications in other economies has stimulated FDI from Brazil in those industries. Incentives for mergers of domestic firms offered by BNDES have also indirectly helped to promote the internationalization of Brazilian firms by facilitating the creation of large MNEs, most notably in the past five years.[1] Despite the lack of an investment policy and tax incentives to promote OFDI, Brazil has emerged as Latin America's main source of FDI, as more and more Brazilian companies have expanded abroad.[2]

Policy-making takes place in an institutional environment in which there are no generally accepted norms or rules to construct policy measures and instruments to deal with inward or outward FDI. Brazil has yet to develop, on a sufficient scale, efficient mechanisms to ensure the enforcement of contracts in the international arena. Brazil had signed 37 double taxation treaties (DTTs) and 14 bilateral investment treaties (BITs), as of June 1, 2011.[3] As pointed out by UNCTAD, international investment agreements (IIAs) are a part of a set of policy instruments affecting companies' decisions to invest. They include BITs, DTTs and other agreements, including free trade area agreements with investment clauses. Brazil has no explicit agenda to strengthen the role of IIAs as an investment instrument to encourage FDI (outward and inward).

Contrary to former Brazilian dominant economic thinking, today FDI is considered an essential tool to enhance the competitiveness of Brazilian corporations. Among the most noteworthy proposals in this respect is that for the foundation of a Brazilian Eximbank.[4] The Eximbank is in the agenda of the government, but still an object of dispute within government authorities.[5] It could encourage foreign trade and investment activities and oversee policies related to inward and outward capital flows. Today, BNDES tries to fulfill these functions, although it lacks the legal and operational structure to do so. Another policy initiative is that for the creation of a Brazilian sovereign wealth fund, a state-owned investment fund, to maximize long-term returns by investing some of Brazil's foreign exchange reserves. Such a fund tends to have a higher risk tolerance than official funds managed by monetary authorities, such as BNDES and the Central Bank. The proposition is to increase strategic Brazilian cross-border M&As and greenfield projects, in response to market trends and new investment opportunities.

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[1] Industrial policies in Brazil do not regulate or give fiscal incentives to OFDI. However, there are incentives to form national champions. More information is available at: http://www.mdic.gov.br/pdp/arquivos/destswf1224095287.ppt

[2] UNCTAD, *World Investment Report 2010*: *Investing in a Low-Carbon Economy* (New York and Geneva: United Nations, 2010). Since 2001, the Central Bank of Brazil has collected information on OFDI. The data differ from UNCTAD's due to differences in the methodologies employed.

[3] UNCTAD, "Brazil: number of double taxation treaties concluded" (New York and Geneva: United Nations, 2011), available at: http://archive.unctad.org/Templates/Page.asp?intItemID=4505&lang=1 and, "Brazil: number of bilateral investment treaties concluded" (New York and Geneva: United Nations, 2011), as at June 1, 2011, available at: http://archive.unctad.org/Templates/Page.asp?intItemID=2344&lang=1

[4] Milton de Abreu Campanario, Helio Nogueira da Cruz and Marcello Muniz da Silva, "Investimento estrangeiro direto brasileiro: proposta de políticas públicas," in Afonso Fleury, ed., *Gestão empresarial para a internacionalização das empresas brasileiras* (São Paulo: Editora Atlas, 2010).

[5] Jornal Folha de São Paulo, 8 março de 2010.

Conclusions

Several factors could favor the further international expansion of Brazilian MNEs. Domestic economic growth and the appreciation of the Real are crucial favorable macroeconomic conditions. Economic growth in most emerging markets and an economic recovery of European economies are likely to stimulate Brazilian OFDI, especially foreign investment in capital goods, construction, engineering, consumer electronics, energy, aircraft, technical services, and information technology. The commodities markets for ore, steel, oil, and meat protein depend on the growth of demand from emerging economies and should also promote new ventures abroad. In Latin America and Africa, good prospects for agribusiness should encourage new investments from Brazil.

Improved access to domestic finance is necessary to help Brazilian MNEs continue their foreign expansion to compensate for tightened credit conditions in international markets. Further internationalization depends heavily on private capital markets that need to be improved in Brazil. Inflationary pressures and high interest rates inhibit this process. As noted, public policies do not promote Brazilian MNEs' OFDI, except for the financial support of BNDES to some "national champions." Brazil's MNEs take advantage of the robust domestic growth to strengthen their financial muscle and exploit opportunities for investing abroad and improve their competitiveness. The Government will have to take a careful look at participating in more BITs, DTTs and preferential trade and investment agreements. Furthermore, the regulatory and tax systems in Brazil are quite inadequate to enforce international contracts. As noted, Brazil ranked 126th among 183 countries in the world in terms of "the ease of doing business," or the overall investment environment in the World Bank's *Ease of Doing Business* 2011 report. This situation needs to be improved. The first step is addressing the inefficiencies in the tax system, the main obstacle in Brazil to the inflow and outflow of FDI.

Additional readings

Fleury, Afonso, ed., *Gestão empresarial para a internacionalização das empresas brasileiras* (São Paulo: Editora Atlas, 2010).
Campanario, Milton A., Marcello M. Silva, Milton F. Chagas, Jr., and Leonel C. Pessoa, *Foreign Direct Investment: Diagnosis and Proposals for a Public Policy Agenda for Brazil* (InternexT – *Revista Eletrônica de Negócios Internacionais da ESPM* – http://internext.espm.br/index.php/internext , vol. 6, no 1, 2011).
Fleury, Afonso, and Maria Tereza Fleury. *Brazilian Multinationals: Competences for Internationalization* (New York: Cambridge University Press, 2011).

Useful websites

Foreign trade and international agreements: Government of Brazil, Ministry of Development, Industry and Foreign Trade (MDIC), available at: www.mdic.gov.br.
FDI statistics: Central Bank of Brazil, available at www.bacen.gov.br.
Brazilian Multinationals, available at: www.sobeet.org.br/boletim.php

Annex table 1. Brazil: outward FDI stock, 2000-2010

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Brazil	52	50	54	55	69	79	114	140	156	165	181
Memorandum: comparator economies											
Russia	20	44	62	91	107	147	217	370	206	306	434
China	28	35	37	33	45	57	73	96	148	230	298
India	2	3	4	6	8	10	27	44	63	79	92
Mexico	8	12	13	17	22	30	37	45	46	64	66

Source: UNCTAD's FDI/TNC database, available at http://unctadstat.unctad.org/fdi/

Annex table 2. Brazil outward FDI flows, 2000-2010

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Brazil	2	-2	3	0.2	10	3	28	7	21	-10	12
Memorandum: comparator economies											
China	1	7	3	3	6	12	21	23	52	57	68
Russia	3	3	4	1	14	13	23	46	56	44	52
India	1	1	2	2	2	3	14	17	19	16	15
Mexico	0,3	4	1	1	4	7	6	8	1	7	14

Source: UNCTAD's FDI/TNC database, available at http://unctadstat.unctad.org/fdi/.

Annex table 3. Brazil: distribution of outward FDI stock, by economic sector and industry, 2001-2010

(US$ million and per cent)

Sector/industry	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
All sectors/industries	50,000	54,000	55,000	69,000	79,000	114,000	140,000	156,000	165,000	181,000
Primary	1,962	148	319	1,328	4,133	2,793	3,202	3,055	52,154	56,536
% Primary	3.9%	0.3%	0.6%	1.9%	5.2%	2.5%	2.3%	1.9%	31.6%	31.2%
Agriculture, forestry and fishing	131	46	73	313	78	87	172	180	156	145
Mining and quarrying	4	4	22	291	664	1	373	287	49,852	49,621
Petroleum and gas	1,827	98	224	723	3,390	2,705	2,658	2,588	2,145	6,769
Secondary	4,031	4,188	2,341	2,340	2,899	4,977	11,799	15,144	12,038	16,945
% Secondary	8.1%	7.8%	4.3%	3.4%	3.7%	4.4%	8.4%	9.7%	7.3%	9.4%
Food, beverage and tobacco	358	181	283	294	644	571	1,085	1,597	4,176	5,949
Chemicals and refining	765	303	289	65	75	60	108	71	112	167
Non-metallic products	516	336	28	23	27	28	1,974	2,382	2,187	4,123
Construction	1,443	1,872	854	694	686	1,270	1,244	990	1,043	955
Textiles	42	30	45	49	63	512	492	382	312	435
Metallurgy	7	8	8	10	9	221	1,332	1,457	2,370	3,638
Rubber and plastics	61	682	175	237	285	915	350	826	547	493
Other manufacturing	839	776	660	967	1,109	1,400	5,213	7,436	1,287	1,184
Services	44,007	49,663	52,340	65,332	71,969	106,230	124,998	137,800	100,807	107,513
% Services	88.0%	92.0%	95.2%	94.7%	91.1%	93.2%	89.2%	88.3%	61.1%	59.3%
Trade (retailing and wholesale)	2,097	2,296	2,344	2,991	3,547	3,289	5,320	3,461	2,271	3,264
Finance and insurance	24,347	29,362	27,463	35,812	38,829	43,201	80,491	78,403	64,310	69,370
Services to companies	16,919	17,432	21,957	25,616	28,598	59,126	27,684	37,016	19,913	18,966
Others services	644	573	576	913	994	614	11,500	18,919	14,312	15,913

Source: Central Bank of Brazil (www.bacen.gov.br).

Note: The Central Bank of Brazil classifies foreign equity capital stakes of 10% or more as FDI; smaller equity capital investments are classified as portfolio investments.

Annex table 4. Brazil: geographical distribution of outward FDI stock, 2001-2010

(US$ billion)

Economy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
World	50	54	55	69	79	114	140	156	165	181
Developed economies	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Europe	6	7	8	18	25	30	31	30	83	87
Denmark	0.02	0.01	0.01	6	9	10	10	7	12	10
Portugal	0.7	1.2	1.1	1.0	0.9	1.0	2	1	2	3
United Kingdom	0.3	0.1	0.4	0.5	1	1	1	2	1	1
Spain	2	3	2	3	3	4	6	7	7	10
Luxembourg	0.6	0.4	2	3	4	4	4	5	5	5
Netherlands	0.6	0.4	0.7	1	3	3	3	3	4	12
Austria	0.0	0.1	0.3	0.4	0.7	4	2	2	45.2	40
Other economies	2	2	2	2	3	3	3	4	6	7
North America	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
United States	2	2	2	3	4	4	9	13	12	14
Other developed economies	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Japan	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0	0
Developing economies	42	45	44	48	50	79	100	111	69	80
Africa	0.42	0.16	0.11	0.13	0.14	0.03	0.11	0.16	0.2	0.2
Angola	0.27	0.03	0.02	0.03	0.02	0.02	0.10	0.14	0.1	0.2
Other countries	0.15	0.13	0.08	0.10	0.12	0.00	0.01	0.03	0.0	0.0
Asia and Oceania	0.04	0.08	0.09	0.06	0.11	0.11	0.18	0.14	0.2	0.2
China	0.02	0.01	0.02	0.03	0.08	0.10	0.12	0.07	0.2	0.2
Other economies	0.02	0.06	0.07	0.03	0.03	0.01	0.06	0.07	0.1	0.1
Latin America and the Caribbean	41	45	44	48	50	79	99	111	69	79
Argentina	2	2	2	2	2	2	3	4	5	6
Bahamas	6	7	7	8	8	9	13	12	13	13
Bermuda	0.99	1.1	0.6	0.4	0.7	15	0.9	0.3	2	1
British Virgin Islands	8	6	7	7	8	11	16	14	17	16
Cayman Islands	19	24	22	26	26	35	56	67	23	32
Netherlands Antilles	0.3	0.4	0.5	0.8	0.6	2	2	2	0	1
Panama	0.96	1.0	0.8	0.4	0.5	0.6	2	5	1	2
Uruguay	4	2	4	2	2	2	3	3	3	3
Other economies	1.2	1.0	0.8	1	2	3	3	3	5	8

Source: Central Bank of Brazil (www,bacen,gov,br) and UNCTAD's FDI/TNC database for 2007 and 2008, available at http://unctadstat,unctad,org/fdi/

Note: The Central Bank of Brazil classifies foreign equity capital stakes of 10% or more as FDI; smaller equity capital investments are classified as portfolio investments.

Annex table 5. Brazil: major MNEs headquartered in the country, ranked by foreign assets in 2009 and 2010

(US$ billion)

Name	Industry	Foreign assets 2009	Rank 2009	Foreign assets 2010	Rank 2010
Itaú-Unibanco (Itaúsa)	Banking	50.0	1	75.2	1
Vale	Mining	46.1	2	55.6	2
Constr. Norberto Odebrecht	Construction	24.4	3	n.a.	n.a.
Petrobras	Oil and gas operations	20.4	4	17.9	5
Gerdau	Steel	14.3	5	15.1	7
Grupo Votorantim	Conglomerate	9.1	6	15.8	6
JBS-Friboi	Food	9.1	7	10.7	8
Embraer	Aerospace and defense	3.7	8	3.1	10
CSN	Steel	2.2	9	n.a.	n.a.
Marfrig	Food	1.4	10	2.5	11
Constr, Andrade Gutierrez	Construction	0.7	11	n.a.	n.a.
Brasil Foods	Food	0.6	12	3.6	9
Marcopolo	Automotive	0.5	13	0.21	15
WEG	Machinery	0.4	14	0.79	12
FIBRIA (former Aracruz Celulose)	Pulp and paper	0.3	15	n.a.	n.a.
Braskem	Chemicals	0.1	16	n.a.	n.a.
Metalfrio	Electrical equipment	0.1	17	n.a.	n.a.
Natura	Cosmetics	0.1	18	0.04	16
Lupatech	Machinery	0.1	19	n.a.	n.a.
ALL Logística	Railroad transportation	0.1	20	n.a.	n.a.
Totvs	Information technology	0.02	21	n.a.	n.a.
Bematech	Information technology	0.002	22	n.a.	n.a.
Banco do Brasil	Banking	n.a.	n.a.	32.7	3
Bradesco	Banking	n.a.	n.a.	26.2	4
Indústrias Romi	Machinery	n.a.	n.a.	0.73	13
Magnesita	Mining	n.a.	n.a.	0.68	14

Sources: The authors, based on indexes published by Valor/Sobeet and Dom Cabral Foundation referring to 2010 data.

Annex table 6. Brazil: main M&A deals, by outward investing firm, 2008-2010

(US$ million)

Year	Acquiring company	Target company	Target economy	Target industry	Shares acq. (%)	Value
2010	Vale	BSG Resources Guinea Ltd	United Kingdom	Ferroalloy ores, except vanadium	51	2,500
2010	Marfrig Alimentos SA	Keystone Foods LLC	United States	Meat packing plants	100	1.260
2010	Grupo Votorantim	Cimpor Cimentos de Portugal	Portugal	Cement, hydraulic	17	982
2010	DH&C Outsourcing SA	Diveo Broadband Networks Inc	United States	Information retrieval services	100	422
2010	Votorantim Metais Ltda	Cia Minera Milpo SAA	Peru	Copper ores	15	419
2010	Petrobras	Pasadena Refining System Inc	United States	Petroleum refining	50	350
2010	Braskem SA	Sunoco Chemicals Inc	United States	Chemicals and chemical preparations	100	350
2010	Votorantim Cimentos SA	Cimpor Cimentos de Portugal	Portugal	Cement, hydraulic	4	210
2010	Petrobras	Devon Energy Corp-Cascade	United States	Crude petroleum and natural gas	50	180
2010	Grupo Camargo Correa	Cimpor Cimentos de Portugal	Portugal	Cement, hydraulic	3	180
2009	Banco Itau Holding Financeira	Banco Itau Europa SA	Portugal	Security and commodity services	89	498
2009	Petrobras	Esso Chile Petrolera Ltda	Chile	Petroleum refining	n.a.	400
2009	Vale	Cementos Argos SA-Coal Mine	Colombia	Cement, hydraulic	100	373
2009	Votorantim Group	Cementos Avellaneda	Argentina	Cement	50	202
2009	Banco Bradesco SA	Banco Espirito Santo SA	Portugal	Banks	6	132
2009	Suzano Holding SA	MDS SGPS SA	Portugal	Insurance agents, brokers, and service	50	71
2009	Vale	TEAL Exploration & Mining Inc	Canada	Copper ores	50	66
2009	Marfrig	Grupo Zenda	Uruguay	Leather products	51	49
2009	Petrobras	Chevron Chile SAC	Chile	Products of petroleum and coal	100	12
2009	JBS-Friboi	Pilgrim's Pride	United States	Food products	64	3
2008	Gerdau	Quanex Corp	United States	Steel works, blast furnaces, and rolling mills	100	1,749
2008	Magnesita SA	LWB Refractories GmbH	Germany	Brick and structural clay tile	100	944
2008	JBS-Friboi	Smithfield Beef Group Inc	United States	Beef cattle, except feedlots	100	565
2008	JBS-Friboi	Inalca SpA	Italy	Sausages and other prepared meat products	50	425
2008	Votorantim Metais Ltda	US Zinc Corp	United States	Secondary nonferrous metals	100	295

2008	Gerdau SA	Corporacion Sidenor SA	Spain	Steel works, blast furnaces, and rolling mills	20	287
2008	AmBev	Quilmes Industrial SA(Quinsa)	Argentina	Malt beverages	6	252
2008	JBS-Friboi	Tasman Group Services	Australia	Meat packing plants	100	150
2008	Grupo Votorantim	Cia Minera Milpo SAA	Peru	Copper ores	6	133
2008	Gerdau	Corsa Controladora	Mexico	Cold-rolled steel sheet, strip and bars	49	101

Sources: The authors, based on Thomson ONE Banker, Thomson Reuters; Index Invest Brazil CINDES (Centro de Estudos de Integração e Desenvolvimento), available at www,cindesbrasil,org; and companies' annual reports.

Annex table 7. Brazil: main greenfield projects, by outward investing firm, 2008-2010

(US$ million)

Year	Investing company	Host economy	Industry	Business Activity	Investment
2010	Vale	Canada	Metals	Manufacturing	2,800.0
2010	Odebrecht	Mexico	Plastics	Manufacturing	2,500.0
2010	Vale	Canada	Metals	Extraction	560.0
2010	Petrobras	Portugal	Alternative/renewable energy	Manufacturing	530.0
2010	Petrobras	Saudi Arabia	Coal, oil and natural gas	Manufacturing	450.0
2010	Vale	Zambia	Metals	Extraction	400.0
2010	Camargo Correa	Angola	Building and construction materials	Manufacturing	400.0
2010	Gerdau	Peru	Metals	Manufacturing	327.0[a]
2010	Hejoassu Administracao	Colombia	Metals	Manufacturing	327.0[a]
2010	Vale	Peru	Chemicals	Extraction	300.0
2010	EBX Group	Colombia	Coal, oil and natural gas	Extraction	282.6[a]
2010	EBX Group	Colombia	Coal, oil and natural gas	Extraction	282.6[a]
2010	EBX Group	Colombia	Coal, oil and natural gas	Extraction	282.6[a]
2010	EBX Group	Colombia	Coal, oil and natural gas	Extraction	282.6[a]
2010	Hejoassu Administracao	Argentina	Metals	Manufacturing	158.9[a]
2010	Vale	Chile	Metals	Extraction	140.0
2009	Odebrecht	Peru	Plastics	Manufacturing	2,500.0
2009	Vale	Mozambique	Coal, oil and natural gas	Electricity	748.6a
2009	Hejoassu Administracao	Peru	Metals	Manufacturing	500.0
2009	Centrais Eletricas Brasileira (Eletrobras)	Peru	Alternative/renewable energy	Electricity	323.1[a]
2009	Centrais Eletricas Brasileira (Eletrobras)	Peru	Alternative/renewable energy	Electricity	323.1[a]
2009	Centrais Eletricas Brasileira (Eletrobras)	Peru	Alternative/renewable energy	Electricity	323.1[a]
2009	Centrais Eletricas Brasileira (Eletrobras)	Peru	Alternative/renewable energy	Electricity	323.1[a]
2009	Centrais Eletricas Brasileira (Eletrobras)	Peru	Alternative/renewable energy	Electricity	323.1[a]
2009	Centrais Eletricas Brasileira (Eletrobras)	Peru	Alternative/renewable energy	Electricity	323.1[a]
2009	Construtora OAS	Peru	Alternative/renewable energy	Electricity	323.1[a]
2009	Petrobras	Turkey	Coal, oil and natural gas	Extraction	300.0
2009	JBS	United States	Alternative/renewable energy	Electricity	209.9[a]
2009	Vulcabras SA	Argentina	Textiles	Manufacturing	142.3[a]
2009	JBS	Russia	Food and tobacco	Manufacturing	136.8
2008	Vale	New Caledonia	Minerals	Extraction	3,200.0
2008	Vale	Malaysia	Metals	Manufacturing	2,300.0
2008	Hejoassu Administracao	Colombia	Metals	Manufacturing	1,500.0

2008	Gerdau	Peru	Metals	Manufacturing	1,400.0
2008	Vale	Oman	Metals	Manufacturing	1,365.0
2008	Petrobras	Nigeria	Coal, oil and natural gas	Extraction	1,262.9[a]
2008	Petrobras	Japan	Coal, oil and natural gas	Manufacturing	976.0
2008	Vale	Oman	Metals	Manufacturing	913.1[a]
2008	Gerdau	Argentina	Metals	Manufacturing	524.0
2008	Vale	Peru	Chemicals	Extraction	479.0
2008	Andrade Gutierrez	Venezuela	Metals	Manufacturing	283.2[a]
2008	Gerdau	India	Metals	Manufacturing	302.8
2008	Vale	Mozambique	Coal, oil and natural gas	Extraction	250.0
2008	Embraer (Embraer-Empresa Brasileira de Aeronautica)	Portugal	Aerospace	Manufacturing	206.0
2008	Santana	United States	Textiles	Manufacturing	170.0

Sources: The authors, based on FDI Intelligence, a service from the Financial Times Ltd.
[a] Estimated investment.

Chapter 24 - Chile

Chile: Inward FDI and its policy context, 2010

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At the time when many countries were following inward looking economic policies in the 1970s, Chile turned outward and sought foreign direct investment (FDI) as a part of its development strategy. Today, the country has the third largest FDI stock in Latin America, only behind the region's two largest economies. Chile has undertaken various policy efforts to use FDI to promote export diversification, encourage technology transfer and upgrade the country's production capabilities. As a result, Chile has attracted firms operating in more knowledge intensive sectors.

Trends and developments

Chile has been a trailblazer of economic reform in Latin America, and this also applies to policies regarding FDI. The country was one of the first ones in the region actively to seek FDI as a part of its development strategy, at a time when many countries were mostly following inward looking policies.

Today, Chile is the third largest recipient of FDI, in terms of stocks, in Latin America, only behind the two largest Latin American economies, Brazil and Mexico. In 2009, the country was the region's second most important recipient of FDI inflows, just behind Brazil. What is even more remarkable, in terms of FDI as a share of GDP, the country ranked number one.[1] The country's IFDI stock has grown by 150% in less than a decade, outperforming other Latin American countries with larger economies and keeping up with other FDI magnets from either the developing world, such as Thailand, or the developed world, such as the Czech Republic (annex table 1).

Country-level developments

At the end of the 1960s and the beginning of the 1970s, a set of reforms significantly changed the economic landscape of Chile. Nationalizations and the role of the State in the economic activity of the country limited the presence of private firms. This, coupled with a severe political and economic crisis, resulted in a contraction of FDI inflows. At the end of 1973, a *coup d'état* overthrew the democratically elected Government of Salvador Allende; the new regime drastically changed the country's economic policy. As a part of its attempts to move toward a market based economy, the Government enacted a

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[1] This ranking excludes the Caribbean countries, where many small open economies report high ratios of FDI to GDP. In 2009, Chile's ratio of FDI to GDP was almost 8% compared to a ratio of 1.7% in Brazil (Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Direct Investment in Latin America and the Caribbean 2009* (Santiago: ECLAC, 2010).

new law to promote and protect FDI (Law Decree 600).[1] This law, together with instruments for debt conversion, led to a gradual increase in IFDI flows through the second half of the 1970s and the 1980s.

However, it was not until the 1990s and the return of a democratic regime, sound macroeconomic performance, and the globalization wave that started sweeping the world that FDI flows to Chile began their steep upward trend. From 1990 to 1999, IFDI flows grew from nearly US$ 700 million to almost US$ 9 billion, a 1,200% increase.[2] This trend was interrupted from 2000 to 2002, as a result of the combination of several factors, in particular the bursting of the dot-com bubble, relatively low commodity prices and the Argentinean crisis, and the contagious affects that undermined foreign investors' confidence. After the contraction, IFDI growth soon returned to its upward track, reaching its highest point in 2008 (annex table 2). In 2009, IFDI flows recorded their second highest level, a remarkable result considering the global economic crisis and the effects that it had on the flows to other countries of similar economic size that are also globally integrated, such as the Czech Republic and Thailand.

An analysis of the evolution of the sectoral composition of IFDI is limited by the data. Official statistics report the distribution by economic sector and industry only for IFDI entering the country under the Law Decree 600. Between 1974 and 2000, 96% of FDI entered through this scheme, but this figure fell to 66% by 2009, leaving 34% of the IFDI stock unspecified (annex table 3). The services sector stands out as the main recipient of FDI, with financial services and retail industries as the most important ones. However, the main recipient industry by far is mining, as the country's vast copper reserves make it a very attractive target for foreign investors.

FDI statistics on countries of origin suffer from the same limitation as mentioned above, but it is still possible to deduce the main investor countries. The United States has been the main foreign investor in Chile, at least since 1974, with investments in a large variety of industries; Spain follows with important investments in the services sector such as telecommunications, banking and electricity; and Canada, which ranks third, has important investments in the mining sector. FDI from developing regions, such as Africa, Asia or Oceania, is still limited. Investments from Latin American countries have increased, but their amounts are still much smaller than those from the main investor countries (annex table 4).

The corporate players

The biggest investors in Chile are active mainly in the primary and services sectors (annex table 5). The country's natural resource endowments, especially copper, have made Chile an attractive destination for mining firms such as BHP Billiton, Rio Tinto, Xstrata, Anglo-American, and Antofagasta PLC. On the other hand, the country's good economic conditions prevailing during the past two decades have also encouraged very well known market-seeking investors. Financial services have been one of the main industries, with such globally known firms as Santander, BBVA, Scotia Bank, and ING Groep investing heavily in the local market. The utilities sector has also been the target of MNEs, with Spanish firms playing an important role; in particular Telefónica (telecommunications) and Endesa[3] (electricity generation and distribution) quickly became market leaders in the country. Other firms recently entering

[1] Law Decree 600 was introduced in 1974 with the objective of providing a clear legal framework that ensured transparency and equal treatment to foreign investors.
[2] For an interesting and complete review of government policies and inward FDI in Chile during the second half of the 20th century, see chapter 2 in ECLAC (2010), op. cit.
[3] ENEL (Italy) acquired ENDESA at the beginning of 2009.

the Chilean market have been OTPPB (Canada) in the water utilities sector and AES (USA) in the electricity sector.

The importance of the services and primary sectors is also reinforced by analyzing the top M&As of the past three years (annex table 6). The largest M&A deal was by Wal-Mart (USA), which has succeeded in penetrating a market in which many MNEs previously failed. The second largest is Marubeni's (Japan) acquisition of 30% shares in two of Antofagasta PLC's (UK) mining projects, La Esperanza and El Tesoro. With this transaction, the Japanese firm made a significant step toward securing copper resources for producing a wide range of products.

The relevance of the mining industry for IFDI is also evidenced from the list of top greenfield investments (annex table 7). In addition, the list shows the growing importance of a relatively new industry: renewable energy. Wind conditions in some regions of the country, together with the proper policy framework and the global need for greener sources of energy, have unleashed the interest of foreign direct investors in wind farms.[1] Endesa (at the time Spanish), has been one of the pioneers, but other investors such as Enel (Italy), Mainstream Power (Ireland), Sowitec (Germany), and Statkraft (Norway) have followed. IFDI in this sector is likely to rise in the coming years.

It is important to note that the list of top greenfield investments does not adequately capture the growing importance of an industry with higher knowledge intensity than traditional sectors: the global services industry, i.e., business process outsourcing (BPO), IT outsourcing (ITO), knowledge process outsourcing (KPO), and innovation process outsourcing (IPO). At first, Chile started attracting firms in the BPO sector, such as Capgemini and Citigroup. However, more recently, the country has managed to attract more firms with higher levels of process sophistication and knowledge intensity. Now, Chile is the home of firms such as Accenture, Orion, GE, and JP Morgan in ITO; Bayer, ABB and Evalueserve in KPO; and, more recently, the country received investments of Pioneer and Monsanto ITO.

Effects of the current global crisis

In 2009, the global economic and financial crisis had a moderate impact on FDI flows to Chile, which fell by 16% compared to the record level of 2008. Despite this decrease, IFDI reached its second highest level in history which is remarkable, especially considering the prevailing global economic conditions and the severe contraction of FDI flows in other developing countries.

This result can be attributed to two factors. For one, Chile's relatively good economic performance in previous years put the country in a good position to face the crisis and helped the recovery process - which in turn provided incentives to market-seeking investors. The second one is the fact that mining exploration or exploitation projects may not necessarily be correlated with the business cycle. Such projects require many years before they are ready to go on stream; thus, firms that still have the ability to invest do so even in recession periods, to be prepared for the boom years.[2] These two factors may have not only helped to cushion the effects of the economic crisis, but to keep FDI levels high.

[1] For more details on the important role played by Chile's policy in unleashing such investments see UNCTAD, *World Investment Report 2010: Investing in a Low-Carbon Economy* (New York and Geneva: United Nations, 2010).
[2] In fact, in Chile reinvested earnings in 2009 where much higher than in 2008.

The policy scene

For more than three decades, Chile has had a policy to promote and foster FDI. The combination of such a policy, economic and political stability and the country's natural resource endowments rendered positive results, as evidenced in the FDI statistics.[1] Chile's efforts to integrate into the global economy continue, and it has signed a number of FTAs and investment protection agreements with its main trading partners and other countries whose economies offer growth prospects.[2] In 2009, Chile's FTAs with Australia, Colombia and Peru came into force; Chile signed a FTAs with Turkey and initiated conversations with Malaysia and Vietnam. These agreements and the country's accession adherence to the OECD in January 2010 have been important for the development of exports, and may also have a positive impact on FDI flows.

In 2000, CORFO, Chile's economic development agency, launched *InvestChile*, a program to attract investment with a high technological content. The program started providing subsidies to foreign firms that produce goods or services in ICT or that make intense use of these technologies in order to build a critical mass of human capital in such sectors. Despite some resource limitations, the program has been successful, as evidenced by the number of firms attracted in the target sectors.[3] Since 2007, *InvestChile* has undertaken some changes aimed at broadening the type of investment it seeks to promote and to be more in line with the objectives of the country's National Council of Innovation for Competitiveness (NCIC). Today, besides promoting FDI in ICT, *InvestChile* actively seeks to attract investment in other industries, such as biotechnology, agribusiness, alternative energy, and the production of high-tech equipment for the mining and salmon clusters.[4] Since the launch of *InvestChile*, an important number of firms in the target sectors (e.g. IT, renewable energy, agricultural R&D) have arrived, and the country has managed to position itself as an attractive destination in the growing industry of global services.[5]

Conclusions and Outlook

Chile has become one of the main recipients of foreign direct investments of Latin America, keeping up with other FDI magnets from emerging markets of similar size in other regions of the world, such as the Czech Republic and Thailand. Chile's IFDI has had an outstanding performance in the past decade. In 2009, despite the global crisis, the country recorded its second highest inflow of FDI in its history, becoming the year's second most important FDI recipient in the region, just behind Brazil. What is even more remarkable, in terms of FDI as a share of GDP, the country ranked number one in the region.

Chile was one of the first countries in Latin-American to include FDI in its development strategy. Against the trends of the 1970s, the country enacted laws to promote the arrival of FDI, which started flowing gradually. However, it was not until the 1990s and the return of a democratic regime that

[1] For a quantitative evaluation of FDI determinants in Chile, see for instance Miguel Ramirez, "Foreign direct investment and its determinants in the Chilean case: unit roots, structural breaks, and cointegration analysis," (Dublin: Trinity College, Department of Economics, September 2010) and Miguel Ramirez, "Economic and institutional determinants of foreign direct investment in Chile: a time-series analysis, 1960-2001," *Contemporary Economic Policy*, vol. 24, no. 3, 2006.

[2] The list of Chile's FTAs is available at: http://rc.direcon.cl/pagina/1897.

[3] For an economic evaluation of *InvestChile* and the list of firms it attracted see Manuel Agosin and Juan José Price, in Oscar Muñoz, ed., *Productive Development in Chile: CORFO Experience Between 1990 and 2009* (Santiago: CORFO, FLACSO, CATALONIA, 2009).

[4] For more details about *InvestChile*, see www.investchile.com/

[5] According to rankings from AT Kearney, Global Services, KMPG, Gartner, and the Black book of outsourcing, Chile is among the top destinations for offshoring services.

economic and political stability and the globalization winds from the north caused a boom in IFDI. In the past decade, besides the high inflows received, Chile's FDI policy has made various efforts to use foreign direct investment not just as a mere capital flow, but as a means to promote export diversification, technology transfer and the upgrading of production capacities. As growth prospects for 2010 improve, domestically and internationally, it is very likely that IFDI in Chile will resume its upward trend.

Additional readings

Economic Commission for Latin America and the Caribbean (ECLAC), "Chile: foreign direct investment and corporate strategies," chapter II, in ECLAC, *Foreign Direct Investment in Latin America and the Caribbean 2000* (Santiago: ECLAC, 2001).

Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Direct Investment in Latin America and the Caribbean 2009* (Santiago: ECLAC, 2010).

Muñoz, Oscar, *Productive Development in Chile: CORFO Experience between 1990 and 2009* (Santiago: CORFO, FLACSO, CATALONIA, 2009).

Useful websites:

FDI data:
Chile's Central Bank: http://si2.bcentral.cl/Basededatoseconomicos/951_portada.asp?idioma=E
http://www.cinver.cl/english/estadisticas/estadisticas.asp
Markets and trade agreements
http://www.investchile.com/the_chilean_advantage/markets_and_trade_agreements
http://www.cinver.cl/english/regulaciones/acuerdos.asp

Statistical annex

Annex table 1. Chile: inward FDI stock, 2000, 2008, 2009 (US$ billion)

Economy	2000	2008	2009
Chile	46	101	122
Memorandum: comparator economies			
Argentina	68	76	81
Colombia	11	67	74
Ecuador	6	11	12
Peru	11	30	37
Czech Republic	22	114	116
Philippines	18	21	24
Thailand	30	105	99

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

Annex table 2. Chile: inward FDI flows, 2000-2009 (US$ million)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Chile	4,860	4,200	2,550	4,307	7,173	6,984	7,298	12,534	15,181	12,702
Memorandum: comparator economies										
Argentina	10,418	2,166	2,149	1,652	4,125	5,265	5,537	6,473	9,726	4,895
Colombia	2,436	2,542	2,134	1,720	3,016	10,252	6,656	9,049	10,583	7,201
Ecuador	720	1,330	783	872	837	493	271	194	1,001	312
Peru	810	1,144	2,156	1,335	1,599	2,579	3,467	5,491	6,924	4,760
Czech Republic	4,984	5,639	8,493	2,022	4,979	11,603	5,459	10,437	10,731	2,725
Philippines	2,240	195	1,542	491	688	1,854	2,921	2,916	1,520	1,948
Thailand	3,349	5,061	3,335	5,235	5,862	8,048	9,460	11,330	8,570	5,949

Source: The authors, on the basis of official figures of the Central Banks of each country, UNCTAD, FDI/TNC database, available at: http://stats.unctad.org/fdi . and ECLAC, *Foreign Direct Investment in Latin America and the Caribbean 2009* (Santiago: ECLAC, 2010).

Annex table 3. Chile: distribution of inward FDI stock, by economic sector and industry, 2000, 2009[a] (US$ million)

Sector / industry	2000	2009
All sectors / industries	45,753	113,691
Primary	16,041	25,622
Agriculture, forestry, and fishing	770	1,073
Mining, quarrying and petroleum	15,272	24,549
Secondary	5,901	8,560
Services	22,098	40,800
Retailing	1,054	4,267
Financial services	5,873	7,255
Others	15,171	29,278
Unspecified other sectors/industries	1,712	38,709

Source: The authors on the basis of official figures of the Chilean Central Bank.

[a] The stock figures presented are the sum of net inward FDI flows since 1974.

Annex table 4. Chile: geographical distribution of inward FDI stock, 2000, 2009 [a] (US$ million)

Region/economy	2000	2009
World	45,753	113,691
Developed economies	41,067	69,537
Europe	18,260	30,530
Spain	8,962	14,555
Netherlands	1,322	1,831
France	1,232	1,590
Others	6,744	12,554
North America	19,776	32,807
Canada	6,881	13,015
United States	12,894	19,793
Other developed economies	3,032	6,200
Australia	1,392	3,526
Japan	1,487	2,515
Others	153	159
Developing economies	2,769	5,088
Africa	360	431
Asia and Oceania	137	180
China	83	85
Others	54	95
Latin America and Caribbean	2,264	4,463
Mexico	131	1,341
Panama	198	322
Brazil	249	456
Argentina	523	534
Others	1,163	1,810
International organizations	204	358
Unspecified destination	1,712	38,709

Source: The authors on the basis of official figures of the Chilean Central Bank.

[a] The stock figures presented are the sum of net inward FDI flows since 1974.

Table 5. Chile: principal foreign affiliates in Chile, ranked by sales, 2009 (US$ thousand)

	Name	Home economy	Industry	Sales
1	Enersis	Spain	Electricity	6,076,108
2	Minera Escondida (BHP Billiton, Rio Tinto)	Australia/ United Kingdom	Mining	3,585,729
3	D&S (Wal-Mart)	USA	Retail	2,299,639
4	Telefónica Móvil	Spain	Telecommunications	1,474,672
5	Banco Santander	Spain	Financial services	977,170
6	AES Gener	USA	Electricity	838,499
7	Farmacias Ahumada	Mexico	Drugstores	831,955
8	BBVA	Spain	Financial services	446,691
9	Coca Cola Embonor	USA	Beverages	270,980
10	Metlife (Life Insurance)	USA	Financial services	237,961
11	Embotelladora Coca Cola	USA	Beverages	216,599
12	Scotiabank	Canada	Financial services	211,162
13	Chilena ConsolidadaSeguros de Vida (Zurich)	Switzerland	Financial services	187,429
14	Transelec (Hydro-Quebec)	Canada	Electricity	184,710
15	Compañía Chilenade Tabacos (British AmericanTobacco Chile)	United Kingdom	Tobacco	163,645
16	Votorantim Andina	Brazil	Financial services	160,574
17	ING Seguros de Vida	Netherlands	Financial services	159,406
18	Santander Seguros de Vida	Spain	Financial services	135,320
19	AFP Capital	Netherlands	Financial services	134,797
20	Banco Itaú	Brazil	Financial services	123,294
21	Esval	Canada	Water	109,307
22	Telmex	Mexico	Telecommunications	96,642

Source: The authors on the basis of *Capital Magazine*, no. 275, pp. 58 – 61.

Annex table 6. Chile: main M&A deals, by inward investing firm, 2007-2009

Year	Acquiring company	Target Company	Target industry	Source economy	Estimated/ announced transaction value (US$ million)
2009	Wal-Mart Stores Inc	Distribucion y Servicio SA	Grocery stores	United States	1,551
2009	Wal-Mart Stores Inc	D&S	Grocery stores	United States	433
2009	Inversiones Breca SA	Lafarge Chile SA	Ready-mixed concrete	Peru	404
2009	Petrobras	Esso Chile Petrolera Ltda	Petroleum refining	Brazil	400
2009	Mitsubishi Corp	CAP SA	Cold-rolled steel sheet, strip and bars	Japan	171
2008	Marubeni Corp	Antofagasta PLC-Esperanza & El	Copper ores	Japan	1,310
2008	MorganStanley Infrastructure and the Ontario Teachers' Pension Plan	Saesa	Electric services	Canada	1,287
2008	Telefonica SA	Compania de Telecomunicacione s	Telephone communications, except radiotelephone	Spain	869
2008	Nexans SA	Madeco SA-Cable Business	Drawing and insulating of nonferrous wire	France	794
2008	Global Via Infraestructuras SA	Autopista del Aconcagua SA	Inspection and fixed facilities for motor vehicles	Spain	710
2008	ING Groep NV	AFP Bansander	Pension, health, and welfare funds	Netherlands	654
2008	Kinross Gold Corp	Minera Santa Rosa SCM	Gold ores	Canada	242
2008	Fonterra Coop Grp Ltd	Soprole SA	Dry, condensed and evaporated dairy products	New Zealand	202
2008	Brookfield Infrastructure	Nueva Transelec SA	Electric services	Bermuda	111
2007	Bank of Nova Scotia,Toronto	Banco Del Desarrollo	Banks	Canada	829
2007	AEI	Chilquinta Energia SA	Electric services	United States	685
2007	Ontario Teachers' Pension Plan	Esval	Water supply	Canada	579
2007	Grupo Financiero	Securitizadora La Construccion	Personal credit institutions	El Salvador	550
2007	Ontario Teachers'	Essbio	Water supply	Canada	342

	Pension Plan				
2007	Organizacion Terpel SA	Repsol YPF SA-Petrol Service	Petroleum bulk stations and terminals	Colombia	210
2007	Inversiones y Desarrollo	Indura SA	Industrial gases	Peru	195
2007	Citigroup Venture Capital Intl	Moller y Perez Cotapos Ltda	Residential construction	Cayman Islands	100

Source: Thomson ONE Banker, Thomson Reuters.

Table 7. Chile: main greenfield projects, by inward investing firm, 2007-2009

Year	Investing company	Target industry	Source economy	Estimated/ announced transaction value (US$ million)
2009	Antofagasta	Metals	UK	2,300
2009	Enhol	Alternative/renewable energy	Spain	1,000
2009	Mainstream Renewable Power	Alternative/renewable energy	Ireland	1,000
2009	Quadra Mining	Metals	Canada	704
2009	Enel	Alternative/renewable energy	Italy	322
2009	Sowitec	Alternative/renewable energy	Germany	322
2009	Abertis	Transportation	Spain	300
2009	GeoPark Holdings Limited	Coal, oil and natural gas	Bermuda	299
2009	Xstrata PLC	Metals	Switzerland	293
2009	Sowitec	Alternative/renewable energy	Germany	289
2009	Sowitec	Alternative/renewable energy	Germany	289
2009	Agbar	Industrial Machinery, Equipment & Tools	Spain	285
2009	Element Power	Alternative/renewable energy	USA	235
2009	Acciona	Alternative/renewable energy	Spain	230
2009	Enel	Coal, oil and natural gas	Italy	229
2008	Endesa	Alternative/renewable energy	Spain	3,000
2008	Nippon Mining Holdings	Metals	Japan	1,700
2008	Endesa	Alternative/renewable energy	Spain	710
2008	Methanex	Coal, oil and natural gas	Canada	600
2008	Endesa	Coal, oil and natural gas	Spain	525
2008	Goodyear	Rubber	USA	400
2008	Apache	Coal, oil and natural gas	USA	277
2008	Endesa	Alternative/renewable energy	Spain	225
2008	Endesa	Alternative/renewable energy	Spain	192
2008	Experian	Financial services	Ireland	181
2008	Ritrama	Paper, printing and packaging	Italy	161
2008	Statkraft	Alternative/renewable energy	Norway	140
2008	Investika	Metals	Australia	130
2008	Jindal Organization	Warehousing and storage	India	107
2008	Kimco Realty	Real estate	USA	60
2007	Anglo American	Metals	UK	1,700
2007	Agbar	Industrial machinery, Equipment and tools	Spain	342
2007	Abertis	Transportation	Spain	254
2007	McCain Foods	Food and tobacco	Canada	200
2007	Relacom	Communications	Sweden	85
2007	Xstrata PLC	Metals	Switzerland	70
2007	Alfa Romeo	Automotive OEM	Italy	44
2007	Munchis	Food and tobacco	Argentina	41
2007	Den Norske Bank (DnB NOR)	Financial services	Norway	31
2007	Goodyear	Rubber	USA	30
2007	Oracle	Software and IT services	USA	23
2007	Lanix	Business machines and equipment	Mexico	16

2007	Teléfonos de México (Telmex)	Communications	Mexico	15
2007	Worley Parsons	Business services	Australia	9
2007	Baby's Dream	Consumer products	USA	6

Source: fDi Intelligence, a service from the Financial Times Ltd.

Chile: Outward FDI and its policy context, 2010

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Despite the recent financial and economic crisis, Chile's OFDI in 2009 surpassed the record level of 2008, reflecting the strength of Chilean firms and the country's continuous commitment to integrate into the world economy. Two decades ago, Chile was an unlikely foreign direct investor. Today, even with no explicit policies to promote outward investment or the creation of national champions, Chile stands out as the third biggest investor of Latin America in absolute terms and as the first one in proportion to its GDP, even outperforming other emerging economies of similar size in other regions of the world.

Trends and developments

In the middle of the 1980s, Chile underwent important market reforms that reshaped its private sector. At the time, the country ranked seventh as a foreign direct investor of Latin America and the Caribbean, based on its stock of assets held abroad. However, privatization, deregulation and trade and financial liberalization increased competition in local markets and pushed local firms to raise efficiency. The increased competitiveness of some domestic firms at the beginning of the 1990s led to the emergence of Chilean firms as global players.[1]

Today, Chile is the third largest foreign direct investor of the region, only behind Brazil and Mexico. What is even more remarkable, in terms of its GDP, the country ranked number one in the past two years.[2] Despite the worldwide financial and economic crisis, Chilean firms continued their expansion and, in 2009, Chile's OFDI amounted to US$ 8 billion, a 16% increase compared to 2008. Chile's OFDI stock has almost tripled in less than a decade, underlining the remarkable upward trend in the internationalization of Chilean MNEs (annex table 1).

Country-level developments

The emergence of Chilean firms in the 1990s resulted in a gradual increase of OFDI flows until 2000, followed by a sharp contraction in 2001- 2002 (annex table 2). The fall resulted from two factors: one was the economic crisis in Argentina, the main recipient of Chilean OFDI, accounting for 20% of it between 1998 and 2000; the other one was the acquisition of Enersis and AES Gener, the main Chilean

[*] The authors wish to thank Jerry Haar and Nicole Moussa for their helpful comments.. First published March 12, 2010.

[1] ECLAC, *Foreign Direct Investment in Latin America and the Caribbean 2005* (Santiago: ECLAC, 2006).

[2] ECLAC, *Foreign Direct Investment in Latin America and the Caribbean 2008* (Santiago: ECLAC, 2009).

electricity firms that had managed to grow abroad, but were acquired by bigger global players such as the Spanish Endesa.[1]

After the contraction in the years 2001 and 2002, Chilean OFDI has steadily grown, reaching almost US$ 8 billion in 2009, a historical record. Chile does not only stand out as the first foreign direct investor in proportion to its GDP in Latin-American, but it has also performed remarkably well in comparison with countries of similar economic size from other regions, which are also globally integrated, such as the Philippines, Thailand and the Czech Republic (annex table 2).

The growth of Chilean OFDI flows was accompanied by a fast process of regional diversification, mainly in North and Latin America. Certainly, Latin America remains the main recipient of Chilean OFDI in the past decade (40%). However, if at the end of the 1990s the main target of Chilean firms was Argentina, the accumulated flows from 2000-2008 show that Brazil, Peru and Uruguay have become the main target countries in recent years. In addition, Mexico and Colombia became more important for Chilean companies. Likewise, OFDI flows toward North America have risen significantly, from almost nothing to 11% of total flows in this decade, with the United States as the main target country. OFDI to Europe did not follow a continuous pattern; on average, they represented 11% of total flows in the period analyzed (annex table 4).[2]

The sectoral composition of Chilean OFDI during the period 2000-2008 is dominated by three sectors that together accounted for more than 50% of all direct investment abroad during this period: financial services, insurance and real estate and services (32%), mining (11%), and retail (10%). It is worth mentioning that almost 20% of Chilean OFDI in the past decade was directed to the Cayman Islands and Panama, i.e., to financial centers, thus overestimating the share of OFDI flows in financial services (annex table 3); it can be assumed that most of these funds are channeled via these offshore centers to other locations. A caveat of these statistics is that an important share of Chile's OFDI corresponds to net reinvestments where neither a sectoral nor a geographical destination is specified.

The corporate players

The biggest Chilean outward investors during the past decade (annex table 5), have been mainly concentrated in the primary and service sectors, with a small group of firms in the manufacturing sector:

1) Firms engaged in primary sector activities, producing natural-resource based manufactures and supplying basic inputs to the industrial sector, such as Empresa Nacional de Petróleo (ENAP), Arauco, Empresas CMPC, Molibdenos y Metales (Molymet), Madeco, and Masisa. These companies invested mainly in Latin America in their search for natural resources and markets and are primarily involved in hydrocarbons, mining and metal processing, as well as pulp and paper.

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[1] Calderón, Álvaro, "Outward foreign direct investment by enterprises from Chile," in UNCTAD, *Global Players from Emerging Markets: Strengthening Enterprise Competitiveness through Outward Investment* (New York and Geneva: United Nations, 2007), Chapter IV.

[2] Balance of payments data on outward FDI flows recorded by Chile's Central Bank do not show the ultimate host country of FDI outflows. Net reinvestments account for 37% of these flows, but their geographical and sectoral destination is not available in official statistics.

2) Firms in the service sector, previously owned by the state and local enterprises, that responded to the new competitive environment created by the reforms of the 1990s, such as Lan Chile, Compañía General de Electricidad (CGE), Compañía Sudamericana de Vapores (CSAV), and firms engaged in real estate, consumer products and retail, such as Fallabella, Ripley, Mall Plaza, and Cencosu

3) Firms engaged in manufacturing sector activities, such as Compañía Cerveceras Unidas (CCU), Embotelladora Andina, and Empresas Carozzi.

Three industries stand out from among the top merger and acquisitions (M&As) and greenfield investment projects of the past three years (annex tables 6 and 7). The first one is the pulp and cellulose industry in which Arauco and Empresas CMPC invested heavily in Brazil and Uruguay. On the real estate, consumer products and retail side, the Chilean champions Cencosud, Ripley, Fallabela and, until this year, D&S (now owned by Wall Mart), expanded their presence in Latin America. D&S's expansion strategy may well become more aggressive as Wall-Mart seeks to penetrate the South American market from its Chilean base.[1] The other industry worth mentioning is transportation, where Empresas Navieras y Compañía Sudamericana de Vapores (CSAV) invested in Malaysia and Hong Kong (China). Although this may be the firm's initial investment in Asia, it might indicate its interest in the Asian market. Likewise, Molymet recently invested in China, making it the biggest Chilean investment in that country.[2]

After Brazil and Mexico, Chile is the country that headquarters the largest number of the so called "trans-latin" MNEs in Latin America and the Caribbean.[3]

Effects of the current global crisis

In 2009, OFDI from Chile registered its fifth year of consecutive growth and reached a new historical record. In other words, the global financial and economic crisis did not stop Chilean firms' expansion, especially the ones operating in the natural resources sector that managed to accumulate capital during the boom years. In addition, some industries (like retail or pulp and paper) were not hit hard by the crisis as the demand for their products has a low income elasticity of demand, which enabled firms in that industry to continue to expand despite the economic slowdown.

The policy scene

In the past few years, Chile has pursued an ambitious strategy to foster the internationalization of the country. It has signed a number of FTAs and investment protection agreements with its main trading partners and other countries whose economies offer growth prospects. In 2009, Chile's FTAs with Australia, Colombia and Peru came into force, and Chile signed a FTAs with Turkey and initiated conversations with Malaysia and Vietnam. In January 2010, Chile joined the OECD. Although these initiatives have been important for the development of exports, their impact on Chilean OFDI is yet

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[1] Wal-Mart spokesperson, Kevin Gardner, in "Wal-Mart traerá a Chile su estrategia mundial de precios bajos y planea mantener marcas de D&S," *La Tercera*, December 21, 2008.
[2] "Chilean Molymnet makes the biggest investment in China," *La Tercera*, December 4, 2009.
[3] Boston Consulting Group (BCG), "The 2009 BCG multilatinas: a fresh look at Latin America and how a new breed of competitors are reshaping the business landscape," available at http://www.bcg.com/documents/file27236.pdf.

unclear. In the past, Chilean firms have preferred to operate in close and well-known environments and have used trade to exploit more distant markets.[1] Nevertheless, OFDI to other destinations, such as East-Asia, has increased in the past five years.

Since the restoration of democracy in 1990, Chile has enjoyed the political and economic stability that has created a solid base from which its firms can pursue new business strategies outside the country's borders, even during the recent economic crisis. In January 2010, after twenty years of a centre-left government, the centre right coalition won the presidential election. This political change is not expected to alter Chile's strategy to integrate further into the global economy, and thus on the behavior of Chilean firms toward international expansion.

Conclusions and Outlook

Chile has slowly become one of the main foreign direct investors of Latin America and the Caribbean, even outperforming emerging markets of similar size in other regions of the world, such as the Czech Republic, the Philippines and Thailand. Chile's OFDI has had an outstanding performance, even during the recent economic crisis. In 2009, Chilean OFDI reached a new record level, surpassing 2008 outflows.

Unlike other countries, Chile has not followed an explicit policy to promote OFDI or to create national champions.[2] The Chilean government has provided stable economic conditions in the domestic market, which has served Chilean firms as a platform to expand their business abroad. This shows that the best policy to support OFDI is perhaps a sound policy to promote stability and competition in national markets. Chilean firms have shown that they can compete successfully outside their borders. As growth prospects for 2010 improve,[3] domestically and internationally, it is very likely that Chilean MNEs will continue to expand abroad.

Additional readings

Calderón, Alvaro, "Outward foreign direct investment by enterprises from Chile," in UNCTAD, *Global Players from Emerging Markets: Strengthening Enterprise Competitiveness through Outward Investment* (New York and Geneva: United Nations, 2007), chapter IV.

Dirección General de Relaciones Económicas Internacionales (DIRECON), *Chile: 20 Años de Negociaciones Comerciales* (Santiago: Chile, 2009), available at: http://rc.direcon.cl/pagina/1970.

Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Direct Investment in Latin America and the Caribbean 2005* (Santiago: ECLAC, 2006).

[1] Calderon *op.cit.*, p. 47.
[2] In the case of ENAP, Chile's state owned oil company, the Government has promoted investment abroad. However, the goal, more than creating a national champion, is to ensure the availability of oil resources, which are very limited in Chile.
[3] Latin America and the Caribbean, the main recipient of Chile's OFDI, is expected to grow by 4.1% in 2010, after a contraction of -1.8% in 2009. Chile's real GDP is expected to grow by 4.5% in 2010 (ECLAC, *"*Preliminary overview of the economies of Latin America and the Caribbean 2009,*"* (LC/G.2424-P), Santiago, Chile, 2009.

Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Direct Investment in Latin America and the Caribbean 2008* (Santiago: ECLAC, 2009).

Boston Consulting Group (BCG), "The 2009 BCG multilatinas: a fresh look at Latin America and how a new breed of competitors are reshaping the business landscape," available at: http://www.bcg.com/documents/file27236.pdf.

Statistical annex

Annex table 1. Chile: outward FDI stock, 2000, 2008 (US$ million)

Economy	2000	2008
Chile	11,154	31,728
Memorandum: comparator countries		
Argentina	21,141	28,749
Colombia	2,989	13,084
Peru	505	2,270
Venezuela	7,676	16,619
Czech Republic	738	9,913
Philippines	2,044	5,810
Thailand	2,203	10,857

Source: Based on UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (New York and Geneva: United Nations, 2009).

Annex table 2. Chile: net outward FDI flows, 2000-2009 (US$ million)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Chile	3,987	1,610	343	1,606	1,563	2,183	2,742	3,009	6,891	7,976
Memorandum: comparator countries										
Argentina	901	161	-627	774	676	1,311	2,439	1,504	1,391	
Colombia	325	16	857	938	142	4,662	1,098	913	2,254	
Peru	-146	74	18	60	59	174	428	66	729	
Venezuela	521	204	1,026	1,318	619	1,167	1,524	30	1,273	
Czech Republic	43	165	207	206	1014	-19	1467	1619	1900	
Philippines	125	-140	65	303	579	189	103	3,536	237	
Thailand	-22	430	171	621	76	503	972	1,857	2,835	

Source: Based on data from the Central Bank of Chile as of February 8, 2010; Instituto Nacional de Estadística y Censos (INDEC, Argentina); Central Bank of Colombia; Central Bank of Venezuela; and UNCTAD, *World Investment Report 2009,* op. cit.

Annex table 3. Chile: sectoral distribution of net outward FDI flows, 2000-2008 (US$ million)

Sector / industry	2000	2001	2002	2003	2004	2005	2006	2007	2008
All sectors / industries	3,986.4	1,609.7	343.1	1,606.3	1,563.1	2,182.6	2,742.4	3,009.0	6,891.3
Primary	175.8	212.2	44.1	128.0	-167.1	55.4	758.1	1,149.1	808.6
Agriculture, farming, fishing and forestry	131.5	235.2	29.0	116.1	8.0	52.3	13.9	10.5	10.7
Mining	44.3	-23.0	15.1	11.9	-175.1	3.1	744.2	1,138.6	797.9
Secondary	445.4	-110.8	-99.2	-6.7	29.8	252.2	-87.0	115.1	379.9
Manufacturing	166.4	-124.0	-79.3	-25.9	68.4	214.3	120.5	75.0	362.3
Construction	15.9	49.4	13.9	-72.4	-5.0	-9.9	1.7	28.4	0.9
Electricity, gas and water	263.1	-36.2	-33.8	91.6	-33.6	47.8	-209.2	11.7	16.7
Services	2,980.7	1,178.3	195.5	1,005.4	874.9	922.1	1,073.1	-649.6	3,476.8
Retail	227.6	110.9	113.3	190.9	394.8	104.7	255.9	277.1	806.8
Financial services, insurance, real estate and services.	2,637.9	932.6	86.7	807.6	439.0	749.2	705.0	-1,160.8	2,372.4
Communal, social and personal services	1.4	22.0	-3.4	1.2	44.4	19.0	26.5	10.8	82.8
Transport, storage and communications	113.8	112.8	-1.1	5.7	-3.3	49.2	85.7	223.3	214.8
Unspecified other sectors/industries	-0.4	-0.6	-28.6	-67.4	1.3	7.2	0.0	0.0	0.1
Net reinvestment	384.9	330.6	231.3	546.9	824.3	945.7	998.2	2,394.4	2,225.9

Source: Based on data from the Central Bank of Chile, "Financial account, balance of payments, outward foreign direct investment by destination sector," available at: http://www.bcentral.cl/estadisticas-economicas/series-indicadores/xls/inversion_en_el_exterior.xls.

Annex table 4. Chile: geographical distribution of net outward FDI flows, 2000–2008 (US$ million)

Country / region	2000	2001	2002	2003	2004	2005	2006	2007	2008
World	3,986.5	1,609.8	343.0	1,606.4	1,563.0	2,182.9	2,742.7	3,009.0	6,891.4
Developed economies	1,116.8	-95.9	255.3	303.3	96.4	744.1	1,148.5	-432.9	1,540.8
Europe	171.8	24.9	510.7	115.9	-4.4	246.9	1,053.7	516.1	56.6
European Union	182.0	8.2	513.9	85.2	-3.3	233.4	1,031.8	499.6	53.8
Austria	0.0	4.1	1.5	5.6	0.0	0.0	0.2	0.1	0.0
Belgium	10.2	0.1	-0.9	-0.5	0.0	0.1	118.0	-47.3	0.0
France	1.6	0.5	-9.8	7.1	1.0	-16.9	-0.7	6.1	-10.3
Germany	4.0	23.1	1.7	0.8	64.6	8.3	-0.8	21.3	8.1
Ireland	8.1	0.0	9.0	0.0	1.0	0.0	1.1	-1.0	-6.6
Luxembourg	6.8	1.9	-0.1	34.9	-17.7	7.7	279.4	0.0	-2.3
Netherlands	58.6	2.4	2.9	4.7	9.4	19.5	172.2	75.1	-245.3
Spain	74.5	-26.4	492.7	9.8	19.5	59.7	-15.5	82.5	38.8
Sweden	0.0	0.0	0.0	5.9	10.1	3.0	2.7	11.0	9.2
United Kingdom	18.2	2.5	16.9	16.9	-91.2	152.0	475.2	351.8	262.2
Other developed Europe	-10.2	16.7	-3.2	30.7	-1.1	13.5	21.9	16.5	2.8
North America	-105.5	-131.5	-255.4	119.8	100.8	502.3	94.4	999.4	1,373.2
Canada	6.4	2.6	1.0	0.5	2.0	0.5	8.8	-25.5	52.4
United States	-111.9	-134.1	-256.4	119.3	98.8	501.8	85.6	1,024.9	1,320.8
Other developed countries	1,050.5	10.7	0.0	67.6	0.0	-5.1	0.4	-1,948.4	111.0
Bermuda	0.5	0.0	0.0	67.6	0.0	-5.4	0.0	399.6	111.0
New Zealand	1,050.0	10.7	0.0	0.0	0.0	0.3	0.4	-2,348.0	0.0
Developing economies	2,481.1	1,367.4	-115.4	815.9	647.0	471.8	590.5	1,040.2	3,119.5
Africa	0.0	0.0	0.0	0.1	0.0	5.8	2.3	0.0	-19.2
Latin America and the Caribbean	2,474.9	1,367.3	-115.5	815.5	638.0	439.9	70.3	885.4	3,107.2
South and Central America	991.8	155.1	236.8	138.2	462.7	389.3	284.8	1,038.7	3,156.2
South America	488.3	26.5	160.3	104.5	437.0	311.5	233.3	1,001.3	1,637.7
Argentina	253.1	-86.4	-425.1	-16.1	322.6	104.6	41.3	147.5	234.6
Bolivia	-16.2	-1.5	-13.8	-8.4	3.7	-8.7	-11.4	-0.7	-9.8
Brazil	138.0	7.7	62.6	18.6	12.7	103.2	39.0	685.0	459.6
Colombia	20.0	23.9	5.2	1.3	0.8	16.3	14.8	30.4	31.2
Ecuador	-0.5	9.6	-12.6	2.5	-0.1	-16.0	22.2	-1.9	8.3
Paraguay	2.2	6.6	-8.2	-0.7	30.2	0.0	0.0	0.2	2.5
Peru	11.3	6.4	-42.9	-24.4	71.2	42.2	107.6	55.5	809.5
Uruguay	47.8	26.4	528.8	75.9	-13.9	68.3	8.9	71.1	83.8
Venezuela	32.6	33.8	66.3	55.8	9.8	1.6	10.9	14.2	18.0
Central America	503.5	128.6	76.5	33.7	25.7	77.8	51.5	37.4	1,518.5

Costa Rica	0.8	0.0	-0.5	0.4	-0.2	12.1	2.3	4.0	0.2
El Salvador	-0.1	0.3	-1.2	0.0	0.0	20.0	-27.1	0.0	0.0
Mexico	65.2	-19.8	84.9	60.4	2.2	52.6	28.5	11.7	146.4
Panama	437.6	148.1	-6.7	-27.1	23.7	-6.9	47.8	21.7	1,371.9
Caribbean	1,483.1	1,212.2	-352.3	677.3	175.3	50.6	-214.5	-153.3	-49.0
Asia and Oceania	6.2	0.1	0.1	0.3	9.0	26.1	517.9	154.8	31.5
Asia	6.2	0.1	0.1	0.3	9.0	26.1	517.9	154.8	31.5
West Asia	0.0	0.0	0.0	0.0	0.0	12.7	502.5	146.5	23.3
South, East and South-East Asia	6.2	0.1	0.1	0.3	9.0	13.4	15.4	8.3	8.2
East Asia	6.2	0.1	0.1	0.3	9.0	3.9	11.2	8.0	8.0
China	6.2	0.1	0.0	0.3	7.2	1.7	2.4	1.9	0.2
Hong Kong, China	0.0	0.0	0.1	0.0	1.8	2.2	8.8	6.1	7.8
South Asia	0.0	0.0	0.0	0.0	0.0	9.5	4.2	0.3	0.2
Rest	4.1	8.3	0.4	7.6	-5.9	14.1	5.5	7.3	5.1
Unspecified destination	-0.4	-0.6	-28.6	-67.4	1.3	7.2	0.0	0.0	0.1
Net reinvestment	384.9	330.6	231.3	546.9	824.3	945.7	998.2	2,394.4	2,225.9

Source: Based on data from The Central Bank of Chile, "Financial account, balance of payments, outward foreign direct investment by destination sector," available at: http://www.bcentral.cl/estadisticas-economicas/series-indicadores/xls/inversion_en_el_exterior.xls

Annex table 5. Chile: principal MNEs, ranked by total sales, [a] 2008 [b] (US$ billion)

Rank	Name	Industry	Sales
1	Enap	Oil & gas	12.0
2	Cencosud	Retail	9.5
3	Falabella	Retail	5.8
4	CSAV	Industrial, transport and mining	4.8
5	Lan Airlines	Transport	4.5
6	Arauco	Industrial, transport and mining	3.6
7	Antofagasta PLC	Industrial, transport and mining	3.3
8	D&S	Retail	3.3
9	CMPC	Industrial, transport and mining	2.9
10	CGE	Utilities and telecommunication	2.8
11	Molymet	Industrial, transport and mining	2.4
12	SQM	Industrial, transport and mining	1.7
13	Ripley	Retail	1.6
14	Farmacias Ahumada	Retail	1.4
15	Embotelladora Andina	Food and beverages	1.3
16	Empresas Navieras	Transport	1.3
17	CCU	Food and beverages	1.2
18	Madeco	Industrial, transport and mining	1.1
19	Masisa	Industrial, transport and mining	1.0
20	Salfacorp	Industrial, transport and mining	0.9

Source: Based on “Top 100, las mayores compañías por ventas,” *Capital*, Chile, May 15, 2009.

[a] World-wide sales.
[b] Data on foreign assets are not available.

Annex table 6. Chile: major cross-border M & A deals, by outward investing firm, 2007-2009.
(US$ million)

Year	Acquiring company	Target company	Target industry	Target country (OFDI)	Announced value
Completed					
2009	Arauco and Stoda Enso (Finland)	ENCE	Pulp and paper	Uruguay	340.0
2009	Cencosud	Easy Colombia SA	Grocery stores	Colombia	60.0
2009	Corporacion Farmaceutica	Laboratorios Synthesis Ltda-	Pharmaceutical preparations	Colombia	18.0
2009	Sixtra Chile SA	Nekotec Tecnologia SA de CV	Computer integrated systems design	Mexico	6.0
2009	Antofagasta Minerals SA	Sunridge Gold Corp	Gold ores	Canada	5.1
2009	Gasco SA	Gasoducto del Pacifico Argenti	Natural gas transmission and distribution	Argentina	3.9
2009	ENAP	Gasoducto del Pacifico Cayman	Natural gas transmission and distribution	Cayman Islands	2.7
2009	Sociedad Punta del Cobre SA	Explorator Resources Inc	Copper ores	Canada	1.4
2009	Max Alberto Oemick	Fortune Valley Resources Inc	Gold ores	Canada	0.2
Announced					
2009	CMPC	Aracruz Cellulose SA-Guaiba	Pulp mills	Brazil	1,430
2009	CMPC	Cia Melhoramentos de Sao Paulo	Sanitary paper products	Brazil	202.6
2009	Antofagasta Minerals SA	Almaden Minerals Ltd-Tuligtic	Gold ores	Mexico	7.0
2009	Quintec SA	Qbase SA	Computer facilities management services	Argentina	1.2
Completed					
2008	Masisa SA	Tafibras Participaciones SA	Reconstituted wood products	Brazil	70.0
2008	Investor Group	HARVEST SA	Wines, brandy, and brandy spirits	Argentina	3.3
Announced					
2008	Investor Group	Bavaria SA-Agua Brisa Bottled	Bottled & canned soft drinks & carbonated waters	Colombia	92.0
Completed					

2007	Cencosud	Grupo Wong	Grocery stores	Peru	500.0
2007	Cencosud	G Barbosa	Grocery stores	Brazil	430.0
2007	Cencosud	Mercantil Rodrigues Comercial	Grocery stores	Brazil	21.0
2007	CMPC	Drypers Andina SA	Sanitary paper products	Colombia	5.6
2007	Madeco SA	CEDSA SA	Miscellaneous fabricated wire products	Colombia	3.7
2007	Forus SA	Pasqualini	Women's footwear, except athletic	Uruguay	2.4
2007	Forus SA	Maravilla SA	Women's footwear, except athletic	Colombia	1.9
2007	Laboratorios Andromaco SA	Iprofasa	Drugs, drug proprietaries, and druggists' sundries	Guatemala	1.6

Source: ECLAC, on the basis of data from *Thomson ONE Banker, Thomson Reuters* (http://thomsonreuters.com).

Annex table 7. Chile: top 10 greenfield projects, by outward investing firm, 2007-2009 (US$ million)

Year	Investing company	Target industry	Target country	Investment
2009	Sigdo Koppers Group	Chemicals	Peru	650
2009	Falabella	Textiles	Peru	350
2009	Ripley	Real estate	Peru	157[a]
2009	Empresas Navieras SA	Transportation	Hong Kong (China)	129[a]
2009	Empresas Navieras SA	Transportation	Hong Kong (China)	67[a]
2009	Mardones Propiedades	Real estate	USA	41[a]
2009	Empresas Navieras SA	Transportation	Uruguay	33[a]
2009	Sociedad Quimicay Minera (SQM)	Chemicals	India	25[a]
2009	Bess Mobile	Communications	Venezuela	25
2009	Wines of Chile	Beverages	USA	22[a]
2008	Parque Arauco	Real estate	Colombia	160
2008	CSAV Norasia	Transportation	Malaysia	129[a]
2008	Masisa	Wood products	Brazil	91
2008	Distribucion y Servicio (D&S)	Food & tobacco	Peru	42[a]
2008	Credito Continental	Financial services	Colombia	32[a]
2008	Tesacom	Communications	Panama	24[a]
2008	Tesacom	Communications	Mexico	24[a]
2008	Wisetrack	Communications	Peru	24[a]
2008	e-Contact	Communications	Ecuador	24[a]
2008	Azurian	Software & IT services	Peru	23[a]
2007	Enap	Coal, oil and natural gas	Venezuela	800
2007	Ripley	Real estate	Mexico	400
2007	Paulmann Group	Consumer products	Colombia	200
2007	Sigdo Koppers Group	Chemicals	Peru	200
2007	Recycla	Alternative/renewable energy	Colombia	64[a]
2007	Iansa	Alternative/renewable energy	Colombia	60
2007	Salfacorp	Real estate	Peru	41[a]
2007	Ripley	Real estate	Peru	31
2007	Salfacorp	Real estate	Argentina	26[a]
2007	Cencosud	Consumer products	Colombia	15[a]

Source: ECLAC, based on information from the *fDi Intelligence*, a service from the *Financial Times Ltd* (www.fDimarkets.com).

[a] Estimate made by *fDi Intelligence*.

Chapter 25 - China

China: Inward FDI and its policy context, 2010

Ken Davies[*]

After opening its doors to foreign trade and investment in 1978, China has become the largest recipient of IFDI among developing and transition economies. The early policy of investment attraction by means of fiscal incentives and special economic zones has been relaxed now that many - though still not all - operating environment deficiencies have been effectively addressed and strong domestic enterprises have developed. While China remains the developing world's favorite investment destination, the government is adopting a more selective approach that may result in slower IFDI growth. Although the global crisis reduced FDI inflows to China, this impact was lower than in many other FDI destinations, and flows have recovered considerably.

Trends and developments

Country level developments

From the establishment of the People's Republic of China in 1949 to the adoption of economic reforms in 1978, there was almost no foreign investment in China. In the 1980s, experiments with joint ventures resulted in a trickle of FDI inflows dominated by the relocation of most of Hong Kong's manufacturing to South China. IFDI first topped US$ 1 billion in 1984 and by 1991 was US$ 4.4 billion.[1] With new urgency given to foreign investment attraction at the beginning of 1992 and the formal establishment of a market economic system in that year, IFDI inflows accelerated rapidly, reaching US$ 11 billion in 1992, continuing up to a plateau of US$ 45 billion per year in 1997-1998. Following a decline to around US$ 40 billion a year in 1999-2000, and after China's accession to the WTO in 2001, FDI inflows have continued to rise steadily.[2]

By 2009, China had accumulated an IFDI stock of US$ 473 billion[3] (annex table 1), well ahead of other large developing and transition economies such as Brazil, with US$ 401 billion, India, with US$ 164 billion, and Russia, with US$ 253 billion (annex table 1). From 2000 to 2009, China received larger FDI inflows than any other developing or transition economy, reaching a record US$ 108 billion in 2008. By comparison, 2008 IFDI flows to Brazil were US$ 45 billion, India US$ 42 billion and Russia US$ 70

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[1] Ministry of Commerce of the People's Republic of China (MOFCOM), Statistics, available at: www.fdi.gov.cn; UNCTAD, FDI/TNC database, available at: http://stats.unctad.org/fdi/.

[2] Ibid.

[3] In 2005, China recalculated its FDI stock figures, which had hitherto been simple additions of annual flows, to bring them more in line with internationally-recognized standards such as the OECD Benchmark Definition of FDI. The result was an approximate halving of the original estimate. Current figures are therefore understood to take account of disinvestments. An explanation of the divergence of Chinese FDI statistics from internationally standard practices is in OECD, *Investment Policy Review of China: Progress and Reform Challenges* (Paris: OECD, 2003).

billion. In 2009, China's FDI inflows fell to US$ 90 billion as a result of the global economic crisis, while Brazil's fell more sharply to US$ 26 billion, Russia's to US$ 39 billion, and Indian's IFDI to US$ 35 billion (annex table 2). China's FDI inflows recovered strongly in the first eight months of 2010. The relatively good performance of IFDI into China during both the Asian crisis of 1997-1998 and the current crisis reflects international investor perceptions of China as a reliable risk-avoidance haven.

Partly because of China's WTO commitments to a phased opening up of services to foreign participation during the five years following accession, the share of the tertiary sector in total IFDI flows rose from 31% in 2001 to 52% in 2008, while at the same time the share of the secondary sector declined from 66% to 46% and the always relatively tiny primary sector shrunk from 4% to 2%. While IFDI in manufacturing rose from US$ 31 billion in 2001 to US$ 50 billion in 2008, this represented a decline in the sector's share of total IFDI stock from 66% to 46% (annex table 3). Since 2002, foreigners can participate in China's stock markets as Qualified Foreign Institutional Investors (QFIIs), and as their qualifications have become less strict an increasing number of QFIIs have set up offices in China. Foreign banks have also expanded their operations as these have been increasingly allowed to conduct various banking services, including foreign currency services, for Chinese enterprises since 2002, Chinese yuan services since 2006, and credit card issuance since 2007. At the same time, while the burgeoning domestic market has continued to attract manufacturers, the increase in labor costs, more recently resulting from a wave of strikes in foreign affiliates, has prompted investors to plan new investments in lower-cost economies such as Vietnam and Bangladesh.

China's IFDI appears to be mainly sourced in Asian economies. As of 2008 39% of China's IFDI stock was from Hong Kong (China), 7% from Japan, 5% from Taiwan Province of China, 5% from the Republic of Korea and 4% from Singapore. The United States and the European Union each supplied 7%, of which the major sources were the United Kingdom and Germany (each just under 2% of total IFDI) (annex table 4).

A major obstacle to providing an accurate account of the provenance of China's IFDI is the high proportion circuited through Hong Kong (China), and through Caribbean and other tax havens. Hong Kong's matching IFDI and OFDI figures suggest that much of these flows are pass-through to China,[1] including an element of round-tripping,[2] though it is also important to note substantial investment from Hong Kong (China) in China's burgeoning property sector. As of 2008, Hong Kong (China) accounted for 39% of total IFDI stock, by far the largest share. The British Virgin Islands provided 10%, more than the European Union (7%), Japan (7%) or the United States (7%). The Cayman Islands supplied about the same proportion, 2%, as the United Kingdom.

FDI is concentrated in China's eastern coastal regions, especially in Guangdong and Shanghai.[3] Guangdong's attractiveness as an FDI destination in the 1980s was mainly due to its light regulation, relative remoteness from the capital, Beijing (and therefore from central government control), its

[1] For example, in 2007, 2008 and 2009, Hong Kong's FDI inflows were US$ 54.3 billion, US$ 59.6 billion and US$ 48.4 billion, respectively, while simultaneous outflows from Hong Kong were US$ 61.1 billion, US$ 50.6 billion and US$ 52.3 billion, see UNCTAD, *World Investment Report 2010: Investing in a Low-Carbon Economy* (New York and Geneva: United Nations, 2010).

[2] "Round-tripping" refers to the practice of setting up special purpose entities in territories outside China, including Hong Kong (China), which is treated as a source of foreign investment by the Chinese authorities to invest in China and so benefit from fiscal incentives offered to foreign investors. Since it is often intended to deceive the authorities, round-tripping is impossible to estimate. The practice may be in decline as a result of the abolition of foreign investment incentives from 2008 and tighter reporting standards for special purpose entities established abroad by Chinese companies since 2006.

[3] Over 80% has gone to the eastern region, see OECD, 2003, op. cit.

proximity to the region's largest port, Hong Kong, that was seeking to shed its manufacturing sector, and the fact that it contained all but one of the country's special economic zones (SEZs). Shanghai, with its strong industrial base and its advantageous location as a major port at the mouth of the Yangtze, also drew large amounts of IFDI. A third major development region in the old industrial heartland of North-East coastal China has also developed. Attempts to boost FDI in China's less-developed interior, namely Central and West China, are continuing. But while the physical infrastructure has been greatly improved and lower labor costs are making the hinterland more attractive as wage pressures mount in Guangdong, the developed coastal regions, with their more developed business environments and local markets, remain the largest recipients of IFDI.

The corporate players

Many Fortune Global 500 companies are present in China. The official list of the largest foreign affiliates by sales value in 2008 includes Nokia in second place and GM's Shanghai offshoot in eighth place (annex table 5). The largest foreign affiliate, Hongfujin Precision Industry, is owned by the Foxconn Technology Group of Taiwan Province of China.
Greenfield investment dominated IFDI until the late 1990s for reasons of policy and practicality. Before the reforms in the late 1990s, most firms were state-owned and not available for acquisition, and there was no regulatory provision for foreign M&As. In the first decade of the 21st century, acquisition targets have become available as major enterprises have been divested by the state, the domestic private sector has grown and regulations governing foreign M&As have been enacted.[1] M&As have become a major element of FDI inflows, with many medium-sized acquisitions taking place in the past three years (annex table 6). The rise in cross-border M&As in China has been largely stimulated by the lure of the rapidly expanding domestic consumer market.

Recent large greenfield investments also show a tendency to focus on China's domestic market, but although the country's cost base continues to rise by comparison with regional competitors, large investments in export manufacturing continue to be made. Recent large greenfield investments include automobiles and automobile components (by Daimler, Volkswagen, Yulon, Hyundai and BMW), as China has become the world's largest car market. (annex table 7).

Effects of the current global crisis

China was less seriously affected by the global crisis than its main trading partners. The country's exposure to the US sub-prime market was relatively small[2] and the collapse of consumer confidence in the US had a limited effect on China's exports.[3] In addition, the government initiated an early and rapid-acting stimulus package that helped support continued growth.[4] IFDI flows almost certainly sank not because of any fear of market shrinkage in China, where GDP grew by 9.6%[5] in 2008 and 9.1%[6] in 2009,

[1] Details of these regulatory changes are in OECD, *Investment Policy Review of China: Open Policies towards Mergers and Acquisitions* (Paris: OECD, 2006), updated in OECD, *Investment Policy Review of China: Encouraging Responsible Business Conduct* (Paris: OECD, 2008).
[2] Statement by Assistant Governor Yi Gang of the People's Bank of China, *Reuters*, August 28, 2007.
[3] Deutsche Bank Global Markets Research, *Surviving Export Slowdown*, Asia China Macro Strategy series, April 1, 2008.
[4] Economist Intelligence Unit (EIU) special report, *China's Stimulus Package: a Six-Month Report Card* (London: EIU, year?).
[5] The National Bureau of Statistics announced an upward revision from 9% to 9.6% for the 2008 GDP growth figure on December 25, 2009 (available at: www.china.org.cn).
[6] The National Bureau of Statistics announced an upward revision from 8.7% to 9.1% for the 2009 GDP growth figure on July 7, 2010 (*Xinhua News Agency,* available at: http://www.chinaview.cn).

but because of home-country financing problems. Although no cancellations of large foreign investments in China attributable directly to the crisis have been made public, several foreign affiliates have suffered domestic problems and are likely to suffer as well dampening or delayed planning for overseas expansion.

FDI inflows to China decelerated sharply during the course of 2008, from a rate of increase of over 100% year-on-year in January to a decline of 3% in November. IFDI continued to fall over the first seven months of 2009, picking up modestly thereafter. As a result, the annual total shrank from US$ 108 billion in 2008 to US$ 90 billion in 2009. In the first eight months of 2010, FDI inflows were up 18% year-on-year.

The policy scene

Since the 1980s and 1990s, foreign investment has been welcomed by China's government, after three decades of autarky. Unusually for a transition economy, the country's savings rate remained very high throughout the period of reform, with the saving/investment ratio constantly 100% or higher. Yet the lack of effective financial intermediation prevented effective mobilization of savings for investment. Instead, foreign investment filled the financing gap, while bringing along new products, new production processes, modern management techniques, and competition for Chinese firms. Initially, foreign affiliates substituted for the absent domestic private sector.

The government's initial approach was pragmatic and control-oriented. Foreign investment was allowed in a limited number of sectors and a few locations (i.e. SEZs). Two kinds of joint ventures were permitted, as 100% foreign ownership was not allowed. Foreign affiliates had to export their entire output. China lacked the basic elements of an institutional framework for foreign investment, such as adequate physical infrastructure, a mobile labor force, internationally acceptable accounting practices, and the rule of law. In compensation, China offered fiscal incentives to foreign investors in the SEZs, including a five-year tax holiday and a halving of the rate of business income tax.[1]

In the 1990s, as IFDI flow rose and operating conditions improved, China relaxed many restrictions. Wholly-foreign-owned ventures were allowed and became popular. Export requirements were relaxed and sales to domestic consumers allowed. The ban on private car ownership was removed. After the world's largest consumer population became an available market, most of the world's largest MNEs set up operations in China. After these policies spread to other coastal regions in the late 1980s, the government encouraged investors, including foreign ones, to invest in the country's interior, opening up the whole country to foreign investment. Although this policy has resulted in an increase in investment in the country's hinterland, most of this has materialized in the form of government infrastructure construction. Investors, both Chinese and foreign, continue to invest more heavily in the Eastern coastal region.

FDI projects are screened in accordance with laws on each category of foreign ownership, including the 1979 Law on Sino-Foreign Equity Joint Ventures, the 1986 Law on Wholly-Foreign-Owned Enterprises and the 1988 Law on Sino-Foreign Contractual Joint Ventures.[2] In addition to these laws, China operates a catalogue system that combines elements of both open and closed lists. The Catalogues for

[1] Details of fiscal incentives offered before 2008 are in the tax chapter of OECD, 2003, op. cit.
[2] Ibid.

Guidance of Foreign Investment Projects are four: prohibited, restricted, permitted, and encouraged.[1] The permitted catalogue is not published.

The prohibited catalogue is effectively a negative list, detailing sectors in which foreign investment is not permitted. The restricted catalogue contains sectors in which foreign investment is permitted but in which the project examination and approval process may be stricter and take longer; it includes some sectors opened to foreign investment as a result of China's WTO entry. The encouraged catalogue projects are given favorable treatment because they comply with China's development policies, which are focused on promoting high-technology, capital-intensive industry, as well as development in the Central and Western regions. Most recently, the catalogues have emphasized the green objectives of energy conservation, environmental protection and circular economy (i.e. a model of economic development based on the efficient use and recycling of resources).

China has pursued an active investment diplomacy since the early 1980s, having signed 127 BITs by June 1, 2010 and 112 double taxation agreements (DTTs) by June 1, 2009.[2] China is a member of the ASEAN–China Free Trade Area (AFTA), which came into effect on January 1, 2010.

From the mid-2000s, doubts about the desirability of foreign investment have been voiced in China. Fixed investment, the main driver of growth in China, has been increasing at a rate that has aroused fears of overheating. Although FDI has never been more than 15% of total gross fixed capital formation in China, a slowing of IFDI growth has been suggested as one of several levers to restrain breakneck investment growth. Also, several Chinese companies have now developed to the stage where they have an interest in curbing competition from foreign affiliates in their sectors. At the same time, concerns have arisen that the high proportion of output from IFDI might lead to foreign monopoly power in some strategically important sectors, threatening national security. Finally, there have also been some worries that over-dependence on IFDI for economic growth might lead to problems similar to those experienced by Latin America in the 1990s.

As a result, China's government, while rejecting calls to raise barriers against foreign investment, appears to be taking a more selective stance, inviting FDI to plug gaps in the Chinese economy such as high-tech and environmental industries. To satisfy calls from increasingly strong domestic enterprises, the government abolished the fiscal incentives for foreign investment as of 2008, with grandfathering and phasing clauses to ensure existing foreign investments are not disrupted.

Conclusions and Outlook

China's IFDI flows are likely to continue to rise, but less rapidly than the rest of the economy. Government policy, while remaining open to FDI, can afford to become more selective because there is no longer a nationwide absence of financial institutions, basic infrastructure, consumer goods industries, and essential services. While cross-border M&As have been welcomed in the recent past to rescue ailing rustbelt industries, more successful companies may not be so readily available for foreign acquisition. Private companies appear to prefer share issues, namely initial public offerings, to selling out to a foreign investor. Similarly, the government's support for large SOEs encourages such enterprises to be acquirers, both at home and abroad, rather than targets for inbound M&As.

[1] For details of changes in the catalogues see: OECD, 2003, op. cit.; OECD, 2006, op. cit.; OECD, 2008, op. cit.
[2] UNCTAD, FDI/TNC database, available at: http://stats.unctad.org.

The Chinese market is expanding rapidly because of the high rate of GDP growth and efforts to rebalance the economy toward private consumption. In the latest UNCTAD survey, market size and market growth are found to be the major factors in China's position as the most favored location for IFDI in 2009-2011.[1] But there are now more and more large Chinese enterprises capable of manufacturing competitive products at prices that foreign investors may find difficult to match as fiscal incentives are phased out. Lower production factor costs in Vietnam, Bangladesh and other developing countries in the region will prompt investors to consider expanding their manufacturing operations in those countries.

Additional readings

Buckley, Peter J., *Foreign Direct Investment, China and the World Economy* (Basingstoke and New York: Palgrave Macmillan, 2010).

Huang, Yasheng, *Selling China: Foreign Direct Investment during the Reform Era* (Cambridge: Cambridge University Press, 2005).

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Li, X, Liu, X. and D. Parket, "Foreign direct investment and productivity spillovers in the Chinese manufacturing sector", *Economic Systems*, volume 25, Issue 4 (2001).

Sun, Qian, Wilson Tong and Qiao Yu, "Determinants of foreign direct investment across China", *CREFS Working Paper No*: 99-06 (1999).

Useful websites

Invest in China (maintained by the Ministry of Commerce): http://www.fdi.gov.cn/.

Ministry of Commerce of the People's Republic of China: http://www.mofcom.gov.cn/.

National Bureau of Statistics of China: http://www.stats.gov.cn/.

[1] UNCTAD, *World Investment Prospects Survey 2009-2011* (New York and Geneva: United Nations, 2009).

Statistical annex

Annex table 1. China: inward FDI stock, 2000, 2009 (US$ billion)

Economy	2000	2009
China	193	473
Memorandum: comparator economies		
Brazil	122	401
India	18	164
Russia	32	253
Singapore	111	344

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

Annex table 2. China: inward FDI flows, 2000-2009 (US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010[a]
China	41	47	53	54	61	72	69	84	108	90	66
Memorandum: comparator economies											
Brazil	33	23	17	10	18	15	19	35	45	26	17
India	4	6	6	4	6	8	20	25	42	35	13[b]
Russia	3	3	4	8	15	13	30	55	70	39	17
Singapore	17	15	6	12	20	14	28	32	23	17	14[c]

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/. MOFCOM press releases at: http://www.fdi.gov.cn; Banco Central do Brasil statistics at: http://www.bcb.gov.br/; Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India FDI statistics at: http://dipp.nic.in/; Bank of Russia, available at: http://www.cbr.ru/; Monetary Authority of Singapore at: http://www.mas.gov.sg/.
[a] For the first eight months only. [b] For the first seven months only. [c] For the first six months only.

Annex table 3. China: distribution of inward FDI flows, by economic sector and industry, 2000, 2008 (US$ billion and percent of total inflows)

Sector/industry	2001	2008
Primary	1.7 3.6%	1.8 1.7%
Agriculture	0.9 1.9%	1.2 1.1%
Mining	0.8 1.7%	0.6 0.6%
Secondary	30.9 65.9%	49.9 46.1%
Manufacturing	30.9 65.9%	49.9 46.1%
Tertiary	14.3 30.5%	56.6 52.3%
Utilities	2.3 4.9%	1.7 1.6%
Construction	0.8 1.7%	1.1 1.0%
Real estate	5.1 10.9%	18.6 17.2%
Total	46.9 100.0%	108.3 100.0%

Source: MOFCOM, available at: www.fdi.gov.cn.
Note: The Chinese authorities include "utilities" and "construction" in the secondary sector and the MOFCOM figures do not include all activities; so it is not possible to disaggregate and reconstruct the sectoral statistics entirely from their published tables. See the official definition of sectors from the annual statistical yearbook published by the National Bureau of Statistics. In China economic activities are categorized into the following three strata of industry: (1) "Primary industry" refers to agriculture, forestry, animal husbandry and fishery and services in support of these industries. (2) "Secondary industry" refers to mining and quarrying, manufacturing, production and supply of electricity, water and gas, and construction. (3)"Tertiary industry" refers to all other economic activities not included in the primary or secondary industries.

Annex table 4. China: geographical distribution of inward of FDI stock,[a] 2002, 2008 (US$ billion)

Region/economy	2002	2008
World	448.0	899.1
Developed economies	n.a.	n.a.
Europe	n.a.	n.a.
European Union	33.9	61.6
Belgium	0.6	1.0
Denmark	0.5	1.3
France	5.5	8.9
Germany	8.0	15.1
Italy	2.2	4.3
Netherlands	4.3	9.3
Spain	0.4	1.5
Sweden	0.8	1.6
United Kingdom	10.7	15.7
North America	43.2	66
Canada	3.4	6.4
United States	39.9	59.7
Other developed economies	n.a.	n.a.
Australia		
Japan	36.3	65.4
Developing economies	n.a.	n.a.
Africa	n.a.	n.a.
Mauritius	n.a.	7.4
Asia		
Hong Kong, China	204.9	349.6
Macau, China	4.8	1.8
Indonesia	1.1	1.9
Korea, Republic of	15.2	41.9
Malaysia	2.8	4.9
Philippines	1.4	2.5
Singapore	21.5	37.8
Taiwan Province of China	33.1	47.7
Thailand	2.4	3.2
Western Samoa	2.3	12.3
Latin America and Caribbean	n.a.	n.a.
Barbados	n.a.	2.7
British Virgin Islands	24.4	90.1
Cayman Islands	3.8	16.5
Unidentified others	n.a.	79

Source: MOFCOM, available at: www.fdi.gov.cn.

[a] This statistic released by MOFCOM for purposes of geographical breakdown is cumulated FDI. As it does not include divestments, it is much larger than the IFDI stock total in table 1, which comes closer to internationally-recognized standards of FDI measurement (see note [3]).

Annex table 5. China: principal foreign affiliates in China, ranked by sales value, 2008
(US$ million)

Rank	Name of affiliate	Industry	Sales
1	Hongfujin Precision Industry (Shenzhen) Co. Ltd.	Computer peripherals	26,974
2	Nokia Telecommunication Co. Ltd.	Cell phones	13,767
3	China Offshore Petroleum (China) Limited	Oil and gas	11,354
4	Dagong (Shanghai) Computer Co. Ltd.	Computers	10,535
5	Fay-Volkswagen Sales Co. Ltd.	Automobile	10,412
6	Daofeng (Shanghai) Computer Co. Ltd.	Computers	9,471
7	Angang Steel Ltd.	Steel	9,424
8	Shanghai GM Automobile Co. Ltd.	Automobile	9,366
9	Fay-Volkswagen Co. Ltd.	Automobile	9,217
10	Motorola (China) Electronic Ltd.	Telecom equipment	8,099
11	Maanshan Steel Co. Ltd.	Steel	7,287
12	Huaneng International Power Co. Ltd.	Electricity generation	7,257
13	Shanghai Volkswagen Automotive Sale Ltd.	Automobile	7,233
14	Dongfeng Toyota Auto Sale Co. Ltd.	Automobile	7,145
15	Dongfeng Auto Company	Automobile	7,057
16	Air China Co. Ltd.	Airline	6,767
17	Shanghai Volkswagen Automotive Ltd.	Automobile	6,734
18	Yingshunda Science & Technology Co. Ltd.	Consumer electronics	6,430
19	Nokia (China) Investment Co. Ltd.	Cell phones	6,393
20	China Southern Airlines Co. Ltd.	Airline	6,350

Source: MOFCOM, available at: www.fdi.gov.cn.

Annex table 6. China: main inward M&A deals, by inward investing firm, 2007-2009 (US$ million)

Year	Acquiring company	Home economy	Target company	Target industry	Shares acquired (%)	Transaction value (US$ million)
2009	Function Well Ltd.	Taiwan Province of China	Champ Tech Optical Foshan Corp	Optical instruments	100	230.6
2009	MAN Finance & Holding Sarl	Luxembourg	Sinotruk (Hong Kong) Ltd	Industrial vehicles manufacturing	25	782.2
2009	GCL-Poly Energey Holdings Ltd	Hong Kong, China	Greatest Joy International Ltd	Semiconductors	100	911.6
2009	GCL-Poly Energy Holdings Ltd	Hong Kong, China	GCL Solar Energy Tech Hldg Inc	Semiconductors	100	3,787.50
2009	TM Entertainment & Media Inc	United States	Hong Kong Mandefu Holdings Ltd	Advertising agencies	100	263.6
2009	HongKong Electric (Holdings) Ltd.	Hong Kong, China	Outram Ltd	Electric services	100	732.6
2009	Asahi Breweries Ltd	Japan	Tsingtao Brewery Co. Ltd.	Beverages	20	667
2009	GIC Real Estate Pte Ltd	Singapore	ProLogis-China Operations	Land developers	100	1,300.00
2009	ADF Phoenix IV Ltd	Singapore	Nanjing International Finance	Building operator	100	232.8
2009	Hana Bank	Korea, Republic of	Bank of Jilin Co Ltd	Financial services	19.7	327.4
2009	Franshion Ppty (China) Ltd	Hong Kong, China	China Jin Mao (Group) Co Ltd	Building operator	45.1	737.5
2009	BBVA	Spain	China Citic Bank	Banking	4.9	1,601.60
2009	CRH PLC	Ireland	Jilin Yatai Grp Cement Invest	Investors	26	296.7
2009	Investor Group	Hong Kong, China	Shanghai Shimao Co Ltd	Land developers	56.8	1,012.10
2009	Middle Kingdom Alliance Corp	United States	Pypo Digital Co Ltd	Electronic equipment	100	378
2008	BP Overseas Development Co Ltd	Thailand	Asian American Coal Inc	Mining	78.4	432.8
2008	Jade Green Investments Ltd	Hong Kong, China	Fortune Dragon Coking Coal	Mining	100	1,350.80
2008	Johnson & Johnson	United States	Beijing Dabao Cosmetics Co Ltd	Cosmetics	100	327.8
2008	Deutsche Bank AG	Germany	Huaxia Bank Co Ltd	Banking	5.3	552.9
2008	Holcim Ltd	Switzerland	Huaxin Cement Co Ltd	Cement	18.6	282.7
2008	Monster Worldwide Inc	United States	ChinaHR.com Holdings Ltd	Employment agencies	55	225

2008	Songzai Intl Holding Group Inc	United States	Heilongjiang Xing An Grp Hong	Mining	90	550
2008	Hong Leong Bank Bhd	Malaysia	Chengdu City Commercial Bank	Banking	20	261
2008	CapitaRetail China Trust	Singapore	Xizhimen Mall	Building operator	100	229.3
2008	Blackstone Group LP	United States	China National Chemical Corp	Chemicals	20	600
2008	Shui On Investment Co Ltd	Hong Kong, China	Shui On Land Ltd	Land developers	5.1	230.2
2008	Beiersdorf AG	Germany	C-BONS Hair Care	Cosmetics	85	381.4
2008	Bank of America Corp	United States	China Construction Bank Corp	Banking	8.4	7,067.40
2008	Bank of America Corp	United States	China Construction Bank Corp	Banking	2.6	1,860.50
2008	CITIC Pacific Ltd	Hong Kong, China	CSSC Complex Property Co Ltd	Real estate	49	213.3
2007	China Merchants Intl Terminals	Hong Kong, China	Zhanjiang Port (Group) Co Ltd	Transportation	45	215.8
2007	China Real Estate Opp	Luxembourg	City Centre Development Phases	Real estate	100	548.1
2007	Asia Bottles (HK) Co Ltd	Hong Kong, China	Zhuhai Zhongfu Entrp Co Ltd	Manufacturing	29	225
2007	China Mining Resources Grp Ltd	Hong Kong, China	Harbin Songjiang Copper (Grp) Ltd	Mining	75.1	233.8
2007	GuocoLand (China) Ltd	Hong Kong, China	Beijing Chengjian Donghua RE	Real estate	90	751.7
2007	Investor Group	United States	Guangzhou Hengda Indl Grp Co	Conglomerate	8	400
2007	Panva Gas Holdings Ltd	Hong Kong, China	Hong Kong & China Gas (Qingdao)	Oil and gas	100	393.5
2007	BBVA	Spain	China Citic Bank	Banking	5	648.5
2007	3Com Corp	United States	Huawei-3com Co Ltd	Telecommunica tions	49	882
2007	Haier Electronics Group Co Ltd	Hong Kong	Haier Indesit (Qingdao) Washing	Electrical goods	70	385.4
2007	SEB Internationale SAS	France	Zhejiang Supor Cookware Co Ltd	Electrical goods	22.7	311.4
2007	ANZ Banking Group Ltd	Australia	Shanghai Country Coml Bank	Banking	19.9	263
2007	Investor Group	United States	Henan Luohe Shuanghui Industry	Food	100	251.5
2007	FedEx Express Corp	United States	Federal Express-DTW Co Ltd	Transportation	100	400
2007	UBS AG	Switzerland	Beijing Securities Co Ltd	Financial services	20	210.5

Source: Thomson ONE Banker. Thomson Reuters.

Annex table 7. China: main 20 greenfield projects, June 2006-September 2009 (US$ million)

Year	Company name	Home economy	Industry	Estimated/ announced investment value (US$ billion)
2009	Royal Dutch Shell	Netherlands	Coal, oil and natural gas	0.8
2009	Cheng Shin Rubber Industry	Taiwan Province of China	Rubber	1.0
2009	Michelin	France	Rubber	1.0
2009	Chevron Corporation	United States	Coal, oil and natural gas	4.7
2009	Chevron Corporation	United States	Coal, oil and natural gas	0.8
2009	Novartis	Switzerland	Biotechnology	1.0
2009	Hon Hai Precision Industry	Taiwan Province of China	Electronic components	1.0
2009	Charoen Pokphand Group	Thailand	Food & tobacco	1.2
2009	Hon Hai Precision Industry	Taiwan Province of China	Electronic components	1.0
2009	Samsung	Republic of Korea	Electronic components	2.2
2009	Shimao Property Holdings Ltd.	Hong Kong (China)	Real estate	1.2
2009	LG	Republic of Korea	Electronic components	4.0
2009	China Merchants Holdings (International)	Hong Kong (China)	Warehousing & storage	1.2
2009	Daiwa House Industry	Japan	Real estate	0.8
2009	Jumbo Lane Investments	United Kingdom	Coal, oil and natural gas	0.8
2008	Daimler AG	Germany	Automotive OEM	0.9
2008	ROSM	France	Consumer products	2.0
2008	Royal Vopak	Netherlands	Warehousing & storage	1.0
2008	Howard Group Development	Hong Kong (China)	Transportation	1.5
2008	Walt Disney	United States	Leisure & entertainment	3.6
2008	SK Energy	Republic of Korea	Chemicals	2.0

2008	Henderson	Hong Kong (China)	Real estate	1.4
2008	Lotte Group	Republic of Korea	Real estate	1.0
2008	Volkswagen	Germany	Automotive OEM	0.9
2008	Electric Power Development (J-Power)	Japan	Coal, oil and natural gas	0.7
2008	Yulon Motor	Taiwan Province of China	Automotive OEM	0.7
2008	Hyundai Motor	Republic of Korea	Automotive OEM	0.8
2008	Compal Electronics	Taiwan Province of China	Business machines & equipment	0.7
2008	Saudi Basic Industries (SABIC)	Saudi Arabia	Chemicals	1.7
2008	Israel Corp (IC)	Israel	Automotive OEM	0.8
2007	China Resources Power Holdings (CRP)	Hong Kong (China)	Metals	2.8
2007	Mori Building	Japan	Real estate	1.0
2007	Formosa Plastics Group (FPG)	Taiwan Province of China	Metals	0.9
2007	Ben Rautin	Malaysia	Transportation	3.0
2007	Hon Hai Precision Industry	Taiwan Province of China	Electronic components	1.0
2007	IBM	United States	Semiconductors	1.8
2007	Gulf Finance House	Bahrain	Real estate	5.0
2007	Kingdom Hotel Investments (KHI)	UAE	Hotels & tourism	0.9
2007	Hynix Semiconductor	Republic of Korea	Semiconductors	1.5
2007	Sinar Mas Group	Indonesia	Paper, printing & packaging	1.0
2007	Villar Mir Group	Spain	Metals	1.4
2007	DBS Group Holdings	Singapore	Financial services	2.8
2007	STX Corporation	Republic of Korea	Non-automotive transport OEM	1.0
2007	Bayerische Motoren Werke (BMW)	Germany	Automotive OEM	0.8
2007	Intel	United States	Semiconductors	2.5

Source: fDi Intelligence, a service from the Financial Times Ltd.

China: Inward FDI and its policy context, 2012

Ken Davies[*]

China remains the pre-eminent recipient of inward foreign direct investment (IFDI) among developing countries. FDI flows to the country continued to rise even during and after the recent global financial and economic crises, when many multinational enterprises (MNEs) found themselves in difficulties, demonstrating the continuing popularity of China as an investment destination. Nonetheless, other developing countries, such as Indonesia and Vietnam, are starting to steal China's thunder, offering themselves as cheaper alternatives. Although FDI stock in China reached a new high of US$ 711 billion in 2011, IFDI attraction is losing its former high priority in the Government's arsenal of economic policies, especially as the focus is turned ever more sharply on promoting outward investment. Now that domestic enterprises have taken over most of the functions provided by foreign investment in the first two decades of economic reform (i.e., the 1980s and 1990s), IFDI policies are being concentrated on honing the investment attraction effort to bring in foreign investments capable of filling gaps in the country's industrial structure and helping China meet policy goals such as environmental protection and energy conservation.

Trends and developments

Country level developments

By 2011, China had accumulated an IFDI stock of US$ 711 billion, well ahead of such other large developing and transition economies as Brazil, with US$ 607 billion, India, with US$ 202 billion, and Russia, with US$ 457 billion (annex table 1).[1]

In 2011, FDI inflows to China reached US$ 124 billion (annex table 2). From 2000 to 2011, China received larger FDI inflows than any other developing or transition economy.[2] These flows reached US$ 108 billion in 2008; by comparison, 2008 IFDI flows to Brazil were US$ 45 billion, India US$ 43 billion and Russia US$ 75 billion (annex table 2). In 2009, China's FDI inflows fell to US$ 95 billion as a result of the global economic crisis, then recovered strongly in 2010, when they reached US$ 115 billion and rose further to US$ 124 billion in 2011, while India's IFDI flows fell continuously since their peak in 2008 to US$ 24 billion in 2010 before making a partial recovery to US$ 32 billion in 2011.

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[1] In 2005, China recalculated its FDI stock figures, which had hitherto been simple additions of annual flows, to bring them more in line with internationally recognized standards such as the OECD Benchmark Definition of FDI. The result was an approximate halving of the original estimate. Current figures are therefore understood to take account of disinvestments. An explanation of the divergence of Chinese FDI statistics from internationally standard practices is in OECD, *Investment Policy Reviews: China 2003 -- Progress and Reform Challenges* (Paris: OECD, 2003).

[2] Based on statistics for all countries maintained in the UNCTAD FDI Statistical Database website UNCTADstat, http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx, retrieved on May 31, 2012.

Russian IFDI flows recovered from their 2009 plunge to US$ 43 billion in 2010 and US$ 53 billion in 2011, and Brazilian IFDI flows followed a similar recovery reaching US$ 49 billion in 2010 and US$ 59 billion in 2011 (annex table 2). The relatively good performance of China's IFDI during both the Asian crisis of 1997-1998 and the recent global crises reflects international investor perceptions of China as a reliable risk-avoidance haven and even a potential locomotive of global growth in years to come, as it moves steadily toward becoming the world's largest economy.

Partly because of China's World Trade Organization (WTO) commitments to a phased opening up of services to foreign participation during the five years following accession in December 2001, the share of the tertiary sector in total IFDI flows rose from 31% in 2001 to 39% in 2010. At the same time, the share of the secondary sector declined from 66% to 58% and the always relatively tiny share of the primary sector shrank from 4% to under 3% (annex table 3).

While IFDI in manufacturing rose from US$ 31 billion (utilized) in 2001 to US$ 1,400 billion (contractual value) in 2010, the sector's share of total IFDI stock declined from 66% to 58% (annex table 3). The decline reflects a more rapid rise in IFDI in services, including, among others, financial services. Since 2002, foreigners can participate in China's stock markets as qualified foreign institutional investors (QFIIs); as the qualifications required have become less strict, an increasing number of QFIIs have set up offices in China.[1] Foreign banks have also expanded their operations as these have been increasingly allowed to conduct various banking services, including foreign currency services, for Chinese enterprises since 2002, Chinese yuan services since 2006 and credit card issuance since 2007. At the same time, while the burgeoning domestic market has continued to attract manufacturers, the increase in labor costs, more recently resulting from a wave of strikes in foreign affiliates, has prompted foreign investors to plan new investments in lower-cost economies such as Vietnam and Bangladesh.

China's IFDI is mainly sourced in Asian economies. As of 2010, 41% of China's IFDI stock was from Hong Kong (China), 7% from Japan, 5% from Taiwan Province of China, 4% from the Republic of Korea, and 4% from Singapore. The British Virgin Islands provided 10%, more than the United States and the European Union (EU) each of which supplied 7%; the major sources of EU FDI in China were the United Kingdom and Germany (each with just under 2% of total IFDI). The Cayman Islands supplied about the same proportion, 2%, as the United Kingdom (annex table 4).

A major obstacle to providing an accurate account of the geographic distribution of China's IFDI sources is the high proportion circuited through Hong Kong (China) and through Caribbean and other tax havens. Matching IFDI and OFDI figures for Hong Kong (China) suggest that much of those flows are passing through, from and to China, and include an element of round-tripping,[2] though it is also

[4] According to the QFII list announced by the China Securities Regulatory Commission in February 2011, the number of QFIIs increased to 107 in China's capital market, and total QFII investment rose from US$ 4 billion in the pilot period of 2002 to US$ 30 billion in 2007. Cited from Wu Weihua, "Are qualified foreign institutional investors real investors or speculators: Evidence from China (May 10, 2011). Available at SSRN: http://ssrn.com/abstract=2056056 or http://dx.doi.org/10.2139/ssrn.2056056.

[2] "Round-tripping" refers here to the practice of Chinese investors setting up special purpose entities in territories outside China, including Hong Kong (China), which is treated as a source of foreign investment by the Chinese authorities, to invest in China and so benefit from fiscal incentives offered to foreign investors. Since it is often intended to deceive the authorities, round-tripping is impossible to estimate. The practice may be in decline as a result of the abolition of foreign investment incentives from 2008, and tighter reporting standards for special purpose entities established abroad by Chinese companies

important to note that there is substantial investment from Hong Kong (China) in China's burgeoning property sector and a good part of it is likely to be from domestic enterprises in Hong Kong. IFDI is concentrated in China's eastern coastal regions, especially in Guangdong and Shanghai. Guangdong's attractiveness as an FDI destination in the 1980s was mainly due to its light regulation, relative remoteness from the capital, Beijing (and therefore from central government control), its proximity to the region's largest port, Hong Kong (China) that was seeking to shed its manufacturing sector, and the fact that it contained all but one of the country's special economic zones (SEZs).[1] Shanghai, with its strong industrial base and its advantageous location as a major port at the mouth of the Yangtze, also drew large amounts of IFDI.

A third major region, in the old industrial heartland of North-East coastal China, has also developed and is striving to attract FDI. Attempts to boost FDI in China's less-developed interior, namely Central and West China, are continuing.[2] But while the physical infrastructure has been greatly improved and lower labor costs are making the hinterland more attractive as wage pressures mount in Guangdong, the developed coastal regions, with their more developed business environments and local markets, remain the largest recipients of IFDI.

The corporate players

Many Fortune Global 500 companies are present in China. The official list of the largest foreign affiliates by sales value in 2008 includes Nokia in second place and GM's Shanghai affiliate in eighth place (annex table 5). The Foxconn Technology Group of Taiwan Province of China owns the largest foreign affiliate, Hongfujin Precision Industry.

In 2008-2010 inbound merger and acquisition (M&A) deals have been spread across a diverse range of industries, including pharmaceuticals, natural gas transmission, copper mining, soybean milling, banking, semiconductors, frozen fruit and vegetables, industrial organic chemicals, beer and cement. Acquiring firms have come from all over the world including Hong Kong, (China), Republic of Korea, Singapore, Canada and the United States. This wide sectoral and geographical dispersion illustrates the continuing openness of China to IFDI and its continuing popularity as an investment destination. Deal size, though, is not particularly large. The average transaction size of the top 16 deals in 2010 was US$ 570 million, and for those in 2009 the average transaction value was US$ 881 million (annex table 6). Caution needs to be exercised in interpreting this information: the list includes Chinese companies like China Resources Gas Group Ltd. based in Hong Kong (China), which is one of the oldest companies to be established there by a mainland entity, and China Gold International Resources, via its Canadian affiliate.

Recent large greenfield investments also show a tendency to focus on China's domestic market. The domestic market has always been the main target of foreign investors -- even in the early days of the 1980s when China wanted them to confine themselves to export manufacturing as it kept its domestic market closed. Current policy as stated in the 12th Five Year Plan is now the reverse: the economy is to

since 2006. For details, see OECD, *Investment Policy Reviews: China 2008 – Encouraging Responsible Business Practice* (Paris: OECD, 2008).

[6] These factors are explained more fully by the author in OECD (2003), *op. cit.*

[7] For a fuller treatment of China's regional FDI policy by the author, including the existing incentive policy and recommendations for further improvement, see OECD (2003), *op. cit.*

be restructured to give more weight to the relatively underdeveloped domestic market and de-emphasize exports, and FDI is to play its part by focusing on China's domestic market. Recent large greenfield investments aimed largely at the domestic market included automobiles and automobile components (by Daimler, Volkswagen, Yulon, Hyundai, BMW) (annex table 7), as China has become the world's largest car market.[1] However, although the country's cost base continues to rise by comparison with regional competitors, large investments in export manufacturing continue to be made. Recent examples include two greenfield investments in the chemicals sector by Chang Chun Group and Formosa Plastics, both from Taiwan Province of China.

The list of greenfield investments by inward investing firms in 2008-2010 also contains one or two Chinese companies based in places like Hong Kong (China), like China Merchants Holding. As with M&As, greenfield investments are made in many sectors and by MNEs from many countries. In 2010, regional investors – from Japan, Republic of Korea, Hong Kong (China), Taiwan Province of China – were particularly active in greenfield investment in China. Average investment size is rather larger than for cross-border M&As: US$ 1.3 billion in 2010 and US$ 1.5 billion in 2009.

Effects of the recent global crisis

As noted in the first *Columbia FDI Profile* on China's IFDI[2], China was less seriously affected by the global financial and economic crisis than were many other countries because of its relatively small exposure to the US sub-prime market and its highly effective – though not cost-free – counter-crisis stimulus package. After having fallen by 12% in 2009 (leaving it still well above the 2007 level), IFDI flows recovered in 2010, rising by 21% to US$ 115 billion, above the peak of US$ 108 billion recorded in 2008. There was an FDI inflow of US$ 124 billion in 2011, an increase of 8% over that of 2010.

The policy scene

There has been no major change in the direction of China's policies toward inward FDI during 2009-2010. The Government has continued to liberalize the FDI framework in incremental steps.[3] In 2010, it raised the ceiling on provincial examination and approval authority over foreign investment projects in the "permitted" category of the Catalogue for the Guidance of Foreign Investment Industries,[4] from US$ 100 million to US$ 300 million. (The US$ 50 million ceiling on projects in the "restricted catalogue" remains unchanged.) In 2011, examination and approval procedures were removed from the establishment of a branch, which is not subject to any special requirement.[5]

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[8] See, for example, "Factbox: China becomes the world's No.1 auto market," *Reuters*, January 8, 2010, retrieved on June 6, 2012 from the Reuters website at http://www.reuters.com/article/2010/01/08/us-auto-china-idUSTRE60722O20100108.
[9] Davies, *op. cit.*
[10] These steps, detailed in the following sentences, can be found in detail on the MOFCOM FDI website at www.fdi.gov.cn.
[11] The Catalogue for the Guidance of Foreign Investment Industries, promulgated by the State Council (China's cabinet) has, from its inception in 1999, divided foreign investment projects into prohibited, restricted, permitted, and encouraged categories. Lists of sectors included in each category are published, with the exception of the permitted category: sectors not listed in the three published categories are presumed to be open to foreign investment, unless they are closed or restricted by other regulations. See OECD, *Investment Policy Reviews: China -- Encouraging Responsible Business Conduct* (Paris: OECD, 2008), and Davies, *op. cit.*
[12] All these measures are detailed in the forthcoming *China Investment Policy Review Update 2012,* to be published by the OECD.

There have been several decisions by MOFCOM in 2009-2011 on inbound (as well as on many domestic) M&A deals that were referred for merger control review under the 2008 Anti-Monopoly Law, which brought domestic enterprises into the orbit of such reviews, effectively abolishing discrimination against foreign investors in this regard.[1] Only one of these (Coca-Cola/Huiyuan) was rejected, but several others were allowed only with strong conditions. Although the Government's actions are perceived as "aggressive" and the procedures are often dragged out to the maximum (i.e., a full 30 days for each of two successive reviews), they have not prevented major global MNEs from continuing to invest in China.

In August 2011, China issued a set of detailed procedures for national security reviews of foreign acquisitions of domestic Chinese enterprises, effective September 1, 2011. The grounds for a review include the obvious one – that the enterprise to be acquired is in a military or military-related industry – but also the rather wider condition that the acquisition is in a category of industries classed as being related to "national economic security", including major agricultural products, major energy and resources, infrastructure, transport, and key technologies. It does not appear at present that this will stop inward cross-border M&A deals that would otherwise have gone ahead. Instead, it may simply make the approval process more transparent, as decisions now have to be taken explicitly on national security grounds, and those decisions have to be explained. The procedures could, however, be operated in a more protectionist vein if a future administration decided to raise barriers against foreign investment.

In December 2011, a further revision of the Catalogue for Guiding Foreign Investment Industries was promulgated, effective end-January 2012.[2] This revision follows the revisions of 2001 – when the Catalogue was liberalized to comply with obligations entered into, when China acceded to the WTO in December 2001 – and 2004 and 2007. The latest Catalogue continues the trend of introducing more encouragement to FDI in "green" sub-sectors, while adjusting the incentives mix to current industrial needs, such as for example promoting higher-end manufacturing and new-generation IT.

Full convertibility of the Chinese yuan (CNY or renminbi) is still far away. In the 1990s it was touted as a possibility by the end of the century, but this aim was thwarted by successive international economic crises, so the current goal of full convertibility in 2015 remains uncertain. Nevertheless, the Chinese Government is taking small steps toward it when it suits its trade and investment policies. A recent notice of the Ministry of Commerce allows foreign investors to invest with Chinese yuan obtained lawfully outside China. In practice, this means using the rapidly developing Chinese yuan market in Hong Kong (China), which is soon to be joined by a Chinese yuan market in the adjacent city of Shenzhen.

In recent years, the Government has been trying to rein in the over-rapid growth of fixed investment as part of its efforts both to rebalance the economy in favor of private consumption and away from dependence on fixed investment as the main driver of economic growth and, especially since the remarkably successful stimulus program that followed the onset of the global economic crisis, to curb the runaway property market. This policy has coincided with a more selective approach to attracting FDI than was evident in the 1990s, when the emphasis was, in practice if not in theory, on maximizing the quantity of FDI. One result has been that the tightening of the real estate market during the first half of

[13] For details, see *ibid*.
[14] MOFCOM FDI website at www.fdi.gov.cn.

2012 brought about a 12.4% year-on-year decrease in utilized FDI in real estate, far greater than the 3% overall decline in FDI.

Conclusions

There are several reasons to expect growth in China's FDI inflows to decelerate in 2012 and beyond, as has indeed been forecast by the Chinese Government itself.[1] Economic problems in home countries are likely to slow, or even diminish, the supply of IFDI. There will probably be only sluggish economic growth in the United States and Japan, while the United Kingdom and several large Eurozone economies may well experience a recession in 2012. Some large MNEs in these countries are going through a tough period when they will be more concerned with profitability, or even survival, rather than overseas expansion.

Extending the "jobless recovery" evident in those developed countries fortunate enough to be enjoying a recovery, many MNEs will continue to look abroad for cheaper labor, but they are decreasingly likely to find it in China. Wages have gone up markedly in China's export powerhouse, Guangdong, and will doubtless do so elsewhere as investors respond by moving inland. Lower-wage countries like Indonesia and Vietnam are already starting to benefit – quite consciously and actively – from this shift.[2]

Nevertheless, overall, China remains the most popular target for FDI among developing host countries. In the latest UNCTAD survey of MNEs, China ranked well above all the others in the number of times it was mentioned as a top priority.[3] Policy emphasis in China itself is switching toward promoting outward, rather than inward, investment, though national and sub-national investment promotion agencies will remain active in their efforts to encourage IFDI in activities considered important for China's rapidly growing economy and its sustainable development. Since the second half of the 2000, it has been apparent that fixed investment growth in China is unsustainably high – often in real-terms double-digit percentage growth in recent years[4] – and that fixed investment is an excessively large proportion of GDP.[5]

The authorities have striven to rein in fixed investment growth and achieve a rebalancing of the economy toward domestic consumption, while also curbing the growth of the country's absurdly high foreign exchange reserves (US$ 3.2 trillion at the end of June 2012.[6] This environment is unlikely to encourage continued stress by policy-makers on pulling in foreign capital to prop up fixed investment,

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[15] For example, see Liu Yajun, director general of MOFCOM's Department of Foreign Investment Administration, cited in *China Daily,* 6 January 2012.

[16] See, for example, the AT Kearney annual world investment prospects report entitled *Cautious Investors Feed a Tentative Recovery* on the AT Kearney website, retrieved on June 6, 2012 from http://www.atkearney.com/index.php/Publications/cautious-investors-feed-a-tentative-recovery.html; also Stephen Thomsen, Misuzu Otsuka and Boram Lee, *The Evolving Role of Southeast Asia in Global FDI Flows* (Paris: IFRI Center for Asian Studies, 2011).

[17] UNCTAD, *World Investment Prospects Survey 2010-2012* (Geneva: United Nations, 2010).

[18] Real-terms GDP series data showing this double-digit growth of gross fixed investment can be found in the annual *China Statistical Yearbook* published by the National Bureau of Statistics of China, passim.

[19] For a contrarian view, which also restates the received wisdom and the widely cited statistics, see "Capital controversy: China's "overinvestment" problem may be greatly overstated," in *The Economist*, April 14, 2012.

[20] Information retrieved on June 6, 2012 from SAFE website at: http://www.safe.gov.cn/model_safe/tjsj/tjsj_detail.jsp?ID=110400000000000000,22&id=5, and on August 5, 2012 from Chinability website at www.chinability.com/Reserves.htm.

and focus is likely to shift to more specific objectives for attracting FDI. When the "open door" policy was initiated in the late 1970s, China did not have strong companies and export markets, let alone homegrown industries producing modern consumer goods, or a financial sector capable of financial intermediation. It does now. Many of the things that foreign companies needed to do can now be done by Chinese firms. Chinese corporations are now strong enough at home to be able to challenge foreign competitors, and they have their champions in the bureaucracy who consider foreign investment to be a malign influence.[1] So far, suggestions that the Government use the new Anti-Monopoly Law and national security screening procedures to protect domestic competitors appear to have been rejected in favor of operating these instruments in a fairly transparent, if sometimes time-consuming, manner, but there will undoubtedly be pressure on them from the domestic corporate sector to be tougher on foreign investors. It is also less necessary to use IFDI to attain global technological heights, as Chinese MNEs now have the money to undertake technology-gaining investments overseas, though they may still find it more convenient and quick to use IFDI for this purpose. Foreign-invested enterprises have consistently punched above their weight in creating millions of jobs in addition to the number of workers they employ directly. This is also something that Chinese companies can do, particularly the private sector SMEs, once they are let off the leash.

The Chinese Government is, for the above reasons, now far less motivated to attract large quantities of FDI, and far more interested in improving the quality of FDI. As noted, the latest Catalogue for Guiding Foreign Investment Industries continues the trend of encouraging FDI in "green" sub-sectors, while adjusting the incentives-mix to current industrial needs. While this shopping list is aspirational, it is also a clear indication that the Government is trying to move away from attracting labor-intensive, low technology investment and toward more efficient, more productive and less polluting investment.

Additional readings

Buckley, Peter J., *Foreign Direct Investment, China and the World Economy* (Basingstoke and New York: Palgrave Macmillan, 2010).

Huang, Yasheng, *Selling China: Foreign Direct Investment During the Reform Era* (Cambridge: Cambridge University Press, 2005).

Chantasasawat, Busakorn, K.C. Fung, Hitomi Iizaka and Alan Siu, "Foreign direct investment in China and East Asia". Paper presented at the Third Annual Conference on China Economic Policy Reform, Stanford Center for International Development, 2004.

Li, X, Liu, X. and D. Parker, "Foreign direct investment and productivity spillovers in the Chinese manufacturing sector", *Economic Systems*, vol 25, Issue 4 (2001), pp. 305-321.

[21] This attitude first surfaced at the 2006 session of the National People's Congress, where the outgoing director of the National Bureau of Statistics, Li Deshui, warned that foreign companies were trying to monopolize the Chinese market, as reported by Xinhua (New China) News Agency on March 8, 2006, retrieved on June 6, 2012 from http://www.china.org.cn/english/2006/Mar/160732.htm. It was strongly refuted by a MOFCOM director general at a conference in Beijing the following month, attended by the author.

Sun, Qian, Wilson Tong and Qiao Yu, "Determinants of foreign direct investment across China," *CREFS Working Paper No.* 99-06 (1999).

Useful websites

Invest in China (maintained by the Ministry of Commerce of the People's Republic of China): http://www.fdi.gov.cn/.

Ministry of Commerce of the People's Republic of China: http://www.mofcom.gov.cn/.
National Bureau of Statistics of China: http://www.stats.gov.cn/.

Statistical annex

Annex table 1. China: inward FDI stock, 1990, 2000, 2010, and 2011

(US$ billion)

Economy	1990	2000	2010	2011
China	21	193	579	711
Memorandum: comparator economies				
Brazil	37	122	473	670
Singapore	30	111	470	519
Russia	n.a.	32	423	457
India	2	16	198	202

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

Annex table 2. China: inward FDI flows, 2000-2011

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
China	41	47	53	54	61	72	73	84	108	95	115	124
Memorandum: comparator economies												
Brazil	33	22	17	10	18	15	19	35	45	26	49	67
Russia	3	3	4	8	15	13	30	55	75	37	43	53
Singapore	16	15	6	12	21	15	29	37	9	15	49	64
India	4	5	6	4	6	8	20	25	43	36	24	32

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

Annex table 3. China: distribution of inward FDI flows, by economic sector and industry, 2001 and 2010

(US$ billion and per cent of total inflows)

Sector/industry	2001[a]	2010[b]
Primary	1.7 3.6%	61.7 2.6%
Agriculture	0.9 1.9%	49.3 2.1%
Mining	0.8 1.7%	12.4 0.5%
Secondary	30.9 65.9%	1,400. 158.3
Manufacturing	30.9 65.9%	1,400. 158.3
Tertiary	14.3 30.5%	939.8 39.1%
Utilities	2.3 4.9%	34.0 1.4%
Construction	0.8 1.7%	44.3 1.8%
Real estate	5.1 10.9%	370.2 15.4%
Total	46.9 100.0%	2,401.6 [a] 100.0%

Source: Ministry of Commerce (MOFCOM), China, available at: www.fdi.gov.cn.

Note: The Chinese authorities include "utilities" and "construction" in the secondary sector, and the MOFCOM figures do not include all activities; so it is not possible to disaggregate and reconstruct the sectoral statistics entirely from their published tables. See the official definition of sectors from the annual statistical yearbook published by the National Bureau of Statistics. In China economic activities are categorized into the following three strata of industry: (1) "Primary industry" refers to agriculture, forestry, animal husbandry and fishery and services in support of these industries. (2) "Secondary industry" refers to mining and quarrying, manufacturing, production and supply of electricity, water and gas, and construction. (3)"Tertiary industry" refers to all other economic activities not included in the primary or secondary industries.

[a] Utilized investment.
[b] Contractual value of investment.

Annex table 4. China: geographical distribution of inward FDI stock,[a] 2002 and 2010

(US$ billion)

Region/economy	2002	2010
World	448.0	1,107.8
Developed economies	n.a.	n.a.
Europe	n.a.	n.a.
European Union	33.9	72.1
Belgium	0.6	1.1
Denmark	0.5	2.0
France	5.5	10.8
Germany	8.0	17.2
Italy	2.2	5.1
Netherlands	4.3	10.9
Spain	0.4	2.0
Sweden	0.8	2.1
United Kingdom	10.7	17.1
North America	43.2	73.1
Canada	3.4	7.9
United States	39.9	78.7
Other developed economies	n.a.	n.a.
Australia	n.a.	n.a.
Japan	36.3	73.6
Developing economies	n.a.	n.a.
Africa	n.a.	n.a.
Mauritius	n.a.	9.4
Asia	n.a.	n.a.
Hong Kong (China)	204.9	456.2
Macau (China)	4.8	9.7
Indonesia	1.1	2.1
Korea, Republic of	15.2	47.3
Malaysia	2.8	5.7
Philippines	1.4	2.8
Singapore	21.5	46.9
Taiwan Province of China	33.1	52.0
Thailand	2.4	3.3
Western Samoa	2.3	16.1
Latin America and Caribbean	n.a.	n.a.
Barbados	n.a.	3.6
British Virgin Islands	24.4	111.8
Cayman Islands	3.8	21.6
Unidentified others	n.a.	100.7

Source: Ministry of Commerce (MOFCOM), China, available at: www.fdi.gov.cn.

[a] The above statistics, released by MOFCOM for purposes of geographical breakdown, represent cumulated FDI. As they do not include divestments, total IFDI stock in this table is much larger than the IFDI stock total in annex table 1, which comes closer to internationally-recognized standards of FDI measurement (see footnote 2 in the text).

Annex table 5. China: principal foreign affiliates in economy, ranked by value of sales, 2008

Rank	Name of affiliate	Industry	Sales (US$ million)
1	Hongfujin Precision Industry (Shenzhen) Co. Ltd.	Computer peripherals	26,974
2	Nokia Telecommunication Co. Ltd.	Cell phones	13,767
3	China Offshore Petroleum (China) Limited	Oil and gas	11,354
4	Dagong (Shanghai) Computer Co. Ltd.	Computers	10,535
5	Fay-Volkswagen Sales Co. Ltd.	Automobile	10,412
6	Daofeng (Shanghai) Computer Co. Ltd.	Computers	9,471
7	Angang Steel Ltd.	Steel	9,424
8	Shanghai GM Automobile Co. Ltd.	Automobile	9,366
9	Fay-Volkswagen Co. Ltd.	Automobile	9,217
10	Motorola (China) Electronic Ltd.	Telecom equipment	8,099
11	Maanshan Steel Co. Ltd.	Steel	7,287
12	Huaneng International Power Co. Ltd.	Electricity generation	7,257
13	Shanghai Volkswagen Automotive Sale Ltd.	Automobile	7,233
14	Dongfeng Toyota Auto Sale Co. Ltd.	Automobile	7,145
15	Dongfeng Auto Company	Automobile	7,057
16	Air China Co. Ltd.	Airline	6,767
17	Shanghai Volkswagen Automotive Ltd.	Automobile	6,734
18	Yingshunda Science & Technology Co. Ltd.	Consumer electronics	6,430
19	Nokia (China) Investment Co. Ltd.	Cell phones	6,393
20	China Southern Airlines Co. Ltd.	Airlines	6,350

Source: Ministry of Commerce (MOFCOM), China, available at: www.fdi.gov.cn

Annex table 6. China: main M & A deals, by inward investing firm, 2008-2010

Year	Acquiring company	Home economy	Target company	Target industry	Shares acquired (%)	Transaction value (US$ million)
2010	BBVA	Spain	China CITIC Bank Corp. Ltd.	Banking	4.9	1,652.4
2010	Grand Point Investment Ltd.	Hong Kong, China	Tianjin Port Co. Ltd.	Transportation services	56.8	1,483.0
2010	China Gold International Resources Ltd.	Canada	Skyland Mining Ltd.	Copper ores	100.0	790.5
2010	Hopeson Holdings Ltd.	Hong Kong, China	Panyu Zhejiang Real Estate Ltd.	Land subdividers and developers	100.0	509.8
2010	Rhodia S.A.	France	Jiangsu Feixiang Chemical Co.	Industrial organic chemicals	100.0	489.0
2010	Cardinal Health Inc	United States	Zuellig Pharma China Corp	Drugs, drug proprietaries	100.0	470.0
2010	TCC International Holdings Ltd.	Hong Kong, China	Anhui Chaodong Cement Co. Ltd.	Cement, hydraulic	n.a.	463.8
2010	Hanwha Chemical Corp.	Republic of Korea	Solarfun Power Holdings Ltd.	Semiconductors and related devices	50.0	446.4
2010	Hynix Semiconductor Inc.	Republic of Korea	Hynix-Numonyx Semiconductor	Semiconductors and related devices	22.2	434.3
2010	Hana Financial Group Ltd.	Republic of Korea	Bank of Jilin Co. Ltd.	Banking	26.0	370.1
2010	Carlsberg Brewery Hong Kong	Hong Kong, China	Chongqing Brewery Co. Ltd.	Malt beverages	12.3	349.1
2010	Genesis Energy Holdings Ltd.	Hong Kong, China	Power Great Ltd.	Offices of holding companies	100.0	300.7
2010	China Resources Gas Group Ltd.	Hong Kong, China	Mega Fair Ltd.	Natural gas transmission	100.0	271.7
2010	Sino Fountain Ltd.	Hong Kong, China	China Huiyuan Juice Group Ltd.	Frozen fruits, fruit juices and vegetables	23.0	260.7
2010	Link Crest Ltd.	Singapore	Pine Agritech Ltd.	Soybean oil mills	57.3	252.6
2009	GCL-Poly Energy Holdings Ltd	Hong Kong, China	GCL Solar Energy Tech Hldg Inc	Semiconductors	100.0	3,787.5
2009	BBVA	Spain	China Citic Bank	Banking	4.9	1,601.6
2009	GIC Real Estate Pte. Ltd.	Singapore	ProLogis-China Operations	Land developers	100.0	1,300.0
2009	Investor Group	Hong Kong,	Shanghai Shimao Co	Land	56.8	1,012.1

		China	Ltd	developers		
2009	GCL-Poly Energy Holdings Ltd	Hong Kong, China	Greatest Joy International Ltd	Semiconductors	100.0	911.6
2009	MAN Finance & Holding Sarl	Luxembourg	Sinotruk (Hong Kong) Ltd.	Motor vehicles and passenger car bodies	25.0	782.2
2009	Franshion Ppty (China) Ltd	Hong Kong, China	China Jin Mao (Group) Co Ltd	Building operator	45.1	737.5
2009	HongKong Electric (Holdings) Ltd.	Hong Kong, China	Outram Ltd	Electric services	100.0	732.6
2009	Asahi Breweries Ltd.	Japan	Tsingtao Brewery Co. Ltd.	Malt beverages	20.0	667.0
2009	Middle Kingdom Alliance Corp	United States	Pypo Digital Co Ltd	Electronic equipment	100.0	378.0
2009	CRH PLC	Ireland	Jilin Yatai Grp Cement Invest	Investors	26.0	296.7
2009	Ting Hsin (Cayman Islands) Hldg.	Taiwan, Province of China	Tingyi-Asahi-Itochu Beverages	Bottled and canned soft drinks	10.0	280.0
2009	TM Entertainment & Media Inc	United States	Hong Kong Mandefu Holdings Ltd	Advertising agencies	100.0	263.6
2009	ADF Phoenix IV Ltd	Singapore	Nanjing International Finance	Operators of nonresidential buildings	100.0	232.8
2009	MidAmerican Energy Holdings	United States	BYD Co. Ltd.	Motor vehicles and passenger car bodies	9.9	231.5
2008	Bank of America Corp.	United States	China Construction Bank Corp	Banking	8.4	7,067.4
2008	Bank of America Corp	United States	China Construction Bank Corp	Banking	2.6	1,860.5
2008	Jade Green Investments Ltd	Hong Kong, China	Fortune Dragon Coking Coal	Bituminous coal and lignite surface mining	100.0	1,350.8
2008	Blackstone Group LP	United States	China National Agrochemical	Chemicals and chemical preparations	20.0	600.0
2008	Deutsche Bank AG	Germany	Huaxia Bank Co. Ltd.	Banking	5.3	552.9
2008	Songzai Intl Holding Group Inc.	United States	Heilongjiang Xing An Group Hong	Bituminous coal and lignite surface mining	90.0	550.0
2008	BP Overseas Development Co Ltd	Thailand	Asian American Coal Inc	Bituminous coal and lignite surface mining	78.4	432.8
2008	Beiersdorf AG	Germany	C-BONS Hair Care	Cosmetics	85.0	381.4
2008	Johnson & Johnson	United States	Beijing Dabao Cosmetics Co Ltd	Perfumes, cosmetics	100.0	327.8
2008	Holcim Ltd	Switzerland	Huaxin Cement Co.	Cement	18.6	282.7

			Ltd.			
2008	Hong Leong Bank Bhd.	Malaysia	Chengdu City Commercial Bank	Banking	20.0	261.0
2008	Shui On Investment Co. Ltd.	Hong Kong, China	Shui On Land Ltd.	Land subdividers and developers	5.1	230.2
2008	CapitaRetail China Trust	Singapore	Xizhimen Mall	Operators of nonresidential buildings	100.0	229.3
2008	Monster Worldwide Inc.	United States	ChinaHR.com Holdings Ltd	Employment agencies	55.0	225.0
2008	Investor Group	France	Chongqing Water Group Co. Ltd.	Water supply	n.a.	220.0

Source: The author, based on Thomson ONE Banker. Thomson Reuters.

Annex table 7. China: main greenfield projects, by inward investing firm, 2008-2010

Year	Company	Home economy	Industry	Value (US$ billion)
2010	AU Optronics	Taiwan (Province of China)	Electronic components	3.0
2010	Chang Chun Group	Taiwan (Province of China)	Chemicals	2.4
2010	Formosa Plastics Group (FPG)	Taiwan (Province of China)	Chemicals	2.3
2010	Wintek	Taiwan (Province of China)	Electronic components	1.7
2010	Meydan City Corporation	United Arab Emirates	Real estate	1.6
2010	Standard Chartered Bank	United Kingdom	Financial services	1.5
2010	Enersys	United States	Electronic components	1.2
2010	Hankook Tire	Korea (Rep. of)	Rubber	1.0
2010	Corning	United States	Ceramics and glass	0.8
2010	Nokia Siemens Networks	Finland	Communications	0.8
2010	SK Group	Korea (Rep. of)	Coal, oil and natural gas	0.8
2010	Tesco	United Kingdom	Food and tobacco	0.8
2010	Nissan	Japan	Automotive OEM	0.7
2010	Nomura Holdings	Japan	Financial Services	0.7
2010	Sunbase International	Hong Kong, (China)	Electronic components	0.7
2009	Chevron Corporation	United States	Coal, oil and natural gas	4.7
2009	LG	Korea (Rep. of)	Electronic components	4.0
2009	Samsung	Korea (Rep. of)	Electronic components	2.2
2009	Charoen Pokphand Group	Thailand	Food and tobacco	1.2
2009	China Merchants Holdings (International)	Hong Kong (China)	Warehousing and storage	1.2
2009	Shimao Property Holdings Ltd.	Hong Kong (China)	Real estate	1.2
2009	Cheng Shin Rubber Industry	Taiwan (Province of China)	Rubber	1.0
2009	Hon Hai Precision Industry	Taiwan (Province of China)	Electronic components	1.0
2009	Hon Hai Precision Industry	Taiwan (Province of China)	Electronic components	1.0
2009	Michelin	France	Rubber	1.0
2009	Novartis	Switzerland	Biotechnology	1.0
2009	Chevron Corporation	United States	Coal, oil and natural gas	0.8
2009	Daiwa House Industry	Japan	Real estate	0.8
2009	Jumbo Lane Investments	United Kingdom	Coal, oil and natural gas	0.8
2009	Royal Dutch Shell	Netherlands	Coal, oil and natural gas	0.8
2008	Daimler AG	Germany	Automotive OEM	0.9
2008	ROSM	France	Consumer products	2.0
2008	Royal Vopak	Netherlands	Warehousing and storage	1.0
2008	Howard Group Development	Hong Kong (China)	Transportation	1.5
2008	Walt Disney	United States	Leisure and entertainment	3.6
2008	SK Energy	Korea (Rep. of)	Chemicals	2.0
2008	Henderson	Hong Kong (China)	Real estate	1.4
2008	Lotte Group	Korea (Rep. of)	Real estate	1.0
2008	Volkswagen	Germany	Automotive OEM	0.9
2008	Electric Power Development (J-Power)	Japan	Coal, oil and natural gas	0.7
2008	Yulon Motor	Taiwan (Province of China)	Automotive OEM	0.7
2008	Hyundai Motor	Korea (Rep. of)	Automotive OEM	0.8

2008	Compal Electronics	Taiwan (Province of China)	Business machines and equipment	0.7
2008	Saudi Basic Industries (SABIC)	Saudi Arabia	Chemicals	1.7
2008	Israel Corp (IC)	Israel	Automotive OEM	0.8

Source: The author, based on fDi Intelligence, a service from the Financial Times Ltd.

China: Outward FDI and its policy context, 2009

Ken Davies[*]

In 2008 global FDI fell by around 20%, while outward FDI from China nearly doubled. This disparity is likely to continue in 2009 and 2010 as China invests even more overseas. What is driving this continuing surge in China's outward FDI?

China's FDI outflows took off in the 2000s as a result of the government's adoption and promotion of a "go global" policy aimed at establishing the country's national champions as international players. Having averaged only US$453 million a year in 1982-1989 and US$2.3 billion in 1990-1999, they rose to US$5.5 billion in 2004, US$12.3 billion in 2005, US$17.6 billion in 2006 and US$24.8 billion in 2007.[1] Preliminary figures for 2008 show a rise to US$40.7 billion. If financial FDI (not counted before 2006) is included, the 2008 total was US$52.2 billion, nearly double the US$26.5 billion in 2007.

Anecdotal evidence suggests that China's outward FDI growth continued to accelerate in early 2009. China's direct investments in Australia alone reportedly rose from US$1.4 billion in the first quarter of 2008 to US$13 billion in the same period this year. If that trend continues, China's FDI in Australia alone in 2009 will equal its global OFDI in 2008. Chinalco's bid for 18% of Rio Tinto, if successful, would be part of this – at around US$19 billion, this deal is larger than any previous overseas acquisition by a Chinese company. Other large deals in the energy sector are also in view.

Five key drivers of China's OFDI explain this acceleration.[2]

(1) One of the most reported motivations in the international media and in some academic writing is China's need to secure natural resources to fuel rapid growth, though this is actually not the most significant area of China's outward investment, which is service industry. Government backing, including official development assistance (ODA), has been crucial for this resource-seeking investment. (2) While most of China's exports are from foreign-owned enterprises, large domestic firms also export large volumes and need services like shipping and insurance. (3) China's major enterprises are also acquiring global brands (like Lenovo's acquisition of IBM's personal computer business or the SAIC and Nanjing purchase of MG Rover). (4) Large state-owned enterprises (SOEs) losing their monopoly position at home are diversifying internationally. And (5) some enterprises – despite China's ample labour supply – seek to move their labour-intensive operations to cheaper overseas locations like Vietnam and Africa.

The relative strengths of these motivations are reflected in the sectoral and geographical distribution of China's accumulated FDI.

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[*] The author wishes to thank Zihui Ma and Adam Cross for their helpful comments on this Perspective. First published May 26, 2009 under the title "While global FDI falls, China's outward FDI doubles."

[1] *OECD 2008 Investment Policy Review of China: Encouraging Responsible Business Conduct* and China's Ministry of Commerce website www.fdi.gov.cn

[2] Detailed in ibid.

The latest figures published by China's Ministry of Commerce (MOFCOM) in February 2009 show outward FDI cumulated to end-2007 as US$118 billion. The tertiary sector predominated, with over 70% of the total. Manufacturing remained modest at 8%, and construction even lower at 1.4%; so, with other items, the secondary sector contributed around 16% of outward FDI. The remaining 14% is accounted for by mining, quarrying and oil production (13 %) and agriculture, forestry and fisheries (1%).

While the sectoral composition tends to fluctuate with "lumpy" greenfield projects or M&A deals, the end-2007 figures give a fair representation. The predominance of services is the result of China's export boom and the extension of China's financial services overseas to utilize the wealth of the Chinese diaspora, learn advanced techniques and diversify earnings sources. Manufacturing OFDI is small, though it may grow faster as domestic production costs rise.

The vast majority of recorded OFDI from China is from large state-owned enterprises (SOEs) (84% of both stocks and flows by end-2005, according to MOFCOM figures[1]), but this appears to be gradually declining and is likely to be an over-estimate because private-sector OFDI is less likely to go through official procedures.

Media reports focus on China's investments in Africa, but the continent that continues to absorb most of China's capital exports is Asia, which accounted for 67% of cumulated Chinese outward FDI to end-2007, with Latin America receiving 21%, Europe 4%, Africa 4%, North America 3% and Oceania 2%. These figures are distorted by the use of tax havens, which obscures actual destinations. China's investment in Latin America, for example, is mainly the 14% of China's OFDI registered as going to the Cayman Islands and the 6% going to the British Virgin Islands. The bulk of China's FDI in Asia goes to Hong Kong, China, which accounted for 58% of outward FDI stock up to end-2007.

Even if the actual figures are higher because of routing via tax havens, China's FDI in the developed world, especially Europe and North America, is disproportionately small considering the high proportion of China's trade with these regions. This probably results more from a lack of readiness to compete with global giants on their home territory than from protectionist pressures, though these have discouraged some large acquisitions.

An unknown proportion of investment in Hong Kong, China and the tax havens consists of "round-tripping" investment to take advantage of tax concessions in China, but this must now be falling since such incentives were abolished at the beginning of 2008 and Hong Kong is therefore unlikely to retain its dominant position. Genuinely outward FDI is therefore likely to be growing even faster than shown by official statistics.

The coastal provinces and municipalities, heavily engaged in international trade, are the main sources of China's OFDI. Guangdong –the largest *recipient* of FDI – provided 20% of total outward FDI in 2008. The second largest source was Zhejiang, with 8% of outward FDI, Shandong following in third place with 8%. This distribution results from several factors: proximity to major seaports and thus overseas markets, strong links to a global diaspora originating from coastal areas, and positive spill-over and demonstration effects of inward FDI in or near the three major coastal economic centres of the Pearl River Delta, the Yangtze Delta and the Bohai Gulf.

[1] Ibid.

How is the crisis affecting China's outward FDI?

As an open economy, China can not escape the effects of the global financial crisis of 2008. The government is countering the downturn with a fiscal stimulus that will limit GDP deceleration, and credit has actually expanded. The OECD forecasts 6.3% GDP growth in 2009 and 8.5% in 2010.

China's resource needs will thus continue to increase, so it is seeking to secure reliable supplies by doing deals with producers. Such deals made in the first quarter of 2009 already reportedly exceed China's record FDI outflow in 2008.

With US$1.9 trillion in foreign-exchange reserves, a current-account surplus forecast by the OECD to rise to 11.7% of GDP in 2009 and no credit crunch, China can afford large investments overseas. Chinese multinationals can snap up companies on the cheap to acquire market share and brands in the developed world. Unsurprisingly, China is campaigning vociferously against investment protectionism.

China's worries are not unfounded. While there are those who welcome Chinese investment, for example in African countries happy to receive accompanying unconditional aid, there are also widespread suspicions of China's intentions. The predominance of SOEs in China's OFDI has raised fears that such investment may not be governed by normal commercial considerations and may even be an arm of the country's foreign and defense policy.[1]

Other challenges for China's OFDI include raising the efficiency of natural resource exploitation by Chinese companies, coordinating internationally dispersed operations, abandoning the preference for vertical integration of industrial production, and handling the usual aftermath of cross-border M&A, including acquiring sufficient understanding of different management cultures to be able to assimilate and manage foreign companies.

China's OFDI accounts for not much more than 1% of the global total, far below the country's share of world trade. However, this total is rising fast and the country will eventually become a major source of global FDI. Potential recipient countries are beginning to recognize this as they start to offer inducements to attract Chinese MNEs.

[1] Such concerns have also been voiced about the activities of China's sovereign wealth fund, the China Investment Corporation (CIC). CIC and its provincial equivalents have several hundred billion dollars to invest. Following initial investments of dubious profitability – much criticised within China – CIC has become cautious, but experience will embolden it.

China: Outward FDI and its policy context, 2010

Ken Davies*

Since 2000, China's OFDI has grown at an accelerating rate as a result of a switch in government policy to strong encouragement of Chinese enterprises to "go global." The bulk of this investment has been into the primary and tertiary sectors, with relatively little so far going into manufacturing. Most has gone to Asia, but Chinese investment is now spreading throughout the world. The precise geographical distribution is veiled, as much of it passes through tax havens. The Government has been slow to tackle administrative obstacles to Chinese companies wishing to invest abroad, but has recently begun to relax them. The global crisis has presented opportunities for Chinese multinationals, which were less seriously affected than their counterparts in the developed world, to raise their stake in the world economy.

Trends and developments

Country-level developments

China's OFDI stock reached US$ 246 billion by the end of 2009, well over eight times the US$ 28 billion recorded in 2000 and far above the negligible US$ 4 billion of 1990. China is a late developer in its outward investment, even among large emerging markets. Brazil had OFDI stock of US$ 41 billion in 1990, way ahead of China, but fell behind with only US$ 158 billion in 2009. China's OFDI stock also now exceeds that of Singapore, with US$ 213 billion. Russia's OFDI stock grew more rapidly than China's, reaching US$ 249 billion in 2009. China, though, did continue to outperform India, with its modest 2009 total IFDI stock of US$ 77 billion (annex table 1).

China's OFDI was minimal during the first two decades of economic reform from end-1978 to 2000. At the turn of the century, government policy switched from mildly permissive to strongly encouraging.[1] Since then, OFDI flows from China have accelerated from less than US$ 1 billion a year in 2000 to US$ 57 billion in 2009 (annex table 2).

The bulk of China's OFDI – around thee-quarters of the total – goes into the tertiary sector: by the end of 2009, the main recipients of China's OFDI stock were financial services (19% of the total) and wholesale and retail trade (15%). The primary sector came second: in 2009, mining, quarrying and petroleum comprised 17% of total OFDI stock. Unlike in the case of China's inward direct investment, the secondary sector is a relatively minor component, making up only 5.5% of the OFDI stock in 2009 (annex table 3).

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[1] See *Qiuzhi Xue and Bingjie Han,* "The role of government policies in promoting outward foreign direct investment from emerging markets: China's experience", in Karl P. Sauvant and Geraldine McAllister, with Wolfgang Maschek, eds., *Foreign Direct Investment from Emerging Markets: The Challenges Ahead* (New York: Palgrave, 2010).

In recent years, the sectoral distribution of China's OFDI has remained stable. However, this stability may be illusory and it is likely to give way to major shifts in composition in coming years. OFDI in leasing and commercial services may have been initially undertaken in support of the country's rapid growth in merchandise trade. More recently, this service-sector investment may be supporting a move into extractive industries that has yet to be reflected in the drawing down of funds for massive energy and raw materials projects. In the future, Chinese firms may also diversify toward manufacturing to service global consumer goods markets more directly.

The bulk of China's OFDI goes to Asia, which accounted for US$ 186 billion (76%) of total OFDI stock in 2009. However, most (89%) of that stock actually went just to one destination, Hong Kong (China). Media attention worldwide has focused on Chinese OFDI in Africa, which has risen sharply but was still less than 4% of the country's global total OFDI in 2009 (annex table 4).

Some caution needs to be exercised in using official OFDI figures. To the extent that OFDI is used to inject funds into special purpose entities that then return the money to China as IFDI to take advantage of fiscal incentives, i.e. "round-tripping", the official total may be an overestimate. Round-tripping should logically be diminishing since fiscal incentives were abolished at the beginning of 2008, but by its very nature as an illegal activity it is difficult to obtain hard evidence of the actual trend in round-tripping.

Conversely, there are equally strong reasons to suppose the official figures to be underestimates. While most OFDI is from SOEs, a large and unknown proportion is from enterprises that are owned by non-state entities, i.e. privately- or collectively-owned. While SOEs are constrained to go through the official approval process and so be recorded as making OFDIs, non-state entities are more likely to evade approval. Where local OFDI approval is available, it may not always result in projects being included in national data.

The corporate players

According to the most recent Fudan-VCC survey of Chinese multinationals in 2007, the two largest Chinese MNEs were China International Trading and Investment Corporation (Citic), with foreign assets exceeding US$ 25 billion, and China Ocean Shipping (Group) Company (COSCO), with foreign assets of some US$ 21 billion. Both are well-established corporations that have built up an international presence over several decades as their core business. China's oil majors are also important overseas investors, including China National Petroleum Corporation (CNPC, which ranks 10th in the 2010 Fortune Global 500), with foreign assets of US$ 7 billion, Sinochem Group, with US$ 5 billion and China National Offshore Oil Corporation (CNOOC), with US$ 4 billion. Other mineral resource investors include two metallurgy MNEs: Sinosteel Corporation and China Minmetals Corporation, each with foreign assets of about US$ 2 billion. These acquisitions are part of a national strategy aimed at minimizing fluctuations in prices of essential inputs to domestic industry.

These MNEs can be expected to keep expanding as China continues to secure energy and raw material sources for its industrialization. Producers of consumer goods are also starting to become important as Chinese producers seek to penetrate foreign markets by M&As, to acquire brand names and market share, as in the case of Lenovo Group (with foreign assets of US$ 4 billion), which acquired IBM's personal computer division in 2005. Although Lenovo has used the acquisition to reinforce its position as market leader in China and has maintained a large share of the global PC market by continuing to manufacture the Thinkpad range,[1] it has not managed to develop innovative products capable of making a breakthrough to global market leadership. Shanghai Automotive Industry Corporation (SAIC), with foreign assets of US$ 2 billion, is also using cross-border acquisitions to broaden its product range and gain foreign market share. Having attained a strong position in the domestic Chinese market, consumer durables manufacturer Haier, with foreign assets of US$ 768 million, is seeking similar success in the global market (annex table 5). Haier in 2009 overtook Whirlpool (which it had already driven out of China in the 1990s, when Whirlpool closed its two factories there) in global refrigerator sales.[2] Haier has gone further than most Chinese MNEs in becoming truly global: 24 of its 29 factories and 4 of its 16 industrial parks are now outside China and it maintains 58,800 sales outlets in over 160 countries.[3]

Most M&A deals in 2007-2009 were in the energy and minerals sectors, but the largest transactions tended to be purchases of minority stakes in global financial institutions. For example, one of the country's largest steel producers, Shanghai Baosteel, acquired a 15% US$ 240.5 million stake in Aquila Resources in Australia in 2009 as part of a strategic co-operation agreement to expand Aquila's steel raw materials projects, including iron ore, coal and manganese,[4] while Yanzhou Coal Mining, in the same year, made a successful takeover bid for the Australian coal producer Felix Resources at a cost of US$ 2.8 billion. In 2008, the Chinese oil major Sinopec acquired the Canadian company Tanganyika Oil for US$ 2 billion. The largest deal was one that did not happen: in 2009, the Chinese aluminum producer Chinalco abandoned a US$ 19.5 billion bid to raise its stake in Australia's Rio Tinto. In the financial sector, China Merchants Bank purchased Wing Lung Bank of Hong Kong (China) for nearly US$ 4.6 billion in 2008 (in two stages), while, in 2007, Ping An Insurance bought a 4.2% stake in Fortis of Belgium for US$ 2.7 billion to buy half of its asset management business (this is mentioned here because, although this is strictly speaking below the 10% criterion for classification as FDI, Ping An behaved as though it was an FDI operation and it was larger than many Chinese OFDI M&A deals). Also in 2007 the Industrial and Commercial Bank of China (ICBC), then the largest bank in the world by asset value, acquired a 20% stake in South Africa Standard Bank for US$ 5.6 billion.[5]

An important development was the creation of the China Investment Corporation (CIC), China's SWF, in 2007. In the first year of operation, CIC purchased a 9.9% stake in the US investment firm Blackstone for US$ 3 billion, and subsequently undertook to increase this to 12.5%, and also acquired a 9.9% holding in Morgan Stanley for US$ 5 billion. Widespread criticism of the Blackstone deal in China resulting from the fall in Blackstone's share price from US$ 31 at the time of purchase in May 2007 to below US$ 5 in early 2009[6] led to a pause for reappraisal of the SWF's investment strategy during 2008.[7] In 2009, CIC made several smaller purchases, mainly in the commodities industry: 8% of Australia's Goodman Group for US$ 396 million, 15% of the Noble Group of Hong Kong for US$ 854 million, 45% of Russia's Nobel Oil Group for US$ 400 million and 25% of South Gobi Energy

[1] Lenovo website: http://www.lenovo.com/.
[2] Alibaba News website: http://news.alibaba.com/.
[3] Haier China website: http://www.haier.com.
[4] "Aquila Resources clinches US$ 286m Baosteel investment," *The Australian*, August 28, 2009.
[5] The Economist website: http://www.economist.com/.
[6] Detailed criticisms were voiced on the Chinese Internet, for example the blog article "Zhang Ming feels today is right but yesterday was wrong" (in Chinese), http://blog.ce.cn/, and acknowledged indirectly in official pronouncements, for example "China's CIC chief defends investments, Blackstone", *Reuters*, October 26, 2008.
[7] "China shuns investments in West's finance sector", *The New York Times*, December 3, 2008.

Resources of Canada for US$ 500 million (annex table 6). These enabled it to make a return on investment of 11.7% in 2009.[1]

China's overseas greenfield investments are concentrated mainly in the energy, raw materials, automotive, and real estate sectors. A few energy projects are in renewable and alternative energy, a rapidly developing sector of China's economy; such investments include a US$ 271 million project in Malaysia in 2009 by State Grid (ranked 8th in the 2010 Fortune Global 500), a US$ 1.4 billion project in Singapore by China Huaneng and one worth US$ 300 in Cambodia by China Southern Power Grid in the same year. Another of China's largest state-owned companies, Sinopec (7th in the 2010 Fortune Global 500), made a US$ 220 million greenfield investment in Russia. There were also greenfield investments by provincial or municipal enterprises such as Tianjin Pipe, which invested US$ 1 billion in the United States in 2009, and Hebei Jingniu Group, which invested US$ 400 million in a ceramics and glass project in Zimbabwe in 2008 (annex table 7).

Effects of the current global crisis

With a relatively small exposure to the US subprime market, China was less affected by the subprime crisis and its aftermath than the developed economies. GDP growth slowed as the country's export markets suffered, but remained strong, supported by an early, large and fast-acting government stimulus package. With high cash reserves and ample support available from the Government, China's MNEs continued to expand their overseas acquisitions. In 2008, when global OFDI flows fell by 15%, Chinese OFDI flows more than doubled; in 2009, when global OFDI flows plummeted by 43%, OFDI from China edged up by 1%.[2] But for the failure of one large M&A transaction (the Chinalco-Rio Tinto deal, with an expected value of US$ 19.5 billion), the result would have been an increase in China's total OFDI of 36%.

The weakening of companies in the developed world as a result of the credit crunch, stagnation in their domestic consumer markets and impending cuts in public expenditure may present increasing opportunities for Chinese MNEs to expand further, acquiring inputs for industrialization while also gaining market share. With official foreign exchange reserves of US$ 2,454 billion at end-June 2010, China has ample financial resources to support a further acceleration of OFDI growth.

The policy scene

During the first three decades of economic reform, China's OFDI played a supporting role as trade expanded rapidly. From 1979 to 2000, the government actively promoted and facilitated IFDI while its policy towards OFDI remained tentative. A few vehicles, notably China International Trust and Investment Corporation (CITIC) were set up early in the reform period for outward investment, but domestic enterprises were not actively encouraged to invest abroad. It was, indeed, only in the 1990s that more than one or two of China's domestic companies became large and successful enough to try their hand at being global players, especially after the government restructured and consolidated major industries such as oil and petrochemicals.[3] At the turn of the century, government policy switched to a

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[1] "CIC reaps gains from rosy overseas investments", *China Daily*, July 30, 2010.
[2] UNCTAD, *World Investment Report 2010: Investing in a Low Carbon Economy* (New York and Geneva: United Nations, 2010).
[3] Peter Nolan and Zhang Jin, "The challenge of globalization for large Chinese firms", in Peter Nolan, ed., *Transforming China: Globalization, Transition and Development* (London: Anthem Press, 2004).

policy of actively promoting OFDI. The new "go global" policy that was adopted from 2000 onward has several objectives, both macroeconomic, including reduction of excessive low-return foreign exchange reserves, and microeconomic, for example, improving the global competitiveness of China's large enterprises. Another major aim is the securing of future supplies of energy and raw materials for continuing industrialization.[1]

As with IFDI projects, the government operates an examination and approval process through a system of catalogues of various levels of approval, from "prohibited" to "encouraged". Together with the procedures for obtaining approval to remit funds abroad for OFDI, this system constitutes a barrier to OFDI. Companies with an established presence overseas frequently prefer external financing so that they can bypass these cumbersome procedures. The Government is gradually streamlining the process.

The Chinese government has taken several important steps to support OFDI by domestic enterprises. An export credit insurance corporation, Sinosure, which has a mandate to support investment as well as trade, started operations at the end of 2001.[2] Government policy is to encourage banks to fund overseas acquisitions by Chinese MNEs. This policy has been strengthened during the global crisis: M&A financing rules promulgated by the China Banking Regulatory Commission (CBRC) in 2008 in line with the government's crisis-response stimulus package freed the commercial banks to make loans to fund the transaction price of M&A transactions, including cross-border M&As.[3] The establishment of the CIC (see above) is also a major component of the government's OFDI promotion strategy.

China has conducted active investment diplomacy since the early 1980s: it had signed 127 BITs by June 1, 2010 and 112 double taxation agreements (DTTs) by June 1, 2009.[4] China is a member of the world's largest free trade area in terms of population and third largest in nominal GDP, the ASEAN–China Free Trade Area (AFTA), which was agreed in 2002 and came into effect on January 1, 2010.
During the global crisis, the Chinese Government has made numerous declarations against trade and investment protectionism.[5] As some Chinese acquisitions in recent years have failed because of opposition in host countries, even when they had been allowed by the host country authorities, China is concerned to stem what it sees as the rise of a protectionism that targets its investment abroad. China has participated in discussions on this in the G20.[6]

Conclusions and Outlook

Driven mainly by government policy and funded by the country's massive reserves gained from trade and inward investment flows, China's OFDI will continue to grow rapidly and become more geographically and sectorally diverse. The current emphasis on OFDI in energy and raw materials and in the services will shift toward the development of manufacturing and services centers in overseas markets,

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[1] OECD, *Investment Policy Review of China: Encouraging Responsible Business Conduct* (Paris: OECD, 2008), chapter 3, "China's outward direct investment".
[2] Sinosure website: http://www.sinosure.com.cn/.
[3] International Law Office website: http://www.internationallawoffice.com.
[4] UNCTAD Country-Specific lists of Bilateral Investment Treaties and Double Taxation Treaties http://www.unctad.org/.
[5] For example, in Premier Wen Jiabao's speech on "Four proposals to promote world harmony and prosperity", in which the second proposal is to "fight against trade and investment protectionism", published on September 10, 2009 on the Chinese Foreign Ministry website http://www.fmprc.gov.cn/.
[6] Vice-Premier Wang Qishan "G20 must look beyond the needs of the top 20", *The Sunday Times*, March 27, 2009; "From G8 to G20", *Beijing Review*, July 8, 2010.

timed to take advantage of favorable exchange rate and price movements. The increasing exposure of Chinese MNEs to international business practice will prompt them to seek further improvements in China's own institutional framework, which will be beneficial for both domestic and IFDI.

Additional readings

Brown, Kerry, *The Rise of the Dragon: Inward and Outward Investment in China in the Reform Period* (Oxford: Chandos Publishing, 2008).

Buckley, Peter J., *Foreign Direct Investment, China and the World Economy* (Basingstoke and New York: Palgrave Macmillan, 2010).

Sauvant, Karl P., with Kristin Mendoza and Irmak Ince, eds., *The Rise of Transnational Corporations from Emerging Markets* (Cheltenham and Northampton, Mass.: Edward Elgar, 2008).

Useful websites

Invest in China (maintained by the Ministry of Commerce): http://www.fdi.gov.cn/.

Ministry of Commerce of the People's Republic of China: http://www.mofcom.gov.cn/.

People's Bank of China: http://www.pbc.gov.cn/.

Statistical annex

Annex table 1. China: outward FDI stock, 1990-2009 (US$ billion)

Economy	1990	2000	2009
China	4 [a]	28 [a]	246
Memorandum: comparator economies			
Brazil	41	52	158
India	0	2	77
Russia	n.a.	20	249
Singapore	8	57	213

Source: UNCTAD's FDI/TNC database, available at:http://stats.unctad.org/fdi/ and Ministry of Commerce of the People's Republic of China, *2009 Statistical Bulletin of China's Outward Foreign Direct Investment* (Beijing: MOFCOM, 2010).
[a] Not including financial OFDI.

Annex table 2. China: outward FDI flows, 2000-2009 (US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
China	0.9 [a]	6.9 [a]	2.7 [a]	2.9 [a]	5.5 [a]	12.3 [a]	21.2	26.5	55.9	56.5
Memorandum: comparator economies										
Brazil	2.3	-2.3	2.5	0.2	9.8	2.5	28.2	7.1	20.5	-10.1
India	0.5	1.4	1.1	1.3	2.2	3.0	14.3	17.2	18.5	14.9
Russia	3.2	2.5	3.5	0.7	13.8	12.8	23.2	45.9	56.1	46.1
Singapore	5.3	17.1	4.1	3.1	8.1	6.9	13.3	27.6	-8.5	6.0

Source: UNCTAD's FDI/TNC database, available at:http://stats.unctad.org/fdi/ and Ministry of Commerce, 2009 Statistical Bulletin of China's Outward Foreign Direct Investment (Beijing: MOFCOM, 2010).

[a] *Not including financial OFDI.*

Annex table 3. China: distribution of outward FDI stock, by economic sector and industry, 2004, 2009 (US$ billion and percent of total outward stock)

Sector / industry	2004 [a]	2009
All sectors / industries	44.8 100%	245.8 100%
Primary	6.8 15.2%	42.6 17.3%
Agriculture, forestry, and fishing	0.8 1.8%	2.0 0.8%
Mining, quarrying and petroleum	6.0 13.4%	40.6 16.5%
Secondary	4.5 10.0%	13.6 5.5%
Manufacturing	4.5 10.0%	13.6 5.5%
Tertiary of which:	33.5 74.8%	189.6 77.1%
Leasing and commercial services	16.4 36.6%	7.3 3.0%
Financial services	n.a.	46.0 18.7%
Wholesale and retail	7.8 17.4%	35.7 14.5%
Transport, storage and postal services	4.6 10.3%	16.6 6.8%

Ministry of Commerce, *2009 Statistical Bulletin of China's Outward Foreign Direct Investment* (Beijing: MOFCOM, 2010).
[a] Not including financial OFDI.

Annex table 4. China: geographical distribution of outward FDI stock, 2000- 2009 (US$ billion)

Region/economy	2003 [a]	2009
World	33.2	245.8
Developed economies	n.a.	n.a.
Europe	0.5	8.7
European Union	n.a.	n.a.
Germany	n.a.	1.1
United Kingdom	n.a.	1.0
Netherlands	n.a.	0.3
North America	0.5	5.2
Canada	n.a.	1.7
United States	0.5	3.3
Other developed economies	n.a.	n.a.
Australia	0.4	5.9
Japan	n.a.	0.7
Developing economies	n.a.	n.a.
Africa	0.5	9.3
Asia	26.6	185.5
Hong Kong (China)	24.6	164.5
Singapore	0.2	4.9
Oceania	0.4	6.4
Latin America and Caribbean	4.6	30.6
Cayman Islands	3.7	13.6
British Virgin Islands	0.5	15.1
Transition economies	n.a.	n.a.
Russian Federation	n.a.	2.2

Source: Ministry of Commerce, *2009 Statistical Bulletin of China's Outward Foreign Direct Investment* (Beijing: MOFCOM, 2010).
[a] Not including financial OFDI.

Annex table 5. China: principal MNEs, ranked by foreign assets, 2007 (US$ million)

Rank	Name	Industry	Foreign assets
1	Citic Group	Diversified	25,514
2	China Ocean Shipping (Group) Company [COSCO]	Transport and storage	21,365
3	China State Construction Engineering Corporation	Construction and real estate	11,801
4	China National Petroleum Corporation [CNPC]	Oil and gas	6,814
5	China Shipping (Group) Company	Transport and storage	5,815
6	Sinochem Group	Oil and gas	4,812
7	China Huaneng Group	Power and power facilities	4,250
8	China National Offshore Oil Corporation [CNOOC]	Oil and gas	4,223
9	Lenovo Group	Computers and related products	4,030
10	Sinotrans Corporation	Transport and storage	3,196
11	Shanghai Automotive Industry Corporation (Group) [SAIC]	Automobiles	2,305
12	China Communications Construction Company Ltd.	Construction and real estate	2,134
13	Sinosteel corporation	Metal and metal products	2,130
14	Sinotruk	Heavy-duty trucks	1,870
15	China Minmetals Corporation	Metal and metal products	1,823
16	ZTE Corporation	Telecom products, services and solutions	1,740
17	Baosteel Group Corporation	Metal and metal products	1,077
18	Haier Group	Manufacturing	768
Total			105,666

Source: Fudan-VCC survey of Chinese multinationals, available at: www.vcc.columbia.edu.

Annex table 6. China: main M & A deals, by outward investing firm, 2007-2009 (US$ million)

Year	Acquiring company	Target company	Target industry	Target economy	Shares acquired (%)	Transaction value
2009	China Investment Corp (CIC)	South Gobi Energy Resources	Mining	Canada	25.0	500
2009	China Investment Corp (CIC)	Nobel Oil Group	Oil and gas	Russia	45.0	300
2009	Fullbloom Investment Corp	KazMunaiGas Expl & Prodn JSC	Oil and gas	Kazakhstan	11.0	939
2009	China Investment Corp (CIC)	Noble Group Ltd	Investment	Hong Kong, China	15.0	854
2009	Shanghai Baosteel Group Corp	Aquila Resources Ltd	Mining	Australia	15.0	241
2009	Investor Group	Cathay Pacific Airways Ltd	Transportation	Hong Kong, China	14.5	948
2009	Yanzhou Coal Mining Co Ltd	Felix Resources Ltd	Mining	Australia	100.0	2,807
2009	China Investment Corp (CIC)	Goodman Group	Property development	Australia	8.0	396
2009	China CITIC Bank Corp Ltd	CITIC Intl Finl Hldg Ltd	Investment	Hong Kong, China	70.3	403
2009	WISCO	Consolidated Thompson Iron	Mining	Canada	19.9	240
2009	Hunan Hualing Iron & Steel Grp	Fortescue Metals Group Ltd	Mining	Australia	8.4	408
2009	Hunan Hualing Iron & Steel Grp	Fortescue Metals Group Ltd	Mining	Australia	9.8	409
2009	China Minmetals Nonferrous Met	OZ Minerals Ltd-certain assets	Mining	Australia	100.0	1,386
2009	Investor Group	OAO Mangistau MunaiGaz	Oil and gas	Kazakhstan	100.0	2,604
2009	ICBC	Seng Heng Bank	Finance and insurance	Macau, China	20.1	149
2008	CITIC Group Ltd	CITIC Pacific Ltd	Conglomerate	Hong Kong, China	39.9	1,500
2008	Sinopec	Tanganyika Oil Co Ltd	Oil and gas	Canada	100.0	2,029
2008	Investor Group	CIFA SpA	Machinery manufacturing	Italy	100.0	747
2008	Investor Group	CIFA SpA	Machinery manufacturing	Italy	100.0	784
2008	CITIC Group Ltd	CITIC Intl Finl Hldg Ltd	Investment	Hong Kong, China	15.2	855
2008	China Merchants Bank Co Ltd	Wing Lung Bank Ltd	Finance	Hong Kong, China	53.1	2,474
2008	China Merchants Bank Co Ltd	Wing Lung Bank Ltd	Finance	Hong Kong, China	44.7	2,082
2008	China Life Insurance Co Ltd	Visa Inc	Financial services	United States	n.a.	300
2008	Sinopec Intnl	AED Oil-Expl Permits (3)	Oil and gas	Australia	60.0	556

2008	Metallurgical Corp of China	Cape Lambert Iron Ore-Project	Mining	Australia	100.0	373
2008	SINOCHEM Petro Expl & Prodn	SOCO Yemen Pty Ltd	Oil and gas	Australia	100.0	465
2008	Sinosteel Corp	Midwest Corp Ltd	Mining	Australia	100.0	1,377
2008	Investor Group	Northern Peru Copper Corp	Mining	Canada	100.0	445
2008	ICBC	Standard Bank Group Ltd	Banking	South Africa	20.0	5,617
2008	ICBC	Seng Heng Bank	Finance and insurance	Macau, China	19.9	593
2007	SPC E&P (China) Pte Ltd	Sino-American Energy Corp	Mining	United States	100.0	223
2007	Ping An Ins (Grp) Co of China	Fortis SA/NV	Financial services	Belgium	4.2	2,672
2007	China Investment Corp (CIC)	Morgan Stanley	Financial services	United States	9.9	5,000
2007	Metallurgical Corp of China	Balmoral Iron Holdings Pty Ltd	Mining	Australia	20.0	348
2007	CDB	Barclays PLC	Banking	United Kingdom	3.1	2,980
2007	Xinjiang Zhongxin Resources	Mortuk Oilfield	Oil and gas	Pakistan	100.0	250
2007	Chalco	Peru Copper Inc	Mining	Canada	100.0	771
2007	China Investment Corp (CIC)	Blackstone Group LP	Investment advice	United States	9.9	3,000
2007	Cension Semiconductor Mfr Corp	Hiroshima Elpida-silicon wafer	Semiconductors manufacturing	Japan	100.0	310
2007	Sinochem Petro Expl & Prodn	New XCL-China LLC	Oil and gas	United States	100.0	228
2007	China Mobile Commun Corp	Paktel Ltd	Telecommunications	Pakistan	88.9	284
2007	CapitaRetail China Dvlp Fund	CapitaRetail China	Real estate investment trusts	Singapore	100.0	260
2007	Absolut Invest AG	Absolut Europe AG	Investment advice	Switzerland	87.1	288
2007	Suntech Power Holdings Co Ltd	MSK Corp	Semiconductors manufacturing	Japan	33.3	193
2007	Air China Ltd	CNAC	Transportation	Hong Kong, China	31.6	378

Source: Thomson ONE Banker. Thomson Reuters.

Annex table 7. China: main greenfield projects, by outward investing firm, 2008-2009 (US$ million)

Year	Investing company	Industry	Host economy	Investment value
2009	State Grid Corporation	Metals	Malaysia	240
2009	China Nonferrous Metals Mining (CNMC)	Metals	Zambia	400
2009	State Grid Corporation	Alternative/renewable energy	Malaysia	271
2009	China Petroleum and Chemical (Sinopec)	Coal, oil and natural gas	Russia	220
2009	China North Industries Group (NORINCO)	Building and construction materials	Russia	616
2009	China National Petroleum (CNPC)	Coal, oil and natural gas	Sudan	1,701
2009	China National Petroleum (CNPC)	Transportation	Myanmar	165.8
2009	A-Power Generation Systems	Engines and turbines	United States	300.4
2009	China Nonferrous Metal Industries Engineering and Construction (NFC)	Metals	Laos	500
2009	China Huaneng	Alternative/renewable energy	Singapore	1,431
2009	China Nonferrous Metals Mining (CNMC)	Metals	Zambia	204
2009	China Minmetals Group	Metals	Peru	254
2009	Sinosteel	Metals	South Africa	329
2009	SAIC Chery Automobile	Automotive OEM	Thailand	191
2009	SAIC Chery Automobile	Automotive OEM	Taiwan Province of China	238
2009	China National Petroleum (CNPC)	Coal, oil and natural gas	Costa Rica	1,000
2009	Dongfeng Motor	Automotive OEM	Turkey	250
2009	Yantai Shuchi Vehicle	Automotive OEM	Russia	202
2009	China Nonferrous Metals Mining (CNMC)	Metals	Zambia	179
2009	China Shenhua Energy Company	Coal, oil and natural gas	Indonesia	331
2009	China Metallurgical Group Corporation	Metals	Australia	159
2009	Anhui Jinghuai Automobile Group (JAC)	Automotive OEM	Brazil	299
2009	China Metallurgical Group Corporation	Metals	Afghanistan	2,900
2009	China National Petroleum (CNPC)	Coal, oil and natural gas	Chad	472
2009	Wuhan Iron and Steel Co., Ltd. (Wisco)	Metals	Brazil	4,000
2009	China Singyes Solar Technologies	Electronic components	Hong Kong, China	200
2009	SAIC Chery Automobile	Automotive OEM	Brazil	700

2009	SAIC Chery Automobile	Automotive OEM	Turkey	500
2009	Beijing Vantone Real Estate	Real estate	United States	189
2009	Xiyang Group	Metals	Dem Republic of Korea	173
2009	Sinosteel	Metals	India	517
2009	China Southern Power Grid	Alternative/renewable energy	Cambodia	300
2009	Chongqing Lifan Industry	Automotive OEM	Philippines	228.4
2009	China National Petroleum (CNPC)	Coal, oil and natural gas	Oman	1,656.80
2009	China National Petroleum (CNPC)	Coal, oil and natural gas	Iran	1,760.00
2009	Tianjin Pipe	Tools	United States	1,000
2008	China Union	Metals	Liberia	2,600
2008	Hebei Jingniu Group	Ceramics and glass	Zimbabwe	400
2008	Wuhan Iron and Steel Co., Ltd. (Wisco)	Metals	Australia	357
2008	Jiangxi Rare Earth and Rare Metals Tungsten Grouop	Metals	Philippines	394
2008	China Metallurgical Group Construction (CMCC)	Metals	Philippines	1,000
2008	Shenzhen Energy Group	Coal, oil and natural gas	Nigeria	2,400
2008	Changan Automobile Group	Automotive OEM	Mexico	307
2008	China National Petroleum (CNPC)	Coal, oil and natural gas	Chad	1,587
2008	Sinohydro	Alternative/renewable energy	Zambia	400
2008	China Petroleum and Chemical (Sinopec)	Coal, oil and natural gas	Iran	1,206
2008	Khai De International Group	Real estate	Vietnam	300
2008	Citic Group	Real estate	Angola	3,535
2008	Sunshine 100 Groupo	Real estate	Philippines	362
2008	Fujian Longlin Group	Building and construction materials	Philippines	300
2008	Zhonghao Overseas Construction Engineering Limited	Building and construction materials	Nigeria	362
2008	Shanghai Electric Power	Engines and turbines	India	3,000
2008	China Petroleum and Chemical (Sinopec)	Coal, oil and natural gas	Vietnam	4,500
2008	SAIC Chery Automobile	Automotive OEM	Argentina	500
2008	China Metallurgical Construction (CMCC)	Metals	Philippines	301
2008	China National Petroleum (CNPC)	Coal, oil and natural gas	Turkmenistan	414

2008	China Telecommunications	Communications	United States	500
2008	China National Petroleum (CNPC)	Coal, oil and natural gas	Niger	1,587
2008	China Petroleum and Chemical (Sinopec)	Coal, oil and natural gas	Saudi Arabia	1,657
2008	China National Petroleum (CNPC)	Coal, oil and natural gas	Venezuela	502
2008	Aluminium Corporation of China (Chalco)	Metals	Peru	2,150
2008	Datang International Power Generation	Alternative/renewable energy	Kazakhstan	860
2008	Jiangling Motors (JMC)	Automotive OEM	Algeria	287
2008	China National Petroleum (CNPC)	Coal, oil and natural gas	Syria	1,500
2008	Jiangxi Copper	Metals	Peru	1,400
2008	China Power Investment	Coal, oil and natural gas	Myanmar	670
2008	Xinxing Group	Metals	India	2,159
2008	Sinosteel	Metals	South Africa	440
2008	Bosai Minerals	Metals	Guyana	1,000
2008	Shanghai Union Technology	Electronic components	Portugal	327
2008	China National Petroleum (CNPC)	Coal, oil and natural gas	Turkmenistan	2,200

Source: fDi Intelligence, a service from the Financial Times Ltd.

China: Outward FDI and its policy context, 2012

*Ken Davies**

China's outward foreign direct investment (OFDI) has continued to grow despite the uncertain global climate emerging from the recent crises. The latest Five Year Plan, which came into effect in 2011, strengthens the commitment to promote the "going global" policy. While the country's OFDI continues to go into tertiary and primary sectors, there are signs of gradual sectoral diversification. Asia, especially Hong Kong (China), remains the largest recipient of Chinese investment, with OFDI in smaller targets, including Europe, growing more rapidly. The Caribbean offshore tax havens continue to receive large amounts of Chinese OFDI I. Local authorities in China are increasingly doing their bit to foster investment abroad. Unless there are any major adverse changes in domestic and external conditions, China's OFDI is likely to continue expanding and diversifying.

Trends and developments

Country-level developments

China's OFDI stock reached US$ 298 billion by the end of 2010, well over ten times the US$ 28 billion recorded in 2000 and far above the negligible US$ 4 billion of 1990 (annex table 1). China is a late developer in its outward investment, even among large emerging markets. Brazil had OFDI stock of US$ 41 billion in 1990, way ahead of China, but fell behind with only US$ 181 billion in 2010. China's OFDI stock is now level with that of Singapore, with US$ 300 billion in 2010. Russia's OFDI stock grew more rapidly than China's, reaching US$ 434 billion in 2010. China, though, did continue to outperform India, with its modest 2010 total OFDI stock of US$ 92 billion.

Having grown rapidly since the adoption of the "go global" policy at the turn of the century, China's FDI outflows have continued to rise in recent years despite the global financial and economic crises and the worldwide plunge in FDI flows. After a massive 132% increase from US$ 22.5 billion in 2007 to US$ 52.2 billion in 2008 (annex table 2) (when global OFDI flows fell by 12%),[1] there was a further increase, although lower, of 8.2% in 2009 to US$ 56.5 billion (as global OFDI flows fell by a further 38%).[2] As global OFDI flows edged up to US$ 1.3 trillion in 2010,[3] China's rose impressively by 20% over those of 2009, to US$ 68 billion in 2010 (annex table 2).

Over 79% of China's OFDI stock was recorded in 2010 as being invested in the tertiary sector, the main sub-sectors being leasing and commercial services (31% of total OFDI stock), financial services (13%) and wholesale and retail trade (13%) (annex table 3). The primary sector came second, with 15% of the total: in 2010, mining, quarrying and petroleum comprised 14% of total OFDI stock. Unlike in the case

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[1] UNCTAD FDI Statistics website: http://unctadstat.unctad.org/.

[2] Global FDI flow data are from UNCTAD FDI Statistics website: http://unctadstat.unctad.org/.

[3] Ibid.

of China's inward direct investment, OFDI in the secondary sector is a relatively minor component of China's OFDI, making up only 6% of the OFDI stock in 2010.

This picture appears to be changing, however, as China's OFDI becomes more sectorally diversified. This is suggested by the OFDI flow statistics: in 2010, FDI outflows into mining, quarrying and petroleum fell by 57% from those in 2009, while those into manufacturing rose by 108%.[1] There is, however, one caveat: since investments, especially those in natural resources, tend to be large and therefore greatly affected by timing, the flow figures are a less reliable guide to changes in sectoral distribution than are figures on stocks.

However, even the sectoral distribution as shown by FDI stock data may be misleading. For instance, it is possible that some proportion of the investment in tertiary sub-sectors such as financial services and leasing and commercial services may ultimately be destined for use in manufacturing. One possible indication of this is the sectoral distribution of Chinese enterprises investing overseas, which gives a different picture, even taking into account varying average sizes of investment in the different sectors. In 2010, the largest proportion of outward-investing enterprises (29%) undertook outward investment in manufacturing, with wholesale and retail (23%) coming second and leasing and commercial services (13%) third.[2] Moreover, even if the larger proportion of enterprises with OFDI in manufacturing has no implications for the value of FDI in manufacturing and its share in total Chinese OFDI (as would be the case if the average value of investments in manufacturing is correspondingly lower than that of those in the primary sector or services), it may have implications for other variables, such as the share of manufacturing in Chinese MNEs' overseas employment or their share of exports from overseas affiliates.

As noted in the first *Columbia FDI Profile* on OFDI from China[3] the sectoral distribution of China's OFDI has remained stable in recent years, but this stability may be illusory and it is likely to give way to major shifts in composition in coming years. In the future, Chinese firms may also diversify toward manufacturing to service global consumer goods markets more directly, as may be indicated by the distribution of overseas-investing Chinese firms discussed above. Recent investments in services, especially in banking, will have a strong catalyzing effect, facilitating both the further expansion and the sectoral diversification of China's FDI.

It is also difficult to build a reliable picture of the geographical distribution of China's OFDI stock from official statistics because (like China's IFDI) much of it is routed via Hong Kong (China), and the Caribbean tax havens. The largest proportion of this OFDI – 72% of the total, amounting to US$ 228 billion as at end-2010 – is reported as going to Asia (annex table 4). The bulk of this went to Hong Kong (China) (US$ 199 billion, or 87% of OFDI to Asia and 63% of the global total). The second largest proportion of OFDI stock from China is in Latin America and the Caribbean (US$ 44 billion, 14% of the global total), but the overwhelming majority of this goes to just two tax havens, the British Virgin Islands and the Cayman Islands, which together have Chinese OFDI stock of US$ 40.5 billion (92% of the Latin American share) (annex table 4).

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[1] Ministry of Commerce, China, *2010 Statistical Bulletin of China's Outward Foreign Direct Investment* (Beijing: MOFCOM, 2011).

[2] Ibid.

[3] Davies, *op. cit.*

Only US$30 billion of China's OFDI stock is located in developed economies (annex table 4), but this is growing rapidly. Although Europe has absorbed less than US$ 16 billion (5% of China's global stock in 2010), it received 6% in 2009 and 10% in 2010 of China's global FDI outflows.[1] In 2010, the flow of Chinese OFDI to Europe doubled over that in 2009.[2] The largest developed-economy recipient of China's OFDI stock was Australia, with US$ 8 billion, 3% of the global total, by end-2010. The OFDI stock in Africa reached US$ 13 billion in 2010, 4% of the global total (annex table 4). Much of the OFDI to both Africa and Australia has been in the natural resources sector. China's OFDI stock in most regions has grown extremely fast: for example, in Greater Oceania it was over 13 times bigger in 2010 than it had been in 2005,[3] while in Europe it was 12 times larger and in Africa eight times bigger.

Some caution needs to be exercised in using official OFDI figures. To the extent that OFDI is used to inject funds into special purpose entities that then use the money for inward FDI (IFDI) in China to take advantage of fiscal incentives, i.e. to the extent there is "round-tripping", the official total may be overestimated. Round-tripping should logically be diminishing since fiscal incentives were abolished at the beginning of 2008,[4] but by its very nature as an illegal activity it is difficult to obtain hard evidence of the actual trend in round-tripping. One reason for the continuation of round-tripping is the practice of setting up Chinese holding companies in, for example, the Cayman Islands and British Virgin Islands, not only to channel Chinese capital back into China but also to raise external capital in New York for investment wherever profitable, including in China. Companies already established outside the jurisdiction of the Chinese Government, initially for tax-avoidance purposes, may find it convenient to continue basing their operations abroad, for example, in Hong Kong (China), where the institutional framework for investment is more advanced than in mainland China.

Conversely, there are equally strong reasons to suppose the official figures to be underestimates. According to official figures, most OFDI is from state-owned enterprises (SOEs).[5] In 2010, SOEs accounted for 66% of OFDI stock, a fall of three percentage points compared with 2009.[6] Although these statistics show that private sector OFDI is gradually increasing, they may underestimate its size. Non-state entities may find it easier to evade the approval process by using funds accumulated overseas. Also, local governments may be using their increased powers of approval and supervision of OFDI projects more leniently than does the central Government, leading to further under-counting of OFDI.

The corporate players

According to the most recent Fudan-VCC survey of Chinese multinational enterprises (MNEs) published at the end of 2010, China International Trading and Investment Corporation (CITIC), with foreign assets exceeding US$ 44 billion, had become the largest overseas investor by 2008 (annex table 5). In second place was China Ocean Shipping (Group) Company (COSCO), whose foreign assets had stagnated over the year at US$ 20 billion. Both CITIC and COSCO are well-established corporations that have built up an international presence over several decades as their core business. The third largest

[1] Ministry of Commerce, China, 2011, *op. cit.*
[2] Ibid.
[3] Ibid.
[4] For a description and analysis of the 2008 unification of business tax rates for domestic and foreign enterprises by the author of this Profile, see OECD, *2008 OECD Investment Policy Review of China: Encouraging Responsible Business Conduct* (Paris: OECD, 2008), chapter 1, section 3, pp. 19-23.
[5] Ministry of Commerce, China, 2011, *op. cit.*
[6] Ibid.

OFDI provider in 2008 was the China State Construction Engineering Corporation, with foreign assets of nearly US$ 14 billion. Another major construction investor abroad is the China Railway Construction Corporation, in 11th place with foreign assets of US$ 3 billion in 2008. Oil companies are well represented in the top seven outward-investing enterprises, with China National Petroleum Corporation (CNPC) ranking fourth in terms of global assets (US$ 9.4 billion) in 2008, Sinochem Corporation fifth (US$ 6.4 billion) and China National Offshore Oil Corporation (CNOOC) seventh (US$ 5.2 billion).

These MNEs can be expected to keep expanding their OFDI as China continues to secure access to energy and raw material sources abroad for its industrialization. Chinese producers of consumer goods are also starting to become important as outward investors as they seek to penetrate foreign markets through mergers and acquisitions (M&As) to acquire brand names and market share, as in the case of Lenovo Group, with foreign assets of US$ 2.7 billion in 2008 (annex table 5), which acquired IBM's personal computer division in 2005. Lenovo's foreign assets had declined markedly since 2007, when they amounted to US$ 4.0 billion,[1] probably because of market conditions in North America. Shanghai Automotive Industry Corporation (SAIC), with foreign assets of US$ 2.3 billion in 2008, is also using cross-border acquisitions to broaden its product range[2] and gain foreign market share. Having attained a strong position in the domestic Chinese market, consumer durables manufacturer Haier, with foreign assets of US$ 784 million in 2008, has also been seeking similar success in the global market for well over a decade (Haier's first investment in the United States was in 1999). There have been several major acquisitions in the automobile industry, including Geely's takeover of Volvo in 2010, following on the heels of the purchase of the remnants of Austin Rover by Shanghai Automotive Industry Corporation (SAIC), which had foreign assets of US$ 2.4 billion in 2008 (annex table 5).

Most M&A deals by Chinese MNEs in 2008-2010 (annex table 6) remained, as in 2007-2009,[3] in the energy and minerals sectors. The largest deal in the oil sector was the Sinopec Group's purchase of a 40% share of Spanish firm Repsol's Brazilian subsidiary, for US$ 7.1 billion in 2010. In the same year, Sinopec bought a 9% share in Syncrude Canada, for US$ 4.7 billion and CNOOC bought half of Argentine firm Bridas for US$ 3.1 billion. Yanzhou Coal acquired Felix Resources in Australia for US$ 2.8 billion in 2010. Once again, there were some purchases of minority stakes in global financial institutions, notably a US$ 1.4 billion acquisition in 2010 of 27% of ICBC (Asia) in Hong Kong, China (annex table 6).

Although not in the list of the top 18 Chinese MNEs listed in annex table 5 (as it is not an MNE in the sense of an enterprise comprising a parent enterprise and its foreign affiliate(s) in which the former controls the assets of and has a lasting interest in the management of the latter, and it tends to avoid acquiring 10% or more of an overseas company – the ownership threshold that is considered to allow such control and lasting interest in management), the China Investment Corporation (CIC), China's sovereign wealth fund, is also an important outward investor. For example, in 2012 it purchased 8.7% of Thames Water, the United Kingdom's largest water company and in 2011 it was announced that CIC is investing US$ 4 billion in GDF Suez' gas exploration unit in the Caribbean.

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[1] Davies, *op. cit.*, annex table 5.

[2] For example with its acquisition of MG cars from MG Rover and the subsequent reopening of the closed Longbridge plant to produce MG sports cars there in 2011 for sale in Europe (Sky News website, http://news.sky.com/home/business/article/15971486, retrieved on March 2, 2012).

[3] Davies, *op. cit.*, annex table 6.

As noted in the previous *Columbia FDI Profile* on China's OFDI in which greenfield investments announced were reported through 2009,[1] China's overseas greenfield investments are concentrated mainly in the energy, raw materials, automotive, and real estate sectors. That continued to be the case in 2010, when the top 10 greenfield investments announced were almost all in fuels and metals (annex table 7). These included investments in Cuba by CNPC (one of US$ 1.4 billion and another of US$ 4.5 billion), and three in Nigeria by the China State Construction and Engineering Corporation (CSCED), of US$ 19 billion each.

Effects of the recent global crises

China has energetically bucked the global trend not only by maintaining rapid domestic economic growth during the recent global financial and economic crisis but also by continuing to expand its outward investment. Funds have clearly been available. Chinese enterprises have been making money overseas: in 2010, 35% of the country's OFDI was in the form of re-invested earnings.[2] The policy thrust, consisting of frequently repeated official exhortations to Chinese companies to "go global" and now encapsulated in a policy of the Ministry of Commerce to bring OFDI into approximate equivalence with IFDI, which is more important than in other countries, has been reinforced.[3] And with prices of raw materials and other assets falling worldwide, the crisis has provided an opportunity to snap up bargains.

However, the outlook for the Chinese economy is by no means one of unmitigated optimism. The stimulus package implemented by the Chinese Government that saved the economy from succumbing to the effects of the 2008 financial crash has left problems in its wake that need to be tackled if growth is to be sustained, including asset-price inflation and non-performing loans. The Government must also continue taking measures to protect the economy in 2012 from the possible effect on its major markets of continued uncertainty, most recently deepened by the European sovereign debt crisis that erupted in 2011. If the measures are successful, the economy is likely to have a soft landing, with GDP growth moderating to well below the 10% achieved in recent years, but above the 7% required in order for the many coming into the labor force to be able to find employment.

All these factors are likely to cause a continuing upsurge in China's outward investment. Preliminary estimates based on data for the first eleven months of 2011 suggest that there was a further rise in OFDI. Non-financial OFDI totaled US$ 60.1 billion in 2011, an increase of 1.8% on 2010.[4] As it increases, China's OFDI will also diversify further, both geographically and sectorally. This developing pattern will be affected not only by home country policies and host country economic conditions but also by the policy response to Chinese investment in target countries. As China's OFDI has grown, reactions to it have varied from welcoming to blocking.[5] Public unease about Chinese OFDI in countries such as the United States and Australia has been more muted since the onset of the economic crisis, but persists nevertheless. It does not appear to have deterred Chinese investors from seeking acquisition targets in those countries and may actually have motivated competing recipient countries, such as Germany, to profit from it by adopting a more welcome stance to Chinese OFDI. There is much that Chinese enterprises and the Chinese Government can do to reduce obstacles to its trade and investment

[1] Davies, *op. cit.*
[2] Ministry of Commerce, China, 2011, *op. cit.*
[3] For details of the evolution of this policy from the 1980s to the 2000s, see OECD, *op. cit,* pp. 82-85.
[4] Ministry of Commerce, China, Invest in China website: www.fdi.gov.cn.
[5] See for example, OECD, *op. cit.,* passim.

expansion, for example to enhance their reputation by improving performance on fronts such as product safety and observance of core labor standards.

The policy scene

The Chinese Government's policies to encourage enterprises to "go global" that were described in the first *Columbia FDI Profile* on China's OFDI have been maintained unchanged.[1] The 12th Five Year Plan (now officially called "Guidance", since central planning was officially abolished in the 1990s), which covers the period 2011-2015, continues to stress the importance of "going global". In the past year, a new goal has been set: to achieve "balance" between outward and inward FDI, meaning that there will be progress toward OFDI equaling IFDI by 2015.[2] While IFDI will continue to grow, it will have to do so more slowly than OFDI. The main effort is therefore likely to be on promoting outward investment.

This will mean continuing to streamline the approval process for outward FDI and strengthening support for it by official bodies such as the Export-Import Bank of China and the export credit insurance corporation, Sinosure. It may also mean further relaxation of restrictions on local (i.e. provincial and municipal) approval of outward investment projects to projects valued below a certain level, which was increased in 2009 to those of less than US$ 100 million.[3] Provinces have in recent years been actively promoting outward investment policies suited to their specific circumstances and are likely to become important factors facilitating a further acceleration of OFDI from China.

While the Government's policy stance toward OFDI is generally encouraging, it also includes an element of examination and approval before an OFDI project commences and of supervision thereafter to discourage projects that the authorities may consider undesirable or likely to fail.

Conclusions

China's mushrooming OFDI survived the recent global crises and can be expected to continue expanding rapidly and become more geographically and sectorally diverse. The pace and composition of this expansion will depend on both domestic and external conditions. At this stage, a crucial factor will be the willingness and ability of Chinese enterprises to build their reputations, both individually and collectively. As noted in the previous *Columbia FDI Profile* on outward FDI from China,[4] the increasing exposure of Chinese MNEs to international business practice will prompt them to seek further improvements in China's own institutional framework, which will be beneficial for both domestic investment and inward and outward FDI.

Additional readings

[1] Davies, *op. cit.*
[2] Minister of Commerce Chen Deming stated on 7 March 2011 that the plan is steadily to reach a balance between OFDI and IFDI (*i.e.* a 1:1 ratio) within approximately 5-10 years. (Xinhua News Agency report, 7 March 2011 retrieved from www.news.cn.)
[3] *Circular of MOFCOM on delegation of the authority to examine and approve the establishment of investment companies by foreign investors*, Shang Zi Han (2009) No.8, 6 March 2009, retrieved from MOFCOM web site www.fdi.gov.cn.
[4] Davies, op. cit.

Brown, Kerry, *The Rise of the Dragon: Inward and Outward Investment in China in the Reform Period* (Oxford: Chandos Publishing, 2008).
Buckley, Peter J., *Foreign Direct Investment, China and the World Economy* (Basingstoke and New York: Palgrave Macmillan, 2010).
OECD, *OECD Investment Policy Review of China: Encouraging Responsible Business Conduct* (Paris: OECD, 2008).
Sauvant, Karl P., with Kristin Mendoza and Irmak Ince, eds., *The Rise of Transnational Corporations from Emerging Markets* (Cheltenham and Northampton, Mass.: Edward Elgar, 2008).

Useful websites

Invest in China (maintained by the Ministry of Commerce), available at: http://www.fdi.gov.cn/.

Ministry of Commerce of the People's Republic of China, available at: http://www.mofcom.gov.cn/.

People's Bank of China, available at: http://www.pbc.gov.cn/.

Statistical annex

Annex table 1. China: outward FDI stock, 1990-2010

(US$ billion)

Economy	1990	2000	2010
China	4 [a]	28 [a]	298
Memorandum: comparator economies			
Russia	n.a.	20	434
Singapore	8	57	300
Brazil	41	52	181
India	0	2	92

Source: UNCTAD's FDI/TNC database, available at:http://stats.unctad.org/fdi/.
[a] Not including financial OFDI, that is, OFDI in financial services.

Annex table 2. China: outward FDI flows, 2000-2010

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
China	0.9 [a]	6.9 [a]	2.5 [a]	2.9 [a]	5.5 [a]	12.3 [a]	21.2	22.5	52.2	56.5	68.0
Memorandum: comparator economies											
Brazil	2.3	-2.3	2.5	0.2	9.8	2.5	28.2	7.1	20.5	-10.1	11.5
India	0.5	1.4	1.7	1.9	2.2	3.0	14.3	17.2	19.4	15.9	14.6
Russia	3.2	2.5	3.5	9.7	13.8	12.8	23.2	45.9	55.6	43.7	51.7
Singapore	5.9	20.0	2.3	2.7	10.8	11.2	18.8	32.7	-0.3	18.5	19.7

Source: UNCTAD's FDI/TNC database, available at:http://stats.unctad.org/fdi/.
[a] Not including financial OFDI, that is, OFDI in financial services.

Annex table 3. China: distribution of outward FDI stock, by economic sector and industry, 2004, 2010

(US$ billion and percent of total outward stock)

Sector / industry	2004 [a]	2010
All sectors / industries	44.8 100%	316.5 100%
Primary	6.8 15.2%	47.3 14.9%
Agriculture, forestry, and fishing	0.8 1.8%	2.6 0.8%
Mining, quarrying and petroleum	6.0 13.4%	44.7 14.1%
Secondary	4.5 10.0%	17.8 5.6%
Manufacturing	4.5 10.0%	17.8 5.6%
Construction	n.a.	6.2 2.0%
Services	33.5 74.8%	251.4 79.4%
Leasing and commercial services	16.4 36.6%	97.3 30.7%
Financial services	n.a.	55.3 13.3%
Wholesale and retail	7.8 17.4%	42.0 13.2%
Transport, storage and postal services	4.6 10.3%	23.2 7.3%
Information transmission, computer services and software	n.a.	8.4 2.7%
Real estate	n.a.	7.3 2.3%
Scientific research, technology services and geological prospecting	n.a.	4.0 1.3%
Electricity, gas and water production and supply	n.a.	3.4 1.1%
Residential services	n.a.	3.2 1.0%
Water conservancy, environment and public management services	n.a.	1.1 0.3%

Source: Ministry of Commerce, China, *2010 Statistical Bulletin of China's Outward Foreign Direct Investment* (Beijing: MOFCOM, 2011). Data for total OFDI stock in the table represent the sum of stocks in the sectors/industries shown, which include only those with OFDI stock over US$ 1 billion in 2010 and thus differ slightly, in the case of 2010, from that in the source cited (US$ 317.2 million). Percentages calculated by author.
[a] Not including financial OFDI, that is OFDI in financial services.
Note: Total OFDI stock in 2010 shown in this table, as well as in the MOFCOM source cited differ somewhat from that reported by UNCTAD (annex table 1 above).

Annex table 4. China: geographical distribution of outward FDI stock, 2000- 2010
(US$ billion)

Region/economy	2003 [a]	2010
World	33.2	317.2
Developed economies	n.a.	29.7
Europe	0.5	15.7
European Union	n.a.	12.5
Germany	n.a.	1.5
Netherlands	n.a.	0.5
United Kingdom	n.a.	1.4
North America	0.5	7.8
Canada	n.a.	2.6
United States	0.5	4.9
Other developed economies	n.a.	n.a.
Australia	0.4	7.9
Japan	n.a.	1.1
Developing economies	n.a.	n.a.
Africa	0.5	13.0
Asia	26.6	228.1
Hong Kong (China)	24.6	199.1
Singapore	0.2	6.1
Oceania	0.4	8.6
Latin America and Caribbean	4.6	43.9
British Virgin Islands	0.5	23.2
Cayman Islands	3.7	17.3
Transition economies	n.a.	n.a.
Russia	n.a.	2.8

Source: Ministry of Commerce, China, *2010 Statistical Bulletin of China's Outward Foreign Direct Investment* (Beijing: MOFCOM, 2011).
[a] Not including financial OFDI, that is, OFDI in financial services.

Annex table 5. China: principal MNEs, ranked by foreign assets, 2008

Rank	Name	Industry	Foreign assets (US$ million)
1	Citic Group	Diversified	43,750
2	China Ocean Shipping (Group) Company [COSCO]	Transport and storage	20,345
3	China State Construction Engineering Corporation	Construction and real estate	13,923
4	China National Petroleum Corporation [CNPC]	Oil and gas	9,409
5	Sinochem Corporation	Oil and gas	6,409
6	China Shipping (Group) Company	Transport and storage	5,962
7	China National Offshore Oil Corporation [CNOOC]	Oil and gas	5,247
8	China Communications Construction Company Ltd.	Construction and real estate	4,010
9	Beijing Enterprises Holdings	Diversifie	3,662
10	Sinosteel corporation	Metal and metal products	3,514
11	China Railway Construction Corporation	Construction	3,146
12	ZTE Corporation	Telecom products, services and solutions	3,143
13	Sinotrans & CSC Group	Transport and storage	2,813
14	Lenovo Group	Computers and related products	2,732
15	Shanghai Automotive Industry Corporation (Group) [SAIC]	Automobiles	2,317
16	China Minmetals Corporation	Metals and metal products	1,694
17	China Baosteel Group	Metals and metal products	1,091
18	Haier Group	Household electrical appliances	784
Total			133,949

Source: School of Management at Fudan and Vale Columbia Center on Sustainable International Investment, "Chinese multinationals gain further momentum," Report dated December 9, 2010, of the results of the Fudan-VCC survey of Chinese multinationals, 2008, available at: www.vcc.columbia.edu.

Annex table 6. China: main M&A cross-border deals completed, by outward investing firm, 2008-2010

Year	Acquiring company	Target company	Target industry	Target economy	Shares acquired (%)	Transaction value (US$ million)
2010	Sinopec Group	Repsol YPF Brasil SA	Crude petroleum and natural gas	Brazil	40.0	7,111
2010	Sinopec Intl.	Syncrude Canada Ltd.	Crude petroleum and natural gas	Canada	9.0	4,650
2010	CNOOC Ltd.	Bridas Corp.	Crude petroleum and natural gas	Argentina	50.0	3,100
2010	PetroChina Intl Invest Co. Ltd.	Athabasca Oil Sands – Assets	Crude petroleum and natural gas	Canada	60.0	1,737
2010	China Investment Corp. (CIC)	AES Corp.	Management investment offices	United States	15.8	1,581
2010	Zhejiang Geely Hldg Grp Co. Ltd.	Volvo Personvagnar AB	Motor vehicles and passenger car bodies	Sweden	100.0	1,500
2010	ICBC	ICBC (Asia)	Banking	Hong Kong, (China)	27.2	1,395
2010	CNOOC International Ltd.	Chesapeake Oil, Gas Asts. TX	Crude petroleum and natural gas	United States	33.3	1,080
2010	China Investment Corp. (CIC)	Penn West Energy Trust – Asts	Management investment offices	Canada	45.0	800
2010	CRCC-Tongguan Invest Co. Ltd.	Corriente Resources Inc.	Offices of holding companies	Canada	100.0	550
2009	Yanzhou Coal Mining Co Ltd	Felix Resources Ltd	Mining	Australia	100.0	2,807
2009	Investor Group	OAO Mangistau MunaiGaz	Oil and gas	Kazakhstan	100.0	2,604
2009	China Minmetals Nonferrous Met	OZ Minerals Ltd-certain assets	Mining	Australia	100.0	1,386
2009	Investor Group	Cathay Pacific Airways Ltd	Transportation	Hong Kong, (China)	14.5	948
2009	Fullbloom Investment Corp	KazMunaiGas Expl & Prodn JSC	Oil and gas	Kazakhstan	11.0	939
2009	China Investment Corp (CIC)	Noble Group Ltd	Investment	Hong Kong, (China)	15.0	854
2009	China Investment Corp (CIC)	South Gobi Energy Resources	Mining	Canada	25.0	500
2009	Hunan Hualing Iron & Steel Group	Fortescue Metals Group Ltd	Mining	Australia	8.4	408
2009	Hunan Hualing Iron & Steel Group	Fortescue Metals Group Ltd	Mining	Australia	9.8	409
2009	CITIC International Financial Holding Ltd	China CITIC Bank Corporation Ltd	Investment	Hong Kong, (China)	70.3	403
2008	ICBC	Standard Bank Group Ltd	Banking	South Africa	20.0	5,617
2008	China Merchants Bank Co. Ltd.	Wing Lung Bank Ltd.	Finance	Hong Kong, (China)	53.1	2,474

2008	China Merchants Bank Co Ltd	Wing Lung Bank Ltd	Finance	Hong Kong, (China)	44.7	2,082
2008	Sinopec	Tanganyika Oil Co. Ltd.	Oil and gas	Canada	100.0	2,029
2008	CITIC Group Ltd	CITIC Pacific Ltd	Conglomerate	Hong Kong, (China)	39.9	1,500
2008	Sinosteel Corp	Midwest Corp Ltd.	Mining	Australia	100.0	1,377
2008	CITIC Group Ltd	CITIC Intl Finl Hldg Ltd	Investors	Hong Kong, (China)	15.2	855
2008	Investor Group	CIFA SpA	Machinery manufacturing	Italy	100.0	784
2008	Investor Group	CIFA SpA	Machinery manufacturing	Italy	100.0	747
2008	ICBC	Seng Heng Bank	Finance and insurance	Macau, (China)	19.9	593

Source: The author, based on Thomson ONE Banker. Thomson Reuters.

Annex table 7. China: main greenfield projects announced, by outward investing firm, 2008-2010

Year	Investing company	Industry	Host economy	Investment value (US$ million)
2010	China National Petroleum (CNPC)	Coal, oil and natural gas	Cuba	4,500
2010	Jinchuan	Metals	Indonesia	2,000
2010	Rongsheng Chemical Fiber	Coal, oil and natural gas	Egypt	2,000
2010	China State Construction Engineering Corporation (CSCEC)	Coal, oil and natural gas	Nigeria	1,913
2010	China State Construction Engineering Corporation (CSCEC)	Coal, oil and natural gas	Nigeria	1,913
2010	China State Construction Engineering Corporation (CSCEC)	Coal, oil and natural gas	Nigeria	1,913
2010	China National Petroleum (CNPC)	Coal, oil and natural gas	Cuba	1,300
2010	State Grid Corporation	Metals	Russia	730
2010	China Huadian Corporation	Coal, oil and natural gas	Russia	700
2010	Haier Group	Consumer electronics	India	678
2009	Wuhan Iron and Steel Co., Ltd. (Wisco)	Metals	Brazil	4,000
2009	China Metallurgical Group Corporation	Metals	Afghanistan	2,900
2009	China National Petroleum (CNPC)	Coal, oil and natural gas	Iran	1,760
2009	China National Petroleum (CNPC)	Coal, oil and natural gas	Sudan	1,701
2009	China National Petroleum (CNPC)	Coal, oil and natural gas	Oman	1,657
2009	China Huaneng	Alternative/renewable energy	Singapore	1,431
2009	Tianjin Pipe	Tools	United States	1,000
2009	China National Petroleum (CNPC)	Coal, oil and natural gas	Costa Rica	1,000
2009	SAIC Chery Automobile	Automotive OEM	Brazil	700
2009	China North Industries Group (NORINCO)	Building and construction materials	Russia	616
2008	China Petroleum and Chemical (Sinopec)	Coal, oil and natural gas	Vietnam	4,500
2008	Citic Group	Real estate	Angola	3,535
2008	Shanghai Electric Power	Engines and turbines	India	3,000
2008	China Union	Metals	Liberia	2,600
2008	Shenzhen Energy Group	Coal, oil and natural gas	Nigeria	2,400
2008	China National Petroleum (CNPC)	Coal, oil and natural gas	Turkmenistan	2,200
2008	Xinxing Group	Metals	India	2,159
2008	Aluminium Corporation of China (Chalco)	Metals	Peru	2,150
2008	China Petroleum and Chemical (Sinopec)	Coal, oil and natural gas	Saudi Arabia	1,657
2008	China National Petroleum (CNPC)	Coal, oil and natural gas	Chad	1,587
2008	China National Petroleum (CNPC)	Coal, oil and natural gas	Niger	1,587

Source: The author, based on fDi Intelligence, a service from the Financial Times Ltd.

Chapter 26 - Colombia

Colombia: Inward FDI and its policy context, 2010

Miguel Posada Betancourt[*]

Colombia used to be a synonym for violence and drugs, but not any more. Today, the country has one of the best performing economies in Latin America, and violence has been dramatically reduced. The outgoing administration made improving investor confidence and the business environment one of the pillars of its policy. Thanks to important reforms and aggressive campaigns to promote the country as an attractive location, IFDI has risen to unprecedented levels. Due to these positive changes, Colombia has been designated a "top reformer" for the past four years in the World Bank's Doing Business reports, and the new Government has promised to maintain and reinforce efforts to attract foreign investment. Even though IFDI flows decreased in the past two years as a consequence of the economic and financial crisis, many foreign affiliates in Colombia achieved positive profits. A country that a decade ago was avoided is now in many investors' plans.

Trends and developments

Back in 2000, Colombia presented a low IFDI stock compared to its neighbors Peru and Venezuela, from where many MNEs preferred to manage their Andean operations. However, in 2008 that trend shifted when Colombia's FDI stock rose to US$ 67 billion, surpassing both countries' IFDI stocks (annex table 1). By the end of 2009, Colombia's FDI stock stood at US$ 74 billion, showing a 10% increase compared to 2008 and a compound annual growth rate of 12.8% for the 2000-2009 period. [1]

Country-level developments

Despite Colombia's size and economic potential, until 2005 FDI in the country registered timid inflows and marginal growth rates. Most IFDI coming in the 1990s was a consequence of privatizations rather than market-led opportunities. In 1999, the worst year of Colombia's economic crisis, the country received US$ 1.5 billion of FDI and by 2000 FDI flows only accounted for 2.6% of the country's' GDP. During the economic recovery period from 2000 to 2003, IFDI flows stayed constant, peaking at US$ 2.5 billion in 2001 (annex table 2). Finally, in 2005, Colombia received US$ 10.3 billion, the highest annual IFDI inflow in its history, led by the acquisition of the largest Colombian brewery, Bavaria, by SAB Miller[2] (South Africa) [1] and by 2009 FDI flows represented 5.3% of the country's total output.

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[*] The author wishes to thank Camilo Castrillon, Julia Cunico, Mauricio Rincon, Gianluca Mele and an anonymous referee for their helpful comments. First published September 15, 2010, updated: November 10, 2010.

[1] Author's own calculations, based on data from Colombia's Central Bank on FDI inflows and the National Statistics Department data on GDP.

[2] SAB Miller, "A powerful combination," July 19, 2005, available at: http://www.sabmiller.com/files/presentations/2005/190705/190705_bavaria_transaction_slides.pdf. It is estimated that, out of the US$ 7.8 billion deal, US$ 4.8 billion entered the country as FDI in 2005 through the 71.8% of shares bought from the Santo Domingo family, owner of Bavaria, as well as shares acquired from minority shareholders in the company.

Even though governmental efforts to expand and diversify the sectors receiving foreign capital showed some positive results, the IFDI flows are still largely concentrated in the primary sector (annex table 3). In 2009, 80% of IFDI inflows went into natural resources exploitation, i.e. 37% into the oil industry and the remaining 43% into the mining and quarrying industry. Commerce, restaurants and hotels captured 9% of inflows, while manufacturing activities attracted around 7% of IFDI.

2009 proved to be a difficult year. In the manufacturing and transportation, storage, and communications sectors, IFDI inflows fell by 69% and 61%, respectively compared to the previous year. Other sectors that suffered diminishing FDI flows were agriculture (65%), financial establishments (50%), utilities (725%) and oil (22%)[2] (annex table 3).

On the other hand, the mining sector, with IFDI of US$ 3.1 billion, experienced a growth of 72% and remains, along with the oil industry, the main recipients of FDI. On average, for the 2000-2005 period, IFDI in the mining and the oil industries amounted, respectively, to 25% and 13% of total IFDI and, during 2006-2009, to 23% and 34%.

More recently, according to Colombia's central bank preliminary numbers, up to the second quarter of 2010, FDI inflows amounted to US$ 4.1 billion, representing a 18% decrease compared to the same period the year before.[3]

In terms of technology intensity, 55% of IFDI in Latin America is directed to medium-low technology industries. Given that 80% of the IFDI flows to Colombia in 2009 were directed to natural resources exploitation, the country shows a low level of technology-intensive investment. From a regional comparative perspective, Colombia captures 0.62% of IFDI with a high technology intensity component directed to manufacturing in Latin America and 0.07% of IFDI with a medium-low technological intensity.[4]

One of the most coveted forms of IFDI are investments with a high component of R&D, as these are high value-added activities with the potential to generate larger positive technological spillovers and larger shares of revenues for the host economy.[5] According to the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), during 2003–2009 a total of 193 R&D greenfield projects were started in the region.[6] Colombia captured 5.5% of all R&D projects, behind Brazil (38.7%), Mexico (27.6%), Argentina (10.6%), and Chile (9.1%).

In terms of geographical localization Bogotá remains the main economic and industrial center, capturing 77% of IFDI, followed by the Department of Antioquia, and its capital, Medellín, the second largest city in Colombia grasping 9% of IFDI. The remainders of incoming flows were invested in the departments of Bolívar (5%), Valle (5%) and Atlántico (2%).[7]

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[1] Proexport Colombia, available at: http://www.investincolombia.com.co.
[2] Banco de la República de Colombia, "Balance of payments," June 2010.
[3] Banco de la República de Colombia, "Balance of payments," November 2010.
[4] ECLAC, *La inversión extranjera directa en América Latina y el Caribe* (Santiago de Chile: ECLAC, 2010).
[5] High profits must be generated in the country to take into account higher risks for investments in these complex activities being performed in the host country.
[6] ECLAC, *La inversión extranjera directa en América Latina y el Caribe*, op. cit.
[7] Bogotá's Chamber of Commerce, "Tablero de indicadores de Bogotá," 2010.

Given the historically strong links between the Colombian economy and the United States, it is not surprising that the United States stands as the largest investor, accounting for 87% of total FDI inflows in Colombia in 2009 (annex table 4).[1] During the 2006-2009 period, The U.S. along with the United Kingdom and Spain accounted for 60% of total average inflows.

Given the still nascent state of industries in the region, FDI from neighboring countries has been marginal and only until recently, with the rise of the translatinas, have these amounts started to become significant, with investments coming especially from Chile and Brazil. As a consequence, average IFDI inflows from Chile and Brazil surged from US$ 10.2 million and US$ 5.4 million, respectively, during 2000-2005, to US$ 36.6 million and US$ 180.2 million during 2006-2009.

The corporate players

By the end of 2008, there were 645 foreign affiliates in Colombia.[2] In 2007 and 2008, Colombia saw a surge in greenfield projects, when the country attracted 66 and 73 greenfield projects, respectively. Now Colombia, surpassing Chile, became the third largest recipient of IFDI in South America, behind Brazil and Argentina.[3]

As mentioned earlier, Colombia has benefited from the rise of the so called translatinas - Latin American companies that have recently turned into important international players. Chilean companies including Fallabella, Cencosud and Sodimac, and Brazilian firms such as Vale, Gerdau, Votorantim, and the Sinergy group (owner of Avianca) have been regional pioneers in penetrating the Colombian market. Translatinas played a protagonist role in 2009 as the largest deals, primarily in the oil, mining and quarrying industries, were performed by companies such as Xtrata and Vale (annex table 6).

Finally, it is worth mentioning that Phillip Morris' efforts to acquire the Colombian tobacco company Coltabaco were blocked by the Colombian authorities, who expressed concern over the potential creation of a monopoly.[4]

Effects of the current global crisis

Because of the economic and financial crisis, IFDI inflows fell by 32% in 2009 compared to 2008, as important investment decisions were reversed. These included the sales of Corn Products to Bunge and of Prodesal to Mexichem, as well as the acquisition of the Compañía Minera de Caldas (CMC) by Canadian Colombia Goldfields.[5]

However, in spite of the global crisis, profits made by foreign affiliates allowed the acquisition of Colombian companies. The acquisition by Makro (Netherlands) of 37% of shares of Makro

[1] Data by origin of FDI do not include investments in the oil sector nor the reinvestment of profits.
[2] UNCTAD, *World Investment Report* 2009: *Transnational Corporations, Agricultural Production and Development* (New York and Geneva: UNCTAD, 2009). Data for 2008 are the latest available.
[3] ECLAC, *La inversión extranjera directa en América Latina y el Caribe*, op. cit.
[4] Superintendencia de Industria y Comercio, "Resolución No 29937," June 11, 2010, available at: http://www.sic.gov.co/Articulos_Pagina_Principal/Noticias/2010/Competencia/SIC_Objeto.php.
[5] Rolando Lozano, "Crisis financiera no impidió nuevos movimientos empresariales en el país," December 12, 2008, available at: http://www.portafolio.com.co/negocios/empresas/2008-12-12/ARTICULO-WEB-NOTA_INTERIOR_PORTA-4719909.html.

Supermayorista (owned by several local firms), the acquisition of Socovig, a private security company, by Burns de Colombia for € 3.4 million[1] and the acquisition of Colsecurity by Wackenhut Colombia are a few examples of investments that went forward.[2]

In the past two years, the economic and financial markets crisis has particularly affected FDI inflows coming from European countries. During 2000–2005, Spain, the third largest investor in Colombia, always had positive investment figures. However, the financial crunch drove Spanish investment down to a disinvestment of US$ 327 million in 2008/2009. Overall flows coming from Europe plummeted from US$ 392 million in 2008 to disinvestments of US$ 1,532 million in 2009. (annex table 4)

The policy scene

By law,[3] foreign investment in Colombia is governed by three basic principles: 1) universality, 2) automatic authorization and 3) equality of treatment. Given these principles, foreign investment is subject to the same treatment as domestic investment. The only sectors with restrictions for foreign capital are:

- activities concerning national defense and security;
- the treatment and disposal of toxic, dangerous or radioactive waste not produced in Colombia; and
- broadcast services, in which foreign investment cannot exceed 40% of the total capital of a dealership.

One of the main policy pillars of the Government of President Álvaro Uribe Vélez over the past eight years was to improve the business environment and the protection of investors' rights and interests. The Government entrusted the official national agency for promotion of exports, Proexport, with the task of promoting FDI by endorsing industrial sectors with potential high economic and employment growth. Several regional agencies, such as Probarranquilla, the Agency of Cooperation and Investment of Medellín, and Invest in Bogotá, have also started ambitious plans to bring investors to their cities and regions. The latter agency was recently ranked as the 16th best investment promotion agency worldwide out of 216 agencies in a study performed by the World Bank.[4]

Simultaneously, the Ministry of Commerce, Industry and Tourism, along with Proexport, were inquiring for a successful policy model to benchmark and draft the country's own policies turning its attention to Ireland. Consequently, the Government drew important lessons from the Irish model and shaped several policies accordingly in order to achieve similar results.[5]

One of the first reforms to improve the business environment and the investor-protection practices was the creation of Legal Stability Agreements (LSA). These agreements, effective for up to 20 years,[6]

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[1] Burns de Colombia is a subsidiary of Securitas AB (Sweden).
[2] "Crisis económica afecto la inversión y los negocios en Latinoamérica," *Cambio*, February 10, 2010, available at: http://www.cambio.com.co/economiacambio/865/ARTICULO-WEB-NOTA_INTERIOR_CAMBIO-7111547.html.
[3] Law 9 of 991, "Nuevo estatuto cambiario," January 17, 1991.
[4] World Bank, *Global Investment Promotion Benchmarking 2009* (Washington: The World Bank, 2009).
[5] For further information refer to "Misión de Colombia de alto nivel estudiará en Dublin el "Milagro Irlandés", Presidencia de la Republica, Bogotá, February 2008, available at: http://web.presidencia.gov.co/sp/2008/febrero/29/21292008.html.
[6] Law 963 of 2005. Ley de estabilidad Jurídica, July 8, 2005.

protect investors against changes that could be made in the future to laws, regulations or rulings impacting negatively their operations.

Furthermore, in addition to investment incentives concerning tax exemption in the sectors of hotels and ecotourism services, late yield crops, medical and software products, aeolian, biomass and agricultural energy generation, and publishing companies, the Government introduced significant changes to the tax system with the creation of law 1111 of 2006. The law allowed the Government to lower the corporate income tax rate from an effective rate of 38.5% to 34% in 2007 to 33% in 2008.

Colombia has multiple free trade zones, where companies can benefit from a lower (15%) corporate income tax.[1] The Government, in a further effort to gain competitiveness, created "single enterprise" free trade zones (SEFTZ), where companies complying with certain requisites of investment and job creation can establish themselves as SEFTZ anywhere in the country with the same benefits that a regular permanent free trade zone. During 2007–2010, 39 zones were approved and nine more were awaiting approval from the tax authority, the Departamento de Impuestos y Aduanas Nacionales (DIAN).[2]

Recently, as part of the tax reform passed on December 30, 2009,[3] changes in the fixed assets investment deduction were introduced; these reforms affect companies located in free trade zones.[4] Finally, in 2010, Colombia added three FTAs to the three already in place, with the United States, Canada and the European Free Trade Association (EFTA).[5] Colombia has signed international conventions for the protection of FDI with the Multilateral Investment Guarantee Agency (MIGA), the International Centre for Settlement of Investment Disputes (ICSID), the Overseas Private Investment Corporation (OPIC), and the Program for Cooperation in Upcoming Markets (PSOM). According to official statistics, in 2010, Colombia will be negotiating nineteen international investment agreements with 39 countries and 21 double taxation treaties (DTTs) with 22 countries. So far, the country has already signed DTTs with Canada, Chile, Mexico, the Andean Community of Nations (CAN), Spain, and Switzerland.[6] The rising numbers of agreements negotiated are based on the Government's desire to globalize the Colombian economy, which was lacking bilateral and multilateral tools to foster the country's competitiveness.

Conclusions and Outlook

The new president, Juan Manuel Santos Calderón, has clearly stated that foreign investors can expect a smooth transition, as transparent and business-friendly rules will be maintained during his mandate. Certain goals that were not reached during Mr. Uribe's terms, including achieving investment grade

[1] The most important change of the FTZ regime was to allow companies located within a FTZ to sell goods without any limit to the domestic market. Before 2005, enterprises in a FTZ were allowed to sell their goods exclusively abroad.
[2] Ministerio de Industria y Comercio.
[3] Tax Reform Act No. 1370-2009.
[4] In the past, a company investing in fixed assets was entitled to a 40% deduction in its income tax. With the tax reform, the deduction is reduced to 30%. However, free trade zones' income taxpayers eligible for the reduced 15% income tax rate are not entitled to benefit from the 30% fixed assets investment income tax deduction, as the Congress deemed both benefits to erode fair competition.
[5] The US Free Trade Agreement has been signed by the Colombian Congress and is awaiting ratification by the US Congress. The Canada-Colombia FTA was signed in 2008; Canada's legislature approved this FTA in June 2010 and, as of September 2010, it was awaiting approval from the Colombian Congress. Finally, the FTA with the European Free Trade Association was signed by both parties in 2008 and approved by the Colombian legislature in June 2009, but it was still not in force in August 2010.
[6] Proexport, Ministerio de Industria y Comercio (Bogotá: 2010).

from international rating agencies and the implementation of the FTA with the United States, are expected to be achieved under Mr. Santos's mandate.

Although tax benefits are seen by some analysts as unfair and distortive incentives, it is unlikely that the new Government will dismantle them, as it could be a signal of a volatile and unstable legal environment, an image that the country is trying to leave behind.

The return of IFDI to the country is good news for Colombia, and all factors are coming together to maintain the country as an attractive location for investment. Hence, it is important for policy makers to step up projects and programs and create a better business environment, if they want to make Colombia a really first-class location for foreign firms.

Infrastructure has to be improved. Colombia has relied for years on the promotion of the country as a low-cost location, but this strategy has its limits. Low income countries might find tax incentives a successful tool to attract FDI but in the long run countries with good infrastructure will have a competitive edge and will attract most FDI.[1] The legal framework also needs some improvement. In spite of the Government's efforts, paying taxes and starting a business can be a complicated, lengthy and burdensome process. An education system of high quality, oriented toward relevant skills, would allow Colombia to meet MNEs' needs of specific talent at every level and attract more high value-added operations. Finally, easier access to finance is an imperative. Currently, foreign companies are prohibited from holding bank accounts in foreign currency, a restriction only shared with Brazil and Venezuela.

Additional readings

Bénassy-Quéré, Agnes, Nicolas Gobalraja and Alain Trannoy, "Tax and public input competition," 22 *Economic Policy* 385 (Paris: CEPII, Centre d'Etudes Prospectives et d'Info. Internationales, 2007).

World Bank, *Global Investment Promotion Benchmarking 2009* (Washington: World Bank, 2009).

ECLAC, *La Inversión Extranjera Directa en América Latina y el Caribe* (Santiago de Chile: ECLAC, 2010).

World Bank, *Doing Business 2010: Colombia* (Washington: World Bank, 2009).

Rendón Acevedo, Jaime Alberto, "Los impactos de la inversión extranjera directa en la economía colombiana: el caso de la industria de bebidas," 9(18) *Semestre Económico* 11 (Medellín: Universidad de Medellín, 2006).

Proexport, PricewaterhouseCoopers, *Doing Business and Investing in Colombia* (Bogotá: Proexport, PricewaterhouseCoopers, 2010).

[1] As suggested in C. Bellak, M. Leibrecht and J. Damijan, "Infrastructure endowment and corporate income taxes as determinants of foreign direct investment in Central and Eastern European Countries", *The World Economy*, vol. 32, issue 2 (2009), pp. 267-290; and Agnès Bénassy-Quéré, A., N. Gobalraja and A. Trannoy, "Tax and public input competition," 22 *Economic Policy* 385 (Paris: CEPII, Centre d'Etudes Prospectives et d'Info. Internationales, 2007).

Useful websites

For National Economic and Social Statistics: National Department of Statistics, available at: www.dane.gov.co.
For economic statistics: Banco de la Republica, available at: www.banrep.gov.co.
For FDI statistics and operational costs: Proexport, available at:
http://www.investincolombia.com.co.
For International Trade information: Ministry of Commerce, Industry and Tourism, available at: www.mincomercio.gov.co.

Statistical annex

Annex table 1. Colombia: inward FDI stock, 2000-2009 (US$ billion)

Economy	2000	2008	2009
Colombia	11	67	74
Memorandum: comparator economies			
Brazil	122	288	401
Venezuela	35	43	41
Peru	11	30	37

Source: For Colombia, Banco de La República, Exchange Balance (Bogotá: Banco de la Republica, May 2010). For comparator economies, see UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

Annex table 2. Colombia: inward FDI flows, 2000-2009 (US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009[a]	2010[a]
Colombia	2.4	2.5	2.1	1.7	3.0	10.3	6.7	9.1	10.6	7.2	2.1
Memorandum: comparator economies											
Brazil	32.8	22.5	16.6	10.1	18.2	15.1	18.8	34.6	45.1	22.8	n.a.
Venezuela	4.7	3.7	0.8	2.0	1.5	2.6	-0.6	0.6	1.7	n.a.	n.a.
Peru	0.8	1.1	2.2	1.3	1.6	2.6	3.5	5.5	4.8	6.2	n.a.

Source: Banco de la República, Balance of Payments (Bogotá: Banco de la República, June 2010) for 2000-2009 data, for comparator economies see UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

[a] Preliminary

Annex table 3. Colombia: distribution of inward FDI flows, by economic sector and industry, 2000-2009 (US$ million)

Sector / industry	2000	2009[b]	2000-2005[a]	2006-2009[a]
All sectors / industries	2,436	7,201	1,606	3,770
Primary	123	5,742	614	2,167
Agriculture, forestry, and fishing	0	14	2	12
Mining, quarrying and petroleum	123	5,727	612	2,155
Mining and quarrying	507	3,094	406	860
Petroleum	-384	2,633	206	1,294
Secondary	535	822	524	688
Manufactures	556	536	526	569
Construction	-21	286	-2	119
Services	1,179	638	445	915
Commerce, restaurants, hotels	10	644	81	345
Utilities	13	-977	-2	-121
Transport, warehouse and communications	876	337	204	267
Financial establishments	792	549	153	400
Communal services	88	85	9	25

Source: Banco de la República, "Balance of payments" (Bogotá: Banco de la República, June 2010).
[a] Average
[b] Prelimiary

Annex table 4. Colombia: geographical distribution of inward FDI flows, 2000-2009 (US$ million)

Region/economy	2000	2009[b]	2000-2005[c]	2006-2009[c]
World	3,266.1	2,669.3	2,987.4	3,619.8
Developed economies	2,158.8	904.4	2,054.4	1,588.7
Europe	1,369.5	-1,531.6	1,278.9	-212.4
European Union	1,317.0	-1,598.6	1,245.1	-206.9
United Kingdom	405.0	385.6	732.0	159.4
France	2.9	113.0	30.8	81.6
Luxembourg	105.2	99.6	21.9	55.6
Sweden	15.6	32.4	10.8	8.5
Spain	479.2	-326.9	272.9	254.5
Netherlands	156.2	-1,859.2	125.9	-849.6
North America[d]	784.2	2,400.6	760.9	1,783.7
Canada	663.9	78.3	146.6	39.2
United States	120.3	2,313.6	614.2	1,742.1
Other developed economies	5.1	35.4	14.6	17.5
Australia	0.0	34.6	4.5	11.6
Japan	5.1	0.7	10.1	5.9
Developing economies	1,125.2	1,764.9	933.0	2,023.2
Asia and Oceania	4.5	2.1	4.4	12.6
China	4.5	0.3	2.3	0.0
India	0.0	0.5	0.0	2.4
Latin America and Caribbean	1,120.7	1,760.2	928.7	2,010.6
Bermuda	253.4	287.1	216.5	84.6
Brazil	4.6	47.4	5.4	180.2
Chile	9.7	53.7	10.2	36.6
Mexico	23.1	202.8	192.3	246.6
Panama	259.0	337.1	130.3	453.4
Virgin Islands	488.8	4.6	240.9	108.0
Profit reinvestments	-445.8	1,898.7	282.1	1,914.2
Petroleum sector	-383.9	2,633.1	413.9	2,838.2

Source: Banco de la República, Balance of Payments (Bogotá: Banco de la República, June 2010).
[a] Excluding petroleum and profits reinvestments.
[b] Preliminary.
[c] Average.
[d] Including Puerto Rico

Annex table 5. Colombia: principal foreign affiliates in country, ranked by sales and assets, 2009
(US$ million)

Rank	Name of affiliate	Industry	Sales	Assets
1	Almacenes Exito	Wholesale distribution	3,233	3,094
2	Exxon Mobil Colombia	Oil and gas operations	2,272	512
3	Telefonica Colombia	Telecommunications	1,773	4,364
4	Carrefour Colombia	Wholesale distribution	1,726	1,703
5	Bavaria	Beverages	1,717	4,757
6	Avianca	Transport	1,621	1,581
7	Drummond	Coal	1,508	2,316
8	Chevron Petroleum	Natural gas	1,224	692
9	GM Colmotores	Automotive	1,047	554
10	Alkosto	Wholesale distribution	780	527

Source: La nota económica, *Empresas Platinum de Colombia 2009*.

Annex table 6. Colombia: main M&A deals, by inward investing firm, 2007-2009 (US$ million)

Year	Acquiring company	Home economy	Target company	Target industry	Shares acquired (%)	Estimated/ announced transaction value
2009	Vale	Brazil	Cementos Argos SA-Coal Mine	Cement, hydraulic	100.0	373.0
2009	Kimberly-Clark Corp	United States	Colombiana Kimberly Colpapel	Sanitary paper products	100.0	289.0
2009	Investor Group	Chile	Bavaria SA-Agua Brisa Bottled	Bottled & canned soft drinks & carbonated waters	100.0	92.0
2009	Cencosud	Chile	Easy Colombia SA	Grocery stores	100.0	60.0
2008	GE Money	United States	Banco Colpatria SA	Banks	39.3	227.95
2008	Pacific Rubiales Energy Corp	Canada	Kappa Energy Holdings Ltd	Crude petroleum and natural gas	100.0	168.0
2008	Indura SA	Chile	Cyrogas SA	General industrial machinery and equipment	100.0	139.2
2008	Brysam Global Partners	United States	Banco Caja Social SA	Banks	18.8	101.7
2007	Telefonica SA	Spain	Colombia Telecomunicaciones SA	Telephone communications, except radiotelephone	50.0	2,627.2
2007	Ashmore Energy Intl Ltd	United States	Promigas SA	Natural gas transmission	52.9	510.0
2007	Grupo Votorantim	Brazil	Acerias Paz del Rio SA	Steel works, blast furnaces, and rolling mills	51.9	488.6
2007	Groupe Casino	France	Almacenes Exito SA	Grocery stores	61.5	326.6

Source: Thomson ONE Banker, Thomson Reuters.

Annex table 7. Colombia: main greenfield projects, by inward investing firm, 2007-2009
(US$ million)

Year	Investing company	Home economy	I Industry	Estimated/ announced investment value
2009	Xstrata	Switzerland	Bituminous coal and lignite	1,962
2009	Vale	Brazil	Bituminous coal and lignite	305
2009	Grupo Cisneros	Venezuela	Entertainment	250
2008	Glencore International	Switzerland	Coal, oil and natural gas	3,000
2008	Votorantim Group	Brazil	Metals	1,500
2008	Endesa	Spain	Alternative/renewable energy	900
2007	Millicom International Cellular	Luxembourg	Communications	500
2007	ED&F Man	United Kingdom	Food and tobacco	270
2007	Ample Auto	China	Automotive OEM	323

Source: fDi Intelligence, a service from the Financial Times Ltd.; Proexport, "Inversion extranjera directa en Colombia, business analysis."

Colombia: Inward FDI and its policy context, 2012

Miguel Posada Betancourt*

Colombia's current Government, in office since August 2010, has continued to pursue in 2010-2011 the open policies established by the previous one. The country continues to receive increasing amounts of foreign direct investment (FDI) and has the potential to maintain this positive trend. Although there have been some modifications in the regulatory framework and uncertainty regarding sustainable investment, 2010 witnessed the continuation of positive FDI growth. In 2011, credit-rating agencies recognized the country's efforts and raised Colombia's debt rating up to investment grade, a rating that was lost eleven years ago. To facilitate the further internationalization of the Colombian economy, the Government is expanding the number of its investment and commercial treaties to a wider range of foreign economies. Among others, new bilateral investment treaties with India, China and the United Kingdom, as well as other initiatives, could have a positive impact on IFDI growth and its contribution to economic development.

Trends and developments

Back in 2000, Colombia was rarely a target for foreign investors, and the country's inward FDI (IFDI) stock was low compared to those of its neighbors Peru and Venezuela, locations seemingly preferred by multinational enterprises (MNEs) to manage their Andean operations. However, that trend has shifted since 2005 and, by 2008, with Colombia's IFDI stock rising to US$ 67 billion, it had already surpassed both those countries' IFDI stocks (annex table 1). The positive trend has continued, with the year-end data for 2011 showing Colombia's IFDI stock standing at US$ 96 billion, a 16% increase compared to 2010 and a compound annual growth rate of 17.2% for the 2005-2011 period.[1]

Country-level developments

Despite Colombia's size and economic potential, until 2005, IFDI was relatively low. Most IFDI in the 1990s was a consequence of privatizations rather than market-led opportunities for new investment projects. In 1999, the worst year in Colombia's late-1990s economic crisis, the economy received US$ 1.5 billion of FDI and, in 2000, FDI flows amounted barely to 3% of GDP. During the economic recovery from 2000 to 2003, IFDI flows grew steadily, peaking at US$ 2.5 billion in 2001 (annex table 2). In 2005, however, Colombia received US$ 10.3 billion in FDI inflows (or 8.3% of the country's GDP), the highest in its history, led by the (78.1%) acquisition of the largest Colombian brewery, Bavaria, by SAB Miller (United Kingdom). Despite sustained domestic economic growth, however, the global financial and economic crises led to a decrease in FDI flows in 2009, to US$ 7 billion (representing around 3.2% of the country's GDP) and in 2010 to US$ 6.9 billion, a decrease of 3% compared to 2009 flows.

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[1] Author's own calculations, based on FDI stock data from Colombia's Central Bank and the National Statistics Department data on GDP (annex tables 1 and 2 in this *Profile*).

Although FDI flows in 2010 were marginally lower than those in 2009, preliminary information for 2011 is encouraging: Flows of US$ 13.2 billion in 2011 amounted to 192% of total 2010 flows.[1]

Over the past few years, the Government has made important efforts to diversify the sectoral distribution of FDI, as it remains concentrated in the extractive industries (annex table 3), with 38% of total IFDI flows in 2011 going to oil and petroleum and another 20% to mining and quarrying. Of the remaining FDI, 17% was invested in commercial establishments and only 4% in manufacturing activities.

In comparison to 2009, in 2010 all but four industries experienced a decrease in FDI flows.[2] The industries with the largest cutbacks were transportation, storage and communications (-222%), public utilities (-104%), commerce, restaurants and hotels (-38%), and mining and quarrying (-42%). The only industries with increased flows were financial establishments (74%), community services (25%), oil (14%), and construction (14%). However, IFDI flows returned in 2011 with large increases in sectors such as utilities (1,510%), commercial establishments (512%), agriculture (96%), and oil (83%). Despite decreases in flow level, IFDI stock rose in all industries in 2010, with the exception of the transportation, storage and communications industry (with disinvestments of US$ 526 million).[3]

Latin America as a whole still remains a region that mainly attracts projects of relatively low technology intensity. Like its regional counterparts, Colombia does not seem to be attracting enough technology-intensive projects. In 2010, only 2% of Colombia's newly announced FDI projects in the manufacturing industry were aimed at high-tech sectors, whereas 54% went to medium-low technology intensity sectors, 30% went to sectors with medium-high intensity and low-tech sectors received 13% of the new projects.[4] It should be noted that, with regard to projects related to research and development (R&D) also, Colombia lags behind its neighbors: in 2010, Latin America attracted only 5.5% of worldwide projects related to R&D activities, mainly concentrated in Brazil.[5]

Internally, Colombia's economic activities tend to gravitate toward a couple of strong regions; as a result, the geographical location of IFDI remains highly concentrated. During 2009 and the first quarter of 2010, the capital of Colombia, Bogotá DC, and the region of Cundinamarca, in which Bogota is located, captured 78% of total FDI flows, followed by Antioquia (8%), Valle del Cauca (5%), and Bolivar (4%). Although the numbers still show a highly concentrated distribution of FDI flows, the situation has changed somewhat in the past six years. In 2004, for example, Bogotá and the region of Cundinamarca received 91% of total FDI flows, compared to 78% in 2009.[6] This double-digit percentage decline in their shares in just five years suggests that other regions have started to gain competitiveness as locations for FDI, and are now considered, at least by some investors, as viable alternatives to the country's capital and its vicinity.[7] This improvement in the regional distribution of FDI within

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[1] Banco de la República Colombia, Balance of payments, April 2012, available at: www.banrep.gov.co.
[2] Ibid.
[3] Ibid.
[4] United Nations Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Direct Investment in Latin America and the Caribbean, 2010* (Santiago, Chile: United Nations ECLAC, July 2011), also available at: www.cepal.org, p. 61. The classification into sectors of varying technology intensity relates to manufacturing industries only (see annex table A-1 in the source cited for the classification of manufacturing industries by technology intensity).
[5] Ibid.
[6] Cámara de Comercio de Bogotá, "Tablero de indicadores de Bogotá, Inversión extranjera" IQ 2006, IIIQ 2010.gfg
[7] See "Bogotá y Medellín se pelean sede de innovación de Kimberly", *Portafolio*, August 2011, available at http://www.portafolio.co/negocios/Bogotá-y-Medellín-se-%25E2%2580%2598pelean%25E2%2580%2599-sede-innovacion-kimberly.

Colombia may be the result of improvements such as additions to, and wider availability of, human capital or the reduction of impediments to starting a company and doing business.[1] Nevertheless, the fact that almost 80% of FDI is still concentrated in or near the capital city and the remaining 20% in the 31 other regions combined calls for policy attention.

In terms of geographical distribution of FDI sources, 2010 showed significant changes from previous years in the origin of FDI flows.[2] The United States,[3] historically Colombia's largest trade partner, had FDI of only US$ 13 million dollars in 2010 (annex table 4), marking a steep decline in comparison to 2009 when US FDI flows to the country totalled US$ 1.8 billion, or the 2005-2008 period, when average annual flows from the United States were US$ 1.4 billion.[4] Excluding FDI from the financial centers and with the decline of U.S. FDI flows, the United Kingdom was the most important source of FDI in the Colombian economy in 2010, with US$ 191.4 million, followed by Canada (US$ 162.8 million) and Brazil (US$ 53.6 million).

Overall, in spite of large increases in FDI to Colombia from most of the Latin American region, large disinvestments by investors from Mexico and Chile more than offset the increases in FDI from other countries, resulting in a negative figure for FDI from the region as a whole in 2010 (annex table 4). IFDI flows from Europe to Colombia amounted to US$ 109.5 despite disinvestments from important countries such as Spain (US$ -18.1 million) and Germany (US$ -23.2 million).[5] Finally, investments from the Asia-Pacific (APAC) region remain marginal; for example, according to the United Nations ECLAC, in 2010 China invested US$ 15 billion in Latin America, and according to government sources only US$ 6.2 million reached Colombia.[6] FDI from India reached only US$ 0.5 million. Both the Government and the private sector realize there is a large potential to increase investment flows from emerging economies and have increased efforts to strengthen political and commercial relationships with the Asia Pacific region.[7]

In 2011, Colombia received significant FDI flows from traditional investors such as Spain (US$ 732.5 million), United States (US$ 526.3 million), Chile (US$ 583.0), and the United Kingdom (US$ 390.4 million). These values more than offset the small investments or disinvestments presented in 2010. It is therefore too early as regard to Colombia to talk about a wide diversification of FDI home economies.

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[1] According to IFC's *Doing Business in Colombia, 2010*, the best city to start a business in Colombia is Manizales, while Bogotá is number 12 and Medellín number 16.

[2] The precise origins of total FDI in Colombia are hard to determine as a large share of the flows pass through financial centers in the Caribbean. In 2011, US$ 613.7 million entered through Panama, Anguilla, Bermudas, Cayman Islands, Barbados, Aruba, Bahamas, British Virgin Islands, and Curacao.

[3] Including Puerto Rico.

[4] Author's own calculations, based on Banco de la República Colombia, Balance of payments, August 2011, available at: www.banrepo.gov.co.

[5] It is important to mention that these national FDI values do not take into consideration FDI from profit reinvestments that, for 2010, amounted a total of US$ 2.7 billion, or investments in the oil sector (US$ 2.8 billion) and US$ 3.7 billion in profit reinvestments and US$ 5.1 billion in the oil sector in 2011.

[6] ECLAC, *op. cit.* The ECLAC report only indicates US$ 3 million of Chinese FDI in Colombia, however for consistency reasons Colombia's Central Bank information is used here.

[7] For additional information please refer to "Con su visita a Japón, Vietnam y China, La canciller Holguín reforzó su política de acercamiento hacia Asia", Ministerio de Relaciones Exteriores, available at: http://www.cancilleria.gov.co/news/news/node/2604 and "Ministra Holguín llego de China con resultados concretos en materia de comercio y cooperación" Ministerio de Relaciones Exteriores available at: http://www.cancilleria.gov.co/news/news/node/2598

Nonetheless, Colombia's policymakers are making efforts to attract IFDI from a wider range of sources. A wider home-economy distribution of IFDI could have positive outcomes for the country by reducing the risk of depending on a small number of investment sources and enlarging commercial relationships with an expanded pool of nations.

The corporate players

Of the ten largest non-financial companies in Colombia, six are foreign affiliates of MNEs, providing goods and services in different economic sectors (annex tables 5) and playing an important role in the Colombian economy. Over the 2009-2010 period, seven companies have remained in the top ten ranking; four of them are from the mining, oil and gas industries, confirming the importance of those industries in the economy. In line with the favorable economic environment, all foreign affiliates showed double digit growth in their 2010 sales in comparison to the 2009 figures.[1]

The largest foreign financial institutions in Colombia can be found in the banking and pension fund industries (annex tables 5b). However, domestic institutions dominate the local financial industry, which stands in contrast to the non-financial sector in which foreign MNEs are among the largest in the country.

The Colombian financial industry has shown some opportunities for foreign investors, as illustrated by the $1 billion purchase by Scotiabank of a 51% stake in Banco Colpatria in 2011, one of the largest banks in the country,[2] or the consolidation of JP Morgan's investment banking operations. However, this industry is more relevant as a source of outward foreign investment than as a recipient of IFDI,[3] as Colombian financial institutions have recently entered the Central American market and, contrary to the global financial industry's recent tendency to consolidate operations, Colombian banks are expanding their operations.[4]

The importance of extractive industries in the country, coupled with the high commodity prices, is reflected in the importance of established foreign affiliates in those industries and their positive financial results as well as in merger and acquisition (M&A) deals. In 2010 three of the four largest cross-border M&A deals in Colombia took place in the mining, oil and gas industries, for an estimated total of US$ 2.7 billion or 39% of total IFDI flows in 2010 (annex table 6).

The importance of Latin American MNEs or "translatinas" in FDI flows into Colombia continues, even while 2010 witnessed important investments by MNEs from other countries in the region. However, while 2009 experienced important investments in the commercial and manufacturing sectors, regional FDI in 2010 focused on natural resources. The top M&A deals completed in these years can be found in annex table 6, including cross-border acquisitions of companies such as Empresas Copec (Chile),

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[1] Author's own calculations, based on "Las 100 empresas más grandes de Colombia… y las 900 siguientes," *Revista Semana*, Special Edition no. 1513, Bogotá, May 2011.
[2] "Scotiabank buys stake in Colombian bank", *The Wall Street Journal*, October 21, 2011, available at: http://online.wsj.com/article/SB10001424052970204485304576643353880991840.html
[3] See, Ana María Poveda Garcés, "Outward FDI from Colombia and its policy context", *Columbia FDI Profiles* (ISSN: 2159-2268), September 1, 2011, available at www.vcc.columbia.edu.
[4] "La banca Colombiana 'coloniza' a Centroamerica," *El Pais*, January 25, 2012. Available at http://www.elpais.com.co/elpais/economia/noticias/banca-colombiana-coloniza-centroamerica

Gerdau (Brazil), Ternium SA (Argentina), Estrella International Energy (Argentina), and Gasco SA (Chile).

According to UNCTAD, Colombia hosted 106 greenfield FDI projects in 2010, valued at US$ 8.8 billion; this represents an additional 45 projects in comparison to 2009, and the largest annual number in the past five years.[1] Among these, the largest investments came from Canada, Luxembourg and Brazil (annex table 7). Furthermore, preliminary data for 2011 show a dynamic year, with 51 greenfield projects valued at US$ 2.9 billion already identified as of April 2011.[2]

Effects of the recent global crises

The Colombian economy was fairly resilient to the recent global financial and economic crises. Over the 2008-2009 period, FDI flows decreased by 33%, but nonetheless represented historically high numbers in Colombia. One visible consequence of the crises was the decrease of FDI flows from the country's traditional partners such as the United States and Spain. The median shares of FDI flows from these countries in Colombia's IFDI for the period 2003-2006 stood at 34% in the case of the United States and 10% in the case of Spain, whereas the same shares for 2007-2010 stood at 28% and 5%, respectively.[3] Both for political and economic reasons, Colombia learned the importance of diversification. Policymakers realized the importance of improving the country's relations with other emerging markets, particularly the Asia-Pacific region. Accordingly, Colombia has begun the diversification of its international relations, and though it would be unrealistic to disregard the impact of Europe and the United States in Colombia's FDI inflows, it is likely there will be a sustained increase in IFDI from other regions of the world, as strategic armour to confront any possible incoming crisis, as for instance the Eurozone debt crisis.

The policy scene

Over 2010 and 2011, Colombia continued working on further internationalizing its economy by entering into new trade and investment agreements. As of April 2012, Colombia has nine Free Trade Agreements (FTAs) in force[4] with Canada, the Central American triangle,[5] the Andean Community (CAN),[6] some CARICOM-member countries[7] Chile, Cuba,[8] Mercosur,[1] Mexico, and the European Free Trade

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[1] UNCTAD, *World Investment Report 2011: Non-equity Modes of International Production and Development* (Geneva: UNCTAD, 2011), annex tables I.8 and I.9, pp. 209-211.
[2] Ibid.
[3] Author's own calculations, based on Banco de la República, Balance of payments, August 2011, op. cit.
[4] Based on information regarding FTAs (including economic partnership agreements) made available to the public by the Ministerio de Comercio, Industria y Turismo (MCIT), available at www.tlc.gov.co
[5] Comprising Guatemala, El Salvador and Honduras.
[6] Comprising Bolivia, Colombia, Ecuador, and Peru.
[7] The free trade agreement between Colombia and CARICOM currently was signed by the following CARICOM member-countries: Antigua and Barbuda, Barbados, Belize, Dominica, Guyana, Grenada, Jamaica, Monserrat, Trinidad and Tobago, St. Kitts and Nevis, St. Lucía, and Vicente and the Grenadines. Bahamas is not part of the agreement as the country is outside CARICOM's common market and Surinam and Haiti are also outside the agreement, as they became CARICOM members after the treaty was signed. For additional information see MICT, available at: http://www.tlc.gov.co/publicaciones.php?id=11951
[8] Commercial relations between Colombia and Cuba are governed by the Economic Complementation Agreement No. 49 signed in 2000 under the framework of the Latin American association for Integration (ALADI) and entered into force on July 10, 2001.

Association (EFTA).[2] The FTA with the Unites States was approved by the US Congress in October 2011 and is entered into force in 15 May 2012; the the FTA with the European Union is in the texts-conciliation stage. Furthermore, Colombia is currently negotiating FTAs with Israel, Panama, Republic of Korea, and Turkey, as well as a "partial" agreement treaty with Venezuela. Most recently, Colombia has started talks too with Japan[3] and the United Arab Emirates[4] to negotiate trade treaties.

As of April 2012, Colombia has double taxation treaties (DTTs) in effect with Spain, Chile and Switzerland and has also signed DTTs with Canada, Mexico, Korea, Portugal, and India. Colombia has in effect bilateral investment treaties (BITs) with Peru, Switzerland and Spain, most recently China, India and Unted Kingdom, and others including South Korea and Japan are pending approval.[5]

On the domestic policy front, by the end of 2010, the Colombian Government passed a number of reforms that could affect IFDI.[6] One important modification was the elimination of the 30% special capital expenditure deduction for the acquisition of productive, tangible fixed assets. This applies as from the tax year 2011.[7] Another potentially important development was announced by the Government in July 2011, in which it presented legislation to the Congress to modify the Colombian arbitration law.[8] Currently, the Colombian law on recognition and enforcement of foreign arbitral awards does not follow the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, also known as the "New York Arbitration Convention." With the proposed changes, the new law would be based on and would follow the New York Convention guidelines.

In order to prepare better for attracting and benefiting more from potential new FDI flows, the national investment promotion agency (IPA), Invest in Colombia, has been growing and aggressively promoting the country as a profitable destination, focussing on various industries and services that have a high social and economic impact. At the same time, regional IPAs have been developed in cities like Bogotá (Invest in Bogotá), Medellín (Agencia de Coperación e Inversión de Medellín), Barranquilla (ProBarranquilla), and Cali (Invest Pacific); these IPAs serve both the cities and their regions, promoting investments that will have a lasting impact in terms of jobs and have the potential to make a large and positive impact in the development of the country. These IPAs, however, do not have specific instruments or guidelines for environmentally sustainable investments.

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[1] Comprising Argentina, Brazil, Chile, Uruguay, and Paraguay

[2] Comprising Iceland, Lichtenstein, Norway, and Switzerland. The EFTA-Colombia FTA was ratified by Switzerland on October 29, 2009 and by Lichtenstein on November 26, 2009. Ratification by Norway and Iceland is still pending.

[3] "Colombia y Japón iniciarán estudio conjunto para el acuerdo de asociación económica," *Presidencia de la Republica*, 12 September 2011, available at: http://wsp.presidencia.gov.co/Prensa/2011/Septiembre/Paginas/20110912_08.aspx
http://wsp.presidencia.gov.co/Prensa/2011/Septiembre/Paginas/20110912_08.aspx

[4] See, "Canciller de Emiratos Árabes Unidos visitará Colombia el martes," *El Espectador*,
March 11, 2012, available at: http://www.elespectador.com/noticias/politica/articulo-331754-canciller-de-emiratos-arabes-unidos-visitara-colombia-el-martes

[5] See "Colombia Business and Investment Guide 2012" pgs.28, 29. Ernst & Young Ltda, April 2012, available at: http://www.ey.com/CO/es/Newsroom/Colombia-Business-and-Investment-Guide-2012

[6] Law 1430, December 2010.

[7] The 30% deduction continues to apply for (a) taxpayers with a legal stability agreement; and (b) taxpayers that filed a petition for approval of legal stability agreement prior to November 1, 2010.

[8] Proyecto de Ley "*Por medio de la cual se expide el Estatuto de Arbitraje Nacional e Internacional y se dictan otras disposiciones,*" July 26, 2011, available at:
http://www.mij.gov.co/Ministerio/Library/Resource/Documents/ProyectosAgendaLegistaliva/Anteproyecto%20Arbitraje2097.pdf as of the first week of May 2012 the proposal was still under debate by the Congress.

With respect to the environment, Colombian environmental law is centered on the concept of sustainable development. It is contained in the Political Constitution of 1991, which included the environment as a collective right, in the Code of Natural Renewable Resources and of Protection to the Environment of 1974, and the precepts of the United Nations Conference of Rio held in 1992. The uses of environmental resources by domestic firms as well as foreign affiliates are subject to various types of controls and regulations. [1] As for its enforcement and effectiveness, there are mixed views and reports.[2]

In recent years, the mining industry has received particular emphasis as the investments in this sector represent a large share of the country's FDI. There seems to be a consensus in the civil society about the importance of preserving the environment, strengthened by local media and environmental organizations whose investigations have raised public attention when sensitive projects are under consideration.[3]

Special developments

There have been a number of interesting developments in Colombia's economy with implications for IFDI, of which two are considered here. One is that the Government has had to consider the environmental aspects of natural resources exploitation, which is a testament to the increasing strength of Colombian civil society. In addition, there have been changes in the Colombian economy's standing in world financial markets.

The debate over sustainable investment and natural resource exploitation reached popular- interest levels in 2010 and 2011 when the Canadian mining company Greystar Resources ltd. requested an environmental permit to exploit an open pit gold mine covering an area of 1.100 hectares in a "Páramo" – a high-altitude Andean, protected ecosystem in the north-eastern region of Santander, called Santurbán. More recently, local entrepreneurs and the resort management and development company Six Senses Resorts & Spas announced the construction of a seven stars luxury hotel located in the Tayrona National Park.[4] Both projects encountered considerable opposition from civil society, the media, activists, and local authorities, especially for their impact on the ecosystem and the exploitation of sacred native indigenous land without relevant approval.[5] In both cases, after being widely documented by the local media, the projects were (at least temporarily) withdrawn.

The previous examples are proof of increasing supervision and influence on certain kinds of production activities from civil society, and both the Government and private sector are aware they now must increase their efforts to structure and approve sustainable projects with additional collaborative

[1] There are several control tools to protect the quality of the air, water, trees, solid and hazardous waste, noise, and external visual advertising and these are enforced by the main environmental authorities, the Ministry of Environment and Sustainable Development, which is a spin off entity from the former Ministry of Environment, Housing and Territorial Development, and the Regional Autonomous Environmental Agencies ("CAR").

[2] Ana María Poveda Garcés, *op.cit.*

[3] For additional information, please refer to "Los poderes detrás del páramo de Santurbán" and "la escandalosa adjudicación de títulos mineros en parques naturales", *La Silla Vacía*, available at http://www.lasillavacia.com/historia/los-poderes-detras-del-paramo-de-santurban-22387 and http://www.lasillavacia.com/historia/la-escandalosa-adjudicacion-de-titulos-mineros-en-parques-naturales-26448

[4] María del Rosario Arrázola, "*Los empresarios del Tayrona*", Octobre 2011 available at: http://www.elespectador.com/impreso/nacional/articulo-306953-los-empresarios-del-tayrona

[5] It is important to point out that regulations are in place to ensure the participation and approval of local native indigenous communities in potential projects in the areas of their influence.

negotiations rather than just presenting environment and economic development as competing forces. In addition to the environmental impact studies each project must comply with, Colombia has in place regulations to protect ecosystems such as the Páramos[1] and the indigenous lands. With accelerated FDI inflows, however, the authorities must be careful to keep promoting investments without gambling with the sustainability of the ecosystem and vulnerable native groups.

In this regard, sustainable development is now more than ever present in the debate. Mining remains a highly unregulated and dangerous activity that presents a challenge for the country's ability to reach a sustainable balance between the exploitation of natural resources and the protection of the environment.

Another important development with likely implications for IFDI was the upgrading of Colombia's credit debt rating in 2011 by Standard & Poors, Moody's Investor Services and Fitch Ratings, the three largest credit rating agencies, reflecting a change from the highest speculative grade to the lowest investment grade. This is a boost of confidence in the Colombian economy after 11 years of credit-rating in a junk category. The rise in the country's credit ratings has the potential to foster additional investments both in debt and portfolio capital and other forms; as explained by the head of the country's National Planning Department, it is forecast that the new ratings will help Colombia reach US$ 14 billion in IFDI by 2014.[2]

Conclusions

With the Colombian economy's positive growth path and an improved image abroad, boosted by the recovery of the country's credit-rating to investment grade, FDI inflows are expected to double over the next five years.[3] To achieve this goal, Colombia is in the process of diversifying its commercial partners. The FTA with Canada, the FTA negotiations with the Republic of Korea, and efforts to foster commerce with Japan and Turkey, in addition to the BITs with the United Kingdom, China and India, will be important tools to further develop Colombia's international commercial relationships. The implementation of these agreements will expand the spectrum of Colombia's commercial partners, and help lower the country's dependence on a few historical markets and sources of FDI.

As a result of this commercial diversification, an increasing portion of FDI flows will most likely come from regions like Asia and Latin America. However, it is expected that FDI in the extractive sector will continue to represent the largest share of total FDI and, so, the challenge to attract foreign capital in non-extractive sectors remains.

Finally, with all the good news, much work remains to be done. Large investments in infrastructure and education must be made to ensure the country's competitiveness benefits from trade agreements with larger and more developed economies, and attract increasing FDI flows. Additionally, Colombia needs to increase efforts to reduce poverty and inequality levels as the country remains one of the most

[1] Decree 2811 of 1974 and Law 1382 of 2010; the latter was deemed unconstitutional in 2011 by the Constitutional Court; however, the law is to be applicable for two additional years before a new, more robust law is expected to replace it.
[2] Andrea Jaramillo and Bill Koenig, "Colombia's credit rating raised to investment grade by Moody's; Peso gains", *Bloomberg*, May 31, 2011. http://www.bloomberg.com/news/2011-05-31/colombia-s-credit-rating-raised-to-investment-grade-by-moody-s-peso-gains.html
[3] Ministerio de Comercio, Industria y Turismo de Colombia, *Planeación Estratégica sectorial 2010-2014*" http://www.sic.gov.co/archivo_descarga.php?idcategoria=15487

unequal countries in the world.[1] A better future depends on Colombia's effective response to the inequality challenges as well as managing the unbalanced sectorial and geographic distribution of FDI-recipient regions and municipalities it faces.

Additional readings

Guía Legal para hacer negocios en Colombia (Bogotá: Ministerio de Comercio, Industria y Tursimo, Proexport, Brigard & Urrutia, Brigard & Castro, June 2011).

Boletín Legal de Comercio Internacional (Bogotá: Lewin & Wills Abogados, February 2011).

CECODES, *Cambiando el rumbo 2010: Casos de Sostenibilidad en Colombia* (Bogotá: CECODES, February 2011).

Bureau of Economic, Energy and Business Affairs, *2011 Investment Climate Statement – Colombia*, (Washington DC, US State Department, March 2011).

Useful websites

For National Economic and Social Statistics: National Department of Statistics, Colombia, available at: www.dane.gov.co.

For economic statistics: Banco de la República, Colombia, available at: www.banrep.gov.co.

For FDI statistics and operational costs: Invest in Colombia, Colombia, available at:

http://www.investincolombia.com.co.

For International Trade information: Ministry of Commerce, Industry and Tourism, Colombia, available at: www.mincomercio.gov.co.

For information regarding investment opportunities in Bogota: Bogota's Investment Promotion Agency, Colombia, available at: www.investinbogota.com

For information regarding investment opportunities in Barranquilla: Barranquilla's Investment Promotion Agency, Colombia, available at: www.probarranquilla.org

For information regarding investment opportunities in Medellín: Medellín's agency of cooperation and investment, Colombia, available at: www.aciMedellín.org

For information regarding investment opportunities in the Pacific region: Pacific region Investment Promotion Agency, Colombia, available at wwwinvestpacific.org

[1] The country's income Gini coefficient for Colombia is among the highest in the world, lower only than those of the Comoros, Haiti and Angola, making it the fourth most unequal country in the world. See UNDP, *Human Development Report 2011: Sustainability and Equity. A Better Future for All* (New York: UNDP, 2011), available at http://hdr.undp.org/en/reports/global/hdr2011/download/

Annex table 1. Colombia: inward FDI stock, 2000-2011

(US$ billion)

Economy	2000	2005	2006	2007	2008	2009	2010	2011
Colombia	11	37	45	56	67	75	82	96
Memorandum: comparator economies								
Chile	46	74	80	99	99	121	139	n.a.
Venezuela	35	44	46	44	43	41	38	n.a.
Peru	11	16	20	27	32	34	42	n.a.
Ecuador	6	10	10	10	11	12	12	n.a.
Bolivia	5	5	5	5	6	6	7	n.a.

Source: For Colombia, Banco de La República, Exchange Balance, Bogotá, April, 2012, available at: http://www.banrep.gov.co/series-estadisticas/see_s_externo.htm; for comparator economies: UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics.

Annex table 2. Colombia: inward FDI flows, 2000-2011

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Colombia	2.4	2.5	2.1	1.7	3.0	10.3	6.7	9.1	10.6	7.1	6.9	13.2
Memorandum: comparator economies												
Chile	4.9	4.2	2.6	4.3	7.2	7	7.3	12.5	15.1	12.9	15.1	17.3
Venezuela	4.7	3.7	0.8	2.0	1.5	2.6	-0.5	1.0	0.3	-3.1	-1.4	5.3
Peru	0.8	1.1	2.2	1.3	1.6	2.6	3.5	5.5	6.9	5.6	7.3	7.7
Ecuador	-0.02	0.5	0.8	0.9	0.8	0.5	0.3	0.2	1	0.3	0.2	0.4
Bolivia	0.7	0.7	0.7	0.2	0.1	-0.3	0.3	0.4	0.5	0.4	0.7	0.9

Source: Banco de la República, Balance of Payments, (Bogotá, April 2012), available at: http://www.banrep.gov.co/series-estadisticas/see_s_externo.htm; for comparator economies: 2000-2010 data from UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics and for 2011 data, ECLAC, *Foreign Direct Investment in Latin America and the Caribbean, 2011 available at:* http://www.cepal.org/publicaciones/xml/0/46570/2012-181-LIE-WEB.pdf

Annex table 3. Colombia: sectoral distribution of inward FDI flows, 2000, 2010, and 2011

(US$ million)

Sector / industry	2000	2010 [a]	2011 [a]
All sectors / industries	2,436	6,899	13,234
Primary	123	4,603	7,835
Agriculture, forestry, and fishing	0	67	131
Mining, quarrying and petroleum	123	4,536	7,704
Mining and quarrying	507	1,755	2,621
Petroleum	-384	2,781	5,083
Secondary	535	954	987
Manufactures	556	656	533
Construction	-21	298	454
Services	1,779	1,343	4,412
Commerce, restaurants, hotels	10	370	2,264
Utilities	13	36	585
Transport, warehouse and communications	876	-425	1,421
Financial establishments	792	1,252	343
Communal services	88	110	-201

Source: Banco de la República, Balance of payments,(Bogotá, February 2011), available at: http://www.banrep.gov.co/series-estadisticas/see_s_externo.htm

[a] Preliminary.

Annex table 4. Colombia: geographical distribution of inward FDI flows, 2000, 2010, 2011 [a]
(US$ million)

Region / economy	2000	2010	2011
World[a]	3,266.1	1,163.7	4,419.1
Developed economies	2,169.8	248.8	2,666.8
Europe	1,380.5	109.5	1,947.2
European Union	1,316.3	62.8	1,822.8
Austria	0	24	21.1
Denmark	71.2	3.5	-0.6
France	2.9	34.1	46.3
Germany	81.5	-23.2	25.3
Ireland	-2.6	7.3	0.8
Italy	1.8	17.6	15.2
Luxembourg	105.2	-29.9	33.8
Netherlands	156.2	-159.3	809.6
Spain	479.2	-18.1	732.5
Sweden	15.6	3	-254.8
United Kingdom	405	191.4	390.4
North America	784.2	175.8	700.0
Canada	663.9	162.8	173.8
United States [b]	120.3	13	526.3
Other developed countries	5.1	-36.5	19.5
Australia	n.a.	3.2	9.8
Japan	5.1	-39.7	9.8
Developing economies	1,083.45	878.34	1,752.32
Africa	-18.00	0	0
Asia and Oceania	4.5	8.9	18.2
China	4.5	6.2	12.4
Korea, Republic of	0.0	1.3	2.7
India	0.0	0.5	0.6
Latin America and Caribbean	22.4	-528.5	1,077.7
Brazil	4.6	53.6	206.4
Chile	9.7	-52	583.0
Costa Rica	3.6	10.3	7.4
Mexico	23.1	-623.1	80.3
Peru	0	10.7	19.1
Uruguay	0.3	14	26.9
Venezuela	-20.4	40	20.2
Financial centers	1,087.3	1,424.7	613.7
Anguilla	n.a.	552.7	183.6
Bermudas	253.4	220.4	9.3
Panama	259.0	572.2	649.6
Unspecified destination	-17.9	9.7	42.7

Source: Banco de la República, Balance of Payments Preliminary Data, Bogotá, August 2011, April 2012, available at: http://www.banrep.gov.co/series-estadisticas/see_s_externo.htm

[a] Data do not include profit reinvestments nor investments in the petroleum sector.

[b] Includes Puerto Rico.

Annex table 5. Colombia: principal non-financial foreign affiliates in the country, ranked by total foreign sales in Colombia, 2010

Rank	Name	Industry	Sales 2010 (US$ million)	Assets 2010 (US$ million)
1	Almacenes Exito	Wholesale distribution	3,953.9	3,497.4
2	Comcel	Telecommunications	3,302.3	4,639.7
3	Avianca Taca	Transport	2,802.8	3,681.8
4	Exxon Mobil	Oil and gas operations	2,642.5	625.4
5	Bavaria S.A.	Beverages	2,554.8	4,783.7
6	Carbones del Cerrejon	Coal	2,355.1	2,108.1
7	Carrefour	Wholesale distribution	2,133.3	1,963.5
8	Telefonica de Colombia	Telecommunications	2,051.3	4,126.9
9	Drummond	Mining	1,934.0	2,019.2
10	Pacific Rubiales	Oil	1,661.5	3,886.1

Source: "Las 100 empresas más grandes de Colombia (…y las 900 siguientes)," *Revista Semana*, Special Edition No. 1513, Bogotá, May 2011.

[a] Average COP/USD exchange rate used for 2010: 1,898.6 COP per USD.

Annex table 5a. Colombia: principal financial foreign affiliates in the country, ranked by total foreign assets in Colombia, 2010

Rank	Name	Industry	Assets (US$ million)
1	BBVA	Banks	11,632.3
2	Horizonte	Pension funds	8,339.5
3	Colfondos	Pension funds	7,437.5
4	ING pensiones y cesantias	Pension funds	6,041.2
5	GNB Sudameris	Banks	4,372.5
6	Citibank	Banks	4,322.8
7	Banco Santander	Banks	3,537.3
8	Skandia	Pension funds	2,575.4
9	HSBC	Banks	1,089.8
10	JP Morgan	Investment banking	388.1

Source: Superintendencia Financiera de Colombia, available at http://www.superfinanciera.gov.co/

[a] Average COP/USD exchange rate used for 2010: 1,898.6 COP per US$.

Annex table 6. Colombia: main M & A deals, by inward investing firm, 2008-2010

Year	Acquiring company	Home economy	Target company	Target Industry	Shares acquired (%)	Estimated/ announced transaction value (US$ million)
2010	Glencore International AG	Switzerland	Xstrata Coal South America-	Bituminous coal and lignite surface mining	100.0	2,250.0
2010	Empresas Copec SA	Chile	Proenergia Internacional SA	Petroleum and petroleum products wholesalers	47.2	239.9
2010	Citigroup Global Markets Ltd	United Kingdom	Almacenes Exito SA	Department stores	5.8	216.3
2010	Medoro Resources Ltd	Canada	Frontino Gold Mines Ltd	Gold ores	100.0	198.4
2010	Goldman Sachs Group Inc	United States	Cia Carbones del Cesar SA-La	Bituminous coal and lignite surface mining	100.0	100.2
2010	Ternium SA	Argentina	Ferrasa SA	Steel works, blast furnaces, and rolling mills	54.0	74.5
2010	Gerdau SA	Brazil	Cleary Holdings Corp	Products of petroleum and coal	49.1	57.0
2010	Goldman Sachs Group Inc	United States	Adromi Capital Corp	Offices of holding companies	100.0	51.0
2010	Ventana Gold Corp	Canada	Minera La Bodega-Certain Asts	Gold ores	100.0	48.0
2010	London Mining PLC	United Kingdom	International Coal Co	Bituminous coal and lignite surface mining	80.0	44.5
2010	Medoro Resources Ltd	Canada	Mineros Nacionales SA	Gold ores	94.5	35.0
2010	Office Depot de Mexico SA	Mexico	Carvajal SA-Stationery	Stationery and office supplies	100.00	23.00
2010	Estrella International Energy	Argentina	STS de los Andes SA	Drilling oil and gas wells	100.00	18.06
2010	Gasco SA	Chile	Inversiones GLP ESP	Offices of holding companies, nec	70.00	17.29
2010	Tapestry Resource Corp	Canada	Gran Colombia Gold SA	Gold ores	100.00	16.46
2009	Cia Vale do Rio Doce SA	Brazil	Cementos Argos SA-Coal Mine	Cement, hydraulic	100.0	373.0
2009	Cia Vale do Rio Doce SA	Brazil	Undisclosed Coal Assets,	Bituminous coal and lignite surface mining	100.0	305.8

Year	Acquiring company	Home economy	Target company	Target Industry	Shares acquired (%)	Estimated/ announced transaction value (US$ million)
2009	Kimberly-Clark Corp	United States	Colombiana Kimberly Colpapel	Sanitary paper products	31.3	289.0
2009	Inversiones Argos SA	Colombia	Colinversiones	Offices of holding companies	15.3	119.2
2009	Investor Group	Chile	Bavaria SA-Agua Brisa Bottled	Bottled & canned soft drinks & carbonated waters	100.0	92.0
2009	Cencosud	Chile	Easy Colombia SA	Grocery stores	30.0	60.0
2009	Orkam Holding Colombia NV	Netherlands	Makro Supermayorista SA	Grocery stores	43.6	37.6
2009	Corporacion Farmaceutica	Chile	Laboratorios Synthesis Ltda-	Pharmaceutical preparations	100.0	18.0
2009	Mexichem SAB de CV	Mexico	Geon Polimeros Andinos SA	Industrial organic chemicals	50.0	13.5
2009	Orofino Gold Corp	Canada	Sur de Bolivar Group of Gold P	Gold ores	55.0	12.8
2008	GE Money	United States	Banco Colpatria SA	Banks	39.3	228.0
2008	Pacific Rubiales Energy Corp	Canada	Kappa Energy Holdings Ltd	Crude petroleum and natural gas	100.0	168.0
2008	Indura SA	Chile	Cyrogas SA	General industrial machinery and equipment	100.0	139.2
2008	Brysam Global Partners	United States	Banco Caja Social SA	Banks	18.8	101.7
2008	GE Money	United States	Banco Colpatria SA	Banks	10.7	72.8
2008	Grupo Votorantim	Brazil	Acerias Paz del Rio SA	Steel works, blast furnaces, and rolling mills	n.a.	68.3
2008	Stratton Spain SL	Spain	Multienlace SA	Business services	n.a.	62.4
2008	B2Gold Corp	Canada	AngloGold Ashanti Ltd-Mineral	Chemical and fertilizer mineral mining	100.0	47.5
2008	CAF	Venezuela	Transportadora de Gas del	Natural gas transmission	n.a.	40.0
2008	Xira Invest Inc	Panama	Carbones Colombianos	Coal mining services	n.a.	25.0

Source: The author, based on Thomson ONE Banker, Thomson Reuters.

Annex table 7. Colombia: main greenfield projects, by inward investing firm, 2008-2010

(US$ million)

Year	Investing company	Home economy	Industry	Value
2010	Pacific Rubiales	Canada	Coal, oil and natural gas	2,000.0
2010	Greystar Resources	Canada	Metals	600 .0
2010	Millicom International Cellular	Luxembourg	Communications	512.0
2010	Hejoassu Administracao	Brazil	Metals	327.0 [a]
2010	Canacol Energy	Canada	Coal, oil and natural gas	307.7 [a]
2010	Canacol Energy	Canada	Coal, oil and natural gas	307.7 [a]
2010	Drummond	United States	Coal, oil and natural gas	282.6 [a]
2010	Alange Energy	Canada	Coal, oil and natural gas	282.6 [a]
2010	EBX Group	Brazil	Coal, oil and natural gas	282.6 [a]
2010	EBX Group	Brazil	Coal, oil and natural gas	282.6 [a]
2009	Cisneros Group of Companies	Venezuela	Leisure and entertainment	250.0
2009	Inveravante	Spain	Coal, oil and natural gas	200.0
2009	Telefonica	Spain	Communications	180.0
2009	Terremark Worldwide	United States	Communications	171.1 [a]
2009	Global Crossing	Bermuda	Communications	171.1 [a]
2009	Royal Vopak	Netherlands	Transportation	149.3 [a]
2009	SkyPostal Networks	United States	Transportation	149.3 [a]
2009	InterOil Exploration and Production ASA	Norway	Coal, oil and natural gas	139.5 [a]
2009	Carrefour	France	Food and tobacco	131.3
2009	Farmatodo	Venezuela	Pharmaceuticals	100.0

2008	Glencore International	Switzerland	Coal, oil and natural gas	3,000.0
2008	Votorantim Group	Brazil	Metals	1,500.0
2008	Endesa	Spain	Alternative/renewable energy	900.0
2008	Carrefour	France	Food and tobacco	300.0
2008	Cambridge Mineral Resources	United Kingdom	Metals	283.2 [a]
2008	Toyota Motor	Japan	Automotive OEM	232.2 [a]
2008	Endesa	Spain	Coal, oil and natural gas	229.0 [a]
2008	Related Group	United States	Hotels and tourism	200.0
2008	Kimberly-Clark	United States	Paper, printing and packaging	161.4 [a]
2008	Saint-Gobain	France	Ceramics and glass	160.0

Source: The author, based on fDi Intelligence, a service from the Financial Times Ltd.

[a] Estimated investment.

Colombia: Outward FDI and its policy context, 2011

Ana María Poveda Garcés[*]

Outward foreign direct investment (OFDI) from Colombia has increased considerably in the past decade, with its stock growing from US$ 3 billion in 2000 to US$ 23 billion in 2010. This growth reflects the internationalization of the Colombian economy following policy reforms and economic liberalization in the 1990s. The 2000s were characterized by enhanced national security and reforms to the investment framework that have attracted unprecedented levels of inward FDI and facilitated the growth of small and medium-sized enterprises (SMEs). A considerable rise in domestic mergers and acquisitions (M&As) in the past decade has contributed to the development of Colombian multinational enterprises (MNEs) and to increased OFDI from Colombia. In 2010, outflows showed a twenty-fold increase from their value in 2000, including an increase in OFDI to export markets, helped by greater government support for OFDI, for example by the conclusion of more international investment agreements. The rise of Colombian MNEs, or "translatinas" (i.e. Latin American MNEs whose OFDI is primarily within Latin America), reflects Colombia's nascent structural transformation into a knowledge-based economy. Together with Chile and Peru, Colombia has recently created the first regionally-integrated stock exchange in the region, the Mercado Integrado Latinoamericano (MILA), which is likely to facilitate FDI flows.

Trends and developments

Latin American corporations are going global,[1] as reflected in their higher OFDI growth rates in recent years, compared to those of a decade earlier. Colombia, Latin America's fifth largest economy, has joined the leaders of this trend, especially since 2005. Colombia's OFDI stock grew from an insignificant US$ 136 million in 1980 to US$ 3 billion in 2000, and then to US$ 23 billion in 2010, nearly an eight-fold increase during the past decade (annex table 1).[2] Colombian OFDI flows in 2000 were relatively insignificant at US$ 325 million, after which they grew rapidly. While Colombia's real GDP grew by 185% from 2000 to 2010,[3] OFDI flows increased twenty-fold (annex table 2). Colombia's OFDI to GDP ratio thus rose from 0.1% to 1.5% in the same period.[4] An increasing proportion of Colombia's OFDI is directed toward host countries in Latin America, and most Colombian MNEs are translatinas.

Country-level developments

[*] The author wishes to thank Thomas Jost, Gianluca Mele and José Antonio Ocampo for their helpful comments. First published September 1, 2011.

[1] UNCTAD, *World Investment Report 2010: Investing in a Low Carbon Economy* (Geneva: United Nations, 2010), p. XIII.

[2] UNCTAD's FDI/TNC database, available at: http://stats.unctad.org; Banco de la República, available at: http://www.banrep.org.

[3] Departamento Administrativo Nacional de Estadística (DANE), available at: www.dane.gov.co.

[4] Author's estimates using GDP data from the Economist Intelligence Unit (EIU) and OFDI data from UNCTAD, given in annex table 2 in the statistical annex to this publication.

Colombia's 1991 constitutional reform entailed changes in its regulatory framework that opened the economy to world trade. Major investment policy reforms followed in the 1990s and 2000s (see below). After stagnant growth in the 1990s and following the crisis years of the late 1990s, Colombia experienced a strong economic upswing in the second half of the 2000s, one of its best performances since the late 1960s. The country's security situation also improved remarkably during the presidency of Alvaro Uribe (2002-2010).

As a result, enhanced investor confidence coupled with sound macroeconomic policy and a rich resource base contributed to a strong increase in real GDP that averaged 4.1% annually in 2000-2010.[1] In the same period, exports tripled,[2] inward FDI stock more than sextupled[3] and the financial sector more than doubled (as measured by assets).[4] The Colombian stock exchange, Bolsa de Valores de Colombia (BVC), experienced a fourteen-fold increase in market capitalization and index growth during the 2000s,[5] and the economy began commercial and financial integration with other regional economies, with large intra-regional capital flows and more pro-investment policy-making. In 2010, Chile, Colombia and Peru announced the creation of the region's first integrated stock market, the Mercado Integrado Latinoamericano (MILA).

At the beginning of 2011, Standard & Poor's raised the sovereign rating of Colombia to investment grade, two levels behind Chile, and, along with those of Brazil, Mexico, Panama, and Peru, ahead of Argentina and Venezuela. By the second quarter of 2011, the other two rating agencies, Moody's and Fitch, had joined S&P in giving Colombia an investment grade rating. That Colombia has earned back investor confidence not only attests to the country's mix of liberal frameworks for trade and investment with rather conservative regulatory, macroeconomic (especially monetary) and financial-sector practices, but also constitutes a safeguard against political risk, while positioning its economy and corporate players prominently in the region.

While Colombia's OFDI flows started from an insignificant base in 2000, their growth rate during the past decade has shown considerable momentum: Colombian OFDI flows grew twenty-fold in the 2000s, from US$ 325 million in 2000 to US$ 6.5 billion in 2010 (annex table 2).[6] A 2005 reform consolidated financial regulatory bodies into one entity, the Financial Superintendence (Superintendencia Financiera), perhaps one of Colombia's most important steps toward regulatory efficiency in its domestic financial markets. After this consolidation, domestic M&As have soared, contributing to the development of many MNEs.

The sectoral and industry distribution of Colombia's OFDI is evolving. During the 1990s, the secondary and services sectors together accounted, on average, for more than 95% of Colombia's OFDI flows (annex table 3), with financial services accounting for the single largest share of OFDI in the ten-year period. In the past decade (2000-2009), OFDI in the services sector still continued to grow, albeit not as aggressively as in the primary sector. As Colombia's economy gradually shifted to a knowledge-based economy, cross-border investment in services (other than financial) increased rapidly (see annex table 3).

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[1] Departamento Administrativo Nacional de Estadística (DANE), available at: www.dane.gov.co.
[2] Ibid.
[3] Banco de la República, available at: http://www.banrep.gov.co.
[4] Ibid.
[5] Author's calculations using BVC annual reports 2001 and 2010.
[6] Banco de la República, available at: http://www.banrep.gov.co.

Since 2007, however, Colombian FDI outflows were strongly dominated by large investments by Ecopetrol SA, now a public-private holding that was privatized in that year. Since then, the primary sector has accounted for roughly 70% of Colombia's OFDI, with petroleum and natural gas accounting for most investment.

In 2010, the main recipient economies of Colombia's OFDI flows included Bermuda (US$ 2.1 billion), the British Virgin Islands (US$ 1.4 billion), Guatemala (US$ 661 million), the United Kingdom (US$ 631 million), Panama (US$ 414 million), the United States (US$ 375 million), Peru (US$ 307 million), Chile (US$ 282 million), and Brazil (US$ 189 million) (annex table 4). There is no specified economic activity in the case of Bermuda and the British Virgin Islands other than financial, suggesting a possible outflow of capital to avoid home-country taxes. Also, it is difficult, on the basis of standard data, to determine how much of this capital has returned to the country as "round-tripping" FDI.

The corporate players

Colombia has shown a tendency for state-owned enterprises to be turned into national champions, as in the case of Ecopetrol SA, Interconexión Eléctrica (ISA), Empresas Públicas de Medellín, and, most recently, Empresas de Telécomunicaciones de Bogotá (ETB). These largely state-owned enterprises rank among the top Colombian MNEs, with OFDI mainly (but not exclusively) flowing from them to Latin American economies.

- Colombia's largest company, Ecopetrol SA, is one of the world's top 40 oil companies. It has activities in Colombia, the United States, Brazil, and Peru, more than tripppling its production since 2005.[1] Ecopetrol SA had its initial public offering on the Colombian stock exchange in 2007, selling to 500,000 shareholders and raising equity capital of more than COP 7.7 billion.[2]

- Colombia's Interconexión Eléctrica S. A. (ISA) is one of Latin America's largest electricity providers, with operations in Brazil, Chile, Ecuador, Panama, Peru, and Venezuela.[3] It has evolved from being just an electricity company by diversifying its investment portfolio into multiple infrastructure projects, including transportation and telecommunications, under a cost-effective model entitled "lineal infrastructure systems" (e.g. fiber-optics for communications connected to the electricity grid).[4]

- Empresas Públicas de Medellín (EPM) is the largest electricity provider in Colombia, serving roughly 25% of the national demand for electricity. EPM is developing the Bonyic hydroelectric project in Panama, and has grown considerably both in assets and capacity in 2000-2010. Along with ISA, EPM is largely a public holding operating with a minority stake of private capital.[5]

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[1] Ecopetrol, *Who Are We?*, available at: www.ecopetrol.com.co.
[2] Ecopetrol, *Annual Reports 2007; 2008; 2009; 2010*.
[3] After the company's first IPO a decade ago, ISA has been able to raise equity capital to finance rapidly increasing operations and investments across Latin America through cross-border M&As as well as greenfield projects (see annex tables 6 and 7 for examples).
[4] Interconexión Eléctrica S. A. (ISA), *Annual Report: 2008; 2009*.
[5] Empresas Públicas de Medellín (EPM), *Annual Report: 2009*.

- In the financial services industry, Grupo Bancolombia, a rapidly developing translatina, is by far the largest corporate player. In 2007, Bancolombia completed one of Central America's largest deals with the US$ 790 million acquisition of Banagrícola in El Salvador.[1] This transaction represented Bancolombia's entry into the international financial services market, positioning the company as a key player in Central America. Bancolombia has also invested in foreign affiliates in Brazil, the United States, Puerto Rico, Panama, and Peru.[2]

- Argos, a Colombian cement translatina, started its internationalization in 2000 after acquiring the debt-stressed Belgian firm Holcim's holdings in the Dominican Republic, Haiti and Panama, thus opening the door for the company's expansion and consolidation in the Caribbean. Argos operates today in the southern United States, Mexico, Central America, the northern part of South America (Colombia), and various islands in the Caribbean.[3]

- Terpel, a gasoline distributor, had been for many years (before Ecopetrol's transformation) Colombia's largest company by turnover, which reached US$ 3.4 billion in 2009.[4] With activities in Chile, Ecuador, Mexico, Panama and Peru, the company competes today for second place in turnover after Ecopetrol SA.[5]

- Another important translatina that internationalized its production in the 2000s after going through a strategic sequence of local acquisitions is Grupo Nacional de Chocolates (GNC), now called Grupo Nutresa after its recent acquisition in 2009 of the Mexican food company Nutresa, which produces chocolate-based confectionary. After beginning its operational expansion in Ecuador and Venezuela, the emerging food conglomerate is now operating in 14 economies.[6]

- Avianca, Colombia's oldest airline went in one decade from filing for Chapter 11 bankruptcy in New York to becoming one of the region's largest, most competitive airlines. Avianca's most recent acquisition of 10% of Central America's Taca has made Avianca-Taca a competitor with a strong presence outside Colombia, reaching more than 100 destinations globally and 75 in Latin America; with operations in Colombia, Costa Rica, El Salvador, and Peru, Avianca-Taca delivers an improved service to more than 30 million clients annually.[7]

Annex table 6 shows the largest cross-border M&As by Colombian MNEs during 2008-2010.[8] Some large transactions have taken place, such as the ISA acquisition of Cintra Concesiones (Chile) for

[1] Thomson Reuters, Thomson ONE Banker.
[2] Ibid.
[3] Argos, Cementos, *Annual Reports 2010 and 2009*; Inversiones Argos, *Annual Report 2010*.
[4] Terpel, *Annual Report 2009*; exchange rate as at April 28, 2011 from Banco de la República, available at: www.banrep.gov.co.
[5] Ibid.
[6] Nutresa: *Annual Report 2009*; Thomson Reuters, Thomson ONE Banker.
[7] Avianca, "News", available at: www.avianca.com.co
[8] Similarly large cross-border M&A transactions took place in the middle of the 2000-2010 decade, for example in 2005 Grupo Santo Domingo sold its share in Bavaria (78.1% of the company's assets) in exchange for 15.1% of SAB Miller (United Kingdom) for US$ 7.8 billion, the single largest transaction in Latin America that year. Also in 2005, Colpatria bought from Citibank the pension fund from Colfondos for an undisclosed amount; Grupo Mundial bought a Brazilian tubes and water conduction company, while investing in a greenfield project in Curacao; and Progel and Gelco acquired shares of Kraft both in Ecuador and Brazil, making the company one of the world's largest gelatin producers.

US$ 2.6 billion, as well as the acquisition of Grupo Aval of BAC (Panama) for US$ 1.9 billion and the EPM acquisition of DECA II (Guatemala) for US$ 758 million.

Recent greenfield projects completed by Colombian translatinas are shown in annex table 7. Newly emerging MNEs include Juan Valdez (Procafecol), Grupo Aval, ETB, Promigas, Gerfor, Grupo Phoenix, Casa Luker, Allus Global BPO Center, Zemoga, Supertex, Intergrupo, Corona, Ultrabursatiles, Ajover, Colpatria, Corona, and Deprisa.

Effects of the recent global crisis

In spite of the global economic and financial crisis in 2008-2009, Colombia's economy has continued to grow in recent years. Although real GDP growth declined to 3.5% in 2008 and to 1.5% in 2009 (from an annual average of 4.5% in 2001-2007), the Colombian economy was less affected by the crisis than many other economies. Real GDP growth rates cited above were similar to those of the recession recovery years of 2001 (1.7%) and 2002 (2.5%).[1] In 2010, real GDP grew by 4.3%,[2] showing a recovery stronger than some major world economies, but slower than those of comparable economies such as Argentina, Brazil, Chile, Mexico, and Peru.[3]

Strong domestic investment and IFDI flows contributed substantially to an increase in gross fixed capital formation, which peaked in 2010 at an 11% growth rate.[4] Inward FDI flows grew from US$ 2.4 billion in 2000 to US$ 10.6 billion in 2008, and while they decreased slightly to US$ 7.2 billion in 2009, IFDI stock continued its upward trend, rising from US$ 67 billion in 2008 to US$ 74 billion in 2009.[5] OFDI flows emerged virtually unshaken from the crisis, peaking in 2010 at US$ 6.5 billion, a six-fold increase vis-à-vis 2007. Some of today's translatinas, including Cementos Argos, EPM, and Grupo Nacional de Chocolates (Nutresa),[6] took advantage of the crisis to invest at record low cost and thus expand abroad.

The policy scene

In the 1990s, the Colombian Government's predominant method of encouraging international economic transactions did not go beyond supporting trade activities in export markets. Today's key recipients of OFDI from Colombia are in most cases also the main recipients of Colombian exports. During the past decade, Colombia has revised its investment framework with efforts directed at promoting investment and the emergence of translatinas.

In 2005, after the creation of the Superintendencia Financiera, procedures and transaction costs for domestic M&As improved, so Colombia's largest MNEs were able to capitalize on domestic expansion through innumerable local acquisitions that positioned many of the top firms on a path of further growth

[1] Based on data from Colombia's Departamento Administrativo Nacional de Estadística (DANE), available at: www.dane.gov.co.
[2] Ibid.
[3] According to Economist Intelligence Unit (EIU), GDP growth in 2010 for Argentina was 9.2%, Brazil 7.5%, Chile 5.2%, Mexico 5.5%, and Peru 8.8%.
[4] Departamento Administrativo Nacional de Estadística (DANE), available at: www.dane.gov.co.
[5] Miguel Posada Betancourt, "Inward FDI in Colombia and its policy context", in Karl P. Sauvant, Thomas Jost, Ken Davies, and Ana-Maria Poveda-Garces, eds., *Inward and Outward FDI Country Profiles* (New York: VCC, 2011).
[6] Thomson Reuters, Thomson ONE Banker; fDi markets database, a service from the Financial Times.

and internationalization.[1] Also in 2005, *"Ley 963 de 2005"* established legal stability for investors, both foreign and domestic.[2]

In 2006, the Uribe Government focused on investment, dedicating Chapter Four of the *National Plan of Development 2006-2010* to laying out a national blueprint for facilitating investment,[3] as well as embarking on a new era of investment promotion by promoting security, stability and competition at home.[4] Then in 2008, the Government enacted *"Ley 1253 de 2008"* in which it regulates "productivity and competitiveness (…) that facilitate the incorporation of Colombia in the global economy and better export performance".[5] The combination of these policies has served to strengthen Colombian enterprises and their ability to invest abroad.

Most recently, in 2009, the Government enacted *"Ley 1340 de 2009",* in which it regulates the "protection of free competition in the Colombian territory", a norm that is attractive to both domestic and foreign investors.[6]

In 2010, Chile, Colombia and Peru signed a commitment to create the first regionally integrated stock exchange, the Mercado Integrado Latinoamericano (MILA), which started trading operations on May 31, 2011.[7] The MILA economies constitute the market in Latin America with the highest prospects for real GDP growth (estimated at 4-6% per annum) according to the World Bank,[8] as well as the region's most diversified turnover, with growing exports to Asia, Europe and the United States.[9] Also, MILA members' strategic position on the Pacific coast coupled with their increasing sales to China (which seeks their commodities) and their position as the region's friendliest host countries for foreign investors as shown in the World Bank's 2011 *Ease of Doing Business* report[10] suggest that OFDI from Colombia will continue to expand.

These policy developments suggest that Colombia's policy makers now understand the dynamism and opportunity that OFDI brings, as reflected recently in international investment agreements (IIAs). Colombia has signed six double taxation treaties (DTTs) (with Argentina, Canada, Chile, Mexico, Spain, and the United States), and nine bilateral investment treaties (BITs) (with China, Cuba, Guatemala, India, Luxembourg, Peru, Spain, Switzerland, and the United Kingdom), (while most OECD economies had signed more than 50 each by 2010).[11] Two-thirds of Colombia's BITs were signed in the late 2000s,[12]

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[1] Domestically, the facilitating framework for M&As has made possible the merger of various banks, making the whole system more effective. The largest mergers include the 2005 merger of Bancolombia, Conavi and Corfinsura —the largest single deal in the financial sector— as well as the merger of Corporación Financiera del Valle (one of the regional funding muscles for economic development) with Corficolombiana, and the merger of Caja Social with Colmena, and Davivienda and Banco Superior. This re-structuring process has further encouraged Colombian banking MNEs' growth and their OFDI.

[2] See "*Ley 963 de 2005*", available at: www.juriscol.banrep.gov.co.

[3] Gobierno Nacional de la Republica de Colombia, *"Plan Nacional de Desarrollo 2006-2010: Estado Comunitario, Desarrollo para Todos"* (Colombia: 2006).

[4] Presidencia de la Republica: *Archivos*, 2006.

[5] See *"Ley 1253 de 2008,"* available at: www.juriscol.banrep.gov.co.

[6] See *"Ley 1340 de 2009,"* available at: www.juriscol.banrep.gov.co.

[7] Mercado Integrado Latinoamericano (MILA): http://mercadointegrado.com

[8] World Bank, available at: www.worldbank.org.

[9] Citigroup Global Markets, "Latin America equity strategy" report (March 21, 2011).

[10] World Bank, *Ease of Doing Business, 2011*, available at: http://www.doingbusiness.org/rankings.

[11] UNCTAD, available at: http://www.unctad.org.

[12] Ibid.

suggesting that Colombia has recently begun to take a more active role in international investment diplomacy.[1]

In addition to expanding its network of IIAs, Colombia now faces the challenge of encouraging sustainable investment. Policy reforms are needed that can optimize investments in oil and gas in a world of twin energy-environmental crises, as well as encourage corporate social responsibility that balances the returns to Colombian MNEs with a positive environmental impact and the human, social and economic development of the host economies in which their foreign affiliates operate. In particular, Colombia must continue to strengthen its environmental impact assessment (EIA) system, as well as ensure a more effective application of international standards related to EIA in the public and private sectors (including as regards OFDI by Colombian MNEs), and in line with Colombia's commitments under relevant international agreements.[2] Recent studies have concluded that Colombia has promulgated laws regulating the environmental impact of commercial activity,[3] but still needs to widen the (currently rather limited) scope of legal measures and administrative support, and put in place procedures for the design and implementation of environmental impact systems and follow-up and control mechanisms.[4]

Colombia also faces specific challenges in infrastructure. Although the country is one of the region's largest and most developed economies, bottlenecks in transport could pose avoidable limitations to the domestic growth and corporate profits of emerging MNEs, and thereby also to job creation and GDP growth. The current administration's emphasis on infrastructure as one of the key engines of growth could contribute enormously to OFDI and GDP growth, as outlined in the *National Plan for Development 2010-2014*.

Conclusions

Colombia's OFDI has shown considerable growth after major policy reforms, enhanced security and investor confidence in the past decade. Similar growth rates were recorded in the mid-1990s after the opening of the economy to world trade and other liberalizing policies of the early-1990s. The improved security situation, a stronger financial sector with increasing capital available for local MNEs, a combination of liberalized policy in trade and investment, and conservative monetary policy and financial regulations have all also contributed to strengthening Colombia's economy and enabling the internationalization of its corporations. Colombia nevertheless faces challenges, especially in

[1] Colombia can contribute to its translatinas potential by taking more advantage of IIAs, for example by signing more DTTs and BITs to avoid double taxation on profits, dividends, interest, fees, and royalties and to safeguard OFDI against political risks.

[2] Colombia has signed international treaties, such as the United Nations Conference on the Human Environment (UN, 1972), the Convention on Biological Diversity (1992), the United Nations Conference on Environment and Development (UN, 2002) and the Convention on the Environmental Impact Assessment in a Trans-boundary Context (UN, 1991).

[3] Some of these laws include: *"Ley 1252 de 2008",* which stipulates prohibitive norms on environmental issues related to waste and residuals, *"Ley 1374 de 2010,"* which has resulted in the creation of the National Council on Bioethics (Consejo Nacional de Bioética –CNB), the body that will be responsible for "establishing an interdisciplinary dialogue to formulate, articulate and resolve the issues that are found in the research about the inter-connection between life, health and the environment, as well as the construction and implementation of policies related to bioethics", and *"Ley 1377 de 2010"*, which regulates commercial reforestation.

[4] See, Javier Toro, Ignacio Requena and Montserrat Zamorano, "Environmental impact assessment in Colombia: critical analysis and proposals for improvement," in *Environmental Assessment Review*, No. 30, 2010 pp. 247-261.

infrastructure development, in strengthening its MNEs' capabilities, and the need to take further advantage of IIAs and seek to promote sustainable OFDI.

Additional readings

Banco de la República, *Cuadernos de Historia Económica de Colombia*, at: www.banrep.gov.co.

Ocampo, José Antonio, et al., *Stability with Growth: Macroeconomics, Liberalization and Development* (New York: Oxford University Press, 2006).

Ocampo, José Antonio, "Foreword", in Daniel Chudnovsky et al., eds., *Rethinking Foreign Investment for Sustainable Development: Lessons for Latin America* (New York and London: Anthem Press, 2009).

Useful websites

Banco de la República: www.banrep.gov.co

Colombian Jurisprudence: www.juriscol.banrep.gov.co

Departamento Administrativo Nacional de Estadística: www.dane.gov.co

Statistical annex

Annex table 1. Colombia: outward FDI stock, 1997, 2000, 2007, 2009, 2010, and 2011 [a]

(US$ billion)

Economy	1997	2000	2007	2009	2010	2011
Colombia	2	3	11	16	23	31
Memorandum: comparator economies						
Brazil	45	52	136	158	181	203
Mexico	5	8	45	54	66	112
Chile	5	11	32	41	50	69
Argentina	16	21	28	29	30	31
Venezuela	5	8	15	15	20	20
Peru	1	1	2	2	3	3

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi. Data for Colombia were compiled from the balance-of- payments statistics of Banco de la República, available at: http://www.banrep.org.

[a] All figures are in US$ at current prices and current exchange rates.
[b] Banco de la República, available at: http://www.banrep.gov.co.

Annex table 2. Colombia: outward FDI flows, 2000-2011 [a]

(US$ million)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Colombia	325	16	857	938	142	4,662	1,098	913	2,254	3,025	6,504[b]	8,289
Memorandum: comparator economies												
Argentina	901	161	-627	774	676	1,311	2,439	1,504	1,391	712	964	1,488
Brazil	2,282	-2,258	2,482	249	9,807	2,517	28,202	7,067	20,457	-10,084	11,519	-1,029
Chile	3,987	1,610	343	1,606	1,563	2,183	2,172	2,573	8,041	8,061	8,744	11,822
Mexico	363	4,404	891	1,253	4,432	6,474	5,758	8,256	1,157	7,019	14,345	8,946
Peru	..	74	..	60	..	..	..	66	736	398	215	113
Venezuela	521	204	1,026	1,318	619	1,170	1,524	30	1,273	1,834	2,390	173

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi.

[a] All figures are in US$ at current prices and current exchange rates. Data for Colombia were originally compiled by the Banco de la República, available at: http://www.banrep.gov.co.

[b] Data for Colombia for 2010 are from the Banco de la República (Subgerencia de Estudios Económicos), available at: http://www.banrep.gov.co.

Annex table 3. Colombia: distribution of outward FDI flows, by economic sector and industry, 1994, 2000, 2007, and 2010[a]

(US$ million)

Sector / industry	1994	2000	2007[b]	2010[b]
All sectors / industries	149	325.3	912.8	6,503.7
Primary	2.4	7.9	178.3	5750.4
Agriculture, forestry and fishing	2.4	-1.8	2	14
Mining, quarrying and petroleum	0.0	0	1.2	4,573.8
Electricity, gas and water	0.0	9.7	175.1	1,162.6
Secondary	82	56.2	-207.5	148.4
Manufacturing	78.2	54.9	-211.1	122.5
Construction	3.8	1.3	3.6	25.9
Services	64.6	261.3	942.1	604.8
Commerce, restaurants, hotels	6.9	13	171.4	25.2
Transport, warehouse and communications	2.7	-11.6	15	409.1
Financial establishments	54.7	225.3	745.9	109
Communal services	0.3	-1.3	11.4	58.9
Non-specified activities	0	36	-1.6	2.6

Source: Banco de la República, available at: http://www.banrep.gov.co.

[a] Figures are in US$ at current prices and current exchange rates.
[b] Preliminary.

Annex table 4. Colombia: geographical distribution of outward FDI flows, selected years, 1994-2010 [a]

(US$ million)

Region / economy	1994	2000	2005[b]	2006[b]	2007[b]	2008[b]	2009[b]	2010[b]
World	149	325	4,662	1,098	913	2,254	3,088	6,504
Developed economies								
Europe								
Switzerland	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.8
European Union								
Belgium	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
France	0.1	0.0	0.0	0.0	0.3	5.0	0.0	0.6
Germany	0.1	0.0	0.0	0.0	-0.1	0.0	0.0	-60.2
Malta	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13.5
Netherlands	0.0	0.0	0.1	0.0	0.3	0.0	0.0	-19.0
Spain	1.9	30.8	1.0	3.0	8.0	18.9	9.2	7.0
United Kingdom	2.6	-2.6	3,445.8	37.6	1.3	0.0	0.0	630.7
North America								
Canada	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5
United States	0.9	81.0	1,058.4	252.8	596.3	1,320.9	1,020.6	375.2
Developing economies								
Africa								
Mauritius	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.3
Asia and Oceania								
China	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
India	0.0	0.0	3.6	0.4	1.6	0.0	0.0	1.1
Korea, Republic of	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
Latin American and the Caribbean								
Argentina	0.0	-2.8	1.2	1.2	11.3	2.0	16.2	7.2
Bahamas	7.7	9.8	0.0	3.5	0.2	0.0	16.4	30.0
Barbados	0.0	0.3	0.0	0.0	0.0	0.0	0.0	7.7
Bermuda	0.0	3.0	0.1	0.0	74.7	0.0	767.1	2,146.6
Bolivia	0.1	-0.5	0.0	0.2	0.0	0.0	0.0	0.1
Brazil	0.7	1.1	0.1	305.0	172.9	408.6	146.3	189.3
Cayman Islands	1.3	-1.1	0.0	7.3	14.3	0.0	447.8	15.2
Chile	1.0	2.5	23.1	2.4	24.8	18.0	8.6	282.0
Costa Rica	0.2	0.4	5.5	104.2	4.2	9.9	0.0	1.0
Curacao	0.0	0.0	0.0	0.0	0.0	0.0	15.5	7.7
Dominican Republic	0.0	1.0	0.3	0.9	0.5	0.0	0.0	3.2
Guatemala	0.0	0.2	0.3	0.4	4.1	0.0	0.0	661.3
Jamaica	0.0	0.1	0.1	0.0	0.0	0.0	0.0	28.2
Mexico	3.5	4.7	4.7	13.7	67.3	181.4	98.0	-4.9

Netherlands Antilles	0.0	0.0	0.0	0.0	55.7	0.0	0.0	69.7
Panama	66.3	86.0	76.3	288.0	181.3	275.5	340.3	414.0
Peru	2.9	16.8	4.9	10.4	-364.3	-46.0	62.8	307.2
Salvador	0.0	0.0	1.6	8.3	0.1	0.0	23.4	0.4
Suriname	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.7
Uruguay	0.0	0.7	0.0	0.0	0.6	0.0	7.6	8.5
Venezuela	41.8	90.6	3.9	2.7	5.9	4.7	0.0	0.5
British Virgin Islands	1.1	-2.1	12.8	45.8	21.6	0.0	100.9	1,360.8

Source: Banco de la República, available at: http://www.banrep.gov.co.

[a] Figures are in US$ at current prices and current exchange rates.
[b] Provisional.

Annex table 5. Colombia: top non-financial MNEs and financial MNEs, 2009, ranked by turnover

Ran k	Company	Turnover 2009 (US$ million) [a]	Total assets 2009 (US$ million) [a]	Industry
1	Ecopetrol SA	15,511	29,758	Oil and gas
2	Terpel	3,378	330	Gasoline and lubricants distributor
3	Grupo Nacional de Chocolates (GNC)	2,572	3,884	Food and beverages
4	Inversiones Argos	2,518	10,192	Financial
5	Empresas Publicas de Medellin (EPM)	2,447	13,232	Electricity
6	Cementos Argos	1,934	8,238	Cement
7	ISA (Interconexion Electrica)	1,854	9,556	Electricity
8	Grupo Carvajal	1,724	n.a.	Office and paper products
9	Alpina Productos Alimenticios	628.7	535.4	Food and beverages
10	Postobon	395.2	836.7	Food and beverages
11	Corona	391.2	n.a.	Construction
12	Fabricato	310.7	638.3	Apparel and clothing
13	Ajover[b]	86.3	n.a.	Construction
14	Computec	79.0	38.9	IT and software solutions
15	Promigas[b]	60.1	n.a.	Oil and gas
16	Gerfor[b]	53.3	n.a.	Construction
17	Procafecol SA[c]	43.9	n.a.	Food and beverages
18	Supertex[b]	15.7	n.a.	Apparel and clothing
19	Open Systems[b]	12.0	n.a.	Software solutions
20	Consult Soft[b]	1.3	n.a.	Consulting services and software solutions
21	Zemoga[b]	0.51	n.a.	Office software and marketing solutions
22	Promigas[b]	0.14	1,126.4	Oil and gas

(a) Top MNEs in industries other than financial services, ranked by turnover
(b). Top MNEs in financial services, ranked by assets

Rank	Company	Turnover 2009 (US$ million) [a]	Total assets 2009 (US$ million) [a]	Industry
1	Bancolombia	n.a.	35,847.0	Financial
2	Multibanca Colpatria	697.7	4,976.8	Financial
3	Grupo Aval	n.a.	3,506.7	Financial
4	Colinversiones	0.12	1,835.2	Financial
5	Sociedades Bolivar	249.2	1,317.3	Financial
6	Valorem	3.8	940.2	Financial
7	UltraBursatiles	22.9	16.8	Financial

Source: Companies' annual reports: FY2009, unless otherwise indicated.

[a] Dollar values at the exchange rate reported by the Banco de la República as at April 28, 2011, available at: http://www.banrep.gov.co, US$ 1 = COP 1,784.11.

[b] Data in US$ million for turnover is taken from fDi Intelligence, a service of the Financial Times Ltd. Data in COP million for turnover is converted from the US$ million data at the exchange rate reported above by the Banco de la República at www.barep.gov.co as at April 28, 2011: (1 US$ = COP 1,784.11).

[c] Procafecol SA includes Juan Valdez and The Colombian Coffee Federation (FNC), sometimes referred to as the National Coffee Producers Federation of Colombia.

Annex table 6. Colombia: largest M & A deals, by outward investing firm, 2008-2010

(US$ million)

Year	Acquiring company	Target economy	Target company	Target industry	Value
2010	Interconexion Electrica SA (ISA) ESP	Chile	Cintra Concesiones	Electrical services	2,589.0
2010	Grupo Aval Acciones y Valores	Panama	BAC Credomatic GECF Inc	Bank	1,920.0
2010	EPM	Guatemala	DECA II	Electrical services	758.0
2010	Grupo Nacional de Chocolates (GNC)	United States	Fehr Holdings LLC	Food	84.0
2010	Interconexion Electrica SA (ISA) ESP	Peru	Machupicchu-Abanacay-Cotaruse	Electrical services	62.6
2010	Avianca SA	El Salvador	Grupo TACA	Air transportation	40.0
2010	Petrominerales Ltd	Ireland	Pan Andean Resources PLC	Crude petroleum and natural gas	25.6
2010	EPM	Guatemala	Generadores Hidroelectricos SA	Electrical services	18.5
2010	EPM	Guatemala	Gestion de Empresas Electricas	Electrical services	11.5
2010	Tribeca Oil & Gas Inc	United Kingdom	PetroLatina Energy PLC	Investors	10.0
2010	Petrominerales Ltd	Norway	InterOil Exploration	Crude petroleum and natural gas	2.3
2010	Grupo EMI	El Salvador	Servicios de Atencion Medica	Local passenger transportation	1.8
2009	Cementos Argos SA	Panama	Holcim Ltd-Panama & Carribean	Cement, hydraulic	157.0
2009	Tecnoquimicas SA	El Salvador	Laboratorios Teramed	Pharmaceutical preparations	30.0
2009	Productos Familia SA	Argentina	Algodonera Aconcagua SA	Sanitary paper products	23.3
2009	Ferrasa SA	Panama	Aceros Transformados Panama-Pl	Steel works, blast furnaces, and rolling mills	10.0
2009	Grupo Nacional de Chocolates	Mexico	Nutresa SA	Chocolate and cocoa products	9.7
2009	Corficolombiana	Peru	Cia de Gas Comprimido del Peru	Investment advice	2.0
2009	Cia Global de Pinturas SA	Netherlands Antilles	Macomoca NV	Paints, varnishes, lacquers, & allied products	1.7
2009	O-tek Internacional SA	Brazil	Newsan Saneamento Ltda	Pressed and blown glass and glassware	0.6
2008	Grupo Nacional de Chocolates	Panama	Ernesto Berard	Chocolate and cocoa products	15.8

Source: Compiled by author, based on Reuters, Thomson One Banker.

Annex table 7. Colombia: largest greenfield projects announced, by outward investing firm, 2008-2010

Date	Investing company	Host economy	Investment (US$ million)	Industry	Business activity
2010	Gerfor	Peru	3,000.0	Plastics	Manufacturing
2010	Allus Global BPO Center	Peru	5.0	Business services	Customer contact centre
2010	Zemoga	United States	2.4[a]	Software & IT services	Sales, marketing & support
2010	Bancolombia	Peru	9.4[a]	Financial services	Business services
2010	Decameron Hotels and Resorts	Peru	85.0[a]	Hotels & tourism	Construction
2010	Decameron Hotels and Resorts	Peru	85.0[a]	Hotels & tourism	Construction
2010	Decameron Hotels and Resorts	Panama	130.0[a]	Hotels & tourism	Construction
2010	Sociedades Bolivar	Costa Rica	2.5[a]	Financial services	Sales, marketing & support
2010	Zemoga	United States	2.4[a]	Software & IT services	Sales, marketing & support
2010	Bancolombia	Panama	9.4[a]	Financial services	Business services
2010	Phoenix Packaging Group (Grupo Phoenix)	United States	20.0	Plastics	Headquarters
2010	Sociedades Bolivar	United States	11.2[a]	Financial services	Business services
2009	Supertex	El Salvador	26.9[a]	Textiles	Manufacturing
2009	Grupo Carvajal	Ecuador	1.7[a]	Software & IT services	Sales, marketing & support
2009	Grupo Carvajal	Panama	1.7[a]	Software & IT services	Sales, marketing & support
2009	Ecopetrol	Spain	5.2[a]	Coal, oil and natural gas	Sales, marketing & support
2009	Intergrupo	Peru	1.9[a]	Software & IT services	Business services
2009	Premex	Guatemala	16.4[a]	Healthcare	Manufacturing

2008	Ecopetrol	Mexico	220.0	Coal, oil and natural gas	Extraction
2008	Ecopetrol	United States	120.0	Coal, oil and natural gas	Extraction
2008	Firpol Botes	Mexico	1.0	Non-automotive transport OEM	Manufacturing
2008	Biotoscana	Mexico	53.7[a]	Pharmaceuticals	Manufacturing
2008	Caracol Television	Spain	2.3[a]	Leisure & entertainment	Sales, marketing & support
2008	Corona	Panama	14.8[a]	Consumer products	Retail
2008	Terpel	Chile	20.0	Coal, oil and natural gas	Retail
2008	Terpel	Peru	15.0	Coal, oil and natural gas	Retail
2008	Terpel	Mexico	12.0	Coal, oil and natural gas	Retail
2008	Promigas	Mexico	40.0	Coal, oil and natural gas	Retail
2008	The Colombian Coffee Federation (FNC)	Spain	14.2[a]	Beverages	Retail
2008	The Colombian Coffee Federation (FNC)	Ecuador	14.2[a]	Beverages	Retail
2008	The Colombian Coffee Federation (FNC)	Panama	14.2[a]	Beverages	Retail

Source: Compiled by author, based on fDi Intelligence, Markets Crossborder Investment Monitor, a service from the Financial Times Ltd.

[a] Estimated investment.

Chapter 27 - Egypt

Inward FDI and its policy context, 2011

Ahmed Kamaly[*]

Egypt, starting from the second half of the first decade of the 21st century, has begun to realize its potential as an important recipient of foreign direct investment (FDI) among developing economies. Having received only US$ 500 million of inward FDI (IFDI), amounting to 0.5% of GDP in 2001, Egypt attracted US$ 9.4 billion (approximately 5.7% of GDP), in 2008. While investment in oil and gas accounted for a large share of IFDI (over half in 2006-2009), the remainder is fairly well diversified. Developed economies account for three-quarters of Egypt's IFDI, but the share of emerging markets has risen recently. Largely because of the global financial crisis, inflows dropped in 2009, by 30%. IFDI is likely to be adversely affected in 2011 following the political turbulence associated with the January 25 Revolution. However, this democratic transformation carries the seeds of genuine political stability based on effective institutions and the rule of law, which would encourage long-term domestic and foreign investment.

Trends and developments

Country-level developments

In the 1990s capital inflows to developing economies, especially in the form of FDI, surged. Egypt, however, attracted low levels of IFDI, both in absolute and relative terms.[1] The low flows of FDI in the 1990s were mainly due to two factors. First, in the first half of the 1990s, contractionary domestic policies associated with the Economic Reform and Structural Adjustment Program (ERSAP) launched in 1991 to curb inflation reduce the government's deficit and eliminate various price distortions, inadvertently reduced Egypt's FDI attractiveness. Second, in the second half of the 1990s, adverse shocks (including the 1997 Luxor massacre and the 1997-1998 East Asian economic crisis) weakened the positive effects of the successful implementation of the ERSAP, resulting in modest IFDI flows.

The appointment of a new cabinet in 2004, and its efforts to improve the investment climate and encourage domestic and foreign investment[2] enhanced the attractiveness of Egypt as a business location. Consequently, annual IFDI flows rose to 7.5% of GDP in the period 2005-2008, which is reflected in an

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[1] Egypt had begun an open-door policy in the 1970s, when it encouraged foreign enterprises to invest in the country, mainly through joint ventures, to take advantage of its large market (more on this point in the "The corporate players" section of this chapter).

[2] Strong fundamentals manifested themselves in strong and rising GDP growth, reaching 7.1% in fiscal year 2006/2007; a decreasing fiscal deficit relative to GDP, reaching 7.5% in 2006/2007; a current-account surplus, reaching 2.1% of GDP in 2006/2007; a stable floating exchange rate; and international reserves exceeding U$ 30 billion in 2007. All these factors played a key role in revitalizing investment.

increase of Egypt's share in global IFDI flows to 0.6% during the same period, compared to only 0.06% in 2001. Egypt's IFDI stock grew from US$ 23.5 billion in 2004 to US$ 60 billion in 2008, recording an average annual growth rate of 26% (annex table 1).

In 2003, IFDI flows to Egypt, amounting to US$ 200 million, were much lower than those to comparable economies such as Argentina and South Africa (annex table 2). Yet, as the ascent of IFDI to Egypt started in 2004, and continued uninterruptedly until reaching its peak of US$ 12 billion in 2007, the situation changed. In 2008, although inflows to Egypt dropped to US$ 9.5 billion, they were still higher than flows to the Republic of Korea and South Africa. As 2009 figures show, IFDI inflows dropped by 30%, to US$ 6.7 billion, but were still ahead of those to Argentina and South Africa and only US$ 1.7 billion less than the IFDI received by Turkey. IFDI flows to Egypt fell a further 4.5% (to US$6.4 billion) in 2010 (annex table 2).

Most recently, the political uncertainty, unprecedented security challenges and widespread labor protests that accompanied the January 25 Revolution have interrupted the trend of IFDI to Egypt. In fact, according to the latest FDI figures, FDI outflows during the first quarter of 2011 were higher than FDI inflows, for a balance of US$163 million.[1]

Data on the sectoral distribution of IFDI have been compiled and made available only very recently by the Central Bank of Egypt (CBE).[2] Since 2004, FDI flows into Egypt appear to have been diversified somewhat from natural resources such as oil and gas. Nevertheless, petroleum and natural gas extraction and related activities accounted for 55% of total IFDI flows in 2006-2009 (annex table 3). Financial services have managed to attract sizeable amounts of IFDI, approximately 11% of the total over the same period, mainly as a result of large privatizations and mergers and acquisitions (M&As) in fiscal years[3] 2006/2007 and 2007/2008. Another industry group that shows a high variation of IFDI is information technology (IT) and communications, which soared to 15% of total IFDI in 2006/2007,[4] but dropped to a mere 2% in the three years that followed.

The industrial composition of Egypt's IFDI is fairly well diversified (annex table 3). However, following the global trend, high value-added activities such as manufacturing, financial services, IT, and communications were hit hard by the global financial and economic crisis of 2008-2009. Consequently, not only has there been a decrease in the absolute amount of FDI inflows attracted by these industries but also in their relative shares (manufacturing's share of inflows declined from 8% to 4%; financial services' share dropped from 18% to 8%; and the share of IT and communications plunged from 15% to 1%) (annex table 3).

Another classification of IFDI produced by the CBE divides FDI flows to Egypt into four categories: greenfield investment, M&As, flows to real estate, and flows to oil and gas.[5] The data on IFDI flows through greenfield investment and M&As show that, during the surge in IFDI in the three-year period

[1] Central Bank of Egypt (CBE), *Monthly Statistical Bulletin*. (July 2011).
[2] The CBE is the official source of FDI data in Egypt.
[3] The fiscal year in Egypt starts on the first of July of one calendar year and ends on June 31 of the following calendar year.
[4] This figure was the result of the sale of the third mobile operator licence for telecommunication services in Egypt to Emirates Telecommunication Corporation (Etisalat).
[5] The CBE terminology refers to the first two categories of FDI mentioned, greenfield investment as new establishments, and M&As as expansions and sales of assets to non-residents. Data on FDI flows into real estate and oil and gas, however, are not included in this classification of flows into greenfield investment and M&As.

2005-2008, more than half of IFDI flows through these two modes of entry combined went to industries other than oil and gas and real estate (annex table 3a). However, IFDI flows through greenfield investment were consistently well above those for FDI through M&As, although there was a noticeable increase in cross-border M&As in the peak years of 2005/2006-2006/2007. During the period 2004/2005-2009/2010 as a whole, the share of greenfield investment was 77% of total IFDI flows into industries other than oil and gas and real estate.

On average, during the period 2005/2006-2009/2010, almost three quarters of IFDI flows to Egypt originated from developed economies (annex table 4). Within this group, two economies stand out: the United Kingdom and the United States, which together have contributed more than half of total IFDI. Inflows to Egypt from these two economies, however, display opposite trends: whereas the share of the United States, the top source of IFDI to Egypt in the past, has declined over the years, the share of the United Kingdom has gradually increased to surpass that of the United States, making it the number one source economy in 2009/2010.

Recently, emerging markets have grown in importance as a source of international investment. Their share in Egypt's IFDI flows doubled from 6% in 2005/2006 to 12% in 2009/2010, reaching its peak in 2006/2007 with an impressive 26% of total IFDI flows,[1] of which the United Arab Emirates provided 23%.[2]

The corporate players

After the implementation of the open door policy (*Infitah*), which began in 1974, and with the influx of petrodollars, Egypt attracted a flood of foreign capital as many foreign companies, especially in the banking and consumer goods industries, established affiliates to exploit one of the largest markets in the Middle East. From the mid-1970s until the end of the 1980s, IFDI was concentrated in a few industries, including oil and gas and banks and consumer products; most of the establishments took the form of joint ventures with public-sector companies, as the public sector dominated the Egyptian economy.

When ERSAP (see above) was launched in 1991, privatization was an integral part of the program. During the mid-1990s, a significant portion of IFDI took the form of privatization transactions in which foreign banks started to buy public-sector bank shares, with public banks starting to dilute their ownership in these joint-venture banks. Banking continues to host some of the largest foreign affiliates in the country (annex table 5). A few public-sector companies in other industries were also bought by multinational enterprises (MNEs), such as Henkel and Coca-Cola.

Recently, a more diversified group of MNE players has invested in Egypt (annex tables 5, 6 and 7). First, taking advantage of the country's low energy prices and environmental standards, several MNEs have started to acquire existing Egyptian firms through privatization, or to establish new projects in energy-intensive and highly polluting industries such as cement and fertilizers. Second, Egypt's large domestic

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[1] Following the above trend, much FDI from West Asia has been directed to Egypt. In 2005-2009, West Asia invested approximately US$ 4 billion in cross-border M&As in Egypt, representing almost 50% of West Asian M&As in Africa (see UNCTAD, *World Investment Report 2010: Investing in a Low Carbon Economy* (New York and Geneva: United Nations, 2010), p. 72).

[2] Among developing countries, the United Arab Emirates (UAE) is an important source of FDI flows to Egypt; flows from UAE to Egypt in 2006/2007 were exceptionally large as an Emeriti company won the third mobile licence in Egypt in that year (see footnote 3).

market and the recent global communications revolution have provided an inducement to MNEs to invest in telecommunications and IT as well as financial-services-related projects. Third, much IFDI has been directed to real estate and retail projects capitalizing on Egypt's sizeable and growing population and Egypt's role as a prime tourist destination. The banking, real estate and cement industries accounted for a majority of the largest foreign affiliates in the country in 2010 (annex table 5). As noted, in industries other than oil and gas and real estate, the dominant form of FDI entry is through greenfield projects, although there was a noticeable rise in M&As in 2005/2006-2006/2007 (annex table 3a).

Effects of the recent global crisis

When the financial crisis hit the global economy in 2008, IFDI flows to Egypt started to slow down, reversing the surge of the preceding four years. The full impact of the crisis on global FDI was felt in 2009 as IFDI went down by 37%.[1] IFDI in Egypt dropped less sharply, by 30%. Egypt's IFDI prospects after the crisis seem relatively buoyant, as shown by Egypt's rank of 31 among the top priority economies for FDI in the world in UNCTAD's *World Investment Prospects Survey 2010-2012*.[2]

The decline in IFDI as a result of the crisis was not homogeneous across sectors. Flows to agriculture and to oil and gas were less affected than those to manufacturing industry; financial services seemed to suffer even more.

Since the onset of the crisis -- and consistent with worldwide FDI flows -- there has been a clear drop in FDI through cross-border M&As in absolute and relative terms in Egypt. From its peak of US$ 2.8 billion, 21% of IFDI in 2006/2007, the value of cross-border M&As in industries other than oil and gas and real estate dropped during the crisis to a mere US$ 173 million (or 1.6% of total IFDI) (annex table 6). According to the most recent preliminary estimates of UNCTAD, the value of net cross-border M&As dropped from US$ 1 billion in 2009 to US$ 0.2 billion in 2010.[3] Greenfield investments (annex table 7) have fallen as well with the crisis, but the drop was less severe than that observed in M&As.

The policy scene

In general, Egypt has a very open regime toward FDI. This is reflected in the economy's score on the OECD's most recent FDI Restrictiveness Index: in 2010, it was 0.104,[4] which is less restrictive than the average for non-OECD economies (0.157), though more restrictive than the OECD average (0.095).[5] Three industries – construction,[6] maritime transport[7] and airlines[8] -- have equity capital restrictions, with

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[1] UNCTAD, *World Investment Report 2010*, *op. cit.*, p. 2.
[2] UNCTAD, *World Investment Prospects Survey 2010-2012* (New York and Geneva: United Nations, 2010), cited in UNCTAD, *World Investment Report 2010*, *op. cit.*, p. 33.
[3] UNCTAD, *Global Investment Trends Monitor*, No. 5, January 2011, *op. cit.*
[4] The index ranges between 1 (most restricted) to zero (least restricted). See Blanka Kalinova, Angel Palerm and Stephen Thomsen (2010), "OECD's FDI Restrictiveness Index: 2010 update", *OECD Working Papers on International Investment*, No. 2010/3, OECD Investment Division, (available at: www.oecd.org/daf/investment).
[5] In fact, there are a number of OECD economies that adopt a more restrictive FDI regime than Egypt, such as the United States, Poland, Australia, Canada, and Mexico. Kalinova, Palerm and Thomsen, *op. cit.*
[6] Law 104 of 1992. Al-Tashriaat Al-Misriyyah (Egyptian Legislation): an Arabic language database. Retrieved from www1.aucegypt.edu/library/libdata/title.cfm#All
[7] Maritime Law 1 of 1998. Al-Tashriaat Al-Misriyyah, *op. cit.*
[8] Law 502 of 2005. Al-Tashriaat Al-Misriyyah, *op. cit.*

foreign ownership limited to 49%.[1] Foreign investment in courier services requires approval from the Egyptian National Postal Organization, decided by an economic needs test.[2] A nationality restriction is applied on commercial agents and intermediaries as well as companies engaged in imports into Egypt.[3] There is also a geographical restriction whereby land and real estate cannot be acquired in Sinai and its border zones without prior approval.[4]

Egyptian law grants the right to foreigners to remit income earned in Egypt and to repatriate capital and profits. Other key provisions include guarantees against confiscation and nationalization.

The General Authority for Investment (GAFI) is the main governmental entity responsible for regulating and facilitating investment. Recently, GAFI has evolved from a traditional regulatory authority to be a more dynamic promotion agency.

Egypt has several investment instruments that cater to investors' needs. The oldest and the most widespread is the free zones policy. Free zones were introduced in Egypt in the early 1970s to guarantee the supply of some strategic products; however, the objectives soon changed to become more aligned with international practice, i.e. to "increase exports, attract FDI, introduce advanced technology and create more job opportunities".[5] The main incentives provided in the free zones are exemptions from taxes and custom duties for the lifetime of the project. There are nine public free zones in Egypt as well as dozens of private ones.

Another more recent investment regime is that of the Special Economic Zones (SEZ). Law 83 of 2002 provides a number of incentives for investors operating in SEZs including a flat 5% personal income tax; a 10% tax rate on all activities within each SEZ; and integrated customs and tax administration with an autonomous board of directors, which handles licensing and other investor services. Only one SEZ has been established to date, the North West Suez Special Economic Zone.

The latest investment policy introduced in Egypt relates to the investment zones established under Law 19 of 2007. This regime offers the administrative advantages of free zones in terms of dealing with a single regulator but without tax or customs duty holidays. According to GAFI, the private sector will "develop, manage and promote these zones",[6] creating integrated clusters in various sectors.

Another recent development aimed at encouraging private investment in infrastructure, public services and utilities was the issuing of the Private Public Partnership (PPP) law in 2010 (Law 67 of 2010). A PPP Central Unit was established in the Ministry of Finance to coordinate the relationship between line ministries and the private sector, and to oversee other PPP-related activities such as tendering, setting guidelines for project selection and insuring transparent and fair procedure for partner selection. So far, only one PPP project (New Cairo Wastewater Treatment Plant) is under way, expected to be completed

[1] In the case of airlines, this restriction is placed on companies directly involved in international and domestic flight but not extended to related services such as maintenance and repairing aircrafts, marketing of air services and ticketing.
[2] Egyptian National Postal Organization (Law 121/1982), *op. cit.*
[3] Commercial Law 17 of 1999, *op. cit.*
[4] Law 94 of 2005, *op. cit.*
[5] General Authority for Investment (GAFI). (2009), available at: http://www.gafinet.org
[6] GAFI (2009), *op. cit.*

in March 2012. According to the PPP Central Unit, another four projects are at different stages of development.[1]

Egypt is on the verge of transforming itself into a democratic country for the first time in its long history. The prior regime often used the stability argument to justify its existence and its decision to veto democratic reforms. However, legitimate stability, which thrives and is protected by democracy, strong institutions and well-respected rule of law, were largely absent in Egypt. In February 2011, Egypt began a historic process of transformation. Prior to February 2011, the union of money and politics in Egypt had given birth to layers of corruption and non-competitive practices, as well as major equity problems, which have damaged the investment climate and provoked social unrest. The revolution of January 25, 2011 is expected to remedy these problems.

It is premature to foresee the effect of the revolution on FDI; nevertheless, it is possible to identify potential short-run and long-run features and assess their probable impact. In the short-run -- and as confirmed by the latest FDI figures released by CBE (see section on Trends and developments above) -- the effect on IFDI has been predominately negative. This is not the result of the revolution per se but rather of all the political upheaval, workers protests and security hazards that have accompanied it. The longer the transitional period and, more importantly, the greater the security hazards, the higher will be the cost in terms of investment and FDI retrenchment.

In the long run, the success of the revolution will be measured by whether the new system is capable of creating a country in which the rule of law is followed and respected, institutions are strong and effective, civil society is enabled and independent, and transitions of power are transparent and democratic. If these conditions are satisfied, Egypt will achieve economic and political stability,[2] enhancing the investment climate in Egypt and making the economy more attractive for IFDI.

Conclusions

During the second half of the past decade, Egypt became a major recipient of FDI among emerging markets. Favorable external conditions coinciding with major internal reforms were the main drivers of growing IFDI that reached a record high both in absolute terms and relative to GDP. During this period, Egypt was successful in diversifying its sectoral IFDI flows so that manufacturing industry, IT and communication, and financial services attracted sizeable amounts of IFDI. A growing number of emerging markets and developed economies have invested in Egypt through greenfield projects and M&A transactions. The recent financial and economic crisis brought an end to this upswing. Nevertheless, Egypt remains a favorable destination for IFDI flows with various kinds of motivations, including efficiency-seeking, market-seeking and resource-seeking FDI.

Egypt is witnessing a remarkable phase in its history with tremendous transformation potential. The rallying cry of the Revolution of January 25 "Life, Freedom and Social Equity" captures the main objectives of the revolution. Political freedom and democracy have been in the forefront of the demands of the Egyptian people. The Egyptian people are mobilized to build a new system with equitable opportunities for all, built on the basis of democracy and accountability. Such a system needs time to be institutionalized. In the interim, Egypt may appear to be not very stable and hence investment may be

[1] Ministry of Finance (2011). Retrieved from www.pppcentralunit.mof.gov.eg/
[2] International Monetary Fund, *IMF Survey Magazine* (2011), available at: www.imf.org.

discouraged -- but, in the long run, domestic and international investment will be encouraged by the institutional stability emanating from democracy, accountability and respect for the rule of law.

Egypt has great investment potential that can be unlocked if the country manages to modernize its labor force by improving its education system, reinforcing its infrastructure base (especially in terms of roads and transportation), strengthening its institutions and public governance, and fighting corruption. This recipe is not new; but what is new in Egypt is that, for the first time in modern history, there is tremendous momentum and belief coupled with political will to make it happen.

Additional readings

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Kamaly, Ahmed, *Determinants of Foreign Direct Investment Model in Egypt* (Cairo: The Egyptian Cabinet- Information Decision Support Center, 2004).

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National Bank of Egypt, *Foreign Direct Investment in Egypt,* NBE Economic Bulletin, vol. 57 No. 4) Cairo, available at: http://www.nbe.com.eg/pdf/english/chos6/B%206%20Domestic.pdf

Organisation for Economic Co-operation and Development (OECD), *Egypt: Business Climate Development Strategy* (Paris: OECD, 2010).

The United Nations Economic and Social Commission for Western Asia. *Foreign Direct Investment Report* (United Nations Report 08-0286) New York, 2008, available at: http://www.escwa.un.org/information/publications/edit/upload/edgd-08-tech1-e.pdf

Useful websites

Central Bank of Egypt: www.cbe.org.eg/

General Authority for Investment (Egyptian Investment Promotion Agency): www.gafinet.org/

Information and Decision Support Center (The Cabinet): www.idsc.gov.eg

Laws and regulations governing investment in Egypt:
www.investment.gov.eg/en/Investment/Pages/maininvestlaws.aspx

Ministry of Finance: www.mof.gov.eg

Ministry of Trade and Industry: www.mfti.gov.eg

Statistical annex

Annex table 1. Egypt: inward FDI stock, 2000-2011

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Egypt	20.0	20.5	21.1	21.3	23.5	28.9	38.9	50.5	60.0	66.7	73.1	72.6
Memorandum: comparator economies												
Argentina	67.6	79.5	43.1	48.3	52.5	55.2	60.3	67.6	76.1	81.0	86.7	95.1
South Africa	43.5	30.6	30.6	46.9	64.4	79.0	87.8	110.4	68.0	117.4	132.4	167.5
Republic of Korea	38.2	53.2	62.7	66.1	87.8	104.9	119.1	119.6	94.7	117.7	127.0	131.7
Turkey	19.2	19.7	18.8	33.5	38.5	71.3	95.1	154.0	80.2	143.6	181.9	140.3

Source: UNCTAD, FDISTAT, available at: www.unctadstat.unctad.org.

Annex table 2. Egypt: inward FDI flows, 2000-2011

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Egypt	1.2	0.5	0.6	0.2	2.2	5.4	10.0	11.6	9.5	6.7	6.4	-0.5
Memorandum: comparator economies												
Argentina	10.4	2.2	2.1	1.7	4.1	5.3	5.5	6.5	9.7	4.0	6.3	7.2
Republic of Korea	9.0	4.1	3.4	4.4	9.0	7.1	4.9	2.6	8.4	7.5	6.9	4.7
South Africa	0.9	6.8	1.6	0.7	0.8	6.6	-0.5	5.7	9.0	5.4	1.6	6.4
Turkey	1.0	3.4	1.1	1.7	2.8	10.0	20.2	22.0	19.5	8.4	9.1	15.9

Source: UNCTAD, FDISTAT, available at: http:// www.unctadstat.unctad.org.

Annex table 3. Egypt: distribution of inward FDI flows, by industry, 2006/2007- 2009/2010[a]

(US$ million)

Sector / industry	2006/2007	2007/2008	2008/2009	2009/2010	Total (2006/2007-2009/2010)
All sectors/industries[b]	13,084.3	17,802.2	12,836.1	11,008.1	54,730.7
Primary					
Oil and gas	4,904.5	8,098.3	9,666.6	7,577.4	30,246.8
Agriculture	29.5	123.3	76.3	261.6	490.7
Secondary					
Manufacturing industry	1,054.6	1,526.9	851.9	456.3	3,889.7
Construction	60.5	423.8	225.5	303.8	1,013.6
Services					
Financial services	2,314.7	2,187.6	440.7	873.9	5,816.9
IT andcommunication	1,923.7	18.5	727.3	62.8	2,732.3
Tourism	429.1	193.7	121.7	246.9	991.4
Real estate	39.0,	394.9	138.4	305.3	877.6
Other services	261.5	928.4	282.5	382.6	1,855.0
Unclassified	2,067.2	3,906.8	305.2	537.5	6,816.7

Source: Central Bank of Egypt (CBE) (unpublished data).
[a] Data are reported on a fiscal year basis.
[b] Author's calculation, obtained by addition of industry data in each column.

Annex table 3a. Egypt: Inward FDI flows through greenfield projects and M&As to industries other than oil and gas and real estate, 2004/2005 - 2009/2010[a]

(US$ million)

	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010[b]
Greenfield	1,060.4	3,792.9	5,368.6	6,972.0	2,749.6	2,952.3
M&As	419.5	905.7	2,772.2	2,337.0	303.5	173.1

Source: Central Bank of Egypt (CBE) (unpublished data obtained from the CBE).

[a] Data are reported on a fiscal year basis. Data exclude FDI in oil and gas and real estate as they are treated as separate categories by the CBE.
[b] 2009/2010 data: preliminary.

Annex table 4. Egypt: geographical distribution of inward FDI flows, 2005/2006-2009/2010[a]

(US$ million)

Region/economy	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
World	9,097.9	13,080.3	17,790.6	12,814.6	10,989.7
Developed economies	7,599.8	8,809.6	12,181.2	9,407.1	8,338.2
Europe	3,035.0	4,110.6	5,668.2	5,738.7	6,880.7
European Union	2,954.3	4,061.0	5,430.1	5,578.4	6,763.2
Austria	1.5	1.7	0.8	10.6	3.9
Belgium	0.0	8.7	326.9	1,541.6	930.1
Bulgaria	0.0	0.0	0.1	0.0	0.0
Cyprus	6.3	2.8	10.0	4.1	100.9
Czech Republic	0.0	0.0	0.3	0.3	0.0
Denmark	1.4	2.5	10.9	8.2	6.8
Estonia	0.0	0.0	0.0	0.4	0.0
France	565.7	36.7	1,302.7	254.3	286.2
Germany	113.6	97.2	250.3	102.6	109.7
Greece	140.2	22.2	109.3	153.4	64.7
Hungary	0.0	0.0	0.0	0.1	0.4
Ireland	0.0	0.0	1.3	1.6	4.9
Luxembourg	0.0	1.0	63.3	26.9	3.7
Malta	0.0	0.0	1.3	0.6	1.2
Latvia	0.0	0.3	0.2	0.6	0.1
Poland	0.0	0.0	0.6	10.0	1.3
Netherlands	8.4	39.6	55.7	134.0	128.8
Portugal	0.0	0.0	0.4	0.1	0.0
Italy	20.2	1,631.4	31.6	70.1	67.8
Romania	10.5	0.1	0.0	0.1	0.1
Spain	361.4	6.7	20.8	27.0	80.5
Sweden	0.4	0.5	4.3	0.0	46.0
United Kingdom	1,724.7	2,209.6	3,239.3	3,231.8	4,926.1
Other developed Europe	80.7	49.6	238.1	160.3	117.5
Norway	2.4	0.2	2.1	5.7	6.1
Switzerland	78.3	49.4	236.0	154.6	111.4
North America	4,554.3	4,686.1	6,485.8	3,615.9	1,433.1
Canada	0.8	4.8	38.0	100.9	8.2
United States	4,553.5	4,681.3	6,447.8	3,515.0	1,424.9
Other developed economies	10.5	12.9	27.2	52.5	24.4
Australia	6.3	9.3	4.7	7.6	1.4
Bermuda	0.0	3.0	7.1	0.0	10.0
Japan	4.2	0.6	15.4	44.9	13.0
Developing economies	1,498.1	4,270.7	5,609.4	3,407.5	2,651.5
Africa	3.8	22.7	140.8	7.3	339.7

Region/economy	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
North Africa	3.8	22.7	140.8	7.3	339.7
Libyan Arab Jamahiriya	3.8	20.6	137.3	2.6	337.1
Sudan	0.0	1.5	2.2	2.3	1.3
Tunisia	0.0	0.6	1.3	2.4	1.3
Asia	555.0	3,346.0	3,119.3	2,184.7	1,145.1
West Asia	551.5	3,333.3	3,097.5	2,069.9	1,106.8
Bahrain	65.6	18.6	39.6	20.5	64.1
Jordan	9.0	3.5	39.8	170.8	81.8
Kuwait	72.5	24.8	1,597.2	118.0	188.7
Lebanon	233.6	11.4	122.4	67.4	10.6
Qatar	6.4	2.5	184.8	53.0	70.4
Saudi Arabia	99.0	204.0	365.4	514.1	323.4
Turkey	0.8	8.6	14.3	69.0	25.4
United Arab Emirates	63.0	3,049.5	726.2	1,037.4	303.5
Other West Asian countries	1.6	10.4	7.8	19.7	38.9
South, East and South-East Asia	3.5	12.7	21.8	114.8	38.3
East Asia	0.8	8.4	17.5	62.9	27.7
China	0.8	8.4	17.5	60.0	26.9
Republic of Korea	0.0	0.0	0.0	1.0	0.4
Taiwan Province of China	0.0	0.0	0.0	1.9	0.4
South Asia	0.0	4.1	4.3	51.4	8.7
India	0.0	4.1	4.3	51.4	8.7
South-East Asia	2.7	0.2	0.0	0.5	1.9
Singapore	2.7	0.2	0.0	0.5	1.9
Other countries	939.3	902.0	2,349.3	1,215.5	1,166.7

Source: Central Bank of Egypt (CBE) (unpublished data).

[a] Data are reported on a fiscal year basis.

Annex table 5. Egypt: principal foreign affiliates in the economy, ranked by issued capital, as of end of 2010

	Company name	Nationality of foreign investor(s)	Industry	Foreign assets [1] (US$ million)	Issued capital (US$ million)
1	Etisalat Misr	United Arab Emirates Saudi Arabia	Communication	2,054 39	2,616.7
2	CIB – Egypt	Non-disclosed nationalities United States United Kingdom	Banking	1,206 189 174	1,885.1
3	Libyan Investment	Libya	Diversified	1,758	1,758.1
4	TMG for Real Estate Investment & Tourism	Saudi Arabia United Kingdom	Diversified	286 54	1,565.2
5	Bank of Alexandria	Italy	Banking	914	1,142.9
6	National Societe Generale Bank – NSGB	France	Banking	721	933.7
7	The Coca-Cola Bottling Company of Egypt	United Kingdom	Consumer goods	433	773.9
8	ASEC Cement	Saudi Arabia United Arab Emirates Kuwait	Cement	139 98 2	720.2
9	The Egyptian Company for Urea and Petrochemicals	Cayman Islands	Pharmaceutical	675	675.0
10	National Bank for Development	United Arab Emirates	Banking	412	641.6
11	Citadel Capital	England United Arab Emirates Saudi Arabia	Private equity	289 95 13	590.2
12	Giza New Development and Real Estate Development	Cayman Islands	Real estate	221	551.4
13	Golden Pyramids Plaza	United Kingdom Saudi Arabia	Real estate	303 196	539.0

	Company name	Nationality of foreign investor(s)	Industry	Foreign assets [1] (US$ million)	Issued capital (US$ million)
14	HSBC – Egypt	Netherlands	Banking	457	483.5
15	Ahli United Bank (Egypt)	Kuwait United States Saudi Arabia Qatar Iraq	Banking	270 28 20 15 4	478.7
16	Alexandria for Portland Cement	England	Cement	409	464.2
17	Cimpor Egypt Cement	Spain	Cement	455	455.0
18	South Valley Cement company	United Kingdom Saudi Arabia	Cement	210 38	444.4
19	Egypt for the Production of Fertilizers MOPCO	Canada Saudi Arabia	Fertilizer	113 13	435.8
20	Suez Cement	France Morocco Saudi Arabia Italy	Cement	190 41 95 15	435.0

Source: General Authority for Investment (GAI) (unpublished data) and company websites.

[1]These figures represent the foreign ownership structure in each firm -- in other words, the cumulative values of FDI by the foreign companies over time.

Annex table 6. Egypt: main M&A deals, by inward investing firm, 2007-2009

Year	Acquiring company	Home economy	Target company	Target industry	Shares acquired (%)	Estimated/ announced transaction value (US$ million)
2009	Edison SpA	Italy	EGPC-Abu Qir Concession	Energy	100	1,405
2009	IFC	United States	Bank of Alexandria SAE	Banking	9.8	199
2009	Investor Group	United Arab Emirates	Oras Invest	Venture capital	100	180
2009	Alavesa de Promociones	Spain	El Masreyah Glass	Manufacturing	100	85
2009	HJ Heinz Co	United States	Cairo Food Industries SAE	Food processing	100	62
2008	Lafarge SA	France	OCI Cement Group	Cement	100	15,018
2008	DP World	United Arab Emirates	Egyptian Container Handling Co	Logistics	90.0	670
2008	Titan Cement Co SA	Greece	Lafarge Titan Egypt	Cement	100	513
2008	Dubai Capital Group	United Arab Emirates	Commercial Intl Bank Egypt SAE	Banking	5.2	147
2008	Abraaj SPV 62 Ltd	United Kingdom	Al Borg Laboratory	Medical services	76.9	143
2007	Abraaj Capital Ltd	United Arab Emirates	Egyptian Fertilizers Co SAE	Chemical	100	1,410
2007	National Bank of Kuwait	Kuwait	Al Watany Bank of Egypt	Banking	93.7	962
2007	France Telecom SA	France	MobiNil Telecommunications SAE	Communication	71.3	252
2007	Chemplast Sanmar Ltd	India	Trust Chemical Industries	Chemical	100	200

Source: The author, based on Thomson ONE Banker and Thomson Reuters.

Annex table 7. Egypt: main greenfield projects, by inward investing firm, 2007-2009

Year	Investing company	Home economy	Industry	Estimated/announced investment value (US$ million)
2009	British Gas Group (BG)	United Kingdom	Natural gas extraction	1,000
2009	Barwa Real Estate	Qatar	Construction	9,000
2009	Fomento de Construcciones y Contratas (FCC)	Spain	Manufacturing	427
2009	Al-Futtaim Group	United Arab Emirates	Construction	340
2008	Cementos La Union	Spain	Manufacturing	500
2008	Sultan Center Food Products (TCS Sultan Centre)	Kuwait	Retail	800
2008	Cayan Investment and Development	United Arab Emirates	Construction	408
2008	Alshoula	Saudi Arabia	Construction	1,000
2008	Emaar Properties	United Arab Emirates	Construction	1,000
2007	DAMAC Holding	United Arab Emirates	Construction	5,400
2007	Saint-Gobain	France	Manufacturing	176
2007	Reliance Industries	India	Manufacturing	1,000
2007	Emaar Properties	United Arab Emirates	Construction	700
2007	Savola	Saudi Arabia	Manufacturing	187

Source: The author, based on fDi Intelligence, a service from the Financial Times Ltd.

Chapter 28 - India

India: Inward FDI and its policy context, 2010

Premila Nazareth Satyanand and Pramila Raghavendran[*]

A minor global FDI player in 2000, India is now the world's thirteenth largest FDI host country. With 2008 inflows of US$ 42 billion and 2009 inflows of US$ 27 billion, it is also a global top three preferred investment destination. Notable liberalizations in FDI policy and in several economic sectors, a globally competitive workforce, and rapid GDP and market growth are the main drivers of foreign investment in India. Yet, equity caps limit the size of potential new inflows, while national security concerns might prompt more oversight of FDI approval processes.

Trends and developments

Average annual foreign direct investment (FDI) inflows into India have grown fifteen-fold since 2000. While, initially, investors concentrated in manufacturing, power and telecommunications, they now focus in services activities. Developed country firms dominated investment in the 1990s, but in the past decade developing country investors have also become significant.

Country level developments

India had received some US$ 169 billion of cumulative FDI inflows by the end of 2009 since it first opened itself to foreign direct investors in 1991 (annex table 1). Though India's IFDI stock is considerably smaller than those of the BRIC countries and other counterparts (annex table 1), its post-2004 inflows have grown two times faster than Brazil's and four times faster than China's (annex table 2a), pointing to fundamental shifts in the Indian economy and global investor perceptions about India.

Annual FDI inflows averaged US$ 2 billion a year in the 1990s (annex table 2b) but, starting 1997, policy liberalizations in the telecommunications, infrastructure and insurance sectors caused average annual inflows to double to US$ 4 billion between 2000 and 2005.

From 2005 onwards, further liberalizations – including the opening up of real estate to FDI, the raising of the telecom equity cap to 74% and a variety of sectoral policy reforms – triggered another upward shift in FDI flows. Inflows rocketed to US$ 20 billion in 2006, further doubling to US$ 42 billion in 2008, transforming India into the world's thirteenth largest host to FDI globally.[1] The global economic

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[*] The authors wish to thank Nandita Dasgupta, Badar Alam Iqbal and Jaya Prakash Pradhan for their helpful comments. First published March 12, 2010.

[1] UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (Geneva: UNCTAD, 2009).

and financial crisis reduced 2009 inflows to US$ 27 billion, but these were nonetheless larger than 2007 levels.

Which sectors draw the most FDI?

Currently, some 61% of India's annual FDI inflows go into the services sector, while manufacturing receives 27% and primary sector activities, mainly mining and petroleum, some 9% (annex table 3). In this respect, India's service-dominated FDI inflows parallel those of Brazil, and contrast with those of China and Russia where manufacturing is dominant.

Ten years ago, in 2000, 45% of all FDI inflows went into manufacturing, with services attracting just 17% and the primary sector less than 1%.[1] The importance of the manufacturing sector was due to the earlier opening up of this sector to foreign investment in 1991, while most services and primary sector activities remained closed until the end of that decade. As more services (particularly insurance, banking, construction, and real estate) were liberalized, inflows into these activities burgeoned (annex table 3).

Services account for the largest share – a fifth – of the cumulative FDI stock since 2000, totaling US$ 23 billion.[2] Computer hardware/software, telecommunications, housing, real estate, and construction follow, in that order.[3] Other key sectors are power, automobiles, metallurgical industries, petroleum and natural gas, and chemicals. Since 2005, inflows into "sunrise" and newly-opened sectors have also jumped, among them non-conventional energy and the electronic and print media.

As the size of inflows, the number of investors, and India's strategic importance have grown, so has FDI's developmental impact on the Indian economy. According to a recent Government study,[4] foreign affiliates pay higher wages and are more productive than purely domestic firms. They are also now more export[5] and R&D[6] intensive than domestic firms, in striking contrast to the mid-1990s when these two groups displayed no statistically significant difference.[7] They have also helped to build skills and new technology and R&D capabilities through a variety of organic local linkages with suppliers, contractors and others. In the manufacturing sector alone, foreign affiliates directly or indirectly employ 1.6 million workers; over a half are in small cities and semi-urban areas. Transport equipment, crop growing and

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[1] Due to shortcomings in the Indian Government's FDI data, it is impossible to account for the sectoral direction of 38.5% of the 2000 inflows, as annex table 3 indicates.
[2] FDI stock data until November 2009.
[3] These three activities have together received some US$ 15 billion, most of it after 2005, when housing and real estate were opened to FDI.
[4] National Council for Applied Economic Research, *FDI in India and its Growth Linkages* (New Delhi: NCAER, 2009), available at: http://www.dipp.nic.in/ncear_Report/FDI_NCAER.pdf.
[5] Aradhna Aggarwal, "Liberalization, multinational enterprises and export performance: evidence from Indian manufacturing," *Journal of Development Studies* 38 (3) (2002), pp. 119–137.
[6] Nagesh Kumar, and Aradhna Aggarwal, "Liberalization, outward orientation and in-house R&D activity of multinational and local firms: a quantitative exploration for Indian manufacturing," *Research Policy* 34(4) (2005), pp. 441–460; Jaya Prakash Pradhan, "R&D strategy of small and medium enterprises in India: trends and determinants," *Munich Personal RePEc Archive Paper,* No. 20951 (2010); Nagesh Kumar and Jaya Prakash Pradhan, "Knowledge-based Exports from India: A Firm-level Analysis of Determinants," in Nagesh Kumar and KJ Joseph, eds., *International Competitiveness & Knowledge-based Industries* (New Delhi: Oxford University Press, 2007), pp. 53–96.
[7] Nagesh Kumar and N.S. Siddharthan, "*Technology, firm size and export behaviour in developing countries: the case of Indian Enterprises,*" *The Journal of Development Studies* 31 (1994), pp. 289-308.

processing, construction parts, textiles, and non-metallic mineral products employ the highest number of small town workers.[1]

From where does FDI come?

Mauritius excluded,[2] Singapore is currently India's largest inward foreign direct investor, accounting for 17% (US$ 9 billion) of cumulative post-2000 inflows. The United States follow with 14% (US$ 7.6 billion) and the United Kingdom with 10% (US$ 5.5 billion). Other key investors are the Netherlands, Japan, Germany, France, and the United Arabian Emirates. Interestingly, Singapore is also the largest host to cumulative Indian OFDI, followed by the Netherlands, the United States, Mauritius, and the United Kingdom.

Singapore's current pre-eminence reverses the 1990s pattern of dominance of developed country firms, especially from the United States and Japan (annex tables 5a and 5b). Starting in 2000, inflows from developing countries have begun to grow, since their firms often have a cost and operating advantage in India's newly-opened economic sectors. Many of their products and services are cheaper and more relevant to the Indian consumer than those of many developed country firms, and they are used to operating in an emerging market environment. For instance, FDI liberalization in the real estate sector expanded United Arabian Emirates inflows from US$ 0.75 million in 2000 to US$ 239 million in 2008. Similarly, Malaysian firms are now very active in highway and urban water projects.

Home country shifts have, in turn, both driven and emanated from sectoral changes. Thus, while early United States' and Japanese investments concentrated in manufacturing and power, Singapore's investments focus on telecommunications, services, shipping, and oil refining (annex table 5c offers a glimpse into the sectoral variety of the largest FDI projects of this past decade). BIT protection and economic cooperation agreements have also played a role. As government FDI data show, Singapore's investment stock tripled[3] after its Comprehensive Economic Cooperation Agreement with India in 2005.

Where does FDI go, and in what form does it come?

A third of the post-2000 inflow is invested around Mumbai, a manufacturing hub, and one-fifth around Delhi, a services hub. Ahmedabad, Bangalore, Chennai, and Hyderabad are other key destinations.[4]

Eighty percent of post-2000 FDI inflows have been in the form of greenfield investments.[5] The average investment size also quadrupled from US$ 9 million to US$ 34 million over this period.[1] While the

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[1] According to the study, sectors with the strongest backward linkages include electrical equipment, drugs and pharmaceuticals, food processing and textiles; those with the strongest forward linkages are service sectors, telecommunications, and consultancy services; and those with both types of linkages are construction, fuels, chemicals, and metallurgical industries.

[2] FDI inflows from Mauritius are excluded. These inflows account for 42% of total inward FDI into India and from "unspecified destinations." Mauritius provides tax exemption for foreign companies setting up businesses in the country. This, along with its double taxation agreement with India, gives greater tax advantage to companies routing their Indian investments through Mauritius. Cyprus, accounting for 5% of current inflows, is also emerging as an attractive destination for routing investments into India for similar reasons. Many investments from these locations also appear to be instances of "round-tripping".

[3] Singapore's total investment in India was US$ 3 billion in 2005; it is now US$ 9 billion.

[4] These four cities have each received an average of about 5% of the total post-2000 inflows. However, it is important to note that there are no data available on the geographic distribution of about a fifth of the inflows since 2000.

[5] The total amount of greenfield investments rose from US$ 2.3 billion in 2000 to US$ 33 billion in 2008, and US$ 15 billion by end-of September 2009.

largest recent greenfield investments span various sectors (annex table 4), the largest recent M&As focus on telecommunications, energy and pharmaceutics/healthcare (annex table 6).

Effects of the current global crisis

The global financial and economic crisis has hit inbound M&A activity in India the most. While 2007 and 2008 each saw an average of 99 inbound M&A deals, totaling an average of US$ 14 billion, 2009 saw just 53 M&As amounting to US$ 2.25 billion. As annex table 5 shows, 2009's largest M&As were considerably smaller than their predecessors in 2007 and 2008.

Although the global crisis has slowed the rate of FDI growth into India in 2009, it has reinforced India's position in global investor perceptions. Since most global firms found that their Indian and Chinese operations considerably outperformed their developed market investments, they now accord even greater strategic value to these two destinations.[2]

The policy scene

In India, all except four[3] sectors are open to FDI, and most investors no longer need to seek investment approvals.[4] Furthermore, current account transactions are now completely convertible.[5] However, equity caps remain in strategic sectors such as telecommunications, insurance, banking, airlines, and media and broadcasting for national security reasons.

In early 2009, the Government of India liberalized the manner in which it calculates "Indian" versus "foreign" equity. It eased investment between Indian firms with foreign shareholders, particularly in equity-capped sectors, while strengthening local management control.[6] Now, companies with less than 50% foreign equity will be regulated as "Indian" and any downstream investments will not be regulated as "foreign" equity, and vice-versa. However, a change from "Indian" to "foreign" control will need governmental approval in sectors subject to equity caps, most particularly in sensitive sectors like telecommunications, insurance, defense, airlines, and broadcasting and media.

Other liberalization measures appear to be on the anvil, following the Communist Party's defeat in the 2009 general election. Most notable is a bill to permit foreign universities to set up branches in India. The Government might also find it politically possible gradually to liberalize the equity caps in

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[1] These figures are based on data from UNCTAD's *World Investment Report* 2009, op. cit., and the National Council for Applied Economic Research's op. cit.

[2] UK Department of Trade and Industry and EIU, *Survive and Prosper: Emerging Markets in the Global Recession* (London: DTI and EIU, 2009); press reports.

[3] Retail trading, atomic energy, gambling and betting, and agriculture and plantations. However, while FDI is prohibited in multi-brand retailing, it is permitted up to 51% of equity in single-brand retailing. Similarly, 100% FDI is allowed in horticulture, floriculture, animal husbandry, pisciculture, and seed development, as also in tea plantations, on a case-by-case basis. In 2009, the 24% cap on FDI in small enterprises (with capital expenditure of up to US$1 million) was also raised to 100%.

[4] Clearances are required for projects in which (1) an industrial license is required, (2) where the foreign collaborator has an existing local joint venture in the same sector, (3) the local joint venture is defunct, or "sick," as defined by Indian law, or (4) investments are being made by a venture capital fund.

[5] There are still some restrictions on capital account transactions.

[6] Earlier rules had made it complicated for Indian firms, with foreign investment, particularly in the telecommunications and financial services sectors, to improve competitiveness through strategic investments in other domestic companies.

insurance, broadcasting and print media. The Indo-US nuclear deal should trigger FDI relaxations in defense and atomic energy, since it creates a variety of commercial opportunities for Indian firms. Retail is the only sector in which further liberalization does not seem imminent, due to widespread fears that an opening up of this sector would destroy India's "corner store" industry and create widespread unemployment.

Border tensions with China, and the growth in FDI through tax havens, have triggered Government thinking on FDI protectionist measures, such as the tightening of investment approval procedures[1] and the possible enactment of a national law to empower the Government to ensure that national security is not compromised by FDI projects. There have also been rising local and political concerns about large FDI projects (particularly in mining) that involve land acquisition, resettlement and significant environmental impact.

India has thus far signed 75 bilateral investment protection agreements,[2] 60 double taxation avoidance agreements, and a number of comprehensive economic partnership agreements.[3] The number of investment disputes has dropped since the 1990s. While, initially, the dominant issue was breach of contract, it now is taxation, as in the much-publicized Vodafone case.[4]

Conclusions and Outlook

India's attractive GDP growth rate[5] and superior market performance are likely to attract growing FDI inflows.[6] CEOs consistently rank India as one of the world's top 3-5 preferred investment destinations in recent global surveys.[7] Despite the crisis, a number of leading global firms – including Volkswagen, Telenor, LG, Cairn, and a number of IT companies - have announced large-scale investments in various sectors. In contrast to the favorable development of economic drivers of IFDI, the security-induced tightening of approval procedures and oversight policies might limit the potential inflow of FDI, as might the difficulty in obtaining operational clearances.[8]

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[1] According to press reports, the following measures are being suggested: (1) Investments from tax havens into "sensitive" sectors must obtain governmental approval; (2) the approval process should involve security agencies; (3) post-approval cancellations should be permitted; and (4) India should expand the list of countries from which it restricts FDI.

[2] 66 of these are already in force.

[3] India is now finalizing or negotiating 25 more investment protection agreements, including with the United States, Brazil, Canada, Norway, and the UAE.

[4] In 2007, Vodafone bought out Max Hutchison's assets in Hutch Essar, one of India's largest mobile phone companies. Though the financial transaction occurred overseas, the Indian Government holds that Vodafone should pay capital gains on this transaction, since the assets are in India.

[5] As of late 2009, India's GDP growth had been between 6 -7%.

[6] DTI and EIU, 2009, op. cit.

[7] These surveys were conducted by EIU, UNCTAD, AT Kearney, and others.

[8] Given India's federal policy, state governments have the power operationally to hold up FDI projects cleared by the national Government. For this reason, a national FDI law (replacing the existing plethora of state and sectoral regulation with a single legal instrument) might be very useful.

Additional readings

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Useful websites

For FDI policy and regulation: Government of India, Ministry of Commerce and Industry (www.dipp.nic.in) and India Brand Equity Foundation (www.ibef.org).
For Government FDI statistics: Secretariat of Industrial Approvals, Ministry of Commerce and Industry (www.dipp.nic.in/fdi_statistics/india_fdi_index.htm).

Annex table 1. India: inward FDI stock, 2000, 2008, 2009 (US$ billion)

Economy	2000	2008	2009
India	18	123	169
Memorandum: comparator countries			
Brazil	122	288	…
China	193	378	…
Russia	32	214	…
Singapore	111	326	…

Source: Based on UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (New York and Geneva: United Nations, 2009), and Secretariat for Industrial Assistance, Government of India.

Annex table 2a. India: inward FDI flows, 2000-2009 (US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
India	2.3	3.4	3.5	4.3	5.3	6.7	20.3	25.1	41.6	27.0
Memorandum: comparator countries										
Brazil	32.8	22.5	16.6	10.1	18.2	15.1	18.8	34.6	45.1	22.8 [a]
China	40.8	46.9	52.7	53.5	60.6	72.4	72.7	83.5	108.3	90.0 [a]
Russia	2.7	2.5	3.5	8.0	11.7	12.8	29.7	55.1	70.3	41.4 [a]
Singapore	12.5	11.0	5.8	9.3	16.1	15.0	27.7	31.6	22.7	18.3 [a]

Source: UNCTAD, *World Investment Reports 2003, 2005, 2007 and 2009; and* Secretariat for Industrial Assistance, Department of Industrial Promotion and Policy, Ministry of Commerce and Industry, Government of India.

[a] Estimated.

Annex table 2b. India: inward FDI flows, 1991-1999 (US$ billion)

Economy	1991	1992	1993	1994	1995	1996	1997	1998	1999
India	0.2	0.3	0.6	1.0	2.1	2.5	3.6	3.4	2.4

Source: Secretariat for Industrial Assistance, Department of Industrial Promotion and Policy, Ministry of Commerce and Industry, Government of India.

Annex table 3. India: sectoral breakdown of FDI inflows,[a] 2000 and 2008 (US$ million and percent of total inflows)

Sector / industry	2000	2008	2009 [b]
All sectors / industries	2347.1	33,029.3	27,044
Primary	2.8 (0.12%)	1420.9 (4.3%)	2397 (8.86%)
Agriculture, forestry, and fishing	0.1	10.7	1307
Mining, quarrying and petroleum	2.7	1410.2	545
Mining and quarrying	0.8	42.7	171
Petroleum	1.9	1367.5	374
Secondary (manufacturing) [c]	1051.8 (44.8%)	10156.4 (30.8%)	7223.1 (26.7%)
Automobile industry	279.7	1134.1	1338.4
Drugs & pharmaceuticals	48.4	263.7	205.1
Industrial machinery	4.9	154.2	193.4
Chemicals(other than fertilizers)	125.1	602.1	451.4
Textiles	1.9	204.0	198.5
Paper & pulp and paper products	60.5	227.4	59.6
Food processing industries	51.7	150.4	202.5
Cement & gypsum products	73.9	674.9	80.7
Ceramics	1.9	223.3	5.8
Electronics	8.1	169.7	34.9
Computer software & hardware	194.4	1,828.0	717.0
Power	110.7	1,339.3	1643.3
Services	388.2 (16.5%)	19812.1 (60%)	16598 (61.4%)
Financial services	43.3	8043.8	1570.0
Telecom services	79.7	2577.8	2557.7
Information & Broadcasting(including Print Media)	79.7	539.3	782.8
Ports	-	1,404.5	72.3
Consultancy services	4.9	364.7	420.1
Hotel & tourism services	12.2	539.0	592.9
Trading	28.8	654.6	524.8
Construction activities	23.1	2484.3	2459.6
Housing & real estate	-	2679.0	3198.8
Unspecified other sectors/industries	904.2 (38.5%)	1639.8 (5%)	825.5 (3.0%)

Source: Secretariat for Industrial Assistance, Department of Industrial Promotion and Policy, Ministry of Commerce and Industry, Government of India.

[a] Inflows are equity inflows; reinvested earnings are not available sector-wise.

[b] Data up to November 2009.

[c] Secondary sectors listed are selective.

Annex table 4. India: top 20 greenfield investments, June 2006- September 2009 [a]

Foreign company	Home country	Indian Company	Value *(US$ billlion)*	Industry
TMI, Mauritius	Mauritius	Idea Cellular	1.6	Telecommuni cations
Cairn UK Holding	United Kingdom	Cairn India	1.5	Power and energy
Mauritius Debt Management	Mauritius	India Debt Management Ltd.	0.95	Financial services
Coca Cola Singapore	Singapore	Hindustan Coca Cola	0.84	Beverages
Vodafone Mauritius	Mauritius	Bhaik Infotel	0.8	Telecommuni cations
Morgan Stanley Investment Managment	Mauritius	Morgan Stanley India	0.7	Financial services
Etisalat Mauritius	Mauritius	Etisalat DB Telecom	0.66	Telecommuni cations
CMP Asia	Mauritius	Housing Development Finance Corporation	0.65	Financial services
Biometrix Marketing	Singapore	Reliance Gas Transportation Infrastructure	0.6	Oil refinery; transportation
Horizon	Netherlands	Emaar MGF Land	0.43	Housing and real estate
Barclays Bank	Singapore	AAA Global Ventures	0.37	Financial services
Sistema Joint Stock Financial Corp.	Russia	Shyam Telelink	0.3	Telecommuni cations
Travorto	Cyprus	Tata Capital	0.29	Financial service
Fiat Auto	Italy	Fiat Automobiles; Fiat India	0.26	Automobiles
Volvo	Sweden	VE Commercial Vehicles	0.22	Automobiles
HSBC Investment Bank Holdings	Mauritius	HSCB Security and Cap Market	0.19	Banking
Walt Disney (South East Asia)	Singapore	UTV Software Communication	0.17	Radio broadcasting
BOC Group	United Kingdom	BOC India	0.14	Industrial gases
FBG Holdings	Mauritius	Fosters India	0.16	Fermentation Industries
Suzuki Motor	Japan	Suzuki Motorcycle; Suzuki Power train	0.12	Automobiles; machine tools

Source: Secretariat for Industrial Assistance, Department of Industrial Promotion and Policy, Ministry of Commerce and Industry, Government of India, data on investment inflow transactions.

Annex table 5a. India: geographical sources of inward FDI flows, 2000, 2008 and 2009

Country/ region	Shares in %			US$ million		
	2000	2008	2009 [a]	2000	2008	2009 [a]
World				2,347.1	33, 029.32	27,044
Developed economies	56.2	26.9	20.9	1,318.0	8,871.7	8,117.8
Europe	27.9	19.4	16.2	655.3	6,415.1	4,715.7
European Union	23.8	18.6	15.4	559.9	6,157.4	4562.7
Belgium	0.3	0.3	0.1	8.0	103.1	30.9
Cyprus	0.1	4.2	5.0	0.6	1,318.1	1609.60
France	3.4	1.5	1.1	79.4	467.9	296.9
Germany	3.7	2.4	2.0	79.4	788.8	599.9
Italy	5.8	1.1	0.4	135.6	366.2	150.8
Netherlands	5.4	3.1	2.9	127.2	988.9	832.8
Spain and Gibraltar	0.1	0.9	0.3	1.4	291.7	91.7
Sweden	2.5	0.3	1.1	59.2	92.8	245.4
United Kingdom	2.8	5.0	1.7	65.5	1,681.6	468.2
Other European countries	4.1	0.8	0.8	95.4	257.7	152.96
Switzerland	1.9	0.5	0.6	43.5	144.7	142.7
North America	17.9	5.8	8.0	420.7	1,923.6	2,096
Canada	0.1	0.4	02	2.2	126.4	45.2
United States	17.8	5.4	7.9	418.4	1,797.2	2051
Other developed countries	10.3	1.6	4.8	242.1	533.0	1305.9
Australia	0.4	0.2	0.2	9.5	71.4	40.2
Israel	-	0.1	0	-	15.1	1.3
Japan	9.8	1.2	4.5	229.2	405.1	1257.8
Developing economies	43.5	58.6	59.5	1061.2	19355.0	16078.6
Africa	35.4	42.8	42.9	830.8	14,148.8	11,592
Mauritius	35.4	42.8	42.7	829.9	14,138.1	11,536.2
Asia and Oceania	7.6	13.6	15.8	182.2	4,487.9	4,185.24
China	-	-	0.2	-	-	41.4
Hong Kong (China)	0.6	0.4	0.6	13.4	132.6	144.5
Indonesia	-	-	0.9	-	-	138.3
Malaysia	0.5	0.3	0.1	10.5	100.3	38.6
Republic of Korea	0.8	0.4	0.2	17.7	148.1	66.9

Singapore	5.0	11.3	11.8	116.6	3,763.5	3059.5
United Arab Emirates (UAE)	0.0	0.9	2.4	0.8	293.4	625.3
Commonwealth of Independent States	1.7	1.0	0.06	41.05	322.0	16.6
Kazakhstan	-	-	0.1	-	-	10.4
Russia	1.7	1.1	0.0	40.9	305.9	6.2
Latin America and Caribbean	0.3	1.2	0.86	7.2	396.2	284.72
Bermuda	0.1	0.1	0.05	2.8	33.11	10.1
British Virgin Islands	0.1	0.4	0.5	3.0	137.2	137.7
Cayman Islands	0.2	0.6	0.1	4.0	222.4	50.2
Chile	-	-	0.2	-	-	39.9
Unspecified destination	0.1	8.5	8.1	2.2	2,853.9	2051.3
Non-resident Indians	0.0	5.9	3.3	0.2	1,948.8	791.9

Source: Secretariat for Industrial Assistance, Department of Industrial Promotion and Policy, Ministry of Commerce and Industry, Government of India.

[a] January – November 2009.

[b] Inflows represent only equity capital, i.e. they do not include reinvested earnings, other capital and inter-company debts.

Annex table 5b. India: the 10 leading home countries for inward FDI, 2000, 2005, 2008, and 2009

2000 (US$ 4.5 bn)		2005 (US$ 4.4 bn)		2008 (US$ 33 bn)		2009[a] (US$ 27 bn)	
Country	% and amount of inflows	Country	% and amount of inflows	Country	% and amount of inflows	Country	% and amount of inflows
Mauritius	35% 823 mn	Mauritius	49% 2.1 bn	Mauritius	43% 14 bn	Mauritius	43% 11.5 bn
USA	18% 418 mn	USA	11% 472 mn	Singapore	11% 3.8 bn	Singapore	11% 3.1 bn
Japan	10% 229 mn	Singapore	7% 321 mn	USA	5% 1.8 bn	USA	7.6% 2.0 bn
Italy	6% 136 mn	U.K.	5% 219 mn	U.K.	5% 1.7 bn	Cyprus	6% 1.6 bn
Netherlands	5% 127 mn	Japan	4% 168 mn	Cyprus	4% 1.3 bn	Japan	5% 1.3bn
Singapore	5% 117 mn	Netherlands	3% 119 mn	Germany	2% 800 mn	Netherlands	3.1% 833 mn
Germany	3% 79 mn	Switzerland	2% 83 mn	France	1% 500 mn	U.A.E.	2.3% 625 mn
France	3% 79 mn	Germany	2% 83 mn	Japan	1% 400 mn	Germany	2.2% 600 mn
UK	3% 65 mn	Cyprus	2% 69 mn	Italy	1% 300 mn	U.K.	1.7% 468mn
Sweden	2.5% 59 mn	Republic of Korea	2% 66 mn	Russia	1% 300 mn	Sweden	0.9% 245mn
Unknown	0.1% 2.23mn	Unknown	3% 148mn	Unknown	9% 2.9 bn	Unknown	7.6% 2.0 bn
Non-resident Indians	0.01% 0.18mn	Non-resident Indians	1% 43mn	Non-resident Indians	6% 1.9 bn	Non-resident Indians	2.9% 792 mn

Source: Secretariat for Industrial Assistance, Department of Industrial Promotion and Policy, Ministry of Commerce and Industry, Government of India.

[a] Data up to November 2009.

Annex table 5c. India: selected large foreign affiliates, ranked by size of cumulative investments from 2000-2009 (US$ billions)

Rank	Name [a]	Industry	Cumulative investments in India [b] (2000-2009)
1	Oracle Global Ltd. (Mauritius)	Software development	1.64
2	Biometrix Marketing Pvt. Ltd. (Singapore)	Petroleum & natural gas	1.62
3	TMI Mauritius Ltd. (Mauritius)	Telecommunications	1.6
4	Cairn (UK)	Business services	1.49
5	Vodafone (Mauritius)	Telecommunications	0.8
6	Hindustan Coca Cola Overseas Holding Pte (Singapore)	Investment research & counseling activities	0.78
7.	HSBC Bank Plc (UK)	Ports	0.75
8.	Suzuki Motors (Japan)	Automobile	0.57
9.	Essar Logistics Holdings (USA)	Steel manufacture	0.45
10.	Matsushita Electric Works (Japan)	Manufacture of electrical products	0.44
11.	Yamaha Motor Co. (Japan)	Automobile	0.39
12.	Barclays Bank (Singapore)	Financial services	0.36
13.	Petronas International (USA)	Business services	0.29
14.	Hewlett Packard Leiden BV(Netherlands)	Software	0.25
15.	Allianz SE (Germany)	Insurance	0.24
6	SAB Miller (Netherlands)	Brewery	0.24
17.	NTT Docomo (Japan)	Telecommunications	0.2
18.	Walt Disney (Singapore)	Motion pictures distribution	0.16
19.	Volkswagen AG (Netherlands)	Automobile	0.15
20.	Ford Motor Co. (USA)	Automobile	0.15
21.	TNT Express Worldwide, (Netherlands)	Courier service	0.08
22.	Posco Ltd. (Republic of Korea)	Steel	0.07
23.	Samsung Electronic Co. Ltd. (Republic of Korea)	Electronic	0.05
24.	Hyundai Heavy Industries (Republic of Korea)	Construction & transport equipment	0.04
25.	Schneider Electric Industries SAS (France)	Industrial machinery	0.04

Source: Database of the Secretariat of Industrial Approvals, Department of Industrial Promotion and Policy, Ministry of Commerce and Industry, Government of India.

[a] Data on FDI inflows captures the country from where the investment into India is flowing and not the original home country of the company.

[b] Company-wise inflows from January 2000 and November 2009 have been counted as total Indian assets.

Annex table 6. India: the top 15 inward mergers and acquisitions, 2007-2009

Year	Acquirer/ home country	Target	Value *(US$ billion)*	Shares bought (%)	Industry
2007	Vodafone, UK	Hutchison Essar	10.8	67%	Telecommunications
2008	Daichii Sankyo, Japan	Ranbaxy Laboratories	4.5	60.63%	Pharma, healthcare, biotech
2008	NTT DOCOMO, Japan	Tata Teleservices	2.7	26%	Telecommunications
2008	Telenor , Norway	Unitech Wireless	1.36	60%	Telecommunications
2007[a]	Oracle Global, USA	I Flex Solutions	1.1	NA	Computer software
2007	Vedanta Resources, UK	Sesa Goa	1	51%	Metals and ores
2008	Emirates Telecommunications, U.A.E	Swan Telecom	0.9	45%	Telecommunications
2007	Mittal Investments, Luxembourg	Guru Gobind Singh Refineries	0.7	49%	Oil and natural gas
2009	Sanofi Pasteur, France [b]	Shantha Biotechnics	0.68	80%	Pharma, healthcare, biotech
2007	Matsushita Electric Works, Japan	Anchor Electricals	0.42	80%	Electricals and electronics
2008	Lafarge, France	Larsen and Toubro's ready-mix concrete business	0.37	100%	Engineering
2008	Petroliam Nasional Berhad (Petronas), Malaysia	Cairn India	0.36	2.77%	Power and energy
2008	HSBC Holdings, UK	IL&FS Investmart	0.24	73.21%	Banking and financial services
2009	Petroliam Nasional Berhad (Petronas), Malaysia [c]	Cairn India	0.24	2.3%	Power and energy
2009	Bahrain Telecommunications Co. and Millennium Private Equity, Bahrain	S Tel	0.23	49%	Telecommunications
2007	Holci, Switzerland	Ambuja Cements	0.22	3.9%	Cement

Source: Grant Thornton Deal Tracker.

[a] Secretariat of Industrial Approvals, Department of Industrial Promotion and Policy, Ministry of Commerce and Industry, Government of India. Acquisition announced in 2006 (thus, not listed in the Grant Thornton Deal Tracker data base), but inflows received in January 2007.

[b] Vaccines division of Sanofi-Aventis.

[c] Through its overseas arm, Petronas International Corporation Ltd.

India: Outward FDI and its policy context, 2009

Jaya Prakash Pradhan[*]

Just over a year ago, outward foreign direct investment (OFDI) from India seemed to be on a path of rapid and sustained growth. Its annual average growth of 98% during 2004–07 had been unprecedented, much ahead of OFDI growth from other emerging markets like China (74%), Malaysia (70%), Russia (53%), and the Republic of Korea (51%), although from a much lower base. Much of this recent growth had been fuelled by large-scale overseas acquisitions, however, and it faltered when the global financial crisis that started in late 2007 made financing acquisitions harder.

How will internationalizing Indian firms deal with the global crisis? Will they benefit from the global meltdown − for example, from cheaper asset prices − or become cautious and retreat?

Slowdown in 2008, with dim prospects for 2009

The global economic crisis has made Indian firms wary of further expansion abroad. Consequently, actual Indian FDI outflows, which rose to a historic level of nearly USD 18 billion in 2007, fell by 6% in 2008 to under USD 17 billion (annex table 1).[1] This is the first absolute decline in OFDI since 1999. The fall in Indian OFDI is in line with the worldwide decline of 15% in 2008,[2] although it contrasts with China's doubling of its OFDI in 2008.[3] The contraction in Indian OFDI is continuing in 2009, falling to USD 4.7 billion in the first quarter of the current year, a 14% decline over the same quarter last year.

The trend in Indian overseas acquisitions in January–June 2009, as compared to the corresponding period in 2008, confirms the decline. Between these two periods, the value of such acquisitions fell by 65%, from USD 8 billion to under USD 3 billion, and their number fell from 140 to 28 (annex table 2).

This 2008 and early 2009 plunge in Indian OFDI has been asymmetrical across sectors and host regions (annex tables 3, 4 and 5). Indian OFDI in the primary and tertiary sectors has been more resilient in the crisis than OFDI in manufacturing. Between 2007 and 2008, acquisition-led[4] Indian OFDI grew in the primary sector (10%) and in services (19%), while it fell steeply in manufacturing (-79%). The share of manufacturing in Indian OFDI flows thus fell, unsurprisingly, from 84% in 2007 to 49% in 2008. The

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[1] The Reserve Bank of India (RBI), from which these figures are taken, tends to underestimate FDI in general, as it does not count re-invested earnings.

[2] UNCTAD (2009), "Global crisis now having strong, wide impact on foreign direct investment, study shows", Press Release, UNCTAD/PRESS/PR/2009/020, May 20.

[3] Kenneth Davies (2009), "While global FDI falls, China's outward FDI doubles", *Columbia FDI Perspectives*, No. 5, May 26, at www.vcc.columbia.edu.

[4] Much of the discussion in this *Perspective* draws on data on M&As compiled by the author. As the funds used for cross-border acquisitions need not come just from the home country, the sectoral and geographic distribution of such acquisitions may be different from the distribution of direct investment from India. The reason for using the M&A data in this context is that data on the distribution of OFDI proper is not available.

share of the primary and services sectors in Indian brownfield (i.e., made through mergers and acquisitions) OFDI, on the other hand, grew to 20% and 31%, respectively. In the first half of 2009, the negative impact of the global slowdown spread to the services sector as well. Only the primary sector remained robust, led by ongoing increases in OFDI in the oil segment and the revival of OFDI in mining.

The current decline in Indian investment is widespread among recipients. Among host regions, the fall in Indian brownfield investment was steepest in the developing world (-79%) in 2008, with Asia, which had accounted for 8% of the investment in 2007, falling by 85% in 2008 (annex table 4). Africa did much better, by receiving 69% more brownfield investment in 2008, but this from a very low base of USD 111 million. Acquisitions in the developed world in 2007 had been led by Europe and fell by nearly 54% in 2008. In North America, they fell by 75%.

In the first half of 2009, Indian FDI flows into Africa were sharply higher than the first half of 2008, because of the region's oil and gas resources, while they fell in all other regions. Looking at countries, the two countries accounting for most of the value of Indian acquisitions in both 2007 and 2008 differed sharply in 2009. Indian brownfield investment in the United States during the first half of 2009 actually grew by 6% over the first half of 2008, while it fell by 99% in the United Kingdom.

Undertaken mostly by private enterprises, except for a few public-sector firms in the energy sector,[1] Indian OFDI has been driven by several factors, including global growth, business opportunities and increased competition. The effect of market conditions turning adverse in 2008 can be seen in the actions of such Indian companies such as Sakthi Sugars, Reliance Industries, Vardhman Polytex, and Suzlon Energy, which are reportedly wrapping up (or disinvesting from) some of their overseas affiliates because of the current economic meltdown (annex table 6).

What led to the downturn?

Several factors account for the decline in Indian OFDI. The global and domestic slowdown in growth was one of these. The advanced economies are predicted to see a sharp fall in their aggregate real GDP growth rate from 2.7% in 2007 to 0.8% in 2008 and -3.8% in 2009, signifying further reduction in overseas demand.[2] Real GDP growth within India fell from above 9% in October–December 2007 to just 5% in October–December 2008. This has led to an erosion of business confidence, reduced consumption and slowing investment, choking off both the domestic and overseas expansion of Indian firms.

The credit crunch in both Indian and overseas markets was another factor. Although the Indian banking sector did not suffer quite as much from its exposure to distressed global financial instruments and institutions as banks in some major economies, suffer it did and therefore adopted a cautious lending policy in 2008.[3] This in turn led to several domestic and overseas projects being postponed.

[1] For a list of large Indian outward investors, see "The growth story of Indian multinationals", The Indian School of Business (ISB) and the Vale Columbia Center on Sustainable International Investment (VCC), 2009, at www.vcc.columbia.edu.
[2] International Monetary Fund (2009), "World economic outlook update", July 8, 2009, http://www.imf.org/external/pubs/ft/weo/2009/update/02/index.htm.
[3] *Hindu Business Line* (2007), "Banks' loss due to sub-prime crisis put at $2 b", Saturday, October 6.

In addition, the global financial crisis had a significantly negative impact on other financial sub-sectors like the Indian equity, money and foreign-exchange markets. India's benchmark equity index, the Sensex, had fallen sharply by December 2008, by 48% from its highest-ever level reached in December 2007. All this has restricted Indian firms' access to cheap sources of finance and reduced their profitability. Many Indian companies that had acquired overseas units in the recent past, such as Suzlon Energy, Tata Motors and Hindlaco, had to suspend their rights issues and faced difficulties in raising resources.

The sudden depreciation of the Indian rupee against the US dollar in 2008 also led to heavy losses for many export-oriented Indian companies that had acquired long-term forex derivatives.[1] Several Indian companies, which had borrowed heavily abroad to finance their global acquisitions and greenfield projects during the period of rapid appreciation of the rupee against the dollar, encountered difficulties in meeting mounting overseas debt obligations after its sudden depreciation in late 2008.[2] The depreciating domestic currency, combined with the collapsing stock prices of Indian companies, reduced these companies' ability to engage in M&As.

Continued falls in export earnings, especially during October–December 2008, further aggravated the condition of export-dependent Indian firms in a large number of sectors, including software, gems and jewellery, leather, textiles, auto parts, pharmaceuticals, and food processing. Since exporters are leading outward investors, lower export earnings had a significant impact on Indian OFDI in 2008. The sudden collapse of commodity prices like crude oil, natural gas and metals also moderated the outward expansion of natural-resource-seeking Indian firms. Finally, anecdotal reports suggest that Indian firms with overseas affiliates − Bharat Forge, Havells India, Hindalco, Punj Lloyd, Tata Communications − have suffered severe consolidated losses in recent quarters on account of their overseas operations.[3]

Future prospects

Recovery in Indian OFDI will depend on the revival of global and domestic growth, improvements in corporate profitability, and the easing of financing from banks and the equity market. The first quarter of 2009 registered stronger GDP growth in India than expected, even though global growth went down. If domestic growth turns out not to be sustainable, however, OFDI may not recover.

Recently announced overseas deals, such as the proposed merger of Bharti Airtel and South Africa's MTN for USD 23 billion and Sterlite Industries' USD 1.7 billion bid for US-based copper-mining firm Asarco, suggest that 2009 might see some positive surprises. Moreover, not every Indian company has financing problems. There are some cash-rich Indian firms, including SMEs, which have not undertaken FDI in the past but may be interested in doing so in the future. These firms can be expected to explore acquisitions, given the cheap valuations of foreign assets.

[1] *Business Standard* (2009), "46 companies suffer forex losses of Rs 1,365cr", May 8.
[2] Pradhan, J.P. (2009) "The global economic crisis: impact on Indian outward investment", *MPRA Paper* No. 1657, Munich University Library, Germany.
[3] *Economic Times* (2009), "Foreign acquisitions: No love across the border", April 20.

ANNEX

Annex table 1. Actual Indian FDI outflows, 2008 and early 2009[a]

Year	Quarter	FDI in USD million			% change over previous year
		Equity	Loan	Total	
2008	January–March	3981	1422	5403	20.6
	April–June	1346	451	1797	-65.4
	July–September	2640	494	3134	5.4
	October–December	4254	1314	5569	-2.0
	All Quarters (January–December)	12926	3778	16704	-6.3
2009	January–March	4159	488	4647	-14.0

Sources: (i) RBI Bulletin (2009), "Indian investment abroad in joint ventures and wholly owned subsidiaries : 2008-09 (April-March)", July 10; (ii) RBI Bulletin (2009), "Indian investment abroad in joint ventures and wholly owned subsidiaries: 2008-09 (April-December)", April 17; (iii) RBI Bulletin (2009), "Indian investment abroad in joint ventures and wholly owned subsidiaries: 2008-09 (April-September)", January 14; (iv) RBI Bulletin (2008), "Indian investment abroad in joint ventures and wholly owned subsidiaries : 2008-09 (April-June)", October 13; and (v) RBI Bulletin (2008), "Indian investment abroad in joint ventures and wholly owned subsidiaries: 2007-08 (April-March)", July 14.

[a]The equity data do not include equity of individuals and banks. Quarterly figures may not add up to annual totals due to revision in data

Annex table 2. Overseas acquisitions by Indian firms, January–June 2009

Month	Value (USD million)		% change over previous year	Number of deals		% change over previous year
	2008	2009		2008	2009	
January	1304	29	-97.8	28	6	-78.6
February	602	132	-78.1	19	5	-73.7
March	3019	2316	-23.3	23	10	-56.5
April	746	40	-94.6	28	1	-96.4
May	569	54	-90.5	19	4	-78.9
June	1731	243	-86.0	23	2	-91.3
All above months	7971	2814	-64.7	140	28	-80.0

Sources: Based on a dataset constructed from reports from newspapers, magazines and financial consulting firms like *Hindu Business Line, Economic Times, Financial Express, Business World,* Grant Thornton India, and ISI Emerging Markets.

Annex table 3. Sectoral composition of Indian overseas acquisitions, 2008 and early 2009

Sector	Value (USD million)		% change over previous year	Value (USD million)		% change over previous year
	2007 (Jan.–Dec.)	2008 (Jan.–Dec.)		2008 (Jan.-Jun.)	2009 (Jan.-Jun.)	
Primary	2314	2533	9.5	411	2230	442.6
Agricultural & allied products	10	24	140	24		-100
Mining	1239	421	-66	277	1780	542.6
Oil & natural gas	1065	2088	96.1	110	450	309.1
Manufacturing	29919	6306	-78.9	5394	319	-94.1
Food & beverages	1269	56	-95.6	54		-100
Textiles & apparel	126	136	7.9	136	119	-12.5
Paper & paper products		9		9		-100
Gems & jewellery	43	40	-7	40		-100
Rubber & plastic products	65	124	90.8	68		-100
Non-metallic mineral products	37	9	-75.7	9		-100
Metal & fabricated metal products	22346	162	-99.3	162		-100
Machinery & equipment	1351	173	-87.2	152		-100
Electrical machinery & equipment	1560	827	-47	556	164	-70.5
Transport equipment	475	2758	480.6	2701	32	-98.8
Telecommunication equipment	757		-100			
Chemicals	1117	1427	27.8	1087		-100
Pharmaceuticals	773	585	-24.3	420	4	-99
Services	3350	3989	19.1	2137	265	-87.6
Business advisory	9		-100			
Media & entertainment	81	148	82.7	144	25	-82.6
Hospitality & tourism	521	45	-91.4	45	13	-71.2
Banking & financial services	26	141	442.3	110		-100
Telecommunication services	330	84	-74.5	84	26	-69
IT & ITES	2383	2565	7.6	786	201	-74.4
Power generation & distribution		1006		968		-100
Others	244	126	-48.4	29		-100
Grand total	35827	12954	-63.8	7971	2814	-64.7

Sources: Based on a dataset constructed from reports from newspapers, magazines and financial consulting firms like *Hindu Business Line, Economic Times, Financial Express, Business World,* Grant Thornton India, and ISI Emerging Markets.

Annex table 4. Regional direction of Indian overseas acquisitions, 2008 and early 2009

Host region	Value (USD million)		% change over previous year	Value (USD million)		% change over previous year
	2007 (Jan.–Dec.)	2008 (Jan.–Dec.)		2008 (Jan.-Jun.)	2009 (Jan.-Jun.)	
Developing economies	3234	685	-78.8	496	531	7.1
Africa	111	188	69.4	80	451	463.8
Latin America & Caribbean	232	68	-70.7	68		-100
Asia	2891	429	-85.2	348	80	-77
Transition economies	37	20	-45.9			
Europe	37	20	-45.9			
Developed economies	32556	12249	-62.4	7475	2283	-69.5
America	14372	3570	-75.2	2313	2046	-11.5
Asia	492		-100			
Europe	17579	8122	-53.8	4997	196	-96.1
Oceania	113	557	392.9	165	41	-75.2
Grand Total	35827	12954	-63.8	7971	2814	-64.7
Memorandum ítem						
Number of host countries	40	42		35	14	
Number of acquiring Indian companies	150	164		109	24	

Sources: Based on a dataset constructed from reports from newspapers, magazines and financial consulting firms like *Hindu Business Line, Economic Times, Financial Express, Business World,* Grant Thornton India, and ISI Emerging Markets.

Annex table 5. Indian overseas acquisitions by selected host countries, 2008 and early 2009

Host economy	Value (USD million)		% change over previous year	Value (USD million)		% change over previous year
	2007 (Jan.–Dec.)	2008 (Jan.–Dec.)		2008 (Jan.-Jun.)	2009 (Jan.-Jun.)	
UK	15374	5384	-65.0	2681	32	-98.8
USA	12003	3165	-73.6	1932	2045.94	5.9
Canada	1805	405	-77.6	381		-100.0
Indonesia	1124	258	-77.0	258	80	-69.0
Norway	900	302	-66.4	300		-100.0
Singapore	818	39	-95.2	22		-100.0
Republic of Korea	752		-100.0			
Germany	745	812	9.0	554	164	-70.4
Bermuda	564		-100.0			
Israel	489		-100.0			
Netherlands	355	954	168.7	954		-100.0
Brazil	224		-100.0			
Malaysia	133		-100.0			
Australia	113	557	392.9	165	41	-75.2
Mozambique	86	78	-9.3			
France	71	35	-50.7	2		-100.0
Italy	61	272	345.9	187		-100.0
Vietnam	44	2	-95.5			
Russia	37	20	-45.9			
Czech Republic	25	3	-88.0	3		-100.0

Sources: Based on a dataset constructed from reports from newspapers, magazines and financial consulting firms like *Hindu Business Line, Economic Times, Financial Express, Business World,* Grant Thornton India, and ISI Emerging Markets.

Annex table 6. Illustrative cases of overseas disinvestment by Indian firms, 2009

Indian company	Action taken
Suzlon Energy Ltd.	SEL sold 10% stake in Hansen Transmissions International on January 2, 2009 to raise Rs 600 crore (about USD120 million). According to news reports, Suzlon has taken this step because of the tight liquidity situation and its obligation to buy the stake of the Portuguese company Martifer in REpower, Germany.
Sakthi Sugars Ltd.	Sakthi Germany GmbH and Sakthi Sweden AB have filed for bankruptcy and Arvika Gjuteri AB, Sweden, for financial reconstruction. According to a parent company source, these measures were taken on account of the economic meltdown in the US and Europe and the consequent drastic reduction in orders.
Reliance Industries Ltd.	RIL's German subsidiary, Trevira GmbH, has started insolvency proceedings. RIL took this step to overcome the impact of the industrial slowdown in Europe, particularly in the automotive and textile sectors, to which it is an important supplier.
Vardhman Polytex Ltd.	VPL has decided to close down its Austrian subsidiary, FM Hammerle Nfg GmbH, as part of a business restructuring demanded by the current recession in Europe.

Sources: (i) *Hindu Business Line* (2009), "Suzlon Energy sells 10% stake in Hansen", January 3; (ii) *Financial Express* (2009), "Sakthi Sugars' European units file for bankruptcy", February 6; (iii) *Economic Times* (2009), "RIL's German textile arm files for bankruptcy", June 4; and (iv) BSE (2009), "Corporate communication of Vardhman Polytex", June 23.

India: Outward FDI and its policy context, 2010

Premila Nazareth Satyanand and Pramila Raghavendran[*]

India is now the world's 21st largest outward investor, which is significant given its historically minuscule foreign direct investment (FDI) outflows. Annual FDI outflows have jumped fifty-fold after 2000, and Indian firms have invested over US$ 75 billion overseas in the past decade, in some cases to attain global status by acquiring world-leading firms. Substantial improvements in the country's economic performance and the competitiveness of its firms and their strategy, resulting from ongoing liberalization in economic and outward FDI (OFDI) policies, made these developments possible. Indian firms now invest across a wide variety of sectors and countries, departing from their historical focus on trading and textile investments in developing countries. Following the 25% crisis-induced drop in Indian OFDI in 2009, Indian firms are once again increasing their overseas investment, including through mergers and acquisitions (M&As). India's OFDI should continue its rapid upward trend over the next few years, as more companies seek to transfer their products and service innovations to new markets, and acquire strategic international know-how and market shares, particularly in crisis-hit developed economies.

Trends and developments

Indian firms began to invest overseas in the 1960s, but India's restrictive OFDI regime limited them to small, minority joint ventures in developing economies. After 1991, intense domestic economic competition, the growing global competitiveness of Indian firms and liberalizations in OFDI and capital market policy triggered a rush of international investments by Indian companies, especially in the IT, pharmaceuticals, telecommunication, automotive, metal, and service sectors. In most of these sectors, Indian companies have sought to be global leaders.

Country level developments

Indian OFDI shows three major structural shifts during the past decade. First, annual OFDI flows rose fifty-fold, from US$ 340 million in 2000 to an average of US$ 18 billion in 2007/2008 (annex tables 2 and 2a). India has become the world's 21st largest outward investor.[1] Its average annual OFDI flows are now higher than those of many developed market economies. Moreover, while India's OFDI gradually increased during the past three decades, OFDI of the Republic of Korea, Malaysia and South Africa declined during the same time period.[2] This strong performance is reflected in the surge of the country's OFDI stock, from US$ 1.9 billion in 2000 to US$ 76.3 billion in 2009 (annex table 1).

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[1] India was the world's 43rd largest investor in 2000. By 2007, it had become the 23rd largest, even before the global crisis caused a near-halving of OFDI from many of the world's leading outward investing economies. These are authors' calculations, based on UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi.

[2] The strong performance of Indian OFDI in comparison to other countries is analyzed in Karl P. Sauvant and Jaya Prakash Pradhan, with Ayesha Chatterjee and Brian Harley, eds., *The Rise of Indian Multinationals: Perspectives on Indian Outward Foreign Direct Investment* (New York: Palgrave, 2010) and Michael W. Hansen, "Outward foreign direct investment from India: theory and evidence," *CBDS Working Paper* No. 8 (Copenhagen: Copenhagen Business School, 2007), available at: www.hdl.handle.net/10398/6754.

Second, manufacturing has displaced services as the principal OFDI sector,[1]which dominated Indian OFDI flows at the turn of the decade (annex table 3), even as the primary sector's share is now growing quickly.[2] While pharmaceuticals, consumer electronics and automotives accounted for the bulk of manufacturing OFDI in the first half of the decade, the second half has seen a concentration in metals, energy and natural resource investments, and increasing activity by consumer goods and food and beverage firms. Similarly, while IT initially dominated services OFDI, investment in other services industries, such as financial and insurance services, entertainment and broadcasting, construction, and telecommunications, is now mounting.

Third, over a half of India's total 2002-2009 OFDI flows went into developed economies (annex table 4a), most of them in the form of M&As.[3] In fact, since 2000, Indian firms have tended to use cross-border M&As as the main mode of entry into developed economies, and greenfield investments into developing ones (annex tables 6 and 7), in a competitive strategy approach. They have systematically acquired leading developed country firms, rapidly to boost domain expertise, technological competitiveness, market size, and brand recognition. In some cases, these acquisitions were specifically undertaken to attain global size and status, and to build new competitive advantages by combining the best international technology with low-cost Indian labor. Energy and mineral security have driven large greenfield investments in developing countries, though many telecom, consumer goods, food, IT, metal, and power firms are now also using M&As to build market size or secure raw materials in these countries.

Singapore is now the largest host to Indian OFDI (annex table 4b). This is due to a sudden jump in investments after the two countries signed a Comprehensive Economic Cooperation Agreement in 2005.[4] In the 1990s, Russia dominated Indian OFDI flows, largely due to the "Rupee-Rouble" agreement, which enabled Indian firms to conduct Russian trade and investment in rupees.

The corporate players

Indian OFDI is undertaken primarily by publicly-listed, private firms and, as yet, only a handful of Indian public-sector firms have internationalized (annex table 5).[5] Unlike multinational enterprises (MNEs) in China and Singapore, they do not enjoy globalization privileges. In fact, domestic business rules and taxes weigh heavily on globalizing Indian firms.[6]

Though relatively small in a global context, Indian MNEs are notable for their global buy-outs of enterprises far larger than themselves,[7] and for their higher intensity of international sales and developed market M&A activity compared to other emerging market MNEs.[1]

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[1] The following sectoral and geographical analysis of Indian OFDI is based on the Indian Government's investment *approval* data, since it does not yet publish these data based on actual OFDI outflows.
[2] Sauvant and Pradhan, *op. cit.*, show that the primary sector accounts for close to a quarter of Indian OFDI stock
[3] According to Sauvant and Pradhan, *ibid.*, developed economies account for roughly 83% of the total value of all Indian overseas M&As from 2000 to June 2009.
[4] For the same reason, Singapore is also the largest source of inward FDI into India.
[5] Leading among these are the Oil and Natural Gas Commission (ONGC), the National Thermal Power Corporation (NTPC) and the Gas Authority of India Limited (GAIL).
[6] Foreign dividend repatriations by Indian outward investors are taxed at the normal corporate rate (currently 30%) plus applicable surcharges and levies. There is also double taxation as Indian companies are taxed on overseas dividend repatriations without receiving any credit for foreign taxes. See Lubna Kably, "Globetrotting anew," *Economic Times*, April 30, 2010.
[7] Most of these were leveraged buyouts, with much of the capital raised in international financial markets.

Early Indian OFDI was market-seeking and concentrated in developing economies, where there was little technological competition. Until the 1990s, Indian trading, textile, agrochemicals, paper, and light engineering firms dominated Indian OFDI. Indian MNEs invested overseas largely to circumvent domestic restrictions on firm size stemming from the Monopolies and Trade Restrictive Practices Act.[2]

In the 1990s, Indian OFDI became more high-tech and also more trade supporting, as Indian IT firms – such as Tata Consultancy Services, Infosys, WIPRO, and Satyam – began to win large global contracts and located in developed economies to be close to key clients. Indian pharmaceutical firms – such as Ranbaxy, Dr Reddy's Laboratories, Sun Pharmaceuticals, Biocon – followed the same route to break into Western generic markets. Battling global competition, both groups began to make strategic acquisitions to build rapidly specialized expertise, market share, brandnames, and certification to succeed internationally.[3]

Severe domestic competition and growing Indian corporate self-confidence also triggered increasingly larger strategic asset-seeking, cross-border M&As from other sectors, including automotives (Tata Motors, Mahindra & Mahindra), auto-components (Bharat Forge), electronics (Videocon), and electrical machinery (Crompton Greaves). Yet India's largest M&As have tended to be in the metals sector (Tata Steel, Hindalco, Essar Steel, Jindal Steel).[4] While the largest M&As were smaller than US$ 500 million in the early 2000s, they were higher than US$ 5 billion by 2007.

Many firms also used M&As to bring home new products and services and build competitive strength in India, now one of the world's largest markets. This trend is particularly evident for telecommunications (Tata Communications, Reliance Communications, Bharti Airtel, Essar Communications),[5] energy (Oil and Natural Gas Corporation, Reliance Industries, Tata Power),[6] infrastructure (GMR, DS Constructions), media and entertainment (Reliance Entertainment),[7] and agricultural firms (Karuthuri Global, Global Green, Renuka Sugars).[8] It also explains the dominance of natural resource-seeking investments in India's largest recent outward greenfield and M&A investments (annex tables 6 and annex 7). Agricultural and resource investments are also being driven by mounting local resistance to large-scale projects involving community displacement and environmental disruption.

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[1] Nagesh Kumar, "Internationalization of Indian enterprises: patterns, strategies, ownership advantages and implications," RIS Discussion Paper No. 140 (New Delhi: RIS, 2008).
[2] The Monopolies and Trade Restrictive Practices Act (1969) was intended to prevent the concentration of economic power, provide for control of monopolies and probation of monopolistic, restrictive and unfair trade practice, and to protect the consumer interest.
[3] Nagesh Kumar and K.J. Joseph, eds., *International Competitiveness & Knowledge-based Industries in India* (Oxford: Oxford University Press, 2007).
[4] Tata Steel's US$ 12.2 billion takeover of Corus Steel in 2007, India's largest cross-border M&A to date, accounted for two-thirds of the total Indian OFDI that year.
[5] Bharti Airtel, Tata Communications and Reliance Communications made a number of strategic international acquisitions in the mid-2000s to expand and control India's booming new telecommunications market.
[6] Public and private sector firms are buying oil and gas fields and coal mines overseas to secure supplies for their local Indian operations. Also, since 2006, new firms in the power and infrastructure sectors are using global acquisitions to build the expertise required to bid for power, airport and infrastructure projects, both at home and overseas.
[7] These firms are seeking to build or consolidate film, TV and animation production and distribution operations both at home and overseas. The largest investment so far is Reliance Entertainment's US$ 825 million production and distribution tie-up with Steven Spielberg, the US film maker.
[8] Led by firms such as Karuthuri Global, Global Green, Renuka Sugars, and Shree Shakti Sugars, Indian agricultural producers are internationalizing to circumvent domestic restrictions on corporate ownership of agricultural land and agricultural production. They are acquiring agricultural operations or land in Africa, Europe and Latin America, to service both the Indian and international markets.

Also important to note, is that smaller Indian firms and not just large conglomerates are active outward investors for many of the same reasons.[1] In fact, in the period 2000-2008, 34% out of the total number of Indian M&As abroad were made by such firms, though they account for just 8% of the total investment value and are less geographically diverse than larger counterparts.[2]

Effects of the current global crisis

The global crisis caused Indian OFDI flows to fall from their high of US$ 18.8 billion in 2007 to US$ 14.5 billion in 2009, largely because Indian MNEs had borrowed heavily in dollars to finance mega cross-border M&As. They were thus hit badly by the sharp rupee depreciation and tightened international credit conditions.[3] Outward M&As dropped radically both in number and in size, resulting in a four-fifths drop in the value of manufacturing (including metals) M&As and an overall drop in this sector's share (annex table 3).[4] Between 2007 and 2009, the number of overseas M&As plummeted from 243 to 82; the total cross-border M&A value fell from US$ 32.8 billion to US$ 1.4 billion; and the average M&A size decreased from US$ 135 million in 2007 to US$ 17 million in 2009.[5]

Given the minimal impact of the worldwide financial and economic crisis on the Indian economy, which remained on its strong economic growth path, Indian MNEs have weathered the crisis well, and have once again begun to make sizeable foreign investments. Indian firms are more bullish in their outward investment plans than MNEs of other BRIC countries. Despite the crisis, Indian MNEs do not seem to plan a reduction of outward investments, in contrast to their competitors in other countries.[6]

The policy scene

Three important regulatory developments have underpinned India's emergence as a global outward investor. First, the number of sectors/activities requiring industrial licensing was reduced in a calibrated manner. This means that Government-determined production quotas were lifted, permitting Indian firms to produce what and how much they want, using the technology they want, without government planners on their backs. Licensing is now applicable only to 14 manufacturing activities through periodical amendments to the Industries (Development & Regulation) Act, 1951.

Second, ongoing liberalizations of India's historically restrictive OFDI regime encouraged outward FDI. The introduction of the Foreign Exchange Management Act (2000) brought about significant policy liberalization. Indian firms were allowed to invest in 100% subsidiaries, in any line of business, in any country, and the earlier investment limit of US$ 50 million over a three-year period began to apply annually. Before that Act, Indian firms were only permitted to make overseas investments in their core

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[1] UNCTAD, *Global Players from Emerging Markets: Strengthening Enterprise Competitiveness through Outward Investment* (New York and Geneva: United Nations, 2007).
[2] Jaya Prakash Pradhan and Neelam Singh, "Group affiliation and location of Indian firms' foreign acquisitions," *MPRA Paper*, No. 24018, University Library of Munich, 2010.
[3] Some experts argue that Indian MNEs "imported" the global financial crisis into India, due to their heavy reliance on foreign borrowings. See, for example, Jahangir Aziz, Ila Patnaik and Ajay Shah, "The current liquidity crunch in India: diagnosis and policy response," Technical report for NIPFP DEA Research Program, October 28, 2008, available at: http://www.mayin.org/ajayshah/PDFDOCS/APS2008_crisis_and_response.pdf
[4] Jaya Prakash Pradhan, "Indian FDI falls in global crisis: Indian multinationals tread cautiously," *Columbia FDI Perspectives No. 11*, August 17, 2009.
[5] *Grant Thornton Deal Tracker* (New Delhi: 2009).
[6] Multilateral Investment Guarantee Agency, *World Investment and Political Risk 2009*, available at: http://www.miga.org/documents/flagship09ebook.pdf

business in developing countries and only with Governmental approval. Indian companies have also been relieved of foreign exchange matching obligations. Earlier, Indian firms had to compensate for foreign exchange outflows with matching export earnings. They are now allowed to borrow abroad to finance overseas investments, and to use domestic bank borrowing for the same purpose. In 2005, they were allowed to float international special purpose vehicles to finance foreign acquisitions and, in 2006, the prudential limit on bank financing was raised from 10% to 20% of overseas investment. The outward investment cap is now four times the adjusted net worth invested in foreign affiliates. The cap was just US$ 2 million in the 1990s.

Third, capital market liberalization enabled foreign investors to buy Indian stocks and Indian firms to borrow money internationally (even for overseas investments). This radically cut the cost of capital,[1] made it far more available[2] and transformed the Indian industry's standing in global financial markets.[3]

Bilateral investment treaties (BITs) and double taxation treaties (DDTs) have also played a role, particularly in the case of small firms.[4] While India had 40 BITs in force in 2000, it now has 68, and is negotiating 24 more. The number of DDTs has jumped from 66 to 79 over the same period.

Conclusions

The growth of Indian OFDI is expected to continue. The sectoral and regional distribution of Indian outward FDI is broadening. The liberalization of such sectors as medical services, defence and education is prompting Indian firms to explore overseas acquisitions to build both domestic strength and global presence. It can also be expected that foreign investments in the natural resource sectors will surge, given the continuing difficulty in acquiring large tracts of land for agricultural purposes and the growing resistance to large mining projects in India.

Indian MNEs will continue to invest in developed-country based companies, particularly now that they are more affordable due to the global crisis.[5] In addition, Indian MNEs are seeking more strategic investments in emerging markets, particularly in Africa.[6] According to a recent report, India might be the largest source of emerging market MNEs by 2024, with 20% more new MNEs than China, and over 2,200 Indian firms are likely to invest overseas in the next fifteen years.[7]

Additional readings

[1] Interest rates averaged 18% during the 1980s, due to minimal competition and capital controls.

[2] Between 2003 and 2007, foreign institutional investors, keen to profit from India's accelerating growth, poured over US$ 50 billion into Indian stocks, causing share prices to quintuple.

[3] Due to the quintupling of share prices, over 80 Indian firms had market capitalizations of above US$ 1 billion by early 2008, making it easy for them to raise money overseas to finance large international investments.

[4] Pradhan and Singh (2010), *op. cit.* The authors find that smaller firms are particularly influenced by double taxation agreements.

[5] According to a study by Virtus Global Partners, half of Indian acquisitions in the US in the past two years have been buyouts of distressed assets, whose parent firms were badly hit by the global crisis. Virtus Global Partners (2010), *US-bound Acquisitions by Indian Companies,* vol.3.2 (New York, July 2010).

[6] Over the past few months, Indian telecommunications and consumer goods firms have begun to make large African investments, both greenfield investments and cross-border M&As. Among these are the Bharti, Essar and Godrej groups.

[7] PricewaterhouseCoopers, "Emerging multinationals," April 2010, available at: http://www.pwc.fr/assets/files/pdf/2010/04/pwc_emerging_multinationals.pdf

Hansen, Michael W., “Outward foreign direct investment from India: theory and evidence,” CBDS Working Paper No. 8 (Copenhagen: Copenhagen Business School, 2007), available at: www.hdl.handle.net/10398/6754.

India Brand Equity Foundation, *Going Global: Indian Multinationals* (New Delhi: 2006), available at: http://ibef.org/artdisplay.aspx?cat_id=410&art_id=13725.

Indian School of Business and Vale Columbia Center on Sustainable International Investment, “The growth story of Indian multinationals” (New York, 2009), available at: www.vcc.columbia.edu/files/vale/documents/India_2009.pdf.

Kumar, Nagesh, “Internationalization of Indian enterprises: patterns, strategies, ownership advantages and implications,” *RIS Discussion Paper*, No 140 (New Dehli: 2008), available at: www.ris.org.in/dp140_pap.pdfhttp://www.ris.org.in/dp140_pap.pdf.

Sauvant, Karl P. and Jaya Prakash Pradhan, with Ayesha Chatterjee and Brian Harley, eds., *The Rise of Indian Multinationals: Perspectives on Indian Outward Foreign Direct Investment* (New York: Palgrave, 2010).

Pradhan, Jaya Prakash, *Indian Multinationals in the World Economy: Implications for Development* (New Delhi: Bookwell Publishers, 2008).

Useful websites:

For OFDI statistics: Website of the Department of Economic Affairs (International Cooperation Division), Ministry of Finance, Government of India, available at:
www.finmin.nic.in/the_ministry/dept_eco_affairs/
icsection/icsec_index.html

Statistical annex

Annex table 1. India: outward FDI stock, 1990, 2000, 2008, 2009

(US$ billion)

Economy	1990	2000	2008	2009
India	0	2	62	77
Memorandum: comparator economies				
Brazil	41	52	162	158
China	4	28	148	230
Russia	-	20	203	249
Singapore	8	57	207	213

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

Annex table 2. India: outward FDI flows, 2000-2009

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
India	0.5	1.4	1.7	1.9	2.2	3.0	14.3	17.2	18.5	14.9
Memorandum: comparator economies										
Brazil	2.3	-2.3	2.5	0.2	9.8	2.5	28.2	7.1	20.5	-10.1
China	0.9	6.9	2.5	2.9	5.5	12.3	21.2	22.5	52.2	48.0
Russia	3.2	2.6	3.5	9.7	13.8	12.8	23.2	45.9	56.1	46.1
Singapore	5.9	20.0	2.3	2.7	10.8	11.2	18.8	27.6	-8.5	6.0

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

Annex table 2a. India: outward FDI flows, 1991-1999

(US$ billion)

Economy	1991-1996[a]	1997	1998	1999
India	0.1	0.1	0.1	0.1
Memorandum: comparator economies				
Brazil	0.5	1.1	2.8	1.7
China	2.6	2.6	2.6	1.8
Russia	0.5	3.2	1.3	2.2
Singapore	3.0	9.0	0.4	5.4

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

[s] Annual average.

Annex table 3. India: distribution of outward FDI flows, by economic sector and industry,[a] selected years

(US$ billion, and percent of total outflows)

Sector/industry	2000/2001	2004/2005	Cumulative 2000-01 to 2004-05	2008/2009	2009/2010	Cumulative 2005-06 to 2009-10
Total	1.4	2.8	10.1	22.1	14.3	77.5
Manufacturing	0.4 (27%)	2.0 (72%)	6.4 (63 %)	10.4 (47%)	6.0 (42%)	31.9 (41%)
Financial services	0.0 (1%)	0.0 (0%)	0.1 (0.1%)	0.3 (1%)	0.1 (0.7%)	0.7 (0.9%)
Non-financial services	0.9 (63%)	0.6 (21%)	2.7 (27%)	1.2 (6%)	1.5 (10.5%)	14.4 (19%)
Trade	0.1 (7%)	0.1 (2%)	0.4 (4%)	1.9 (9%)	0.8 (5.6%)	25.5 (33%)
Others	0.0 (2%)	0.2 (5%)	0.4 (4%)	8.3 (37%)	5.9 (41.3%)	4.8 (6%)

Source: Indian Ministry of Finance
www.finmin.nic.in/the_ministry/dept_eco_affairs/icsection/icsec_index.html

[a] This table relies on investment approval data, since the Government does not yet publish a sectoral breakdown of outflows. Data are by fiscal year (1 April – 31 March).

Annex table 4a. India: geographical distribution of outward FDI flows,[a] 1996-2010

Region/economy	Shares in %			US$ million		
	1996-2002	2002-09	2009-10	1996-2002	2002-09	2009-10
World	100	100	100	7,525	75,985	10,623
Developed economies	35	52	32	5,267	39,487	3,384
Europe	11	40	20	827	30, 715	2,134
European Union	11	32	17	806	24,199	1,844
Austria	1	0	0	78	91	7
Cyprus	-	6	5	-	4,679	556
Ireland	1	0	0	44	91	2
Italy	1	1	0	42	530	35
Netherlands	2	14	6	158	10,714	591
United Kingdom	5	7	3	411	5,624	277
Other European economies	0	9	3	21	6,516	290
Channel Island	0	7	2	14	5,446	158
Switzerland	0	1	1	7	1,070	133
North America	21	10	11	1,546	7,185	1191
Canada	0	1	0	6	568	47
United States	21	9	11	1541	6,617	1,144
Other developed economies	3	2	1	248	1,587	59
Australia	0	1	0	7	799	12
Bermuda	3	1	0	233	746	46
Japan	0	0	0	6	23	2
Developing economies	65	48	68	-	36,498	7,239
Africa	10	12	14	750	9,321	1,521
North Africa	1	3	0	54	2739	9
Egypt	0	1	0	9	821	7
Libya	0	0	0	13	143	1
Morocco	0	0	-	33	36	-
Nigeria	0	0	-	7	301	-
Sudan	-	2	-	-	1,191	-
West Africa	0	1	0	29	542	11
Central Africa	-	0	-	-	85	-
East Africa	9	8	14	638	6342	1430
Mauritius	8	8	13	618	6,165	1,426
Kenya	0	0	-	13	149	-
Southern Africa	0	0	1	29	154	72
South Africa	0	0	1	22	118	69
Asia and Oceania	21	28	46	1544	21,032	4,923
Asia	21	28	46	1544	21,032	4,923
West Asia	5	4	7	362	2,817	707
Oman	3	0	0	205	271	14
United Arab Emirates	2	3	6	110	2,232	665
East Asia	6	3	1	484	2,003	74
China	1	1	0	38	949	24
Hong Kong (China)	6	1	1	445	999	49
South Asia	3	1	0	224	654	47

South East Asia	6.3	20.5	38.6	474.5	15,559.0	4096.5
Singapore	2	19	38	153	14,384	4,017
Vietnam	3	0	0	229	341	2
Oceania	-	-	-	-	-	-
South East Europe/ Commonwealth of Independent States	24	5	1	1,787	3,448	76
South East Europe	-	-	-	-	-	-
CIS	24	5	1	1,787	3,448	76
Russia	23	4	1	1,749	3,106	73
Latin America and Caribbean	11	4	7	821	2,697	718
South and Central America	0	1	0	31	766	46
South America	0	1	0	30	622	14
Brazil	0	1	0	13	508	11
Uruguay	-	0.1	-	-	91	-
Central America	0	0	0	1	144	32
Caribbean and other America	11	3	6	790	1930	672
British Virgin Islands	10	2	5	777	1,627	567
Cayman Islands	0	0	1	12	221	104

Source: Author's calculations, using data published by the Department of Economic Affairs in the Indian Ministry of Finance.
[a] This table relies on investment approval data, since the Indian Government does not yet publish a geographic breakdown of outward FDI flows. Data are by fiscal year (April 1 – March 31).

Annex table 4b. India's top 15 outward FDI destinations,[a] 1996-2002 and 2002-2009

1996-2002			2002-2009		
Economy	Outflows received (%)	Outflows received (US$ billion)	Economy	Outflows received (%)	Outflows received (US$ billion)
1. Russia	23.8	1.7	1. Singapore	20.8	14.2
2. United States	20.5	1.5	2. Netherlands	15.4	10. 6
3. British Virgin Islands	10.3	0.8	3. Mauritius	8.1	5. 6
4. Mauritius	8.2	0.6	4. Channel Island	7.9	5.4
5. Hong Kong (China)	5.9	0.4	5. United Kingdom	7.6	5.2
6. United Kingdom	5.5	0.4	6. United States	7.4	5. 1
7. Bermuda	3.1	0.2	7. Cyprus	6.8	4. 7
8. Vietnam	3.0	0.2	8. United Arab Emirates	3.1	2.1
9. Oman	2.7	0.2	9. Russia	2.0	1. 4
10. Netherlands	2.1	0.1	10. Sudan	1.7	1. 2
11. Singapore	2.0	0.1	11. Switzerland	1.6	1. 1
12. United Arab Emirates	1.5	0.1	12. China	1.3	0.9
13 Austria	1.0	0. 1	13. British Virgin Islands	1.2	0. 9
14. Nepal	0.9	0. 1	14. Egypt	1.2	0.8
15. Sri Lanka	0.8	0. 1	15. Denmark	1.2	0.8

Source: Author's calculations, using data published by the Department of Economic Affairs in the Indian Ministry of Finance,
[a] Rankings are based on the cumulative stock of outward investment approvals for each period.

Annex table 5. India: principal MNEs headquartered in the economy, ranked by foreign assets, 2006

(US$ million)

Rank	Name	Industry	Foreign assets
1	Oil and Natural Gas Corporation (ONGC)	Oil and gas operations	4,700
2	Tata Group of companies	Conglomerate	4,200
3	Videocon Industries	Conglomerate	1,600
4	Ranbaxy Laboratories	Pharmaceuticals	1,000
5	Dr. Reddy's Laboratories	Pharmaceuticals	870
6	HCL Technologies	IT services	780
7	Hindalco Industries	Aluminum manufacturer	580
8	Sun Pharmaceuticals	Pharmaceuticals	280
9	Reliance Industries	Oil and gas	250
10	Suzlon Energy	Power and energy	140
11	Larsen and Toubro	Engineering and construction	130
12	WIPRO Technologies	IT services	130
13	Bharat Forge	Auto component solution provider (forging)	110
14	Patni Computer Systems	IT services	81
15	Hexaware Technologies	IT services	70
16	Biocon Limited	Pharmaceuticals	50
17	i-Gate Global Solutions	IT services	49
18	Max India Limited	Conglomerate	37
19	Mahindra & Mahindra	Automobile manufacturer	35
20	NIIT Limited	IT services	31
21	Piramal Healthcare Limited	Pharmaceuticals	26
22	Birlasoft (India) Limited	IT services	21
23	Raymond Limited	Fabric manufacturer	18
24	Infosys Technologies Limited	IT services	9

Source: Indian School of Business' and Vale Columbia Center on Sustainable International Investment's ranking of Indian multinationals, 2009, available at http://www.vcc.columbia.edu/files/vale/documents/India_2009.pdf

Annex table 6. India: main M&A deals, by outward investing firm, 2007-2009

Rank	Year	Acquiring company	Target company	Target industry	Target economy	Shares acquired (%)
1	2007	Tata Steel	Corus Goup	Metals and mining	United Kingdom	100%
2	2007	Hindalco Industries	Novelis	Metals and mining	Canada	100%
3	2008	Oil and Natural Gas Commission	Imperial Energy	Energy and power	United Kingdom	100%
4	2008	Tata Motors	Jaguar and Land Rover	Automotives	United States	100%
5	2007	Suzlon Energy	REpower Systems	Energy and power	Germany	66%
6	2007	Essar Global	Algoma	Metals and mining	Canada	100%
7	2007	Tata Power	Kaltim Prima Coal	Metals and mining	Indonesia	100%
8	2007	United Spirits	Whyte and Mackay	Food and beverage	United Kingdom	100%
9	2008	GMR Infrastructure	Intergen	Energy and power	Netherlands	50%
10	2008	Tata Chemicals	General Chemical Industrial	Plastic and chemicals	United States	100%
11	2007	JSW Steel	Jindal United Steel/ Saw Pipes	Metals and mining	United States	90%
12	2008	HCL-EAS	Axon Group	IT & ITES	United Kingdom	100%
13	2007	Wipro Technologies	Infocrossing	IT & ITES	United States	100%
14	2007	Rain Calcining	CII Carbon	Energy and power	United States	100%
15	2007	DS Constructions[a]	Globeleq (Latin America business)	Energy, power, and infrastructure	Bermuda	100%
16	2008	Tata Consultancy Services	Citigroup Global Services	IT & ITES	India	100%
17	2007	Videocon/Bharat Petro Resources	Encana Brasil Petroleo	Energy and power	Brazil	50%
18	2007	Firstsource Solutions	MedAssist Inc	IT & ITES	United States	100%
19	2007	Reliance Communications	Yipes Holding Inc	Telecommunications	United States	100%
20	2009	Kiri Dyes and Chemicals	DyStar Group (selective assets)	Plastics and chemicals	Germany	100%
21	2009	Essar Group	Warid Telecom (Uganda/Congo ops)	Telecommunications	Uganda/ Congo	51%
22	2009	Inox India	Cryogenic Vessel Initiatives	Logistics	United States	51%
23	2009	S. Kumar's	Hartmarx Corporation	Textiles and apparels	United States	100%

Source: Grant Thornton Deal Tracker (2007, 2008, 2009); Thomson One Banker, Thomson Reuters; and press reports.
[a]DS Constructions undertook this acquisition in a 50:50% JV with Israel Corporation.

Annex table 7. India: top 25 greenfield projects, by outward investing firm, 2007-2009

(US$ million)

Rank	Year	Investing company	Sector	Host economy	Estimated / announced transaction value
1	2008/09	National Thermal Power Corporation	Coal, oil and natural gas	Iran	5,150
2	2007	GAIL India	Chemicals	Saudi Arabia	4,150
3	2008	Tata Group	Metals	Vietnam	3,500
4	2008	ONGC	Coal, oil and natural gas	Iran	3,000
5	2006	ONGC	Coal, oil and natural gas	Iran	2,000
6	2008	Era Group	Coal, oil and natural gas	Zambia	1,800
7	2007	Mahindra Satyam *(earlier known as Satyam Computers Services)*	Software and ITES	Malaysia	1,714[a]
8	2009	Essar Group	Coal, oil and natural gas	Kenya	1,701[a]
9	2007	Videocon Industries	Consumer Electronics	Poland	1,700
10	2007	Ispat Industries	Metals	Philippines	1,600
11	2008	Essar Group	Metals	United States	1,600
12	2007	Videocon Industries	Consumer Electronics	Italy	1,576
13	2008	National Aluminium Company	Coal, oil and natural gas	Indonesia	1,500
14	2008/09	ONGC	Coal, oil and natural gas	Iraq	1,450
15	2008	SKIL Infrastructure	Real estate	Oman	1,200
16	2007	Ispat Industries	Coal, oil and natural gas	Montenegro	1,100
17	2007	Reliance Industries	Chemicals	Egypt	1,000
18	2007	Jindal Organisation	Metals	United States	1,000
19	2008	BSEL Infrastructure Realty	Real estate	Malaysia	940
20	2007	Tata Group	Automotive OEM	Argentina	905
21	2006/07	Darvash Group	Metals	United Arab Emirates	817
22	2008	Indian Farmers' Fertiliser Cooperative (IFFCO)	Minerals	Australia	800
23	2009	Sanghi	Coal, oil and natural gas	Kenya	749[a]
24	2008	Jindal Organisation	Metals	Indonesia	700
25	2007	Krishak Bharati Cooperative	Chemicals	Oman	675[a]

Source: fDi Intelligence, a service from the Financial Times Ltd.

[a] Estimated.

Chapter 29 - Indonesia

Indonesia: Inward FDI and its policy context, 2011

T.H. Tambunan[*]

Inward foreign direct investment (IFDI) in Indonesia has been an important element of the country's economic development process. Following the introduction of the first foreign direct investment (FDI) law early in the 'New Order' era (1966-1998), IFDI flows to Indonesia were relatively large. Indonesia was hit hard during the Asian financial crisis in 1997-1998, when net IFDI inflows fell sharply. In the first half of 2004, IFDI started to grow again. Indonesia still faces some uncertainties relating to the implementation of regional autonomy and to the high costs of running businesses caused by inadequate infrastructure, restrictive labor regulations and corruption. Nevertheless, the availability of vast reserves of highly diversified natural resources, a huge domestic market potential, a cheap labor force, and continued reforms in the direction of a market-based economy, including privatizations and open access to almost all sectors, are likely to boost IFDI.[1]

Trends and developments

Country level developments

Although the share of IFDI in Indonesia's gross domestic product (GDP) is relatively low compared to other countries in the region, such as Thailand, Singapore and Malaysia, IFDI has played a crucial role in Indonesia's economic development process, not only in boosting overall productivity and exports, but also in achieving sustainable economic growth and employment creation. Especially during the 'New Order' era under President Suharto (1966-1998) and after the introduction of the first investment law (Law Number 1 of 1967 on Foreign Investment, amended by Law Number 11 of 1970), FDI flows into the country were relatively large.

During the 1960s and 1970s, IFDI in Indonesia was concentrated in the oil and natural gas sector. In the 1980s and 1990s, the Indonesian Government introduced a number of deregulation packages to liberalize its domestic market as well as several fiscal incentives to foster IFDI in the manufacturing and services sectors to reduce the country's dependency on the primary sector. Since then, the secondary and tertiary sectors have attracted the bulk of foreign investment in Indonesia.

Between 1967 and 1996, approved IFDI accumulated to US$ 154 billion. The Asian economic and financial crisis in 1997-1998 pushed the Indonesian economy into a deep economic recession, with real GDP nose-diving by over 13% in 1998. In the same year, IFDI also fell, although not as sharply as GDP. In 1999, the Indonesian economy started to recover, while IFDI began to increase again in 2002.

[*] The author wishes to thank Rajah Rasiah and an anonymous referee for their helpful comments. First published April 25, 2011.

[1]See the discussion on this issue in UNCTAD, *World Investment Report 2010: Investing in a Low-Carbon Economy* (New York and Geneva: United Nations, 2010).

Indonesia's IFDI stock as a percentage of nominal GDP declined from 30% in 1998 to 15% in 2000. IFDI flows as a percentage of gross fixed capital formation dropped from 8% in 1997 to -14% in 2000.[1] Indonesia experienced net FDI outflows from 1998 to 2001, mainly caused by uncertainties arising from Suharto's fall from power in 1998.[2]

In 2007, Indonesia's IFDI stock reached US$ 80 billion. In 2008, it declined to US$68 billion, then rose again in 2009 to US$ 73 billion (annex table 1). Inward FDI flows continued to increase until 2008 and then dropped to US$ 5 billion in 2009 (annex table 2). It is not clear whether the decline of IFDI flows in 2009 was caused by the global economic crisis or by internal factors such as local market distortions in some districts resulting from the implementation of regional autonomy,[3] inadequate infrastructure, restrictive labor regulations, and corruption.[4] Nevertheless, the availability of vast, highly diversified natural resources, a huge domestic market, a cheap labor force, and recent policy liberalization toward a market-based economy, including privatizations and open access to almost all sectors, are likely to improve FDI prospects. Indonesia now has a better environment for FDI, as the country has a clear and certain law on investment, has established a one-stop service for foreign investment projects, developed special economic zones (SEZs), and taken measures to facilitate cost reductions.[5]

The Indonesian Government has deregulated the economy and provided fiscal incentives to encourage diversification of the economic structure. In the past ten years, FDI in Indonesian has been markedly reoriented toward manufacturing and services (annex table 3).[6] Within the manufacturing sector, three industries accounted for the bulk of total IFDI stock in all sectors: the metal machinery and electronics industry (6%), the food industry (5%) and the textile industry (2%). The considerable increase in the relative importance of manufacturing during the past decade has been due to large greenfield investments in these sectors.

Within the services sector, transport, storage and communications were the most important targets for IFDI, accounting for almost 40% of total IFDI stock by 2009. The increasing importance of these subsectors can be explained by a wave of privatizations under the growing participation of foreign parent companies that took place soon after the Asian crisis. Two major foreign acquisitions took place in 2008 and 2009: the Islamic Development Bank (IDB) of Saudi Arabia invested around US$ 2 billion in warehousing, storage and transportation, and Qtel of Qatar acquired the most popular Indonesian telephone company, Indosat, for US$ 884 million.

Although FDI inflows to Indonesia are becoming increasingly diversified by sector, the primary sector, including the coal, gold, oil, and natural gas industries, remains a key IFDI sector. This extractive sector

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[1] See UNCTAD, *World Investment Report 2000: Cross Border Mergers and Acquisitions and Development* (New York and Geneva: United Nations, 2000).

[2] UNCTAD, *World Investment Report 2002: Transnational Corporations and Export Competitiveness* (New York and Geneva: United Nations, 2002).

[3] Regional autonomy may be viewed more positively. For instance, Joachim von Amsberg, the World Bank Country Director for Indonesia, gave the following statement when launching the *Doing Business Report 2010*, "In the span of just a decade Indonesia has attained remarkable achievements with democratization, decentralization, and economic and financial stability, even in the face of the global financial crisis" (http://web.worldbank.org/)

[4] Despite the fact that, in its *Doing Business Report 2010*, the World Bank (IFC) has praised Indonesia as *the most active business regulatory reformer in East Asia and the Pacific* , ibid.

[5] UNCTAD, *World Investment Report 2010*, op. cit.

[6] Indonesian Investment Coordinating Board (BKPM), available at: http://www.bkpm.go.id/.

engaged in cross-border deals every year in the past decade. In 2009, these industries accounted for 3% of total IFDI stock in all sectors, and almost 72% of total IFDI stock in the primary sector. IFDI flows in agriculture, especially in food crops and plantations, have also increased considerably. Within the plantation subsector, palm oil is the most important industry for IFDI, driven by growing world demand for Indonesian exports of crude palm oil (CPO). Food crops and plantations together accounted for 1% of total inward FDI stock in all sectors.

Asia has been the major source region of IFDI in Indonesia. In 2006, about 45% of Indonesia's inward FDI stock originated from Asia, compared to 15% from Europe and 12% from Africa (annex table 4). FDI inflows to Indonesia from Asia increased from US$ 2.7 billion in 2006 to US$ 6 billion in 2009. Although Australia is Indonesia's direct neighbor on the eastern side, its investments in Indonesia have always been small: its share of Indonesia's IFDI stock was only 1.6 % in 2009. Malaysia and Singapore are the main Southeast Asian investors in Indonesia, with investments in various sectors, including manufacturing, plantations, real estate, and other services. From the rest of Asia, Japan remains the key investor in Indonesia, mainly focusing on manufacturing, including the automotive, metal, and electronics industries, but also in natural resource extraction (coal, oil and natural gas) and electricity. Japan is followed by the Republic of Korea, Hong Kong (China), Taiwan Province of China, India, and China.

The corporate players

According to the Indonesian Investment Coordinating Board (BKPM), Indonesia hosted more than 300 foreign affiliates in 2009. BKPM does not provide names of these companies, their sectors and their foreign equity capital. However, based on data of the number of FDI projects approved by the government, foreign affiliates are evidently concentrated in several sectors, including food crops and plantations, food industry, textile and garment industry, the machinery industry, electronic industry, and transport and communications.

In 2009, cross-border mergers and acquisitions (M&As) into Indonesia accounted for around US$ 3 billion The acquiring companies were mainly from the United Kingdom, Singapore, Japan, Malaysia, Qatar, Australia, India, and the British Virgin Islands. The largest such transaction by value and also the most publicly debated cross-border M&A was the above-mentioned acquisition of 24% of the shares of Indosat by Otel of Qatar. The second largest acquisition was undertaken by British American Tobacco PLC of the United Kingdom, which acquired almost 100% of PT Bentoel International Investama Tbk for US$ 728 million (annex table 6). It is generally expected that in coming years more M&A activities will take place in Indonesia as a result of the introduction of a new law on investment, Investment Law No. 25 of 2007, which makes it easier for foreign companies to do business in Indonesia, and also facilitates the government's plan to continue privatizations of state-owned enterprises.

Announced greenfield investments accounted for around US$ 23 billion in 2009. Measured by the investment value, the bulk of greenfield IFDI was concentrated in the coal, oil and natural gas mining, and metal industries. Those industries are among the key promoted sectors for private investment. Since the end of the 1997-1998 Asian financial crisis, the Government has been streamlining various regulations such as licensing and customs procedures, and providing investment incentives to these sectors. Therefore, it is likely that FDI inflows into these sectors will accelerate. In the food and tobacco industry, there is only one greenfield investment, by Lotte Group from the Republic of Korea, (annex table 7). According to unofficial information from BKPM, the Lotte Group is planning to expand its investments in Indonesia in services sectors as well as in the food and tobacco industry.

Effects of the global crisis

Indonesia was affected by the global economic crisis in 2008-2009, but – in contrast to many other countries - maintained economic growth throughout. In sharp contrast to the Asian crisis of 1997-1998, Indonesia did not suffer from a credit crunch, a serious deterioration of asset prices, significant divestments of foreign affiliates, postponements of investment projects, or a decline in reinvested earnings. Indonesia's gross fixed capital formation grew by nearly 1% in the first half of 2009. In the previous two years, fixed investment had been increasing at double-digit rates. Another important reason that Indonesia faced little negative effect on its domestic economy, including trade, is that the economy is less tied to multinational value chains than, for instance, Singapore and Malaysia. Hence, whereas Malaysia experienced a sharp drop in its exports over 2008-2009 (which caused a decrease in GDP in 2009), Indonesian export growth remained strong in 2009.

Country data provided by the Asian Development Bank[1] and the International Monetary Fund [2] show that, while inflows of short-term investment (e.g. portfolio equity) and loans were interrupted in 2008 as the crisis deepened in highly globally-integrated economies in the region (China, Hong Kong (China), India, Indonesia, the Republic of Korea, Malaysia, Philippines, Singapore, Taiwan Province of China, Thailand, Cambodia, Vietnam), FDI inflows kept increasing in these countries during the crisis. By contrast, inflows to Indonesia decreased from US$ 9.3 billion in 2008 to US$ 4.9 billion in 2009 (annex table 2).

The policy scene

The Indonesian Government has realized that private investment, including IFDI, is important for the modernization of the economy and sustainable economic growth. Therefore, foreign investment policy has always been an important component of economic development policies in Indonesia since the 'New Order' era (1966-1998). To attract IFDI, the Government introduced Foreign Investment Law (FIL) Number 1 of 1967. With this Law, Indonesia started to open sectors and lift quantitative restrictions for foreign equity participation. In addition to FIL Number 1 of 1967, foreign companies were subject to many sector-specific laws. The FIL, accompanied by conducive macroeconomic policies (including a gradual shift from protectionism to export promotion) and political stability encouraged large FDI inflows in the New Order era.[3]

To administer the FIL, the Indonesian Investment Coordinating Board (*Badan Koordinasi Peranaman Modal* or BKPM) was established in 1973. BKPM is a central body that screens investment applications, grants licenses and permits and also offers investment incentives. In addition, there are sub-national investment bodies (BKPMDs) in the provinces.[4]

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[1] ADB Key Indicators, available at: www.adb.org/keyindicator/.
[2] IMF, Financial Indicators, available at: www.imf.org/financialindicator/.
[3] Arumugam Rajenthran, "Indonesia: An overview of the legal framework for foreign direct investment", *Economics and Finance*, no. 4 (Institute of Southeast Asian Studies, Singapore 2002), available at: www.iseas.edu.sg/pub.html.
[4] However, with the Regional Autonomy Law (RAL) introduced soon after the 1997/98 crisis, the 'BKPM/BKPMD framework' has become less relevant. The RAL empowers the regencies and municipalities, amongst other things, to run their economies, including

After the 1997-1998 Asian financial crisis, the Indonesian Government took many measures to promote economic recovery in line with IMF emergency-funding loan conditionalities. It also reoriented FDI policies and initiated reforms in many areas related to private investment, including the legal system. Since 1998, many presidential decrees and regulations have been introduced to improve the investment climate and attract IFDI.[1]

A new investment law, the Law on Investment Number 25 of 2007, is widely seen as the most important investment reform effort ever undertaken by the Indonesian Government. This law covers all private investment, both domestic and foreign. From the point of view of FDI, this new investment law is generally considered as much more "open" than FIL Number 1 of 1967, since in the new Law the negative list has become shorter[2] (i.e. more sectors or subsectors are open now for IFDI), and many new incentives in various forms have been introduced that make it easier for foreign investors to do business in Indonesia. The new investment law has also removed *pribumi* (indigenous) ownership conditions that were previously a major issue for IFDI.[3] Although Indonesia still faces problems in attracting IFDI, including a lack of infrastructure and inadequate security, it is generally expected that this new investment law will be the main engine of growth of IFDI in Indonesia. [4]

From 2006 to 2010, four Presidential Instructions/Regulations were issued that specifically mentioned the steps the government has taken to improve the investment climate. For instance, Presidential Regulation (PR) Number 36 of 2010 regulates 17 business sub-sectors that are conditionally open to FDI: agriculture, banking, communications and information technology, culture and tourism, defence, education, energy and mineral resources, finance, forestry, health, manufacturing, manpower and transmigration, marine and fisheries, public works, trading, transport, and security.[5]

As in many other countries, Indonesia has also offered special tax incentives to promote investment. These incentives include tax holidays for new firms, tax credits for new investments and exemptions from import duties, particularly on capital goods, and also in the form of providing special zones for exporting companies.

The Indonesian Government had also concluded bilateral investment treaties (BITs) with more than 50 countries as of 1 June 2010.[6] To avoid double taxation on profits, dividends, interest, fees, and royalties, Indonesia has signed double taxation treaties (DTTs) with 59 countries.[7]

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administering governance of investments. For more information on this, see e.g. Arumugam Rajenthran, op. cit., and BKPM, "Investment" (Jakarta: BKPM, 2001) available at: http://www.bkpm.go.id.

[1] For more complete information on laws and regulations on investment including procedures, licenses, taxation, etc., see the BKPM website, available at: [information missing].

[2] The negative list is evaluated every year. In one point of time, it could be a short list, but the list can be extended. The latest negative list issued in 2010 is slightly longer than the 2007 version because the government wants to show its transparency in implementing the ASEAN AFAS aggreement by 2015.

[3] This issue has been discussed extensively by e. g., Hal Hill and Terry Hull (eds.), *Indonesia Assessment 1990* (Canberra: Australian National University Political and Social Change Monograph No.11, 1990), and Hal Hill, *Indonesia's Industrial Transformation* (Singapore: Institute of Southeast Asian Studies (ISEAS), 1997).

[4] For more complete information on this new law on investment, e.g. which industries are open (and to what extent) and which are closed for foreign investors, and what kinds of incentives are available, see the BKPM website, available at: http://www.bkpm.go.id.

[5] For more information on this new PR, see the BKPM website at http://www.bkpm.go.id, or, also for other earlier PRs.

[6] For information on the countries, see UNCTAD's website at http://www.unctad.org.

[7] For information on the countries, see the BKPM website at: http://www.bkpm.go.id.

In the past ten years, Indonesia has also been more aggressive in investment promotion. In this regard, BKPM acts as the national investment promotion agency, coordinating all investment promotion activities of individual economic departments and ministries.[1]

The government has also made serious attempts to address the challenge of providing adequate infrastructure via two basic approaches. The first is the development of an overall policy to accelerate the availability of infrastructure with private sector involvement. The second is the development of growth centers dispersed around the country by means of six Economic Corridors and Special Economic Zone (SEZs). Many presidential regulations address infrastructure development.

Many local governments are implementing good investment promotion practices. For instance, a "one stop service" for investment has been put into effect by some local governments (e.g. Solo, Yogyakarta, Pare-pare, Sragen). The national government has attempted to reduce "nuisance" local regulations by abolishing bad local tax regulations (more than 3,000 nuisance local taxes have been abolished by central government), and also by issuing a new law on local taxes and user charges (Law No.28/2009) which adopts "positive lists." With the new local tax law, local governments are only allowed to issue a new local tax regulation as long as it is listed by the law. The new local tax lists are already considered as not harmful for business and economy.

The ASEAN Free Trade Area (AFTA) has created synergies for IFDI flows to Indonesia, especially from other ASEAN member economies. For instance, the banking takeovers from CIMB and Maybank from Malaysia may have been stimulated by rationalization in investment conditions in Indonesia.

Conclusions

Indonesia weathered the 2008-2009 global economic crisis better than many other countries, and IFDI has already started to recover. The Indonesian Government is promoting a number of key sectors for FDI in which it provides special incentives, including for coal mining, food and beverage processing, food processing machinery, beverages, and tobacco. These sectors provide market opportunities not only in exporting but also for the domestic market, given the country's huge population and its steady growth of income per capita. However, this kind of 'winner-picking' industrial policy will not be the main driver of IFDI to Indonesia, as there are many other determining factors, including those in which Indonesia still faces serious challenges, such as infrastructure, logistics, law enforcement, security, and human resource development. These factors are especially crucial to attracting IFDI in footloose industries, i.e. those that are less dependent on local natural resources, such as textiles and garments, footwear, electronics, and the automotive industry.

Additional readings

APEC, *Guide to the Investment Regimes of the APEC Member Economies* (Singapore: Asia Pacific Economic Cooperation, 2000).

[1] See OECD, *Investment Policy Reviews: Indonesia* (Paris: OECD, 2010). This is a comprehensive report on some important milestones on Indonesia's investment policies, available from http://www.oecd.org.

Goodpaster, Gary, "The rule of law, economic development & Indonesia", in Timothy Lindsey (ed.), *Indonesia Law and Society* ([place of publication]:The Federation Press, 1999), pp. 21-31.

Useful websites:

For FDI policy in Indonesia: www.bkpm.go.id
For FDI data: www.bkpm.go.id; www.bps.go.id
For industrial policy: www.deperin.go.id
For trade policy: www.mot.go.id

Statistical annex

Annex Table 1: Indonesia: inward FDI stock, 1995-2011

(US$ billion)

Economy	1995	2000	2007	2008	2009	2011
Indonesia	20.6	25.1	79.9	68.0	72.8	173.1
Memorandum: comparator economies						
Singapore	65.6	110.6	322.98	326.8	343.60	518.6
India	5.6	16.3	105.8	123.3	163.96	201.7
Thailand	17.7	29.9	94.1	93.0	99.0	139.7
Malaysia	28.7	52.8	76.6	73.3	74.6	114.6
Viet Nam	7.2	20.6	40.3	48.3	52.8	72.8

Source: UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics

Annex table 2. Indonesia: inward FDI flows, 1999-2011

(US$ billion)

Economy	1999	2000	2006	2007	2008	2009	2011
Indonesia	-1.8	-4.5	4.9	6.9	9.3	4.9	18.9
Memorandum: comparator economies							
India	2.2	3.6	20.3	25.0	40.4	34.6	31.6
Singapore	16.6	16.5	29.1	35.8	10.9	16.8	64.0
Thailand	6.1	3.4	9.5	11.4	8.5	5.9	9.6
Viet Nam	1.5	1.3	2.4	6.7	8.0	4.5	7.4
Malaysia	3.9	3.8	6.1	8.5	7.3	1.4	12.0

Source: UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics

Annex table 3. Indonesia: sectoral distribution of inward FDI stock, 2006-2009[a]

(US$ million)

Sectors/industries	2006	2007	2008	2009
All sectors	5,991.7	10,341.4	14,871.4	10,815.2
Primary	532.4	599.3	335.6	462.6
Agriculture, forestry, and fishing				
Food crops and plantations	351.9	219.1	147.4	122.3
Mining, quarrying and petroleum				
Mining	98.0	309.8	181.4	332.7
Secondary	3,619.7	4,697.0	4,515.2	3,831.1
Manufacturing				
Food industry	354.4	704.1	491.4	552.1
Textile industry	424.0	131.7	210.2	251.4
Leather industry	51.8	95.9	145.8	122.6
Wood industry	58.9	127.9	119.5	62.1
Rubber and plastic industry	112.7	157.9	271.6	208.1
Metal, machinery & electronic industry	955.7	714.1	1,281.4	654.9
Motor vehicle and other transportation equipment industry	438.5	412.3	756.2	583.4
Construction	144.2	448.2	426.7	512.7
Services	1,839.5	5,045.1	10,020.5	6,521.2
Transport, storage and communication	646.0	3,305.2	8,529.9	4,170.3
Trade and repair	434.2	482.9	582.2	706.1
Electricity, gas and water supply	105.3	119.3	26.9	349.2
Real estate and business activities	254.0	64.5	174.9	315.1

Source: National Coordinating Agency for Investment (BKPM), available at: www.bkpm.go.id.

[a] Note: excluding oil and gas, banking, non-bank financial institution, insurance, leasing, mining in terms of contracts of work, coal mining in terms of agreement of work, investment which licenses issued by technical/sectoral agency, portfolio as well as household Investment, available at: www.bkpm.go.id.

Annex table 4. Indonesia: geographical distribution of inward of FDI stock, 2006-2009

(US$ million)

Economy/region	2006	2007	2008	2009
World	5,991.7	10,341.4	14,871.4	10,815.2
Developed economies				
Europe	895.6	1,952.4	1,091.5	2,109.1
European Union	821.8	1,871.6	1,018.7	1,972.6
France	104.9	9.4	164.0	29.0
Netherlands	35.2	147.2	89.9	1,198.7
Switzerland	61.6	77.5	72.2	132.1
United Kingdom	660.5	1,685.8	513.4	587.7
Other European economies	74.4	80.8	72.8	136.5
Norway	11.8	3.2	0.4	2.9
North America				
Canada	1.4	0.2	0.9	0.4
United States	65.8	144.7	151.3	171.5
Other developed economies				
Australia	9.0	195.3	36.0	79.7
Japan	902.8	618.2	1,365.4	678.9
New Zealand	-	-	-	1.3
Developing economies				
Africa	700.0	505.7	6,542.8	496.1
Mauritius	385.6	223.9	6,477.9	159.5
Seychelles	306.9	281.0	63.9	322.2
Asia and Oceania	2,678.5	5,942.8	3,871.5	6,003.4
Asian economies	926.5	4,028.4	1,855.7	4,536.6
Malaysia	407.6	217.3	363.3	129.3
Singapore	508.3	3,748.0	1,487.3	4,341.0
Other Asia	1,752.0	1,914.4	2,015.8	1,466.8
China	31.5	28.9	139.6	65.5
Hong Kong (China)	187.8	156.7	120.2	21.0
India	88.4	11.6	17.8	26.2
Republic of Korea	475.7	627.7	301.1	624.6
Taiwan Province of China	63.6	469.7	69.4	31.7
Latin America and the Caribbean	153.3	330.6	175.8	173.2
Brazil	-	165.1	0.6	0.3
Panama	85.0	1.1	0.9	-

Source: National Coordinating Agency for Investment (BKPM), available at: www.bkpm.go.id.
Note: excluding oil and gas, banking, non bank financial institution, insurance, leasing, mining in terms of contracts of work, coal mining in terms of agreement of work, investment which licenses issued by technical/sectoral agency, portfolio as well as household Investment, available at: www.bkpm.go.id.

Annex table 6. Indonesia: top 15 M&A deals, by inward investing firm, 2007-2009

(US$ million)

Year	Acquiring company	Source economy	Target company	Target industry	% of shares acquired	Estimated/ announced transaction value
2009	Investor Group	Japan	Latinusa Tbk PT	Steel works, blast furnaces, & rolling mills	55.0	60.0
2009	Taisho Pharmaceutical Co Ltd	Japan	Bristol-Myers Squibb Indonesia	Biological products, except diagnostic substances	98.0	310.0
2009	Investor Group	Singapore	Delta Dunia Petroindo Tbk PT	Real estate agents & managers	82.6	56.7
2009	Malvolia Pte Ltd	Singapore	Japfa Comfeed Indonesia Tbk PT	Poultry slaughtering & processing	41.6	37.5
2009	British American Tobacco PLC	United Kingdom	Bentoel Intl Investama Tbk PT	Cigarettes	85.1	644.9
2009	British American Tobacco PLC	United Kingdom	Bentoel Intl Investama Tbk PT	Cigarettes	14.6	83.3
2009	Heffernan International Ltd	Virgin Islands	Citra Marga Nusaphala Persada	Inspection & fixed facilities for motor vehicles	6.1	11.5
2009	KL-Kepong Plantation Hldgs Sdn	Malaysia	Sekarbumi Alamlestari PT	Timber tracts	17.0	12.9
2009	HSBC Asia Pac Hldg(UK)Ltd	United Kingdom	Bank Ekonomi Raharja Tbk PT	Banks	10.2	69.2
2009	HSBC Asia Pac Hldg(UK)Ltd	United Kingdom	Bank Ekonomi Raharja Tbk PT	Banks	88.9	607.5
2009	Julius Baer & Co Ltd	Singapore	Citra Marga Nusaphala Persada	Inspection & fixed facilities for motor vehicles	10.5	15.5
2009	Canopus Finance Ltd	Virgin Islands	Trikomsel Oke Tbk PT	Radiotelephone communications	25.0	20.0
2009	Qtel	Qatar	Indosat	Telephone communications, except radiotelephone	24.2	883.7
2009	GMR Infrastructure Ltd	India	Barasentosa Lestari PT	Bituminous coal & lignite surface mining	100.0	80.0
2009	ANZ Banking Group Ltd	Australia	Panin Bank	Banks	8.4	114.0
2008	IndoGreen International BV	Netherlands	Bakrie Sentosa Persada PT	Vegetable oil mills, nec	41.8	34.5
2008	Avenue Luxembourg Sarl	Luxembourg	Bakrieland Development Tbk PT	Land subdividers and developers, except cemeteries	19.6	60.2
2008	Lotte Shopping	Republic of	Makro Indonesia PT	Grocery stores	100.0	290.2

	Co Ltd	Korea				
2008	Maybank	Malaysia	Bank Internasional Indonesia	Banks	16.3	357.9
2008	Jerash Investment Ltd	United Arab Emirates	Mobile-8 Telecom Tbk PT	Telephone communications, except radiotelephone	10.9	32.9
2008	AA Land Pte Ltd	Singapore	Modernland Realty Tbk PT	Land subdividers and developers, except cemeteries	32.4	57.0
2008	Salamander Energy PLC	United Kingdom	Glagah Kambuna TAC	Crude petroleum and natural gas	15.0	52.8
2008	UOB	Singapore	Bank UOB Buana Tbk PT	Banks	37.9	449.8
2008	Qtel	Qatar	Indosat	Telephone communications, except radiotelephone	40.8	1.800.0
2008	Maybank	Malaysia	Bank Internasional Indonesia	Banks	25.3	670.0
2008	Limitless LLC	United Arab Emirates	Bakrie Swasakti Utama PT	Real estate agents and managers	30.0	75.7
2008	TM International Sdn Bhd	Malaysia	Excelcomindo Pratama Tbk PT	Radiotelephone communications	16.8	440.8
2008	TPG Capital LP	United States	Bank BTPN PT	Banks	71.6	195.0
2008	Titan Intl Corp Sdn Bhd	Malaysia	Fatrapolindo Nusa Industri Tbk	Unsupported plastics film and sheet	92.6	195.7
2008	Temasek Holdings(Pte)Ltd	Singapore	Sorak Finl Holdings Pte Ltd	Investors, nec	20.0	147.7
2007	ETISALAT	United Arab Emirates	Excelcomindo Pratama Tbk PT	Radiotelephone communications	16.0	438.0
2007	Investor Group	Luxembourg	Bank Mayapada Internasional	Banks	33.3	40.0
2007	KUFPEC	Kuwait	Ujung Pangkah Gas Field	Crude petroleum and natural gas	-	330.0
2007	E-Crisps Trading Ltd	Singapore	Bali Nirwana Resort PT	Hotels and motels	-	56,2
2007	Kingdom Hotel Investments	United Arab Emirates	Four Seasons Hotel Jakarta	Hotels and motels	81.9	48.0
2007	MediaCorp Pte Ltd	Singapore	Media Nusantara Citra Tbk PT	Motion picture and video tape production	6.5	90.0
2007	MediaCorp Pte Ltd	Singapore	Global Mediacom Tbk PT	Television broadcasting stations	5.0	93.0
2007	Investor Group	Singapore	LonSum	Forest nurseries and gathering of forest products	56.4	570.2
2007	Investor Group	Singapore	LonSum	Forest nurseries and gathering of forest products	8.0	81.6

2007	TM International Sdn Bhd	Malaysia	Excelcomindo Pratama Tbk PT	Radiotelephone communications	7.4	113.0
2007	Althem BV	Virgin Islands	Natrindo Telepon Seluler PT	Radiotelephone communications	44.0	123.9
2007	Tata Power Co Ltd	India	Kaltim Prima Coal PT	Bituminous coal and lignite surface mining	30.0	1.300.0
2007	Investor Group	Japan	BP PLC-Kangean Gas Block	Crude petroleum and natural gas	50.0	360.0
2007	Jatoba International Pte Ltd	Singapore	Sarana Prima Multi Niaga PT	Forest nurseries and gathering of forest products	90.0	25.3
2007	Investor Group	Japan	Bank Nusantara Parahyangan	Banks	75.4	65.2

Source: Thomson ONE Banker. Thomson Reuters.

Annex table 7. Indonesia: main greenfield projects, by inward FDI, 2007-2009

(US$ million)

Year	Investing company	Source economy	Investment	Estimated investment	Sector	Business activity
2009 2009	Mubadala Development	United Arab Emirates		525.2	Coal, oil and natural gas	Extraction
2009	Arrow Energy	Australia		525.2	Coal, oil and natural gas	Extraction
2009	Trimex Group	United Arab Emirates	4,000		Metals	Manufacturing
2009	Salamander Energy	United Kingdom		525.2	Coal, oil and natural gas	Extraction
2009	Hess Corporation	United States	1,000		Coal, oil and natural gas	Extraction
2009	Trimex Group	United Arab Emirates	1,000		Coal, oil and natural gas	Extraction
2009	Asia Resources Holdings	Hong Kong (China)		441.7	Metals	Extraction
2009	Energy World	Australia	590		Coal, oil and natural gas	Manufacturing
2009	StatoilHydro	Norway		525.2	Coal, oil and natural gas	Extraction
2009	Samsung	Rep. of Korea	500		Chemicals	Manufacturing
2009	Mitsubishi Corporation	Japan	4,600		Metals	Manufacturing
2009	Chevron Corporation	United States		495.0	Coal, oil and natural gas	Extraction
2009	Total	France		495.0	Coal, oil and natural gas	Extraction
2009	Premier Oil	United Kingdom		495.0	Coal, oil and natural gas	Extraction
2009	Banpu	Thailand		1,312.5	Coal, oil and natural gas	Electricity
2009	Madhucon	India		495.0	Coal, oil and natural gas	Extraction
2009	LG International	Republic of Korea		495.0	Coal, oil and natural gas	Extraction
2009	Arrow Energy	Australia		525.2	Coal, oil and natural gas	Extraction
2009	Banpu	Thailand		495.0	Coal, oil and natural gas	Extraction
2009	Lotte Group	Republic of Korea	804		Food & tobacco	Retail
2009	Inpex	Japan		495.0	Coal, oil and natural gas	Extraction
2009	SASOL	South Africa	2,000		Coal, oil and natural gas	Manufacturing
2009	Ivanhoe Mines	Canada		495.0	Coal, oil and natural gas	Extraction

2008	National Aluminium Company (Nalco)	India	1,500		Coal, oil and natural gas	Electricity
2008	Electricity Generating Authority of Thailand (EGAT)	Thailand		1,312.5	Coal, oil and natural gas	Electricity
2008	Islamic Development Bank (IDB)	Saudi Arabia	2,040		Warehousing & storage	Logistics, Distribution & Transportation
2008	Chevron Corporation	United States		480.2	Coal, oil and natural gas	Extraction
2008	Nippon Shokubai	Japan		1,312.5	Coal, oil and natural gas	Electricity
2008	Korea Electric Power (KEPCO)	Republic of Korea	1,000		Coal, oil and natural gas	Electricity
2008	Dubai World	United Arab Emirates	1,700		Real estate	Construction
2008	Chevron Corporation	United States	6,970		Coal, oil and natural gas	Extraction
2008	Tokyo Electric Power (Tepco)	Japan	1,400		Coal, oil and natural gas	Electricity
2008	Emaar Properties		820		Hotels & tourism	Construction
2008	Lafarge	France		1,312.5	Coal, oil and natural gas	Electricity
2008	Jindal Organization	India	700		Metals	Manufacturing
2008	Transpower Link	Malaysia	2,170		Coal, oil and natural gas	Electricity
2008	Inpex	Japan		480.2	Coal, oil and natural gas	Extraction
2008	International Paper	United States	4,000		Paper, printing & packaging	Manufacturing
2008	Energy World	Australia		1,312.5	Coal, oil and natural gas	Electricity
2007	BHP Billiton	Australia	2,000		Metals	Manufacturing
2007	Dubai World	United Arab Emirates	300		Non-automotive transport OEM	Maintenance & Servicing
2007	China National Seed Group	China	250		Alternative/renewable energy	Manufacturing
2007	BP	United Kingdom		191.0	Coal, oil and natural gas	Manufacturing
2007	Reykjavik Energy Invest (REI)	Iceland		280.0	Alternative/renewable energy	Electricity
2007	Churchill Mining	United Kingdom		480.2	Coal, oil and natural gas	Extraction

2007	Nanjing Iron and Steel	China	500		Metals	Manufacturing
2007	Holcim	Switzerland	450		Building & construction materials	Manufacturing
2007	China National Offshore Oil Corporation (CNOOC)	China		191.0	Coal, oil and natural gas	Manufacturing
2007	Russian Aluminium (RusAl)	Russian Federation	220		Metals	Manufacturing
2007	Renault	France	600		Automotive OEM	Manufacturing
2007	National Iranian Oil Engineering and Construction (NIOEC)	Iran	5.600		Coal, oil and natural gas	Manufacturing
2007	Ishikawajima-Harima Heavy Industries (IHI)	Japan		191.0	Coal, oil and natural gas	Manufacturing
2007	SK Group	Republic of Korea	200		Chemicals	Manufacturing
2007	Total	France		480.2	Coal, oil and natural gas	Extraction
2007	Genting	Malaysia	3.000		Alternative/renewable energy	Electricity

Source: fDi Intelligence, a service from the Financial Times Ltd.

Chapter 30 - Malaysia

Malaysia: Inward FDI and its policy context, 2011

Rajah Rasiah and Chandran Govindaraju[*]

Malaysia is still perceived as an important destination for foreign direct investment (FDI). Deregulation by the Malaysian government in 1986 with a new round of Pioneer status tax holidays, tax allowances for expansion projects, liberal rules for firms operating in free trade zones (FTZs), and tax exemptions are encouraging stronger FDI inflows (IFDI). IFDI flows reached a peak in 1988-1993 as export-oriented foreign multinational enterprises (MNEs) relocated manufacturing production operations to Malaysia to benefit from cheap labor, government incentives and liberal conditions for manufacturing FDI. After 1996, due to the Asian financial crisis in 1997-1998, IFDI flows into Malaysia decreased and subsequently recorded the lowest level in 2001 as a result of the world trade recession. Following steady growth in 2002-2007, IFDI in Malaysia fell dramatically in 2008 and 2009 due to the global economic crisis. However, a strong resumption in the first quarter of 2010 and government efforts, including continued liberalization of manufacturing and services, the Government Transformation Programme, promoting new key economic areas, and the active role of the Ministry of International Trade and Industry (MITI), contributed to an increase in inward FDI flows in the second quarter of 2010.

Trends and developments

Country-level developments

Malaysia's IFDI stock grew from US$ 53 billion in 2000 to US$ 75 billion in 2009. It fell sharply in 2001 but resumed growth in 2002 with the expansion holding steady until 2007 before the country's IFDI stock fell again in 2008 (annex table 1). IFDI flows into Malaysia generally grew less rapidly than in comparable countries in the region, such as Singapore, Thailand and Indonesia (annex table 2). Malaysia's share of IFDI in total world IFDI flows fell from 0.7% in 2000 to 0.4% in 2009 due to the global economic crisis, among other causes. During 2006-2008, inflows were higher than in other years. The increase in FDI inflows during this period was mainly due to mergers and acquisitions (M&As) by existing MNEs, the establishment of joint ventures and other new investment activities.[1]

IFDI flows into Malaysia fell sharply in 2009 as exports contracted sharply.[2] IFDI faced its worst contraction, 81%, in 2009, when Malaysia fell out of the top ten FDI destinations in Asia. Furthermore, Malaysia attracted the lowest IFDI flows in 2009 compared to Singapore, Thailand and Indonesia

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[*] The authors wish to thank Geoffrey Gachino, Joanne Lim and Siew Yean Tham for their helpful comments. First published April 25, 2011.

[1] *R. M.* Zuraini, M. H. Yusoff and N. Yahya, "Foreign direct investment in Malaysia: findings of the quarterly survey of international investment and services", *Journal of Department of Statistics*, Malaysia, vol 1 (2008), pp.1-9.

[2] Z. A. Mahani and R. Rasiah, *The Global Financial Crisis and the Malaysia Economy: Impact and Responses* (Kuala Lumpur: United Nations Development Programme, 2009).

(annex table 2). Of the estimated US$ 108 billion in private investment recorded in 2006-2010, 72% was private domestic investment and 28% was from IFDI.[1] Apart from the global crisis, the overall decline in FDI inflows is attributed to two main factors.[2] IFDI in recent years has increasingly flowed into higher value added services sectors (e.g. financial and shared services), which tend not to be located in Malaysia. The scale of investment in services is less than in manufacturing, Malaysia's main recipient sector of FDI, which is more capital-intensive. Secondly, competition among Asian countries, namely India, China, Singapore, Vietnam, and Hong Kong (China) has intensified. Singapore and Hong Kong (China) have established investment centers to attract FDI. Nevertheless, a sharp rise in IFDI flows was recorded in the first quarter of 2010, exceeding US$1.5 billion and related to better growth prospects linked to stronger trade recovery and stronger government promotion initiatives. This suggests that the trend for the next few years will be strong again.

Manufacturing, services and oil and gas still dominated inward FDI in Malaysia during the period 2006-2010.[3] Malaysia recorded US$ 42 billion of cumulative net FDI inflows in 2000-2009. Manufacturing accounted for 41%, while services contributed 37% and the oil and gas sector 17% (annex table 3). Manufacturing remains the largest recipient of FDI. As PETRONAS and its partners explore and become involved in the production of oil and gas, significant investment in upstream activities has been recorded.[4] Nevertheless, the services sector also began to receive considerable FDI inflows in this period due to active government efforts to attract FDI into it. For instance, distributive trade attracted FDI worth US$ 350 million in 2009.[5] There have been notable increases in financial and shared services, outsourcing and communications.[6] The financial sector, including Islamic finance, recorded significant investment following financial liberalization. It is estimated that these sectors received US$ 11.4 billion in 2000-2009.

In 2000, IFDI flows were mainly from North American economies, as well as from Japan, Germany and Northeast Asian economies. The highest inflows were from the United States, Japan, Germany, and Hong Kong (China). Inflows from the United States fell from US$ 3,644 million in 2000 to US$ 772 million in 2009. In contrast, IFDI from Singapore, Thailand, the Netherlands, and Australia showed an increase between 2000 and 2009 (annex table 4). Bilateral trade agreements and active government attraction of investment from Asia have played a role in attracting FDI from other Asian countries. Singapore, Indonesia, India, and China showed an increase in inflows in 2009. Since developed economies had not yet recovered from the financial crisis at that time, inflows in 2009 from most of these economies were relatively low. However, developed economies still accounted for a large share of FDI inflows to Malaysia in 2009. One exception is Singapore, which invested US$ 1,042 million in 2009.

Unlike in the 1970s and 1980s, when giant electrical and electronics MNEs dominated inward FDI in Malaysia,[7] the top 20 inward investors since 2000 have been in other sectors. The only major electronics component firm was Ibiden of Japan, the 11th largest of the inward investors in 2008 to Malaysia. The

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[1] Malaysia, *The Tenth Malaysian Plan 2011-2015* (Putrajaya: Government Printers, 2010), p. 37.
[2] Bank Negara Malaysia, *Annual Report 2009* (Kuala Lumpur: Bank Negra Malaysia, 2009), p. 36.
[3] Zuraini, Yusoff and Yahya,op. cit..
[4] Bank Negara Malaysia, op. cit., p. 37.
[5] Malaysia, *The Tenth Malaysian Plan 2011-2015,*. op. cit., p.127.
[6] Ibid., p. 37.
[7] The flagship firms of Intel, National Semiconductor, Motorola, Hewlett Packard, Texas Instruments, Advanced Micro Devices, and Hitachi were some of the early export-oriented MNEs to relocate semiconductor assembly and test activities in Malaysia.

world's biggest iron ore producer, Vale of Brazil, announced plans in 2008 to build a billion dollar iron pellet plant in Malaysia.[1]

Major inward M&As have also taken place in Malaysia recently (annex table 5). A firm from United Arab Emirates acquired 25% of the shares in Rashid Husin Bank (RHB) worth US$1.2 billion in 2008.[2] In addition, the government announced on July 31, 2010 that a high-end Republic of Korea company had bought a 72% stake in a local company worth US$ 1 billion.[3] FDI inflows in the second quarter of 2010 show were mainly channelled into manufacturing sub-sectors, particularly electrical, electronics and petroleum-related industries.[4] In the services sectors, the dominant sectors are finance, insurance, business services, and wholesale and retail trade.[5]

Malaysia is one of the key recipients of greenfield investment.[6] In 2008, Malaysia recorded 209 greenfield projects;[7] the announced value of top 20 amounted to US$ 11.5 billion. The top 20 greenfield projects announced in 2008 were fairly mixed sectorally. Manufacturing accounted for seven while minerals and metals accounted for five of the 20 largest investors announced. Real estate and infrastructure accounted for four of the investors. The largest announced was by the Kuwaiti mining company, Gulf Petroleum Investment (GPI), which accounted for US$ 5 billion. The second largest was the Spanish metals company, Acerinox, which announced investments totaling US$ 1.5 billion (annex table 6). The inflow of investments into metals and pharmaceuticals is a consequence of a deliberate approach by the government to attract large investments to the former, and to promote biotechnology as a strategic industry in the country.[8]

Effects of the global financial crisis

Since Malaysia was much less exposed to the financial derivatives that mainly caused the 2008-2009 global financial crises, it was less hard hit than several other countries in Asia.[9] However, the recession in the United States and Europe in 2009 depressed FDI inflows to Malaysia; they started to fall in the third quarter of 2008.[10] In 2007, IFDI declined by roughly US$1 billion to US$ 7 billion and it then shrank sharply to US$ 1 billion in 2009 (annex table 2). The decline of IFDI from traditional sources induced the Malaysian government to seek to diversify its FDI sources. Non-traditional source economies include some in the Middle East, plus China and India. For instance, State Grid Corporation of China and 1Malaysia Development Sdn have signed agreements to develop the Sarawak Corridor of Renewable Energy, while China Harbour Engineering Co is involved in the Penang Bridge projects. Chinese companies were also awarded the Gemas-Johor Baharu double track projects[11] Vivo Biotech

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[1] Reuter (March 13, 2008) "Vale seeks partners for pellets plant in Malaysia", Rio De Janeiro, http://www.reuters.com/article/idUSN1329899920080313, downloaded on October 10, 2010.

[2] UNCTAD, *World Investment Report: Transnational Corporations, Agricultural Production and Development* (Geneva and New York: United Nations, 2009).

[3] Malaysiakini, "MITI: Government not in denial", by Aidila Razak, July 31, 2010, available at www.malaysiakini.com/news/138861.

[4] Bank Negara Malaysia, *Quarterly Bulletin,* Second Quarter 2010, p. 49.

[5] Ibid.

[6] UNCTAD, *World Investment Report 2010*, op. cit.,, p. 114.

[7] UNCTAD, *World Investment Report,* 2009, op. cit., p. 214

[8] The fifth Prime Minister of Malaysia, Tun Datuk Abdullah Badawi, made biotechnology a strategic industry to seek new sources of growth for the country.

[9] Not only was the stock market in Malaysia only slightly affected by the global financial crisis, the share of non-performing loans in total loans in the country was 2.2% in March and June 2009; see Mahani and Rasiah, *op. cit.*, p. 22.

[10] Ibid, *op. cit.*, pp. 13-15.

[11] *The Star*, "Miti looks to India and China for FDI", February 2, 2010.

Ltd of India signed a memorandum with the Malacca government to develop a research and manufacturing facility worth US$ 133 million.[1] In addition, to mitigate the decline, the Malaysian government is promoting new growth areas, including services and environmental technology. Initiatives to target and promote specific industries were established especially within manufacturing sectors such as biotechnology, aerospace, photonics, nanotechnology, and optics. Other initiatives include empowering the Malaysian Investment Development Authority (MIDA) to negotiate with investors directly, liberalizing the service sectors.

The government responded to the collapse in exports arising from the global financial crisis by implementing two stimulus packages in 2009 and 2010, together totalling around US$ 20.3 billion. Public sector investment was expected to grow by 6.2% per annum over the 2006-2010 period.[2] Recent FDI inflows show that the strong resumption in the first quarter of 2010 and government efforts to promote inward investment led to higher flows in the second quarter of 2010.

The policy scene

The Malaysian policy environment for IFDI in the primary and secondary sectors has generally been liberal. MITI is the main government organization undertaking the evaluation and approval of IFDI, as well as investment incentives, since the enactment of the Promotion of Investment Act of 1986. MITI's sub-organization, the Malaysian Industrial Development Authority (MIDA), is the main promotional body that has been instrumental in attracting IFDI to Malaysia. Despite the liberalization efforts under both the Association of South East Asian Nations (ASEAN) Free Trade Area (AFTA) and World Trade Organization initiatives, recent trends show a decline in FDI flows into Malaysia. Apart from the global recession, reasons for the decline in FDI include rising competition for FDI, especially from other emerging markets. Malaysia's transformation from capital-intensive to knowledge-based industry, while still facing relatively weak human capital development and technological capabilities, adds to the challenge of competing for FDI inflows. Slower growth in manufacturing value added – projected to grow only at average of 2.2% per annum over the period 2006-2010[3] -- and a severe contraction in FDI inflows in 2009 have again driven the government to rethink its FDI policy.[4]

Financial liberalization measures such as the issuance of new licenses, increased foreign equity limits and operational flexibility established in September 2009[5] have helped attract IFDI. Initiatives are under way to attract further FDI with a focus on high value added activities.[6] The ministry is currently identifying further sub-sectors in which to attract more investment. The liberalization of 27 services sub-sectors to attract more FDI inflows was done in 2009. The next round of liberalization is planned for 2011. Malaysia had signed 66 bilateral investment treaties (BITs), 61 double taxation treaties (DTTs) and 22 other international investment agreements (IIAs) by May 2010.[7] These measures are expected to improve FDI inflows into Malaysia. In 2009, the foreign shareholding threshold was raised from 49% to 70% for insurance companies and investment banks. Deregulation has also taken effect in the purchase

[1] Ibid.
[2] Malaysia, *The Tenth Malaysian Plan 2011-2015*, op. cit., p. 38.
[3] Malaysia, "Garis panduan penyediaan pancangan Malaysia kesepuluh, 2011-2015: Prospek economi dan hala tuju strategik", mimeo, Kuala Lumpur, 2009.
[4] Malaysia , *The Tenth Malaysia Plan 2011-2015* , op. cit.
[5] Bank Negara Malaysia, "Liberalization of the financial sector", available at http://www.bnm.gov.my/index.php?ch=8&pg=14&ac=1817
[6] Ibid.
[7] UNCTAD. *World Investment Report 2010, op. cit.*

of real estate by foreigners and full foreign ownership is now allowed in the wholesale segment of fund management.[1]

The New Economic Model (NEM),[2] the 10th Malaysian Plan and the Economic Transformation Programme focus on the absorption of capital and knowledge-intensive activities to move the economy up to the status of a high-income economy by 2020. IFDI is an integral part of achieving this goal of graduating.[3] Since a lack of skills and technological capability is often cited as one of the main reasons for a slowdown in FDI inflows, the announced plans to increase the supply of human capital, innovation capability and technological upgrading are expected to revive FDI inflows. The establishment of a Talent Corporation to attract skilled and professional workers, improvements in government delivery systems and public-private partnerships, revamping the education systems and the identification of new key economic areas are expected to contribute to increase the countries attraction to foreign investors.[4] Government efforts to promoting new key economic areas, the MITI's promotion of industrialization and a stronger macroeconomic environment contributed to increased IFDI flows in the second quarter of 2010.

Conclusions

Malaysia has had an open IFDI climate. Inward FDI has been seen as a major element in fostering economic growth and development and has remained a major component of gross fixed capital formation, though it contracted sharply in 2009. The government's planned efforts in the 10th Malaysian Plan, the NEM, the ETP, and GTP in attracting FDI flows (easing the regulatory burden, reducing corporate income tax, upgrading physical infrastructure, providing incentives), have led to better economic growth prospects and the healthy resumption of capital inflows in the first quarter of 2010. Given IFDI's impact on the economy, it will remain an important part of the Malaysian economy. The government's restructuring efforts need to include the transformation of the country's knowledge stimulating organizations – such as universities, polytechnics, R&D labs – to enable the upgrading of firms so that they can engage in high value added activities.

Additional readings

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Malaysia, *The Tenth Malaysia Plan 2011-2015* (Putrajaya: Government Printers, 2010).

[1] Ibid., p. 77.
[2] Malaysia, *The New Economic Model* (Putrajaya: Government Printers, 2010).
[3] Ibid.
[4] Malaysia , *The Tenth Malaysia Plan 2011-2015*, op. cit.

Rasiah, R., *Foreign Capital and Industrialization in Malaysia* (Basingstoke: Macmillan, 1995).

Useful websites

Bank Negara Malaysia, , June 2010, available at
http://www.bnm.gov.my/index.php?ch=109&pg=294&mth=6&yr=2010

National Economic Action Council, www.neac.gov.my (for information on New Economic Model and Economic Transformation Plans)

Malaysian Industrial Development Authority, information on investment policy available at
http://www.mida.gov.my/en_v2/

Statistical annex

Annex table 1. Malaysia: inward FDI stock, 2000-2011

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2011
Malaysia	53	34	38	41	43	45	54	77	73	75	115
Memorandum: comparator economies:											
Singapore	111	117	133	145	169	195	245	303	326	344	519
Thailand	30	33	38	49	53	60	77	95	105	99	140
Indonesia	25	15	7	10	16	41	55	59	67	73	173

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/ and websites of national central banks

Annex table 2. Malaysia: Inward FDI flows, 2000-2011

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2011
Malaysia	4	0.5	3	2	5	4	6	8	7	1	12
Memorandum Comparator Economies:											
Singapore	16	15	6	12	20	14	27	36	11	17	64
Thailand	3	5	3	5	6	8	9	11	8	6	10
Indonesia	- 4	- 3	0.2	- 0.5	2	8	5	7	9	5	19

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/ and websites of national central banks

Annex table 3. Malaysia: net cumulative FDI inflows,[a] by sector, 2000-2009

(US$ billion)

Sectors / industry	% of total net FDI inflows	US$ billion[b]
All sectors/industries	100	41.7
Primary		
Oil and gas	17	7.1
Secondary		
Manufacturing	41	17.1
Services	37	15.4
Others	5	2.1

Source: Bank Negara Malaysia, *Annual Report*, 2009.

[a] Inflows are equity investment and purchase of real estate and loans drawdown/extended to non-residents. Excludes retained earnings.
[b] Values converted using average exchange rate of 3.65 for 2000-2009.

Annex table 4. Malaysia: geographical distribution of inward of FDI flows in Malaysia, 2000-2009

(US$ million)

Region/economy	Inward FDI[a]	
	2000	2009
World		
Developed economies		
Europe		
Belgium	59.7	17.0
Netherlands	189.2	635.4
France	10.3	148.8
Germany	888.9	561.1
Switzerland	45.0	22.8
United Kingdom	219.7	155.8
North America		
Canada	46.1	104.1
United States	3644.5	771.9
Other developed economies		
Australia	28.2	265.8
Japan	950.8	482.2
Developing economies		
Asia and Oceania		
China, People's Republic of	1.32	23.4
Hong Kong (China)	473.2	257.0
Indonesia	13.7	105.6
India	0.79	21.9
Korea, Republic of	5.0	73.1
Singapore	459.5	1042.1
Thailand	2.9	380.1
Vietnam	0.8	182.7

Source: Bank Negra Malaysia, *Monthly Statistics Bulletin,* June 2010, available at http://www.bnm.gov.my/index.php?ch

[a] Balance of payments data - refer to equity investment and purchase of real estate and loans drawdown/extended to non-residents. Excludes retained earnings. Data converted into US Dollar using 3.8 and 3.42 conversion rates.

Annex table 5. Malaysia: main M&A deals, by inward investing firm, 2007-2009

(US$ million)

Year	Target company	Acquiror economy	Target primary SIC code description	Acquiror's name	% of shares acquired	Value
2009	Cosway(Malaysia) Sdn Bhd	Hong Kong (China)	Drugs, drug proprietaries, and druggists' sundries	Berjaya Holdings(HK)Ltd	100.00	135.55
2009	Enterprise Capital Corp	Singapore	Offices of holding companies, nec	Asia Palm Oil Invest Pte Ltd	100.00	110.00
2009	PureCircle Ltd	Singapore	Industrial organic chemicals, nec	Olam International Ltd	10.00	53.61
2009	Tasek Corp Bhd	Singapore	Cement, hydraulic	Hartwell Pte Ltd	27.06	52.62
2009	AirAsia Bhd	Luxembourg	Air transportation, scheduled	Genesis Smaller Cos SICAV	5.40	51.64
2009	Undisclosed Multi-specialty	India	General medical and surgical hospitals	Narayana Hrudayalaya Pvt Ltd	100.00	40.85
2009	eCosway.com Sdn Bhd	Hong Kong (China)	Retail stores, nec	Berjaya Holdings(HK)Ltd	40.00	33.20
2009	Ikea Handel-Warehouse	Unknown	Operators of nonresidential buildings	Undisclosed Acquiror	100.00	25.77
2009	Three-A Resources Bhd	Singapore	Investors, nec	Wilmar International Ltd	16.67	13.36
2009	Best Impact Ltd	Hong Kong (China)	Automobile parking	Apexwill Ltd	100.00	12.77
2009	AM SGB Sdn Bhd	Germany	Power, distribution, and specialty transformers	SGB-SMIT International GmbH	30.38	9.02
2009	Merchantrade Asia Sdn Bhd	Japan	Radiotelephone communications	Sumitomo Corp	20.00	8.33
2009	KVC Industrial Supplies	Netherlands	Electronic parts and equipment, nec	Otra Development BV	16.00	8.17
2009	Bursa Malaysia Derivatives Bhd	United States	Security and commodity exchanges	CME Group Strategic Invest LLC	25.00	5.90
2009	Paling Industries Sdn Bhd	Netherlands	Plastics plumbing fixtures	Glynwed Holding BV	40.00	4.58
2008	RHB Capital Bhd	Utd Arab Em	Investment advice	Abu Dhabi Commercial Bank PJSC	25.00	1,204.6 7
2008	EON Capital Bhd	Hong Kong (China)	Investors, nec	Primus Pacific Partners Ltd	20.20	412.01
2008	Sin Chew Media Corp Bhd	Hong Kong (China)	Books: publishing, or publishing & printing	Ming Pao Enterprise Corp Ltd	100.00	220.73

2008	Cognis Oleochemicals(M) Sdn Bhd	Thailand	Chemicals and chemical preparations, nec	PTT Chemical PCL	50.00	152.13
2008	Tamco Switchgear Malaysia Sdn	India	Switchgear,switchboard equip	Larsen & Toubro Ltd	100.00	112.17
2008	Computer Sys Advisers(M)Bhd	United States	Computer integrated systems design	Computer Sciences Corp	100.00	104.04
2008	Ranhill Utilities Bhd	Cayman Islands	Water supply	Investor Group	26.83	85.21
2008	AirAsia X	Japan	Air transportation, scheduled	Investor Group	20.00	77.33
2008	Nanyang Press Holdings Bhd	Hong Kong (China)	Real estate investment trusts	Ming Pao Enterprise Corp Ltd	100.00	59.64
2008	GBD Investment Ltd	Utd Arab Em	Biological products, except diagnostic substances	Dubai Ventures Ltd	30.00	49.04
2008	KL-Kepong Cocoa Products Sdn	Switzerland	Chocolate and cocoa products	Barry Callebaut AG	60.00	48.76
2008	AmLife Insurance Bhd	United Kingdom	Life insurance	Friends Provident PLC	30.00	46.72
2008	Sitt Tatt Bhd	Seychelles	Semiconductors and related devices	Empire Holdings Ltd	82.76	35.35
2008	Chase Perdana Bhd	Seychelles	Industrial buildings and warehouses	Empire Holdings Ltd	91.25	32.08
2008	Cosway(Malaysia) Sdn Bhd	United States	Drugs, drug proprietary's, and druggists' sundries	Madison County LLC	10.00	30.16
2007	Binariang GSM Sdn Bhd	Saudi Arabia	Telephone communications, except radiotelephone	Saudi Telecommunicatio ns Co	25.00	3,049.9 9
2007	PPB Oil Palms Bhd	Singapore	Vegetable oil mills, nec	Wilmar International Ltd	98.99	1,124.5 9
2007	Bumiputra-Commerce Hldg Bhd	Japan	Banks	Bank of Tokyo-Mitsubishi UFJ	3.40	381.85
2007	MOX	Sweden	Industrial gases	AGA AB	54.02	368.80
2007	AMMB Holdings Bhd	Australia	Banks	ANZ Banking Group Ltd	11.40	356.84
2007	PGEO Group Sdn Bhd	Singapore	Groceries and related products, nec	Wilmar International Ltd	65.80	318.65
2007	Sabah Forest Inds Sdn Bhd	India	Wood products, nec	Investor Group	97.80	262.65
2007	Genting Sanyen Industrial	Hong Kong (China)	Paper mills	Paperbox Holdings Ltd	100.00	212.34
2007	Commerce Life Assurance Bhd	Singapore	Life insurance	Aviva Asia Pte Ltd	49.00	142.42

2007	MAS Hotels & Boutiques Sdn Bhd	Netherlands	Hotels and motels	Kingdom Langkawi BV	100.00	124.11
2007	Ireka Hotels Sdn Bhd	British Virgin Islands	Investors, nec	Newood Assets Ltd	100.00	123.65
2007	Four Seasons Hotel,Langkawi	Utd Arab Em	Hotels and motels	EHC International Ltd	100.00	115.00
2007	Scomi Oilfield Ltd	Hong Kong (China)	Investors, nec	Standard Chartered Private Eq	19.90	99.50
2007	Mivan Far East Sdn Bhd	Ireland-Rep	Residential construction, nec	Actis	-	75.00
2007	Ramatex Bhd	Hong Kong (China)	Narrow fabric and other smallwares mills	Amphoteric Capital Ltd	27.06	71.89

Source: Thomson ONE Banker; Thomson Reuters.

Annex table 6: Malaysia: main greenfield projects, by inward investing firm (announced), 2008

(US$ million)

Investing company	**Home economy**	**Announced value**	**Sector**
Gulf Petroleum Investment (GPI)	Kuwait	5,000	Coal, oil and natural gas
Acerinox	Spain	1,500	Metals
BSEL Infrastructure Realty	India	940	Real estate
Sea Party Group	Taiwan Province of China	581	Food & tobacco
Tokuyama	Japan	525	Minerals
Carrefour	France	373	Food & tobacco
Vitol Group	Netherlands	300	Warehousing & storage
Malladi Drugs & Pharmaceutical	India	300	Pharmaceuticals
Tesco	UK	250	Food & tobacco
SGL Carbon	Germany	220	Metals
Merlin Entertainments Group	UK	211	Leisure & entertainment
Ibiden	Japan	194	Electronic components
Technip-Coflexip	France	184	Industrial machinery, equipment & tools
Royal Dutch Shell Plc	Netherlands	150	Coal, oil and natural gas
Mitsui Mining & Smelting	Japan	145	Metals
Procter & Gamble (P&G)	USA	141	Medical devices
Vivo Bio Tech	India	138	Biotechnology
DAMAC Holding	UAE	122	Real estate
Al-Aqeelah	Kuwait	100	Business services
Sunil Mantri Realty	India	100	Real estate
TOTAL		11,475	

Source: fDi Intelligence, a service from the Financial Times Ltd.

Chapter 31 - Mauritius

Mauritius: Inward FDI and its policy context, 2013

Boopen Seetanah*

Formerly mono-crop dependent, Mauritius is today a diversified economy thanks in large part to inward foreign direct investment (IFDI). Before the 1990s, annual IFDI flows were not significant, amounting to an average of US$ 10 million in 1980-1989. It was only in the mid-1980s that IFDI flows began to increase rapidly. With the implementation of the Export Processing Zone Act, many investors from Asia established textile factories in Mauritius to benefit from preferential access to the European market. The Export Processing Zone (EPZ) attracted IFDI, of which roughly two thirds came from Asian economies. An open door policy and fiscal incentives undertaken by the Government in the 1990s have attracted large IFDI flows, in particular during the 2000s, from developed as well as developing economies, raising Mauritius' IFDI stock to US$ 2.6 billion in 2011. Today, Mauritius is among the region's most business-friendly economies.

Trends and developments

Country level developments

Mauritius' IFDI stock increased from US$658 million in 2001 to US$2,319 million in 2010, and further to US$2,583 million in 2011 (annex table 1). The ratio of inward FDI stock to real GDP has risen over the years. While the ratio was 2.2% in 1980, it rose considerably within ten years, to reach 6% in 1990; in 2010 it was at its peak, at 24%.[1] In 2011, the ratio was 23%.

Between 1985 and 1990, IFDI flows to Mauritius accelerated at an annual growth rate of 50%. This growth arose from investments in the EPZ that was established following legislation enacted in 1970, as well as in other sectors of the economy,[2] helping to shift Mauritius from its monocrop (sugar) dependence. The EPZ attracted many investors from Asia, who set up textile factories in Mauritius to benefit from preferential access of exports from the island to markets in Europe and the United States. However, it was not until 2000[3] that Mauritius recorded noticeably

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* The author wishes to thank Sawkut Rojid, Robin Sannasee and Verena Tandrayen-Ragoobur for their helpful comments. First published April 30, 2013.

[1] Percentage ratios of IFDI stock relative to GDP obtained from UNCTAD statistics, available at: http://stats.unctad.org/fdi.

[2] The annual growth rate of FDI inflows in 1985-1990 is based on data from Central Statistical Office, Mauritius, available at www.statsmauritius.gov.mu.

[3] In 2000, the Board of Investment (BOI) was established as the leading state agency responsible for promoting and facilitating investment in Mauritius. Also in 2000, France Telecom purchased a 40% share of Mauritius Telecom as part of their strategic alliance.

large IFDI flows, reaching, by 2006, over US$ 200 million – much higher than annual flows in preceding years that were well below US$ 100 million.[1] In 2010, IFDI flows amounted to US$ 430 million, the highest annual flows received thus far, but inflows fell to US$ 273 million in 2011 (annex table 2).

While manufacturing was the main sector attracting FDI in the 1980s and 1990s, this is no longer the case. With the opening of the Mauritian economy and economic diversification due to the phasing out of trade preferences on the European and US markets,[2] other activities have increasingly attracted FDI. In 2011, the tertiary sector accounted for the largest share of IFDI flows (annex table 3) with 69% of the total, out of which real estate activities comprised 38%, finance and insurance, 13% and accommodation and food services, 12%. Information and communication technology (ICT) accounted for only 1% of IFDI. In the secondary sector, construction has risen to become the second largest FDI recipient with 28% of total inflows in 2011, reflecting an increase in the industry's IFDI flows of over 29 times their 2008 value. Manufacturing and agriculture, forestry and fishing together received only 3% of total IFDI flows in 2011.[3]

While the traditional industries remain the major attractors of FDI and the linchpin of the country's economic growth, emerging and creative activities such as seafood and aquaculture, land-based oceanic industry (exploiting deep-sea cold water for air conditioning, water bottling, aquaculture, pharmaceuticals), ethanol production, spinning, renewable energy, environment, and clinical trials, among others, are being promoted to attract more FDI inflows.[4]

In 2010, the largest flows of FDI into Mauritius came from developed economies, especially European countries, led by the United Kingdom and France, and, to a much lesser extent, the United States, which together accounted for inflows of US$ 253 million (annex table 4). FDI from those economies was principally directed to real estate, tourism and banking. In 2011 too, inflows were mainly from developed economies, with Europe continuing to be the leading source. FDI flows from Europe to Mauritius fell considerably in 2011, but their share in total flows rose to 60%, in comparison with 56% in 2010 and 41% in 2008, although it was lower than in 2006 (74%). Investment from developing economies also fell considerably between 2008 and 2009 and again in 2011; the United Arab Emirates (UAE), South Africa and East Asia were the main sources of FDI from developing economies in 2010-2011 (annex table 4). Moreover, Chinese investment in the construction and textile industries has been particularly important for the Mauritian economy during the past decade.

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[1] Based on data from UNCTAD statistics, available at http://stats.unctad.org/fdi.

[2] Mauritius was granted preferential access to the large markets of the European Union and United States with the implementation of the Multi Fiber Arrangement in 1974. However, since 2005, the textile and clothing sector has been fully integrated into normal GATT rules; in particular, the quotas came to an end, and importing countries will no longer be able to discriminate between exporters. The phasing out of the Multi Fiber Arrangement has substantially eroded the margin of preference Mauritius had enjoyed over its traditional competitors. The EPZ has thus been hit by fierce competition in the marketplace from low-cost producing countries.

[3] Percentage shares are based on the data in annex table 3.

[4] US Department of State, Bureau of Economic, Energy and Business Affairs, "2011 investment climate statement – Mauritius," March 2011, available at www.state.gov/eb/res/othr/2011.

Mauritius is attractive as an FDI destination because it is among the most successful and competitive economies in the African region, with high economic and trade openness, monetary freedom and good governance. According to the World Bank's 2011 *Ease of Doing Business Report*, Mauritius ranked 23rd out of 175 countries for ease of doing business; it ranks first in Africa, even leading South Africa by 12 positions.[1] Similarly, the Fraser Institute's Economic Freedom survey ranked Mauritius 9th out of 141 countries globally and first in Africa in 2011.[2] The 2011 Economic Freedom Index ranked the country 12th out of 182 countries and first in Africa.[3]

Situated in the Indian Ocean between Africa, Asia and Australia, Mauritius offers a strategic location as a business platform for both regional and other international trade. Mauritius is often used as an export platform by United States' companies to capture regional markets through Mauritius' membership in the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA), which offer preferential access to a market of 400 million consumers.[4] Mauritius' active global business sector, formerly known as the offshore sector, also acts as a major route for foreign investors into the South-Asian sub-continent, creating the basis for a market-seeking motivation for investments in Mauritius. Mauritius is among the largest offshore sources of FDI flows to India, with an estimated investment of US$ 43 billion during April 2000-September 2010, accounting for 42% of total FDI inflows to the latter country during that period.[5]

Though Mauritius is not rich in natural resources, it has been successful in attracting investors into the economy. The main driver of IFDI flows to Mauritius remains its bilingual (English and French) human capital. Mauritius is one of few countries in Africa where the population is well educated and trained, with an adult literacy rate of 87% in 2009.[6] This is one of the reasons why investors with an efficiency and/or human-resource-seeking motivation for IFDI prefer Mauritius to other African countries.[7] Furthermore, the Government has invested in the continuous improvement of the infrastructure of the economy in order to encourage investment. The development of the ICT sector is one example of the Government's eagerness and efforts to promote investment in the economy.[8] FDI in the ICT sector rose to around US$ 2.5 million in 2010, from US$ 1.5 million in 2006.[9] India took a pioneering role in the development of Mauritius' ICT sector through large FDI flows and a US$100 million line credit facility.

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[1] The World Bank, *Doing Business 2011: Making a Difference for Entrepreneurs* (Washington, D.C.: The World Bank, 2010), available at http://www.doingbusiness.org/rankings.

[2] James D. Gwartney et al., *Economic Freedom of the World: 2011 Annual Report* (Vancouver, B.C.: Fraser Institute, 2011), available at http://www.fraserinstitute.org.

[3] Terry Miller and Kim R. Holmes, *Highlights of the 2011 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity* (Washington, D.C.: The Heritage Foundation, 2011), available at www.heritage.org.

[4] US Department of State, Bureau of Economic, Energy and Business Affairs, "2011 investment climate statement – Mauritius," op. cit.

[5] US Department of State, Bureau of Economic, Energy and Business Affairs, "2011 investment climate statement – Mauritius," op. cit.

[6] Data on adult literacy rates are from http://www.indexmundi.com/facts/mauritius/literacy-rate.

[7] Mauritius, Board of Investment, *Newsletter*, Issue No. 32, (July 2011), available at: http://www.investmauritius.com/Newsletter_July11/.

[8] Mauritius, Board of Investment, *Annual Report 2007*, available at: http://www.investmauritius.com/Resources4.aspx#Annual.

[9] Ibid.

It should be highlighted that the government's vision and determination throughout the years with respect to laws (both domestic and foreign) and bilateral or multilateral agreements has contributed significantly to induce IFDI. These laws and agreements include the Industrial Relations Act (1973), The Lomé Convention (now succeeded by the Cotonou Agreement), the Economic Partnership Agreement (concluded between the European Union, Mauritius and three other African countries), the United States African Growth and Opportunity Act (more specifically the island's insistence to be granted the Third Country Fabric status), and the Business Facilitation Act (2006),[1] amongst others.

The corporate players

Many foreign multinational enterprises (MNEs) are present in Mauritius. Some of the important foreign affiliates in Mauritius include Nestlé's Products (Switzerland) Ltd. in the industrial sector, and Courts Ltd. (United Kingdom), International Motors Company[2] (France) and PricewaterhouseCoopers (United States) in the tertiary sector.[3]

At present there are two major US MNEs with affiliates in Mauritius's export-oriented manufacturing sector: Mauriden Ltd. and Mazava. Initially involved in diamond cutting and polishing, Mauriden's affiliate now concentrates on the production of jewelry for its duty free shops in Adamas.[4] More recently, in July 2009, Mazava Athletics Performance Wear Ltd. started producing sportswear in Mauritius. Another important foreign affiliate in the country is Apollo-Blake, a joint venture between US (20%) and South African (80%) investors, which started operating in 2008 as a business process outsourcing company focusing on customer relationship management services and working mainly with United States-based customers.[5]

As a result of the Government's determination to establish Mauritius as a cyber-island,[6] several foreign MNEs have started joint ventures with Mauritian partners in the ICT sector. One such example is MIC-USA Inc., a joint venture of Millicom International Cellular with the local company Emtel Ltd for the provision of cellular phone services in Mauritius.[7] Other leading global players, including Accenture (headquartered in Ireland), Orange Business Services (France), InfoSys (India), Hinduja (India), Huawei (China), and TNT (United Kingdom), have started business process outsourcing activities, call centers, disaster recovery and business continuity centers, and software development in Mauritius.[8]

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[1] Business Facilitation Act (2006) published by BOI, Mauritius, available at: www.gov.mu/portal/goc/assemblysite/file/bill1806.pdf.
[2] Sales Division.
[3] Based on information obtained by the author from the Board of Investment, Mauritius.
[4] US Department of State, Bureau of Economic, Energy and Business Affairs, "2011 Investment Climate Statement – Mauritius," op. cit.
[5] Ibid.
[6] UNCTAD, *Investment Policy Review: Mauritius* (New York and Geneva: United Nations, 2001).
[7] US Department of State, Bureau of Economic, Energy and Business Affairs, "2011 investment climate statement – Mauritius," op. cit.
[8] Ibid.

Some of the major foreign affiliates that entered the Mauritian economy in 2011 included those of CSS Corp (United States), HP (United States) and VWR (United States).[1] These companies are engaged in the information and communication services industry. VWR, in partnership with Answerplus, a business process outsourcing company in Mauritius, employed over 50 professionals with different linguistic capabilities and competencies, while CSS Corp employed around 12 telecom engineers in 2011.[2] FDI in the ICT sector has generated the most employment (amounting to 25,000 in 2011) in Mauritius, as compared to IFDI in other activities.[3]

The largest cross-border mergers and acquisitions (M&As) in Mauritius by foreign MNEs in 2010 and 2011 are listed in annex table 5. Notable acquisitions include that of Kaddy Plus Supermarkets by Shoprite Holdings Ltd, a South African food distributor and grocery store chain, and of United Africa Feeder Lines by DAL Deutsche Afrika-Linien, a German company involved in deep sea foreign transportation of freight.

Effects of the recent global crisis

Mauritius has been affected to quite some extent by the global financial and economic crisis of 2008-2009. Its effects were transmitted to Mauritius through the advanced economies that were severely affected, due to the heavy dependence of the Mauritian economy on FDI, tourism, trade, and remittances.[4] The main trading partners of Mauritius have been the EU economies and the United Kingdom in particular. With the severe impact of the crisis on these important markets, Mauritius had to bear the direct consequences in terms of a fall in exports; exports to the United Kingdom fell from US$ 658 million in 2007 to US$ 461 million in 2010.[5] Total exports from Mauritius fell by 7.7% between January and September 2008[6] and showed a slight growth of 4.9% during 2009-2010.[7] Two of the main industries affected were textiles and tourism.[8] The textile industry of Mauritius registered a negative growth of 0.7% in 2009, while growth in tourism fell from 12% in 2007 to 1.3% in 2008.[9] Moreover, the construction industry experienced a considerable slowdown in growth, from 11.8% in 2007 to 4.3% in 2010.[10] IFDI flows in the manufacturing sector fell from US$ 6.1 million in 2006 to US$ 1.3 million in 2011; however, IFDI in construction continued to rise (annex table 3).

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[1] Ibid.
[2] Mauritius, Board of Investment, *BOI Newsletter*, Issue No. 27, (February 2011) available at: http://www.investmauritius.com/Newsletter_Feb11/.
[3] Mauritius, Board of Investment, *Jewel of Africa*, E-Newsletter, Issue No. 42 (May 2012) available at: http://www.investmauritius.com/Ezine_May12/.
[4] Bank of Mauritius, "Financial stability report," February 2009, Issue 2.
[5] Mauritius Central Statistical Office, Digest of External Trade Statistics, Year 2008, available at www.gov.mu.
[6] US Department of State, Bureau of Economic, Energy and Business Affairs, "2011 investment climate statement – Mauritius," op. cit.
[7] Mauritius Central Statistical Office, *Digest of External Trade Statistics, Year 2010*, available at www.gov.mu.
[8] Verena Tandrayen-Ragoobur, "Facing the global financial crisis: policy lessons and recovery from small Mauritius," *International Research Journal of Finance and Economics*, no. 66 (May 2011), available at: http://www.eurojournals.com/finance.htm.
[9] Board of Investment, Mauritius, *Invest Mauritius Newsletter*, Issue No. 40 (March 2012), available at: http://www.investmauritius.com/Newsletter_Mar12/.
[10] Data from the Central Statistical Office, Mauritius, available at www.statsmauritius.gov.mu.

Total IFDI flows fell as MNEs pulled back their investment plans due to uncertain economic conditions.[1] IFDI flows to Mauritius between January and September of the financial crisis year 2008 were around US$ 240 million, compared to US$ 300 million for the same period in the previous year.[2] Although IFDI flows in 2008 as a whole exceeded those in 2007, they fell in 2009 by about a quarter of their 2008 value (annex table 2). Domestic investment, on the other hand, rose to US$ 1,874 million in 2009, from US$ 1,727 million in 2006.[3] This was due to more investment in the public sector with the building of roads, health infrastructure such as clinics and hospitals, and schools and universities.[4]

The policy scene

Aiming at positioning Mauritius among the top business-friendly locations in the world, the Government of Mauritius has implemented several policies. Investment in Mauritius is regulated by the Business Facilitation Act (2006)[5] and the Investment Promotion Act (2000),[6] and investment regulations are consistent with the WTO's Agreement on Trade-Related Investment Measures.[7] The Government of Mauritius does not discriminate between local and foreign investment, and foreigners are allowed to own 100% equity in a local company.[8] Reform strategies have been designed to remedy fiscal weakness, open up the economy, improve the business climate, facilitate business, and mobilize FDI and expertise.[9] The Board of Investment acts as a facilitator for the different types of investment taking place in Mauritius and guides investors through the necessary procedures.[10] Furthermore, Mauritius offers several business incentives, such as a low corporate and income tax of 15% and tax-free dividends.[11]

As noted, in the 1980s, FDI inflows were mainly concentrated in the EPZ sector. However, with the diversification and the expansion of other economic sectors, IFDI flows increased in other activities as well. FDI brought in new products, production methods, new challenges, and management techniques to the economy.[12] The provision of incentives, especially fiscal ones, has been an important foundation for promoting investment. For example, there have been more

[1] Tandrayen-Ragoobur, op. cit.
[2] A. Mohamudally-Boolaky and J. Ramlall, "The impact of the global financial crisis on the Mauritian financial services sector." Paper presented at the International Research Symposium in Service Management at le Meridien Hotel, Mauritius, August 24-27, 2010.
[3] Data are primarily from World Bank National accounts data, 2009.
[4] Tandrayen-Ragoobur, op. cit.
[5] Board of Investment, Mauritius, *Annual Report 2006-2007,* available at: www.investmauritius.com/Resources4.aspx; Business Facilitation Act (2006) op. cit.
[6] Mauritius, Board of Investment, *Annual Report 2006-2007,* op. cit; Investment Promotion Act (2000) published by BOI and available at: www.gov.mu/portal/goc/telecomit/files/invest.pdf.
[7] US Department of State, Bureau of Economic, Energy and Business Affairs, "2011 investment climate statement – Mauritius," op. cit.
[8] Ibid.
[9] Mauritius, Board of Investment, *Invest Mauritius: BOI Newsletter,* Issue 37, (December 2011), available at: http://www.investmauritius.com/Newsletter_Dec11/.
[10] Mauritius, Board of Investment, information available at www.investmauritius.com.
[11] US Department of State, Bureau of Economics, Energy and Business Affairs, "2011 investment climate statement – Mauritius," op. cit.
[12] Mauritius, Board of Investment, *Invest Mauritius: BOI Newsletter,* Issue 37, (December 2011), available at: http://www.investmauritius.com/Newsletter_Dec11/.

investments in the export sector and the tourism and hospitality sector due to the incentives provided in those sectors.[1]

According to the World Bank, 32 out of the 33 sectors covered by the Bank's *Investing Across Borders* indicators are fully open to foreign investment in Mauritius.[2] The only exception is the television broadcasting industry. To promote IFDI flows, several business-facilitation measures have been put in place. For example, the Business Facilitation Act (2006) has established a licensing process for starting a business that allows businesses to operate within three days of incorporation.[3] Furthermore, occupation permits are delivered to foreign investors, entrepreneurs and professionals within three working days.[4] With the abolition of foreign exchange control in 1994, there is no need for approval of the repatriation of profits.[5]

As of June 1, 2012, Mauritius had signed 36 bilateral investment treaties (BITs) – agreements for the protection and promotion of investment – with the following countries: Barbados, Belgium and Luxembourg, Benin, Botswana, Burundi, Cameroon, Chad, China, Comoros, Czech Republic, Finland, India, Indonesia, France, Germany, Ghana, Guinea, Madagascar, Mauritania, Mozambique, Nepal, Pakistan, Portugal, Republic of Congo, Republic of Korea, Romania, Rwanda, Senegal, Singapore, South Africa, Swaziland, Sweden, Switzerland, Tanzania, United Kingdom, and Zimbabwe.[6] Agreements with the following countries are awaiting signature: Ethiopia, Lesotho, Kenya, Malawi, Qatar, and Uganda.[7] Mauritius has also concluded 43 double taxation treaties, with countries such as China, France, India, Pakistan, Tunisia, and the United Kingdom, as of June 1, 2011.[8]

As noted above, Mauritius' participation in regional agreements and organizations such as SADC and COMESA, as well as in international agreements, helps it to continue to attract investment and foreign demand in various industries, especially in the services sector. One example is the country's adherence to the international regulations and standards of the International Organization of Securities Commissions, which increases investor confidence in the Mauritian financial services sector.[9] Furthermore, information technology enabled services

[1] The Mauritius Chamber of Commerce and Industry, *Economic Review and Outlook 2011*, available at: www.mcci.org.
[2] The World Bank, *Investing Across Borders 2010: Indicators of Foreign Direct Investment Regulation in 87 economies* (Washington, D.C.: The World Bank Group, 2010) available at http://www,iab.worldbank.org.
[3] US Department of State, Bureau of Economic, Energy and Business Affairs, "2011 Investment Climate Statement – Mauritius," op. cit.
[4] Ibid.
[5] Ibid.
[6] UNCTAD IIA databases, "Country-specific lists of bilateral investment treaties," available at http://unctad.org/en/Pages/DIAE/International%20Investment%20Agreements%20(IIA)/Country-specific-Lists-of-BITs.aspx.
[7] US Department of State, Bureau of Economic, Energy and Business Affairs, "2011 investment climate statement – Mauritius," March 2011, available at http://www.state.gov/e/eb/rls/othr/ics/2011/157323.htm.
[8] UNCTAD IIA databases, "Country-specific lists of double taxation treaties," available at http://unctad.org/en/Pages/DIAE/International%20Investment%20Agreements%20(IIA)/Country-specific-Lists-of-DTTs.aspx.
[9] US Department of State, Bureau of Economic, Energy and Business Affairs, "2011 investment climate statement – Mauritius," op. cit.

and business process engagements are encouraged thanks to the compliance of Mauritius with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights.[1]

Conclusions

IFDI flows to Mauritius are expected to continue to increase in the years to come. The openness of the economy, competitive human capital that stands out within the region and the Government's actions to promote investment continue to act as drivers to attract increasing investment. IFDI flows from Europe have historically played a leading role in the Mauritian economy. However, Asian and Middle-Eastern investors are also making large investments now, thanks to the business policies that the country has adopted.

The Mauritian domestic market is expanding because of the country's high rate of GDP growth and improving standard of living. According to UNCTAD's *World Investment Prospects Survey 2009-2011*, MNEs are more likely to give priority to developing countries as destinations for their FDI.[2] These factors strengthen the expectation that, in the sub–Saharan region of Africa, Mauritius will continue to attract increasing flows of FDI.

Additional readings

Macias, José B. and Isabella Massa, "The effects of slowing private capital inflows on growth." Results of an ODI research presented in preliminary form for discussion and critical comment, Working Paper 304, Overseas Development Institute, London, June 2009.

Mauritius, Board of Investment, "Mauritius: your investment and business hub," *Board of Investment Newsletter*, Issue No. 37, various issues.

Useful websites

Mauritius Board of Investment Reports, available at: www.investmauritius.com.

[1] Ibid.
[2] UNCTAD, *World Investment Prospects Survey, 2009-2011* (New York and Geneva: United Nations, 2009), available at www.unctad.org.

Statistical annex

Annex table 1. Mauritius inward FDI stock, 2001-2011

(US$ million)

Economy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Mauritius	658	690	752	763	805	910	1,249	1,632	1,889	2,319	2,583
Memorandum: comparator economies											
Malawi	419	391	410	562	767	1,017	1,315	2,584	821	961	939
Madagascar	143	181	259	257	250	744	1,773	2,787	3,948	4452	5,359
Kenya	937	964	1,046	1,092	1,113	1,164	1,893	1,989	2,129	2262	2,618
Zimbabwe	1,242	1,268	1,272	1,280	1,383	1,423	1,492	1,544	1,649	1754	2,202

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

Annex table 2. Mauritius: inward FDI flows, 2001-2011

(US$ million)

Economy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Mauritius	-26	32	62	11	42	230	357	396	267	443	320
Memorandum: comparator economies											
Malawi	60	40	66	108	52	72	92	9	60	140	56
Madagascar	93	61	95	95	86	295	773	1,169	1,066	860	907
Kenya	5	28	82	46	21	51	729	96	141	133	335
Zimbabwe	4	26	4	9	103	40	69	52	105	105	387

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

Annex table 3. Mauritius: sectoral distribution of inward FDI flows, 2006-2011

(US$ million)

Sector/industry	2006	2007	2008	2009	2010	2011
Agriculture, forestry and fishing	0.81	0.57	15.54	-	-	5.99
Manufacturing	5.78	8.41	5.16	14.78	2.01	1.83
Electricity, gas, steam and air conditioning supply	0.55	-	-	-	0.06	0.03
Construction	0.37	1.40	2.36	6.43	41.05	70.91
Wholesale and retail trade; repair of motor vehicles and motorcycles	6.32	1.19	3.59	8.86	3.97	0.71
Transportation and storage	0.42	-	0.49	0.29	3.49	0.12
Accommodation and food service activities	44.13	99.08	46.82	56.32	26.57	19.61
Information and communication	1.36	0.57	0.27	-	7.48	2.57
Financial and insurance activities	114.73	126.03	158.54	41.75	147.57	55.74
Real estate activities	54.32	118.70	157.17	131.07	108.72	155.09
of which - IRS/RES/IHS[a]	39.21	86.71	91.60	63.14	64.58	113.50
Professional, scientific and technical activities	-	-	-	-	12.84	7.35
Education	1.74	0.93	2.57	3.81	0.57	0.14
Human health and social work activities	0.07	0.90	4.16	4.42	86.80	-
Arts, entertainment and recreation	-	-	-	-	1.96	0.10
TOTAL	230.61	357.78	396.68	267.72	443.11	320.18

Source: Bank of Mauritius, *Annual Report, 2011*, available at: www.bom.intnet.mu). Data in Mauritian rupees have been converted to US dollars using the average exchange rate for the respective years.

[a] IRS stands for Integrated Resort Scheme; RES stands for Real Estate Scheme; IHS stands for Invest-Hotel Scheme.

Note: '-' denotes negligible.

Annex table 4. Mauritius: geographical distribution of inward FDI flows, 2006 – 2011a/

(US$ million)

Region /economy	2006	2007	2008	2009	2010	2011
Total world	230.6	357.8	396.7	267.7	443.1	320.2
Developed countries	175.8	258.4	199.4	188.4	252.6	200.8
Europe	170.5	184.5	162.5	167.5	248.4	193.0
European Union 27	149.5	142.8	130.2	148.8	227.8	179.1
Belgium	1.5	11.7	2.6	1.2	2.9	3.1
Luxembourg	1.1	2.2	7.3	2.0	8.1	1.7
France	16.7	36.5	40.5	71.0	50.8	111.4
Germany	5.7	1.8	6.0	0.8	0.1	0.3
United Kingdom	122.0	87.1	71.0	45.4	147.2	59.3
Switzerland	18.7	40.0	21.1	13.6	18.8	1.7
Other	2.3	1.6	11.2	5.0	1.9	12.3
North America	5.3	73.9	36.9	20.9	4.2	7.8
United States	5.2	73.9	36.9	20.6	4.2	7.8
Developing economies	53.8	99.3	197.3	79.3	190.5	119.4
Africa	9.5	34.9	67.0	32.2	64.2	85.4
Reunion	4.0	17.9	1.7	6.0	4.3	2.9
South Africa	1.2	15.5	49.2	15.5	46.7	73.5
Other	4.2	1.5	16.2	10.7	13.2	9.1
Latin America and the Caribbean	1.5	0.8	19.2	3.7	2.2	6.0
South America	-	-	15.6	0.1	-	6.0
Central America	0.4	-	0.3	1.0	0.2	-
Asia and Oceania	42.9	63.6	111.1	43.5	124.2	27.9
Asia	42.2	61.3	110.4	43.5	124.1	22.8
West Asia	31.9	39.9	32.6	11.6	10.7	12.5
United Arab Emirates	3.6	39.9	29.4	11.6	10.7	12.5
South and East Asia[a]	7.8	20.8	73.9	29.7	111.8	10.3
South Asia	6.7	19.0	66.7	9.7	91.7	3.4
East Asia	1.2	1.8	7.1	19.9	20.1	6.9
Unspecified	1.0	0.1	-	-	-	-

Source: Bank of Mauritius, *Annual Report* (2011), available at www.bom.intnet.mu. Data in Mauritian rupees have been converted to US dollars using average annual exchange rates obtained from the International Monetary Fund (http://www.imf.org).

Note: Some countries have been grouped to avoid indirect disclosure.
Figures may not add up to totals due to rounding.
'-'denotes "not available."

[a] Excluding FDI in GBC1s (companies resident in Mauritius that are permitted only to conduct business outside Mauritius). These companies mostly operate in offshore zones in Mauritius where there are double taxation agreements.

Annex table 5. Mauritius: main M&A deals, by inward investing firm, 2010-2011

Year	Acquiring Company	Home economy	Target company	Target industry	Announced transaction value (US$ million)	Shares acquired (%)
2011	Shamika2Gold Inc	Canada	MIG International Mining Group	Gold ores	0.88	85
2011	Shoprite Holdings Ltd	South Africa	Kaddy Plus Supermarkets(2)	Grocery stores	-	100
2011	Colas SA	France	Gamma Materials Ltd	Ready-mixed concrete	-	50
2011	DAL Deutsche Afrika-Linien	Germany	United Africa Feeder Lines	Deep sea foreign transportation of freight	-	100
2011	Religare Global Ast Mgmt Inc	United States	Investment Professionals Ltd	Investment advice	-	40
2011	Sakthi Auto Component Ltd	India	Sakthi Auto Mauritius Ltd	Investors, nec	-	100
2010	Asian Hotels(North)Ltd	India	Darius Holdings Ltd	Hotels and motels	136.06	53
2010	Standard Chartered Private Eq	Hong Kong (China)	Seven Energy Ltd	Crude petroleum and natural gas	47.50	-
2010	Kinnevik New Ventures AB	Sweden	Bayport Management Ltd	Security and commodity services, nec	40.00	27
2010	Africa Finance Corp	Nigeria	Seven Energy Ltd	Crude petroleum and natural gas	20.00	-
2010	TA Global Bhd	Malaysia	Quaywest Ltd	Offices of holding companies, nec	-	100
2010	Future Capital Holdings Ltd	India	Anchor Investment & Trading	Investment advice	-	100
2010	Adani Enterprises Ltd	India	Trident Trade and Investments	Investors, nec	-	100
2010	Adani Enterprises Ltd	India	Pride Trade and Investments	Investors, nec	-	100
2010	Adani Enterprises Ltd	India	Ventura Trade and Investments	Investors, nec	-	100
2010	Adani Enterprises Ltd	India	Radiant Trade and Investments	Investors, nec	-	100

Source: The author, based on Thomson ONE Banker, Thomson Reuters.
Note: '-' denotes "not available."

Chapter 32 - Pakistan

Pakistan: Inward FDI and its policy context, 2011

Khalil Hamdani[*]

Pakistan's large domestic market and policy environment are generally attractive to foreign direct investment, but terrorist violence and natural disasters are keeping investors at bay. Pakistan was the tenth largest recipient of IFDI in Asia in 2006-2008. Pakistan has also been successful in attracting investment from other developing countries. There are successful joint ventures with parastatals. The policy regime is investor-friendly, and doing business in Pakistan is easier than in any of its neighboring countries. These advantages notwithstanding, IFDI flows shrank by 60% in 2009-2010, a reflection of global trends and internal difficulties. Governance and terrorism are overriding preoccupations. Retaining the confidence of both foreign and domestic investors is vital. Determined efforts are needed to realize the country's considerable market potential.

Trends and developments

Country-level developments

Foreign direct investment (FDI) has played a small but important role in Pakistan's economic development. The share of IFDI to GDP has been less than 1% in most years. Nevertheless, FDI was crucial for the success of import substitution and infant industry policies in the formative years after independence in 1947, through joint ventures or licensing, franchising and distribution arrangements between start-up Pakistani firms and foreign companies.[1] Non-equity ties facilitated technology transfer. Food processing, manufacturing (consumer goods, pharmaceuticals, machinery, auto parts, vehicle assembly), and services (banking and insurance) attracted FDI geared to the domestic market.

In the early years, Pakistan attracted more FDI than its much larger neighbors. Annual IFDI flows to Pakistan were greater than those to India for most years from 1947 to 1993, although the amounts involved for both countries were relatively small (averaging less than US$ 200 million annually). As late as 1995, the two countries had about the same

[*] The author wishes to thank Faizullah Khilji, Premila Nazareth Satyanand and Zbigniew Zimny for their helpful comments. First published January 18, 2011.

[1] The entry conditions permitted FDI in a positive list of (mainly manufacturing) industries and otherwise required, for large investments, formation of joint stock companies with local equity participation. These restrictions were removed in the 1990s.

level of IFDI stock, approximately US$ 5.6 billion. Since then India has emerged as one of the world's preferred investment destinations.[1]

Pakistan's stock of IFDI increased at an average annual rate of 12.5% between 1990 and 2009, reaching US$ 18 billion in 2009 (annex table 1). This relatively good performance, driven by policy liberalization and investment promotion, was comparable to that of other developing countries that have opened up in an expansive period of worldwide FDI growth.[2]

The main distinctive feature was the large FDI inflow from 2005 onwards. IFDI flows averaged US$ 4 billion annually in 2005-2009 (annex table 2), a level commensurate with the size of Pakistan's population (175 million) and its economy. During this period, FDI comprised 15% of gross fixed capital formation compared with an average for developing countries of 12%. Pakistan ranked briefly among the top 10 FDI recipients in Asia.

As a consequence, the stock of Pakistan's IFDI more than doubled from 2000 to 2009, and its composition (annex table 3) and origin (annex table 4) have become further diversified. The sectoral composition of IFDI had already shifted in the 1990s from manufacturing to services. Manufacturing was predominant in the early years (75% of IFDI flows in 1980), but from 1994 onward the services sector attracted much IFDI. By 2001, the share of services in the stock of IFDI had risen to 72% while that of manufacturing had fallen to 22%.[3] Deregulation and fiscal incentives attracted FDI into power projects. In the past decade privatization attracted sizeable cross-border acquisitions in banking and telecommunications. These were noteworthy for being South-South deals.

The traditional home countries for Pakistan's IFDI have been the United Kingdom and the United States, followed by Switzerland, Japan, the Netherlands, and Germany. Pakistan has also been successful in attracting investment from Asia and the Middle East, with the United Arab Emirates (U.A.E.) being the largest investor in 2006-2008. A third of the IFDI stock in 2006 originated from developing countries and was diversified in a wide range of industries, including telecommunications, financial services, cement, textiles, construction, real estate, logistics, airlines, and oil and gas.

The principal home countries, whether developed or developing, have investments in all sectors (primary, secondary, tertiary). At the same time, IFDI from developed countries is concentrated more in manufacturing, while that from developing countries is stronger in services.

IFDI flows to Pakistan receded during the global crisis and short-run prospects are not encouraging. FDI inflows in the period January to November 2010 totaled US$ 1.8

[1] Premila Nazareth Satyanand and Pramila Raghavendran, "Inward FDI in India and its policy context," *Columbia FDI Profiles*, March 12, 2010, available at: http://www.vcc.columbia.edu.
[2] See, for instance, the comparator data for Iran and Peru in annex table 1.
[3] UNCTAD, *World Investment Report 2004: The Shift towards Services* (New York and Geneva: United Nations, 2004), p. 55.

billion and, given the widespread devastation caused by this year's monsoon floods, inflows are unlikely to exceed US$ 2 billion for the whole year - a decline of more than 60% over two years.

The corporate players

Foreign companies have operated in Pakistan for many years, even before independence. The first Swiss cotton trading subsidiary was set up by the Volkart Brothers in 1861 and the London-based Chartered Bank set up operations in Karachi in 1863. Other early entrants and continuing major players include Shell Petroleum (1903), Siemens (1922) and Imperial Chemical Industries (1944).

The initial years after independence (1947-1972) were largely "laissez-faire", attracting market-seeking FDI in a wide range of manufacturing industries. The investments were often undertaken with local partners. The first foreign affiliate, Pakistan Tobacco (British-American Tobacco), was incorporated in 1947. Lever Brothers Pakistan Limited (Unilever) incorporated in 1948; it is today the largest consumer goods manufacturer in the country. Pharmaceuticals have attracted a number of foreign players (from Switzerland, the United Kingdom and the United States), of which GlaxoSmithKline is the largest in the country. The transport equipment industry has been popular with Japanese companies, whose activity has been mainly assembly operations.

A general failure of manufacturing affiliates in all industries has been the reluctance to develop an export-oriented approach, even within the global network of their parent companies. This is in part attributable to the protected markets within which they have operated – the downside of earlier trade and industrial policies that successfully attracted IFDI.[1] Departures from this insular trend include recent vehicle exports by Suzuki to Bangladesh and sheet metal parts exports to Europe, and school buses exports by Hinopak to the U.A.E. ICI Pakistan exports to regional markets in the Middle East and Central Asia. As part of an offset deal for the purchase of aircraft, Boeing has transferred technology to enable the manufacture of spare parts in Pakistan for its global supply chain.[2]

There are several cross-border joint ventures between parastatals. Notable among these is the Pak-Arab Refinery (PARCO), a US$ 1.2 billion joint venture between the governments of Pakistan and the Emirate of Abu Dhabi.

Financial services were privatized in 1991 and now account for nearly 20% of IFDI stock, much of it originating from developing countries (Bahrain, Kuwait, Malaysia, Oman, U.A.E.). Islamic banking is an emerging niche subsector.

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[1] For a discussion of trade policy see Parvez Hasan, "Pakistan's trade strategies and performance: missed opportunities and current challenges," in Michael Kugelman and Robert M. Hathaway, eds., *Hard Sell: Attaining Pakistani Competitiveness in Global Trade* (Washington D.C.: Woodrow Wilson International Center for Scholars, April 2008), available at: www.wilsoncenter.org/topics/pubs/asia_hard.sell.pdf.
[2] The US$ 1.8 billion purchase order was made in 2002, the aircrafts were delivered in 2004-2008 and the manufacturing facility for spare parts became operational in 2006.

The country's largest privatized bank, Habib Bank (HBL), has a curious history, with ownership changing hands from the Pakistani private sector to the public sector to a foreign investor. The bank was privately established in 1947 and was also Pakistan's first MNE (when it opened a branch in Sri Lanka in 1951). After the industry was nationalized in 1972, the original owners set up a new bank in Switzerland with operations in Pakistan.[1] HBL was later privatized in 2003 and is now majority-owned and controlled by the Aga Khan Fund for Economic Development (Switzerland).

Communications (13% of IFDI stock) has also benefited from privatization and FDI from China, Egypt and U.A.E. The 2006 acquisition by Etisalat (U.A.E.) of a 26% share of the national telecommunications company was valued at US$ 2.6 billion. China Mobile established its first overseas subsidiary with investments of US$ 1.7 billion and plans for an additional US$ 300 million in 2010. Orascom (Egypt) operates the largest GSM network and subscriber base. The second largest GSM provider is Norway's Telenor, which is also innovating in mobile banking.

The power sector has attracted IFDI, but not without cost. Independent power producers (domestic and foreign) proliferated in the 1990s under a generous incentive structure,[2] which entailed large foreign exchange outflows (interest, dividend and fuel payments).[3] Public utilities had difficulty maintaining the payment schedule necessary to sustain the supply of uninterrupted power, contributing to recent power shortages, which abruptly disrupted all industries. Net FDI inflows have so far been negative in 2010, notwithstanding 2008 announcements of US$ 4 billion in alternative energy greenfield projects originating mainly from China, Turkey and the United States.

Extractive industries account for 11% of IFDI stock and are the main attraction for IFDI in Pakistan at the present time. The Government of Pakistan is aggressively awarding concessions for oil and gas exploration. A dozen foreign companies have invested, including BP, ENI (Italy), BHP Billiton (Australia), OMV (Austria), Petronas (Malaysia), and Premier Oil (UK), and one specifically plans to explore offshore, Petrobras (Brazil).

There was foreign equity participation in about 1,100 enterprises in 2008[4], by approximately 100 British, 66 US and 15 Swiss companies.[1] Dutch multinationals are also big corporate players in Pakistan (Shell, ICI, Lever Brothers, Philips).[2]

[1] The irony of the Habib family operating as a multinational in their own country was commemorated with a 5-rupee postage stamp issued by the Pakistan Post Office in March 2001 displaying the logo and headquarters of the Swiss multinational, *Habib Bank AG Zurich*.

[2] The 1994 Power Policy guaranteed purchase of the power produced at a pre-set, dollar-indexed tariff structure, ensured fuel supply, protected against changes in duties and taxes and also provided foreign exchange convertibility and duty free import of plant and equipment; up to 40% of the capital costs of the project; free repatriation of equity along with dividends; and foreign exchange risk insurance on foreign currency loans. See Ashfaque H. Khan and Yun-Hwan Kim, "Foreign direct investment in Pakistan: Policy issues and operational implications," EDRC Report Series No. 66, Asian Development Bank, July 1999, available at: www.adb.org/documents/edrc/reports/er066.pdf.

[3] The 1994 Power Policy had the support of the World Bank and other agencies, while the United Nations (this author, in particular) had cautioned against the incentive scheme.

[4] The State Bank of Pakistan conducts an annual survey of foreign liabilities and assets (available at: www.sbp.org.pk/publications/iipp). The 2008 survey recorded 81 branches of foreign companies and 698 Pakistani companies with foreign equity participation. The response rate was 70% in 2007, which suggests an overall size of 1,100.

Effects of the current global crisis

Pakistan is in a better position than most countries in attracting foreign investment in the current global crisis as it has a large domestic market and untapped natural resources. Pakistan has also been able to maintain economic growth (4% in 2009 and 2010), thanks to a US$ 11.3 billion IMF Stand-By Arrangement, continued inflows of remittances from migrants abroad (US$ 8 billion per year in 2009-2010) and reasonably good harvests (though probably not recently after the 2010 deluge).

Nevertheless, some decline in FDI inflows was to be expected, as Pakistan's main FDI sources are developed countries where the current crisis has been most acute. Also, with the current uncertainty in the global environment, investors are particularly risk averse. On balance, political risk appears to have been an overriding consideration, as FDI inflows to Pakistan in 2009 contracted by more than twice as much as that to developing countries as a whole.[3]

This contraction suggests an erosion of investor confidence. One-third of the fall in FDI inflows since 2008 is explained by lower reinvested earnings and two-thirds are due to lower equity inflows and fewer intra-company loans. Reinvested earnings of foreign affiliates declined by almost 75% in 2009. Recent surveys indicate that foreign companies have lower investment plans for 2010 and that business confidence fell in the second quarter of 2010.[4] The three concerns most cited by business are: law and order, the energy deficit (frequent power cuts) and government stability.

A US$ 5 billion greenfield investment by Boeing to manufacture aircraft spare parts, following its 2006 offset arrangement, was postponed in 2010.[5]

At the corporate level, the global crisis has prompted parent companies to rationalize activities and in some cases to divest entirely in the host economy. Thus, the worldwide consolidation of the Royal Bank of Scotland led to the 2010 fire sale of its former-ABN AMRO operation in Pakistan to the Faysal Bank (majority-owned by the Ithmaar Bank of Bahrain).

There was also consolidation in the pharmaceuticals industry, when Merck Sharp & Dohme, which had entered Pakistan in 1962, departed in 2008, and when Bristol Meyers Squibb, another long-time investor, sold its operations in 2009.

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[1] The numbers are rough, culled from membership in chambers of commerce, business councils and embassy press releases.

[2] ICI Pakistan is now Dutch-owned after the global acquisition of ICI by AkzoNobel in 2008.

[3] FDI inflows to developing countries contracted by 27% in 2009. See UNCTAD, *World Investment Report 2010: Investing in a Low-carbon Economy* (Geneva: United Nations, 2010), available at: www.unctad.org/en/docs/wir2010_en.pdf.

[4] The surveys (available at: www.oicci.org/forms/publication.aspx) were conducted by the Overseas Investors Chamber of Commerce & Industry, Karachi. The Chamber is the oldest in Pakistan and has 185 member companies with output accounting for 14% of GNP.

[5] The decision was also attributed to unfavorable government policy, as reported by Azhar Masood, "Boeing puts investment in Pakistan on hold", 4 July 2010, available at: http://arabnews.com/saudiarabia/article78632.ece.

A feature of the current global crisis is increased market-seeking activity of multinationals in emerging markets (so as to sustain revenue growth through worldwide sales). Examples in Pakistan include the expansion of Coca-Cola (through its affiliate in Turkey), Metro Cash & Carry (Germany) and similar greenfield investments from Saudi Arabia and U.A.E. in retail and wholesale trade, hotels and shopping complexes.[1]

The policy scene

Pakistan's investment regime is as open as in any other developing country, and the country has an investment incentive structure more generous than most.[2] The welcome to foreign investors is longstanding. A notable milestone was the signing with Germany in 1959 of the first BIT in the world. The early 1970s were marred by nationalization, which was prevalent in the region, including India and Sri Lanka.[3] Although foreign enterprises were exempted,[4] new equity inflows collapsed.[5] A process of policy liberalization ensued from the mid-1970s onward.

By the mid-1990s, restrictions to entry, ownership, admission, and repatriation had been greatly relaxed or eliminated. Investor guarantees, property protections and national treatment are stipulated in the constitution and relevant laws.[6] Incentives for foreign investors include a variety of credit facilities, concessional customs duties, tax holidays, a favorable visa policy, and special investment zones. It is easier to do business in Pakistan than in any of the neighboring countries of South Asia.[7]

The privatization program and incentive packages have not been without controversy (i.e., surrounding the transparency of the deals, job losses and/or profit repatriations).[8] The privatization process was set back in 2006 when the Supreme Court, citing irregularities, annulled the divestment of Pakistan Steel Mills.[9]

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[1] These investments are reflected in relatively large shares of trade and of other services in IFDI flows for 2009 (annex table 3a).
[2] For a review of the policy regime see Khan and Kim, op. cit.
[3] In the case of Pakistan, the mood was exemplified by the observation of the Chief Economist of the Planning Commission, Mahbub ul Haq, in April 1968 that Pakistan's industry was largely owned by just 22 families.
[4] The American Life Insurance Company (ALICO), with an investment of more than US$ 36 million, was nationalized in 1972; it was denationalized in 1994 and is the largest foreign investment in insurance. The petroleum operations of ESSO were taken over in 1976 and placed under Pakistan State Oil; however, the ESSO fertilizer plant (US$ 43 million), the largest foreign investment in Pakistan at the time, was not affected. Some foreign companies (e.g., Shell) reduced shareholdings to below 50% in their locally registered affiliates.
[5] Direct investment fell from US$ 70 million in 1972 to zero in 1973, and turned negative (to -US$ 6 million) in 1974. It did not recover until 1981.
[6] As of May 2010, Pakistan had concluded 47 BITs and 51 DTTs (UNCTAD, op. cit.).
[7] For example, it takes less time and costs to start a business in Pakistan than in India or any other country in the subcontinent. Pakistan also scores high on investor protection. See: World Bank Group, *Doing Business 2010*, available at: www.doingbusiness.org/reports/doing-business/doing-business-2010.
[8] Pakistan ranks low on perception of public sector transparency, lower than (but not by much) other South Asian countries; see the 2010 index of Transparency International (available at: transparency.org/policy_research/surveys_indices/cpi/2010/results).
[9] Judgment of the Supreme Court in Pakistan Steel Mills Privatization Case, August 9, 2006.

A major dispute is looming in the minerals sector, which is governed at the provincial level, unlike oil and gas, which is regulated at the federal level. The authorities in Balochistan Province have threatened to cancel the mining licence of the Reko Diq copper and gold mine held by a consortium led by the Canadian Barrick Gold Corporation and the Chilean mining company Antofagasta. The exploration license grants exclusive rights to explore and, subject to certain investment requirements, also to develop, mine and sell minerals discovered within the license area. The exploration has found significant deposits, and provincial authorities are unhappy with the terms of the development project (involving new FDI inflows of US$ 3.2 billion). The federal government (i.e. the Prime Minister) has intervened between the provincial authorities and the mining companies. In the interim, the dispute is a blemish on the country's otherwise welcoming attitude toward FDI.

New developments: handling terrorism risk

Although the weight of terrorism on investment decisions is unclear,[1] a recent survey ranks political risk as a major investor concern in developing countries and places Pakistan among the five most risky investment destinations.[2] In order to provide insurance cover against terrorism, a Political Risk Guarantee Facility was created by the Asian Development Bank in 2002. The facility is counter guaranteed and indemnified by the Pakistani Government. The liability coverage (up to US$ 175 million) may be increased through commercial reinsurance arrangements. There have so far been no terrorist incidents targeting FDI in Pakistan.[3]

The United States Congress is also considering a new US$ 300 million enterprise fund to provide upfront risk capital to spur IFDI in Pakistan. This fund would be financed from within the foreign aid allocation. Such facilities are not entirely new. The U.S. Overseas Private Investment Corporation and MIGA provide risk insurance for Afghanistan. The United States has also set up enterprise funds for the transition economies of Eastern and Central Europe, and countries of the former Soviet Union.

Conclusions and Outlook

Pakistan welcomes foreign investors and had experienced large FDI inflows before the global downturn. The economy has overcome government instability in the past, and recovered relatively quickly after the 2005 earthquake. Nevertheless, current circumstances are dire: FDI inflows have declined by 60% since 2008, and the downslide is continuing. Pakistan can expect to continue to receive FDI in extractive industries

[1] Daniel Wagner, "The impact of terrorism on foreign direct investment", February 2006, available at: www.irmi.com/expert/ articles/2006/wagner02.aspx.

[2] World Bank Group, *World Investment and Political Risk Report 2009*, available at: www.miga.org/documents/ flagship09ebook.pdf.

[3] In the view of the largest home country investors as expressed by the Executive Director of the U.S.-Pakistan Business Council: "Although the perception of Pakistan in the United States is often dominated by issues surrounding security and terrorism, a story that lacks attention from the mainstream media is that many American companies have successful operations and continue to explore opportunities for investment in Pakistan." See Esperanza Gomez Jelalian, "A perspective from the U.S. business community in Pakistan: Key issues and opportunities," in Kugelman and Hathaway, op. cit.

(which tend to be impervious to the investment climate) and also from the more resilient economies of developing Asia. However, these inflows are offset by an overall fall in reinvested earnings.

Thus, immediate prospects for reversing the current decline of IFDI hinge on efforts made by the Government of Pakistan to retain the confidence of investors. They include potential as well as existing investors, some of whom have been operating in Pakistan for many years. They also include domestic investors, whose actions shape perceptions of new investors. Determined efforts need to be made, through dialogue and partnership with the private sector, to tap into the country's substantial resource capacity and its considerable market potential.

Additional readings

Amjad, Rashid, *Private Industrial Investment in Pakistan, 1960-1970* (Cambridge: Cambridge University Press, 1982).

Khan, Ashfaque H. and Yun-Hwan Kim, "Foreign direct investment in Pakistan: Policy issues and operational implications," *EDRC Report Series No. 66*, Asian Development Bank, July 1999.

Kugelman, Michael and Robert M. Hathaway, eds., *Hard Sell: Attaining Pakistani Competitiveness in Global Trade* (Washington D.C.: Woodrow Wilson International Center for Scholars, April 2008).

Useful websites

For FDI policy and regulation: Government of Pakistan, Board of Investment, available at: www.pakboi.gov.pk.

For FDI statistics: State Bank of Pakistan, available at: www.sbp.org.pk.

For economic statistics: Government of Pakistan, Ministry of Finance, available at: http://www.finance.gov.pk.

For economic research: Pakistan Institute of Development Economic, available at: www.pide.org.pk.

Statistical annex

Annex table 1. Pakistan: inward FDI stock, 2000-2009 (US$ billion)

Economy	1990	2000	2009
Pakistan	1.9	6.9	17.8
Memorandum: comparator economies			
India	1.7	16.3	164.0
Iran	2.0	2.6	24.0
Peru	1.3	11.1	36.9
Philippines	4.5	18.2	23.6

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

Annex table 2. Pakistan: inward FDI flows, 2000-2009 (US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Pakistan	0.3	0.4	0.8	0.5	1.1	2.2	4.3	5.6	5.4	2.4
Memorandum: comparator economies										
India	2.3	3.4	3.5	4.3	5.3	6.7	20.3	25.0	40.4	34.6
Iran	0.2	1.1	3.7	2.7	2.9	3.1	1.6	1.7	1.6	3.0
Peru	0.8	1.1	2.2	1.3	1.6	2.6	3.5	5.5	6.9	4.8
Philippines	2.2	0.2	1.5	0.5	0.7	1.9	2.9	2.9	1.5	1.9

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

Annex table 3. Pakistan: distribution of inward FDI stock, by economic sector and industry, 2006, 2008 (US$ million or percentage shares)

Sector/industry	2006	2008
All sectors/industries	13,681.9	16,472.9
Primary (%)	10.6%	10.4%
Oil and gas exploration	1,450.0	1,706.5
Secondary (%)	34.8%	30.5%
Food	651.4	847.5
Chemicals	986.9	711.8
Petroleum refining	349.9	481.2
Pharmaceuticals	586.7	711.3
Transport equipment	1,014.2	823.3
Other manufacturing	1,167.3	1449.9
Tertiary (%)	51.2%	58.0%
Power	1,551.5	1,563.0
Trade	586.1	1,284.6
Communications	1,766.6	2,593.3
Finance	2,569.6	3,831.1
Other services	534.2	277.2
Unspecified (%)	3.4%	1.1%

Source: State Bank of Pakistan, available at: www.sbp.org.pk/publications/iipp.

Annex table 3a. Pakistan: distribution of inward FDI flows, by economic sector and industry, 2001, 2009 (US$ million or percentage shares)

Sector/industry	2001[a]	2009
All sectors/industries	484.8	2,387.7
Primary (%)	56.7%	27.8%
Mining	6.6	6.5
Oil and gas exploration	268.2	657.8
Secondary (%)	13.6%	28.6%
Food	7.6	65.8
Chemicals	12.9	121.2
Petroleum refining	2.8	108.2
Pharmaceuticals	7.2	12.9
Transport equipment	1.1	44.2
Other manufacturing	34.5	330.8
Tertiary (%)	27.1%	40.0%
Power	36.4	145.9
Trade	34.2	118.9
Communications	12.7	189.6
Finance	3.6	169.9
Other services	57.2	331.4
Unspecified (%)	2.6%	3.6%

Source: State Bank of Pakistan, available at: www.sbp.org.pk/ecodata/nifp_arch/index.asp.
[a] Data for fiscal year, from July 2001 to June 2002.

Annex table 4. Pakistan: geographical distribution of inward FDI stock, 2006, 2008
(US$ million or percentage shares)

Region/economy	2006	2008
World	13,681.9	16,472.9
Developed economies (%)	57.6	65.4
Australia	61.5	212.0
Austria	86.9	136.6
France	32.0	172.7
Germany	419.3	436.5
Ireland	62.4	58.7
Japan	871.0	812.9
Luxembourg	48.9	34.9
Netherlands	798.4	787.3
Switzerland	998.0	1707.8
Sweden	40.1	59.6
United Kingdom	2,664.9	4241.7
United States	1,754.7	1638.5
Others	44.1	480.5
Developing economies (%)	32.4	32.8
Bahrain	78.1	183.3
British Virgin Island	6.4	114.9
Cayman Island	170.8	224.0
China	34.1	694.8
Hong Kong (China)	110.7	254.6
Kuwait	130.6	258.9
Libya	37.8	53.1
Malaysia	64.6	353.0
Mauritius	379.0	608.1
Oman	123.8	196.3
Saudi Arabia	581.0	148.9
Singapore	12.7	201.2
United Arab Emirates	2,573.5	1663.9
Others	126.1	447.1
Unspecified (%)	10.0	1.8

Source: State Bank of Pakistan, available at: www.sbp.org.pk/publications/iipp.

Annex table 4a. Pakistan: geographical distribution of inward FDI flows, 2001, 2009

(US$ million or percentage shares)

Country/region	2001 [a]	2009
World	484.8	2387.7
Developed economies (%)	77.8	61.5
Australia	0.4	90.4
Canada	3.5	1.3
Denmark	0.8	0.9
France	-6.9	5.9
Germany	11.2	79.4
Japan	6.5	36.7
Luxembourg	0.0	1.4
Netherlands	-5.1	149.1
Norway	0.1	37.3
Switzerland	7.4	182.8
Sweden	0.8	1.5
United Kingdom	30.3	197.0
United States	326.4	610.0
Others	1.8	74
Developing economies (%)	14.7	16.1
Bahamas	0.0	8.9
Bahrain	21.9	17.0
Bangladesh	1.7	0.2
Cayman Island	0.6	111.7
China	0.3	-109.9
Egypt	0.3	0.7
Hong Kong (China)	2.8	14.5
India	0.0	0.5
Iran	0.0	7.4
Korea, Rep. of	0.5	2.7
Kuwait	2.2	2.8
Libya	0.0	3.3
Malaysia	0.9	-2.5
Mauritius	0.0	57.9
Oman	3.2	-5.2
Qatar	1.0	0.9
Saudi Arabia	1.3	-82.3
Singapore	3.9	102.1
Turkey	0.0	15.9
United Arab Emirates	20.5	166.1
Others	10.2	71.3
Unspecified (%)	7.5	22.4

Source: State Bank of Pakistan, available at: www.sbp.org.pk/ecodata/nifp_arch/index.asp.

[a] Data for fiscal year, from July 2001 to June 2002.

Annex table 5. Pakistan: principal foreign affiliates,[a] ranked by sales, 2008-2009

(Pakistan Rupee billion)

Name of affiliate or local company	Home country of parent company or foreign partner	Industry	Annual sales in 2008-2009 [b]
A. Secondary Sector			
Attock Oil Group [c]	U.K./Saudi Arabia	Diversified	170
Shell Pakistan	U.K./Netherlands	Petroleum	100
Indus Motor	Japan	Transport equipment	61
Nestle Pakistan	Switzerland	Food	41
Lotte Pakistan PTA	Korea, Rep. of	Chemicals	39
Unilever Pakistan	U.K./Netherlands	Consumer goods	38
Atlas Honda Group [d]	Japan	Transport equipment	36
Siemens Pakistan	Germany	Electrical equipment	36
ICI Pakistan	Netherlands	Chemicals	32
Pak Suzuki Motors	Japan	Transport equipment	26
Pakistan Tobacco	U.K.	Tobacco	21
GalxoSmithKline Pakistan	U.K.	Pharmaceuticals	15
Lakson Tobacco	U.S.	Tobacco	13
Colgate-Palmolive Pakistan	U.S.	Consumer goods	12
Hinopak Motors	Japan	Transport equipment	11
Dawood Hercules Chemicals	U.S.	Fertilizers	11
B. Tertiary Sector			
Habib Bank	Switzerland	Finance	87
United Bank	U.A.E.	Finance	74
MCB Bank	Malaysia	Finance	61
Bank Alfalah	U.A.E.	Finance	40
Standard Chartered Bank	U.K.	Finance	34
Habib Metropolitan Bank	Switzerland	Finance	25
Faysal Bank	Bahrain	Finance	20
Royal Bank of Scotland	U.K.	Finance	14

Source: Author's compilation, based on UNCTAD, *World Investment Directory, Volume VII: Asia and the Pacific*, (Geneva: United Nations, 2000); and company websites. For sales data: Wright Investors' Service, available at: www.corporateinformation.com.

[a] Foreign affiliates include firms owned by individual multinationals, even if these firms are registered in Pakistan as separate limited companies. The list excludes affiliates in which foreign shareholdings exceed 10%, when these affiliates are controlled by local investors or government, such as two of the largest enterprises in Pakistan, the HUBCO power company (with Saudi Arabia/U.K. equity) and the PARCO refinery (with U.A.E. equity), as well as the Pakistan Telecommunication Company (with U.A.E. equity).

[b] The sales data are not strictly comparable, as these vary by definition (e.g. income in the case of financial institutions) and year, and are presented only to illustrate rough rank.

[c] Includes Attock Oil (incorporated in the U.K. in 1913), Pakistan Oilfields, Attock Refinery, National Refinery, Attock Petroleum, Attock Cement and Attock Information Technology Services; majority owned by the Saudi based Pharaon Group. The sales data is for some of these entities.

[d] Includes two entities, Atlas Honda (motorcycles) and Atlas Honda Cars.

Annex table 6. Pakistan: main cross-border M&A deals (completed transactions), 2007-2009 (US$ million)

Year	Acquiring company	Home economy	Target company	Target industry	Shares acquired (%)	Value
2009	GlaxoSmithKline PLC	United Kingdom	Bristol-Myers Squibb Pakistan	Pharmaceuticals	100.0	36.7
2009	KP Chemical Corp	Korea, Rep. Of	Pakistan PTA Ltd	Chemicals	75.0	12.0
2008	Maybank	Malaysia	MCB Bank Ltd	Finance	20.0[a]	886.5
2008	Oman Telecomm. Co	Oman	Worldcall Telecom Ltd	Communications	65.0	204.0
2008	Investor Group	Oman	Saudi Pak Commercial Bank Ltd	Finance	86.6	202.5
2008	Investor Group	Japan	Indus Motors Co Ltd	Transport equipment	12.5	56.5
2008	Noor Finl Invest KSCC	Kuwait	Meezan Bank Ltd	Finance	11.2[a]	23.5
2008	International Resorts Co KSCC	Kuwait	Al Marwa Haj & Umrah Svcs Co	Transport services	22.7	10.8
2007	SingTel	Singapore	Warid Telecom(Pvt)Ltd	Communications	30.0	758.0
2007	Philip Morris Intl Inc	Switzerland	Lakson Tobacco Co Ltd	Tobacco	50.2	339.0
2007	Orascom Telecom Holding SAE	Egypt	Mobilink	Communications	31.3 [a]	290.9
2007	China Mobile Commun Corp	China	Paktel Ltd	Communications	88.9	284.0
2007	Xinjiang Zhongxin Resources	China	Mortuk Oilfield	Petroleum	100.0	250.0
2007	ABN-AMRO Holding NV	Netherlands	Prime Commercial Bank Ltd	Finance	96.2 [a]	234.2
2007	Noor Finl Invest KSCC	Kuwait	Meezan Bank Ltd	Finance	19.0	38.1
2007	Investor Group	United Kingdom	KASB Capital Ltd	Finance	-	33.0
2007	Investor Group	Qatar	Burraq Telecom Co Ltd	Communications	75.0	12.3

Source: Thomson ONE Banker. Thomson Reuters.
[a] Comprises 2 transactions.

Annex table 7. Pakistan: main announced greenfield projects, by inward investing firm, 2007-2009 (US$ million)

Year	Investing company	Home economy	Industry	Investment value	Notes
2009	Wartsila	Finland	Power	666	*a*
2009	Xenel Industries	Saudi Arabia	Power	659	*a*
2009	China Mobile	China	Communications	500	
2009	Dubai Islamic Bank	U.A.E.	Finance	448	*a, b*
2009	Total	France	Petroleum	406	*a*
2009	OMV	Austria	Oil and gas	112	*a*
2009	Yamaha	Japan	Transport equipment	150	
2009	Metro	Germany	Trade	55	*a*
2009	MOL	Hungary	Oil and gas	40	
2009	Laboratorios Bago	Argentina	Pharmaceuticals	10	
2008	Global EnviroScience Technologies	U.S.	Power	2,950	*c*
2008	Zorlu Holding	Turkey	Power	950	*a*
2008	Dana Gas	U.A.E.	Oil and gas	414	*a*
2008	MAF Group	U.A.E.	Trade	403	*a*
2008	Al-Tuwairqi Group	Saudi Arabia	Metals	265	
2008	Tetra Laval	Switzerland	Plastics	141	
2008	Jura Energy	Canada	Oil and gas	112	*a*
2008	ENI	Italy	Oil and gas	162	*a, c*
2008	Coca-Cola	U.S.	Beverages	100	
2008	Procter & Gamble	U.S.	Chemicals	100	
2008	Nanjing Sunec Wind Generator Equip. Factory	China	Power	98	
2008	BASF	Germany	Chemicals	91	*a*
2008	DTS Corporation	Japan	Communications	50	
2007	Hutchison Whampoa	Hong Kong (China)	Logistics	1,000	
2007	China Mobile	China	Communications	860	*c*
2007	Enshaa Holdings	U.A.E.	Construction	362	*a*
2007	Daewoo International	Korea, Rep. of	Transport equipment	229	*a*
2007	Toyota Motor	Japan	Transport equipment	180	
2007	Carlson Companies	U.S.	Hotels	339	*a, c*

2007	Fair Energy	Switzerland	Petroleum	100	
2007	Temasek Holdings	Singapore	Logistics	92	*a*
2007	Metro	Germany	Trade	59	*a*
2007	SHV Holdings	Netherlands	Trade	59	*a*
2007	Credit Suisse Group	Switzerland	Finance	33	*a*
2007	JP Morgan Chase & Co	United States	Finance	33	*a*

Source: fDi Intelligence, a service from the Financial Times Ltd.
[a] Estimated value.
[b] Comprises 11 projects.
[c] Comprises 2 projects.

Chapter 33 - Peru

Peru: Inward FDI and its policy context, 2010

Benjamin Chavez and Jaime Dupuy[*]

Peru has shifted from being a small FDI player in the Latin America and Caribbean region in the 1990s to being the sixth largest FDI host country in 2008. With inflows of US$ 6.9 and US$ 4.8 billions in 2008 and 2009, respectively, Peru has managed to contain the impact of the financial crisis on IFDI. The main determinants of the improved FDI performance were: a stable economic and FDI policy since 1992;) vast natural resources; strong GDP and market growth; and an export-oriented economy, especially during the past decade. In recent years, Peru has become one of the fastest growing economies in Latin America and a diversified commercial hub for IFDI in the region.

Trends and developments

Country-level developments

In 1990, before liberalization started, Peru had accumulated only US$ 1.3 billion of IFDI stock. After the enactment of the 1993 Constitution, Peru was able to attract substantial IFDI to major such extractive industries as mining, oil and gas, and the country experienced remarkable IFDI growth in the secondary and tertiary sectors.

In 2009, Peru's IFDI stock reached US$ 35 billion (annex table 1). The main drivers of IFDI in the past two decades were policy liberalization, vast natural resources, relatively strong GDP and market growth, and the recent export orientation.[1] Policy liberalization included privatizations and open access to almost all sectors.[2]

Peru's average annual IFDI flows almost tripled, from US$ 1 billion during 1990-1999 to US$ 2.7 billion during 2000-2009 (annex table 2). Although the country is still far from the level of inflows reached by Chile and Colombia (natural competitor countries at the South Pacific coast), its importance as a host country in the region has shifted significantly. In 2008, Peru reached the sixth place among recipients of IFDI flows in Latin America.[3] It is remarkable that reinvested earnings accounted for 70%, 47% and

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[1] An overview of the main determinants of FDI flows can be found in UNCTAD, *World Investment Report 1998: Trends and Determinants* (New York and Geneva: United Nations, 1998).

[2] The exceptions are broadcasting, notary, air transport, and maritime transport services. See, Peru - United States Trade Promotion Agreement, signed April 12, 2006. Peru Annex I, Non-Conforming Measures for Services and Investment, available at: http://www.ustr.gov/trade-agreements/free-trade-agreements/peru-tpa/final-text.

[3] UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

102%[1] of IFDI flows in 2007, 2008 and 2009, respectively, demonstrating the soundness of the Peruvian economy and reflecting the high returns earned by investors on their Peruvian operations.

From 1990 to 2000, Peru's IFDI stock was markedly oriented toward services (annex table 3). In 2000, services industries (energy excluded) accounted for 58% of the IFDI stock, energy for 12%, manufacturing for 13%, and oil and mining for 16%. These numbers are explained by the privatizations that took place in the first stage of Peru's new FDI policy during the 1990s: as state companies were mostly in the tertiary sector; the privatizations caused a shift toward FDI in such industries as telecommunications, financial services and energy (mainly electricity generation, transmission and distribution). In the secondary sector (specifically, in the food industry), the acquisition of two traditional Peruvian companies have to be highlighted: Arturo Field Co. (acquired by Kraft Foods) and D'Onofrio (acquired by Nestle).

However, during the past decade, the bulk of IFDI went into the exploitation of natural resources (copper, gold, silver, oil, natural gas, electricity based on water and oil), to infrastructure concessions and to manufacturing. Although services and energy together still accounted for most of the IFDI stock in 2009 (in part because of IFDI in infrastructure concessions), the relative importance of manufacturing (15%) and mining and oil (23%) has considerably risen due to important greenfield investments. Investments in agriculture have also increased considerably, driven by growing demand for new Peruvian export products such as asparagus (annex table 3). IFDI in extractive industries[2] and agriculture in Peru is highly decentralized, which creates considerable economic impact in the interior of the country, bringing wealth to regions faraway from the capital. In addition to this, striking GDP and market growth in the past decade (on average 5.4% per year[3]) has generated attractive returns in the finance, construction and housing industries, pushing up IFDI in them.

From 2000 to 2009, according to the Peruvian Investment Agency (Proinversion), concessions in infrastructure projects represented an estimated investment of US$ 8.9 billion, including US$ 2.7 billion for the Camisea natural gas project,[4] US$ 1.2 billion for the Lima Airport, US$ 0.6 billion for the Callao Port (South Dock), and US$ 1.1 billion for the inter-oceanic road that will join the southern regions of Peru with Brazil. Other important concessions have been given in the transport, telecommunications, hydrocarbons, energy, sanitation, and agriculture (irrigation) industries.

Europe has been the major IFDI player in Peru. In 2000, 66% of Peru's IFDI stock came from Europe, compared to 19% from North America, 12% from Latin America and 2%

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[1] The amount is higher than 100% because the net liabilities of foreign affiliates were negative and higher than equity capital in absolute terms.

[2] The term "extractive industries" refers to industries involved in (i) prospecting and exploring for (non-renewable) natural resources, (ii) acquiring them, (iii) further exploring them, (iv) developing them, and (v) producing (extracting) them from the earth. The term does not encompass forestry, fishing, agriculture, animal husbandry, and any other industries that might be involved with resources of a renewable nature.

[3] Central Reserve Bank of Peru (BCRP), "Inflation report: recent trends and macroeconomic forecasts 2010-2011" (Lima: BRCP, 2010).

[4] It includes two concessions: exploitation and transportation and distribution.

from Asia. In 2009, Europe remained the major inward foreign direct investor, with 56%. On the other hand, North America's share accounted for 16%, Asia's doubled to 4% and, what is more remarkable, Latin America's soared to 22%, becoming the second largest source region for IFDI in Peru.

Spain is the most important investor country in Peru, accounting for 23% of the IFDI stock as of 2009 (annex table 4). The United Kingdom (20%), the United States (15%), the Netherlands (7.5%), Chile (6.9%), and Panama (4.9%) follow, in that order. However, the lower relative standing of Spain and the United States, compared to 2000, contrasts with larger investments from the United Kingdom and the emergence of new players from the developing world. Brazil, Colombia and Singapore have become very active inward foreign direct investors in recent years, along with Chile and Panama. Likewise, China deserves special attention given its unique investment in Shougang Hierro Peru, an iron mining operation privatized in 1993 for US$ 118 millions plus a three-year investment commitment of US$ 150 millions. Currently, China is participating in many of the biggest greenfield projects in the mining and steel industries, and its role as a source of IFDI is increasing (see the next section)

The corporate players

Peru had an estimated 330 foreign affiliates in 2008.[1] The top ten foreign affiliates measured by foreign equity capital are in the telecommunications, beverages, mining, energy, and distribution industries (annex table 5). The remaining foreign affiliates are concentrated in the finance, energy, mining, and manufacturing industries.[2]

Cross-border M&As in Peru during 2007-2009 accounted for US$ 3.8 billion (annex table 6). Most of them were in the mining and electricity industries, with Canada as the most active player in terms of number of M&As, but not in transaction value (US$ 0.3 billion). In spite of this, Canadian acquisitions of promising junior mining projects may increase the country's role in IFDI greenfield transactions in the future. The most eye-catching M&A was the acquisition of Wong Group, a Peruvian flagship retail firm, by Cencosud, a leading Chilean retail firm, for US$ 0.5 billion in 2007.[3] Other relevant M&As were Petro-Tech Peruana (oil), Edegel and Electroandes (electricity), acquired by French/Colombian, Spanish and Norwegian enterprises, respectively.

Greenfield investments announced during 2007-2009 accounted for US$ 19.6 billion. According to these announcements, the bulk of greenfield IFDI is in mining (US$ 6.3 billion) and natural gas and renewable energy (US$ 4.3 billion). The chemical (US$ 4.9 billion) and steel (US$ 1.4 billion) industries also received high investments. Therefore, for the first time since Peru's liberalization policy in 1992,[4] important amounts have been invested into industries with higher value-added than extractive industries. In the chemical industry, most of investments are directed toward petrochemical complexes,

[1] UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (New York and Geneva: United Nations, 2009).
[2] Proinversion, FDI Statistics, unpublished..
[3] As part of the transaction, Wong Group bought 5% of Cencosud.
[4] Privatizations aside.

highly promoted by the government as a means of taking advantage of the country's natural gas reserves (annex table 7).

Announced investments in the petrochemical industry include the acquisitions of Braskem (Brazil), CF Industries (USA) and Sigdo Koppers Group (Peruvian-Chilean Joint venture), for a total of US$ 4.4 billion (annex table 7). The Braskem's project by itself would create 41,000 direct and indirect jobs.[1] The development of the complex is subject to the amount of feedstock available from the gas fields and will probably be located in San Juan de Marcona (Ica region), a depressed coastal city located 530 km south of Lima. In another industry, the Brazilian steelmaker Gerdau will invest US$ 1.4 billions at its SiderPeru unit. The company expects the project to generate more than 4,000 temporary jobs during construction, and 2,000 new permanent jobs. The investment will make Peru a large steel producer and an exporter to Latin America.[2] SiderPeru is located in Chimbote (Ancash region), a coastal city located 420 km north of Lima. Both regions, Ica and Ancash, are already important export-oriented producers of agricultural and fishing products, respectively.

An anchor project for these developments has been the Peru LNG project,[3] which includes a liquefaction plant, related marine facilities and 408 km of pipeline for the transportation of natural gas from the mountains to the LNG Plant at Pampa Melchorita on the coast. The total estimated investment was US$ 3.8 billion and the project is considered the largest and most important energy project in Peru. Peru LNG is expected to generate roughly US$ 0.8 billion of export revenues annually. During the construction phase, 35,000 direct and indirect jobs were generated.

Effects of the current global crisis

The global economic and financial market crisis hit IFDI in Peru in 2009. After continuous growth from 2003 to 2008, IFDI flows plummeted to US$ 4.7 billion, 35% less than 2008. Since Peru's terms of trade deteriorated because of the fall in commodities prices in the first quarter of 2009, some investment projects were postponed. In addition, foreign affiliates located in Peru lent money to their headquarters abroad, causing net capital outflows of US$ -0.86 billion in 2009.

On the other hand, reinvested earnings and cross-border M&A investments sustained IFDI flows. Reinvestments in 2009 were equal to US$ 4.9 billion, 49% more than in 2008. M&As accounted for US$ 1.5 billion, 137% higher than in 2008. These numbers reflect the soundness of Peru's economic performance. Furthermore, Peru's GDP grew by 0.9%[4] in 2009, one of the best performances in Latin America. Thus, Peru may capitalize on its performance and become an even more attractive place for FDI.

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[1] Andina Peru News Agency, "Braskem, Petrobras and Petroperú to invest $ 2.500 million in Peru petrochemical plant," May 18, 2008, available at: http://www.andina.com.pe/Espanol/Noticia.aspx?Id=SUrFGYWryL4.
[2] Todd Benson, "Gerdau to spend $1.4 bn to boost output in Peru," Reuters, September 1, 2008, available at: **http://uk.reuters.com/article/idUKN0129584620080901**.
[3] The Peru LNG project was finalized on June 10, 2010.
[4] BCRP, "Inflation report: recent trends and macroeconomic forecasts 2010-2011," op. cit.

The policy scene

In the late 1980s, the Peruvian economy was facing the greatest economic crisis of its recent history, characterized by macroeconomic chaos, irresponsible fiscal policy and hyper-inflation (7000% by 1990). The macroeconomic imbalance was worsened by a fall in tax revenues.[1] Furthermore, government policies induced economic distortions through price and wage control, artificial exchange and interest rates and trade protectionism (e.g. 32 different tariff levels went from 0% to 108%). The most important economic activities were controlled by the State, through public enterprises that subsidized the price of public services and further worsened the fiscal balance.

Since 1990, the main objective of the Government has been to create a steady economic and political environment that allows privately-owned businesses to emerge and develop. Since then, the Government has shifted its role from an over-regulator and producer to a private sector promoter, to make it the driving force of a free-market economy.

The redefinition of the State's role was reflected in the 1993 Constitution, which strongly encouraged private sector activity. The Constitution defines the subsidiary role of the State in economic activity, restricting public economic activity to market failures. The Constitution also guarantees national treatment to foreign investors and gives them the right to submit disputes arising from contractual relationships with the State to national or international arbitration.[2] For this purpose, Peru joined the International Centre for Settlement of Investment Disputes (ICSID) in 1993. Peru also became a member of the Multilateral Investment Guarantee Agency (MIGA) in 1991, which means that foreign investors can obtain political risk insurance from that agency to increase their level of comfort when investing in the country.

The inviolability of property is also constitutionally protected. Foreign investments are allowed without restrictions in most economic sectors. Nevertheless, the 1993 Constitution states that foreigners may not acquire mines, lands, woods, water, fuels, and energy sources within fifty kilometers from the borders, except in case of public necessity, expressly declared by Supreme Decree and approved by the Cabinet.[3]

In order to reinforce investment protection, under the Law on Legal Stability Regime for Foreign Investment and the Framework Law for the Growth of the Private Investment,[4] the State guarantees foreign investors' legal stability for up to ten years, through Stabilization Agreements, which have a law-contract status. Such Agreements reassure investors that a particular legal framework in place at the time they entered into a contract will continue to apply to their investments for a set period of time. However, in the case of public service concessions, this period is extended to the term of the concession.

[1] Government income in 1990 was 4% of GDP, which was not enough to cover the State's payroll.
[2] Peru's Political Constitution, Article 63.
[3] Peru's Political Constitution, Economic Regime, Chapter III, Article 71.
[4] Legislative Decree 662, "Law on Legal Stability Regime for Foreign Investment," and Legislative Decree 757, "Framework Law for the Growth of the Private Investment," both enacted in 1991.

There are also tax incentives to investments,[1] such as a special regime of value-added tax. It allows investors to obtain a refund of taxes paid or transferred on imports and/or the domestic acquisition of capital assets, intermediate goods, services, and construction contracts during the pre-operation stage of infrastructure projects and public utilities, provided that these have been destined for operations not burdened with such tax and are used directly in the execution of investment projects in infrastructure works and public utilities. This regime is subject to investment contracts.

As part of its policy of promoting private investment and boost the country's development, the Peruvian Investment Promotion Agency, Proinversion, was created in 2002. One of the most important goals of Peru's economic strategy is to attract foreign investment into the country. As a complement to its internal legal framework, the Government seeks to negotiate international investment agreements, including BITs and chapters on investment in FTAs, as part of a comprehensive economic and commercial policy that encourages the creation of employment, technology transfer and the growth of goods and services trade with international partners.

Since 1991, Peru has signed BITs with over 30 countries. Likewise, Peru has entered into FTAs with the United States, Chile, Canada, Singapore, China, the European Free Trade Association (EFTA), and the European Union. Negotiations of FTAs are ongoing with Japan, Republic of Korea, Mexico, Thailand, and the Trans-Pacific Partnership. Peru has also entered into double taxation treaties with Brazil, Canada, Chile, and Spain (not yet in force). Negotiations with Sweden, France, Italy, the United Kingdom, Switzerland, and Thailand are pending. These agreements not only reinforce the country's credibility, but also open new opportunities for investors.

Conclusions and Outlook

Peru's economic performance has attracted increasing IFDI flows in the past decade. To continue attracting IFDI, the Peruvian Government must maintain sound macroeconomic fundamentals. In addition, a more active promotion of IFDI in sectors with higher value-added would allow Peru to reap more benefits from its natural resources. The emerging role of IFDI in petrochemical complexes and the steel industry should only be a first step toward attracting human capital, knowledge and technology through IFDI. For that purpose, Peru needs to continue to improve institutions, reduce bureaucratic regulations and to invest in infrastructure, education, R&D, and health to further improve the country's attractiveness as a business location. Peru's economic outlook for the coming years is very favourable, considering the announced investment projects and the expected rise of domestic consumption. Although mining investments are likely to continue at high levels, the service industry is expected to continue to expand as well.

Additional readings

[1] Legislative Decree 821, "Law on Value-added Tax and Selective Consumption Act," enacted in 1996.

Central Reserve Bank of Peru (BCRP), "Inflation report: recent trends and macroeconomic forecasts 2010-2011" (Lima: BCRP, March 2010).

UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (New York and Geneva: United Nations, 2009).

UK Department of Trade and Industry and EIU, *Survive and Prosper: Emerging Markets in the Global Recession* (London: DTI and EIU, 2009).

Useful websites

For FDI policy and and BITs: Proinversion, available at: www.proinversion.gob.pe

For FDI statistics: Proinversion, available at: www.proinversion.gob.pe and

Central Reserve Bank of Peru (BCRP), available at: www.bcrp.gob.pe

For FTAs: Ministry of Foreign Trade and Tourism, available at: www.mincetur.gob.pe

For Double Taxation Treaties: Ministry of Finance, available at: www.mef.gob.pe

Statistical annex

Annex table 1. Peru: inward FDI stock, 2000-2009 (US$ billion)

Economy	2000	2004	2005	2006	2007	2008	2009
Peru	11	13	16	20	27	32	37
Peru [a] (Proinversion)	12	14	14	16	16	18	19[b]
Memorandum: comparator economies							
Brazil	122	161	181	221	310	288	401
Chile	46	61	74	80	99	100	122
Colombia	11	25	37	45	56	67	74
Malaysia	53	43	44	54	77	73	75
Thailand	30	53	60	77	94	93	99

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/
[a] FDI stock registered by Proinversion includes equity capital only. In addition, not all FDI inflows are registered by Proinversion. Thus, Proinversion's FDI statistics are only a part of the Central Reserve Bank of Peru's FDI statistics.
[b] Calculated indirectly. Stock $Year_t$ = Stock $Year_{t-1}$ + Flow $Year_{t.}$ t = 2009.

Annex table 2. Peru: inward FDI flows, 2000-2009 (US$ billion)

Economy	2000	2004	2005	2006	2007	2008	2009
Peru	0.8	1.6	2.6	3.5	5.5	6.9 [a]	4.8 [a]
Memorandum: comparator economies							
Brazil	32.8	18.1	15.1	18.8	34.6	45.1	25.9[b]
Chile[c]	4.8	7.1	7.0	7.3	12.5	15.2	12.7
Colombia	2.4	3.0	10.3	6.7	9.0	10.6	7.2[d]
Malaysia	3.8	4.6	4.1	6.1	8.5	7.3	1.4
Thailand	3.4[d]	5.9[d]	8.1	9.5	11.3	8.5	5.9[e]

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/ (When differences with national statistics exist, the values are specified through [a] to [d])..

[a] Central Reserve Bank of Peru.

[b] Central Bank of Brazil, Preliminary data.

[c] Central Bank of Chile, Economic Indicators.

[d] Bank of Republic, Colombia, Economic Indicators, Foreign Sector Annex.

[e] Bank of Thailand.

Annex table 3. Peru: distribution of inward FDI stock, by economic sector and industry, 2000, 2009 (US$ million)

Sector / industry	2000[a]	2009[ab]
All sectors / industries	12,306	18,840
Primary	2,004	4,529
Agriculture, forestry, and fishing	51	209
Mining, quarrying and petroleum	1,953	4,320
Mining and quarrying	1,855	3,964
Petroleum	98	356
Secondary	1,554	2842
Manufacturing	1,554	2842
Services	7,211	8,866
Communications	4,588	3675
Construction (and housing)	60	718
Finance	1,683	2,872
Transport	28	295
Tourism	58	64
Other services	794	1,242
Energy	1,537	2,603

Source: Proinversion, Peruvian Investment Promotion Agency.
[a] FDI stock registered by Proinversion includes only equity capital. In addition, not all FDI inflows are registered by Proinversion. Thus, Proinversion's FDI statistics are only a part of the Central Reserve Bank of Peru's FDI statistics.
[b] Preliminary.

Annex table 4. Peru: geographical distribution of inward FDI stock, 2000, 2009
(US$ million)

Region/economy	2000[a]	2009[ab]
World	12,306	18,840
Developed economies	10,616	13,826
Europe	8,168	10,542
European Union	7,909	10,210
France	224	205
Germany	75	171
Netherlands	847	1,404
Spain	4,382	4,292
United Kingdom	2,175	3,783
EFTA States	259	332
Liechtenstein	14	19
Switzerland	245	313
North America	2,334	3,083
Canada	183	323
United States	2,151	2,760
Other developed countries	114	201
Australia	5	7
Japan	102	187
New Zealand	7	7
Developing economies	1,572	4,814
Africa	0	0
Asia and Oceania	143	565
China	122	122
Korea, Republic of	21	41
Singapore	0	399
Russia	0	3
Latin America and the Caribbean	1,429	4,249
Brazil	59	487
Chile	476	1,290
Colombia	76	751
Mexico	19	455
Panama	551	929
Unspecified destination	119	200

Source: Proinversion, Peruvian Investment Promotion Agency.
[a] FDI stock registered by Proinversion includes only equity capital. In addition, not all FDI inflows are registered by Proinversion. Thus, Proinversion's FDI statistics are only a part of the Central Reserve Bank of Peru's FDI statistics.
[b] Preliminary.

Annex table 5. Peru: principal foreign affiliates, ranked by assets, 2009 (US$ million)

Rank	Name	Industry	Foreign assets[a]
1	Telefonica Peru Holding S.A	Communications	2,002
2	Union de Cervecerias Peruanas Backus y Johnston S.A.A.	Manufacturing	1,300
3	Telefonica del Peru S.A.A.	Communications	853
4	Xstrata Peru S.A.	Mining	657
5	Generalima S.A.	Energy	502
6	Cencosud Peru S.A.	Distribution	500
7	Compania Minera Antamina S.A.	Mining	460
8	Sociedad Minera Cerro Verde S.A.	Mining	454
9	Gold Fields La Cimas S.A.	Mining	447
10	Telefonica Moviles Peru Holding S.A.A.	Communications	436
11	America Movil Peru S.A.C. (before Tim Peru)	Communications	386
12	Southern Peru Limited, Sucursal Del Peru	Mining	373
13	Peru Beverage Limitada S.R.L.	Manufacturing	303
14	SN Power Peru Holding S.R.L.	Energy	296
15	Scotiabank Peru S.A.A.	Finance	282
TOTAL			9,252

Source: Proinversion, Peruvian Investment Promotion Agency.
[a] December 2009. Includes equity capital only.

Annex table 6. Peru: main M&A deals, by inward investing firm, 2007-2009

Year	Acquiring company	Source economy	Target company	Target industry	Shares acquired (%)	Estimated/ announced transaction value (US$ million) [a]
2009	Enersis SA [a]	Spain	Edelnor	Electricity/distribution	12.35	75.14
2009	Endesa [a]	Spain	Edegel	Electricity	62.46	379.72
2009	Monthiers SA	Belgium/ Brazil	AmBev Peru	Beverages	30.00	16.00
2009	Nyrstar NV	United Kingdom	Cia Minera San Juan(Peru)SA	Mining	85.00	28.00
2009	Aquiline Resources Inc	Canada	Monterrico Metals PLC-Pico	Mining	100.00	7.80
2009	Prosegur Compania de Seguridad	Spain	Orus SA	Other business services/security	100.00	25.60
2009	Solex Resources Corp	Canada	Minera Frontera Pacifica SA	Mining	100.00	3.78
2009	Corficolombiana	Colombia	Cia de Gas Comprimido del Peru	Natural gas	80.00	2.02
2009	ADM Investment Ltd	United States	Molinos del Peru SAC	Food/manufacturing	100.00	4.50
2009	Zibo Hongda Mining Co Ltd	China	Pampa de Pongo Property,Peru	Mining	100.00	100.10
2009	Focus Ventures Ltd	Canada	Radius Gold Inc-Nueva	Mining	100.00	3.20
2009	China Tel Group Inc	United States	Perusat SA	Telecommunications	95.00	2.78
2009	SK/Ecopetrol Group	France/ Colombia	Petro-Tech Peruana SA	Oil	100.00	892.78
2008	Iberian Minerals Corp	Canada	Cia Minera Condestable SA	Mining	98.73	9.45
2008	Grupo Votorantim	Brazil	Cia Minera Milpo SAA	Mining	32.92	132.85
2008	Bank of Nova Scotia,Toronto	Canada	AFP Profuturo SA	Finance	47.50	33.00
2008	Sprott Resource Corp	Canada	Mantaro phosphate project	Chemicals	100.00	8.87
2008	Strike Resources Ltd	Australia	Apurimac Ferrum SA	Mining	51.00	34.50

2008	Black Tusk Minerals Inc	Canada	Undisclosed Mining Concessions	Mining	100.00	2.00
2008	Nevtah Capital Mgmt Corp	United States	Electrocondo r SAC	Electricity	100.00	22.50
2008	Grupo Votorantim	Brazil	Cia Minera Milpo SAA	Mining	25.03	3.39
2008	Bear Creek Mining Corp	Canada	Bear Creek Mining Corp-Corani	Mining	100.00	77.49
2008	Vena Resources Inc	Canada	Sudamerican a de Carbon SAC	Mining	70.00	2.50
2008	Iberian Minerals Corp	Canada	Cia Minera Condestable SA	Mining	92.00	97.55
2008	Norsemont Mining Inc	Canada	Constancia Mining Project,Lima	Mining	70.00	13.00
2008	Petrobras Intl Braspetro BVc	Brazil	Petrobras Energia Peru SA	Oil	-	138.84
2007	Cencosud	Chile	Grupo Wong	Retail	100.00	500.00
2007	Norsemont Mining Inc	Canada	Constancia Mining Project,Lima	Mining	30.00	9.80
2007	Statkraft Norfund (SN) Power	Norway	Electroandes SA	Electricity	100.00	390.00
2007	Thunderbird Resorts Inc	Panama	Hoteles Las Americas	Tourism and hotels	100.00	43.50
2007	Century Mining Corp	United States	Cia Minera Algamarca SA	Mining	100.00	31.00
2007	Pure Biofuels Corp	United States	Interpacific Oil SAC	Biofuel (Ethanol)	100.00	6.30
2007	Northern Peru Copper Corp	Canada	Mineral Concessions	Mining	100.00	5.12
2007	Panoro Minerals Ltd	Canada	Cordillera de las Minas SA	Mining	100.00	15.15
2007	Strike Resources Ltd.	Canada	Apurimac & Cuzco Iron Project	Mining	75.50	6.55
2007	Investor Group	Colombi a	Consorcio TransMantar o SA	Electricity	100.00	33.00
2007	China Fishery Group Investment	Hong Kong (China)	Alexandra SAC	Fishing	100.00	103.58

Source: Thomson ONE Banker. Thomson Reuters.
[a] Enersis Chile and Endesa Chile are subsidiaries of Endesa Spain.
[b] Monthiers (Uruguay) is a subsidiary of Ambev Co. (Belgium/Brazil).
[c] Announced investment is reported as Netherlands, but the Petrobras Headquarter is in Brazil.

Annex table 7. Peru: main greenfield projects, by inward investing firm, 2007-2009
(US$ million)

Year	Investing company	Source economy	Industry	Estimated/ announced investment value
2009	Malaga	Canada	Mining	327
2009	Rio Alto Mining	Canada	Mining	330
2009	Falabella	Chile	Retail	350
2009	Grupo Mexico	Mexico	Mining	600
2009	Braskem	Brazil	Petrochemical	2,500
2009	Centrais Eletricas Brasileira (Eletrobras)	Brazil	Electricity	321
2009	Perenco	France	Oil	2,000
2009	Reliance Industries	India	Natural gas	500
2009	Construtora OAS	Brazil	Electricity	321
2009	Votorantim Group	Brazil	Mining/manufacturing	500
2009	Sigdo Koppers Group	Chile	Petrochemical	650
2008	Stratos Renewables	United States	Renewable energy (ethanol)	119
2008	Conduit Capital Partners, LLC[a]	United States	Gas pipeline/transportation	1,400
2008	Endesa	Spain	Electricity	229
2008	Maple Energy	Ireland	Renewable energy (Ethanol)	222
2008	Vale (Companhia Vale do Rio Doce)	Brazil	Chemicals/extraction	479
2008	Duke Energy	United States	Electricity	229
2008	Horcona	Spain	Renewable energy	4
2008	Gerdau	Brazil	Steel	1,400
2008	Royal Dutch Shell Plc	Netherlands	Oil and natural gas	300
2008	Pure Biofuels	United States	Biofuel/manufacturing	119
2008	Aluminium Corporation of China (Chinalco)	China	Mining	2,150
2008	Global Crossing	Bermuda	Telecommunications	149

2008	CF Industries	United States	Petrochemicals	1,000
2008	Jiangxi Copper	China	Mining	1,400
2008	Constructora OAS (water transfer system)	Brazil	Construction/sanitation	76.9
2007	Ecopetrol	Colombia	Oil	50
2007	Cimpor	Portugal	Cement	125
2007	MAN	Germany	Renewable energy	100
2007	Starwood Hotels & Resorts	United States	Hotels and tourism/construction	85
2007	Anglo American PLC (Michiquillay Project)	United Kingdom	Mining	430
2007	Shougang	China	Mining/manufacturing	1,000
2007	Sigdo Koppers Group[b]	Chile	Petrochemical	200
2007	Doe Run	United States	Mining/manufacturing	50
2007	Petrobras	Brazil	Oil	90
2007	Salfacorp	Chile	Real estate	40.7
2007	Caribbean Land	Dominican Republic	Hotels and tourism/construction	166
2007	SABMiller	United Kingdom	Beverages/manufacturing	50

Source: fDI Intelligence, a service from the Financial Times Ltd.
[a] Peruvian-Chilean joint venture.
[b] Conduit Capital Partners sold its 51% stake in its US$ 1.5 billion Peruvian gas pipeline project to Odebretch, subject to the confirmation of reserves.

Chapter 34 - Russia

Russia: Inward FDI and its policy context, 2010

Alexey Kuznetsov[*]

In the 2000s, Russia became a significant host for IFDI. But its investment climate problems, especially corruption, do not allow Russia to exploit its locational advantages to the full. Russia attracts mainly European investors in a rather narrow range of industries (although the share of mining is decreasing) and regions (mainly in Moscow, St. Petersburg and oil-rich Sakhalin). However, even during the crisis, a new industrial cluster has developed near Kaluga and some large M&As and greenfield projects have been realized outside the Central and North-West federal districts. Russia is trying to diversify the structure and geography of IFDI using incentives (e.g. in special economic zones).

Trends and developments

Country-level developments

Despite the devaluation of the assets of foreign MNEs during the current downturn, Russia's IFDI stock was 12 times larger at the end of 2009 than in 2000.[1] However, the global share of Russia's IFDI is still only 1-2%. Although its relative position as an international business location looks good in comparison with the other three BRIC countries, some other post-communist countries have been more successful in attracting FDI, especially in IFDI per capita terms (annex table 1). Russia has recently been narrowing this gap and has become the leader among post-communist countries in total FDI inflows (annex table 2). According to the Bank of Russia, FDI inflows in Russia were US$ 75.5 billion in 2008 and US$ 38.7 billion in 2009 (while its population was 141 million). At the same time, FDI inflows in 27 other European and Central Asia post-communist states were US$ 164.1 billion in 2008 and US$ 52.5 billion in 2009[2] (while their total population was 261 million).

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[1] Bank of Russia, International Investment Position of Russia for 2000-2009, available at: http://www.cbr.ru/eng/statistics.

[2] See UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi.

UNCTAD uses the aggregate figures provided by the Bank of Russia which are compatible with international statistics and can be used for cross-country comparisons.[1] At the same time, the Federal State Statistics Service (Rosstat) published smaller figures (US$ 27.0 billion for 2008 and US$ 15.9 billion for 2009). Rosstat's database is useful for researchers because it provides much more detailed information on sectoral and regional distribution of IFDI flows and stocks. However, Rosstat uses only special statistical forms from companies (form No. 1-invest), while the Bank of Russia tries to estimate information for its balance-of-payments statistics from various sources, including companies' annual and other reports, information from stock exchanges and FDI data compiled by central banks in other countries.[2]

Despite its intellectual capital (e.g. its relatively high level of education, well-qualified workforce and significant achievements in R&D – all of which can attract efficiency-seeking investors), Russia primarily attracts market-seeking foreign investment. This can be explained by the combination of the rapid growth of Russia's economy (e.g. the country's GDP in 2008 was equal to 194% of the level of 1998)[3] and its investment climate problems, which are crucial for efficiency-seeking investors (for details see the policy scene paragraph of this paper). At the same time, FDI inflows in industries with high value-added remain small. Although Russia is rich in resources, the share of IFDI stock in mining has decreased while that in the wood and pulp industry remains stable (annex table 3). The dominance of oil and gas extraction in FDI from India, Vietnam and (to some extent) the Netherlands is unusual. The most rapid growth in IFDI has been taking place in electricity (due to its partial privatization), real estate (caused by extremely high prices), and financial activities (although only subsidiaries are permitted, not affiliates).

A significant part of Russian IFDI comes from Cyprus and Caribbean territories. These investments mainly consist of round-tripping capital investment originating from Russia itself (annex tables 3 and 4). In the FDI statistics of some European countries, trans-shipped FDI from other countries into Russia's economy are combined with capital of national MNEs. For example, FDI from the Netherlands is in second place, but this includes not only indisputably Dutch companies such as Royal Dutch Shell, Heineken and ING Bank, but also holdings from the Netherlands under the control of foreign MNEs, some of them probably Russian.[4] In general, the geographical distribution of IFDI reflects Russia's strong trade relationship with the European Union (EU), which contributes half of Russia's foreign trade turnover and more than three quarters of

[1] Russia ranked on the 5th place in the world in 2008 and 6th place in 2009 (after the United States, China, France, Hong Kong (China) and the United Kingdom). See UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi.

[2] Boris Kheyfets, Zarubezhnaya Ekspansiya Biznesa i Natsional'niye Interesi Rossii (Moscow: Institute of Economy, 2007), pp. 4-5; Bank of Russia, "Informatsionnaya baza sostavleniya platyozhnogo balansa Rossiyskoy Federatsii za I kvartal 2010 goda," available at: http://www.cbr.ru. See also comments for annex table 1.

[3] Rosstat, "Sotsial'no-ekonomicheskiye pokazateli Rossiyskoy Federatsii v 1992-2008 gg.," available at http://www.gks.ru.

[4] Yuri Yudanov, "Gollandskiy kapital v rossiyskoy ekonomike," Contemporary Europe, vol. 6 (2005), no. 1, pp. 60-70.

Russian IFDI.[1] Large countries are among the leaders, but some smaller countries also have significant investment volumes and a diversified structure of FDI in Russia (e.g. Finland, Sweden).[2] In the case of some small European countries, a large IFDI stock figure can be explained by one large deal. For instance, Czech FDI stock in Russia doubled when PPF (Prvni Privatizacni Fond) acquired 50% of the Russian retail network Eldorado in 2009.

Some Commonwealth of Independent States (CIS) countries are also noticeable sources of Russian IFDI because their medium-size investors exploit advantages of proximity, common language, business contacts from the Soviet era and so on. Asian investors have rapidly expanded their FDI activities in Russia in recent years. In contrast, United States FDI stock in Russia is constantly decreasing, though several U.S. companies are major investors (annex table 5).

The corporate players

Foreign MNEs play a key role in only a few Russian industries (e.g. beer, tobacco). TNK BP is the only large oil and gas corporation where foreign control has reached 50% (annex table 5). Russian citizens own all the leading metals companies, although some of these firms are registered abroad. Foreign banks are rapidly expanding in Russia (annex table 5a) but they control less than a third of the financial sector. Only three firms received significant FDI among more than 20 large electricity companies (annex table 6).

One of the main reasons for the relatively low foreign share in Russian companies is the history of privatization in Russia, beginning in the 1990s. While many Central European countries invited foreign MNEs to privatize their companies and replenish their national budgets during the difficult period of post-communist transformation, the Russian political elite chose another way of privatization in the 1990s. Many large Soviet enterprises were sold for symbolic prices or even stolen by a small number of Russian citizens. As a result, several Russian billionaires with questionable property rights appeared. The Russian state did not receive any money for attempting to solve the acute social and economic problems of the Soviet heritage.

In general, foreign investment has always accounted for less than 10% of gross fixed capital formation in Russia. Their highest share was 8.2% in 2005, then it decreased to 6% in 2009. The share of companies under joint Russian and foreign control fell from 11.2% in 2005 to 7.2% in 2009. More than 90% of current investments in fixed capital are thus under full Russian control. Companies with foreign participation employed only 4.9% of the Russian workforce in 2008.[3] This is a rather low share for a transition country, especially in comparison with Hungary or the Czech Republic.

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[1] Vladislav Zagashvili, "Otnosheniya Rossii s liderami mirovoy ekonomiki," Mirovaya Ekonomika i Mezhdunarodniye Otnosheniya, vol. 53 (2009), no. 8, pp. 3-11.

[2] Yelena Burnayeva, "Finlyandiya: tendentsii zarubezhnogo investirovaniya," Mirovaya Ekonomika i Mezhdunarodniye Otnosheniya, vol. 51 (2007), no. 7, pp. 30-39; Alexey Volkov, "Shvetsiya: investitsionnaya model' v deystvii," Contemporary Europe, vol. 6 (2005), no. 3, pp. 54-62.

[3] Rosstat, Russia in Figures 2010 (Moscow: Federal State Statistics Service, 2010), pp. 28, 162, 191, available at: http://www.gks.ru.

Nevertheless, MNEs have a great influence in the development of some Russian industries. Although the share of EU trading companies is still modest, these determine the competitive character of the Russian retail sector.[1] Another example is telecommunications, where foreign minority investors help to modernize the sector through technology transfer. Similarly, impressive prospects for Russian motorists have been opened by foreign producers of motor vehicles, who have introduced relatively cheap but comfortable cars to the Russian market, while former Soviet giants continue to dominate the market for cars of low quality. Economic modernization in Russia depends to some extent on medium-size investors too. For example, Knauf, KBE and other German firms have begun to promote new products in construction,[2] while Slovenia's Krka and Hungary's Gedeon Richter have become pioneers of IFDI in the Russian pharmaceuticals industry.[3]

Effects of the current global crisis

Russia experienced the worst slump among G-20 and especially BRIC countries during the global economic and financial crisis. For instance, while Russia's GDP fell by 7.9% year-on-year in real terms in 2009, China's GDP rose by 8.7% and India's by 5.7%. Many of the largest Russian private companies demonstrated that they could not survive without state support. Thus, the global crisis revealed that the 2000s were a "lost decade" for Russian economic modernization. As a result, a sense of uncertainty has grown throughout Russia's economy. The economic impact of the crisis – especially the decline of consumer demand, which had previously stimulated IFDI in import substitution industries – caused cancellations or postponements of many previously announced greenfield projects in Russia.

As a result, major IFDI flows in 2009 were mainly connected with the realization of investment plans arranged in 2007 and 2008 (annex table 6 and 7) or earlier. The best examples are Volkswagen's industrial project in Kaluga, which began in 2006, and Korean Lotte & Resorts's office and hotel project in Moscow which started in 2002. New IFDI projects have begun recently, nevertheless, and their number increased in 2010. Balance of payments statistics show that FDI inflows grew in 2009, although it was still well below its 2008 peak.

The policy scene

According to official statements, Russia tries to liberalize its FDI climate and supports economic modernization with the help of foreign investment. In practice, however, many old problems of the Russian investment climate have still not been solved. One of the

[1] Vadim Radaev, "Evolutsiya organizatsionnih form v rossiyskoy roznichnoy torgovle," Voprosy Ekonomiki, vol. 78 (2006), no. 10, pp. 41-62.
[2] Alexey Kuznetsov, Mirohozyastvenniye Svyazi Germanskih Kompaniy (Moscow: IMEMO, 2004), pp. 111-112, available at: http://www.imemo.ru
[3] Alexey Kuznetsov and Anna Chetverikova, "Vostochnoyevropeyskiye strani ES: kuda idut ih investitsii," Contemporary Europe, vol. 8 (2007), no. 4, pp. 70-84.

main problems, the high level of corruption, has become even worse. Russia ranked in 154th place among 180 countries in the Corruption Perception Index in 2010, down from 149th place in 2009. There is also a problem of investment image, as evidenced by the fact that MNEs with Russian affiliates are more optimistic than potential foreign investors.

Some ambiguous investment cases can be seen from opposite points of view. For instance, foreign partners of Yukos knew about the high level of corruption and the political power of the oligarchs in Russia. Therefore, foreign investors were very surprised that the richest man in Russia could be punished for his crimes. However, these investors lost their money in Yukos and blamed the Russian investment climate. Another example is connected with ecological damage allegedly caused by foreign oil MNEs in Sakhalin. It may well be that many oil companies underestimate ecological risks, but in the case of the Sakhalin-2 project, their "punishment" was very specific because foreign investors were forced to sell half of their shares to Gazprom.

The modern Russian IFDI federal law was passed in 1999.[1] In general, it can be characterized as a typical liberal FDI law. For example, it announces equal rights for Russian and foreign investors (article 4), although some exceptions are possible that are more favorable to IFDI or else constitute barriers to foreign investment. The Russian investment climate is also determined by other federal laws and various decisions of the Russian Federal Government. For example, changes to customs rules have been adopted in an attempt to stimulate IFDI in motor vehicle production.[2] IFDI in the banking and insurance sectors is regulated by special laws that introduce rules that apply to both Russian and foreign financial institutions in non-discriminatory fashion. However, barriers for foreign investors can be introduced by special laws or governmental decisions. For example, the federal law on banks and banking activities (articles 17 and 18) demands additional reports and documents from foreign investors, and allows special barriers in certain circumstances (e.g. against banks from countries that introduce such barriers against Russian banks).[3]

The 2005 federal law allowed several types of special economic zone (SEZ).[4] Locations of SEZs were determined by competition, though not according to transparent criteria. Industrial zones were founded in Elabuga (Tatarstan) and Lipetsk, while innovative zones appeared in Dubna, Zelenograd, Strelna and Tomsk.[5] These SEZs have already attracted

[1] Federal Law on foreign investments in the Russian Federation, no. 160-FZ, 9.07.1999 (in edition of 2008). The Russian text is available at: http://www.consultant.ru. The previous law was introduced in 1991, i.e. at the tail end of the Soviet period.
[2] Decision of the Russian Federal Government on changes to the custom tariff of the Russian Federation in the field of parts and accessories of vehicles for car assembly plants, no. 166, 29.03.2005. The Russian text is available at: http://www.consultant.ru.
[3] Federal Law on banks and banking activities, no. 395-1, 2.12.1990 (in edition of 2010). The Russian text is available at: http://www.consultant.ru.
[4] Federal Law on special economic zones, no. 116-FZ, 22.07.2005 (in edition of 2006). The Russian text is available at: http://www.consultant.ru.
[5] Dubna is a scientific town in the Moscow Region. Zelenograd is a district of Moscow. Strelna is a district of St. Petersburg. Tomsk is a famous Siberian university town.

more than 100 foreign investors. Amendments in 2006 to the same law established tourist zones (seven places appeared in 2007 while Russky Island received the status in 2010) and transport zones (Ulyanovsk airport and the seaport of Sovietskaya Gavan' in 2009). The enclave of the Kaliningrad Region remains the largest SEZ by a separate law. Recently a high-tech area was also established in Skolkovo, near Moscow (although many Russian experts are very skeptical about its prospects). Some Russian regions have introduced their own additional IFDI incentives.

Russia has recently diversified the geography of its double taxation treaties (DTTs) and BITs that in the past were mostly with European countries. Russia has DTTs in effect with 76 countries. Recent DTTs were ratified with Algeria, Mexico and Thailand (in 2008) and with Botswana, Brazil, Venezuela, and Singapore (in 2009). Russia has BITs with approximately 60 countries. In 2009, BITs were ratified with China (the second such treaty), Indonesia, Jordan, Qatar, and Venezuela. In the summer of 2010, BITs were ratified with Belarus, Kazakhstan, Kyrgyztan, Tajikistan, and Turkmenistan (as a result, Azerbaijan became the only CIS country without such a BIT).[1]

In 2008, some limitations on IFDI were introduced in "strategic" branches (including nuclear power, weapons and aircraft production, and mass media) by a special federal law.[2] Such barriers are typical for many countries, even among OECD members. However, there are problems in the Russian case with the range of "strategic" branches. For example, large foreign investors in the Russian oil and gas industry are worried about so-called mineral resources specified as having "federal importance". This law does not determine the criteria by which oil and gas fields are deemed to be of federal importance (however, in 2009, this gap was eliminated by an amendment to the federal law on subsoil).[3] Moreover, the law can negatively influence IFDI in some sectors outside "strategic" branches (e.g. in the banking sector because of limitations on cryptography). There is also a special federal law on production sharing agreements.[4] Yet only a few such agreements were signed in the 1990s, as their experience was considered to have been unsuccessful by many Russian experts and politicians.

To complicate matters further, the main problems of the Russian investment climate are not these deficiencies in laws and governmental decisions but rather implementation inadequacies arising from excessive bureaucracy, artificial barriers of customs and migration offices, unequal access to infrastructure, and weak property rights. Officials admit that these problems explain the bad rankings of Russia in various international

[1] UNCTAD, World Investment Report 2010: Investing in a Low-Carbon Economy (New York and Geneva: United Nations, 2010), pp. 177-181; database of Russian laws, available at: http://www.consultant.ru.
[2] Federal Law on foreign investment procedures in companies with strategic importance to the state defence and security, no. 57-FZ, 29.04.2008. Russian text is available at: http://www.consultant.ru
[3] Federal Law on subsoil, no. 2395-1, 21.02.1992 (in edition of 2009). Russian text is available at: http://www.consultant.ru.
[4] Federal Law on production sharing agreement, no. 225-FZ, 30.12.1995. The Russian text is available at: http://www.consultant.ru.

surveys.[1] For example, Russia ranked in 63rd place among 139 countries in the Global Competitiveness Index 2010-2011.[2] In the 2010 Index of Economic Freedom, Russia ranked 143rd among 179 countries.[3] Despite some methodological problems inherent in these rankings, the general problem is clear.

Nevertheless, Russian officials have taken some steps toward good governance. One such example is the prime minister's recent idea of introducing an informal post of investment ombudsperson in addition to annual sessions of the Foreign Investment Advisory Council, with its regular direct contacts between investors and leading officials. One caveat is that these can only help some of the largest foreign investors. The lack of political competition does not allow the country to overcome the low level of its officials' competence, which leads to the promulgation of imperfect laws and regulations. Moreover, the censorship of influential media and the lack of independent courts suppress activities of civil society in the struggle against corruption. Despite their declarations, both Russian and foreign large investors usually solve their problems with the bureaucracy in informal ways. As a result, the burden of corruption imposed on other investors has become more severe.

New developments in the regions

There are 83 regions in Russia, but 72% of the IFDI stock is concentrated in five regions (annex table 8). The predominance of Moscow is explained by its status as a political, financial, transport, industrial and consumer center. The city and its surroundings in the Moscow region often become the starting point of spatial FDI diffusion for foreign multinationals.[4] St. Petersburg plays a similar role for Finnish and Swedish investors; the city is also an important market for companies from other countries. Sakhalin Island attracts large FDI in the oil and gas industry. Lipetsk is among the top locations mainly due to round-tripping FDI in the metals industry via Cyprus (2004), although there are also some Italian and other European projects there.

Some new FDI locations have become important. For example, a modern industrial cluster appeared in the Kaluga region in 2006-2010 with Volkswagen's and several other greenfield projects (annex table 7). The Arkhangelsk region has attracted much FDI in the oil and gas industry from Total while the Republic of Komi is the center of Timan Oil & Gas's activities. Some foreign companies have tried to invest in all large cities, including the main centers in the Urals, Siberia and the South (trading and beer companies are good examples).

Conclusions and Outlook

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[1] See, for example: Ministry of Economic Development of the Russian Federation, Investitsionniy Klimat Rossiykoy Federatsii (Moscow: Ministry of Economic Development of the Russian Federation, February 2010), available at: http://www.economy.gov.ru.

[2] GCI Global Competitiveness Index 2010-2011, available at: http://gcr.weforum.org/gcr2010.

[3] 2010 Index of Economic Freedom, available at: http://www.heritage.org/index/ranking.aspx.

[4] Olga Kuznetsova, ed., Investitsionniye Strategii Krupnogo Biznesa i Ekonomika Regionov (Moscow: URSS, 2007), pp. 311-349.

The post-crisis recovery of IFDI activities has already begun in Russia, although the growth of IFDI flows appears to be weak in 2010. Many investors will continue their expansion, especially in retail trade, banks and some manufacturing industries. Some large foreign MNEs are likely to invest in Russia for the first time (at least, some of their top managers regularly announce their post-crisis plans in Russia). However, problems in the Russian investment climate will probably not allow the country to attract many medium-size foreign companies, who prefer to invest in other emerging markets. As a result, the Russian President's ambitious aim of modernizing the economy with IFDI will be difficult to achieve.

Additional readings

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Useful websites

For statistical material about Russia, see Federal State Statistics Service (Rosstat), available at: http://www.gks.ru.

For texts of Russian laws, see ConsultantPlus, available at: http://www.consultant.ru.

Statistical annex

Annex table 1. Russia: inward FDI stock, 2000-2009 (US$ billion)

Economy		2000	2005	2007	2008	2009	*2009 IFDI stock per capita, US$*
Russia [a]	*Data of Bank of Russia*	32	180	491	216	383	*2,700*
	Data of Rosstat	16	50	103	122	109	*770*
Memorandum: Comparator economies							
Brazil		122	181	310	288	401	*2,090*
China (without Hong Kong)		193	272	327	378	473	*360*
Hungary		23	62	199	252	249	*24,850*
India		16	43	106	123	164	*140*
Kazakhstan		10	26	45	60	72	*4,660*
Poland		34	91	178	163	183	*4,800*
Ukraine		4	17	38	47	52	*1,130*

Sources: Bank of Russia, *International Investment Position of Russia for 2000-2009*, available at: http://www.cbr.ru/eng/statistics; Rosstat database, available at: http://www.gks.ru. For comparator economies: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi; *UNCTAD Handbook of Statistics*, 2009, table 8.4.1.

[a] There are two official sources for FDI statistics in Russia. The Bank of Russia estimates FDI figures by using balance of payments data. As a result, it includes all forms of FDI. Its statistics are the source for UNCTAD's FDI database (though UNCTAD usually receives preliminary data). However, the Bank of Russia's data lack detailed information on the regional and sectoral structure of FDI. The Federal State Statistics Service (Rosstat) collects data from companies and publishes detailed information (since 2005). Its data are solid for inward FDI and less useful for outward FDI because the levels of transparency of Western and Russian multinationals are different.

Annex table 2. Russia: inward FDI flows, 2000-2009 (US$ billion)

Economy		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Russia	*Data of Bank of Russia*	2.7	2.7	3.5	8.0	15.4	12.9	29.7	55.1	75.5	38.7
	Data of Rosstat	4.4	4.0	4.0	6.8	9.4	13.1	13.7	27.8	27.0	15.9
Memorandum: Comparator economies											
Brazil		32.8	22.5	16.6	10.1	18.1	15.1	18.8	34.6	45.1	25.9
China (without Hong Kong)		40.7	46.9	52.7	53.5	60.6	72.4	72.7	83.5	108.3	95.0
India		3.6	5.5	5.6	4.3	5.8	7.6	20.3	25.0	40.4	34.6
Hungary		2.8	3.9	3.0	2.1	4.5	7.7	19.8	71.5	62.0	-5.6
Kazakhstan		1.3	2.8	2.6	2.1	4.1	2.0	6.4	11.1	15.8	12.6
Poland		9.4	5.7	4.1	4.6	12.9	10.3	19.6	23.6	14.7	11.4
Ukraine		0.6	0.8	0.7	1.4	1.7	7.8	5.6	9.9	10.9	4.8

Sources: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi; Bank of Russia, *Balance of Payments of the Russian Federation*, available at: http://www.cbr.ru/eng/statistics; Rosstat database, available at: http://www.gks.ru.

Annex table 3. Russia: distribution of inward FDI stock, by economic sector and industry, 2005-2009 (US$ million)

Sector/industry	2005 [a]		2009	
	Total	Without three main round-tripping FDI economies [b]	Total	Without three main round-tripping FDI economies [b]
All sectors/industries	49,751	33,986	109,022	68,504
Primary	13,392	12,229	26,123	21,153
Agriculture, forestry, and fishing	520	354	1,343	948
Mining and quarrying	12,872	11,875	24,780	20,207
Extraction of crude petroleum and gas	12,200	11,460	22,567	19,212
Secondary	20,217	12,068	42,811	25,926
Manufacturing	19,405	11,389	37,095	22,043
Manufacture of food products and beverages	3,164	2,824	4,782	3,688
Manufacture of wood and of products of wood and cork, except furniture	959	682	1,905	1,476
Manufacture of paper and paper products	499	401	1,234	1,011
Manufacture of refined petroleum products	3,589	2,939	4,365	4,331
Manufacture of chemicals, chemical and pharmaceutical products	607	587	1,847	1,574
Manufacture of rubber and plastics products	436	391	1,041	836
Manufacture of other non-metallic mineral products	1,222	1,066	3,340	2,422
Manufacture of basic metals and metal products, except machinery and equipment	6,601	313	12,886	1,464
Manufacture of machinery and equipment	378	369	1,493	1,367
Manufacture of electrical equipment and electronic products	255	228	948	849
Manufacture of transport equipment	753	735	1,992	1,899
Electricity, gas, steam and water supply	255	218	3,038	2,466
Construction	557	461	2,678	1,417
Services	16,142	9,689	40,088	21,425
Wholesale and retail trade and repairing	3,274	2,871	11,311	7,498
Wholesale trade, except of motor vehicles and motorcycles	2,591	2,222	7,794	4,550
Retail trade and repairing, except of motor vehicles and motorcycles	536	521	2,802	2,305
Transportation and communication	3,625	2,908	4,270	2,636
Transport via pipelines	2,290	1,938	1,515	1,179
Telecommunication	864	698	808	284
Financial activities	3,448	796	5,674	2,924
Real estate activities	1,406	856	8,066	4,047

Source: Rosstat database, available at: http://www.gks.ru.

[a] Rosstat began to publish data on sectoral distribution of inward FDI stock only in 2005.

[b] Almost all IFDI from Cyprus, the British Virgin Islands and Bahamas are round-tripping investments of Russian companies. The share of these destinations was 32% of the total inward FDI stock in 2005 and 37% in 2009. There are also some smaller round-tripping FDI destinations (e.g. Gibraltar, US Virgin Islands).

Annex table 4. Russia: geographical distribution of inward FDI stock, 2005-2009
(US$ million)

Region/economy	2005	2007	2009	Rank in 2009
World	49,751	103,060	109,022	n.a
Developed economies	46,038	95,134	94,859	n.a.
Europe	41,334	90,828	90,542	n.a.
European Union	39,428	88,526	87,809	n.a.
Austria	497	1,592	2,855	7
Belgium	377	633	815	19
Cyprus	13,915	35,425	33,547	1
Czech Republic	21	84	198	32
Denmark	164	468	598	20
Estonia	38	126	95	42
Finland	627	1,208	1,909	11
France	905	1,554	2,182	9
Germany	2,714	4,494	7,834	3
Hungary	82	136	139	36
Ireland	265	428	415	24
Italy	333	818	1,054	15
Latvia	29	103	49	50
Lithuania	56	161	158	34
Luxembourg	451	735	1,184	13
Netherlands	16,125	35,254	29,065	2
Poland	155	331	497	23
Slovenia	57	64	57	49
Spain	106	818	403	25
Sweden	401	545	1,033	16
United Kingdom	2,044	3,438	3,625	5
Gibraltar	220	251	150	35
Liechtenstein	117	273	348	27
Norway	417	112	126	38
Switzerland	1,128	1,620	2,072	10
North America	4,417	3,864	3,332	n.a.
Canada	56	229	368	26
United States	4,361	3,635	2,964	6
Other developed economies	287	442	985	n.a.
Israel	83	73	83	43
Japan	175	322	875	18
Developing economies	3,526	7,315	13,420	n.a.
Africa	214	551	620	n.a.
Seychelles	167	490	515	22
Asia and Oceania	752	2,145	4,989	n.a.
China	149	415	938	17
Hong Kong (China)	8	156	114	40
India	15	593	1,327	12
Iran	1	223	177	33
Republic of Korea	140	373	1,129	14
Malaysia	56	79	63	47
Turkey	253	401	593	21
Vietnam	29	29	228	30

Annex table 4. Continued

Region/economy	2005	2007	2009	Place in 2009
Latin America and Caribbean	2,560	4,619	7,811	n.a.
Bahamas	649	858	2,244	8
Belize	136	179	238	29
British Virgin Islands	1,200	2,882	4,727	4
Dominican Republic	2	15	118	39
Panama	179	223	213	31
Saint Kitts and Nevis	120	135	107	41
United States Virgin Islands	52	58	70	46
Transition economies	187	611	743	n.a.
Serbia	14	45	70	45
CIS	168	554	636	n.a.
Azerbaijan	57	181	136	37
Belarus	8	30	60	48
Kazakhstan	37	227	322	28
Ukraine	39	86	78	44

Source: Rosstat database, available at: http://www.gks.ru.

Annex table 5. Russia: principal foreign non-financial affiliates (with at least 50% foreign held shares), ranked by turnover [a], 2008 (US$ million)

Rank	Name	Industry	Country	Turnover
1	BP (*TNK-BP Holding*)	Petroleum [b]	United Kingdom	30,723
2	Ford Motor	Motor vehicles	United States	5,953
3	Auchan	Trade	France	5,151
4	Metro Cash and Carry	Trade	Germany	4,470
5	PPF (*Eldorado*)	Trade	Czech Republic	4,200
6	Carlsberg (*Baltika*)	Beverages	Denmark	3,720
7	JTI	Tobacco	Japan	2,892
8	Philip Morris	Tobacco	United States	2,847
9	Procter & Gamble	Chemicals	United States	2,664
10	Nestlé	Food	Switzerland	1,909
11	Enel (*OGK-5*)	Electricity	Italy	1,722
12	Anheuser-Busch InBev (*SUN InBev*)	Beverages	Belgium	1,594
13	Coca-Cola HBC	Beverages	Greece	1,531
14	E.On (*OGK-4*)	Electricity	Germany	1,529
15	Ilim	Wood and paper	Switzerland	1,526
16	Mars	Food	United States	1,505
17	PepsiCo	Beverages	United States	1,488
18	Renault (*Avtoframos*)	Motor vehicles	France	1,406
19	IKEA	Trade	Sweden	1,247
20	Volkswagen	Motor vehicles	Germany	1,092

Source: Expert-400, *Expert,* 2009, no. 38 (5 October), http://www.raexpert.ru/ratings/expert400/2009.

[a] In many cases the data on assets of Russian affiliates of foreign multinationals are not available.

[b] Shell (Netherlands) and Total (France) are the main foreign investors in the Russian oil industry but they own only minor stakes in Russian petroleum projects.

Annex table 5a. Russia: principal banks under foreign control, ranked by net assets, 2009 (US$ million)

Place in Russia	Bank	Source economy	Net assets
8	UniCredit	Italy	16,660
9	Raiffeisen	Austria	15,540
11	Rosbank (Société Générale)	France	14,690
19	Citibank	United States	6,270
21	Nordea Bank	Sweden	5,080
24	Bank Société Générale Vostok	France	4,760
40	OTP Bank	Hungary	2,950
43	ING Bank (Eurasia)	Netherlands	2,680
44	Deutsche Bank	Germany	2,590
46	Rusfinans Bank (Société Générale)	France	2,490

Source: Krupneyshiye banki Rossii. Reyting po aktivam-netto na 1 yanvarya 2010 goda, http://www.allbanks.ru.

Annex table 6. Russia: main M & A deals, by inward investing firm, 2007-2009

Year	Acquiring company	Target company	Target industry	Source economy	Shares acquired (%)	Estimated/ announced transaction value (US$ million)
2007	E.On	OGK-4	Electricity	Germany	70.4 [a]	5,836
2007	Eni	Gazpromneft	Oil and gas	Italy	20.0	5,835
2009	E.On	Severneftegazprom	Oil and gas	Germany	25.0	3,959
2008	Fortum	TGK-10	Electricity	Finland	92.9 [a]	3,892
2007	ENEL	OGK-5	Electricity	Netherlands [b]	32.2 [a]	1,951
2007	Société Générale	Rosbank	Banks	France	30.0	1,700
2008	ENEL	OGK-5	Electricity	Netherlands [b]	22.7	1,448
2009	Wandle Holdings	Polyus Zoloto	Gold ores	Cyprus [c]	29.6	1,249
2008	Renault	Avtovaz	Motor vehicles	France	25.0	1,166
2008	AXA	RESO-Garantiya	Insurance	France	36.7	1,165
2007	KBC Groep	Absolut Bank	Banks	Belgium	92.5	1,030
2007	Sibir Energy	MOGC	Oil and gas	United Kingdom [c]	69.0	875
2007	Wintershall	Severneftegazprom	Oil and gas	Germany	25.0	857
2007	Allianz	ROSNO	Insurance	Germany	49.2	750
2008	Barclays	Expobank	Banks	United Kingdom	100.0	745
2008	Arcelor Mittal	Berezovskaya Mine	Coal mining	Luxembourg	97.9	720
2007	International Paper	Ilim Pulp	Pulp and paper	United States	50.0	620
2007	Urals Energy	Taas-Yuriakh Neftegazodobycha	Oil and gas	Cyprus [c]	35.3	590
2008	Bank of Cyprus	Uniastrum Bank	Banks	Cyprus	80.0	576
2007	Enka Insaat ve Sanayi	Ramenka	Retail trade	Turkey [d]	50.0	544

Source: Thomson ONE Banker, Thomson Reuters.

[a] The acquisition was made in two separate deals.
[b] ENEL is the largest Italian energy company but it makes its FDI in Russia via the Netherlands.
[c] This is a case of round-tripping Russian investments.
[d] The change of foreign investors took place without new inward FDI.

Annex table 7. Russia: main successful greenfield projects [a], by inward investing firm, 2007-2009

Year	Investing company	Target region of Russia	Sector	Home economy	Shares owned (%)	Estimated investment value (US$ million)
2007	PSA Peugeot Citroën	Kaluga region	Motor vehicles	France	70	620
	Mitsubishi			Japan	30	
2007	Timan Oil & Gas	Republic of Komi	Oil and gas	United Kingdom	100	600
2008	Ferrero	Vladimir region	Food products	Italy	100	270
2008	SABMiller	Ulyanovsk region	Beverages	South Africa	100	220
2007	Samsung Electronics	Kaluga region	Electronics	Korea, Rep. of	100	200
2007	BBH (Baltika)	Novosibirsk region	Beverages	Denmark	100	180
2007	Coca-Cola HBC	Rostov region	Beverages	Greece	100	160
2007	IKEA	Omsk region	Retail trade, real estate	Sweden	100	150
2007	Volvo Trucks	Kaluga region	Motor vehicles	Sweden	100	140
2007	Mayer-Melnhof Holz	Leningrad region	Wood products, biofuels	Austria	100	130

Source: Author's estimates based on Rosstat's and companies' information.

[a] *"Successful project" means that its production has already started (earlier than in August 2010). The largest announced but still not realized greenfield project of the period is Shtockman Development (Total – 25%, StatoilHydro – 24%, Gazprom – 51%). Its investments can exceed US$ 15 billion.*

Annex table 8. Russia: inward FDI stock and flows in various regions, 2009

(US$ million)

Region	Total stock	Flows								
		Total	Cyprus, BVI, Bahamas [a]	Germany	Netherlands	France	Finland	UK	Belgium	Korea, Rep. of
Russia, total	109,022	15,906	5,055	2,313	1,441	758	676	542	494	490
Central Federal District	56,641	9,248	2,864	1,776	1,269	310	135	139	417	396
Moscow	30,490	5,657	2,080	1,109	1,052	148	20	102	2	28
Lipetsk region	10,970	58	2	1	28	n.a.	n.a.	n.a.	n.a.	n.a.
Moscow region	9,827	2,138	656	377	67	141	43	28	413[b]	1
Kaluga region	1,418	530	5	19	104	n.a.	19	n.a.	n.a.	356
Vladimir region	953	221	0	126	1	6	n.a.	n.a.	n.a.	n.a.
Tula region	625	228	8	103	16	n.a.	n.a.	4	n.a.	n.a.
North-West Federal District	14,197	2,530	155	209	105	420	530	180	73	70
St. Petersburg	9,287	1,199	46	170	11	23	393	10	73	70
Leningrad region	2,107	335	2	18	22	n.a.	90	n.a.	n.a.	n.a.
Rep. of Komi	866	213	35	n.a.	n.a.	n.a.	n.a.	143	n.a.	n.a.
Novgorod region	826	160	2	16	n.a.	n.a.	37	26	n.a.	n.a.
Arkhangelsk reg.	248	455	43	1	n.a.	395	n.a.	n.a.	n.a.	n.a.
South Federal District	4,122	460	224	119	4	5	0	4	n.a.	n.a.
Krasnodar krai	2,621	235	63	105	3	5	n.a.	2	n.a.	n.a.
Rostov region	758	132	81	11	0	n.a.	0	1	n.a.	n.a.
Volga Federal District	3,966	936	389	165	28	16	0	1	n.a.	9
Nizhny Novgorod region	911	222	8	143	20	0	0	n.a.	n.a.	n.a.
Samara region	638	48	12	1	4	0	n.a.	0	n.a.	n.a.
Ural Federal District	5,553	233	122	2	23	5	15	15	n.a.	n.a.
Tumen region	2,326	94	67	0	0	n.a.	n.a.	14	n.a.	n.a.
Chelyabinsk reg.	1,886	22	19	n.a.	0	n.a.	n.a.	n.a.	n.a.	n.a.
Sverdlovsk reg.	1,275	88	35	1	2	-	15	1	n.a.	n.a.
Siberian Federal District	4,171	999	451	42	3	0	0	37	0	0
Tomsk region	1,301	192	89	1	n.a.	n.a.	n.a.	0	n.a.	n.a.
Irkutsk region	580	246	1	37	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Far East Federal District	20,370	1,500	851	0	9	n.a.	n.a.	167	n.a.	20
Sakhalin region	18,306	1,187	749	n.a.	n.a.	n.a.	n.a.	17	n.a.	12
Primorsky krai	733	32	3	0	n.a.	n.a.	n.a.	n.a.	n.a.	3

Source: Rosstat database, http://www.gks.ru.

[a] In 2009 FDI inflows from Cyprus were US$ 3,704 million, inflows from the British Virgin Islands (BVI) were US$ 703 million and inflows from the Bahamas were US$ 649 million. These FDI are mostly round-tripping.

[b] This figure shows all FDI of InBev in Russia (its headquarters is in Klin of the Moscow region).

Russia: Inward FDI and its policy context, 2012

*Alexey Kuznetsov**

Russia is potentially an attractive host economy for foreign direct investment (FDI), mainly due to its large market and rich natural resources. The Government has, however, been unable to make the radical changes needed in the country's investment climate for attracting FDI on a scale and to a range of industries in line with Russia's potential. Nevertheless, oil and gas, power generation and motor vehicles industries, as well as wholesale and retail trade and several other industries have recently received new and significant FDI. After a steep decline in 2008, inward FDI (IFDI) stock recovered, to reach US$ 491 billion in 2010, although there was a moderate fall again in 2011. IFDI flows fell considerably in 2009 but rose to US$ 43 billion in 2010 and US$ 53 billion in 2011. In 2008–2010, the largest number of significant greenfield projects were in power generation. Large mergers and acquisitions (M&As) took place in various industries, but the size of the largest deals was usually smaller in 2010 than in 2008 and 2009. High levels of corruption, lack of competition and a distorted dialogue between the state, business and society are main barriers to the rapid growth of inward FDI. The recent global financial and economic crisis has revealed weaknesses of the Russian model of development in the 2000s. It is doubtful whether the efforts currently under way by the Russian Government to "repair" the existing model without political and economic reforms will lead toward a major improvement of the investment climate as only slight changes are being made (e. g., the improvement of the Russian migration regime and the development of special economic zones). However, the federal elections in 2012 could lead to more efficient steps, although it is difficult to predict the scale of probable positive shifts in the investment climate.

Trends and developments

Country-level developments

Russia's inward FDI (IFDI) stock had risen noticeably during 2000–2007, but declined drastically in 2008 according to Bank of Russia data (mainly because of the devaluation of foreign assets). However, the stock had recovered by 2010, to reach US$ 493 billion, although there was a moderate decline (to US$ 457 billion) in 2011 (annex table 1). Russia ranked 15th in the world in terms of IFDI stock by the end of 2010.[1] However, Russia was not the leader in IFDI, even among emerging markets. The gap between

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[1] UNCTAD, *World Investment Report 2011: Non-Equity Modes of International Production and Development* (New York and Geneva: United Nations, 2011), available at: http://www.unctad.org, web table 3.

Russia and most successful post-communist economies in terms of IFDI stock per capita remained rather significant. Moreover, Russia's IFDI stock growth in 2009-2010 was only enough to recover to the level of 2007, in comparison with the dynamic growth of the stock during the recent global financial and economic crisis in China, India and Kazakhstan (annex table 1).

Nevertheless, Russia attracts many new greenfield projects and merger and acquisition (M&A) deals by foreign multinational enterprises (MNEs) every year. Even during the recent crisis, FDI inflows to Russia radically exceeded such flows at the beginning of the 2000s and, by 2011, rose to nearly US$ 53 billion (annex table 2). At the same time, structural changes in favor of FDI in manufacturing and services took place. Despite the country's rich natural resources, inward FDI in Russian manufacturing and services grew much faster during 2005-2010 than in mining and quarrying (annex table 3). However, the extraction of crude petroleum and gas is still one of the most popular industries for FDI in Russia, although legal and political barriers limit the participation of foreign MNEs in those industries.

Within manufacturing, basic metals and metal products were the largest host industries in terms of FDI stock in 2010 (annex table 3). However, these investments often represent round-tripping FDI undertaken by Russian investors.[1] For example, the second largest Russian steel company, Evraz, is owned by offshore companies in which Russian investors (Roman Abramovich, Alexander Abramov, Alexander Frolov) have key interests. The fourth largest Russian steel company, NLMK, is also controlled by foreign companies, mainly by Fletcher Group Holding from Cyprus (85.5% of NLMK), which belonged to Russian citizen Vladimir Lisin.[2]

Apart from metal industries, in manufacturing the most important FDI-recipient industries include food and beverages, chemicals and pharmaceuticals and transport equipment. Major service-industry recipients include wholesale and retail trade, real estate and financial activities (annex table 3). In these cases, large markets are usually an important driver for inward FDI in Russia. Market-seeking FDI motives usually outweigh the disadvantages of high-level corruption and lack of competition. For example, the eighth annual survey of German companies in Russia showed that chances for a growth of returns and market possibilities were the main drivers for German investors in Russia in 2010. The survey also showed that 64% of enterprises surveyed saw positive shifts in Russia's business climate overall, but the percentage supporting the call for reforms, according to the survey, was 94% in fields such as bureaucracy and corruption. At the same time, lower taxes in Russia were supported by only 66 %.[3]

[1] Rosstat database, available at: http://www.gks.ru.
[2] Evraz. Annual Report and Accounts 2010, available at: http://www.evraz.com; NLMK, Annual Report 2010, available at: http://www.nlmk.com.
[3] Ost-Ausschuss der deutschen Wirtschaft, *Geschäftsklima Russland 2010: 8.Umfrage des Ost-Ausschusses der Deutschen Wirtschaft und der Deutsch-Russischen Auslandshandelskammer*, 2010, available at: http://russland.ahk.de.

According to data from the Bank of Russia, Bermuda, the British Virgin Islands and Cyprus were the three largest sources of FDI in Russia as of 2010 (annex table 4). This reflects the importance of round-tripping Russian investments via tax-haven destinations. MNEs from Germany, Sweden, France, and other EU member states also have significant FDI in Russia, while the role of FDI from the United States is rather modest. Meanwhile, companies from China, Republic of Korea, Japan, and other Asian countries are expanding rapidly in Russia.

The corporate players

Foreign companies do not dominate the Russian economy, as their foreign affiliates are typically smaller than Russian firms. For example, the turnover of the three largest non-financial companies under Russian control in 2010 was six times higher than the turnover of three largest companies in the economy under foreign control.[1] Moreover, the shares of foreign affiliates and of companies jointly held by Russian and foreign owners in Russia's investment stock have decreased (from 8.2% and 11.2%, respectively, in 2005, to 5.3% and 7.6% in 2010).[2] Only some specific branches of industry (e.g., beer and tobacco) are exceptions in this respect. At the same time, some large foreign affiliates are present in various Russian industries (annex table 5).

Recently, the relative importance of MNEs has begun to go up in several key industries. The best examples are in the production of motor vehicles and power generation, where foreign companies try to modernize the whole industries. Famous automobile MNEs continue to build and enlarge new plants in St. Petersburg, Kaluga and other cities. European electricity firms have finished the first steps of modernizing Russian electric power stations to assure sustained efficiency. When entering Russia, some investors in these and other industries have preferred acquisitions of local companies (annex table 6), while others have undertaken greenfield FDI projects; some of these projects have already been completed (annex table 7). Apart from large projects in a few industries, the industrial diversification of greenfield projects is higher in the "second echelon" of FDI projects – that is, those involving only US$ 10–50 million of FDI – in Russian plants in various industries, as well as trade and other service centers in Russia.

Effects of the recent global crises

Although the global financial and economic crisis of 2008-2009 had a strong impact on inward FDI in Russia, many of the postponed greenfield FDI projects were finished in 2010-2011. Various new FDI projects have been started in different Russian regions. For example, a recovery can be seen of FDI flows in the construction industry. However, large M&As remain rare. For example, excluding round-tripping FDI, Naspers from South Africa made the largest 2010 cross-border M&A deal in Russia; in terms of

[1] Author's calculations, on the base of Expert-400, *Expert,* 2011, no. 39 (3–9 October), available at: http://www.raexpert.ru/ratings/expert400/2011.
[2] Rosstat, *Russia in figures: 2011* (Moscow: Federal State Statistics Service, 2011), table 24.3, available at: http://www.gks.ru.

transaction value, though, it was outside the top dozen M&As completed in 2008-2010 by inward investors (annex table 6).

There were some changes in the list of leading foreign affiliates in Russia in 2010 (annex table 5), as compared with that for 2009[1] (e.g., Ford went from second to 12th place). However, in some cases this was only the result of various dynamics resulting from different starting points of post-crisis recovery in different Russian industries. All 20 leaders of the 2009 list were among the top 25 foreign affiliates in non-financial industries in 2010.

The policy scene

The global crisis revealed the weak features of the Russian investment climate, including inappropriate types of relations between state-owned and private companies (both large oligopolies and small enterprises). At the beginning of 2010, Russian president Dmitry Medvedev announced new measures for the improvement of the investment climate: a reduction of administrative barriers (including, for example, reducing the bureaucracy of customs procedures), the liberalization of the Russian migration regime (which would help foreign affiliates bring in top managers and other skilled personnel from abroad), the privatization and reorganization of state-owned enterprises (SOEs), the liberalization of access to infrastructure, selective tax incentives, real progress in the legal system, and investment image-building.[2]

However, only selective steps had been taken by July 2012. First, the liberalization of the Russian migration regime was introduced for high-skilled specialists; according to the federal law No. 86-FZ of 19 May 2010, foreign investors can easily engage their top managers and engineers in Russia (if such a foreign specialist earns more than US$ 65,000-70,000 a year).[3] Second, the Russian Government has introduced mechanisms of state assistance for investors struggling against bureaucracy and corruption, including the designation of special high-ranking officials in the federal and regional governments responsible for such problems.

Some new measures have implications for the location of FDI in Russia. For example, new Russian special economic zones (SEZs) were established in 2010. There are four industrial and production zones, including the new Titanium Valley Zone in the Sverdlovsk Region and a zone for the reindustrialization of the motor-vehicles center Togliatti in the Samara Region. There are also four technology and innovation zones (no additions to the list in 2010), 13 tourist and recreational zones (most of them were established in 2010) and three port zones (the new one is situated in Murmansk).[4]

[1] Kuznetsov, *op. cit.*, annex table 5, available at: http://www.vcc.columbia.edu.
[2] Ministry for Economic Development of the Russian Federation, *Osnovniye meri po uluchsheniyu investitsionnogo klimata v Rossiyskoy Federatsii, opredelenniye na soveshchanii prezidenta RF D.A. Medvedeva February 2, 2010*, available at: http://www.economy.gov.ru.
[3] Federal Migration Service, Russian Federation, *Instruction Booklet for Foreign National Highly Skilled Specialists*, September 9, 2011, available at: http://www.fms.gov.ru.
[4] Ministry for Economic Development of the Russian Federation, *Special Economic Zones in the Russian Federation*, 2011, available at: http://www.economy.gov.ru.

However, Russian tourist zones are not successful because of weak incentives for investors.[1] Another example is related to new double taxation treaties (DTTs) and bilateral investment treaties (BITs). Recently, Russia has concluded these treaties mainly with recipients of Russian outward FDI, while new BITs have rarely been signed with countries that have significant FDI in Russia. As a result, major home countries usually have only short BITs with Russia from the period of initial market reforms (sometimes even from the Soviet period).[2]

Special issues

In 2011, on the eve of federal elections, the Russian Government came to understand some of the deficiencies of the current Russian model of development. For example, the Strategy of the Russian Federation Social and Economic Development for 2008-2020 failed to achieve positive results during the first two years after its adoption. As a result, the Government has sought to elaborate new measures that can modernize the whole Russian economy. More than 1,000 leading Russian experts participate in various discussions on the new economic Strategy 2020,[3] but the coordination of the different thematic groups is rather weak, while intellectual free space is narrow. Moreover, the approach ignores some well-known incentives for innovation and competition such as steps against informal cartels, the development of venture funds, necessary measures against corruption, and urgent tasks for the development of infrastructure; it is therefore a doubtful way to improve the investment climate in Russia.

Indeed, the Federal Government tried to "repair" the current Russian model without political and economic reforms. However, the Federal Duma elections in December 2011 showed a significant drop in support of the ruling party, United Russia. It received the majority in the Federal Duma, but according to some reports only due to a large number of falsifications[4] and high legal barriers for opposition candidates (e.g., a party can enter the Duma only with 7% of votes). After protests in many large Russian cities began, the President and Government announced some reforms. At the moment, it is difficult to estimate the scale of probable positive shifts in the Russian investment climate after the President's elections in March 2012. For example, former President Dmitry Medvedev, as the new Prime Minister, has made significant changes in his Cabinet but President Vladimir Putin has appointed many former federal ministers as his advisers. In autumn 2012, direct free elections of some regional governors will take place, and new possibilities for the liberalization of the investment climate in some regions may arise.

[1] Olga Kuznetsova and Olga Cheplyayeva, *Aktualizatsiya federal'noy regional'noy politiki v postkrizisniy period* (Moscow: Accounts Chamber of the Russian Federation, 2011), pp. 60–62, 105–106.

[2] The Institute of World Economy and International Relations (IMEMO) of the Russian Academy of Sciences and the Vale Columbia Center on Sustainable International Investment, "Investment from Russia stabilizes after the global crisis", Report dated 23 June 2011, prepared by a team led by Alexey Kuznetsov, Anna Chetverikova and Natalia Toganova, annex table 8, available at: http://www.vcc.columbia.edu.

[3] See various materials on Russia's Strategy 2020, available at: http://2020strategy.ru; http://strategy2020.rian.ru.

[4] Sergey Shpilkin, *Statistika issledovala vibori*, available at: http://www.gazeta.ru/science/2011/12/10_a_3922390.shtml.

However, the Government tried to appoint as many new governors as possible for the next 4-5 years, before a new liberal election law comes into force.

Conclusions

The main features of the policy adopted under the new Russian President following the elections in 2012 are a crucial factor for the Russian investment climate in 2012 and thereafter. Russia has already taken two important steps in its foreign policy that have a long-term influence on its inward FDI. First, the Customs Union between Russia, Belarus and Kazakhstan came into existence in 2010, establishing the Eurasian Economic Union; it comes into force in 2012. In practice, a common market of three or more post-Soviet republics, including Russia may be created by 2015. Secondly, Russia has finished her 18-year long negotiations on accession to the WTO. Most recently, parliament ratified the accession, and Russia became a member of the WTO. Upon ratification of the accession in this month of July, Russia becomes an OECD member and changes her FDI regime and other norms in line with OECD standards. Russia could also establish a free trade zone with the European Union and pursue regional integration in the Asia-Pacific region.

Additional readings

Bulatov, Alexander, "Rossiya v mezhdunarodnom dvizhenii kapitala: sravnitel'niy analiz," *Voprosy Ekonomiki*, vol. 83 (2011), no. 8, pp. 66–76. ("Russia in international capital migrations: comparative analysis").

Dolgopyatova, Tatiana, Ichiro Iwasaki and Andrei A. Yakovlev, eds., *Organization and Development of Russian Business: A Firm-Level Analysis* (Basingstoke, Hampshire: Palgrave Macmillan, 2009).

Ernst & Young, *Growing Opportunities: Russia FDI Report 2011*, available at: http://www.ey.com/publications/).

Kuznetsov, Alexey, "Kapitalovlozheniya iz ES v Rossii: znachimiye peremeni," *Contemporary Europe*, vol. 10 (2009), no. 3, pp. 58–72 ("FDI from EU in Russia: significant changes").

de Souza, Lúcio Vinhas, "Foreign investment in Russia," *ECFIN Country Focus*, vol. 5 (2008), issue 1, available at: http://ec.europa.eu/economy_finance/publications/).

Useful websites

For statistical material about Russian inward FDI, see the Bank of Russia, available at: http://www.cbr.ru.

For texts of Russian laws, see ConsultantPlus, available at: http://www.consultant.ru.

Statistical annex

There are two official sources for FDI statistics in Russia: the Federal State Statistics Service (Rosstat) and the Bank of Russia. Rosstat presents more detailed information. However, the quality of its data is low, because Rosstat uses only questionnaires completed by companies, with an insufficient response rate. The Bank of Russia estimates FDI figures more accurately: It uses balance-of-payments data and collects figures from companies. It compares these statistics with data from stock exchanges, foreign statistical offices and other sources. Then it makes some additional estimates of shadow (legal but unregistered) FDI flows. As a result, the Bank of Russia's statistics are the source for UNCTAD's FDI flows and stocks database. However, the Bank of Russia's data lacked detailed information on the regional and sectoral structure of inward FDI for many years.

Nevertheless, there is real progress in the Bank of Russia's statistical work. For example, it has begun to publish data on Russia's inward FDI stock by country of origin (figures are available for 2009–2010) and on Russia's FDI inflows by country of origin (for 2007–2011), by branch (for 2010–2011) and by region of destination in the Russian Federation (for 2011).

Annex table 1. Russia: inward FDI stock, 2000–2011

(US$ billion)

Economy		2000	2005	2007	2008	2009	2010	2011	2010 Inward FDI stock per capita, (US$ million)
Russia	*Data of Bank of Russia*	32	180	491	216	379	493	457	3,502
	Data of Rosstat	16	50	103	122	109	116	457	825
Memorandum: Comparator economies									
China		193	272	327	378	473	579	712	438
Brazil		122	181	310	288	401	473	670	2,439
India		16	43	106	125	167	198	202	165
Poland		34	91	178	164	186	193	198	5,073
Czech Republic		22	61	112	113	126	130	125	12,527
Kazakhstan		10	26	45	59	73	81	64	5,206
Ukraine		4	17	38	47	52	58	25	1,268

Sources: Bank of Russia, "International Investment Position of Russia for 2001–2011", and "International Investment Position of Russia for 2011" (for data on FDI stock in Russia, 2011), available at: http://www.cbr.ru/eng/statistics (for Bank of Russia data on FDI stock in Russia, 2000-2011), and Rosstat database, available at: http://www.gks.ru (for Rosstat data on FDI stock in Russia, 2000-2010); for comparator economies: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi (for data on FDI stock in 2000-2010), and UNCTAD, *World Investment Report 2012: Towards a New Generation of Investment Policies* (New York and Geneva: United Nations, 2012), annex table I.2, available at: www.unctad-docs.org/files/UNCTAD-WIR2012-Annexes-Tables-en.pdf (for data on FDI stock in 2011); and UNCTAD, *UNCTAD Handbook of Statistics*, 2010, table 8.4.1, available at: www.unctad.og/statistics/handbook (for population data to derive per capita IFDI stock; all per capita figures are calculated by the author based on *UNCTAD Handbook Statistics* on population).

Annex table 2. Russia: inward FDI flows, 2000–2011

(US$ billion)

Economy		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010
Russia	*Data of Bank of Russia*	2.7	2.7	3.5	8.0	15.4	12.9	29.7	55.1	75.0	36.5	42.8	52.9
	Data of Rosstat	4.4	4.0	4.0	6.8	9.4	13.1	13.7	27.8	27.0	15.9	13.8	
Memorandum: comparator economies													
China		40.7	46.9	52.7	53.5	60.6	72.4	72.7	83.5	108.3	95.0	105.7	124.0
Brazil		32.8	22.5	16.6	10.1	18.1	15.1	18.8	34.6	45.1	25.9	48.4	66.7
India		3.6	5.5	5.6	4.3	5.8	7.6	20.3	25.4	42.5	35.6	24.6	31.6
Kazakhstan		1.3	2.8	2.6	2.1	4.1	2.0	6.3	11.1	14.3	13.8	10.0	12.9
Poland		9.4	5.7	4.1	4.6	12.9	10.3	19.6	23.6	14.8	13.7	9.7	15.1
Czech Republic		5.0	5.6	8.5	2.1	5.0	11.7	5.5	10.4	6.5	2.9	6.8	5.4
Ukraine		0.6	0.8	0.7	1.4	1.7	7.8	5.6	9.9	10.9	4.8	6.5	7.2

Sources: Bank of Russia, *Balance of Payments of the Russian Federation*, available at: http://www.cbr.ru/eng/statistics (for Bank of Russia data on FDI flows to Russia, 2000-2010); Rosstat database, available at: http://www.gks.ru (for Rosstat data on FDI flows to Russia, 2000-2010); UNCTAD's FDI/TNC database, available at http://stats.unctad.org/fdi (for data on FDI flows to comparator economies, 2000-2010), and UNCTAD, *World Investment Report 2012: Towards a New Generation of Investment Policies* (New York and Geneva: UNCTAD, 2012), annex table I.1, available at: www.unctad-docs.org/files/UNCTAD-WIR2012-Annexes-Tables-en.pdf (for data on FDI flows to Russia and comparator economies in 2011).

Annex table 3. Russia: sectoral distribution of inward FDI stock, 2005, 2010

(US$ million)

Sector / industry	2005 [a]	2010
All sectors / industries	49,751	116,199
Primary	13,392	22,109
Agriculture, forestry, and fishing	520	1,703
Mining and quarrying	12,872	20,406
Extraction of crude petroleum and gas	12,200	16,807
Secondary	20,217	53,678
Manufacturing	19,405	47,222
Food products and beverages	3,164	5,565
Wood and of products of wood and cork, except furniture	959	1,925
Paper and paper products	499	1,509
Refined petroleum products	3,589	1,786
Chemicals, chemical and pharmaceutical products	607	2,869
Rubber and plastics products	436	1,176
Other non-metallic mineral products	1,222	2,870
Basic metals and metal products, except machinery and equipment	6,601	21,154
Machinery and equipment	378	1,933
Electrical equipment and electronic products	255	1,086
Transport equipment	753	3,886
Construction	557	3,017
Services	16,142	40,412
Electricity, gas, steam and water supply	255	3,439
Wholesale and retail trade and repairing	3,274	11,021
Wholesale trade, except of motor vehicles and motorcycles	2,591	7,527
Retail trade and repairing, except of motor vehicles and motorcycles	536	2,378
Transportation and communication	3,625	4,100
Transport via pipelines	2,290	1,542
Telecommunication	864	1,016
Financial activities	3,448	4,739
Real estate activities	1,406	8,390

Source: Rosstat database, available at: http://www.gks.ru.

[a] Rosstat began to publish data on sectoral distribution of inward FDI stock only in 2005.

Annex table 4. Russia: geographical distribution of inward FDI stock, 2009, 2010
(US$ million)

Region/economy	2009	2010
World	378,837	493,354
Developed economies	306,850	403,307
Europe	264,113	342,730
European Union	241,896	329,734
Austria	7,446	8,275
Belgium	1,889	2,849
Cyprus	129,930	179,217
Czech Republic	692	1,130
Denmark	932	1,421
Finland	5,509	6,634
France	8,968	11,793
Germany	15,277	23,124
Hungary	610	825
Ireland	189	3,765
Italy	1,057	1,255
Latvia	223	263
Luxembourg	14,407	19,659
Netherlands	33,619	40,206
Poland	413	577
Slovenia	246	249
Spain	1,076	1,314
Sweden	11,683	18,095
United Kingdom (incl. Channel Islands and Isle of Man)	7,134	8,396
Gibraltar	10,203	5,756
Liechtenstein	348	485
Switzerland	5,688	6,531
North America	14,019	5,609
United States	13,910	5,380
Other developed economies	28,718	54,968
Bermuda	27,193	52,593
Israel	234	316
Japan	1,236	2,006
Developing economies	65,406	84,999
Africa	1,220	1,046
Seychelles	782	978
Asia and Oceania	4,047	6,068
China	1,251	1,987
Korea, Republic of	1,152	1,950
Turkey	606	762
Vietnam	240	259
Latin America and Caribbean	60,139	77,885
Bahamas	18,659	24,579
Belize	299	458
British Virgin Islands	36,599	50,966
Cayman Islands	3,612	720
Dominica	261	278
Panama	359	413
Transition economies	2,026	2,241
CIS	1,889	2,070
Azerbaijan	269	324
Kazakhstan	1,051	1,123
Ukraine	179	248
Unspecified destinations	4,555	2,807

Source: Bank of Russia database, available at: http://www.cbr.ru/eng/statistics.

Annex table 5. Russia: principal foreign[a] affiliates in non-financial[b] industries, ranked by turnover[c], 2010

Rank	Name	Industry	Home economy	Turnover (US$ million)
1	BP (*TNK-BP Holding*)	Petroleum [d]	United Kingdom	31,295
2	Auchan	Trade	France	5,845
3	Metro Cash and Carry	Trade	Germany	4,347
4	Volkswagen	Motor vehicles	Germany	3,774
5	JTI	Tobacco	Japan	3,692
6	Philip Morris	Tobacco	United States	2,990
7	PPF (*Eldorado*)	Trade	Czech Republic	2,738
8	Procter & Gamble	Chemicals	United States	2,718
9	Carlsberg (*Baltika*)	Beverages	Denmark	2,602
10	Nestlé	Food	Switzerland	1,946
11	LG Electronics	Electronics	Korea (Republic of)	1,829
12	Ford Motor	Motor vehicles	United States	1,820
13	Ilim	Wood and paper	Switzerland	1,755
14	Enel (*OGK-5*)	Power generation	Italy	1,724
15	E.On (*OGK-4*)	Power generation	Germany	1,651
16	Mars	Food	United States	1,597
17	Samsung Electronics	Electronics	Korea (Republic of)	1,461
18	Coca-Cola HBC	Beverages	Greece	1,450
19	PepsiCo [e]	Beverages	United States	1,449
20	Tele2	Telecommunications	Sweden	1,402
21	IKEA	Trade	Sweden	1,310
22	Leroy Merlin	Trade	France	1,265
23	Anheuser-Busch InBev (*SUN InBev*)	Beverages	Belgium	1,230
24	Renault (*Avtoframos*)	Motor vehicles	France	1,188
25	Henkel	Chemicals	Germany	1,187

Source: Expert-400, *Expert,* 2011, no. 39 (3–9 October), available at: http://www.raexpert.ru/ratings/expert400/2011.

[a] With at least 50% shares owned by foreign investors.

[b] The largest Russian banks under foreign control (not shown in this table, which excludes foreign affiliates in financial services) are Rosbank (France, Société Générale), Raiffeisen Bank (Austria) and UniCredit Bank (Italy).

[c] In many cases, the data on the assets of Russian affiliates of foreign MNEs are not available.

[d] Shell (Netherlands/UK) and Total (France) are the main foreign investors in the Russian oil industry; but they own only minor stakes in Russian petroleum projects.

[e] Excluding Wimm-Bill-Dann, because its acquisition was finished in 2011.

Annex table 6. Russia: main M & A deals, by inward investing firm, 2008–2010

Year	Acquiring company	Target company	Target industry	Home economy	Shares acquired (%)	Value (US$ million)
2010	First Quantum	National Container Company	Transport	United Kingdom [a]	50.0	900
2010	Kinross Gold	Severnoye Zoloto, Regionruda	Gold ores	Canada	100.0	368
2010	Naspers	Digital Sky Technologies	Information technologies	Netherlands [b]	28.7	388
2009	E.On	Severneftegazprom	Oil and gas	Germany	25.0	3,959
2009	Wandle Holdings	Polyus Zoloto	Gold ores	Cyprus [c]	29.6	1,249
2009	Central European Distribution Corporation	Russian Alcohol Group	Beverages	Poland / United States	100.0 [c]	1,053
2009	Weatherford	10 service companies of TNK-BP	Oil and gas	Switzerland	100.0	489
2008	Fortum	TGK-10	Power generation	Finland	92.9	3,892
2008	ENEL	OGK-5	Power generation	Netherlands [d]	22.7	1,448
2008	Renault	Avtovaz	Motor vehicles	France	25.0	1,166
2008	AXA	RESO-Garantiya	Insurance	France	36.7	1,165
2008	Barclays	Expobank	Banks	United Kingdom	100.0	745
2008	Arcelor Mittal	Berezovskaya Mine	Coal mining	Luxembourg	97.9	720
2008	Bank of Cyprus	Uniastrum Bank	Banks	Cyprus	80.0	576

Source: Thomson ONE Banker, Thomson Reuters; http://www.alconews.ru/russia/2009/11/11028.php; http://www.ma-journal.ru/news/73490/.

[a] The acquisition was made in two separate deals.
[b] Naspers is a company from South Africa, but its FDI in Russia was made via the Netherlands by its subsidiary Myriad International Holding.
[c] This is a case of round-tripping Russian investment.
[d] ENEL is the largest Italian energy company, but it makes its FDI in Russia via the Netherlands.

Annex table 7. Russia: main completed greenfield projects, by inward investing firm, 2008–2010[a]

Year[b]	Investing company	Target region of Russia	Home economy	Industry	Shares owned (%)	Value (US$ million) [c]
2010	Thunder Sky Group	Novosibirsk Region	China	Electrical equipment	50.0	450
2010	Yokohama	Lipetsk Region	Japan	Tyres	100	390
2009	RusVietPetro (PetroVietnam)	Nenets Autonomous Okrug	Vietnam	Oil and gas	49.0	614
2009	Heidelberg Cement	Tula Region	Germany	Construction materials	100	420
2008	TNK-BP (British Petroleum)	Tyumen Region	United Kingdom	Oil and gas	50.0	More than 1,500 [d]
2008	OGK-4 (E.On)	Khanty-Mansi Autonomous Okrug	Germany	Power generation	78.3	1,050
2008	OGK-4 (E.On)	Perm Krai	Germany	Power generation	78.3	550
2008	OGK-4 (E.On)	Moscow Region	Germany	Power generation	78.3	550
2008	Enel OGK-5 (ENEL)	Stavropol Krai	Italy	Power generation	56.4	530
2008	Hyundai Motor Company	Saint Petersburg	Republic of Korea	Motor vehicles	100	500
2008	Enel OGK-5 (ENEL)	Sverdlovsk Region	Italy	Power generation	56.4	490
2008	Ferrero	Vladimir Region	Italy	Food products	100	270
2008	Liebherr	Nizhny Novgorod Region	Switzerland	Machinery	100	260
2008	SABMiller	Ulyanovsk Region	South Africa	Beverages	100	220

Source: Author's compilation, based on Rosstat's and companies' information.

[a] Entries refer to projects in which production has already started before February 2012. The largest announced but still not realized greenfield project of the period with FDI was Shtockman Development (Total – 25%, StatoilHydro – 24%, Gazprom – 51%). Its investments might exceed US$ 15 billion.

[b] The starting year for a completed greenfield project. The use of data for "completed" projects (instead of "announced" projects) allows the exclusion of false announcements and unsuccessful projects, but underestimates the role of some large new projects because many projects begun in 2010 will be finished only in 2012–2013.

[c] Some of the entries are rough values because of unstable exchange rates of the Russian Rouble and Euro vis-à-vis the US dollar.

[d] Investment in several new blocs in adjoining oil and gas fields.

Russia: Outward FDI and its policy context, 2009

Andrey V. Panibratov and Kalman Kalotay[*]

OFDI from Russia often surprises outside observers by its landmark deals. One of them was the purchase in September 2009 of a 55% stake in General Motors' German affiliate Opel by a consortium of the Canadian car maker Magna and the Russian state-owned bank Sberbank. The latter is the largest creditor of the Russian car maker GAZ, and may represent its commercial interests in the contract. With this deal, Russia has bought into the industrial heartland of the world economy and could potentially access more advanced technology. This acquisition hints at the growth of Russian OFDI in general, which has prospered despite fears in many host countries that the investors are subject to Russian political interference, a fear that recently announced Russian policy intentions may allay.

Trends and developments

A decade ago, following the disintegration of the Soviet Union and the deep post-transition fall in output, Russia seemed to have become an economy of secondary importance. Since 1999, however, the Russian economy has staged a spectacular comeback thanks to various favorable international factors, such as the consistently high prices of its main export products, and is now again a major player in the world economy. One clear expression of this reality is to be found in its direct investment abroad.

Country level developments

OFDI from Russia in recent years has been much deeper than the pre-transition OFDI of the 'red multinationals', which had focused mostly on trading relations rather than on productive facilities.[1] It has also been a strikingly fast-growing phenomenon. Indeed, Russia produces three different data sets on OFDI, measuring it in different ways,[2] and each set of statistics indicates a major rise in Russian OFDI in recent years. For example, while from 2001 to 2005, Russian OFDI averaged USD 7 billion a year on a balance-of-

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[1] See G. Hamilton (ed.), *Red Multinationals or Red Herrings? The Activities of Enterprises from Socialist Countries in the West* (London: F. Pinter, 1986).

[2] FDI statistics collected by the *Bank of Russia* and international organizations such as *UNCTAD* register transactions on a net payment basis; cross-border M&A data from UNCTAD are recorded mostly on a gross value and announcement basis; the statistics of *Rosstat* are based on company surveys of investment intentions. Even though there are a number of steps between investment intentions and cash flow, Rosstat data are useful for the information contained on the geographical composition of OFDI, something that balance-of-payments data do not currently provide. All these sources have difficulties with registering complex flows passing various borders.

payments basis, over the next three-year period, 2006−2008, this average jumped to USD 34 billion.[1]

Because of this rapid expansion of Russian MNEs abroad, Russia now has the second largest stock of direct investments abroad among the emerging economies (USD 203 billion in 2008), behind the special case of Hong Kong (China) (USD 776 billion in 2008). Russian MNEs hold more FDI assets than Brazil (USD 162 billion), China (USD 148 billion) and India (USD 62 billion) (annex table 1). Between 1995 and 2007, Russia's OFDI stock was growing more rapidly than the OFDI stock of the other emerging economies mentioned. However, as a result of the global financial crisis, a sharp downward revaluation of Russian assets held abroad reduced Russia's lead vis-à-vis other large emerging economies by the end of 2008 (annex table 1).

Detailed data on Russian OFDI are not available, but given the large role played by foreign takeovers as the mode of their expansion abroad, features of the dynamics of Russian OFDI can be gleaned from data on cross-border M&As.[2] In the period January 2005–June 2008, such M&As increased by more than ten times compared with the period 2001–2004, from USD 5.5 billion to USD 56.8 billion. Most of these cross-border purchases were in the primary sector, which accounted for 59% of M&As in January 1997–June 2008 (annex table 2). Within manufacturing, which accounted for 23%, machinery, metals and motor vehicles were the three most important industries. The share of services was 18%, of which telecommunications was much the most important industry.

As to the geographical distribution of acquisitions abroad, the data show that Russian firms have generally targeted developed country firms, especially in Europe and North America (annex table 3 and section on companies below). One part of the world that has been particularly open to Russian investment is the Commonwealth of Independent States (CIS). Most CIS countries have close relations with the Russian Federation. Benefiting from these historical ties and from a deep knowledge of the local business environment, Russian FDI in these countries is relatively large and has been growing. Rosstat data show that Russian investment in the CIS economies (including FDI, portfolio and other foreign investment) grew rapidly from 2000, in which year it was USD 130 million, to 2008, when it was well over USD 10 billion (annex table 4). The leading CIS destinations in 2008 were Belarus and Ukraine, followed at some considerable distance by Kazakhstan and Armenia. For some of these countries, Russia is a major source of IFDI.

The data set on cross-border M&As also allows us to measure the size of round-tripping transactions in OFDI, under which foreign affiliates of Russian firms, typically established in offshore financial centers such as such as Cyprus, the Netherlands and the British Virgin Islands (annex table 5), invest back to the Russian Federation: such deals

[1] According to UNCTAD's FDI/TNC database (http://stats.unctad.org/fdi/) and the balance-of-payments data of the Bank of Russia (www.cbr.ru/eng/statistics/?Prtid=svs).

[2] These data need to be treated with some caution as they register announced deals, whose payment could take place over various years, and in some other cases could be canceled.

amounted to almost $7 billion over January 1997–June 2008, accounting for 10% of the total (annex table 3).[1]

The corporate players

Some 50 to 60 MNEs account for a large part of Russian assets abroad, with OFDI among this group dominated by such behemoths as Gazprom, Lukoil, Sberbank, AFK Systema, Norilsk Nickel, Evraz, Rusal, and Severstal, all of them global players, some of which in turn are part of larger and looser business groups (e.g. Rusal is part of the Basic Element Group).[2] The majority of Russian MNEs operate in four major industries: oil and gas, metallurgy, finance, and telecommunications. Despite the concentration of OFDI among a limited number of large MNEs, the total number of Russian firms investing abroad probably exceeds 1,000.

In particular, the 10 largest announced M&A transactions in January 2005–December 2008 mainly involved Russian resource-based firms (e.g., Norilsk Nickel, Evraz Group, Gazprom, Lukoil) targeting purchases mostly in Canada, Italy and the United States (annex table 6). So far, the largest transaction has been Norilsk Nickel's full acquisition of Lion Ore Mining in Canada in 2007.

The state has played an important role in the emergence of Russian OFDI. SOEs, such as Gazprom, possess a set of advantages (financial capabilities, access to loans from the central bank, administrative support, etc.) that facilitate their internationalization. At the same time, even in fully or partly privatized enterprises, state influence remains, sometimes directly (for example through residual ownership, as in Rosneft) and sometimes indirectly, through State support and other measure of State influence. When it comes to companies in the energy sector, the law makes Russian – state or private – majority ownership mandatory.

Russian OFDI has been driven by various motives, including a desire of managers and private equity owners to mitigate the economic and political risks still inherent in their home market through holding a large portion of assets offshore (a variety of post-transition "capital flight" related to "system-escape" motives, which decreased sharply after 1999 but bounced back during the global crisis). Expected profitability of FDI has been another primary driver. However, there is no clear evidence as to what degree the expectations of Russian firms about the ease and low transaction cost of M&A purchases facilitating vertical integration and increasing control of the value chain of products (from the extraction of natural resources at home to the processing and distribution abroad) have materialized. Aspirations for better global recognition and an improved image abroad have also been among the drivers of Russia OFDI.

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[1] This measurement is possible because the data base records both the immediate and the ultimate buyers and sellers.

[2] See Alexei V. Kuznetsov, "Russian companies expand foreign investments", *Russian Analytical Digest*, 2008, No.34 (www.res.ethz.ch).

Effects of the current global crisis

The dynamism of Russian OFDI has weakened lately, in part due to the onset of the global economic and financial crisis. From 2007 to 2008, it still grew, but only by about 15% (from USD 46 billion to USD 53 billion). In the first quarter of 2009, however, OFDI fell by 15% (from USD 16 billion to USD 13 billion) on a year-to-year basis.[1] These data, as compiled by the Bank of Russia, differ from the OFDI data of Rosstat, the Russian statistical agency, which show Russian OFDI jumping in the first quarter of 2009 to nearly USD 10 billion, an increase by a factor of eight over the first quarter of 2008.[2] The discrepancy between the two data sources reflects fundamental differences between the statistical methodologies of the two agencies.[3]

The sharp downward revaluation of Russian assets held abroad in 2008 (annex table 1) could indicate major problems at the international affiliates of Russian MNEs, although reliable reports on eventual downsizings or closures are impossible to find for the moment. It seems that, despite their mounting difficulties, the financial crisis has not stopped Russian companies from seeking to expand internationally, although it may have made it harder, as the prices of their commodity exports decline and their market capitalization shrinks. Through the first quarter of 2009, however, there were no signs of the repatriation of Russian financial assets abroad, from international financial centers such as Cyprus, the Netherlands, the British Virgin Islands, and Gibraltar, which partly serve as tax havens for Russian firms as well. These locations still figured prominently (first, second, sixth, and eighth positions) in the OFDI flows of Russia in the first quarter of 2009 (annex table 5).

Indeed, a number of large transactions were announced in the first quarter of 2009; notably, the Russian company Surgutneftegaz purchased 21% of the shares of MOL Hungarian Oil and Gas Plc. (bought from Austria's OMV Group) and TNK bought 49% of the shares of the US manufacturer of steel pipes NS Group Inc. In another notable case, Lukoil paid €852 million to Italy's ERG to acquire a 49% share in the joint venture refinery ISAB in Sicily. The crisis has had also some positive impacts: it has cut down the prices of foreign assets that some Russian companies intended to acquire. For example, at the end of 2008, Severstal saved USD 302 million (from an original price of USD 1 billion) when purchasing the Canadian coal-mining firm PBS Coals,[4] and NLMK saved USD 50 million (from an original price of USD 400 billion) when purchasing the US steelmaking firm Beta Steel,[5] both as a result of declining asset prices.

A full evaluation of how the crisis continues to affect Russian OFDI is not yet possible. The financial difficulties of the natural-resource-based MNEs may however indicate that

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[1] According to the Bank of Russia (www.cbr.ru/eng/statistics/?Prtid=svs).

[2] www.gks.ru/bgd/free/b04_03/IssWWW.exe/Stg/d02/29inv24.htm.

[3] As noted in footnote 2, the Bank of Russia registers a transaction only when it is fully paid for, so its statistics are very sensitive to events affecting the financing of MNEs such as the current crisis. Rosstat, on the other hand, reports transactions when intentions to undertake them are announced by companies and thus points to resumed dynamism in the future.

[4] www.reuters.com/article/mergersNews/idUSN2526880020081026.

[5] http://expert.ru/news/2008/11/17/nlmkotkaz/.

these companies need to slow down or cancel their investment plans in the future. Alternatively, they may rely more on State help, including financing obtained from State-owned banks. The crisis may have also altered the political context of Russian OFDI, especially the bilateral relationships of Russia with its main partners (the EU and the United States). It also remains to be seen to what degree "covert" FDI protectionism[1] will gain influence in those partner countries and to what degree that may result in additional obstacles to Russian OFDI. These factors together could potentially change the Russian OFDI landscape, resulting perhaps even in the disappearance of some of today's FDI giants.

The policy scene

One idiosyncratic impediment to Russian investment abroad is the perception in certain countries that Russian companies, especially some of Russia's largest companies, are more subject to political interference than MNEs in general. One sign that the perception exists was cited by the vice-president of Lukoil, Leonid Fedun, who told the *Financial Times* that Russian investors have started to withdraw from countries such as Poland and Lithuania because of political antagonism.[2] Also, according to Fedun, Lukoil was interested in purchasing two oil refineries belonging to the Polish power concern PKN Orlen, but the Polish government saw the "long hand of the Kremlin" behind the deal and feared the misuse of market power for political ends. Another case of putative political antagonism concerned the aforementioned purchase by Surgutneftegaz of the Austrian oil company OMV's holdings in MOL, the Hungarian power company.[3] MOL, although privately owned, is seen as strategic by the Hungarian government, and OMV had itself been accused of being a front for Russian interests in 2007. Although the transaction went through, it was a source of political concern in Hungary.[4]

Anxieties about Russian OFDI have also been expressed by authorities in other European countries, for example in the Czech Republic and Spain. Not all such concerns are over security or possible political interference. Some relate to other factors common to emerging-market OFDI generally, such as the quality of corporate governance or actions that do not meet professional standards. In practice, nevertheless, such concerns are often outweighed by the crisis-generated need for additional equity capital and financial inflows to cover balance-of-payments deficits.

Conclusions and Outlook

Despite various difficulties, Russian direct investors are continuing to penetrate foreign markets. The one thing perhaps lacking is a carefully thought out government policy that recognizes the economic benefits of OFDI, in particular, for competitiveness. Such a

[1] See UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (New York and Geneva: United Nations, 2009).
[2] "Russian investors face 'antagonism'", *Financial Times*, April 9, 2009, p. 2.
[3] "OMV closes sale of 21.2% of MOL to Russia's Surgutneftegas for EUR1.4 bln", *Interfax Russia & CIS Oil and Gas Weekly*, April 15, 2009.
[4] "Hungary's new PM opposed to Russian takeover of MOL", Reuters, April 19, 2009, www.reuters.com/article/rbssOilGasRefiningMarketing/idUSLJ45152820090419.

policy would also have to convince potential host countries that Russia's government will eschew political interference in Russian MNE operations. It could also support Russian OFDI in a systematic way, as is the practice of many other countries, especially in promoting investment in developing countries (political risk insurance, support for pre-investment studies, etc). It may be that this is changing, as President Medvedev has recently announced the intention of supporting outward investors from Russia.[1] If carried through, this can only promote Russian OFDI and intensify the internationalization process of Russian firms.

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[1] "Medvedev dvinet bizness za granitsu", February 4, 2008, http://businnestalk.ru/content/view/1180/28/.

Statistical annex

Annex table 1. Outward FDI stock of selected economies, various years (USD billion)

Economy	1995	2000	2005	2007	2008
United States	1,363.8	2,694.0	3,638.0	5,228.0	3,071.2
Hong Kong, China	78.8	388.4	471.3	1,011.2	775.9
Russian Federation	3.3	20.1	146.7	370.2	202.8
Brazil	44.5	51.9	79.3	136.1	162.2
China	17.8	27.8	57.2	95.8	147.9
India	0.5	1.9	10.0	44.1	61.8

Source: UNCTAD's FDI/TNC database, http://stats.unctad.org/fdi/ and United States, *Survey of Current Business*, September 2009 and 2006.
Note: In 2008, the decline in OFDI stock of certain countries reflects a sharp downward revaluation of assets held abroad due to the global financial crisis.

Annex table 2. Cross-border purchases by Russian multinationals, by sector/industry, January 1992–June 2008 (USD million)

Sector / industry	1992–1996	1997–2000	2001–2004	2005–2008
All sectors / industries	511	1,700	5,498	55,850[a]
Primary	45	1,098	2,980	33,485
Agriculture, forestry, and fishing	-	-	5	-
Mining, quarrying and petroleum	45	1,098	2,976	33,485
Mining and quarrying	-	-	1,546	15,742
Petroleum	45	1,098	1,430	17,743
Secondary	451	146	661	13,430
Food, beverages and tobacco	-	90	9	2
Wood and wood products	3	-	-	34
Oil and gas; petroleum refining	-	7	161	589
Chemicals and chemical products	-	-	164	113
Metal and metal products	-	31	306	2,914
Machinery	6	-	17	7,575
Electrical and electronic equipment	-	2	-	453
Electronic equipment	-	2	-	217
Communications equipment	-	-	-	143
Transportation equipment	442	15	-	1,537
Motor vehicles	200	15	-	1,537
Services	15	456	1,857	8,935
Electricity, gas, and water	-	177	60	1,042
Construction firms	-	-	100	1,637
Hotels and casinos	-	-	2	468
Trade	-	235	536	350
Transport, storage and communications	15	13	1,106	3,880
Telecommunications	-	10	1,021	3,637
Finance	-	23	30	1,773
Business activities	-	2	23	116
Business services	-	2	19	250
Community, social and personal services	-	7	-	888

Source: UNCTAD, cross-border M&A database, http://stats.unctad.org/fdi/.

[a] Excluding unspecified industries.

Annex table 3. Cross-border M&A purchases by Russian multinationals, by host country/region, January 1992–June 2008 (USD million)

Country / region	1992–1996	1997–2000	2001–2004	2005–2008
World	511	2,211	5,498	56,794
Developed economies	511	2,151	3,962	44,287
Europe	311	1,749	2,766	30,575
European Union	311	1,749	2,566	30,160
Austria	-	-	4	1,662
Belgium	-	90	-	-
Bulgaria	-	816	37	-
Cyprus	-	-	-	511
Finland	45	45	-	276
Greece	-	-	-	806
Hungary	6	6	-	177
Italy	-	-	-	1,280
Luxembourg	-	-	-	1,660
Netherlands	245	245	-	-
Romania	-	300	121	-
Slovakia	-	-	72	-
Slovenia	-	-	-	50
Sweden	-	-	-	4,652
United Kingdom	-	211	2,273	19,016
North America	-	170	1,195	13,247
Canada	-	-	68	7,937
United States	-	170	1,127	5,310
Other developed countries	200	232	-	465
Australia	-	2	-	461
Japan	200	200	-	-
Developing economies	-	-	-	3,210
Africa	-	-	-	250
Nigeria	-	-	-	250
Asia and Oceania	-	-	-	2,945
Turkey	-	-	-	2,006
China	-	-	-	786
Malaysia	-	-	-	92
South-East Europe and the CIS	-	61	1,536	9,297
Southeast Europe	-	-	303	257
Bosnia and Herzegovina	-	-	-	157
Croatia	-	-	76	-
Serbia and Montenegro	-	-	225	59
Commonwealth of Independent States (CIS)	-	61	1,233	9,039
Armenia	-	-	27	423
Kyrgyzstan	-	-	-	150
Russian Federation	-	47	990	5,614
Ukraine	-	13	199	2,769

Source: UNCTAD, cross-border M&A database, http://stats.unctad.org/fdi/.

Annex table 4. Russia's investment flows[a] to the Commonwealth of Independent States, commitment data, 2000, 2005, 2007 and 2008

Country	2000		2005		2007		2008	
	USD thousand	% of total	USD thousand	% of total	USD thousand	% of total	USD thousand	% of total
Azerbaijan	26	0	6,734	1.1	8,994	0.3	20,034	0.2
Armenia	5	0	138,185	22.3	3,907	0.1	444,676	4.3
Belarus	77,238	59	102,438	16.5	1,314,092	48.7	5,945,951	58
Georgia	133	0.1	60	0	433	0	3,924	0
Kazakhstan	3,453	2.6	204,314	32.9	445,068	16.5	762,159	7.4
Kyrgyzstan	7	0	1,247	0.2	207,718	7.7	386,029	3.8
Republic of Moldova	31,224	23.8	4,904	0.8	4,248	0.2	22,377	0.2
Tajikistan	-	-	496	0.1	105,683	3.9	171,962	1.7
Turkmenistan	2,934	2.3	-	-	0,4	0	6,357	0.1
Uzbekistan	929	0.7	6,968	1.1	93,040	3.6	96,823	0.9
Ukraine	15,032	11.5	155,176	25	513,580	19	2,397,847	23.4
Total to CIS countries	130,981	100	620,522	100	2,696,763	100	10,258,139	100

Source: Rosstat, www.gks.ru/bgd/regl/b08_11/IssWWW.exe/Stg/d03/24-13.htm

[a] Included are not only FDI, but also portfolio and other foreign investments.

Annex table 5. Russia's OFDI flows, commitment data,[a] first quarter of 2009 (USD million)

Main destinations	Amount
Cyprus	12,559
Netherlands	11,065
United States	4,944
United Kingdom	2,045
Belarus	1,943
British Virgin Islands	1,298
Switzerland	1,181
Gibraltar	1,000
Germany	107
Ukraine	102
Total outward foreign investment flows	38,454

Source: Rosstat, www.gks.ru/bgd/free/b04_03/IssWWW.exe/Stg/d02/91inv21.htm.

[a] Included are not only projects that have been paid for, but also FDI that is in the phase of announcement or approval.

Annex table 6. Ten largest M&A deals by Russian MNEs, 2005-2008

Year	Acquiring Russian company	Target company	Target industry	Target country	Shares acquired (%)	Estimated/ announced transaction value (USD mn)
2007	Norilsk Nickel	LionOre Mining	Gold	Canada	100	6,287
2008	Evraz Group	IPSCO –Canadian operations	Steel pipes and tubes	Canada	100	4,025
2007	Gazprom	Beltransgaz	Natural gas distribution	Belarus	50	2,500
2008	Evraz Group	Sukhaya Balka GOK	Iron ore	Ukraine	99	2,189
2008	Lukoil	ERG SpA – ISAB Refinery	Oil and natural gas	Italy	100	2,098
2007	Evraz Group	Oregon Steel Mills	Steel works	United States	90	2,088
2005	Lukoil	Nelson Resources	Gold	United Kingdom	100	2,000
2007	Rasperia Trading (Basic Element)	Bauholding Strabag	Industrial buildings	Austria	30	1,637
2005	Alfa Group	Turkcell	Telecommunication	Turkey	13	1,602
2007	Basic Element	Magna International	Motor vehicles	Canada	18	1,537

Source: UNCTAD, cross-border M&A database, http://stats.unctad.org/fdi/.

Russia: Outward FDI and its policy context, 2011

Alexey Kuznetsov[*]

Russian outward foreign direct investment (OFDI) increased rapidly in the 2000s. The global economic crisis caused some structural shifts in Russian companies' expansion abroad: for example, several Russian multinational enterprises (MNEs) lost a major part of their foreign assets. However, Russia remained among the top 15 countries ranked by OFDI stock. Leading Russian MNEs, especially LUKOIL and Gazprom, continued their extensive OFDI activities in 2008–2010. The main features of Russian OFDI have not changed. Round-tripping investments and OFDI in real estate are still extremely high as a proportion of the total. Large private MNEs with low transparency combine classic OFDI motives with the Russian oligarchs' desire for "capital flight" and the creation of safety nets abroad. Mergers and acquisitions (M&As) are more popular than greenfield OFDI among Russian MNEs, although they rarely strengthen Russian firms' competitiveness. State-controlled MNEs are assumed to have ties to Russian foreign policy. At the same time, Russian state support is weak for small and medium-sized investors who need information services and insurance schemes.

Trends and developments

Country-level developments

Russia experienced a rapid OFDI expansion during the 2000s (annex tables 1 and 2). According to UNCTAD (whose Russian figures are based on statistics from the Bank of Russia, the central bank of the Russian Federation), the country had risen to 15th rank in the world in terms of OFDI stock by the end of 2006.[1] Russia has become the leading home economy for FDI both among BRIC countries and among transition and post-transition economies, although the gap in terms of OFDI stock per capita was insignificant in the case of Hungary and some other Central European countries. During the global economic crisis, several Russian MNEs sold their foreign subsidiaries while the assets of other companies were devalued. However, Russia even climbed to 13th place in terms of OFDI stock globally due to major new investment outflows (annex table 2). Russia was in 7th place in terms of OFDI *flows* in 2009, although that year was the most difficult for the country during the recent downturn.[2] Bank of Russia statistics show that Russia's OFDI stock was US$ 303 billion at the end of 2009 and that it had reached

[*] The author wishes to thank Kalman Kalotay, Boris Kheyfets and Kari Liuhto for their helpful comments. First published August 2, 2011.

[1] UNCTAD, *World Investment Report 2011: Non-Equity Modes of International Production and Development* (Geneva: United Nations, 2011), available at: http://www.unctad.org, Web table 4.

[2] Ibid,, Web table 2.

US$ 369 billion at the end of 2010, 18 times larger than in 2000.[1] By comparison, global OFDI stock increased by only 156% during those ten years.[2]

The Bank of Russia collects information on OFDI flows for its balance-of-payments statistics and on OFDI stock for its investment position statistics from various sources, including companies' annual and financial reports, information from stock exchanges, OFDI data compiled by central banks in other countries, and some econometric estimates (when exact figures are not available). According to the internationally-accepted methodology it follows, its figures include not only foreign investments of MNEs but also OFDI of various Russian investment funds and citizens, whose OFDI in real estate is very high (about 20% and 25% of Russian OFDI stock[3]). In contrast to the Bank of Russia, the Federal State Statistical Service (Rosstat) uses only special statistical forms to gather data from companies (form No. 1–invest). However, many Russian MNEs have a low level of transparency and do not send their data to Rosstat. As a result, Rosstat's figures are much lower than those compiled by the Bank of Russia.

According to Rosstat, Russian OFDI stock was only US$ 45 billion at the end of 2009 and US$ 57 billion in 2010. The Rosstat figures, which in 2008-2010 were between one-sixth and one-seventh of the OFDI stock as measured by the Bank of Russia (annex table 1), are even lower than the combined value of the non-current foreign assets of top Russian MNEs as published in those companies' annual financial reports (annex table 5). However, Rosstat is the only source of information on the industrial structure of Russian OFDI. Rosstat data show that oil and gas and metals are the main industries attracting OFDI of Russian MNEs (annex table 3). A new IMEMO–VCC survey of the top 20 Russian non-financial MNEs also shows that oil and gas and metals companies are leaders among Russian investors.[4]

Rosstat also publishes information on the geography of Russia's OFDI stock. On May 5, 2011, the Bank of Russia published such information for the first time. A comparison of Russian data with the official data of host countries shows the important role of round-tripping and trans-shipping OFDI, especially via Cyprus and the Netherlands (annex table 4). Nowadays, many Russian companies are formally owned by foreign companies that are themselves Russian MNEs' affiliates established in offshore financial centers. At the same time, some Russian foreign subsidiaries (mainly in Ukraine and other post-transition economies) have received OFDI from Cyprus.[5] Thus, not all Russian OFDI in Cyprus, the British Virgin Islands, Bermuda, and some other destinations are pseudo-foreign (i.e. round-tripping OFDI), although they do significantly distort geographical statistics (because of trans-shipping OFDI).

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[1] Bank of Russia. *International Investment Position of Russia for 2001-2011*, available at: http://www.cbr.ru/eng/statistics.
[2] UNCTAD,, *op. cit.*, Web table 4.
[3] Alexey Kuznetsov, "Rossiyskiye TNK: evolyutsiya ot kompaniy regional'nih k global'nim," *Vestnik federal'nogo gosudarstvennogo uchrezhdeniya Gosudarstvennaya registratsionnaya palata*, vol. 13 (2011), no. 4.
[4] Alexey Kuznetsov, Anna Chetverikova and Natalia Toganova, "*Investment from Russia stabilizes after the global crisis*," 23 June 2011, available at: http://www.imemo.ru and http://www.vcc.columbia.edu.
[5] Elina Pelto, Peeter Vahtra and Kari Liuhto, "Cyp-Rus investment flows to Central and Eastern Europe," *Electronic Publications of Pan-European Institute*, 2004, no. 10, available at: http://www.tse.fi/pei; *Evraz Group S.A. Consolidated Financial Statements*, Year Ended December 31, 2009, p. 60, available at: http://www.evraz.com, etc.

In 2007, the Bank of Russia began to publish detailed statistics on the geographical distribution of Russian OFDI flows. These data demonstrate the priorities of Russian investors during the global crisis. Side by side with Cyprus, the Netherlands and other locations for round-tripping and trans-shipping OFDI, the United States has become one of the most important host countries (annex table 4a). Some small countries of the Commonwealth of Independent States (CIS) and Central and South-East Europe are also among main recipients of Russian OFDI. Armenia, Belarus, Bulgaria, Latvia, Montenegro, Serbia, Uzbekistan, and some other countries are not popular among foreign investors globally but attract significant Russian OFDI due to cultural and language ties, developed industrial chains, business contacts from the Soviet period and other advantages of the so-called "neighborhood effect".

Several countries appear among the leading hosts for Russian OFDI thanks to the activities of just one company. For instance, Zarubezhneft has become the first Russian MNE to invest in Bosnia and Herzegovina.[1] Almost all Russian OFDI in Hungary has been made by Surgutneftegaz, which has bought more than 20% of MOL, the country's main oil company (though Surgutnefetgaz resold its stake to the Hungarian state in the middle of 2011). There are also other examples, especially in Latin America and Africa.

The corporate players

According to the author's own calculations, the OFDI stock of Russian MNEs exceeded US$ 100 billion in 2009. Our estimate is much higher than Rosstat data because all Russian companies with significant foreign assets have been investigated.[2] However, our estimate is much lower than Bank of Russia data because it excludes OFDI of various Russian investment funds, citizens' OFDI in real estate and pseudo-foreign investment via offshore locations.

In contrast to many other emerging markets, Russia has become a home economy for several dozen large MNEs.[3] Although LUKOIL is the undeniable leader, Gazprom and several Russian metal companies carry similar weight, leading the country's list of top MNEs in 2009 (annex table 5). As noted, oil and gas, iron and steel, and non-ferrous metal industries represent the main areas of international investment by Russian MNEs. Firms from these industries, as well as agrochemical and electricity companies, strengthen their competitive advantages with OFDI. However, the pattern of Russian FDI in the global economy does not fully reflect the country's industrial structure. Russia's internal market is quite large in many modern high-tech industries which produce considerable value added in various branches within the country but do not yet engage in international production.

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[1] Compare annex table 4a with annex table 7.

[2] The results of the IMEMO–VCC survey of Russian MNEs covered 20 top MNEs; but the IMEMO team investigated reports of 40 largest MNEs and administered special questionnaires. These 40 companies were selected from more than 100 companies whose OFDI was covered by media and various M&A databases.

[3] Karl P. Sauvant, Vishwas Govitrikar and Ken Davies, eds, *MNEs from Emerging Markets: New Players in the World FDI Market* (New York: Vale Columbia Center on Sustainable Investment, January 2011), available at: http://www.vcc.columbia.edu.

Russian MNEs include not only resource-based companies but also, among others, telecommunications companies. Firms from the Russian nuclear value chain (mining of uranium ore, production of nuclear materials and equipment and the construction of nuclear power stations) have also begun their foreign expansion. The industrial spectrum of the "second echelon" of Russian MNEs is more complex and includes various companies from the construction and building materials industry (e.g. Eurocement, the LSR Group), machinery (e.g. Sitronics from the Sistema conglomerate, Tractor Plants, Borodino), food industry (e.g. Wimm-Bill-Dann, the SPI Group) and other branches. The process of internationalization of almost all leading Russian service companies is also very impressive. Russian telecommunications MNEs are the most well-known of these,[1] but one can also find large Russian companies with OFDI in transportation (e.g. Globaltrans, Russian Railways, UTair), retail (e.g. X5 Retail, Vester), banking (e.g. Sberbank, Gazprombank, Alfa-bank)[2], IT business (e.g. LANIT, IBS, Kaspersky Lab), media (e.g. CTC Media, Interfax), and some other sectors.

The role of state-controlled MNEs in Russia's OFDI is relatively large compared with that in developed countries, but rather low in comparison with some emerging markets, especially China. However, it would be a misleading simplification to divide Russian MNEs just into state-owned and private companies. Among state-controlled firms, one can find both effective and market-oriented companies and clumsy giants that could hardly function without state backing. Similarly, among privately-owned firms, there are both dynamic business groups and the rent-seeking empires of the oligarchs. Although nowadays it is mainly MNEs of the classic type (characterized by firm-specific and internationalization advantages and motivated by a variety of alternative considerations as noted below) that dominate the leading Russian MNEs, some companies with significant foreign assets do have different features. For example, Zarubezhneft can be seen as a successor to Soviet MNEs due to its key subsidiary in Vietnam. Then there are companies that exploit transnational economic ties within the former Soviet area, such as INTER RAO UES and perhaps Eurochem.[3] Although there are classic MNEs among the Russian transport MNEs in the "second echelon" mentioned above, the largest investor, Sovcomflot, with its fleets in Cyprus, Liberia and some other countries that offer flags of convenience, has strong features of pseudo-MNEs.[4]

The two most prominent FDI theories largely explain the expansion of investment by Russian companies abroad. On the one hand, the widespread market-seeking, efficiency-seeking, asset-seeking, and resource-seeking motives of Russian MNEs are in line with

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[1] Nikita Lisitsyn, Sergey Sutyrin, Olga Trofimenko, and Irina Vorobieva, "Outward internationalization of Russian leading telecom companies," *Electronic Publications of Pan-European Institute*, 2005, no. 1, available at: http://www.tse.fi/pei.

[2] The oldest Russian banking subsidiaries abroad belong to VTB. For details see, Kari Liuhto and Jan Jumpponen, *The Russian eagle has landed abroad* (Lappeenranta: Lappeenranta University of Technology, 2003).

[3] Alexey Kuznetsov and Anna Chetverikova, "Despite the crisis, Russian Federation MNEs continue their outward expansion in 2008," in Sauvant, Govitrikar and Davies, op. cit., p. 313.

[4] Alexey Kuznetsov, "Prospects of various types of Russian transnational corporations (TNCs)," *Electronic Publications of Pan-European Institute*, 2007, no. 10, pp. 18–27, available at: http://www.tse.fi/pei.

the eclectic theory of international production.[1] Russian investors are usually large exporters and their OFDI supports their sales and market-seeking efforts. In some cases, it reduces transportation costs for finished goods (e.g. LUKOIL's refineries in European countries) or secures their exports against political instability in transit countries (e.g. the participation of Gazprom in operating pipelines). Another motive is the desire to reduce the impact of United States or EU trade protectionism, especially in the metal industry. However, asset-seeking motives are also important in the case of FDI by Russian MNEs in developed countries, while resource-seeking motives are typical in the case of Russian OFDI in Kazakhstan and some African countries. Efficiency-seeking motives can be found only in Russian FDI in the CIS and a few other countries, where labor costs are lower than in Russia. On the other hand, in keeping with the explanation provided by the Uppsala theory of the internationalization of the firm, short psychological distance, low language and cultural barriers for Russian MNEs in former Soviet Union and Balkan Slavic countries, as well as strong economic and political ties inherited from the Soviet period, play an important role in Russian FDI in some countries.[2] Many Russian MNEs do not have much experience in foreign investment activities and therefore usually prefer to buy companies or to establish new affiliates only under the familiar conditions of former communist countries, especially those with a favorable attitude to Russia due to cultural ties. In contrast to, say, India, Russia is "lucky" in this with its neighborhood for OFDI, especially in Ukraine (where the negative consequences of the Orange Revolution were insignificant for the majority of Russian MNEs).

Other FDI motives of Russian MNEs exist side by side with the traditional four key motives in the eclectic paradigm, leading to a real plurality of OFDI motives for Russian MNEs. For example, while it is false to say that any significant part of Russian OFDI services Russian foreign policy, political aspects of OFDI decisions are taken into account in many cases. Russian embassies often supply Russian investors with necessary information and help develop useful contacts with local companies. Russian political support can soften protectionism (e.g. in Belarus, Vietnam, Venezuela). The Russian Government and MNEs have developed schemes such as "investment-for-debts" in some countries (e.g. Armenia). Many privately-owned Russian MNEs are suspected of using OFDI as a novel means of capital flight or creating safety nests abroad.[3]

Among the most specifically Russian OFDI motives, which are often combined with the classic motives, one can also mention the desire to improve the image of top managers, access to cheap financial resources from international stock exchanges to develop business in Russia and strengthening a firm's negotiating power. Such power is useful

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[1] John H. Dunning, "The eclectic paradigm of international production: a restatement and some possible extensions," *Journal of International Business Studies*, vol. 19 (1988), no. 1, pp. 1–31; Kalman Kalotay, "Russian multinationals and international investment paradigms," *Research in International Business and Finance*, vol. 22 (2008), no. 2, pp. 85–107.

[2] Jan Jonanson and Jan-Erik Vahlne, "The internationalization process of the firm: a model of knowledge development and increasing foreign market commitments," *Journal of International Business Studies*, vol. 8 (1977), no. 1, pp. 23–32; Alexey Kuznetsov, "Pryamiye inostranniye investitsii: effekt sosedstva," *Mirovaya ekonomika i mezhdunarodniye otnosheniya*, vol. 52 (2008), no. 9, pp. 40–47.

[3] Alexander Bulatov, "Gosregulirovaniye vivoza kapitala iz Rossii v nastoyashchem I budushchem," *Mirovaya politika: vzglyad iz budushchego* (Moscow: MGIMO-University, 2009, Vol. 10), pp. 74–78; Sergey Filippov, "Russia's emerging multinationals: trends and issues," *UNU-MERIT Working Papers*, 2008, No. 062, p. 7.

both in dialogue with the Kremlin on anti-monopoly investigations and in the struggle against protectionism abroad. There is an extraordinary personalization of large Russian MNEs, including some of the largest. For example, Alexey Mordashov, the CEO of Severstal, owns 82.9% of its shares. The chairperson of NLMK's board, Vladimir Lisin, controls 85.5% of NLMK's shares. The chairperson of Mechel's board, Igor Zyuzin, owns 66.8% of Mechel's shares.[1]

A few Russian oligarchs own both large companies specializing in one or several related industries and investment funds for expansion into other sectors. For example, Alexey Mordashov controls Severstal as well as S-Group Capital Management, which operates funds with foreign assets in tourism and some other sectors. Several Russian oligarchs realize their ambitious investment plans via special funds. For instance, Alexander Lebedev controls the National Reserve Company, which is involved in banking, insurance, tourism, transportation, and media. Its largest foreign project is Blue Wings in Germany, in which the National Reserve Company owned 48% of shares and invested more than US$ 100 million (though this airline went bankrupt in the global crisis).

Some oligarchs prefer to invest the money they acquired from the privatization of Russian enterprises in the 1990s in foreign funds. For example, Vladimir Iorich sold his 42% holding of Mechel's shares in 2006 and invested approximately US$ 0.9 billion in the Pala Investments Fund, which is registered in Switzerland, and is involved in mining OFDI worldwide. Some illegal motives also exist. For example, a Russian MNE under state control can make OFDI for market-seekingreasons, but at the same time it may be possible for some top managers to steal some money from the incorrectly estimated price of an investment project (e.g. through kickbacks, which are known in Russia as *otkat*).[2]

There are special motives connected with Russian OFDI in real estate. There are more than 100 billionaires (oligarchs) in Russia (despite its rather modest GDP per capita, the country is in third place in the world as regards billionaires[3]). All the oligarchs' huge fortunes are based on privatization deals in the 1990s, when they acquired leading plants and mines for symbolic prices, and are protected by the modern Russian economic system characterized by low competition and high corruption.[4] However, many oligarchs understand the instability of their situation and try to accumulate reserves abroad, including through OFDI. European countries have become the main locations for Russian oligarchs' OFDI in palaces, castles and football clubs. A few businesspersons (e.g. Evgeny Shvidler, Vladimir Iorich) have changed their citizenship, but usually Russian oligarchs prefer informal emigration because they cannot increase their fortunes without maintaining their existing ties to the Kremlin (e.g. Boris Berezovsky in the United Kingdom, Vladimir Gusinsky in Spain). The best example of a modern Russian oligarch is Roman Abramovich. He is the speaker of the Chukotka Autonomous District

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[1] Official information on these companies is available at: http://www.severstal.com; http://www.nlmksteel.com; http://www.mechel.com.

[2] For details on Russian criminal schemes, including *otkat* in foreign activities, see, Andrey Yakovlev, *Agenti modernizatsii* (Moscow: Higher School of Economics, 2006).

[3] *The World's Billionaires 2011*, available at: http://www.forbes.com/wealth/billionaires/list.

[4] Jakov Pappe and Jana Galuhina, *Rossiyskiy krupniy biznes: perviye 15 let* (Moscow: Higher School of Economics, 2009).

Parliament and a former governor of this Russian region. Despite his official position in Russia, Mr. Abramovich spends most of his time abroad. He has invested around US$ 1 billion in British, French and other European luxury real estate.[1]

At the same time, Russians from the middle class also invest abroad in real estate, usually in holiday homes for non-commercial purposes in tourist regions (though FDI statistics do not distinguish purposes of investment in real estate). The real estate markets in large Russian cities are monopolized and prices for apartments are extremely high.[2] Thus, people from the middle class sometimes prefer to buy houses and apartments abroad instead of investing their capital in expensive automobiles or dachas (summer cottages) in Russian provinces. At the same time, private investments in Russian companies' shares are very risky while savings in banks are unprofitable. The average price for Russian deals in foreign real estate was only US$ 210,000 in 2009.[3] Every year, including during the current global downturn, Russians spend more than US$ 10 billion for cheap real estate in Bulgaria, Cyprus, Montenegro, Spain, Germany, Turkey, and other countries.[4] As a result, the share of investment in real estate exceeds 20% of total Russian OFDI flows.

Effects of the recent global crisis

In the middle of the 2000s, many Russian MNEs preferred to develop their investment expansion by cross-border M&As involving companies in difficult financial conditions. The process was driven less by the potential advantages of extending their international intra-firm value added chains than by the possibilities of easy acquisitions.[5] However, many of the foreign companies acquired became serious burdens for new Russian investors during the recent downturn. Moreover, some Russian MNEs financed their OFDI not only from their huge export revenues of the pre-crisis period but also through foreign loans. The most prominent example was Basic Element, a major diversified MNE owned and controlled by Oleg Deripaska. During the global crisis, the investment empire of Basic Element was saved only by multibillion dollar support provided by the Russian Government. Nevertheless, it lost some of its foreign assets in machinery and construction, and reduced its stake to a minority one in its largest metal subsidiary UC RUSAL, which began an initial public offering in 2010.

Several Russian companies have lost all their major foreign subsidiaries in machinery, construction, insurance, and some other industries. The situation in the iron and steel industry is the most striking one: MAIR and Estar went bankrupt, while Koks sold all its Slovenian plants. Even the M&A activities of the relatively successful steel companies were interrupted in mid-2008 (annex table 6). In 2010, Severstal announced plans to sell

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[1] For more detail on this phenomenon see, Alexey Kuznetsov, ed., *Vliyaniye rossiyskoy investitsionnoy ekspansii na obraz Rossii v Yevrope* (Moscow: IMEMO, 2010), pp. 90–94, available at: http://www.imemo.ru.

[2] *Tseni v Rossii. 2010* (Moscow: Rosstat, 2010), pp. 117, 119, available at: http://www.gks.ru.

[3] *Aktivnost' rossiyan na rinke zarubezhnoy nedvizhimosti: itogi 2009 goda*, 10.02.2010, available at: http://gordonrock.ru/news/?tema=97&news_id=550.

[4] Bolgariya – dlya vseh, Shveytsariya – dlya izbrannih, 31.01.2011, available at: http://gordonrock.ru/news/?tema=10&news_id=824.

[5] Boris Kheyfets and Vladimir Baykov, "Apologiya beglogo kapitala," *Expert*, 2009, No.3, available at: http://www.expert.ru.

its largest European subsidiary Lucchini and some enterprises in the United States. The largest non-ferrous metal companies survived but went down in the ranking of top Russian MNEs. Only oil and gas companies continued to realize large new M&A deals in 2009. In 2010, the economic recovery began and M&A deals by MNEs in other industries (e.g. VimpelCom, ARMZ) showed that Russia remained an important source of OFDI.

Many greenfield projects were frozen in 2009, although at the same time many Russian companies announced great plans. For example, the expansion of Mechel in India was halted, while UC RUSAL did not begin its OFDI activities in Vietnam. However, the crisis opened new possibilities for expansion and diversification by some highly competitive companies. Russian oil and gas giants strengthened their expansion in developing countries, especially in Venezuela and Iraq. Russian telecommunication leaders went outside the former Soviet Union area (annex table 7). Many examples can also be found in the second echelon of MNEs. In 2008–2010, Russian Railways went to Armenia and broadened its activities in European countries and Mongolia (a huge project of the company in Libya was temporarily stopped in 2011 because of the war there). Despite small OFDI, some Russian IT firms also diversified markedly abroad.

A significant transfer of jobs from Russia has since the crisis for the first time drawn attention to the negative impact of Russian OFDI on the home economy. Before the crisis, this was not so noticeable because the Russian economy was growing rapidly. In 2008-2009, Russian MNEs decreased their personnel at home rather easily while their staff reduction abroad was slight. There were two main reasons for this difference. On the one hand, the gap between the productivity of the labor force in Russia and that in Western countries was still high, providing an incentive for MNEs to reduce jobs first of all in Russia. On the other hand, Russian trade unions were weak while relevant state policy was rather inarticulate.

The policy scene

There is a widespread perception that the Russian state has a significant influence on the operations of Russian MNEs. In fact, "patriots" (state-controlled corporations with political goals that take precedence over business rationale) and "conformers" (private companies that frequently operate in line with Russia's official policies) are relatively rare.[1] For example, there are only a few large state-controlled Russian MNEs: two companies out of the ten largest Russian non-financial MNEs and five companies in the top 20 Russian MNEs.[2] Moreover, managers of some Russian state-owned MNEs abuse their position and pursue their own interests. Some companies have assumed a leading role in the Russian economy due to state participation, but it is difficult to see any special state support in their cross-border expansion.

[1] These terms were coined by Peeter Vahtra and Kari Liuhto in their "Expansion or exodus? Foreign operations of Russia's largest corporations," *Electronic Publications of Pan-European Institute*, 2004, no. 8, p. 94, available at: http://www.tse.fi/pei.

[2] Alexey Kuznetsov, Anna Chetverikova and Natalia Toganova, "*Investment from Russia stabilizes after the global crisis*," June 23, 2011, available at: http://www.imemo.ru and http://www.vcc.columbia.edu.

At the same time, there are some examples of coordination between Russian MNEs and Russian foreign policy. For instance, Russian private companies toed the line with the Russian Government's official position and temporarily decreased their economic contacts with Estonia in 2007 after a grave of Soviet soldiers was desecrated in Tallinn.[1] However, it is difficult to find strictly-defined Russian national goals or interests in many other cases. For example, there are opposing views on the conflicts over natural gas with Ukraine and investment in gas transportation in Belarus. Some experts speak of the end of Russian gas diplomacy and a real transformation of Gazprom into a classic MNE, while others perceive the situation as the beginning of an active gas diplomacy.[2] Political influence is a factor in Russian investment expansion in Central Asia (much as in the case of United States OFDI in Latin America or German MNEs' investment in Eastern Europe), but it is not a crucial factor.[3] It is impossible to prove a strong connection between Russian investment and Russian foreign policy in Asia and Africa, although sometimes the Government of Russia tries to help Russian private MNEs in those regions. The Government usually protects existing projects (e.g. LUKOIL or UC RUSAL subsidiaries), but its role during the initial stages of Russian OFDI projects is insignificant.

State support for Russian OFDI is weak and uses only a few policy instruments.[4] The main problem seems to be the lack of experience in investing abroad. For example, a state insurance agency for export credits and OFDI has not yet been established, although the Russian State Bank for Development and Foreign Economic Affairs (Vnesheconombank) announced plans to do this several years ago. The Russian Federation also has only modest positions in the field of double taxation treaties (DTTs) and bilateral investment treaties (BITs), especially outside the traditional regions of Russian firms' foreign expansion. For example, there were only 58 BITs with Russian participation in force at the end of 2010. However, dozens of treaties are in the process of ratification (with the United States, Portugal, Uzbekistan, Slovenia, Thailand, Ethiopia, Algeria, and Brunei) or on the way to being signed.[5] However, the main focus of Russia's current outward investment policy appears to center on the protection of dozens of existing Russian MNEs.

Conclusion

Russian OFDI activities will continue to increase, although the speed of foreign expansion will be slower. First, LUKOIL and some other large MNEs have never stopped

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[1] Alexey Kuznetsov and Anna Chetverikova, "Problemi rossiysko-pribaltiyskih ekonomicheskih svyazey," *Mirovaya ekonomika i mezhdunarodniye otnosheniya,* vol. 53 (2009), no. 7, pp. 73–81.

[2] Leonid Grigoriev, "Ukraina – Rossiya: ekonomika gazovoy voyni," *Strategiya Rossii*, vol. 3 (2006), no. 3, available at: http://www.fondedin.ru/sr; Sergei Komlev, "Lessons to be taken from the January transit crisis," March 26, 2009, available at: http://www.imemo.ru/ru/conf/2009/00309_1.pdf; Elizabeth Buchanan, "Pipeline politics: Russian gas diplomacy under Putin", 2010, available at: http://apsa2010.com.au/full-papers/pdf/APSA2010_0190.pdf.

[3] Alexey Kuznetsov, "Investitsii v Tsentral'noy Azii: problemi konkurentsii rossiyskih i zarubezhnih TNK," *Konflikti ekonomicheskih i politicheskih interesov na postsovetskom prostranstve*, ed. by Fedor Voytolovskiy and Alexey Kuznetsov (Moscow: IMEMO, 2008), pp. 28–37, available at http://www.imemo.ru/ru/publ/2008/08025.pdf.

[4] Boris Kheyfets, "Vneshniy sector rossiyskoy ekonomiki," *Voprosy Ekonomiki*, vol. 79 (2007), no. 11, pp. 76–91.

[5] Ministry of Foreign Affaires of the Russian Federation, *Dvustoronniye soglasheniya o pooshchrenii i vzaimnoy zashchite kapitalovlozheniy*, 26.02.2010, available at: http://www.mid.ru.

their expansion abroad. Secondly, companies that have overcome the effects of the crisis have announced new projects, and many of these look realistic. For example, Rosneft announced a purchase of 50% of Ruhr Oel's shares for US$ 1.6 billion in October 2010. In May 2011, Rosneft did become the owner of this German refinery company. Thirdly, some Russian firms from the second echelon have only recently begun their internationalization: they can be expected to undertake significant OFDI at least within the CIS and some other neighboring regions. However, there are serious questions about the future character of Russian OFDI. Many experts and politicians think that the international production activities of Russian MNEs should stimulate a rapid modernization of the Russian economy. If Russian billionaires prefer to continue their expansion for the sake of expansion, the prevailing weak Russian state support can be transformed into restrictive policy.

Information services are crucial for successful OFDI by Russian MNEs. However, the state cannot provide them itself because the staff of various state economic bodies or trade representations abroad is limited. In many cases, officials cannot support private companies with independent information on investment climate details or the political aspects of local business. As for analytical centers (such as academic institutes, universities and private agencies), they need additional financial resources that can be supplied only by the companies themselves. Unfortunately, many Russian MNEs and potential investors do not cooperate with experts in such activities. Large Russian businesses have yet to establish positive relationships with civil society.

Additional readings

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Useful websites

For statistical material about Russian OFDI, see the Bank of Russia, available at: http://www.cbr.ru.
For texts of Russian laws, see ConsultantPlus, available at: http://www.consultant.ru.

Statistical annex

Annex table 1. Russia: outward FDI stock, 2000–2011

Economy		FDI stock (US$ billion)							2010 OFDI stock per capita (US$)
		2000	2005	2007	2008	2009	2010	2011	
Russia [a]	Data of the Bank of Russia	20	147	370	206	303	369	362	2,620
	Data of Rosstat	…	4	14	32	45	57	N/A	403
Memorandum: Comparator economies									
China (without Hong Kong)		28	57	96	148	230	298	366	225
Brazil		52	79	140	156	165	181	203	934
India		2	10	44	63	79	92	111	77
Poland		1	6	21	24	30	37	50	968
Hungary [b]		1	8	17	20	22	21	24	2,070
Kazakhstan		0	0	2	3	7	16	20	1,034
Ukraine		0	0	6	7	7	8	8	174

Sources: Bank of Russia, *International Investment Position of Russia for 2001–2011*, available at: http://www.cbr.ru/eng/statistics; Rosstat database, available at: http://www.gks.ru. For comparator economies: UNCTAD, *World Investment Report 2011: Non-Equity Modes of International Production and Development* (Geneva, United Nations, 2011), available at: http://www.unctad.org, Web table 4; *UNCTAD Handbook of Statistics*, 2010, pp. 473–474, 479, 481–482.

[a] There are two official sources for FDI statistics in Russia. The Bank of Russia estimates FDI figures by using balance-of-payments data. As a result, it includes all forms of FDI. Its statistics are the source for the FDI data for Russia in UNCTAD's FDI database (though UNCTAD usually receives preliminary data for the latest year and updates it only in subsequent reports). However, the Bank of Russia's data lack detailed information on the sectoral structure of FDI. The Federal State Statistics Service (Rosstat) collects data from companies and publishes detailed information (since 2005). However, its data do not include information for some countries and industries because the level of transparency of some Russian MNEs is inadequate.

[b] Excluding data on special purpose entities.

Annex table 2. Russia: outward FDI flows, 2000–2011

(US$ billion)

Economy		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Russia	*Data of the Bank of Russia*	3.2	2.5	3.5	9.7	13.8	12.8	23.2	45.9	55.5	43.6	51.7	67.2
	Data of Rosstat	…	…	…	…	2.1	0.6	3.2	9.2	21.8	17.5	10.3	N/A
Memorandum: Comparator economies													
China		0.9	6.9	2.5	2.9	5.5	12.3	21.2	22.5	52.2	56.5	68.0	65.1
Brazil		2.3	-2.3	2.5	0.2	9.8	2.5	28.2	7.1	20.5	-10.1	11.5	-1
India		0.5	1.4	1.7	1.9	2.2	3.0	14.3	17.2	19.4	15.9	14.6	14.8
Hungary		0.6	0.4	0.3	1.6	1.1	2.2	3.9	3.6	3.1	2.7	1.5	4.7
Poland		0.0	-0.1	0.2	0.3	0.9	3.4	8.9	5.4	4.4	5.2	4.7	5.9
Kazakhstan		0.0	-0.0	0.4	-0.1	-1.2	-0.2	-0.3	3.2	1.2	3.1	7.8	4.5
Ukraine		0.0	0.0	-0.0	0.0	0.0	0.3	-0.1	0.7	1.0	0.2	0.7	.2

Sources: UNCTAD, *World Investment Report 2011: Non-Equity Modes of International Production and Development* (Geneva: United Nations, 2011), available at: http://www.unctad.org, Web table 2; Bank of Russia, *Balance of Payments of the Russian Federation*, available at: http://www.cbr.ru/eng/statistics; Rosstat database, available at: http://www.gks.ru.

Annex table 3. Russia: sectoral distribution of outward FDI stock, 2009

(US$ million)

Sector/industry	2009 [a]
All sectors/industries	44,628
Primary	1,318
Mining and quarrying	1,318
Extraction of crude petroleum and gas	306
Extraction of metal ores	894
Secondary	18,732
Manufacturing	18,544
Manufacture of food products and beverages	118
Manufacture of refined petroleum products	3,263
Printing and reproduction of recorded media	154
Manufacture of chemicals and chemical products	81
Manufacture of iron and steel	7,467
Manufacture of non-ferrous metals	7,062
Manufacture of nuclear power equipment	57
Manufacture of transport equipment	125
Electricity, gas, steam and water supply	184
Construction	4
Services	24,578
Wholesale and retail trade and repairing	17,341
Wholesale trade of fuels	14,078
Transportation and communication	1,899
Transport	1,088
Telecommunication	811
Financial activities	3,277
Real estate activities	2,055

Source: Rosstat database, available at: http://www.gks.ru.

[a] The database of Rosstat is based only on responses received from companies to its surveys. If a Russian MNE prefers not to answer the official request of Rosstat, data on the company's OFDI will be absent from the Rosstat statistics.

Annex table 4. Russia: geographical distribution of outward FDI stock, 2009

Region/economy	According to Rosstat	According to Bank of Russia	According to national statistics of host countries
World	44,628	306,241	...
Developed economies	38,142	239,574	...
Europe	32,686	217,930	...
European Union	29,626	206,020	38,332
Austria	408	6,339	2,276
Bulgaria	6	1,470	1,321
Cyprus	13,149	120,093	3,611
Czech Republic	6	1,336	257
Estonia	26	602	466
Finland	66	974	656
France	67	1,339	621
Germany	110	7,444	2,929
Hungary	1	2,266	1,631
Ireland	2	661	727
Italy	58	1,908	1,564
Latvia	100	535	512
Lithuania	221	1,380	869
Luxembourg	479	19,906	…
Netherlands	12,397	24,114	445
Poland	18	596	163
Spain	0	3,059	2,594
United Kingdom	2,224	10,341	1,223
Gibraltar	1,000	3,080	…
Switzerland	2,058	7,733	…
North America	5,455	10,773	8,107
Canada	0	241	315
United States	5,455	10,532	7,792
Bermuda	0	10,478	…
Developing economies	2,509	47,935	...
Africa	189	1,278	...
Liberia	179	1,027	…
Asia and Oceania	811	5,089	...
China	13	78	…
India	536	46	371
Turkey	228	2,636	2,271
Vietnam	0	987	2,321
United Arab Emirates	4	1,197	…
Latin America and Caribbean	1,509	41,568	…
Bahamas	0	3,804	…
British Virgin Islands	1,379	33,285	…
Cayman Islands	25	3,388	…
Transition economies	3,976	18,732	...
Montenegro	0	1,339	…
CIS	3,923	15,955	...

Armenia	725	313	…
Belarus	1,977	6,069	…
Kazakhstan	61	2,701	1,022
Ukraine	575	4,327	2,675
Uzbekistan	333	1,374	…

(US$ million)

Source: Rosstat database, available at: http://www.gks.ru; Bank of Russia database (http://www.cbr.ru); Eurostat database (http://appsso.eurostat.ec.europa.eu, latest update – 07.02.2011); and national statistics on FDI of the USA (http://www.bea.gov/international/ii-web), Canada (http://www.international.gc.ca); India (http://dipp.nic.in/fdi_statistics/india_FDI_December2009.pdf); Vietnam (http://www.gso.gov.vn), Kazakhstan (http://www.nationalbank.kz/cont/publish119221_6516.pdf) and Ukraine (http://www.ukrstat.gov.ua).

Annex table 4a. Russia: geographical distribution of FDI outflows, 2007–2010

Region/economy	FDI outflows, US$ million					World rank[a]
	2007	2008	2009	2010	Average, 2007–2010	
World	45,897	55,540	43,632	51,664	49,183	–
Developed economies	38,878	44,788	33,896	39,742	39,326	–
Europe	34,923	29,401	31,252	36,727	33,076	–
European Union	32,619	25,579	27,110	35,150	30,115	–
Austria	230	253	458	847	447	16
Belgium	80	49	36	36	50	47
Bulgaria	168	387	229	286	268	24
Cyprus	14,630	8,879	15,391	17,865	14,191	1
Czech Republic	248	319	142	359	267	25
Finland	110	154	185	246	174	29
France	257	217	386	335	299	10
Germany	674	1,860	1,488	1,872	1,474	9
Greece	33	58	32	318	110	35
Hungary	-12	542	1,789	47	592	15
Ireland	227	294	-279	1,002	311	19
Italy	87	295	158	315	214	27
Latvia	79	166	78	136	115	34
Lithuania	57	57	64	41	55	45
Luxembourg	497	2,722	784	2,949	1,738	8
Netherlands	12,501	4,685	3,377	6,761	6,831	2
Romania	1	25	39	196	65	41
Spain	259	458	375	490	396	17
Sweden	-55	177	256	203	145	31
United Kingdom	2,454	3,886	2,016	1,385	2,435	4
Gibraltar	886	1,311	2,178	-870	876	12
Isle of Man	-92	-28	-6	527	100	38
Monaco	81	82	52	79	74	40
Norway	-10	2	22	123	34	54
Switzerland	1,404	2,426	1,806	1,755	1,848	7
North America	1,155	13,988	1,654	1,915	4,678	–
Canada	181	6,723	20	863	1,947	6
United States	974	7,265	1,634	1,052	2,731	3
Other developed economies	2,800	1,399	990	1,100	1,572	–
Australia	42	47	14	36	35	53
Bermuda	2,689	1,305	854	999	1,462	10
Israel	50	42	25	59	44	50
Developing economies	2,704	5,974	3,497	7,028	4,801	–
Africa	74	58	69	124	81	–
Asia and Oceania	1,183	1,103	308	771	841	–
China	54	25	22	30	33	55
India	13	401	2	-3	103	37
Turkey	183	272	106	143	176	28
United Arab Emirates	901	240	60	81	321	18
Vietnam	6	0	41	173	55	43
Latin America and Caribbean	1,447	4,813	3,120	6,133	3,878	–
Argentina	0	216	3	1	55	44
Bahamas	-285	-89	333	402	90	39
Barbados	0	0	0	259	65	42
Belize	-11	50	235	2,842	779	13
British Virgin Islands	1,425	3,822	2,305	1,892	2,361	5
Cayman Islands	53	718	296	87	289	21

Saint Kitts and Nevis	172	22	1	1	49	48
Venezuela	57	-90	0	601	142	32

Annex table 4a. Continued

Region/economy	FDI outflows, US$ million					World rank [a]
	2007	2008	2009	2010	Average, 2007–2010	
Transition economies	3,802	3,877	4,885	2,506	3,768	–
Bosnia and Herzegovina	1	55	287	94	109	36
Croatia	95	75	13	23	52	46
Georgia	71	63	-7	47	44	51
Montenegro	188	173	85	117	141	33
Serbia	44	11	609	208	218	26
CIS (without Georgia)	3,403	3,500	3,896	1,972	1,350	–
Armenia	269	266	179	-23	173	30
Belarus	759	735	881	1,410	946	11
Kazakhstan	103	326	1,029	-316	286	22
Moldova	41	15	110	18	46	49
Turkmenistan	7	25	54	83	42	52
Uzbekistan	354	414	217	131	279	23
Ukraine	1,605	441	669	34	687	14
Unspecified destinations	513	901	1354	2388	1,289	–

Source: Bank of Russia database, 26 May 2011, available at: http://www.cbr.ru.
[a] Ranking in terms of average annual FDI outflows during 2007–2010.

Annex table 5. Russia: principal non-financial MNEs headquartered in country, ranked by total foreign assets in 2009

Rank	Name	Main industries	Total foreign assets (US$ million)		Non-current foreign assets (US$ million)	
			2008 [a]	2009	2008	2009
1	LUKOIL	Oil & gas extraction / refineries / petrochemicals / petroleum retail	23,577	28,038	9,791	10,076
2	Gazprom	Oil & gas extraction / gas distribution / electricity	17,940	19,420	4,948	6,747
3	Evraz	Iron & steel / mining of metal ores and coals	11,199	10,363	…	…
4	Severstal	Iron & steel / mining of metal ores and coals	11,477	9,907	6,417	6,297
5	Mechel	Iron & steel / mining of metal ores and coals / electricity	~ 2,800	~ 5,100	2,246	4,190
6	Norilsk Nickel	Non-ferrous metals / mining of metal ores	4,600	~ 5,000	1,709	2,005
7	Sovcomflot	Sea transport	~ 4,581	~ 4,745	…	…
8	Sistema	Conglomerate (telecommunications dominate)	~ 3,900	~ 4,300	3,804	~ 4,200
9	NLMK	Iron & steel / mining of metal ores	4,985	~ 4,000	…	…
10	VimpelCom	Telecommunications	4,386	3,756	3,921	3,197
11	RENOVA	Conglomerate	~ 3,129	~ 2,972	~ 1,609	~ 1,740
12	TMK	Metal tubes	2,361	2,248	1,842	1,652
13	INTER RAO UES	Electricity production and supply	1,267	1,338	777	696
14	Zarubezhneft	Oil extraction / refineries	~ 1,100	~ 1,300	1,064	1,279
15	UC RUSAL	Non-ferrous metals / mining of metal ores	~ 1,200	~ 1,100	952	938
16	Atomenergo-prom	Mining of uranium ores / nuclear materials and equipment	71	812	…	…
17	FESCO	Sea and railway transportation	1,143	712	594	358
18	Polyus Zoloto	Mining of gold ores	0	~ 500	0	482
19	OMZ	Nuclear and other electric power machines	377	478	192	234
20	Acron	Agrochemicals	332	440	243	283

Sources: IMEMO survey of Russian MNEs based on their annual and financial reports, as well as a special questionnaires. Symbol '~' means author's calculations based on media news, etc. (see Alexey Kuznetsov, Anna Chetverikova and Natalia Toganova, "*Investment from Russia stabilizes after the global crisis*," 23 June 2011, available at: http://www.imemo.ru and http://www.vcc.columbia.edu).

[a] In 2009, three companies – Koks, Eurochem and ALROSA – were eliminated from the list of top Russian MNEs while Atomenergoprom, Polyuz Zoloto and Acron entered it as newcomers. The conglomerate Basic Element (6th place in 2008) got into trouble during the crisis because of its foreign loans. As a result, it lost some of its foreign assets and had to reduce its stake in its subsidiary UC RUSAL to a minority one. Thus, in 2009, UC RUSAL figured on the list on its own.

Annex table 6. Russia: main M & A deals, by outward investing firm, 2007–2010

Year	Acquiring company	Target economy	Target company	Target industry	Shares acquired (%)	Deal value (US$ million)
2007	Norilsk Nickel	Canada	LionOre Mining	Mining of ores	100.0	5,865
2010	Vimpel-Com	Ukraine	Kyivstar GSM	Telecom-munications	100.0 [a]	5,589
2008	Evraz	Canada	IPSCO Inc.	Iron and steel	100.0	4,250
2007	Gazprom	Belarus	Beltransgas	Gas transportation	50.0 [b]	2,500
2007	Evraz	USA	Oregon Steel Mills	Iron and steel	100.0	2,276
2008	Evraz	Ukraine	Palmrose	Iron & steel, coke and mining of ores	100.0	2,108
2009	Surgut-neftegaz	Hungary	MOL	Oil and gas	21.2	1,852 [c]
2008	LUKOIL	Italy	ISAB	Oil refinery	49.0	1,830 [d, e]
2008	TMK	USA	IPSCO Tubular and NS Group	Steel pipe and tubes	100.0	1,642 [d]
2009	LUKOIL	Netherlands (assets in Kazakhstan)	Lukarco	Oil and gas	46.0	1,599
2009	Mechel	USA	BCG	Mining of coals	100.0	1,447
2008	Mechel	UK (assets in Russia and Kazakhstan)	Oriel Resources	Mining of ores	100.0	1,440
2007	Basic Element	Austria	Strabag	Construction	30.0	1,427 [f]
2007	Gazprom	Germany	Wintershall Gas GmbH	Gas supply	15.0	1,218 (change of assets with BASF)
		Germany (assets in Libya)	Wintershall AG	Gas production	49.0	
2009	ARMZ (Atom-energo-prom)	Canada (assets in Australia, Kazakhstan and the USA)	Uranium One Inc.	Uranium ores	51.4 [g]	1,055
2008	Severstal	USA	Esmark	Iron and steel	100.0	978
2008	Severstal	USA	PBS Coals	Mining of coal	100.0	877
2008	Severstal	USA	Sparrows Point	Iron & steel	100.0	770
2009	LUKOIL	Netherlands	TRN	Oil refinery	45.0	725
2007	RENOVA	Switzerland	Sulzer	Machinery	31.2	720

Sources: Thomson ONE Banker, Thomson Reuters and information from financial reports of MNEs.

[a] Both companies were under joint control of Russian Altimo and Norwegian Telenor. After this merger, a new company VimpelCom Ltd. was established.

[b] The deal was realized in four steps and was finished in 2010.

[c] In 2011, Surgutneftegaz sold its share in MOL.

[d] The last payment for a deal was made in 2009.

[e] In 2011, LUKOIL bought additional 11% of ISAB's shares for US$ 283 million.
[f] Basic Element lost control over Strabag in 2009 but it re-acquired 17% of Strabag's shares in 2010.
[g] The deal was realized in three steps and was finished in 2010.

Annex table 7. Russia: main greenfield projects, by outward investing firm, 2007–2010

Years	Company	Destination	Industry & project	Value realized by the end of 2010 (US$ million) [a]
Since 2008	Sistema	India	Telecommunications − SSTL – 73.7% of shares (Pan-India CDMA mobile telephone communications)	~ 2,000 [b]
Since 2007	Magnitogorsk Iron & Steel Works (MMK)	Turkey	Construction of two steel works and infrastructure by joint company MMK Atakaş (MMK controls 50%)	~ 1,000 [c]
Since 2010	National Oil Consortium (five equal partners: Rosneft, LUKOIL, Gazpromneft, TNK-BP, and Surgutneftegas)	Venezuela	PetroMiranda – 40% of shares (oil exploration in the field Junin-6)	600
Since 2008	Russian Railways	Libya	Infrastructure connected with the construction of railways	~ 350 [d]
Since 2010	LUKOIL	Iraq	West Qurna 2 oil field (56.3% of shares in this project)	300
2008–2009	VimpelCom	Vietnam	GTEL-Mobile – 40% of shares (start of GSM 1800 mobile telephone communications)	267
Since 2008	Gazprom	Austria	Construction of the second bloc of gas-holder Heidach (first one was ready in 2007)	~ 250 [e]
2007–2010	Gazprom	Armenia	Construction of the fifth bloc of Razdan power station	194
2007–2009	Zarubezhneft	Bosnia and Herzegovina	Development of petroleum subsidiary (reconstruction and modernization of refinery and petrochemical destroyed during a civil war, as well as development of petroleum retail network)	171
2007–2010	Metalloinvest	United Arab Emirates	Construction of steel plant Hamriyah Steel (Metalloinvest controls 80% of shares)	150

Sources: Alexey Kuznetsov, Anna Chetverikova and Natalia Toganova, "*Investment from Russia stabilizes after the global crisis,*" June 23, 2011, available at: http://www.imemo.ru and http://www.vcc.columbia.edu; companies press releases for 2010.
[a] The symbol '~' indicates that the amount is an author's estimate.
[b] On the eve of the global crisis, Sistema planned to invest between US$ 4 billion and US$ 7 billion, or even US$ 10 billion, up to 2017–2020 in Indian telecommunications. In 2009, Sistema scaled down its plans.
[c] The project was announced in May 2007. Construction took place between July 2007 and March 2011. The total joint investment of the Russian and Turkish partners was US$ 2.1 billion.

[d] Russian Railways established a subsidiary and signed a contract in spring 2008 for the construction of railways in Libya. The price of the contract was € 2.2 billion (i.e. about US$ 3 billion). By the time the civil war broke out in 2011, about 10–15% of the investment had been made. At the end of 2010, the largest completed object was a rail-welding plant in Ra's Lanuf.
[e] Gazprom, its German subsidiary Wingaz and the independent German partner RAG built the second block of the gas-holder between the end of 2008 and the beginning of 2011. The total investment was € 300 million, i.e. about US$ 400 million.

Chapter 35 - Singapore

Singapore: Inward FDI and its policy context, 2012

Locknie Hsu[*]

Inward foreign direct investment (IFDI) has long been an important feature of the Singapore economy, and Singapore remains an attractive host to FDI. Apart from a brief decline in 2002, FDI inflows have generally been strong in the decade 2000-2010. They reached a peak in 2007 at US$ 37 billion, just before the global financial and economic crisis of 2008-2009. In 2008, inflows declined sharply to US$ 8.6 billion, before rapidly rebounding to reach US$ 38 billion in 2010. Singapore has moved from an economy primarily involved in manufacturing consumer goods in labor-intensive industries in the 1960s, to one producing high value-added goods and a variety of complex services in the 2000s. Investment policies have evolved to attract high-value added industries as well as targeted cluster activities, including those in biomedical sciences, logistics and research and development (R&D). At the end of 2010, the stock of FDI in Singapore stood at US$ 470 billion. In recent times, the Netherlands, the United States, Japan, and the United Kingdom have been the top sources of FDI in Singapore. Environmental policies are increasingly emphasized in the regulation as well as attraction of business activity, including by foreign MNEs.

Trends and developments

The modern economic history of Singapore begins around the period of the country's independence in 1965. The per capita GDP of Singapore at that time was US$ 516; in 2010, it was US$ 43,867, a remarkable 85-fold increase in only 45 years.[1] Total official foreign reserves of Singapore as at September 2011 stood at US$ 233.6 billion, or US$ 45,070 per capita.[2] Rapid economic growth and strong international trade performance have been accompanied by a noticeable increase in IFDI flows as well – from US$ 93 million in 1970, to US$ 39 billion in 2010. The percentage ratio of IFDI flows to GDP was 5% in 1970 and 18% in 2010, while the ratio of IFDI flows to gross domestic capital formation stood at 16% in 1970 and 30% in 2009.[3]

Singapore is a founding member of the Association of Southeast Asian Nations (ASEAN). As ASEAN economic integration was propelled forward since the early 1990s, IFDI flows to the sub-region have increased, and Singapore has also attracted a significant part of ASEAN's inward FDI. In 2010,

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[1] Singapore Department of Statistics data, available at: http://www.singstat.gov.sg/stats/themes/economy/hist/gdp.html.

[2] Monetary Authority of Singapore data, available at: http://www.mas.gov.sg/data_room/reserves_statistics/Official_Foreign_Reserves.html. The per capita figure is obtained by dividing the official reserves figure by the 2011 population figure of 5.183 million (available at: http://www.singstat.gov.sg/stats/keyind.html).

[3] Data are from UNCTAD, available at: www.unctadstat.unctad.org

Singapore accounted for half of ASEAN's total IFDI flows of US$ 79 billion.[1] (The shares were 20% in 1970 and 43% in 1990.)[2] The rise in flows to ASEAN as a whole and to Singapore in particular needs to be appreciated against the backdrop of three factors. First, concerted efforts by ASEAN members toward greater economic integration and liberalization within an identified timeframe - including the establishment of an ASEAN Free Trade Area and an ASEAN Investment Area in the 1990s – contributed to the attractiveness of the region. Secondly, following the establishment of the WTO in 1995, Singapore and other ASEAN members have implemented trade liberalization measures and deregulation initiatives. Thirdly, after the 1985 Plaza Accord, which saw a significant appreciation of the Japanese yen, FDI to ASEAN rose noticeably as Japanese producers relocated manufacturing operations to ASEAN countries such as Singapore, Malaysia and Thailand.[3]

Country-level developments

Singapore's IFDI stock has been growing steadily over the past decade (annex table 1). The economy showed resilience in the wake of the 2008-2009 global economic and financial crisis, with an increase of FDI stock between 2009 and 2010 of nearly 37%, as indicated by the data in annex table 1. As for inward FDI flows,[4] there were two periods of sharp decline in 2002-2003 and 2008, (annex table 2). However, by 2010, FDI inflows had risen to more than twice of those a decade earlier, to US$ 38.6 billion, surpassing inflows in 2007, the year preceding the crisis.

In terms of sectoral distribution, services account for the lion's share of FDI in Singapore (annex table 3): approximately 76% of FDI stock in 2009. In 2008, the IFDI stock declined in several manufacturing industries and in the manufacturing sector as a whole, but with some industries (such as refined petrol products, rubber, chemicals) holding out (annex table 3). In 2009, however, the FDI stock in manufacturing recovered its upward trend. In services, IFDI stock rose in all major categories in 2008 and in all except real estate activities in 2009, with wholesale and retail trade, financial and insurance services, and professional and technical services all seeing a substantial growth in stocks in 2008 as well as 2009. However, IFDI stock in the manufacture of wood and wood products turned negative in 2009, and that in land and air transport services was negative throughout the period 2005-2009. The diversification of the economy has contributed to IFDI growth in most industries, even during the global crisis, with inflows in only a few areas showing negative performance in 2008 and/or 2009.[5]

In terms of geographical distribution of inward FDI stock by source-economy, some interesting developments and trends can be observed. For instance, FDI stocks held by investors from China as well as from Hong Kong (China) both almost doubled in 2008 as compared with the previous year (annex table 4); in 2009, FDI stock from China doubled again, and that from Hong Kong (China) rose noticeably as well. Inward FDI stock originating in the Netherlands increased significantly in 2008, and

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[1] UNCTAD, *World Investment Report, 2011: Non-Equity Modes of International Production and Development*, (New York and Geneva: United Nations, 2011), p. 46.
[2] Based on data from UNCTAD, available at: www.unctadstat.unctad.org
[3] Asian Development Bank, *Asian Development Outlook Update 2007, Part II: Export Dynamics in East Asia*, p. 57, available at: http://beta.adb.org/publications/asian-development-outlook-2007-update
[4] According to the Singapore Ministry of Trade and Industry website, the 2008 figure is S$ 32 billion or US$ 24.8 billion. For the purpose of this *Profile*, the UNCTAD figure will be referred to. All Singapore dollar figures used in this *Profile* have been converted to US dollars using the IMF rate of exchange as at 13 January, 2012, namely, US$1 to S$1.2882 (source: http://www.imf.org/external/np/fin/data/param_rms_mth.aspx).
[5] On the diversification of the Singapore economy, see Singapore Economic Review Committee Report (2005), chapter 5, available at: http://app.mti.gov.sg/data/pages/507/doc/ERC_Comm_MainReport_Part1_v2.pdf.

there was a further small increase in 2009, reinforcing the Netherland's position as the top home country for FDI stock in Singapore. The United States and the United Kingdom took second and third positions respectively in 2008 as well as 2009. It is also noteworthy that the combined FDI stock of Latin American and Caribbean countries grew in 2008, with their total stock in 2008 nearing the amount held by Asian countries as a group.

The corporate players

Singapore has long welcomed foreign multinational enterprises (MNEs). According to the Ministry of Trade and Industry, more than 7,000 foreign MNEs have operations in Singapore.[1] Annex table 5 shows the top 25 foreign affiliates ranked by sales in Singapore in late 2008. Significantly, energy- and petrochemical-related companies dominate this list.

Prior to the 2008 global crisis, the Singapore authorities had decided in 2005 to authorize the establishment of two "integrated resorts". These were to be commercial complexes integrating retail, leisure and casino businesses, aimed at boosting the tourism sector. The decision led to investments in two integrated resorts by Las Vegas Sands Corp (United States) in Marina Bay Sands, and Genting Berhad (Malaysia) through its subsidiary, Genting Singapore PLC, in Resorts World Sentosa, with estimated investments, respectively, of US$ 5.5 billion and US$ 4.7 billion.[2] The two resorts opened in 2010.

The six largest merger and acquisition (M&A) transactions by value in 2008-2010 were the majority/whole acquisitions in Chartered Semiconductor Manufacturing, Parkway Holdings Ltd, PowerSeraya Ltd (a divestment by Temasek), Labroy Marine Ltd, JTC Corp (Industrial Properties portfolio), and Sorak Financial Holdings (annex table 6). These transactions (each with a value of above US$ 1.2 billion) show a continued interest in high-value (and other) inward investments in Singapore, both during and immediately after the period following the 2008-2009 global financial and economic crisis.

Singapore has been the beneficiary of a large number of greenfield investments by foreign MNEs over the years, which have contributed enormously to her rapid economic growth. In 2008-2010, a significant number of new projects continued to be announced and implemented. More than half of the top greenfield projects announced by inward investing firms during that period were in manufacturing, and two thirds of them were by MNEs from developed countries (annex table 7).[3]

Effects of the recent global crises

As noted, there was a sharp decline (of over 75%) in FDI inflows to Singapore in 2008 (annex table 2),[4] the first year of the recent global financial and economic crisis. According to data from Singapore's Ministry of Trade and Industry (MTI), however, FDI inflows in 2008 declined by a lower amount, -

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[1] Statement in Singapore MTI website, available at: http://app.mti.gov.sg/default.asp?id=605.

[2] See news reports at http://www.channelnewsasia.com/stories/singaporelocalnews/view/1052836/1/.html, and http://www.ft.com/cms/s/0/19a89792-51d2-11df-a2a2-00144feab49a.html.

[3] See also announcements regarding new projects announced and implemented by the EDB, at: http://www.edb.gov.sg/edb/sg/en_uk/index/news/project_announcements.html.

[4] See, for a more general discussion, "FDI into Asia declines", *Financial Times*, January 16, 2011, http://www.ft.com/intl/cms/s/0/ca309fd2-21a3-11e0-9e3b-00144feab49a.html#axzz1XiEuHIxM.

32%.[1] In that year, the Singapore authorities took further steps to ensure financial stability, well-functioning markets and investor confidence.[2]

Overall, in the period 2008-2010, a large number of cross-border M&A transactions continued to contribute to inward FDI flows (see annex table 6 for a list of the top deals). However, while the end of 2010 saw a further rise in FDI inflows to Singapore,[3] inward M&A transactions were reported to be on the decline in September 2011.[4]

The devastating earthquake and its aftermath in Japan in 2011, the serious floods in Thailand in late 2011 (which affected regional production and supply chains), the ongoing Eurozone debt crisis, and the US economic downturn are factors likely to affect the level of economic activity in Singapore.[5] Nonetheless, gross capital inflows (driven by direct investments and bank and non-bank private sector flows) are reported to have grown in the second quarter of 2011.[6]

The policy scene

When the United Kingdom relinquished rule in the 1960s, Singapore was left to fend for itself economically. However, many of the British legal and administrative structures set up before independence would endure. After a short-lived merger with Malaya, Singapore declared herself an independent republic in 1965. Policies put in place from those times to deal with widespread unemployment and unrest laid the foundation for an economic philosophy that is still clearly embraced today: creating a center for free trade and investment, and leveraging the island's strategic geographical location. To increase global competitiveness along with economic growth, Singapore has gradually moved from being a location for labor-intensive manufacturing in the 1960s to 1980s, to one that is a hub for high value-added industries and business services. As Singapore faced increasing competition from neighbors with lower and other costs, new directions were adopted to offer broader incentives for investments that leveraged Singapore's location and world-class infrastructure, such as those for operational headquarters and research and development projects. The continual drive to restructure and diversify by carefully identifying new growth areas/engines has been a characteristic of Singapore's economic strategy.

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[1] MTI, Economic Survey of Singapore 2008, p. 75, available at: http://app.mti.gov.sg/data/article/17604/doc/AES_2008_TradeInv.pdf. MTI also reported a decline in total investment commitments in 2009 but indicated that they grew again in 2010; see, *Economic Survey of Singapore 2009*, p. 13, available at: http://app.mti.gov.sg/data/article/21265/doc/Chpt3__AES2009.pdf and p. 13, *Economic Survey of Singapore 2010*, available at: http://app.mti.gov.sg/data/article/24221/doc/Chpt3_AES_2010.pdf. See also the general comment in footnote 7 above comparing this to the 2008 IFDI figure for Singapore from UNCTAD.

[2] See statements by the then Managing Director of the Monetary Authority of Singapore (MAS) on July 16, 2009, available at: http://www.mas.gov.sg/news_room/statements/2009/Opening_Remarks_by_Managing_Director_Heng_Swee_Keat_at_MAS_Annual_Report_2008_09_Press_Conference.html. See also the MAS Annual Report 2008/2009, pp. 25-27, available at: http://www.mas.gov.sg/about_us/annual_reports/annual20082009/MAS_annual_report_2009.pdf, and MAS Annual Report 2009/2010, p. 40, available at: http://www.mas.gov.sg/about_us/annual_reports/annual20092010/pdf/MASAnnual%20Report_2010.pdf.

[3] UNCTAD, *Global Investment Flows Monitor* No. 7, October 18, 2011, p 2, available at: http://www.unctad.org/en/docs//webdiaeia2011d13_en.pdf.

[4] *Singapore Business Review* website: http://sbr.com.sg/markets-investing/news/outbound-acquisitions-volume-increased-us124b-ytd.

[5] For a summary and update, see remarks from the MTI at the *Economic Survey of Singapore 2011*, 2nd Quarter, on 10 August 2011, available at: http://app.mti.gov.sg/data/article/25602/doc/Key%20Messages%20for%20QES%20Media%20Briefing%20on%2010%20Aug%20(checked).pdf.

[6] Monetary Authority of Singapore (MAS), *Recent Economic Developments in Singapore*, September 1, 2011, available at: http://www.mas.gov.sg/resource/eco_research/eco_dev_ana/Recent_Economic_Developments.pdf, at p. 8.

Singapore's liberal investment laws and policies have helped her evolve from a manufacturing base in consumer and electronic items in the 1960s and 1970s,[1] to an economy that is a hub for sophisticated manufacturing and services. Singapore does not maintain an FDI approval/screening system, unlike some other countries. Some restrictions do exist in a limited number of areas. These include holdings in entities covered under the Newspaper and Printing Presses Act,[2] banks, financial holding companies, finance companies, insurance companies,[3] and telecommunications entities.[4] In addition, acquisitions of substantial shareholdings in certain approved holding companies (of exchanges, clearing houses and corporations that are holding companies of these) are subject to restrictions.[5] More recently, with the establishment of integrated resorts, the Casino Control Act imposed restrictions on divestment by the main shareholder of the two approved casinos, as well as requirements for licensees to operate such a casino.[6]

The Economic Development Board, established in 1961, is the primary agency tasked with the promotion of investment activity (foreign as well as domestic) in Singapore; it administers a number of incentive schemes, including fiscal incentives.[7] Tax incentives were first introduced in the 1960s to attract FDI, through the Economic Expansion Incentives (Relief from Income Tax) Act.[8] These included pioneer status tax concessions, investment allowance incentive and operational and business headquarters incentives.[9] In 2010, the Act was amended to provide relief for various technical and professional services, to encourage these activities.[10] By the late 1970s to 1980s, it was recognized that it would be necessary to move toward higher value-added production activities, and further to upgrade

[1] For a summary, see the Singapore Ministry of Trade and Industry webpage: http://app.mti.gov.sg/default.asp?id=545.
[2] Singapore, Newspaper and Printing Presses Act, Cap. 206.
[3] See sections 15, 15A and 15B, Banking Act (Cap. 19), Part II of the Finance Companies Act, Cap. 108), sections 25-27 of the Insurance Act (Cap. 142). See also Part III of the Trust Companies Act, Cap. 336).
[4] See Singapore, Telecommunications Act (Cap. 323), section 32B.
[5] Sections 81ZE, 97A and 97B of the Singapore Securities and Futures Act, Cap. 289.
[6] Singapore, Casino Control Act, sections 41-56, Cap. 33A.
[7] The law establishing the EDB was amended in 2008 to further expand the role of the EDB. The current functions are set out in the amended section 6 of the Economic Development Board Act (Cap. 85):
"Functions of Board 6. —(1) The functions of the Board are —
(a) to stimulate the growth, expansion and development of the Singapore economy;
(b) pursuant to paragraph (*a*), to formulate investment promotion policies and plans, and promotional incentives and strategies;
(c) to promote, facilitate and assist in the development of support industries and services which provide important parts, components and related services to the manufacturing and services sector;
(d) to encourage foreign and local industries to upgrade their skill and technological levels through investment in technology, automation, training, research and product development activities;
(e) to support the development of local entrepreneurs and small and medium enterprises and to assist local enterprises to expand and upgrade their operations;
(f) to provide or support training in skills required for the development of the Singapore economy;
(g) to identify key enterprises and encourage them to establish their international headquarters in Singapore and undertake a wide range of international service and business activities; and
(h) to exercise or perform any function or duty conferred upon the Board under any other written law."
The amendment also includes functions that may be assigned to the Board by the Minister of Trade & Industry.
[8] Singapore, Economic Expansion Incentives (Relief from Income Tax) Act, Cap. 86. (The Act has existed from 1967.)
[9] To benefit from these, entities should be, or belong to, a group that is well established in its respective business sector or industry and has attained a critical size in terms of equity, assets, employees, and business share, see: http://www.edb.gov.sg/etc/medialib/downloads/investors.Par.33627.File.dat/HQ%20Leaflet.pdf. Substantial headquarters activities include, for instance, strategic business planning and development; general management and administration, marketing control, planning and brand management; intellectual property management; corporate training and personnel management; research, development and test bedding of new concepts; shared services; economic or investment research and analysis; technical support services; sourcing, procurement and distribution; corporate finance advisory services. For information on current incentives, see the Singapore Economic Development Board (EDB) website at: http://www.sedb.com/edb/sg/en_uk/index/why_singapore/Guide_to_Investing_in_Singapore/financial_assistance.html.
[10] Act 33/2010, amending section 68 of the Act, *op. cit.*

the skills of the labor force.[1] The emphasis continued to shift in the late 1980s and 1990s to promote such activities. In the past decade, the new emphasis was to promote innovation-driven and knowledge-based growth and investment. One such field of recent interest is that of pharmaceuticals and biomedical technology.[2]

A Competition Act was introduced in 2004, establishing a system to promote innovation and the competitiveness of markets in Singapore, and to control practices adverse to competition.[3] The Act also controls mergers that may substantially lessen competition in Singapore.[4]

In the decade beginning in 2000, reforms were initiated aggressively to attract production of high value-added goods and services and promote innovation.[5] A number of clusters were identified for this purpose, including nanotechnology, photonics, financial, logistics and tourism services, research and development (R&D), and biomedical sciences. Alongside these reforms, Singapore laws have undergone reviews from time to time to promote the economic objectives of Singapore. For example, in 2010, to stimulate M&A activity further, the Singapore tax legislation was amended to introduce tax incentives, available over a five-year window.[6] At the same time Singapore worked on maintaining and improving infrastructure facilities (such as in housing, transport, connectivity, logistics, education) to make the city attractive to global investors and attract highly skilled personnel and professionals. In 2009, Singapore announced a "new strategy for the Singapore economy" to attract investments and promote further economic growth, namely the "host to home" plan,[7] which is intended to create an environment that will be home to business, innovation and talent, so that these three aspects will mutually reinforce each other and encourage business and investment activity in Singapore. The innovation aspect, in particular, encourages test bedding and the commercialization of (and therefore investment in) environment-related technology (such as the development of water treatment technology and products to meet the expected global water shortage).[8]

In 2008-2010, the Bankruptcy Act was amended to help businesses cope with the financial downturn. This amendment provides for a pre-bankruptcy payment scheme. The scheme came into force in 2010, aimed at implementing "a pre-bankruptcy scheme called the debt repayment scheme that would give

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[1] For a summary of Singapore's skills development practices, see, UNCTAD, *FDI and Skills Development – Best Practices Case Studies, Canada & Singapore* (New York and Geneva: United Nations, 2010), available at: http://www.unctad.org/en/docs/diaepcb2010d5_en.pdf.
[2] See: Hank Lim and Lim Tai Wei, *Sustainable Development Impacts of Investment Incentives: A Case Study of the Pharmaceutical Industry in Singapore*, 2010, table 2, available at: http://www.iisd.org/tkn/pdf/sd_impacts_singapore.pdf. Other "emerging businesses" identified can be found at: http://www.edb.gov.sg/edb/sg/en_uk/index/industry_sectors/emerging_businesses.html.
[3] Singapore, Competition Act, Cap. 50B. (The Act provides for a number of exclusions in its Third and Fourth Schedules.)
[4] Ibid. See sections 54-60 of the Act.
[5] In that year, the Manufacturing Sub-Committee under the Economic Review Committee of Singapore's Ministry of Industry and Trade recommended that Singapore move to higher value-added manufacturing. Report available at: http://app.mti.gov.sg/default.asp?id=507.
[6] See section 37L Income Tax Act (Cap. 134) and section 15A of the Stamp Act (Cap. 312). Among other conditions, however, the acquiring company must be Singapore-incorporated.
[7] See information on this strategy at the EDB website at: http://www.sedb.com/edb/sg/en_uk/index/why_singapore/host_to_home.html. See also Singapore Investment News, 2009: http://www.edb.gov.sg/etc/medialib/downloads/publications.Par.29802.File.tmp/Singapore%20Investment%20News%20June%202009.pdf. The EDB has also reported a growth in investments in 2010 (Singapore Investment News, April-June 2010), available at http://sedb.com/etc/medialib/images/news/publications.Par.32207.File.tmp/Singapore%20Investment%20News%20April%20-%20June%202011.pdf, page 16.
[8] See EDB explanation at: http://www.sedb.com/edb/sg/en_uk/index/why_singapore/host_to_home/home_for_innovation.html.

debtors who qualify for the scheme an opportunity to avoid bankruptcy by repaying their debts, wholly or in part, in accordance with the scheme."[1]

A new law has just been proposed to mandate the improvement of energy efficiency in energy-intensive industries (such as those dealing with petroleum chemicals, petroleum refining, and pharmaceuticals), expected to be implemented by 2013.

In 1983, the Trade Development Board (later reconstituted as International Export Singapore - IE Singapore) was formed to "grow" an external "wing" of the Singapore economy. Singapore has also actively negotiated free trade agreements (FTAs) to expand trade and attract more FDI, with the earliest FTA being that with New Zealand, signed in November 2000. To date, there are 10 bilateral FTAs in force (with Australia, China, Jordan, India, Japan, Republic of Korea, New Zealand, Panama, Peru, the United States)[2] with others already signed or under negotiation. FTAs listed as being under negotiation are those with Canada, Mexico, Pakistan, and Ukraine, while those signed are with Costa Rica and the Cooperation Council for the Arab States of the Gulf Cooperation Council.[3] Singapore has also entered into 40 bilateral investment treaties (BITs),[4] and concluded 81 double-taxation treaties.[5]

Singapore is a member of the ASEAN, now comprising 10 South-East Asian economies,[6] and is thus part of the ASEAN Free Trade Area, which has virtually been established, as ASEAN members have made significant progress in the lowering of intra-regional tariffs; it is also party to ASEAN investment treaties. Currently, Singapore is part of the negotiations for the Trans-Pacific Partnership Agreement (TPP), involving nine Asia-Pacific countries: Brunei Darussalam, Chile, New Zealand, Singapore, Malaysia, Australia, Peru, United States of America, Vietnam (the first four being already parties to the Trans-Pacific Strategic Economic Partnership Agreement.[7]

Increasingly, sustainable development is emerging as an important policy consideration for the Singapore economy. In 2002, a National Environment Agency was established, absorbing into it the functions of predecessor bodies, the Environmental Public Health Division and the Environmental Policy and Management Division of the Ministry of the Environment, and the Meteorological Service Department of the Ministry of Transport. Among its functions that have an impact on investments are the management and regulation of air emissions from industrial premises, trade premises and vehicles, regulation of import, export, storage and disposal of toxic waste, monitoring of water quality, and the promotion of energy efficiency.

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[1] See Explanatory Statement to the Bankruptcy (Amendment) Bill No. 9/2008, amending the Bankruptcy Act (Cap. 20). The amending Act was Act 6 of 2009, which came into force on 18 May 2009.

[2] For a list of ASEAN FTAs with trade partners and other regional FTAs, see http://www.fta.gov.sg/sg_fta.asp.

[3] See Singapore MTI website at: http://www.fta.gov.sg/fta_ongoingneg.asp and http://www.fta.gov.sg/fta_concluded.asp.

[4] UNCTAD, June 2010, available at: http://archive.unctad.org/Templates/Page.asp?intItemID=2344&lang=1

[5] For a list of double-taxation agreements signed by her, see: http://www.iras.gov.sg/irasHome/page.aspx?id=812#comprehensive. See also: UNCTAD, *World Investment Report 2011: Non-equity Forms of International Production and Development* (New York and Geneva: United Nations, 2011), annex table 3, available at: www.unctad.org/files/UNCTAD-WIR 2011-Full.en.pdf.

[6] The ASEAN includes Brunei Darussalam, Indonesia, Malaysia, the Philippines, Thailand and Singapore (forming the original group of "ASEAN-6"), and Cambodia, Lao PDR, Myanmar and Viet Nam (newer members).

[7] For information on the TPP, see the United States Trade Representative website: http://www.ustr.gov/tpp. For information on and text of the Trans-Pacific SEP, see the Singapore Ministry of Trade & Industry website: http://www.fta.gov.sg/fta_tpfta.asp?hl=12.

A key statute is the Environmental Protection and Management Act.[1] The Act is accompanied by a slew of regulations that deal with a wide range of environmental issues, ranging from noise pollution, energy conservation, hazardous substances, ozone-depleting substances and trade effluent. The Act also permits the authorities to require companies setting up factories to undertake impact analysis studies – such as a Quantitative Risk Assessment Study - to determine the risk of hazardous and toxic chemicals and their disposal.[2] In addition, there are non-legislative initiatives promoting green and sustainable manufacturing.[3]

The Government of Singapore expressly recognizes the need for growth that balances economic and environmental objectives for long-term sustainability, even in the current situation of a global economic crisis.[4] In 2009, the Inter-Ministerial Committee for Sustainable Development announced a Blueprint for sustainable development.[5] The Blueprint seeks to improve Singapore's energy efficiency by 35% by 2030, as compared with 2005 levels, and followed by the 2012 Singapore Green Plan.[6] The Plan focuses on a number of areas, including the development of environmental technology. Government funding for projects in such technology is available from a US$ 15.5 million fund known as the Innovation for Environmental Sustainability Fund. The fund provides seed funding to encourage Singapore-registered companies to undertake projects in environmental protection and public health for applied research and test bedding or demonstration.[7] These include projects that speed up environmentally sustainable applications and those that provide long-term solutions to Singapore's specific environmental problems. Singapore's authorities recently proposed a new Energy Conservation Act, which has just undergone a period of public consultation.[8] The proposed law will mandate energy efficiency through energy

[1] Singapore, Environmental Protection and Management Act, Cap. 94A. The Environmental Pollution Control Act, its predecessor, was introduced in 1999 and the current Act was introduced in 2007. See also the Code of Practice on Pollution Control (Third Edition, with amendments as at 2009), available at: http://app2.nea.gov.sg/codeofpractice.aspx.

[2] Ibid. (See section 26, Cap. 94A).

[3] See 2010 announcements at:
http://www.edb.gov.sg/edb/sg/en_uk/index/news/articles/gsk_and_edb_commit.html and
http://www.edb.gov.sg/edb/sg/en_uk/index/news/articles/s_13_million_awarded.html. In 2002, the ERC Sub-Committee on Manufacturing had addressed manufacturing and the environment, encouraging business activity that would be eco-friendly at low-cost; see:
http://www.edb.gov.sg/edb/sg/en_uk/index/news/articles/gsk_and_edb_commit.html. See also generally, Lye Lin Heng, "A fine city in a garden – environmental law and governance in Singapore", (2008) *Singapore Journal of Legal Studies*, pp. 68-117.

[4] See statements of the Singapore Ministry of Environment and Water Resources, available at:
http://app.mewr.gov.sg/web/Contents/ContentsSSS.aspx?ContId=1295.

[5] See http://app.mewr.gov.sg/web/Contents/ContentsSSS.aspx?ContId=1034. See in particular chapter 7 of the Blueprint, which discusses the policy direction in respect of industry energy efficiency and growth sustainability, and chapter 8 which discusses the promotion of innovation and development of technology in Singapore for sustainability. See also:
http://www.clc.org.sg/index.php?q=singapore%E2%80%99s-sustainable-development-blueprint-next-20-years.

[6] The Plan is available at the website of the Singapore Ministry of the Environment and Water Resources, at:
http://app.mewr.gov.sg/data/ImgCont/1342/sgp2012.pdf.

[7] See Singapore National Environment Agency criteria for information on the Fund and access to it:
http://app2.nea.gov.sg/funds_ies.aspx.

[8] See Singapore Ministry of Water and Environment Resources information at:
http://app.mewr.gov.sg/data/ImgCont/1386/2.%20Factsheet_Energy%20Conservation%20Act%20%5Bweb%5D.pdf. See also: http://www.lawgazette.com.sg/2011-10/222.htm. The Energy Efficiency National Partnership, a voluntary program partnering private businesses and government agencies to improve energy efficiency in Singapore, was launched in 2010 as a precursor to the proposed legislation. Under this scheme, 49 companies in energy-intensive industries, including multinational companies in the pharmaceutical, electronics petrol-refining and petrochemical industries, pledged to improve their energy efficiency – see http://app2.nea.gov.sg/news_detail_2010.aspx?news_sid=20100429971377908561.

management requirements, particularly for large industrial users of energy and those in the transport industry. Such users include affiliates of MNEs in Singapore.

Conclusions

Despite two recent periods of decline in IFDI in Singapore due to external events, Singapore has remained a compelling destination for IFDI, with inflows seeing relatively quick recovery after each period of decline, as in the case of the recovery that occurred in 2009-2010. Apart from providing world-class infrastructural facilities, policies on diversification, periodic economic review, and restructuring to respond to the changing external environment, Singapore pursues long-term, environmentally sustainable growth and a systematic strategy for attracting of FDI intended to weather past and current economic crises. While the full effects of the current Euro-zone crisis and economic difficulties in the United States remain to be seen, such policies provide an important underpinning for recovery and growth. At the same time, Singapore is forging ahead with sustainable development policies, implementing the milestone Blueprint for Sustainable Development established in 2009. In line with this development, proposed legislation requiring energy efficiency improvement through energy management by companies in energy-intensive industries – including affiliates of MNEs - is pending and expected to be implemented by 2013.

Additional readings

UNCTAD, *World Investment Prospects Survey,* 2010- 2012), (New York and Geneva: United Nations, 2010), available at:
http://www.unctad.org/Templates/StartPage.asp?intItemID=4376&lang=1

ASEAN-OECD Investment Policy Conference, "Post-crisis FDI flows into ASEAN" presentation by ASEAN Secretariat staff, Jakarta, 2010, available at:
http://www.oecd.org/dataoecd/2/23/46485385.pdf

Useful websites:

Singapore, Economic Development Board: Emerging Businesses
http://www.edb.gov.sg/edb/sg/en_uk/index/industry_sectors/emerging_businesses.html

Statistical annex

Annex table 1. Singapore: inward FDI stock, 2002-2010

(US$ billion)

Economy	2002	2003	2004	2005	2006	2007	2008	2009	2010
Singapore	132.1	144.8	169.4	194.6	241.6	323.0	326.8	343.6	469.9
Memorandum: comparator economies									
Hong Kong (China)	336.3	381.3	453.1	523.2	742.4	1,177.5	816.2	936.4	1,097.6
Thailand	38.5	48.9	53.2	60.4	77.0	94.1	93.5	109,6	127.3
Korea, Rep.of	62.7	66.1	87.8	104.9	115.8	122.0	94.7	117.7	127.1
Malaysia	37.5	41.2	43.1	44.5	53.7	75.8	73.6	78.9	101.3
Taiwan	30.1	37.3	38.3	43.2	50.2	48.6	45.5	55.8	64.3

Source: UNCTAD database, available at: http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sRF_ActivePath=P,5,27&sRF_Expanded=,P,5,27 and UNCTAD, *World Investment Report 2011* (New York and Geneva: 2011); also available at: http://www.unctad-docs.org/files/UNCTAD-WIR2011-Full-en.pdf

Annex table 2. Singapore: inward FDI flows, 2000-2010

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Singapore	16.5	15.1	6.4	11.9	21.0	15.5	29.4	37.0	8.6	15.3	38.6
Memorandum: comparator economies											
Hong Kong (China)	61.9	23.8	9.7	13.7	34.0	33.6	45.1	54.3	59.6	52.4	68.9
Malaysia	3.8	0.6	3.2	2.5	4.6	4.1	6.1	8.6	7.2	1.4	9.1
Korea, Rep. of	9.0	4.1	3.4	4.4	9.0	7.1	4.9	2.6	8.4	7.5	6.9
Thailand	3.4	5.1	3.4	5.2	5.9	8.1	9.5	11.4	8.4	5.0	5.8
Taiwan Province of China [a]	4.9	4.1	1.4	0.5	1.9	1.6	7.4	7.8	5.4	2.8	2.5

Source: UNCTAD database, available at: http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sRF_ActivePath=P,5,27&sRF_Expanded=,P,5,27

[a] Terminology of publisher

Annex table 3. Singapore: sectoral distribution of FDI stock, 2005-2009

(US$ billion)

Sector/industry	2005	2006	2007	2008	2009
All sectors/industries	251.4	287.6	361.3	0.4	428.7
Primary	n.a	n.a.	n.a.	n.a.	n.a.
Secondary	n.a.	n.a.	n.a.	n.a.	n.a.
Manufacturing	80.5	83.6	90.4	81.1	93.7
Food, beverages and tobacco	0.5	1.0	1.3	1.1	1.4
Textiles, wearing apparel and leather	0.1	0.1	0.0	0.0	0.0
Wood and wood products	0.0	0.0	0.0	0.0	0.0
Paper and paper products, printing and publishing	0.6	0.5	0.5	0.5	0.5
Refined petroleum products	10.8	11.1	11.0	11.3	15.4
Chemicals and chemical products	5.8	5.2	5.3	5.5	6.0
Pharmaceutical products	30.0	29.8	37.2	24.0	29.0
Rubber and plastic products	0.7	0.9	0.8	1.0	1.3
Basic metals	0.0	0.3	0.5	0.4	0.4
Fabricated metal products	1.1	1.1	1.4	1.5	1.5
Machinery and equipment	2.8	3.3	4.0	4.7	4.5
Electrical machinery and apparatus	1.2	1.0	1.0	0.9	1.0
Electronic products and components	23.1	25.0	22.0	23.4	26.6
Transport equipment	2.0	2.4	2.6	2.9	3.0
Instrumentation, photographic and optical goods	1.1	1.3	2.1	1.9	2.0
Others	0.6	0.6	0.6	2.0	1.0
Construction	0.7	0.6	1.2	1.5	1.7
Services					
Wholesale and retail trade	42.3	48.8	59.5	71.8	73.9
Wholesale trade	41.5	47.3	57.9	70.3	72.3
Retail trade	0.9	1.5	1.6	1.5	1.6
Accommodation and food service activities	1.6	2.2	2.3	2.6	2.8
Transport and storage	13.7	18.0	23.7	28.2	28.4
Water transport	12.3	16.0	21.4	25.5	25.7
Land and air transport	-0.1	-0.1	-0.2	-0.2	-0.3
Warehousing, post and courier services	1.4	2.1	2.5	2.9	3.0
Information and communications	2.9	2.8	3.8	4.0	4.1
Financial and insurance services	94.4	114.0	151.2	162.3	179.2
Financial services	90.0	108.6	145.4	156.5	173.3
Banks	7.6	7.7	8.8	10.1	11.0
Investment holding companies	74.1	92.3	125.3	130.0	147.8
Other financial services	8.4	8.6	11.3	16.4	14.5
Insurance services	4.4	5.4	5.8	5.9	5.9

Real estate activities	5.2	6.4	10.0	11.4	11.3
Professional, scientific and technical, administrative and support services	9.7	10.4	17.5	27.6	27.9
Others	0.3	0.8	1.7	4.3	5.8

Source: Department of Statistics, Singapore, *Foreign Equity Investment in Singapore, 2009, Key Indicators table* (Singapore, May 2011), available at: http://www.singstat.gov.sg/pubn/business/fei2009.pdf.

All Singapore dollar figures used above have been converted to US dollars using the IMF rate of exchange as at 13 January, 2012, namely, US$ 1 to S$ 1.2882, available at: http://www.imf.org/external/np/fin/data/param_rms_mth.aspx).

Annex table 4. Singapore: geographical distribution of FDI stock, 2000-2010

(US$ billion)

Region/economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Developed economies											
Europe	55.4	65.6	71.6	80.7	93.6	108.7	135.1	153.7	158.3	167.1	181.0
European Union											
France	3.7	3.4	3.7	4.0	4.9	5.4	6.3	8.5	7.4	6.2	7.3
Germany	3.3	4.9	5.7	4.8	5.7	6.4	5.9	7.2	8.7	8.6	9.7
Ireland	1.0	1.2	1.1	1.3	2.0	3.0	1.5	2.8	2.6	2.8	3.8
Netherlands	21.9	26.9	19.1	20.9	24.5	25.0	37.8	39.9	47.4	47.8	50.9
Norway	2.7	3.0	2.2	3.6	4.8	6.7	11.8	13.3	16.5	17.2	17.8
Switzerland	12.5	12.1	11.7	13.1	12.8	17.3	21.1	21.3	18.3	17.9	18.2
United Kingdom	6.8	10.6	24.5	29.6	34.1	38.5	42.9	48.5	38.9	37.8	39.0
North America											
Canada	2.4	2.5	2.2	2.0	2.2	2.0	2.1	2.4	2.4	2.4	3.0
United States	24.3	28.6	26.8	28.9	31.8	31.5	29.8	40.0	41.1	44.3	52.2
Other developed economies											
Australia	2.5	2.0	1.9	1.6	2.1	2.2	2.6	3.6	3.6	4.4	5.9
New Zealand	0.2	0.2	0.2	0.1	0.1	1.2	1.3	1.3	1.5	1.9	1.8
Japan	22.6	23.2	25.7	26.4	29.1	34.8	34.9	36.9	38.9	39.0	40.9
Korea, (Republic of)	0.2	0.0	0.9	1.3	0.7	1.0	0.6	2.4	2.5	2.0	3.2
Developing economies											
Latin America and the Caribbean											
Asia and Oceania											
Brunei Darussalam	0.2	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
China	0.7	0.7	0.7	0.7	0.3	0.7	1.3	1.8	3.4	7.3	9.1
Hong Kong, China	4.8	4.3	3.7	3.0	2.5	3.7	4.9	5.0	8.9	12.0	14.1
India	0.2	0.3	0.3	0.3	0.4	1.0	2.0	10.1	13.1	16.1	18.7
Indonesia	1.3	1.3	1.4	1.3	0.9	0.5	0.8	1.3	1.7	2.8	0.8
Israel	0.0	0.0	0.0	1.8	3.6	3.9	3.6	4.0	3.9	3.9	3.7
Lao People's Democratic Republic	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.0	0.0	0.0	0.0
Malaysia	4.2	4.6	4.1	3.5	3.9	6.3	6.5	8.8	9.8	12.0	11.8
Myanmar	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0
Philippines	0.5	0.5	0.4	0.4	0.6	0.6	0.7	0.7	0.2	0.1	1.0
Taiwan Province of China [a]	2.6	3.7	3.9	4.6	4.5	5.6	5.9	6.0	5.1	4.8	4.5
Thailand	0.5	0.5	0.6	0.8	0.8	1.0	1.2	1.2	1.4	1.6	2.4
Vietnam	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unspecified destination	1.9	2.5	3.0	3.5	4.4	6.2	5.4	8.6	11.9	11.1	15.4

Source: Department of Statistics, Singapore, *Foreign Equity Investment in Singapore 2009* (Singapore, May 2011); available at: http://www.singstat.gov.sg/pubn/business/fei2009.pdf, table 2: Foreign Direct Investment in

Singapore By Country/Region 2000-2009 (Stock at Year- End); and FDI in Singapore By Country/Region, 2006-2010 (Singapore, 30 December 2011); available at:
http://www.singstat.gov.sg/stats/themes/economy/biz/foreigninvestment.pdf

[a] According to the terminology used by publisher.

Annex table 5. Singapore: top foreign affiliates in the economy, ranked by sales, 2008[a]

(US$ billion)

Rank	Company name	Industry	Parent company	Home economy	Sales	Assets
1	BP Singapore Pte Limited	Production and marketing of natural energy resources	BP plc	United Kingdom	47.7	5.7
2	Exxonmobil Asia Pacific Pte Ltd	Manufacturer and supplier of energy products, oil and gas exploration, chemicals, suppliers of lubricants and technology products	Exxon Mobil Corporation	United States	39.8	9.9
3	Vitol Asia Pte Ltd	Trading in crude oil, petroleum and petroleum related products and coal	Vitol Holding BV	Netherlands	34.6	2.6
4	SK Energy International Pte Ltd	Trade in crude oil, refined products, bunkers, lubes, coal, petrochemicals	SK Innovation Co Ltd	Korea, Republic of	25.6	0.9
5	GS Caltex Singapore Pte Ltd	Chemicals	GS Caltex Corporation	Korea, Republic of	19.0	0.9
6	Shell Eastern Petroleum (Pte) Ltd	Petroleum and petroleum products	Shell Chemicals Ltd.	United Kingdom	18.2	7.6
7	Trafigura Pte LTD	Oil and oil product commodity trading	Trafigura Beheer BV	Netherlands	17.4	2.8
8	Hewlett-Packard International Pte Ltd	Technology	Hewlett-Packard Singapore (Private) Limited	Singapore	17.0	5.3
9	Jardine Cycle & Carriage Limited	Motor vehicles and motorcycles, financial services, agribusiness, heavy equipment and mining, information technology,	Jardine Matheson Holdings Limited	Hong Kong (China)	15.7	14.5

		infrastructure and logistics.				
10	Glencore Singapore Pte Ltd	Commodities	Glencore International Plc	Switzerland	15.5	1.8
11	Hewlett-Packard Singapore (Private) Limited	Design, manufacture and supply of computers and related equipment	Hewlett-Packard Company	United States	14.0	8.0
12	Sinochem International Oil (Singapore) Pte LTD	Dealers and brokers of crude oil, petroleum products and derivatives	Sinochem Corporation	China	13.9	0.6
13	Toyota Motor Asia Pacific Pte Ltd	Vehicles and parts	Toyota Motor Corporation	Japan	12.8	1.1
14	Seagate Singapore International Headquarters Pte Ltd	Storage devices for computers	Seagate Technology LLC	United States	12.5	4.7
15	Unipec Singapore Pte Ltd	Trading of crude oil and petroleum products	China International United Petroleum & Chemicals Co Ltd	China	11.7	0.5
16	Petrochina International (Singapore) Pte Ltd	Investment holding and carry on the business as trading centre for oil trading and general trading	PetroChina International Co Ltd	China	10.6	1.4
17	Itochu Petroleum Co, (Singapore) Pte Ltd	Trading in crude oil, petroleum and related by-products	Itochu Corporation	Japan	10.4	0.6
18	Chevron Texaco	Energy products	Chevron Corporation	United States	10.0	n.a.
19	Jardine Matheson (S) Ltd	Holding company for securities etc	Jardine Matheson Holdings Limited	Hong Kong (China)	9.5	n.a.
20	Hewlett-Packard Asia Pacific Pte Ltd		Hewlett-Packard Company	United States	8.9	1.5

21	Toshiba Capital (Asia) Ltd	Finance	Toshiba Corporation	Japan	8.4	n.a.
22	Singapore Petroleum Company Limited		Petrochina International (Singapore) Pte LTD	Singapore	7.9	2.2
23	Asus Technology Pte Limited	International headquarters for brand management, shared services, etc	Asustek Computer Inc.	Taiwan Province of China	7.7	1.6
24	Petro Progress Pte Ltd	Trading of crude oil and petroleum products	AOC Holdings, Inc.	Japan	7.0	0.4
25	Pertamina Energy Services Pte Ltd	Oil and petrochemical trading	Pertamina (Persero), PT	Indonesia	6.9	0.4

Source: The author, based on OneSource, a subscription database.

[a] Information is shown as at end of 2008.

Annex table 6. Singapore: top M & A deals, by inward investing firm, 2008-2010

Year	Target company	Acquiring company	Home economy	Target description	Acquirer description	Value (US$ million)
2010	Parkway Holdings Ltd	Integrated Healthcare Holdings	Malaysia	General medical and surgical hospitals	Health and allied services	2,379.7
2010	Fraser & Neave Ltd	Kirin Holdings Co Ltd	Japan	Bottled and canned soft drinks and carbonated waters	Malt beverages	974.7
2010	Parkway Holdings Ltd	Fortis Healthcare Ltd	India	General medical and surgical hospitals	General medical and surgical hospitals	685.3
2010	Asian Genco Pte Ltd	Investor Group	United States	Special trade contractors	Investors	425.0
2010	Chevron House	Deka Immobilien Invest GmbH	Germany	Operators of nonresidential buildings	Real estate agents and managers	404.8
2010	UOB Life Assurance Ltd	Prudential PLC	United Kingdom	Life insurance	Investment offices	306.9
2010	KS Energy Services Ltd-Oil,gas	Actis Capital LLP	United Kingdom	Crude petroleum and natural gas	Investors	229.7
2010	Sin Cheng Holdings Pte Ltd	Intime Department Store (HK)	Hong Kong (China)	Investors	Department stores	208.2
2010	PetroJack IV Pte-Petrojack IV	Seadrill Management AS	Norway	Crude petroleum and natural gas	Drilling oil and gas wells	180.0
2010	Yantai Raffles Shipyard Ltd	China Intl Marine Containers	China	Marine cargo handling	Metal shipping barrels, drums, kegs and pails	142.5
2009	Chartered Semiconductor Mnfg	Advanced Tech Invest Co LLC	United Arab Emirates	Semiconductors and related devices	Management investment offices, open-end	3,923.2
2009	PowerSeraya Ltd	YTL Power International Bhd	Malaysia	Electric and other services combined	Electric services	2,356.6
2009	KrisEnergy Holdings Ltd	First Reserve Corp	United States	Crude petroleum and natural gas	Investors	500.0
2009	Airfoil Tech Intl Singapore Pt	General Electric Aircraft	United States	General automotive repair shops	Aircraft engines and engine parts	300.0
2009	Peace Base Investments Ltd	Investor Group	Hong Kong (China)	Offices of holding companies	Investors	165.1
2009	Global Tender Barges Pte Ltd	PHM Holdco 10 BV	Netherlands	Oil and gas field machinery and equipment	Investors	110.0
2009	Resource Holdings Ltd	Keller Holdings Ltd	United Kingdom	Engineering services	Engineering services	84.7
2009	Sincere Watch Ltd	Sincere Holdings	Cayman Islands	Jewelry, watches, and precious stones and metals	Investors	79.6
2009	Orchard Maritime Logistics Pte	Jasapower Indonesia PT	Indonesia	Deep sea foreign transportation of freight	Bituminous coal and lignite surface mining	78.6
2009	Spansion Hldg Pte Ltd	Powertech Hldg(BVI)Inc	British Virgin Islands	Semiconductors and related devices	Semiconductors and related devices	51.0

2008	Labroy Marine Ltd	Dubai Drydocks World LLC	United Arab Emirates	Ship building and repairing	Ship building and repairing	1,597.9
2008	JTC Corp-Indl Ppty Portfolio	Arcapita Bank BSC	Bahrain	Land subdividers and developers, except cemeteries	Investors	1,255.7
2008	Sorak Finl Holdings Pte Ltd	Malayan Banking Bhd	Malaysia	Offices of holding companies	Banks	1,255.7
2008	Pearl Energy Ltd	Mubadala Development Co PJSC	United Arab Emirates	Crude petroleum and natural gas	Management investment offices, open-end	877.5
2008	Singapore Shenton Hldg Pte-78	Commerz Grundbesitz Investment	Germany	Land subdividers and developers, except cemeteries	Real estate investment trusts	449.7
2008	Parkway Holdings Ltd	Khazanah Nasional Bhd	Malaysia	General medical and surgical hospitals	Management investment offices, open-end	391.9
2008	Sincere Watch Ltd	A-A United Ltd	Hong Kong (China)	Jewelry, watches, and precious stones and metals	Watches, clocks, clockwork operated devices, parts	373.3
2008	Hua Lei Holdings Pte Ltd	Sky Property Management Ltd	Ireland	Land subdividers and developers, except cemeteries	Real estate agents and managers	352.0
2008	Drayton Pte Ltd	Indofood Sukses Makmur Tbk PT	Indonesia	Fluid milk	Macaroni, spaghetti, vermicelli and noodles	350.0
2008	Delong Holdings Ltd	Evraz Group SA	Russian Federation	Steel springs, except wire	Steel foundries	283.8

Source: The author, based on Thomson Reuters, Thomson ONE Banker.

Annex table 7. Singapore: top greenfield projects announced, by inward investing firm, 2008-2010

Year	Investing company	Home economy	Industry	Business activity	Investment (US$ million)
2010	United Microelectronics (UMC)	Taiwan, Province of China	Semiconductors	Manufacturing	3,600.0
2010	Standard Chartered Bank	United Kingdom	Financial services	Business services	1,581.0[a]
2010	Office Busters Corp (OfficeBusters)	Japan	Business machines and equipment	Recycling	617.0
2010	ExxonMobil	United States	Coal, oil and natural gas	Manufacturing	406.0[a]
2010	Australia and New Zealand Banking Group (ANZ Bank)	Australia	Financial services	Business services	395.2[a]
2010	Mitsubishi Corporation	Japan	Business machines and equipment	Manufacturing	360.9[a]
2010	Showa Denko KK (SDK)	Japan	Business machines and equipment	Manufacturing	360.9[a]
2010	Veeco Instruments	United States	Electronic components	Manufacturing	258.5[a]
2010	Procter & Gamble (P&G)	United States	Consumer products	Research and development	250.0
2010	Metallized Carbon Corporation (Mectar)	United States	Metals	Manufacturing	199.7[a]
2009	China Huaneng	China	Alternative/renewable energy	Electricity	1,431.4
2009	ExxonMobil	United States	Coal, oil and natural gas	Electricity	658.9[a]
2009	Roche Group	Switzerland	Pharmaceuticals	Manufacturing	500.0
2009	Isetan	Japan	Real estate	Construction	373.2[a]
2009	Sun Hung Kai Properties	Hong Kong, China	Real estate	Construction	373.2[a]
2009	Advanced Micro Devices (AMD)	United States	Semiconductors	Headquarters	320.5[a]
2009	Baxter	United States	Pharmaceuticals	Manufacturing	291.8[a]
2009	United Microelectronics (UMC)	Taiwan, Province of China	Semiconductors	Manufacturing	230.1[a]
2009	Tata Group	India	Communications	ICT and internet infrastructure	180.0
2009	Fairmont Raffles Hotels International	Canada	Hotels and tourism	Construction	160.5[a]
2008	Macquarie Bank	Australia	Real Estate	Construction	2,000.0
2008	Lanxess	Germany	Rubber	Manufacturing	592.6
2008	UDL Holdings	Hong Kong, China	Warehousing and storage	Manufacturing	471.9[a]
2008	Citco Group	Netherlands	Financial services	Business services	327.9[a]
2008	Ubisoft Entertainment	France	Software and IT services	Design, development and testing	320.2[a]
2008	Scatec AS	Norway	Alternative/renewable energy	Manufacturing	300.0
2008	Hanyang Eng	Korea, Republic of	Semiconductors	Manufacturing	230.1[a]
2008	Tanaka Kikinzoku Group	Japan	Metals	Manufacturing	203.5[a]
2008	Asahi Kasei	Japan	Rubber	Manufacturing	185.0
2008	Air Liquide	France	Chemicals	Manufacturing	181.2

Source: The author, based on fDi Intelligence, a service from the Financial Times Ltd.
[a] Estimated investment.

Chapter 36 – South Africa

South Africa: Inward FDI and its policy context, 2013

Albert Wöcke and Linda Sing[*]

South Africa's natural resource endowments, its market size and improved macroeconomic fundamentals since its first democratic elections in 1994 should serve as much-needed incentives to attract inward foreign direct investment (IFDI) that could contribute to its economic development and offset its low domestic savings rate. The attractiveness of South Africa as a destination for IFDI has, however, been mixed due to its prevailing "dual economy", where an economy comparable to that of an industrialized nation co-exists with one similar to that of a developing country. South Africa's sound regulatory and legislative environment for investment, its sophisticated business sector and globally competitive financial markets, are juxtaposed against pervasive poverty, high income inequality, challenges in healthcare and education, and inefficient labor markets. Coupled with these seemingly contradictory conditions, the South African Government's vacillation around some key economic policy issues (like the nationalization of strategic resources and industries called for by some groups) continues to create uncertainty for investors and has meant that South Africa remains an enigma to many foreign investors. South Africa was somewhat shielded from the recent global economic and financial crisis due to the flow of portfolio investments into large emerging markets, including South Africa, and the unabated demand for commodities in China, India and other emerging markets. IFDI patterns in South Africa are changing, with broader geographic origins and with non-mining industries attracting investment from countries other than Europe and the United States in recent years.

Trends and developments

Country-level developments

Since the 1960s and through the early 1990s, South Africa had been an increasingly isolated economy due to sanctions imposed against its apartheid policies. Following the end of apartheid in 1994 and the country's first democratic elections, expectations were that foreign direct investment (FDI) inflows into South Africa would grow strongly. This view gained traction based on the notion that South Africa was seen as the gateway to sub-Saharan Africa (SSA) with its potential consumer base of some 900 million people. Having a financial system more aligned to those in developed economies than to those in emerging markets, improved macro-economic fundamentals in several respects and a relatively

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extensive infrastructure also added to an expectation that South Africa's economic reach could stretch beyond SSA, giving further impetus to inflows of FDI.

South Africa's attractiveness as a destination for FDI has, however, been mixed. This is in part due to its prevailing "dual economy"[1] which is comparable in several respects to an industrialized economy but in several others resembles a developing one. South Africa has a sound regulatory and legislative environment for investment, a sophisticated business sector and globally competitive financial markets,[2] but it also has pervasive poverty,[3] high income inequality,[4] challenges in health care and education, and inefficient labor markets. An inadequately educated workforce, restrictive labor regulations, poor labor-employer relations and low levels of productivity relative to the cost of labor constitute some of the most problematic challenges facing business in South Africa.[5] Furthermore, South Africa, with a gross national savings rate of 16.5% of GDP, ranks 87th (out of 144 countries) in terms of the savings rate and compares poorly with its companion economies in the BRICS group.[6] In Africa, fifteen countries have a higher gross national savings rate than South Africa. IFDI is thus much needed to offset low domestic investment and to finance technological transformation. These differing conditions and the policy challenges and uncertainties accompanying them have resulted in South Africa remaining an enigma to many foreign investors.

In the late 1980s, South Africa's stock of FDI fell to lows in the region of US$ 8 billion as a result of the economic sanctions imposed on the apartheid Government. Subsequent to its first democratic election in 1994, South Africa's stock of FDI has demonstrated the anticipated upward trajectory, rising from US$ 15 billion in 1995 to US$ 132 billion in 2010, although there was a small decline (to US$ 130 billion) in 2011 (annex table 1). Nevertheless, in 2011, the ratio of FDI stock to GDP was lower in South Africa (32%) than in four of the five comparator countries considered in annex table 1 – Poland (38%), Malaysia (41%), Hungary (60%), and Chile (64%).[7]

South Africa's annual FDI inflows averaged less than 1.5% percent of GDP during 1994-2002, performing poorly in comparison with Asian and Latin American economies and/or with economies with similar sovereign credit ratings, which have averaged FDI inflows of between 2% and 5% of GDP

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[1] The existence of a "dual economy and society" in South Africa was first mooted by President Thabo Mbeki during his 2003 State of the Nation address, available at: http://www.info.gov.za/speeches/2003/03021412521001.htm.

[2] South Africa's auditing and reporting standards and the regulation of its securities exchange rank number one in the world and its banks have been ranked second in terms of their soundness. See World Economic Forum, *The Global Competitiveness Report 2011-2012* (Geneva: World Economic Forum, 2011).

[3] Half of South Africans live on less than R500 (approximately $60) per month. See "Poverty and inequality in South Africa," *Mail and Guardian*, September 16, 2011, available at: http://mg.co.za/article/2011-09-16-poverty-and-inequality-in-south-africa.

[4] South Africa's Gini index, at 63.1 (in 2005), is the second highest in the world. See United States CIA, *The World Factbook*, available at: https://www.cia.gov/library/publications/the-world-factbook/rankorder/2172rank.html.

[5] Out of a survey of 144 countries, South Africa ranked 144th in terms of poor cooperation in labor-employer relations, 140th in flexibility regarding wage determination, 143rd in its hiring and firing practices and 134th in terms of productivity relative to levels of pay. See World Economic Forum, *The Global Competitiveness Report 2012-2013* (Geneva: World Economic Forum, 2012).

[6] In the other countries of the BRICS group, savings as a percentage of GDP were: Brazil 18.4%; Russia 28.6%; India 31.6% and China 51%. See World Economic Forum, *The Global Competitiveness Report 2012-2013*, op. cit.

[7] 2010 GDP figures used for deriving ratios of FDI stock to GDP for South Africa and the comparator countries, viz. Chile, Hungary, Malaysia, Poland, and Turkey, were sourced from the World Bank's World Development Indicators database, available at: http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP.pdf. The comparator countries were selected on the basis of having similar investment profiles in terms of historical risk rating and size of economy.

annually.[1] In 2011, South Africa continued to perform relatively poorly as against most of the comparator countries considered, with IFDI flows at 1.4% of GDP, compared to 2.9% in Poland, 3.6% in Hungary, 4.3% in Malaysia and 7.0% in Chile.[2]

In mitigation of possible criticism that South Africa is not attracting a larger share of world FDI, it may be noted that the depth and sophistication of the country's financial markets – cited as positive factors in the *World Competitiveness Yearbook 2010*– suggest that foreign multinational enterprises (MNEs) interested in shoring up their operations in South Africa need look no further than local capital markets for funding,[3] which would be less vulnerable to volatile exchange rate movements than FDI. This possibility may distort somewhat the accurate capture of total investment in foreign affiliates by data on FDI stock and on IFDI flows reported by the South African Reserve Bank.

During the decade preceding South Africa's democratic elections in 1994, the country experienced a net outflow of capital due to the perceived political uncertainties. Political unrest in 1984 and 1985 contributed to significant capital outflows and panic selling of the Rand precipitated the declaration of a debt standstill by the South African Government. South Africa's indebtedness as at August 31, 1985 was \$23.7 billion (41.4% of GDP), and \$13.6 billion of this amount was deemed to be affected by the debt standstill. South Africa made an initial repayment of 10% in February 1994. Some 40% of the debt was repaid between 1994 and 1998 and 60% between 1999 and 2001, with the last repayment made on August 15, 2001 heralding a positive turnaround in South Africa's international credit rating.[4] The settlement of the debt standstill also signaled the net inflow of capital during the latter part of the twentieth century and into the first decade of the new millennium (except for 2006 when there was an outflow of capital).

Annex table 2 illustrates the high degree of volatility in FDI flows into the country. In 2000, when South Africa was recovering from the economic crisis that besieged most markets in 1998, FDI inflows were modest at US\$ 887 million. In 2001, the country attracted US\$ 6.8 billion, but then, by 2003 and 2004, FDI flows fell to below US\$ 800 million. This volatility can be ascribed in part to movements in the rand exchange rate. In 2001, for instance, the domestic currency unit lost some 37% of its value against the U.S. dollar, of which some 17% was lost during the month of December 2001 alone, consequent to the risk-aversion toward, and withdrawal of funds from, emerging markets following the 9/11 attacks on the United States.[5] Exaggerated weakness in the rand exchange rate would have been a compelling reason for the acceleration in IFDI over this period.

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[1] A. Arvanitis, "Foreign direct investment in South Africa: Why has it been so low?" in M. Nowak and L.A. Ricci, eds., *Post-Apartheid South Africa: the First Ten Years* (Washington, D.C.: International Monetary Fund, 2005).

[2] GDP figures used for deriving ratios of IFDI to GDP were sourced from the World Bank's World Development Indicators database, available at: http://data.worldbank.org, op. cit. IFDI figures were sourced from UNCTAD's FDI/TNC database, available at: http://unctadstat.unctad.org/. Turkey's FDI flow relative to GDP was 1.2% for 2011.

[3] IMD, *IMD World Competitiveness Yearbook 2010* (Lausanne: IMD International, 2010).

[4] Republic of South Africa, "South Africa makes final repayment in debt standstill net", *National Treasury*, September 3, 2001, available at: http://www.info.gov.za/speeches/2001/0109031145a1002.htm (accessed 23 April, 2013).

[5] Between January 1 and August 31, 2001, the rand fell by 10.7%, but in the period between September 1 and December 31, 2001, it fell by 42%. This dramatic fall in the external value of the South African currency prompted the Government to appoint the Myburgh Commission of Inquiry into the Rapid Depreciation of the Rand and Related Matters. The commission released its report in August 2002 and attributed the decline in the value of the rand to a number of factors. See, Commission of Inquiry into the Rapid Depreciation of the Exchange Rate of the Rand and Related Matters, *Final Report* (2002) available at: http://www.justice.gov.za/commissions/comm_rand/final%20report.htm and http://www.info.gov.za/speeches/2002/02052414461002.htm.

In 2005, South Africa's IFDI flows went up to US$ 6.5 billion, but plunged to US$ 527 million in 2006 (annex table 2). Thereafter, inflows responded well to the commodities boom, until 2009-2010, when they dropped significantly. Data for 2011, however, reflect a significant four-fold increase in flows to US$ 5.8 billion (up from US$1.2 billion in 2010), equal to 7.5% of the country's total fixed investment for the year.[1] This increase is in line with continued high investor appetite for opportunities in rapidly growing emerging markets despite an anticipated slowdown in FDI due to the Eurozone crisis.[2]

On the African continent, South Africa was the second-largest recipient of FDI in 2011, after Nigeria, and ranks ahead of Ghana, the Democratic Republic of the Congo and Algeria. This southward drift of FDI to sub-Saharan African economies comes on the heels of FDI inflows to North African economies, like Egypt and Libya, which traditionally received one third of the continent's FDI inflows, having slowed to a trickle due to political turmoil.[3]

Historically, South Africa has attracted FDI mainly into the natural resources sector of the economy, especially mining, with manufacturing following at some distance, and service industries at even more. Smaller investments in mining have continued in the decade after 2000, and mining accounted for a third of total IFDI stock in 2001 as well as 2010 (annex table 3). This, however, represents relatively slow growth in light of the rising world-wide demand for commodities over most of the period, and is the consequence of a stifling regulatory and investment climate,[4] which resulted in South Africa missing out on the commodity boom on more than one occasion. At a policy conference of the ruling party, the African National Congress (ANC), held in June 2012, the introduction of a mining windfall tax on certain commodities, as well as the possibility of nationalizing the industry, were discussed.[5] Whilst these proposed initiatives did not constitute official government policy and have been described in some quarters as populist rhetoric in the run-up to party elections that were held in December 2012, investors had been "worried by the persistent demands of the ruling ANC's powerful Youth League for nationalization".[6] Thus, while the global mining industry grew by nearly 5% between 2001 and 2008, the South African mining industry declined by 1% over the same period.[7] Technically, an important sector of the economy had been in recession, having contracted by three consecutive quarters in 2011 –

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[1] Ethel Hazelhurst, "Foreign investment into SA soars," *Business Report*, July 6, 2012.
[2] Sure Kamhunga, "Slowdown will not stop investors – UN," *Business Day*, July 18, 2012.
[3] Hazelhurst, op. cit.
[4] Inefficient government bureaucracy, an inadequately educated workforce and restrictive labor regulations were cited in the World Economic Forum's 2011-2012 report on global competitiveness as the primary obstacles for doing business in South Africa; see World Economic Forum, *The Global Competitiveness Report 2011-2012*, op. cit.. The International Finance Corporation's *Doing Business 2012* report ranked South Africa 35th (out of 183 economies), with difficulties in trading across borders and obtaining access to electricity as the key challenges to businesses; see World Bank and IFC, *Doing Business 2012: Doing Business in a More Transparent World* (Washington, D.C.: World Bank, 2011). The South African Chamber of Commerce and Industry (SACCI) conducted an ease of doing business survey in the second quarter of 2012 which reflected that negative perceptions of proposed amendments to labor legislation, a complex tax regime, obstructive government bureaucracy, and poor municipal service delivery impacted negatively on overall business confidence in South Africa; see I-Net Bridge, "Ease of doing business lowest since Q42010," *MoneyWeb*, July 11, 2012, available at: http://www.moneyweb.co.za/mw/content/en//moneyweb-south-africa?oid=576309&sn=2009+Detail.
[5] Mike Cohen and Andres R. Martinez, "South Africa's ANC targets mining taxes in policy meeting," *Bloomberg*, June 26, 2012.
[6] "Resource nationalism in Africa: wish you were mine," *The Economist*, February 11, 2012.
[7] Peter Leon, "South Africa's mining industry can be placed on new path to attract investment," *Mining Weekly*, September 10, 2011, available at: http://www.miningweekly.com/article/south-africas-mining-industry-can-be-placed-on-new-path-to-attract-investment---peter-leon-2010-09-10.

by seasonally adjusted rates of -4.2% in the first quarter, -4.2% in the second quarter and -17.2% in the third quarter of 2011. Gold, coal and other mining products accounted for 38% of export earnings in 2011. The combined effects of mine closures and strikes had, however, resulted in mining output contracting by 16.8%.[1]

With the removal of Julius Malema as leader of the ANC Youth League in November 2011 and his eventual expulsion from the party in April 2012, the disruptive calls for nationalization were somewhat dissipated. This was confirmed at the ANC's elective conference held in Manguang in December 2012, when it was stated that any nationalization in the mineral sector would focus on beneficiation and identified natural resources, including shale and other natural gases, iron ore and coal.[2] In President Zuma's State of the Nation Address in February 2013, there was further confirmation that the issue of nationalization was, for the time being, no longer on the agenda when he stated: "We believe that at a policy level we have managed to bring about certainty in the mining sector. The nationalisation debate was laid to rest in December at the ruling party's national conference."[3]

In 2008, South Africa was ranked 49th out of 71 countries for "Economic Freedom" by the influential Fraser Institute in its annual survey of mining companies, but by 2010 its ranking had dropped to 67 (out of 79 countries), from position 61 (out of 72 countries) in 2009. South Africa improved its ranking to 54th (out of 93 countries) in 2011. The financial crisis coupled with the unstable regulatory environment led to large-scale retrenchments in the mining industry and the closure of many shafts that were previously marginal.[4] The mining industry continues to operate under severe pressure, and the problems were exacerbated by the events at the Lonmin platinum mine in Marikana in August 2012, when wild-cat strikes for higher pay turned violent and the South African Police Service opened fire on protesting miners. Unrest became widespread and several major mines across the gold and platinum industries were affected. This led to both temporary and permanent shaft closures and the laying off of thousands of workers. It is in this milieu of even greater investor uncertainty that the Minister of Finance, Pravin Gordhan, vowed to facilitate a supportive policy climate and a stable regulatory framework. He acknowledged the importance of the mining industry to employment, its share of some 50% of country's exports and its potential impact on the current account during his budget speech in February 2013. The Finance Minister also addressed the issue of increases in mining taxes that had been hinted at in some quarters, and he emphasized that any decision would be delayed pending the upcoming review of South Africa's tax regime.[5]

Despite the decline in South Africa's mining output over the period 2001-2008, noted above, and the relatively slow growth in IFDI in mining when viewed in the context of the commodity boom, FDI stock

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[1] Cohen and Martinez, op. cit.

[2] Niren Tolsi, Nickolaus Bauer and Virashni Pillay, " Nationalisation of mines dead and buried," *Mail and Guardian*, December 20, 2012, available at http://mg.co.za/article/2012-12-20-nationalisation-of-mines-dead-and-buried.

[3] "SA: Jacob Zuma: Address by the President of South Africa, during the State of the Nation Address 2013, Parliament, Cape Town (14/02/2013)," Polity.org.za, February 14, 2013 available at http://www.polity.org.za/article/sa-jacob-zuma-address-by-the-president-of-south-africa-duing-the-state-of-the-nation-address-2013-parliament-cape-town-14022013-2013-02-14.

[4] F. McMahon and M. Cervantes, *Fraser Institute Annual Survey of Mining Companies 2011/2012*(Vancouver, BC: Fraser Institute, 2012), available at: http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/mining-survey-2011-2012.pdf.

[5] SAPA, "Gordhan mum on mining taxes," *Business Report*, February 27, 2013, available at http://www.iol.co.za/business/budget/gordhan-mum-on-mining-taxes-1.1478007#.UXCCPaVpufQ.

in mining and quarrying in the economy more than doubled (from US$ 15 billion to US$ 35 billion) during 2001-2009 (annex table 3). There was also significant growth in FDI in other sectors.

In manufacturing, the stock of IFDI rose from US$ 11 billion in 2001 to US$ 29 billion in 2009 (annex table 3). Since 2008, a number of foreign manufacturing MNEs have expanded their activities in South Africa; for example, Daimler AG injected some US$ 290 million into its operations in South Africa[1] and BMW invested a similar amount to expand its facilities, primarily to cater to the export market (BMW South Africa accounts for about 25% of all current "3-series" models manufactured globally).[2] South Africa has had a well-developed auto assembly industry since the 1970s, which includes firms such as Ford, GM, VW, Toyota, and Nissan.[3] The South African Government has supported investment in the motor vehicle industry through incentive programs that encourage production for the global market. The motor vehicle industry continues to be a valuable source of export earnings for South Africa.[4] In addition to the creation of jobs, the South African automotive sector is an important area for technology transfer to South Africa, with benefits spilling over into related and supporting industries such as original equipment manufacturing parts.[5] Other significant new investments in manufacturing have come from Nestle, Tata and Heineken.

The services sector accounted for a larger share of FDI in South Africa than the primary and secondary sectors in 2001 as well as 2009. The IFDI stock in the sector rose from US$ 19 billion in 2001 to US$ 40 billion in 2009 (annex table 3). By far the largest FDI activity in that sector has been in financial services. South Africa has a highly developed financial services industry with deep skills and sophisticated regulations in place. The industry has had to develop advanced credit and risk management systems to service a diverse customer base. The implementation of the National Credit Act in 2007, which established rules compelling both banks and consumers to comply with stricter credit criteria, is thought to have assisted South Africa in overcoming the sub-prime credit problem that undermined more developed markets in the United States, United Kingdom and the Euro-zone. In addition, local banks are

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[1] "Daimler invests in South African Plant," *Financial Times*, December 8, 2010, available at: http://www.ft.com/intl/cms/s/0/42bba152-02b6-11e0-a07e-00144feabdc0.html#axzz1pTynXbfq.

[2] Irma Venter, "BMW to invest R2.2bn in Rosslyn plant, supplier network," *Engineering News*, October 2009, available at: http://www.engineeringnews.co.za/article/bmw-to-invest-r22bn-in-rosslyn-plant-supplier-network-2009-10-05.

[3] For a more detailed history of motor industry incentives in South Africa see: A. Black, "Location, automotive policy and multinational strategy: The position of South Africa in the global industry since 1995," unpublished paper, University of Cape Town, Cape Town, South Africa, 2008.

[4] Speech at the launch of the new 3-series production, Rosslyn, by Mr. Ebrahim Patel, Minister of Economic Development, February 20, 2012, available at: http://www.info.gov.za/speech/Dynamic Action?pageid=461&sid=25218&tid=57096.

[5] For detailed information regarding government policies affecting the manufacturing sector refer to: (i) Republic of South Africa, "Industrial Policy Action Plan (IPAP) 2012/13 - 2014/15," Department: Trade and Industry, 2010, available at: http://www.info.gov.za/view/DownloadFileAction?id=162797. The IPAP is a policy and action plan designed to build South Africa's industrial base in critical areas of production and value-added manufacturing, with the objectives of reversing the decline in manufacturing capacity and alleviating chronic unemployment; (ii) Deloitte, "Deloitte Automotive – Navigating the draft Automotive Production and Development Programme (APDP) – First edition", *Deloitte and Touche*, October 2012, available at http://www.deloitte.com/assets/Dcom-SouthAfrica/Local%20Assets/Documents/Navigating%20the%20Automotive%20Production%20and%20Development%20Programme.pdf. The APDP focuses on enabling light motor vehicle manufacturers to increase production volumes and component manufacturers to expand value addition, with the objective of creating jobs; (iii) Republic of South Africa, "Programme Guidelines – Enterprise Investment Programme: Manufacturing Investment Programme," Department: Trade and Industry, July 2011, available at http://www.thedti.gov.za/financial_assistance/docs/mip_guidelines.pdf. The Manufacturing Investment Programme (MIP) is an incentive scheme designed to stimulate investment growth in manufacturing in line with South Africa's National Industrial Policy Framework by supporting projects requiring upfront grant funding.

well regulated and well capitalized, and scheduled to be complying with Basel III [1] liquidity requirements by 2018.[2]

Another recent development is the increase in infrastructure-driven FDI by firms from Europe, India and the United States. These firms are beginning to build their presence in South Africa following increased infrastructure investment by the South African Government and other governments in the region.

FDI in South Africa has become more diversified in its geographic sources of origin, which include Japan, China and India, as well as the United Kingdom, Germany, Netherlands, and the United States. While, traditionally, the United Kingdom and other European economies have been the largest sources of FDI in South Africa, there has been a significant increase in investment from Asia and, especially, China, which was the largest Asian source-economy with an FDI stock of US$5.1 billion in 2010 (annex table 4). Despite this increase, the United Kingdom is still the home economy with the largest IFDI stock (US$ 69 billion – more than half of the total) in South Africa.[3]

The corporate players

The largest twenty foreign affiliates in South Africa in terms of revenue earned, according to information available in 2012, are listed in annex table 5. They include firms in diverse sectors with investments from a variety of sources. Affiliates of Vodaphone (United Kingdom), Walmart (United States) and Anglo American PLC (United Kingdom) top the list, which also includes affiliates of firms based in other European economies, India, Kuwait, Japan, and Malaysia.

Large volatility in FDI flows to South Africa has been due partly to a series of large mergers and acquisitions (M&As). The most notable recent M&A deals are in the banking, telecommunications and retail industries. Barclays PLC's acquisition of 55.5% of Absa in 2005[4] for US$ 3.1 billion was followed by the acquisition by the Industrial and Commercial Bank of China (ICBC) of a 20% stake in the Standard Bank Group for US$ 5.5 billion in 2007.[5] During 2009, Vodaphone purchased a further 15% of shares in Vodacom, the largest mobile service provider in South Africa from its joint venture partner Telkom, South Africa's telecommunications utility, for US$ 2.4 billion. The top 10 deals in 2010 are listed in annex table 6; the largest was the acquisition in October 2010 of Dimension Data by Nippon Telegraph and Telephone Corporation (NTT) for US$ 3.1.billion. Most recently, in 2011, Walmart acquired a 51% stake in Massmart for US$ 2.4 billion.[6]

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[1] Basel III is a new set of capital and liquidity standards that banks must adhere to and is a response to the banking crisis. A good summary of the requirements and targets is available from Moody's Analytics, "Basel III New Capital and Liquidity Standards – FAQs" available at: http://www.moodysanalytics.com/~/media/Insight/Regulatory/Basel-III/Thought-Leadership/2012/2012-19-01-MA-Basel-III-FAQs.ashx.

[2] René Vollgraaff, "South Africa already a Basel 3 star," *Business Day*, January 27, 2013, available at http://www.bdlive.co.za/business/financial/2013/01/27/south-africa-already-a-basel-3-star.

[3] Reporting on IFDI from China into South Africa is not always consistent. For a discussion of the topic see Stephen Gelb, "Foreign direct investment links between South Africa and China," paper prepared for the African Economic Consortium Project on China-Africa Economic Relations, The EDGE Institute, Johannesburg, 2010.

[4] Absa Group Limited, "Absa overview – profile," available at: http://www.absa.co.za/Absacoza/About-Absa/Absa-Group/Absa-Overview.

[5] Standard Bank, "Standard Bank – History," available at: http://www.standardbank.com/Highlights.aspx.

[6] Devon Maylie, "Wal-Mart gets nod in Africa," *The Wall Street Journal*, June 1, 2011, available at: http://online.wsj.com/article/SB10001424052702303657404576357132239525222.html.

The largest greenfield FDI projects in South Africa during 2008-2010 (annex table 7) were generally smaller than the largest M&A deals of 2010 mentioned above. Heading the list are investments by the Tata Group (India), in oil, coal and natural gas; by Trump (United States) in real estate; and by Strategic Natural Resources (SNR) (United Kingdom) in coal, oil and natural gas. In March 2013, Proctor and Gamble announced that it would invest $180 million in a multi-category manufacturing plant scheduled to start production in 2016/7, which would be the hub for its Southern and East African operations.[1]

Effects of the recent global crises

South Africa experienced a relatively shallow recession after a hard initial shock in 2009 due to the global financial and economic crises. It has been argued that South Africa's economy was insulated from the worst of the financial contagion by the vestiges of the exchange controls that were introduced during the apartheid era to prevent capital flight. South African banks were consequently prevented from dabbling in the more arcane derivative instruments available internationally and this, combined with the fact that they are more tightly regulated and conservatively capitalized than their international counterparts, served to reduce the likelihood of material exposure when global markets came under pressure.[2] The minerals and commodities sectors were hardest hit by the recession but recovered quite quickly after 2009, largely driven by the Chinese recovery and demand for commodities. After a record contraction in GDP of -6.3% in the first quarter of 2009, the South African economy expanded by 2.8% in 2010 with annualized growth rates of more than 4% in the final quarter of 2010 and first quarter of 2011. South Africa's GDP growth rate rose to 3.2% in the second quarter of 2012, from 2.7% in the previous quarter. This was accompanied by growth in the demand for labor from the second quarter of 2010.[3] South Africa has a highly volatile currency that is seen by some as overvalued largely due to foreign earnings in the commodity sector. However it is expected that the currency will remain volatile and the exchange rate will even rise as international investors rebalance their portfolios to access growing emerging markets such as South Africa.[4]

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[1] Zeenat Moorad, "Procter and Gamble sees growth opportunities in Africa", *Business Day*, April 3, 2013, available at http://www.bdlive.co.za/business/retail/2013/04/03/procter-gamble-sees-growth-opportunities-in-africa.
[2] David Marrs, "The global financial crisis and emerging economies: Role model South Africa," *Heinrich Böll Stiftung Southern Africa* (updated), available at http://www.za.boell.org/web/publications-258.html.
[3] South African Reserve Bank (SARB), *Annual Economic Report 2011* (Pretoria: SARB, 2011).
[4] A good overview of the effects of the financial crisis on the South African economy is provided by Lesetja Kganyago, Deputy Governor of the South African Reserve Bank, in a speech to Capital Growth Fund Investors on March 1, 2012 at Magaliesburg, available at: http://www.resbank.co.za/Lists/Speeches/Attachments/337/Speech_Lesetja%20Kganyago.pdf (accessed April 23, 2013).

The policy scene

With investment flows to developing economies having grown by 11% during 2011 to a record $684 billion,[1] the outlook for South Africa with respect to IFDI appears promising. Experts predict that the African continent remains a preferred destination due to strong economic growth, ongoing economic reforms, higher commodity prices, and the presence of untapped consumer markets.[2] In addition, FDI flows originating from emerging economies continue to burgeon; for Africa's greenfield projects, the share of FDI flowing from emerging markets increased from 45% in 2010 to 53% in 2011.[3] South Africa should, therefore, feature prominently on the list of attractive FDI destinations but needs to ensure that the economic preconditions as well as policy factors remain conducive to encouraging FDI.

On the policy front, little remains of the exchange-control restrictions that governed the mobility of capital to and from South Africa since the late 1960s.[4] Today, South Africa is an open economy, and foreigners are able to repatriate earnings with relative ease.[5] The Government has substantially reduced its involvement in the economy and moved away from an import substitution regime, reduced historically high tariffs and subsidies, and done away with anti-competition measures. While there is little to distinguish between the policy, legal and regulatory frameworks governing domestic and foreign investment, the South African Government has, however, imposed restrictions on local borrowing by foreign investors, stipulated that payments of royalties, license fees and certain other remittances require approval from the South African Reserve Bank, imposed specific sectoral regulations in relation to strategic industries (e.g., banking and insurance, mining, telecommunications, transport),[6] and in some of its bilateral investment treaties (BITs) has stipulated that the Government reserves the right to elevate policies aimed at redressing economic empowerment imbalances above WTO principles.[7] Also worth noting is that, while the high literacy rate of the South African labor force and the generally low wages[8] are positive factors for attracting FDI, the level of unionization and militancy of trade unions is high by international standards,[9] and in a country plagued by a high unemployment rate of about 26%,[10] labor legislation has been criticized for being inflexible.[11] A minimum wage, and mooted changes to labor broking, bans on casual labor and penalties imposed on executives of companies not adhering to black economic empowerment criteria have collectively clouded the investment outlook in sectors of the economy where labor absorption is most needed. Proposed amendments to the Broad-Based Black

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[1] In 2011, global FDI grew by 16% to $1.5 trillion (UNCTAD statistics, available at: http://www.unctadstat.unctad.org).
[2] Ernst and Young, *Building Bridges: Ernst and Young's 2012 Attractiveness Survey – Africa* (EYGM Limited, 2012).
[3] Hazelhurst, op. cit.
[4] HCAW Schulze "South Africa further relaxes exchange controls," *Offshore Investment* (January 1998), available at: http://www.offshoreinvestment.com/media/uploads/South%20Africa%20further%20relaxes%20exchange%20controls.pdf.
[5] South African Reserve Bank (SARB), Exchange Control Manual, available at: http://www.resbank.co.za/RegulationAndSupervision/FinancialSurveillanceAndExchangeControl/EXCMan/Pages/default.aspx.
[6] Republic of South Africa, National Treasury "A review framework for cross-border direct investment in South Africa," Discussion Document, February 2011, available at: http://www.treasury.gov.za/documents/national%20budget/2011/A%20review%20framework%20for%20cross-border%20direct%20investment%20in%20South%20Africa.pdf.
[7] Trade Law Centre for South Africa (TRALAC), "Investment project – South African case study". prepared by the International Institute for Sustainable Development (IISD) for TRALAC, May 2004.
[8] The Economist Intelligence Unit, *Country Report: South Africa* (London: Economist Intelligence Unit, 2011).
[9] IMD, *IMD World Competitiveness Yearbook 2012* (Lausanne: IMD, 2012).
[10] Unemployment rate cited is from Statistics South Africa, as at the fourth quarter, 2012, available at: http://www.statssa.gov.za/keyindicators/keyindicators.asp.
[11] IMD, *IMD World Competitiveness Yearbook 2012*, op. cit.

Economic Empowerment (B-BBEE) legislation tabled in November 2012 were expected to discourage IFDI as additional regulation is anticipated to increase the cost of doing business.[1]

South Africa's approach to FDI, which is part of its policy approach to investment and development in general, may appear contradictory to some outsiders, as the Government has to manage two competing pressures.[2] On the one hand, it needs to modernize and grow the economy; on the other, it must manage the demands to transform the obsolete apartheid structures of South African society into a society and economy that reflect more fairly and equitably the demographics of the general population. In this sense, the country has to walk a long road toward balancing better the objectives of economic growth and social development, learning from other emerging markets' best practices, and the transfer of significant ownership and management of enterprises to previously disadvantaged South Africans. To this end, the South African Parliament has enacted a variety of laws and regulations, the most significant of which are contained in the B-BBEE Strategy published in 2003, which was a precursor to the B-BBEE Act 53 of 2003. The Act provides a legislative framework for the promotion of Black Economic Empowerment, the establishment of a B-BBEE Advisory Council and for the Minister of Trade and Industry to issue Codes of Good Practice for a variety of industries.[3] The codes of practice require companies to have 26% equity ownership by previously disadvantaged South Africans, targets for management to be black and targets for procurement from firms that are owned by previously disadvantaged South Africans.

These laws are open to differences in interpretation and to possible manipulation.[4] However, there have also been some favorable developments for investors in the mining sector with a recent court ruling favoring existing holders of mining rights against the splitting of mineral rights on an existing property and awarding additional prospecting rights on the same property to another party. The party that was awarded the split rights and had been awarded the right to appeal the ruling,[5] has subsequently had its appeal dismissed by the Supreme Court of Appeal. Industry commentators are hopeful that this development has quelled investor concerns over transparency and governance.[6] In addition, any M&A activity is subject to scrutiny by the Competition Commission, especially in so far as rights of consumers in lower income categories are affected.[7] The acquisition of Massmart by Walmart in 2011 was subjected to challenges from no less than three cabinet ministers, the Congress of South African Trade Unions (Cosatu) and other NGOs.[8] The deal was finally settled with Walmart establishing a fund

[1] Liesl Peyper, "New BEE legislation worries stakeholders," *Finweek*, March 13, 2013, available at http://finweek.com/2013/03/13/new-bee-legislation-worries-stakeholders/ (accessed on April 23, 2013); also see, Republic of South Africa, "Broad-Based Black Economic Empowerment Amendment Bill, 2012", *Minister of Trade and Industry*, 2012, available at http://www.parliament.gov.za/live/commonrepository/Processed/20121129/478645_1.pdf.

[2] Jeffrey Herbst, "Mbeki's South Africa," *Foreign Affairs*, November/December 2005, available at: http://www.foreignaffairs.com/articles/61203/jeffrey-herbst/mbekis-south-africa.

[3] Information regarding the purpose of the B-BBEE Act and codes of practice is from the South African Department of Trade and Industry website, available at: http://www.dti.gov.za/economic_empowerment/bee.jsp.

[4] Agnieszka Flak, "Kumba/Arcelor Mittal iron ore dispute case may expose South African can of worms," *Mineweb*, August 15, 2011, available at: http://www.mineweb.com/mineweb/view/mineweb/en/page39?oid=133436&sn=Detail&pid=39.

[5] Agnieszka Flak, "S.Africa court grants govt, ICT leave to appeal," *Reuters*, May 11, 2012, available at: http://www.reuters.com/article/2012/05/11/safrica-court-ict-kumba-idUSL5E8GAIWW20120511

[6] Agency Staff, "Court dismisses Sishen mine rights appeal against Kumba," *Business Day*, March 29, 2013, available at http://www.bdlive.co.za/business/mining/2013/03/29/court-dismisses-sishen-mine-rights-appeal-against-kumba.

[7] OECD, *Competition Law and Policy in South Africa – An OECD Peer Review* (Paris: OECD, 2003) available at: http://www.oecd.org/dataoecd/52/13/2958714.pdf.

[8] "Wal-Mart cleared to buy South Africa's Massmart," *BBC News Business*, May 31, 2011, available at http://www.bbc.co.uk/news/business-13601247.

of US$ 13.3 million to support small businesses in its supply chain, a promise not to lay off any Massmart employees for two years and an undertaking to honor union bargaining agreements for a three-year period.[1] The court found that the overall benefits of the investment would include creation of additional jobs and reduction in prices to the benefit of the South African economy as a whole. In the face of public criticism, the Minister of Trade and Industry denied that the Government's handling of the Walmart case would deter foreign investment as investment was dealt with on a case-by-case basis.[2]

While managing the pressures to transform South African society, the Government maintains a balancing act by encouraging foreign investment in key areas such as mining, the automotive industry, tourism, ICT and electronics, and infrastructure development.[3] To this end, the National Development Plan, released by the National Planning Commission (established in February 2010) to the President and Deputy President in November 2011, contained broad policy guidelines to attract domestic and foreign investment into industries in which South Africa is already competitive, such as financial services and mobile telecommunications, and to new industries such as business process outsourcing[4] and infrastructure development. The objective is to increase GDP by four percentage points to 7% per annum, and to create 5 million jobs by 2020, reducing the unemployment rate from 25% to 15%, and to diversify the South African economy significantly more within 20 years.[5] Areas in which job creation is possible are identified as being in infrastructure, agriculture, mining, the green economy, manufacturing, tourism, and high-level services. The plan hinges on robust industrial investment and measures to reduce the negative effects of short-term capital inflows. There have, however, been several critics of the National Development Plan (NDP), most notably from the ruling party's trade union alliance partners. Criticisms have ranged from ideological opposition to the economic assumptions on which the NDP is based to perceived vagueness around the NDP's implementation and lack of detailed action plans, the potential erosion of workers' rights, the entrenchment of existing income inequalities, unrealistic job creation targets for underperforming sectors and the creation of unsustainable jobs, and not addressing the nuanced complexities surrounding the high levels of youth unemployment.[6]

In addition to the initiatives described, the Government will continue to strengthen trade relations with dynamic markets such as China, Brazil and India as well as promoting exports and adjusting tariffs

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[1] Devon Maylie, "Wal-Mart, Massmart merger approved in South Africa," *Wall Street Journal*, March 9, 2012, available at: http://online.wsj.com/article/SB10001424052970204603004577270942176432300.html.

[2] M. Cohen and R. Brand, "Wal-Mart wins South African lawsuit contesting Massmart deal," *Bloomberg,* March 9, 2012, available at: http://www.bloomberg.com/news/2012-03-09/south-africa-appeal-court-dismisses-case-against-wal-mart-s-massmart-deal.html.

[3] SouthAfrica.Info, "Key sectors," available at: http://www.southafrica.info/business/economy/sectors/.

[4] Lance Harris, "South Africa carves its outsourcing niche amid flurry of acquisitions," *African Enterprise*, September 20, 2012, available at: http://www.zdnet.com/south-africa-carves-its-outsourcing-niche-amid-flurry-of-acquisitions-7000004554/.

[5] For information on the National Planning Commission's work and the Plan document, see National Planning Commission, "National Development Plan; Vision for 2030," November 11, 2011, available at: http://www.npconline.co.za/medialib/downloads/home/NPC%20National%20Development%20Plan%20Vision%202030%20-lo-res.pdf.

[6] Sipho Hlongwane, "NUMSA ready for war over National Development Plan and Vavi," *Daily Maverick*, March 8, 2013, available at: http://www.dailymaverick.co.za/article/2013-03-08-numsa-ready-for-war-over-national-development-plan-and-vavi/#.UV6hIpNTCPM (accessed on April 23, 2013); Neil Coleman, "National Development Plan: The devil is in the economic detail," *Daily Maverick*, April 3, 2013, available at: http://www.dailymaverick.co.za/opinionista/2013-04-03-national-development-plan-the-devil-is-in-the-economic-detail/#.UV6hJJNTCPM (accessed on April 23, 2013); and Colleen Goko, "National Development Plan criticised for 'simplified' view of S.A.'s youth," *Business Day*, March 21, 2013, available at http://www.bdlive.co.za/national/2013/03/21/ national-development-plan-criticised-for-simplified-view-of-sas-youth.

reciprocally with trading partners. Challenges to the plan include South Africa's above-inflation-rate wage settlements, and the volatility of the currency, which erode the country's competitive position for attracting FDI.

A burgeoning deficit on the current account of the balance of payments suggests that interest rates remain relatively high from a global perspective in order to attract capital inflows. However, in a global, sometimes uncertain environment, the capital flows South Africa continues to attract have largely been portfolio capital flows rather than more sustainable longer-term flows, including IFDI, that could promote GDP growth and encourage job creation. With the preponderance of portfolio capital inflows, movements in the rand exchange rate remain volatile, hindering business planning;[1] and despite the Government's intention to spend more than US$ 100 billion, mainly on infrastructure, over the next three years, economic inefficiencies prevail in important pockets of the economy, particularly in transport, logistics, electricity, water, and sanitation.

On the international front, South Africa's policy initiatives with respect to FDI are expected to undergo some fundamental changes: recent reports indicate that the Government intends to terminate or renegotiate many of its bilateral investment treaties (BITs) as the country intends codifying BIT-type protection into its domestic law and as questions have arisen regarding their real contribution to fostering IFDI.[2] South Africa has already terminated its BIT with Belgium and Luxembourg.[3]

South Africa has concluded bilateral trade agreements with the European Union (through the Trade, Development and Cooperation Agreement), with the Latin American trade bloc Mercosur, the United States, India, and China. South Africa has concluded double taxation agreements with 21 African countries and 51 countries in the rest of the world.[4] On the African continent, South Africa is a member of two regional economic communities, namely the Southern African Development Community (SADC) and the Southern African Customs Union (SACU).[5]

Conclusions

Policy changes related to efforts for transforming South African society into a more equitable one and currency volatility remain a challenge for foreign investors looking to take advantage of South Africa's endowments in terms of markets and resources. The recent spate of incidents reflecting labor unrest in the mining,[6] transport and agricultural sectors, and a perceived lack of political leadership in response to

[1] For a historical description of the South African currency's volatility and its relationship with commodities, see R. Arezki, E. Dumitrescu, A. Freytag, and M. Quintyn, "Commodity prices and exchange rate volatility: lessons from South Africa's capital account liberalization," IMF Working Paper WP/12/168, International Monetary Fund, Washington, D.C., 2012.
[2] Sean Woolfrey, "South Africa's stance on bilateral investment treaties," Trade Law Centre, October 3, 2012, available at: http://www.tralac.org/2012/10/03/south-africas-stance-on-bilateral-investment-treaties/.
[3] Adam Green, "South Africa: BITs in pieces," *Financial Times*, beyondbrics-Blogs, October 19, 2012, available at: http://blogs.ft.com/beyond-brics/2012/10/19/south-africa-bits-in-pieces/#axzz2CV9OKrrA.
[4] South African Revenue Service (SARS), "International treaties and agreements – double taxation agreements," available at: http://www.sars.gov.za/home.asp?pid=3919.
[5] N. Meyer, T. Fenyes, M. Breitenbach and E. Idsardi, "Bilateral and regional trade agreements and technical barriers to trade: An African perspective," OECD Trade Policy Working Papers, No. 96, June 2, 2010.
[6] The wildcat strike during August 2012 at a Lonmin mine in Marikana, mentioned above (under Country-level developments) culminated in the deaths of 44 people and sparked widespread labor unrest in South Africa; see Mish Molakeng, "South Africa's Lonmin miners accept pay rise to end strike" *Reuters*, September 18, 2012, available at http://www.reuters.com/article/2012/09/18/us-safrica-mines-idUSBRE88H0R420120918.

the socio-economic travails of widening income disparities and high unemployment rates, precipitated a downgrade of South Africa's credit rating by Moody's and Standard and Poor's in September 2012.[1] In response to slower growth and the gloomy domestic and international economic outlook, South Africa's Minister of Finance outlined, in his Medium Term Budget Policy Statement, a number of measures to improve investor confidence and to broaden economic participation in the economy. These include the re-establishment of orderly labor relations, strengthening of municipal finances, the promotion of special economic zones (SEZs), the acceleration of youth employment opportunities, shifting of exports toward emerging markets, providing support to small businesses, and a focus on eighteen new strategic infrastructure programs that would add to the US$ 90 billion infrastructure building programs already in progress.[2] Furthermore, recent policy statements by the ruling African National Congress (ANC) in favor of a more limited "strategic nationalization"[3] of natural resources and its stronger stance against corruption will encourage FDI, as investors look for alternative investment opportunities outside the Euro-zone and focus their attention on emerging markets with strong institutional frameworks and robust infrastructure.

In the medium term, it is expected that South Africa will continue to attract large portfolio capital inflows, but that FDI will increase as well due to continued commodity demand from China, India and other emerging economies. South Africa also remains a significant contributor to sub-Saharan African GDP, and it is anticipated that South African businesses, especially the financial sector, are set to benefit from the boom experienced by fast-growing African economies. In addition, massive investment in infrastructure is expected to forge stronger links among countries in the region, thereby promoting larger Africa-wide markets that attract further investment and spur economic growth.[4]

Additional readings

South African Institute for Race Relations, *South Africa Survey 2010/2011* (Johannesburg: South African Institute for Race Relations, 2011), chapter on "The economy," pp. 87 – 207.

South African Reserve Bank, *Quarterly Bulletin, December 2011* (Pretoria: SARB), available at: http://www.resbank.co.za/Publications/QuarterlyBulletins/Pages/QuarterlyBulletins-Home.aspx

Tuomi, Krista, "The role of the investment climate and tax incentives in the foreign direct investment decision: evidence from South Africa," *Journal of African Business*, vol. 12 (2011), pp. 133–147.

[1] Andrew England "Moody's downgrades South Africa," *Financial Times*, September 27, 2012, available at: http://www.ft.com/intl/cms/s/0/5a49505a-08c0-11e2-9176-00144feabdc0.html#axzz2CVXhLpt6.
[2] Alan Straton, "Medium term budget policy statement – Pravin Gordhan," MyPE, October 25, 2012, available at: http://mype.co.za/new/2012/10/medium-term-budget-policy-statement-pravin-gordhan/.
[3] SAPA (South African Press Association), "ANC to focus on 'strategic nationalisation" *Mail and Guardian*, September 27, 2012, available at: http://mg.co.za/article/2012-09-27-anc-calls-for-state-intervention-in-minerals.
[4] L. Steyn, "SA not as bad as The Economist thinks," *Mail and Guardian*, November 9, 2012, available at: http://mg.co.za/article/2012-11-09-sa-not-as-bad-as-the-economist-thinks.

Useful websites

For statistics on South Africa: http://www.statssa.gov.za/ and http://www.jse.co.za

South African Reserve Bank, Quarterly Bulletins, available at:
http://www.resbank.co.za/Publications/QuarterlyBulletins/Pages/QuarterlyBulletins-Home.aspx

Annex table 1. South Africa: inward FDI stock, selected years, 1980-1995, and 2000-2011

(US$ billion)

Economy	1980	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
South Africa	16.5	8.9	9.2	15.0	43.5	30.6	30.6	46.9	64.5	79.0	87.8	110.5	68.0	117.4	132.4
Memorandum: comparator economies															
Turkey	8.8	9.2	11.2	14.9	19.2	19.7	18.8	33.5	38.5	71.3	95.1	154.0	80.2	143.6	181.9
Poland	0.0	0.0	0.1	7.8	34.2	41.2	47.9	57.8	86.8	90.9	125.8	178.4	164.3	186.1	193.1
Malaysia	5.2	7.4	10.3	28.7	52.7	34.0	37.5	41.2	43.0	44.5	53.7	75.8	73.6	78.9	101.3
Chile	10.8	12.0	16.1	24.4	45.8	43.5	42.3	54.1	60.5	74.2	80.3	99.4	99.4	121.4	139.5
Hungary	n.a.	0.0	0.6	11.3	22.9	27.4	36.2	48.3	61.6	61.1	80.2	95.5	88.5	98.8	91.9

Source: UNCTAD's FDI/TNC database, available at: http://unctadstat.unctad.org/ (accessed on November 16, 2012).

Annex table 2. South Africa: inward FDI flows, selected years, 1980-1995, and 2000-2011

(US$ million)

Economy	1980	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008
South Africa	-10	-448	-78	1,241	887	6,784	1,569	734	798	6,647	-527	5,695	9,006
Memorandum: comparator economies													
Poland	10	15	88	3,659	9,445	5,701	4,123	4,588	12,874	10,293	19,603	23,561	14,839
Turkey	18	99	684	885	982	3,352	1,082	1,702	2,785	10,031	20,185	22,047	19,504
Chile	213	144	661	2,956	4,860	4,200	2,550	4,334	7,241	7,097	7,426	12,572	15,518
Malaysia	934	695	2,611	5,815	3,788	554	3,203	2,473	4,624	4,065	6,060	8,595	7,172
Hungary	0	0	554	5,103	2,784	3,936	2,994	2,137	4,266	7,709	6,818	3,951	6,325

Source: UNCTAD's FDI/TNC database, available at: http://unctadstat.unctad.org/ (accessed on November 16, 2012).

Annex table 3. South Africa: sectoral distribution of inward FDI stock, 2001 and 2009

(US$ million)

Sector/industry	2001	2009
Primary		
Agriculture, forestry and fishing	78	112
Mining and quarrying	14,888	34,780
Secondary		
Manufacturing	10,733	29,066
Electricity, gas and water	4	3
Construction	211	244
Services		
Wholesale and retail trade, catering and accommodation	1,817	3,738
Transport, storage and communication	1,059	7,793
Finance, insurance, real estate and business services	15,667	28,195
Community, social and personal services	26	68
Total	44,483	104,000

Source: Unpublished data obtained from South African Reserve Bank (SARB) Research Unit and *SARB Quarterly Bulletin*, various issues.

Annex table 4. South Africa: geographical distribution of inward FDI stock, by source region/economy, 2001 and 2010

(US$ million)

Region/economy	2001	2010
Developed economies	41,533	129,352
Asia	231	2.640
Japan	231	2,640
Europe	38,676	116,442
Austria	11	208
Belgium	102	549
France	360	1,295
Germany	2,607	8,339
Italy	164	868
Lichtenstein	23	96
Luxembourg	290	2,166
Netherlands	1,249	24,375
Switzerland	789	6,321
United Kingdom	32,731	69,079
Other	351	3,147
North America	2,609	10,064
United States	2,203	8,593
Other	402	1,471
Oceania	17	206
Australia	17	206
Developing economies	1,621	9,760
Africa	588	885
Botswana	88	64
Lesotho	6	14
Swaziland	62	31
Other	432	776
Asia	1,019	8,850
Hong Kong (China)	3	194
Malaysia	752	2,362
Taiwan Province of China	31	130
China	n.a.	5,102
Other a/	234	1,062
Caribbean	n.a.	n.a.
Bahamas	5	-
Oceania	1	3
Other	1	3
International organizations	12	22
Total	43,154	139,112

Source: Unpublished data obtained from South African Reserve Bank (SARB) Research Unit and *SARB Quarterly Bulletin*, various issues.

a/ Figure for 2001 includes that for China, among others.

Note: Data converted from South African rand (ZAR) to US dollars at the following exchange rates: average rate of 8.59 ZAR per U.S. dollar for 2001 and of 7.30 ZAR per U.S. dollar for 2010.

'n.a.' denotes 'not available.'

'-' denotes nil

Annex table 5. Main foreign affiliates in South Africa according to information available in 2012, ranked by revenue in last reported year

Rank	Company name	Ultimate parent company and home economy	Industry	Revenue (US$ millions) (year)	Number of employees
71	Vodacom Group Ltd	Vodaphone PLC (United Kingdom)	Telecommunications	8,722 (2012)	n.a.
2	Massmart Holdings Ltd	Walmart (United States)	Retail	7,481 (2012)	n.a.
3	Anglo American Platinum Limited	Anglo American PLC (United Kingdom)	Mining	6,255 (2012)	58,541
4	Kumba Iron Ore Limited	Anglo American PLC (United Kingdom)	Mining and industrial	5,920 (2012)	n.a.
5	Absa Group Limited	Barclays PLC (United Kingdom)	Financial	5,575 (2012)	35,200
6	Nedbank Group Limited	Old Mutual PLC (United Kingdom)	Financial	4,083 (2012)	28,494
7	Arcelormittal South Africa Limited	Arcelormittal S.A. (Luxembourg)	Industrial	4,046 (2012)	9,886
8	Assore Limited	Sumitomo (Japan)[a]	Mining and industrial	1,664 (2012)	n.a.
9	Illovo Sugar Limited	Associated British Foods PLC (United Kingdom)	Food	1,197 (2012)	12,474
10	Palabora Mining Company Limited	Rio Tinto PLC (United Kingdom)	Mining	0.985 (2012)	n.a.
11	Evraz Highveld Steel And Vanadium Limited	Evraz Group S.A. (Luxembourg)[b]	Industrial	0.692 (2012)	1,780
12	African Oxygen Limited	BOC Holding PLC (United Kingdom)	Industrial	0.640 (2012)	3,288
13	Mvelaphanda Group Limited	Blackstar Group SE (United Kingdom)	Diversified	0.518 (2010)	n.a.
14	Zurich Insurance Company South Africa Limited	Zurich Financial Services Group (Switzerland)[c]	Financial	0.474 (2012)	755
15	Mustek Limited	Old Mutual PLC (United Kingdom)[d]	Computers	0.429 (2012)	n.a.
16	Hudaco Industries Limited	Old Mutual PLC (United Kingdom)[e]	Automobile parts	0.373 (2012)	2,505
17	Sovereign Food Investments Limited	Old Mutual PLC (United Kingdom)[f]	Food	0.169 (2012)	n.a.
19	South African Coal Mining Holdings Limited	JSW Energy Ltd (India)	Mining	0.42 (2012)	n.a.
18	IFA Hotels & Resorts Limited	IFA Hotels and Resorts KSSC (Kuwait	Hotels	0.05 (2012)	n.a.
20	IFCA Technologies Limited	IFCA MSC Berhad (Malaysia)	IT services	n.a.	n.a.

Source: Osiris Publicly Listed Companies Worldwide Database, Bureau van Dijk Electronic publishing.

[a] Assore is an affiliate of Oresteel Investments (ZA), which is majority owned by Sumitomo (Japan).
[b] Evraz Highveld Steel and Vanadium Limited are affiliates of Mastercroft (CY), which is a subsidiary of Evraz S.A. (Luxembourg).
[c] Zurich Insurance Company South Africa Ltd is majority owned by Zurich Financial Services Group (Switzerland) through its ownership of SA Firehouse Ltd (ZA).

[d] Mustek Ltd is 34% owned by Old Mutual South Africa, a subsidiary of Old Mutual PLC (United Kingdom).
[e] Hudaco Industries Limited is 33.99% owned by Old Mutual South Africa, which is a subsidiary of Old Mutual PLC (United Kingdom).
[f] Sovereign Food Investments Limited is 37.4% owned by Old Mutual South Africa, a subsidiary of Old Mutual PLC (United Kingdom).

Note: Foreign affiliates are defined for the purpose of the list above as firms with more than 25% shareholding by a foreign firm.

'n.a' denotes 'not available'.

Annex table 6. South Africa: main M & As completed by inward investing firms, 2010

Date effective	Acquirer company	Acquirer industry	Home economy	Target company	Target industry	Shares acquired (%).	Value of transaction (US$ million)
12/13/2010	Nippon Telegraph & Telephone	Telephone communications, except radio /telephone	Japan	Dimension Data Holdings PLC	Computer integrated systems design	100.0	3,119.13
05/31/2010	Eurasian Natural Resources	Electrometallurgical products, except steel	United Kingdom	Northam Platinum Ltd	Miscellaneous metal ores, nec	12.2	299.83
11/08/2010	Jupiter Mines Ltd	Gold ores	Australia	Tshipi e Ntle Manganese-Tshipi	Ferroalloy ores, except vanadium	49.9	235.16
05/13/2010	Temasek Holdings (Pte) Ltd	Management investment offices, open-end	Singapore	Platmin Ltd	Miscellaneous metal ores, nec	13.7	100.00
01/26/2010	Coal of Africa Ltd	Bituminous coal and lignite surface mining	Australia	NuCoal Mining Pty Ltd	Bituminous coal and lignite surface mining	100.0	83.12
11/29/2010	Coal of Africa Ltd	Bituminous coal and lignite surface mining	Australia	Chapudi Coal Pty Ltd-Project	Bituminous coal and lignite surface mining	100.0	75.00
03/26/2010	OM Holdings Ltd	Offices of holding companies, nec	Singapore	Ntsimbintle Mining Pty Ltd	Ferroalloy ores, except vanadium	26.0	58.03
05/13/2010	Temasek Holdings (Pte) Ltd	Management investment offices, open-end	Singapore	Platmin Ltd	Miscellaneous metal ores, nec	-	50.00
12/01/2010	Sylvania Resources Ltd	Miscellaneous metal ores, nec	Australia	Sylvania Metals(Pty)Ltd	Metal mining services	26.0	45.62
02/17/2010	Sable Mining Africa Ltd	Bituminous coal and lignite surface mining	United Kingdom	Delta Mining Consolidated Ltd	Bituminous coal and lignite surface mining	29.3	17.59

Source: The authors, based on Thomson ONE Banker, Thomson Reuters.

Annex table 7. South Africa: main greenfield projects, by inward investing firm, 2008-2010

Year	Investing company	Home economy	Industry	Estimated/ announced investment value (US$ million)
2008	Tata Group	India	Coal, oil and natural gas	1,586.60
2008	Trump	United States	Real estate	1,292.90
2009	Strategic Natural Resources (SNR)	United Kingdom	Coal, oil and natural gas	521.9
2008	Coal of Africa (CoAL)	Australia	Coal, oil and natural gas	521.9
2008	Homeland Energy Group	Canada	Coal, oil and natural gas	521.9
2010	France Telecom	France	Communications	351.1
2009	Deutsche Telekom	Germany	Communications	351.1
2010	SOITEC	France	Alternative/renewable energy	326.1
2010	Xstrata PLC	Switzerland	Metals	n.a.

Source: The authors, based on fDi Intelligence, a service from the Financial Times Ltd.

Chapter 37 - Taiwan

Taiwan: Inward FDI and its policy context, 2012

Victor Zitian Chen, Ming-Sung Kao and Anthony Kuo*

Taiwan has long maintained an explicit policy of attracting inward foreign direct investment (IFDI) as part of its growth strategy, although inflows have been subject to various restrictions. The primary objective of Taiwan's stance toward FDI was initially to attract export-oriented investment based upon the competitiveness of its highly educated and productive labor force. More recently, this objective has been modified to focus on attracting FDI into increasingly technology-intensive areas and to encourage or promote domestic technological spillovers. In recent years, although Taiwan's IFDI stock has more than tripled, from US$ 20 billion in 2000 to US$ 64 billion in 2010, it remains a relatively small recipient compared with its neighboring economies in the Asia-Pacific region. Annual IFDI flows to Taiwan have been in single-digit US$ billion during 2000-2010, with a peak of US$ 7 billion in 2007 followed by a steady decline during 2008-2010. In 2010, Taiwan received inward FDI of US$ 2 billion only. It is, however, generally seen that the release of prohibition against mainland China investors on June 30, 2009, and the newly signed landmark cross-strait Economic Cooperation Framework Agreement (ECFA) on June 30, 2010 will reinforce Taiwan's robust investment climate and stimulate IFDI.

Trends and developments

Country-level developments

The modern economic development of Taiwan can be traced back to the end of the 50-year occupation by Japan in 1945 and, more importantly, the arrival of the KMT (Kuomintang or Chinese Nationalist Party) under Chiang Kai-Shek from the Chinese mainland in 1949, after its defeat during the Chinese Civil War fought against the Communist Party of China (CPC, also known as CCP - Chinese Communist Party) led by Mao Zedong. The KMT swiftly gained political and economic control over Taiwan, and turned the substantial Japanese-owned industrial assets into a dominant public sector. Since then, Taiwan's economy has been developing separately from China, and back toward a closer economic relationship with Japan and, increasingly, with the United States.

Inward foreign direct investment (IFDI) in Taiwan has risen steadily since the early 1950s, when Taiwan introduced a series of tax benefits for foreign investors and began supporting export processing zones. Substantial capital inflows were also forthcoming from the United States, in the form of finance, plant and goods, as part of its Cold War policy of supporting anti-communist regimes. As the driving force of

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Taiwan's economy shifted gradually from export-oriented industrialization in the 1960s and 1970s to capital- and technology-intensive industries in the 1980s and 1990s, IFDI has increased further.

In recent years, although Taiwan's IFDI stock has more than tripled from US$ 20 billion in 2000 to US$ 64 billion in 2010, it remains a relatively small IFDI recipient vis-à-vis some of its comparator economies in the Asia-Pacific region (annex table 1). In 2010, for instance, IFDI stock reached US$ 215 billion in Japan, US$ 127 billion in the Republic of Korea, US$ 101 billion in Malaysia, US$ 470 billion in Singapore, and US$ 127 billion in Thailand. Indeed, although Taiwan has a much larger GDP (US$ 430 billion in 2010) than Malaysia (US$ 238 billion), Thailand (US$ 319 billion) and Singapore (US$ 228 billion), its annual IFDI flow is the smallest among the four.[1] The recent, smaller amount of IFDI can partly be attributed to lower labor costs in China and some of the ASEAN countries, which are apparently more attractive for foreign manufacturers, and the huge market potential of China which has diverted certain investments previously targeting Taiwan. However, more empirical evidence is required to substantiate these explanations for Taiwan's relative IFDI position in recent years.

Annual IFDI flows in Taiwan have been in single-digit US$ billion during 2000-2010 (annex table 2). In 2000, they reached US$ 5 billion (higher than in any year since 1970),[2] of which a portion was aimed at the market opportunities brought by the deregulation of the Taiwanese telecommunication industry. There was a trough in 2002-2003 after the SARS epidemic and 9/11, and a peak in 2006-2007 due to several large investments by foreign multinational enterprises (MNEs) such as Phillips, and private equity firms, including the Carlyle Group, Macquarie Bank, MBK Partners, and Newbridge Asia. Flows fell again in 2008-2010, following the global financial and economic crisis. However, IFDI in Taiwan is expected to increase in 2011, largely because of the Economic Cooperation Framework Agreement (ECFA) between China and Taiwan signed on June 29, 2010.[3] This agreement, which was seen as the most significant agreement since the two sides split after the Chinese Civil War in 1949, will boost bilateral trade between the two by relaxing tariffs and other trade barriers for 539 Taiwanese products and 268 products from mainland China. As a result, many MNEs see Taiwan as a new springboard into the mainland Chinese market, as both sides share similar cultures and a common language, Mandarin. Survey results published in 2010indicate that 29% of foreign services firms and 25% of non-services firms in Taiwan expect an increase in Taiwan's IFDI, and 37% of foreign services firms and 36% of non-services firms in Taiwan foresee more collaborations between foreign firms and Taiwanese firms to explore market opportunities in China after the inauguration of ECFA.[4] In addition, a more mature market environment with highly educated workers could give an advantage to Taiwan as a place for MNEs to set up regional research and development (R&D) centers. For example, in the first half of 2010, before the ECFA was signed, there were no new applications recorded in Taiwan for setting up a foreign-owned R&D center (although earlier there have been several R&D centers established by MNEs such as Microsoft), whereas in the second half of 2010, over US$ 400 million were invested in setting

[1] UNCTAD, *World Investment Report 2011, Non Equity Modes of International Production and Development,* (New York and Geneva: United Nations, 2011), available at www.unctad-docs.org/UNCTAD-WIR2011-Full-en.pdf.
[2] According to UNCTAD statistics, available at: www. unctadstat.unctad.org/ReportFolders/reportFolders.aspx.
[3] The agreement details are available at:
http://www.moea.gov.tw/Mns/populace/news/News.aspx?kind=1&menu_id=40&news_id=19723.

[4] The Investment Commission, Taiwan, *Survey report on the performance of foreign/overseas Chinese invested firms*, conducted by the Chung-Hua Institute for Economic Research and published by the Investment Commission, Taiwan, 2010.

up R&D centers by MNEs such as ASML (Netherlands), IMEC (Belgium), HP (United States), and ELPIDA (Japan), amongst others.

In terms of sectoral and industrial distribution, IFDI in Taiwan has been concentrated in manufacturing and in finance and insurance, which together accounted for 74% of FDI inflows in 2010 (annex table 3). Between 2000 and 2009, IFDI in the manufacturing sector has been consistently around 20% of inflows, but rose to over 35% in 2010, largely because of the EFCA, as discussed above. Electronic parts and components accounted for the largest proportion of manufacturing IFDI, attracting around a quarter of the total in 2010 as well as 2009 and 2010 (annex table 3). Changes in the shares of pulp, paper and paper products, chemical products, and fabricated metal products in manufacturing FDI have been striking: The percentage of manufacturing IFDI in pulp, paper and paper products grew from 1% in 2009 to 11% in 2010, and the percentage in chemical products increased from 1% in 2009 to 9% in 2010; however, the percentage in fabricated metal products decreased from 32% in 2009 to 10% in 2010.

Geographically, excluding tax haven sources such as British Virgin Islands (BVI), Taiwan's IFDI sources since 2000 have been concentrated in Asia and Europe, notably Japan, United Kingdom and the Netherlands (annex table 4). Specifically, in 2010, 17% of IFDI flows were from the United Kingdom, 11% from Netherlands and 10% from Japan. Furthermore, after Taiwan released its prohibition against FDI from mainland China on June 30, 2009, the latter's FDI flows to Taiwan reached US$ 37 million between July 1, 2009 and December 31, 2009. In 2010, China became the fourth largest Asian source economy for FDI in Taiwan, with flows of US$ 94 million, following Japan, Hong Kong (China) and Singapore.

It has been argued that the role of foreign MNEs, whether through FDI or technology transfer arrangements, has declined in Taiwan since 1990 in terms of output, exports and employment.[1] The principal explanations proposed for this decline in the importance of FDI inflows in Taiwan relates to the dynamic growth of domestic enterprises in high-technology industries, such as electronics, based upon domestic R&D and human capital together with technological spillovers from existing foreign firms. It is not clear, given the increasing volume of FDI inflows, whether this conclusion is strictly true, and it must await further research and empirical verification.

The corporate players

According to China Credit Information Service Ltd, the largest five foreign affiliates by sales in Taiwan in 2009 were Nan Shan Life Insurance, Taiwan Toshiba International Procurement, Samsung Electronics Taiwan, Allianz Taiwan Life Insurance, and Texas Instruments Taiwan (annex table 5). They contributed US$ 46 billion in sales in 2009, accounting for 72% of the total sales of the top 20 foreign affiliates in Taiwan. These top 20 players are distributed among financial and insurance services, wholesale and retail trade, and manufacturing (with a concentration in computers, and electronic and optical products). Geographically, the home economies of the parent firms of the largest 20 include United States (6 affiliates), Japan (6), Netherlands (2), France (2), Germany (1), and the Republic of Korea (1).

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[1] Y. Okamoto, "Does ownership matter? The changing roles of FDI in the Taiwan's manufacturing sector", APEC discussion paper series No. 30, APEC Study Centre, Graduate School of International University, Nagoya University (2001).

Among the top 20 players in 2009, foreign affiliates in wholesale and retail trade and financial insurance, such as Presicarre (a joint venture between Taiwan's Uni-President and Carrefour from France), Nan Shan Life Insurance Corporation (at that time an affiliate of the AIG Group from the United States; AIG has sold a 97.57% stake in Nan Shan LIC to Ruen Chen Investment Holding of Taiwan in January, 2011), Costco President Taiwan (a joint venture between Taiwan's Uni-President and Costco from the United States), and Metlife Taiwan Insurance, each have several branches in Taiwan (annex table 5). In the manufacturing industry, Texas Instruments Taiwan, Kuozui Motors (a joint venture of Taiwan's Hotai Motor and Toyota from Japan), Garmin, China American Petrochemical, NXP Semiconductors, and Philips and Lite-on Digital Solution all have manufacturing facilities in Taiwan. Procurement and sales activities are the major operations of several affiliates of foreign technology firms in Taiwan, including Taiwan Toshiba International Procurement, Samsung Electronics Taiwan, Panasonic Industrial Sales, Toshiba Digital Media Network Taiwan, Sony Taiwan, Toshiba Electronics Taiwan, and General Instrument of Taiwan.

Cross-border mergers and acquisitions (M&As) have been an important mode of FDI in Taiwan during 2008-2010. Among the largest 30 M&A deals in that period, 13 had a transaction value exceeding US$ 100 million, and 11 involved majority control (over 50% shareholding) of their acquisitions (annex table 6). These deals were concentrated in manufacturing and finance. A notable pattern is that most of these M&As involved MNEs from within the region: 19 were from Asia, including nine from Japan. The largest deal by transaction value was the US$ 661 million acquisition of 91% equity of Phoenixtec Power Co, Ltd. by United States-based Eaton Corp.

In comparison, top greenfield investors during 2008-2010 mainly came from non-Asian source economies, notably United States (13 out of the largest 30 greenfield investments were from the United States) (see annex table 7). These investments were primarily in manufacturing and construction. The largest greenfield investment project was United States-based Qualcomm's US$ 2 billion investment in a new manufacturing facility for electronic components in August 2010. Among the largest greenfield projects, one notable example is SAIC Chery Automobile's US$ 88 million investment in a new design, development and testing centre in November 2009, the largest greenfield investment from mainland China since mainland Chinese investors were allowed to invest in Taiwan since June 30, 2009.

Effects of the recent global crises

The global financial and economic crises hit Taiwan's IFDI badly. As noted, IFDI flows dropped steadily during 2008-2010. According to the Investment Commission of Taiwan, in 2008, approved IFDI decreased by 46% from US$ 15.4 billion in 2007 to US$ 8.2 billion in 2008, and dropped again in 2009 by 42% to US$ 4.8 billion. However, the number of investment projects approved did not drop as fast in 2009 —the Investment Commission approved 1,711 investment projects in 2009, a 7% decrease compared with 1,845 projects in 2008.

As the global economy gradually stabilized in 2010, Taiwan has also gradually recovered from the crisis. Its economy has taken off in the first half of 2010, averaging year-on-year growth of 14% in the first quarter and 13% in the second quarter.[1] As mentioned, Taiwan's ECFA with China came into effect on September 12, 2010, further boosting the island's already-bright economic prospects for the rest of 2010,

[1] Data from the Directorate General of Budget, Accounting and Statistics, Executive Yuan, Taiwan, available at: http://eng.dgbas.gov.tw/mp.asp?mp=2

and the rate of economic growth in 2010 as a whole reached 10%.[1] IFDI to Taiwan has also improved consequently. The number of investment projects approved by the Investment Commission increased by 19%, reaching 2,042. Nonetheless, the total value of approved projects dropped again to US$ 3.8 billion, a 21% decrease compared to that of 2009. It appears that more firms were interested in investing in Taiwan, but the average size of investments shrank. The diminishing size may be attributed to investing firms' prudence in response to the uncertainty of global economic recovery, but this conclusion requires further verification.

The policy scene

Taiwan has long maintained an explicit policy of attracting IFDI as part of its growth strategy, although FDI inflows have been subject to various restrictions. The primary objective of Taiwan's stance toward FDI was initially to attract export-oriented investment based upon the competitiveness of its highly educated and productive labor force. More recently, this objective has been modified to focus on attracting FDI increasingly into technology-intensive areas and to encourage or promote domestic technological spillovers. As part of its efforts to improve the investment climate, Taiwan no longer has a list of permitted investments, but maintains a negative list of industries closed to foreign investment for security and environmental protection reasons. Liberalization has reduced that list to less than 1% of manufacturing categories and less than 5% of service industries.[2]

Taiwan has been gradually relaxing restrictions on investments from mainland China. In 2009, Taiwan launched the first phase of opening up to Chinese investment. Under the new policy, Taiwan opened 64 sectors in manufacturing, 117 in services and 11 in public construction. Under the "Regulations Governing Permission for People from the mainland Area to Invest in Taiwan," mainland entities and foreign companies in which mainland entities have over 30% shares must first obtain permission before establishing a presence in Taiwan or to hold shares in a Taiwanese company. The Taiwan authorities may also prohibit or restrict investment from mainland Chinese enterprises that have military shareholders or have a military purpose, that would be of a monopolistic nature, that would influence national security, or that would "do harm to domestic economic development." As of November 2010, Taiwan approved 99 investment applications from mainland China totalling US$ 131 million. In the banking industry, two Chinese banks established representative offices in Taiwan in October 2010, and one more bank has been approved by Taiwan's financial regulator to do so. The two mainland banks are limited to conducting only non-profit business activities before receiving permission to apply to establish branches.[3] It is generally expected that FDI in Taiwan will continue to rise and that a robust investment climate will prevail in the years to come, thanks to the opening up to Chinese FDI, the ECFA with China signed on June 30, 2010, and a reduction of business income tax from 25% to 17% in 2011.[4]

Taiwan is not a member of the International Centre for Settlement of Investment Disputes, established by the World Bank to provide arbitration and conciliation services for governments and foreign investors. Foreign investment disputes with the Taiwan authorities are not common. Normally, Taiwan

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[1] Ibid.
[2] Okamoto, *op.cit.*
[3] *China Review News*. The news in Chinese is available at:
http://www.chinareviewnews.com/doc/1014/7/5/2/101475212.html?coluid=7&kindid=0&docid=101475212
[4] PricewaterhouseCoopers China, *Asia Pacific Tax Notes of Taiwan*, June 2011, available at:
http://www.pwccn.com/webmedia/doc/634435862895949113_aptn_jun2011_tw.pdf.

resolves disputes according to domestic laws and regulations, based on national treatment or investment guaranty agreements. These processes are quite transparent and effective —The World Economic Forum (WEF) ranks Taiwan 5th for "transparency of government policymaking" and 44th for "transparency of government policymaking" out of 142 economies in the world.[1] As of December 31, 2011, Taiwan has signed bilateral investment agreements with 30 economies (28 in force),[2] and double taxation agreements with 23 economies (all in force).[3]

The Taiwan authorities have also put significant efforts into policy formulation and implementation. For example, drawing upon information from the World Bank's annual *Ease of Doing Business* report, they reviewed and improved policies, regulations and administrative measures since 2008. The initiatives led to major reforms, including the amendment of the Company Act in 2009 to abolish the minimum capital requirement for start-ups, and amendments of the Income Tax Act in 2009 and 2010 to reduce business income tax to a flat rate of 17%. At the same time, the administrative procedures were simplified for starting a business and paying taxes, corporate governance was reinforced and minority shareholder protection was enhanced, further to improve the investment environment. Several amendments of the Company Act are undergoing changes through the legislative process to impose regulation of shadow directors, enforce disgorgement of unlawful profits by directors, obligate directors to, in board meetings, reveal their personal interests involved in the company's transactions, and grant minority shareholders the right to designate a competent authority to perform an examination of company records.[4] A dedicated CSR website[5] helps Taiwanese firms to improve their practices of corporate social responsibility.

Conclusions

Taiwan remains a moderate recipient of IFDI in the East Asian region. IFDI is concentrated in manufacturing, finance and insurance services. As Taiwan gradually recovers from the effects of the global financial crisis, an increasing number of firms show interest in investing in Taiwan, but with shrinking average size of investments. Taiwan has gradually liberalized its regulations with respect to IFDI. In particular, it is generally expected that investors from mainland China will stimulate IFDI.

Additional readings

Robert Read, "*Foreign direct investment & the growth of Taiwan & Korea.*" Paper presented at the IBRG Country Case Studies Conference, Grange-over-Sands, 12-14 September 2002.

[1] World Economic Forum, *The Global Competitiveness Report, 2011-2012* (Geneva: World Economic Forum, 2011), available at: www.weforumorg/reports

[2] Department of Investment Services, Taiwan. Details are available at: http://www.dois.moea.gov.tw/asp/relation1_1_3.asp.

[3] Taiwan, Taxation Agency, available online at: http://www.dot.gov.tw/en/home.jsp?mserno=200912160006&serno=200912160009&menudata=EnMenu&contlink=content/roc.jsp&level2=Y

[4] Council for Economic Planning and Development (CEPD), available at: http://www.cepd.gov.tw/encontent/m1.aspx?sNo=0013554

[5] The web site is at http://csr.moea.gov.tw/main.aspx

U.S. Department of State, *2011 Investment Climate Statement: Taiwan* (Washington D.C.: United States Department of State, 2011), available at: http://www.state.gov/e/eeb/rls/othr/ics/2011/157367.htm

Useful websites

For FDI statistics, policy and regulation: Taiwan, Investment Commission, available at: http://www.moeaic.gov.tw/.

Statistical annex

Annex Table 1. Taiwan: inward FDI stock, 2000, 2010

(US$ billion)

Economy	2000	2010
Taiwan	20	64
Memorandum : comparator economies		
China	193	579
Singapore	111	470
Japan	50	215
Korea, Republic of	44	127
Thailand	30	127
Malaysia	53	101

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

Annex table 2. Taiwan: inward FDI flows, 2000-2010

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Taiwan	5	4	1	0.5	2	2	7	8	5	3	2
Memorandum : comparator economies											
China	40	47	53	54	61	72	73	84	108	95	106
Singapore	16	15	6	12	21	15	29	37	9	15	39
Malaysia	4	0.6	3	2	5	4	6	9	7	1	9
Korea, Republic of	9	4	3	4	9	7	5	3	8	8	7
Thailand	3	5	3	5	6	8	10	11	8	5	6
Japan	8	6	9	6	8	3	-7	23	24	12	-1

Source: UNCTAD's FDI/TNC database, available at: http://stats.unctad.org/fdi/.

Annex table 3. Taiwan: sectoral distribution of inward FDI flows, 2000, 2009 and 2010

(US$ million)

Sector/industry	2000	2009	2010
All sectors	7,607.8	4,797.9	3,811.6
Primary	0.6	2.8	4.8
Agriculture, forestry, fishing and animal husbandry	0.2	2.2	4.1
Mining and quarrying	0.4	0.6	0.7
Secondary	2,075.6	1,019.5	1,396.8
Manufacturing	1,743.1	990.6	1,321.0
Food	45.0	106.2	12.6
Beverages	36.5	0.2	0.7
Tobacco	0.0	0.0	0.0
Textiles mills	20.0	16.4	5.9
Wearing apparel and clothing accessories	1.0	1.5	3.4
Leather, fur and related products	16.9	5.1	2.2
Wood and bamboo Products	0.0	0.0	2.3
Pulp, paper and paper products	45.5	9.1	148.3
Printing and reproduction of recorded media	1.3	9.2	3.1
Petroleum and coal products	4.6	0.0	0.5
Chemical material	53.8	59.7	100.5
Chemical products	80.4	5.5	120.7
Medical goods	7.2	31.8	24.2
Rubber products	0.6	0.0	3.3
Plastic products	10.6	28.9	43.4
Non-metallic mineral Products	83.1	31.3	8.4
Basic metal	8.8	0.3	23.8
Fabricated metal products	71.1	321.1	133.1
Electronic parts and components	465.0	243.8	351.2
Computers, electronic and optical Products	617.7	54.9	52.1
Electrical equipment	74.4	41.2	103.7
Machinery and equipment	66.4	19.6	61.8
Motor vehicles and parts	18.5	2.2	15.8
Other transport equipment	8.0	0.1	63.1
Furniture	2.7	0.7	1.0
Industrial machinery and equipment	0.0	0.0	0.6
Not elsewhere classified	3.9	1.7	35.0
Electricity and gas supply	69.6	1.2	22.4
Water supply and remediation services	8.8	3.2	17.6
Construction	254.2	24.4	35.8
Services	5,531.6	3,775.6	2,409.9
Wholesale and retail Trade	990.6	660.5	388.0
Transportation and storage	60.8	30.6	29.8
Accommodation and food services	72.8	32.4	11.5
Information and communication	2,048.0	52.0	86.0
Financial and insurance	2,088.6	2,235.6	1,514.9
Real estate	130.0	251.5	136.1
Professional, scientific and technical services	104.8	80.2	110.0
Support services	25.1	16.0	41.8
Public administration and defence; compulsory social security	0.0	0.0	0.0
Education	0.0	2.1	1.8
Human health and social work services	1.2	0.0	0.7

Arts, Entertainment and Recreation	9.1	0.2	0.7
Other Services	0.6	414.5	88.6

Source: Taiwan, Investment Commission, available at: http://www.moeaic.gov.tw/.

Notes: The totals in Annex table 3 and Annex table 4 are different from the flow figures in Annex table 2. The reason is that the data in Annex table 3 and Annex table 4 are based on approved projects (the figure cited for the value of approved projects in 2010 in the second paragraph under “Effects of the recent crises” is the same as that given here), which is provided by the Investment Commission, Taiwan, while the UNCTAD data in Annex table 2 refer to balance-of-payments data on flows, which is equivalent to the data provided by the regional office of the Central Bank in Taiwan.

Annex table 4. Taiwan: geographical distribution of inward FDI flows, 2000, 2009, 2010

(US$ million)

Economy/region	2000	2009	2010
World	7,607.8	4,835.4	3,905.9
Developed economies			
Europe	1,119.6	2,070.3	1,147.8
France	28.1	159.5	40.7
Germany	97.0	34.1	33.0
Netherlands	311.0	991.5	427.0
United Kingdom	683.6	885.2	647.1
North America	0.0	0.0	0.0
Canada	7.8	7.2	5.9
United States	1,328.6	264.3	319.2
Other developed economies			
Australia	46.1	4.4	7.8
Japan	732.9	239.0	400.5
New Zealand	0.2	0.0	3.3
Developing economies			
Africa	10.1	53.1	33.0
Asia and Oceania	0.0	0.0	0.0
Asia	1,671.3	743.3	562.6
China [a]	0.0	37.5	94.3
Hong Kong, China	270.6	277.3	168.4
India	0.4	1.6	1.8
Indonesia	1.2	1.1	1.1
Korea, Republic of	21.8	19.8	23.0
Malaysia	68.5	293.6	53.1
Philippines	0.5	3.3	5.2
Singapore	1,296.9	66.2	123.5
Thailand	9.5	0.7	2.0
Vietnam	0.0	0.1	50.3
Others	1.9	42.2	39.9
Oceania	16.7	239.6	246.1
Samoa	7.6	228.2	242.5
Others	9.1	11.4	3.6
Europe	93.8	14.7	82.8
Czech Republic	0.0	0.0	0.1
Others	93.8	14.7	82.7
Latin America and the Caribbean	2,560.9	1,154.2	1,064.5
Bermuda	250.1	34.5	3.7
Brazil	0.0	0.7	0.2
British Overseas Territories in the Caribbean	2,299.9	1,102.9	1,059.2
Panama	11.0	16.2	1.4

Source: Taiwan, Investment Commission, available at: http://www.moeaic.gov.tw/.

[a] FDI from China was prohibited before June 30, 2009.

Annex table 5. Taiwan: principal foreign affiliates in economy, ranked by value of sales, 2009

Rank	Name of affiliate	Sector/industry	Source economy	Sales (US$ million)[a]	No. of branches in Taiwan
1	Nan Shan Life Insurance Co., Ltd.	Financial and insurance	United States	13,720	24
2	Taiwan Toshiba International Procurement Corp.	Wholesale and retail trade	Japan	12,939	1
3	Samsung Electronics Taiwan Co., Ltd.	Manufacturing, computers, electronic and optical products	Korea, Republic of	11,112	1
4	Allianz Taiwan Life Insurance Co., Ltd.	Financial and insurance	Germany	4,746	1
5	Texas Instruments Taiwan Ltd.	Manufacturing, computers, electronic and optical products	United States	3,222	4
6	Presicarre Corporation	Wholesale and retail trade	France	1,944	63
7	Kuozui Motors, Ltd.	Manufacturing, motor vehicles and parts	Japan	1,859	3
8	Panasonic Industrial Sales (Taiwan) Co., Ltd.	Wholesale and retail trade	Japan	1,659	1
9	Toshiba Digital Media Network Taiwan Corporation	Wholesale and retail trade	Japan	1,646	1
10	Sony Taiwan Limited	Wholesale and retail trade	Japan	1,304	1
11	CardifAssure Ance Vif, Taiwan Brance	Financial and insurance	France	1,284	1
12	Garmin Corp.	Manufacturing, computers, electronic and optical products	United States	1,219	3
13	China American Petrochemical Co., Ltd.	Manufacturing, petroleum and coal products	United Kingdom	1,001	3
14	NXP Semiconductors Taiwan Ltd.	Manufacturing, electronic parts and components	Netherlands	984	2
15	Toshiba Electronics Taiwan Corp.	Wholesale and retail trade	Japan	976	2
16	Costco President Taiwan Inc.	Wholesale and retail trade	United States	846	8
17	Philips and Lite-on Digital Solution Corporation	Wholesale and retail trade	Netherlands	840	1
18	Metlife Taiwan Insurance Company Limited	Financial and insurance	United States	802	4
19	General Instrument of Taiwan, Ltd.	Manufacturing, electronic parts and components	United States	789	1
20	New York Life Insurance Taiwan Corporation	Financial and insurance	United States	745	23

Source: TOP5000 -The Largest Corporations in Taiwan (2009), published by China Credit Information Service, LTD.; and the authors, based on information from individual companies' web sites.

[a] Values in New Taiwan Dollars, converted into US dollars at an exchange rate of US$ 1= NTD 31.9.

Annex table 6. Taiwan: top cross-border M&A deals completed, by inward investing firm, 2008-2010

Year	Acquiror company	Home eonomy	Target company	Target industry	% of Shares acquired	Value of transaction (US$ million)
2010	ANZ Banking Group Ltd	Australia	RBS-Asian Ret Bkg Ops	Banks	100.0	550.0
2010	AI Beverage Holding Co Ltd	Japan	Ting Hsin (Cayman Islands) Hldg	Offices of holding companies	6.5	520.0
2010	Marubeni Corp	Japan	Hsin Tao Power Corp	Electric services	62.0	321.8
2010	Daiwa Quantum Capital Partners	Japan	Alchip Technologies Ltd	Semiconductors and related devices	11.0	15.6
2010	Ampower Holding Ltd	Cayman Islands	Jetronics International Corp	Offices of holding companies	51.1	14.8
2010	Fanuc Ltd	Japan	TATUNG FANUC ROBOTICS CO	Industrial machinery and equipment	50.0	14.2
2010	GS Yuasa International Ltd	Japan	Ztong Yee Industrial Co Ltd	Storage batteries	20.0	13.4
2010	JobStreet Corp Bhd	Malaysia	104 Corp	Information retrieval services	3.4	9.4
2010	Jochu Investment Ltd	British Virgin Islands	Hohsin International Co Ltd	Offices of holding companies	100.0	9.1
2010	Investor Group	United Kingdom	Evervision Electronics Co Ltd	Electronic components	24.5	5.4
2009	Cabot Microelectronics Corp	United States	Epoch Material Co Ltd	Industrial inorganic chemicals	100.0	66.0
2009	Prudential PLC	United Kingdom	China Life Insurance Co Ltd	Life insurance	10.0	64.9
2009	CPF Investment Ltd	Thailand	Charoen Pokphand Entrp(Taiwan)	Prepared animal feeds, except for dogs and cats	32.4	24.1
2009	HSBC Private Equity(Asia)Ltd	Hong Kong, China	Comestibles Master Co Ltd	Eating places	7.0	20.0
2009	TPV Technology Ltd	Hong Kong, China	Koninklijke Philips-Asts	Electronic components	100.0	15.2
2009	Jochu Investment Ltd	British Virgin Islands	Darwin Precisions Corp	Electronic components	6.8	10.4
2009	Manz Automation AG	Germany	Manz Intech Machines Co Ltd	Special industry machinery	19.9	6.9
2009	Key ASIC Bhd	Malaysia	Gateway Silicon Inc	Semiconductors and related devices	89.8	4.7
2009	JobStreet Corp Bhd	Malaysia	104 Corp	Information retrieval services	5.4	4.0
2009	Undisclosed Acquiror	Unknown	Jui Lung Intl Dvlp Co Ltd	Land subdividers and developers, except cemeteries	99.9	3.9
2008	Eaton Corp	United States	Phoenixtec Power Co Ltd	Power, distribution, and specialty transformers	91.0	661.1

2008	Itochu Corp	Japan	Ting Hsin (Cayman Islands) Hldg	Offices of holding companies	14.0	520.0
2008	Micron Technology Inc	United States	Inotera Memories Inc	Semiconductors and related devices	35.6	400.0
2008	MKOF	Korea, Rep. of	Taiwan Broadband Commun Ltd	Cable and other pay television services	60.0	364.6
2008	Dai-ichi Mutual Life Insurance	Japan	Shin Kong Finl Hldg Co Ltd	Security and commodity services	8.9	242.7
2008	Dai-ichi Mutual Life Insurance	Japan	Shin Kong Finl Hldg Co Ltd	Security and commodity services	4.6	215.8
2008	Government of Singapore Invest	Singapore	Taimall Development Co Ltd	Operators of non-residential buildings	90.0	205.2
2008	Itochu Corp	Japan	Ting Hsin (Cayman Islands) Hldg	Offices of holding companies	6.0	189.8
2008	Hynix Semiconductor Inc	Korea, Rep. of	ProMos Technologies Inc	Semiconductors and related devices	8.6	110.3
2008	Investor Group	Singapore	Hansen Ltd	Investors	n.a.	102.0

Source: The authors, based on Thomson ONE Banker, Thomson Reuters.

Annex table 7. Taiwan: top greenfield projects announced, by inward investing firm, 2008-2010

Year	Investing company	Home economy	Industry	Business activity	Value (US$ Million)
2010	Qualcomm	United States	Electronic components	Manufacturing	2,000.0
2010	TPV Technology (TPV)	Hong Kong (China)	Electronic components	Headquarters	1,261.0
2010	Auchan Group (Mulliez Group)	France	Textiles	Retail	395.1
2010	HSBC	United Kingdom	Financial services	Business services	237.1[a]
2010	Air Products and Chemicals	United States	Chemicals	Manufacturing	212.0
2010	Jardine Matheson Holdings	Hong Kong (China)	Hotels and tourism	Construction	170.0[a]
2010	Starwood Hotels & Resorts	United States	Hotels and tourism	Construction	170.0[a]
2010	Diethelm Keller Holding	Switzerland	Transportation	Logistics, distribution and transportation	165.8[a]
2010	Hewlett-Packard (HP)	United States	Business machines and equipment	Research and development	129.3[a]
2010	AT&T	United States	Communications	ICT and internet infrastructure	129.7[a]
2009	Tokyo Electric Power (Tepco)	Japan	Coal, oil and natural gas	Electricity	665.5[a]
2009	Asahi Glass	Japan	Ceramics and glass	Manufacturing	304.4
2009	SeaEnergy Plc (Ramco Energy)	United Kingdom	Alternative/rene-wable energy	Electricity	270.8[a]
2009	SAIC Chery Automobile	China	Automotive OEM	Manufacturing	237.9[a]
2009	Flextronics	Singapore	Business machines and equipment	Design, development and testing	215.7[a]
2009	Turbine Truck Engines	United States	Engines and turbines	Manufacturing	111.0[a]
2009	New York Life Insurance	United States	Financial services	Sales, marketing and support	95.4[a]
2009	Edrington Group	United Kingdom	Beverages	Headquarters	91.8[a]
2009	SAIC Chery Automobile	China	Automotive OEM	Design, development and testing	88.3[a]
2009	International Commodity Services (ICS)	United Kingdom	Warehousing and storage	Logistics, distribution and transportation	84.8[a]
2008	Corning	United States	Electronic components	Manufacturing	453.0
2008	Asahi Glass	Japan	Electronic components	Manufacturing	400.0
2008	American International Group (AIG)	United States	Real estate	Construction	362.3[a]
2008	Kingston Technology	United States	Semiconductors	Manufacturing	213.6[a]
2008	Dow Chemical	United States	Semiconductors	Manufacturing	213.6[a]
2008	Pixer	Israel	Semiconductors	Manufacturing	213.6[a]
2008	Mitsui Mining and Smelting	Japan	Metals	Manufacturing	203.5[a]
2008	Starwood Hotels & Resorts	United States	Hotels and tourism	Construction	169.4[a]
2008	Qualcomm	United States	Electronic components	Manufacturing	119.9[a]
2008	Industrial Metallurgical Holding	Russia	Metals	Manufacturing	203.5[a]

Source: The authors, based on fDi Intelligence, a service from the Financial Times Ltd.
[a] Estimated investment.

Chapter 38 - Ukraine

Ukraine: Inward FDI and its policy context, 2010

Oleksiy Kononov[*]

With a population of more than 46 million people, Ukraine is a sizeable potential market for foreign direct investment (FDI). Domestic firms are not very competitive. Together with a favorable geographic location and low costs of labor and other inputs, Ukraine offers attractive opportunities for foreign investors. This potential, however, is not yet exploited, as indicated by relatively low cumulative inflows of FDI, due to the slow progress of transition toward a market economy, a high level of corruption, absence of effective guarantees protecting foreign investors, and political instability. In the wake of the global financial crisis and recession, the Ukrainian Government introduced policy measures that can potentially make inward foreign direct investment (IFDI) to Ukraine more complicated. Overcoming the crisis, improving the investment framework, accelerating economic reforms (including transparent privatizations) and association with the European Union (EU) would all be key factors permitting Ukraine to exploit its considerable FDI potential.

Trends and developments

Following the collapse of the Soviet Union, Ukraine suffered serious economic problems. The absence of clear property rights, insider privatization policies and hyperinflation did not make the country an appealing investment destination in the early 1990s. Stabilization measures in the mid-1990s curbed hyperinflation and stabilized the economy, leading to the resumption of economic growth and higher FDI inflows. The Ukrainian market (which is twice as big as the Romanian one and six times as big as the Bulgarian one, measured by population size) is attractive both for market- and efficiency-seeking FDI because of its well-qualified low-cost labor force and the availability of natural resources like fertile land, iron ore and coal.[1]

Country-level developments

In 2000, the inward FDI stock of Ukraine was low, amounting to US$ 3.8 billion. But, in the subsequent years it grew steadily (annex tables 1 and 2). At the end of 2008, Ukraine (with an estimated inward FDI stock of US$ 47 billion) was the third biggest recipient of inward FDI among the countries of South-East Europe and the Commonwealth of Independent States (CIS), after the Russian Federation and Kazakhstan.[2] However, Ukraine's FDI performance lags behind smaller countries of the region such as Slovakia or Bulgaria.

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[*] The author wishes to thank Yuliya Guseva, Kalman Kalotay and Zbigniew Zimny for their helpful comments. First published April 13, 2010.

[1] These are main IFDI drivers identified by respondents to a survey on the investment climate of Ukraine. *See* SEOLA Group Ideas Factory, "Global survey of foreign investors," October 2009, in Valentyna Kuzyk, Vilen and Veremko, Resursna anemiya, Ukrainsky Tyzhden, No. 50 (111), December 11, 2009; also available at: http://www.prometr.com.ua/category/analytic/all/3657/mode/print. The survey covered 397 multinational enterprises from 33 countries.

[2] UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (New York and Geneva: United Nations, 2009), p. 74.

The distribution of FDI inflows (annex table 3) demonstrates that foreign investors prefer to invest in the following sectors of the Ukrainian economy: financial services (22% of all FDI inflows), industry (23%), retail services (11%), and real estate (10%). Only 2% of total cumulated IFDI went into the agricultural sector, despite the fact that Ukraine is one of the top ten world exporters of agricultural commodities (wheat, soya beans, maize).[1] This can be explained by governmental policies (see the policy section below) and competition on the part of domestic companies and farmers.

From 2004 onwards, a large part of FDI was invested in activities driven by speculative motives (financial services, construction, real estate, retail trade). Banks did not use foreign capital and loans to invest in the manufacturing sectors of the economy, or the modernization of the infrastructure or to promote innovation. Instead, they stimulated consumer finance in the form of mortgages and retail loans.[2] To some extent, this behavior can be explained by very high real estate prices (especially in Kyiv)[3] and an unfriendly business climate in Ukraine[4] that makes long-term projects unfeasible.

Around 80% of cumulated FDI inflows originate in the European Union (annex table 4). Cyprus ranks first among the investor home countries, but it is very difficult to identify ultimate investors for this FDI. Most likely, many of them are Ukrainian and Russian companies, using Cyprus to protect their capital (see notes to annex table 4). Russian investments in Ukraine (23 % of all Russian FDI in other CIS countries in 2008)[5] deserve special attention. Russian capital is concentrated in those sectors of Ukraine's economy that significantly affect the industrial growth of the country and budget revenues (annex table 5).[6] As one can see from annex table 5, the share of Russian capital in some economic sectors is very high (*e.g.,* in gas, aluminum, oil refineries). This situation raises certain national security concerns as well as political issues related to recent gas-related conflicts between Ukraine and Russia. On the other hand, there are no statutory prohibitions to invest in "sensitive" sectors for Russian or any other foreign investors.[7] Moreover, it is quite possible that, after recent political changes, the share of Russian investments in the gas sector will increase substantially.

The regional distribution of IFDI within Ukraine is very uneven. Kyiv, the country's political and economic capital, accounts for 39% of all FDI inflows, while the industrial regions of Dnipropetrovsk, Kharkiv and Donetsk account for 7%, 5% and 4%, respectively. The share of FDI inflows to the other 22 regions varies between 0.2 - 4 %.[8]

The corporate players

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[1] UNCTAD, *World Investment Report* 2009, op. cit., p. 236.
[2] SEOLA Group Ideas Factory, op. cit.
[3] Helen Fawkes, "Kiev becomes latest property hotspot," *BBC News*, January 5, 2007, available at: http://news.bbc.co.uk/2/hi/business/6228205.stm; Institute for Economic Research and Policy Consulting in Ukraine, German Advisory Group on Economic Reform, "Mortgage lending in Ukraine: three strategic questions and answers," 2003, p. 2, available at: http://ierpc.org/ierpc/papers/t3_en.pdf.
[4] See further explanations in the policy section below.
[5] Andrei Panibratov and Kalman Kalotay, "Russian outward FDI and its policy context," *Columbia FDI Profiles*, No. 1 (October 31, 2009), p. 8.
[6] Nataliya Blyakha, "Russian foreign direct investment in Ukraine," *Electronic Publications of Pan-European Institute 7/2009*, p. 7, available at: http://www.tse.fi/FI/yksikot/erillislaitokset/pei/Documents/Julkaisut/Blyakha%200709%20web.pdf.
[7] Art. 117(2) of the *Commercial Code* prohibits the establishment of foreign enterprises in economic sectors of strategic importance. Those sectors are to be defined by law. However, no such law has been adopted so far. Currently, criteria for acknowledgement of enterprises as strategically important are established by non-statutory Government Resolution No. 695 of May 15, 2003. The practical application of this Resolution in the field of IFDI is rather controversial.
[8] State Statistics Committee of Ukraine (Ukrstat), "Investytsiyi zovnishnyoekonomichnoyi diyalnosti u 2009 rotsi," February 2010, p. 6, available at: http://www.ukrstat.gov.ua.

Affiliates of the largest multinational enterprises (MNEs) in the world can be found in Ukraine (annex table 5).[1] Arcelor Mittal has been the leading foreign investor in Ukraine since 2005. Its acquisition of Kryvorizhstal became the biggest transaction not only in Ukraine but in the whole CIS.[2] The year 2005 became a landmark in the history of FDI in Ukraine not only due to the Kryvorizhstal deal but also due to the purchase of the Ukrainian Aval bank by Austrian Reiffeisen, which raised annual inward FDI flows to a much higher level of US$ 8 billion (annex table 2). After this, a wave of other acquisitions by foreign banks and financial institutions followed. Among other leading foreign investors in Ukraine are the Russian companies RUSAL, ISTIL and Evraz (aluminum and metallurgical sectors), as well as MTS and Norwegian Telenor (mobile communications) (annex tables 5 and 6).

Effects of the current global crisis

The global economic and financial crisis had a strong negative impact on the Ukrainian economy. In 2009, the real GDP of Ukraine declined by 14% and its manufacturing production shrank by 30%.[3] The metallurgy sector that produces Ukraine's main export commodity suffered the most due to the sharp decline of steal prices on world markets.[4] The protracted political crisis and the inability of the Ukrainian Government to cope with the consequences of the crisis generated major investment risks for prospective foreign investors.[5] In 2009, inward FDI flows amounted to US$ 5.6 billion, down by 49 % against 2008.[6]

The banking and real estate sectors (which had attracted large investments in past years) lost their attractiveness. As of December 1, 2009, twelve Ukrainian banks have gone into liquidation, three banks have been nationalized; and more than sixty Ukrainian banks were offered for sale (out of 180 banks operating in the country).[7] According to the SEOLA October 2009 survey, only 9% of respondents were still interested to invest in the Ukrainian financial sector, compared to 88% in October 2008.[8] The construction sector experienced a similar decline.[9]

The policy scene

According to the law, foreigners are free to invest in Ukraine and are entitled to enjoy, at least formally, national and most-favored-nation treatment. Denial of FDI admission is possible on grounds of national security and public safety. Legal entities in which more than 25% of the capital stock is owned by a foreign state cannot participate in the privatization of state and municipal property.[10] Foreign citizens,

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[1] As detailed statistical data on MNEs in Ukraine are not available, in annex table 5 it was impossible to rank MNEs based on a single criterion like assets, revenues, sales or total FDI in Ukraine.

[2] UNCTAD, *World Investment Report 2006: Foreign Direct Investment from Developing and Transition Economies: Implications for Development* (New York and Geneva: United Nations), p. 79.

[3] As of October 2009, Ukraine's GDP was US$ 115.7 billion, compared to US$ 44.7 billion in Bulgaria and US$ 160.6 billion in Romania. See IMF World Economic Outlook Database, October 2009, available at: http://www.imf.org/external/pubs/ft/weo/2009/02/weodata/index.aspx.

[4] International Monetary Fund, *World Economic Outlook, October 2009: Sustaining the Recovery* (Washington: IMF), p. 81, available at: http://www.imf.org/external/pubs/ft/weo/2009/02/pdf/text.pdf; RT Business News, "Ukraine waits on IMF bailout funds," December 15, 2009, available at: http://rt.com/Business/2009-12-15/ukraine-sweats-imf-bailout.html.

[5] SEOLA Group Ideas Factory, op. cit.

[6] Ukrstat, "Investitsiyi zovnishnyoekonomichnoyi diyalnosti u sichni-veresni 2009 roku," November 2009, p. 1.

[7] National Bank of Ukraine, "Osnovni pokaznyky diyalnosti bankiv," February 2010, available at: http://bank.gov.ua/Bank_supervision/dynamics.htm.

[8] SEOLA Group Ideas Factory, op. cit.

[9] SEOLA Group Ideas Factory, op. cit.

[10] Art. 8(3) of the *Law on Privatization of State Property* of March 4, 1992; Art. 5(2) of the *Law on Privatization of Small State Enterprises (Small Privatization)* of March 6, 1992.

foreign legal entities and stateless persons are banned from the creation of television and/or broadcasting organizations in Ukraine.[1] Direct branching of foreign insurers is not allowed either; however, this restriction must be lifted before May 2013, due to WTO requirements.[2]

Pursuant to the latest amendments[3] to the *Law on the Regime of Foreign Investment*, all foreign investments have to be registered, otherwise state guarantees on investment protection and free transfer of profits shall not apply. Monetary investments must be registered with the National Bank of Ukraine; regional authorities register investments in kind.[4] Failure to register investments does not, however, result in compulsory divestment. The same amendments also introduced a new rule, according to which foreign investments can be made only through so-called investment accounts opened in Ukrainian banks. Investments in foreign currency are subject to conversion in the Ukrainian currency.[5] These measures were adopted with the purpose to increase the efficiency of state authorities in the financial and credit sectors and to stabilize the macroeconomic situation in the country[6] and will be in force until January 1, 2011. Together with the existing currency restrictions and very bureaucratic rules for the repatriation of profits and/or investments,[7] the above mentioned statutory enactments create more obstacles for inward FDI.

Foreign natural and legal persons, as well as companies with foreign participation cannot own farmland plots in Ukraine.[8] Besides, existing procedures for land acquisition and the leasing of land plots are very burdensome and corrupted. This has been one of the main issues criticized by prospective foreign investors willing to invest in the Ukrainian agricultural sector or to start greenfield projects in other economic sectors.[9]

As of June 1, 2009, Ukraine had signed 62 bilateral investment treaties (BITs),[10] as well as the Energy Charter Treaty (ECT). As of January 1, 2009, Ukraine concluded double taxation agreements with 65 countries.[11] At present, negotiations about a free trade agreement with the European Union are taking place. The conclusion of such an agreement would increase Ukraine's attractiveness as a business location and perhaps repeat the success of other Central and East European countries in attracting FDI.

Overall, the Ukrainian investment climate is characterized by unpredictable changes of the legal environment, low respect for existing guarantees for foreign investors, the absence of real protection of property rights, and

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[1] Art. 12(2)-(3) of the *Law on Television and Broadcasting* of December 21, 1993. However, according to the *Commercial Code*, foreigners can become shareholders after incorporation.
[2] Art. 2 of the *Law on Insurance* of March 7, 1996; WTO (2008), *Working Party Report on the Accession of Ukraine to the WTO*, WT/ACC/UKR/152 (January 25, 2008), p. 123.
[3] *Law of Ukraine on "Amending Some Laws of Ukraine with the Purpose to Mitigate Negative Consequences of the Financial Crisis* of June 23, 2009."
[4] Prior to November 24, 2009 (the op. cit. Law of June 23, 2009 entry into force), all foreign investments were registered by the regional authorities (Government of the Autonomous Republic of Crimea, 24 regional state administrations , Kyiv and Sevastopol city state administrations).
[5] Prior to November 2009, there were no compulsory exchange requirements.
[6] Preamble of the op. cit. Law of June 23, 2009.
[7] For more details on these restrictions see European Business Association, *Overcoming Obstacles to Business Success* (Kyiv: EBA, 2009), pp. 26-30, available at: http://www.eba.com.ua/files/documents/IPAPER_2009_eng_web.pdf.
[8] Arts. 81, 82 of the *Land Code*.
[9] Keith Crane and Stephen Larrabee, *Encouraging Trade and Foreign Direct Investment in Ukraine* (Santa Monica, CA: Rand Corporation, 2007), pp. 29-30.
[10] UNCTAD, *Country-Specific Lists of Bilateral Investment Treaties* (New York and Geneva: United Nations, 2009), available at: http://www.unctad.org/Templates/Page.asp?intItemID=2344&lang=1.
[11] Database of the State Tax Administration of Ukraine, available at: http://www.sta.gov.ua.

high corruption. The Transparency International Corruption Perceptions Index 2009[1] ranked Ukraine as the 28th most corrupted country in the world (among 180 countries monitored), *ex aequo* with Russia, Zimbabwe, Cameroon, Sierra-Leone, Timor-Leste, Kenya, and Ecuador. The World Bank Group Doing Business Project 2010 ranked Ukraine 142nd among 183 economies of the world in terms of easiness of doing business.[2] However, Ukraine's rank for protecting investors improved in 2010 compared with 2009, perhaps the result of a new Law on Joint Stock Companies that came into force on April 29, 2009.[3]

Finally, Ukraine is a frequent participant in international investment arbitration. In the International Centre for Settlement of Investment Disputes (ICSID), there are ten cases against Ukraine (four concluded and six pending).[4] It should be noted, however, that so far Ukraine has not lost any of the ICSID cases. The same can be said about the recent *Limited Liability Company AMTO v. Ukraine* case[5] in the Arbitration Institute of the Stockholm Chamber of Commerce, where the Latvian investor failed to prove violations of the ECT by Ukraine.

Outlook

Despite existing difficulties with the legal framework, political risks and corruption, Ukraine can still offer investment opportunities for international investors attracted by its big internal market, a qualified labor force and low wages, its natural resources, and a favorable geographic location. In 2012, Ukraine will host the UEFA European Football Championships, offering investment opportunities for foreign companies in the infrastructure, telecommunications and tourist sectors.[6] In response to conflicts with Russia concerning energy resources and Ukraine's dependence on imported gas and oil, the Government has recently started to stimulate usage of alternative energy sources, which could offer opportunities for foreign investors possessing these technologies. On the other hand, the new Government of President Viktor Yanykovich may change the situation by renegotiating gas supply contracts with Russia and offering certain political concessions. Such changes might affect alternative energy policies, as well as the foreign investors involved.

Additional readings

Blyakha, Nataliya, "Russian foreign direct investment in Ukraine," *Electronic Publications of Pan-European Institute 7/2009*, available at: http://www.tse.fi/FI/yksikot/erillislaitokset/pei/Documents/Julkaisut/ Blyakha%200709%20web.pdf.

Crane, Keith and Stephen Larrabee, *Encouraging Trade and Foreign Direct Investment in Ukraine* (Santa Monica, CA: Rand Corporation, 2007), available at: http://www.rand.org/pubs/monographs/2007/RAND_MG673.pdf.

[1] Available at http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table
[2] The World Bank, *Doing Business 2010: Ukraine* (Washington, IBRD/World Bank, 2009), p. 2.
[3] *Law of Ukraine on Joint Stock Companies* of September 17, 2008.
[4] Database of the International Centre for Settlement of Investment Disputes, available at: http://icsid.worldbank.org/ICSID/FrontServlet
[5] Limited Liability Company AMTO v. Ukraine (Latvia v. Ukraine), (Arbitration Institute of the Stockholm Chamber of Commerce, Arbitration No. 080/2005), Final Award, March 26, 2008, available at: http://www.investmenttreatynews.org/documents/p/37.aspx.
[6] See the *Law on Organizing and Hosting the European Football Cup Finals of 2012 in Ukraine* of April 19, 2007.

European Business Association, *Overcoming Obstacles to Business Success* (Kyiv: EBA, 2009), http://www.eba.com.ua/analytical/barriers.html.

International Financial Corporation, *Investment Climate in Ukraine as Seen by Private Businesses* (Kyiv: IFC, 2009), available at: http://www.ifc.org/ifcext/eca.nsf/AttachmentsByTitle/Ukraine_IC_report_2009/$FILE/Ukraine_IC_report_2009_eng.pdf.

Ukrainian Center for Foreign Investment Promotion, http://www.investukraine.org/

Statistical annex

Annex table 1. Ukraine: inward FDI stock, 2000-2008 (US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008
Ukraine	3.8	4.8	5.9	7.5	9.6	17.2	23.1	38.1	47.0
Memorandum: comparator economies									
Bulgaria	2.7	2.9	4.0	6.3	10.1	13.8	23.3	39.4	46.0
Poland	34.2	41.2	48.3	57.8	86.6	90.7	125.5	175.8	161.4
Slovakia	4.7	5.5	8.5	14.5	21.8	23.6	33.6	45.2	45.9

Source: UNCTAD, FDI/TNC database, available at: http://stats.unctad.org/fdi.

Annex table 2. Ukraine: inward FDI flows, 2000-2009 (US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 1st – 2nd quarter[a]
Ukraine	0.6	0.8	0.7	1.4	1.7	7.8	5.6	9.9	10.6	3.8
Memorandum: comparator economies										
Bulgaria	1.0	0.8	0.9	2,1	3.4	3.9	7.6	11.7	9.2	2.1
Poland	9.3	5.7	4.1	4.8	12.7	10.2	19.6	22.6	16.5	15.9
Slovakia	1.9	1.5	4.1	2.1	3	2.4	4.6	3.2	3.4	4.7

Sources: UNCTAD, FDI/TNC database, available at: http://stats.unctad.org/fdi:
Ukrstat, "Investitsiyi Zovnishnyoekonomichnoyi Diyalnosti u I Pivricchi 2009 roku", August 2009;
Bulgarian National Bank, "Direct investments" (January-December 2009), available at:
http://bnb.bg/bnbweb/groups/public/documents/bnb_publication/200912_s_fdi_pub_en.pdf;
Polish National Bank, "International investment position of the Republic of Poland" (2004-2009, quarterly data), available at:
http://www.nbp.pl/homen.aspx?f=en/statystyka/iip_k.html;
Slovak National Bank, "International investment position for Slovak Republic for 2009", available at:
http://www.nbs.sk/en/statistics/balance-of-payments-statistics/international-investment-position/mip/2009.

[a] As quarterly IFDI data for all four countries are not available, it is impossible to provide comparable 2008 figures.

Annex table 3. Ukraine: sectoral distribution of cumulative FDI inflows, 2000, 2005, 2009 [a] (US$ million)

Sector/industry	2000	2005	2009
All sectors/industries	3875	11109	40027
Primary	195	611	2005
Agriculture, forestry and fishing	74	301	877
Mining and quarrying	121	310	1128
Secondary	2042	5134	10107
Food, beverages, and tobacco	796	1170	1837
Light industry	48	129	146
Timber (excluding manufacture of furniture)	42	156	281
Cellulose, paper, and publishing	44	160	237
Coke and petroleum	151	211	452
Chemical	206	586	1206
Other mineral manufacture (excluding metal)	64	221	834
Metallurgy	167	1232	1401
Machine-building	303	694	1094
Other industries	100	136	254
Electric energy, gas, and water	22	53	153
Construction	100	387	2213
Services	1639	5365	19854
Retail trade and retail services	647	1953	4225
Hotels and restaurants	109	283	429
Transport and communications	245	744	1506
Financial services	313	1053	8968
Real estate	152	927	4065
Other services	172	406	662
Other unspecified sectors	N/A	N/A	8061

Source: Ukrstat, *Investitsiyi Zovnishnyoekonomichnoyi Diyalnosti u 2009 Rotsi* (Ukrstat, February 2010), p. 8, available at: http://www.ukrstat.gov.ua; Ukrstat, *Investitsiyi Zovnishnyoekonomichnoyi Diyalnosti u 2000 Rotsi: Statystuchny Buleten Derzhkomstatu Ukrainy* (Kyiv: Ukrstat, 2001); Ukrstat, *Investitsiyi Zovnishnyoekonomichnoyi Diyalnosti u 2005 Rotsi: Statystuchny Buleten Derzhkomstatu Ukrainy* (Kyiv, 2006).

[a] Cumulative figures as of beginning of investment (early 1990s). Stock data are not available.

Annex table 4. Ukraine: geographical distribution of cumulated FDI inflows,[a] 2005, 2009[b] (US$ million)

Region/economy	2005	2009
World (total)	16,375.2	40,026.8
Developed economies		
Europe		
European Union		
Cyprus	1,562.0	8,593.2
Germany	5,505.5	6,613.0
Netherlands	721.8	4,002.0
Austria	1,423.6	2,604.1
United Kingdom	1,155.3	2,375.9
Sweden	N/A	1,272.3
Italy	N/A	992.2
Poland	224.0	864.9
Hungary	191.1	675.1
Non-EU		
Switzerland	445.9	805.5
North America		
USA	1,374.1	1,387.1
Caribbean		
British Virgin Islands	688.7	1,371.0
Commonwealth of Independent States		
Russian Federation	799.7	2,674.6
Other economies[c]	2,283.5	4,155.8

Source: Ukrstat database, available at: http://ukrstat.gov.ua.
[a] The true origin of the invested capital is problematic. Many Ukrainian and Russian investors use offshore zones and companies located in other economies (Cyprus, British Virgin Islands, Netherlands) to disguise their real identity and to protect their capital from unpredictable actions of the Ukrainian Government. Data on ultimate investors are not available.
[b] Cumulative figures since the beginning of foreign investment. Stock data are not available.
[c] Data on particular countries are not available.

Annex table 5. Ukraine: principal foreign affiliates in the country, ranked by invested amount, 2004 - 2009 (US$ millions)

Name	Industry	Invested amount
Arcelor Mittal	Metallurgy	7,800
Telenor	Mobile communications	… [a]
Reemtsma	Tobacco	… [b]
OTP Banking Group	Banking	860
MTS	Mobile communications	… [c]
METRO Cash & Carry	Wholesales	371
Coca Cola	Non-alcoholic beverages	270
Procter & Gamble	Personal care products	200
Kraft Foods	Food	150
ISTIL Group	Metallurgy	111
British American Tobacco	Tobacco	110
Erste Banking Group	Banking	104
Nestle	Food	40
Shell	Oil	…
Philip Morris	Tobacco	… [d]
Lukoil	Oil	… [e]
TNK-BP	Oil	… [e]
Tatneft	Oil	… [e]
Gazprom	Gas	… [f]
RUSAL	Aluminum	… [g]

Sources: Companies' websites; Financial Times – fDi Markets | Global Investments; Nataliya Blyakha, "Russian foreign direct investment in Ukraine," *Electronic Publications of Pan-European Institute 7/2009*, p. 7, available at: http://www.tse.fi/FI/yksikot/erillislaitokset/pei/Documents/Julkaisut/Blyakha%200709%20web.pdf

[a] In 2009-3Q, total revenue in Ukraine amounted to US$ 2,200 million.
[b] In 2004, total sales in Ukraine amounted to US$ 179.8 million.
[c] In 2007, total revenue in Ukraine amounted to US$ 438.5 million.
[d] In 2004, Philip Morris had a 31 % share in the Ukrainian tobacco industry sector.
[e] Data on exact amounts of IFDI are not available; in 2007, Lukoil, TNK-BP and Tatneft altogether controlled 90 % of the Ukrainian oil refinery sector.
[f] In 2007, Gazprom's share in the Ukrainian gas sector was 20% .
[g] In 2007, RUSAL's share in the Ukrainian aluminum sector was 90%.

Annex table 6. Ukraine: main M&A deals, by inward investing firm, 2005 – 2009

Year	Acquiring company	Source economy	Target company	Target industry	Shares acquired (%)	Transaction value (US$ million)
2009	JSC Vneshekonombank	Russia	Prominvestbank	Banking	75	156
2009	Central European Media Entrp	Bermuda	Glavred Media Holding	Mass media	10	12
2009	Central European Media Entrp	Bermuda	KINO	Mass media	40	10
2008	Unicredito Italiano SpA	Italy	OJSC Ukrsotsbank	Banking	94	2,231
2008	Evraz Group SA	Russia	Sukhaya Balka GOK	Iron ore	99	2,189
2008	Intesa SanPaolo SA	Italy	JSC Pravex-Bank	Banking	100	746
2007	Pepsi Cola	USA	Sandora LLC	Non-alcoholic beverages	60	542
2007	Commerzbank	Germany	Forum Bank	Banking	60	600
2006	OTP Bank	Hungary	Reiffeisenbank Ukraine	Banking	100	860
2006	BNP Paribas	France	Ukrsibbank	Banking	51	360
2005	Reiffeisen International AG	Austria	Aval Bank	Banking	94	1,000
2005	Mittal Steel Co NV	Netherlands	Kryvorizhstal	Metallurgy	93	4,800

Sources: UNCTAD, cross-border M&A database, available at: http://stats.unctad.org/fdi; UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Developments* (New York and Geneva: United Nations, 2009), pp 73-75; PricewaterHouseCoopers, *Ukraine, Mergers & Acquisitions Market Value Tripled Since 2004 in CEE*, Press Release of April 20, 2007, available at: http://www.pwc.com/ua/en/press-room/release039.jhtml; Pismennaya, Tatyana, *Bolee 60 Bankov Vystavleno na Prodazhu*, Kommentarii, December 25, 2009 – January 10, 2010; Thomson ONE Banker, Thompson Reuters.

Annex table 7. Ukraine: main greenfield projects, by inward investing firm[a] 2007, 2008, 2009

Year	Investing company	Target industry	Source economy	Estimated/ announced transaction value (US$ million)
2009	EcoEnergy	Alternative/ renewable energy	Sweden	270
2009	Novaport	Real estate	Russia	265
2009	Mitsubishi	Alternative/ renewable energy	Japan	234
2009	Aisi Realty	Real estate	Cyprus	205
2009	BT Invest	Real estate	Lithuania	201
2008	ArcelorMittal	Metallurgy	Luxembourg	3,000
2008	Asamer	Real estate	Austria	941
2008	VS energy International NV	Coal, oil and natural gas	Netherlands	750
2008	GLD Invest Group	Real estate	Austria	464
2008	Hyundai Motors	Automotive	Republic of Korea	365
2008	Michaniki	Real estate	Greece	300
2008	Evraz Group	Coal, oil and natural gas	Russia	300
2008	The Outlet Company	Real estate	Poland	201
2007	Meinl European Land	Real estate	USA	1,600
2007	ING Group	Financial services	Netherlands	822
2007	Antonio Merloni	Consumer electronics	Italy	262

Source: fDi Intelligence, a service from the Financial Times Ltd.

[a] Data on shares acquired and joint venture partners (if any) are not available.

Ukraine: Inward FDI and its policy context, 2012

*Oleksiy Kononov**

In 2010 and 2011, Ukraine experienced a revival of inward foreign direct investment (IFDI) flows compared to 2009, when flows had plunged to less than half of their 2008 level. At US$ 7.2 billion, IFDI flows to Ukraine in 2011 were well above their level of US$ 4.8 billion in 2009, although still considerably below their peak of US$ 10.9 billion in 2008. The increase in 2010-2011 was brought about partly by the rather difficult economic situation, which led many domestic and foreign investors to sell their businesses to willing buyers. Improved performance of the Ukrainian economy in 2010, rising prices of raw materials and food and regulatory changes, especially in the banking industry, were factors that attracted increased IFDI flows. However, Ukraine has failed to improve the investment framework and to accelerate economic reforms adequately. The country continues to suffer from a high level of corruption and the absence of effective guarantees protecting foreign investors. Among other key factors hindering FDI in the country are its rather controversial relations with Russia and the delay in concluding an association agreement with the European Union (EU).

Trends and developments

Country-level developments

At the end of 2011, Ukraine, with an estimated inward FDI stock of US$ 65 billion (annex table 1) was the third biggest recipient of inward FDI among the countries of South-East Europe and the Commonwealth of Independent States (CIS), after the Russian Federation and Kazakhstan.[1] Inward FDI flows to Ukraine fell to US$ 4.8 billion in 2009 from a level of US$ 10.9 billion in 2008, but recovered to US$ 6.5 billion in 2010 and US$ 7.2 billion in 2011 (annex table 2). The recovery in FDI inflows was due, among other factors, to improved macroeconomic conditions and the revival of cross-border acquisitions by Russian investors.

The sectoral distribution of IFDI shifted further to the services sector in 2010 (annex table 3), with the share of the sector in total cumulative FDI inflows rising from 49% in 2009 to 61% in 2010. The share of the secondary sector rose as well, but by less (from 25% to 33% of the total).[2] In 2010, the top service industries for FDI in the Ukrainian economy were financial services (34% of all cumulative FDI inflows), retail services (11%) and real estate (11%). In the secondary sector, cumulative FDI inflows to the manufacturing industry as well as utilities and construction rose in 2010 (annex table 3). Manufacturing accounted for 27% of total cumulative IFDI flows in 2010,[3] with metallurgy (13% of the total) and food and beverages (4%) being the top recipient

* The author wishes to thank Ana Maria Daza and Maria Gwynn for their helpful comments. First published December 31, 2012

[1] UNCTAD, *World Investment Report 2011: Non-Equity Modes of International Production and Development* (Geneva: United Nations, 2011), p. 63; UNCTAD, *World Investment Report 2012: Towards a New Generation of Investment Policies* (New York and Geneva: United Nations, 2012), p. 56.

[2] The rise in the shares of the services and secondary sectors in 2010 took place at the expense of the share of "other unspecified sectors" (annex table 3).

[3] In 2010, Ukraine's industrial-sector production increased by 11.5%, yet the country managed to attract only 3% of all FDI to the industrial sector of Central and Eastern Europe. See Ernst & Young, *Ukraine FDI Report* (Kyiv, 2011), p. 2.

industries. Only 5% of total cumulative IFDI in 2010 went into the primary sector – the same share as in 2009 – with agriculture continuing to attract just 2% of the total (annex table 3).[1] Cumulative inward FDI flows to the financial services industry rose by over two thirds in 2010 (annex table 3). This "post-crisis"[2] phenomenon can be explained by two factors: first, government regulations required all banks, domestic and foreign, to increase their capital reserves by 2010, and second, many banks suffered from low repayments of loans and considerable decrease in retail banking services.[3] As a result, many banks (both foreign and domestic) found it very difficult to continue operations and had to take measures either to increase capitalization or to sell their businesses. However, it was mainly Russian banks that showed interest in such acquisitions.[4]

The situation with respect to the top source-economies of FDI in Ukraine did not change much in 2010. Around 80% of cumulative FDI inflows originated in the European Union, with Cyprus and Germany being the top EU sources (annex table 4). Cyprus ranks first among the investor home economies (22% of all FDI inflows), but it is very difficult to identify the ultimate nationality of investors for this FDI. Most likely, many of them are Ukrainian and Russian companies, using Cyprus as an offshore base to protect their capital (see note to annex table 4).[5] Russian investments in Ukraine continued to be aimed at those sectors of Ukraine's economy that significantly affect the industrial growth of the economy and budget revenues.[6] As annex table 5 indicates, affiliates of Russian multinational enterprises (MNEs) in some industries (e.g., gas, aluminum, oil refineries) are among the largest foreign affiliates in Ukraine and, in the case of aluminum and oil refineries, account for a high share of the industries' activities. In 2010, Ukraine-Russia relations improved, increasing the activity of Russian investors in Ukraine. At the same time, Russian investments in "sensitive" sectors of Ukraine's economy continued to provoke national security concerns, as did political issues connected with natural-gas-related conflicts between Ukraine and Russia. In particular, in exchange for lower gas prices, the Russian MNE Gazprom demanded control over Ukraine's gas transportation system.[7] Russian proposals went so far as to offer a merger between the Russian gas monopolist Gazprom and the Ukrainian Naftogaz.[8]

The regional distribution of IFDI within Ukraine is quite uneven. Kyiv, the country's political and economic capital, accounted for 49% of all FDI inflows in 2010 (against 39% in 2009), while the industrial regions of Dnipropetrovsk, Kharkiv and Donetsk accounted for 17%, 6% and 5%, respectively. The share of FDI inflows to each of the other 22 regions varied between 0.1% and 2.9%.[9]

The corporate players

[1] On the low share of agriculture in Ukraine's IFDI, see Kononov, "Ukraine's inward FDI and its policy context," *op. cit.*
[2] For more details on developments during the 2007-2009 crisis see Kononov, "Ukraine's inward FDI and its policy context," *op. cit.*
[3] V. Pasochnyk, Yu. Skolotyany, "Bankivsky capital: rozmir maye znachennya," *Dzerkalo Tyzhnya*, December 4, 2010.
[4] "Kryva Investytsiy," December 17, 2010, available at: http://news.finance.ua/ua/~/2/0/all/2010/12/17/220858
[5] Ernst & Young also mentions the United States and Germany among the main sources of investment in Ukraine, each having a 12 % share in the total investment inflows. See Ernst & Young, *op. cit.*, p. 6.
[6] Nataliya Blyakha, "Russian foreign direct investment in Ukraine," *Electronic Publications of Pan-European Institute*, Turku School of Economics, 7/2009, p. 7, available at http://www.tse.fi/FI/yksikot/erillislaitokset/pei/Documents/Julkaisut/Blyakha%200709%20web.pdf.
[7] "EU sees Ukraine gas transit role for years to come," available at http://www.ukrproject.gov.ua/node/611.
[8] Ibid.
[9] State Statistics Committee of Ukraine (Ukrstat), "Investytsiyi zovnishnyoekonomichnoyi diyalnosti u 2009 rotsi," February 2010, p. 6; Statistics Committee of Ukraine (Ukrstat), "Investytsiyi zovnishnyoekonomichnoyi diyalnosti u 2010 rotsi," February 2011, p. 6; available at http://www.ukrstat.gov.ua.

In 2010, there were some changes in the list of important foreign corporate players investing in Ukraine (annex table 5). The most notable was the Norwegian company Telenor's divestment of its Ukrainian affiliate ZAO Kyivstar GSM, which was acquired by Russia's VimpelCom for US$ 5.5 billion in the most significant cross-border M&A transaction of 2010 in Ukraine (annex table 6).[1] Another change was the acquisition of Ukrainian Vik Oil by the Russian TNK-BP for US$ 303 million.

In the summer of 2010, Metinvest B.V. (Netherlands) purchased 75% of the shares of east Ukrainian Ilyich Steel BOF Plant (purchase price unknown).[2] However, despite being included in Ukrstat data on IFDI to the metallurgy sector, this transaction is hardly a foreign investment, since Metinvest B.V. belongs to Metinvest Group, one of the largest Ukrainian industrial groups.[3]

The largest greenfield FDI projects in Ukraine in 2010 in terms of estimated/announced transaction value were led by a project in construction and engineering materials by the French MNE Lafarge (annex table 7). As in the preceding two years, real estate projects figured prominently among the largest greenfield FDI projects in 2010.

Special issues

The global economic and financial crisis had a strong negative impact on the Ukrainian economy in 2009[4] and on inflows of FDI. Economic recovery in 2010, accompanied by price increases in raw materials and food, revived IFDI flows to Ukraine's industrial sector (metallurgy, chemicals, food and beverages).[5] Constant problems with the rise in the prices of energy resources (especially from Russia) stimulated more FDI projects in the "green" energy sector (several significant wind energy projects have been started in the Crimea).[6]

However, as noted, the largest increase in IFDI flows in 2010 took place in financial services. As of December 31, 2010, eighteen Ukrainian banks had gone into liquidation.[7] Many foreign banks (e.g., Swedbank, ING, SEB) had to suspend their retail banking activities in Ukraine and focus on corporate banking; others had to sell their Ukrainian affiliates. However, the banking sector became attractive again for investors in 2010. Particular interest was demonstrated by Russian banks and financial groups;[8] in 2010, the latter purchased the Ukrainian banks Interbank and Agroprombank.[9] These sales, together with the regulatory changes in capital requirements introduced by the Ukrainian Government and voluntary recapitalization to keep business afloat, explain the

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[1] UNCTAD, *World Investment Report 2011*, *op. cit.*, p. 64.
[2] "Fortune smiles on Vladimir Boyko -- CEO of Ilyich steel plant becomes owner of 5% of Metinvest Group," available at http://www.scmholding.com/en/media-centre/coverage/view/277/.
[3] For more details, see Oleksiy Kononov, "Outward FDI from Ukraine and its policy context," *Columbia FDI Profiles*, November 8, 2010, pp. 4 and 11-12, available at www.vcc.columbia.edu.
[4] See, Kononov, "Ukraine's inward FDI and its policy context," *op. cit.*
[5] Asset Management Company "NIKO", "Macroeconomics: foreign direct investments in Ukraine," Kyiv, 2011, p. 1.
[6] For more details, see information from the Ukrainian Wind Energy Association, available at http://www.uwea.com.ua/project.php.
[7] National Bank of Ukraine, "Osnovni pokaznyky diyalnosti bankiv," January 2011, available at http://bank.gov.ua/control/uk/publish/article?art_id=36807&cat_id=36798.
[8] "Kryva Investytsiy," *op. cit.* Names of the Russian purchasers unknown.
[9] In 2011, the tendency continued (see annex table 6). Also, in 2012 Commerzbank (Germany), sold 98% of shares in the Ukrainian Forum Bank to Ukrainian-owned Smart-Holding (transaction price unknown), and Erste (Austria) announced its intention to sell its Ukrainian affiliate. See, "Commerzbank prodal "Bank Forum" gruppe Smart-holding," available at http://podrobnosti.ua/economy/2012/07/31/850037.html; "Erste Bank mogut kupit ego byvshie sobstvenniki," available at http://news.finance.ua/ru/~/1/0/all/2012/10/08/288934.

increase of cumulative IFDI flows to the financial services sector in 2010, shown in annex table 3. By January 1, 2011, 40.6% of total capital of Ukraine's banks was of foreign origin, as against 35.8% in January 2010; 55 out of 194 banks registered in Ukraine had foreign capital, 20 of them with a 100% foreign ownership.[1]

Although total IFDI flows (which include those due to M&As as well as greenfield projects) rose noticeably during 2006-2008 and began to recover after the fall of 2009, Ukraine's performance in terms of FDI projects that resulted in new facilities and new jobs remained weak. According to Ernst and Young, from 2006 until 2010, Ukraine ranked 10th in Central and Eastern Europe both in the number of investment projects in new production facilities (178) and jobs created (7,487). In 2010, the country failed to improve its position, with only 31 new FDI projects and 1,150 new jobs created.[2]

The policy scene

Despite the revival of IFDI, mainly due to investments by Russian investors, 2010 was hardly a year of positive policy changes for prospective investors in Ukraine. The new President Viktor Yanukovich and his cabinet concentrated on establishing tight political and economic control with rather controversial reforms and actions, including changes in the judiciary system, adoption of the new Tax Code, questionable privatizations and failure of negotiations with the EU on a free trade and association agreement.[3] In 2010, the biggest foreign investor in Ukraine – Arcelor Mittal – experienced problems with Kryvorizhstal, the formerly state-owned steel company acquired in 2005, when Ukrainian authorities attempted to invalidate amendments to the privatization agreements; those amendments allowed the investor to delay some of the agreed investments in Kryvorizhstal in 2009 due to *force majeure* (recession of the steel industry caused by the global financial and economic crisis).[4] Such invalidation would have meant a reprivatization of Kryvorizhstal.[5] As a result, Ukraine faced serious international pressure; the matter was addressed by the French President Sarkozy during Yanukovich's official visit to Paris in early fall of 2010, consequently, the push to invalidate the amendments was abandoned.[6]

Based on the 2010 indicators, the World Bank Group's *Ease of Doing Business Report* of 2011 ranked Ukraine 145th out of 183 countries of the world in terms of ease of doing business (the rank was 147th in the 2010 report).[7] Despite assurances of the new President Viktor Yanukovich to fight corruption, the situation remains largely unchanged. Transparency International's Corruption Perception Index 2010[8] ranked Ukraine as the most corrupted country in Central and Eastern Europe, with a rank of 134 among 178 countries monitored, on par with Azerbaijan, Bangladesh, Honduras, Nigeria, Philippines, Sierra Leone, Togo, and Zimbabwe.

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[1] National Bank of Ukraine, "Osnovni pokaznyky diyalnosti bankiv," May 2012, available at http://www.bank.gov.ua/control/uk/publish/article?art_id=36807

[2] Ernst & Young, *Ukraine FDI Report* (Kyiv, 2011), p. 4.

[3] Sławomir Matuszak and Wojciech Konończuk, "The negotiations on the EU-Ukraine Association Agreement and Russia," April 18, 2011, available at http://www.easternpartnership.org/publication/economy/2011-04-18/negotiations-eu-ukraine-association-agreement-and-russia.

[4] Oleksiy Kononov, *Foreign Direct Investment Regulation: The German Model and Bulgarian Reforms Approach as Patterns for Ukraine* (Berlin: European University Press, 2011), pp. 303-304.

[5] Ibid.

[6] Ibid.

[7] The World Bank, *Doing Business 2011: Making a Difference for Entrepreneurs* (Washington D.C.: IBRD/World Bank, 2011), p. 4.

[8] Available at http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results.

As of May 2011, Ukraine had signed 66 bilateral investment treaties, the Energy Charter Treaty (ECT), and 46 double taxation treaties.[1] Yet, according to the comments of foreign investors, standards of investment protection at the domestic level remain low, especially whenever Ukrainian judiciary is involved.[2] Ukraine is a frequent participant in international investment arbitration. In the International Centre for Settlement of Investment Disputes (ICSID), there have been ten cases against Ukraine (seven concluded and three pending), and only two of them had been lost by the Government of Ukraine.

Conclusions

Notwithstanding the increase in FDI inflows, 2010 was not a year of drastic changes in Ukraine's investment climate. A complicated and unpredictable legal framework, political risks and corruption remain the main hurdles for prospective investors. The increased Russian presence in Ukraine's economy will most likely continue in 2011-2012, with more M&As and privatization deals involving FDI in the key sectors of the national economy. Current problems in Ukraine-EU relations, as well as constant "gas" pressure by Russia, including the offers for Ukraine to join the Eurasian Economic Community, might also take their toll in terms of the amount and sources of future IFDI in Ukraine.

Additional readings

Crane, Keith and Stephen Larrabee, *Encouraging Trade and Foreign Direct Investment in Ukraine* (Santa Monica, CA: Rand Corporation, 2007), available at http://www.rand.org/pubs/monographs/2007/RAND_MG673.pdf.

International Finance Corporation, *Investment Climate in Ukraine as Seen by Private Businesses* (Kyiv: IFC, 2009), available at http://www.ifc.org/ifcext/eca.nsf/AttachmentsByTitle/Ukraine_IC_report_2009/$FILE/Ukraine_IC_report_2009_eng.pdf.

Useful websites

Atlas of Economic Development in Ukraine, http://korrespondent.net/business/atlas/?l=en

InvestUkraine, http://www.ukrproject.gov.ua/en/page/investukraine-one-stop-shop

[1] UNCTAD, *World Investment Report 2011, op. cit.*, p. 215.
[2] Roman Olearchyk, "Ukraine: the good, the bad and the ugly", *Financial Times*, February 16, 2011.

Statistical annex

Annex table 1. Ukraine: inward FDI stock, 2000-2011

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Ukraine	3.8	4.8	5.9	7.5	9.6	17.2	23.1	38.1	47.0	52	57.9	65.2
Memorandum: comparator economies												
Poland	34.2	41.2	48.3	57.8	86.6	90.7	125.5	175.8	161.4	186.1	193.1	197.5
Czech Republic	21.6	27	38.6	45.2	57.2	60.6	79.8	112.4	113.1	125.8	129.9	125.2
Hungary	22.8	27.4	36.2	48.3	61.5	61.1	80.1	95.4	88.5	98.7	91.9	84.4
Slovakia	4.7	5.5	8.5	14.5	21.8	23.6	33.6	45.2	45.9	52.6	50.6	51.3
Bulgaria	2.7	2.9	4.0	6.3	10.1	13.8	23.3	39.4	46.0	49.1	48	47.6

Source: UNCTAD, FDI/TNC database, available at http://unctadstat.unctad.org.

Annex table 2. Ukraine: inward FDI flows, 2000-2011

(US$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Ukraine	0.6	0.8	0.7	1.4	1.7	7.8	5.6	9.9	10.9	4.8	6.5	7.2
Memorandum: comparator economies												
Poland	9.3	5.7	4.1	4.8	12.7	10.2	19.6	22.6	16.5	13.7	9.7	15.1
Czech Republic	4.9	5.6	8.4	2.1	4.9	11.6	5.4	10.4	6.4	2.9	6.7	5.4
Hungary	2.7	3.9	3	2.1	4.2	7.7	6.8	3.9	7.3	2	2.3	4.7
Bulgaria	1.0	0.8	0.9	2,1	3.4	3.9	7.6	11.7	9.2	3.3	2.1	1.8
Slovakia	1.9	1.5	4.1	2.1	3	2.4	4.6	3.2	3.4	- 0.2	0.5	2.1

Sources: UNCTAD, FDI/TNC database, available at http://unctadstat.unctad.org.

Annex table 3. Ukraine: sectoral distribution of cumulative FDI inflows, 2000, 2005, 2009, 2010 [a]

(US$ million)

Sector/industry	2000	2005	2009	2010
All sectors/industries	3,875	11,109	40,027	44,708
Primary	195	611	2,005	2,055
Agriculture, forestry and fishing	74	301	877	847
Mining and quarrying	121	310	1,128	1,208
Secondary	2,042	5,134	10,107	14,827
Food, beverages, and tobacco	796	1,170	1,837	1,859
Light industry	48	129	146	139
Timber (excluding manufacture of furniture)	42	156	281	281
Cellulose, paper, and publishing	44	160	237	241
Coke and petroleum	151	211	452	453
Chemical	206	586	1,206	1,340
Other mineral manufacture (excluding metal)	64	221	834	807
Metallurgy	167	1,232	1,401	5,940
Machine-building	303	694	1,094	1,171
Other industries	100	136	254	257
Electric energy, gas, and water	22	53	153	347
Construction	100	387	2,213	2,339
Services	1,639	5,365	19,854	27,480
Retail trade and retail services	647	1,953	4,225	4,765
Hotels and restaurants	109	283	429	458
Transport and communications	245	744	1,506	1,711
Financial services	313	1,053	8,968	15,060
Real estate	152	927	4,065	4,754
Other services	172	406	662	732
Other unspecified sectors	n.a.	n.a.	8,061	347

Source: Ukrstat, *Investitsiyi Zovnishnyoekonomichnoyi Diyalnosti u 2010 Rotsi* (Kyiv: Ukrstat, February 2011), p. 14, available at http://www.ukrstat.gov.ua; Ukrstat, *Investitsiyi Zovnishnyoekonomichnoyi Diyalnosti u 2009 Rotsi* (Kyiv: Ukrstat, February 2010), p. 8, available at http://www.ukrstat.gov.ua; Ukrstat, *Investitsiyi Zovnishnyoekonomichnoyi Diyalnosti u 2000 Rotsi: Statystuchny Buleten Derzhkomstatu Ukrainy* (Kyiv: Ukrstat, 2001); Ukrstat, *Investitsiyi Zovnishnyoekonomichnoyi Diyalnosti u 2005 Rotsi: Statystuchny Buleten Derzhkomstatu Ukrainy* (Kyiv: Ukrstat, 2006).

[a] Cumulative figures since the beginning of FDI inflows (early 1990s). Stock data are not available.

Annex table 4. Ukraine: geographical distribution of cumulative FDI inflows[a], 2005, 2009 and 2010[b]

(US$ million)

Region/economy	2005	2009	2010
World (total)	16,375.2	40,026.8	44,708
Developed economies			
Europe			
European Union			
Cyprus	1,562.0	8,593.2	9,914.6
Germany	5,505.5	6,613.0	7,076.9
Netherlands	721.8	4,002.0	4,707.8
Austria	1,423.6	2,604.1	2,658.2
France	N/A	N/A	2,367.1
United Kingdom	1,155.3	2,375.9	2,298.8
Sweden	N/A	1,272.3	1,729.9
Italy	N/A	992.2	982.4
Poland	224.0	864.9	935.8
Hungary	191.1	675.1	n.a.
Non-EU			
Switzerland	445.9	805.5	859.4
North America			
United States	1,374.1	1,387.1	1,192.4
Developing economies			
Caribbean			
British Virgin Islands	688.7	1,371.0	1,460.8
Commonwealth of Independent States			
Russia	799.7	2,674.6	3,402.8
Other economies[c]	2,283.5	4,155.8	5,121.1

Source: Ukrstat database, available at http://ukrstat.gov.ua.

[a] The true origin of the invested capital is uncertain. Many Ukrainian and Russian investors use offshore zones and companies located in other economies (Cyprus, British Virgin Islands, Netherlands) to disguise their real identity and to protect their capital from unpredictable actions of the Ukrainian Government. Data on ultimate investors are not available.

[b] Cumulative figures since the beginning of FDI inflows. Stock data are not available.

[c] Data on FDI by particular countries are not available.

Annex table 5. Ukraine: principal foreign affiliates in the country, ranked by total amount invested during 2004-2010

Rank	Parent company name	Industry	Total invested amount, 2004-2010 (US$ million)
1	Arcelor Mittal	Metallurgy	7,800
2	VimpelCom	Mobile communications	5,500
3	OTP Banking Group	Banking	860
4	MTS	Mobile communications	576 [a]
5	METRO Cash & Carry	Wholesale	371
6	TNK-BP Holding	Oil	303
7	Coca Cola	Non-alcoholic beverages	270
8	Procter & Gamble	Personal care products	200
9	Kraft Foods	Food	150
10	ISTIL Group	Metallurgy	111
11	British American Tobacco	Tobacco	110
12	Erste Banking Group	Banking	104
13	Nestle	Food	40
	Reemtsma	Tobacco	… [b]
	Shell	Oil	…
	Philip Morris	Tobacco	… [c]
	Lukoil	Oil	… [d]
	Tatneft	Oil	… [d]
	Gazprom	Gas	… [e]
	RUSAL	Aluminum	… [f]

Sources: Financial Times – fDi Markets | Global Investments; Companies' websites; Nataliya Blyakha, "Russian foreign direct investment in Ukraine," *Electronic Publications of Pan-European Institute 7/2009*, p. 7, available at http://www.tse.fi/FI/yksikot/erillislaitokset/pei/Documents/Julkaisut/Blyakha%200709%20web.pdf; Thomson ONE Banker, Thompson Reuters.

[a] Total capital investments in 2006. In 2007, total revenue in Ukraine amounted to US$ 438.5 million.
[b] In 2004, total sales in Ukraine amounted to US$ 179.8 million.
[c] In 2004, Philip Morris had a 31% share in the Ukrainian tobacco industry.
[d] Data on exact amounts of IFDI are not available; in 2007, Lukoil, TNK-BP and Tatneft altogether owned 90 % of the Ukrainian oil refineries.
[e] In 2007, Gazprom's capital in the Ukrainian gas industry companies equaled 20% of the total.
[f] In 2007, the share of RUSAL's capital in the Ukrainian aluminum industry was 90%.

Annex table 6. Ukraine: main M&A deals, by inward investing firm, 2005 – 2011

Year	Acquiring company	Source economy	Target company	Target industry	Shares acquired (%)	Transaction value (US$ million)
2011	Mechel	Russia	DEMZ	Steel foundries	100	537
2011	EBRD	UK	UkrSibbank	Banking	15	82
2011	Eni Ukraine Holdings BV	Netherlands	Zagoryanska Petroleum BV	Oil and gas field exploration	60	73
2011	Investor Group	Russia	VAB Bank	Banking	84	73
2011	DTEK Holdings Ltd.	Cyprus	Kyivenergo	Electric services	25	56
2010	VimpelKom	Russia	Kyivstar GSM	Telecommunications	100	5,515
2010	TNK-BP Holding	Russia	Vik Oil	Crude petroleum and natural gas	100	303
2010	Kulczyk Oil Ventures Inc.	Canada	Kub-Haz	Oil and gas field exploration	70	45
2010	Electolux AB	Sweden	Antonio Merloni Factory	Home and farm freeze equipment	100	25
2010	Secova Metals Corp.	Canada	Sergiivske Zolotorudne Rodovyshe	Gold ores	90	15
2009	JSC Vneshekonombank	Russia	Prominvestbank	Banking	75	156
2009	Central European Media Entrp	Bermuda	Glavred Media Holding	Mass media	10	12
2009	Central European Media Entrp	Bermuda	KINO	Mass media	40	10
2008	Unicredito Italiano SpA	Italy	OJSC Ukrsotsbank	Banking	94	2,231
2008	Evraz Group SA	Russia	Sukhaya Balka GOK	Iron ore	99	2,189
2008	Intesa SanPaolo SA	Italy	JSC Pravex-Bank	Banking	100	746
2007	Commerzbank	Germany	Forum Bank	Banking	60	600
2007	Pepsi Cola	USA	Sandora LLC	Non-alcoholic beverages	60	542
2006	OTP Bank	Hungary	Reiffeisenbank Ukraine	Banking	100	860
2006	BNP Paribas	France	Ukrsibbank	Banking	51	360
2005	Mittal Steel Co NV	Netherlands	Kryvorizhstal	Metallurgy	93	4,800
2005	Reiffeisen International AG	Austria	Aval Bank	Banking	94	1,000

Sources: UNCTAD, cross-border M&A database, available at http://stats.unctad.org/fdi; UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (New York and Geneva: United Nations, 2009), pp. 73-75; PricewaterHouseCoopers, "Ukraine, mergers & acquisitions market value tripled since 2004 in CEE," press release of April 20, 2007, available at http://www.pwc.com/ua/en/press-room/release039.jhtml; Tatyana Pismennaya, *Bolee 60 Bankov Vystavleno na Prodazhu*, Kommentarii, December 25, 2009 – January 10, 2010; Thomson ONE Banker, Thompson Reuters.

Annex table 7. Ukraine: main greenfield projects, by inward investing firm,[a] 2007-2010

Year	Investing company	Source economy	Target industry	Estimated/ announced transaction value (US$ million)
2010	Lafarge	France	Building and construction materials	368
2010	Metal Yapi Konut	Turkey	Real estate	250
2010	Lukoil	Russia	Plastics	234
2010	Adama	Romania	Real estate	201
2010	Expert Capital	Estonia	Real estate	150
2009	EcoEnergy	Sweden	Alternative/ renewable energy	270
2009	Novaport	Russia	Real estate	265
2009	Mitsubishi	Japan	Alternative/ renewable energy	234
2009	Aisi Realty	Cyprus	Real estate	205
2009	BT Invest	Lithuania	Real estate	201
2008	ArcelorMittal	Luxembourg	Metallurgy	3,000
2008	Asamer	Austria	Real estate	941
2008	VS energy International NV	Netherlands	Coal, oil and natural gas	750
2008	GLD Invest Group	Austria	Real estate	464
2008	Hyundai Motors	Republic of Korea	Automotive	365
2008	Michaniki	Greece	Real estate	300
2008	Evraz Group	Russia	Coal, oil and natural gas	300
2008	The Outlet Company	Poland	Real estate	201
2007	Meinl European Land	United States	Real estate	1,600
2007	ING Group	Netherlands	Financial services	822
2007	Antonio Merloni	Italy	Consumer electronics	262

Source: The author, based on fDi Intelligence, a service from the Financial Times Ltd.

[a] Data on shares acquired and joint venture partners (if any) are not available.

Ukraine: Outward FDI and its policy context, 2010

*Oleksiy Kononov**

Despite Ukraine's reputation as a poor country with a relatively modest OFDI performance, Ukrainian direct investments can be found all over the world, from Europe to Australia. Unfavorable domestic economic conditions and unpredictable political practices, together with a penchant for penetrating closed foreign markets, are among the main OFDI drivers for Ukrainian companies. Ukrainian OFDI declined during the global economic and financial crisis in 2009 but has begun to recover in 2010 and is forecast to increase thereafter.

Trends and developments

In terms of the value of its total OFDI stock, Ukraine ranks far behind Hungary and Poland, though outperforming neighbours like Slovakia and Romania. Among the countries of the Commonwealth of Independent States (CIS), Ukraine ranks second after Russia.[1]

It should be noted, however, that Ukrainian OFDI statistics are rather unreliable. First of all, Ukrainian investors do not always report outward investments.[2] Secondly, foreign affiliates often serve as a mechanism to circumvent restrictions and financial monitoring, as well as to avoid publicity and official statistical recording.[3] Finally, Ukrainian law provides an opportunity to classify certain statistical data on OFDI based on the investor's wish to do so.[4] Official statistics provided by the State Statistics Committee of Ukraine (Ukrstat) are based on residents' reports and information received from the National Bank (NBU) and the State Property Fund of Ukraine. The difference between available OFDI figures is rather remarkable. For example, NBU reported a total Ukrainian OFDI stock of US$ 7 billion in 2009 compared to US$ 6 billion for the same year reported to UNCTAD by NBU earlier.[5]

Country-level developments

The drivers of Ukrainian OFDI are among the main peculiarities of the country's outward investment. Ukrainian companies often invest abroad to secure their assets from the unpredictable political environment in Ukraine, including seizures and raids. Ultimate owners of Ukrainian companies who are able to undertake foreign acquisitions are mostly linked to certain political groups.[6] When the pendulum of Ukrainian politics swings in favor of one group, another one may face the full power of the state

* The author wishes to thank Sergey Filippov, Alexey Kuznetsov, Stefan Messmann, and Andrei Panibratov for their helpful comments. First published November 8, 2010.

[1] UNCTAD, *World Investment Report 2010: Investing in a Low-Carbon Economy* (New York and Geneva: United Nations, 2010), p. 176.

[2] "Mapa investytsiy," *Ukrainsky Tyzhden*, No. 17 (26), April 25 – May 1, 2008.

[3] See further explanations in the policy section below.

[4] This right is embedded in art. 21 of the *Law on State Statistics* of September 17, 1992.

[5] UNCTAD,*2010,* op. cit., pp. 66, 176; Ukrstat, *Investitsiyi zovnishnyoekonomichnoyi diyalnosti u 2009 rotsi* (Kyiv: Ukrstat, February 2010), p. 3.

[6] For speculative information on this issue, see dossiers available in Russian at: http://file.liga.net/. Many Ukrainian tycoons are listed among the richest people in the world by *Forbes*, see http://www.forbes.com/.

aimed at destroying its rival's means of support. Such investments represent capital flight rather than deliberate internationalization strategies of Ukrainian companies.

Market-seeking, tariffs-jumping and trade-barrier jumping are also major drivers of Ukrainian OFDI. Exporters of steel, the country's main export commodity,[1] have been facing severe anti-dumping restrictions imposed by the European Union (EU) and other developed countries. Moreover, domestic export restrictions lobbied for by large steel producers complicate the situation for smaller market players.[2] To circumvent these obstacles, Ukrainian exporters have invested in foreign companies,[3] sometimes incurring great financial risks. For example, in 2004, Industrialny Soyuz Donbassa (ISD) acquired the Hungarian company Dunaferr for US$ 475 million (with debts amounting to US$ 300 million). In July 2005, after a severe battle with the Polish Government, which had been reluctant to transfer ownership to a non-EU bidder,[4] ISD purchased the metallurgical plant Huta Stali Częstochowa for US$ 374 million and agreed to pay the company's debt of US$ 400 million.[5] Outward investors in the food sector have been more cautious in terms of financial risks. In 2001, to avoid Russia's import limits on Ukrainian caramel, Roshen Corporation (the Ukrainian confectionery leader) bought Likonf Confectionary Factory (Lipetsk, Russia); by the same token, in 2006 Roshen invested US$ 2 million to purchase a 100% stake in Klaipeda Confectionary Factory (Lithuania).

The large cross-border M&As of Ukrainian companies in the metallurgical sector coincided with great political turmoil in the winter of 2004/05, during the Ukrainian "Orange Revolution". In this period, Ukrainian OFDI rose sharply (annex tables 1 and 2). Allies of the defeated Presidential candidate, Victor Yanukovich, were afraid of retaliatory measures by the winners of the Presidential elections, Viktor Yushchenko and Yuliya Tymoshenko, and undertook decisive measures to secure assets abroad. For example, in November 2005 System Capital Management (SCM) increased its stake in the Italian Ferriera Valsider SpA from 49% to 70%.[6] However, the new government did not take retaliatory measures, with the exception of the re-privatization of Kryvorizhstal[7] and its further re-sale to Mittal Steel. Nevertheless, OFDI grew as steel-exporting companies from eastern Ukraine, including ISD and SCM, both open supporters of Viktor Yanukovich, went abroad. From 2005 onwards, Ukrainian OFDI, especially in Cyprus and Russia, started to increase, peaking in 2007 (annex table 4).

The analysis of the regional and sectoral distribution of Ukrainian OFDI is extremely difficult due to the poor statistical data. According to official Ukrainian statistics (annex table 3), Ukrainian companies prefer to invest in the following sectors: real estate (86% of OFDI flows), financial services (2.5%),

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[1] In 2009, Ukraine ranked eighth among 40 world leaders in crude steel production, see The World Steel Association, "The largest steel producing countries," January 22, 2010, available at: http://www.worldsteel.org/pictures/newsfiles/2009%20graphs%20and%20figures.pdf .

[2] For more information on domestic restrictions, see Alan H. Price and Scott Nance, *Export Barriers and Global Trade in Raw Materials: The Steel Industry Experience* (Washington, DC: Wiley Rein LLP, 2009).

[3] Beata Ślusarczuk, "Investments in iron and steel industry in Poland under globalization conditions", available at: http://www.oeconomica.uab.ro/upload/lucrari/1020081/39.pdf .

[4] Konrad Niklewicz, "Donbas domaga się Huty Częstochowa," *Gazeta Wyborcza*, March 2, 2004; Konrad Niklewicz, "Donbas grozi sądem", *Gazeta Wyborcza*, March 16, 2004; "Privatization process of Huta Stali Częstochowa S.A.", available at: http://www.msp.gov.pl/portal/en/16/235/Privatisation_process_of_Huta_Stali_Czestochowa_SA.html.

[5] Igor Goshovskiy, "Kreditnaya lovushka dlya ISD," March 25, 2009.

[6] "SCM uvelichila dolyu v UF metalloprokatnogo zavoda Ferriera Valsider (Italia) do 70%," *Ukrrudprom*, November 25, 2005, available at: http://www.ukrrudprom.com/news/n1234.html?print; "Ukraine fears the rise of new oligarchs," *BBC News*, June 25, 2005, available at: http://news.bbc.co.uk/2/hi/business/4114342.stm.

[7] For more information on legal and policy aspects of Kryvorizhstal's re-privatization, see Leonila Guglya, "Ukrainian privatization: six rounds of the Kryvorizhstal' case, courts and the impact of politics", in Stefan Messmann and Tibor Tajti, eds., *The Case Law of Central and Eastern Europe. Leasing: Piercing the Corporate Veil and the Liability of Managers & Controlling Shareholders, Privatization, Takeovers and the Problems with Collateral Law* (Berlin: European University Press, 2007), pp. 461-499.

retail trade and retail services (2%), transport and communications (0.7%), and machine-building (0.3%), while metallurgy accounts for only 0.1% of total OFDI flows. The sectoral breakdown of official Ukrainian FDI statistics does not seem reliable. While in 2008 UNCTAD reported Ukrainian companies' worldwide net purchases worth more than US$ 2 billion[1] and OFDI flows of more than US$ 1 billion (annex table 2), Ukrstat data reported 2008 OFDI flows of only US$ 85 million.[2] Evidently the data did not include the 2008 acquisition of Consolidated Minerals Ltd., the Australian manganese giant, by Palmary Enterprises Ltd (whose registered seat is in Belize) for more than US$ 1 billion.[3] Australia has never been mentioned in Ukrstat data on the regional distribution of OFDI either. It also seems that many cross-border M&As as well as greenfield investments (annex tables 6 and 7) are not recorded or reported by Ukrstat.[4]

According to official Ukrainian data, around 95% of OFDI flows are directed to the European Union (EU), only 3.5 % to CIS countries and 1.5% to other countries (annex table 4). Cyprus is the leading destination for Ukrainian FDI; according to Ukrstat, it accounts for more than US$ 5 billion (92 % of cumulative OFDI). However, based on Eurostat data, in 2008 Ukrainian FDI stock in the EU amounted to US$ 1.1 billion and in Cyprus to only US$ 143 million.[5] In most cases, Ukrainian companies use Cyprus's off-shore opportunities to re-invest money in Ukraine.[6] In other words, if one deducts Cyprus from the calculations, total Ukrainian OFDI stock would be US$ 445 million, split between Russia (37%), Poland (11%), Georgia (7%), Kazakhstan (6%), and other economies. The leadership of Russia and Poland[7] as destinations for Ukrainian FDI might be explained by historical and economic ties as well as neighborhood effects. Besides, Poland's location with its outlet to the Baltic Sea and EU membership is very favorable for Ukrainian steel producers in terms of transportation opportunities both for import and export purposes.

In fact, re-investment in Ukraine via third states like Cyprus is not unique. In 2004, for example, the issue of a 99% Ukrainian equity in a Lithuanian company (an investor under the Lithuania-Ukraine BIT) resulted in a controversial ICSID decision holding that Ukrainian shareholding and Ukrainian majority in the management are irrelevant to contest jurisdiction since the Lithuanian company *"[w]as an entity established in the territory of the Republic of Lithuania in conformity with its laws and regulations*" and "*[i]t is not for tribunals to impose limits on the scope of BITs not found in the text.*"[8]

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[1] UNCTAD, *World Investment Report 2009: Transnational Corporations, Agricultural Production and Development* (New York and Geneva: United Nations, 2009), p. 77.

[2] Ukrstat, *Investitsiyi zovnishnyoekonomichnoyi diyalnosti u 2008 rotsi* (Ukrstat, February 2009), p. 3.

[3] "Palmary announces intention to increase its cash takeover offer for Consolidated Minerals," available at: http://www.rns-pdf.londonstockexchange.com/rns/7475d_1-2007-9-12.pdf; UNCTAD, *2009*, op. cit.; Jason Scott, "Bogolyubov's Consolidated Minerals raising Australian manganese production", *Bloomberg*, July 29, 2010, available at: http://www.bloomberg.com/news/2010-07-28/bogolyubov-s-consolidated-minerals-raising-australian-manganese-production.html; "The world market for manganese: group "Private" closer to the monopoly", *RUSmergers*, January 23, 2009, available at: http://rusmergers.com/en/analitika-ma/2388-mirovoj-rynok-marganca-gruppa-privat-vse-blizhe-k-monopolii.html.

[4] As one can see from annex table 3, the difference between 2008 and 2009 OFDI is roughly US$ 23 million. It is not clear to what extent the 2009 greenfield projects worth several hundreds of millions (see annex table 7) have been implemented and recorded as OFDI in the official statistics, including perhaps because they were not financed by FDI.

[5] Eurostat, "EU direct investment inward stocks by extra EU investing country" [tec00054].

[6] Oleksiy Kononov, "Ukraine's inward FDI and its policy context," *Columbia FDI Profiles*, April 13, 2010, pp. 2 and 9.

[7] In 2008, the Polish ambassador to Ukraine, HE Jacek Kluczkowski, noted that Ukrainian oligarchs invested much more in Poland compared to Poland's investments to Ukraine; see Yuriy Goncharenko, "Posol Polschi Jacek Kluczkowski: ukrainski oligarchy investuvaly za kordonom nabagato bilshe nizh polski pidpryemtsi v Ukraini," *Forpost*, December 2, 2008, available at: http://www.4post.com.ua/world/117582.html.

[8] Tokios Tokeles v. Ukraine, (ICSID Case No. ARB/02/18), Decision on Jurisdiction, paras 36, 52, April 29, 2004, 20 *ICSID Revue - FILJ* 205 (2005). Prosper Weil in his dissenting opinion argued that the ICSID system could not be used for treaty shopping.

The corporate players

Ukrainian OFDI is mainly undertaken by large corporations and industrial groups (annex table 5). MNEs in the steel and ore industries are among the leaders. Metinvest Group (75% of shares controlled by SCM) comprises 21 industrial companies leading in the mining and steel industry of Ukraine and the CIS. In the EU, Metinvest is represented by Ferriera Valsider and Metinvest Trametal (Italian re-rolling companies), British carbon steel plate producer Spartan UK, and Bulgarian long products manufacturer Promet Steel.[1] Another large Ukrainian player, Pryvat Group, controls almost 14% of the world's high-grade manganese production, after a series of successful acquisitions in Australia, Georgia, Ghana, Romania, and the United States.[2]

Ukrainian automotive producers and retailers (AutoKraz, AutoZAZ, UTECH, Ukrauto) invested mainly in obsolete manufacturing facilities in Cuba, Poland and Russia. Rather than modernize domestic plants, these companies strive to find new markets for otherwise uncompetitive Ukrainian cars and trucks. For example, AutoKraz has invested in large greenfield projects in Cuba, a country that still uses an obsolete park of trucks manufactured decades ago in the USSR and in desperate need of modernization.[3]

Effects of the current global crisis

In 2009, Ukrainian officially-recorded OFDI flows declined to US$ 162 million, compared to more than US$ 1 billion in 2008 (annex table 2). Nevertheless, the strong negative impact of the global economic and financial crisis on the Ukrainian economy (IFDI in 2009 was US$ 5.6 billion, down by 49% against 2008)[4] did not prevent Ukrainian companies from making several large investments abroad (annex tables 6 and 7). At the same time, some of the previous foreign acquisitions together with unfavorable steel prices on world markets caused trouble for Ukrainian investors. For example, in 2009 ISD could not cope with the debts of its foreign affiliates;[5] consequently, rather than divert indebted foreign assets, ultimate ISD owners had to sell the controlling stake in ISD itself (50 % + 2 shares) to a Russian investor for about US$ 2 billion.[6] Similarly, Pryvat Group decided to sell the Alapaevsk steel mill in Russia.[7] In late 2009, the global financial crisis forced Soyuz-Viktan to initiate bankruptcy proceedings both in Ukraine and Russia, where the company had two large distilleries.

Judging from the 2009 OFDI greenfield projects and M&As with Ukrainian participation (annex tables 6 and 7), Ukrainian OFDI seems to have recovered in 2010. According to Ukrstat, Ukrainian companies invested abroad almost US$ 630 million in the first six months of 2010, compared to only US$ 26

[1] Information from the company's web site, available at: http://www.metinvestholding.com/en/company/.
[2] "The world market for manganese: group "Private" closer to the monopoly," op. cit.; Vivian Wai-yin Kwok, "Bogolyubov triumphs in Consolidated Minerals takeover," *Forbes*, January 3, 2008, available at: http://www.forbes.com/2008/01/03/bogolyubov-consolidated-minerals-markets-equity-cx_vk_0103markets01.html.
[3] Dariya Ryabkova, "Okno v Latinskuyu Ameriku," *Investgazeta*, No. 99, March 4, 2007; "Ukrainian trucks to be built in Cuba," *The Miami Herald*, December 3, 2008.
[4] Official Ukrstat data, see Kononov, op. cit., pp. 3-4. Recent 2010 UNCTAD data show a lower figure of US$ 4.8 billion; see UNCTAD, *2010*, op. cit., p. 171.
[5] Goshovskiy, op. cit.
[6] "Ukraine's ISD sells 50 percent plus two shares to Russian investors", *SteelOrbis*, January 11, 2010, available at: http://www.steelorbis.com/steel-news/latest-news/ukraines-isd-sells-50-percent-plus-two-shares-to-russian-investors-506928.htm.
[7] "NLMK vyveli na "Privat," *Kommersant (Voronezh)*, September 29, 2009.

million in the same period of 2009.[1] Ukrainian companies are seeking to expand abroad. For example, Ferrexpo group, via its foreign affiliates, plans to bid for the large Bulgarian Kremikovtzi metallurgical plant (the auction is supposed to start at US$ 375 million).[2]

The policy scene

Ukraine is signatory to numerous BITs and other international investment agreements.[3] However, in contrast to IFDI regulations, Ukraine's legal framework for OFDI is rather restrictive. The Government does not support OFDI: there are no investment risks insurance schemes or any public promotion services for Ukrainian companies intending to invest abroad. Pursuant to the Decree on the System of Currency Regulation and Currency Control,[4] all residents' money transfers abroad with the purpose of investment (direct or portfolio) are subject to individual approval by the National Bank of Ukraine (NBU).[5] In other words, the acquisition of a single share in a foreign company requires compliance with a very burdensome and costly process of obtaining an NBU license.[6] Money transfers above a specified minimum are also subject to financial monitoring.[7] On the other hand, as can be seen from the capital outflows from Ukraine, these strict requirements do not stop big corporate players (which in most cases have ties with the government) -- they instead prevent smaller Ukrainian businesses from investing abroad.

Factors stimulating OFDI include the recent change in taxation of Ukrainian holding companies' profits. As of May 19, 2010, dividends received from foreign affiliates are no longer subject to the Ukrainian corporate profits tax.[8] This change applies, however, only to dividend recipients holding at least 20% of the shares of a foreign affiliate, having the largest share therein, or having the largest number of votes therein. The tax exemption does not apply to foreign affiliates located in jurisdictions blacklisted for tax purposes.[9] On the other hand, smaller Ukrainian OFDI players might be adversely affected if the Tax Code supported by the new Prime Minister, Mykola Azarov,[10] is adopted. The draft Tax Code broadens the competencies of the tax authorities and increases the tax burden on SMEs, while granting tax holidays and other tax privileges to large companies (which are controlled by Ukrainian oligarchs).[11]

Conclusions and Outlook

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[1] Ukrstat, *Investitsiyi zovnishnyoekonomichnoyi diyalnosti u I pivricchi 2009 roku* (Ukrstat, August 2009), p. 3; Ukrstat, *Investitsiyi zovnishnyoekonomichnoyi diyalnosti u I pivricchi 2010 roku* (Ukrstat, August 2010), p. 3.

[2] "Vorskla Steel expresses interests in acquiring Kremikovtzi," *SteelOrbis*, July 30, 2010, available at: http://www.steelorbis.com/steel-news/latest-news/vorskla-steel-expresses-interest-in-acquiring-kremikovtzi-546923.htm.

[3] For more details on Ukraine's BITs and other IIAs see Kononov, op. cit., p. 5.

[4] *Decree of the Cabinet of Ministers of Ukraine on the System of Currency Regulation and Currency Control*, February 19, 1993.

[5] Art. 5 of the *Currency Decree.*

[6] Detailed procedures for getting a license can be found in *the Instruction on Procedures of Issuing Individual Licenses for Investments Abroad* approved by the NBU Regulation No. 122 of March 16, 1999.

[7] Pursuant to art. 15(1) of the *Law on Prevention of Money Laundering* of May 18, 2010, this applies to operations exceeding the equivalent of UAH 150,000 (US$ 19,000).

[8] *Law of Ukraine on Amending Corporate Profits Tax Regarding Taxation of Dividends* of April 27, 2010.

[9] Cyprus and the British Virgin Islands are not blacklisted.

[10] In 1996-2002, Mykola Azarov was the Head of the State Tax Administration of Ukraine. The main tax collector of the country became known for extreme fiscal pressure and constant attacks on Ukrainian private businesses.

[11] The World Bank Group's *Doing Business Project 2010* rates Ukraine 181 among 183 countries of the world in terms of procedures for paying taxes, it is worse only in Venezuela and Belarus. See IBRD/World Bank: *Doing Business 2010: Ukraine* (Washington, DC: The World Bank, 2009), p. 34; *Doing Business Project: Paying Taxes 2010 – The Global Picture,* available at: http://www.doingbusiness.org/features/taxes2010.aspx.

Despite rather modest OFDI, Ukrainian investments are scattered all over the world, often driven by the unfavorable domestic business climate or political threats. The new Ukrainian President and his Cabinet have brought some political stability.[1] However, in the short run it is unlikely that Ukraine's OFDI trends will change much. The lack of reforms, together with continuing trade restrictions for Ukrainian steel and other products, will continue to force Ukrainian companies to seek investment opportunities abroad. Stabilization of the world steel market and new gas arrangements with Russia that provide cheap gas for industrial needs will discourage domestic companies from modernizing local manufacturing facilities. Therefore capital will probably be invested abroad, especially in Russia, in view of the growing political and economic co-operation between the two countries and the pro-Russian stance of President Yanukovich. By the same token, growing hostilities between the new government and the opposition parties might lead to attacks on companies associated with the latter. Consequently, it is unlikely that capital flight to Cyprus, the British Virgin Islands and other offshore jurisdictions will decline.

Additional readings

Åslund, Anders, *How Ukraine Became a Market Economy and Democracy* (Washington, DC: Peter G. Peterson Institute for International Economics, 2009).

Sarna, Arkadiusz J., "Ukrainian metallurgy: the economic link in the oligarchic power system," *CES studies*, March 2002, available at: http://pdc.ceu.hu/archive/00001679/01/ukr_metal.pdf.

The World Bank: *Ukraine's Trade Policy: A Strategy for Integration into Global Trade* (Washington, DC: The World Bank, 2005).

Useful websites

Metal-Forum of Ukraine, available at: http://www.metal-forum.org/MFU_News_market.htm.

Ukrainian Ferro-Alloy Producers Association, available at: http://www.ukrfa.org.ua/.

Ukrainian State Statistics Committee (Ukrstat), available at: http://www.ukrstat.gov.ua/.

[1] Roman Olearchyk, "Progress depends on a successful reform effort," *Financial Times*, June 1, 2010.

Statistical annex

Annex table 1. Ukraine: outward FDI stock, 2000-2009 (US$ million)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Ukraine	170	156	144	166	198	468	344	6,077	7,005	7,259
Memorandum: comparator economies										
Bulgaria	67	34	40	52	n.a.	123	285	582	1,248	1,309
Hungary	1,280	1,556	2,166	3,509	6,018	7,810	57,114	133,141	184,745	174,941
Kazakhstan	16	n.a.	420	300	n.a.	n.a.	n.a.	2,166	3,045	6,786
Poland	1,018	1,156	1,457	2,147	3,356	6,279	14,319	19,369	21,814	26,211
Romania	136	116	145	208	272	213	879	1,240	1,466	1,731
Russia	20,141	44,219	62,350	90,873	107,291	146,679	216,488	370,161	202,837	248,894
Slovakia	373	448	486	823	835	597	1,325	1,509	1,901	2,744

Source: UNCTAD's, FDI/TNC database, available at: http://stats.unctad.org/fdi

Annex table 2. Ukraine: outward FDI flows, 2000-2009 (US$ million)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Ukraine	1	23	-5	13	4	275	-133	673	1,010	162
Memorandum: comparator economies										
Bulgaria	3	10	28	27	-217	308	175	270	707	-136
Hungary	2,764	3,936	2,994	2,137	4,506	7,709	19,802	71,485	61,993	-6,886
Kazakhstan	4	-25	422	-122	-1,235	-151	-329	3,142	1,001	3,119
Poland	16	-90	230	300	915	3,399	8,875	4,748	3,582	2,852
Russia	3,177	2,533	3,533	9,727	13,782	12,767	23,151	45,916	56,091	46,057
Romania	-13	-16	17	41	70	-31	423	279	274	218
Slovakia	29	65	11	247	-21	150	511	384	258	432

Source: UNCTAD's, FDI/TNC database, available at: http://stats.unctad.org/fdi

Annex table 3. Ukraine: distribution of cumulated outward FDI flows, by economic sector and industry, 2001, 2004, 2008, 2009[a] (US$ million)

Sector/industry	2001	2004	2008	2009
All sectors/industries	170.3	163.5	6203.1	6226.0
Primary	0	0.1	0.5	0.6
Agriculture, forestry and fishing	0	n.a.	0.3	0.3
Mining and quarrying	0	0.1	0.2	0.3
Secondary	n.a.	n.a.	n.a.	n.a.
Food, beverages, and tobacco	n.a.	n.a.	13.8	58.7
Light industry	0.3	0	0.3	0.3
Cellulose, paper, and publishing	n.a.	0.4	n.a.	Confidential [b]
Timber	3.7	n.a.	n.a.	n.a.
Coke, petroleum and chemical	6.4	4.3	Confidential [b] (US$ 4.7 million for chemical industry)	4.8
Other mineral manufacture (excluding metal)	n.a.	n.a.	Confidential [b]	Confidential [b]
Metallurgy	2.6	2.5	9.1	8.9
Machine-building	6.5	6.3	14.9	19.8
Other industries	0.1	0.3	2.9	2.6
Construction	3.5	3.4	2	1.9
Services	147.3	146.2	n.a.	n.a.
Retail trade and retail services	0.6	1	142.5	124.9
Hotels and restaurants	0	0.6	Confidential [b]	Confidential [b]
Transport and communications	84.8	55.1	44.8	44.8
Financial services	2.1	8.3	175.9	596.1
Real estate	51.9	66.4	5333.1	5347
Other services	7.8	14.8	Confidential [b]	Confidential [b]
Other unspecified sectors	n.a.	n.a.	442.4	n.a.

Sources: Ukrstat database, available at: http://ukrstat.gov.ua; Ukrstat, *Investitsiyi zovnishnyoekonomichnoyi diyalnosti u I kvartali 2010 roku* (Ukrstat, May 2010), p. 15; Ukrstat, *Investitsiyi zovnishnyoekonomichnoyi diyalnosti u 2009 rotsi* (Ukrstat, February 2010), p. 15, available at: http://www.ukrstat.gov.ua; Ukrstat, *Investitsiyi zovnishnyoekonomichnoyi diyalnosti u 2001 rotsi: Statystuchny buleten Derzhkomstatu Ukrainy* (Kyiv: Ukrstat, 2002); Ukrstat, *Investitsiyi zovnishnyoekonomichnoyi diyalnosti u 2004 rotsi: Statystuchny buleten Derzhkomstatu Ukrainy* (Kyiv: 2005).

[a] Cumulative figures as of beginning of investment (early 1990s). Stock data are not available. Despite being official OFDI data published by Ukrstat, the figures do not reflect substantive OFDI in a number of sectors, especially metallurgy, mining and quarrying (compare with Reuters and Financial Times data in annex tables 6 and 7).
[b] Information classified according to art. 21 of the Law of Ukraine *on State Statistics.*

Annex table 4. Ukraine: geographical distribution of cumulated OFDI flows, selected years[a] (US$ million)

Region/economy	2004	2005	2007	2009
World	175.9	218.2	6,196.0	6,223.3[b]
Developed economies				
Europe				
European Union (EU)				
Austria	3	4.6	n.a.	n.a.
Cyprus	2	2.1	5,825.0	5,778.5
Estonia	1.1	n.a.	n.a.	n.a.
Greece	1.6	n.a.	n.a.	n.a.
Latvia	n.a.	n.a.	30.7	31.9
Lithuania	n.a.	n.a.	4.0	n.a.
Poland	n.a.	20.3[c]	30.1	49.4[c]
Spain	13.8	13.8	13.8	n.a.
UK	n.a.	13.9	13.8	n.a.
Non-EU				
Armenia	n.a.	n.a.	12.8	n.a.
Georgia	2.3	2.2	28	32.6
Switzerland	4.7	4	4.6	n.a.
North America				
United States	n.a.	5.6	5.9	n.a.
Central America				
Panama	18.9	18.9	18.9	n.a.
Caribbean				
British Virgin Islands	n.a.	n.a.	10.9	20.8
Asia				
Hong Kong (China)	5.4	5.4	n.a.	n.a.
Vietnam	15.9	15.9	3.9	n.a.
Commonwealth of Independent States				
Kazakhstan	n.a.	n.a.	n.a.	27.1
Moldova	n.a.	n.a.	26.7	n.a.
Russia	94.6	102.5	148.6	165.5
Uzbekistan	1.9	n.a.	n.a.	n.a.
Other economies[d]	5	9	17.9	117.5

Source: Ukrstat database, available at: http://ukrstat.gov.ua.
[a] Cumulative figures since the beginning of foreign investment (as of January 1, 2010). Stock data are not available.
[b] Ukrstat data reflect figures of countries to which the highest amounts of Ukrainian FDI were directed.
[c] For some reason, official Ukrstat statistics do not reflect extensive Ukrainian investments in Poland's metallurgical sector.
[d] Data on particular countries are not available. Ukrstat reports outward investments to 51 countries of the world (as of January 1, 2010).

Annex table 5. Ukraine: principal MNEs, 2004 - 2009

Name	Industry	Available indicators
System Capital Management (SCM)	Metallurgy, banking, chemical industry	8,151[a]
Interpipe Group	Metallurgy, machine-building, banking, mass-media, retail trade	3,000[b]
Ukrauto	Automotive	2,100[c]
Palmary Enterprises Ltd	Metallurgy	1,008
Roshen	Food	850[d]
Ukrprominvest Group	Automotive	700[e]
Industrialny Soyuz Donbassa (ISD)	Metallurgy	849[f]
Soyuz-Viktan	Alcoholic beverages	420[g]
Pryvat Group	Banking, metallurgy, manganese, chemical industry	n.a.[h]
Ferrexpo	Metallurgy, manganese	n.a.[i]
DF Group (The Firtash Group of Companies)	Energy, metallurgy, chemical industry, real estate	n.a.[j]

Sources: Companies' websites; *Financial Times* – fDi Markets | Global Investments; "Ukrainian industrial groups continue advance into Europe," *Kyiv Post*, January 25, 2007; "Mapa investytsiy," *Ukrainsky Tyzhden*, No. 17 (26), 25 kvitnya – 1 travnya 2008 roku.

[a] 2009 consolidated revenue data. Available statistical data and media list Metinvest Group often separately. In fact, it is controlled by SCM. Amount of company's OFDI unknown.
[b] Turnover by the end of 2005.
[c] Total assets (Ukrainian and foreign).
[d] Turnover by the end of 2008.
[e] Greenfield projects in 2007.
[f] Investments in Huta Stali Czestochowa (Poland) and Dunaferr (Hungary).
[g] Turnover for alcoholic beverages produced in 2005.
[h] Financial data are not available; however, Pryvat Group has a stake in Highlanders Alloys (US), Feral CA (Romania) and Ghana Manganese (Ghana). The company also controls Palmary Enterprises Ltd.
[i] Financial data are not available; the company has a stake in Skopski Legury (FYROM), Vorskla Steel Denmark (Denmark) and plans to bid for a stake in Kremikovtzi plant (Bulgaria).
[j] DF Group owns foreign affiliates in Austria, Estonia, Germany, Hungary, Italy, Russia, Switzerland, and Tajikistan. Financial data are not available.

Annex table 6. Ukraine: main M&A deals, by outward investing firm, 2007–2009

Year	Acquiring company	Target company	Target industry	Target economy	Shares acquired (%)	Transaction value (US$ million)
2009	Ciklum	Mondo A/S-Activities	Information retrieval services	Denmark	100	n.a.
2009	Gruppa EastOne	Rossiya	Life insurance	Russia	100	n.a.
2009	Metinvest Holding (affiliated with SCM)	United Coal Co	Bituminous coal and lignite surface mining	United States	100	n.a.
2009	Industrialni Dystrybutsiyni Systemy (IDS)	Akva Star LLC	Beverages	Russia	100	n.a.
2008	Palmary Enterprises Ltd	Consolidated Minerals Ltd	Ferroalloy ores	Australia	88	1,008
2008	Maximum Exploration Corp	Extraordinary Vacation USA Inc	Advertizing	United States	100	13.3
2008	ZAT RUR Group SA	ZAO Intekom	Crude petroleum and natural gas	Russia	100	n.a.
2008	Volya Cable	Oisiw Ltd	Investment	Cyprus	100	n.a.
2008	Metinvest Holding (affiliated with SCM)	Trametal SpA	Metallurgy	Italy	100	n.a.
2008	Milkiland BV	Ostankino Dairy	Dairy products	Russia	75	n.a.
2007	Nemiroff	Legro Sp z.o.	Beverages	Poland	100	n.a.
2007	Sevastopolenergo	Neva Metal Trans	Transportation	Russia	100	n.a.
2007	Motordetal-Konotop	Fumel Technologies SAS	Gray and ductile iron foundries	France	100	n.a.
2007	Bank Delta	Atom Bank	Banking	Belarus	100	n.a.
2007	Pryvat Group	JKX Oil & Gas PLC	Crude petroleum and natural gas	UK	13	80
2007	Pryvat Group	TaoBank	Banking	Georgia	75	25

Source: Thomson ONE Banker, Thompson Reuters.

Annex table 7. Ukraine: main greenfield projects, by outward investing firm,[a] 2007-2009

Year	Investing company	Target industry	Target economy	Estimated/ announced transaction value (US$ million)
2009	Vorskla Steel	Metallurgy	Hungary	926.6
2009	Roshen	Food	Russia	235
2009	Motor Sich	Manufacturing	Russia	144.5
2009	Gerc Investment & Construction	Real estate	Iraq	40.7
2009	UPEC	Metallurgy	Russia	40.0
2009	Pivdennyi Bank	Financial services	Bulgaria	35.9
2009	Credit Rating Agency	Financial services	Russia	35.9
2009	Credit Rating Agency	Financial services	Belarus	35.9
2009	PryvatBank	Financial services	Italy	32.4
2009	PryvatBank	Financial services	Germany	32.4
2009	Kviza Trade	Retail trade	Moldova	27.3
2009	AvtoKraZ	Automotive	Azerbaijan	24.4
2009	Antonov ASTC	Aerospace	Russia	15.2
2008	UTTECH	Automotive	Russia	600.0
2008	Yoakside Trading	Real estate	Vietnam	400.0
2008	Erlan	Beverages	Russia	318.0
2008	Konti	Food	Russia	252.3
2008	AutoKraZ	Automotive	Cuba	232.0
2008	AutoKraZ	Automotive	Russia	204.4
2008	Metinvest (SCM)	Metallurgy	Italy	169.9
2008	Metinvest (SCM)	Metallurgy	Russia	40.5
2008	Image Holding	Food	Russia	39.3
2008	Metinvest (SCM)	Metallurgy	UK	36.4
2008	Concorde Capital	Financial services	Russia	35.8
2008	Pivdennyi Bank	Financial services	Bulgaria	35.8
2008	Sokrat	Financial services	Uzbekistan	32.6
2007	Ukrprominvest	Automotive	Russia	700.0
2007	Naftogaz	Oil and natural gas	Egypt	281.3
2007	Pryvat Group	Financial services	China	58.4
2007	Naftogaz	Oil and natural gas	Libya	57.5
2007	Avec & Co	Real estate	UK	40.7

Source: fDi Intelligence. Financial Times.

[a] Data on shares acquired and joint venture partners (if any) are not available.

Chapter 39 - United Arab Emirates

United Arab Emirates: Inward FDI and its policy context, 2012

*Wasseem Mina**

Inward foreign direct investment (FDI) is important in building a sustainable and diversified economy as envisaged by the United Arab Emirates (UAE). The UAE's stock of inward FDI (IFDI) grew at an average annual growth rate of 49%, from US$ 1.1 billion (1.5% of GDP) in 2000 to US$ 85.4 billion (23.7% of GDP) in 2011. Many foreign multinational enterprises (MNEs), including several Fortune 500 companies -- have established affiliates in the country. The rapid growth of IFDI reflects confidence in the UAE economy and efforts to enhance its competitiveness. The recent global crisis has, however, significantly reduced IFDI flows. Efforts are under way to speed up the ratification of a new foreign investment law, which removes several of the current legal barriers to FDI and offers foreign investors similar rights to those of UAE nationals.

Trends and developments

The United Arab Emirates is one of the six members of the Gulf Cooperation Council (GCC) countries, and one of the four GCC members of OPEC.[1] The UAE is composed of seven emirates: Abu Dhabi, Dubai, Sharjah, Ajman, Umm AI Quwain, Fujairah, and Ras Al Khaimah.

Inward foreign direct investment is considered an important factor in the efforts by the UAE to build a sustainable and diversified economy. IFDI has been envisaged as one of the pillars in the establishment of a knowledge economy, according to the UAE 2021 Vision,[2] which charts the goals and steps for the next stage of the nation's progress leading up to the year 2021. Studies have shown IFDI to contribute, under appropriate conditions, to increasing capital formation, employment and exports of host economies, and to technology transfers and productivity spillovers to local firms through forward and backward linkages or through local firms imitating MNEs or hiring workers trained by them.[3] Technology, which includes product, process and distribution technologies, in addition to management and marketing skills, is particularly important for the diversification of the UAE economy and its

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[1] The six member countries of GCC are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE. GCC members of OPEC include, in addition to the UAE, Kuwait, Qatar, and Saudi Arabia.

[2] In February 2010, the UAE cabinet released the UAE 2021 Vision (available at www.vision2021.ae). Theme 3 of the Vision – "United in Knowledge" – states that, in creating a sustainable and diversified economy, home-grown entrepreneurship is to be stimulated and FDI to be attracted.

[3] See, for example, Magnus Blomström and Ari Kokko, "Multinational corporations and spillovers," *Journal of Economic Surveys*, volume 12, issue 2 (July 1998), pp. 247-77, on the role of FDI in technology transfer and the associated productivity spillovers. See also UNCTAD, *World Investment Report 1999*: *Foreign Direct Investment and the Challenge of Development* (Geneva: United Nations, 1999) for the positive impact that FDI has in terms of enhancing technological capabilities, generating employment, boosting export competitiveness, and protecting the environment.

transformation to a knowledge-based economy. IFDI can therefore be socially beneficial, in particular in the long run, to the UAE economy.

Country level developments

The country's IFDI stock grew from US$ 1 billion (1% of GDP) in 2000 to US$ 85 billion (24% of GDP) in 2011, rising at an average annual (compound) growth rate of 49%, a rate that far exceeded those of the IFDI stocks of comparator GCC countries (annex table 1).[1] The stock of IFDI relative to GDP grew at an average annual growth rate of 33%, the fastest growth rate in the region. The take-off point for the UAE's IFDI was 2003, when the IFDI stock rose to US$ 7 billion (5.3% of GDP) -- compared to a constant level of US$ 2 billion in the previous two years. From 2004 to 2011, the UAE's IFDI stock exceeded the total stock of Bahrain, Kuwait, Oman, and Qatar taken together, reflecting the competitiveness and attractiveness of the UAE as an investment destination not only within the GCC but also within the wider Middle East and North Africa region.

IFDI flows to the UAE grew from US$ 1.2 billion (1.1% of GDP) in 2001, to a peak of US$ 14.2 billion (5.5% of GDP) in 2007, followed by a slight decline to US$ 13.7 billion (4.4% of GDP) in 2008 (annex table 2). The impact of the global financial crisis on IFDI flows to the UAE is reflected in the decline in 2009 of about 70% in flows from the 2008 level, to US$ 4 billion (1.5% of l GDP). Flows rose slightly in 2010 and 2011 (to 1.8% and 2.1% of GDP, respectively), but remained well below the peak of 2007. Between 2003 and 2008, IFDI flows to the UAE exceeded the total of flows to Bahrain, Kuwait, Oman, and Qatar.

The WTO's 2012 *Trade Policy Review* of the UAE provides data on the sectoral distribution of IFDI for the period 2005-2009, reproduced in annex table 3 below.[2,3] In 2009, financial institutions accounted for nearly one fourth (23%) of the stock of inward FDI, followed by construction (22%), real estate (17%), wholesale and retail trade (14%), manufacturing (10%), and transportation and communications (7%). The sectoral distribution of IFDI can also be judged from information on cross-border mergers and acquisitions (M&As) and greenfield FDI projects. In recent years, the services sector and construction have been major recipients of IFDI in the UAE, according to the information on M&As and greenfield projects provided and discussed in the section on corporate players below.

The same information suggests that important home countries for FDI in the UAE include the United Kingdom, some other European countries and the United States. Although data on the geographical distribution of FDI in the UAE are not published,[4] data on OECD countries' outward FDI flows to the

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[1] It should be noted that outward FDI from the UAE has also grown noticeably since 2000, rising from US$ 2 billion in 2000 to US$ 58 billion in 2011. (Data are from UNCTAD, FDI statistics, available at http://www.unctad.org.) Most of the OFDI is undertaken by the Abu Dhabi Investment Authority (ADIA), the largest UAE sovereign wealth fund (SWF), whose assets amount to US$ 627 billion in 2012, according to the SWF Institute (information available at: http://www.swfinstitute.org/). Other UAE SWFs include Abu Dhabi Investment Council, Emirates Investment Authority, International Petroleum Investment Company, Investment Corporation of Dubai, Mubadala Development Company, and RAK Investment Authority.

[2] The World Trade Organization's "Trade policy review: United Arab Emirates," Report by the Secretariat, WT/TPR/S/262, February 21, 2012, available at http://www.wto.org/english/tratop_e/tpr_e/tp362_e.htm reports (on p. 12) that the Government is working on the improvement of the collection of FDI statistics, particularly by source.

[3] It should be noted that the figures for the total IFDI stock in annex table 3 differ from the UNCTAD data in annex table 1.

[4] FDI data collection and dissemination need to be improved in the MENA and GCC countries. In the past, there were discussions on FDI-related technical assistance spearheaded by the IMF. The IMF Middle East Regional Technical Assistance Centre's (METAC) 2009 Programme document sheds light on FD technical assistance for the region as a whole.

UAE confirm this perception and throw further light on the sources of FDI in the UAE (annex table 4). According to those data on annual FDI flows to the UAE, in 2005-2010 as a whole, the top home countries for FDI in the UAE were Luxembourg (US$ 13.1 billion), Switzerland (US$ 5.3 billion), United Kingdom (US$ 2.7 billion), United States (US$ 2.4 billion), Hungary (US$1.6 billion), France (US$ 1.5 billion) and Italy (US$ 1.4 billion). The most recent (2010) statistics show Italy and Chile topping the list of home countries. Outside the group of OECD countries, according to the information on cross-border M&As and greenfield FDI projects, FDI flows also originated from fellow-GCC economies, China, India and Malaysia.[1]

The corporate players

Data on the principal foreign affiliates in the UAE are not available. However, an idea of the role of foreign affiliates in the UAE in 2010-2011 can be obtained from data on greenfield FDI projects and cross-border M&As. According to UNCTAD's *World Investment Report 2012*, the number of greenfield FDI projects established in 2010 and 2011 amounted to 323 and 369, respectively.[2] The number of cross-border M&As by inward-investing firms numbered 20 in 2010 and 31 in 2011.[3]

The UAE has a high inward FDI potential, reflected in its high ranking by UNCTAD's Inward FDI Potential Index:[4] in 2009, the UAE ranked fifth among 142 economies.[5] Accordingly, the UAE aspires to becoming a global investment hub, which also helps the Government to fulfill its vision for diversifying the economy. Many foreign MNEs, including some of the top financial and non-financial MNEs, are operating in the UAE. Many of the U.S. financial and non-financial MNEs operating in the UAE are Fortune 500 companies (annex table 5).

The total number of U.S. MNEs' affiliates in the UAE with assets, sales or net income greater than US$ 25 million amounted to 113 in 2010, according to U.S. Bureau of Economic Analysis data, and 95 of them were majority-owned affiliates.[6] Those majority-owned affiliates employed about 19,500 employees, of whom 4,400 were in professional, scientific and technical services, 4,300 in manufacturing, 1,900 in wholesale, and 1,900 in mining. The total compensation paid to employees of the majority-owned affiliates was US$1.2 billion, and the value-added generated by those affiliates amounted to US$ 5.9 billion, of which about US$ 4.1 billion was generated in the mining industry alone.

Although information on the principal foreign affiliates could not be obtained, data on the largest M&As in the UAE by inward investing firms for the period 2008-2010 are available (annex table 6). Out of 38 top M&A deals by inward investing firms that took place during this period, six originated from the

[1] India's FDI outflows to the UAE amounted to US$ 2.2 billion in 2002-2009. See Premila Nazareth Satyanand and Pramila Raghavendran, "Outward FDI from India and its policy context," *Columbia FDI Profiles*, Vale Columbia Center on Sustainable International Investment, September 22, 2010, available at: www.vcc.columbia.edu.
[2] See UNCTAD, *World Investment Report 2012: Towards a New Generation of Investment Policies* (Geneva: United Nations, 2012), annex table I.9, available at http://www.unctad-docs.org/files/UNCTAD-WIR2012-Annexes-Tables-en.pdf.
[3] Ibid., annex table I.4.
[4] See UNCTAD, *World Investment Report 2011: Non-Equity Modes of International Production and Development* (Geneva: United Nations), annex tables, web table 28, "Inward FDI Performance and Potential Index rankings, 1990-2010," available at: http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx
[5] The ranking for 2010 is not available.
[6] Data on U.S. foreign affiliates in the UAE are from the Bureau of Economic Analysis, U.S. Department of Commerce, available at http://www.bea.gov/international/di1usdop.htm.

United States, seven from the United Kingdom, nine from other GCC countries (Kuwait, Qatar, Saudi Arabia), three from India, and two from Malaysia. More than half the M&A deals took place in services, in particular in finance, but also a variety of other services such as transportation, communications and utilities[1]

Data on the largest announced greenfield FDI projects for the period 2008-2010 suggest that they were highly concentrated in construction (annex table 7). This perhaps explains why the UAE Government undertook business reforms making it easier to obtain construction permits, as mentioned below in the discussion of the policy scene. Over the period 2008-2010, the total value of the largest greenfield investments announced by inward-investing firms in the construction industry amounted to nearly US$ 20 billion. The largest greenfield investments announced during the period also included projects in transportation, communications and utilities, and in manufacturing, amounted to more than US$ 4 billion.

Effects of the recent global crisis

The recent global financial and economic crisis has taken its toll on inward FDI flows to the UAE economy. FDI flows dropped by about 70% between 2008 and 2009, from US$ 13.7 billion (4.4% of GDP) to about US$ 4 billion (1.5% of GDP) and, as noted, rose only modestly in 2010 and 2011 (annex table 2). It is unknown how exactly this decline was distributed across the different industries, sectors and emirates in the UAE, though it is believed that the real estate and financial sectors were perhaps the worst hit with the collapse of the real estate bubble and global financial crisis.[2]

The policy scene

According to the WTO's 2012 and 2006 *Trade Policy Reviews* of the UAE, the UAE's investment policy limits foreign investment, except in the free zones where 100% foreign ownership is allowed, and thus reduces competition between local and foreign investors in the economy. The Federal Commercial Companies Law (No. 8 of 1984) and its amendments stipulate that UAE nationals must hold at least 51% of the capital of any company established in the UAE. However, there are exceptions to this provision for a) other GCC countries' nationals, who are granted national treatment and may have up to 100% ownership in most activities, and for b) companies registered as branches or representative offices of foreign companies established in Dubai.

The UAE Government has established nearly 40 free zones, in which 100% foreign ownership is allowed and no taxes are levied. The highest concentration of the free zones is in Dubai, with more than half of the total number of free zones (23), followed by Abu Dhabi (5), Ras Al Khaimah (4), Fujeirah (3), Sharjah (2), Ajman (1), and Umm Al Quwain (1).[3] Outside the free zones, local sponsors are needed for foreign companies to be established, and foreign ownership is limited to a maximum of 49%.

[1] U.S. Census Bureau's Standard industry classification (SIC) is followed for the classification of sectors and industries mentioned.

[2] See for example "Dubai hit hard by financial crisis", available at http://www.globalcrisisnews.com/real-estate/dubai-hit-hard-by-financial-crisis/id=625/ , and "Impact of the global financial crisis still causing jitters for UAE", available at http://topnews.ae/content/21158-impact-global-financial-crisis-still-causing-jitters-uae .

[3] For a list of UAE free zones, see for example http://www.uaefreezones.com/, and http://www.indexuae.com/Top/Business_and_Economy/Free_Trade_Zones.

Free zones have recently been noted to contribute to the development of Abu Dhabi's manufacturing base and to the diversification of its economy.[1] This has strengthened the Abu Dhabi Government's commitment to encouraging foreign investment and diversification. According to the 2011 annual Economic Report of the Emirate of Abu Dhabi,[2] issued by the Emirate's Department of Economic Development, the nominal value of GDP of Abu Dhabi expanded by 15.9% in 2010, from AED 535 billion (US$ 145.6 billion) to AED 620 billion (US$168.8 billion). In real terms, such a growth rate amounts to 6.8%.[3] Although oil continued to account for about 50% of (nominal) GDP, non-oil activities, including in the manufacturing sector, achieved notable growth, of about 11%. The Khalifa Industrial Zone Abu Dhabi, one example reported in the newspapers, is expected to boost the manufacturing base in the Emirate. By 2030, it is expected to account for 15% of the Emirate's non-oil GDP and to add 100,000 jobs.[4]

The perception of Dubai's free zones is less favorable, in contrast.[5] Output of the mostly labor-intensive industries in these free zones is driven by highly elastic, low-skilled, cheap labor supply from neighboring Asian countries. Rather than being driven by productivity growth, output growth is instead driven by the increase in the labor input.

According to a February 2008 report by the United States Government Accountability Office, in addition to the Federal Commercial Companies Law and its amendments (company law), the Commercial Agencies Law (Federal Law No. 13 of 2006 on Deregistration of Trade Agencies) represents another legal barrier to FDI in the UAE, as it stipulates that the operations of foreign importers need to be done through a sole UAE agent, either a national or a fully national-owned company, and the terms of the agency relationship.[6,7] However, changes were introduced in 2009 with modifications to make contracts more easily enforceable. Modifications, for example, limited the agency contract to a fixed time period, required mutual consent to renew an agency agreement and allowed

[1] See Oxford Business Group's economic update on Abu Dhabi entitled "Abu Dhabi: shifting priorities," available at: www.oxfordbusinessgroup.com/economic_updates/abu-dhabi-shifting-priorities.

[2] See http://www.emirates247.com/news/government/abu-dhabi-ded-releases-annual-economic-report-2011-11-13-1.427938.

[3] Based on GDP deflator figures for the UAE of 103 in 2009 and 111.8 in 2010, and 2007 as the base year, real GDP amounted to AED 519 billion and AED 554 billion in 2009 and 2010, respectively, resulting in real GDP growth rate of 6.8%. GDP deflator figures are obtained from the World Bank's World Development Indicators database, available at http://data.worldbank.org/data-catalog.

[4] Saifur Rahman, "Khalifa Port: industrial zone to open by year-end," *Gulf News*, March 1, 2012, available at http://gulfnews.com/business/shipping/khalifa-port-industrial-zone-to-open-by-year-end-1.988353. It is possible though that the figures and projections mentioned are overly optimistic.

[5] The author is grateful to Raimundo Soto for drawing his attention to this point.

[6] U.S. Government Accountability Office, Report to the Honorable Richard Shelby, Ranking Member, Committee on Banking, Housing, and Urban Affairs, U.S. Senate, "Laws and policies regulating foreign investment in 10 countries," Washington, D.C., 2008, available at www.gao.gov/assets/280/272998.pdf.

[7] There are a number of provisions relating to commercial agencies, both registered and unregistered: Federal Law No. 18 of 1981 (Organization of Commercial Agencies); and Federal Law No. 18 of 1993 (Commercial Procedure) and Federal Law No. 5 of 1985 (Civil Code) govern unregistered commercial agencies. The main legislation that governs (registered) commercial agencies (Federal Law No. 18 of 1981) was amended several times by Federal Law No. 14 of 1988 (Agency Law) which applies to all registered commercial agents, Federal Law No. 13 of 2006 (Deregistration of Trade Agencies) and Ministerial Resolution No. 381 of 2006, and Federal Law No. 2 of 2010 amending certain provisions of Federal Law No. 18 of 1981. The author is indebted to Mohammed Zaheeruddin for this information.

either party to file for damages.[1] However, Federal Law No. 2 of 2010 introduced further amendments to the Commercial Agencies Law, which seem to have partly reverted changes introduced in 2009.[2]

The UAE Cabinet has mandated the Ministry of Economy to implement a National Investment Reform Process that improves the country's investment policy. In November 2011, the Dubai Economic Council (DEC) called for speeding up the ratification of the draft Foreign Investment Law, which offers foreign investors similar rights to those extended to UAE nationals.[3] It also called for clearer regulations governing foreign investment, especially on property rights protection, business disputes settlement and corporate governance. Resolving insolvency, enforcing contracts and protecting investors are business aspects in which the UAE was ranked the lowest according to the World Bank's 2012 Ease of Doing Business Index, compared to its ranking with respect to paying taxes, trading across borders, getting electricity, registering property, dealing with construction permits, and starting a business.[4]

Investment freedom in the UAE is by far the lowest scored among the ten economic freedoms included in the Heritage Foundation's Index of Economic Freedom.[5] Although the UAE's 2012 overall economic freedom score was 69.3, positioning it in the 35th rank among the world's countries in terms of overall economic freedom, its investment freedom score was only 35, positioning it in the 123rd rank. Compared to other GCC countries, the investment freedom ranking of the UAE lags behind that of Bahrain (75), Kuwait and Oman (55), Qatar (45), and Saudi Arabia (40).

Despite some legal barriers to foreign investment in the UAE, the rapid growth of IFDI during most of the period since 2000 reflects an overall confidence of investors in the UAE economy, its business environment and growing competitiveness, both regionally and globally, over time. The World Bank's *Doing Business* reports show that the UAE's ease of doing business rank had improved from the 69th position in 2006 to the 46th in 2009 and further to 33rd in 2010; it held the same rank in 2012.[6]

Seeking to improve its competitiveness, the UAE has undertaken reforms that have eased doing business and encouraged investment, both domestic and foreign. Some of the reforms relate to starting a business. In 2010/2011,[7] the UAE eased the process of starting new businesses by merging the requirements for a) filing company documents with the Department for Economic Development, b) obtaining a trade license

[1] See World Trade Organization, "Trade policy review: United Arab Emirates", February 21, 2012, op. cit.
[2] Ibid.
[3] "Attracting more foreign investment," *Gulf News*, November 26, 2011, available at http://gulfnews.com/opinions/editorials/attracting-more-foreign-investment-1.937549 .
[4] See The World Bank, *Doing Business 2012: Doing Business in a More Transparent World* (Washington, D.C: World Bank, 2012), available at http://www.doingbusiness.org/reports/global-reports/doing-business-2012.
[5] In addition to investment freedom, the index of economic freedom includes property rights, freedom from corruption, fiscal freedom, government spending, business freedom, labor freedom, monetary freedom, trade freedom, and financial freedom. UAE's world rank is highest in fiscal freedom and lowest on investment freedom. In between, freedom from corruption (30th), labor freedom (35th), monetary freedom (40th), government spending (47th), property rights (49th), trade freedom (57th), financial freedom (72nd), and business freedom (83rd) lie in descending order. See The Heritage Foundation, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation, 2012), available at http://www.heritage.org.
[6] See The World Bank, *Doing Business 2012*, op. cit. The World Bank's Doing Business reports for 2006, 2009 and 2010, entitled *Doing Business 2006: Creating Jobs*, *Doing Business 2009*, and *Doing Business 2010: Reforming Through Difficult Times*, are available at http://www.doingbusiness.org/reports/global-reports/doing-business-2006, http://www.doingbusiness.org/reports/global-reports/doing-business-2009, and http://www.doingbusiness.org/reports/global-reports/doing-business-2010, respectively.
[7] The year 2010/2011 refers to the period June 2010 to May 2011.

and c) registering with the Dubai Chamber of Commerce and Industry.[1] In 2008/2009, the UAE had eased the requirements relating to documents needed for business registration, abolished the minimum capital requirement for establishing a business and removed the requirement that proof of deposit of capital be shown for registration.[2]

The UAE has also made obtaining credit easier.[3] In 2009/2010,[4] His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE, issued Decree no. 8, which formally established a federal Dubai-based credit bureau (Emcredit) under the supervision of the central bank.[5,6] The aim of this decree is to establish a credit reporting system that provides lenders with the necessary information to support sound lending decisions, and stability to the financial services industry. The decree also regulates the operations of Emcredit and information sharing in the Emirate pursuant to the criteria and instructions stipulated by the Dubai Department of Economic Development (DED) and to the instructions and guidelines issued by the UAE Central Bank. According to reports in several newspapers and websites, the decree was published in the Dubai Government's *Official Gazette* number 348.[7] Emcredit began functioning in February 2007 when it started to collect information on the repayment patterns of individual borrowers as well as firms, allowing better supervision of the debt level of banks and borrowers.

Measures have also been taken to make it easier to obtain construction permits. The UAE has shortened the time for delivering building permits in 2008/2009 by improving its online system for processing applications.[8]

Aspects of international trade have also been reformed. In 2009/2010, the UAE launched Dubai Customs' comprehensive new customs system, Mirsal 2, which streamlined document preparation and reduced trading time.[9] A year earlier, the UAE increased the capacity at the container terminal, eliminated the terminal handling receipt as a required document and increased trade finance products.[10]

To strengthen the protection of foreign investors' property rights and encourage foreign investments, the UAE Government had signed a total of 38 bilateral investment treaties (BITs) as of June 1, 2012.[11] Of the 38 treaties concluded, 14 were signed with OECD countries: Austria, Belgium and Luxembourg (one treaty), Czech Republic, Finland, France, Germany, Italy, Republic of Korea, , Poland, Portugal, Sweden, Switzerland, Turkey, and the United Kingdom. The UAE has also signed 48 double taxation

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[1] See The World Bank, *Doing Business 2012*, op. cit.
[2] See The World Bank, *Doing Business 2010*, op. cit.
[3] See The World Bank, *Doing Business 2011: Making a Difference for Entrepreneurs* (Washington, D.C.: World Bank, 2011) available at *http://www.doingbusiness.org/reports/global-reports/doing-business-2011*.
[4] The Decree was issued on May 3, 2010.
[5] See The World Bank, *Doing Business 2012*, op. cit.
[6] More information on Emcredit is available at http://www.emcredit.com/en/default.aspx.
[7] See for example "Decree No. 8 of 2010 concerning Emcredit published in Dubai government official gazette No. 348," July 3, 2010, available at http://www.ameinfo.com/236864.html and "Emcredit decree published in official gazette," July 03, 2010, available at http://www.emirates247.com/eb247/banking-finance/finance/emcredit-decree-published-in-official-gazette-2010-07-03-1.262275.
[8] See the World Bank, *Doing Business 2010*, op. cit.
[9] See the World Bank, *Doing Business 2011*, op. cit.
[10] See the World Bank, *Doing Business 2010*, op. cit.
[11] Data on BITs and DTTs signed are from UNCTAD's International Investment Agreements databases, available at http://unctad.org/en/pages/DIAE/International%20Investment%20Agreements%20(IIA)/IIA-Tools.aspx.

treaties (DTTs), with 46 countries, of which 18 treaties were signed with 17 OECD countries: Austria, Belgium, Canada, Czech Republic, Finland, France, Germany (two treaties), Greece, Ireland, Italy, Republic of Korea, Netherlands, New Zealand, Poland, Portugal, Switzerland, and Turkey.

The ranking by A.T. Kearney's Foreign Direct Investment Confidence Index (FDICI), which assesses the impact of economic, political and regulatory changes on FDI intentions based on responses by corporate executives of top companies around the world, placed the UAE 22nd among the countries ranked in 2005, eighth in 2007 and 11th in 2010, although the rank fell to 15th in 2012.[1] Despite the drop in the ranking, it is worth noting that Dubai and Abu Dhabi were the two most preferred destinations for future investments in the Middle East: 28% of respondents surveyed by A.T. Kearney for the 2010 ranking indicated that Dubai was their preferred destination, and 18% indicated a preference for Abu Dhabi.[2] This compares to 8% for Oman, 5% for Bahrain and 3% for Qatar.[3]

With its legal barriers and scope for further business reforms, the UAE has inward FDI potential with plenty of room for improving FDI performance. According to UNCTAD's Inward FDI Performance and Potential Indexes, the UAE has underperformed over the second half of the 2000-2010 decade. UNCTAD's Inward FDI Potential Index ranking suggests that the UAE's IFDI potential has improved during the past decade, with the ranking rising from 22 in 2000 to 14 in 2005, 3 in 2008 and 5 in 2009, but it slipped back to 19 in 2011.[4] The ranking by the Inward FDI Performance Index, however, took an inverted U-shape, improving during the first half of the 2000s from 137 in 2000 to 19 in 2005, but slipping back gradually during the second half of the 2000s until it reached 103 in 2010.[5] The recent crisis may have negatively affected inward FDI flows to the UAE relative to the world's more significantly than the UAE's GDP relative to that of the world, resulting in a deterioration of the Inward FDI Performance Index and the country's rank on it. FDI underperformance may be also attributed to restrictions limiting foreign ownership to not more than 49%, except in the free zones,[6] limits on sectors that foreign investors can invest in and the degree of protection of foreign investors' property rights.[7]

Conclusions

The UAE Government understands the strategic importance of IFDI in building a sustainable and diversified economy and is aware of the current barriers to FDI in the economy. In the more recent and farther-future stretching Abu Dhabi Vision 2030, compared to the UAE Vision 2021, the UAE plans to "build a sustainable and diversified, high value-added economy that is well integrated into the global

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[1] See the following reports by the A.T. Kearney Global Business Policy Council: *FDI Confidence Index 2005* (Alexandria, Virginia: ATK, 2006); *New Concerns in an Uncertain World: The 2007 A.T. Kearney FDI Confidence Index* (Vienna, Virginia: ATK, 2008); *Investing in a Rebound: The 2010 A.T. Kearney FDI Confidence Index* (Vienna, Virginia: ATK, 2010); and *Cautious Investors Feed a Tentative Recovery: The 2012 A.T. Kearney FDI Confidence Index* (Vienna, Virginia: ATK, 2012). All reports are available at http://www.atkearney.com/gbpc/foreign-direct-investment-confidence-index.

[2] See A.T. Kearney Global Business Policy Council, *Investing in a Rebound: The 2010 A.T. Kearney FDI Confidence Index*, op. cit. This is the last report in the series that surveyed respondents for their favorite investment destinations in the Middle East.

[3] Data are not available for Kuwait. Egypt, Jordan and Lebanon were the preferred destinations for 15%, 5%, and 3% of respondents, respectively.

[4] See UNCTAD, *World Investment Report 2011*, op. cit., annex table 28.

[5] UNCTAD, *World Investment Report 2011*, op. cit. In comparison, Qatar's Inward FDI Performance Index ranking consistently improved from 131 in 2000 to 19 in 2009, though it slipped back to 29 in 2010.

[6] World Trade Organization, "Trade Policy Review: United Arab Emirates," Report by the Secretariat, WT/TPR/S/162, March 20, 2006, available at http://www.wto.org/english/tratop_e/tpr_e/tp362_e.htm.

[7] Wasseem Mina, "United Arab Emirates trade policy review", *The World Economy*, vol. 31 (11) (2008), pp. 1443-1453.

economy and that provides more accessible and higher-value opportunities for all its citizens and residents."[1] The sustainability of the economy is viewed as being founded on economic diversification, which is envisaged in terms of not only broader economic sectors but also of a larger enterprise base. Building such a base rests heavily on encouraging small businesses and entrepreneurship and on strategically promoting FDI in the economy.

Additional readings

Mina, Wasseem Michel, "The institutional reforms debate and FDI flows to the MENA region: the "best" ensemble", *World Development*, vol. 40 (9) (2012), pp. 1798-1809.

Mina, Wasseem, "Do bilateral investment treaties encourage FDI in the GCC countries?", *African Review of Economics and Finance*, vol. 2 (1) (2010), pp. 1-29.

Mina, Wasseem, "External commitment mechanisms, institutions, and FDI in GCC countries", *Journal of International Financial Markets, Institutions, & Money*, vol. 19 (2) (2009), pp. 371-386.

Mina, Wasseem, "The location determinants of FDI in the GCC countries," *Journal of Multinational Financial Management*, vol. 17 (4) (2007), pp. 336-348.

Useful websites

Abu Dhabi Government Portal:
https://www.abudhabi.ae/egovPoolPortal_WAR/appmanager/ADeGP/Citizen?_nfpb=true&_pageLabel=p_citizen_homepage_hidenav&lang=en

Abu Dhabi Department of Economic Development:
http://www.adeconomy.ae/english/mediacenter/pages/newsitem.aspx?itemid=176

The American Business Council of Dubai & the Northern Emirates:
http://abcdubai.olasoft.com/site/home?nav=02

Dubai Government Portal:
http://dubai.ae/en/pages/default.aspx

The U.S.-UAE Business Council: http://www.usuaebusiness.org/index.cfm

U.S. Department of Commerce – Bureau of Economic Analysis: http://www.bea.gov/

[1] See, Government of Abu Dhabi, *The Abu Dhabi Economic Vision 2030* (Abu Dhabi: Abu Dhabi Government, 2008), p. 17, available at:
http://www.abudhabi.ae/egovPoolPortal_WAR/appmanager/ADeGP/Citizen?_nfpb=true&_pageLabel=p_citizen_homepage_hidenav&did=131654&lang=en.

Annex table 1. UAE: inward FDI stock, 2000-2011

(US$ billion and percent of GDP)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
UAE	1.1	2.3	2.3	6.6	16.6	27.5	40.3	54.5	68.2	72.2	77.7	85.4
	Percent of GDP											
	1.0	2.2	2.1	5.3	11.2	15.2	18.2	21.1	21.7	26.7	26.1	23.7
Memorandum:												
Comparator economies	(US$ billion)											
Saudi Arabia	17.6	17.3	17.7	18.5	20.5	33.5	50.7	73.5	110.2	142.3	170.5	186.9
Qatar	1.9	2.2	2.8	3.5	4.7	7.2	10.7	15.4	17.8	25.9	30.6	30.5
Oman	2.6	2.6	1.9	2.4	2.5	4.1	5.7	9.2	11.7	13.2	14.2	15
Bahrain	5.9	6	6.2	6.7	7.4	8.3	11.2	12.9	14.7	15	15.2	15.9
Kuwait	0.6	0.4	0.4	0.4	0.4	0.6	0.8	0.9	0.9	10.3	11.2	10.8

Source: UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics.

Annex table 2. UAE: inward FDI flows, 2000-2011

(US$ billion and percent of GDP)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
UAE	-0.5	1.2	0.1	4.3	10	10.9	12.8	14.2	13.7	4	5.5	7.7
	Percent of GDP											
	-0.5	1.1	0.1	3.4	6.8	6.0	5.8	5.5	4.4	1.5	1.8	2.1
Memorandum:												
Comparator economies	(US$ billion)											
Saudi Arabia	0.2	0.5	0.5	0.8	1.9	12.1	17.1	22.8	38.2	32.1	28.1	16.4
Qatar	0.3	0.3	0.6	0.6	1.2	2.5	3.5	4.7	3.8	8.1	5	-0.1
Oman	0.1	0	0.1	0	0.1	1.5	1.6	3.4	2.5	1.5	2	0.8
Bahrain	0.4	0.1	0.2	0.5	0.9	1	2.9	1.8	1.8	0.3	0.2	0.8
Kuwait	0	-0.2	0	-0.1	0	0.2	0.1	0.1	0	1.1	0.3	0.4

Source: UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics

Annex table 3. UAE: sectoral distribution of inward FDI stock, 2005-2009

(Percent of total and total in US$ billion)

	2005	2006	2007	2008	2009
Agriculture and fisheries	0.2	0.1	0.2	0.3	0.3
Extraction industries	1.6	1.9	4.0	4.8	5.1
Manufacturing industries	6.2	7.2	10.5	12.7	18.9
Electricity and water	1.3	1.6	6.2	7.4	4.1
Construction and building	15.0	16.4	24.7	29.8	42.9
Wholesale and retail trade	8.9	10.3	13.2	16.0	26.9
Hotels and restaurants	1.3	1.3	1.3	1.6	3.5
Transportation and communications	2.8	5.4	5.3	6.4	14.3
Financial institutions	16.0	17.1	26.5	32.0	44.9
Real estate	8.2	12.8	35.7	43.1	33.6
Other	0.4	0.5	0.4	0.5	1.3
Total	100.0	100.0	100.0	100.0	100.0
Total in US$ billion	16.7	20.2	34.6	41.8	52.9

Source: World Trade Organization, "Trade Policy Review: United Arab Emirates", Report by the Secretariat, WT/TPR/S/262, February 21, 2012, table I.3, available at www.wto.org/english/tratop_e/tp362_e.htm.

Annex table 4. UAE: geographical distribution of inward FDI flows from OECD economies, 2005-2010

(US$ million)

	2005	2006	2007	2008	2009	2010
Australia	..[c]	30.0	..	114.0	57.0	..
Austria	..	..	..	..	..	..
Belgium	-8.0	51.0	347.0	-253.0	-25.0	188.0
Canada	..	..	..	..	..	..
Chile	..	503.0	145.0	-101.0	224.0	1,192.0
Czech Republic	735.9	-2,548.0	-6.1	64.5	40.0	5.7
Denmark	253.0	871.0	1,187.0	1,231.0	-3,193.0	41.0
Estonia	..	2.2	0.3	0.2	..	..
Finland	41.0	-20.0	-3.0	14.0	7.0	6.0
France	100.0	229.0	175.0	799.0	28.0	158.0
Germany	-31.0	260.0	176.0	434.0	-149.0	16.0
Greece	2.4	-1.2	0.0	8.3	9.9	-2.3
Hungary	55.0	265.0	200.2	17.6	-103.2	1,152.5
Iceland	0.0[z]	0.0[z]	2.7	11.1	5.3	452.9
Ireland	..	..	..	..	..	..
Israel	..	..	..	..	..	..
Italy	8.0	18.0	57.0	74.5	54.9	1,222.2
Japan	2,100.0	-6,600.0	6,900.0	19,800.0	13,000.0	-49,300.0
Korea, Republic of	-	96.0	67.5	30.9	79.3	52.4
Luxembourg	0.7	2.8	352.8	12,631.7	-4.8	100.2
Mexico	..	..	..	..	..	..
Netherlands	-48.0	-127.0	196.0	..	..	..
New Zealand	..	..	..	..	-15.7	-1.0
Norway	..	..	..	66.0	764.0	585.0
Poland	..	..	..	..	..	9.2
Portugal	..	..	..	..	..	..
Slovak Republic	..	..	..	..	..	..

	2005	2006	2007	2008	2009	2010
Slovenia	..	0.4	3.9	..	5.0	3.0
Spain	..	..	..	..	..	..
Sweden	-56.0	12.0	..	739.0	-124.0	392.0
Switzerland	-47.4	178.2	-213.6	7,966.9	-808.5	-1,755.1
Turkey	1.0	1.0	13.0	30.0	17.0	10.0
United Kingdom	393	238.0	357.0	202.0	1254.0	231.0
United States	-64.0	1322.0	255.0	286.0	502.0	93.0

Source: The author, based on individual OECD countries' reporting on outward FDI flows, obtained from OECD, *StatExtracts*, available at http://stats.oecd.org/.

Note: '..' indicates that data are not available.

Annex table 5. UAE: selected top foreign MNEs with affiliates in the economy, 2011

Fortune 500 U.S. companies with affiliates in the UAE			
Abbott Laboratories	Eli Lilly & Company	Honeywell International	Occidental Petroleum
Boeing Company	ExxonMobil	HP	Oshkosh
Booz Allen Hamilton	Fedex	IBM	Pepsi
CH2M HILL	Fluor	J.P. Morgan Chase	Pfizer
Chevron	General Dynamics	Kellogg	Starbucks
Coca-Cola	General Electric	Lockheed Martin	3M
ConocoPhillips	General Mills	Mastercard	Tyson Foods
Dow Chemical	General Motors	McDonald's	UPS
DuPont	Goldman Sachs	Motorola	Visa
		NCR	Western Union
		Northrop Grumman	

Source: The author, based on information from the U.S.-UAE Business Council website, available at http://usuaebusiness.org, and the American Business Council of Dubai and the Northern Emirates website, available at http://www.abcdubai.com; and the *Fortune Magazine's* ranking of Fortune 500 companies for 2011, available at http://money.cnn.com/magazines/fortune/fortune500/2011/index.html.

Annex table 6. UAE: top M&A deals, by inward investing firm, 2008-2010

Year	Acquiring company	Home economy	Target company	Target industry	Shares acquired (%)	Estimated/announced transaction value (US$ million)
2010	Undisclosed acquirer	Unknown	The Ritz Carlton Hotel-Dubai	Hotels and motels	100	299.5
2010	Afren PLC	United Kingdom	Black Marlin Energy Holding Ltd	Investors	100	106.3
2010	Oaktree Capital Management LP	United States	Gulmar Offshore Middle East	Crude petroleum and natural gas	..	100
2010	Undisclosed Acquirer	Unknown	Ensco Offshore Co-Ensco 51	Crude petroleum and natural gas	100	95
2010	Zee Entertainment Enterprises	India	Taj Television Ltd Mauritius	Television broadcasting stations	45	44.1
2010	Renaissance Services SAOG	Oman	Al Wasita Emirates for Services and catering LLC	Eating and drinking places	100	15.2
2010	Warba Insurance Co KSC	Kuwait	Al Ghazal Logistics	Air transportation, nonscheduled	5	11
2010	Dice Holdings Inc	United States	WWW.com-Online Related Bus	Employment agencies	100	9
2010	Undisclosed Acquirer	Unknown	Dubai Pipe Factory Co LLC	Steel pipe and tubes	22.5	8.2
2010	HCL Infosystems Ltd	India	NTS Group	Business consulting services	60	6.5
2009	Khazanah Nasional Berhad	Malaysia	Fajr Capital Ltd	Investors	25	150
2009	Tradelabs PLC	United Kingdom	Real Value Consultancy FZE	Security and commodity brokers and services	100	130
2009	Securities Group Co KSCC	Kuwait	RAK Real Estate Ltd	Real estate investment trusts	9.9	91.8
2009	Huntsworth PLC	United Kingdom	Momentum International Ltd	Advertising	100	12
2009	Zylog Systems Ltd	India	Ducont FZ-LLC	Computer integrated systems design	100	7.5
2009	RDS(Technical) Ltd	Jersey	TTERS	Equipment rental and leasing	66.7	0.3
2009	Natural Bio Resources Berhad	Malaysia	Synergy Distribution FZC	Durable goods	51	0
2009	Jabbar Internet Group	Jordan	Ikoo	Computer related services	100	..
2009	Toll Holdings Ltd	Australia	Logistics Distribution System	Arrangement of transportation of freight and cargo	100	..

Year	Acquiring company	Home economy	Target company	Target industry	Shares acquired (%)	Estimated/announced transaction value (US$ million)
2009	Averda	Lebanon	Al Ghadeer Waste Collections	Air and water resource and solid waste management	100	..
2009	Mawarid Group	Saudi Arabia	Showtime Arabia	Cable and other pay television services	100	..
2009	SS8 Networks Inc	United States	OCI Mobile	Prepackaged Software	100	..
2009	QFIB	Qatar	ENPI Group	Plastics products	71.3	..
2009	International Assets Holding	United States	INTL Commodities DMCC	Commodity contracts brokers and dealers	50	..
2009	Undisclosed Acquirer	Unknown	OGEC Group	Engineering services	50	..
2009	Eaton Corp	United States	SEG Middle East Power	Switchgear, switchboard apparatus	49	..
2009	Franklin Resources Incorporated	United States	Algebra Capital Ltd	Investment advice	15	..
2009	Shore Capital Group PLC	United Kingdom	Full Circle Investments FZC	Investment advice	5	..
2008	Saudi Telecom Co	Saudi Arabia	Oger Telecom Ltd	Telephone communications, except radiotelephone	35	2,850.0
2008	Commercial Bank of Qatar QSC	Qatar	United Arab Bank	Banks	40	599.6
2008	QNB	Qatar	Commercial Bank International	Banks	23.8	302.4
2008	Eitzen Maritime Services ASA	Norway	Seven Seas Shipchandlers LLC	Repair shops and related services	100	112.4
2008	Thomas Cook UK Ltd	United Kingdom	TC Overseas Ltd	Travel agencies	100	70.5
2008	Diamant Co Ltd	Korea (Rep. of)	SMI Hyundai Corp Ltd UAE	Residential construction	100	57.8
2008	Al-Safat Investment Co KSCC	Kuwait	Orimix Concrete Products LLC	Ready-mixed concrete	60	49.8
2008	Undisclosed [acquirer	Unknown	United Printing & Publishing	Book publishing, or publishing and printing	40	31.3
2008	Hyder Consulting PLC	United Kingdom	Holford & Associates	Business consulting services	100	30.5
2008	Tarsus Group PLC	United Kingdom	Fairs & Exhibitions(1992)Ltd	Amusement and recreation services	100	22.2

Source: The author, based on Thomson Reuters, Thomson ONE Banker.
Note: '..' indicates that data are not available.

Annex table 7. UAE: main greenfield projects, by inward investing firm, 2008-2010

Date	Investing company	Home economy	Industry	Estimated/announced investment value (US$ million)
2010	National Real Estate Company	Kuwait	Construction	1,000.0
2010	CapitaLand	Singapore	Construction	484.1
2010	Giorgio Armani	Italy	Construction	484.1
2010	Realty Capital	United States	Construction	484.1
2010	Aegean Marine Petroleum Network	Greece	Transportation, communications and utilities	472.4
2010	Royal Dutch Shell Plc	Netherlands	Transportation, communications and utilities	472.4
2010	Metalloinvest	Russia	Manufacturing	320.0
2010	Abengoa	Spain	Construction	281.7
2010	Polo Group	India	Construction	217.9
2010	Accor	France	Construction	201.5
2010	Marriott International	United States	Construction	201.5
2010	TUI	Germany	Construction	201.5
2010	TUI	Germany	Construction	201.5
2010	Whitbread	United Kingdom	Construction	201.5
2009	Hydrogen Energy	United Kingdom	Transportation, communications and utilities	2,000.0
2009	National Ranges Company (Mayadeen)	Kuwait	Construction	952.8
2009	Crown Dilmun Development Company	Bahrain	Construction	500.0
2009	Smartlink	Jordan	Transportation, communications and utilities	500.0
2009	Hiranandani Developers	India	Construction	479.7
2009	Sika	Switzerland	Manufacturing	460.8
2009	EMC Corporation	United States	Transportation, communications and utilities	400.0
2009	Millenium Energy Industries (MEI)	Jordan	Transportation communications and utilities	243.1
2009	Fashion Hotels	Austria	Construction	206.9
2009	Hyatt International	United States	Construction	206.9

Date	Investing company	Home economy	Industry	Estimated/announced investment value (US$ million)
2009	The Grand Midwest Group	Ireland	Construction	206.9
2009	The Grand Midwest Group	Ireland	Construction	206.9
2009	Rezidor Hotel Group	Belgium	Construction	206.9
2009	Shangri-La Hotels and Resorts	Hong Kong (China)	Construction	206.9
2009	Starwood Hotels & Resorts	United States	Construction	206.9
2009	Whitbread	United Kingdom	Construction	206.9
2009	Whitbread	United Kingdom	Construction	206.9
2008	DSECO	Korea, Rep. of	Construction	4,002.0
2008	Sunland Group	Australia	Construction	2,200.0
2008	IT Holding	Italy	Construction	1,200.0
2008	Giga Group	Pakistan	Construction	735.0
2008	Merlin Entertainments Group	United Kingdom	Construction	641.6
2008	Anheuser-Busch Companies Inc	United States	Construction	641.6
2008	Hit Entertainment	United Kingdom	Construction	641.6
2008	Six Flags	United States	Construction	641.6
2008	Viacom	United States	Construction	641.6
2008	Yash Raj Films	India	Construction	641.6

Source: The author, based on fDi Intelligence, a service from the Financial Times Ltd.

Chapter 40 - Uruguay

Uruguary: Inward FDI and its policy context, 2012

Graciana del Castillo and Daniel García[*]

An analysis of trends in foreign direct investment (FDI) in Uruguay is difficult due to data problems. Nevertheless, balance-of-payments data reveal that inward FDI (IFDI) increased sharply in the second half of the decade 2002-2011 under analysis. IFDI flows relative to GDP rose annually on average to close to 6% in 2005-2011. This compares favorably with annual average flows of only 1% in the decade before the banking crisis and the sharp devaluation of the Uruguayan peso in 2002. At the time, investment in natural resources, including in farmland and real estate in Punta del Este, became very attractive. IFDI flows peaked at 7.5% of GDP in 2006, with the investment in the construction of the first cellulose plant in the country by a multinational enterprise (MNE) from Finland. The rapid increase in IFDI in the second half of the past decade took place amid high rates of economic growth (averaging about 6% a year on average), in combination with an adequate policy and regulatory framework and fiscal incentives to foreign investors. So far, Uruguay remains primarily a host country for FDI, with outward FDI (OFDI) that has been and continues to be insignificant.

Trends and developments

Changes in methodology and other data problems, resulting largely from the lack of a FDI registry, make a rigorous analysis of FDI trends in Uruguay difficult. Nevertheless, it is evident that FDI in the country has increased sharply since the 2002 crisis. In 2009-2011, the stock of FDI in Uruguay represented a third of the country's GDP on average, a figure slightly higher than that of Colombia but significantly lower than the one for Costa Rica, an economy of comparable size (annex table 1). This ratio is much higher than that for Argentina, Brazil and particularly Paraguay, other Mercosur members, but much smaller than those of Chile and Panama. Uruguay remains primarily a host rather than a home country for FDI, with an outward FDI stock of US$ 0.3 billion as compared with an IFDI stock of nearly US$ 17 billion in 2011 (annex table 1a). Data also reveal rapid IFDI growth and important changes in the sectoral and geographical distribution of IFDI flows since the country's 2002 crisis.

Country-level developments

As compared to other countries in the region, Uruguay failed to attract significant IFDI in the 1990s, even when the economy was booming, the Government's debt was blessed with an investment-grade rating,[1] the FDI regime offered important tax incentives, and the region was attracting large FDI flows into

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[1] Although having an investment-grade rating affects portfolio flows, it does not seem to be a factor in FDI decisions. In fact, IFDI grew spectacularly after the country lost its investment-grade rating in 2002. Only in April 2012 did S&P return Uruguay to investment grade, but the other rating agencies still have the country ranked lower.

manufacturing and services. This reflected in part the Government's decision not to privatize state-owned enterprises (SOEs), in contrast to other countries in the region. However, Costa Rica also maintained its SOEs and attracted much higher levels of FDI through aggressive and effective international investment promotion, particularly regarding export-oriented, high-tech and labor-intensive sectors.

Balance-of-payments data show that the volume and types of IFDI flows into Uruguay changed drastically following the 2002 crisis. During the 2009-2011 global crisis, Uruguay received higher IFDI flows relative to GDP on average than other comparable countries considered, except for Chile and Panama (annex table 2). IFDI flows rose steadily from US$ 0.3 billion in 2001 to US$ 2.3 billion in 2010 (or from 1.4% to 5.9% of GDP). While in terms of value IFDI flows fell only slightly in 2011, as a share of GDP they dropped below 5%, the lowest level since 2005. Nevertheless, after averaging 1.4% of GDP a year during the crisis of 2001-2002, IFDI flows jumped to over 5% in 2003-2011. In terms of types of flows, while reinvested earnings peaked at 80% of FDI inflows in 2001, in 2009-2011 it represented about 30%. On the other hand, the share of equity capital in annual IFDI flows increased from 12% to 82% during the period (annex table 2a).

The sectoral composition of IFDI has changed drastically since 2002 (annex table 3), as has the distribution of IFDI by main types of recipients (annex table 3a). In the 1990s and until 2001, a large part of inflows were directed toward service industries, particularly tourism and banking (including offshore banking). The share of financial services, which surpassed 61% in 2001, averaged only 9% in 2002-2010. Since the 2002 crisis, export-oriented IFDI in land- and natural resource-based sectors, together with related infrastructure, was predominant.

Investments involving acquisitions of land peaked at roughly half of all IFDI flows in 2003 and have fallen sharply since (annex table 3a). On the other hand, the share of non-financial enterprises in total IFDI which amounted to less than a quarter in 2001, represented about 55% on average in 2002-2010 and will likely remain high in 2011-2012. This is due to a large extent to the construction of a cellulose plant by the Finnish MNE Metsa-Botnia (with the investment estimated at $1.2 billion over 2005-2007, the largest IFDI project ever in the country by that time), and an even larger investment by Montes del Plata (Chile and Finland) in another plant estimated at $1.9 billion (which started construction in 2011).

IFDI in real estate[1] also grew rapidly since the crisis, representing close to 30% of total FDI inflows in 2007-2010 (annex table 3a), with investors increasingly coming from Europe, Brazil and the United States, rather than mostly from Argentina as in the past. Although investment in this sector does not create significant recurrent employment and may not contribute to technology transfers often associated with IFDI, it has been key, together with investments in luxury hotels, in developing the tourism industry and given it a privileged international status.

Important changes have taken place as well in the geographical composition of IFDI by source economy (annex table 4). With the 2002 crisis affecting all Mercosur countries, the share of fellow-Mercosur economies in Uruguay's total IFDI flows collapsed from 36% in 2001 to 7% in 2003; they only regained their pre-crisis share in 2007, although the share fell again in 2010. The share of Europe has fallen in recent years and is likely to continue to decrease.

The corporate players

[1] IFDI in real estate reflects only investment in the construction of new housing in Punta del Este, an international resort.

Annex table 5 lists a sample of foreign affiliates located in Uruguay, by industry. A ranking of the affiliates by assets or other indicators of size could not be done due to the lack of data. The affiliates are spread over a range of industries and activities, from natural-resources-based industries such as forestry, pulp and wood, mining and meat processing, to banking, information technology and tourism, as well as privately-held free trade zones (FTZs) in services.

Almost a third of all M&As in manufacturing in Latin America by foreign MNEs in 2009 took place in Uruguay, according to the Economic Commission for Latin America and the Caribbean (ECLAC).[1] Those transactions, however, had a negligible impact on Uruguay's IFDI since they represented deals involving incoming MNEs on the one hand and foreign affiliates already present on the other; hence they represented an exchange of local assets between foreign firms.

Annex table 6 lists M&As by foreign MNES in Uruguay during 2008-2011 with transaction values of more than US$ 50 million. In December 2008, Banco Santander Uruguay (BSU) became the largest foreign bank in the country, after its parent company in Spain acquired the local branch of ABN AMRO Bank N.V. of The Netherlands. In January 2011, BBVA Uruguay concluded the acquisition of the local subsidiary of Crédit Agricole S.A., becoming the second largest private bank in Uruguay by market share. In 2011, the largest acquisition of the year took place when the Scotiabank of Canada acquired the Nuevo Banco Comercial. When UPM-Kymmene, a forestry company from Finland, acquired the Uruguayan affiliate of Metsa-Botnia, also from Finland, for $2.4 billion in 2009, it represented the largest M&A transaction in Latin America during that year. Also in 2009, Arauco (Chile) and Stora Enso (Finland) established a joint venture, Montes del Plata, which acquired a large part of the investment of ENCE (Spain) in forestry and also a port.

Annex table 7 lists top greenfield FDI projects undertaken by foreign MNEs in Uruguay in 2010-2011, ranked by their reported investments. The largest is an investment undertaken jointly by Arauco (Chile) and Stora Enso (Finland) in a cellulose plant. Others include projects in a number of manufacturing and service activities by MNEs from Europe, Japan, Latin America, and the United States. Some are by companies that have been in Uruguay for a long time, such as IBM.

Effects of the recent global crises

Uruguay's economy weathered the 2008-2009 sub-prime financial crisis in the Unite States and its aftermath relatively well, managing to grow at 2.4% in 2009, 8.9% in 2010 and 5.7% in 2011, despite the worsening crisis in Europe in the second half of the year. In 2012, the economy is expected to grow about 4% with the continuing crisis in Europe and its repercussions affecting exports, tourism and capital flows. FDI, however, will remain strong as a result of the construction of the new cellulose plant mentioned earlier, and this will allow the economy to continue growing at a reasonable rate, albeit significantly lower than in the recent past. For rapid growth to be sustainable in light of the European crisis, deceleration in China and India which is lowering the price of commodities, and slower growth as well as increased protectionism in Brazil and Argentina, the Government will have to engage in a dynamic process in which investments—both domestic and foreign—in infrastructure, innovation, education, employment generation, and public security would reinforce each other. In this regard, a new public-private partnership law (see below) could

[1] See ECLAC, *Foreign Direct Investment in Latin America and the Caribbean, 2009* (Santiago, Chile: ECLAC, 2009), table I.6, p. 33, available at: http://www.eclac.org/publicaciones/xml/2/39422/2010-414-LIEI-Book_WEB.pdf.

play an important role in attracting investment into infrastructure, which is critical for improving productivity and the potential growth rates for the economy.

The policy scene

> Uruguay provides a basic legal and institutional framework favorable to foreign investment and has a number of competitive advantages as a location for FDI vis-à-vis neighboring countries.[1] A long-standing tradition of political and social stability, a solid legal and property rights framework and respect for contracts over the years has made Uruguay a country attractive to FDI, despite its small domestic market, the unfocused and often-chaotic way in which export-oriented IFDI has been promoted in the past and the bureaucratic red tape that investors still have to face once foreign firms are established in the country.
>
> Uruguay's competitive advantages also include its strategic location between Argentina and Brazil; solid institutions, low levels of corruption, high levels of transparency, and better security conditions as compared to its neighbors; adequate infrastructure, and levels of education comparable to or higher than those of other countries in Latin America.[2] Other attractive factors include an abundant supply of qualified professionals; productive agricultural and grazing land, other natural resources (including untapped reserves of iron ore of high purity), an attractive coastline, and good fishing conditions. The country also offers excellent living conditions and possibilities for amenities and leisure as a result of its proximity to Buenos Aires and Rio de Janeiro, as well as excellent schools for expatriates' children.

A natural and well-located port, a new airport that started operations in 2010, good roads, and competitive facilities have made Uruguay a hub for transportation and logistics in the Southern-Cone region. Electricity, mostly from renewable resources, and drinkable water are widely available in most of the territory. The country ranks well on a wide number of indices related to business climate issues of concern to investors, particularly in relation to other countries in the region.[3]

With regard to the legal framework, foreign investors receive equal treatment with domestic ones, IFDI does not require previous registration and the Government provides a large number of incentives for investment. There are no capital or exchange controls and contracts can be made and enforced in any foreign currency. There are no limitations on financial and commercial activities or on buying or selling properties. Although foreigners are allowed to purchase land or other real estate, controls on money laundering have been strengthened.

The basic investment framework was established in 1974 under the Industrial Promotion Law (Law

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[1] See Uruguay XXI, The Investment and Export Promotion Institute, Montevideo, Uruguay, at: http://www.uruguayxxi.gub.uy/innovaportal/file/821/1/invest_in_uruguay_-_uruguay_xxi_-_oct_2011.pdf.

[2] Despite this favorable comparison, the education gap in Uruguay is large, including in technical education geared toward the needs of the private sector. The gap is also large between private and public education, a main factor impeding social progress and justice.

[3] For information on how the country ranks on different indices, see Uruguay XXI (the export and foreign investment promotion office), at: http://aplicaciones.uruguayxxi.gub.uy/innovaportal/file/821/1/invest_in_uruguay_-_uruguay_xxi_-_feb_2012.pdf. For a detailed analysis of business climate issues (in Spanish only), see Graciana del Castillo, "El Clima de Negocios en la República Oriental del Uruguay", in Eduardo Fernández-Arias and Silvia Sagari, eds., *Una Nueva Era de Crecimiento Económico en Uruguay* (Washington: Inter-American Development Bank, 2006).

14.178), which promotes investment in industries of national interest (tourism, fishing, certain manufacturing industries) and the Foreign Investment Law (Law 14.179), which establishes a parallel set of preferences for foreign investors. The latter law constitutes the legal framework regulating foreign investors. In 1998, a new Investment Promotion and Protection Law (Law 16.906) declared that the promotion and protection of national and foreign investment was in the national interest. The law is regulated by Decree 59/998, which was subsequently supplemented by several other decrees.

Since August 2011, a new Public-Private Partnership Law (Law 18.786) establishes the regulatory framework for public-private contracts for the building of infrastructure and the provision of related services.

Historically, Uruguay has maintained a number of state monopolies in which direct foreign equity participation is prohibited. Some industries have been de-monopolized (for example, telecommunications in 2001), although others remain monopolies (including importation and refining of petroleum products, electricity and water supply). Some of these industries, such as the generation of electricity, however, have segments opened to private players. There are also important investment projects in the pipeline, particularly in the generation of electricity through wind farms.

Income is taxed on a territorial basis (i.e., only on activities carried out in the national territory or on assets utilized in that territory). However, starting January 2011 the income tax applies also to income from certain assets located abroad, but only to the extent that those assets and income are held or obtained by individuals resident in Uruguay.

Uruguay's free trade zone (FTZ) regime (Law No. 15.921) was enacted in 1987. Under this regime, foreign and national investors enjoy a stable policy framework and are able to benefit from substantial tax and tariff incentives. Firms operating within FTZs are exempted from all taxes currently in effect, or that may be created in the future, for the full term of their contracts. Furthermore, Montevideo is the only free port on South America's Atlantic coast (Law No. 16.246 of 1992).

Since 2004, the Government has allowed large investors such as Metsa-Botnia to construct and operate their plants from their own FTZs. Zonamérica, the largest private FTZ in services, has been operating in the country since 1990. FTZ survey data for 2009 indicate that these zones generated exports of about $1.5 billion (roughly 4.5% of GDP) and direct employment of 12,000 to 15,000 (of which Zonamérica claims about 8,000). There are two new private FTZs in services, the Aguada Park (2010) and the World Trade Center (2011). Mega Pharma, a consortium of Latin American pharmaceutical companies, with German capital, invested in a Science Park that was inaugurated in 2011 and operates as a FTZ for the industry.

Uruguay has signed a number of double taxation treaties, treaties for the promotion and protection of investment and other such treaties.[1]

Conclusions

Uruguay has stopped being the marginal player in attracting FDI flows that it was in the past. It has attracted large IFDI into land, forestry and tourism; if opposition is overcome, the country may start

[1] See Pricewaterhouse Coopers, *Doing Business in Uruguay,* for information on these treaties and related investment issues; available at: http://www.pwc.com.uy/en/doing-business/index.jhtml.

attracting FDI into mining iron ore in the near future. In 2011, however, a $3 billion project proposed by Aratirí (representing 7.5% of 2010 GDP) was put on hold because of strong opposition to open-pit mining in the country, with the Government considering putting the project up to a referendum. At the same time, Uruguay is vulnerable to a deceleration in global economic growth and rising protectionism within Mercosur that will affect its exports and natural resource-based IFDI, as it will investment in land and real estate in Punta del Este. This reinforces Uruguay's need to promote seriously the type of IFDI in manufacturing and services that is high-tech and labor- and skill-intensive and to address its shortcomings in infrastructure, including education. This is essential to create better and well-paid jobs and to expand, diversify, add value, and increase competitiveness of its exports of goods and services. Without this, the country will fail to become more dynamic and inclusive.

Additional readings

Bittencourt, Gustavo, Gastón Carracelas, Andrea Doneschi, and Nicolás Reig Lorenzi, "Tendencias recientes de la inversión extranjera directa en Uruguay" (Montevideo: Facultad de Ciencias Sociales, Universidad de la República, 2009), mimeo, available at: http://www.bcu.gub.uy/autoriza/peiees/jor/2009/iees03j3421009.pdf.

del Castillo, Graciana, "Promotion of export-oriented foreign direct investment in Uruguay." Study prepared for the Inter-American Development Bank (New York: Macroeconomics Advisory Group, 2003), available at: http://www.macroadvisory.com/gdc_publications.html.

Useful websites

Central Bank of Uruguay, data on FDI and GDP available at: http://www.bcu.gub.uy/Estadisticas-e-Indicadores/Paginas/Default.aspx.

Central Bank of Uruguay, data on FDI stocks available at: http://www.bcu.gub.uy/Paginas/Default.aspx.

PricewaterhouseCoopers (PwC), *Doing Business in Uruguay*: available at: http://www.pwc.com/uy/es/doing-business/assets/doing-business-10.pdf.

US Embassy, Montevideo, Uruguay, "Uruguay – Investment Climate Statement 2010," available at: http://montevideo.usembassy.gov/usaweb/paginas/Pdf/Investment_Climate_2010.pdf.

Uruguay XXI, available at: http://www.uruguayxxi.gub.uy.

Statistical annex

Annex table 1. Uruguay: inward FDI stock, 2002-2011 [a]

(US$ billion and per cent of GDP [b])

Economy	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Uruguay	1.4 (10.5)	1.8 (14.9)	2.1 (15.4)	2.8 (16.3)	3.9 (19.9)	6.4 (27.1)	8.0 (26.3)	10.7 (35.0)	12.6 (31.9)	14.9 (31.7)
Memorandum: comparator economies [c]										
Brazil	100.9 (20.2)	132.8 (23.9)	161.3 (24.2)	181.3 (20.4)	220.6 (20.2)	309.7 (22.5)	287.7 (17.4)	400.8 (25.0)	472.6 (22.6)	669.7 (26.9)
Chile	42.3 (62.9)	54.0 (73.1)	60.5 (63.3)	74.2 (62.8)	80.3 (54.7)	99.4 (60.5)	99.4 (58.2)	121.4 (75.4)	139.5 (68.6)	158.1 (63.6)
Colombia	18.0 (18.4)	20.5 (21.7)	24.8 (20.9)	36.9 (25.2)	45.2 (28.1)	56.5 (26.8)	67.3 (28.7)	75.1 (32.4)	82.4 (28.9)	95.7 (29.1)
Argentina	43.1 (42.0)	48.3 37.3)	52.5 (34.3)	55.1 (30.1)	60.3 (28.2)	67.6 (25.8)	77.1 (23.5)	79.9 (25.8)	86.7 (23.4)	95.1 (21.2)
Panama	7.4 (60.4)	8.2 (63.6)	9.3 (65.2)	10.2 (65.7)	12.7 (74.2)	14.5 (73.3)	16.9 (73.5)	18.7 77.6)	20.9 (78.2)	23.2 (75.8)
Costa Rica	3.7 (22.2)	4.3 (24.3)	4.6 (24.9)	5.4 (27.1)	6.8 (30.1)	8.8 (33.4)	10.9 (36.5)	12.4 (42.4)	13.5 (37.7)	16.3 (39.9)
Paraguay	0.9 (17.7)	1.1 (19.6)	1.5 (16.6)	1.3 (17.1)	1.8 (19.7)	2.2 (18.2)	2.4 (14.2)	2.7 (18.7)	3.1 (16.8)	3.4 (14.6)

Source: Central Bank of Uruguay (BCU), UNCTAD, IMF, and authors' own calculations.

[a] BCU data on FDI stock (net investment position) available at: http://www.bcu.gub.uy/Estadisticas-e-Indicadores/Paginas/Default.aspx. BCU reports stock data starting in 2002 only. In analyzing the stock of IFDI in relation to that of other countries it should be noted that, starting in 2007, BCU data on FDI stock include accumulated flows in real estate since 1992 and in land since 2003. In addition to that methodological change, the end-of-period exchange rate almost doubled in value in 2002.
[b] Figures within brackets show inward FDI stock as a percentage of GDP. IMF WEO (April 2012) data on GDP available at: http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/download.aspx.
[c] UNCTAD data available at: http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=89.

Annex table 1a. Uruguay: Inward and outward FDI stock, 2002-2011 [a]

(US$ billion and per cent of GDP [b])

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Inward FDI [c]	1.4 (10.5)	1.8 (14.9)	2.1 (15.4)	2.8 (16.3)	3.9 (19.9)	6.4 (27.1)	8.0 (26.3)	10.7 (35.0)	12.6 (31.9)	14.9 (31.7)
Outward FDI	0.1 (0.8)	0.1 (0.9)	0.1 (0.9)	0.2 (0.9)	0.2 (1.1)	0.3 (1.4)	0.3 (0.9)	0.3 (1.3)	0.3 (0.9)	0.3 (0.7)

Source: Central Bank of Uruguay (BCU), IMF, and authors' own calculations.

[a] BCU data on FDI stock available at: http://www.bcu.gub.uy/Estadisticas-e-Indicadores/Paginas/Default.aspx. BCU reports stock data starting in 2002 only.
[b] Figures within brackets show inward FDI stock as a percentage of GDP. IMF WEO (April 2012) data on GDP available at: http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/download.aspx.
[c] Starting in 2007, BCU data on stock of IFDI include accumulated flows in real estate since 1992 and in land since 2003. This, together with a large devaluation in 2002, makes an analysis of stocks over time difficult.

Annex table 2. Uruguay: inward FDI flows, 2001-2010 [a]

(US$ billion and per cent of GDP [b])

Economy	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
US$ million											
Uruguay	0.3	0.2	0.4	0.3	0.8	1.5	1.3	2.1	1.6	2.3	2.2
Memorandum: comparator economies [c]											
Brazil	22.5	16.6	10.1	18.1	15.1	18.8	34.6	45.1	26.0	48.4	66.7
Chile	4.2	2.6	4.3	7.2	7.0	7.3	12.5	15.1	12.9	15.1	17.3
Colombia	2.5	2.1	1.7	3.0	10.3	6.7	9.0	10.6	7.1	6.8	13.2
Argentina	2.1	2.2	1.7	4.1	5.3	5.5	6.5	9.7	4.0	6.3	7.2
Panama	0.4	0.1	0.8	1.0	1.0	2.5	1.8	2.2	1.8	2.4	2.8
Costa Rica	0.5	0.7	0.6	0.8	0.8	1.5	1.9	2.1	1.3	1.4	2.1
Paraguay	0.1	0.0	0.0	0.0	0.1	0.2	0.2	0.3	0.2	0.4	0.3
Inward FDI flows as percentage of GDP											
Uruguay	1.4	1.4	3.5	2.4	4.9	7.5	5.5	6.7	5.1	5.7	4.7
Memorandum: comparator economies											
Brazil	4.1	3.3	1.8	2.7	1.7	1.7	2.5	2.7	1.6	2.3	2.7
Chile	6.1	3.8	5.8	7.5	5.9	5.0	7.6	8.9	8.0	7.4	7.0
Colombia	2.6	2.2	1.8	2.5	7.0	4.1	4.3	4.5	3.1	2.4	4.0.
Argentina	0.8	2.1	1.3	2.7	2.9	2.6	2.5	3.0	1.3	1.7	1.6
Panama	3.4	0.6	6.0	7.1	6.2	14.6	9.0	9.5	7.4	8.8	9.2
Costa Rica	2.8	3.9	3.3	4.3	4.3	6.5	7.2	7.0	4.6	3.9	5.0
Paraguay	1.3	0.2	0.5	0.5	0.7	1.9	1.5	1.9	1.5	2.3	1.4

Source: Central Bank of Uruguay (BCU), UNCTAD, IMF, and authors' own calculations.

[a] BCU data on FDI available at: http://www.bcu.gub.uy/Estadisticas-e-Indicadores/Paginas/Default.aspx.
[b] Figures within brackets show inward FDI stock as a percentage of GDP. IMF WEO (April 2012) data on GDP available at: http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/download.aspx.
[b] UNCTAD data on inward FDI flows to comparator countries is available at: http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=88.

Annex table 2a. Uruguay: inward FDI flows, by type of flow, 2001-2011[a]

(US$ million and per cent of total [b])

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Inward FDI, total	296.8 (100.0)	193.7 (100.0)	416.4 (100.0)	332.4 (100.0)	847.4 (100.0)	1,493.5 (100.0)	1,329.5 (100.0)	2,105.7 (100.0)	1,528.6 (100.0)	2,289.1 (100.0)	2,191.2 (100.0)
Equity capital	36.4 (12.3)	27.2 (14.0)	222.8 (53.5)	138.7 (41.7)	231.0 (27.3)	576.3 (38.6)	550.5 (41.4)	1,011.6 (48.0)	993.6 (65.0)	1,625.3 (70.6)	1,793.7 (81.9)
Reinvested earnings	240.4 (81,0)	62.8 (32.5)	172.9 (41.5)	142.1 (42.7)	132.6 (15.7)	218.6 (14.6)	331.3 (24.9)	553.8 (26.3)	458.6 (30.0)	663.8. (28.9)	666.2 (30.4)
Inter-company loans [c]	20.0 (6.7)	103.8 (53.6)	20.7 (5.0)	51.6 (15.5)	483.8 (57.1)	698.5 (46.8)	447.7 (33.7)	540.3 (25.7)	76.4 (5.0)	22.9. (0.1)	-268.7* (-12.3)
Memorandum: GDP and exchange rates [d]											
GDP (US$ billion)	20.9	13.4	12.1	13.7	17.5	19.6	23.4	30.4	30.5	39.4.	46.9
Real GDP growth (%)	-3.8	-7.7	0.8	5.0	7.5	4.3	6.5	7.2	2.4	8.9	5.7
Exchange rate [e]	13.3	21.6	28.2	28.6	24.3	24.1	23.5	20.9	22.6	20.1	19.2
Inward FDI (% of GDP)	1.4	1.4	3.5	2.4	4.9	7.5	5.5	6.7	5.1	5.7	4.7

Source: Central Bank of Uruguay (BCU), IMF, and authors' own calculations.

[a] BCU balance of payments data on FDI are available at: http://www.bcu.gub.uy/Estadisticas-e-Indicadores/Paginas/Default.aspx.
[b] Figures within brackets show percentage share in total IFDI.
[c] This line is now reported as "other capital".
[d] IMF WEO (April 2012) data on US$ GDP are available at: http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/download.aspx and average exchange rate data was calculated using the same data bank. Data on GDP real growth calculated using BCU data on GDP at constant 2005 prices available at: http://www.bcu.gub.uy/Estadisticas-e-Indicadores/Cuentas%20Nacionales/1trim2012/presentacion05.htm.
[e] Uruguayan pesos per U.S. dollar.

Annex table 3. Uruguay: sectoral distribution of inward FDI flows, 2001-2010 [a]

(US$ million and per cent of total [b])

Sector/industry	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
US$ million										
All sectors/ Industries	296.8	193.7	416.4	332.4	847.4	1,493.5	1,329.5	2,105.7	1,528.6	2,289.1
Primary	-15.1	47.6	198.3	141.8	263.6	327.8	338.5	604.0	253.1	329.0
Agriculture and livestock	-1.4	1.1	205.5	104.9	115.4	116.5	158.1	421.6	168.3	261.9
Forestry	-13.8	46.5	-7.2	36.8	148.1	185.7	176.9	179.3	84.7	52.5
Mining	0.0	0.0	0.0	0.0	0.0	25.5	3.5	3.0	0.0	14.6
Secondary	48.7	81.1	50.1	59.8	144.3	369.1	656.1	873.9	683.0	745.5
Manufacturing	12.1	54.0	39.6	23.0	26.2	95.8	262.6	261.2	254.3	130.5
Food, beverages, tobacco	-6.2	3.7	15.0	1.2	7.5	15.3	100.4	177.9	160.5	59.2
Textiles, leather, wood	-0.1	1.3	4.7	-2.5	6.7	5.3	22.1	9.9	0.0	14.0
Paper and printing	-1.1	1.1	3.5	-0.4	0.1	0.0	0.0	7.3	2.9	9.1
Chemicals, rubber, plastics	20.8	45.0	10.8	20.4	13.5	66.5	129.1	47.0	43.7	12.2
Metals and machines	-1.2	3.0	5.5	4.3	-1.6	8.7	11.0	19.1	47.2	36.0
Construction	36.5	27.1	10.5	36.7	118.1	273.3	393.5	612.7	441.2	615.0
Tertiary	244.9	118.1	137.7	106.7	130.7	317.2	192.5	336.6	480.1	378.6
Financial services	181.5	38.1	56.7	53.3	31.0	212.3	23.0	122.3	54.1	92.9
Non-financial Services	63.3	80.0	81.0	53.4	99.7	104.9	169.5	214.3	426.1	285.7
Electricity, gas and water	0.0	0.0	-4.9	-0.5	-3.0	4.0	16.8	14.9	5.1	19.6
Wholesale and retail trade	1.3	22.1	16.7	9.5	22.2	-3.1	41.5	87.5	269.2	-24.8
Hotels and restaurants	54.9	54.3	55.0	30.6	28.0	56.9	44.9	46.6	31.6	205.9
Transport and other [c]	7.1	3.6	14.3	13.7	52.6	47.1	66.4	65.3	120.1	84.9
Other [d]	18.4	-53.1	30.3	24.2	308.8	479.4	142.4	291.3	118.9	835.6
In percent of total										
All sectors/ Industries	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Primary	-5.1	24.6	47.6	42.7	31.1	21.9	25.5	28.7	16.6	14.4
Agriculture and livestock	-0.5	0.6	49.3	31.6	13.6	7.8	11.9	20.0	11.0	11.4

Forestry	-4.6	24.0	-1.7	11.1	17.5	12.4	13.3	8.5	5.3	2.3
Mining	0.0	0.0	0.0	0.0	0.0	1.7	0.3	0.1	0.0	0.6
Secondary	16.4	41.9	12.0	18.0	17.0	24.7	49.4	41.5	44.7	32.6
Manufacturing	4.1	27.9	9.5	6.9	3.1	6.4	19.8	12.4	15.8	5.7
Food, beverages, tobacco	-2.1	1.9	3.6	0.4	0.9	1.0	7.6	8.4	10.1	2.6
Textiles, leather, wood	0.0	0.7	1.1	-0.7	0.8	0.4	1.7	0.5	0.0	0.6
Paper and printing	-0.4	0.6	0.8	-0.1	0.0	0.0	0.0	0.3	0.2	0.4
Chemicals, rubber, plastics	7.0	23.2	2.6	6.1	1.6	4.5	9.7	2.2	2.9	0.5
Metals and machines	-0.4	1.5	1.3	1.3	-0.2	0.6	0.8	0.9	3.1	1.6
Construction	12.3	14.0	2.5	11.0	13.9	18.3	29.6	29.1	31.7	26.9
Tertiary	82.5	61.0	33.1	32.1	15.4	21.2	14.5	16.0	31.4	16.5
Financial services	61.2	19.7	13.6	16.0	3.7	14.2	1.7	5.8	3.5	4.1
Non-financial Services	21.3	41.3	19.5	16.1	11.8	7.0	12.8	10.2	27.9	12.5
Electricity, gas and water	0.0	0.0	-1.2	-0.2	-0.4	0.3	1.3	0.7	0.3	0.9
Wholesale and retail trade	0.4	11.4	4.0	2.9	2.6	-0.2	3.1	4.2	17.6	-1.1
Hotels and restaurants	18.5	28.0	13.2	9.2	3.3	3.8	3.4	2.2	2.1	9.0
Transport and other [c]	2.4	1.9	3.4	4.1	6.2	3.2	5.0	3.1	7.5	3.7
Other [d]	6.2	-27.4	7.3	7.3	36.4	32.1	10.7	13.8	7.3	36.5

Source: Central Bank of Uruguay (BCU) and authors' own calculations.

[a] BCU data on FDI are available at: http://www.bcu.gub.uy/Estadisticas-e-Indicadores/Paginas/Default.aspx and they are based on surveys.
[b] Figures within brackets show percentage share in total IFDI.
[c] Includes storage and communications.
[d] Includes statistical discrepancies.

Annex table 3a. Uruguay: sectoral distribution of inward FDI flows, by main types of recipients, 2001-2010 [a]

(US$ million and per cent of total [b])

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
US$ million										
All recipients	296.8	193.7	416.4	332.4	847.4	1,493.5	1,329.5	2,105.7	1,528.6	2,289.1
Enterprises	260.4	166.6	193.6	193.6	616.4	1,103.7	779.0	1,094.1	957.0	1,458.0
Banks	188.4	35.7	61.6	53.0	31.2	210.2	14.5	111.7	40.5	76.2
Non-financial	72.0	130.9	131.9	140.6	585.3	893.5	764.5	982.4	916.5	1,381.8
Real estate [c]	36.4	27.2	18.2	34.3	115.6	273.9	393.0	607.6	433.9	599.5
Land [d]	0.0	0.0	204.7	104.4	115.4	115.9	157.5	404.0	137.7	231.6
In percent of total										
All recipients	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Enterprises	87.7	86.0	46.5	58.3	72.7	73.9	58.6	52.0	62.6	63.7
Banks	63.5	18.4	14.8	15.9	3.7	14.1	1.1	5.3	2.5	3.3
Non-financial	24.3	67.5	31.7	42.3	69.1	59.8	57.5	46.7	60.0	60.4
Real estate [c]	12.3	14.0	4.4	10.3	13.6	18.3	29.6	28.9	28.4	26.2
Land [d]	0.0	0.0	49.2	31.4	13.6	7.8	11.8	19.2	9.0	10.1

Source: Central Bank of Uruguay (BCU) and authors' own calculations.

[a] BCU data on FDI are available at: http://www.bcu.gub.uy/Estadisticas-e-Indicadores/Paginas/Default.aspx and they are based on surveys.
[b] Figures within brackets show percentage share in total IFDI.
[c] Data on IFDI in real estate reflect only investments in new housing in Punta del Este, an international resort.
[d] BCU reports data on IFDI in land starting only in 2003.

Annex table 4. Uruguay: geographical distribution of inward FDI flows, 2001-2010 [a]

(US$ million and per cent of total [b])

Economy/region	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
US$ million										
World	296.8	193.7	416.4	332.4	847.4	1,493.5	1,329.5	2,105.7	1,528.6	2,289.1
Developed economies										
Europe	37.5	113.2	97.2	84.5	268.8	111.1	327.6	376.4	271.1	329.6
Spain	-6.1	40.0	-0.1	38.3	202.9	81.5	153.5	232.2	54.7	75.2
France	-0.7	32.5	43.8	12.1	9.8	6.9	25.3	17.2	23.4	35.4
United Kingdom	2.4	4.1	38.3	20.2	21.7	32.9	66.3	82.1	14.1	134.6
Belgium	0.0	0.0	0.0	0.0	0.0	1.0	46.0	-2.3	53.1	54.9
United States	76.7	13.9	-2.8	1.6	35.4	66.7	42.5	143.5	167.2	-36.3
Developing economies										
Mercosur	106.6	41.1	30.8	42.4	131.0	348.2	473.6	748.1	568.2	721.6
Argentina	102.8	36.9	31.2	28.4	105.6	281.9	372.6	533.9	432.3	587.8
Brazil	2.2	2.9	-1.2	12.4	20.4	55.8	85.5	183.2	109.6	108.2
Paraguay	1.6	1.2	0.8	1.5	5.1	10.6	15.5	31.0	26.3	25.6
OIC [a]	61.9	54.0	21.1	21.8	14.7	-9.6	41.2	105.8	299.7	68.6
Bahamas	60.3	54.0	17.9	16.9	11.7	-12.9	12.2	34.1	44.1	35.9
Bermuda	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.2	223.5	-59.4
Chile	0.0	0.0	0.0	0.0	0.0	3.6	21.3	3.4	-42.9	12.4
ONIC [b]	14.1	-28.4	270.1	182.1	397.4	977.0	441.0	704.7	216.5	1205.6
In percent										
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Developed economies										
Europe	12.7	58.4	23.3	25.4	31.7	7.4	24.6	17.9	18.1	14.4
Spain	-2.1	20.7	0.0	11.5	23.9	5.5	11.5	11.0	3.6	3.3
France	-0.3	16.8	10.5	3.6	1.2	0.5	1.9	0.8	1.5	1.5
United Kingdom	0.8	2.1	9.2	6.1	2.6	2.2	5.0	3.9	0.9	5.9
Belgium	0.0	0.0	0.0	0.0	0.0	0.1	3.5	-0.1	3.5	2.4
United States	25.8	7.2	-0.7	0.5	4.2	4.5	3.2	6.8	10.9	-1.6
Developing economies										
Mercosur	35.9	21.2	7.4	12.8	15.5	23.2	35.6	35.5	37.2	31.5
Argentina	34.6	19.1	7.5	8.6	12.5	18.9	28.0	25.4	28.3	25.7
Brazil	0.7	1.5	-0.3	3.7	2.4	3.7	6.4	8.7	7.2	4.7
Paraguay	0.5	0.6	0.2	0.5	0.6	0.7	1.2	1.5	1.7	1.1
OIC [c]	20.8	27.9	5.1	6.6	1.7	-0.6	3.1	5.0	19.6	3.0
Bahamas	20.3	27.9	4.3	5.1	1.4	-0.9	0.9	1.6	2.9	1.6
Bermuda	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	14.6	-2.6
Chile	0.0	0.0	0.0	0.0	0.0	0.2	1.6	0.2	-2.8	0.5
ONIC [d]	4.8	-14.7	64.9	54.8	46.9	65.4	33.2	33.5	14.2	52.7

Source: Central Bank of Uruguay (BCU) and authors' own calculations.

[a] BCU data on FDI are available at: http://www.bcu.gub.uy/Estadisticas-e-Indicadores/Paginas/Default.aspx and they are based on surveys.
[b] Figures within brackets show percentage share in total IFDI.

[c] Other identified countries (OIC).
[d] Other non-identified countries (ONIC) include countries with foreign companies that are unique in their respective countries, the identity of which is not revealed while reporting their FDI in Uruguay so as to respect statistical confidentiality.

Annex table 5. Uruguay: selected foreign affiliates in the economy, by industry, 2011 [a]

Name	Home economy	Industry
UPM-Kymmene (ex Botnia)	Finland	Pulp mills
Montes del Plata (Arauco-StoraEnso)	Chile/Finland	Pulp mills
Weyerhaeuser	United States	Forestry and wood
GMO Renewable Resources	New Zealand	Forestry and wood
RMK Timberland Group	United States	Forestry and wood
Forestal Atlántico Sur	Chile/Uruguay	Forestry and wood
Sierras Calmas (ex Ence)	Spain	Forestry and wood
Kemira	Finland	Chemical
Santander Bank	Spain	Banking
BBVA	Spain	Banking
Citibank	United States	Banking
Scotiabank	Canada	Banking
Itaú	Brazil	Banking
Discount Bank	United States	Banking
Lloyds	United Kingdom	Banking
HSBC	United Kingdom	Banking
Heritage	Switzerland	Banking
Merrill Lynch	United States	Financial services
América Móvil	Mexico	Telecommunications
Telefónica	Spain	Telecommunications
Verifone	United States	Telecommunications
Sabre Holdings	United States	Call centers
Gol	Brazil	Call centers
The Coca Cola Company	United States	Beverages
Pepsico	United States	Beverages
IBM	United States	IT
Tata Consulting	India	IT
Microsoft	United States	IT
Chery	China	Automobiles
Zonamérica	Belgium	FTZ in services
Aguada Park	United States/Argentina/Denmark	FTZ in services
World Trade Center	Argentina [b]	FTZ in services
Mega Pharma	Germany	FTZ in pharmaceuticals
Katoen Natie	Belgium	Port terminal
Corporación Navios	Greece	Maritime and port
Danone	France	Food products
Kraft	United States	Food products
Breeders & Packers	United Kingdom	Meat processing
Marfrig	Brazil	Meat processing
Minerva	Brazil	Meat processing
Aratirí (Zamin Ferrous)	United Kingdom/Switzerland	Mining
Orosur mining	Canada	Mining
Arcelor Mittal	India	Steel
Radisson	United States	Hotel [c]
Four Seasons	United States	Hotel [c]
Petrobras	Brazil	Oil and gas

Source: Authors' compilation.

[a] Given the lack of FDI, this is only a sample of (unranked) foreign companies operating in different sectors in Uruguay. Uruguay XXI lists other companies including: Nestle; ABInBev; Gerdau; Dana; Sanofi Aventis; Telmex; Yazaki; Renault; Air Liquide; Ricoh; El Tejar; Mapfre; Huawei; Tenaris; Schreiber Foods; Olam; Yutong; Camil; Abengoa; Wanli; Atento; Hilton; Los Grobo; Merck Serono, Akzo Nobel; Bimbo; Towers Watson; Casino; Finning; Avanza; Roche; and Abbott.
[b] This information could not be confirmed.
[c] Hotels are typically franchises, with local and Argentinean investors.

Annex table 6. Uruguay: main M&A deals, by inward investing firm, 2008-2011 [a]

Year	Acquiring company	Home economy	Industry of acquiring company	Target company	Target industry	Shares acquired (%)	Transaction value (US$ million)
2011	Scotiabank	Canada	Banking	Nuevo Banco Comercial/Pronto	Banking	100	300
2011	BBVA	Spain	Banking	Crédit Agricole [b]	Banking	100	125
2010	Olam Group	Singapore	Farming	NZ Farming Systems Uruguay Limited [b]	Farming	85	89
2010	Marfrig	Brazil	Slaughterhouse	Grupo Zenda	Leather goods	50	50
2009	UPM-Kymmene	Finland	Forestry	Metsa-Botnia [b]	Pulp mill	100	2,404
2009	Arauco StoraEnso	Chile/Finland	Investor Group	Grupo Empresarial ENCE [b]	Forestry/port	>50	340
2008	Santander	Spain	Banking	ABN-AMRO [b]	Banking	100	250

Source: Authors' compilation with support from Uruguay XXI.

[a] Only M&As with a value larger than US$50 million where the information could be confirmed were included.
[b] These target companies are Uruguayan affiliates of foreign companies from the following home economies: The Netherlands (ABN-AMRO); Finland (Metsa-Botnia); Spain (Grupo Empresarial ENCE); New Zealand (NZ Farming Systems Uruguay Limited) and France (Crédit Agricole).

Annex table 7. Uruguay: main greenfield projects, by inward investing firm, 2010-2011 [a]

Date	Investing company	Home economy	Sector/industry	Business activity	Reported investment value (US$ million)
2011	Bom Gosto	Brazil	Manufacturing	Food products	43.0
2011	Takata	Japan	Automotive	Plant (airbags)	13.0
2010	Stora Enso/Arauco [b]	Chile/Finland	Forestry/construction	Cellulose plant	1,900.0
2010	IBM	United States	Software & IT services	Shared services centre	36.0
2010	OW Bunker	Denmark	Energy/transport	Marine fuel suppliers and traders	74.0
2010	America Móvil	Mexico	Communications	ICT and internet infrastructure	25.0
2010	Itochu	Japan	Manufacturing	Plastics	44.0
2010	Gandini Group	Brazil	Manufacturing	Trucks	25.0
2010	Globant	Argentina	Manufacturing	Software and IT	12.0
2010	Sofitel	France	Services	Hotel	64.0
2010	Setai Group	United States	Services	Hotel	11.0
2010	Grupo Fasano	Brazil	Services	Hotel	11.0

Source: Information compiled by Uruguay XXI, Montevideo, Uruguay, from secondary sources and their own research.

[a] Given the lack of an FDI registry, this is only a sample of reported greenfield projects of over US$10 million.
[b] This investment will take place over two-to-three years.

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