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Chapter 1

Trends and Recent Developments in Foreign Direct Investment*

Foreign direct investment (FDI) outflows from the OECD area to the rest of the world picked up from USD 593 billion in 2003 to USD 668 billion in 2004. However, direct investment inflows continued on a downward trend, reaching a comparatively low USD 407 billion in 2004. Outward FDI from the United States reached USD 252 billion in 2004 to hit an all-time record. While this to some extent reflects the weakness of the dollar it also points to a very strong interest among US companies in acquiring corporate assets abroad. Conversely, direct investment into Germany and France, the two largest economies of the European continent, fell sharply in 2004. The downturn largely reflects a repayment, out of Europe, of inter-company loans and other positions between related enterprises.

OECD countries' traditional role as net providers of FDI to the rest of the world grew even more pronounced in 2004. Net outflows, estimated at USD 261 billion, were the highest in recorded history. Most of this money went to developing countries. As in earlier years, China and a couple of Asian financial centres remain the largest recipients, but FDI into a range of countries, including Russia, India and much of South America, has also picked up lately. On top of this, several of the more advanced developing countries are emerging as outward investors, their national companies establishing subsidiaries in neighbouring countries and increasingly also on a more global basis.

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Highlights

Foreign direct investment (FDI) outflows from the OECD area to the rest of the world picked up from USD 593 billion in 2003 to USD 668 billion in 2004. However, it may be premature to talk of a turnaround in the investment cycle: direct investment inflows continued on a downward trend; they were estimated at USD 407 billion in 2004, following USD 459 billion in 2003.

FDI outflows from the United States reached USD 252 billion in 2004 – up from USD 141 billion in 2003 to hit an all-time record. While this to some extent reflects the weakness of the dollar it also points to a very strong interest among US companies in acquiring corporate assets abroad. Of the largest 25 cross-border mergers and acquisitions (M&A) in 2004, five had a US-based company as the acquirer.

Inward FDI into Germany and France, the two largest economies of the European continent, fell sharply in 2004. In France the inflows almost halved, falling from USD 43 billion to USD 24 billion. In the case of Germany, foreign investors even withdrew about USD 39 billion from the country as opposed to an inflow of USD 27 billion in 2003. (Readers are reminded that inward FDI figures include the transactions, including withdrawals, between foreign-invested enterprises and their foreign mother companies.) The downturn largely reflects a repayment, out of Europe, of inter-company loans and other positions between related enterprises.

Amid declining inflows and increasing outflows, the OECD countries' net direct investment outflows to the rest of the world reached record high levels in 2004. The OECD area was a net contributor of USD 261 billion worth of direct investment – most of which went to developing countries.

Among developing countries, China and a couple of financial centres in Asia continue to receive the "lion's share" of direct investment. Inward FDI into mainland China reached an all-time high of USD 55 billion in 2004 following USD 47 billion in 2003. However, other economies have made progress as well:

- South America seems to be climbing out of the trough that followed the Argentine crisis. Inflows in 2004 to Argentina (USD 4 billion in 2004), Brazil (USD 18 billion) and Chile (USD 8 billion) were in all cases around twice the levels they recorded in 2003.

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- India is making steady progress in establishing itself as an attractive destination for FDI. Inward direct investment has trended upwards since the late 1990s to reach USD 4.3 billion in 2003 and USD 5.3 billion in 2004. As Indian FDI statistics are less inclusive than most this figure is moreover a low-end estimate.
- Inflows to Russia, having already picked up in 2003, gained further speed in 2004. As in earlier years, much investment went to the hydrocarbons retailing sectors, but there is also a growing tendency for foreign producers of consumer goods to establish production sites in Russia.

While developing countries continue to be important recipients of FDI, several of them are gaining importance as outward investors as well. One case in point is Latin America (*e.g.* Mexico and Brazil) where large companies appear to be in a process of, first, engaging in regional integration through investment, next developing truly international corporate networks. Chinese enterprises have increasingly undertaken "strategic" investment abroad, *inter alia* to gain access to raw materials. However, while these trends are observationally interesting the sums involved are still small by international comparison.

As regards the future outlook, figures for mergers and acquisitions in the first half of 2005 indicate that FDI in the OECD area as a whole may finally be rebounding. M&As already recovered through 2004 and the improvement has carried on into 2005. On present trends both inward and outward FDI in OECD countries could increase by 10-15 per cent in 2005.

In recent years the environment for international investment has differed quite strongly across countries. The macroeconomic performance of the high-growth economies in Asia and certain other developing regions has contrasted sharply with the sluggish economic growth in much of continental Europe. Between the two extremes, the continued economic recovery in some countries – *e.g.* the United States – has allowed for a gradual restoration of investor confidence.

Another important economic factor has been the weakening US dollar (USD). In addition to influencing the relative competitiveness of alternative production locations, and hence affecting the allocation patterns of international business, it has also had a more direct impact on foreign direct investment (FDI). Apart from "equity investment" (*e.g.* greenfield investment projects and mergers and acquisitions, M&As) FDI includes large amounts of cross-border transactions between the related entities within the ownership structures of multinational enterprises (MNE). Many MNEs have reportedly taken advantage of the weak dollar to repay inter-company loans, which has had the effect of depressing inward FDI figures in some the European economies in 2004.

Thirdly, structural factors may also have favoured direct investment outside the OECD area. Investors are increasingly attracted to large economies that offer not only competitive production costs but also access to a buoyant customer base. Given their present high rates of economic growth, many of the more populous developing economies hold prospects of becoming far larger within the next one or two decades and international businesses are increasingly betting on this outcome. In addition, regulatory and administrative reforms have encouraged international investors to take a closer look at developing countries. The recent changes in the international trade architecture, including China's WTO accession and the termination of the Multi-Fibre Arrangement, have further encouraged direct investment.

1. Foreign direct investment in OECD countries

The net export of direct investment capital from OECD countries to the rest of the world keeps hitting new records. Net outward FDI went from USD 134 billion in 2003 (already sizeable by historical standards) to an all time high USD 261 billion in 2004[1] (Figure 1.1). The OECD area has traditionally acted as a net exporter of FDI and one may choose to see the recent figures as a

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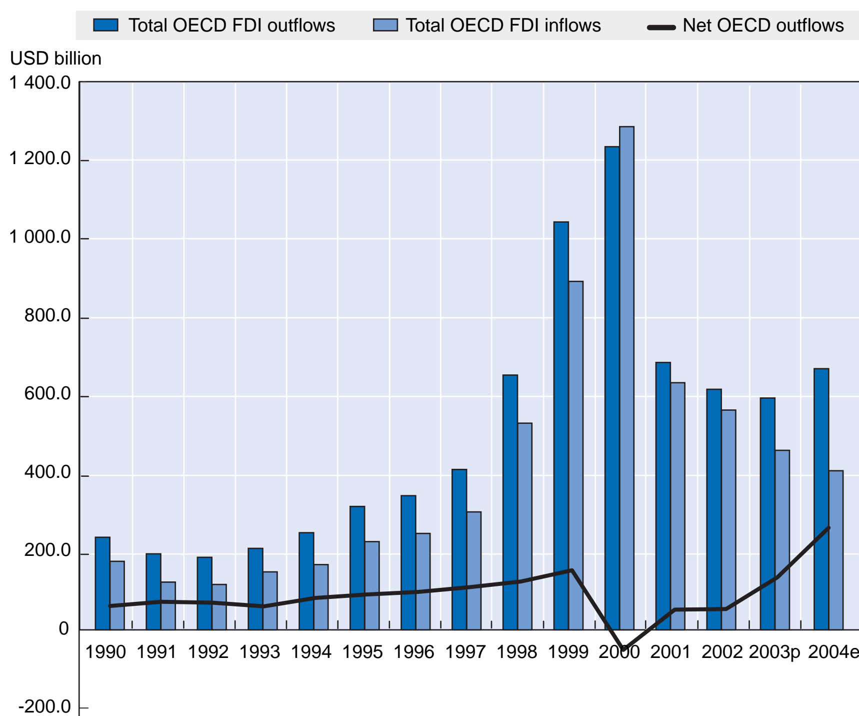
Figure 1.1. **FDI flows to and from OECD**



Notes: p: preliminary; e: estimate.

Source: OECD International Direct Investment Database.

confirmation of a long-term upward trend. However, following the low figures immediately after the investment boom in 2000 the recovery in net outward flows has been remarkably swift, and it remains to be seen if a more lasting upward shift in OECD countries' role as capital providers to the rest of the world has taken place.

The growing net outflows from the OECD reflect larger outflows as well as smaller inflows. Total outward FDI from OECD countries have increased from USD 593 billion in 2003 to USD 668 billion in 2004, largely reflecting a recovery in the outflows from the United States. At the same time the total inward FDI of the 30 OECD countries reached a seven-year low USD 407 billion. The inflows do, however, still compare favourably with the levels recorded during most of the 1990s. The decline in inflows over the last several years was initially influenced by a contraction in FDI to the United States but has more recently reflected declines in most of the continental European economies.

1.1. Recent trends in FDI

In terms of inward FDI 2004 brought a "return to normal" in the sense that the United States regained the role as the world's principal destination for direct investment it has played for most of the last two decades. Total inflows to the United States were USD 107 billion, up from a historically low level of USD 67 billion in 2003 (Table 1.1). According to recent supplementary information the upturn was led by a surge in cross-border mergers and acquisitions into the US financial sector.[2] In second place, the United Kingdom received USD 78 billion worth of FDI in 2004, likewise following weak inflows in the years immediately before.

The position of the United States as a provider of outward FDI was even stronger. With outflows of USD 252 billion in 2004 this country provided more than a third of total OECD direct investment outflows. In a number of other countries outward FDI held up well compared with previous years. The United Kingdom, Canada and a group of continental European economies all had outflows in the range of USD 40 to 65 billion in 2004.

In the rest of the OECD area, Japan stayed almost unchanged from the year before with outward direct investment at USD 30 billion and inflows just under USD 8 billion. Japan's habitual position as a net exporter of FDI is consistent with its current account surplus and with the, still, reported difficulties for toward foreign investors to penetrate a range of sectors. The trend in inward as well as outward FDI in continental Europe was downward. This was influenced by financial rearrangements within the group of multinational enterprises – notably the repayment of a large number of inter-company loans – but it also reflected lower equity investment, apparently due to weak macroeconomic performance and concerns about the competitiveness of some production locations.

1.1.1. Trends in selected countries

Germany has attracted particular interest, not least as the figures in Table 1.1 would seem, at first glance, to indicate that foreign companies have stopped investing in the German economy and are engaged in a process of massive withdrawal. However, as already predicted in the previous issue of *International Investment Perspectives*, the German 2004 figures (and to some extent 2003 as well) have been influenced by massive shifts in inter-company loans within the MNEs operating in and from Germany. In 2004, total equity investment into Germany was USD 22 billion, which, while somewhat lower than previous years, was comparable with other large developed economies. In the overall figures this was drowned out by no less than USD 46 billion in credit flows (following another USD 9 billion in 2003) out of foreign-owned German companies toward related enterprises. According to corporate

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Table 1.1. **Direct investment flows to and from OECD countries: 2001-2004**

USD billion

	Outflows				Inflows			
	2001	2002	2003p	2004e	2001	2002	2003p	2004e
Australia	12.1	7.9	14.3	16.7	4.6	15.6	6.8	42.2
Austria	3.1	5.8	6.8	7.2	5.9	0.4	7.4	4.9
Belgium/Luxembourg	100.6	..	..	..	84.7	..	..	..
Belgium	..	12.7	36.9	26.1	..	15.6	32.1	34.4
Canada	36.0	26.7	21.5	47.4	27.7	21.5	6.4	6.3
Czech Republic	0.2	0.2	0.2	0.5	5.6	8.5	2.1	4.5
Denmark	11.6	5.2	1.3	–11.1	11.6	6.9	2.7	–11.4
Finland	8.4	7.6	–2.6	–1.0	3.7	7.9	3.3	4.7
France	86.8	50.5	53.2	47.8	50.5	49.1	42.5	24.3
Germany	39.7	15.2	–3.6	–7.3	26.4	50.6	27.3	–38.6
Greece	0.6	0.7	0.0	0.6	1.6	0.1	0.7	1.4
Hungary	0.4	0.3	1.6	0.5	3.9	3.0	2.2	4.2
Iceland	0.3	0.3	0.4	2.4	0.2	0.1	0.3	0.4
Ireland	4.1	10.3	3.5	11.4	9.7	29.0	26.9	14.1
Italy	21.5	17.1	9.1	19.3	14.9	14.6	16.4	16.8
Japan	38.4	32.3	28.8	31.0	6.2	9.2	6.3	7.8
Korea	2.4	2.6	3.4	4.8	3.5	2.4	3.5	8.2
Luxembourg	..	126.2	101.1	59.0	..	117.1	92.4	57.0
Mexico	4.4	0.9	1.8	3.5	27.7	15.3	11.7	16.6
Netherlands	48.0	33.9	37.8	1.5	51.9	25.1	19.3	–4.6
New Zealand	0.9	–1.2	–0.1	0.9	4.2	–0.5	0.7	2.6
Norway	–1.3	4.2	2.1	1.9	2.0	0.7	3.8	2.2
Poland	–0.1	0.2	0.2	0.8	5.7	4.1	4.1	6.2
Portugal	6.2	0.2	7.3	6.2	6.3	1.8	6.6	1.1
Slovak Republic	0.1	0.0	0.0	0.2	1.6	4.1	0.6	1.1
Spain	33.1	31.5	23.4	42.0	28.0	35.9	25.6	9.9
Sweden	6.4	10.6	21.3	11.9	11.9	11.7	1.3	–1.9
Switzerland	18.2	7.9	15.1	25.2	8.9	6.3	16.6	4.5
Turkey	0.5	0.2	0.5	0.9	3.3	1.0	1.7	2.6
United Kingdom	58.9	50.3	66.7	65.4	52.7	24.1	20.4	78.5
United States	142.3	154.5	140.6	252.0	167.0	80.8	67.1	106.8
Total OECD	**683.8**	**614.9**	**592.8**	**667.8**	**632.0**	**561.9**	**458.8**	**406.6**

Notes: Data are converted to US dollars using average exchange rates; p: preliminary; e: estimate.
Source: OECD International Direct Investment Database.

observers this partly reflects changes in the corporate tax code making it less attractive for MNEs to retain liquid reserves with their German affiliates. Most likely, it was also influenced by the historically high valuation of the eruro.

The drop in outward investment from Germany in recent years, on the other hand, seems more closely related with actual changes in corporate

allocation. In 2004, outward equity investment became negative as, for the first time in many years, German companies new investment abroad was dwarfed by their liquidation of prior investments. This finding is believed to have been influenced by the unravelling of corporate holding structures but it also confirms a longer term trend for corporate Germany to become a less active outward investor.

France habitually records large inward and outward FDI flows relative to the size of its economy. 2004 was no exception, although it should be noted that outward flows held up much better than inward investment. The drop in inward FDI from USD 42 billion in 2003 to USD 24 billion in 2004 was influenced, as in the case of Germany, by declining inter-company loans, but it also reflected a drop in equity investment from USD 17 billion to less than USD 5 billion. The decline could reflect a dwindling number of large-scale transactions (*e.g.* cross-border mergers and acquisitions), because independent data indicate that the number of individual direct investment projects into France actually increased by 7% in 2004.[3]

The *United Kingdom* bucked the trend in 2004 as one of the few European countries to see a sharp pick-up in inward FDI to USD 78 billion (more than double the levels of 2003). One reason for this was that, unlike for most of continental Europe, an apparent pick-up in large scale mergers and acquisitions – including cross-border M&As – affected inward as well as outward flows (see also the following section). The two largest individual M&A transactions, inward and outward, were both in the financial sector. They had publicly announced values of around USD 15 billion (inward) and USD 9 billion (outward) respectively. In addition to a few large transactions, outward investment from the United Kingdom was held up by internationally very high amounts of reinvested earnings. This reflects the large outward investment positions that UK companies have built up, *inter aliavis-à-vis* North America and the Commonwealth. In 2004, UK-owned companies accumulated reinvested earnings in their foreign subsidiaries of around USD 26 billion.

Canada experienced one of the world's largest increases in outward FDI in 2004, reflecting, among other things, the largest takeover in history by a Canadian enterprise of a foreign company. As an outward direct investor, Canada shared third place with France in the 2004 league table.[4] Inward FDI held up in 2004, albeit at a comparatively low level. It should be added that the broadly unchanged figures from 2003 to 2004 mask a drop in net acquisitions by foreign enterprises that was compensated for by higher inter-company loans.

Direct investment into *Spain* has fallen markedly in the last couple of years, reaching USD 10 billion in 2004, amid comparatively high levels of liquidation of previous investments by foreign companies. Moreover, Spanish FDI statistics remain influenced by a growing number of special purpose

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entities (SPEs – financial companies set up to act as a conduit for investment) boosting the recorded inflows and outflows without having much, if any, effect on the Spanish corporate sector. According to recent estimates, if the investment through SPEs is disregarded, Spanish inward investment in 2004 was less than one billion USD, following inflows in the range of USD 7 to 9 billion in the years immediately before.[5]

Conversely, Spanish outward direct investment picked up in 2004. Most of the increase was due to a one-off cross-border acquisition from Spain into the United Kingdom, but the figures also reflect the continued activity of Spanish businesses in neighbouring countries and in Latin America. In the last two years, Mexico, Chile and Brazil all figured on the top-10 destinations for Spanish outward direct investment.

Switzerland traditionally acts as an exporter of direct investment capital. Even so, the 2004 inflows of FDI were unusually low (USD 4.5 billion) – and would have been even lower had FDI figures not been held up by large reinvested earnings. 2004 was the first year for more than a decade in which foreign direct investors taken as a whole withdrew equity capital from Switzerland. (The same reservation applies as in the case of Spain: Switzerland is also host to a large number of SPEs.) At the same time, direct investment out of Switzerland picked up to reach USD 25 billion, bolstered by both renewed outward equity investment and large reinvested earnings in the foreign subsidiaries of Swiss enterprises.

Data for many of the smaller European countries must be interpreted with caution, as their year-to-year fluctuations tend to be dominated by capital transactions between related enterprises and the activities of SPEs. One case in point is the apparent collapse of direct investment to and from the *Netherlands* in 2004, which largely reflects massive changes in inter-company loans between corporate entities in the United States and Netherlands. Another example is the concurrent drop in outward and inward FDI in *Denmark*. More detailed information reveals that this due to the elimination of positions held via SPEs, in the absence of which flows in and out of the country would be close to zero.[6] The decline in inward and outward FDI in *Luxembourg* in 2004 should be considered as a return to (or toward) more normal levels. It follows several years of inflated figures due to restructurings of international holding companies located in Luxembourg.

1.2. Individual "deals": a closer look at mergers and acquisitions

While M&As are only one element in total FDI flows, in most OECD countries they account for more than half of total investment. In addition, they tend to be the component of FDI that responds most strongly, or most immediately, to changes in the business climate, financial conditions and

macroeconomic performance. Overall data for cross-border M&As in 2004 and early 2005 may hence provide additional guidance on where FDI is heading. Some caution is, however, called for: privately collected M&A data tend to be more inclusive than official FDI statistics. FDI data include only the value of corporate assets actually transferred, whereas published M&A data tend to take as their starting point the total market value of the enterprises acquired. The data used in the remainder of this section was kindly provided by Dealogic.

According to recent data, M&As have recovered much more swiftly than FDI since 2003. This confirms a story hinted at in the previous section: the gradual recovery in FDI (so far limited to outward flows) took place amid a stronger corporate interest in new projects, counterweighted by large withdrawals of inter-company loans within existing corporate networks. The total assets of cross-border M&As in OECD countries grew by more than a third in 2004 (Table 1.2).

Table 1.2. **Cross-border M&As to and from OECD countries, total**

USD billion

	Outward	Inward
1995	138.0	151.0
2000	1160.8	1134.2
2001	606.4	586.6
2002	378.3	409.4
2003	309.7	328.0
2004	413.0	452.8
January-May 2005	216.6	221.6
Estimate 2005	519.8	531.9

Source: Dealogic.

In the first five months of 2005 total outward M&As worth USD 216.6 billion were recorded and the inflows amounted to USD 221.6 billion. If these numbers are taken to be indicative for 2005 as a whole then, by an admittedly rough estimate, total 2005 outward flows could amount to around USD 520 billion and inflows to some USD 530 billion. If borne out by the facts, these will be the largest cross-border M&As since 2001.

Based on historical patterns of co-variation between cross-border M&As and FDI this can be translated into a projection of FDI flows. On current trends, both inward and outward FDI in the OECD area could increase by between 15 and 20% in 2005.

1.2.1. Recent sectoral trends and individual transactions

Individual cross-border M&A transactions in 2004 and the first half of 2005 confirm the picture of a "return to normal". Gone is the dominance

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of telecom companies and the exorbitantly priced transactions that characterised the end of the 1990s and 2000. The growing amount of international M&As in the last couple of years has been more broadly based across sectors and has involved, mainly, a large number of deals in the range from USD 2 to 5 billion. It should, however, be noted that the traditional manufacturing sectors, especially the ones directly targeting consumers, have not yet seen any particular increase in cross-border takeover activity. Some of the main sectoral trends are listed below.

As was the case prior to the "telecom boom" of the late 1990s, many of the largest international M&As in 2004 and 2005 have taken place in the *financial sector*. The two largest individual deals was the takeover of Abbey National of the United Kingdom by the Spanish Banco Santander Central Hispano (estimated by Dealogic at USD 16.8 billion) and the Canadian insurer Manulife Financial Corp's acquisition of John Hancock Financial Services of the United States (USD 14.0 billion). A third very large takeover in the financial sector was Royal Bank of Scotland's 2004 purchase, through its Citizens Financial Group subsidiary, of Charter One Financial Inc. of the United States for USD 10.2 billion.

The financial sectors of Asian countries also witnessed foreign acquisitions of companies and strategic positions. In 2004, Capital Research and Management of the United States paid around USD 3.0 billion for a 10% stake in UFJ Holdings of Japan, and Citigroup of the United States acquired the Korean KorAm Bank for USD 2.7 billion. In early 2005, Korea First Bank was bought by Standard Chartered of the United Kingdom for USD 3.2 billion.

Another area that has seen a lot of recent activity is *real estate investment and administration*. This sector is not traditionally a hotbed of foreign takeovers, but in 2004 and early 2005 it attracted, especially within continental Europe, large amounts of international investment. The Italian Fondo Immobili Pubblici was privatised into the hands of a group of foreign investors for USD 4.5 billion, Fortress Investment Group LLC of the United States paid USD 4.3 billion for almost all the shares in GAGFAH of Germany and Sophia SA of France was acquired by General Electric of the United States for USD 4.2 billion. Moreover, the largest individual transaction in the first half of 2005 also falls within this category. Metrovacesa SA of Spain paid USD 6.8 billion for 38.5% of the shares in French Gecina SA.

In the utilities sector, *energy production and distribution* was the target of several large cross-border takeovers in 2004 and 2005. In 2004, International Power plc of the United Kingdom and Japanese Mitsui and Co jointly acquired the international power generation portfolio of Edison Mission Energy in a deal valued by Dealogic at USD 5.5 billion. TXU Australia was acquired by Singapore Power Ltd for USD 3.7 billion, the industrial gas operations of the German company Messer Griesheim GmbH were taken over by Air Liquide SA

of France for USD 3.3 billion and E.ON AG of Germany paid USD 2.9 billion for 44.6% of the shares in Sydkraft AB of Sweden. Two of the largest transactions in early 2005 were the acquisition of the UK National Grid Transco for USD 5.7 billion by an international group of investors and a USD 5.8 billion debt-equity swap with the international creditors of British Energy plc.

While the activity in the *telecom sector* may be "a shadow of its own self", several important transactions nevertheless took place in the last 1½ years. Notably, the troubled WorldCom Inc of the United States was acquired by an international group of creditors in a transaction valued at USD 10.7 billion. Within Asia, a number of Chinese mobile phone companies were acquired in one USD 4.1 billion deal by China Mobile Ltd of Hong Kong (China) and a group of phone operators based in Germany (locally incorporated affiliates of Turkcell, LM Ericsson and TeliaSonera) paid USD 3.0 billion for Iran's second mobile phone license. In early 2005, Intelsat Ltd of Bermuda was acquired by UK-based Zeus Holdings Ltd for USD 5.1 billion and Vodaphone Group of the United Kingdom paid USD 4.5 billion for ClearWave NV of the Netherlands.

Finally, a few high-profile international acquisitions in the *pharmaceuticals and biotechnology sectors* bear mentioning. The largest transaction in this area was the USD 5.7 takeover of Hexal AG of Germany by the Swiss group Novartis. Other pharmaceuticals acquisitions included the Israeli company Teva Pharmaceutical Industries' purchase of Sicor Inc of the United States for USD 3.4 billion and Roche Holding's USD 3 billion sale of its non-prescription drug unit to Bayer AG of Germany. Within the biotechnology sector, UCB of Belgium acquired, in a much-publicised transaction, the high-tech UK company Celltech Group for USD 2.7 billion.

1.3. Taking the longer perspective

Over the last decade the role of OECD countries as the world's foremost provider of direct investment funds has been firmly established (see also the following section). Net outflows from the OECD area reached USD 1 020 billion over the last decade (1995 to 2004 – see Table 1.3). The United Kingdom, France, Japan and Switzerland have been the OECD's main net exporters of FDI. By contrast, the United States, which has consistently acted as the OECD area's most active inward and outward investor, recorded net outflows over the last ten years that were comparable with those of a medium-sized European economy.

As a recipient of total direct inward inflows the United States is, unsurprisingly, in a class of its own. Between 1995 and 2004 the country received USD 1 435 billion worth of inward FDI. It is tempting to conclude that, if one disregards the flows through SPEs in the Benelux countries, the total inflows to the United States exceeded the combined amounts received by the world's number two, three and four by a wide margin. However, there are no

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Table 1.3. **Cumulative FDI flows in OECD countries 1995-2004**
USD billion

Inflows		Outflows		Net outflows	
United States	1461.4	United States	1511.6	United Kingdom	404.1
Belgium/Luxembourg	868.4	United Kingdom	938.4	France	317.0
United Kingdom	534.3	Belgium/Luxembourg	870.0	Japan	223.5
Germany	375.5	France	673.0	Switzerland	121.2
France	356.0	Germany	429.8	Netherlands	93.9
Netherlands	273.8	Netherlands	367.7	Spain	84.0
Canada	206.6	Japan	280.9	Canada	69.0
Spain	184.0	Canada	275.6	Germany	54.3
Sweden	157.9	Spain	268.0	United States	50.2
Mexico	147.9	Switzerland	209.3	Italy	26.0
Ireland	139.3	Sweden	166.1	Finland	22.6
Australia	118.2	Italy	126.5	Sweden	8.1
Italy	100.6	Australia	73.8	Portugal	7.8
Switzerland	88.1	Finland	72.1	Iceland	2.5
Denmark	71.2	Denmark	60.8	Belgium/Luxembourg	1.6
Japan	57.4	Ireland	46.6	Norway	0.5
Poland	56.2	Korea	39.9	Austria	–4.1
Finland	49.5	Austria	39.7	Greece	–4.5
Korea	48.6	Portugal	38.8	Korea	–8.7
Austria	43.8	Norway	37.0	Turkey	–9.3
Czech Republic	41.0	Mexico	10.6	Denmark	–10.4
Norway	36.5	Hungary	4.5	Slovak Republic	–11.6
Hungary	35.2	Turkey	4.4	New Zealand	–18.2
Portugal	30.9	Greece	4.3	Hungary	–30.8
New Zealand	19.7	Iceland	4.2	Czech Republic	–39.4
Turkey	13.7	Poland	1.6	Australia	–44.4
Slovak Republic	11.8	Czech Republic	1.6	Poland	–54.5
Greece	8.9	New Zealand	1.5	Ireland	–92.7
Iceland	1.7	Slovak Republic	0.2	Mexico	–137.3
Total OECD	**5 538.2**	**Total OECD**	**6 558.6**	**Total OECD**	**1 020.3**

Source: OECD International Direct Investment Database.

reliable estimates of the extent to which FDI to the United States may itself be inflated by throughflows, for instance via Caribbean offshore centres.

This testifies to the continued attraction of the US economy to investors worldwide, but another couple of factors have also been at play. First, the United States has been running sizeable current account deficits over the past decade, whereas many other OECD countries, as well as China, have recorded corresponding surpluses. The need to finance these imbalances has necessarily led to financial flows into the United States, parts of which, given

the generally benign US investment climate, have taken the form of FDI. Secondly, the large gross inflows have periodically acted as the counterpart to similarly large outflows. During the mini-boom in mergers and acquisitions in the late 1990s and 2000, veritable cross-border "takeover chains", by which the proceeds from one sale were used to finance the next purchase, were reported, boosting total outflows and inflows without necessarily affecting net direct investment positions by much.

2. The growing role of non-member economies

2.1. Direct investment into non-OECD economies

2.1.1. Adherents to the OECD Declaration on International Investment and Multinational Enterprises

Nine countries, while not members of OECD, adhere to the OECD Declaration on International Investment and Multinational Enterprises, namely Argentina, Brazil, Chile, Estonia, Israel, Latvia, Lithuania, Romania and Slovenia. Among these countries the main recipients (and to some extent originators) of FDI are habitually the ones located in South America. 2004 was no exception (Table 1.4). However, inflows into Romania picked up sharply in 2004, including large amounts of greenfield investment attributed by analysts to this country's successful macroeconomic stabilisation policy and investors' efforts to position themselves in a changing European landscape. According to authorities a large number of further greenfield and brownfield projects are under consideration, which, if borne out by the facts, could lead to a further firming of FDI to Romania in the coming years.

In South America as a whole 2004 brought a rebound in inward direct investment from levels that, while high compared with many other developing countries, were well below past standards. Argentina, in particular, appears to be bouncing back. Following the deep crisis after the country's currency turmoil in 2002 many foreign direct investors, not least in the utilities sector, eliminated their investments. However, an export-led recovery now seems firmly established, which has contributed to a resumption of investor interest. More investment could be forthcoming. During a visit to Argentina by Chinese President Hu Jintao in November 2004, public and private Chinese companies signed letters-of-intent to invest almost USD 20 billion over the coming decade in Argentina's transport, hydrocarbons, mining, construction, telecommunications and tourism sectors.

Brazil received USD 18.2 billion worth of FDI in 2004, the largest inflows in three years and almost twice the level recorded the year before. This figure was reportedly influenced by major ownership changes in the brewery sector, which also boosted the outward FDI flows. However, it also reflects a more

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Table 1.4. **Foreign direct investment in selected non-member countries**
USD billion

	Inward FDI				Outward FDI			
	2001	2002	2003	2004	2001	2002	2003	2004
Adherent countries:[1]								
Argentina	2.2	2.2	1.9	4.3	0.2	–0.6	0.8	0.3
Brazil	22.5	16.6	10.1	18.2	–2.3	2.5	0.2	9.5
Chile	4.2	2.5	4.4	7.6	1.6	0.3	1.9	0.9
Estonia	0.5	0.3	0.9	0.9	0.2	0.1	0.1	0.3
Latvia	0.1	0.3	0.3	0.6	0.0	0.0	0.0	0.1
Lithuania	0.4	0.7	0.2	0.8	0.0	0.0	0.0	0.3
Israel	3.6	1.8	3.9	1.7	0.7	1.0	2.1	3.2
Romania	1.2	1.1	2.2	5.2	0.0	0.0	0.0	0.1
Slovenia	0.5	1.7	0.3	0.5	0.1	0.2	0.5	0.5
Others:								
China, Mainland	44.2	49.3	47.1	54.9	6.9	2.5	–0.2	1.8
Hong Kong, China	23.8	9.7	13.6	34.0	11.3	17.5	5.5	39.7
India	3.8	3.7	4.3	5.3	0.8	0.5	0.9	2.3
Russia	2.7	3.5	8.0	11.7	2.5	3.5	9.7	9.6
Singapore	15.0	5.7	9.3	16.1	17.1	3.7	3.7	10.7
South Africa	6.8	0.8	0.7	0.6	–3.2	–0.4	0.6	1.6

1. Countries adhering to the OECD Declaration on International Investment and Multinational Enterprises.

Source: IMF Balance of Payments Statistics and national sources.

general resumption of investor interest as the recovery of South America's largest economy continues.

Chile also saw its inward direct investment almost double, from USD 4.4 billion in 2003 to USD 7.6 in 2004. The largest single operation in 2004 related to financial restructurings of multinational enterprise already present in Chile (Endesa España), but the improvement also involved large amounts of equity investment. Most of the largest individual transactions were found in the telecom sector.

2.1.2. China

Inward FDI into the Chinese economy keeps hitting new records. In 2004 the figure was USD 54.9 billion – the highest level on record. This should be seen in concert with a surge in outward FDI from Hong Kong (China) from an unusually own USD 5.5 billion in 2003 to USD 39.7 billion in 2004. There is little doubt that Hong Kong-based investors account for much of the direct investment into the mainland, but it would be too simplistic to ascribe the boom in Chinese FDI simply to "round-tripping" of investment and similar financial and statistical artefacts. There is a real concern among observers in

China about a possible overheating of the investment cycle, with large amounts of "hot money" pouring into the country from neighbouring economies. These inflows mostly do not target listed equity, and a fair amount of them takes the form of property investment. Another reason for the high and increasing FDI inflows is reinvested earnings. Many of the past investment projects have proven highly profitable and investors have been in no hurry to repatriate their profits.

Among OECD-based multinational enterprises, direct investment into China largely has traditionally taken the form of greenfield projects with the purpose of producing locally to the Chinese market. Much of the public and press's recent interest may have focused on the emergence of China as a low-cost production base in industries such as textiles, but the evidence suggests that these enterprises are largely either locally owned or controlled by members of the Chinese diaspora. Enterprises domiciled in OECD countries tend to trade with them rather than own them. A new development in inward FDI is the growing importance of cross-border M&As, which until a few years ago were virtually unheard of in China. In 2004, one well-publicised example of this was the acquisition by Anheuser-Bush of a controlling stake in Harbin Breweries.

2.1.3. Russia

Russian inward direct investment, having already picked up in 2003, improved further to reach USD 11.7 billion in 2004. As in earlier years, the energy sector attracted large amounts of investment. One of the landmark deals in 2004 was the acquisition by ConocoPhillips of a strategic position in Russia's largest oil company Lukoil. Conversely, an upsurge in investment into the manufacturing of consumer goods marks a departure from earlier trends. As mentioned in earlier issues of the *International Investment Perspectives,* most foreign-controlled enterprises have until recently contended themselves with accessing Russian consumers through sales and distribution networks. More recently, many of these companies have been establishing production sites in Russia to produce near the markets. This appears to have been influenced, on the one hand, by a retail boom in Russia, fed both by increasing household incomes and soaring consumer credits. Moreover, relatively high import duties have also affected MNEs' choice between servicing consumers locally or from production sites abroad.

Based on anecdotal evidence one industrial sector in Russia stands out as a recipient of FDI in recent years, namely automobile manufacturing.[7] Ford Motor Company, which undertook a greenfield investment near St. Petersburg in 2002, has reported a sharp pickup in its sale of locally produced cars. General Motors tied up with AvtoVAZ a few years back and has recently committed itself to investing in its plant in Vsevolozhsk to increase its

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capacity fourfold. Volkswagen and Renault have also launched projects, and Toyota is in the final stages of preparing a car plant near St. Petersburg that, when it enters into operation in 2006, is expected to be one of the largest in Russia.

2.1.4. India

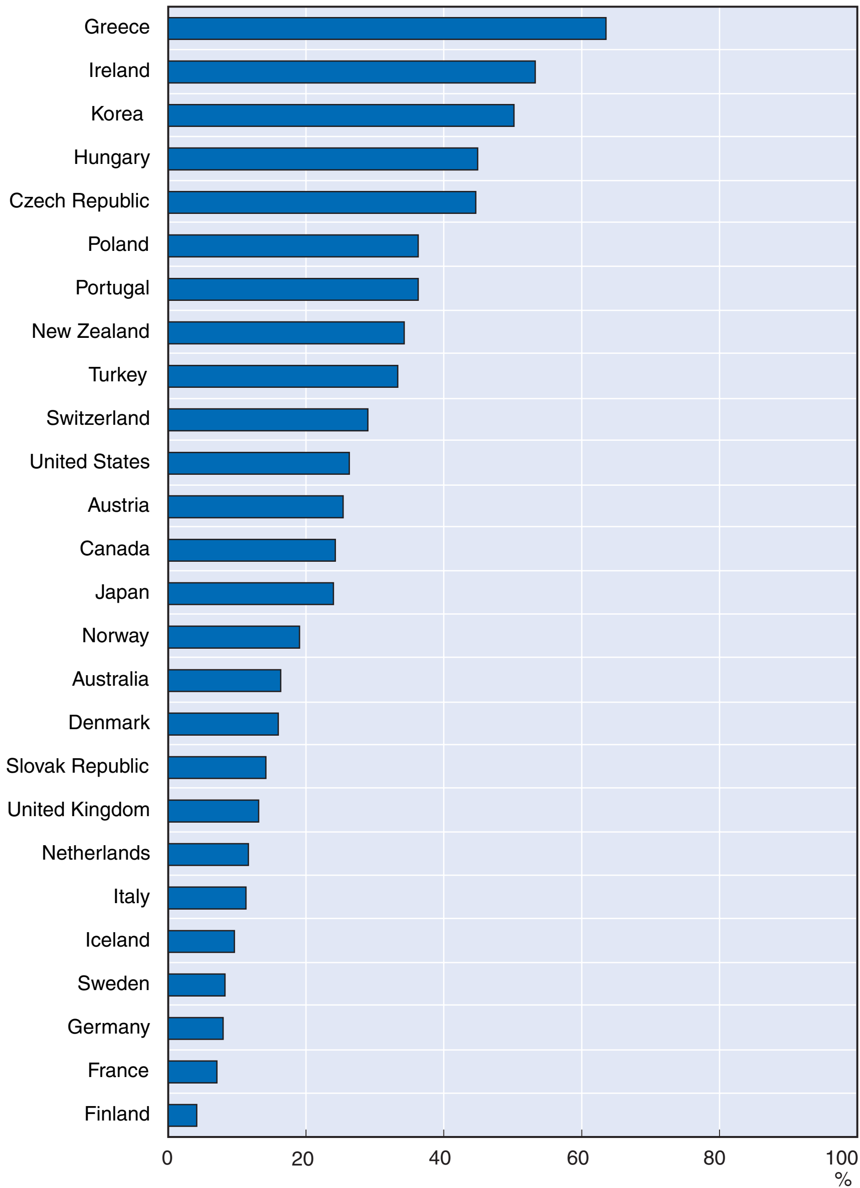
Another interesting observation is the gradual, steady growth in inward direct investment to India. At USD 5.3 billion in 2004 the numbers are dwarfed by the inflows to China and below FDI in Singapore, Hong Kong (China) and, more recently, Russia, but there may nevertheless be cause for celebration. First and foremost, Indian FDI data are systematically too low because the statistical definitions hitherto in force fail to include several transactions commonly considered as direct investment (*e.g.* non-cash acquisitions, reinvested earnings of indirectly held investment enterprises and short-term trade credits between related enterprises).[8] India is now altering its measurement of FDI in accordance with internationally standard methodology and is expected soon to produce re-estimates for recent years that will be significantly higher than previously published figures. Secondly, the process of opening India to foreign direct investment started later than in China and certain other developing economies. Less than a decade ago FDI flows into India were paltry, so the levels attracted in 2003 and 2004 represent a major improvement over previous levels. If the national commitment to further economic and regulatory reform remains on track there is no reason why this growth in direct investment should not continue in the coming years.

2.1.5. Investment from OECD countries toward the rest of the world

As indicated earlier, the main outward direct investing countries tend to be the ones with the largest domestic economies, the ones with the biggest current-account surpluses and the ones that are particularly closely integrated with neighbouring countries. However, this does not imply that these countries are particularly open toward the (non-OECD) rest of the world. When examining the share of total outward FDI positions that is invested in non-OECD countries, a different pattern emerges (Figure 1.2).

The figure illustrates the well-known adage that direct investment has a strong affinity to neighbouring countries. The Western European economies, most of them active outward direct investors, have tended to invest their funds in other EU countries rather than in non-OECD economies. Conversely, countries on the geographic edge of the European Union (*e.g.* Greece, Hungary and the Czech Republic) hold around half their outward FDI positions with non-OECD countries, and the same applies to South Korea. Among the larger OECD economies, the United States and Switzerland stand out as having

Figure 1.2. **Share of total outward FDI positions that are invested outside the OECD area**



Source: OECD Economic Globalisation Indicators (2005).

outward direct investments that are comparatively strongly directed out of the OECD area.

The bilateral outward direct investment positions of OECD members *vis-à-vis* individual developing and emerging economies yield additional insights. For instance, notwithstanding the massive FDI flows to Mainland and Hong Kong China in recent years, Latin America remains the region of the developing world that has received the largest inward direct investment from OECD countries (Table 1.5). This mainly reflects an investment position of no less than USD 229 billion from the United States to Latin America. Perhaps surprisingly, the second-most important direct investor in Latin America so far has been Switzerland with a total position of USD 45 billion.

Secondly, whereas China had by 2002 amassed a sizeable inward FDI position of USD 44 billion *vis-à-vis* the OECD area, this amount is less than what was attracted by Hong Kong (China) and, particularly, Singapore. Again, the bulk of China's inward direct investment has originated in neighbouring countries. On the other hand, financial centres such as Singapore and Hong Kong have received massive amounts of inward investment from countries such as the United States, United Kingdom, Japan and Switzerland.

Africa is the one developing region where the large European economies appear to play a more important role as direct investors than the United States and Japan. Measured by bilateral investment positions, the largest investor

Table 1.5. **Inward investment positions by OECD countries in selected non-member countries, 2002**

USD billion

Destination	Direct investment originating from:									
	United States	Japan	Germany	United Kingdom	France	Italy	Canada	Switzer-land	Others	OECD total[1]
Latin America[2]	**228.8**	**. .**	**14.5**	**35.7**	**15.3**	**9.4**	**. .**	**45.3**	**42.0**	**391.0**
Argentina	11.2	. .	1.2	1.5	2.3	1.7	3.2	0.5	3.9	25.5
Brazil	27.6	4.0	5.0	3.4	6.4	2.5	4.8	2.7	15.9	72.3
Chile	10.0	. .	0.5	2.4	0.6	0.1	3.8	0.3	0.7	18.4
Asia[2]	**150.6**	**52.9**	**23.4**	**38.8**	**11.2**	**2.2**	**. .**	**19.0**	**29.9**	**328.0**
China	10.5	12.4	6.6	5.4	2.5	0.5	0.5	1.4	4.6	44.4
Hong Kong, China	41.6	5.4	3.8	9.2	1.7	0.5	1.7	2.1	4.0	70.0
India	3.3	1.3	1.6	2.1	0.6	0.4	0.1	0.4	1.3	11.1
Singapore	52.4	10.4	6.1	10.9	3.4	0.3	2.7	10.4	6.6	103.2
Africa	**16.3**	**1.2**	**4.2**	**17.8**	**17.2**	**3.3**	**1.8**	**2.5**	**9.0**	**73.3**
South Africa	3.4	0.3	2.5	11.2	0.5	0.3	0.1	0.9	1.3	20.5

1. Sum of outward positions from those OECD countries for which data are available.
2. Excluding OECD member countries.

Source: OECD International Direct Investment Database.

into Africa is the United Kingdom (USD 18 billion – most of which in South Africa) followed by France (USD 17 billion – much of which in francophone Africa). Inward investment to Africa from the OECD economies remains puny compared with other parts of the world – though less so when compared with the size of the populations and economies of the recipient countries.

2.2. Emerging economies, emerging outward investors

While almost all developing countries remain net importers of FDI, several of them have nevertheless emerged over the last decade as important outward investors. Unsurprisingly, it is the relatively more advanced economies (*e.g.* certain ASEAN countries, South Africa within Africa and Brazil and Chile within South America) that have taken the lead. The principal recipients of this new outward direct investment have, at least initially, been other developing countries – mostly located within the same region and often benefiting from proximity and cultural ties with the investor countries.

Data are scarce but the 2004 World Investment Report estimated, based on an analytic study, that "south-south investment" between developing countries could account for as much as one-third of global FDI flows.[9] This does not mean, however, that investment between developing countries is inexorably on the rise. For instance, the 1997 Asian financial crisis took a heavy toll on south-south direct investment within the ASEAN country and severely affected some of the region's poorest countries.[10]

An even more recent development is the emergence of companies from developing countries as inward direct investors into the OECD area. Developing countries with large current-account surpluses have in the past reinvested their proceeds in the industrialised world, including in the form of direct investment (the example of OPEC in the 1980s comes to mind). However, it is much more recent that international corporate players have emerged in developing countries who seek to integrate corporate entities in OECD countries in their global value chains. The evidence of this development is to this point largely anecdotal. Some of it, covering three selected regions (China, Russia and Latin America), is surveyed in this section.

2.2.1. China

During the past quarter of a century, as well as becoming a major FDI destination, China has started to become an increasing source of FDI to the rest of the world. Chinese enterprises have been investing abroad during most of the post-1978 reform period. In the early 1980s branches of mainland companies were set up in Hong Kong to invest overseas (and, incidentally, to engage in "round-tripping" to take account of investment incentives in China itself). The main aim of overseas FDI by Chinese corporations was to organise

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China's rapidly-expanding international trade and secure natural resource inputs, although there was also some – mainly market-seeking – investment in manufacturing operations outside China.

Consequently, the bulk of China's outward FDI has in trade and resources, with manufacturing a relatively small component and services negligible. The geographical distribution of this FDI is skewed towards the Asia Pacific region, with little so far in Europe. This pattern is likely to change as Chinese enterprises seek market share and technology in developed countries, especially through M&A, and as services-sector enterprises widen their geographic reach. (Hard data for Chinese outward direct investment are not yet available; some of the statistical caveats are highlighted in Box 1.1.)

Greater outward FDI became a declared policy goal for the government in 2000. In March 2000 a new policy of encouraging Chinese companies to invest outside China[11] was announced in the government work report delivered at the annual meeting of the National People's Congress (China's parliament). This new policy was put on a par with the established regional policy of developing China's hinterland and was to be first implemented by those Eastern coastal regions where conditions were ripe.[12]

The policy reorientation took place partly as a means of recycling the country's burgeoning foreign exchange earnings to prevent overheating of the domestic economy. This is related to the fact that, by the early years of the 21st century, China had acquired ample foreign exchange reserves.[13] While the government boasted repeatedly of surpluses on both current and capital account, Chinese economists warned of potential risks including upward pressure on the renminbi and over-rapid expansion of monetary supply. The abandonment of central planning of the economy in the 1990s had deprived the authorities of direct physical controls to slow investment in order to maintain stable economic growth.

This "going global" policy has several complementary aims. Firstly, it is intended to secure natural resources. Again, this was already an aim of outward investment in the 1980s and 1990s, but it has grown enormously in importance as Chinese industrial growth has accelerated at a rate that is rapidly exhausting domestic resources, especially energy. Secondly, China has established a comprehensive industrial base but still lags the rest of the world in high technology and management methods. Acquiring overseas companies which already possess these can enable Chinese enterprises to modernise more rapidly, and Chinese enterprises actively engage in M&A activities worldwide to gain market share and acquire technology. The acquisition of the IBM personal computer business by Lenovo for USD 1.25 billion is an example of the scale of such transactions.

Box 1.1. **Spotlight on China's outward FDI statistics**

China's total accumulated outward FDI is far smaller than the comparable figure for inward FDI, but is almost certainly much higher than indicated by official statistics. The official balance-of-payments figure of USD 1.8 billion in 2004 understates actual outward FDI[1] and it is difficult to identify a clear trend. Sizable – and highly visible – M&A deals will probably account for an increasing proportion of total outward FDI in future years, perhaps increasing the accuracy of estimates of China's outward FDI.

Official statistics for China's outward FDI flows differ between government agencies and from estimates by organisations outside China. According to Ministry of Commerce (MOFCOM) figures, a cumulative total of 6 610 Chinese firms had invested USD 8.4 billion abroad by end-2001 in terms of contracted investment.[2] By end-2003, this had risen to 7 410 firms investing USD 11.4 billion. The State Administration of Foreign Exchange (SAFE), which measures actual outflows and therefore also includes non-approved outward FDI, estimates cumulative outward FDI in 1982-2001 at USD 34.6 billion, rising to USD 38 billion cumulated to end-June 2003. UNCTAD lists cumulative FDI to end-2000 as USD 27.2 billion.

MOFCOM's figures have so far underestimated total outward FDI because they only include investments that have been submitted for official approval. This situation is, however, changing. From May 2005, Chinese entitities are required to notify MOFCOM of all planned outward investments, both to improve statistical coverage and to enable companies to share experience of problems encountered in business environments outside China. In addition, whereas contracted FDI always greatly exceeds actual FDI inflows to China, in the case of outflows actual FDI exceeds contracted FDI. Another reason why underestimation may be significant is that unapproved outward FDI is much larger than approved outward FDI, as indicated by local survey data. Such underestimation probably accounts in part for the regularly high entries for "net errors and omissions" in China's balance of payments from 1991 to 2001.

Balance-of-payments figures for outward FDI published by China's State Administration for Foreign Exchange also appear low and may not accurately reflect the current trend. These statistics show a decline in recent years from a peak of USD 6.9 billion in 2001 to a net outflow of USD 152.3 million in 2003, then a small recovery to USD 1.8 billion in 2004.

Despite certain inconsistencies, official data provide useful sectoral and geographical breakdowns of China's outward FDI. Approximately 59% of outward FDI is trade-related, 20% in natural resources and 12% in manufacturing. At end-2000, 2 859 non-trading Chinese enterprises were recorded as operating in 160 countries and territories. Over two thirds were in

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Box 1.1. **Spotlight on China's outward FDI statistics** *(cont.)*

the Asia-Pacific area and over 70% were in developed industrial or newly-industrialised economies. The top ten destinations accounted for 53.2% of the total: United States (310 Chinese-invested enterprises), Russian Federation (285), Hong Kong, China (236), Thailand (145), Australia (112), Canada (91), Japan (89), South Africa (81) and Malaysia (80). There are four main types of investing enterprise: specialised trading companies, producing enterprises, transport and construction engineering enterprises, and SMEs.

1. This figure appears consistent with the latest national total for outward investment approvals on the MOFCOM web site [*www.fdi.gov.cn*], which shows contracted outward FDI of USD 770 million in the first five months of 2004.
2. All figures in this and the next two paragraphs are cited in Zhao Wei *op. cit.*

Since the announcement of China's "going global" policy, other countries have actively sought Chinese investment. For example, in September 2003 and 2004, IPAs from several OECD member countries made presentations promoting Chinese FDI in their countries at the annual China International Fair for Investment and Trade in Xiamen. Competing investment destinations in the developing world that have been concerned since before China's 2001 WTO accession that FDI from third countries would be diverted from them to China have also been seeking more FDI from China.

2.2.2. Russia and other Central and Eastern European countries

The general picture of FDI in Central and Eastern Europe (CEE) in recent years is one of increasing "investment maturity" – a growing tendency for countries to invest outward and to play an important role in the international capital reallocations of MNEs, rather than simply act as recipient of one-off inward investment projects. This follows earlier phases of first foreign trade liberalisation and regulatory reform in the early 1990s followed by a surge in inward FDI especially from countries in the European Union. A recent study concluded that outward FDI of CEE countries in recent years has been boosted by two factors.[14] First, the most competitive economies in Central Europe are now host to well-capitalised subsidiaries of MNEs that are increasingly used as bridgeheads for direct investment in other countries of the CEE region. Second, companies in countries that have been separated from the economic entities to which they belonged prior to the upheavals of the 1990s (one frequently quoted case is Slovenia *vis-à-vis* the rest of ex-Yugoslavia) have been busy re-creating economic tries by means of cross-border investment.

In this process, the Russian Federation may be characterised as a "late starter". However, the emergence of Russia as foreign investor now attracts

increasing attention within the government (which until recently was more concerned with fighting illegal capital outflows than monitoring the lawful ones) and the domestic business community. Recent data indicate that role of FDI in overall Russian international investment flows, inward as well as outward, is usually strong by international comparison. Moreover, direct investment is proportionally more important in Russia's total outward investment (60%) than in its inward investment stock (44%).

As mentioned earlier, Russia's outward direct investment may remain modest by the standards of most OECD countries, but the country has in recent years placed itself as one of the main capital exporters among transition and developing countries. (Alternative measures of outward FDI do, however, come up with a more modest USD 4.2 billion of investment in 2004 than the figures reported in Table 1.4.[15]) Unlike the case in many OECD countries, the destinations and origins of Russian inward and outward FDI differ significantly. The most important source of inward foreign direct investment is Cyprus (28% of total foreign direct investment in 2004) and thought to be largely influenced by Russian investors domiciled in this country. The most important recent recipients of Russia's outward direct investment have been the United Kingdom (31% of the total), followed by Netherlands (13%) and Iran (10%).

Whilst the role of Russia as an outward investor is growing, some political and business commentators regret the country's still limited investment presence abroad, especially in the territory of the former Soviet Union.[16] Ukraine (with only USD 58 millions of direct investment) is the only CIS country which last year appeared among the major foreign direct investment destinations, but after the locations such as Gibraltar and Cyprus.

Russian observers have also argued that the motivations of most Russian investors abroad are based on short-term considerations rather than on longer-term investment and diversification strategies. Several recent or continuing operations of Russian major firms, such as initial public offerings in western stock markets and participation in foreign bidding, could be a case in point. They seem to be mainly motivated by concerns of these firms over what they see as the tax administration and more generally government interference threatening their activities in Russia.

As Russia continues to reform her economy, the "opportunistic" (as opposed to strategic) approach of domestic businesses could arguably be problematic. If the experiences of OECD countries are anything to go by, Russia's economic development and modernisation depends on its participation in international production and distribution networks. There is arguably a need for a larger exposure of the domestic business sector to international investment, including through a more active involvement of Russian firms abroad.

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2.2.3. Latin America

In Latin American countries, not unlike the CEE experiences mentioned above, the process of integrating with international commercial networks has undergone several phases. Following a decade of macroeconomic and political stabilisation, and responding to the privatisation programmes of many countries, MNEs invested strongly in Latin America from the early 1990s. At that time, most of the main "indigenous" MNEs domiciled in Latin American countries were found in the energy sector and owned or controlled by governments.

In the course of the 1990s a number of locally-owned companies gained market shares and gradually established a cross-border network within the region. Some apparently benefited from a demonstration effect from the foreign corporate presence, as well as the fact that several MNEs reduced their presence in the region in response to macroeconomic turmoil and regulatory uncertainty. A recent study by the United Nations dubbed such enterprises "Trans-Latins" and found that the 10 largest ones outside the mining and mineral extraction sectors (by consolidated sales) are the Mexican-controlled, telecommunications companies Telmex and America Movil, the cement producer CEMEX and the drinks manufacturer FEMSA, likewise of Mexico.[17] Outside the OECD area, the main Latin American MNEs are the construction company Odebrecht (Brazil), the steel manufacturers Gerdau (Brazil) and Tenaris (Argentina) and the drinks manufacturer Ambev (Brazil).

More recently, a growing number of the "Trans-Latins" are establishing themselves outside the Latin American region, and a few appear in the process of establishing truly global networks. Such companies include Gerdau, Teraris and the Mexican petrochemicals company Grupo Alfa, which in addition to establishing themselves in United States and/or Canada have also set up subsidiaries in Europe and Asia. A case in point is CEMEX, with is now present on four continents. Its most recent transaction, to gain better access to the European market, was the acquisition of the dominant international concrete manufacturer RMC of the United Kingdom.

3. Investment is increasingly covered by international agreements

As most countries' direct investments abroad have continued to expand, investment authorities have taken steps to enter into investment treaties, or other agreements with investment content, with a growing number of foreign governments. This development is by no means limited to OECD countries, but a closer look at the recent trends in investment agreements affecting the major OECD countries is nevertheless instructive.

As shown in Table 1.6, the twelve largest outward investors among OECD countries have to date contracted some 670 bilateral investment treaties (BIT) and some other 25 BIT-like provisions in free trade agreements (FTAs). This

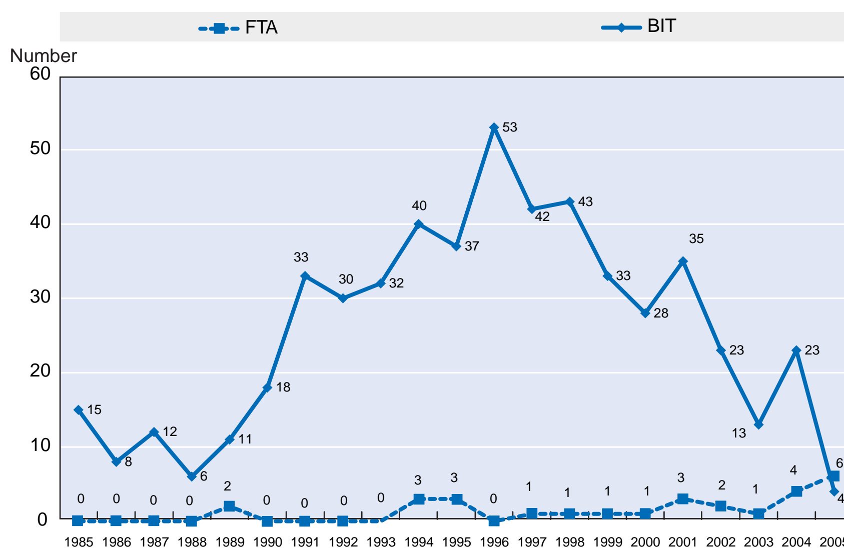
represents almost a third of all investment agreements in the world.[18] Germany, Switzerland, the United Kingdom, France and the Netherlands are party to close to 70% of the BITs concluded by OECD countries. Mexico, the United States, Australia and Canada account for 90% of the OECD area's FTAs including BIT-like disciplines.

Of even greater interest than the number of BITs and FTAs are the amounts of direct investment actually covered by these agreements. These too are estimated in Table 1.6. It appears that in European countries the amounts of outward direct investment covered by BITs rarely exceed 10% of the totals, except for the cases of Spain (25%) and Germany (12%). However, the apparently low European coverage needs to be seen against the fact that the bulk of this investment is directed at other European countries and mostly covered by the high standards of EU or EFTA treaties. When these treaties are accounted for European outward investment appears to enjoy high levels of treaty protection – well above 60%. Japan, which embarked relatively recently on the BIT/FTA process, has a comparatively small share of its outward investment positions – less than 12% – covered.

In many countries that have embarked on FTAs with investment contents, these agreements now cover a larger share of the outward investment than BITs. Particularly striking is the case of Australia whose BITs cover less than 3% of the outward FDI stock. Conversely, 60% of the outward investment is covered by Australia's four FTAs – three of which were contracted in the last two years.[19] The proportion of Canadian and US outward direct investment covered by FTAs is also rather high – about 43% and 20% respectively – whereas their BITs barely cover one per cent. The main explanation for this apparent importance of FTAs is that Australia, Canada and the United States have major investment destinations as their FTA partners. As indicated by Figure 1.3, the number of new BITs coming into force has been receding since the mid-1990s. The countries under review have so far only concluded 4 new BITs in 2005, as compared with record high of 53 in 1996. Historically, European countries have been the most active BITs negotiators. Decades ago they started signing treaties with newly-independent African nations and countries on the Mediterranean Rim. Following this their focus moved to Central and Eastern Europe, Latin America and, most recently, the Asian continent. The United States also became quite active from the 1990s. To date this country has entered into 39 BITs, first with Latin American and transition economies, and more recently with Asian and MENA countries.

Several FTAs with investment content have come into force in the last two years. The NAFTA agreement in 1994, while not the first FTA of its kind, is frequently credited with having triggered an increasing interest in such arrangements. Similar or comparable approaches have been applied 25 times (Table 1.6). The United States has been active in this respect – with 8 FTAs

Figure 1.3. **Newly contracted BITs and FTAs in main OECD countries***
(as of June 2005)



* Australia, Canada, France, Germany, Japan. Mexico, Netherlands, Spain, Sweden, Switzerland, United Kingdom and United States. No attempt has been made to eliminate double-counting, of which there are 11 apparent examples: 6 BITs and 5 FTAs.

Source: OECD Investment Division.

concluded and another 20 reportedly under consideration. Japan has concluded an FTA with Singapore and is reportedly making progress in its negotiations for economic partnership agreements with Thailand, Malaysia and the Philippines.

In another recent development, FTAs with investment contents are no longer confined to regional economic partners. Some of the more recent agreements even span countries located on different continents. Mexico is an example of this. In addition to 8 regional agreements, it has concluded FTAs with the European Union, EFTA and Japan.

Investment agreements are not a "one way street" protection outward investment from OECD economies. They provide protection to inward investors as well, and while outward direct investment from the OECD area tends to outweigh inward investment, Table 1.6 nevertheless gives rise to some interesting observations in this respect. Canada, for instance, is committed to uphold treaty standards for 64% of the direct investment received. In Australia it is 34% and in the United Sates it is a comparatively low 10%. In Europe around half of all inward direct investment benefit from the high standard EU/EFTA treaty protection. BITs and FTAs protect a very limited share of the inward FDI in European countries.

Table 1.6. **BITs and FTAs in main OECD countries**[1, 2]
(percentage of outward and inward direct investment stock)[3]

	Investment agreements			Outward FDI positions protected by BITs and FTAs (as share of total outward FDI positions)			Inward FDI positions protected by BITs and FTAs (as share of total inward FDI positions)		
	Number of BITs	Number of FTAs	Total number of agreements	Protected by BITs	Protected by FTAs	Total	Protected by BITs	Protected by FTAs	Total
Australia	14	4	18	3	60	63	1	32	34
Canada	21	4	25	2	44	45	0	64	64
France	84	0	84	6	0	6	1	0	1
Germany	113	0	113	12	0	12	1	0	1
Japan	11	2	13	8	4	12	2	1	4
Mexico	17	11	28	n.a.	n.a.	n.a.	19	65[4]	84
Netherlands	79	0	79	9	0	9	1	0	1
Spain	47	0	47	25	0	25	2	0	2
Sweden	54	0	54	6	0	6	0	0	0
Switzerland	98	1	99	10	1	10	0	1	1
United Kingdom	93	0	93	7	0	7	2	0	2
United States	39	8[5]	47	1	20	22	0	10	10
Gross Total	670	30	700	(Includes double-counting)					
Net Total	664	25	689	(Excludes double-counting)					

Notes: EU portion among total world in each country (outward stock, inward stock): France 54.8% and 73.2%; Germany 53.4% and 74.2%; Netherlands 50.1% and 62.1%; Spain 43.3% and 69.0%; Sweden 59.3% and 62.4%; Switzerland 42.9% and 56.0%; United Kingdom 56.9% and 46.8%.
Spain's and Mexico's FDI figures are based on accumulated FDI flow data.
Double-counting: BIT(6); Mexico-France, Mexico-Germany, Mexico-Netherlands, Mexico-Spain, Mexico-Sweden, Mexico-Switzerland.
FTA(5): US-Canada, US-Australia, NAFTA (US-Canada-Mexico), Japan-Mexico.

1. The listed countries account respectively for 91.9% and 83.1% of OECD total outward and inward investment stock.
2. The number of BITs and FTAs are based on information available as of June 2005.
3. Stock figures are based on the OECD data available for 2002 or 2003.
4. Not including the Mexico-EU Agreement.
5. Including the Central American Free Trade Agreement.

4. Spotlight: a globalisation of the "knowledge economy"?

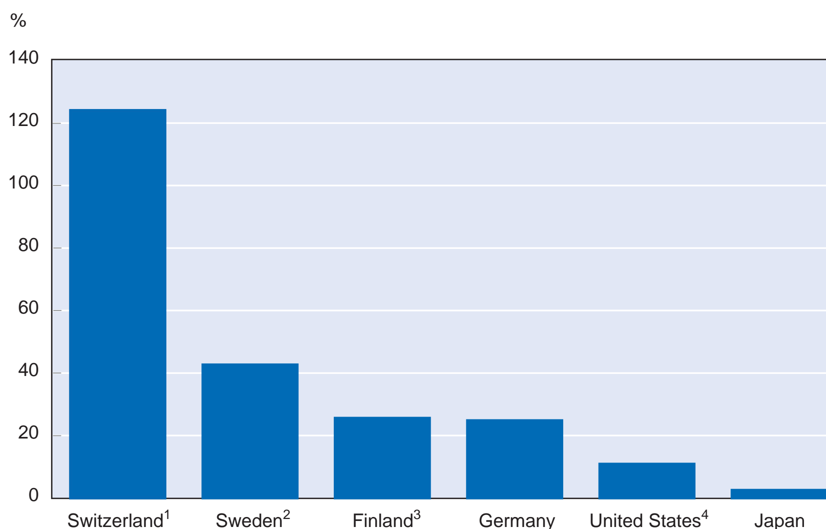
In view of the growing importance of investment in non-OECD countries, analysts have looked into the evolving nature of these countries' attraction to OECD-based investors. It was traditionally assumed that investment into developing countries in particular is motivated either by the availability of resources or by companies' search for low-cost production sites. However, for some time now it has been clear that this explanation is often too simplistic. Investors into low-cost locations (*e.g.* the textile industries of certain Asian countries) have the option of trading at arms-length with local enterprises, or even integrating them fully into their own global value chains, without taking

an ownership share. As it turns out, MNEs increasingly take the step from trading with a country to establishing a presence as part of more elaborate corporate strategies, which include producing locally for international consumption as well as servicing local markets. This is nowhere clearer than in a trend observed over the last decade for international investors to choose host countries in the developing world not solely on the basis of their costs (and quality of enabling environment) but also as a function of the size of these countries' domestic economy.

In a more recent development what has been termed "strategic asset seeking" investment, previously thought to be the preserve of the most highly developed economies, now also appears to be coming to developing countries. One of the most frequently quoted examples is the off-shoring of software development services to the Indian subcontinent to benefit from the human resources present there. Less visibly to the outside, the allocation of traditional industrial production to large developing countries (*e.g.* automobile manufacturing in South America and the Former Soviet Union) is also accompanied by an increasing reliance to competences such as engineering services that are locally available.

A recent publication by the OECD (Economic Globalisation Indicators – see Box 1.2) sheds some light on the cross-country nature of MNEs' knowledge-

Figure 1.4. **R&D expenditure by affiliates abroad as a percentage of domestic R&D expenditure, 2001**



1. 2000.
2. Manufacturing sector only.
3. 1998.
4. 2002.

Source: OECD Economic Globalisation Indicators (2005).

Figure 1.5. **Domestic ownership of inventions made abroad,[1] 1999-2001[2]**

The European Union is treated as one country; intra EU co-operation is excluded.

1. Share of patent applications to the EPO invented abroad in total patents owned by country residents.
2. Priority years.

Source: OECD Economic Globalisation Indicators (2005).

Box 1.2. **Economic Globalisation Indicators**

Multinational enterprises (MNEs) are key to internationalisation of markets, referred more generally as "globalisation", which has gone through significant developments in the past two decades. Economic integration is central to this development but it is not the only element while social, cultural, political and institutional dimensions cannot be neglected.

Recognising the importance of globalisation for policy making, strategic decisions, and other types of economic and social research and analysis, OECD took the initiative to develop a set of meaningful indicators to measure the phenomenon based on comprehensive factual information.

The first important step was to develop a methodology for new indicators while traditional statistics alone are no longer sufficient to analyse fully the magnitude and consequences of globalisation and need to be supplemented. In addition, new concepts had to be identified and integrated into a common framework which would serve as the basis for comparable analytical tools.

The results of this work are included in the recently published *OECD Handbook on Economic Globalisation Indicators* (*Handbook*) which benefited largely from the expertise of a wide network of OECD experts including officials from member countries and from other international agencies.

The objectives of the *Handbook* are twofold:

i) Identify a set of relevant globalisation indicators to gauge the magnitude and intensity of the globalisation process, and to enable policymakers and other analysts to monitor the developments over time.

ii) Provide national data compilers with the methodological and statistical guidelines they may need to construct the indicators and to make them compatible with international standards.

Interpreting the recommendations of the *Handbook*, OECD is in the process of preparing a new publication which includes a variety of indicators of which only a few are included in the present article. The forthcoming publication (in October 2005) will cover indicators relating to:

a) International trade and investment.

b) Foreign direct investment.

c) Activities of multinational enterprises in the manufacturing sector.

d) Activities of multinational enterprises in the services sector.

e) Comparison between manufacturing and services sectors of multinational enterprises.

f) Contribution of foreign-controlled affiliates to value added and labour productivity in manufacturing and services sectors of host countries.

g) Internationalisation of industrial research and development.

Box 1.2. **Economic Globalisation Indicators** *(cont.)*

h) Cross-border ownership of inventions.

i) Technology balance of payments.

j) Internationalisation of technology intensive products in compiling countries.

k) Share of foreign-controlled affiliates of the information and communication technology sector.

l) Aspects of trade globalisation.

intensive activities.[20] One example of this is the share of total corporate research and development (R&D) that is performed outside the home country of MNEs. Data are only available for a few countries but it appears that MNEs domiciled in small countries – however technologically advanced – are more prone to take research activities overseas. The best example of this is Switzerland whose enterprises spend more than half of their total R&D budgets abroad (Figure 1.4). This has been attributed to the fact that a country with only 7 million inhabitants needs to tap into the human capital of other nations to sustain some of the world's most technologically advanced (for instance, pharmaceutical) enterprises.

The indication is that the foreign component in corporate R&D is growing quite strongly. The study quoted above also indicates that the R&D expenditure in affiliates of parent companies abroad has increased at annual rates ranging from 10 to 20 per cent between 1995 and 2001. However, this comparison includes only four OECD countries, namely Germany, Japan, Sweden and the United States. Among these countries, the growth in foreign R&D spending was strongest among Swedish multinational enterprises and weakest in the United States.

An alternative way of measuring foreign corporate control over innovation is the nationality of patents. Based on the OECD Patent Database it appears that companies in some of the smallest European countries are strongly dependent on foreign R&D activities for innovations. In Switzerland and Ireland close to half of all patent applications relate to inventions made abroad, and in Luxembourg the share is no less than 80 per cent (Figure 1.5). The most "closed" countries in this respect do not include the OECD's largest economy, the United States whose enterprises benefit to a significant degree from innovation abroad. Companies domiciled in Asia and Southern Europe, on the other hand, seem to depend largely on domestic research and development for their technological progress.

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Notes

1. It should, however, be noted that as businesses in most of the host countries do note use dollars as their reference currency the figures will be biased upward by the low level of the USD.
2. T. W. Anderson (2005), "Foreign Direct Investment in the United States: New Investment in 2004", *Survey of Current Business,* June 2005, Bureau of Economic Analysis.
3. Invest in France Agency (2005), "Foreign Direct Investment in France: Summary of 2004 Results", mimeo. This paper also estimates that more than 20 000 new jobs were created through FDI in 2004 and another 9 000 jobs were preserved.
4. This assumes the exclusion of Luxembourg from the comparison. FDI flows through this country are dominated by the presence of a large number of special-purpose entities established solely with the purpose of acting as conduits for investment.
5. State Ministry for Tourism and Commerce (2005), "Spanish Foreign Direct Investment Inflows and Outflows", 2004, Mimeo.
6. Denmark's National Bank (2004-2005), *Direkte Investeringer*, various issues.
7. FDi Magazine (2005), "Consumer spending keeps FDI in Russia on Course, April/May.
8. This point has been brought up several times in academic literature. For a recent overview, see N. Chandra Mohan (2005), "Redefining FDI: can the elephant trump the dragon?", *India Now,* Vol. 2, Issue 1.
9. Aykut, D. and D. Ratha (2004), "South-South FDI flows: how big are they?", *Transnational Corporations*, Vol. 13.
10. L. Cotton and V. Ramachandran (2001), "Foreign Direct Investment in Emerging Economies: Lessons from sub-Saharan Africa", *Discussion Paper No. 2001/82*, United Nations University, WIDER.
11. "*Zouchuqu*" (literally "going out"), usually referred to in English as "going global".
12. Zhao Wei (2004), *Chinese Enterprises "Going Out" – An Analysis of Government Policy Orientation and Typical Examples* [in Chinese], Economic Science Publishing House, Beijing
13. For example, foreign exchange reserves totalled USD 659.1 billion at the end of March 2005 [*www.chinability.com*].
14. K. Kalotay (2004), "Outward FDI from Central and Eastern European Countries", *Economics of Planning*, Vol. 37.
15. The figure of USD 4.2 billion is based on data reported by the Federal Service for State Statistics (*www.gks.ru*). These data provides more detailed information on geographical breakdown of investment flows but traditionally differ from data reported by the Central Bank of Russia within its balance-of-payment statistics due to specificities in data collection and methodologies adopted by the two institutions.
16. K.N. Gusev: Scope and structure of Russian investment abroad, in "*Bankovskoe delo*" (in Russian), available at *www.bankdelo.ru/1204Gusev.htm*
17. Economic Commission for Latin America and the Caribbean (2005), *Foreign Investment in Latin America and the Caribbean*, United Nations.

18. UNCTAD estimates the total number of bilateral investment treaties as being above 2300 agreements.
19. With Singapore, Thailand and the United States.
20. OECD (2005), *Economic Globalisation Indicators*, Paris. However, this publication does not include specific information about OECD-based enterprises' activities outside the OECD area.

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ANNEX 1.A1

International Direct Investment Statistics

Table 1.A1.1. **OECD direct investment abroad: outflows**

USD million

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003p	2004e
Australia	992.3	1 199.4	5 266.9	1 947.0	2 816.5	3 281.8	7 087.6	6 427.9	3 344.8	–420.7	3 158.5	12 072.1	7 873.2	14 306.2	16 707.9
Austria	1 627.2	1 285.3	1 697.5	1 190.5	1 257.2	1 130.6	1 935.0	1 988.2	2 745.2	3 300.7	5 740.9	3 137.9	5 812.0	6 782.6	7 168.6
Belgium/Luxembourg	5 956.0	6 066.2	10 955.9	3 850.5	1 205.4	11 728.4	7 811.3	7 884.5	29 107.8	132 325.8	218 364.4	100 624.7	..	..	..
Belgium	..	..	..	..	..	..	..	..	..	..	..	0.0	12 705.4	36 932.9	26 141.1
Canada	5 235.2	5 832.3	3 589.2	5 699.9	9 293.5	11 462.3	13 094.3	23 059.2	34 349.2	17 250.1	44 678.5	36 037.2	26 745.9	21 463.9	47 446.2
Czech Republic	..	..	..	90.2	119.6	36.6	152.9	25.2	127.1	89.8	42.8	165.4	206.5	206.7	546.3
Denmark	1 618.2	2 051.8	2 236.0	1 260.5	3 955.1	3 063.5	2 519.1	4 206.6	4 476.6	16 433.9	23 093.2	11 615.5	5 179.8	1 271.1	–11 067.0
Finland	2 708.5	–124.0	–751.7	1 407.1	4 297.8	1 497.3	3 596.5	5 291.7	18 641.5	6 615.5	24 034.7	8 372.0	7 629.1	–2 592.1	–1 028.3
France	36 228.4	25 137.6	30 407.1	19 736.1	24 372.3	15 758.1	30 419.5	35 580.9	48 612.7	126 859.2	177 481.6	86 783.3	50 486.1	53 197.0	47 829.5
Germany	24 231.9	22 947.0	18 595.1	17 196.1	18 857.8	39 051.6	50 806.3	41 794.1	88 837.2	108 691.6	56 567.5	39 691.1	15 185.0	–3 573.2	–7 271.5
Greece	..	..	..	..	..	..	..	..	–275.6	552.1	2 136.5	616.1	655.3	46.5	606.9
Hungary	..	..	..	10.6	48.3	59.1	–3.6	461.9	278.3	250.1	620.2	368.1	278.1	1 646.5	537.9
Iceland	11.5	28.6	6.3	14.3	23.7	24.8	63.4	56.0	74.1	123.1	392.6	341.8	320.0	352.5	2 446.9
Ireland	364.7	192.6	214.4	217.8	436.3	819.8	727.9	1 013.7	3 902.1	6 109.1	4 629.6	4 066.1	10 341.9	3 546.1	11 415.1
Italy	7 611.7	7 325.9	5 948.5	7 230.6	5 108.8	5 731.4	6 464.9	12 244.7	16 077.6	6 721.7	12 318.5	21 475.9	17 138.3	9 079.3	19 273.2
Japan	50 773.5	31 687.7	17 304.8	13 914.4	18 116.0	22 632.1	23 414.8	25 991.7	24 157.7	22 750.0	31 540.4	38 352.0	32 283.3	28 799.4	30 963.5
Korea	1 051.6	1 488.6	1 161.5	1 340.0	2 461.1	3 552.0	4 670.1	4 449.4	4 739.5	4 197.8	4 998.9	2 420.1	2 616.5	3 425.5	4 792.0
Luxembourg	..	..	..	..	..	..	..	..	..	..	..	0.0	126 218.9	101 146.6	59 044.6
Mexico	..	..	..	..	..	..	..	..	..	..	..	4 404.0	929.7	1 784.1	3 489.7
Netherlands	13 660.6	12 825.9	12 697.1	10 063.3	17 553.8	20 175.5	32 098.1	24 522.1	36 475.1	57 611.3	75 648.7	47 977.3	33 931.8	37 814.1	1 458.6
New Zealand	2 360.7	1 472.4	391.4	–1 388.7	2 008.2	1 783.5	–1 239.7	–1 565.5	401.4	1 072.5	608.7	911.9	–1 225.0	–92.8	856.8
Norway	1 431.5	1 823.6	394.2	933.0	2 172.5	2 856.2	5 892.5	5 015.3	3 200.7	5 503.6	7 613.8	–1 322.7	4 200.7	2 139.9	1 866.6
Poland	..	..	13.0	18.0	29.0	42.0	53.0	45.0	316.0	31.0	16.0	–90.0	230.0	196.0	806.0
Portugal	164.8	473.6	684.2	107.3	282.5	684.6	709.2	2 092.0	4 028.5	3 191.4	8 133.6	6 243.7	155.2	7 332.6	6 182.0
Slovak Republic	..	..	..	12.8	17.7	43.0	62.9	95.1	146.6	–377.2	28.7	64.5	11.2	13.3	152.1
Spain	3 441.7	4 424.4	2 171.0	3 173.6	4 110.8	4 157.8	5 590.1	12 546.8	18 937.7	42 084.5	54 684.6	33 099.5	31 540.2	23 395.0	42 000.0
Sweden	14 748.2	7 057.6	408.7	1 357.7	6 701.1	11 214.3	5 024.8	12 647.5	24 379.4	21 928.6	40 667.3	6 374.9	10 630.0	21 259.8	11 947.2
Switzerland	7 176.9	6 542.5	6 058.5	8 765.4	10 798.0	12 213.9	16 150.8	17 747.9	18 768.8	33 264.3	44 698.1	18 246.6	7 867.9	15 113.9	25 219.6
Turkey	–16.0	27.0	65.0	14.0	49.0	113.0	110.0	251.0	367.0	645.0	870.0	497.0	175.0	499.0	859.0
United Kingdom	17 953.8	16 412.1	17 740.9	26 063.1	32 205.7	43 560.0	34 055.9	61 620.0	122 861.2	201 436.7	233 487.7	58 885.2	50 346.5	66 726.2	65 436.1
United States	37 183.0	37 889.0	48 266.0	83 950.0	80 167.0	98 750.0	91 885.0	104 803.0	142 644.0	224 934.0	159 212.0	142 349.0	154 460.0	140 579.0	252 012.0
Total OECD	**236 516.1**	**194 067.1**	**185 521.7**	**208 175.1**	**248 464.9**	**315 423.1**	**343 152.5**	**410 296.1**	**651 722.2**	**1 043 175.4**	**1 235 467.8**	**683 780.1**	**614 928.4**	**592 797.9**	**667 838.7**

Notes: Data are converted to US dollars using average exchange rates; p: preliminary; e: estimate.

Source: OECD International direct investment database.

Table 1.A1.2. **OECD direct investment from abroad: inflows**

USD million

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003p	2004e
Australia	8 115.8	4 302.1	5 719.8	4 281.7	5 024.6	11 963.2	6 111.0	7 633.4	6 002.6	3 268.4	13 949.9	4 627.5	15 626.5	6 843.3	42 221.0
Austria	650.9	351.3	1 432.7	1 136.5	2 102.9	1 904.2	4 428.6	2 655.6	4 534.1	2 974.6	8 841.7	5 920.5	357.0	7 358.8	4 867.7
Belgium/Luxembourg	7 516.0	8 919.4	10 957.3	10 467.8	8 313.2	10 894.2	13 924.4	16 510.1	30 146.9	142 512.3	220 987.8	84 717.6	. .	. .	. .
Belgium	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	15 640.5	32 127.2	34 386.9
Canada	7 580.3	2 880.0	4 721.6	4 730.3	8 204.1	9 255.4	9 632.6	11 522.0	22 802.8	24 747.2	66 795.5	27 669.9	21 497.5	6 352.5	6 291.9
Czech Republic	. .	. .	. .	653.4	868.3	2 561.9	1 428.2	1 301.1	3 716.4	6 326.2	4 980.2	5 644.6	8 483.5	2 108.7	4 464.0
Denmark	1 206.7	1 459.9	1 014.7	1 669.0	4 897.6	4 179.8	768.0	2 798.6	7 725.7	14 657.1	31 305.8	11 587.2	6 855.6	2 698.7	–11 417.8
Finland	787.5	–246.6	406.2	864.4	1 577.7	1 062.9	1 109.0	2 115.8	12 140.7	4 610.2	8 835.6	3 732.2	7 926.7	3 299.3	4 650.5
France	15 612.6	15 170.9	17 849.2	16 442.7	15 574.0	23 679.1	21 959.5	23 171.5	30 984.5	46 545.9	43 258.4	50 485.1	49 078.7	42 538.4	24 332.2
Germany	2 962.0	4 729.3	–2 088.9	368.3	7 133.9	12 025.4	6 572.8	12 243.4	24 596.7	56 077.3	198 313.0	26 419.0	50 564.0	27 289.8	–38 580.8
Greece	1 688.4	1 718.1	1 588.6	1 243.6	1 166.1	1 197.7	1 196.4	1 088.6	72.1	561.5	1 108.1	1 589.4	50.3	661.3	1 351.4
Hungary	312.1	1 474.4	1 477.2	2 446.2	1 143.5	5 101.9	3 300.4	4 170.9	3 337.1	3 313.1	2 763.0	3 936.0	2 993.6	2 161.9	4 169.4
Iceland	22.0	18.2	–12.7	0.4	–1.5	9.2	83.1	147.9	147.8	66.6	170.5	172.6	90.9	341.3	435.0
Ireland	622.6	1 360.8	1 458.1	1 068.5	856.2	1 441.5	2 615.7	2 709.6	8 856.5	18 210.1	25 783.3	9 652.7	29 008.1	26 912.6	14 067.6
Italy	6 343.4	2 481.5	3 210.8	3 751.4	2 235.6	4 816.2	3 534.9	4 962.5	4 279.8	6 911.4	13 377.3	14 873.4	14 558.2	16 430.2	16 824.5
Japan	1 809.4	1 286.2	2 755.2	206.9	890.1	42.5	229.7	3 223.1	3 193.5	12 740.4	8 318.6	6 247.9	9 243.2	6 322.2	7 818.8
Korea	788.5	1 179.8	728.3	588.1	809.0	1 775.8	2 325.4	2 844.2	5 412.3	9 333.4	9 283.4	3 527.7	2 392.3	3 525.5	8 188.6
Luxembourg	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	. .	117 108.6	92 419.2	57 034.4
Mexico	2 633.0	4 761.5	4 393.0	4 389.0	15 066.7	9 666.6	10 075.8	14 233.6	12 402.0	13 336.9	16 909.6	27 720.8	15 325.2	11 663.6	16 601.9
Netherlands	10 516.2	5 778.9	6 169.4	6 443.1	7 158.4	12 306.8	16 660.1	11 136.5	36 924.9	41 206.1	63 865.6	51 936.8	25 060.3	19 349.3	–4 608.0
New Zealand	1 683.1	1 695.6	1 089.2	2 211.6	2 615.7	2 849.7	3 922.0	1 917.2	1 825.5	940.4	1 344.4	4 219.3	–529.7	670.1	2 581.0
Norway	1 176.7	–48.9	810.4	1 460.7	2 777.6	2 408.0	3 168.5	3 946.4	4 353.7	7 061.7	6 907.7	2 009.3	679.0	3 802.8	2 159.4
Poland	88.0	359.0	678.0	1 715.0	1 875.0	3 659.0	4 498.0	4 908.2	6 365.0	7 270.0	9 343.0	5 714.0	4 131.0	4 123.0	6 159.0
Portugal	2 255.4	2 291.6	1 903.8	1 516.2	1 254.6	660.1	1 343.8	2 361.7	3 004.7	1 156.8	6 636.5	6 299.3	1 769.1	6 564.4	1 112.2
Slovak Republic	. .	. .	. .	179.1	272.9	241.4	395.7	230.6	706.8	428.5	2 383.1	1 584.1	4 126.5	593.8	1 107.5
Spain	13 838.6	12 445.2	13 350.7	9 571.6	9 275.8	6 285.1	6 820.6	6 387.8	11 798.4	15 758.8	37 530.2	28 010.1	35 939.8	25 649.3	9 850.1
Sweden	1 971.4	6 355.8	41.0	3 845.1	6 349.7	14 446.9	5 436.6	10 967.4	19 842.7	60 929.1	23 245.5	11 900.1	11 734.1	1 285.3	–1 852.2
Switzerland	5 484.9	2 642.8	411.2	–83.3	3 368.4	2 223.2	3 078.2	6 641.8	8 941.9	11 714.0	19 266.0	8 858.9	6 283.8	16 565.7	4 480.6
Turkey	684.0	810.0	844.0	636.0	608.0	885.0	722.0	805.0	940.0	783.0	982.0	3 266.0	1 038.0	1 694.0	2 568.0
United Kingdom	30 470.7	14 849.2	15 474.8	14 821.3	9 254.6	19 968.4	24 441.3	33 244.9	74 348.9	87 972.8	118 823.8	52 650.2	24 051.9	20 380.3	78 453.6
United States	48 494.0	23 171.0	19 823.0	51 362.0	46 121.0	57 776.0	86 502.0	105 603.0	179 045.0	289 444.0	321 274.0	167 021.0	80 841.0	67 091.0	106 832.0
Total OECD	**175 314.4**	**122 197.0**	**116 206.5**	**147 986.6**	**166 793.6**	**225 287.3**	**246 284.4**	**301 482.4**	**528 449.0**	**890 857.7**	**1 286 583.5**	**631 993.3**	**561 925.0**	**458 823.5**	**406 550.3**

Notes: Data are converted to US dollars using average exchange rates; p: preliminary; e: estimate.

Source: OECD International direct investment database.

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Table 1.A1.3. **OECD direct investment abroad: outward position**

USD million

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003p	2004e
Australia	30 494.9	30 897.0	34 559.6	40 503.6	47 786.3	53 009.0	66 857.9	71 968.4	78 647.9	89 583.6	85 385.3	92 231.9	93 086.1	126 873.8	156 351.5
Austria	4 746.9	5 993.6	6 584.5	7 974.2	9 514.1	11 832.0	13 059.8	14 011.4	17 468.4	19 127.3	24 819.9	28 510.6	42 483.2	58 729.5	70 829.2
Belgium/Luxembourg	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Belgium	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Canada	84 812.7	94 387.4	87 867.3	92 469.1	104 308.0	118 106.1	132 321.9	152 959.3	171 784.7	201 446.8	237 646.9	250 691.0	274 362.7	312 185.0	369 758.4
Czech Republic	..	..	..	181.4	300.4	345.5	498.0	548.2	804.1	697.9	737.9	1 135.6	1 473.1	2 283.5	3 059.9
Denmark	..	15 612.0	16 305.7	15 799.2	19 613.7	24 702.5	27 601.6	28 127.7	30 728.7	41 236.5	60 450.1	62 604.1	63 995.8	73 844.1	..
Finland	11 227.3	10 845.3	8 564.6	9 178.2	12 534.0	14 993.2	17 666.0	20 297.5	29 405.9	33 850.3	52 108.7	52 224.4	63 920.9	76 127.8	80 940.5
France	110 120.6	129 900.5	156 326.6	158 750.3	182 331.8	204 430.3	231 112.8	237 248.9	288 035.9	334 102.9	445 087.0	508 842.0	586 306.6	720 209.3	816 866.9
Germany	130 760.3	150 517.4	154 741.3	162 365.0	194 523.4	233 107.4	248 634.1	296 274.9	365 195.7	412 881.3	486 749.8	550 306.7	615 885.1	718 081.2	..
Greece	..	..	..	..	..	..	..	..	2 792.2	3 935.0	6 094.0	7 020.4	9 000.6	11 271.0	13 056.0
Hungary	..	..	223.6	224.6	291.2	278.1	265.3	646.6	785.1	924.2	1 279.1	1 554.5	2 165.8	3 537.6	4 475.1
Iceland	75.2	101.1	98.1	113.5	148.5	177.2	240.1	275.0	360.5	451.8	662.9	840.2	1 255.0	1 715.8	3 893.3
Ireland	..	..	..	..	..	..	..	..	20 314.4	25 232.1	27 925.0	40 818.7	54 024.7	64 457.2	..
Italy	60 195.3	70 419.3	70 382.3	81 086.6	89 688.3	106 318.6	117 278.0	139 437.2	176 985.2	181 855.5	180 273.6	182 373.3	194 488.3	238 887.6	280 481.1
Japan	201 440.0	231 790.0	248 060.0	259 800.0	275 570.0	238 452.0	258 608.9	271 905.7	270 037.5	248 778.0	278 444.1	300 116.4	304 234.1	335 503.3	370 541.7
Korea	..	..	..	..	..	..	..	..	..	..	..	19 967.0	20 734.5	24 986.4	..
Luxembourg	..	..	..	..	..	4 703.3	4 695.4	5 022.3	7 982.8	8 467.8	7 927.0	8 810.2	16 446.4	..	..
Mexico	..	..	..	..	..	..	..	..	..	..	..	12 077.5	12 900.0	17 185.3	22 515.2
Netherlands	106 896.1	117 262.8	121 052.5	120 116.2	142 944.0	172 675.1	194 015.6	198 539.0	228 983.2	263 761.3	305 459.2	332 151.2	398 611.6	544 350.5	..
New Zealand	..	..	5 899.0	4 430.7	5 896.2	7 675.6	9 293.1	5 646.0	5 490.8	7 006.2	6 065.1	7 608.6	7 494.7	9 058.9	9 619.4
Norway	10 889.2	12 149.1	11 794.4	12 717.7	17 648.0	22 520.7	25 439.1	27 494.5	31 578.2	31 871.3	33 651.4	..	..	..	..
Poland	..	..	101.0	198.0	461.0	539.0	735.0	678.0	1 165.0	1 024.1	1 018.0	1 156.0	1 457.0	1 855.0	..
Portugal	..	..	..	..	..	4 406.3	3 953.9	5 536.7	9 941.9	10 685.5	17 255.6	21 642.3	22 173.1	35 614.6	45 555.1
Slovak Republic	..	..	..	..	166.4	138.5	185.0	236.4	408.2	346.0	379.1	506.6	485.6	633.2	..
Spain	..	..	22 046.8	24 014.3	30 044.8	36 227.2	40 537.1	50 276.1	70 056.4	112 804.2	159 957.8	184 460.2	224 101.5	281 297.1	348 082.4
Sweden	50 719.5	54 797.6	48 844.6	45 522.5	60 309.0	73 142.5	72 187.8	78 201.2	93 533.7	106 273.8	123 234.0	123 268.1	146 509.8	179 229.7	204 084.7
Switzerland	66 086.9	75 880.8	74 412.2	91 570.3	112 588.0	142 481.4	141 586.8	165 354.1	184 237.1	194 598.5	233 385.2	253 551.6	293 346.2	342 566.6	393 018.6
Turkey	..	..	..	..	..	..	..	..	..	..	3 668.0	4 581.0	5 847.0	6 138.0	..
United Kingdom	229 306.7	232 140.8	221 678.9	245 628.9	276 743.8	304 864.9	330 432.5	360 796.3	488 372.0	686 420.4	897 844.8	869 700.5	994 135.7	1 235 897.6	1 378 129.6
United States	616 655.0	643 364.0	663 830.0	723 526.0	786 565.0	885 506.0	989 810.0	1 068 063.0	1 196 021.0	1 414 355.0	1 531 607.0	1 686 635.0	1 839 995.0	2 069 013.0	..
Total OECD FDI	**1 714 426.5**	**1 876 058.6**	**1 953 372.9**	**2 096 170.1**	**2 369 976.0**	**2 660 632.4**	**2 927 015.8**	**3 199 544.5**	**3 771 116.6**	**4 431 717.3**	**5 209 116.5**	**5 605 385.5**	**6 290 920.1**	**7 491 532.5**	**..**

Notes: Data are converted to US dollars using average exchange rates; p: preliminary; e: estimate.

Source: OECD International direct investment database.

Table 1.A1.4. **OECD direct investment from abroad: inward position**

USD million

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003p	2004e
Australia	73 615.1	77 077.7	75 821.7	82 877.7	95 543.8	104 074.3	116 797.2	101 089.0	105 961.7	120 625.7	111 138.5	107 997.3	134 751.0	186 764.3	245 812.7
Austria	10 971.8	11 510.1	12 040.8	12 105.5	14 636.0	19 721.0	19 629.2	19 522.2	23 564.8	23 471.6	30 430.8	34 328.0	43 506.7	60 624.0	70 829.2
Belgium/Luxembourg	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Belgium	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Canada	112 850.3	117 031.5	108 500.1	106 869.7	110 210.1	123 182.3	132 970.2	135 935.6	143 348.8	175 000.9	212 722.7	213 755.4	224 194.6	274 285.8	303 802.8
Czech Republic	..	..	..	3 422.8	4 546.6	7 349.8	8 573.1	9 233.2	14 377.1	17 549.5	21 647.0	27 092.8	38 672.3	45 286.3	56 401.9
Denmark	..	14 747.0	14 387.3	14 617.9	17 846.3	23 800.9	22 337.0	22 267.8	30 552.8	35 568.7	59 416.3	60 714.6	64 924.3	77 552.3	..
Finland	5 132.4	4 220.5	3 688.9	4 216.7	6 714.1	8 464.5	8 797.5	9 529.8	16 454.8	18 320.4	24 272.3	24 069.8	34 005.9	46 225.0	55 949.4
France	84 930.9	97 450.5	127 881.4	135 077.8	163 451.4	191 433.0	200 095.8	195 913.0	246 215.9	244 672.5	259 773.0	295 308.0	385 186.7	520 242.3	586 186.9
Germany	74 066.8	77 927.8	74 730.1	71 095.4	87 338.1	104 367.2	104 658.1	190 732.9	252 392.5	290 457.1	462 529.1	416 826.5	522 820.9	659 547.4	..
Greece	..	..	..	..	..	..	..	..	13 084.0	15 890.0	14 113.0	13 941.0	15 560.0	21 575.8	27 213.0
Hungary	568.8	2 106.7	3 424.1	5 575.6	7 083.5	11 303.5	13 274.9	17 953.6	20 752.9	23 259.7	22 856.2	27 377.5	36 213.4	48 325.0	60 365.1
Iceland	147.1	165.6	123.8	116.5	127.5	148.7	197.4	331.9	468.7	478.4	491.4	676.5	797.4	1 213.7	1 839.2
Ireland	..	..	..	..	..	..	..	..	62 453.1	72 817.0	127 087.6	134 051.3	178 566.5	217 164.0	..
Italy	60 008.5	61 592.3	49 972.7	53 961.9	60 416.0	65 347.2	74 599.9	85 401.8	108 835.3	108 640.7	121 168.7	113 433.5	130 813.8	180 890.6	220 720.3
Japan	9 850.0	12 290.0	15 510.0	16 890.0	19 170.0	33 507.7	29 937.1	27 077.5	26 064.8	46 115.3	50 322.8	50 319.7	78 142.8	89 728.3	96 987.1
Korea	..	..	..	..	..	..	..	..	..	..	..	53 207.5	62 658.3	66 069.7	..
Luxembourg	..	..	..	..	..	18 503.4	18 232.7	17 279.7	20 766.1	20 362.0	23 491.7	26 346.5	34 838.7	..	..
Mexico	22 424.4	30 790.0	35 680.0	40 600.4	33 197.7	41 129.6	46 912.0	55 810.0	63 610.4	78 060.0	97 170.2	140 376.0	154 344.0	..	..
Netherlands	68 728.8	72 479.6	74 434.3	74 474.2	93 402.9	116 051.2	126 536.4	122 183.1	164 461.1	192 591.9	243 730.3	282 879.2	349 954.9	433 408.6	..
New Zealand	..	..	11 779.5	15 539.1	22 062.2	25 727.6	34 743.7	31 365.3	33 169.9	32 860.8	28 069.8	22 087.1	27 743.9	35 549.8	46 185.2
Norway	12 403.8	15 865.2	13 644.9	13 642.5	17 018.0	19 835.9	20 623.8	20 704.4	26 081.4	29 433.0	30 261.4	32 589.6	42 649.2	48 966.9	..
Poland	109.0	425.0	1 370.0	2 307.0	3 789.0	7 843.0	11 463.4	14 587.2	22 461.0	26 075.3	34 227.0	41 247.0	48 320.0	55 268.0	..
Portugal	..	..	..	..	..	18 973.4	19 737.9	19 195.3	24 412.1	23 922.8	28 695.5	34 061.9	42 404.4	58 923.9	65 213.1
Slovak Republic	..	..	..	..	897.0	1 297.1	1 899.8	2 103.4	2 919.6	3 227.6	4 679.4	5 729.8	8 530.6	11 283.9	14 503.7
Spain	..	..	85 989.4	80 295.1	96 301.8	109 110.6	107 871.2	100 019.2	118 159.4	116 232.6	144 848.5	165 289.5	236 289.9	314 547.0	356 550.9
Sweden	12 636.0	18 085.0	14 057.0	13 126.9	22 649.4	31 089.3	34 784.1	41 512.7	50 984.6	73 312.5	93 972.5	91 584.0	119 542.1	150 206.3	163 086.2
Switzerland	34 244.6	35 747.2	32 989.3	38 713.5	48 668.4	57 063.7	53 916.7	59 515.2	71 997.1	76 000.2	86 809.8	88 766.3	124 811.9	161 828.6	181 033.2
Turkey	..	..	..	..	..	..	..	..	..	..	19 209.0	19 677.0	18 732.0	32 455.0	..
United Kingdom	203 905.3	208 345.5	172 986.4	179 232.6	189 587.5	199 771.8	228 642.5	252 958.6	337 386.1	385 146.1	438 630.7	506 685.6	523 319.2	608 964.6	771 658.2
United States	505 346.0	533 404.0	540 270.0	593 313.0	617 982.0	680 066.0	745 619.0	824 136.0	920 044.0	1 101 709.0	1 421 017.0	1 513 514.0	1 505 171.0	1 553 955.0	..
Total OECD FDI	**1 291 939.6**	**1 391 261.1**	**1 469 281.8**	**1 558 071.5**	**1 732 639.1**	**2 019 162.9**	**2 182 850.3**	**2 376 358.2**	**2 920 979.7**	**3 351 801.4**	**4 212 782.1**	**4 543 933.0**	**5 187 466.3**	**5 960 852.3**	**..**

Notes: Data are converted to US dollars using average exchange rates; p: preliminary; e: estimate.

Source: OECD International direct investment database.