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World Investment Report 2003

FDI Policies for Development: National and International Perspectives

United Nations
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PREFACE

With its enormous potential to create jobs, raise productivity, enhance exports and transfer technology, foreign direct investment is a vital factor in the long-term economic development of the world's developing countries. Yet global investment inflows have declined significantly, from $1.4 trillion in 2000 to $650 billion in 2002, raising considerable concerns about prospects for achieving the Millennium Development Goals.

The World Investment Report 2003 looks in detail at what lies behind the downturn, how various regions and countries have fared, and what the chances are for recovery and growth in FDI flows at the global and regional levels.

The *Report* also assesses the interaction between national and international FDI policies and the implications this has for development. As competition for foreign direct investment increases, policies vis-à-vis transnational corporations are evolving. While national policies are the most important consideration in attracting such investment and benefiting more from it, they are increasingly being affected by rule-making at the international level. The challenge is to find a development-oriented balance.

Toward that end, the *Report* highlights some of the key issues, from the perspective of development, that need to be considered in investment agreements. Whether, how and where governments negotiate investment agreements is, of course, their own sovereign decision. But if such agreements are negotiated, the need to reduce poverty and stimulate development should take a central place as a guiding principle of such negotiations. Only then will we be able to say that investment can truly achieve its objectives.

Kofi A. Annan
Secretary-General of the United Nations

New York, July 2003

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OVERVIEW

FDI FALLS AGAIN—UNEVENLY

Global FDI flows fall again in 2002 amid weak economic performance.

Global FDI inflows declined in 2002 for the second consecutive year, falling by a fifth to $651 billion—the lowest level since 1998. Flows declined in 108 of 195 economies. The main factor behind the decline was slow economic growth in most parts of the world and dim prospects for recovery, at least in the short term. Also important were falling stock market valuations, lower corporate profitability, a slowdown in the pace of corporate restructuring in some industries and the winding down of privatization in some countries. A big drop in the value of cross-border mergers and acquisitions (M&As) figured heavily in the overall decline. The number of M&As fell from a high of 7,894 cases in 2000 to 4,493 cases in 2002—and their average value, from $145 million in 2000 to $82 million in 2002. The number of M&A deals worth more than $1 billion declined from 175 in 2000 to only 81 in 2002—again, the lowest since 1998.

For the largest transnational corporations (TNCs) most indicators of the size of their foreign operations declined slightly in 2001 (the latest year for which data are available), the beginning of the FDI downturn. Despite the burst of the bubble in the information and communication technology market, there has been no significant shift in the industrial composition of FDI—nor in the ranking of the world's top 100 TNCs, the top 50 TNCs from developing countries and the top 25 TNCs from Central and Eastern Europe (CEE).

The decline in FDI in 2002 was uneven across regions and countries. It was also uneven sectorally: flows into manufacturing and services declined, while those into the primary sector rose. The equity and intra-company loan components of FDI declined more than reinvested earnings. FDI entering host economies through M&As went down more than that through greenfield projects.

Geographically, flows to developed and developing countries each fell by 22% (to $460 billion and $162 billion, respectively). Two countries, the United States and the United Kingdom, accounted for half of the decline in the countries with reduced inflows. Among developing regions, Latin America and the Caribbean was hit hard, suffering its third consecutive annual decline in FDI with a fall in inflows of 33% in 2002. Africa registered a decline of 41%; but after adjusting for the exceptional FDI inflows in 2001, there was no declline. FDI in Asia and the Pacific declined the least in the developing world because of China, which with a record inflow of $53 billion became the world's biggest host country. CEE did the best of all regions, increasing its FDI inflows to a record $29 billion.

The main developments by region were:

- There was a sizable decline in FDI inflows to developed countries, accompanying a continuing slowdown in corporate investment, declining stock prices and a slowdown in the consolidation of activities in some industries—all influenced by weak economic conditions. In several countries, repayments of intra-company loans contributed to lower FDI flows. For instance, a large part of the decline in the United States was due to repayments of loans by foreign affiliates to parent companies, presumably to take advantage of the lower interest rates in the United States as well as for other reasons (such as improving the debt-to-equity ratio of parent firms). The most notable feature of the decline in FDI in the developed countries was the plunge in cross-border M&As, especially in the United States and the United Kingdom. In all, FDI inflows declined in 16 of the 26 developed countries. Australia, Germany, Finland and Japan were among the countries with higher FDI inflows in 2002.

  FDI outflows from the developed countries also declined in 2002 to $600 billion; the fall was concentrated in France, the Netherlands and the United Kingdom. Outflows from Austria, Finland, Greece, Norway, Sweden and the United States increased. In both outflows and inflows Luxembourg headed the list of largest host and home countries (for special reasons). The prospects for 2003 depend on the strength of the economic recovery, investor confidence

and a resumption of cross-border M&As. With many TNCs continuing to follow cautious growth and consolidation strategies, M&As are not yet showing much dynamism. As a group, developed countries are not likely to improve their FDI performance in 2003.

- Africa suffered a dramatic decline in FDI inflows—from $19 billion in 2001 to $11 billion in 2002, largely the result of exceptionally high inflows in 2001 (two M&As in South Africa and Morocco, not repeated in 2002). Flows to 23 of the continent's 53 countries declined. FDI in the oil industry remained dominant. Angola, Algeria, Chad, Nigeria and Tunisia accounted for more than half the 2002 inflows. Only South African enterprises made significant investments abroad. Oil exploration by major TNCs in several oil-rich countries make the 2003 outlook for FDI inflows more promising.
- The Asia-Pacific region was not spared, either, from the global decline in FDI inflows in 2002. FDI inflows to the region declined for the second consecutive year—from $107 billion in 2001 to $95 billion, uneven by subregion, country and industry. All subregions, except Central Asia and South Asia, received lower FDI flows than in 2001. Flows to 31 of the region's 57 economies declined. However, several countries received significantly higher flows. Intra-regional investment flows, particularly in South-East Asia and North-East Asia, remained strong, partly as a result of the relocation of production activities, expanding regional production networks and continued regional integration efforts. FDI in the electronics industry continued to decline due to the rationalization of production activities in the region and adjustments to weak global demand. While long-term prospects for an increase in FDI flows to the region remain promising, the short-term outlook is uncertain.
- In Latin America and the Caribbean, FDI flows declined for the third consecutive year, from $84 billion in 2001 to $56 billion, affecting all subregions and 28 of the region's 40 economies. Factors specific to the region contributed to this decline, especially the acute economic crisis in Argentina and economic and political uncertainty in some other countries. The services sector was affected most by the decline. Manufacturing FDI proved to be quite resilient, with barely any change, despite the slowdown from the region's major export destination, the United States, and the growing relocation of labour-intensive activities to Asia. FDI is expected to remain at the same level in 2003 and to start rising thereafter.
- CEE again bucked the global trend by reaching a new high of $29 billion in FDI inflows, compared to $25 billion in 2001. That increase masked divergent trends, however, with FDI falling in 10 countries and rising in 9. FDI flows varied across industries as well, with the automobile industry doing quite well, and the electronics industry facing problems. There was also a tendency of firms (including foreign affiliates) in several CEE countries, particularly those slated for accession to the EU, to shed activities based on unskilled labour and to expand into higher value-added activities, taking advantage of the educational level of the local labour force. Led by a surge of flows into the Russian Federation, and fuelled by the momentum of EU enlargement, the region's FDI inflows are likely to increase further in 2003. Of the two factors determining this trend, the surge of FDI into the Russian Federation seems to be more fragile in the medium and long term than the spur of EU enlargement. In the short term, however, both factors are helping overcome the impact of the completion of privatization programmes and the slowdown of GDP growth expected in some key CEE countries.

UNCTAD's Inward FDI Performance Index ranks countries by the FDI they receive relative to their economic size, calculated as the ratio of the country's share in global FDI inflows to its share in global GDP. The Index for 1999–2001 indicates that Belgium and Luxembourg remained the top performer. Of the top 20 performers, 6 are industrialized, 2 are mature East-Asian tiger economies, 3 are economies in transition and the remaining 9 are developing economies, including three from sub-Saharan Africa. UNCTAD's 1999–2001 Inward FDI Potential Index, measuring the potential—based on a set of structural variables—of countries in attracting FDI, indicates that 16 of the 20 leading countries are developed countries and four of them, mature East-Asian tiger economies.

Many industrial, newly industrializing and advanced transition economies are in the *front-runner* category (with high FDI potential and performance), while most poor (or unstable) economies are in the *under-performer* category (with both low FDI potential and performance). Economies in the *above-potential* category (with low FDI potential but strong FDI performance) include Brazil, Kazakhstan and Viet Nam. Economies in the *below-potential* category (with high FDI potential but low FDI performance) include Australia, Italy, Japan, Republic of Korea, Taiwan Province of China and the United States.

Prospects remain dim for 2003, but should improve thereafter.

All in all, UNCTAD predicts that FDI flows will stablized in 2003. Flows to the developing countries and developed countries are likely to remain at levels comparable to those in 2002, while those to CEE are likely to continue to rise. In the longer run, beginning with 2004, global flows should rebound and return to an upward trend. The prospects for a future rise depend on factors at the macro-, micro- and institutional levels.

The fundamental economic forces driving FDI growth remain largely unchanged. Intense competition continues to force TNCs to invest in new markets and to seek access to low-cost resources and factors of production. Whether these forces lead to significantly higher FDI in the medium term depends on a recovery in world economic growth and a revival in stock markets, as well as the resurgence of cross-border M&As. Privatization may also be a factor. FDI policies continue to be more favourable, and new bilateral and regional arrangements could provide a better enabling framework for cross-border investment.

Findings of surveys of TNCs and investment promotion agencies (IPAs) carried out by UNCTAD and other organizations paint an optimistic picture for the medium term. IPAs in developing countries are far more sanguine than their developed world counterparts. Developing countries are also expected to be more active in outward FDI. IPAs expect greenfield investment to become more important as a mode of entry, especially in developing countries and CEE. Tourism and telecom are expected to lead the recovery.

Government policies are becoming more open, involving more incentives and focused promotion strategies...

Facing diminished FDI inflows, many governments accelerated the liberalization of FDI regimes, with 236 of 248 regulatory changes in 70 countries in 2002 facilitating FDI. Asia is one of the most rapidly liberalizing host regions. An increasing number of countries, including those in Latin America and the Caribbean, are moving beyond opening to foreign investment to adopting more focused and selective targeting and promotion strategies.

Financial incentives and bidding wars for large FDI projects have increased as competition intensified. IPAs, growing apace in recent years, are devoting more resources to targeting greenfield investors and to mounting after-care services for existing ones.

... as well as participation in more investment and trade agreements.

More countries are concluding bilateral investment treaties (BITs) and double taxation treaties (DTTs), as part of a longer trend, and not solely in response to the FDI downturn. In 2002, 82 BITs were concluded by 76 countries, and 68 DTTs by 64 countries. Many countries are concluding BITs with countries in their own region to promote intra-regional FDI. Asian and Pacific countries, for instance, were party to 45 BITs, including 10 signed with other countries in that region.

There has also been an increase in the number of trade and investment agreements. Many recent trade agreements address investment directly—or have indirect implications for investment, a trend conspicuously different from earlier regional and bilateral trade agreements. The largest number in developed countries were concluded by the EU, mainly involving partners in CEE and Mediterranean countries. The EU enlargement through the accession of 10 new members in 2004 and the forthcoming negotiations of ACP-EU Economic Partnership Agreements might also have an impact on FDI in the respective regions.

In Asia and the Pacific, the number of such agreements has increased rapidly—to improve competitiveness, attract more FDI and better meet the challenges emanating from heightened competition. ASEAN is taking the lead. In Latin America and the Caribbean, NAFTA has been the most prominent example, leading to increased FDI flows especially into the assembly of manufactured goods for the United States market. The Free Trade Area of the Americas, now under negotiation, could expand market access, promoting efficiency-seeking FDI. In Africa, progress towards the creation of functioning free trade and investment areas has been slow, though several agreements, mostly subregional, have been concluded. AGOA (not a free trade agreement but a unilateral preference scheme) holds some promise for the expansion of trade and investment in the region.

For the EU-accession countries of CEE, a policy challenge is to harmonize FDI regimes with EU regulations, with the twin aims of conforming to EU regulations and maximizing the potential benefits from EU instruments, such as regional development funds. Successful adjustment to EU membership in the accession countries will also depend on their ability to establish and develop the institutional framework required to administer and properly channel the variety of funds available from European Community sources for assisting

economic development. The non-accession countries face the challenge of updating and modernizing their FDI promotion to optimize the potential benefits being on a "new frontier" for efficiency-seeking FDI—by attracting firms choosing to switch to lower cost locations within CEE.

Converging patterns of FDI links and investment and trade agreements are generating mega blocks.

The global stock of FDI, owned by some 64,000 TNCs and controlling 870,000 of their foreign affiliates, increased by 10% in 2002—to more than $7 trillion. Technology payments, mostly internal to TNCs, held steady in 2001 despite the near halving of FDI flows. Value added by foreign affiliates in 2002 ($3.4 trillion) is estimated to account for about a tenth of world GDP. FDI continues to be more important than trade in delivering goods and services abroad: global sales by TNCs reached $18 trillion, as compared with world exports of $8 trillion in 2002. TNCs employed more than 53 million people abroad.

The developed world accounts for two-thirds of the world FDI stock, in both ownership and location. Firms from the EU have become by far the largest owners of outward FDI stock, some $3.4 trillion in 2002, more than twice that of the United States ($1.5 trillion). In developing countries, the inward FDI stock came to nearly one-third of GDP in 2001, up from a mere 13% in 1980. Outward FDI stocks held by developing countries have grown even more dramatically, from 3% of their GDP in 1980 to 13% in 2002.

Over time, the concentration of outward and inward FDI in the Triad (EU, Japan and the United States) has remained fairly stable. By 2002 the pattern of DTTs was quite similar to the Triad pattern of FDI flows, while the pattern of BITs had a weaker resemblance. For both BITs and DTTs, the Triad's associate partners (countries with more than 30% of their FDI with a Triad member) score higher than non-associate partners. This suggests that the "economic space" for Triad members and their developing country associates is being enlarged from national to regional—and that treaties are making investment blocks stronger. The emerging nexus of mutually reinforcing trade and investment agreements may be providing gains for the developing countries that are "insiders" in such mega blocks.

ENHANCING THE DEVELOPMENT DIMENSION OF INTERNATIONAL INVESTMENT AGREEMENTS

Countries seek FDI to help them grow and develop. Their national policies are key to attracting FDI and increasing its benefits.

To help attract FDI, countries increasingly conclude IIAs ...

Countries conclude international investment agreements (IIAs)—at the bilateral, regional and multilateral levels—for various reasons. For most host countries, it is mainly to help attract FDI. For most home countries, it is mainly to make the regulatory framework for FDI in host countries more transparent, stable, predictable and secure—and to reduce obstacles to future FDI flows. In either case, the regulatory framework for FDI, at whatever level, is at best enabling. Whether FDI flows actually take place depends in the main on economic determinants.

The number of IIAs, especially at the bilateral and regional levels, has greatly increased in the past decade, reflecting the importance of FDI in the world economy (see Part One of this *WIR*).

At the bilateral level, the most important instruments are bilateral investment treaties (BITs) and double taxation treaties (DTTs), with 2,181 BITs and 2,256 DTTs signed by the end of 2002. BITs are primarily instruments to protect investors, although recent agreements by a few countries also have more of a liberalizing effect. (They are not concluded between developed countries.) They cover an estimated 7% of the stock of world FDI and 22% of the FDI stock in developing and CEE countries. DTTs are primarily instruments to address the allocation of taxable income, including to reduce the incidence of double taxation. They cover some 87% of world FDI and some 57% of FDI in developing and CEE countries.

Although a few regional agreements deal exclusively with investment issues, the trend so far has been to address such issues in trade agreements. (The same applies to bilateral trade agreements.) In effect, free trade agreements today are often also free investment agreements.

At the multilateral level the few agreements that exist deal with specific investment-related issues (such as trade-related investment measures, insurance, dispute settlement, social policy matters) or they are sectoral (such as the General Agreement on Trade in Services (GATS)). There is no comprehensive multilateral agreement for investment, although issues pertaining to such an idea are currently being discussed in the WTO.

Overall, the growth in the number of IIAs and their nature reflect the fact that national policies in the past decade have become more welcoming to FDI. During 1991–2002, 95% of 1,641 FDI policy changes had that effect.

Issues relating to IIAs are therefore coming to the fore in international economic diplomacy. This is so irrespective of what will or will not happen at the multilateral level, simply because of what *is* happening *now* at the bilateral and regional levels. But if negotiations should take place at the multilateral level, these issues will acquire even greater importance. Whether governments negotiate IIAs, at what level and for what purpose is their sovereign decision. The objective of this *WIR* is simply to throw light on a range of issues that needs to be considered when negotiating IIAs, seeking to clarify them from a development perspective (and regardless of the outcome of the ongoing multilateral investment discussions).

Almost by definition, IIAs affect, to a greater or lesser extent, the regulatory framework for FDI, depending on their exact content. As a rule, they tend to make the regulatory framework more transparent, stable and predictable—allowing the economic determinants to assert themselves. The expectation is that, if the economic determinants are right, FDI will increase. In that respect, therefore, IIAs can influence FDI flows when they affect their determinants.

... which, by their nature, entail a loss of national policy space.

Experience shows that the best way of attracting FDI and drawing more benefits from it is not passive liberalization alone. Liberalization can help get more FDI. But it is certainly not enough to get the most from it. Attracting types of FDI with greater potential for benefiting host countries (such as FDI in technologically advanced or export oriented activities) is a more demanding task than just liberalizing FDI entry and operations. And, once countries succeed in attracting foreign investors, national policies are crucial to ensure that FDI brings more benefits. Policies can induce faster upgrading of technologies and skills, raise local procurement, secure more reinvestment of profits, better protect the environment and consumers and so on. They can also counter the potential dangers related to FDI. For example, they can contain anticompetitive practices and prevent foreign affiliates from crowding out viable local firms or acting in ways that upset local sensitivities. The instruments needed to put these policies in place tend to be limited—or excluded altogether—by entering into IIAs.

The challenge for developing countries is to find a development-oriented balance...

What are the issues?

For developing countries, the most important challenge in future IIAs is to strike a balance between the potential contribution of such agreements to increasing FDI flows and the preservation of the ability to pursue development-oriented FDI policies that allow them to benefit more from them— that is, the right to regulate in the public interest. This requires maintaining sufficient policy space to give governments the flexibility to use such policies within the framework of the obligations established by the IIAs to which they are parties. The tension this creates is obvious. Too much policy space impairs the value of international obligations. Too stringent obligations overly constrain national policy space. Finding a development-oriented balance is the challenge—for the objectives, structure, implementation and content of IIAs.

... when negotiating the objectives, structure and implementation of IIAs...

Many IIAs incorporate the objective of development among their basic purposes or principles, as a part of their preambular statements or as specific declaratory clauses articulating general principles. The main advantage of such provisions is that they may assist in the interpretation of substantive obligations, permitting the most development friendly interpretation. This promotes flexibility and the right to regulate by ensuring that the objective of development is

implied in all obligations and exceptions thereto—and that it informs the standard for assessing the legitimacy of governmental action under an agreement.

The structure of agreements may reflect development concerns through special and differential treatment for developing country parties. This entails differences in the extent of obligations of developed and developing country parties, with the latter assuming, either temporarily or permanently, less onerous obligations that are also non-reciprocal. Particularly important is the approach to determine the scope of commitments.

- Under a "negative list" approach, countries agree on a series of general commitments and then list, individually, all the areas these commitments do not apply to. This approach tends to produce an inventory of non-conforming measures. It also increases predictability because it locks in the status quo.
- Under a (GATS-type) "positive list" approach, countries list commitments they agree to make and the conditions they attach to them. This approach has the advantage that countries can make commitments at their own pace and determine the conditions for doing this. For these reasons the positive list approach is generally regarded as more development friendly than the negative list approach.

In theory, both approaches should arrive at the same result, if countries had the capacity to make proper judgments about individual activities—or, more broadly, about making commitments—when concluding an agreement. In practice, it is unlikely that developing countries would have all the information necessary to make the necessary judgments at the time of concluding agreements. As a result, the negative list approach might involve greater liberalization than countries may wish to commit themselves to start with. But even a positive list approach can lead to significant liberalization—because in practice, negotiations generate pressures on countries to assume higher and broader commitments. And once a commitment has been made, it is difficult to reverse it.

The implementation of IIAs can also be designed with flexibility for development as the organizing principle. Two approaches are particularly relevant here: first, the legal character, mechanisms and effects of an agreement, and second, promotional measures and technical assistance:

- Whether an agreement is legally binding or voluntary affects the intensity of particular obligations. Indeed, it is possible to have a mix of binding commitments and non-binding "best effort" provisions in one agreement. So, development-oriented provisions could be either legally binding or hortatory, depending on how much the parties are willing to undertake commitments.
- The asymmetries between developed and developing country parties to IIAs can be tackled by commitments of the developed country parties to provide assistance to the developing parties, especially LDCs. An example is the TRIPS Agreement, in which developed countries have made commitments to facilitate technology transfer to LDCs. Also relevant here is the wider issue of home country commitments to promote the flow of FDI to developing countries, perhaps complemented by provisions for technical assistance through relevant international organizations. These are important, given the complexity of the subject matter and the limited capacity of many developing countries, especially LDCs, to fund FDI-related policy analysis and development and for human and institutional development. Institutional development also involves assistance to developing countries to attract FDI and benefit more from it.

... and especially their content ...

The quest for a development friendly balance plays itself out most importantly in the negotiations of the content of IIAs. Central here is the resolution of issues that are particularly important for the ability of countries to pursue development-oriented national FDI policies—and that are particularly sensitive in international investment negotiations, because countries have diverging views about them.

From a development perspective, these issues are:

- The definition of investment, because it determines the scope and reach of the substantive provisions of an agreement.
- The scope of national treatment (especially as it relates to the right of establishment), because it determines how much and in what ways preferences can be given to domestic enterprises.
- The circumstances under which government policies should be regarded as regulatory takings, because it involves testing the boundary line between the legitimate right to regulate and the rights of private property owners.
- The scope of dispute settlement, because this raises the question of the involvement of non-State actors and the extent to which the

settlement of investment disputes is self-contained.

- The use of performance requirements, incentives, transfer-of-technology policies and competition policy, because they can advance development objectives.

Other important matters also arise in negotiations for IIAs, especially most-favoured-nation treatment, fair and equitable treatment and transparency. But these appear to be less controversial.

For each of these issues, more development friendly and less development friendly solutions exist. From the perspective of many developing countries, the preferable approach is a broad GATS-type positive list approach that allows each country to determine for itself for which of these issues to commit itself to in IIAs, under what conditions, and at what pace, commensurate with its individual needs and circumstances.

In pursuit of an overall balance, furthermore, future IIAs need to pay more attention to commitments by home countries. All developed countries (the main home countries) already have various measures to encourage FDI flows to developing countries in place. And a number of bilateral and regional agreements contain such commitments. Developing countries would benefit from making home country measures more transparent, stable and predictable in future IIAs.

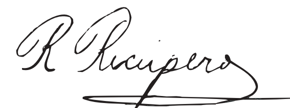
TNCs, too, can contribute more to advancing the development impact of their investments in developing countries, as part of good corporate citizenship responsibilities, whether through voluntary action or more legally-based processes. Areas particularly important from a development perspective are contributing fully to public revenues of host countries, creating and upgrading linkages with local enterprises, creating employment opportunities, raising local skill levels and transferring technology.

... by making development objectives an integral part of international investment agreements.

These issues are all complex. Because the potential implications of some provisions in IIAs are not fully known, it is not easy for individual countries to make the right choices. The complexities and sensitivities are illustrated by the experience of NAFTA for the regional level, that of the MAI negotiations for the interregional level and that of the GATS and the TRIMs Agreement for the multilateral level. Given the evolving nature of IIAs, other complexities tend to arise in applying and interpreting agreements. Indeed, disputes may arise from these processes, and their outcome is often hard to predict.

That is why governments need to ensure that such difficulties are kept to a minimum. How? By including appropriate safeguards at the outset to clarify the range of special and differential rights and qualifications of obligations that developing country parties might enjoy. Moreover, the administrative burden arising from new commitments at the international level is likely to weigh disproportionately on developing countries, especially the least developed, because they often lack the human and financial resources needed to implement agreements. This underlines the importance of capacity-building technical cooperation—to help developing countries assess better various policy options before entering new agreements and in implementing the commitments made.

The overriding challenge for countries is to find a development-oriented balance when negotiating the objectives, content, structure and implementation of future IIAs at whatever level and in whatever context. In short: the development dimension has to be an integral part of international investment agreements—in support of policies to attract more FDI and to benefit more from it.



Rubens Ricupero
Secretary-General of UNCTAD

Geneva, July 2003

PART ONE

FDI FALLS AGAIN – UNEVENLY

CHAPTER I

FDI DOWN 21% GLOBALLY

Global foreign direct investment (FDI) inflows, down by 41% in 2001, fell by another fifth in 2002—to $651 billion, or just half the peak in 2000 (table I.1). Driving the most significant downturn of the past three decades were weak economic growth, tumbling stock markets (which contributed to a plunge in cross-border mergers and acquisitions (M&As)) and institutional factors such as the winding down of privatization in several countries. The United States and the United Kingdom alone accounted for 54% of the fall in the countries with reduced inflows. In 2002,

- inflows in the developed world declined by 22%, with nine countries experiencing increases and 16 countries decreases. The United States alone accounted for more than half of the fall in the latter countries;
- the decline in the developing world (23%), which faced even sharper declines in other private external capital flows, was steepest in Africa (41%), followed by Latin America and the Caribbean (33%). Flows to the world's most populous region, Asia and the Pacific, fell only a little, thanks to higher flows to China;
- Central and Eastern Europe (CEE) resisted the global decline, with its FDI inflows rising by 15%, although flows to 10 countries in the region fell; and

Table I.1. Selected indicators of FDI and international production, 1982-2002
(Billions of dollars and per cent)

Item	Value at current prices (Billion dollars)			Annual growth rate (Per cent)						
	1982	1990	2002	1986-1990	1991-1995	1996-2000	1999	2000	2001	2002
FDI inflows	59	209	651	23.1	21.1	40.2	57.3	29.1	-40.9	-21.0
FDI outflows	28	242	647	25.7	16.5	35.7	60.5	9.5	-40.8	-9.0
FDI inward stock	802	1 954	7 123	14.7	9.3	17.2	19.4	18.9	7.5	7.8
FDI outward stock	595	1 763	6 866	18.0	10.6	16.8	18.2	19.8	5.5	8.7
Cross-border M&As [a]	..	151	370	25.9[b]	24.0	51.5	44.1	49.3	-48.1	-37.7
Sales of foreign affiliates	2 737	5 675	17 685[c]	16.0	10.1	10.9	13.3	19.6	9.2[c]	7.4[c]
Gross product of foreign affiliates	640	1 458	3 437[d]	17.3	6.7	7.9	12.8	16.2	14.7[d]	6.7[d]
Total assets of foreign affiliates	2 091	5 899	26 543[e]	18.8	13.9	19.2	20.7	27.4	4.5[e]	8.3[e]
Export of foreign affiliates	722	1 197	2 613[f]	13.5	7.6	9.6	3.3	11.4	-3.3[f]	4.2[f]
Employment of foreign affiliates (thousands)	19 375	24 262	53 094[g]	5.5	2.9	14.2	15.4	16.5	-1.5[g]	5.7[g]
GDP (in current prices)	10 805	21 672	32 227[h]	10.8	5.6	1.3	3.5	2.6	-0.5	3.4[h]
Gross fixed capital formation	2 286	4 819	6 422[i]	13.4	4.2	1.0	3.5	2.8	-3.9	1.3[i]
Royalties and licences fees receipts	9	30	72[j]	21.3	14.3	6.2	5.7	8.2	-3.1	..
Export of goods and non-factor services	2 053	4 300	7 838[k]	15.6	5.4	3.4	3.3	11.4	-3.3	4.2[k]

Source: UNCTAD, based on its FDI/TNC database and UNCTAD estimates.

[a] Data are only available from 1987 onward.
[b] 1987-1990 only.
[c] Based on the following regression result of sales against FDI inward stock (in millions dollars) for the period 1980-2000: Sales=934.0435+2.351837*FDI inward stock.
[d] Based on the following regression result of gross product against FDI inward stock (in millions dollars) for the period 1982-2000: Gross product=436.3332+0.421268*FDI inward stock.
[e] Based on the following regression result of assets against FDI inward stock (in millions dollars) for the period 1980-2000: Assets= -1 443.239+3.929293*FDI inward stock.
[f] For 1995-1998, based on the regression result of exports of foreign affiliates against FDI inward stock (in millions dollars) for the period 1982-1994: Exports=291.5394+0.453183*FDI inward stock. For 1999-2002, the share of exports of foreign affiliates in world export in 1998 (33.3 per cent) was applied to obtain the values.
[g] Based on the following regression result of employment (in thousands) against FDI inward stock (in millions dollars) for the period 1982-1999: Employment=13 865.43+5.507718*FDI inward stock.
[h] Based on data from the International Monetary Fund, *International Financial Statistics*, June 2003 and *World Economic Outlook*, April 2003.
[i] Data for 2002 was extrapolated using the share of countries and economies with available 2002 data in 2001 world gross fixed capital formation.
[j] 2001.
[k] Based on the International Monetary Fund, *World Economic Outlook*, April 2003.

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

- both manufacturing and services were hit hard, while FDI flows to the primary sector rose.

All this reduces the opportunities for developing countries to reap the benefits of FDI. The decline should however not obscure the fact that variations in flows do not change much the characteristics of the underlying FDI stock, which defines the structure of international production and which remains dominated by the Triad (European Union (EU), Japan and the United States).

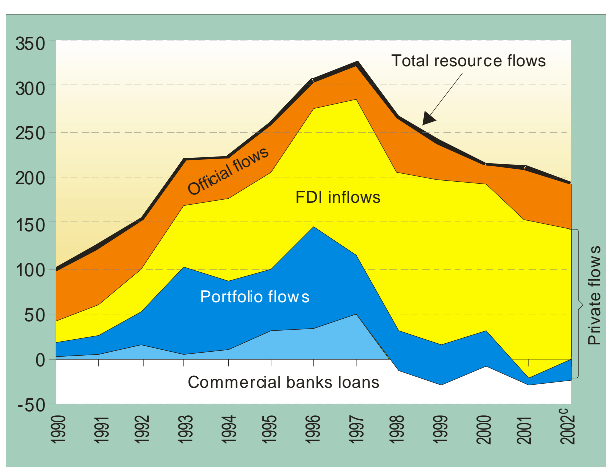
The prospects for a recovery in 2003: uncertain at best. Preliminary data do not suggest a rebound. Much will depend on the overall economic situation, especially in the main home countries.

A. The downturn continues

The decline in FDI flows in 2001–2002—after years of steady growth interrupted by a trough in the early 1990s and a sharp spurt in 1999–2000—was much steeper than that in GDP, exports and domestic investment (table I.1). FDI remains the biggest component of net resource flows to developing countries, fluctuating less than portfolio flows and commercial bank lending as measured by the relative variance of these variables (figure I.1).[1] And since 1990, it has been a growing part of total investment in developing countries (figure I.2).

The dramatic fall in FDI flows has slowed the expansion of international production. Sales, value added, assets, exports and employment of foreign affiliates all registered slower growth in 2002 (table I.1) than in 1996–2000 (but higher than in 2001 for some indicators). For the largest transnational corporations (TNCs) most indicators of the size of foreign operations declined slightly in 2001, the beginning of the FDI downturn period (box I.1).

Figure I.1. Total resource flows[a] to developing countries,[b] by type of flow, 1990–2002
(Billions of dollars)



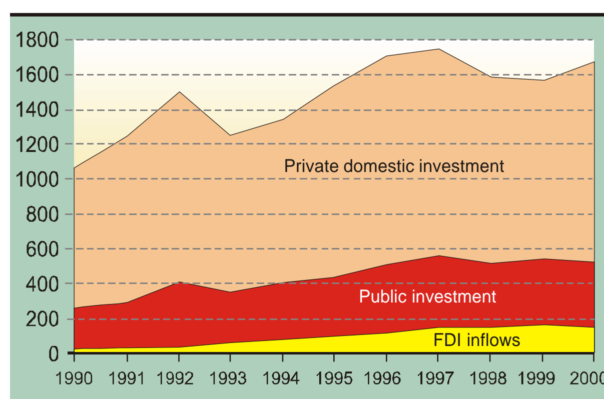
Source: UNCTAD, based on World Bank, 2003.

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

[b] The World Bank's classification of developing countries is different from that of UNCTAD. Central and Eastern Europe is included in the former classification.

[c] Preliminary.

Figure I.2. FDI inflows, private domestic investment and public investment in developing countries and Central and Eastern Europe,[a] 1990–2000
(Billions of dollars)



Source: UNCTAD, FDI/TNC database; and Everhart and Sumlinski, 2001.

[a] Data in this figure cover the following countries: Argentina, Azerbaijan, Bangladesh, Barbados, Belize, Benin, Bolivia, Brazil, Bulgaria, Cambodia, Chile, China, Colombia, Comoros, Costa Rica, Côte d'Ivoire, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Estonia, Grenada, Guatemala, Guinea-Bissau, Guyana, Haiti, India, Indonesia, Islamic Republic of Iran, Kazakhstan, Kenya, Republic of Korea, Lithuania, Madagascar, Malawi, Malaysia, Mauritania, Mauritius, Mexico, Morocco, Namibia, Nicaragua, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Romania, Seychelles, South Africa, Saint Lucia, Saint Vincent and the Grenadines, Serbia and Montenegro, Thailand, Trinidad and Tobago, Tunisia, Turkey, Uruguay, Uzbekistan and Venezuela.

The slower growth of the foreign activities of TNCs in 2001–2002 could translate into lower ratios of the transnationalization of economic activities for host countries. In 2000, reflecting the FDI boom, the transnationality index continued to rise (figure I.3), with a noticeable increase over the previous year.[2]

Box I.1. The world's largest transnational corporations

After years of expansion, the foreign operations as measured by foreign assets, sales and employment of the top 100 TNCs worldwide, stagnated in 2001, the latest year with complete data (box table I.1.1). Despite the burst of the bubble in information and communication technology, there is no significant shift in the industrial composition of the top 100 (annex table A.I.1). Petroleum and automobile companies remain high on the list, still led by Vodafone, a telecom company.

The picture of the 50 largest TNCs from developing economies is more complex (annex table A.I.2). Due to the economic downturn, sales (both total and foreign) declined in 2001. Total assets and employment also fell. Like many of the largest 100 TNCs, they had to undergo a restructuring process in order to remain competitive in a difficult economic environment. However, these TNCs continued to expand their production capacities abroad as shown by increases in foreign assets and employment (box table I.1.1). The ranking remains fairly stable. Hutchison Whampoa consolidated its top position. And with Singtel ranked second, two companies with major interests in telecoms were in the top 10. Petroleum and electrical and electronic equipment also figure prominently. As in previous years, the majority of the companies on the top 50 list are headquartered in Asia. And except for five companies from South Africa, the remaining firms hail from Latin America.

The 25 largest non-financial TNCs based in CEE, many of them natural-resource based or in transportation, were only marginally affected by the global slump (annex table A.I.3). The geographic concentration of their activities also protected them. Russian TNCs continue to be larger and more globally spread than the others. With foreign assets of more than $5 billion, Lukoil, the largest Russian TNC, compared with the top 10 in developing countries. Tiszai Vegyi Kombinát (Hungary) and KGHM Polska Miedz (Poland) rolled back their foreign presence in 2001. And Skoda Group Plzen (Czech Republic) went through bankruptcy, shrinking its assets at home and abroad. Replacing them were firms expanding rapidly abroad, such as the Hungary's pharmaceutical TNC Richter Gedeon.

Box table I.1.1. Snapshot of the world's 100 top TNCs, top 50 from developing economies and top 25 from CEE, 2001
(Billions of dollars, number of employees and per cent)

(a) World's top 100 TNCs

Variable	2001	2000	% change 2001 vs. 2000
Assets			
Foreign	2 934	3 113	-5.8
Total	5 914	6 184	-4.4
Sales			
Foreign	2 235	2 356	-5.2
Total	4 352	4 748	-8.3
Employment			
Foreign	6 890 178	6 791 647	1.5
Total	13 383 852	14 197 264	-5.7
Average TNI	59.4	55.7	3.7

Source: UNCTAD/Erasmus University database.
[a] The change between 2000 and 2001 is expressed in percentage points.

(b) Top 50 TNCs from developing economies

Variable	2001	2000	% change 2001 vs. 2000
Assets			
Foreign	183	155	17.6
Total	515	541	-4.9
Sales			
Foreign	143	186	-22.9
Total	355	393	-9.7
Employment			
Foreign	501 936	403 000	24.5
Total	1 159 476	1 321 449	-12.3
Average TNI	45.7	35.3	10.4

Source: UNCTAD, FDI/TNC database.
[a] The change between 2000 and 2001 is expressed in percentage points.

(c) Top 25 from Central and Eastern Europe

Variable	2001	2000	% change 2001 vs. 2000
Assets			
Foreign	9.3	8.1	15.2
Total	33.8	30.8	9.7
Sales			
Foreign	13.1	12.1	8.8
Total	30.2	29.8	1.6
Employment			
Foreign	30 053	32 203	-6.7
Total	335 236	353 983	-5.3
Average TNI	30.3	32.2	-1.9

Source: UNCTAD survey of the top TNCs in CEE.
[a] The change between 2000 and 2001 is expressed in percentage points.

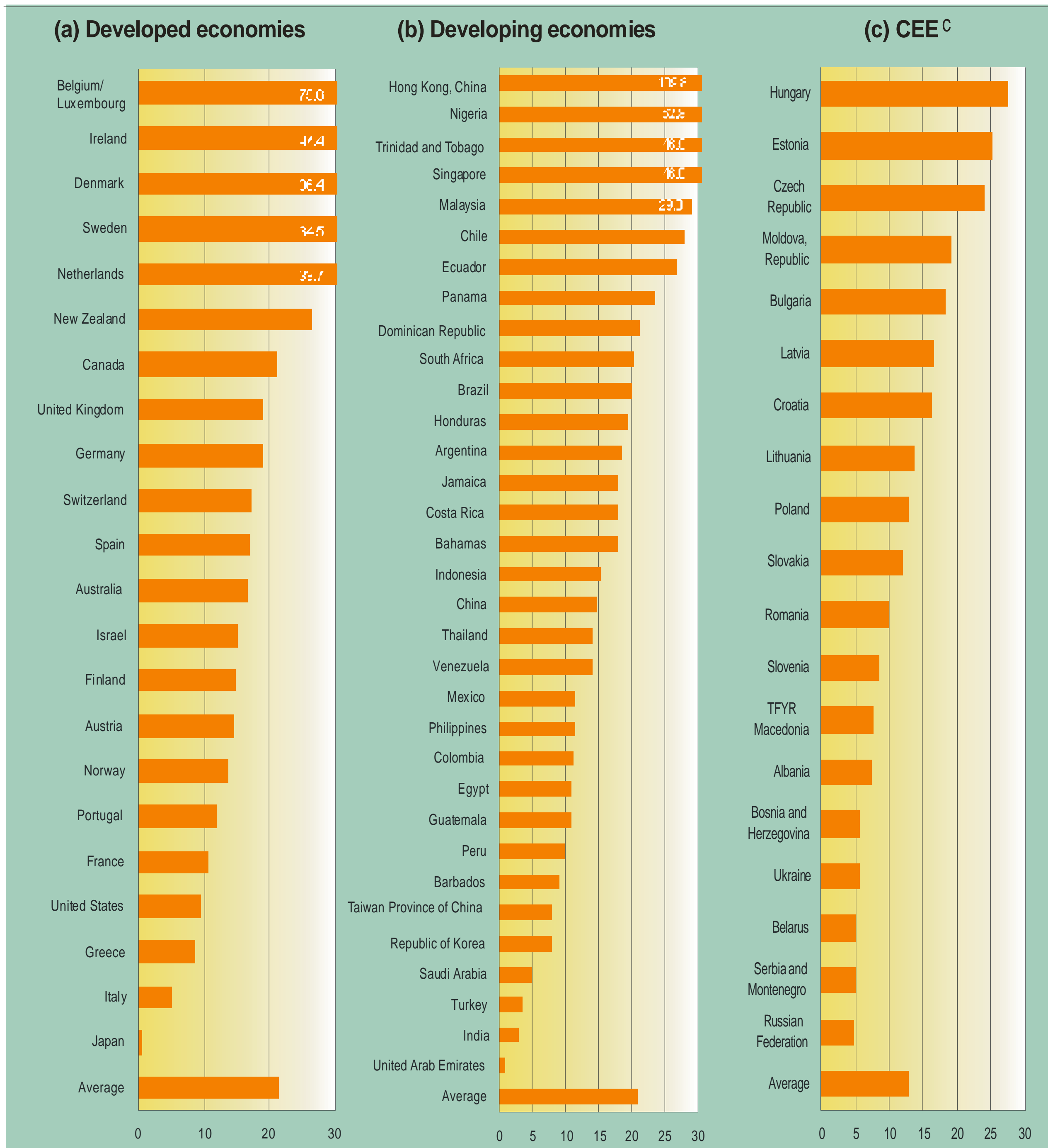
Source: UNCTAD.

B. The unevenness of the downturn

The decline in FDI inflows in 2001 and 2002 was uneven in four ways:

- *Geographically*. Regions fared differently, and a handful of countries accounted for the bulk of the decline worldwide.
- *Sectorally*. Flows to both manufacturing and services fell, but not those to the primary sector. Finance, transport, storage and communications were severely affected, while FDI in other industries remained virtually unchanged (health and social services) or even rose (mining, quarrying and petroleum).
- *Financially*. The decline in intra-company loans exceeded that in equity flows (in 2001 all the financial components of FDI declined about half).

Figure I.3. Transnationality index[a] of host economies,[b] 2000
(Per cent)



Source: UNCTAD estimates.

[a] Average of the four shares : FDI inflows as a percentage of gross fixed capital formation for the past three years 1998-2000; FDI inward stocks as a percentage of GDP in 2000; value added of foreign affiliates as a percentage of GDP in 2000; and employment of foreign affiliates as a percentage of total employment in 2000.

[b] Only the economies for which data for all of these four shares are available were selected. Data on value added are available only for Finland (1999), France (1998), Italy (1997), Japan (1999), Netherlands (1996), Norway (1998), Portugal, Sweden, United Kingdom (1997), United States, China (1997), India (1995), Malaysia (1995), Singapore and Taiwan Province of China (1994) . For other economies, data were estimated by applying the ratio of value added of United States affiliates to United States outward FDI stock to total inward FDI stock of the country. Data on employment are available only for Austria, Denmark (1996), Finland (1999), France (1998), Germany, Ireland, Italy (1999), Japan (1999), Netherlands (1996), Norway (1996), Portugal, Sweden, United Kingdom (1997), United States, Hong Kong (China) (1997), Indonesia (1996) and Singapore (1999). For other countries, data were estimated by applying the ratio of employment of Finnish, German, Japanese, Swedish, Swiss and United States affiliates

[c] For Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Estonia, Lithuania, Romania, Serbia and Montenegro, Slovakia, TFYR Macedonia and Ukraine the employment impact of foreign-owned affiliates was estimated on the basis of their per capita inward FDI stocks. The corresponding ratios for employment refer to 1999. With the exception of Belarus, Czech Republic, Hungary, Poland and Slovenia, the value added of foreign-owned firms was estimated on the basis of the per capita inward FDI stocks. The corresponding ratios for value added refer to 1999.

- *Mode of entry*. Cross-border M&As fell more than greenfield FDI.

The decline in *outflows* was also uneven.

Geography

The United States alone accounted for nearly 90% of the decline in inflows to developed countries in 2002 (as it did in 2001) (table I.2; chapter II). Among developing regions the fall was steepest in Africa (41%), a return to normalcy after the exceptionally large inflows registered by two countries in 2001 (chapter II). Flows to Latin America and the Caribbean dropped for the third year in a row, this time by a third. The decline in flows to the Asia-Pacific region (which includes West Asia) was quite small (11%). And flows to CEE rose by 15%.

Despite the high concentration, the decline was widespread, with 108 of the total of 195 host economies receiving less in 2002 than in 2001. With FDI inflows of $53 billion, an average of $144 million a day, China overtook the United States ($30 billion) to become the world's second largest recipient (after Luxembourg), strengthening its position in world manufacturing exports (chapter II). India and Malaysia also attracted larger FDI flows (chapter II), while flows to the major host countries declined in Latin America (Argentina, Brazil, Chile, Mexico, Venezuela). In Africa, flows to Morocco and South Africa, the two largest recipients in 2001, fell considerably. In the CEE, the Czech Republic boosted its inflows to more than $9 billion, thanks to the $4 billion sale of Transgas to RWE of Germany.

Table 1.2. FDI inflows to major economies, 2001 and 2002
(Billions of dollars)

Host region/economy	2001	2002
World	**823.8**	**651.2**
Developed countries	**589.4**	**460.3**
European Union	**389.4**	**374.4**
France	55.2	51.5
Germany	33.9	38.0
Luxembourg	..	125.6
United Kingdom	62.0	24.9
United States	144.0	30.0
Developing countries	**209.4**	**162.1**
Africa	**18.8**	**11.0**
Algeria	1.2	1.1
Angola	2.1	1.3
Nigeria	1.1	1.3
South Africa	6.8	0.8
Latin America and the Caribbean	**83.7**	**56.0**
Argentina	3.2	1.0
Brazil	22.5	16.6
Mexico	25.3	13.6
Asia and the Pacific	**106.9**	**95.1**
China	46.8	52.7
Hong Kong, China	23.8	13.7
India	3.4	3.4
Korea, Republic of	3.5	2.0
Malaysia	0.6	3.2
Philippines	1.0	1.1
Singapore	10.9	7.7
Taiwan Province of China	4.1	1.4
Thailand	3.8	1.1
Central and Eastern Europe	**25.0**	**28.7**
Czech Republic	5.6	9.3
Poland	5.7	4.1
Russian Federation	2.5	2.4

Source: UNCTAD, FDI/TNC database.

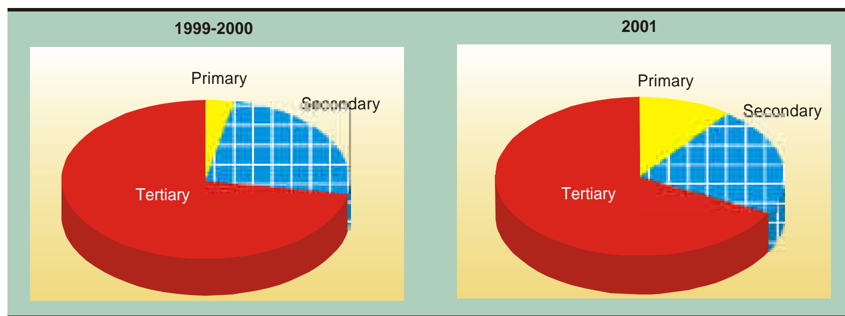
Sector

FDI inflows in 50 countries, which together accounted for roughly 90% of the total, declined by more than 45% in both manufacturing and services in 2001, compared with 1999–2000. But FDI in the primary sector rose by 70%, down in developing countries but up significantly in the developed countries (figure I.4; annex table A.I.4). Services are the single largest sector for FDI inflows. In the peak years 1999–2000, most large cross-border M&As were in services (particularly telecommunications), a pattern sustained in 2001–2002, though at a much lower level.

Financing

The role played by the three modes of FDI *financing* (equity investment, intra-company loans and reinvested earnings) in the decline in 2002 (as well as in the preceding year) was also uneven. The 2002 decline in intra-company loans (by 77%) was much larger than that in equity investments (by 12%) for the 30 countries (accounting for two thirds of total FDI flows) with data (figure I.5). The 79% fall in FDI flows to the United States in 2002 involved declines of $50 billion in new equity investment and $80 billion in intra-company loans—and a rise of $30 billion in reinvested earnings. The fall in intra-company loans was due to large repayments of loans by foreign affiliates in the United States to their parent companies. Interest rates in the United States were lower than in other areas, especially the EU.[3] And parent firms reduced loans to their foreign affiliates, particularly to EU affiliates in the United States, because of the reduced need to finance M&As in the United States (see chapter II).[4]

Figure I.4. Inward FDI flows, by sector, 1999-2000 and 2001
(Per cent)



Source: UNCTAD, FDI database and annex table A.I.4.

Notes: Data cover 50 countries for which data are available for 1999, 2000 and 2001. They account for 94 % and 89 % of world inward flows in 1999-2000 and 2001, respectively. In the absence of actual data, approval data were used in some countries.

Figure I.5. FDI inflows, by type of financing, 1990-2002
(Per cent)

(a) World
120.0 100.0 80.0 60.0 40.0 20.0 0.0 -20.0
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001
100.0 80.0 60.0 40.0 20.0 0.0
1999 2000 2001 2002
Includes only 30 countries

(b) Developed countries
130.0 110.0 90.0 70.0 50.0 30.0 10.0 -10.0 -30.0
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001
100.0 80.0 60.0 40.0 20.0 0.0
1999 2000 2001 2002
Includes only 16 countries

(c) Developing economies
100.0 80.0 60.0 40.0 20.0 0.0
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001
100.0 80.0 60.0 40.0 20.0 0.0 -20.0
1999 2000 2001 2002
Includes only 14 economies

(d) Central and Eastern Europe
100.0 80.0 60.0 40.0 20.0 0.0
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001

Equity
Reinvested earnings
Intra-company loans

Source: UNCTAD, based on IMF, *Balance of Payments Statistics*, April 2003 CD-ROM and UNCTAD FDI/TNC database.

Mode of entry

M&As declined relative to entry through greenfield projects. Cross-border M&As, down by 48% in 2001, fell another 38% in 2002. The share of cross-border M&A deals fell from at most 80% of total FDI flows in 2001 to at most 55% in 2002.[5]

Outflows

United States outflows ($120 billion) rose by 15% in 2002 (chapter II). EU outflows ($394 billion) decreased by 13% in 2002 and Japan's fell by 18%. In 2001 the decline in FDI flows from developed countries was concentrated primarily in other developed countries (table I.3). And in 2002, it is expected to be smaller. FDI from developing countries ($43 billion) also declined, but its share in world outflows remained almost the same; 7% each in 1999–2000, 2001 and 2002 (annex table B.2). That from CEE ($4 billion) rose, with the Russian Federation, the largest investor from the region, accounting for the bulk. Its share in world outflows also rose over the past years and reached 0.6% in 2002.

Table I.3. Outward FDI flows,[a] by geographical destination, 1999-2001
(Billions of dollars and percentage distribution)

Region/economy	Value in billion dollars: Average 1999-2000	Value in billion dollars: 2001	Percentage distribution: Average 1999-2000	Percentage distribution: 2001
Developed countries	924.2	470.1	83.7	74.6
Western Europe	640.9	259.7	58.0	41.2
European Union	589.4	236.6	53.4	37.5
Other Western Europe	50.9	24.1	4.6	3.8
Unspecified Western Europe	0.6	- 1.0	0.1	-0.2
North America	256.2	197.3	23.2	31.3
Other developed countries	25.0	9.1	2.3	1.4
Unspecified developed countries	2.2	3.9	0.2	0.6
Developing economies	129.2	115.2	11.7	18.3
Africa	6.8	8.5	0.6	1.3
North Africa	0.5	1.8	0.0	0.3
Other Africa	5.0	6.3	0.5	1.0
Unspecified Africa	1.3	0.4	0.1	0.1
Latin America and the Caribbean	84.7	69.1	7.7	11.0
South America	39.5	20.3	3.6	3.2
Other Latin America and Caribbean	36.4	38.0	3.3	6.0
Unspecified Latin America and Caribbean	8.8	10.9	0.8	1.7
Asia	33.9	36.5	3.1	5.8
West Asia	0.8	2.8	0.1	0.4
Central Asia	1.0	0.1	0.1	0.0
South, East and South-East Asia	31.0	32.8	2.8	5.2
Unspecified Asia	1.1	0.8	0.1	0.1
The Pacific	1.5	0.8	0.1	0.1
Unspecified developing countries	2.4	0.3	0.2	0.1
Central and Eastern Europe	18.0	18.6	1.6	3.0
Unspecified	32.7	26.3	3.0	4.2
Total world	1 104.1	630.3	100.0	100.0

Source: UNCTAD, FDI database.

[a] Totals are based on data for the following countries: Australia, Austria, Belgium and Luxembourg, Canada, Denmark, Finland, France, Germany, Iceland, Ireland, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and United States.

C. Performance Index captures the downturn's unevenness[6]

UNCTAD's third set of benchmarks for inward FDI performance and potential (following those in *WIR01* and *WIR02*) ranks countries by how they do in attracting inward direct investment and what their potential is in that respect. Not a full-blown analysis of the determinants of FDI location, the exercise is meant to provide data for policymakers on some variables that can be quantified for a large number of countries.

The Inward FDI *Performance* Index ranks countries by the FDI they receive relative to their economic size, calculated as the ratio of a country's share in global FDI inflows to its share in global GDP. A value greater than one indicates that the country receives more FDI than its relative economic size, a value below one that it receives less (a negative value means that foreign investors disinvest in that period). The index thus captures the influence on FDI of factors *other than market size*, assuming that, other things being equal, size is the "base line" for attracting investment. These other factors are diverse, ranging from the business climate, economic and political stability, the presence of natural resources, infrastructure, skills and technologies, to opportunities for participating in privatization or the effectiveness of FDI promotion.

The ranks show large variations over time because the numerator (FDI shares) and the denominator (GDP shares) can shift significantly from one year to the next. The variations can be particularly large for economies with tiny global GDP shares, where a few large investments (say, for M&As, privatization or resource-extraction) can change the ranking significantly. It is thus important to bear in mind that in such cases strong inward FDI performance may be a temporary phenomenon. Given the nature of the variables

used, of course, such volatility is to be expected. If a different denominator, like population, were used, the ranks would be much more stable but this would not capture the attractiveness of an economy to FDI as well.

The Inward FDI *Potential* Index captures several factors (apart from market size) expected to affect an economy's attractiveness to foreign investors. Because the index relies on variables that can be quantified with the available data, it does not include the social, political, governance and institutional factors that may affect FDI but are impossible to compare meaningfully across countries. It also does not include some economic factors like tax incentives for FDI, quantity and quality of skills, availability and efficiency of local suppliers or cost of infrastructure services that are in principle measurable but for which data are not available.

Performance Index

The leader in the 1999–2001 Inward FDI Performance Index, Belgium and Luxembourg, retains the rank it attained in the earlier period (1998–2000).[7] Of the top 20 performers, six are industrialized, two are mature East-Asian tiger economies, three are economies in transition and the remaining nine are developing economies, including three from sub-Saharan Africa (table I.4). The two lowest-ranked performers in 1999–2001 are Suriname and Gabon, followed by Indonesia, badly affected by the 1997 financial crisis. The laggards also include several oil-rich economies from the West Asia and North Africa region.

These index ranks are, of course, quite different from the ranks given by the values of FDI inflows. For instance, the largest FDI recipient in

Table I.4. Ranks in the UNCTAD inward FDI performance index, 1999-2001

Rank	Economy	Rank	Economy	Rank	Economy	Rank	Economy
1	Belgium and Luxembourg	36	Switzerland	71	Venezuela	106	Ethiopia
2	Angola	37	Brazil	72	Mexico	107	Kyrgyzstan
3	Hong Kong, China	38	Armenia	73	Costa Rica	108	Russian Federation
4	Ireland	39	Germany	74	Austria	109	Italy
5	Malta	40	United Republic of Tanzania	75	Romania	110	Egypt
6	Singapore	41	Spain	76	Tunisia	111	Sri Lanka
7	Sweden	42	Argentina	77	Ghana	112	Turkey
8	Netherlands	43	Papua New Guinea	78	Peru	113	Greece
9	Denmark	44	New Zealand	79	United States	114	Guinea
10	Brunei Darussalam	45	Togo	80	Colombia	115	Botswana
11	Czech Republic	46	Morocco	81	South Africa	116	Pakistan
12	Gambia	47	Poland	82	Benin	117	Sierra Leone
13	Nicaragua	48	Mongolia	83	Nigeria	118	Kenya
14	Bolivia	49	Finland	84	Uzbekistan	119	Burkina Faso
15	Kazakhstan	50	Viet Nam	85	Myanmar	120	India
16	Congo, Republic	51	Latvia	86	Côte d'Ivoire	121	Niger
17	Guyana	52	Portugal	87	Belarus	122	Cameroon
18	Moldova, Republic of	53	Hungary	88	Ukraine	123	Haiti
19	Chile	54	Jordan	89	Madagascar	124	Zimbabwe
20	Cyprus	55	Honduras	90	Philippines	125	Bangladesh
21	Estonia	56	Bahrain	91	Australia	126	Rwanda
22	Croatia	57	Sudan	92	Korea, Republic of	127	Congo, Democratic Republic
23	Jamaica	58	Uganda	93	Tajikistan	128	Japan
24	Mozambique	59	China	94	Senegal	129	Oman
25	Bulgaria	60	Lithuania	95	El Salvador	130	Nepal
26	Slovakia	61	Thailand	96	Lebanon	131	Iran, Islamic Republic
27	Trinidad and Tobago	62	France	97	Iceland	132	Kuwait
28	United Kingdom	63	Georgia	98	Qatar	133	Malawi
29	TFYR Macedonia	64	Zambia	99	Guatemala	134	Libyan Arab Jamahiriya
30	Canada	65	Israel	100	Uruguay	135	Saudi Arabia
31	Dominican Republic	66	Bahamas	101	Algeria	136	United Arab Emirates
32	Panama	67	Albania	102	Taiwan Province of China	137	Yemen
33	Azerbaijan	68	Mali	103	Syrian Arab Republic	138	Indonesia
34	Namibia	69	Norway	104	Paraguay	139	Gabon
35	Ecuador	70	Malaysia	105	Slovenia	140	Suriname

Source: UNCTAD.

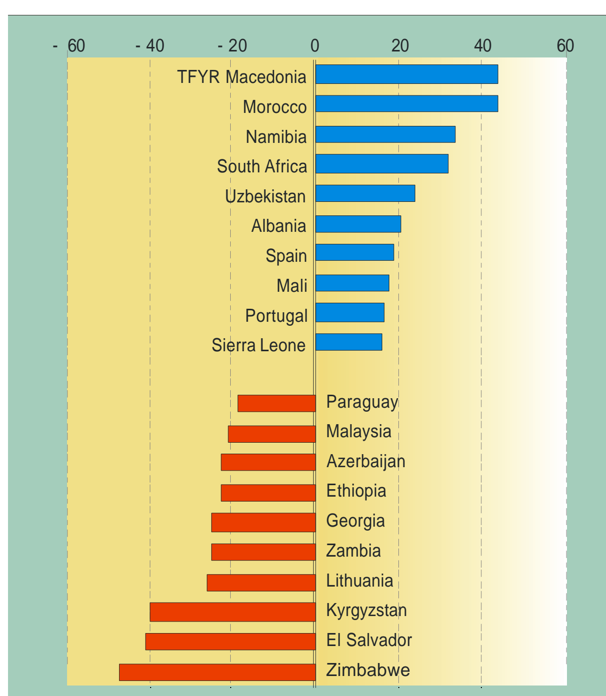
the industrial world in 2001, the United States, ranks 79th in the Performance Index. The largest in the developing world, China, comes 59th. Similarly, strong performers, such as Angola receive relatively small absolute values of FDI.

The ranks in the 1999–2001 Inward FDI Performance Index are similar to those in 1998–2000 (the correlation coefficient between them is 0.95). The five leaders are the same as the previous period (annex table A.I.5). (The top 10 gainers and losers between the two periods are shown in figure I.6.) The largest jumps are for relatively small economies, but there are also significant changes for large economies like South Africa (gainer) and Malaysia (loser), reflecting fluctuations in M&A activity or the effects of macroeconomic crises.

How do different regions fare in the Performance Index? Western Europe does best in the industrial world, raising its index value in the last two periods (figure I.7; annex table A.I.6). North America just maintains its index value (but at below one) from the early 1990s. In the developing world, Latin America and the Caribbean remain the best performers in the decade of the 1990s, with a better performance in the final period. North Africa and other Africa improve their position, but their indices values remain below unity; note, however, that other (i.e. sub-Saharan) Africa does better than West Asia and South Asia. East and South-East Asia maintains an index value of over one, but has not recovered its performance of before the financial crisis. Among the economies in transition, Central Asia does very well, with the highest regional index value in the last period. CEE lowers its index value from above unity to below.

The preceding section has highlighted the unevenness of the recent decline in FDI. If Performance Index values are calculated for the years 2000 (the FDI peak year) and 2001 (the first year in the current FDI downturn period) separately, a similar unevenness appears. While one would expect two consecutive years to have fairly similar rankings, there is in fact a great deal of turbulence. The ranks shift more in these two years than in 1998–2000 to 1999–2001.[8] There are 24 countries with rises in ranks of 20 or more places and 25 with falls of a similar magnitude. A big loser is Argentina, a result of its macroeconomic and political crisis. The list of countries with major losses in ranking also includes Bahrain, Jordan, Germany and Malaysia, with their inflows particularly affected by the economic slowdown.

Figure I.6. Main gainers and losers in Inward FDI Performance ranking, 1998–2000 to 1999–2001
(Change in rank)



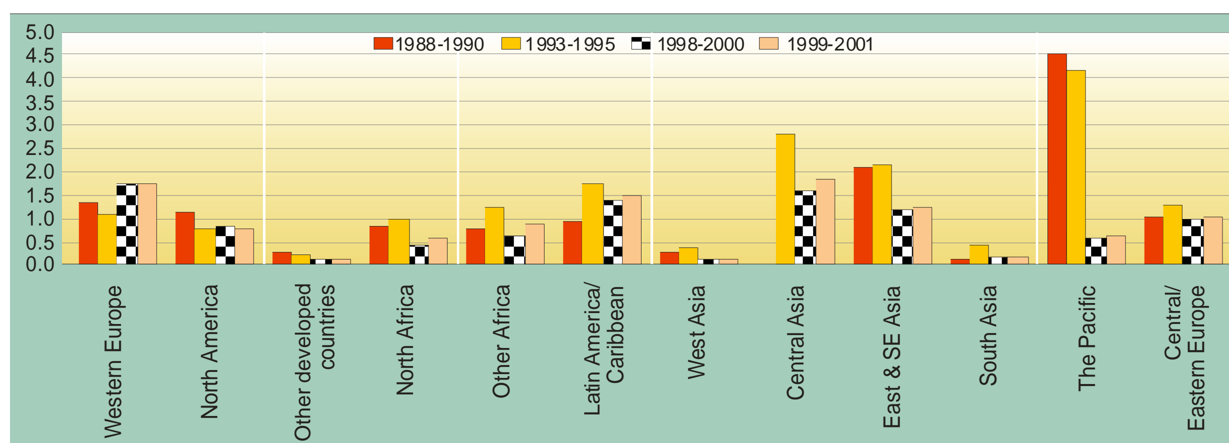
Source: UNCTAD.

Potential Index

The Inward FDI Potential Index, based mainly on structural variables (see annex table A.I.7 for raw data), is far more stable than the Performance Index. So the ranks for 1988–1990 are quite similar to those 12 years later in 1999–2001 (with a correlation coefficient of 0.92). Recent years show even higher correlation with the final year, reaching 0.99 for the preceding period 1998–2000. The ranks, as may be expected, correspond to incomes, with the United States leading in each three-year period (annex table A.I.8). But incomes do not fully reflect potential: Japan, Germany and Sweden, for instance, rank below Singapore and the United Kingdom in the Potential Index. At the bottom of the index are very poor countries, such as the Democratic Republic of Congo and Sierra Leone—but the country with the fourth lowest ranking, Zimbabwe, is richer than many countries that rank higher.

The leading 20 countries are all developed countries except for the four mature tiger economies of East Asia. The largest gains in the index over the 12 periods are by Guyana (39 places), Lebanon (27), El Salvador (26), Yemen (22) and Kuwait (18). Among developed countries, the main gainer is Ireland (13), and among the

Figure I.7. Inward FDI Performance Index, by main region, 1988–1990, 1993–1995, 1998–2000 and 1999–2001



Source: UNCTAD.

newly industrializing countries the Philippines (10). The largest losers are Zimbabwe (down 55 places), Indonesia (50), Kenya (43), Pakistan (37) and Paraguay (37). Among developed countries the countries down most are Italy (8), France (7) and Australia (7).

It is not possible to compare ranks over time for most of the CEE countries because there are no data for the early years. However, the ranks are plausible and interesting. The leader is Slovenia, followed by the Russian Federation and the Czech Republic.

Comparing performance and potential

There is a surprising amount of broad overlap between the two indices. There are seven countries in common among the 20 leading countries by each index, and seven in the 20 lagging countries (table I.5). The exceptions are countries like Angola and Brunei Darussalam that have shot up in the performance ranks because of recent lumpy inflows of FDI for resource-based activities. Only one country, Japan, appears among the leaders in the Potential Index and the laggards in the Performance Index—again, the reason for this is well known.

There may be lessons from comparing the two indices, tracing the factors that lead to a discrepancy between the two ranks by drawing up a *four-fold matrix* of inward FDI performance and potential:

- *Front-runners*: countries with high FDI potential and performance.
- *Above potential*: countries with low FDI potential but strong FDI performance.
- *Below potential*: countries with high FDI potential but low FDI performance.
- *Under-performers*: countries with both low FDI potential and performance. [9]

The first and last groups do not raise any particular issues: the former includes many industrial, newly industrializing and advanced transition economies, the latter mainly poor (or unstable) economies. Changes over time in the positioning of economies in this matrix may also be of interest. Take some instances of deteriorating performance. The United States and Taiwan Province of China were front-runners in 1988–1990 and fell back over time; the Philippines moved from above to below potential over the 12 years; Nigeria moved from above potential to an under-performer; and so on (table I.6). By contrast, Israel moved from being in the below-potential group to front-runner. And so on. Exploring the causes and policy implications of such changes is beyond the scope of this exercise, but clearly there are many issues to be explored, both in terms of what the indices cover and also what they do not.

In policy terms, assuming that countries want to maintain or improve their FDI positions, those falling into the first set in the four-fold matrix presented above have to ensure their continuing success and those falling into the last, to boost their performance in both attracting FDI and enhancing their potential. The other two are of more interest. The above-potential countries are "hitting above their weight" in drawing more FDI than their potential warrants, and the below-potential ones

Table I.5. Leading and lagging 20 economies in inward FDI performance and potential indices, 1998-1990, 1993-1995 and 1999-2001

	Inward FDI performance ranks				Inward FDI potential ranks			
Rank	Economy	1988-1990	1993-1995	1999-2001	Economy	1988-1990	1993-1995	1999-2001
	Leading 20 economies							
1	Belgium and Luxembourg	8	24	1	United States	1	1	1
2	Angola	106	7	2	Singapore	13	4	2
3	Hong Kong, China	3	14	3	Norway	5	5	3
4	Ireland	59	51	4	United Kingdom	3	6	4
5	Malta	21	22	5	Canada	2	2	5
6	Singapore	1	2	6	Germany	4	3	6
7	Sweden	50	25	7	Sweden	6	9	7
8	Netherlands	13	41	8	Belgium and Luxembourg	10	11	8
9	Denmark	53	43	9	Netherlands	8	10	9
10	Brunei Darussalam	103	18	10	Finland	9	15	10
11	Czech Republic	..	30	11	Ireland	24	22	11
12	Gambia	9	32	12	Japan	12	8	12
13	Nicaragua	96	37	13	Hong Kong, China	17	13	13
14	Bolivia	46	27	14	France	7	7	14
15	Kazakhstan	..	17	15	Switzerland	11	14	15
16	Congo, Republic	84	6	16	Denmark	16	16	16
17	Guyana	58	1	17	Iceland	15	19	17
18	Moldova, Republic of	..	35	18	Korea, Republic of	20	17	18
19	Chile	10	21	19	Taiwan Province of China	21	21	19
20	Cyprus	27	79	20	Qatar	22	20	20
	Lagging 20 economies							
121	Niger	56	118	121	Bangladesh	105	118	121
122	Cameroon	114	127	122	Togo	90	124	122
123	Haiti	81	135	123	Sudan	116	137	123
124	Zimbabwe	113	83	124	Ethiopia	114	125	124
125	Bangladesh	104	126	125	Burkina Faso	94	121	125
126	Rwanda	61	117	126	Niger	108	128	126
127	Congo, Democratic Republic	111	133	127	Kenya	84	101	127
128	Japan	105	128	128	Kyrgyzstan	..	134	128
129	Oman	32	94	129	Pakistan	92	113	129
130	Nepal	97	122	130	United Republic of Tanzania	98	114	130
131	Iran, Islamic Republic	112	123	131	Georgia	..	133	131
132	Kuwait	102	125	132	Benin	111	135	132
133	Malawi	41	129	133	Nepal	109	132	133
134	Libyan Arab Jamahiriya	69	136	134	Zambia	100	117	134
135	Saudi Arabia	83	131	135	Haiti	115	136	135
136	United Arab Emirates	92	92	136	Tajikistan	..	103	136
137	Yemen	115	13	137	Zimbabwe	82	102	137
138	Indonesia	54	57	138	Rwanda	113	140	138
139	Gabon	33	139	139	Congo, Democratic Republic of	103	139	139
140	Suriname	117	140	140	Sierra Leone	107	138	140

Source: UNCTAD.

are doing the opposite. The former should be concerned about raising their potential if they are to sustain past FDI performance, the latter about addressing the shortcomings that prevent their structural FDI potential from being realized.

In 1999–2001 economies performing below potential include such major industrial countries as Australia, Italy, Japan and the United States, and such newly industrializing economies as the Republic of Korea, the Philippines and Taiwan Province of China (table I.6). The group also includes the Russian Federation, Saudi Arabia and United Arab Emirates, all countries with enormous resource bases that should be able to attract greater direct investment. And it has countries that have moved from being front-runners in the previous period: Australia, Costa Rica and Mexico.

The above-potential group includes Brazil, which scores poorly on recent growth, export shares and skill creation. The under-performers include all the South Asian economies and many poor and least developed countries, along with Turkey, with a weak record on risk and FDI stock. Front-runners include many developed countries such as France, Germany, Sweden and Switzerland and Asian newly industrializing economies.

Table I.6. Matrix of inward FDI performance and potential, 1988-1990, 1993-1995 and 1999-2001

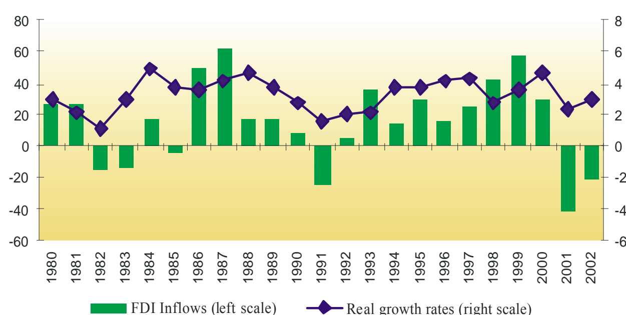
	High FDI performance	Low FDI performance
	1999-2001	
	Front-runners	Below-potential
High FDI potential	Argentina, Bahamas, Bahrain, Belgium and Luxembourg, Brunei Darussalam, Bulgaria, Canada, Chile, China, Croatia, Cyprus, Czech Republic, Denmark, Dominican Republic, Estonia, Finland, France, Germany, Guyana, Hong Kong (China), Hungary, Ireland, Israel, Jordan, Latvia, Lithuania, Malaysia, Malta, Mongolia, Netherlands, New Zealand, Norway, Panama, Poland, Portugal, Singapore, Slovakia, Spain, Sweden, Switzerland, Thailand, Trinidad and Tobago and United Kingdom.	Australia, Austria, Belarus, Botswana, Costa Rica, Egypt, El Salvador, Greece, Iceland, Italy, Japan, Kuwait, Lebanon, Libyan Arab Jamahiriya, Mexico, Oman, Philippines, Qatar, Republic of Korea, Russian Federation, Saudi Arabia, Slovenia, Taiwan Province of China, United Arab Emirates, United States, Uruguay and Venezuela.
	Above-potential	Under-performers
Low FDI potential	Albania, Angola, Armenia, Azerbaijan, Bolivia, Brazil, Ecuador, Gambia, Georgia, Honduras, Jamaica, Kazakhstan, Mali, Morocco, Mozambique, Namibia, Nicaragua, Papua New Guinea, Republic of Congo, Republic of Moldova, Sudan, TFYR Macedonia, Togo, Uganda, United Republic of Tanzania, Viet Nam and Zambia.	Algeria, Bangladesh, Benin, Burkina Faso, Cameroon, Colombia, Côte d'Ivoire, Democratic Republic of Congo, Ethiopia, Gabon, Ghana, Guatemala, Guinea, Haiti, India, Indonesia, Islamic Republic of Iran, Kenya, Kyrgyzstan, Madagascar, Malawi, Myanmar, Nepal, Niger, Nigeria, Pakistan, Paraguay, Peru, Romania, Rwanda, Senegal, Sierra Leone, South Africa, Sri Lanka, Suriname, Syrian Arab Republic, Tajikistan, Tunisia, Turkey, Ukraine, Uzbekistan, Yemen and Zimbabwe.
	1993-1995	
	Front-runners	Below-potential
High FDI potential	Argentina, Australia, Bahamas, Bahrain, Belgium and Luxembourg, Brunei Darussalam, Chile, China, Costa Rica, Czech Republic, Denmark, Dominican Republic, Estonia, France, Guyana, Hong Kong (China), Hungary, Indonesia, Ireland, Jamaica, Malaysia, Malta, Mexico, Netherlands, New Zealand, Norway, Panama, Papua New Guinea, Philippines, Poland, Qatar, Republic of Moldova, Singapore, Slovakia, Spain, Sweden and United Kingdom.	Austria, Botswana, Bulgaria, Canada, Cyprus, El Salvador, Finland, Germany, Greece, Iceland, Islamic Republic of Iran, Israel, Italy, Japan, Jordan, Kuwait, Libyan Arab Jamahiriya, Oman, Portugal, Republic of Korea, Russian Federation, Saudi Arabia, Slovenia, South Africa, Suriname, Switzerland, Taiwan Province of China, Thailand, Ukraine, United Arab Emirates, United States, Uruguay and Venezuela.
	Above-potential	Under-performers
Low FDI potential	Albania, Angola, Azerbaijan, Bolivia, Colombia, Côte d'Ivoire, Ecuador, Egypt, Gambia, Ghana, Honduras, Kazakhstan, Kyrgyzstan, Latvia, Mali, Morocco, Mozambique, Myanmar, Namibia, Nicaragua, Nigeria, Paraguay, Peru, Republic of Congo, Tajikistan, Togo, Trinidad and Tobago, Tunisia, Uganda, United Republic of Tanzania, Viet Nam, Yemen and Zambia.	Algeria, Armenia, Bangladesh, Belarus, Benin, Brazil, Burkina Faso, Cameroon, Croatia, Democratic Republic of Congo, Ethiopia, Gabon, Georgia, Guatemala, Guinea, Haiti, India, Kenya, Lebanon, Lithuania, Madagascar, Malawi, Mongolia, Nepal, Niger, Pakistan, Romania, Rwanda, Senegal, Sierra Leone, Sri Lanka, Sudan, Syrian Arab Republic, TFYR Macedonia, Turkey, Uzbekistan and Zimbabwe.
	1988-1990	
	Front-runners	Below-potential
High FDI potential	Argentina, Australia, Bahrain, Belgium and Luxembourg, Botswana, Canada, Chile, China, Colombia, Costa Rica, Cyprus, Denmark, France, Greece, Hong Kong (China), Indonesia, Ireland, Malaysia, Malta, Mexico, Netherlands, New Zealand, Norway, Oman, Portugal, Singapore, Spain, Sweden, Switzerland, Taiwan Province of China, Thailand, Trinidad and Tobago, United Kingdom, United States and Venezuela.	Algeria, Austria, Bahamas, Brazil, Brunei Darussalam, Finland, Germany, Hungary, Iceland, Islamic Republic of Iran, Israel, Italy, Japan, Kuwait, Libyan Arab Jamahiriya, Panama, Poland, Qatar, Republic of Korea, Saudi Arabia, South Africa, Suriname, United Arab Emirates and Uruguay.
	Above-potential	Under-performers
Low FDI potential	Benin, Bolivia, Dominican Republic, Ecuador, Egypt, Gabon, Gambia, Guatemala, Guyana, Honduras, Jamaica, Malawi, Myanmar, Niger, Nigeria, Papua New Guinea, Paraguay, Philippines, Sierra Leone, Syrian Arab Republic, Togo, Tunisia, Viet Nam and Zambia.	Angola, Bangladesh, Burkina Faso, Cameroon, Côte d'Ivoire, Democratic Republic of Congo, El Salvador, Ethiopia, Ghana, Guinea, Haiti, India, Jordan, Kenya, Lebanon, Madagascar, Mali, Morocco, Mozambique, Namibia, Nepal, Nicaragua, Pakistan, Peru, Republic of Congo, Rwanda, Senegal, Sri Lanka, Sudan, Turkey, Uganda, United Republic of Tanzania, Yemen and Zimbabwe.

Source: UNCTAD.

Box I.2. FDI booms and busts since 1970

Since 1970, there have been four major downturns in FDI inflows (box figure I.2.1): 1976 (down by 21%); 1982–1983 (down 14% a year on average); 1991 (decline of 24%); and 2001–2002 (down 31% a year on average). Each is correlated with periods of recession or slow growth in the world economy, particularly in the principal host/ home countries. There is usually a one-to-two year lag between a setback in world growth and the decline in FDI flows (box figure I.2.1). The last two major downturns have also been characterized by sharp declines in cross-border M&A activity.

Box figure I.2.1. Growth rates of world FDI flows and GDP, 1980-2002
(Per cent)



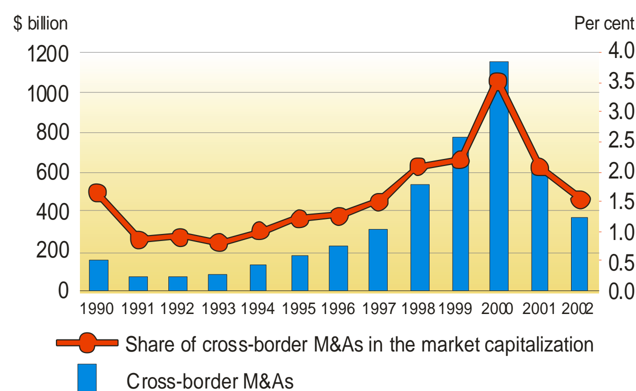
Source: UNCTAD, FDI/TNC database and data from IMF, *World Economic Outlook*, 2003.

For developed countries FDI booms and busts are almost identical to those for the world as a whole. But for developing countries the number and timing of the FDI downturns often do not coincide with those for the rest of the world. This unevenness between developed and developing countries explains why the share of developing countries in world FDI increases in some years, only to fall later. The CEE region has not experienced any significant busts so far, with small declines in its FDI inflows in some years as the outcome of "lumpy" privatization or large investment projects.

The FDI downturn that began in 2001 is by far the most significant in its sharpness and in the difference between developed and developing countries, with the M&A bust concentrated in the developed world. The downturn in the early 1990s was also characterized by a prior flurry of cross-border M&A activity that came to an end. But the cross-border M&A wave of the late 1990s was at least five times larger (in real terms) than its predecessor; it also involved firms from a greater number of industrialized countries and included many more services transactions (Evenett 2002). Compared with national stock market capitalizations, however, foreign acquisitions of domestic firms in this latest wave were small. The share of cross-border M&As in the capitalization of world stock markets was only 3.7% in the peak year of 2000, declining to 1.7% in 2002 (box figure I.2.2).

That the United States accounted for 38% of this global FDI downturn is not unprecedented. In the 1982–1983 downturn, the United States alone accounted for 76% of the decline; in the 1991 downturn it accounted for 51%. But in the 1976 downturn the countries with the largest declines in FDI inflows—such as the Netherlands (by 53%) and Italy (by 83%)—accounted for less than 5% of the decline. The recent global FDI picture seems to be contingent on the United States, the largest FDI recipient until 2001.

Box figure I.2.2. How big are cross-border M&As? The share of cross-border M&As in the market capitalization of world stock exchange markets, 1990–2002
(Billions of dollars and per cent)



Source: UNCTAD.

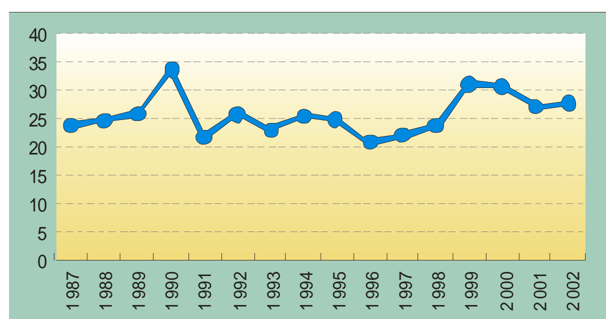
[a] Includes 49 stock exchange markets in 44 countries.

FDI flows typically recover quickly after a downturn, regaining the strength to reach new heights. Of concern today is not only the downturn's severity, but its duration. Only once before (1982–1983) has a downturn lasted two years. The latest downturn is poised to exceed that, as suggested by the preliminary data on FDI flows during the first few months of 2003[a] and UNCTAD's Investment Promotion Agency survey (box I.5).

Source: UNCTAD, based on data obtained from United States Department of Commerce, Bureau of Economic Analysis (http://www.bea.gov/); Evenett 2002.

[a] For data, for example, see note 57 in chapter II.

Figure I.8. The share of cross-border M&As in total M&As worldwide, 1987–2002
(Per cent)



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

The number of cross-border M&A transactions slid from 7,894 in 2000 to 6,034 in 2001 and 4,493 in 2002. The average value per transaction also slid from $145 million in 2000 to $98 million in 2001 and to $82 million in 2002—as the number of mega deals (worth over $1 billion) fell from 175 in 2000 to 113 in 2001 to only 81 in 2002, the lowest since 1998 (table I.7; annex table A.I.9).

Table I.7. Cross-border M&As with values of over $1 billion, 1987-2002

Year	Number of deals	Percentage of total	Value (Billion dollars)	Percentage of total
1987	14	1.6	30.0	40.3
1988	22	1.5	49.6	42.9
1989	26	1.2	59.5	42.4
1990	33	1.3	60.9	40.4
1991	7	0.2	20.4	25.2
1992	10	0.4	21.3	26.8
1993	14	0.5	23.5	28.3
1994	24	0.7	50.9	40.1
1995	36	0.8	80.4	43.1
1996	43	0.9	94.0	41.4
1997	64	1.3	129.2	42.4
1998	86	1.5	329.7	62.0
1999	114	1.6	522.0	68.1
2000	175	2.2	866.2	75.7
2001	113	1.9	378.1	63.7
2002	81	1.8	213.9	58.1

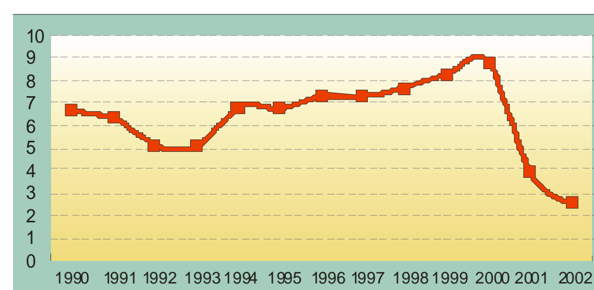
Source: UNCTAD, cross-border M&A database.

2. Microeconomic factors

Lower corporate profits, a decline in TNCs' ability or willingness to finance FDI through intra-company loans and a slowdown in corporate restructuring contributed to the downturn. Corporate profits, strong until 2000, weakened in 2001 and 2002, reducing the opportunities and finance for FDI. For a third of the 100 largest TNCs identified by UNCTAD, profitability (return on assets[11]) was only 2% in 2002, down from 7% in the late 1990s (figure I.9). TNCs have been hit particularly hard in Latin America, especially in Argentina and in the financial services industry (ECLAC 2003). Returns on FDI declined from 6.3% in 2000 to 4.8% in 2001, the lowest since the early 1990s.[12] Those returns were consistently higher in developing countries (5.8%) than in developed (4.4%) and CEE countries (3.9%) since the beginning of the 1990s.

Reinvested earnings, one of the three components of FDI, were down by half for all foreign affiliates in 2001, and they are likely to account for a fifth of FDI flows in 2002 (figure I.5). Lower profits may also have led to divestment, but data are not available to gauge its extent (box I.3).

Figure I.9. Profitability of the top 99 non-financial TNCs, 1990–2002
(Per cent)



Source: UNCTAD, based on information provided by Thomson Financial.

[a] Defined as return on assets: net income before preferred dividends + ((interest expense on debt- interest capitalized) * (1-tax rate)) / last year's total assets * 100.

Large repayments of intra-company loans were the main element in reduced net FDI flows in many countries, particularly the United States. For 11 out of 30 countries that report the data on FDI inflows by components in 2002, intra-company loans were negative.[13] The runup in the United States stock market during 1996–2000 allowed companies to sustain high debt, while retaining reasonable debt-to-equity ratios. But after the correction in 2000–2002, debt ratios for these same firms, including their foreign affiliates, became too high. So foreign affiliates may have had to repay intra-company loans to their parents to restore appropriate debt-to-equity ratios—and perhaps to

Box I.3. Divestment: factors and evidence

Has there been less new investment, or has divestment[a] of existing stock increased? Divestment can involve dismantling ownership relationships across national borders, the result of a strategic decision about the geographic scope of a TNC's activities. It can also involve a change in the mode of servicing a foreign market, as from local production to exports or licensing. Or it can be a complete withdrawal from a host country.

Although it is difficult to gauge its magnitude, divestment can be important for some countries. In Portugal during 1989–1998, the annual average foreign plant closure rate was 5.9% a year (Mata and Portugal 2000). From the time of the initial investment 30–60% of FDI is likely to be divested over 10 years (Larimo 2000). More than half of a sample of foreign affiliates of Norwegian companies had divested within 10 years (Benito 1997). Divestment has also been significant for major home countries in recent years (annex table A.I.10).

The recent closure of many Japanese financial service affiliates was necessitated by the fact that economic difficulties in the home country of investing firms required a restructuring of their international operations. During 2000–2002, there were 61 closures but no new branches or affiliates, plunging the foreign assets of Japanese banks to only a third of those at their peak in 1998.[b]

The process of economic development and a resulting shift in locational advantages may also give rise to divestments, but it is more often reflected in a shift in new FDI flows. As local technology and human resources are upgraded and wages rise, locational advantages in labour-intensive production may diminish, leading to plant closures. Recent relocations from developed and some CEE countries to China are an example.

Also driving divestment are industry-specific changes in the economic environment, such as those associated with the industry life cycle (Belderbos forthcoming) or with consolidation (Benito 1997). Exit from an industry occurs in cycles, with the number of exits highest when industries mature and consolidate. This can lead to uneven divestment patterns across industries. Recent closures in the automobile industry (Ford divesting out of Portugal in 2000) and in high-tech knowledge-based industries can be attributed to rationalization and restructuring.

Strategic considerations drive divestment as well:

- When a decision to focus on core businesses leads to outsourcing. United States-based Gateway's decision to withdraw from Ireland and the United Kingdom in 2002 was in part driven by the replacement of foreign production facilities by outsourcing (Fried 2002).
- When TNCs merge, with foreign affiliates closed down (box table I.3.1).
- When the mode of servicing foreign markets shifts from FDI to exports or licensing. In 2001 Marks & Spencer franchised the business of its 10 stores in Hong Kong (China) to cut costs, a move that has proven successful in 30 other countries (Marks & Spencer 2001).
- When affiliates perform poorly. A 2001 survey of some 1,000 Japanese foreign affiliates that had been closed or were to be closed shows that more than 40% of these affiliates were shut down because of their performance (Japan METI 2002).

Box table I.3.1. Divestment after mergers: changes in the number of foreign affiliates[a] and host countries in selected cases

Merger case (Partner names)	Merger year	Number of foreign affiliates and host countries: At the time of merger	2002
Vivendi Universal (Vivendi-Seagram)	2000 52 host countries[b]	904 foreign affiliates 50 host countries	744 foreign affiliates
BHP Billiton (BHP-Billiton)	2001 30 host countries[b]	184 foreign affiliates 20 host countries	60 foreign affiliates
Unilever (Unilever-Bestfoods)	2000 50 host countries[b]	275 foreign affiliates 44 host countries	242 foreign affiliates
Nestlé (Nestlé-Ralston Purina)	2001 63 host countries[b]	428 foreign affiliates 86 host countries	398 foreign affiliates

Source: UNCTAD.

a Only majority-owned foreign affiliates.
b Different host countries only, i.e., counting a country as "one" in which both companies (before the merger) had an affiliate.

Source: UNCTAD.

a FDI statistics on a balance-of-payments basis do not report explicitly the magnitude of divestment from a country as they are reported in net values. Furthermore, if foreign affiliates are relocated to other host countries, there is no decline in global FDI.
b *Nihon Keizai Shimbun*, 19 and 28 February 2003.

improve the parent's earnings per share. Moreover, as mentioned earlier (section B), the interest rate differentials between the United States and the EU and the reduced need of EU affiliates for loans to finance fewer M&As in the United States market were other possible factors behind the fall in intra-company loans that were caused by only a few transactions.

The slowdown of corporate expansion in some industries (such as telecoms), carried out mainly through M&A transactions and privatizations, added to the FDI downturn. In telecoms, restructuring had been responding to changes in supply and demand, technological advances and an increase in the number of suppliers. But, overcapacity, and the high costs of 3G licences for European firms, led to a significant decline in profits, almost halting further expansion.

3. Institutional factors

Some important institutional factors have also contributed to the FDI downturn, among them the winding down of privatization. In infrastructure, private participation in the form of investment in 2001, including that through privatization, was $57 billion, the same as in 1995 (World Bank 2002). Former leading FDI-through-privatization recipients, such as Brazil, Hungary and Poland, registered declines in FDI inflows in 2002 primarily because there were no large privatization deals. Investment following a privatization is unlikely to be of the same order as the initial investment.

Corporate scandals, the demise of large corporations and the associated loss of confidence hit industries (energy, telecoms and information technology) that were part of the FDI boom in the later 1990s. That dampened firms' willingness to invest and assume new risks.

E. Softening the impact

The FDI slowdown has naturally translated into smaller additions to the stock of FDI capital and the potential benefits from technology and other factors that accompany international production. But even minuscule FDI flows add to the stock of FDI, leaving its ability to generate benefits largely intact. Technology payments, primarily intra-firm, held almost steady in 2001, even though FDI flows halved (box I.4).

FDI flows accounted for 74% of net capital flows to developing countries in 2002, and their decline contributed to the 9% decline in net capital flows in that year, reducing the private external resources for development (figure I.1; World Bank 2003a). The impact was greater for countries that have FDI flows featuring heavily in the balance of payments. On the financial account (other items constant), lower FDI inflows could accentuate a balance-of-payments deficit. But lower income outflows associated with lower inward FDI could have the opposite impact. And lower exports associated with lower (export-oriented) FDI could push current accounts into deficit unless accompanied by offsetting changes in imports.

Competition for FDI, already on the rise, has intensified further through the proliferation of investment promotion agencies (IPAs), with more than 160 at the national level. If subnational IPAs are also considered, the number reached more than 400 in early 2003. Competition based on financial incentives has intensified, increasing the "bidding wars" for large projects (see Part Two). Competition based on non-financial incentives is also on the rise, with more countries offering guarantees (against nationalization or price controls) and protection (import bans on competing products) to selected foreign investors.

The current FDI downturn makes it all the more important for countries to retain existing FDI. This is particularly important for investment that does not have high barriers to exit (i.e. with low sunk costs) and which is not geared towards serving the domestic market. To prevent a relocation of existing investment from taking place, governments must continuously improve their locational advantages, although sometimes, as in a situation of changing comparative advantage, they have to let it go and seek FDI in new activities. When divestments are driven by shrinking opportunities worldwide due to an economic downturn, often coupled with financial difficulties facing the TNCs themselves, one temptation for some host countries is to offer TNCs incentives to locate in their territories.

Upgrading competitiveness also manifests itself in greater efforts to target investors or otherwise to attract FDI (witness Indonesia's declaration of 2003 as an Investment Year). The targeting of foreign investors in industries and activities with higher value added is becoming more widespread (such as HQ), as is better after-care services to existing foreign investors, in the hope of receiving greater sequential investment (Thailand is an example). Countries are also seeking to diversify FDI home countries (see chapter II).

Box I.4. Technology payments by developing countries and the FDI downturn

There are close links between inward FDI and outward payments of royalties and licence fees. TNCs are the leading source of international technology transfers in all forms: internal (to their affiliates) and external (to other companies). While a part of TNCs' internal technology transfer is not charged for separately, the bulk of their royalty and technical fees earnings come from their affiliates (*WIR99*). Around 76% of royalties and license fees earned abroad are intra-firm (based on data for Germany, Japan and the United States). And the share has risen steadily (annex tables A.I.11 and A.I.12). This rise reflects:

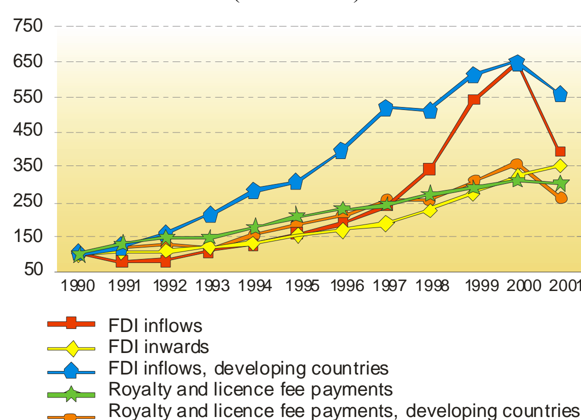
- The growing cost and risk of innovation-making preferable the internalization of the transfer of the resulting proprietary technologies while also often ensuring, through contractual arrangements with affiliates, minimum returns to innovation.
- The growth of technology-intensive FDI.
- The liberalization of technology policies.
- The relocation of high-tech activities overseas *(WIR02)*.

How has the recent FDI downturn affected technology payments? Not much. As global FDI fell by half in 2001, overseas technology payments fell by only 4%. This difference is not surprising because technology payments are not expected to be related to current investment flows but to the level of economic activity and the stock of investment already in place. Royalty rates, in particular, are generally tied to sales. A decline in technology payments may thus reflect the economic climate rather than a fall in FDI flows.

There was, however, a striking difference between developed and developing countries. In developed countries, inward FDI fell by 47% while technology payments stayed constant. In developing countries, FDI fell by 15% while technology payments fell by 26% (box figure I.4.1). For developed countries, the FDI stock and production activities giving rise to current technology payments would not be affected by the fall in M&As. But why did technology payments fall so sharply in the developing world?

One possibility is that the recession affected licensing-based activities more in developing countries than in developed countries, as with export-oriented production of electronics. In 2001 world exports of electronics fell by 8.5%, with developing country exports declining by 12%, and industrial country exports by 6%. But for East Asia the fall was 18%, if China is excluded. The region accounts for around 90% of electronics exports by the developing world and 77% of the technology payments by developing countries (UNIDO 2002).

Box figure I.4.1 FDI inflows and royalty and licence fee payments, by region and the world, 1990-2001
(1990=100)



Source: UNCTAD, FDI/TNC database and IMF, *Balance of Payments Statistics,* May 2003 *CD-ROM.*

Technology payments by developing countries have grown steadily since the 1980s. In 1981-1985 they grew by 4% a year, despite a fall in FDI inflows of 12% a year and in 1991-1995 by 13%, growth that continued in the second half of the 1990s. FDI grew by 15% in developing countries in the latter half of the 1990s.

The sudden fall in 2001 is evidently a deviation from the long-term trend. Not directly related to the decline in FDI, it may reflect a change in the terms and conditions governing international transfers of technology by TNCs in developing countries. A switch could be taking place towards lower reliance on explicit or separate payments for technology, possibly due to a shift towards greater foreign ownership of foreign affiliates.

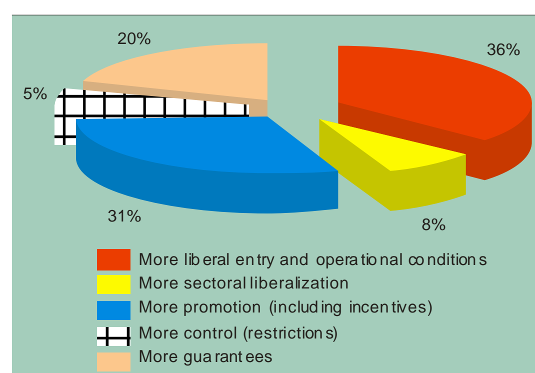
Source: UNCTAD.

The downturn has reinforced the trend towards the liberalization of FDI policies and regulations. After the record number of favourable changes in national FDI legislation in 2001, 2002 saw another record: of 248 changes in legislation, of which 236 were favourable to FDI (table I.8), with a third related to promotional measures (figure I.10). These policy developments have helped sustain FDI flows to developing countries during the downturn. Looking at the period 1991-2002, 1,551 (95%) out of the 1,641 changes introduced by 165 countries in their FDI laws were in the direction of greater liberalization (table I.8).

Many countries also entered bilateral investment treaties (BITs) and double taxation treaties (DTTs) in 2002: 82 BITs were concluded by 76 countries,[14] and 68 DTTs by 64 countries.[15] This brings the totals to 2,181 and 2,256 at the end of 2002 (figure I.11). The propensity to sign such treaties varies greatly (figures I.12 and I.13). Among developing countries and economies in transition, the leader for BITs is China (with 107) and for DTTs, India (with 81). Many countries in the Pacific have not yet signed a BIT, and Angola, Cambodia and Nicaragua have not signed a DTT.

A rising number of other bilateral and regional agreements address FDI issues (annex tables A.I.13 and A.I.14). Such agreements can soften the impact of the FDI downturn for some countries. Given the proliferation of investment agreements, Part Two of *WIR03* focuses on national FDI policies and international investment agreements.

Figure I.10. Types of changes in FDI laws and regulations, 2002[a]



Source: UNCTAD, based on national sources.

[a] Based on 248 changes.

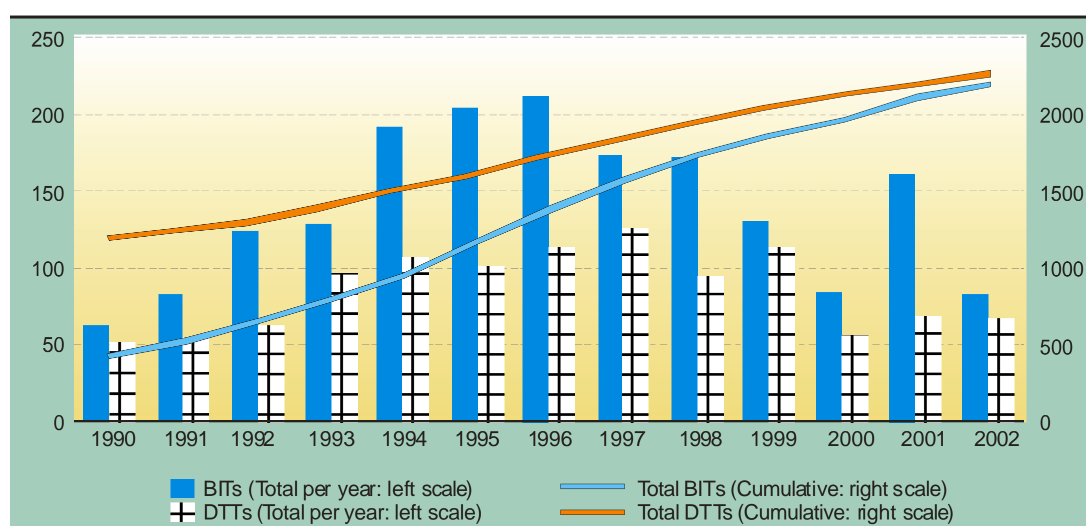
Table I.8. Changes in national regulations of FDI, 1991-2002

Item	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Number of countries that introduced changes in their investment regimes	35	43	57	49	64	65	76	60	63	69	71	70
Number of regulatory changes	82	79	102	110	112	114	151	145	140	150	208	248
of which:												
More favourable to FDI [a]	80	79	101	108	106	98	135	136	131	147	194	236
Less favourable to FDI [b]	2	-	1	2	6	16	16	9	9	3	14	12

Source: UNCTAD, based on national sources.

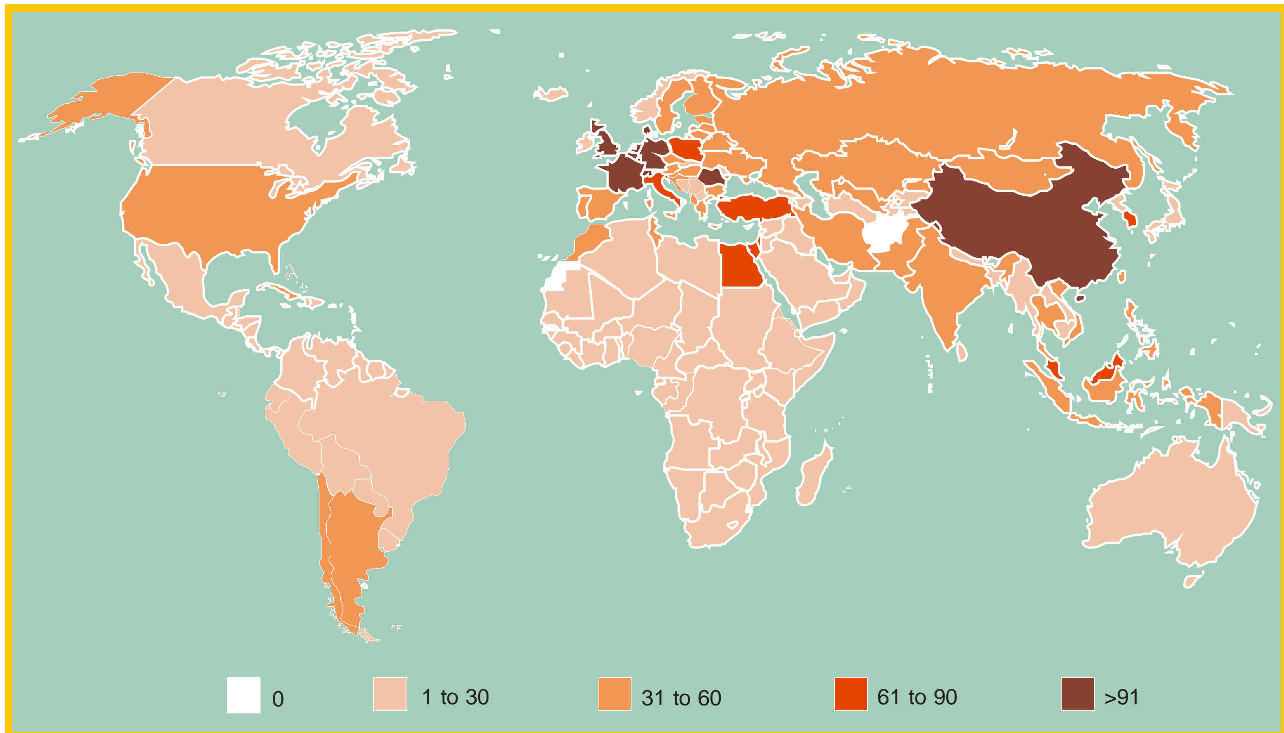
[a] Including liberalizing changes or changes aimed at strengthening market functioning, as well as increased incentives.
[b] Including changes aimed at increasing control as well as reducing incentives.

Figure I.11. Number of BITs and DTTs concluded, 1990-2002



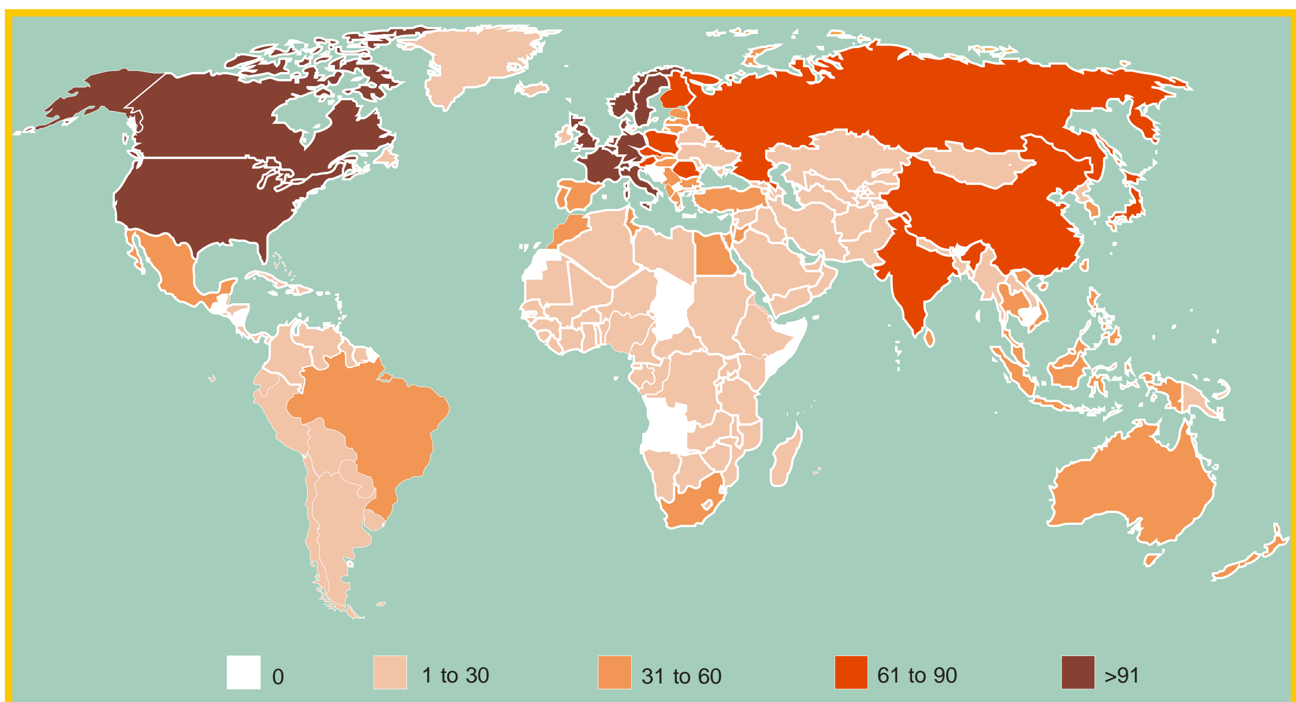
Source: UNCTAD, BITs and DTTs databases.

Figure I.12. Density mapping on BITs worldwide, 1 January 2003
(Total number of BITs concluded by individual countries)



Source: UNCTAD, database on BITs.

Figure I.13. Density mapping on DTTs worldwide, 1 January 2003
(Total number of DTTs concluded by individual countries)



Source: UNCTAD, database on DTTs.

D. Why the downturn?

The FDI downturn in 2001–2002 is a result of the interplay of factors operating at the macro, micro and institutional levels. The slow recovery from the global economic slump hit FDI in the developed world hardest, especially in its financial services and telecom industries. Most of the decline in FDI came from a dramatic drop in cross-border M&As. And with profitability slumping, divestments increased. Reduced reliance on intra-company loans and a slowdown in corporate restructuring reinforced the impact on FDI. Further aggravating the decline: a pause in privatizations and a loss of confidence in the wake of corporate scandals and the demise of some large corporations.

1. Macroeconomic factors

The most important macroeconomic factors were the slow growth, even recession in some countries—linked to the business cycle—in most parts of the world, particularly the main home and host countries (United States and the EU), and the decline in stock market valuations reflecting reduced transactions due to the economic slowdown as well as a correction of the excessively high stock market activity of the previous few years. Both these factors contributed to the steep fall in cross-border M&As, especially in the developed world. The economic slowdown affected greenfield FDI as well.

World real GDP growth is estimated to have declined from 4.7% in 2000 to 2.3% in 2001 (before increasing to 3.0% in 2002) (IMF 2003a). The United States had overvalued stock markets, a low savings rate, high levels of private sector debt, low corporate profits and large external deficits—aggravated by geopolitical uncertainties (UNDESA and UNCTAD 2003). Japan has yet to emerge from its prolonged slump, now a decade long, and most European countries have not succeeded in boosting their growth in recent years. For developing countries as a group, financial crises (especially Argentina), recessions in major export markets and falling commodity prices have slowed the pace of growth.

The main home and host countries for FDI had slower growth than other developed countries and much slower than developing and transition economies, making the latter groups more attractive to investors. Through a negative "wealth" effect, falling stock market values aggravated the impact of the recession on both the FDI downturn and its unevenness.

Business cycles influence FDI flows (box I.2 and *WIR93*), although not in the same way for developed and developing countries (*WIR02*). In periods of high growth and expansion, firms typically have higher earnings to invest both at home and abroad. FDI outflows therefore increase during a cyclical upturn in line with higher domestic investment, displaying the same pro-cyclical behaviour that has been documented for domestic investment (Angell 1941; Gordon 1955; Dunning 1998). Conversely, a slowdown in economic growth exerts a negative impact on foreign (as well as domestic) investment.

For the United States, for example, FDI outflows declined by 27% in 2001 but increased by 15% in 2002, while gross domestic private investment fell by 3% in each year. Both were up sharply in 1999 and 2000. The decline in FDI mirrors a fall in cross-border M&As—the main mode of FDI entry, especially in the developed world, in recent years. But a fall in domestic M&As is not reflected in a decline in domestic investment, because within countries M&As simply represent change of ownership of existing companies and not domestic investment (or additions to capital stock). In France, Germany and the United Kingdom as well, both FDI outflows and domestic investments moved in the same direction in response to business cycles, declining in 2002 (European Communities 2003).

The decline in 2002, like that in the previous year, largely reflected a 38% fall in cross-border M&As to $370 billion (annex tables B.8–B.10). With the value of stocks traded on the world's 49 stock markets declining by 15% to $22 trillion in 2002, after an earlier decline by 16% in 2001, the value of M&As tumbled as well.[10] Lower share prices narrowed the avenue for acquiring companies with equity shares. The share of cross-border M&As financed through the exchange of shares fell to only 11% in 2002, from 44% in 2000, the peak year of cross-border M&As. The decline is also attributable to a significant slowdown in corporate restructuring and consolidation—including that across international locations. Over the past 15 years cross-border M&As have consistently accounted for 25–30% of all M&As (figure I.8).

F. Towards mega blocks?

The downturn has not changed the importance of FDI in the integration of global production activity and, barring a sustained downturn spanning several years, is unlikely to do so. In 2002 the world FDI stock stood at $7.1 trillion, up more than 10 times since 1980. That stock is the basis of international production, by some 64,000 TNCs controlling 870,000 foreign affiliates (annex table A.I.1). Ebbs and flows in the yearly value of FDI, while important, augment the stock of FDI as long as they are positive. So the stock of FDI matters more than flows—for the structure of global specialization, for deepening global integration through production networks, and for generating the benefits associated with FDI and international production. It also matters for new FDI capital flows through the reinvestment of earnings and sequential flows to FDI.

In 2002 the estimated value added of foreign affiliates, at $3.4 trillion, accounted for about a tenth of world GDP, or twice the share in 1982 (table I.1). The world stock of FDI generated sales by foreign affiliates of an estimated $18 trillion, compared with world exports of $8 trillion. Nearly a third of world exports of goods and non-factor services takes place within the networks of foreign affiliates, but that has not changed much since 1982. Employment by foreign affiliates reached an estimated 53 million workers in 2002, two and half times the number in 1982.

The developed world hosts two-thirds of world inward FDI stock and accounts for nine-tenths of the outward stock. The most striking change is that the EU has become by far the largest source. In 1980 the outward stocks of the EU and the United States were almost equal at around $215 billion. But by 2002, the EU's stock (including intra-EU stock) reached $3.4 trillion, more than twice that of the United States ($1.5 trillion). The gap opened in the 1980s and accelerated in the late 1990s. Meanwhile, Japan has been stable relative to the EU, with its outward stock about a tenth that of the EU.

In 2002 the inward FDI stock of developing countries was about a third of their GDP, almost twice the 19% for developed countries. Back in 1980 the respective ratios were 13% and 5%, so the growth of FDI stock exceeded GDP growth in both groups of countries. Outward FDI stocks have changed even more for developing countries, increasing from 3% of GDP in 1980 to 13% in 2002, the result of new developing country TNCs.

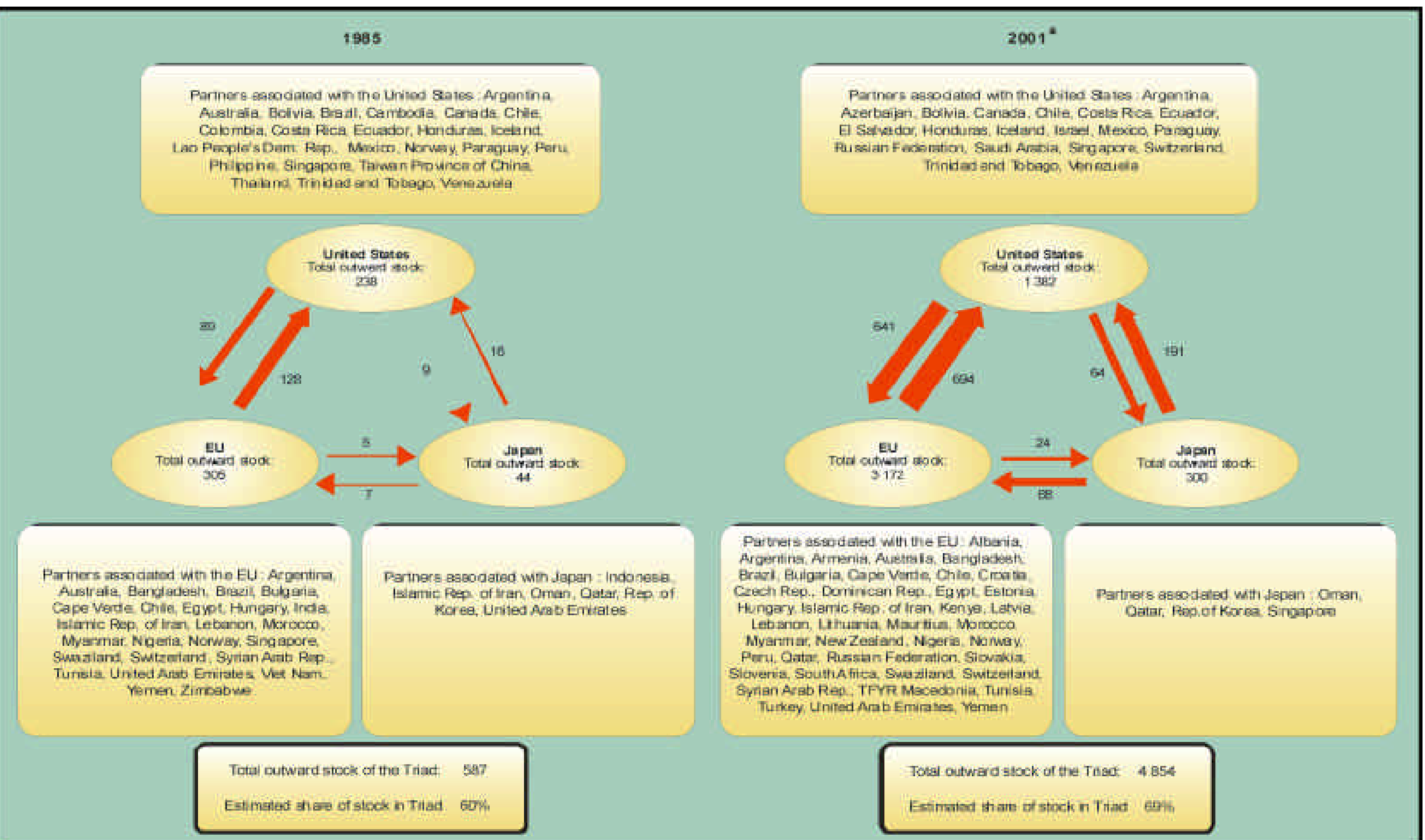
In 1980 the FDI stock originating from developing countries (at $65 billion) accounted for 11% of the global outward FDI stock; by 2002 the corresponding share was 12%. South, East and South-East Asia is the most important developing region for outward FDI stock, with its stock exceeding Japan's for the first time in 1997 and becoming almost twice Japan's by 2002. The Latin America and Caribbean region registered a three-fold increase in its outward FDI stock between 1980 and 2002.

The concentration of FDI within the Triad (EU, Japan and the United States) remained high between 1985 and 2002 (at around 80% for the world's outward stock and 50–60% for the world's inward stock). Clusters of non-Triad countries have strong FDI links to each Triad member (figure I.14). There have, however, been some changes in the composition of these non-Triad host-country partners, especially for the United States and the EU. Over the past 15 years, 10 countries (five from developing Asia, three from Latin America and the Caribbean, and two from the developed countries) of the 23 countries that were associate partners[16] of the United States in 1985 were no longer so by 2001, while six new associate partner countries emerged (Azerbaijan, El Salvador, Israel, Russian Federation, Saudi Arabia and Switzerland) (figure I.14). In the case of the EU, four out of 25 countries (India, Singapore, Viet Nam and Zimbabwe) exited, while 19 countries entered newly during this period; and for Japan, Singapore became a new associate partner by 2001 (for a total of four countries) while Indonesia, Islamic Republic of Iran and United Arab Emirates were no longer associate members.

This pattern reveals the emergence of FDI blocks, each comprising one Triad country and several associate partner countries. They overlap somewhat with trade blocks, each comprising a Triad member and a cluster of trading partners with strong trade links to it.[17]

The FDI block pattern is also roughly mirrored in—and supported by—international investment agreements (IIAs)—agreements that, at least in part, address FDI issues (figure I.15). To improve the investment climate in their partners, associate partners and Triad members have been concluding DTTs and BITs with them. The 2001 picture of the distribution of DTTs had a strong likeness to the Triad pattern of FDI stocks: the similarity index (Finger and Kreinin 1979) between

Figure I.14. FDI stocks among the Triad and economies in which FDI from the Triad members dominates, 1985 and 2001
(Billions of dollars)

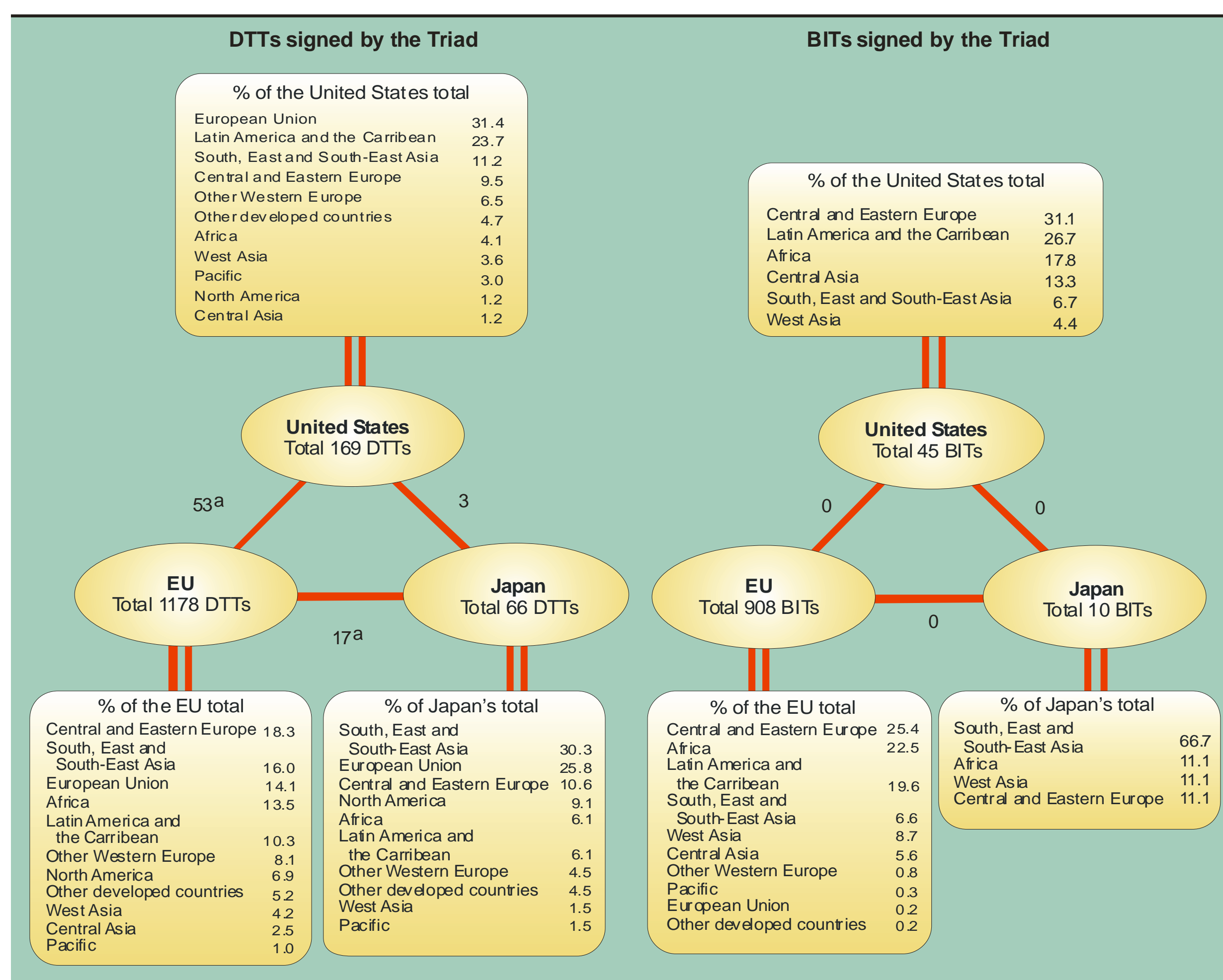


Source: UNCTAD, FDI/TNC database.

Note: Associate partners are the host economies in which the triad member accounts for at least 30 % of the total FDI inward stocks or of the total FDI inward flows within a 3-year average. Approval data were used for the following economies: Bangladesh, Egypt, Kenya, Israel, Taiwan Province of China and Zimbabwe. Data may not necessarily be available for each economy during both years 1985 and 2001. The EU includes Austria (1990 instead of 1985 and 2000 instead of 2001), Denmark (1991 instead of 1985), Finland (1991 instead of 1985 and 2000 instead of 2001), France (1989 instead of 1985 and 1999 instead of 2001), Germany (2000 instead of 2001), Italy (1994 instead of 1985 and 1998 instead of 2001), Netherlands, Portugal (2000 instead of 2001), Sweden (1986 instead of 1985) and the United Kingdom (1987 instead of 1985 and 2000 instead of 2001) that account for about 80 per cent of the EU outward stock in 2001. Japan's outward stocks are cumulative flows on a balance-of-payments basis since 1968.

[a] Or latest year available.

Figure I.15. BITs and DTTs between the Triad and their geographical distribution, 2002
(Number and percentage distribution of totals)



Source: UNCTAD, databases on BITs and DTTs.

[a] The number of treaties with individual countries of the EU.

the distribution pattern of outward FDI stock of each of the Triad members and that of their DTTs has a high value (table I.9).[18] The corresponding index for BITs, however, has a lower value, suggesting that their distribution has a weak resemblance to that of Triad outward FDI stock.[19] If, however, the propensity of individual Triad members to conclude DTTs and BITs with associate partners is compared with that to conclude them with non-associate partners, the former score higher for both DTTs and BITs. In other words, the Triad members have a greater propensity to conclude such IIAs with countries that are part of their respective Triad blocks (table I.10).

The similarity occurs for several reasons. Triad members tend to conclude bilateral trade agreements with their important associate partners to protect their investment; conversely, associate partners tend to conclude agreements with Triad members that are their main sources of FDI. The complementary nature of trade and FDI *(WIR96)* reinforces this relationship. Bilateral and regional trade agreements have become de facto investment agreements as well, in that they typically contain investment provisions. So, their impact on trade

Table I.9. The similarity index between the geographical distribution pattern of BITs and DTTs and that of FDI outward stocks of the United States, the EU and Japan, 2001
(Per cent)

Bilateral treaties	United States	EU	Japan	Triad total
BIT	29	13	18	20
DTT	73	40	60	51

Source: UNCTAD.

Note: Based on 11 regional classifications (EU, Other Western Europe, North America, Other developed countries, Africa, Latin America and the Caribbean, West Asia, Central Asia, South, East and South-East Asia, the Pacific and CEE).

and FDI tends to be in the same direction. Moreover, bilateral and regional trade agreements pave the way for intra-regional FDI, strengthening the Triad member-partner FDI relationship.

Table I.10. The propensity to sign BITs and DTTs with associate partners and non-associate partners of the Triad members

Treaty	Associate partners[a]	Non-associate partners[b]
BITs		
Japan	0.25	0.05[c]
EU[d]	3.57	3.5[c]
United States	0.39	0.24[c]
DTTs		
Japan	0.5	0.26
EU[d]	9.1	6.41
United States	0.79	0.43

Source: UNCTAD.

[a] Ratio of the number of associate partners that conclude a BIT or a DTT with a Triad member to the total number of associate partners.

[b] Ratio of the number of non-associate partners that conclude a BIT or a DTT with a Triad member to the total number of non-associate partners.

[c] Only developing countries and CEE countries are included for BITs as developed countries do not conclude BITs with each other. (However, all countries are included for DTTs as they are concluded between any countries.)

[d] A country can sign bilateral agreements with multiple EU countries. Thus the ratio is higher than 1.

Note: Based on 183 countries covered by UNCTAD's FDI/TNC database.

The similarities among the Triad FDI and BIT/DTT (and, for that matter, regional agreement) patterns have several implications. First, there is a broadening of economic space for both the Triad members and their partners from national to regional. Second, there may be an emergence of Triad-associate partner investment blocks, since investment positions are supported by both bilateral treaties and investment provisions in bilateral and regional trade agreements. The patterns feed into each other: DTTs, BITs and regional agreements may help generate more FDI, but the body of FDI already in place can also give rise to BITs and DTTs and promote deeper integration through FDI. For developing countries, investment block insiders (Triad members and the other members of the blocks) may gain more than outsiders as "mega" FDI and trade blocks emerge and are strengthened through bilateral and regional agreements—a question for further investigation.

In conclusion, the global stock of FDI continues to grow, albeit at a slower rate since 2001. The developed countries remain dominant as regards its ownership and location, although developing countries have made inroads, while least developed countries remain marginal. The Triad pattern continues to manifest itself, including through investment blocks. Bilateral and regional agreements mirror FDI patterns and reinforce them in mega economic blocks.

G. Prospects

Was the surge in investment flows in the 1990s the outcome of short-lived factors, such as the boom in cross-border M&As? And when will flows begin to rebound? UNCTAD predicts that FDI flows will stabilize in 2003. Flows to developing countries and developed countries are likely to remain at levels comparable to those of 2002, while those to CEE are likely to rise further. (The prospects for the different developing regions are discussed in chapter II.) In the longer run, beginning with 2004, global flows should rebound and return to an upward trend. As in the case of the downturn during 2001–2002, the prospects for a future rise depend on a number of factors at the macro, micro and institutional levels and on the possible impact of specific recent events on investors' plans. In addition, to the extent that WTO's Cancun Ministerial Meeting will improve business confidence and growth prospects, FDI flows could receive further impetus.

Macro factors

The consensus of the main multilateral agencies is that global recovery is already under way, but there are concerns about its sustainability and pace in 2003 and beyond (IMF 2003a; World Bank 2003b; UNDESA and UNCTAD 2003; OECD 2003a). Economic growth will pick up in 2003–2004 in both the United States and the Euro area, the two main sources of FDI, but it will continue to be weak in Japan. For developing countries, the projected growth of 5% in 2003 is about three percentage points above that for developed countries (1.9%). But the forecasts for 2003 have been revised downward, especially in East Asia, for the negative effects of SARS on the region's economy (IMF 2003a). China and India, the most populous developing countries, are forecast to grow by 7.5% and 5.1% in the next couple of years (IMF 2003a). Strong growth is also forecast for CEE. However, the danger of deflation in major

economies—setting off a downward spiral in economic activity—cannot be ruled out.

The index of industrial production in the developed countries, which declined to 118.1 in 2002 from 121.2 in 2000, is showing signs of recovery in 2003 (OECD 2003a). But the prospects vary widely by industry—brighter for consumer pharmaceuticals, electronics and semiconductors, but dimmer for automobiles, metals and machinery and aerospace.[20] Sharp declines in demand have weakened prospects in certain high-technology industries, especially in the United States. Business debt in the United States has risen since 1999, and business insolvencies in Japan and Germany have escalated. Even so, the Manufacturers Alliance Business Outlook Index in the United States rose to 67% in December 2002, its highest quarterly mark in five years (an index of 50% or better indicates an increase in manufacturing activity in the coming quarter).

The outlook for the services sector is also mixed. Major defaults have weakened financial institutions in all Triad economies. Excess capacity, especially in Europe, has held telecom firms back from new investments both at home and abroad. Sharp declines in demand have weakened investment prospects for air transportation and tourism. But the United States services sector increased every month beginning with February 2002 with the exception of March 2003.[21] According to the Institute for Supply Management in the United States, the index of non-manufacturing business activity rose to 54.5 in May 2003 (above 50 denotes expansion). The outlook for 2003 for real estate, business services, financial services and retail trade is optimistic,[22] while no upturn is foreseen in insurance, travel and transportation.[23]

Micro factors

At the micro level, the recovery in economic growth and stronger demand in a range of industries should improve corporate profits, release financial constraints and encourage investments, including FDI. They will also foster conditions for a recovery to some extent in stock market performances and portfolio equity flows. That would boost the value of cross-border M&As through stock markets and increase the ability of TNCs to raise funds for investment by issuing new stock or borrowing on the value of their assets.

Worldwide M&A activity in 2003, however, continues to be weak, trailing the pace of the previous year. M&As with values of less than $1 billion in the United States and transatlantic markets fell during the first four months of 2003 (Baird 2003). They held up better than the overall market in 2002. Reflecting this general trend, cross-border M&As are not likely to rebound this year. In fact, the number of cross-border M&As completed during the first six months of 2003 fell by a fifth to some 2,000, compared to 2,500 during the same period of 2002. Their value declined by one third to $140 billion.[24] Market volatility could impede M&A transactions in 2003, but an improvement in market conditions would set the foundation for a positive trend in the coming years.

Improved market conditions and profit prospects should increase market-seeking FDI in a wide range of countries and expand the scope of efficiency-seeking FDI that TNCs continued to explore during the downturn. In the face of the economic slowdown, heightened competition forced TNCs to look for (or expand in) new and thriving markets. China is a case in point, a location where TNCs felt that they ought to be present, despite numerous obstacles. Markets need not be national, as the anticipated attractiveness of regional initiatives indicates.

The dismantling of trade barriers[25] has allowed TNCs to pursue integrated international production strategies and structures, driving them to acquire a portfolio of locational assets in bad times as well as good. This is gathering speed, especially for the relocation of labour-intensive and some skill-intensive activities to lower-cost locations with transportation and communication infrastructure. Consider the decisions of IBM to close its facilities in Hungary in 2002 and relocate to China (EIRO 2002; Horvath 2002). Small and medium-sized enterprises are also under pressure to reap the cost-cutting and efficiency benefits of business process outsourcing. International outsourcing has grown rapidly in the past couple of years, with the offshore operations by major United States firms.[26]

Institutional factors

As regards institutional factors, despite the winding down of many privatization programmes, there is still potential for privatization in several countries and industries. In late 2002 China allowed private and foreign investors to acquire controlling stakes in domestically listed companies, including State enterprises (UNCTAD 2002a). India also has considerable potential for the privatization of State-owned enterprises.[27]

In some CEE countries, new privatizations might start if government announcements materialize. In the Russian Federation, the Government approved a February 2003 plan to privatize more than 3,000 State-owned enterprises, with assets estimated at $2.2 billion.[28] Romania's Petrom, the largest oil company in Eastern Europe, is being privatized this year with foreign participation, as are Polskie Huty Stali, a large steel company in Poland and several oil companies in the Russian Federation. Serbia and Montenegro is required by law to privatize all State-owned enterprises by 2005, but progress so far has been slow.

The liberalization of FDI at the national level picked up speed during the downturn (table I.6). Several bilateral and regional initiatives may boost FDI in the years ahead (chapter II). And under the current round of negotiations of the General Agreements in Trade in Services (GATS) in the WTO, scheduled to be completed by 1 January 2005, members were supposed to submit their initial market opening offers by the end of March 2003. The negotiations are tackling many behind-the-border restrictions in services. Liberalization in this area could boost FDI flows and strengthen the integration of international production.

The stock of FDI already in place gives rise to two trends that have, to some extent, been supporting FDI flows. First, it generates revenues and earnings, a proportion of which is reinvested (figure I.16). Second, it requires additional capital investment to make up for depreciation and ensure that assets remain in working order.

On the downside, heightened security concerns have caused some TNCs to adopt a "wait and see" attitude, though only a few TNCs cancelled planned investments (*WIR02*; UNCTAD 2003a; MIGA 2002). More recent events, including the war in Iraq, have also increased security concerns, with longer term implications for FDI expansion.

IPAs are optimistic about the prospects, as revealed by a survey by UNCTAD in the first quarter of 2003 (box I.5). Other forecasts range from predicting that the next FDI boom will begin in 2004 to predicting no immediate increase in FDI (box I.6). UNCTAD expects FDI flows to remain stagnant in 2003 and begin to rebound in 2004, barring exceptional circumstances.

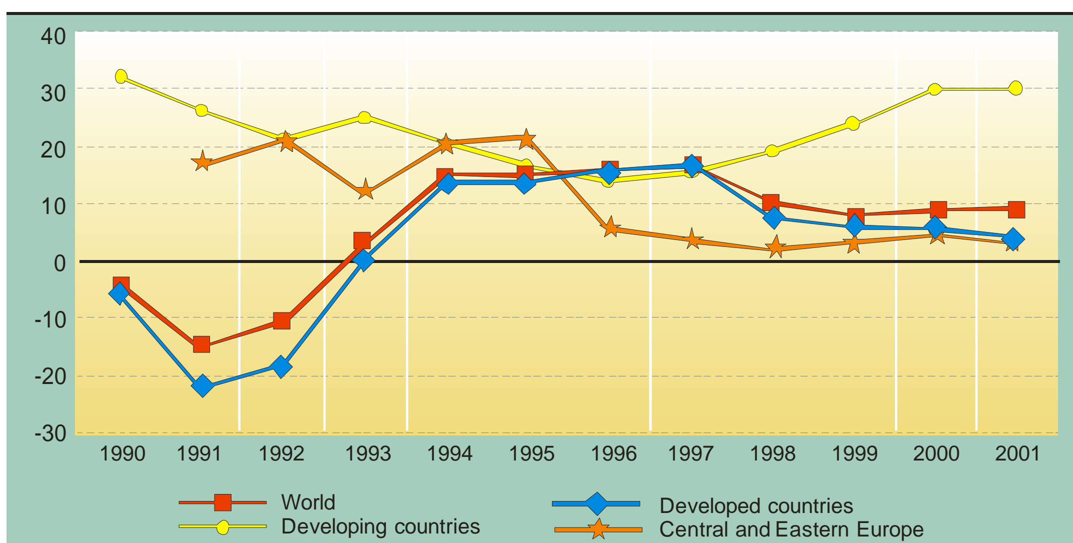
Box. I.5. UNCTAD's survey of investment promotion agencies

According to an UNCTAD survey of 106 national IPAs worldwide, completed in March 2003,[a] global FDI flows will remain sluggish in the short term and gain new steam in the medium term. The survey also suggests that greenfield investment will gain importance as a mode of entry. Among industries, tourism and telecoms will lead the recovery, with developing countries more active in outward FDI.

In spite of differences by region, a large proportion of the IPAs expressed concerns about the short term while a majority were optimistic about the medium term (box figure I.5.1). More than 40% of the respondents expected the FDI

/...

Figure I.16. Reinvested earnings as a percentage of FDI inflows, by region, 1990-2001
(Per cent)

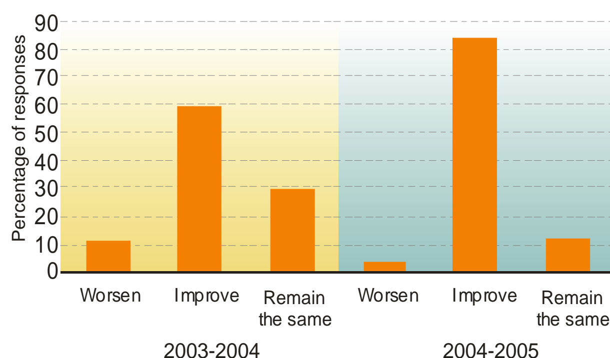


Source: UNCTAD, based on IMF, *Balance of Payments Statistics,* May 2003 CD-ROM.

Box. I.5. UNCTAD's survey of investment promotion agencies (concluded)

outlook for their countries to remain the same or worsen in 2003-2004. But for 2004-2005, this declined to 16%, leaving 84% of the respondents expecting prospects to improve. IPAs in developing countries were much more optimistic than those in the developed world (box figure I.5.2). Respondents from Africa and Asia were almost certain their countries would attract more FDI in 2004/2005.

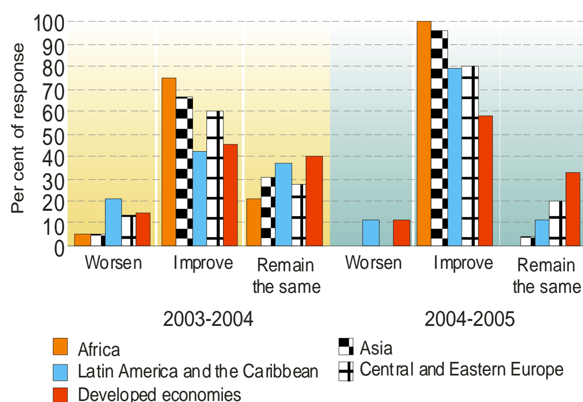
Box fig. I.5.1. IPAs perceive that FDI prospects in their countries will be improving[a]



Source: UNCTAD.

[a] The survey question was: "How do you perceive the prospects for FDI inflows to your country in the short- and medium-term, as compared to the last two years (2001-2002)?".

Box fig. I.5.2. Perceptions of FDI prospects vary from region to region[a]

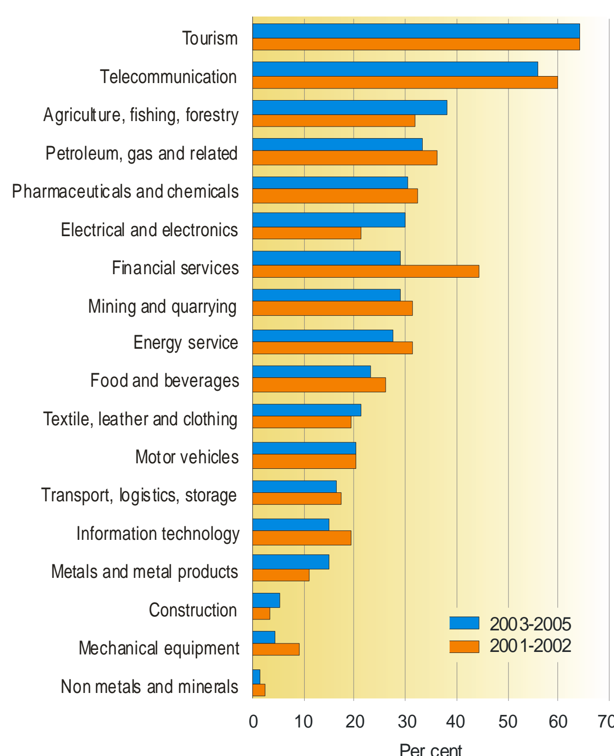


Source: UNCTAD.

[a] The survey question was: "How do you perceive the prospects for FDI inflows to your country in the short- and medium-term, as compared to the last two years (2001-2002)?".

For investment strategies, there seems to be a shift from M&As to greenfield projects. More than 60% of the respondents found that greenfield investment would be the preferred mode of entry into their countries in 2003–2005, up from 56% in 2001–2002. The view was stronger in developing regions (68%) (except Asia) and CEE (57%). The industrial composition of FDI may change as well.[b] Most IPAs felt that tourism and telecoms would be the most important recipients of FDI in 2003–2005 (box figure I.5.3). Agriculture, petroleum, pharmaceuticals and chemicals follow closely. FDI flows to electrical and electronics, textile and clothing, and metals and metal products may also increase in a number of countries.

Box fig. I.5.3. A shift is expected in the industrial composition of FDI[a]



Source: UNCTAD.

[a] The survey question was: " Do you foresee any shift in the industry distribution of FDI in your country? Please list the three industries that have received and are likely to receive more FDI".

Note: A number of responses have not mentioned specific industries but only economic sectors in general. These responses are not reflected in this figure.

Developing countries are also gaining importance in outward FDI. The United States, the United Kingdom and Germany remain the main sources of FDI, but China, India and Saudi Arabia are emerging as important investors, with a strong presence in developing economies. And some corporate functions are more significant as targets in attracting FDI, with respondents citing corporate HQ functions and R&D outsourcing as additional triggers for FDI flows into their countries.

Source: UNCTAD.

[a] The UNCTAD questionnaire survey covered 154 countries that have a national IPA or a government entity with an investment-promotion function. Out of the 154 national IPAs (i.e. one national IPA per country), 106 IPAs responded, for a 69% response rate (72% for developed countries, 64% for developing countries and 79% for CEE countries).

[b] A number of responses did not mention specific industries but only economic sectors in general. These responses are not reflected in this figure.

Box I.6. Is a recovery in FDI flows on the way?

Several recent surveys and publications gauge the prospects for FDI in the short and medium term. The findings of the main ones are:

- The 2002 survey by the Japan Bank for International Cooperation on the outlook for Japanese FDI in manufacturing, conducted in July/August 2002, shows that 80% of 508 responding TNCs would strengthen and expand their foreign operations over the next three years, up from 72% in 2001.
- The Japan External Trade Organization, in cooperation with the Ministry of Economy, Trade and Industry, carries out monthly surveys of the business outlook in Asia by surveying Japanese companies operating in that region. The latest, published in May 2003, reveals an overall deterioration being expected during the next two-to-three months in Asia, including China, in particular East China (because of the effects of SARS)—for the first time since this survey started in July 2002.
- The International Chamber of Commerce and the IFO research institute conduct a quarterly *World Economic Survey* of more than 1,000 business executives, economists and analysts from more than 80 countries. The findings of the latest, published in December 2002, show that business expectations for the next six months suffer from a general fall in confidence, and only a marginally improved outlook is expected thereafter. The three-to-five year outlook is brighter, with economic growth expected to improve.
- PriceWaterhouseCoopers conducted the fifth *Global CEO Survey* of more than 1,100 business executives from over 30 countries in October 2002–January 2003. It found that firms generally are not curtailing expansion projects that fulfil their long-term strategic objectives. They are also outsourcing more business processes, especially non-core business functions.
- A survey of 314 leading CEOs of Canadian companies between August and November 2002 by KPMG and Ipsos-Reid found that 86% of the CEOs were optimistic about competing in the global marketplace, but only 40% planned to expand into new markets in 2003.
- According to the *World Investment Prospects 2003*, published by the Economist Intelligence Unit, FDI flows will decline again in 2003 but rebound in 2004 and grow strongly over the subsequent four years. The United States is expected to regain its position as the world's top FDI recipient. Another boom is expected in cross-border M&As. The forces driving the next FDI boom are better business environments, technological change, deregulation, industrial consolidation, heightened global competition, the creation of a single financial market in Europe and good investment opportunities in emerging markets.
- In its May 2003 report, *Capital Flows to Emerging Market Economies*, the Institute for International Finance forecast an increase in private capital flows into 29 emerging markets (developing and CEE countries) for 2003, after a decline for the second year running in 2002. FDI flows to emerging markets are forecast to fall marginally in 2003, to about $109 billion, the lowest level since 1996, as TNCs continue to be cautious about investment spending under the present global economic outlook and as the pace of structural reform and privatization slows down in many countries. FDI is expected to increase in emerging markets in Asia and the Pacific from $55 billion in 2002 to $60 billion in 2003, and in Africa/Middle East from $3 billion to $4 billion.
- The International Monetary Fund in its *World Economic Outlook 2003* predicted that FDI flows to emerging markets would increase modestly to $148 billion in 2003, from $139 billion in 2002, but decline marginally in 2004. The World Bank, in its *Global Development Finance 2003*, forecast that FDI flows to developing countries will remain virtually unchanged in 2003, at $145 billion (box table I.6.1).

Box table I.6.1. World Bank's estimates of FDI inflows to developing countries, 2002-2004
(Billions of dollars)

Region	2002	2003	2004
Total	143	145	159
East Asia and Pacific	57	61	69
Europe and Central Asia	29	30	32
Latin America and the Caribbean	42	38	39
Middle East and North Africa	3	3	4
South Asia	5	6	7
Sub-Saharan Africa	7	7	8

Source: World Bank, 2003a.
Note: The geographical coverage of developing countries in this table is different from that used in this *Report.*

Source: UNCTAD, based on Economist Intelligence Unit 2003; Institute for International Finance 2003; International Chamber of Commerce/IFO Research Institute 2003; International Monetary Fund 2003a; Japan Bank for International Cooperation 2003; JETRO 2003a; PricewaterhouseCoopers (PwC) 2003a; KPMG 2003; World Bank 2003a.

Notes

1. The relative variance as measured by the standard deviation divided by the average of the variable is 0.5 for FDI flows, 0.64 for portfolio flows and 5.9 for commercial bank loans between 1990 and 2002.
2. The transnationality index of both developed and developing countries in 1999 was less than 20% (*WIR02*, p. 21), but it rose to more than 20% in 2000 in both groups of economies. Similarly the index for CEE rose by a few percentage points.
3. The lending rate was 4.68% in the United States, compared with 6.13% in the Euro area in 2002. But during 1997-2001 the lending rate was higher in the United States than in the Euro area, by as much as two percentage points. Lending rates in Japan were very low throughout the period—and FDI outflows from Japan to the United States (small as they were) increased.
4. EU TNCs engaged in far fewer cross-border M&A transactions in the United States: from 400 in 2001 they fell to 241 deals in 2002. The value of completed cross-border M&As in the United States by EU firms halved in 2001 and halved again in 2002 to only $47 billion, compared with $203 billion in 2000. The value of cross-border M&As by United States firms in the EU rose from $34 billion in 2001 to $39 billion in 2002, however, these levels were about half those in 2000 (data from UNCTAD, cross-border M&A database).
5. This is based on an assumption that a dollar of cross-border M&As corresponds to a dollar of FDI flows. However, due to differences in the nature of data, these two types of data do not match (see *WIR00* for the nature of the data on cross-border M&As).
6. For further discussion on this subject, including the methodology on the FDI Performance Index and the FDI Potential Index, see www.unctad.org/wir.
7. Data for the last two years allow inflows into Belgium and Luxembourg to be separated; much of inward FDI goes to Luxembourg and may be driven by tax considerations rather than long-term productive activity.
8. The correlation coefficient for the former is much lower (0.80) than for the latter (0.95).
9. It goes without saying that under-performance in this context does not necessarily mean that the countries are under-performing in general economic terms.
10. Information from the World Federation of Exchanges (http://www.world-exchanges.org/WFE/home.asp?menu=196&document=559). The data cover 49 markets in 44 countries.
11. The profitability as measured by the return on assets is often used as an indicator of a firm's performance (Gomes and Ramaswamy 1999; Ruigrok and Wagner 2003).
12. Based on inward FDI data. The rates of return on FDI are calculated as income on FDI divided by the average value of the stocks at the beginning and the ending years. The data are from balance-of-payments statistics.
13. These economies are Argentina, Chile, Hong Kong (China), Ireland, Israel, Malaysia, Norway, Paraguay, Singapore, the United Kingdom and the United States.
14. Asian and Pacific countries were parties to 45 BITs, including 10 signed between countries within the region. Developed countries were parties to 44 BITs, CEE countries to 24 (including 5 signed within the region), African countries to 20 (including 2 between African countries) and Latin American and Caribbean countries to 13.
15. Developed countries were parties to 42 DTTs (including 11 signed between themselves), CEE countries to 29 (including 6 between themselves), Asian and Pacific countries to 27 (including 4 between themselves), African countries to 9 (including 3 intra-regional ones) and Latin America and Caribbean countries to 5.
16. See figure I.14 for the definition.
17. On the basis of the application of the same criterion as for associate partners in FDI (countries that have more than 30% of their respective trade (exports plus imports) with the Triad member, there are 89, 28 and three associate trade partners for the EU, the United States and Japan, respectively. Of these, 26 countries are common to the two blocks (FDI and trade) for the EU, eight in for the United States and one for Japan.
18. The similarity index is measured by:
Index= sum (min(ai,bi)) for all i
where i = 1…N is the region i and "ai" and "bi" are the corresponding FDI and BIT/DTT shares. If for each region the FDI and BIT/DTT shares are equal, then the structures are identical and the index will be 100. The higher the index, the greater the similarity in the structures of FDI and BIT/DTT.
19. Out of the 19 countries identified as associate partners of the United States (based on the 2001 data), 8 countries have BITs and 15 have DTTs with the United States. In the case of the EU, these numbers reach 35 for BITs and 38 for DTTs out of the 40 associate partners. Out of the 4 associate partners of Japan, one country (Republic of Korea) has a BIT with Japan, and two countries (Republic of Korea and Singapore) have DTTs with Japan.
20. "Industry outlook 2003", *Business Week*, 13 January 2003.
21. "May non-manufacturing ISM report on business", *Press Release,* Institute for Supply Management, 4 June 2003.
22. "Expect recovery to continue to second half of 2003 say purchasing and supply executives", *Press Release*, Institute for Supply Management, 20 May 2003.
23. Business Week, idem.
24. Information provided by Thomson Financial.
25. According to the World Bank and the IMF 2001, for industrial countries the post-Uruguay Round bound simple average tariff rate across all products is now 4%, while for developing countries it is at 25% (with considerable variation across products and countries).
26. OutsourcingCenter 2003.
27. In India, the Government's plan is to raise about $2.8 billion by selling State-run companies in the current fiscal year ending March 2004 ("Indians in privatization strike", *BBC News*, 21 May 2003) and some of that could be through FDI. Recent additions to the Government's privatization plans include two of India's leading oil companies ("No turning back, oil PSU divestment on: PM", *Economic Times*, 23 May 2003). However, there is still a need to develop a consensus around key issues ("Divestment to miss targets, consensus needed", *Economic Times*, 23 May 2003).
28. *Oxford Analytica Daily Brief*, 18 March 2003.

CHAPTER II

UNEVEN PERFORMANCE ACROSS REGIONS

Introduction

To sum up chapter I, FDI in 2002 was down again for both developed and developing countries. Flows to the United States, the top host country from 1978 to 2001, plunged to a 10-year low in 2002. But fairly robust FDI outflows from the United States helped sustain global FDI flows, though at levels well below their 2000 peak. FDI inflows to all three host developing regions—Africa, Asia and the Pacific and Latin America and the Caribbean—fell. Only CEE received higher inflows than in 2001.

Subregions and countries also showed considerable diversity in their vulnerability to the downturn, as did sectors and industries. Three things made a difference. How much countries sustained their economic performance and growth despite recession in major developed countries. How much they attracted resource-seeking and especially efficiency-seeking FDI. And how much national and international policy initiatives strengthened their positions as host countries.

In an FDI downturn policy changes favourable to FDI and agreements that address FDI issues assume greater importance. Combined with other determinants of FDI, they may help countries sustain or increase the level of FDI. National policy changes were overwhelmingly in the direction of liberalization (table I.8). Internationally, agreements on FDI proliferated. Where they create bigger markets, in particular, they can be good for FDI.[1]

For 2003 the prospects are stagnation at best for developed countries, Asia and the Pacific and Latin America and the Caribbean—but reasonably good for Africa and CEE. In 2004 and beyond, the prospects are promising for all regions.

This chapter discusses recent FDI trends and developments in the various regions. It also discusses international investment agreements (IIAs) involving countries in the different regions, exploring how they have influenced FDI flows. IIAs can influence TNC decision-making depending on their impact on factors determining the location of FDI (*WIR98*). Relevant is the emergence of regulatory frameworks for FDI that are more predictable, stable, transparent and secure. Particularly relevant is whether market size is increased or market access is improved, creating opportunities to tap larger markets and resources in the region and to specialize within corporate networks.

A. Developing countries

All developing regions—Africa, Asia and the Pacific, Latin America and the Caribbean—had lower FDI inflows.

The least developed countries (LDCs), a special group of 49 economies,[2] were not an exception with inflows declining by 7% to $5.2 billion in 2002 (annex table B.1). Inflows to African LDCs fell by 3% in 2002, and those to LDCs in Asia and the Pacific declined by half, to $0.3 billion in 2002. The only LDC in Latin America—Haiti—had higher inflows, particularly for textiles, due in part to its entry into CARICOM. The share of LDCs in global FDI flows remains less than 1% of the world total and 3.2% of the developing country total.

FDI flows to the largest LDC recipients—most of them oil-exporting countries, including Angola, Equatorial Guinea and Sudan—also declined. Chad is an exceptional case with inflows growing from almost nothing in 2001 to $0.9 billion in 2002 by attracting oil-related FDI. This country became the second largest recipient after Angola among LDCs. With more investment in petroleum, FDI flows to LDCs as a group are expected to rise in 2003.

1. Africa

Africa's FDI inflows declined to $11 billion in 2002 after a surge to $19 billion in 2001, mainly from two cross-border M&As. As a result, the region's share in global FDI inflows fell from 2.3% in 2001 to 1.7% in 2002, highlighting the small volume of FDI flows to the region. Many African

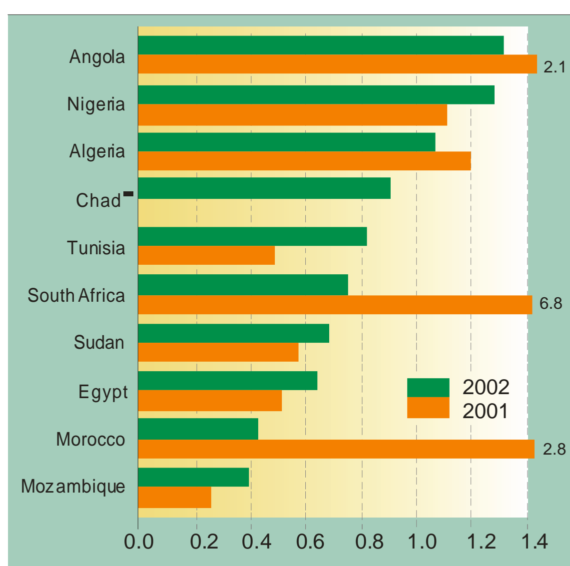
countries marginally sustained or increased their FDI inflows in 2002. Inflows to the region remained highly concentrated, with Algeria, Angola, Chad, Nigeria and Tunisia accounting for half of the total inflows. The distribution across sectors and industries remained largely unchanged.

The downturn in FDI flows could be short-lived, especially with stronger national efforts to promote FDI and ongoing trade and investment initiatives by the United States, the EU and Japan. In addition, some TNCs began new activities, notably in petroleum exploration and extraction. Much will depend, however, on the vigour of African countries in pursuing policies that stimulate domestic economic growth and encourage sustainable inflows of FDI.

a. FDI down by two-fifths

The most striking feature of the FDI downturn in Africa in 2002 is its size (41%), a good part of which was linked to the absence of large M&As comparable to those that took place in 2001. Cross-border M&As amounted to less than $2 billion, compared with $16 billion in 2001 (annex table B.7). If the large cross-border M&A deals in Morocco and South Africa in 2001 are excluded from FDI figures for that year, FDI inflows in 2002 actually increased by 8%. Unevenly distributed across the continent, FDI inflows amounted to only

Figure II.1. Africa: FDI inflows, top 10 countries, 2001 and 2002[a]
(Billions of dollars)



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

[a] Ranked on the basis of the magnitude of 2002 FDI flows.
[b] In 2001, FDI inflows to Chad are zero.

8.9% of gross fixed capital formation (figure II.2), compared to 19.4% in 2001.

The downturn also reflects drops in outflows from the major home countries of FDI to Africa—the United States, France and the United Kingdom. United States imports from sub-Saharan Africa declined by more than 16% in 2002,[3] reducing the interest of TNCs in Africa.

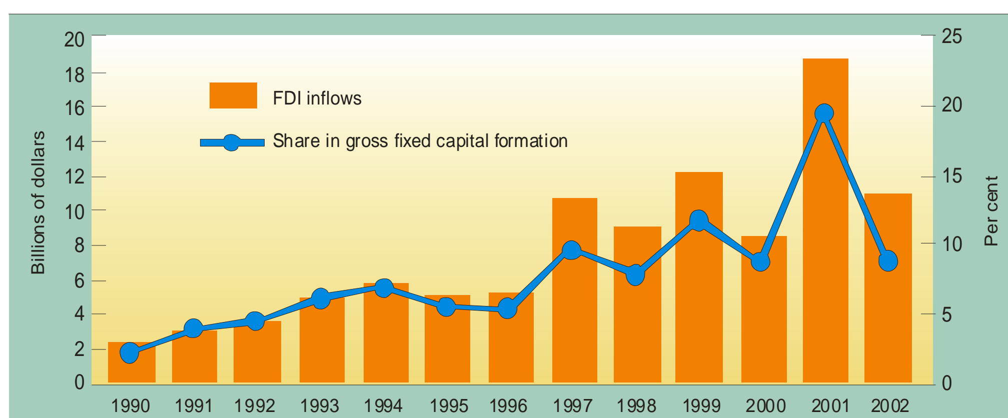
Until 2001, FDI was gaining in importance as a source of Africa's external development finance, reaching nearly two-thirds of total net resource flows in 2001, compared with 34% through official flows (figure II.3). Average FDI flows to the region in 1997–2001 were higher than either total official flows or the total of portfolio and commercial bank loans. Seen from this perspective, the downturn in FDI in 2002 was a major setback, even if short-lived.

In spite of the downturn, 30 countries out of Africa's 53 attracted higher inflows in 2002 than in 2001 (annex table B.1), largely through greenfield FDI, mainly in petroleum (Algeria, Angola, Chad, Equatorial Guinea, Sudan and Tunisia) and to a lesser extent in apparel (Botswana, Kenya, Lesotho and Mauritius). Angola, Nigeria, Algeria, Chad and Tunisia ranked, in that order, at the head of the top 10 FDI recipients (figure II.1). Chad registered the largest increase, from zero in 2001 to more than $900 million in 2002.

The success stories contrast, however, with experiences of countries that lag behind. The Libyan Arab Jamahiriya (with negative inflows) ranked lowest (annex table B.1). Other low FDI recipients have relatively limited natural resource endowments. In four of them—Burundi, Comoros, Liberia and Somalia—efforts are still under way to recover from recent or on-going political instability and civil wars.

There was a flurry of petroleum exploration activities in the Gulf of Guinea, off the coast of West Africa and other areas of Africa, particularly in Angola, Chad, Equatorial Guinea and Sudan, as some TNCs—Exxon-Mobil (United States), TotalFinaElf (France) and Encana (Canada)—sought to diversify their holdings. Sustained peace in Angola could mean a further consolidation of such activities. In some countries, however, manufacturing attracted considerably more FDI than natural resources—as in South Africa. The automobile industry there, spawned by FDI, employs nearly 300,000 people and is the third largest industry.

Figure II.2. Africa: FDI inflows and their share in gross fixed capital formation, 1990–2002

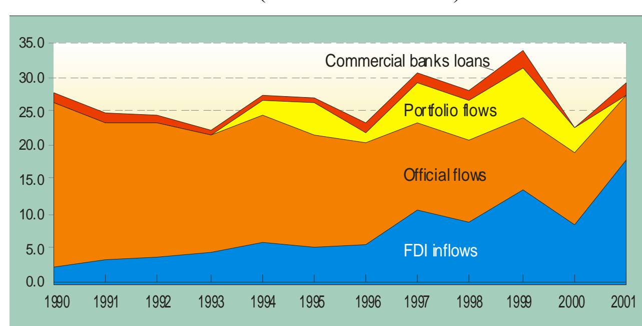


Source: UNCTAD, FDI/TNC database (http://www.unctad.org/fdistatistics).

Almost two-thirds of African IPAs indicated that their countries had not experienced a cancelling or scaling down of FDI projects or a divestment from existing projects according to UNCTAD's IPA survey (UNCTAD 2003a). More than 40% reported postponed projects, reflecting a "wait-and-see" attitude of some investors. About 30% said that they wanted to use additional incentives. Overall greater promotion and targeting are the prime responses to the more challenging FDI environment.

Aggregate FDI outflows from Africa were $0.2 billion in 2002, compared with negative $2.5 billion in 2001. South Africa, home to all three of the Africa-based TNCs on UNCTAD's list of the top 50 developing country TNCs, is the major source, though its outflows registered negative during 2001–2002 (i.e. more divestment than new investment) (annex table B.2). South African firms have traditionally invested abroad in mining and breweries, largely within the region, but some also invested in telecommunications in 2002.

Figure II.3. Total external resource flows[a] to Africa, by type of flow, 1990–2001
(Billions of dollars)



Source: UNCTAD, based on World Bank, 2003a.

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

Particularly noteworthy in the FDI activities by African companies in 2002 are:

- MTN and Vodacom SA[4] both made significant inroads into the telecommunication industries of many African countries. Vodacom is South Africa's largest cellular phone operator, operating new networks in the Democratic Republic of Congo, Lesotho, Mozambique and the United Republic of Tanzania.[5] Most of Vodacom's activities were organized through joint venture arrangements with local companies and businesspersons.
- South African Breweries bought a 64% stake in Miller Brewing (United States) for $5.6 billion. After this acquisition, South Africa Breweries changed its name to SABMiller, which then acquired Birra Peroni (Italy) and Harbin Brewery (China) in 2003.
- South African Airways bought Air Tanzania, as part of its plan to build an African regional network.
- The Algerian national oil company SonaTrack participated in oil ventures in Egypt and Lebanon.
- Ashanti Goldfields from Ghana pressed ahead to bolster its regional presence in gold and platinum in South Africa. It was the leading gold producer in Ghana, Guinea, the United Republic of Tanzania and Zimbabwe.
- In 2003 Egypt's Orascom Telecom won the bid for Algeria's global system of mobile communication (GSM) at a cost of $737 million. The company plans to invest $500 million over the next five years.[6]

All these companies form a cohort of African firms acquiring an international portfolio of locational assets.

Box II.1. What Investment Policy Reviews show

Recently completed Investment Policy Reviews for African countries by UNCTAD show interesting developments in the regulation and promotion of FDI.[a]

Standards of treatment and protection of foreign investors are no longer contentious issues. Good practice is the norm, even in countries without FDI laws. Indeed two countries have recently decided to formalize their commitment to good standards of treatment and protection by introducing FDI legislation for the first time. Moreover, interest is strong in expanding the network of BITs, including to Asian home countries. Some country groups are comfortable injecting common investment standards into their subregional agreements.

Countries continue to be reasonably open to FDI entry, with the authorities paying more attention to facilitating investment startup – "from red tape to red carpet" as one IPA describes it. Privatization with the participation of foreign firms is an important practical manifestation of openness. But such opening is slower than in other parts of the world, certainly in utilities and strategic industries.

One higher income country sought to tighten its FDI regime to fast-track local entrepreneurship. This highlights the growing concern about the impact of FDI on development on the one hand and the recognition of the need for active policy on fostering positive linkages between foreign affiliates and national entrepreneurs on the other.

All the countries, including the LDCs, are keen to attract FDI in manufacturing. The more ambitious ones are also targeting FDI in service exports, including financial, business and professional services for their regions and international information and telecom opportunities.

While FDI-specific standards are now generally sound, there is still a highly patchy record in general regulatory and fiscal measures for business. Recent efforts to attract FDI in labour-intensive manufacturing for export and new opportunities for FDI in services have highlighted the following:

- First, typical fiscal regimes are not internationally competitive when countries seek FDI in export-oriented business. Most countries respond with piecemeal incentives in a process that can be prolonged to a point of becoming discriminatory and arbitrary.
- Second, good labour regulation, especially an effective industrial dispute resolution machinery, is lacking in many countries. Progress in this area is important in presenting an attractive profile for FDI in labour-intensive export manufacturing. Experience in meeting this challenge varies widely.
- Third, many countries still have outdated work and residence permit systems. The process of obtaining entry and work permits for expatriates is lengthy, cumbersome and non-transparent. This discourages FDI into new industries in export manufacturing and services which tend to depend heavily at the outset on expatriates in management and technical positions.

Source: UNCTAD.

[a] Investment Policy Reviews have been completed for Botswana, Egypt, Ethiopia, Ghana, Lesotho, Mauritius, the United Republic of Tanzania and Uganda and are under way for Algeria, Benin and Zambia.

b. Policy developments—improving the investment climate

African countries have liberalized regulatory regimes for FDI, addressing investors' concerns, privatizing public enterprises and actively promoting investment (box II.1). In 2002 alone, 10 countries introduced 20 changes in their investment regimes, overwhelmingly in the direction of a more favourable investment climate.[7] Many countries had previously abolished, or significantly reduced requirements for government participation in business ventures. Nigeria has moved away from mandatory joint ventures in petroleum and minerals. Ghana expanded the scope for FDI by reducing the number of industries closed to foreign investors. And some countries recently expedited investment approval procedures by developing one-stop investment centres (Egypt, Kenya). Investment-related issues, such as technology transfer, are now subject to less restrictive compliance criteria, and the protection of intellectual property rights has improved in some countries.

African countries, while liberalizing their FDI policies, had also concluded 533 BITs (an average of 10 per country) and 365 DTTs (about 7 per country) by the end of 2002. The total number of BITs and DTTs is more than that in Latin America and the Caribbean, but fewer than that in Asia and CEE. During 2001 and 2002, 78 BITs and 15 DTTs were concluded (figure II.4). Progress towards creating free trade and investment areas is slow, although several agreements, mostly subregional, have been concluded (figure II.5). A majority of bilateral and regional agreements emphasize investment promotion through the

creation and improvement of frameworks. Judging from the experience of member countries, the impact of such agreements on FDI flows to their member countries has been limited. They have apparently not generated significant locational advantages for TNCs from within or outside the region. And they have not been accompanied by the establishment of regional FDI frameworks.

Among the schemes involving countries outside the region, the African Growth and Opportunity Act (AGOA) (although not a free trade agreement but rather a unilateral preference scheme) holds some promise for an expansion of trade and investment in the region.[8] In some of the eligible countries, AGOA has increased exports to the United States in textiles and garments and FDI in such export-oriented production (United States, International Trade Administration, 2002). Much of the investment is by Asian TNCs in Kenya, Lesotho and Mauritius. In the two years since its inception AGOA helped stimulate FDI of $12.8 million in Kenya and $78 million in Mauritius—and create some 200,000 jobs in the apparel industry of the 38 beneficiary countries (United States, International Trade Administration, 2002). However, the quota and tariff advantages that corporations get from operating in AGOA countries apparently are not enough for most of them to overcome the locational disadvantages of most of the countries involved.[9]

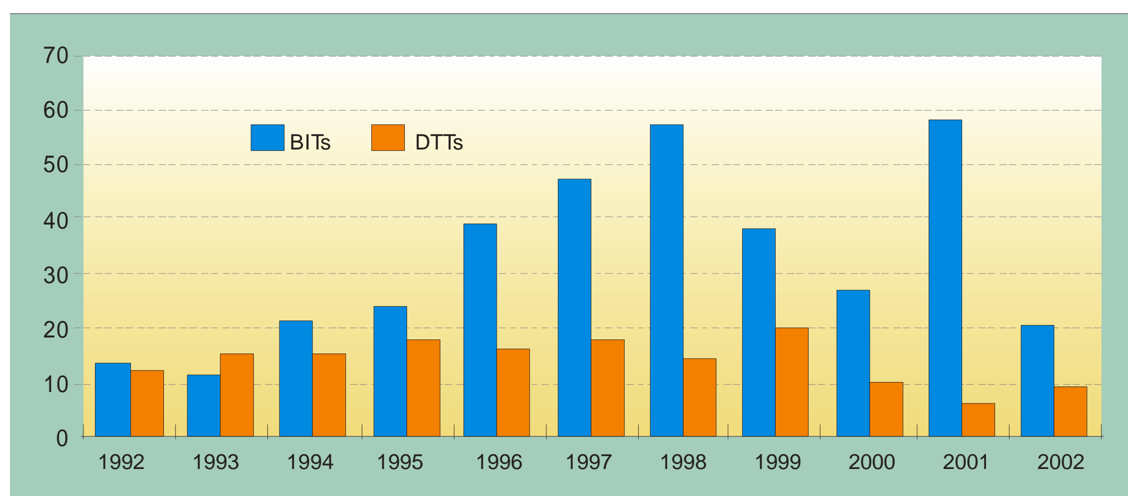
Given the importance of increasing market size and providing scale to attract FDI to Africa, efforts at regional integration continue to be important. The New Partnership for African Development (NEPAD)[10] could be a catalyst in this respect, including infrastructure and energy investment among its priorities.

c. Prospects—quick recovery likely

The outlook for FDI flows to Africa in 2003 is promising. Three major factors—expanded exploration and extraction of natural resources (particularly petroleum), continued and enhanced implementation of regional and interregional free trade initiatives and a possible continuation of privatization programmes—are likely to lead to a moderate increase in total FDI inflows in 2003. Angola, Chad, Equatorial Guinea, Mauritania, Nigeria, São Tomé and Principe and the Sudan are among the hopefuls for new FDI flows to the petroleum industry.[11] FDI in natural resources has well-known shortcomings as a force for development in host countries, notably limited linkages to domestic enterprises. But it is likely to be a major source of recovery for flows to Africa. Morocco, Nigeria and South Africa in particular may undertake further privatizations of major public enterprises.[12] Botswana, Kenya, Lesotho, Mozambique, Namibia, South Africa and Uganda can be expected to make gains as TNCs position themselves to benefit from the AGOA initiative.[13]

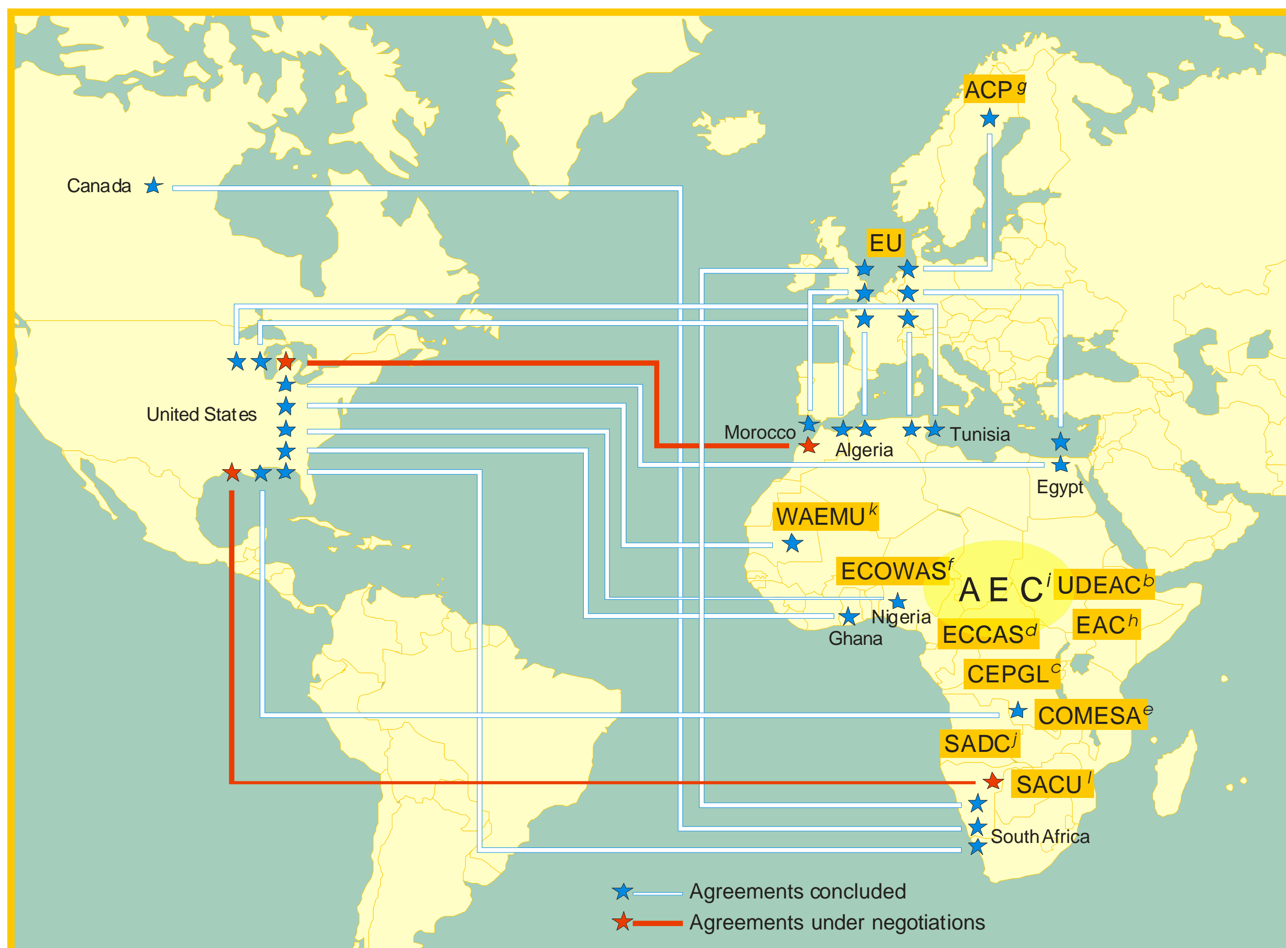
Investment prospects would further be enhanced by a better investment climate (figure II.6). More than 75% of IPAs in Africa expect an improvement in the investment climate in 2003-2004, 100% in 2004-2005. Tourism was mentioned most frequently as the most likely target industry. Telecommunications, mining and quarrying, as well as food and beverages and textiles, leather and clothing were also named. The traditional source countries—France, the United Kingdom and the United States—remain the most likely source countries for FDI into Africa for the period 2003–2005. Others are South Africa and China. African IPAs expect to receive most FDI in production,

Figure II.4. Africa: BITs and DTTs concluded, 1992–2002
(Number)



Source: UNCTAD, databases on BITs and DTTs.

Figure II.5. Africa: selected bilateral, regional and interregional agreements containing FDI provisions, concluded or under negotiation, 2003[a]



Source: UNCTAD.

[a] BITs and DTTs are not included.

[b] UDEAC (Customs and Economic Union of Central Africa) refers to the following instruments: Common Convention on Investments in the UDEAC (1965); Joint Convention on the Freedom of Movement of Persons and the Right of Establishment in the UDEAC (1972); Multinational Companies Code in the UDEAC (1975). UDEAC comprises Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea and Gabon.

[c] CEPGL refers to the Investment Code of the Economic Community of the Great Lakes Countries. CEPGL comprises Burundi, Rwanda and the Democratic Republic of Congo.

[d] ECCAS refers to the Treaty for the Establishment of the Economic Community of Central African States. ECCAS members include Chad, Congo, the Democratic Republic of Congo, Equatorial Guinea, Gabon, Rwanda, Sao Tome and Principe.

[e] COMESA: Treaty Establishing the Common Market for Eastern and Southern Africa. It comprises Angola, Botswana, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Seychelles, Somalia, Swaziland, United Republic of Tanzania, Uganda, Zambia, Zimbabwe. A Charter on a Regime of Multinational Industrial Enterprises (MIEs) in the Preferential Trade Area for Eastern and Southern African States was signed in 1990. COMESA replaced the Preferential Trade Area for Eastern and Southern African States in December 1994. The signatories to the Charter are Angola, Comoros, Djibouti, Kenya, Lesotho, Malawi, Mozambique, Rwanda, Somalia, Sudan, United Republic of Tanzania, Uganda, Zambia, Zimbabwe.

[f] ECOWAS: the Revised Treaty of the Economic Community of West African States. Its member states include Benin, Burkina Faso, Côte d'Ivoire, Gambia, Ghana, Guinea, Liberia, Mali, Niger, Senegal, Sierra Leone and Togo.

[g] ACP: African, Caribbean and the Pacific Group of states. ACP signed an agreement, commonly known as the Cotonou agreement on 23 June 2000.

[h] EAC: Treaty for the Establishment of the East African Community. EAC member States are Kenya, Uganda, United Republic of Tanzania.

[i] AEC: Treaty Establishing the African Economic Community.

[j] SADC: Southern African Development Committee. Its member countries are: Angola, Botswana, the Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe. FISCU (Finance and Investment Sector Co-ordinating Unit of SADC) has been mandated to produce a Draft Finance and Investment Protocol for the SADC region.

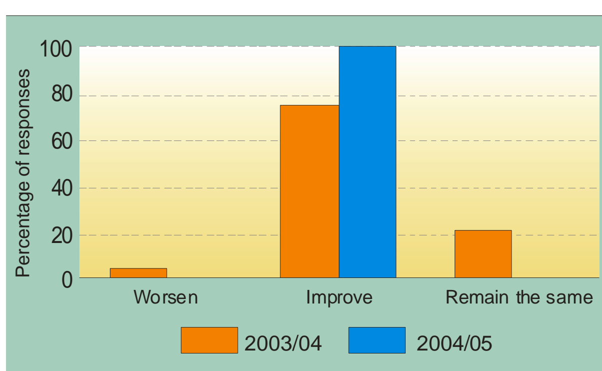
[k] WAEMU: West African Economic and Monetary Union, its member States are currently: Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.

[l] SACU: Southern African Customs Union comprises Botswana, Lesotho, Namibia, South Africa and Swaziland.

distribution and sales, much less in high value-added corporate functions, such as R&D or regional headquarters (HQ) facilities. Not surprisingly, African IPAs expect most FDI in 2003–2005 to come as greenfield FDI. But some countries have scope for privatization M&As.

Bilateral, regional and interregional initiatives can also influence future FDI flows. Two initiatives by the EU—the EU-ACP Cotonou Agreement and the Everything-but-Arms Initiative—could have an effect on trade and investment in Africa.[14] So could a 2001 initiative by Japan, establishing duty-free and quota-free preferences for LDCs on 99% of industrial products, including all textiles and clothing. AGOA II has relaxed the rules of origin restrictions in the apparel industry to the United States market for the "very poor" countries. However, an immediate factor constraining the potential benefits of AGOA is the economic slowdown and low demand in the United States market. The United States could further enhance the benefits of AGOA by supplementing the current arrangements with additional home country measures (see chapter VI).

Figure II.6. Africa: FDI prospects,[a] 2003-2005
(Per cent)



Source: UNCTAD.

[a] The survey question was: "How do you perceive the prospects for FDI inflows to your country in the short- and medium-term, as compared to the last two years (2001-2002)?".

The expiration of the Multifibre Arrangement (MFA) at the end of 2005 also poses challenges for African countries currently taking advantages of AGOA privileges in textile and garment exports—and thus FDI in export-oriented production. Its phasing out would put Africa's fragile infant apparel firms in direct competition with major traditional textile and apparel exporters such as China, India, Pakistan and Viet Nam. But African countries eligible for AGOA will continue to enjoy tariff and quota advantages.

The results of these initiatives and UNCTAD's recent investment policy reviews suggest that an African Investment Initiative could strengthen the continent's supply capacity (box II.2). It would help African countries improve their national regulatory and institutional frameworks for FDI, support their promotion efforts, help in the dissemination of information on investment opportunities and facilitate linkages between foreign affiliates and domestic firms—all to strengthen a vibrant domestic enterprise sector.

Box. II.2. The need for an integrated approach to attract FDI to Africa and benefit from it: an African Investment Initiative

To attract FDI and benefit more from it requires the right conditions. An African Investment Initiative would help countries of the region in creating such conditions. The past few years have seen various initiatives that can help in this respect. It would be appropriate for interested intergovernmental and civil society organizations to coordinate, with NEPAD, the aspects of their work that deal with FDI—an African Investment Initiative.

Improving the national investment framework

Investment Policy Reviews can provide governments with a tool for assessing where they stand in attracting FDI and benefiting more from it. Such Reviews also incorporate a medium-to-long term perspective on how to respond to emerging regional and global opportunities. Other activities, such as identifying administrative barriers to investment and reviewing investment incentive regimes, are relevant as well.

Improving the international investment framework

African countries need to participate as effectively as possible in discussions and negotiations of international investment agreements—to ensure that their interests are properly reflected. This requires training of investment negotiators and background policy analysis, including in cooperation with African academia and faculty and institutions of higher learning, for the purpose of local capacity-building. The negotiation of BITs and DTTs is also relevant here, as is the negotiation of regional investment frameworks and assistance to African countries in investment discussions in WTO. Investment agreements are becoming increasingly important as they set the framework for national FDI policies.

Supporting national investment promotion efforts

African IPAs have joined the World Association of Investment Promotion Agencies, which offers training and capacity building

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Box. II.2. The need for an integrated approach to attract FDI to Africa and benefit from it: an African Investment Initiative (concluded)

opportunities to more than 160 IPAs, including through exposure to successful IPAs worldwide. This helps them develop their strategy and promotion plans, establish information systems and produce marketing materials. Other activities include project portfolio preparation and retention and expansion programmes.

Promoting information dissemination and public-private sector dialogue

Lack of information about investment opportunities in Africa is one factor that holds back the flow of FDI to the continent. Providing investment information is therefore crucial. Actions could include the preparation and dissemination of investment guides and the creation of web-based promotion materials. Also important is promoting a public-private sector dialogue, nationally and internationally, to draw directly on the expertise of corporate decision makers in interaction with senior government officials. For this purpose UNCTAD and the ICC jointly established an Investment Advisory Council, while Ethiopia, Ghana, Senegal and the United Republic of Tanzania have established such councils at the national level.

Facilitating business linkages

Linkages between foreign affiliates and domestic firms are the main avenues to disseminate the benefits of FDI to the domestic economy and help create a vibrant enterprise sector. Many TNCs have built up complex supply chains, involving competitive local SMEs. This has opened up new opportunities for many SMEs. But the vast majority of them, particularly in African LDCs, remain delinked from TNCs, missing out on potential gains of technological spillovers and access to markets, information and finance. Advice on the most appropriate policy framework for linkages, identifying opportunities available to local SMEs and foreign affiliates to increase business linkages and deepen them can increase the contribution of FDI to development.

Source: UNCTAD.

2. Asia and the Pacific

Like the other developing regions, Asia and the Pacific was not spared by the downturn. The region, however, weathered the downturn better than most other regions, with only an 11% FDI decline. The decline was uneven by subregion, country and industry. Asia is one of the most rapidly liberalizing host regions for FDI, making more national policy changes in a direction favourable to investors in 2002 than any other region. Bilateral and regional arrangements involving countries in the region also proliferated. While the long-term prospects for an increase in FDI flows to the region remain promising, the short-term scenario continues to be uncertain.

a. FDI down again, but several countries receiving significantly higher flows

For the region as a whole, FDI flows declined for the second year in a row, down from $107 billion in 2001 to $95 billion in 2002. The decline affected all-subregions, except for Central Asia and South Asia. Still 26 out of the region's 57 economies saw higher FDI inflows.

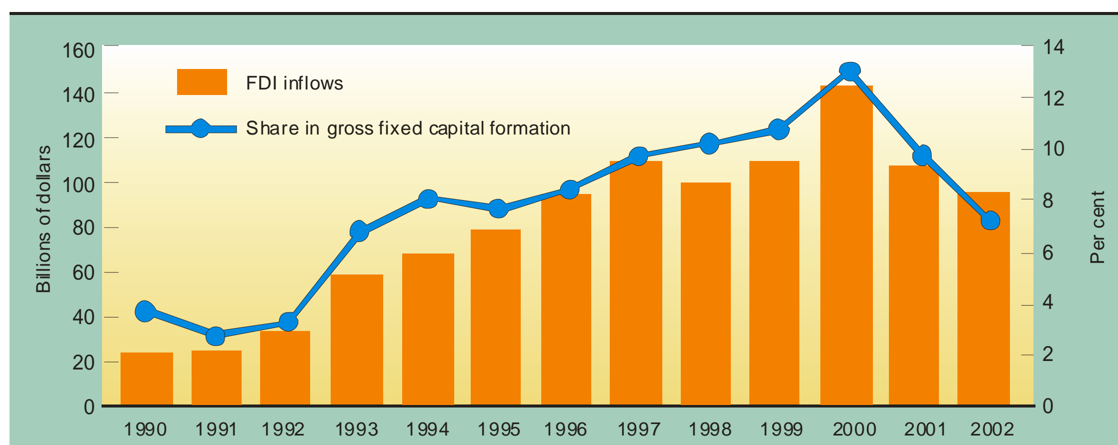
Despite the downturn, however, the share of Asia and the Pacific—the world's largest developing region in terms of population and GDP—in global FDI flows rose to 14% in 2001–2002, compared with 10% during the FDI boom years of 1999–2000. The region's share of FDI flows to developing countries in 2002 also rose, to 59%, from 51% in 2001. The ratio of FDI flows in gross fixed capital formation declined from 10% in 2001 to 7% in 2002 (figure II.7), suggesting a more severe impact of the global economic slowdown on FDI than on domestic investment.

FDI flows continue to be concentrated in China, Hong Kong (China) and Singapore. The top 10 host economies took 93% of the region's total inflows in 2002 (figure II.8). The electronics industry was most affected by the downturn due to continued rationalization of production activities in the region and adjustments to weak global demand. Repayments of intra-company loans by foreign affiliates remained high in some countries. However, reinvested earnings rose,[15] an important source of financing FDI during the downturn.

Some highlights for the subregions:

- FDI flows to North-East Asia[16] dropped from $78 billion in 2001 to $70 billion in 2002. FDI flows to Hong Kong (China) fell by 42%, to Taiwan Province of China by 65% and to the Republic of Korea by 44%, partly because TNC production activities were relocated to lower cost locations, primarily China. The decline in FDI flows was also partly due to slow economic growth of these economies. The notable

Figure II.7. Asia and the Pacific: the share of FDI inflows in gross fixed capital formation, 1990–2002

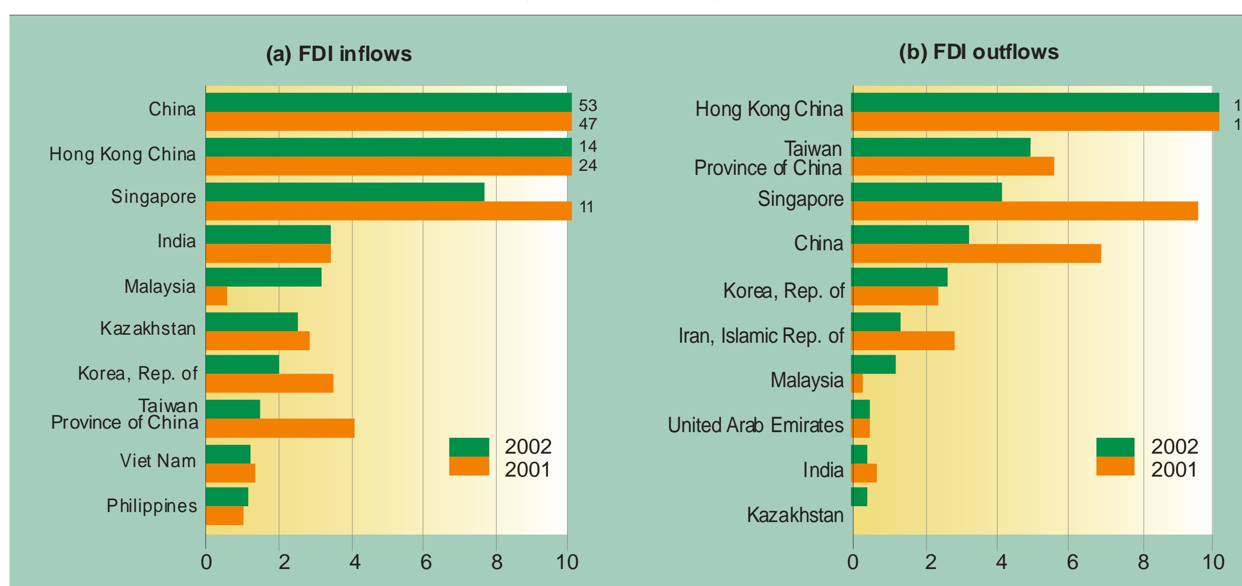


Source: UNCTAD, FDI/TNC database (http://www.unctad.org/fdistatistics).

exception was China, whose sustained economic growth and other advantages attracted increased inflows of FDI in 2002. FDI flows to Mongolia also increased.

- FDI flows to South-East Asia dropped from $15 billion in 2001 to $14 billion in 2002, though Brunei Darussalam, Lao People's Democratic Republic, Malaysia and the Philippines received larger flows than in 2001. Significant repayments of intra-company loans by foreign affiliates were a feature of the decline, as was the increased competition from China.
- FDI flows to South Asia increased from $4.0 billion in 2001 to $4.6 billion in 2002,[17] due to higher flows to India, Pakistan and Sri Lanka. FDI flows to Bangladesh and other countries in the subregion declined. However, in the case of Bangladesh, FDI flows in 2002 would have been higher if investment in kind were included (box II.3).
- FDI flows to West Asia declined in 2002 to $2.3 billion, from $5.2 billion in 2001. Despite the recent efforts of some countries in this subregion to relax FDI restrictions, flows continue to be low, with geopolitical tensions being a major factor. Some countries have large oil reserves with low extraction costs, which help attract FDI to oil and gas activities, despite the difficult political and business environment. A number of countries (e.g. Bahrain, Kuwait) received

Figure II.8. Asia and the Pacific: FDI flows, top 10 economies, 2001 and 2002 [a]
(Billions of dollars)



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

[a] Ranked on the basis of the magnitude of 2002 FDI flows.

Box II.3. The FDI census in Bangladesh

The Bangladesh Board of Investment (BOI) conducted a census of foreign direct investors in February 2003 to gather comprehensive primary data on actual FDI inflows based on projects registered with BOI and the Bangladesh Export Processing Zones Authority.

Results:

- FDI inflows in 2002 were $328 million (compared with $58 million on a balance-of-payments basis reported by the Central Bank of Bangladesh). Half of it was financed by equity, 31% by reinvested earnings and 19% by intra-company loans.
- While FDI flows have traditionally been concentrated in the power and energy industries, 44% of the total FDI flows in 2002 went to the manufacturing sector.
- The major sources of investment in 2002 were Asia (45%), followed by Europe (32%) and North America (17%). Norway was the single largest investor (19%), followed by the United States (17%), Singapore (14%) and Hong Kong (China) and Malaysia (9% each). Most of the FDI from Norway was in telecoms and from the United States in the services sector (e.g. power generation, oil and gas, liquefied petroleum gas bottling, medicare service). Investments from Asia, particularly South, East and South-East Asia, were concentrated in manufacturing.
- The major investors include AES and Unocal (United States), BASF (Germany), Cemex (Mexico), Holcim and Nestlé (Switzerland), Lafarge and Total FinaElf (France), Taiheyo (Japan), Telenor (Norway) and TMI (Malaysia).

This is an example of how careful FDI statistics need to be interpreted, given the different ways in which they are compiled.

Source: UNCTAD, based on information provided by Bangladesh Board of Investment.

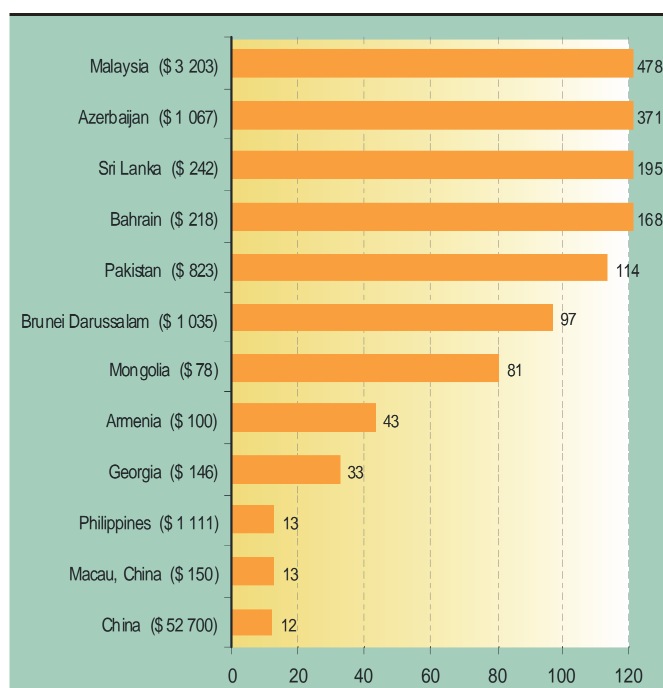
higher flows. Turkey, however, remained the main recipient.

- FDI flows to Central Asia rose in 2002 due to significant increases in FDI flows to Azerbaijan, from $227 million in 2001 to $1 billion. Kazakhstan received 9% less FDI in 2002 but remained the main recipient, with most going to oil and gas. FDI flows to Armenia and Georgia increased by more than 25%.

- The downturn also affected the Pacific islands economies, with FDI down from $159 million in 2001 to $140 million in 2002. They are disadvantaged by their size and distance from major markets. Fiji and Papua New Guinea remained the principal recipients.

Notwithstanding the general downturn, a number of countries improved their FDI performance, as these highlights suggest. In particular, Malaysia, Azerbaijan, Sri Lanka, Bahrain, Pakistan and a few others received significantly higher FDI flows in 2002 than in 2001 (figure II.9). FDI flows to China rose by 13% in 2002, to $53 billion, a new record reinforcing China's position as the largest recipient of FDI inflows in the developing world. Indeed, China received more than three times as much as Brazil. China's large domestic market, strong economic growth, increasing export competitiveness and accession to the WTO have all increased investors' interest in locating operations in that country (*WIR02*). Given its locational advantages, it is attractive for resource-seeking, efficiency-seeking and market-seeking FDI. That a large proportion of FDI in China comes from the overseas Chinese network

Figure II.9. Asia and the Pacific: host countries defying the downturn in 2002
(Per cent)



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

Note: The figure presents percentage increase in FDI inflows in 2002 over 2001. Figures in parenthesis are absolute amounts of FDI inflows, in millions of dollars, for 2002.

and other TNCs less affected by the global economic slowdown, contributed to the increase in FDI flows to China.[18]

FDI flows to India rose to $3.4 billion, sustaining it as the largest recipient in South Asia. The country's market potential, improved economic performance, growing competitiveness of information technology industries and impetus of recent liberalization are factors attracting more FDI into the country. Although India and China both received increased FDI flows, their performance has been strikingly different (box II.4).

Oil and mining do better than manufacturing and services. The primary sector—especially oil and mining—weathered the 2001–2002 downturn better than manufacturing and services did, despite geopolitical tensions and volatile oil prices. In the more developed economies—also more service-oriented—the share of FDI in services rose. In 2002 the share of the tertiary sector in total FDI inflows to the Republic of Korea increased by 13 percentage points and to Singapore by 0.8 percentage points. The share of tertiary sector FDI to Hong Kong (China) is expected to remain high in 2002.[19] In other countries FDI in manufacturing fell but the sector gained in terms of share. In China manufacturing's share, already high, rose from 66% in 2001 to 70% in 2002. In the ASEAN subregion, it rose from 23% in 1999 to 45% in 2000 and 49% in 2001. FDI in the other subregions was dominated by investment in resource-based or oil and gas industries.

Intra-company loans down sharply. In terms of financial components of FDI, intra-company loans dropped sharply. For instance, intra-company loans in Hong Kong (China), the Republic of Korea and Thailand declined significantly in 2002 (annex table A.II.1). And foreign affiliates in Indonesia, Malaysia, Philippines and Singapore have been making significant repayments.[20]

Large repayments of intra-company loans have been noticeable since 1999, particularly in countries affected by the 1997–1998 financial crisis. One reason might be exchange rate

Box II.4. China and India—what explains their different FDI performance?

China and India are the giants of the developing world. Both enjoy healthy rates of economic growth. But there are significant differences in their FDI performance. FDI flows to China grew from $3.5 billion in 1990 to $52.7 billion in 2002; if round-tripping is taken into account, China's FDI inflows could fall to, say, $40 billion.[a] Those to India rose from $0.4 billion to $5.5 billion during the same time period (box table II.4.1).[b]

Even with these adjustments, China attracted seven times more FDI than India in 2002, 3.2% of its GDP compared with 1.1% for India.[c] In UNCTAD's FDI Performance Index, China ranked 54th and India 122nd in 1999–2001.

FDI has contributed to the rapid growth of China's merchandise exports, at an annual rate of 15% between 1989 and 2001. In 1989 foreign affiliates accounted for less than 9% of total Chinese exports; by 2002 they provided half. In some high-tech industries in 2000 the share of foreign affiliates in total exports was as high as 91% in electronics circuits and 96% in mobile phones (*WIR02*, pp. 162-163). About two-thirds of FDI flows to China in 2000–2001 went to manufacturing.

In India, by contrast, FDI has been much less important in driving India's export growth, except in information technology. FDI in Indian manufacturing has been and remains domestic market-seeking. FDI accounted for only 3% of India's exports in the early 1990s (*WIR02*, pp. 154-163). Even today, FDI is estimated to account for less than 10% of India's manufacturing exports (UNCTAD forthcoming a).

For China the lion's share of FDI inflows in 2000–2001 went to a broad range of manufacturing industries. For India most went to services, electronics and electrical equipment and engineering and computer industries.

What explains the differences? Basic determinants, development strategies and policies and overseas networks.

Basic determinants

On the basic economic determinants of inward FDI, China does better than India. China's total and per capita GDP are higher (box table II.4.1), making it more attractive for market-seeking FDI. Its higher literacy and education rates suggest that its labour is more skilled, making it more attractive to efficiency-seeking investors (World Bank 2003c, p. 234; UNDP 2002). China also has large natural resource endowments. In addition, China's physical infrastructure is more competitive, particularly in the coastal areas (CUTS 2003, Marubeni Corporation Economic Research Institute 2002). But, India may have an advantage in technical manpower, particularly in information technology. It also has better English language skills.

Some of the differences in competitive advantages of the two countries are illustrated by the composition of their inward FDI flows. In

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Box II.4. China and India—what explains their different FDI performance? (continued)

information and communication technology, China has become a key centre for hardware design and manufacturing by such companies as Acer, Ericsson, General Electric, Hitachi Semiconductors, Hyundai Electronics, Intel, LG Electronics, Microsoft, Mitac International Corporation, Motorola, NEC, Nokia, Philips, Samsung Electronics, Sony, Taiwan Semiconductor Manufacturing, Toshiba and other major electronics TNCs. India specializes in IT services, call centers, business back-office operations and R&D.

Rapid growth in China has increased the local demand for consumer durables and nondurables, such as home appliances, electronics equipment, automobiles, housing and leisure. This rapid growth in local demand, as well as competitive business environment and infrastructure, have attracted many market-seeking investors. It has also encouraged the growth of many local indigenous firms that support manufacturing.

Other determinants related to FDI attitudes, policies and procedures also explain why China does better in attracting FDI.

- China has “more business-oriented” and more FDI-friendly policies than India (AT Kearney 2001).
- China’s FDI procedures are easier, and decisions can be taken rapidly.

Box table II.4.1. China and India: selected FDI indicators, 1990, 2000-2002

Item	Country	1990	2000	2001	2002
FDI inflows	China	3,487	40,772	46,846	52,700
(Million dollars)	India	379	4,029	6,131	5,518
Inward FDI stock	China	24 762	348 346	395 192	447 892
(Million dollars)	India	1,961	29,876	36,007	41,525
Growth of FDI inflows	China	2.8	1.1	14.9	12.5
(annual, %)	India	-6.1	16.1	52.2	-10.0
FDI stock as percentage	China	7.0	32.3	33.2	36.2
of GDP (%)	India	0.6	6.5	7.4	8.3
FDI flows as percentage of	China	3.5	10.3	10.5	..
gross fixed capital formation(%)	India	0.5	4.0	5.8	..
FDI flows per capita	China	3.0	32.0	36.5	40.7
(Dollars)	India	0.4	4.0	6.0	5.3
Share of foreign affiliates	China	12.6	47.9	50.0	..
in total exports (%)	India	4.5	..	..	..
GDP (billion dollars)[a]	China	388	1,080	1 159.1	1 237.2
	India	311	463	484	502
Real GDP growth	China	3.8	8.0	7.3	8.0
(%)	India	6.0	5.4	4.2	4.9

Source: UNCTAD, FDI/TNC database; IMF, World Economic Outlook Database, April 2003.

[a] At current prices.

Note: see note b of this box for explanation for the data on FDI flows and stocks of India.
FDI flows and stocks data for India in 2000 and 2001 are based on fiscal year 2000/01 and 2001/02.

- China has more flexible labour laws, a better labour climate and better entry and exit procedures for business (CUTS 2003).

A recent business environment survey indicated that China is more attractive than India in the macroeconomic environment, market opportunities and policy towards FDI. India scored better on the political environment, taxes and financing (EIU 2003a). A confidence tracking survey in 2002 indicated that China was the top FDI destination, displacing the United States for the first time in the investment plans of the TNCs surveyed; India came 15th (AT Kearney 2002). A Federation of Indian Chambers of Commerce and Industry (FICCI) survey suggests that China has a better FDI policy framework, market growth, consumer purchasing power, rate of return, labour laws and tax regime than India (FICCI 2003).

Development strategies and policies

The different FDI performance of the two countries is also related to the timing, progress and content of FDI liberalization in the two countries and the development strategies pursued by them.

- China opened its doors to FDI in 1979 and has been progressively liberalizing its investment regime. India allowed FDI long before that but did not take comprehensive steps towards liberalization until 1991 (Nagaraj 2003).
- The two countries focused on different types of FDI and pursued different strategies for industrial development. India long followed an import-substitution policy and relied on domestic resource mobilization and domestic firms (Bhalla 2002; Sarma 2002), encouraging FDI only in higher-technology activities. Despite the progressive liberalization, imposition of joint venture requirements and restrictions on FDI in certain sectors, China has, since its opening, favoured FDI, especially export-oriented FDI, rather than domestic firms (Buckley forthcoming; IMF 2002). Such policies not only attracted FDI but led to round-tripping through funds channelled by domestic Chinese firms into Hong Kong (China), reinvested in China to avoid regulatory restrictions or obtain privileges given to foreign investors. In India, round-tripping, mainly through Mauritius, is much smaller and for tax reasons.

It has been suggested that domestic market imperfections associated with problems of outsourcing, regulations and local inputs have led to “excessive internalization” of production activities by TNCs in China. So part of the FDI, occurring because of the imperfections of the domestic market, is undertaken as a second best response by manufacturing TNCs to the Chinese environment (Buckley forthcoming).

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Box II.4. China and India—what explains their different FDI performance? (concluded)

For India the situation is somewhat different. A tradition of entrepreneurship has spawned a broad based domestic enterprise sector (Huang and Khanna 2003). This combines with the necessary legal and institutional infrastructure and a restrictive FDI policies followed until the 1990s. As a result, TNC participation in production has often taken externalized forms (such as licensing and other contractual arrangements). Even after a significant liberalization of FDI policies, internalization is not necessarily dominant. Consider information technology, industries where outsourcing to private Indian firms is efficient and there are quality domestic subcontractors.

China's accession to the WTO in 2001 has led to the introduction of more favourable FDI measures. With further liberalization in the services sector, China's investment environment may be further enhanced. For instance, China will allow 100% foreign equity ownership in such industries as leasing, storage and warehousing and wholesale and retail trade by 2004, advertising and multimodal transport services by 2005, insurance brokerage by 2006 and transportation of goods (railroad) by 2007. In retail trade, China has already opened and attracted FDI from nearly all the big-name department stores and supermarkets such as Auchan, Carrefour, Diary Farm, Ito Yokado, Jusco, Makro, Metro, Pricesmart, 7-Eleven and Wal-Mart (PriceWaterhouseCoopers 2002).

In India the Government is planning to open some more industries for FDI and further relax the foreign equity ownership ceiling (EIU 2003a). To identify approaches to increase FDI flows, the Planning Commission established a steering committee on FDI in August 2001. Following the Chinese model, India recently took steps to establish special economic zones. China's special economic zones have been more successful than Indian export processing zones in promoting trade and attracting FDI (Bhalla 2002).

Overseas networks

In addition to economic and policy-related factors, an important explanation for China's larger FDI flows lies in its position as the destination of choice for FDI by Chinese businesses and individuals overseas, especially in Asia. The role of the Chinese business networks abroad and their significant investment in mainland China contrasts with the much smaller Indian overseas networks and investment in India (Bhalla 2002). Why? Overseas Chinese are more in number, tend to be more entrepreneurial, enjoy family connections (*guanxi*) in China and have the interest and financial capability to invest in China—and when they do, they receive red-carpet treatment. Overseas Indians are fewer, more of a professional group and, unlike the Chinese, often lack the family network connections and financial resources to invest in India.

***

Both China and India are good candidates for the relocation of labour-intensive activities by TNCs, a major factor in the growth of Chinese exports. In India, however, this has been primarily in services, notably information and communication technology. Indeed, almost all major United States and European information technology firms are in India, mostly in Bangalore. Companies such as American Express, British Airways, Conseco, Dell Computer and GE Capital have their back-office operations in India. Other companies—such as Amazon.com and Citigroup—outsource services to local or foreign companies already established in the country (AT Kearney 2003). Foreign companies dominate India's call centre industry, with a 60% share of the annual $1.5 billion turnover.

Investor sentiment on China as a location for investment is improving (MIGA 2002; AT Kearney 2002; American Chamber of Commerce in China 2002). Nearly 80% of all Fortune 500 companies are in China (*WIR01*, p. 26), while 37% of the Fortune 500 outsource from India (NASSCOM 2001). Despite the improvement in India's policy environment, TNC investment interest remains lukewarm, with some exceptions, such as in information and communication technology (AT Kearney 2001).

The prospects for FDI flows to China and India are promising, assuming that both countries want to accord FDI a role in their development process — a sovereign decision. The large market size and potential, the skilled labour force and the low wage cost will remain key attractions. China will continue to be a magnet of FDI flows and India's biggest competitor. But, FDI flows to India are set to rise — helped by a vibrant domestic enterprise sector and if policy reforms continue and the Government is committed to the objective of attracting FDI flows to the country.

Source: UNCTAD.

[a] FDI flows to China are generally considered to be over-reported due to the inclusion of round tripping (investment from locations abroad by investors from China) in China's FDI data, while those to India were under-reported due to the non-inclusion of reinvested earnings and intra-company loans in that country's data. Zhan (1995, pp. 91-92) estimated that round-tripping to China was less than 25%, the prevailing estimate at the time (Harrold and Lall 1993). However, with China's accession to the WTO in December 2001 and the removal of preferential treatment to foreign investors over domestic investors, round-tripping of Chinese FDI is likely to fall (World Bank 2003a, p. 102). The Bank of China Group indicated in an article that "... the market's general assessment is that the ratio (round-tripping to China) has declined from 30% to around 10–20% in recent years." ("Foreign direct investment in China", Hong Kong Trade and Development Cooperation, 1 January 2003 (http://www.tdctrade.com/econforum/boc/boc030101.htm).

[b] Based on the revised FDI data methodology, which includes the three components of FDI, India reported that FDI flows to the country increased from $4.1 billion in fiscal year 2000/01 to $6.1 billion in fiscal year 2001/02. This means that actual inflows were about 60% higher than those reported earlier. This ratio is applied to arrive at the 1990 and the 2002 data for India. (The data in the annex to this report are still old ones, as the new ones arrived after closure of the statistical work).

[c] The figure for China after taking into account round-tripping (25% of FDI flows). The figure for India is based on the methodology mentioned in note b.

instability, inducing foreign affiliates to make early loan repayments to hedge against exchange rate risks. Other reasons relate to the improved financial position of Asian affiliates in the post-financial crisis situation and the fact that a great part of intra-company loans provided by parent companies to the Asian affiliates to overcome the 1997–1998 financial crisis are probably due for repayment. In addition, the declining profitability and tight financial conditions faced by parent companies and the need to strengthen their balance sheets could have led to early repayment.[21]

Reinvested earnings rose and remained a significant source of finance for FDI activities in several economies, including China, Hong Kong (China), Malaysia, the Philippines and Singapore.[22] Good returns on FDI—in most cases higher than the developing country average (annex table A.II.2)—and a positive economic outlook helped mitigating the downturn.[23] Equity capital, the third component of FDI, also declined in most countries, particularly for the newly industrial economies and some ASEAN countries.

Outward FDI flows from Asia and the Pacific fell in 2002, by marginally more than inflows (annex table B.2). The Asian newly industrial economies, China and a few other ASEAN countries are notable sources,[24] concentrated on manufacturing and natural resources. Of the top 50 TNCs from developing countries in 2001, ranked by foreign assets, 33 of them were from Asia (annex table A.I.2).

Intra-regional investment in developing East Asia fell, but its share of total inflows to the subregion increased from 37% in 1999 to 40% in 2001, supported by relocations of investment, growing regional production networks and continuing regional integration efforts (table II.1). Intra-ASEAN FDI increased from 7% in 1999 to 17% in 2002, reflecting the continuing improvement in the private sector's recovery from 1997–1998 financial crisis, aided by regional integration (box II.5).

Table II.1. Intra-regional FDI flows in developing Asia, 1999-2001
(Millions of dollars)

	1999 Source economy						
Host economy	ASEAN	China	Hong Kong, China	Republic of Korea	Taiwan Province of China	Sub-total of reporting host economy (A)	Total in reporting host economy (B)
ASEAN	1 685	78	886	510	347	3 506	25 029
China	3 275[a]	..	16 363	1 275	2 599	23 512	40 318
Hong Kong, China	759	4 981	..	231	171	6 142	24 581
Total above	5 719	5 059	17 249	2 016	3 117	33 160	89 928
Percentage of A/B						37%	
	2000 Source economy						
Host economy	ASEAN	China	Hong Kong, China	Republic of Korea	Taiwan Province of China	Sub-total of reporting economy (A)	Total in reporting economy (B)
ASEAN	1 259	58	1 045	153	580	3 095	18 625
China	2 838[a]	..	15 500	1 490	2 296	22 124	40 715
Hong Kong, China	7 703	14 211	..	69	535	22 518	61 940
Total above	11 800	14 269	16 545	1 712	3 411	47 737	121 280
Percentage of A/B						39%	
	2001 Source economy						
Host economy	ASEAN	China	Hong Kong, China	Republic of Korea	Taiwan Province of China	Sub-total of reporting economy (A)	Total in reporting economy (B)
ASEAN	2 334	151	- 365	- 304	113	1 929	15 211
China	2 970[a]	..	16 717	2 152	2 980	24 819	46 878
Hong Kong, China	1 930	4 934	..	100	518	7 482	23 776
Total above	7 234	5 085	16 352	1 948	3 611	34 230	85 865
Percentage of A/B						40%	

Source: UNCTAD, FDI/TNC database.

[a] Covers Indonesia, Malaysia, Philippines, Singapore and Thailand.

Box II.5. Effects of regional agreements on FDI in Asia

Several studies at the firm level suggest that the ASEAN Free Trade Agreement (AFTA) has influenced TNCs' decisions to invest in the region, especially in the automotive and electronics industries (Baldwin 1997; Dobson and China 1997; Japan Research Institute Limited 2001). But it appears that some rationalization in the automotive industry has occurred as well, with implications for the distribution of flows (Farrell and Findlay 2001).

A cross-sectional regression analysis of United States outward FDI suggested that the major ASEAN host countries (Malaysia, the Philippines, Singapore and Thailand) received more FDI than the analysis predicted for 1994 (Lipsey 1999). This could imply positive effects of AFTA on FDI flows from the United States.

In another econometric study of United States FDI flows to the ASEAN-5 and 26 other countries, market size (GDP) was found to be positively related to FDI flows. And some evidence of a negative relationship between FDI and tariff rates was found over the entire 31-country sample (Parsons and Heinrich 2003). While the "AFTA effect" was ambiguous in this study, a more integrated market and lower duties on vital imported intermediate goods may have encouraged more market-seeking and efficiency-seeking FDI to the region.

FDI flows to the ASEAN subregion have increased steadily, particularly after the signing of AFTA and until the 1997–1998 Asian financial crisis (box figure II.5.1). In the South Asian Association for Regional Cooperation (SAARC) Preferential Trading Arrangement subregion, FDI has been increasing since the signing of the agreement in 1993.

Although these regional trading arrangements may be stimulating FDI, ASEAN has consistently attracted only about 5% of world FDI over the past 20 years. With so many trading arrangements being signed and at the same time new markets opening up to FDI (such as CEE and China), it is difficult to sift out the effects on FDI flows to the region from those for individual members.

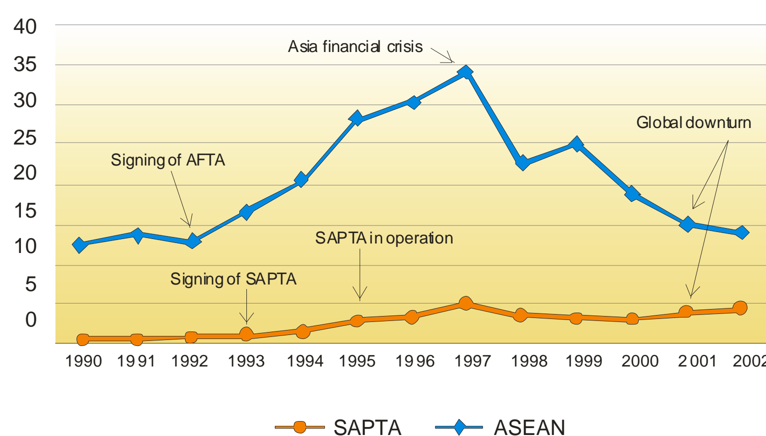
Most of the recent regional arrangements in Asia tend towards free trade areas (AFTA, Singapore–United States, ASEAN–China, Republic of Korea–Chile) and regional investment cooperation (ASEAN Investment Area). These arrangements provide assurances of market access, involve a deeper tariff-cutting programme on a more extensive range of products, address non-tariff barriers, facilitate easier sourcing of production inputs and resources and cover investment matters. The attractiveness of these free trade agreements for FDI is enhanced by these elements, which could affect operations seeking markets, resources and efficiency (Heinrich and Konan 2001).

A recent JETRO survey of 1,519 Japanese manufacturers in Asia indicated that 50% of the respondents expect a Japan–ASEAN free trade area and 25% expect the ASEAN–China free trade area to benefit them. A large majority of the firms indicated that they would benefit from reduction of customs duties and simplification and harmonization of customs clearance procedures. And about 20% expect to benefit from the simplification of mutual recognition (JETRO 2003b).

This survey of Japanese manufacturers also found that AFTA and the proposed ASEAN-Japan free trade area are expected to increase the investment and networks of Japanese operations in ASEAN (JETRO 2003b). Another survey by the Japan Bank for International Cooperation shows that more than half of the Japanese manufacturing TNCs surveyed held the view that AFTA stimulates intraregional trade through corporate regional production networks (JBIC 2003).

Efficiency-seeking FDI is likely to rise as TNCs position themselves to take advantage of a regional division of labour and production upgrading through network operations. The main question for policymakers is not whether regional agreements and liberalization efforts attract more FDI. It is what kinds of investment a regional integration arrangement has the greatest capacity to generate for each member and for the region.

Box figure II.5.1. Asia and the Pacific: FDI flows to ASEAN and SAPTA,[a] 1990–2002
(Billions of dollars)



Source: UNCTAD, FDI/TNC database.
[a] SAARC Preferential Trading Arrangement (SAPTA).

Source: UNCTAD.

b. Policy developments—more unilateral measures to improve the investment environment

Many countries introduced unilateral policy measures to further liberalize their FDI regimes. They relaxed limitations on foreign equity ownership, liberalized sectoral restrictions, streamlined approval procedures, granted incentives, relaxed foreign exchange controls and offered investment guarantees. For instance, China relaxed foreign shareholding limitations in the domestic airlines industry from 35% to 49%; the Shenzhen Municipal Government in China established a centre to handle and coordinate foreign investors' complaints; India announced in 2002 a plan to allow foreign companies to own up to 74% equity in print media business; the Republic of Korea offered new tax incentive to attract FDI; Lao People's Democratic Republic streamlined its investment application procedures; Malaysia announced incentives for operational headquarters and R&D centers; Thailand relaxed the conditions governing the location of promoted projects in the country; and Viet Nam further relaxed conditions regarding foreign equity ownership in local private companies. ASEAN members are taking steps to promote FDI jointly to the region by holding investment fairs together and organising an ASEAN Business and Investment Summit in October 2003. Under the ASEAN Investment Area Agreement, the ASEAN countries have phased in the Temporary Exclusion List of manufacturing sectors on 1 January 2003, opening more industries and granting national treatment to ASEAN investors. Indonesia declared 2003 as the "Indonesia Investment Year", with a number of favourable policy changes to be introduced (box II.6). And investment promotion is receiving more attention: 64% of the Asian and Pacific IPAs surveyed indicated that they have intensified their promotion efforts in 2002 in response to the downturn (UNCTAD 2003a). Half the countries made more use of investment targeting, 25% reported additional incentives and 36% further liberalization.

Box II.6. Indonesia's Investment Year 2003

To promote FDI and increase investor confidence, the President of the Republic of Indonesia declared the "Indonesia Investment Year 2003". The new National Investment Team, chaired by the President, includes key cabinet ministers. An Investment Working Group, chaired by the Chairperson of the Investment Coordinating Board, provides technical support to the National Investment Team.

A "one roof service", supervised by the Investment Coordinating Board, will expedite investment approvals for all investors, existing and new, foreign and domestic. It will simplify procedures and improve the coordination of various agencies, including regional governments. In parallel, the Board will improve its pre- and post-investment services at the national and regional levels.

The Board has a detailed action plan to support Investment Year activities. Its objectives are to support institutional and legal changes for investment, improve investor relations and communications and promote foreign investment. Noting the importance of investment advocacy and the involvement of the general public in supporting investment efforts, the Government will improve communication and collaboration with investors, parliament and regional governments.

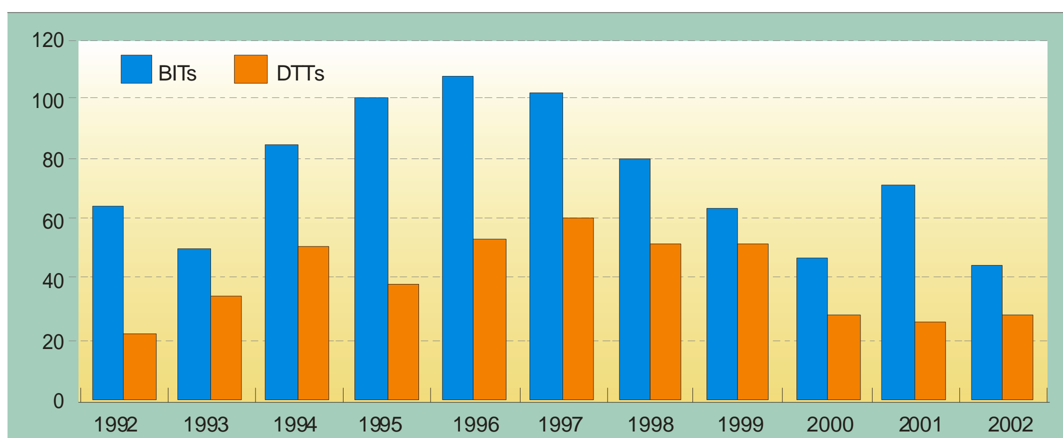
Source: UNCTAD.

Bilateral treaties have further strengthened the region's policy framework. By the end of 2002, countries in the Asia and Pacific region were party to 1,003 BITs (an average of 18 BITs per country for 57 economies) and 842 DTTs (an average of 15 DTTs per country)—more than any other developing region (figure II.10). Bilateral free trade agreements have also been increasing, with Singapore as the main hub and the EU and the United States as the main partner (figure II.11). They contain (at times substantial) investment provisions, underlining that investment has become a key consideration in economic cooperation.

For example, the Republic of Korea–Chile and the Singapore–United States free trade agreements contain a range of investment provisions. And the ASEAN–China arrangement contains provisions on investment liberalization, transparency and facilitation. In many negotiations ASEAN is taking the lead. By 2005 the Asia and Pacific region is likely to have a dense web of bilateral and regional free trade agreements—most of them likely to include investment provisions, a trend that differs conspicuously from earlier regional and bilateral arrangements.

Thus, countries in the region are taking steps—unilaterally, bilaterally and collectively—to enhance their investment policy frameworks and support their regional integration process. They are forging closer economic cooperation in an uncertain multilateral environment. They are promoting FDI flows to countries in the region generally, especially in the light of China's success. And they are strengthening trade and production linkages to enhance access to complementary resources and strengthen competitiveness.

Figure II.10. Asia and the Pacific: BITs and DTTs concluded, 1992-2002
(Number)



Source: UNCTAD, databases on BITs and DTTs.

Some countries that so far have largely remained outside the proliferating treaty network are beginning to join in. For example, Japan recently concluded a treaty with Singapore (box III.2) and is negotiating other bilateral agreements. And India is negotiating a free trade agreement with ASEAN. It is important to emphasize that bilateral and regional arrangements (with one exception, the ASEAN Investment Area) were not established for the primary purpose of attracting FDI. Their objective is broader: to increase trade flows, enhance regional economic integration, facilitate a division of labour and increase competitiveness—also improving the locational attractiveness of the members. Perhaps because of their broader focus, regional arrangements can be more effective instruments for attracting FDI than BITs and DTTs.

How do these arrangements influence FDI flows to the region? How do they strengthen the locational advantages of the region and its members? And how will TNCs adjust their investment strategies? Because most of the agreements are recent, it is difficult to assess their effects on FDI flows (box II.5, annex table A.II.3). One thing is clear, though: to the extent that they liberalize trade (and regardless of whether they address FDI or not), they encourage FDI (box II.7) and they facilitate the emergence of a regional division of labour and production in the framework of corporate regional production networks (box II.8).

c. Long-term prospects promising but short-term outlook uncertain

Prospects for a rise in FDI inflows in 2003 are slim, and the short term continues to be uncertain. Developments in West Asia and the economic impact of the severe acute respiratory syndrome (SARS) add to this uncertainty.[25] Despite these factors and a possible increase in competition, the Asia and Pacific region will continue to be the largest FDI recipient among developing regions in 2003. This view is supported by studies by the World Bank (2003a, p.102) and the Institute of International Finance (2003).

Box II.7. The Indo–Lanka free trade agreement and FDI

Signed in December 1998, the Indo–Lanka Free Trade Agreement gives duty-free market access to India and Sri Lanka on a preferential basis. Covering 4,000 products, it foresaw a gradual reduction of import tariffs over three years for India and eight years for Sri Lanka.

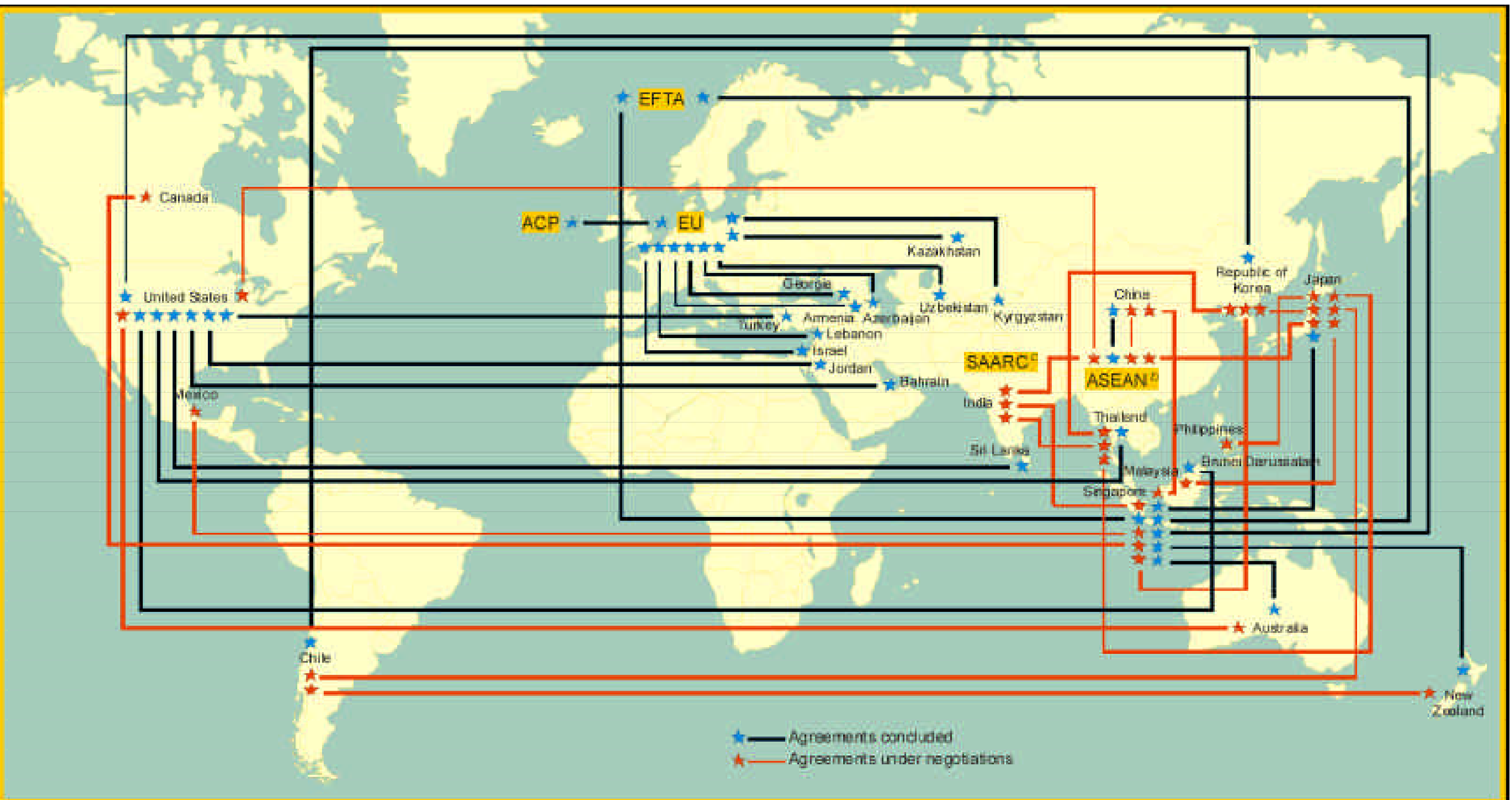
To qualify for duty concessions in either country, the rules of origin criteria spelled out value added at a minimum of 35% for eligible imports. For raw materials sourced from either country, the value-added component would be 25%.

The effect? Sri Lankan exports to India increased from $71 million in 2001 to $168 million in 2002. And India's exports to Sri Lanka increased from $604 million in 2001 to $831 million in 2002.

Although the agreement does not address investment, it has stimulated new FDI for rubber-based products, ceramics, electrical and electronic items, wood-based products, agricultural commodities and consumer durables. Because of the agreement, 37 projects are now in operation, with a total investment of $145 million.

Source: UNCTAD.

Figure II.11. Asia and the Pacific: selected bilateral, regional and interregional agreements containing FDI provisions, concluded or under negotiation, 2003[a]



Source: UNCTAD.

[a] BITs and DTTs are not included.

[b] Asean Free Trade Area (AFTA) and ASEAN Investment Area: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam.

[c] South Asian Association for Regional Cooperation (SAARC): Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. First SAARC Meeting on Investment Promotion and Protection was held at New Delhi in September, 1997 in which a draft for SAARC Investment Promotion and Protection Treaty was circulated to all the SAARC Governments. The Second Meeting was scheduled to be held in New Delhi in June 1999. The subject was discussed in the 10th SAARC Committee on Economic Cooperation meeting held on 1st February, 1999 and 11th SAARC Committee on Economic Cooperation meeting in October 2002 at Kathmandu. SAARC is also negotiating for a South Asian Free Trade Area (SAFTA).

In the medium term, as the growth of the world economy resumes and the developing Asian region grows at expected rates of 6.3% in 2003 and 6.5% in 2004,[26] the prospects for FDI flows to the Asia and Pacific region remain good, particularly for automobiles and electrical and electronics products. In addition, weak global demand, shaken corporate confidence and adjustments in semiconductors and electronics are likely to improve in the near future.

The 28 IPAs responding to UNCTAD's IPA Survey indicated that one in five Asian countries had suffered from a scaling-down of investment projects or a divestment by TNCs in 2002 (UNCTAD 2003a). Just over half of the respondents claimed that planned investments had been postponed. Looking ahead, about two-thirds of the respondents expected improved FDI prospects for 2003–2004, and almost all even better prospects for 2004–2005 (figure II.12). The United States,

Box II.8. Regional integration and TNC production networks in ASEAN

ASEAN, through AFTA, provides a regional market with more than 500 million people, a combined GDP of $560 billion in 2001 and an internal tariff rate of no more than 5%. ASEAN is also integrating through the ASEAN Investment Area, the ASEAN Framework Agreement on Services and infrastructure linkages. Regional production networks are not new in the region (Dobson and Chia 1997), but the recent integration is leading more TNCs to explore the creation of more such networks, particularly in the automobile and automotive components industries as well as the electronics industry (ASEAN Secretariat 2001):

- Japanese and other automakers are consolidating their production in the region and adopting regional production network strategies and plant specialization to service the AFTA market (Japan Research Institute Limited 2001).
- Honda Motor Company plans to streamline its production in ASEAN, with some models to be centralized in Thailand.
- Toyota has a network of operations linking different functions—such as regional HQ, assembling facilities, financing and training centres and parts suppliers—in different ASEAN countries.
- Nissan is setting up regional network structures in ASEAN to capitalize on the greater production efficiency made possible by AFTA. It plans to build a "Southeast Asian parts sourcing company" in Thailand, to source component parts in ASEAN and decide which models should be built in which plants in the region.
- Ford also has a regional strategy to service the ASEAN market and allow the various plants in the region to specialize. Rather than have two plants producing the same product in the two countries, Ford has its plant for pickup trucks in Thailand and that for passenger cars in the Philippines.
- Isuzu Motors Co. (Thailand), Isuzu Engine Manufacturing (Thailand) and Isuzu Mesin (Indonesia); Volvo (Malaysia) and Volvo (Thailand) are producing and exchanging automotive completely-knocked-down packs through the affiliates in these countries.
- Samsung Corning (Malaysia) provides tube glass as a major input to Samsung Display's Malaysian factory for colour picture tubes, selling intermediate products to Samsung Electronics (Thailand) and affiliates in Indonesia and Viet Nam for colour televisions and in Malaysia for computer monitors.
- Samsung Electro-Mechanics (Thailand) supplies tuners, deflection yokes, and fly-back transformers to affiliates in Malaysia, Thailand and Viet Nam. It also supplies tuners to Indonesian operations for VCRs, oil capacitors to the Malaysian operation for microwave ovens and deflection yokes to Samsung Display Devices (Malaysia) for colour picture tubes.

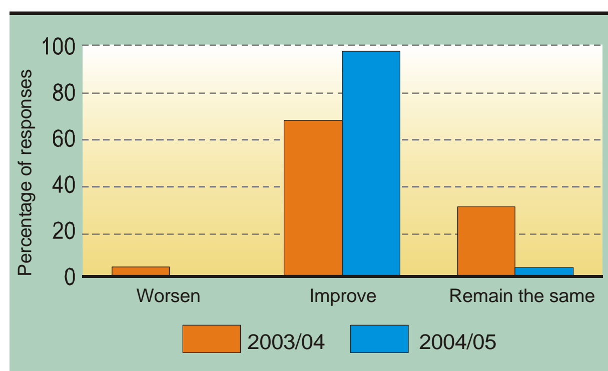
The ASEAN Industrial Cooperation scheme also encourages TNCs to establish regional production networks. For instance:

- Denso affiliates in Indonesia, Malaysia and Thailand exchange automotive components.
- Matsushita affiliates in Indonesia, Malaysia, Philippines and Thailand are part of a production network to exchange electronics parts and components.
- Nestlé's affiliates in Indonesia, Malaysia, Philippines and Thailand are part of a regional production network involving intra-firm trade in food processing.
- Sony Electronics (Singapore) and Sony (Viet Nam) produce and exchange electronics parts and components among themselves. Sony Display Devices (Singapore) and Sony Siam Industries (Thailand) are involved in a similar production arrangement, exchanging electronics parts and components.

Such production networks strengthen regional integration through production and supply linkages and the intra-firm sourcing of parts and components.

Source: UNCTAD, based on information from *Nihon Keizai Shimbun*, 31 December 2002; "Nissan sets up ASEAN sourcing HQ in Thailand", *AutoAsia*, 27 February 2003; http://www.auto-asia.com/viewcontent.asp?pk=8131; *Jakarta Post,* 20 June 2002, p. 17; Jun 2001, p. 306; and information from the ASEAN Secretariat.

Figure II.12. FDI prospects[a] in Asia, 2003-2005
(Per cent)



Source: UNCTAD.

[a] The survey question was: "How do you perceive the prospects for FDI inflows to your country in the short- and medium-term, as compared to the last two years (2001-2002)?".

Japan and the United Kingdom are predicted to be the top investors in most of the countries (in that order). Interestingly, six IPAs cited China as being likely to be among the top three investors in their countries in 2003–2005, twice the number in 2001–2002. More countries (eight) expect to receive more R&D investment in 2003–2005 as compared to 2001–2002 (three). About one-third of the respondents expected more TNCs to locate "regional functions" to Asia, contributing to regional production networks—consistent with greater network investment in East and South-East Asia. TNCs are also predicted to shift from greenfield investments to M&As, unlike in other regions.

Prospects for different countries and groups of countries in the region will continue to vary. China will remain the largest recipient of FDI flows among the developing countries. Other countries in the region may adjust to this through increasing regional cooperation, moving up the value chain and improving competitiveness:

- India has the potential to attract significant FDI flows, depending on the course of policy reforms and privatization.
- Other South Asia countries will continue to attract modest FDI flows, with their locational advantages enhanced by the South Asian Free Trade Area, now being negotiated.
- Iraq and other countries in West Asia may experience a rapid increase in FDI flows, driven by FDI in oil and gas, depending on political developments, economic reforms and perceptions of security.
- Oil and gas will also dominate the picture in Central Asia. In addition, the reconstruction in Iraq[27] and Afghanistan could lead to an increase in FDI flows in construction and infrastructure and perhaps beyond, depending on the privatization programme.
- The Pacific island economies will continue to receive a modest level of FDI flows in the near future. For the lower income countries of the Asia and Pacific region, the phasing out of some preferential arrangements may further weaken their competitive position in such industries as textiles.

Intra-regional investment between North-East and South-East Asia is likely to increase as more TNCs continue to relocate their efficiency-seeking FDI to lower cost locations and expand their market-seeking FDI to the rapidly expanding economies of the region. The more developed economies—China, Hong Kong (China), Malaysia, Republic of Korea, Singapore and Taiwan Province of China—will continue to be an important source of FDI for others in the region. And regional production networks will grow, partly because of the influence of bilateral and regional agreements. Overall, however, competition for FDI within Asia and with other regions will intensify.[28]

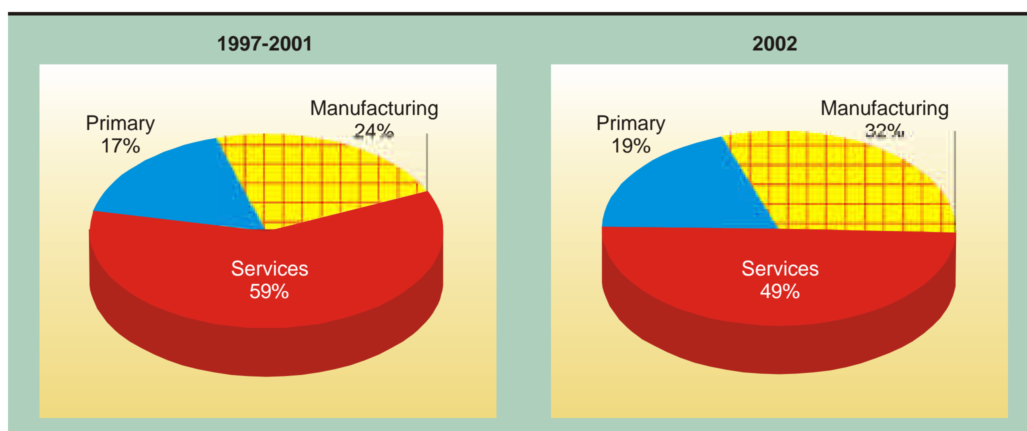
3. Latin America and the Caribbean

FDI inflows to Latin America and the Caribbean declined in 2002 for the third consecutive year, falling by a third to $56 billion—the lowest since 1996. The decline was widespread across the region, mostly concentrated in services. Economic crises and political uncertainties made a difference, as did devaluations that affected market-seeking FDI. Governments are increasingly pursuing investment promotion policies that go beyond simply opening to foreign investment—by targeting investments in line with their development strategies. Bilateral and regional agreements are concluded in the hope that they will help attract investment to the region.

a. The downturn—concentrated in Argentina, Brazil and Chile

FDI inflows have been on a downward trend since 2000. The decline was concentrated in services (figure II.13), especially in the South American countries where TNCs had been attracted, before that, by the deregulation of telecom, utilities and banking, macroeconomic stability and prospects of a growing market in the second half of the 1990s. FDI flows into manufacturing were similar to those in 2001, as were flows into natural resources. The exception: Venezuela, where political instability affected flows to the oil industry. Due to a larger decline in FDI inflows than in domestic investment, FDI as a

Figure II.13: Latin America and the Caribbean: shares of primary, secondary and tertiary sectors in total FDI flows in selected countries,[a] 1997–2001 and 2002



Source: UNCTAD, FDI/TNC database.

[a] Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico and Venezuela.

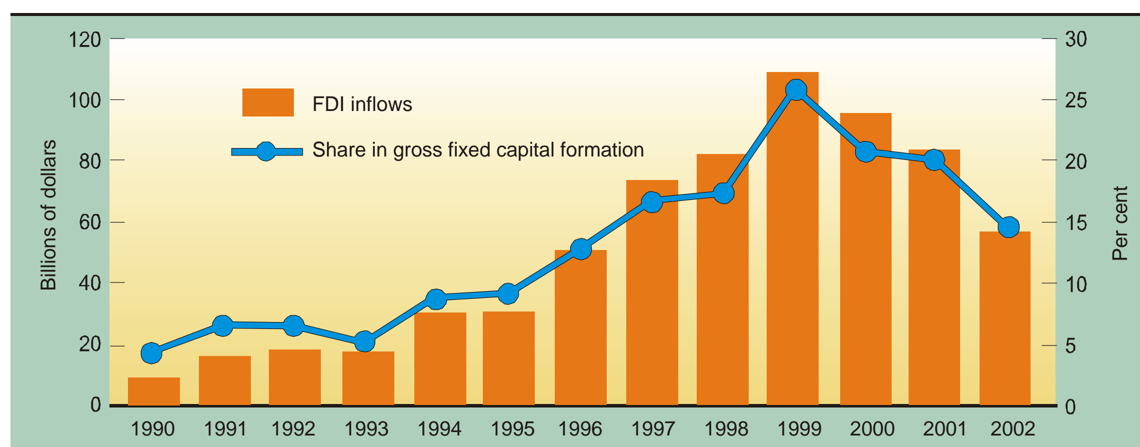
percentage of gross fixed capital formation declined in 2001 and continued to do so in 2002 as well (figure II.14).

The decline in FDI was concentrated in Argentina, Brazil and Chile, where FDI into services was more important. The Andean Community, where natural resources are the main driver, was less affected. The largest host in 2002 was Brazil, followed by Mexico (figure II.15). Mexico's FDI inflows would have been 10% higher if the Banamex acquisition were excluded from 2001. FDI inflows into Costa Rica rose by 41%. But they were among the exceptions, with only 11 out of the region's 40 economies seeing an increase (annex table B.1).

GDP in the region fell by 0.1% in 2002 (IMF 2003a), and currency devaluations took place, especially in Argentina, Brazil and Venezuela, reducing markets substantially in dollar terms and hitting the profitability of foreign affiliates in services. Devaluations also increased the debt burden (denominated in dollars) of these affiliates relative to their revenues (earned in local currency).[29]

Privatization initiatives were postponed or cancelled due to a lack of political support or direct opposition, as in Ecuador, Paraguay and Peru. In some of the smaller markets, governments could not attract bidders for utilities slated for privatization. Foreign investment in electricity in Brazil and Mexico continued to be deterred by the effects of the devaluation in the first place and unfavourable regulations in the second. This attitude has coincided with a more cautious approach by the TNCs in the industries affected, such as telecom. So, privatization is not at present an important source of FDI in the region. An important exception in 2002 was the privatization of the third largest insurer in Mexico, Aseguradora

Figure II.14. Latin America and the Caribbean: FDI inflows and their share in gross fixed capital formation, 1990–2002



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

Hidalgo, acquired by MetLife (United States) for $962 million, reflecting the interest of foreign companies in Mexico's financial services.

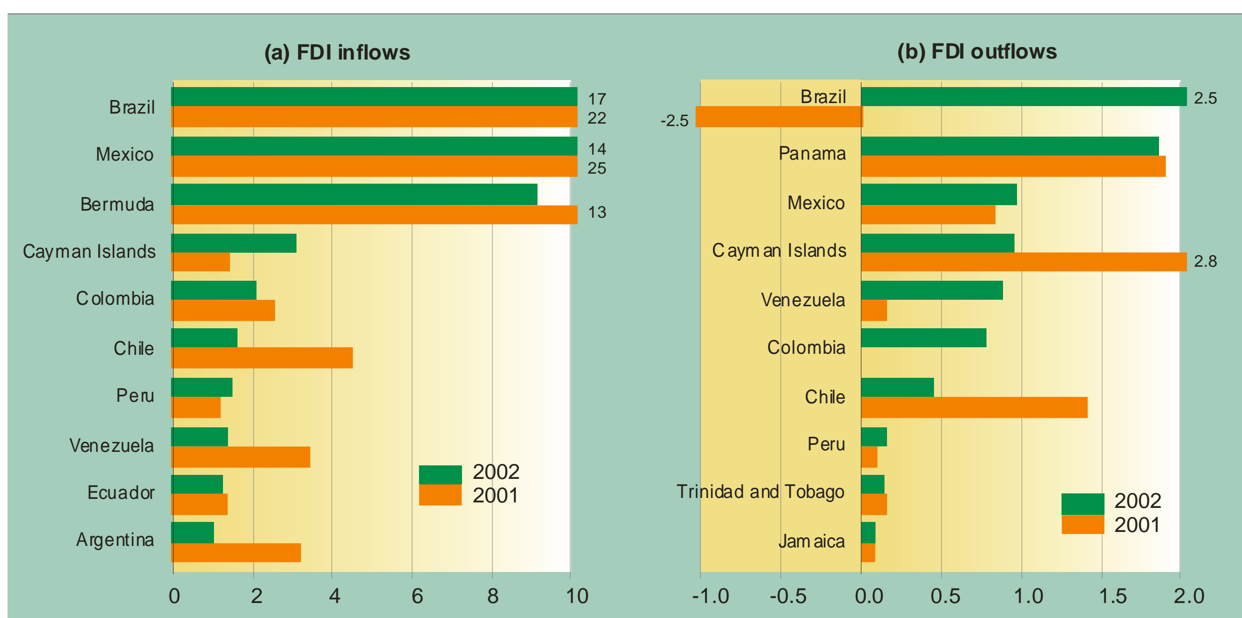
Even though the slowing United States economy halted the growth of manufacturing exports from Mexico and the Caribbean basin, FDI into export-oriented manufacturing was largely unchanged. Mexico's manufacturing exports did not recover from the drop in 2001 and were 2% below their level in 2000.[30] The decline was concentrated in consumer goods, while exports of components kept growing, suggesting that the integration of Mexican manufacturing into the North American production system by way of intra-firm trade remained largely unaffected.

More than 200,000 jobs were lost in the *maquila* industries in Mexico 2000-2001, with no recovery from this loss in 2002, though value added was up by 11%,[31] suggesting a shift from labour-intensive activities into higher value-added ones. Competition was evident from China and other lower cost countries as export platforms to the United States. According to the Comisión Nacional de la Industria Maquiladora de Exportación, 60% of the plants that closed in 2002 moved to Asia, the rest relocated to Central America.[32] Electronics was affected most. Canon (Japan) relocated its production from Mexico to Thailand, Philips (Netherlands) to Viet Nam and China. Even so, the productivity of medium- and high-tech industries in Mexico and some other Latin American countries rivals that of their developed country counterparts, and the prospects for FDI in new industries are promising, exemplified by the Ford manufacturing plant in Hermosillo.

Brazil's FDI inflows fell by 36%, but manufacturing received more, led by food, automobiles and chemicals. This trend began after the 1998 devaluation and continued amidst the economic uncertainty of the past two years. Brazil's automobile industry has suffered from weak demand in MERCOSUR, but the devaluation, combined with high FDI in some of the most modern plants in the world, increased the industry's competitiveness. Automobile exports rose by 45% in 2002 and are expected to go up another 20% in 2003, according to the manufacturers association.[33] They are now directed more towards NAFTA (52% of exports in 2002), benefiting from a recent agreement that reduces tariffs on trade in automobiles between Brazil and Mexico. Ford, Toyota and Volkswagen have all increased their investment in Brazil, to export outside MERCOSUR. Toyota has also announced a $200 million project in Argentina, where the drastic depreciation brought costs down enough to consider exporting to the rest of Latin America (ECLAC 2003).

FDI inflows to Argentina in 2002 were only 10% of the average received during 1992–2001, when Argentina received 13% of the region's inflows. Despite the impact of the debt default crisis on TNCs in Argentina (see *WIR02*), very few of them left the country. However, there were large

Figure II.15. Latin America and the Caribbean: FDI flows, top 10 countries, 2001 and 2002 [a]
(Billions of dollars)



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

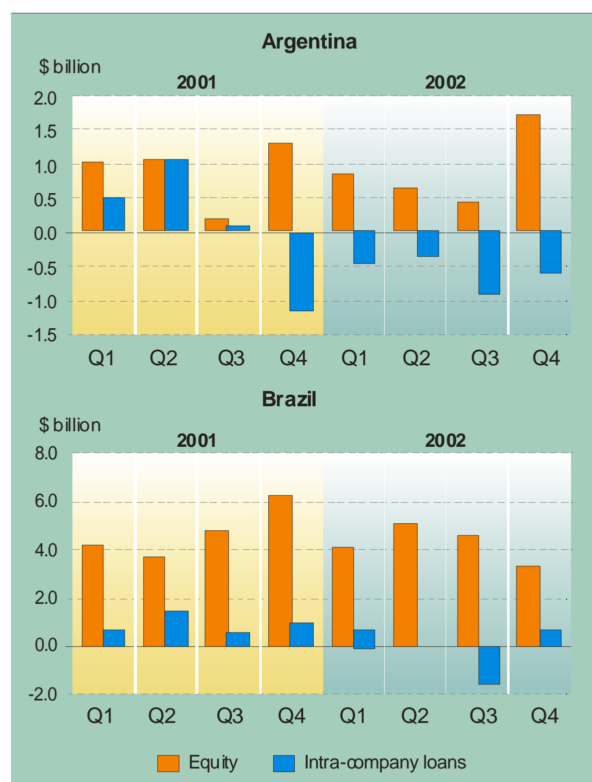
[a] Ranked on the basis of the magnitude of 2002 FDI flows.

negative flows in the reinvested-earnings and intra-company loan components of FDI, revealing that established TNCs have been reducing their investments. The reaction was similar in Brazil, though smaller, as the country went through a period of financial instability and political uncertainty (De Barros 2002). TNCs reacted to the crisis and poor local prospects by cutting loans to their Brazilian affiliates, especially in telecoms, electricity and gas (figure II.16). The decline in intra-company loans accounted for the entire decline in FDI inflows in Brazil in 2002.[34]

These economic factors as well as political uncertainties also affected domestic investment in Latin America and the Caribbean, which declined in 2001 and 2002. In 2002, total investment (both public and private) declined in most major economies, but MERCOSUR countries and Venezuela were particularly affected (ECLAC 2002).

Outward FDI from Latin American countries also declined in 2002 by 28%, to $6 billion. Most Latin American TNCs are expanding within the region, which for Mexican companies includes the United States. But Argentine firms divested more than they invested abroad, to the tune of $1 billion, as companies in that country sold assets abroad to help overcome the crisis at home. The

Figure II.16. FDI inflows into Brazil and Argentina, by type of financing, 2001-2002, by quarter



Source: UNCTAD, FDI/TNC database.

Argentinean crisis was also an opportunity to acquire Argentine assets more cheaply. Brazil's State-controlled Petrobras acquired a majority stake in Pérez Compac for $1.1 billion in August 2002, the largest acquisition of the year in the region. América Móvil (Mexico) invested $2.2 billion in acquiring companies in Argentina, Brazil and Ecuador, becoming a key player in the telecom industry of Latin America.

b. Policy developments—linking FDI to development strategies

Over the past decade, national FDI policies in Latin America and the Caribbean have emphasized liberalization and opening to FDI. There is now the perception that more emphasis should be placed on FDI policies that support an overall development strategy. Although openness to FDI is not being reversed, the enthusiasm for privatization has diminished. There is also growing awareness that more sophisticated policies need to be pursued to attract the right type of FDI and to benefit more from it. The survey of IPAs carried out by UNCTAD (box I.5) found that most countries in the region were planning to increase promotion and targeting efforts to attract FDI. Costa Rica has had the most important national FDI initiative going beyond liberalization and opening (*WIR02*). Chile recently developed such an initiative (box II.9). Proceeding along similar lines, the Mexican State-owned bank Bancomext launched an investment promotion service in 2003.

By the end of 2002, the cumulative number of BITs (413, with an average of 10 BITs per country for 40 economies) and DTTs (262, with an average of 7 DTTs per country for 40 economies) concluded by countries in the region was less than half that concluded by the economies

Box II.9. A new FDI strategy in Chile

Chile's high technology investment programme targets the software industry and services that are intensive users of information technology, such as call centres, support centres, shared services and back offices. It is attracting FDI to transform the country's production base in a direction consistent with the country's changing economic conditions and comparative advantage. The programme is promoting Chile as a place for high-tech investment (the President inaugurated the establishment of an office in Silicon Valley). So far, it has attracted regional technology centres and back offices for Air France, Banco Santander, Hewlett-Packard, Motorola and Unilever, among others.

Source: UNCTAD, based on information from www.hightechchile.com.

of South, East and South-East Asia, and the pace has slowed (figure II.17). But, the negotiation of bilateral free trade agreements—Chile and Mexico are particularly active—has picked up considerably, with most of them covering investment issues as well (figure II.18).

NAFTA and MERCOSUR are the most important regional agreements. But negotiations are under way for a Free Trade Area of the Americas (FTAA), meant to cover all states in the region (except Cuba)(box III.3). Its implications for FDI flows cannot be assessed at this time. For Mexico, there is concern that its current privileged access to the United States market may be diluted inside the FTAA, though companies based there will also gain access to other markets (Levy Yeyati et al. 2002). The agreement may make the regulatory framework for FDI in individual countries more transparent and simplify overlapping subregional and bilateral agreements.

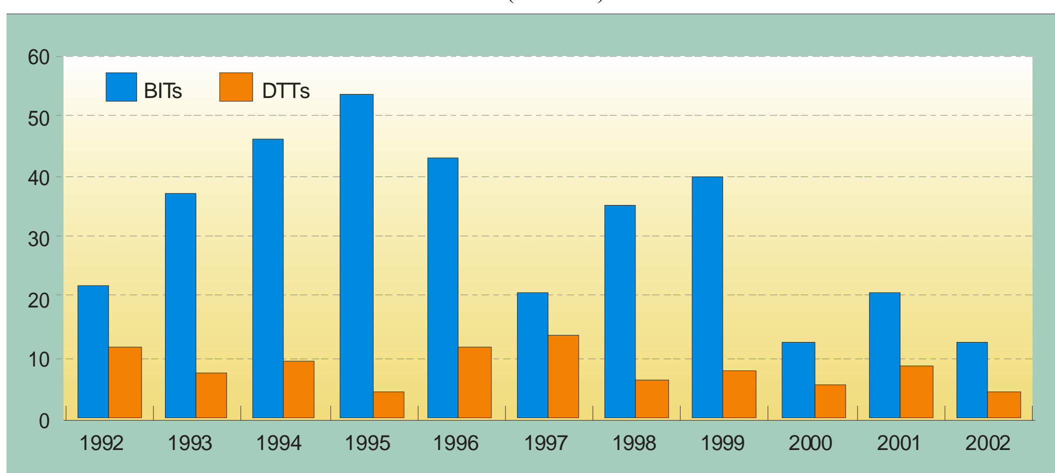
The impact of these agreements on FDI is unclear. Countries have been changing their regulatory frameworks in favour of FDI unilaterally, so the effects of bilateral and regional agreements are hard to assess separately. Market access provided by trade or trade and investment agreements has increased FDI when the United States market became more accessible, but not under agreements among smaller economies, such as those in Central America and CARICOM. Regional agreements can in some instances enhance the locational advantages of countries, but Chile and Costa Rica have attracted FDI without the support of such agreements. Coverage is also critical. Compare the impact of NAFTA's rules of origin on the Mexican garment industry with that of the more restrictive production-sharing mechanism incorporated into the agreements between the United States and the Caribbean and Central American economies.

The proliferation of bilateral agreements complicates the assessment of regional ones. Mexico has signed bilateral agreements with Bolivia, Chile, Costa Rica, the EU member countries and Nicaragua, and is negotiating one with Japan (figure II.18). Chile has bilateral agreements with Canada, Mexico and the United States and associate member status with MERCOSUR.

Although FDI boomed in both Argentina and Brazil after the MERCOSUR agreement came into force in 1991, it was mainly because of macroeconomic stabilization and openness to foreign investors (including privatization) (Levy Yeyati et al. 2002). FDI into the smaller members of MERCOSUR (Paraguay and Uruguay) has not risen substantially, though there is some evidence that FDI is becoming more export-oriented, especially to other MERCOSUR members (López 2002).

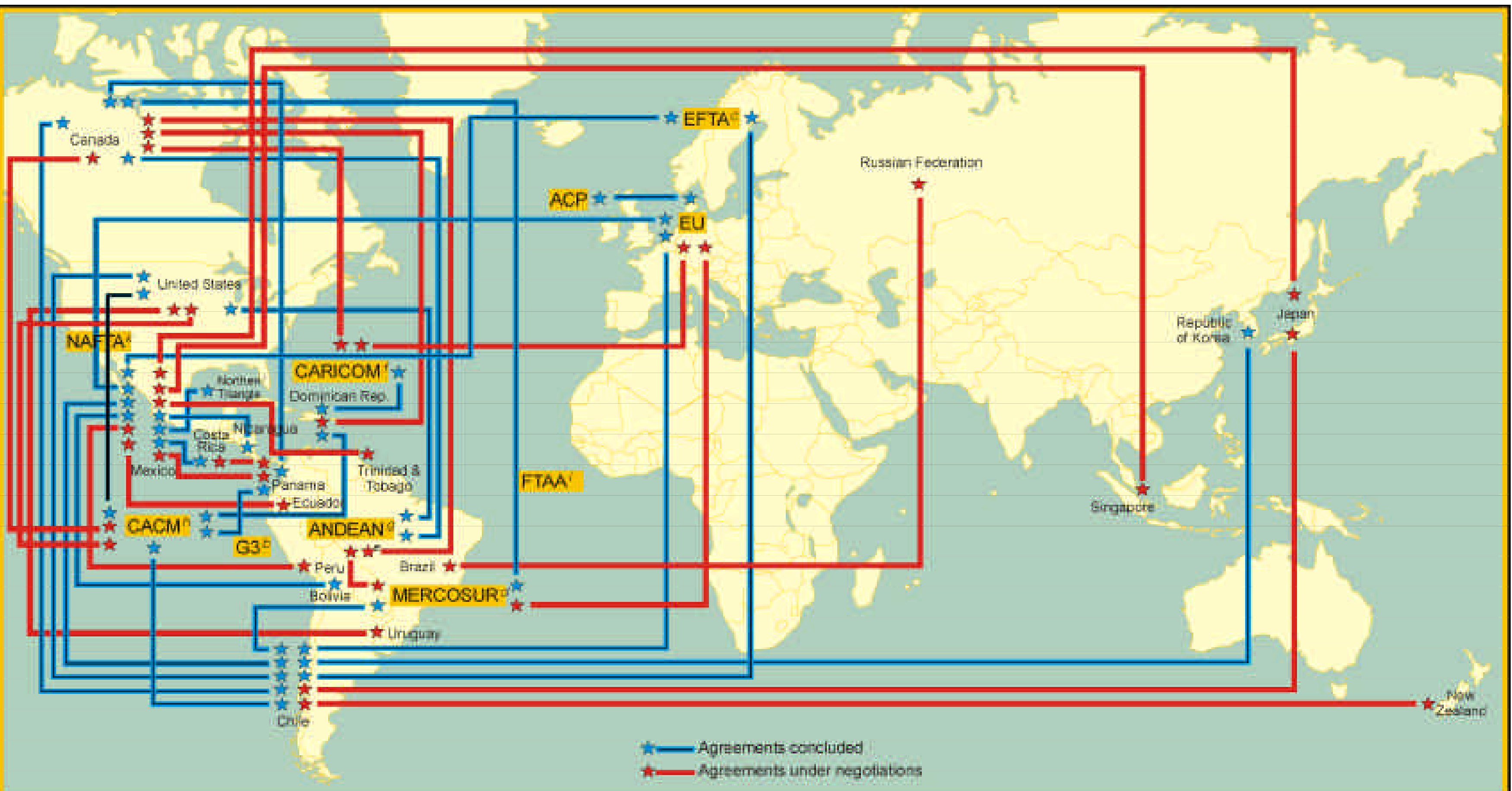
Mexico has received substantial FDI since NAFTA came into force, mainly from the United States, concentrated on the assembly of manufactured goods for the United States market (box II.10). The combination of better market access and locational advantages such as cheap labour attracted TNCs to locate manufacturing activities in Mexico, especially in areas close to the United States border. The integration of Mexico into the production system of the United States, already present with the *maquila*, was extended and deepened. NAFTA also consolidated policy reforms that started in the mid-1980s and opened the economy to foreign investors.

Figure II.17. Latin America and the Caribbean: BITs and DTTs concluded, 1992-2002
(Number)



Source: UNCTAD, databases on BITs and DTTs.

Figure II.18. Latin America and the Caribbean: selected bilateral, regional and interregional agreements containing FDI provisions, concluded or under negotiation, 2003[a]



Source: UNCTAD.

a BITs and DTTs are not included.
b Group of Three (G3): Colombia, Mexico and Venezuela.
c European Free Trade Association (EFTA): Iceland, Liechtenstein, Norway and Switzerland.
d Southern Common Market (Mercosur): Argentina, Brazil. Paraguay and Uruguay.
e A free trade agreement is under negotiation between the Andean countries and Canada.
f Caribbean Community (CARICOM): Antigua&Barbuda, Barbados, Jamaica, St. Kitts and Nevis, Trinidad and Tobago, Belize, Dominica, Grenada, Montserrat, St Lucia, Guyana, Haiti, Suriname, St. Vincent and the Grenadines and Bahamas.
g Andean Community: Bolivia, Colombia, Ecuador, Peru and Venezuela.
h Central American Common Market (CACM): El Salvador, Guatemala, Honduras, Nicaragua and Costa Rica.
i Free Trade Area of the Americas (FTAA) (under negotiation): Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, United States, Uruguay and Venezuela.
j Northern Triangle: Guatemala, Honduras and El Salvador.
k North American Free Trade Agreement (NAFTA): Canada, Mexico and the United States.

c. Prospects—not much change

UNCTAD estimates that 2003 FDI flows to the region are likely to remain similar to those in 2002.[35] Although the political and economic climate in the region is improving (except in Venezuela), the recovery is likely to be slow. The factors that deterred market-seeking FDI in 2002 are persisting in 2003—and will recover only slowly. But TNCs will continue to be attracted by natural resources, especially if high oil prices persist. And efficiency-seeking FDI in Mexico and the Caribbean basin will likely remain at the same level in 2003. FDI will continue to flow into the manufacturing sector of Brazil and is likely to resume in Argentina. Only Colombia has an important privatization plan for the year, though implementation could be delayed.

Box II.10. NAFTA and FDI

Negotiated by Canada, Mexico and the United States, NAFTA came into force in January 1994, creating the first north-south regional integration agreement in the Western hemisphere. The Agreement opens the three economies to further cross-border trade in goods, services and intellectual property and to investment from one another in almost all industries. The final round of tariff cuts under NAFTA was on 1 January 2003, with some exceptions for agricultural products until 2008.

NAFTA caused a marked jump in intra-regional trade. North American intra-regional exports of goods and services stood at 56% of total exports from North America in 2002, up from 49% in 1996 and 34% in 1980 (Rugman and Brain 2003, pp. 5, 16). But the impact has been strongest in Canada and Mexico. In the late 1980s three-quarters of Canadian and Mexican trade was with the United States, and by 2002, more than 85%—with a similar pattern for Canadian and Mexican imports from the United States. But the pattern does not hold for the United States, whose trade with the two other economies over 1996–2001 was remarkably similar to that in 1980.

An increase in FDI flows to the three member countries has also been observed since the late 1980s, but it is unclear to what extent this was due to NAFTA. FDI flows, declining over 1988–1993, rose rapidly after 1994, peaking at $383 billion in 2000, before falling back to $64 billion in 2002. The gains appeared to come primarily from FDI into the United States, not to Canada or Mexico, however. The United States' share of North American FDI rose from 71% in 1994 to a peak at 88% in 1999, before falling back to 47% in 2002. The pattern is similar for North American FDI as a percentage of gross FDI inflows for all OECD countries—and as a percentage of worldwide inflows.

Still, Mexico benefited from increased inflows (MacDermott 2002; Andresen and Pereira 2002). But there is no evidence of increased intra-regional FDI intensity, particularly because Mexico's outward FDI flows to the United States were small over 1980–1998 (Globerman 2002).

Intra-NAFTA FDI fell from 30% of the outward FDI stock in 1986 to 18% in 1999 (Eden and Li 2003). The Canadian share of United States outward stock appears to have been a key factor, down from 17% in 1989 to 10% in 2000 (Rugman and Brain 2003). NAFTA appears to have caused United States TNCs to close some plants in Canada and use United States exports to supply the Canadian market. Industries characterized by large economies of scale, low transportation costs and little product differentiation were expected to see such locational shufflings once tariffs were removed (Eaton and others 1994).

The most important industry in North America is automobiles and automotive components, accounting for between a third and a half of intra-regional trade, depending on how broadly the industries are defined. The Canadian and United States automobile industries had been integrated since the 1965 Auto Pact. NAFTA thus furthered the integration of the Mexican automobile industry into an already deeply integrated North American automotive industry (Weintraub and Sands 1998).

Comparing the position of the United States as an insider in NAFTA and an outsider to MERCOSUR, one study found a significant positive relationship between United States FDI and NAFTA, but no relationship between United States FDI and MERCOSUR (Bertrand and Madariaga 2002). Another study found that Central American countries (except Costa Rica) lagged behind Mexico after 1994 (Monge-Naranjo 2002). Most affected were textiles and apparel, accounting for most of the FDI flows to El Salvador, Guatemala and Honduras.

The definitive study of NAFTA's impact on FDI has yet to be done. The presumption is that NAFTA benefited its member economies in terms of international trade in goods and services, but less is known about its impact on FDI, for members and non-members. Better linking of micro-level locational strategies of individual firms to macro-level shifts in FDI flows and stocks is probably the key to solving this puzzle.

Source: UNCTAD.

In the medium term, there is scope for increased flows, even if they do not reach the 1999 record level for a few years. Some industries are already dominated by TNCs, such as telecoms in South America and banking in Mexico, but cross-border M&As may resume as soon as the economic climate improves. Privatization is almost completed for some of the larger markets and most attractive assets, but investors might be attracted to smaller markets (Costa Rica or Ecuador) or to new industries (transport infrastructure).

Facing stiffer competition from China and elsewhere, most labour-intensive manufacturing has an uncertain future in Mexico and the Caribbean basin. But manufacturing in Mexico and to less extent in Costa Rica has reached levels of productivity and technological sophistication that make the threat of relocation to lower cost countries less imminent. A recent study estimated that 40% of *maquiladora* plants in the Mexican state of Baja California can be classified as "third generation", with intensive use of information technology and well-developed R&D capacities (Carrillo and Gerber 2003). The automobile industry, though facing excess global capacity, is expanding its plants in Mexico (ECLAC 2003). In MERCOSUR, TNCs might benefit from flexible exchange rates and the quality and excess capacity of plants, especially in the automobile industry—turning Argentina and Brazil into export platforms for the rest of the region and beyond.

With FDI flows likely to remain below their peak in the coming years, governments in Latin America will need to pay more attention to the way investment best helps their development objectives. The new emphasis on more sophisticated policy instruments for attracting and benefiting from FDI is likely to intensify.

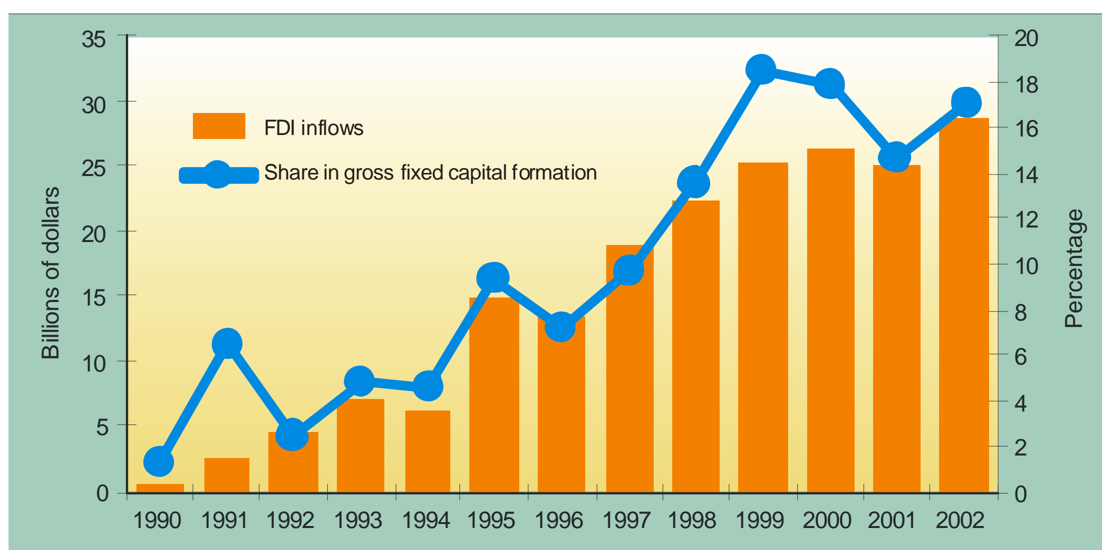
B. Central and Eastern Europe

FDI inflows to CEE reached a new high of $29 billion in 2002 (figure II.19), rising in 9 countries, falling in the other 10 (figure II.20; annex table B.1). Firms in several CEE countries, particularly those slated for accession to the EU, tended to shed activities based on unskilled labour and to expand higher value-added activities, taking advantage of the educated local labour force. That makes training and retraining important tools of employment policy.

The region's EU-accession countries will have to harmonize their FDI regimes with EU regulations. The non-accession countries have to update and modernize their FDI promotion to benefit from being a "new frontier" for efficiency-seeking FDI (UNCTAD 2003c).

The stability in FDI inflows in 2001–2002 can be attributed partly to the positive impact of the anticipated EU enlargement on investment, in both accession and non-accession CEE countries (for TNC strategies responding to EU enlargement, see also section C). This is a major asset for future FDI flows because the momentum should keep FDI flows strong once the current wave of large privatization deals is over in Czech Republic, Slovakia, Slovenia and to a less extent Poland.

Figure II.19. CEE: FDI inflows and their share in gross fixed capital formation, 1990–2002



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

1. Defying the global trend

The steady performance of FDI in CEE suggests that it is viewed as a stable and promising region for FDI, especially within the division of labour across the integrating European continent, improving the efficiency of operations in Europe as a whole.[36] FDI inflows have also benefited from a catch-up effect, with a ratio of FDI stocks to GDP in CEE moving from half the world average in 1995 to close to it in 2002 (table II.2).

Cross-border M&As, both privatization-related and others, were important for CEE's inflows in 2002, with the ten largest cross-border sales[37] amounting to $12 billion in 2002 and the total reported exceeding $16 billion. These data are, however, imperfect indicators of FDI-related developments, because the values of various cross-border deals remain undisclosed and some cross-border M&A sales do not have counterparts in the FDI inflow data.[38]

Inflows rose in 9 countries and declined in 10 (figure II.20; annex table B.1). Growth was particularly strong for countries with privatization peaks (Czech Republic, Slovakia and Slovenia) and that had lagged behind in privatization (Belarus and Serbia and Montenegro).

FDI flows into the Czech Republic and Slovakia rose—driven by the takeovers of Transgas by German RWE and Slovensky Plynarensky Priemysel by Gazprom, Ruhrgas and Gaz de France—while those into Estonia, Hungary and Poland declined. So the trends in 2002 were related to the lumpiness of privatization-related FDI, causing large upswings or downswings.

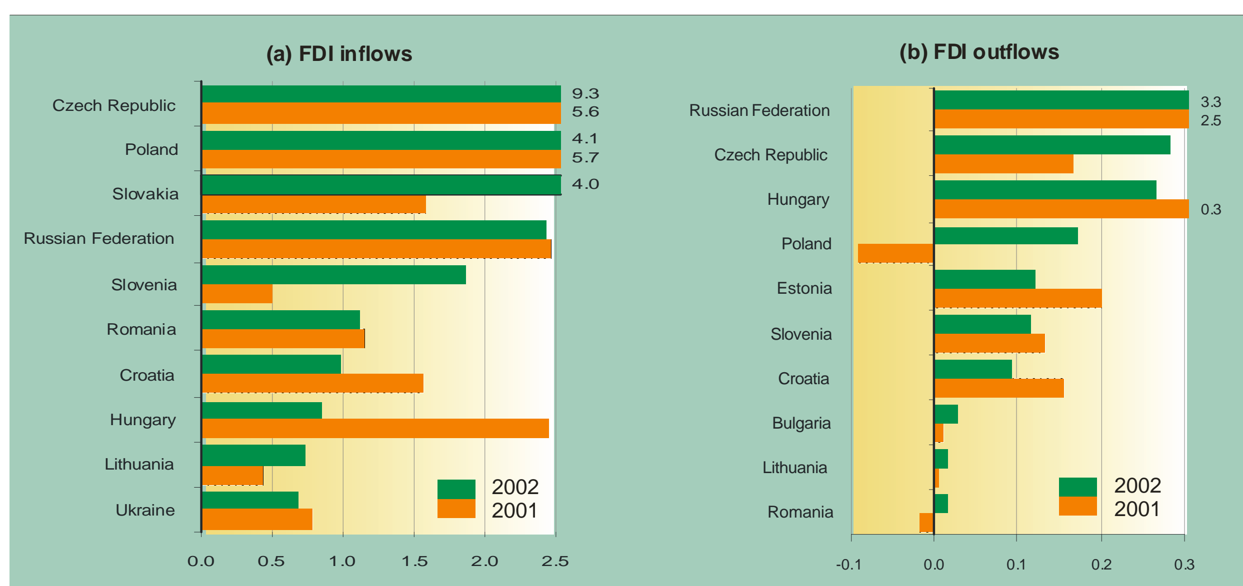
The anticipated positive impact of EU enlargement stimulated FDI inflows (see also section C). In other cases, a wait-and-see attitude by investors may explain the lower than expected level of FDI, as accession countries are adjusting their FDI regimes to the requirements of EU membership (e.g. Hungary).

As a result of the changing dynamics of FDI and the catching up of some latecomer countries, the traditional dominance of the Czech Republic, Hungary, Poland and the Russian Federation is starting to change, with only the Czech Republic still growing, while the other three countries declined. For various reasons discussed below, Hungary was only the eighth largest recipient in 2002.

The share of FDI inflows in gross fixed capital formation approached 18% in 2002 (figure II.19), with Bulgaria, the Czech Republic, TFYR Macedonia and the Republic of Moldova, the region's leaders over 1999–2001 (annex table B.5). Most of the high ratios reflect small national economies, except the Czech Republic, where a high ratio reflects massive privatization-related FDI inflows.

The automobile industry in CEE—a major recipient of FDI—is still on a growth path. The announcement of new projects in early 2003 in Slovakia (by PSA) and the Russian Federation (by

Figure II.20. CEE: FDI flows, top 10 countries, 2001 and 2002 [a]
(Billions of dollars)



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

[a] Ranked on the basis of the magnitude of 2002 FDI flows.

Renault) and the announcement of the expansion of existing projects (e.g. by Audi and Suzuki in Hungary) ensure that growth continues this year (table II.3).

By contrast, the electronics industry in CEE, both local and foreign, faces global overcapacity, sluggish demand and cost competition from East Asia, especially China. Electronics firms shed activities based on unskilled cheap labour and expanded activities based on higher skills. Hungary—as the middle income economy in the region with the "oldest" electronics foreign affiliates—is the first to face the pressure of restructuring towards higher value-added activities (figure II.21). Flextronics, IBM and Philips are undertaking both closures and capacity expansions—but in different product segments (table II.4).

In the middle income countries such as the Czech Republic, Hungary, Poland, Slovakia and Slovenia, inward FDI increasingly targets logistical centres and R&D. Paradoxically, the emergence of foreign affiliates in some knowledge-intensive corporate services—such as regional HQ, call centres and back offices—has not helped the volume of FDI inflows because they can be established with small capital investments. The move to FDI based on higher labour skills makes the EU accession countries direct competitors with other emerging locations.

Table II.3. CEE: a car assembly bonanza, 2003

Location	Manufacturer
Czech Republic	
• Kolin	Toyota/PSA (2005)
• Mlada Boleslav	Volkswagen/Skoda
Hungary	
• Esztergom	Suzuki (Swift, Wagon R+)
• Györ	Audi Hungaria Motor
Poland	
• Bielsko Biala	Fiat
• Gliwice	General Motors/Opel (Opel Agila)
• Lublin	Daewoo FSO[a]
• Poznan	Volkswagen (T4)
• Warsaw	Daewoo FSO
• Zeran	Daewoo (Lanos)
Romania	
• Craiova	Daewoo (Matiz)[a]
• Pitesti	Renault (Dacia Nova)
Russian Federation	
• Kaliningrad	BMW (3 series)
• Moscow	Renault (X-90) (2005)
• Togliatti	GM/AvtoVAZ joint venture (Niva 4x4)
• Vsevolozhsk	Ford (Focus)
Slovakia	
• Bratislava	Volkswagen (Tuareg, Polo, Golf 4x4, Variant 4x4, Bora 4x4)
• Trnava	PSA/Peugeot (2006)
Slovenia	
• Novo Mesto	Renault (Clio)

Source: UNCTAD, based on Figyelö 2003, and press reports.

[a] Project discontinued/closed.

Table II.2. Catching up— inward FDI stock as a percentage of GDP in Central and Eastern Europe,[a] 1995 and 2001

(Per cent)

Country/region	1995	2001
Estonia	14.4	65.9
Czech Republic	14.1	64.3
Moldova, Republic of	6.5	45.0
Slovakia	4.4	43.2
Hungary	26.7	38.2
Latvia	12.5	32.4
Lithuania	5.8	28.9
Croatia	2.5	28.4
Bulgaria	3.4	25.0
Poland	6.2	24.0
TFYR Macedonia	0.8	23.9
Slovenia	9.4	23.1
Albania	8.3	21.0
Romania	2.3	20.5
Serbia and Montenegro	2.7	20.1
Bosnia and Herzegovina	1.1	15.8
Ukraine	2.5	12.9
Belarus	0.5	8.7
Russian Federation	1.6	6.5
Memorandum:		
Central and Eastern Europe	5.3	20.9
World	10.3	22.5

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

[a] Ranked on the basis of the magnitude of 2001 Inward FDI stock as a percentage of gross domestic product.

The Czech Republic, Estonia and Poland have to prepare for a time when privatizations are no longer a major source of FDI inflows. An increasing number of greenfield projects (including ones financed by reinvested earnings) may indicate that such projects can at least in part compensate for the end of privatization-related FDI inflows. In Estonia reinvested earnings accounted for 40% of FDI inflows in 2002. In the Czech Republic in 2002, 11 foreign affiliates[39] reported capacity expansion in the automotive supplier industry (CzechInvest 2003).

Judging from registered values, outward FDI ($4 billion) recovered in 2002 but was still much lower than inward FDI. The Russian Federation accounted for the bulk of the outflows (figure II.19), with Yukos' acquisitions of Mazeikiu Nafta (Lithuania) and Transpetrol (Slovakia), as well as Eurochem's acquisition of the Lithuanian chemical firm Lifosa. Its outflows exceeded registered inflows at a relatively low GDP per capita. This may be explained by the difficult business environment at home and the aspirations of Russian natural-resource-based firms to become global players. The first four months of 2003 saw

31 outward FDI projects by Russian firms (up from 27 in the same period in 2002).[40] These projects are now going to the Commonwealth of Independent States (five of the top eight destinations), with Ukraine as the number one host. More than 60% of them were in energy (Gazprom, Zarubezhneft), followed by machinery (Sylovye Mashini).

2. FDI in the Russian Federation—taking off?

With its size and natural resources, the Russian Federation has the potential to attract resource-seeking, market-seeking and efficiency-seeking FDI. Until recently its inflows were below potential (annex table A.I.8). But there are distinct signs of greater investor interest.

In February 2003 British Petroleum announced its intention to acquire a 50% stake in a joint venture combining Tyumen Oil Company, the fourth biggest petroleum firm of the Russian Federation, with its affiliate Sidanco. (BP previously owned 25% of Sidanco.) Once fully materialized, this will be by far the largest FDI project in the Russian Federation since 1991—at $6.5 billion, giving a major boost to the sluggish FDI inflows. The deal is worth more than twice the average inflows for 2000–2002 and a third more than the peak of $4.9 billion in 1997 (figure II.22).

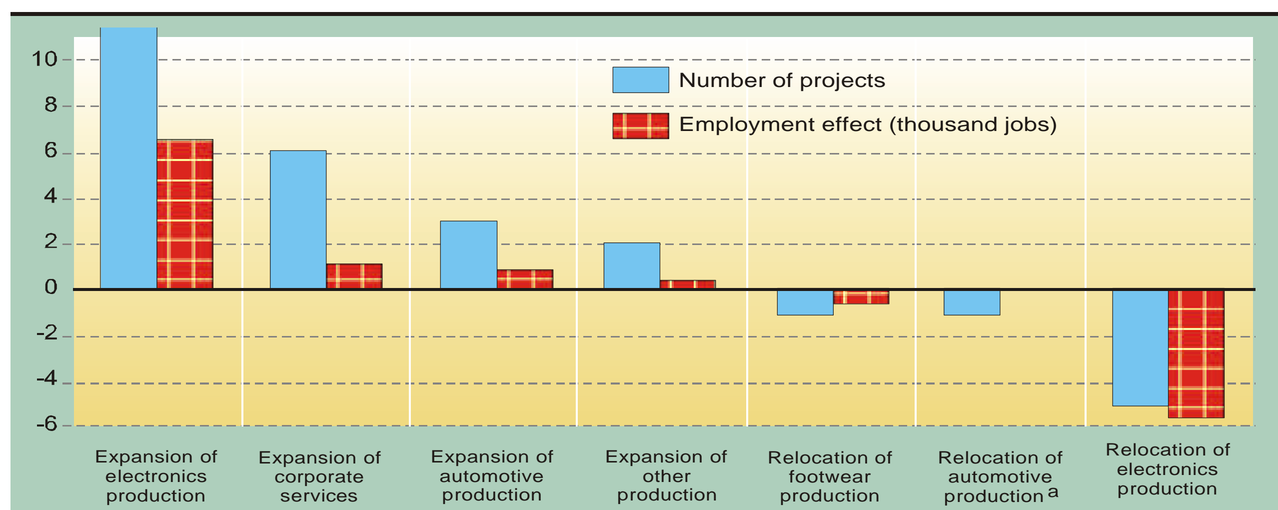
The growing number of greenfield FDI projects announced in the first four months of 2003 is another indication of a possible takeoff, with 160 firms starting projects, for a value of $9 billion, up from 77 and $3 billion in the same period of 2002.[41] The Russian Federation's 7% share in projects worldwide in 2003 made it the third most important location worldwide, after China and the United States.

Forecasting a rapid takeoff may be premature. The seeming takeoff in 1997 was followed by the Russian financial crisis in 1998, when FDI inflows plummeted (figure II.22). And in 2001 and 2002, outflows exceeded inflows, unusual for a lower middle income country.

The sustainability of FDI inflows higher than those in 2002 depends how the Russian Federation attracts FDI based on the full range of its competitive advantages. It has a sizable untapped potential (table II.5).The demonstrated potential for FDI in natural resources is significant—if foreign investors are allowed to take equity shares and are not confined to production sharing or other contractual arrangements short of ownership (figure II.23).

The Russian Federation has also been host to some major market-seeking investments, especially in food (Cadbury, Mars, Stollwerck), beverages (Baltika Brewery, Efes Brewery), tobacco (Philip Morris, Liggett) and telecoms (beside the contentious investment of Cyprus-based Mustcom Consortium into Svyazivest, Deutsche Telekom's participation in mobile phone provider MTS is the most notable). But the scope for such investment has been limited by the low purchasing power of the Russian population.

Figure II.21. Expansion and reduction of capacity by foreign affiliates in Hungary—the "ins" and the "outs", 2002–June 2003



Source: UNCTAD, based on annex table A.II.10.

a Data for employment are not available.

Table II.4. Who competes with whom? [a]

Economies categorized by GDP per capita in 2000 (dollars)

Income group (Dollars)	EU accession countries	Other CEE	EU-15	Other developed countries	Selected developing economies as benchmarks
>20,000: high income			Luxembourg Denmark Sweden Ireland (+) United Kingdom (+) Finland Austria Netherlands Germany Belgium France	Japan Norway United States Switzerland Canada Australia (+)	Hong Kong, China (+) Singapore (+)
5,000-19,999: upper middle income	Cyprus Malta *Slovenia*		Italy (-) Spain Greece Portugal	Israel New Zealand	Taiwan Province of China Korea, Republic of Uruguay (+) Mexico (+)
2,000-4,999 middle income	*Czech Republic* *Hungary* *Poland* *Estonia* *Slovakia* *Lithuania* (+) Turkey [b] *Latvia* (+)	*Croatia*			Chile Malaysia Costa Rica Brazil Botswana South Africa Dominican Rep. (+) Peru (+)
500-1,999: low income	*Romania* [c] *Bulgaria* [c]	*TFYR Macedonia* *Russian Federation* (-) *Albania* *Bosnia and Herzegovina* *Belarus* (+) *Serbia and Montenegro* *Ukraine* (+)			Thailand Egypt Kazakhstan Morocco Philippines Turkmenistan China (+) Indonesia Azerbaijan Georgia Armenia (+)
<500: very low income		*Moldova, Republic of*			India Viet Nam Bangladesh Uzbekistan Uganda Kyrgyzstan Tajikistan

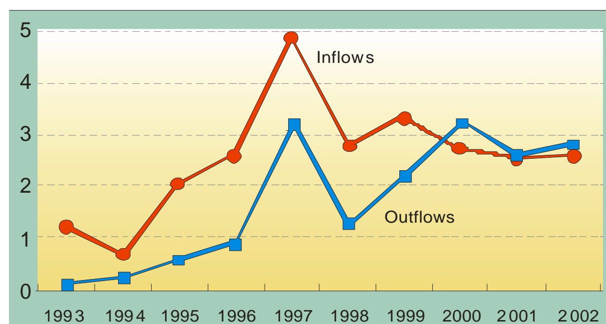
Source: UNCTAD, *Handbook of Statistics 2002 On-line,* http://unctad.org/fdistatistics.

[a] This table is based on Michalet's idea (Michalet, 1999) that each economy competes for FDI with other economies at a similar level of development only. CEE countries are shown in italics.
[b] In a pre-accession stage. Candidate status for EU to be confirmed.
[c] Envisaged to join EU in 2007.

Notes: (+) means a country moved upwards in categories from 1992 to 2000.
(-) means a country moved downwards in categories from 1992 to 2000.
Countries are listed in the order of GDP per capita.

Figure II.22. The Russian FDI roller coaster, 1993–2002

(Billion dollars)



Sources: UNCTAD FDI/TNC database (http://www.unctad.org/fdistatistics) and UNCTAD estimates.

Some technology-based, efficiency-seeking projects have been started recently, most of them in the automobile industry. The main examples are BMW's plant in Kaliningrad in 1999, Volvo Truck's assembly project in the Moscow region in 2001, General Motors' export-oriented joint venture in 2001 with AvtoVAZ to produce off-road vehicles, Ford's car factory opened in the Leningrad region in 2002 and Renault's car-manufacturing project in Moscow (table II.6).

Information collected in 2003 from 26 firms investing in the Russian Federation confirms natural-resource and market-seeking motives.[42] More than half the respondents indicated a promising domestic market potential as a motive,

Table II.5. Inward FDI stock as a percentage of GDP, selected economies, 2001

Rank in world	Economy	Per cent
45	Viet Nam	48.4
51	South Africa	44.0
52	Brazil	43.6
58	Nigeria	41.6
61	Indonesia	39.5
70	China	33.2
81	Argentina	28.3
93	Thailand	24.6
103	Mexico	22.7
100	Poland	22.3
107	Egypt	22.1
136	Philippines	14.7
147	Turkey	12.0
149	Taiwan Province of China	11.4
163	Korea, Republic of	11.2
161	Pakistan	9.9
172	Russian Federation	7.0
175	India	4.7

Source: UNCTAD Handbook of Statistics On-line 2002, http://unctad.org/statistics; and UNCTAD FDI/TNC database online, http://unctad.org/fdistatistics.

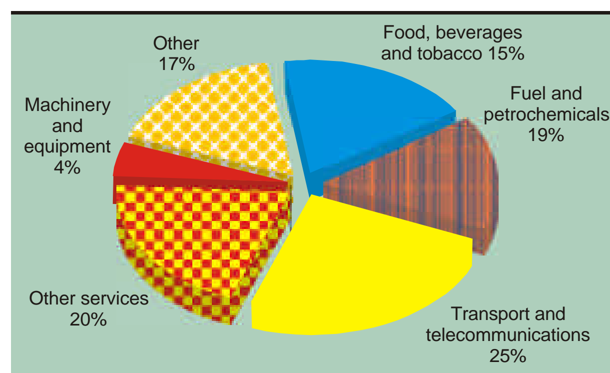
with proximity to regional markets mentioned second. A closer look at the projects started in January–April 2003 confirms that the greatest prospects are still in natural resources, followed at a distance by electronics, automobiles and R&D.

The Russian Federation could multiply its inward FDI stock in a short period. But, if the aim were to match China in its FDI stock per capita, it would need to quadruple the flows received in 2000. And if the aim were to match Poland, it would need to triple its FDI stock.

3. The challenge of EU enlargement

EU-accession countries have to harmonize their FDI regimes with EU regulations, with the twin aims of conforming to EU regulations and maximizing the benefits from EU instruments, such as regional development funds. Examples of nonconforming FDI instruments are Slovakia's special incentives for foreign investors and Hungary's 10-year tax holidays granted only to large investors. Both countries changed their investment incentives in 2002 to conform to EU rules, while seeking to provide a framework no less favourable for investors. In their search for international competitiveness under EU membership, some accession countries are also lowering their corporate taxes. By 2004 these taxes will be significantly below the average of current EU members, although still higher than those of some FDI front runners such as Ireland (table II.7).

Figure II.23. Russian Federation: industry composition of inward FDI stock, 2002
(Per cent)



Source: UNCTAD, based on data provided by the State Committee of the Russian Federation on Statistics.

Accession countries have to learn how to make the best use of facilities now available to them for promoting investment, such as EU regional development funds (which are more limited than those for actual EU members).[43] The accession countries also have to develop the institutional framework to administer and properly channel the variety of funds available from European Community sources for assisting economic development. Originally designed for high income countries, these funds require sophisticated administrative capabilities. Reaching similar levels of public administration in the short time left until accession will test human and financial resources.

For several countries, particularly the non-accession countries, the task is to modernize FDI promotion policies and measures. Only by doing so can they get the most from efficiency-seeking FDI.

UNCTAD's survey of IPAs confirms that promotion efforts (named by 53%) and targeting (60%) are the preferred policy responses. Only a third of the respondents reported additional incentives.

Since the early 1990s, CEE countries have been very active in signing BITs and DTTs, having concluded more than 700 BITs and more than 600 DTTs by the end of 2002 (figure II.24). The region's share in the global universe of BITs (33%) and DTTs (27%) was much higher than its share in United Nations members (10%). Almost half the BITs signed in 2002 were with developing countries (13 of 29), especially those in Asia and the Pacific (10 BITs). CEE countries are thus completing the geographical coverage of their BIT network, having first signed treaties with neighbours or with

developed countries. Most DTTs were signed with developed countries.

Additionally, all bilateral and regional agreements concluded by CEE countries with the EU (figure II.25) contain investment clauses, reflecting the priorities of international economic relations of both parties. Of the 19 countries of the region, all but 4 (Albania, Belarus, Bosnia and Herzegovina and Serbia and Montenegro) have signed such agreements. The investment-related clauses cover a wide range of issues, reflecting the depth of economic integration between the two parties. All offer guarantees for transfer, protection of intellectual property rights and State-State dispute settlement mechanisms. Most also provide for the liberalization of admission and establishment, national treatment, prohibition of some performance requirements going beyond the TRIMs Agreement and investment promotion clauses.

At the regional level, EU enlargement is the most important policy development affecting FDI inflows to CEE. It also affects FDI in non-accession countries, but in a different manner. All accession countries but Bulgaria and Romania are upper middle income or high income (Slovenia) countries. All non-accession countries but Croatia are lower middle income countries (table II.4). This leads to an increase in FDI in services and higher corporate functions in accession countries, attracted from current EU members and third countries (table II.8). EU enlargement also offers opportunities to non-accession countries, because assembly-type manufacturing may shift to them from higher cost accession countries (table II.8). With the restructuring of middle income countries, labour-intensive FDI may move to lower-cost locations, in CEE or in Asia.

New EU member countries may become major sources of skill-intensive assets, combining their advanced education with competitive production costs. The legal regime of the EU provides the necessary framework for the free movement of persons, goods and capital within the region, in offering national treatment and in aiming for competitive equality within the grouping. In

Table II.6. Key greenfield FDI projects started in the Russian Federation, January-April 2003

IInvestor	Home country	Value ($ million)	Project description	Main motivation
Royal Dutch Shell	Netherlands/ United Kingdom	5 500	Investment into the second phase of a Sakhalin oil and gas project	Natural resources
TotalFinaElf	France	2 500	Exploration and development of the Vankorksy oil field	Natural resources
Pfleiderer	Germany	647	Investment into chipboard production in Novograd	Efficiency/exports
Segura Consulting Assoc., Ferrovial and Caixa Bank	Spain	319	Hotel and office complex in Moscow	Market seeking
Renault	France	250	2000-job passenger car plant in Moscow	Market seeking/ efficiency
Philip Morris	United States	240	Cigarette factory in St. Petersburg	Market seeking
Baltic Beverages seeking	Denmark	50	Brewery in Khabarovsk exporting to China	Exports/market
Krka	Slovenia	20	R&D centre for new generic pharmaceuticals	Strategic assets
Tex Development	United Kingdom	12	Expansion of clothing production to be exported to Europe and China	Efficiency/exports
Outocoumpu	Finland	4.5	Auto components plant in Kurgan exporting to Europe	Efficiency/exports
Bank Austria	Austria	..	R&D team in Moscow to improve back-office system	Strategic assets
Nuclear Solutions	United States	..	R&D centre in Moscow to evaluate viability of various technologies	Strategic assets

Source: LOCO*monitor*, OCO Consulting.

Table II.7. Making corporate taxes attractive in the Visegrad-4 countries: rates[a] announced by June 2003 for the rest of the year and 2004

(Per cent)

Country	2003	2004
Czech Republic	31	24[b]
Hungary[c]	18	18
Poland	27	19
Slovakia	25	19
Memorandum items:		
EU average	32	..
Ireland	12.5	..

Source: "Adólicit Közép-Európában", *Magyar Hírlap Online* (Budapest), 30 June 2003, http://www.magyarhirlap.hu/cikk.php? cikk=68662.

[a] Excluding local/municipal taxes.

[b] Gradual reduction until early 2006.

[a] In addition, Hungary levies a "trade tax", although this is often waived for major investment projects.

this integrating European continent, market size and market growth will increasingly denote the enlarged EU as a whole, providing benefits mostly to new member countries, particularly those with limited domestic purchasing power.

Liberalization in non-accession countries may be more limited. But their trade agreements with EU (preferential or association agreements) may affect market size, one of the key determinants of FDI. And the use of the European cumulation area in the EU rules of origin can add to the flexibility in organizing production across the continent. Trade agreements with non-accession countries will also facilitate access to natural resources, with the most important resources outside the enlarged EU, notably in the Russian Federation.

The emerging specialization of FDI between the accession and non-accession countries does not yet follow a "flying-geese" pattern.[44] Labour-intensive activities relocated from accession countries now go more to developing Asia (especially China) than to lower income CEE countries. And the low outflows of FDI from accession countries limit the scope for restructuring to non-accession countries.

4. Prospects—mostly sunny

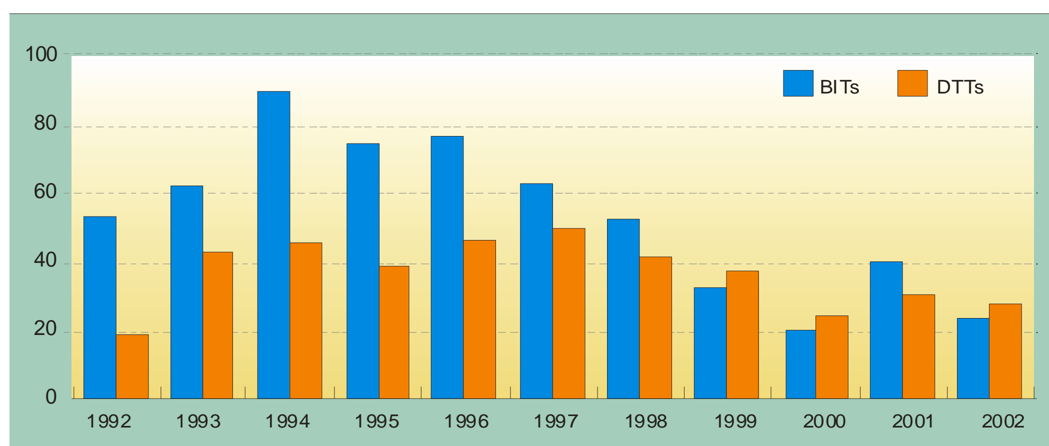
Led by the surge in flows to the Russian Federation, and fuelled by the momentum of EU enlargement, UNCTAD expects the region's FDI flows to rise somewhat in 2003 to close to $30 billion.[45] The surge of FDI in the Russian Federation seems more fragile in the medium or long term than the spur of EU enlargement. But in the short term both are helping overcome the completion of privatizations and the slowdown of GDP growth expected in the Czech Republic, Hungary, the Russian Federation and Slovakia.

Realizing the potential of natural-resource-seeking FDI largely depends on the willingness of governments to allow foreign ownership in natural resources. Much depends also on whether local private companies are ready to take foreigners as minority, or eventually, majority shareholders in their ventures.

For market-seeking investment, prospects depend mostly on the speed of economic recovery in the Russian Federation and the rise in disposable income. The improvement of the general business environment and progress with intellectual property protection in such industries as pharmaceuticals could also boost FDI inflows.

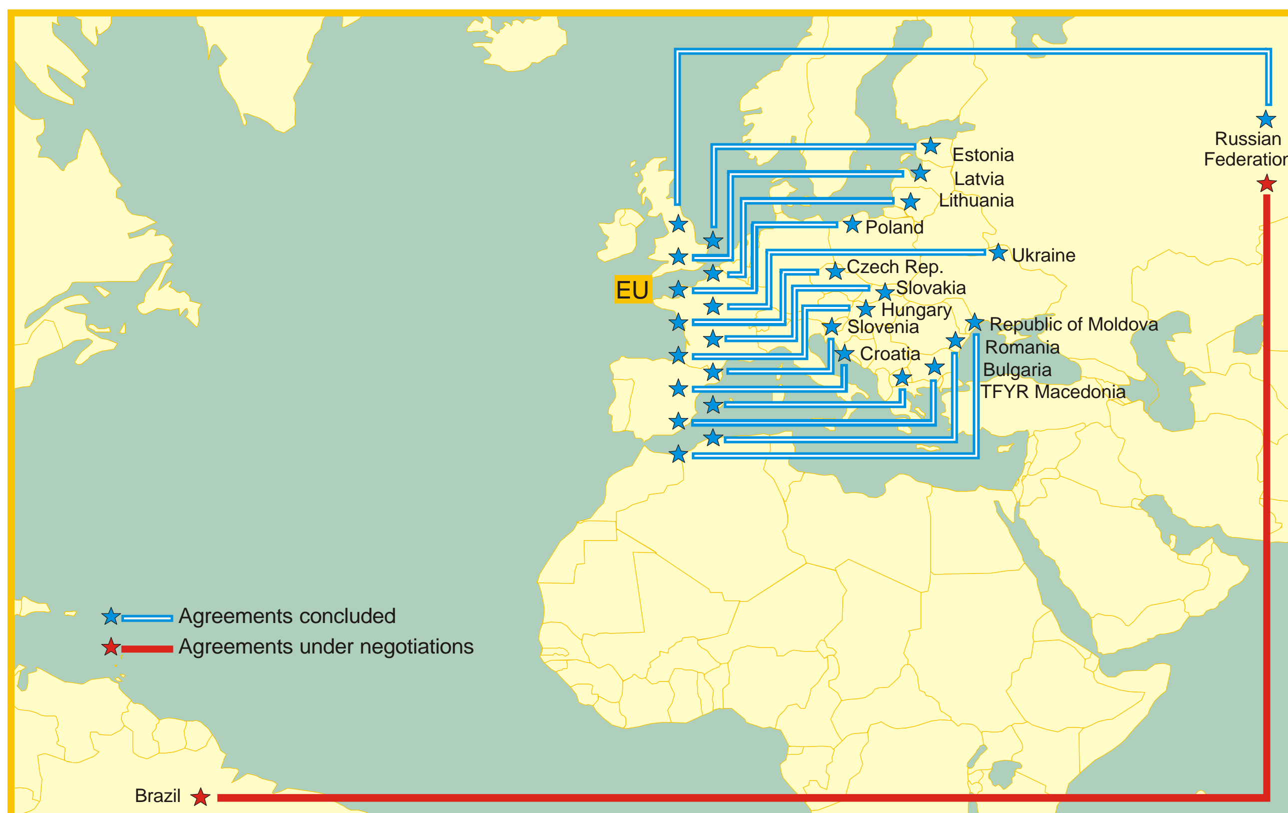
Figure II.24. CEE: BITs and DTTs concluded, 1992-2002

(Number)



Source: UNCTAD, databases on BITs and DTTs.

Figure II.25. CEE: selected bilateral, regional and interregional agreements containing FDI provisions, concluded or under negotiation, 2003[a]



Source: UNCTAD.

[a] BITs and DTTs are not included.

Table II.8. Matrix of specialization between accession and non-accession countries of CEE, 2003

Countries	FDI patterns	FDI policies and measures
Accession countries	Upgrading of FDI activities	How best to adjust FDI promotion to EU instruments (regional and cohesion funds etc.)
Non-accession countries	"New frontier" for efficiency-seeking FDI	How to adjust policies/ measures to the status of new frontier, question of business environment

Source: UNCTAD.

For efficiency-seeking FDI the Russian Federation has the biggest untapped potential. With its technological capabilities and skilled workforce, it could become a major international engineering hub. Under local ownership alone, however, most Russian industries have failed to connect with the technology and knowledge flows of the world economy. (It is less an issue of connecting to the world economy proper, as many of the large Russian firms are already major international players, but they do not always benefit from state-of-the-art technology flows.) Changing that depends partly on measures to improve the business environment, the stability of the economy and the rule of law. But that may not be enough. The country also needs to upgrade its investment promotion efforts.

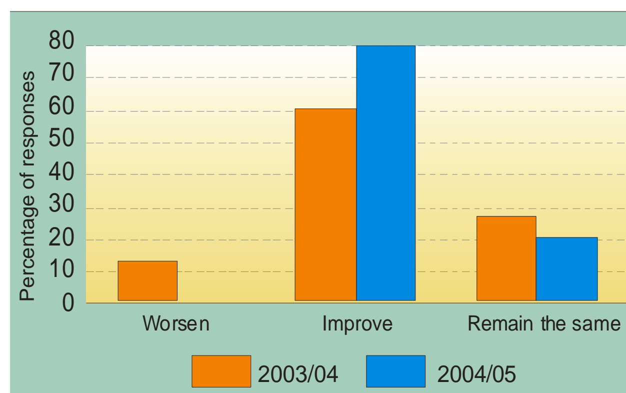
The momentum provided by EU enlargement is expected to remain strong in the medium term. The process of reorganizing economic activities across the integrating European continent is still in an early stage. Access to additional financial resources by the accession countries, though less than originally thought, can still attract economic activities to new EU members. EU enlargement can also stimulate outward FDI flows from accession countries, with non-accession countries possibly among the prime targets.

Results from UNCTAD's survey of 15 IPAs in CEE countries indicate optimism about the prospects for FDI in the coming two to three years (figure II.26). Nearly two-thirds of the respondents expected better FDI prospects in the short run (2003-2004), and four-fifths by 2004-2005. Given the region's record of steady FDI inflows,

that optimism may be too pessimistic. Surprisingly, the IPAs in CEE appear to be slightly less optimistic than their counterparts from developing countries, which have had declines in inflows. Perhaps explaining this mismatch are the composition of the samples and the cultural differences of IPA officers in different regions.

A majority of respondents (53%) reported recent increases in FDI projects. On the difficulties, most (54%) refer to postponements of projects previously planned but not yet realized. Fewer respondents reported major setbacks in cancellations (40%), scalings-down (24%) or divestments (23%). Confirming the trends documented for Hungary, IPAs expect a gradual shift towards higher value-added FDI, especially for R&D projects. Among developing country regions, only the Asian IPAs predicted a similar shift in their FDI. Reflecting the end of privatization in the Czech Republic and Poland, CEE agencies expected a shift in the mode of entry towards greenfield projects for the period to 2005.

Figure II.26. CEE: forecast mostly sunny,[a] 2003–2005
(Per cent)



Source: UNCTAD.

[a] The survey question was: "How do you perceive the prospects for FDI inflows to your country in the short- and medium-term, as compared to the last two years (2001-2002)?".

C. Developed countries

FDI inflows to developed countries in 2002 declined by 22%, to $460 billion, from $590 billion in 2001.[46] Despite the second year of decline, they remained above the average for 1996–1999. The United Kingdom and the United States accounted for half of the decline in the countries with reduced inflows in 2002. All three economic sectors (primary, manufacturing and services) suffered declines, but such industries as finance and business services activities saw higher FDI inflows. The major factors? A continuing slowdown in corporate investment, caused by weak economic conditions and reduced profit prospects, a pause in the consolidation in some industries and declining stock prices were the major factors behind the fall in FDI flows that occurred in parallel with, and largely in the form of, a decline in cross-border M&As. Large repayments of intra-company loans were the main element in reduced net FDI flows for some major host countries. IPAs in developed countries reported major setbacks in their efforts to attract FDI, including divestments or the scaling down of planned projects.

1. FDI down, as cross-border M&As dwindle

FDI inflows to developed countries declined for the second year in a row, with the share of developed countries in world FDI inflows remaining almost the same as in the previous year (more than 70%) (annex table B.1). If inflows are adjusted to exclude transshipped investment in Luxembourg (box II.11), that share would decline by a further 15 percentage points. What lays behind the continuing downturn? The slow recovery of the United States and other host economies affected profit prospects, making companies more cautious about FDI, especially the market-seeking type. The significant expansion or consolidation in some industries, including cross-border M&As, reduced the opportunities for FDI. Declining stock markets and the need for cost-cutting measures constrained the financial capacity of corporations to engage in FDI.

Intra-company loans[47] declined sharply for several countries: of the 19 countries that report components of inward FDI, intra-company loans turned negative in 4 and declined in 6 countries in 2002. That offset increases or added to decreases in reinvested earnings and equity, the other components of FDI (annex table A.II.5). Interest rate differentials between countries might have been one factor in this (see chapter I). Another was the fall in cross-border M&As. And a third could be recalibrations of debt-to-equity ratios by recalling loans (see chapter I).

Despite the overall decline, about a third of developed countries experienced an increase in FDI inflows in 2002 (9 countries out of 26). The top FDI recipients were Luxembourg, France and Germany (figure II.27).[48] The United States—the largest recipient in 2001—did not make it to the region's top three in 2002. FDI inflows also fell

Box II.11. What made Luxembourg the world's largest FDI recipient and investor in 2002?

In 2002 Luxembourg[a] was the world's largest outward investor and largest FDI recipient, accounting for about 19% ($126 billion) of world inflows and 24% ($154 billion) of outflows—and a more than a third of the combined EU inflows and outflows. The country's share of EU GDP is only 0.2%. Compared with domestic investment of $4.4 billion in 2002, its FDI is impressive.

What explains these numbers?

Interestingly, Luxembourg's FDI inflows and outflows are relatively close in value, concentrated in manufacturing and services (box table II.11.1). A significant part of inflows and outflows in the first quarter of 2002 can be explained by large cross-border M&As that took place to establish the steel group Arcelor, formed by Arbed (Luxembourg), Aceralia (Spain) and Usinor (France) in late 2001 and headquartered in Luxembourg.

Inflows and outflows in roughly the same period could reflect a transfer of funds between affiliates within the same group located in different countries—or a channelling of funds to acquire companies in different countries through a holding company established in Luxembourg to take advantage of favourable intra-firm financing conditions.[b] Luxembourg offers favourable conditions for holding companies and for corporate HQ, such as certain tax exemptions (EIU 2003b). In 2000 a transaction along these lines in telecom (the Vodafone-Mannesmann deal) resulted also in significant FDI inflows to and outflows from Belgium and Luxembourg, making it the second most important investor and FDI recipient worldwide.

Equity, intra-company loans and reinvested earnings of firms are recorded as FDI if they are considered to be for the purpose of acquiring long-term interest in an enterprise abroad; this applies also in the case of special purpose entities such as holding companies (IMF 1993, paragraphs 365, 372-373). The latter might however be involved in transfer of funds to foreign affiliates in one economy for further transfer as FDI elsewhere. In 2002 such transshipped investment, or funds invested in the country for further transfer as FDI elsewhere, is estimated at about 80% of the inflows to and outflows of FDI from Luxembourg, according to the Luxembourg Central Bank. Such flows, which take place to some extent in other countries as well, have little economic impact on the countries involved. This highlights the fact that FDI statistics need to be interpreted carefully, with sufficient attention paid to the underlying methodology.

Box table II.11.1. FDI flows to and from Luxembourg, by component, 2002
(Millions of Euro)

	Outflows						
		Equity		Reinvested earnings		Intra-company loans	
Period	**Total**	Financial industries	Other industries	Financial industries	Other industries	Financial industries	Other industries
1st quarter	-45 446	30	-25 593	- 20	- 88	4	-19 778
2nd quarter	-23 385	96	-7 003	- 20	- 88	- 9	-16 361
3rd quarter	133	- 49	-5 165	- 20	- 88	0	5 456
4th quarter	-95 011	712	-86 950	- 20	- 88	139	-8 805
2002	**-163 710**	**789**	**-124 711**	**- 81**	**- 353**	**134**	**-39 488**
	Inflows						
		Equity		Reinvested earnings		Intra-company loans	
Period	**Total**	Financial industries	Other industries	Financial industries	Other industries	Financial industries	Other industries
1st quarter	34 072	244	21 353	322	316	- 4	11 842
2nd quarter	7 315	- 51	6 293	322	316	5	429
3rd quarter	4 423	80	5 920	322	316	- 3	-2 213
4th quarter	87 709	- 23	84 359	322	316	- 3	2 738
2002	**133 520**	**250**	**117 925**	**1 289**	**1 264**	**- 5**	**12 796**

Source: UNCTAD, based on data from BCL/STATEC.
Note: Up to 2001, data on FDI flows for the Belgium-Luxembourg Economic Union (BLEU) were reported by the National Bank of Belgium. Data on Luxembourg are not available separately before 2002.

Source: UNCTAD.

[a] The Belgium-Luxembourg Economic Union, formed in 1921 primarily as a monetary union, came to an end in 2002, with the coming into force of the Euro as a common currency for several EU member countries (including Belgium and Luxembourg). Until 2002, only aggregate Union data had been reported and it is difficult to compare 2002 FDI flows for Luxembourg with those for previous years.

[b] In a country's balance-of-payments statistics, all transactions between residents and non-residents are recorded (concept of residence, IMF 1993, paragraphs 57-58). This concept is not based on legal criteria or nationality but the transactor's centre of economic interest. In FDI statistics, as part of the financial account in the balance-of-payments statistics, transactions with the first foreign counterpart (as opposed to the ultimate beneficial owner, or debtor/creditor principle) are recorded. As a result, the initial source or the final destination of FDI flows might be different from the immediate partner to the transaction, in particular, in the case of special purpose entities (such as holding companies and regional HQ).

significantly (relative to the size of the country's inflows) in Greece and Austria (with the divestment of Telecom Italia). FDI inflows as a ratio of gross fixed capital formation in developed countries fell to 12 % on average, compared with 13% in 2001 (figure II.28). Inward FDI stock as a ratio of GDP reached on average 19%, compared with 18% in 2001 (annex table B.5 and B.6).

IPAs in the majority of developed countries faced difficulties in their efforts to attract FDI (UNCTAD 2003a). A majority of the IPAs reported cancellation or postponement of FDI projects, as well as divestment (45% of respondents) or a scaling down of planned projects (40%).

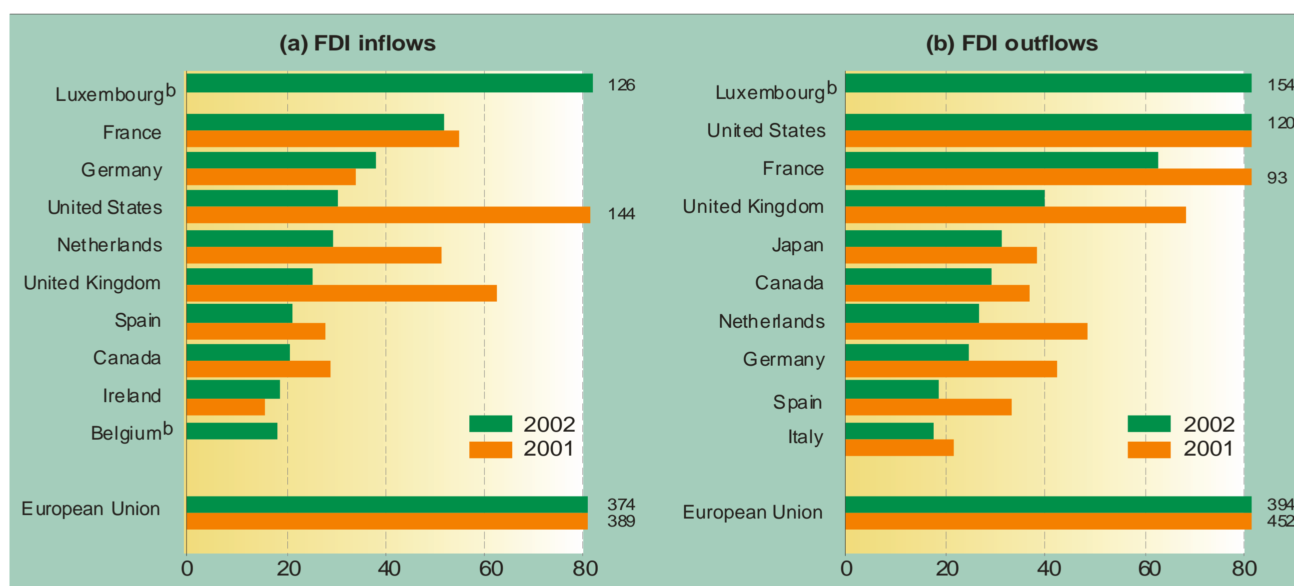
The 80% decline in inward FDI flows for the United States in 2002 accounted for 55% of the decline in developed countries with reduced inflows in 2002 (figure II.27). FDI from the EU into the United States plummeted, with fewer cross-border M&As:[49] major sources of FDI in the United States in 2002 were France, the United Kingdom, Japan and Australia, in that order (figure II.29). By industry, the largest declines in the United States were financial services (figure II.30) as well as computer-related services and chemicals. With the United States current account deficit at $481 billion, the $100 billion decline in inward FDI makes financing the balance-of-payments deficit more difficult.

Inflows to the EU declined by 4%. But if Luxembourg's transshipped investment is excluded, inflows would decline by 30%. The decline in EU flows stemmed, like that in the United States, largely from reasons related to the economic downturn and, in that context, the decline in cross-border M&As. In 2001, 49% of EU outflows remained within the EU; that share rose to 66% in 2002 (ECB 2003a).[50] The largest decline was in the United Kingdom (60%). Inflows increased in Luxembourg, Finland (mainly due to large transactions, such as the merger of Sonera (Finland) and Telia (Sweden)), Ireland (partly due to the acquisition of Jefferson Smurfit Group) and Germany (reflecting increased intra-company loans by foreign TNCs to their affiliates in Germany, as well as some large acquisitions, such as AOL (United States) acquiring additional stakes in AOL Europe) (annex table A.I.9). As economic activities have become more services-oriented in the EU, the services sector continues to attract a rising share of FDI flows to the EU (annex table A.I.4).

FDI inflows to other Western European countries also fell in 2002. Those to Norway declined dramatically, while inflows to Iceland and to Switzerland rose (in the latter, by 5% and as in the past, related mainly to services).

Flows into other developed countries were uneven. In Japan, FDI inflows increased (by 50%), mainly for the acquisition of Japanese financial companies by United States firms. Inflows from the EU almost doubled, mainly in automobiles and financial services. FDI inflows into Australia almost tripled—to a record high. Those to New Zealand were the lowest since the early 1980s, with large divestments by investors from the

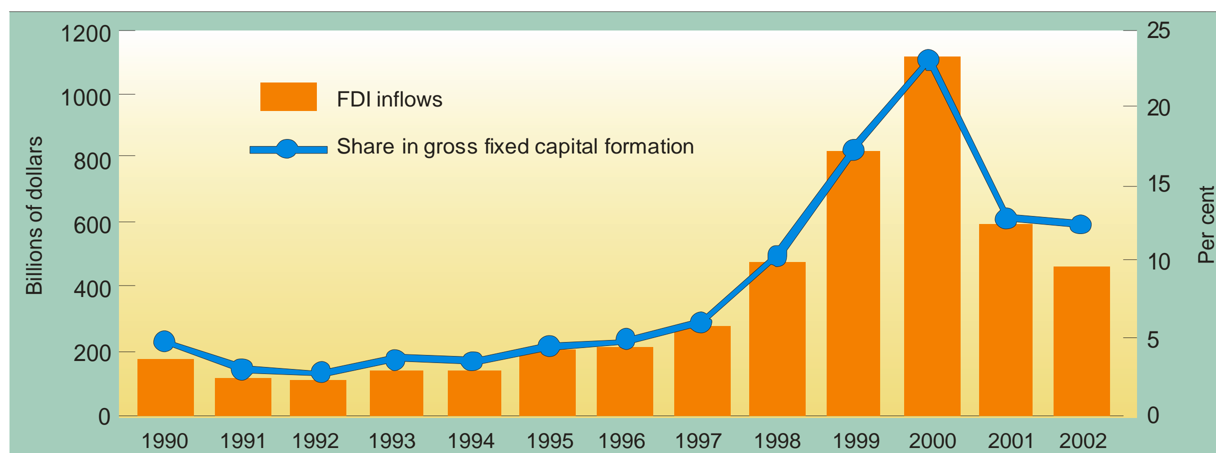
Figure II.27. Developed countries: FDI flows, top 10 countries, 2001 and 2002 [a]
(Billions of dollars)



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

[a] Ranked on the basis of the magnitude of 2002 FDI flows.
[b] In 2001, data for Belgium and Luxembourg are not separately available.

Figure II.28. Developed countries: FDI inflows and their share in gross fixed capital formation, 1990-2002

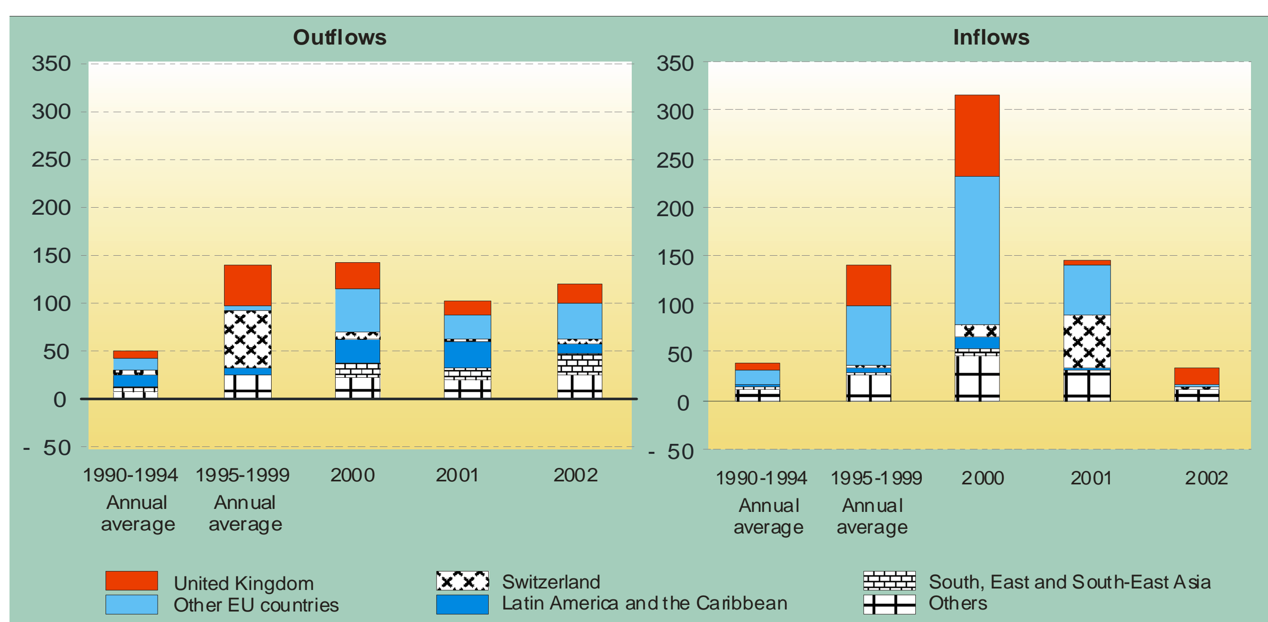


Source: UNCTAD, FDI/TNC database (http://www.unctad.org/fdistatistics).
Note: The 2002 data for gross fixed capital formation are estimates.

Netherlands, the United Kingdom and the United States. And despite a decline in 2002 as compared with 2001, inflows to Canada were similar to those in 1998–1999.

An important aspect of the inward FDI performance of most of these countries was the uneven performance in cross-border M&As. The total value of cross-border M&As in the developed countries fell by 37% in 2002, from $496 billion to $311 billion (annex table B.7), with their number down from 4,482 to 3,234.[51] As the M&A boom came to a halt in 2000, cross-border equity flows fell, especially among developed countries. But inflows of equity investments to developed countries in 2002 were still above the 1996–1999 average. The decline in the value of cross-border M&As can be attributed, in part, to the reduction in investment abroad by TNCs for the reasons already mentioned. It can also be seen as a correction of the exceptional surge in M&As that paralleled high FDI flows into developed countries during 1999–2000.[52]

Figure II.29. United States: FDI flows, by major partner, 1990-2002
(Billions of dollars)



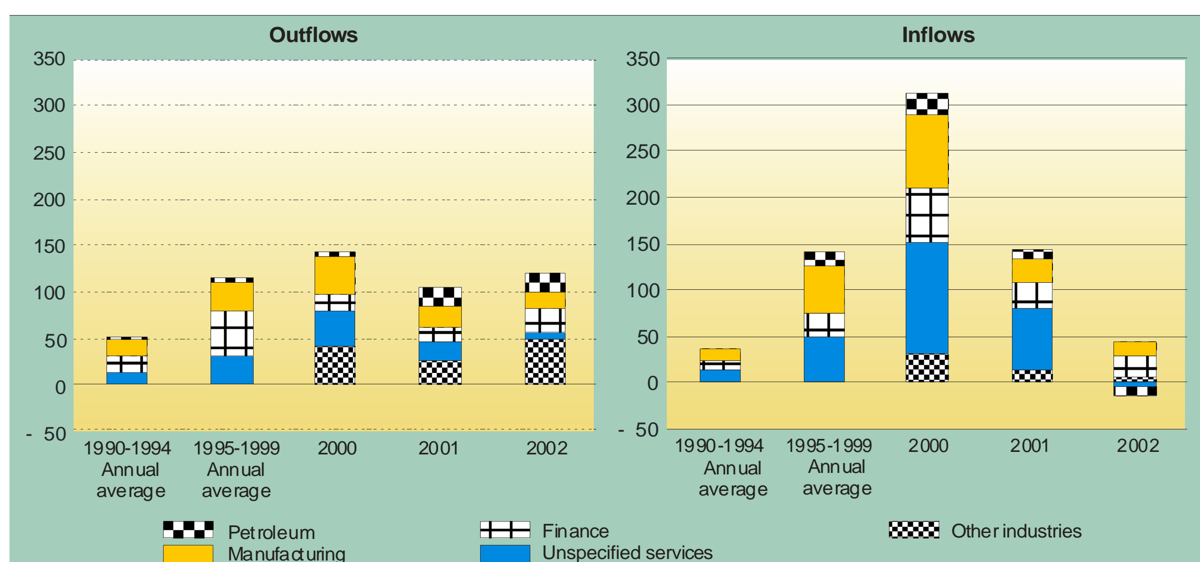
Source: UNCTAD, FDI/TNC database, based on the United States Department of Commerce, Bureau of Economic Analysis (www.bea.doc.gov), data retrieved in June 2003.

Cross-border M&As in utilities (electricity, gas and water) reached a record high in 2002, with the acquisition of Innogy Holdings (United Kingdom) by RWE (Germany) for $7.4 billion and that of PowerGen (United Kingdom) by E.on (Germany) for another $7.4 billion (annex table A.I.9). Several large companies reduced their activities in some fields while expanding operations in their core competencies. Aventis (France) sold its agrochemicals unit. Novartis (Switzerland) sold its food and beverage business to Associated British Foods. Cadbury Schweppes (United Kingdom) acquired Adams, a confectionary subsidiary of Pfizer (United States), and Squirt (Mexico). TNCs also strengthened their operations in more stable or growing markets (South-East Asia, CEE), to reduce costs or slow a decline in turnover. Deals of $1 billion or more included the acquisitions by developed country firms of Daewoo Motor (Republic of Korea), Hyundai Merchant-Car Carrier (Republic of Korea), Pannon GSM (Hungary) and Transgas (Czech Republic) (annex table A.I.9).[53]

FDI *outflows* from developed countries dropped by 9%, from $661 billion to $600 billion. Japan overtook Germany (box II.12) among the top home countries for FDI, ranking fifth after Luxembourg, the United States, France and the United Kingdom (figure II.27). Outflows from 8 out of 25 countries rose, with Norway, Sweden and Austria registering the largest increases. About one-third of outflows from Austria—which almost tripled—went to the CEE. Outflows from the United States rose by about 15% in 2002; but outflows to developing countries fell by about one-fifth, particularly to Latin America (figure II.29). Companies from the United States have not invested much in the CEE. In contrast, EU companies were investing more in CEE and China, as were those from some other developed countries, such as Switzerland.[54] The Netherlands and Sweden increased their outflows to other EU members, with those from Sweden almost doubling, thanks in part to the Telia-Sonera transaction noted. Foreign affiliates of other developed country TNCs seeking access to the EU market were often located in the periphery (Ireland, Portugal and Spain) in the early 1990s, for tax reasons or lower labour costs (Barry 2003; Nunnenkamp 2001). But they were shifting to locations in countries scheduled to join the EU in 2004 (UNCTAD 2003c, see also section B of this chapter).[55]

For other developed countries, there were few changes: for FDI outflows from Japan, the largest host country was again the United States, up by about 10% over the previous year. Flows to developing Asia also increased (by 8%), while those to the EU almost halved, mainly due to a decline of 80% in flows to the United Kingdom. Canada further diversified its outflows geographically. Companies from Australia and New

Figure II.30. United States: FDI flows, by major sector and industry, 1990-2002
(Billions of dollars)



Source: UNCTAD, FDI/TNC database, based on the United States Department of Commerce, Bureau of Economic Analysis (www.bea.doc.gov), data retrieved in June 2003.

Note: Data for average 1990-1994 and average 1995-1999 are not fully comparable to those for 2000-2002 as the coverage of industries/ sectors are not the same. For 1990-1994 and 1995-1999, petroleum includes mining, quarrying and petroleum in the primary sector and coke, petroleum and nuclear fuel in the secondary sector; manufacturing covers the secondary sector except coke, petroleum and nuclear fuel; unspecified services relate to the tertiary sector except finance; and other industries include industries not specified elsewhere. In 2000-2002, petroleum refers to chemicals for inflows and mining, and for chemicals for outflows; manufacturing excludes chemicals; unspecified services include wholesale and retail trade, information, real estate, rental and leasing and professional, scientific, and technical services for inflows and utilities, wholesale trade, information, professional, scientific and technical services and other services for outflows; and other industries include industries not specified elsewhere.

Box II.12. What reverse flows mean for Germany's FDI statistics

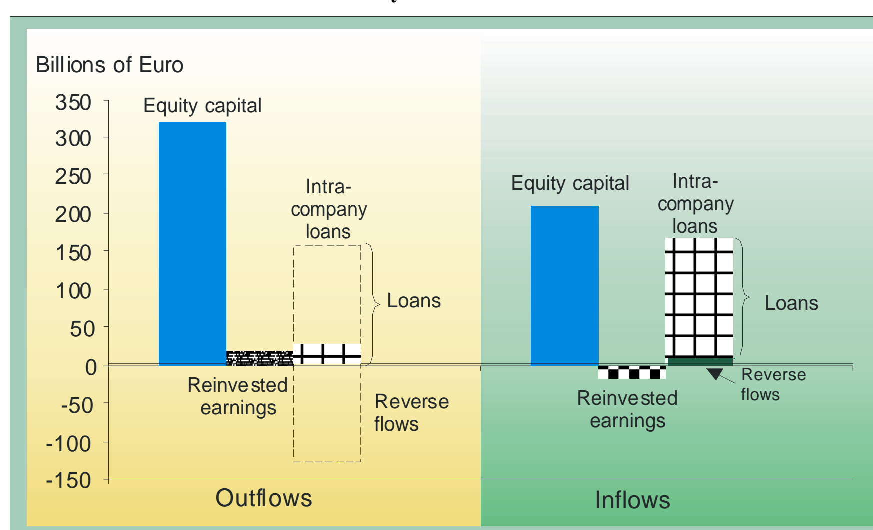
Between April and June 2002, German FDI outflows were only €1.6 billion, compared with €36 billion in the same period the previous year. Part of this decline can be explained by the more cautious approach of German TNCs during the global economic slowdown. But the numbers also conceal important acquisitions of equity shareholdings by German companies abroad, amounting to €21 billion, largely offset by loans by German affiliates abroad to their parent companies in Germany (perhaps for the same reasons that foreign affiliates in the United States repaid loans to their European parent firms). These credit transactions, designated reverse flows, reduced Germany's outward FDI (box figure II.12.1).

The IMF recommends including cross-border financial loans and trade credits between affiliated enterprises under intra-company loans (or other capital). With loans classified according to the directional principle a German parent company granting a loan to its affiliate abroad increases German outward FDI. And a German parent receiving a loan by one of its affiliates abroad decreases German outward FDI, because it is considered a reverse flow. Not all countries have adopted this recommended principle.

These loans can take different forms, such as funds raised from securities issued by German affiliates abroad on international financial markets and subsequently passed on to the parent firm in Germany. They also reflect different economic circumstances. From January 1996 (when Germany started to report FDI data according to the directional principle) until June 2002, reverse flows represented an important component of outward flows (€128 billion, as compared to equity capital of €318 billion). But their sudden significance in the first half of 2002 is striking (box figure II.12.1).

Aggregate FDI figures thus do not reflect the complexity of underlying economic transactions.

Box figure II.12.1. Germany: cumulative FDI flows, by component, January 1996-June 2002



Source: UNCTAD, based on Deutsche Bundesbank, 2002.

Note: Loans refer to credits from German investors (outflows) and credits to foreign investors in Germany (inflows). Reverse flows refer to net borrowing by German parent companies from their affiliates abroad (outflows) and foreign parents from their affiliates in Germany (inflows).

To assess the impacts on host and home economies, it is important to analyse each component of FDI and to apply uniformly the recommended standards for compiling FDI statistics.

Source: UNCTAD, based on Deutsche Bundesbank, 2002.

Zealand continued to concentrate on investment in their subregion.

Most outward investment was in services.[56] Although outward FDI in skill-intensive manufacturing activities (automobiles, pharmaceuticals) was on the rise in several countries, it generally fell in manufacturing because of weak growth prospects and low profit margins. Exceptions include outflows from Austria and Norway.

2. Policy developments—continuing liberalization

Developed countries have been liberalizing their FDI rules and concluding bilateral and regional agreements since the 1950s. In a flurry of such activity 12 developed countries made changes to their FDI regimes in 2001 and 19 did so in 2002, with 45 regulatory changes in 2002 alone. More than 95% of the new national policy

measures were more favourable to FDI. They involved tax incentives (as in Belgium, Canada and Ireland), guarantees (as in Belgium, Ireland and New Zealand), the removal or relaxation of restrictions on entry (as in Japan and Norway) and the establishment of IPAs or one-stop information centres (as in the Netherlands and Portugal).

The proliferation of BITs and DTTs continued, with 1,169 BITs (49 BITs per country on average) and 1,663 DTTs (64 DTTs per country on average) concluded by the end of 2002, a year in which developed countries signed 44 BITs and 42 DTTs (figure II.31). Primary partners for both types of treaties were countries in Asia and the Pacific, followed by CEE for BITs and the EU countries for DTTs. Bilateral and regional instruments involving investment-related provisions also increased, with the largest number concluded by EU countries, followed by the United States and Canada. The EU countries have shown a preference for entering into agreements with CEE and Mediterranean countries (figure II.32), and the United States for doing so with African and Asian ones (figure II.33). Japan is a late starter, with an agreement with Singapore in 2003—its only FTA so far—covering trade, FDI and other economic matters (box III.2). Japan is also negotiating with Malaysia, Mexico, the Philippines and Thailand, and negotiations with the Republic of Korea may start in 2003 (figure II.11). Almost all of these agreements cover the principal issues normally contained in international investment agreements.

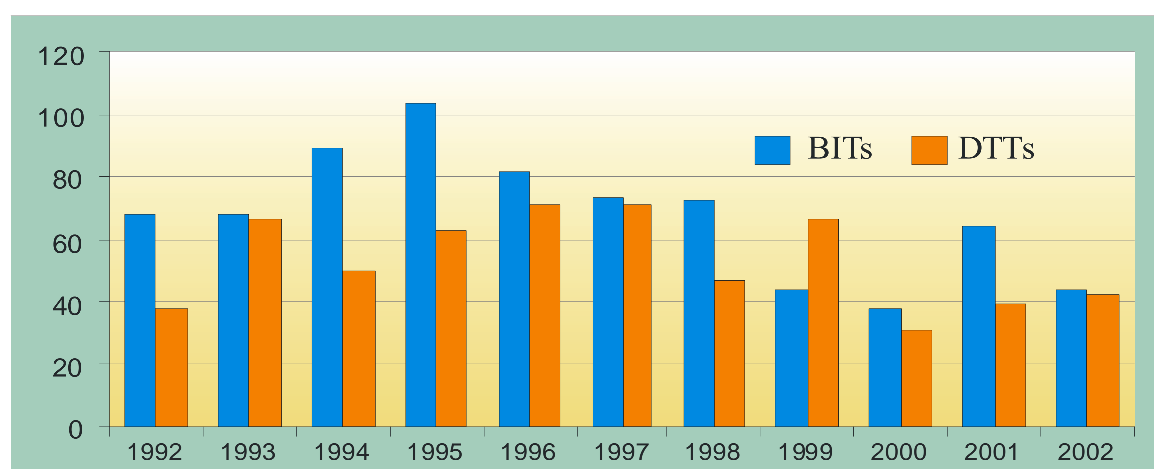
IPAs in developed countries increased their promotion efforts, with targeting among the most frequent policy responses, according to UNCTAD's IPA survey. Remarkably, none of the agencies suggested that they offered additional incentives, unlike developing countries many of which increased their incentive packages. Japan launched a most comprehensive programme in April 2003 to double the stock of inward FDI in five years (box II.13).

3. Prospects—hinging on economic recovery

UNCTAD expects FDI inflows to increase in some countries in 2003, but the developed countries as a group are not likely to exceed their performance in 2002, even though several surveys expect FDI to recover in 2003 (World Bank 2003a; EIU 2003a).[57] What will happen depends on the economic recovery, especially in developed countries, and on the success of efforts to strengthen investors' confidence. Low profitability, falling equity prices, concerns about corporate debt and cautious commercial bank lending (as well as investors' evaluation of future demand growth) might all dampen prospects for increased FDI (UNDESA and UNCTAD 2003; World Bank 2003a). To weather adverse conditions, TNCs are continuing to restructure, concentrate on core competencies, relocate to lower-cost locations and tap emerging markets. That will reduce investment in some markets and increase it in others.

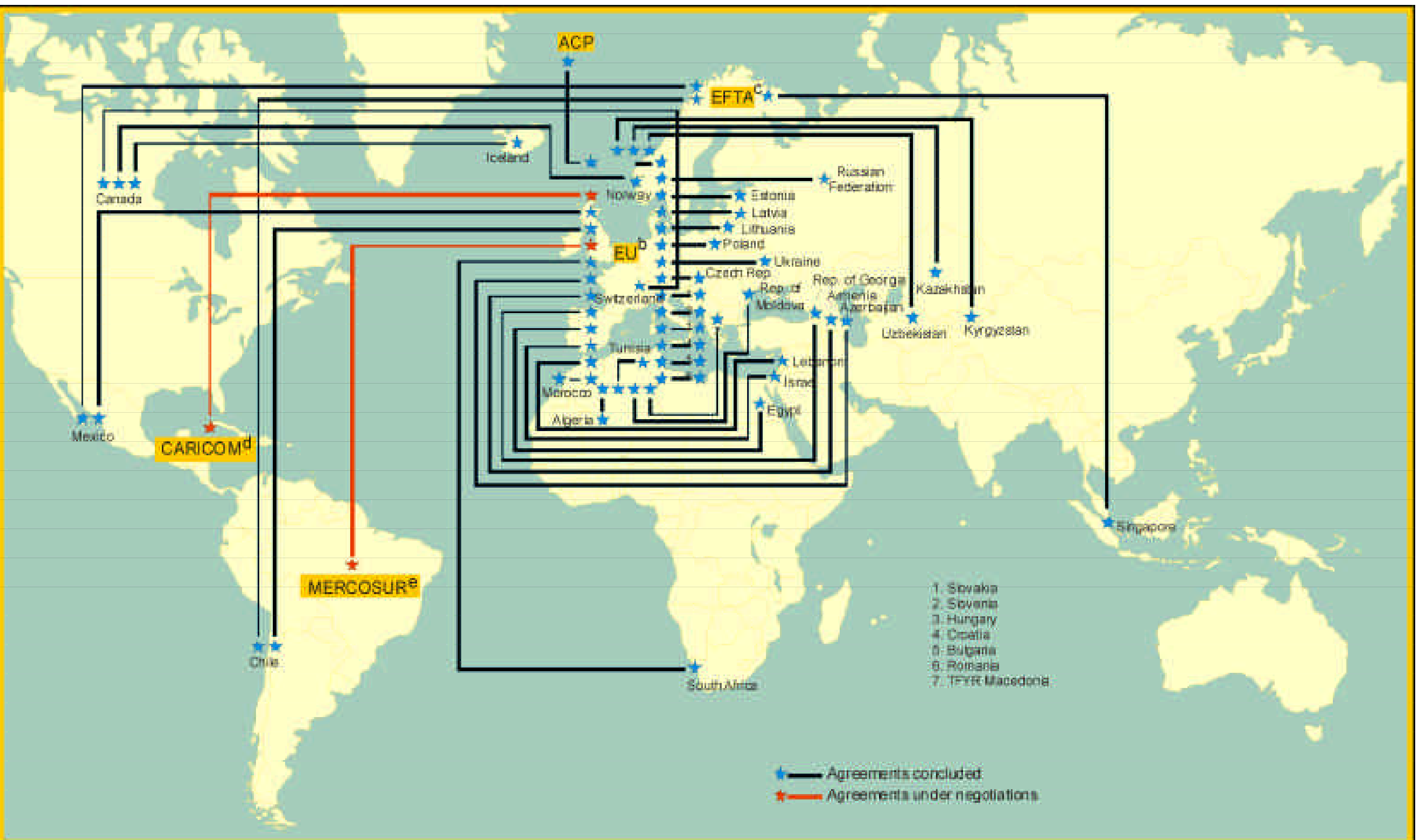
For the EU and the United States, prospects for economic growth continue to be modest in 2003. Germany and Japan—both with higher FDI inflows in 2002—have declined in attractiveness, according to some surveys (IMD 2003; AT Kearney 2002). In Japan, Citigroup and other foreign financial companies plan large divestments in 2003.[58] In Switzerland—which expects little GDP growth in 2003 and only about 1% in 2004—a

Figure II.31. Developed countries: BITs and DTTs concluded, 1992-2002
(Number)



Source: UNCTAD, databases on BITs and DTTs.

Figure II.32. Western Europe: selected bilateral, regional and interregional agreements containing FDI provisions, concluded or under negotiation, 2003[a]



Source: UNCTAD.

a BITs and DTTs are not included.

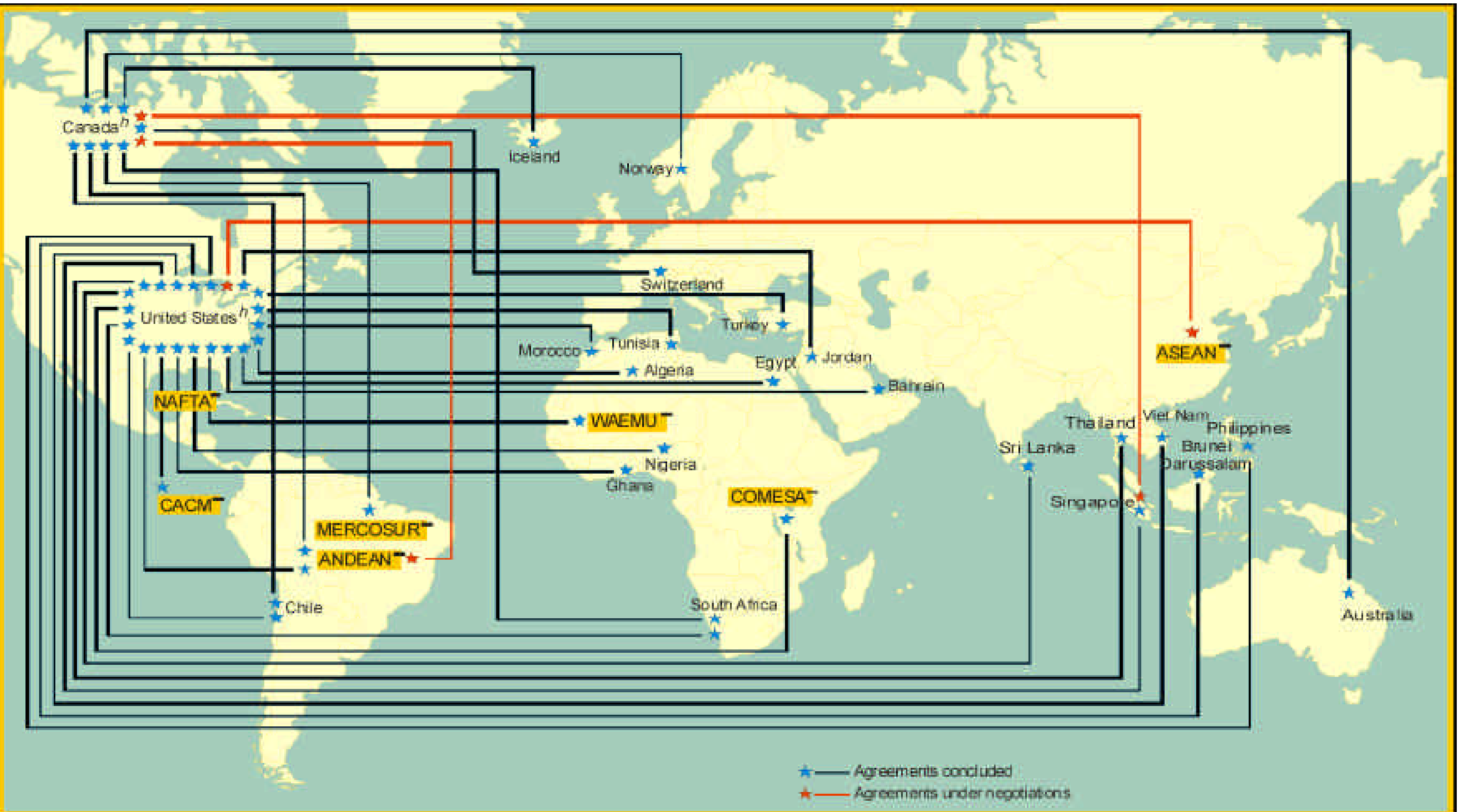
b European Union (EU): Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom.

c European Free Trade Association (EFTA): Iceland, Liechtenstein, Norway and Switzerland.

d Caribbean Community (CARICOM): Antigua&Barbuda, Barbados, Jamaica, St. Kitts and Nevis, Trinidad and Tobago, Belize, Dominica, Grenada, Montserrat, St Lucia, Guyana, Haiti, Suriname, St. Vincent and the Grenadines and Bahamas.

e Southern Common Market (Mercosur): Argentina, Brazil. Paraguay and Uruguay.

Figure II.33. Canada and the United States: selected bilateral, regional and interregional agreements containing FDI provisions, concluded or under negotiation, 2003[a]



Source: UNCTAD.

a BITs and DTTs are not included.
b North American Free Trade Agreement (NAFTA): Canada, Mexico and the United States.
c Central American Common Market (CACM): El Salvador, Guatemala, Honduras, Nicaragua and Costa Rica.
d Southern Common Market (Mercosur): Argentina, Brazil, Paraguay and Uruguay.
e West African Economic and Monetary Union (WAEMU), its member States are currently: Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.
f Treaty Establishing the Common Market for Eastern and Southern Africa (COMESA) comprises Angola, Botswana, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Seychelles, Somalia, Swaziland, United Republic of Tanzania, Uganda, Zambia, Zimbabwe.
g Asean Free Trade Area (AFTA) and ASEAN Investment Area: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam.
h Canada is negotiating agreements with CARICOM, the Dominican Republic, the Central American countries and Singapore. Similarly, the United States is negotiating agreements with Australia, Mexico and Uruguay.
i ANDEAN community: Bolivia, Columbia, Eduador, Peru and Venezuela.

recent FDI survey expected a further slowdown of FDI in manufacturing in 2003 and a moderate increase in FDI in services (KOF 2003). So the likelihood of developed countries attracting more FDI in 2003 is low.

TNCs from the developed countries will continue to invest in EU-accession countries. They might also pay more attention to growing and lower-cost markets, such as other CEE countries, Central Asian countries and some developing economies, similar to the 1980s when countries at the EU periphery joined the Common Market. Services requiring large investments (telecom, media, banking and so on) are expected to account for a significant share of the EU's FDI in these regions. Automobile manufacturing, computer-related activities, medical devices and biotechnology are likely to remain important recipients.

Cross-border M&As continue to be important, but there are signs of a shift towards greenfield projects.[59] The value of cross-border M&As in the United States in the first half of 2003 was slightly above that in the first half of 2002 (by 3%). This suggests that TNCs continue to follow more cautious growth strategies, with declining profits and less financing available for additional M&As, and expansion might remain limited. But there are exceptions.[60] In the pharmaceutical industry, while the value of deals is expected to remain low (risk aversion to mega deals), the number of transactions is expected to remain high, supported partly by pressure for consolidation in the European biotech industry and accelerated consolidation in Asia (PwC 2003b). Several (mainly smaller) deals are expected in medical devices, motivated by strategic considerations.[61]

Developed country IPAs see prospects in their region as rather bright for 2003-2004, but they are much more cautious than their counterparts from developing regions. About 45% expect FDI for their region to improve in 2003-2004 (63% in developing countries), while only 15% forecast a deterioration and 40% expect no change. Optimism rises for the longer term, with 58% of respondents expecting an improvement in 2004-2005 (93% in developing countries) (figure II.34).

Corroborating these findings is a survey of German firms by the Deutsche Industrie- und Handelskammertag (DIHK 2003).[62] About a quarter of investors from Germany plan to continue investing abroad in 2003–2005—while about 15% plan divestments. The survey revealed that the main motives for planned outward FDI in 2003–2005 were high costs of skilled labour (45%) and high taxes (37%) in Germany. Planned investments

Box II.13. Measures to promote inward FDI in Japan

In his general policy speech on 31 January 2003, the Prime Minister of Japan[a] announced the country's goal to increase FDI through 74 measures in five specific areas: disseminating information, improving the business environment, reforming the administration, improving employment and living conditions, and upgrading national and local government support systems. The measures include (Japan Investment Council 2003):

- Conducting economic research to analyze the benefits of FDI for Japan and the perceived obstacles to inward FDI.
- Examining the possibility of financing cross-border M&As through the exchange of stock.
- Establishing a "one-stop" information centre in JETRO to serve as the focal point for foreign companies intending to invest in Japan, providing a variety of information relating to FDI in Japan (e. g. about the investment climate, laws and regulations). This initiative is based on (and reinforces) existing measures such as the portal site of the Investment in Japan Information Centre (IJIC)[b] and JIC.
- Improving the quality of technology-oriented university graduate business schools and professional business schools—to improve management, technology and language skills.
- Supporting regional activities to attract TNCs in five local areas.

National authorities implementing these measures include the Office of the Prime Minister's Cabinet, JETRO, the Ministry of Economy, Trade and Industry and the Ministry of Finance. The Expert Committee of Japan Investment Council will monitor the implementation, provide periodic reports and conduct further policy planning.

Source: UNCTAD, based on Japan, Ministry of Economy, Trade and Industry (www.meti.go.jp); JETRO (www.jetro.go.jp); JIC (www5.cao.go.jp); and Investment in Japan Information Centre (www.investment-japan.net).

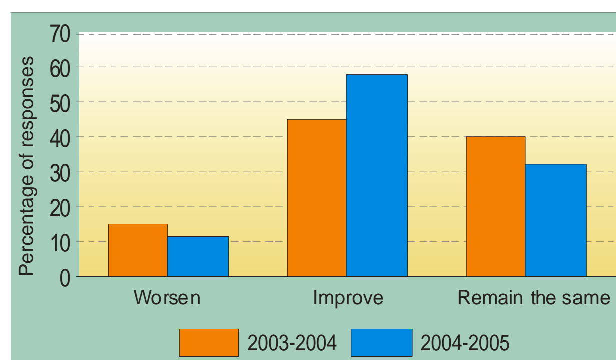
[a] "Foreign direct investment in Japan will bring new technology and innovative management methods, and will also lead to greater employment opportunities...We will take measures to present Japan as an attractive destination for foreign firms in the aim of doubling the cumulative amount of investment in five years", General Policy Speech by Prime Minister Junichiro Koizumi to the 156th Session of the Diet, 31 January 2003 (http://www.kantei.go.jp/foreign/koizumispeech/2003/01/31sisei_e.html).

[b] IJIC was established in July 2000 to provide support to potential investors, mainly through information on business opportunities and legal issues.

mainly include manufacturing projects but increasingly extend to the services sector (such as R&D and administrative and HQ functions). Preferred locations include the accession countries in CEE, but also the EU and some Asian economies, particularly China.

UNCTAD's IPA survey suggests that the United States will be the most important source of FDI during 2003–2005, followed at a distance by Germany, France, Japan and the United Kingdom. IPAs expect that FDI will be distributed fairly evenly across all economic sectors—but pharmaceuticals and chemicals (including biotechnology) and services (particularly telecom) are expected to receive more attention from investors.

Figure II.34. Developed countries: FDI prospects,[a] 2003-2005
(Per cent)



Source: UNCTAD.

[a] The survey question was: "How do you perceive the prospects for FDI inflows to your country in the short- and medium-term, as compared to the last two years (2001-2002)?".

Notes

1. For an analysis of the links between regional integration schemes (including trade agreements) and FDI, see *WIR98*, pp. 117-125; UN-TCMD 1993, pp. 8-14. They have been described as being part of the "new regionalism"; see Ethier 2001; Iglesias 2002; Eden and Li 2003. See also chapter III.
2. For the definition of LDCs see UNCTAD 2002b. For profiles of each LDC regarding FDI, see UNCTAD 2003b.
3. "U.S.–African trade profile", United States Department of Commerce (www.agoa.gov), March 2003.
4. Both MTN and Vodacom SA have non-South African shareholders.
5. EIU's country profile of the United Republic of Tanzania (*source*: www.db.eiu.com/report_full.asp).
6. Information from ORASCOM press release, dated 24 September 2002 (www.orascomtelecom.com/docs/news/press.asp).
7. Information from the UNCTAD database on changes in national laws.
8. As of April 2003, African countries eligible for preferential treatment under AGOA were: Benin, Botswana, Cameroon, Cape Verde, Central African Republic, Chad, Republic of Congo, Côte d'Ivoire, Democratic Republic of Congo, Djibouti, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, São Tomé and Principe, Senegal, Seychelles, Sierra Leone, South Africa, Swaziland, Uganda, the United Republic of Tanzania and Zambia.
9. Caribbean countries, in particular, enjoy cheaper transport costs.
10. NEPAD was concluded in 2001 by African leaders as a vision to extricate the region from the malaise of underdevelopment and exclusion in a globalizing world.
11. EIU Country Profiles (http://db.eiu.com/report_full.asp).
12. Data from *allAfrica* (www.allafrica.com) and the *Financial Express*.
13. Information from EIU's *Country Profiles* of Botswana, Kenya, Lesotho, Mozambique, Namibia, South Africa and Uganda (http://db.eiu.com/report_full.asp).
14. During 2003–2008, the European Investment Bank is expected to channel €3.9 billion to ACP projects that promote business or to public sector projects operated on a private sector footing. (€1.7 billion will be from the Bank's own resources and €2.2 billion from a new investment facility.) These funds are provided by EU member States to encourage private sector development (in particular SMEs), support the local savings markets and facilitate FDI.
15. Based on eight countries that reported the three FDI components.
16. Comprising China, Democratic People's Republic of Korea, Hong Kong (China), Macau (China), Mongolia, the Republic of Korea and Taiwan Province of China.
17. India has revised its FDI data (see box II.4). The new data were released on 30 June 2003, after the closing of the data collection for *WIR03*.
18. In 2001 FDI from Hong Kong (China), Macau (China), Singapore and Taiwan Province of China accounted for about 47% of the total FDI flows to China. Part of this investment, however, is by foreign affiliates in these economies, especially in the cases of Hong Kong (China) and Singapore.
19. The tertiary sector accounted for about 99% of the total FDI flows to Hong Kong (China) in 2000 and 2001.
20. Repayments of intra-company loans by Asian affiliates in some countries exceeded disbursements of intra-company loans from parent companies to their Asian affiliates.
21. Many TNCs now seem to be making good profits in China, and a few companies have turned to their foreign affiliates in China to support parent companies that have hit hard times ("Made in China, bought in China: multinational inroads", *The New York Times*, 5 January 2003).
22. In China, Hong Kong (China), Malaysia and Singapore, reinvested earnings accounted for more than a third of the value of FDI flows in 1999–2002 (annex table A.II.1).
23. A JETRO survey of 1,519 Japanese manufacturers in Asia in 2002 indicated that 71% of the firms expected to post an operating profit in 2002 (up two percentage points from the previous survey by JETRO) (JETRO 2003b) and 51% expected 2002 profits to improve over 2001 (23% expected no change). Samsung saw its profits in China soar to 70% in 2001 to $228 million, after years of making

losses operating there ("How Samsung plugged into China: it's finally making gains by selling high-end products", *Business Week*, 4 March 2002 (http://www.businessweek.com/magazine/content/02_09/b3772138.htm).

24 See UNCTAD press release on "China: an emerging home country for TNCs", 2003.

25 Economies affected by SARS (such as China and Hong Kong (China)) may have declining FDI flows in 2003—as investments are postponed—contributing to a weaker regional FDI inflows performance. The ASEAN region will also be affected, but to a lesser extent.

26 Based on real GDP growth as reported in IMF 2003a.

27 See "Global firms scramble for Iraq work", *BBC News*, 12 June 2003 (http://www.bbc.co.uk/2/hi/business/2983054.stm).

28 The World Bank (2003a, p.101) forecast that FDI flows to Asia and the Pacific will increase marginally in 2003.

29 Half the $45 billion in external debt owed by companies in Argentina is estimated to belong to foreign affiliates (ECLAC 2003).

30 Data from INEGI (www.inegi.gob.mx).

31 Data from INEGI (www.inegi.gob.mx).

32 EIU, *Business Latin America*, 24 February 2003.

33 EIU, *Business Latin America*, 24 March 2003.

34 In fact, some foreign affiliates established to serve local or regional markets had to start exporting to other markets to pay off their loans in Brazil. Managers at Ford, General Motors and Volkswagen expressed this view in interviews conducted by Mariano Laplane.

35 World Bank and EIU studies forecast a slight decrease in FDI flows for 2003, with a slow recovery afterwards (World Bank 2003a; EIU 2003a).

36 For example, for Flextronics, the existence of R&D in Austria and Germany makes sense only if complemented by some manufacturing operations in CEE (especially Hungary and to some degree in Poland); if production were to move to other continents, so would R&D (Figyelö 2002).

37 The gas utility Transgas (Czech Republic) was sold to RWE (Germany); the gas utility Slovensky Plynarensky Priemysel (Slovakia) to Gazprom (Russian Federation), Ruhrgas (Germany) and Gaz de France (France); KPN's (Netherlands), Sonera's (Finland) and Tele Danmark's (Denmark) shares in mobile telecom provider Pannon GSM (Hungary) were taken over by Telenor (Norway); the pharmaceutical firm Lek (Slovenia) was acquired by Novartis (Switzerland); the bank Ceska Sporitelna (Czech Republic) by Erste Bank (Austria); the informatics firm GTS Central Europe (Poland) was taken over by KPN (Netherlands); the Kredyt Bank (Poland) was sold to KBC Bank (Netherlands); Zagrebacka Banka (Croatia) to UniCredito Italiano (Italy) and Allianz (Germany); the beer producer Bravo International (Russian Federation) to Heineken (Netherlands) and the Nova Ljubljanska Banka (Slovenia) to KBC Bank (Belgium).

38 This is why the cross-border M&A sales of Hungary in 2002 were significantly higher than FDI inflows. For a discussion of the data on cross-border M&As and its correspondence with FDI flows, see *WIR00*, pp. 105-106.

39 Automotive Lightning, Federal Mogul, F.X. Meiller, HP Pelzer, Rieter, Ronal, SAI Automotive, TI Automotive, Toyoda Gosei and VDO.

40 Data on FDI projects are from OCO Consulting.

41 According to data on FDI projects collected by OCO Consulting.

42 According to a survey carried out by OCO Consulting among investors.

43 After accession in 2004 new EU member countries will be entitled to 25% of the Common Agricultural Policy funds and 30% of the regional development funds available to current EU members. Subsequently, those shares will increase by 10% per annum till they reach the level of 100% around 2014.

44 The basic idea of the "flying-geese" paradigm, developed for the case of TNC-led growth by K. Kojima (1973), is that, as host countries industrialize and go through industrial upgrading and learning in an open-economy context, the type of FDI flowing from home countries changes in character towards higher skills; in turn, simpler activities will gradually flow out from relatively advanced host countries to newcomer host countries. This process reinforces the basis for, and the benefits from, trade. For a detailed discussion, see *WIR95*, pp. 258-260.

45 This estimate is higher than that of the World Bank, which forecast FDI inflows of $30 billion for its "Europe and Central Asia" region that includes CEE and Turkey (World Bank 2003a, p. 101).

46 The decline could be as large as 39% (an estimated $230 billion) if transshipped investment to and from Luxembourg are excluded. The term "transshipped investment" is used here to refer to investment in foreign affiliates in Luxembourg that subsequently invest abroad. For details, see box II.11.

47 Intra-company loans are one of the three components of FDI, as recommended by international guidelines, consisting of short- and long-term loans and trade credits between affiliated enterprises, as well as financial leasing (IMF 1993).

48 Data for Belgium and Luxembourg before 2002 are not separately available.

49 In 2001 about 95% of FDI inflows to the United States were from the EU and Switzerland. The value of cross-border M&As by EU companies in the United States declined by 52% in 2002 (UNCTAD, cross-border M&A database; see also chapter I).

50 However, in some countries, the share of intra-EU inflows declined: in Sweden from 80% in 2001 to 66% in 2002, in Denmark from 60% to 38% and in Ireland from 99% to 95%.

51 UNCTAD, cross-border M&A database.

52 For conceptual issues related to cross-border M&As and their valuation in FDI statistics, see *WIR00*.

53 See footnote 37 for the largest M&A sales of CEE. For motivations of M&As, see *WIR00*.

54 For example, the acquisition by Novartis (Switzerland) of Lek (Slovenia) for $0.9 billion was among the largest cross-border M&As undertaken in the CEE region in 2002.

55 Because "EU enlargement is not a zero sum game in which the new member states will compete against current incumbents for a fixed pool of FDI" (Barry 2003, p.189), it remains to be seen how much current EU members have to fear a deviation of FDI towards the accession countries.

56 More than a third of the cross-border provision of services is undertaken through the establishment of foreign affiliates in the host economy (mode three of the GATS classification, accounting for a share of about 38% of total services delivered by the four modes of supply described in GATS (WTO 1995; Karsenty 1999). In major host developed countries, turnover in services by foreign affiliates accounted

for between 9% and 30% of the national total (UNCTAD, FDI/TNC database).

57 During the first quarter, or the first four months of 2003, inflows for two of the top five FDI recipients (in 2002), the Netherlands and the United States, increased by 122%, and 200%, respectively, over the same period of 2002. On the other hand, FDI inflows during January-April to France declined by 26%, to Germany by 61% and to Japan by 37%.

58 *Nihon Keizai Shimbun*, 16 March 2003.

59 Participants in UNCTAD's IPA survey expect greenfield investment to play an important role as a mode for FDI.

60 Announcements include, for example, the acquisitions of Wella (Germany) by Procter & Gamble (United States) for $6.1 billion, Sunoco's plasticizer business in Neville Islands (United States) by BASF (Germany) for an undisclosed amount and Alstom's (France) industrial turbines business by Siemens (Germany) for $1.2 billion.

61 Recent examples are the offers by Zimmer (United States) and Smith & Nephew (United Kingdom) for the Swiss medical devices company Centerpulse (formerly Sulzer Medica): both companies have made an offer in the range of $3 billion ("Ein schön inszeniertes Theater", *Neue Züricher Zeitung*, 25 May 2003).

62 The survey, carried out in January 2003, covered about 10,000 German companies, mainly in manufacturing.

PART TWO

ENHANCING THE DEVELOPMENT DIMENSION OF INTERNATIONAL INVESTMENT AGREEMENTS

UNCTAD has been working on issues related to bilateral and regional investment agreements for some time, focusing on policy analysis and technical cooperation,[a] *and involving a wide range of countries. WIR03 draws on this experience.*

With the number of treaties that address FDI proliferating, issues relating to international investment agreements (IIAs)—agreements that, in their entirety or in part, address investment issues—have come to the forefront of international economic debate.

Part Two of WIR03 seeks to throw light, from the development perspective, on certain issues that arise in IIAs—irrespective of the ongoing multilateral investment discussions. Whether governments negotiate IIAs—and, if so, at what level and for what purpose—is their sovereign decision. And whatever the outcome of the investment discussions in the WTO, the issues raised here remain important, precisely because of bilateral and regional treaty-making.

[a] The results of this work are contained in various UNCTAD publications listed in the references. For the coverage of technical cooperation, see UNCTAD 2003e.

CHAPTER III

KEY NATIONAL FDI POLICIES AND INTERNATIONAL INVESTMENT AGREEMENTS

National policies are key for attracting FDI, increasing benefits from it and assuaging the concerns about it. Those policies have to be seen in the broader context of the determinants of FDI, among which economic factors predominate (table III.1). Policies are decisive in preventing FDI from entering a country. But once an enabling FDI regulatory framework is in place, the economic factors become dominant. Even then, the regulatory regime can make a location more or less attractive for foreign investors and for maximizing the positive development effects of FDI, while minimizing negative ones.

Many policies affect FDI. This chapter deals only with those directly related to it, such as setting entry conditions for foreign investors, improving standards of treatment, enhancing benefits from FDI and coping with its less desirable effects.

Countries seek FDI to promote their growth and development. With its package of tangible and intangible assets, FDI can contribute directly and indirectly to building national capabilities. The growing appreciation of the benefits of FDI reflects several factors. Concessional aid is declining, and various financial crises have created a preference for long-term and more stable capital inflows. Access to innovative technologies is more important. And some of the earlier fears about FDI may have been exaggerated, given the economic benefits that many developing countries have drawn from FDI (*WIR99*). Many governments are now more confident in dealing with TNCs. And TNCs have learned to be more responsive to the concerns and priorities of host countries.

The best way of attracting and drawing benefits from FDI is not always passive liberalization (an

Table III.1. Host country determinants of FDI

Host country determinants
I. Policy framework for FDI • economic, political and social stability • rules regarding entry and operations • standards of treatment of foreign affiliates • policies on functioning and structure of markets (especially competition and M&A policies) • international trade and investment agreements • privatization policy • trade policy (tariffs and non-tariff barriers) and coherence of FDI and trade policies • tax policy
II. Economic determinants
III. Business facilitation • investment promotion (including image-building and investment-generating activities and investment-facilitation services) • investment incentives • hassle costs (related to corruption, administrative efficiency, etc.) • social amenities (bilingual schools, quality of life, etc.) • after-investment services

Type of FDI classified by motives of TNCs	Principal economic determinants in host countries
A. Market-seeking	• market size and per capita income • market growth • access to regional and global markets • country-specific consumer preferences • structure of markets
B. Resource/ asset-seeking	• raw materials • low-cost unskilled labour • skilled labour • technological, innovatory and other created assets (e.g. brand names), including as embodied in individuals, firms and clusters • physical infrastructure (ports, roads, power, telecommunication)
C. Efficiency-seeking	• cost of resources and assets listed under B, adjusted for productivity for labour resources • other input costs, e.g. transport and communication costs to/from and within host economy and costs of other intermediate products • membership of a regional integration agreement conducive to the establishment of regional corporate networks

Source: *WIR98*, p. 91.

"open door" policy). Liberalization can help get more FDI, but alone it is not enough. Attracting FDI in a highly competitive market for investment now requires stronger locational advantages and more focused efforts at promotion. Getting FDI in technologically advanced or export-oriented activities is even more demanding.

Having attracted foreign investors into a country, policies are crucial to ensure that FDI brings more benefits. Policies can induce faster upgrading of technologies and skills, raise local procurement, secure more reinvestment of profits, protect the environment and consumers and so on. They can also help counter the potential dangers of FDI—say, by containing anticompetitive practices and preventing foreign affiliates from crowding out viable local firms or acting in ways that upset local sensitivities.

Free markets do not always ensure efficient and equitable outcomes, particularly in developing countries with weak markets and institutions. Hence, the need for policy intervention. The groundwork for making markets work well—sound legal systems, clear and enforceable rules of the game, responsive market institutions, a vibrant domestic enterprise sector and the like—has to be laid down by the host country government. But even then, the strategic objectives of TNCs may not match the development goals of host governments. Policies need to bring them more in line with those goals.

The list of market failures and policy responses is long. The basic point here is that, in the real world of imperfect markets, governments have a major role. They can influence FDI in many ways with varying degrees of intervention, control and direction.

A. Key national FDI policies

Developed countries have moved towards "market-friendly" policies—pursuing sound macro management, having stable and non-discriminatory rules on business entry and exit, promoting competition, building human capital, supporting innovation and so on. But even the most market-friendly countries have not given up promotional measures to attract foreign investors. Several use sophisticated promotion techniques as well as large grants and subsidies to target particularly valuable investments.

Developing countries are also trying to attract FDI and increase the benefits from it. And they, too, are moving towards market-friendly policies. But they have to be careful doing so, since their market structures are weaker and their development needs more pressing. That is why they are more concerned about preserving their national policy space for investment, to be able to use the policy instruments that can address their special needs.

The discussion here focuses on three objectives—attracting FDI, benefiting more from it and addressing concerns about TNCs. Some objectives and measures overlap, but they are considered separately for convenience.

1. Attracting investment

Countries can attract FDI in many ways. They can simply liberalize the conditions for the admission and establishment of foreign investors without doing much more. They can promote FDI inflows in general, without trying to attract particular kinds of investment—say, according to their technology content. Or they can promote FDI more selectively, focusing on activities, technologies or investors. Measures are often used together—by leaving most activities open to foreign investors, creating a better investment climate generally and putting special effort into bringing in particularly desirable investment.

The economic attractiveness of a country for FDI depends primarily on its advantages as a location for investors of various types. Market-seeking investors look for large and growing markets. Resource-seeking ones look for ample natural resources. And efficiency-seeking ones look for a competitive and efficient base for export production.[3]

More general factors affect all prospective host economies: political stability, a sound macroeconomic framework, welcoming attitudes to foreign investment, adequate skills, low business transaction costs, good infrastructure and the like (table III.1).

Given these factors it is still useful to use promotional policies to attract investors, particularly as competition for FDI mounts and investors become choosier. The information for basing investment decisions is not perfect, and subjective perceptions matter. Good marketing can make a difference (of course, only if other conditions are in place). And it is possible for host countries to create conditions that make investments more viable (rather than simply marketing what they already have). This may simply involve removing constraints to foreign affiliate operations. But it may also involve creating new skills, infrastructure or support institutions.

How much promotion is needed depends on the kind of FDI and the basic attractions of a host economy. A large and dynamic economy needs to promote itself less than a small and less dynamic one. The bulk of the massive inflows into China are not the result of active FDI promotion. And promotion can only go so far. If the economic base is weak or unstable, no amount of persuasion will attract large and sustained FDI inflows.

The main ways countries have sought to attract FDI and the key sensitive issues that arise in IIAs are:

- *Reducing obstacles to FDI* by removing restrictions on admission and establishment, as well as on the operations of foreign affiliates. The key issues here are how investment is to be defined for liberalizing entry or offering protection (direct and portfolio capital flows may be treated differently) and what kind of control should be exercised over FDI admission and establishment.
- *Improving standards of treatment of foreign investors* by granting them non-discriminatory treatment vis-à-vis domestic or other foreign investors. The key issue here is what degree of national treatment should be granted to foreign affiliates once they are established in a host country.
- *Protecting foreign investors* through provisions on compensation in the event of nationalization or expropriation, on dispute settlement and on guarantees on the transfer of funds. A key issue here is how far the right to expropriate or nationalize extends (especially to what extent certain regulatory actions of governments constitute takings of foreign property). Another is the acceptability of the kind of dispute settlement mechanisms available to foreign investors and countries. Third is what restrictions, if any, are acceptable on the ability of governments to introduce capital controls to protect the national economy.
- *Promoting FDI inflows* through measures that enhance a country's image, provide information on investment opportunities, offer location incentives, facilitate FDI by institutional and administrative improvements and render post-investment services. Host countries do most of this, but home countries may also play a role. The key issues here relate to the use of financial, fiscal or other incentives (including regulatory concessions) and the actions that home countries can take to encourage FDI flows to developing countries.

The general trend is to reduce obstacles, create investor-friendly settings and promote FDI. But the nature and balance of policies applied by countries varies. Why? Because locational advantages differ. Because the cost of some measures is much higher than others. And because governments differ in their perceptions of how best to attract FDI.

2. Benefiting more from FDI

Attracting FDI may not be enough to ensure that a host country derives its full economic benefits. Free markets may not lead foreign investors to transfer enough new technology or to transfer it effectively and at the depth desired by a host country. But policies can induce investors to act in ways that enhance the development impact—by building local capabilities, using local suppliers and upgrading local skills, technological capabilities and infrastructure. The main policies and measures used for this include:

- *Increasing the contribution of foreign affiliates to a host country through mandatory measures*. The objective is to prescribe what foreign affiliates should do to raise exports, train local workers or transfer technology. The key issue here relates to the use of performance requirements.
- *Increasing the contribution of foreign affiliates to a host country by encouraging them to act in a desired way.* The key issue here, as in attracting FDI, is using incentives to influence the behaviour of foreign affiliates. (Incentives may be tied to performance requirements.[4]) Particularly important here is enticing foreign affiliates to transfer technology to domestic firms and to create local R&D capacity.

Countries are learning that foreign affiliate activity can be influenced to enhance host country benefits only if they strengthen their capabilities. New technologies can be diffused in a host economy only if the skill base is adequate or if domestic suppliers and competitors can meet TNC needs and learn from them. Export activity can grow only if the quality of infrastructure so permits. Governments need to mount policies to build domestic capabilities, drawing on foreign affiliates and their parent firms in this effort. And again home countries can help in various ways through measures of their own. Indeed, even TNCs can try to increase the benefits to host economies.

3. Addressing concerns about TNCs

Despite the general shift of attitudes in favour of FDI, significant concerns remain about potential negative effects.[5] Some major areas of concern:

- Anticompetitive practices by foreign affiliates.
- Volatile flows of investment and related payments deleterious for the balance of payments.
- Tax avoidance and abusive transfer pricing by foreign affiliates.
- Transfers of polluting activities or technologies.
- Crowding out local firms and suppressing domestic entrepreneurial development.
- Crowding out local products, technologies, networks and business practices with harmful sociocultural effects.
- Concessions to TNCs, especially in export processing zones, allowing them to skirt labour and environmental regulations.
- Excessive influence on economic affairs and decisionmaking, with possible negative effects on industrial development and national security.

Voiced in the past by developed and developing countries, these concerns are diminishing in intensity. But they remain strong enough so that many governments feel the need to control inward FDI and the operations of foreign affiliates. Most important are concerns about anticompetitive practices of TNCs, especially restrictive business practices.

* * *

To sum up: governments in developing countries and economies in transition use a range of policies and measures to attract FDI, increase benefits from it and address concerns about it. The main ones address the ability of countries to pursue development-oriented national FDI policies and are particularly sensitive in the context of international investment negotiations:[6]

- Long-term investment flows that add to production capacity (the definition of investment).
- How to treat FDI entry (national treatment in the pre-establishment phase) and the subsequent operations of foreign affiliates (national treatment in the post-establishment phase).
- Circumstances under which government policies could be regarded as regulatory takings.
- The nature of dispute settlement.
- The use of performance requirements.
- The use of incentives.
- The encouragement of technology transfers.
- The role of competition policy.

When entering into international agreements, countries therefore face some difficult decisions to find the right balance between retaining policy space and flexibility and reaping the benefits from international cooperation.[7] Some policies or measures may be required to facilitate greater FDI inflows (such as opening up and raising standards of treatment). But applying restrictions and conditions to such inflows may be necessary to ensure that investment brings the desired outcomes. Finding the right balance is not easy—and it varies from country to country.

In the past two decades or so, governments have been concluding more agreements at the bilateral, regional and multilateral levels that address investment issues, at least in part. These are referred to here as “international investment agreements” (IIAs).[8] They complement national FDI policies—and interact with them.

B. The growth of IIAs

Investment rules are multifaceted, ranging from the voluntary to the binding. The obligations they set out differ in geographical scope and coverage. Some of them address only certain aspects of FDI policies. Others address investment policies in general, including policies that affect both domestic and foreign investors (competition rules or anticorruption measures). Still others cover most or all important elements of an FDI framework, ranging from admission and establishment, to standards of treatment to dispute settlement mechanisms. Rising in number (annex table A.I.13 and A.I.14), IIAs have created an intricate web of commitments that partly overlap and partly supplement one another, creating a complex set of investment rules.

The most important effort to create international rules for investment in the early years after World War II was multilateral—in the framework of the Havana Charter. It failed. The bilateral level proved to be most productive in terms of producing investment rules. It focused first on protection and then on liberalization. The first instruments of choice were treaties for the

protection and promotion of foreign investment—bilateral investment treaties (BITs). Later, free trade agreements took up the matter as well.

1. Bilateral agreements

BITs are spinoffs from general treaties dealing with economic relations between countries (such as Friendship, Commerce and Navigation treaties). Since 1959, the year of the first BIT, their number has grown steadily—to 385 by 1989 and to 2,181 by 2002 (figure I.11).[9] Since the second half of the 1990s, their number almost doubled. Now encompassing 176 countries, more BITs are being concluded between developing countries as well as between them and economies in transition (see chapter I), reflecting the emergence of firms from these countries as foreign investors. Today, more than 45% of the BIT universe does not include developed countries. They are the most widely used international agreement for protecting FDI (table III.2).[10] For the world, roughly 7% of the FDI stock was in countries party to a BIT, 88% in those party to a DTT. For developing and CEE countries alone, these figures were, respectively, 27% and 64%.[11]

BITs have remained much the same over time (box III.1). The early focus on protection, treatment and dispute settlement—the reason for these treaties—remains at their centre. But a few countries extend them with provisions for the right to establishment, performance requirements and employment of key foreign personnel. These changes—mainly in recent BITs, including those being renegotiated—are giving rise to a new generation of BITs with greater obligations, with more far-reaching implications.[12]

The number of bilateral free trade agreements covering investment issues is rising as well, with most early ones involving neighbouring countries and newer ones tending to be concluded between distant countries in different regions and having investment commitments in a separate chapter. Among the main issues addressed: pre-establishment and post-establishment national treatment; most-favoured-nation (MFN) treatment; prohibitions of performance requirements (often going beyond that contained in the Trade-related Investment Measures (TRIMs) Agreement); promotion and protection, including that for expropriation and compensation; dispute settlement, both State-State and investor-State and transfer clauses guaranteeing the free transfer of payments, including capital, income, profits and royalties. An example of such a recent agreement is the Japan–Singapore Agreement for a New-Age Economic Partnership (box III.2).

What has been the impact of BITs on FDI flows? An aggregate statistical analysis does not reveal a significant independent impact of BITs in determining FDI flows (UNCTAD 1998a). At best, BITs play a minor role in influencing global FDI flows and explaining differences in their size among countries.[13] Aggregate results do not mean, however, that BITs cannot play a role in specific circumstances and for specific countries. For example, they could signal that a host country's

Table III.2. How much FDI is covered by BITs—and how much by DTTs, 2000

	Proportion of outward stock protected[a]	
Home countries[b]	BITs	DTTs
United States		
Total outward FDI stock	6	96
Stock in developing countries and CEE	19	87
EU[c]		
Total outward FDI stock	9	93
Stock in developing countries and CEE	73	73
Japan		
Total outward FDI stock	7	89
Stock in developing countries and CEE	26	61
World [d]		
Total outward FDI stock	7	88
Stock in developing countries and CEE	27	64

Source: UNCTAD.

[a] As mentioned earlier, BITs are not concluded between developed countries.
[b] To the extent that data on outward FDI for specific recipient countries are not available, the percentage shares are underestimated. However, these countries are typically relatively small FDI recipients.
[c] The data cover nine EU countries that account for 72% of total EU outward FDI stocks.
[d] Based on 27 countries for which data on outward FDI stock by destination are available. They account for more than three-four-fifths of the world FDI stock.

Box III.1. The contents of BITs

The scope and content of BITs have become more standard over the years. Today, the main provisions deal with the scope and definition of foreign investment; admission and establishment; national treatment in the post-establishment phase; MFN treatment; fair and equitable treatment; guarantees and compensation in the event of expropriation; guarantees of free transfers of funds and repatriations of capital and profits; and dispute settlement provisions, both State-State and investor-State. But given the sheer number of BITs, the formulations of individual provisions remain varied, with differences in the language of the BITs signed some decades ago and those signed more recently.

Source: UNCTAD.

Box III.2. Investment highlights of a new-age economic partnership

The 2002 Agreement between Japan and Singapore for a New-Age Economic Partnership is an example of a recent bilateral agreement that covers a range of issues, comprising trade in goods, rules of origin, customs procedures, mutual recognition, trade in services (including financial, courier and telecoms services), investment, movement of natural persons and government procurement. It also sets out elements for partnership and cooperation: paperless trading, intellectual property, competition policy, financial services, information and communications technology, science and technology, human resource development, trade and investment promotion, SMEs, broadcasting and tourism.

The salient features of its chapter on investment are:

Definition. A broad, asset-based open-ended definition of investment: "every kind of asset owned or controlled, directly or indirectly, by an investor, including: ....".

National treatment. National treatment (save the exceptions scheduled in the annex of reservations) for the establishment, acquisition, expansion, management, operation, maintenance, use, possession, liquidation, sale or other disposition of investments.

Movement of persons. Facilitating the movement of natural persons between the two countries for business purposes and mutual recognition of professional qualifications.

Transfers. Free transfer of payments, including initial capital and additional amounts to maintain or increase investments; profits, capital gains, dividends, royalties, interests and other current incomes accruing from investments; proceeds from the total or partial sale or liquidation of investments; payments made under a contract including loan payments in connection with investments; earnings of investors who work in connection with investments, payments arising out of the settlement of a dispute.

Expropriation and compensation. Investments and investors of both countries receive equitable treatment and full protection and security in many respects, including guarantees from expropriation or nationalization of investments, except for a public purpose, on a non-discriminatory basis, in accord with due process of law and upon payment of compensation equivalent to the fair market value of the expropriated investments.

Prohibited performance requirements beyond those prohibited by the TRIMs Agreement. Requirement to locate headquarters for a specific region or the world market; requirement to export a given level or percentage of services; requirement to supply goods or services provided to a specific region of the world market exclusively from a given territory; requirement to transfer technology, production processes or other proprietary knowledge; requirement to achieve a given level or value of R&D; requirement to purchase or use services provided in its territory, or to purchase services from natural or legal persons in its territory; and requirement to appointment to senior management positions individuals of any particular nationality. Certain exceptions apply.

Dispute settlement. Comprehensive dispute settlement mechanism, both State-State and investor-State. In this regard, the Agreement, as a rule, encourages amicable settlement through consultations between the parties to an investment dispute. If such dispute cannot be settled through such consultations within five months and if the investors concerned have not submitted the investment dispute for resolution under administrative or judicial settlement, or in accord with any applicable, previously agreed dispute settlement procedures, they may either request the establishment of an arbitral tribunal in accordance with the procedures set out in the Agreement, or submit the investment dispute to conciliation or arbitration in accord with the provisions of the ICSID Convention or under the Arbitration Rules of the United Nations Commission on International Trade Law.

Monitoring (implementation). Establishes a monitoring system for the purpose of effective implementation of the chapter on investment. To this end, a joint committee on investment is to be set up, entrusted with reviewing and discussing the implementation and operation of the chapter on investment; reviewing the specific exceptions related to national treatment and the prohibition of performance requirements for the purpose of contributing to the reduction or elimination of such exceptions and encouraging favourable conditions for investors of both countries; and discussing other investment-related issues.

There are also provisions on investment in the services chapter.

Source: UNCTAD.

attitude towards FDI has changed and its investment climate is improving—and to obtain access to investment insurance schemes. Indeed, investors appear to regard BITs as part of a good investment framework.

Why this finding? The policy framework is at best enabling, having by itself little or no effect on FDI flows. It has to be complemented by economic determinants that attract FDI, especially market size and growth, skills, abundant competitive resources and good infrastructure. As a rule, IIAs tend to make the regulatory framework more transparent, stable, predictable and secure—that is, they allow the economic determinants to assert themselves. And when IIAs reduce obstacles to FDI and the economic determinants are right, they can lead to more FDI. But it is difficult to identify the specific impact of the policy framework on FDI flows, given the interaction and relative importance of individual determinants.

2. Regional and interregional agreements

The universe of regional and interregional agreements dealing directly with investment matters is growing as well (annex table A.I.13).[14] But only few are devoted exclusively to investment, with the OECD liberalization codes covering capital movements and current invisible operations (1961) and the OECD Declaration on International Investment and Multinational Enterprises (1976) being particularly noteworthy. Recent examples involving developing countries include the Framework Agreement on the ASEAN Investment Area and the Andean Community's Decision 291. Unlike BITs and bilateral free trade agreements, not all regional instruments are binding. Norms of a non-binding nature relating to foreign investment in the Asia–Pacific Economic Cooperation (APEC) have been adopted in the 1994 APEC Non-Binding Investment Principles.

The trend is towards comprehensive regional agreements that include both trade-related and investment-related provisions, even extending to services, intellectual property rights and competition. Indeed, most regional free trade agreements today are also free investment agreements, at least in principle. NAFTA and the MERCOSUR Protocols are examples. So is the Free Trade Area of the Americas, now under negotiation (box III.3). The general aim is to create a more favourable trade and investment framework—through the liberalization not only of regional trade but also of restrictions to FDI and through a reduction of operational restrictions, all to increase the flow of trade and investment within regions.

Generally addressing a broader spectrum of issues than bilateral agreements, regional agreements allow tradeoffs across issue areas. And those between developed and developing countries typically use the panoply of traditional international law tools—such as exceptions, reservations and transition periods—to ensure flexibility in catering to the different needs, capacities and policy objectives of countries.

As with BITs it is difficult to identify the impact on FDI of regional or interregional agreements dealing only with the harmonization of investment frameworks of member countries. They improve the enabling framework. And where they reduce obstacles to FDI (as most regional agreements do), they can increase investment flows—again, if the economic determinants are favourable. The main economic determinant that influences FDI flows in regional agreements is market size. But that is the result of reducing barriers to trade—not of FDI.

3. Multilateral agreements

Renewed efforts to create comprehensive multilateral rules for FDI, even non-binding ones undertaken occasionally in the postwar period, have shared the fate of the first effort—and failed. Most prominent among them were the United Nations Code of Conduct on Transnational Corporations (in the late 1970s and 1980s) and a Multilateral Agreement on Investment by the OECD (in the late 1990s). But the World Bank Guidelines on the Treatment of Foreign Direct Investment, a non-binding instrument, set down (in 1992) certain standards of treatment for investors on which a level of international consensus could be said to exist.

Some efforts dealing with specific investment aspects bore fruit as well. The Convention on the Settlement of Investment Disputes between States and the Nationals of other States provides a framework for the settlement of investment disputes. The ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy deals with a range of labour-related issues. The Convention Establishing the Multilateral Investment Guarantee Agency (MIGA) enhances the legal security of FDI by supplementing national and regional investment guarantee schemes with a multilateral one.

The WTO Agreement on TRIMs prohibits certain trade-related investment measures (adopted as part of the Uruguay Round). And the General Agreement on Trade in Services (GATS), also concluded as part of the Uruguay Round, offers a comprehensive set of rules covering all types of

Box III.3. The Free Trade Area of the Americas

By May 2003 the countries participating in the negotiation of a Free Trade Area of the Americas (FTAA) had completed three negotiating phases, with the fourth to be concluded by a meeting of FTAA ministers responsible for trade in November 2003. Two results are important: the preparation of a draft agreement and the launching of market access negotiations.

The single most important achievement is the draft agreement covering the issues addressed by the FTAA negotiating groups, including the Negotiating Group on Investment. The first draft Agreement was prepared for the FTAA Ministerial Meeting held in Buenos Aires on 7 April 2001, the second draft for the Quito Ministerial Meeting on 1 November 2002. Both drafts are available on the official FTAA website (http://www.ftaa-alca.org). A third draft is being prepared for the November 2003 Ministerial.

The Negotiating Group on Investment is one of the negotiating groups (market access, agriculture, services, government procurement and investment) instructed by FTAA ministers to initiate market access negotiations on 15 May 2002. As agreed by the FTAA Trade Negotiations Committee, initial offers had to be presented between 15 December 2002 and 15 February 2003, with submissions of requests for improvements of the offers to be made between 16 February 2003 and 15 June 2003. The process for the presentation of revised offers began on 15 July 2003. In the case of the Negotiating Group on Investment the Committee stated that the initial offer had to be comprehensive and in accordance with current laws and regulations. A negative list approach had to be used. The Committee also agreed that investment offers for the supply of services through commercial presence may be submitted and discussed in the Negotiating Group on Services, in the Negotiating Group on Investment or in both. The Negotiating Groups on Services and Investment shall, as general rule, continue to meet separately. However, if deemed necessary, both groups may meet to hold joint discussions on issues in common, particularly commercial presence. At its April 2003 meeting, the Committee instructed the Chairs of these Negotiating Groups on Services and Investment to hold a joint meeting to discuss commercial presence and investment in services.

All of the text in the Investment Chapter of the November 2002 FTAA draft Agreement is bracketed—that is, participating countries have yet to agree on its language. Issues covered in the chapter include scope, basic definitions, national treatment, MFN treatment, exceptions to national treatment and MFN treatment, standard of treatment, fair and equitable treatment, performance requirements, key personnel, transfers, expropriation, compensation for losses, general exceptions and reservations, dispute settlement, transparency, the commitment not to relax domestic labour or environmental laws to attract investment, the relationship with other chapters, extraterritorial application of laws on investment-related issues and special formalities and information requirements.

The 2002 FTAA draft Agreement contains several proposals on the definition of investment, most adopting a broad asset-based definition covering not only FDI but also portfolio and intellectual property, among other elements. As the draft text suggests, the discussion in the Negotiating Group on Investment focuses on whether to adopt a broader definition based on the term “asset” or a narrow “FDI-only” definition, whether to include an illustrative or exhaustive list of elements covered in the definition of investment and whether to include a list that clarifies what should not constitute an investment.

There are two different approaches to national treatment. One implies a market access component with a list of reservations (country-specific exceptions). Some proposals under this approach specify all phases of an investment (establishment, acquisition, expansion, management, conduct, operation, sale or other disposition of investment) and require that national treatment be accorded “in like circumstances”. In the other approach, national treatment is granted in accordance with the laws and regulations of the host country. The draft Agreement also includes a provision on national treatment at the subnational level.

On performance requirements, there are two main views in the draft Agreement. One is to adopt a list of prohibited performance requirements (operation and incentives) covering goods and services, the other to favour a much narrower view, not going beyond the WTO TRIMs Agreement. As in NAFTA the issue of investment incentives is addressed under performance requirements only. Some performance requirements, prohibited when mandatory, are allowed when they are combined with an advantage or a subsidy. Examples include requirements to locate production, provide a service, train or employ workers, construct or expand particular facilities or carry out R&D.

The section on expropriation in the second draft of the FTAA Agreement contains language found in many other investment agreements prohibiting a party from directly or indirectly nationalizing or expropriating an investment of an investor of another party—except for a public purpose, on a non-discriminatory basis, in accordance with due process of law and on payment of prompt, adequate and effective compensation. Most relevant here is how the next drafts of the FTAA Agreement take into account the experience of free trade agreements signed in the past decade, such as NAFTA and the Chile–United States Free Trade Agreement. The same can be said of other issues such as fair and equitable treatment and investor-State dispute settlement.

With new governments having taken office this year, some modalities of the negotiations may be reviewed.

Source: UNCTAD.

international services delivery, including "commercial presence", akin to FDI. The GATS leaves member countries considerable flexibility on the scope and speed of liberalizing services activities. It allows them to inscribe, within their schedules of commitments, activities that they wish to open and the conditions and limitations for doing this—the positive list approach.

In their Declaration at the Fourth Session of the WTO Ministerial Conference in Doha in November 2001, members of the WTO agreed on a work programme on the relationship between trade and investment (paragraphs 20–22).[15] In doing so, they recognized (in paragraph 21) the need for strengthened technical assistance in the pursuance of that mandate, explicitly referring to UNCTAD.[16] In response, the WTO Working Group on the Relationship between Trade and Investment (set up at the WTO's 1996 Ministerial Conference in Singapore) has been deliberating on the seven issues[17] listed in paragraph 22 of the Declaration as well as technology transfer. In its meeting on 1 December 2002, the Group discussed its annual report and an intervention by a group of developing countries dealing with home country measures and investor obligations.

The discussions of the Working Group are reported to the WTO General Council. Recognized at Doha was "the case for a multilateral framework to secure transparent, stable and predictable conditions for long-term cross-border investment, particularly foreign direct investment, that will contribute to the expansion of trade" (paragraph 20). It was also agreed "that negotiations will take place after the Fifth Session of the Ministerial Conference on the basis of a decision to be taken, by explicit consensus, at that Session on modalities of negotiations" (WTO 2001b, paragraph 20).[18]

C. Features of IIAs at different levels

What are the advantages and disadvantages of bilateral, regional and multilateral approaches to negotiating IIAs?[19] There is no straightforward answer, since the three approaches serve different purposes. The main objective of most BITs is to provide investor protection at the international level. Bilateral and regional approaches that combine investment and trade seek to reap the benefits of larger markets through trade liberalization accompanied by investment liberalization and sometimes protection. A multilateral approach can aim at both protection and liberalization. Presented here is a summary of arguments relating to the advantages and disadvantages of IIAs at different levels. They are presented without judgments about which countries should follow. It is their sovereign right to decide the approach that is best for them, if they wish to negotiate IIAs at all.

1. Bilateral approaches

The bilateral approaches, mainly BITs and free trade agreements with an investment component, have the advantage of allowing countries the freedom of choosing the partners to enter into an agreement and how to tailor the agreement to their specific situations. They offer countries flexibility in designing their networks of IIAs, concluding them with countries that are key investors, avoiding countries that are less interesting or that may insist on unwanted provisions. Allowing each treaty to be negotiated separately gives developing countries more flexibility than under a multilateral approach. In addition, BITs can be negotiated quickly. Important is also that the overwhelming number of BITs cover only the post-establishment stage of investment, leaving admission and establishment—which have the greatest development implications—to be determined autonomously by host countries.

On the other hand, asymmetries in bargaining power put weaker economies at a disadvantage in the negotiations of bilateral agreements. Although this applies in all negotiating situations, it is particularly relevant in agreements between large developed countries and small and poor developing ones—and when bilateral agreements go beyond a narrow coverage. In some recent cases, the principal objective of investor protection has been complemented with liberalization clauses related to the right of establishment and an expanded list of restricted performance requirements. So, the other side of the "flexibility" of the bilateral approach is that developing countries may be entering IIAs of broader scope. The implications of this are—for example because of the MFN clause—still far from fully understood (box V.2).

Moreover, imagine the negotiation of bilateral investment agreements (hypothetically) involving all combinations of members of the United Nations. More than 18,000 agreements would be needed to obtain complete coverage. Such an extensive network would be costly and a challenge to administer. In addition, the extension of bilateral treaty coverage and the freedom of pairs of countries to define their provisions, could lead to uncertainty, potentially inconsistent rules and legal conflicts.

2. Regional and interregional approaches

Regional and interregional approaches typically deal with a range of issues, so there is more room for tradeoffs and bargaining. With the overall purpose of expanding the regional market, they often include the liberalization of foreign entry and establishment—and reduce operational restrictions. They offer—indeed require—more flexibility in how treaty provisions are applied to the different countries. Hence, the frequent use of exceptions, reservations, transition periods and the like, intended to ensure flexibility and cater to the needs and capacities of parties at different levels of development (see also chapter V).

Where regional agreements include rules of origin, insiders may benefit in attracting FDI. The downside is that they are discriminatory. Countries outside the integrating region may be hurt by the diversion of investment. Investment by third countries in such a region may also divert trade.

3. Multilateral approaches

The advantages and disadvantages of multilateral approaches are difficult to assess. The balance of advantages and disadvantages depends on the objectives, structure, content and implementation. One of the first arguments put forward in favour of a multilateral framework for investment was that it would facilitate further expansion of FDI. It was argued that legally binding multilateral disciplines in investment would improve the enabling environment—by contributing to greater transparency, stability, predictability and security for investment in sectors not yet covered by multilateral rules. International obligations would also help reduce investor risk perceptions and narrow the gap between the actual risk of policy instability that may be suggested by a host country's domestic legislation, and the risk as perceived by foreign investors (Eglin 2002).[20] If multilateral disciplines further reduced obstacles to FDI beyond what other IIAs do, this (plus the right economic determinants) would presumably lead to higher investment flows.

Even then, however, multilaterally agreed investment rules would not by themselves guarantee higher FDI flows.[21] Nor would it be possible to predict the geographical distribution of FDI flows, because this would be determined first and foremost by the economic fundamentals of individual locations.[22]

So, is a new framework needed in the first place? Since the GATS allows selective liberalization to the opening of services (the sector with most restrictions), investment is already covered, and with that some two-thirds of worldwide FDI (although less in the case of the developing countries). Rules for primary and manufacturing industries would of course complete the existing rules on services. But FDI in agriculture is insignificant, and that in natural resources is largely covered by individual contracts between investors and governments. And manufacturing is already open to FDI, with countries competing among themselves to attract investors, providing various incentives. Moreover, a multilateral framework for investment insurance already exists, with MIGA—and for dispute settlement, with ICSID, UNCITRAL, the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and various other mechanisms.

Some countries see multilateral disciplines as an important complement to the bilateral and regional IIAs, to create a common legal basis.[23] Indeed, a multilateral agreement could create the "floor" of standards applicable to IIAs in general (though this would not necessarily be uniform if a GATS-type positive list approach were used). Some fear that the floor would be too low, providing lower standards of protection and market access than BITs and regional agreements. Others fear that the floor could be too high (even when exceptions, derogations and the like are allowed), constraining national policy space too much.

Whether the floor is low or high, a multilateral framework would lock in whatever would be agreed. But it would not constitute a ceiling of rules in the investment area[24] because countries would still be free to go beyond multilateral standards when they negotiate bilaterally or regionally. In other words, a multilateral framework would most likely not replace the large and rapidly growing number of IIAs. And it could well be that a multilateral instrument would serve as a starting point for more far-reaching bilateral and regional negotiations in the future.

One reason it may be difficult to reach a high-standard agreement is that the negotiating dynamics of multilateral negotiations often lead to lowest-common-denominator compromises.[25] But there is also a substantive reason: developing countries are concerned that their policy space would be unduly restricted—and that the balance

of rights and responsibilities would be tilted against them. By their nature, multilateral negotiations tend to seek uniform one-size-fits-all solutions, though exceptions and other provisions can be built in. It is in this context that flexibility, special and differential treatment and specific development provisions become pertinent (chapter V).

One also needs to consider that multilateral negotiations may open opportunities for tradeoffs. In reaching explicit consensus on the modalities of investment negotiations, developing countries could put a few issues of their own on the bargaining table (apart from the ones that are already there, beginning with agriculture):

- Broadening mode 4 of the GATS (movement of natural persons).
- Increasing flexibility for the use of prohibited TRIMs and clarifying the precise scope of the TRIMs Agreement's illustrative list to contain its extension.
- Committing to reduce gradually certain investment-related trade measures (UNCTAD 1999e), such as tariff peaks, tariff escalation and anti-dumping rules adopted by developed countries.
- Committing home countries to bind a range of measure to encourage FDI flows to developing countries and increase their benefits.
- Committing to encourage good corporate citizenship by TNCs.
- Agreeing on a substantial and sustained technical cooperation effort in investment.

It is difficult to assess the feasibility of any of these ideas at this stage. But they could be part of a positive investment agenda by developing countries—in an effort to be prepared, if need be, to discuss investment matters on the basis of their own needs and priorities.

Ultimately, the case for a multilateral framework on investment may rest on the extent to which countries judge multilateralism to be a more attractive approach. It has been argued that multilateralism can be a way for weaker countries to pool their influence to give them a better position vis-à-vis stronger ones. However, this does not mean that differences in power disappear. As with bilateral and regional agreements, multilateral negotiations involve bargaining power and negotiating capabilities, with the built-in risk that stronger parties can gain over weaker ones. Moreover, multilateralism in the investment area is not necessarily the same as in the trade area, where the defining characteristics include reciprocity, non-discrimination and special and differential treatment:

- Reciprocity in trade is based on the fact that every country imports and exports. In investment, every country attracts at least some investment, but for the great majority of developing countries, outward FDI is negligible.
- In trade non-discrimination applies to the treatment of goods and services in markets and is fairly clearly circumscribed, at least in principle. In investment it relates to a broad set of policies—in principle all those bearing on the production (indeed development) process. So it is much more intrusive and sensitive and thus more difficult to tackle.
- The principle of special and differential treatment is well established in trade, finding its expression there in a number of ways, although even here it is not fully implemented. It still needs to be developed further in investment, and put in operation.

So, a multilateral approach to investment, if pursued, raises distinctive questions of its own—questions that also arise for bilateral and regional approaches.

In this respect, multilateral negotiations could in principle give developing countries greater leverage than regional or bilateral ones, at least for those substantive issues on which they can reach common positions. In particular, by pooling their influence, developing countries might be able to obtain what seems to be more difficult to obtain (or protect) at the bilateral and regional levels, foremost more development friendly outcomes on key issues and development provisions. A multilateral framework could also serve as a benchmark for agreements at the bilateral and regional levels, helping countries in this respect by offering an accepted model to consider. And it could be of help to those governments that might want to use multilateral disciplines to support domestic investment reforms.

With investment conflicts likely to become more frequent as FDI grows, it might also be desirable for developing countries to carry out disputes in a framework based on the "rule of law" as opposed to "the rule of power". But bringing investment issues into the WTO increases the risk of developing countries finding themselves at the receiving end of retaliatory, trade-related actions in the WTO dispute settlement mechanism. Unless ways are found to insulate them from cross-

retaliation,[26] the mechanism could be used to penalize countries in non-investment areas for breaches of investment rules.

There are also broader concerns, most notably that launching multilateral negotiations on investment in the WTO could divert attention from more pressing issues on the already full international economic agenda. If investment liberalization is already happening on a unilateral, bilateral and regional basis, should not the WTO focus on such areas as agriculture, the implementation of existing agreements and special and differential treatment? The negotiation of a multilateral framework within the WTO requires particular attention to coherence across the whole range of WTO agreements and their relation to other agreements in both trade and investment—a difficult task.

To reiterate, these are arguments advanced in the discussions of a multilateral framework for investment. Each country has to decide for itself which of these (and others) reflect its own interest and, in the light of this, decide its own course of action.

* * *

All in all, the proliferation of IIAs at all levels means that national FDI policies take place in a very different context from just 20 years ago. The various approaches to international rule-making all have their merits and weaknesses, their benefits and costs. Whether it is desirable for a country to pursue one approach thus depends primarily on what it seeks from an agreement—investor protection, liberalization, broader international cooperation. Finally, the development orientation of any agreement depends on its objectives, structure, substantive provisions and implementation. What is clear is that agreements affect, and interact with, the eight key national policy issues identified at the beginning of this chapter. How and how much are the subject of chapter IV.

Notes

1 For an earlier treatment of many of the issues discussed here see *WIR96;* UNCTAD's *Series on Issues in International Investment Agreements* (Geneva: United Nations, various years); UNCTAD 1998a; and the reports submitted by the WTO Secretariat to the Working Group on the Relationship between Trade and Investment, as well as the reports on its meetings (Geneva: WTO, various years).

2 Economic considerations have to be seen in the political, social, cultural and historical context in which host country policies are being pursued, though there has been a tendency for economic factors to become more important in influencing policy objectives.

3 For a fuller discussion of various types of FDI and their determinants, see *WIR98,* chapter IV.

4 Performance requirements are linked more to the provision of incentives, making them behavioural incentives as distinguished from locational incentives.

5 For a full discussion of such concerns, see *WIR99*.

6 Each of these issues is mentioned in paragraph 22 of the Doha Declaration or was brought up in the discussions of the WTO Working Group on the Relationship between Trade and Investment. The exceptions are regulatory takings and incentives. The former issue has played an important role in the NAFTA context, a role that contributed to the reference to the right to regulate in the Doha Declaration. Incentives are closely linked to performance requirements and, in any event, partly subject to the WTO's Subsidies and Countervailing Measures Agreement. Restrictive business practices were the aspect of competition policy most discussed in the Working Group.

7 There may be a difference between what kind of policies governments pursue at the national level and what they are prepared to agree to at the international level. For example, a government may have laws and regulations in place that open certain industries to foreign investors; at the same time, it may not be willing to enshrine the right of establishment in IIAs—precisely to maintain the flexibility to change its policy if need arises. The same phenomenon exists in the trade area where actual tariffs are often lower than bound tariffs.

8 Unless otherwise specified, the IIAs referred to in this chapter and the next ones are contained in UNCTAD, *International Investment Instruments: A Compendium* (Geneva: UNCTAD, various years). The creation of the European Union influenced many regional schemes that would like to repeat its success, even though they do not go as far as the EU on some elements of supranationality. Since the EU is an established supranational legal order dedicated to the integration of its member countries in the field covered by EU law, it will not be discussed in the following chapters.

9 BITs are not concluded between developed countries, as their legal systems reflect investor protection standards evolved over many years of experience with such issues. Parallel to BITs, countries have also concluded agreements for the avoidance of double taxation (DTTs), 2,256 by the end of 2002 (figure I.11). They address, among other things, the allocation of taxable income, reducing incidents of double taxation.

10 They are, however, a far cry from a full geographical coverage: 18,145 BITs would be needed to ensure full coverage of the world's 191 economies.

11 Based on 27 countries for which data on outward FDI stock by destination are available. They account for more than three-quarters of the world FDI stock.

12 The title of the "Agreement between the Government of the Republic of Korea and the Government of Japan for the Liberalisation, Promotion and Protection of Investment", signed 22 March 2002, is perhaps indicative.

13 A more recent test similar to UNCTAD's also found that "there was little independent role for BITs in accounting for the increase in FDI" by the end of the 1990s and that "countries that had concluded a BIT

were no more likely to receive additional FDI than were countries without such a pact" (World Bank 2003, p. 129). But a study of determinants of FDI in CEE found that "bilateral investment treaties, the degree of enterprise reform and repatriation rules tended to stimulate FDI" (Grosse and Trevino 2002, p. 22).

14 Most of these instruments (or relevant excerpts) have been published in UNCTAD, *International Investment Instruments: A Compendium* (Geneva: UNCTAD, various years).

15 "Ministerial declaration" (WTO 2001b).

16 For the text of the relevant paragraphs, see *WIR02*, chapter I. For a progress report on UNCTAD's activities in this area, see UNCTAD, 2002h, 2003e.

17 The Doha Declaration provides in paragraph 22: "In the period until the Fifth Session, further work in the Working Group on the Relationship Between Trade and Investment will focus on the clarification of: scope and definition; transparency; non-discrimination; modalities for pre-establishment commitments based on a GATS-type, positive list approach; development provisions; exceptions and balance-of-payments safeguards; consultation and the settlement of disputes between Members".

18 In an explanatory statement at the end of the Doha Ministerial, the Chair observed: "I would like to note that some delegations have requested clarification concerning paragraphs 20, 23, 26 and 27 of the draft declaration. Let me say that with respect to the reference to an 'explicit consensus' being needed, in these paragraphs, for a decision to be taken at the Fifth Session of the Ministerial Conference, my understanding is that, at that session, a decision would indeed need to be taken by explicit consensus, before negotiations on trade and investment and trade and competition policy, transparency in government procurement and trade facilitation could proceed. In my view, this would also give each member the right to take a position on modalities that would prevent negotiations from proceeding after the Fifth Session of the Ministerial Conference until that member is prepared to join in an explicit consensus." (www.wto.org/english/thewto_e/minist_e/min01_e/min01_chair_speaking_e.htm)

19 There is a wide range of literature on this subject. NGOs have been particularly active in the discussions. See, most recently, for example Action Aid 2003; Chang and Green 2003; CUTS 2003; Hardstaff 2003; Khor 2002; Oxfam 2003a; Oxfam et al. 2003b; World Development Movement and Friends of the Earth 2003.

20 On the other hand (and this applies to the bilateral and regional levels as well), risk reduction can also be achieved through investment contracts between TNCs and host countries (as is common practice in some primary industries). These contracts typically have legally binding protection provisions over and above those in applicable bilateral or regional agreements, not to say in domestic legislation. In multi-country investment projects like large infrastructure developments, host countries may enhance investor security by supplementing existing BITs with an intergovernmental agreement committing them to certain standards and incorporating these into the investment contracts with the investors.

21 To quote a "Communication from Canada, Costa Rica and Korea" to the WTO Working Group on the Relationship between Trade and Investment: "Similarly, a multilateral framework for investment in the WTO would not *guarantee* greater investment flows" (WTO document WT/WGTI/W/162, p. 2). A recent World Bank report (World Bank 2003b, p. XVII) concludes similarly: "International agreements that focus on establishing protections for investors cannot be expected to expand markedly the flow of investment to new signatory countries".

22 In this connection, it has been suggested that a multilateral system of rules rather than a network of bilateral and regional agreements would contribute to a level playing field worldwide. This would allow investment decisions to be taken more on the basis of economic efficiency and actual opportunities in different host countries. Distortions caused by conflicting rules, incentives, subsidies and market access discrimination could be reduced by closer multilateral cooperation. This would ensure a better allocation of FDI, which would release additional resources that would otherwise be used inefficiently due to distortions.

23 One could also argue that multilateral negotiations may be more transparent (as compared to bilateral negotiations) in that they are more likely to receive scrutiny from the public, including civil society groups, given their higher profile.

24 Unless explicitly agreed upon in a variation of the GATT Article XXIV economic integration clause.

25 But not necessarily so: see the TRIPS Agreement.

26 Cases of cross-retaliation authorized by the WTO Dispute Settlement Body are rare.

CHAPTER IV

EIGHT KEY ISSUES: NATIONAL EXPERIENCES AND INTERNATIONAL APPROACHES

As countries engage more in international rule-making in investment, they confront complex issues arising from the interaction between national policy making and international investment rule-making. Eight stand out as being particularly important and sensitive:

- How to define investment.
- How to treat the entry of FDI and the subsequent operations of foreign affiliates.
- Where the dividing line should be between legitimate policy action and regulatory takings.
- What mechanisms should be used for dispute settlement.
- How to use performance requirements and incentives.
- How to encourage the transfer of technology.
- How to ensure competition, including the control of restrictive business practices, by foreign affiliates of TNCs.

These eight issues are not all the important issues that deserve attention from negotiators when devising national FDI policies or negotiating IIAs. Others include MFN treatment, fair and equitable treatment, transparency, extraterritoriality concerns and taxation.[1] On balance, there is less controversy surrounding them.[2] There are also broader issues, including the approach to liberalization. With the "negative list" approach, countries list industries they want to keep exempted from liberalization. With the "positive list" (or "GATS-type") approach, countries list the industries to which specific provisions of an agreement apply and the conditions for applying them. These issues (and others) will be discussed below (chapter V).

A. Definition of investment

The definition of "investment" in international investment agreements (IIAs), combined with the substantive provisions, has profound developmental implications, because it defines their scope and reach. For developing countries the key issue is whether investment is defined narrowly, focusing on FDI, or broadly, including virtually every asset connected with foreign investors. Developing countries have indicated a preference for a narrow definition in the discussions of the WTO Working Group on the Relationship between Trade and Investment, but the trend in IIAs has been towards a broad asset-based definition. Even a broad definition can be narrowed, for example, through reservations, affording countries the right to exclude certain types of investment (such as portfolio investment) or by limiting the applicability of specific operational provisions. Another approach is to give each government the choice, when negotiating an IIA, to commit to either a narrow or a broad definition.

1. Why the definition of investment matters

The definition of investment on its own has no direct impact on attracting FDI or benefiting more from it. But defining a certain capital flow or asset as "investment" bestows certain rights on foreign investors and thus facilitates foreign investment. The definition also raises concerns. Obligations to meet financial transfer requirements could for many developing countries at times be difficult to fulfil. Possible complications could arise for macroeconomic management of capital flows of a type and magnitude that may be beyond the control of national governments. And volatile capital flows have implications for domestic financial stability.

Thus, the definition of investment is fundamental to national laws and international agreements pertaining to FDI, since it delineates which assets or investment flows are covered by

the operational provisions of those laws and IIAs, for example, as they relate to national treatment. The main question is not whether FDI should be defined as investment—it is. The question is what other investment should be granted the same status: portfolio investment (both equity and debt components), other capital flows (bank loans, non-bank loans and other flows) and various investment assets (both tangible and intangible, including intellectual property rights).[3]

"Investment" does not have a generally accepted meaning. The internationally accepted method for classifying and recording cross-border foreign investment flows for balance-of-payments statistics divides them into direct investment, portfolio investment, financial derivatives and other investment.[4] National laws and IIAs also provide definitions of "investment" and "foreign investment", which often differ considerably from the balance-of-payments definition. They can include, in addition to some types of cross-border investment flows, a wide variety of assets, both tangible and intangible. Indeed, the definitions utilized in these laws and agreements vary considerably.[5] Note that the legal interpretation of investment cannot be predicted with certainty in the course of the settlement of disputes.

Different types of capital flows have different implications for a host economy: some are long-term flows not normally prone to quick reversal or to speculative movements, and some are highly liquid flows that can easily be reversed. The policy implications of fully liberalizing highly liquid flows may be far reaching. Indeed, the degree of capital account liberalization that may be required of signatories to a given IIA is important for some developing countries.

Developed countries, with relatively well-developed financial markets and regulatory frameworks, relatively stable macroeconomic conditions and convertible currencies, have moved to full liberalization of their capital accounts, covering all forms of capital flows and other types of investment. In negotiations with developing countries, they often seek a broad definition of investment to protect assets generated by investment and to promote liberalization. Private investors also prefer a broader definition, not necessarily because they wish to hedge or speculate but because they want more security.

But many governments of host developing countries, at least in multilateral discussions, are wary. They wish to retain policy tools to deal with different types of flows in different ways rather than define them all as investment in a way that constrains their use. Because portfolio investment instruments and derivatives can be used for speculative purposes that destabilize foreign exchange markets or domestic financial markets, a government may prefer to exclude them from the definition. This allows governments flexibility to implement policies to maintain financial stability—hence many developing countries prefer (at least in multilateral discussions) to confine the definition of "investment" to long-term flows and exclude potentially volatile capital flows.

The inclusion of non-FDI forms of investment is thus a difficult matter for many countries. Some of these difficulties can be addressed through special provisions, exceptions and safeguards.[6] But the broader the definition, the more complicated it is to do so. Safeguards for traditional balance-of-payments crises, speculative attacks and contagion from crises abroad are important here.[7]

In conceptual terms, FDI and foreign portfolio investment are distinct. Direct investment involves both a long-term interest in, and significant management influence over, a foreign affiliate. Portfolio investment may include a long-term interest, but it seldom involves managerial control. For statistical purposes, a threshold of 10% of share ownership has been established to differentiate equity holdings of direct and portfolio investors.[8] But in practice, the line between different types of investment is sometimes difficult to draw. In some circumstances, foreign investors may use their assets as collateral to borrow from local capital markets and use the proceeds for hedging or speculation.[9] Conversely, venture capitalists can take a significant management interest in a venture without a large shareholding—and their activity, conventionally defined as portfolio investment, is similar to direct investment. But for the bulk of investment flows, a distinction between FDI and non-FDI is possible.

2. Scope of definitions

The general trend towards a broad definition of investment is not universal, and there are significant differences by level of development. A number of developed countries do not have specific legislation or policies on FDI and so do not need to define it. Developing countries, concerned about the effects of volatile capital flows, have narrow definitions (in practice if not in the legal terminology). The financial crises of the 1990s strengthened the case for adopting definitions with great care.

The definition can magnify or reduce the scope of an IIA. But because it is exercised through the substantive provisions of an IIA, it cannot be considered in isolation.

IIAs have used three types of definitions of investment: asset-based, transaction-based or enterprise-based:

- *Asset-based definitions* are the most common in investment protection agreements. They tend to be broad—including assets and capital flows, movable and immovable property, interests in companies, claims to money, intellectual property rights and concessions. They can, however, be deliberately limited. Governments have, for instance, limited the coverage to investment made in accordance with the laws of the host country or on the basis of previous administrative approval. They have also excluded investment made before the conclusion of the IIA, as well as types of investment, such as portfolio investment. And some place limits on the minimum size of an investment.
- *Transaction-based definitions* protect not assets but the financial flows through which foreign investors create or acquire domestic assets. For example, the OECD Code of Liberalisation of Capital Movements does not define investment, but it has a list of capital transactions between residents and non-residents that are subject to liberalization commitments, including inward and outward investment.
- *Enterprise-based definitions* confine liberalization and protection to the enterprises established by foreign investors in a host country. Used in the Canada–United States Free Trade Agreement of 1988, for example, this definition appears to be narrower than an asset-based definition, which includes assets other than companies and capital flows. Coverage may extend to all investments by the enterprise following establishment, potentially a very broad spectrum.

The way IIAs deal with the definition of investment depends primarily on the scope and purpose of each instrument. Some IIAs aim at the liberalization of investment regimes—and some at protecting investment.[10] In reality the distinction is not always clear-cut. For example, bilateral investment treaties (BITs) generally aim at investment protection, but they may also have a liberalizing effect—say, through their national treatment provision.

IIAs aimed at investment protection, which include BITs but also some regional agreements, tend to use a broad, open-ended, asset-based definition "covering virtually all proprietary rights located in the host State which have a financial asset value" (Wälde 2003) (although it may be qualified, for example, by excluding certain types of investment). The trend has been in this direction. In particular, most BITs use such an approach. The ASEAN Agreement for the Protection and Promotion of Investments, a regional investment protection treaty (like a BIT in aim and function), has a broad definition covering "every kind of asset".

Other regional agreements have followed a different approach, depending on the purpose of the investment provisions. Some aimed at the liberalization of investment regimes have used a relatively narrow definition. For example, the 1998 Framework Agreement on the ASEAN Investment Area explicitly excludes portfolio investment, as does the 2000 free trade agreement between the European Free Trade Association members and Mexico.

The GATS does not define investment, instead defining a commercial presence as "any type of business or professional establishment". In effect the GATS uses an enterprise-based definition. The TRIMs Agreement does not define investment, either.[11]

3. Options for the future

The way an investment agreement defines investment should have a direct bearing on the purpose of the agreement:

- Protecting investment—say, against expropriation.
- Liberalizing investment flows—say, by granting the right of admission and establishment or by lowering equity restrictions.
- Promoting investment—say, through the provision of investment insurance.
- Regulating investment—say, in the context of prohibiting corrupt practices.

Where agreements serve several of these purposes, the challenge is to achieve an acceptable balance between (a) permitting flexibility for firms to organize and finance their investments and (b) giving developing countries the flexibility to deal with potentially volatile capital flows. The degree of integration sought by the parties to an agreement may also bear on how investment is defined: the greater the integration sought, the greater can be the expected protection and liberalization sought and the wider the definition that might be adopted.

Under these circumstances, the options[12] available to negotiators range between adopting a narrow definition (focused on FDI) and a broad definition subject to the right to screen inward investment, granting of conditional entry or limiting an agreement's substantive provisions:

- If the concern is that portfolio investment may be withdrawn quickly, IIAs might include portfolio investment, but the currency-transfer provision could apply only to investment that had been in the host country for some minimum period.
- Another option is to adopt a hybrid of broad and narrow definitions for different purposes in a given agreement. For example, a broad asset-based definition can be used for protecting investment—a narrower transaction-based definition for dealing with cross-border investment liberalization.
- The scope of IIAs can be narrowed through limitations on the types of investment subject to disciplines—through reservation lists or limited specified commitments.
- One can allow each government to decide whether, for the purposes of a particular agreement, it wants to commit itself to a broad or to a narrow definition. A positive list approach provides this flexibility.

What underlies these considerations? The ultimate effect of an IIA results from the interaction of its definition provisions with its operative provisions. There should be enough flexibility in the use of the definition to assist in achieving developmental objectives.

B. National treatment

"National treatment" has the greatest development implications. It is also of key importance to foreign investors.[13] In today's usage, it combines two constructs that used to be dealt with separately:

- "Right of establishment" (or "admission and establishment") or, now, "national treatment in the pre-establishment phase", and broadly speaking "market access".[14]
- "National treatment in the post-establishment phase" of the investment process, the traditional application of "national treatment".

Despite a considerable (unilateral) opening of host economies, most non-OECD governments preserve their right to control FDI admission and establishment in IIAs. National treatment in the post-establishment phase is more widely accepted.

1. The centrality of national treatment

National treatment can be defined as "a principle whereby a host country extends to foreign investors treatment that is at least as favourable as the treatment that it accords to national investors in like circumstances" (UNCTAD 1999b, p. 1). The concept is central to the worldwide strategies of TNCs. Entry is the first (essential) step to transnational operations, allowing enterprises access to the markets and resources they need to establish a portfolio of locational assets to increase their international competitiveness. Post-entry national treatment then allows them to compete on an equal footing with domestic enterprises.[15] Of the two, non-discrimination after establishment is particularly important because it requires treatment that is at least as favourable as the treatment given to national investors in like circumstances and, therefore, affects directly the day-to-day operations of foreign affiliates.

For host countries, national treatment of foreign investors is directly related to policies to promote national enterprises and build and upgrade domestic capabilities. In international law, a State has the absolute right to control the admission and establishment of investors in its territory, the setting of conditions under which this occurs and the nature of ownership and control rights (UNCTAD 1999a). Control measures can range from total or sectoral exclusion of FDI to a variety of restrictions—for example, on the equity share allowed foreign investors, the requirements of joint ownership or management with local personnel and the screening of entry by a designated agency.

Once foreign investors are established, host countries generally provide national treatment to foreign affiliates (UNCTAD 1999b). But a typical condition for such treatment is that foreign affiliates are in "like circumstances"[16] to local enterprises, leaving open the possibility for governments to provide special support to national firms in different circumstances. But there are differences in policy even here, with exceptions in both developed and developing countries. So sensitive is this issue that the developed countries took almost 25 years after adopting the OECD Code of Liberalisation of Capital Movements in 1961 to accept, between themselves, the right of establishment for their foreign investors.[17]

2. Patterns of national policy

The right to control admission and establishment remains the single most important instrument for the regulation of FDI. No surprise,

then, that national restrictions remain two decades after opening up. In fact, no country presently offers an unconditional right of admission to foreign investors (WTO 2002b). But there are significant differences by industry or sector. In manufacturing relatively few restrictions remain on admission and establishment. In natural resources the situation is more varied, reflecting the fact that the factors of production are not mobile. In the past the sector was tightly controlled, with a significant incidence of nationalizations and national control laws during the 1970s. Now, despite some restrictions, policies tend to be more relaxed. In services, too, there is a trend towards gradual liberalization, though the control over admission and establishment varies for services supplied, depending on regulation required to ensure effective operation. For example, tourism tends to be quite open to FDI, while foreign ownership in media is generally restricted. Governments also retain a high level of control in financial services.

After entry, national treatment is not usually guaranteed expressly in national FDI laws. Some constitutions contain a general provision prohibiting discrimination.[18] Other national laws refer to this standard in investor-investment guarantee provisions.[19] Whether post-establishment national treatment is granted explicitly or implicitly, it does not provide grounds for restricting national regulations. It is usually accepted that, as long as national regulations do not introduce a distinction on the basis of nationality, they are a normal exercise of a country's right to regulate (see chapter V). This interpretation can also be valid for special rights to minorities, ethnic groups, indigenous people or other disadvantaged groups within the host country. If those rights apply to all businesses, they cannot be interpreted as a breach of post-establishment national treatment.[20]

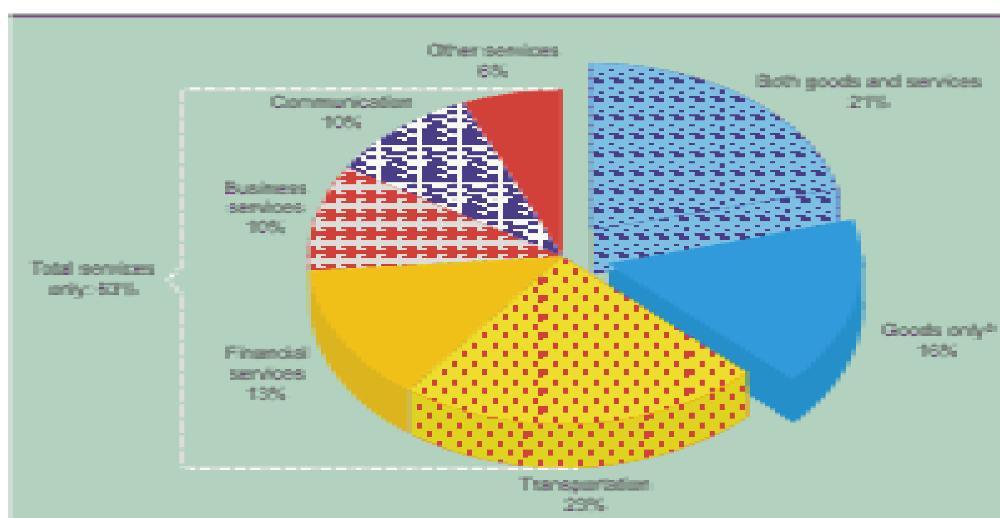
In the pre- and post-establishment stages, national treatment is subject to a range of exceptions, especially in the services sector (figure IV.1). There is also a tendency, especially in OECD countries, to apply the same or similar reservations or exceptions at both stages.

3. National treatment and economic impact

National treatment measures have to be assessed against the objectives of FDI policy. Because it is difficult to evaluate how well some of the non-economic objectives are achieved, this section focuses on economic considerations in some detail, given the centrality of national treatment for development. The economic analysis of national treatment revolves around three questions:

1. What is the economic case for the liberalization of FDI policies?
2. What is the case for exercising control on FDI admission and establishment?
3. What are the main considerations for national treatment once TNCs have been allowed to enter an economy?

Figure IV.1. Reservations in the negotiations of the Multilateral Agreement on Investment,[a] by industry, 1998



Source: UNCTAD, based on Sauvé, 2002.

[a] MAI reservations relate to the application of the following principles and areas: national treatment, MFN treatment, performance requirements, key personnel, national regulations and dispute settlement.

[b] Reservations relate almost exclusively to performance requirements and nationality/citizenship requirements for companies' boards of directors.

a. Pre-establishment

The case for liberalizing FDI is similar to that for liberalizing trade: under the right conditions, freer FDI leads to a more efficient allocation of resources across economies and, where markets are not distorted, within a host economy.[21] But this case rests on the often questionable assumption that markets are efficient and that the institutions to make markets work exist and themselves operate efficiently—particularly in developing countries. Many markets are inefficient, and some may be only emerging. Institutions and legal systems tend to be weak. And economies, saddled with rigidities, are unresponsive to (or unprepared for) the challenges of a globalizing world economy.

Market and institutional failures are thus the basic reason for restricting free FDI flows. But their existence is not sufficient for intervening in FDI entry. In the theory of international investment, TNCs exist because of their ability to overcome market imperfections. They have (ownership) advantages that other firms do not possess, and they internalize these advantages rather than sell them in open markets—both violating the precepts of perfect competition. Because FDI rests on exploiting such advantages, there is a case for restricting it only if the use of the advantages harms the host economy—say, if TNCs engage in anticompetitive business practices. This can happen because of the possible divergence between the global interests of TNCs and the interest of any given host economy: TNCs might well maximize their profits worldwide (i.e. overcome "market imperfections"), but the host economy might not be better off. Even where market failures lead freer FDI to be harmful, there may be a case for restricting it only if a host government has the capacity to design and mount effective interventions that result in a socially or economically better result. The cost of government failure must not outweigh market failure; if it does, the economy is worse off.

A case can also be made to control FDI admission and establishment: under free market conditions, unrestricted FDI entry may curtail local enterprise development and not enhance beneficial externalities:

- *Infant domestic entrepreneurship*. The most common fear is that FDI harms the development of local entrepreneurship by deterring potential domestic investors from entering activities with a strong foreign presence—crowding them out where they exist (box IV.1). The infant enterprise argument is similar to the infant industry argument: building competitive capabilities by domestic firms takes time, and investment is risky and learning is costly.[22] Faced with foreign affiliates that have recourse to the skills, capital, technology and brand names of parent companies, local firms may not be able to build such capabilities. They may then be forced to withdraw to less complex activities or those with a lower foreign presence—perhaps selling their earlier facilities to foreign entrants, as happened in the automotive components industry in Brazil and Mexico (Mortimore 1998).

  Note, however, that protecting infant entrepreneurs (and infant industries) is sound only if protected enterprises become fully competitive within a reasonable period. If protection leads to permanent "cripples" rather than healthy infants that grow up, it imposes unjustifiable costs on the host economy. The promoted enterprises must also have the capability to stay competitive. They must master the technology and organizational skills used at the start and stay abreast of subsequent developments. Outstanding examples of this approach are the Republic of Korea and Taiwan Province of China, which in their early development severely restricted FDI inflows to nurture domestic entrepreneurship.

- *Local technological deepening*. A strong foreign presence may deter local competitors from investing in risky innovation (or other) capabilities, as opposed to buying ready-made technologies or skills from abroad. Moreover, new technologies can be expensive and difficult to obtain, as firms from the Republic of Korea found when they became threats to technology suppliers in export markets. If FDI deters R&D in local firms, the technological gap between them and TNCs can grow, marginalizing them in technology-intensive activities. Foreign affiliates may be reluctant to invest in local R&D because of their established innovative activities abroad, with strong links to home country technology institutions and other enterprises (*WIR99*).
- *Exploitation of new technology*. Where both local and foreign firms engage in R&D activity and create new technologies, local firms may exploit the benefits of innovation within the host economy more than foreign affiliates, which may transmit the knowledge to parent companies to exploit them elsewhere.
- *Greater spillovers*. Even where local and foreign firms are similar in other respects, local firms may create greater spillover benefits because they have better local knowledge and stronger local commitment. They may procure more inputs locally, use more local skills, interact more intensely with local technology and training institutions and so on.

- *Footloose activity*. Foreign investors are likely to relocate to other countries more readily than domestic firms as conditions change, at least where sunk costs are low. Domestic firms are likely to have a stronger commitment to the home economy—and so are likely to invest more in improving the local competitive base.
- *Loss of economic control*. Foreign affiliates respond to signals from international markets and to strategies of decisionmakers based overseas. They may also be responsive to pressures from home country governments. Where local and foreign interests or perceptions diverge or where sensitive technologies or activities (say, related to national security) are involved, this may impose a cost on the host economy.

Many governments also want FDI for such specific advantages as advanced technology or exports. Where foreign investors do not offer such advantages, governments may feel that local enterprises need not face unnecessary competition from FDI.[23] Many countries restrict FDI in low-technology manufacturing, retailing and similar activities where local enterprises are thought to

Box IV.1. How serious is crowding out?

The possibility of domestic enterprises being crowded out by inward FDI is a concern for some governments of host developing countries.[a] How frequently does it occur? What does it mean for economic efficiency? And what policy tools can governments use to mitigate its negative repercussions?

Empirical evidence is mixed. In an econometric test covering 39 economies for a long period (1970–1996), some crowding out or crowding in could be detected in 10 countries, but in 19 the effect was neutral (*WIR99,* pp. 172-173). Crowding out was non-existent in Asia but was fairly frequent in Latin America. Earlier studies for Canada (Van Loo 1977) and for 69 developing countries (Borensztein et al. 1995) concluded that, on balance, FDI had stimulated additional domestic investment—had a crowding-in impact. A more recent test (Kumar and Prakash Pradhan 2002) for 83 countries over the period of 1980–1999 found no impact of FDI on domestic investment for 31, net crowding out for 29 and net crowding in for 23.

This diversity may be due to the fact that different countries attract different types of FDI. Countries attracting mostly domestic market-seeking FDI would be more likely to experience crowding out as the establishment of foreign affiliates results in head-on competition with local firms. But for export-oriented FDI, this may be less so.

The empirical studies shed little light on the development implications of crowding out—or the policy options to deal with them. Crowding out may take place because of two main reasons, which, in theory, can be differentiated from each other: (1) when local firms disappear because of higher efficiency and better product quality of foreign affiliates; and (2) cases when they are wiped out because foreign affiliates have better access to financial resources and/or engage in anti-competitive practices. Unfortunately, empirical evidence is scarce in this respect, although the policy implications of the two scenarios may be different. In the first case, the initial net impact on welfare is positive, hence the economic justification for governmental intervention must be based on the possible negative effects of a denationalization of industry for the stability and economic activity generally through time. In the second case, there is a welfare loss, and governments would need to intervene through various channels. For example, they may need to establish or subsidize financing for local SMEs. In the case of anti-competitive practices, it would be the task of competition authorities to take remedial action.

If the net impact of an FDI project can be foreseen to be negative from the outset, governments may consider action at the entry phase (by denying entry or allowing it only under certain conditions). If the net impact turns out to be negative in the post-establishment phase, the competition authorities or the regulatory agencies of the given industry can usually alleviate the extent of crowding out.

In all cases of crowding out, governments can use tax policy to stimulate the reinvestment of money withdrawn from closed down activities into new investment projects. Moreover, even when the short-term static impact of crowding out is negative, its dynamic impact on efficiency in the host economy may be positive. The issue has not yet been settled one way or the other, and further analysis is required to shed additional light on the relevant issues, in particular: under what circumstances is crowding out more likely to occur and what are the development implications? A more detailed analysis could also help governments design appropriate policy responses in light of their national development objectives.

Source: UNCTAD.

[a] Such crowding out is different from domestic firms being taken over by foreign investors (cross-border M&As) (see *WIR00*), although in some cases they are presented together.

be adequate. Some are particularly sensitive about opening activities populated by SMEs that generate considerable employment and that may embody strong community, craft, design or other traditions.

These arguments for restricting FDI, used by developed and developing countries, have merits. But the evidence of their practical significance and the success of governments in countering the potential costs by restricting FDI is again mixed.

For promoting infant entrepreneurship and innovative capabilities in developing economies, the most successful cases have been the Republic of Korea and Taiwan Province of China. They restricted FDI entry (but not necessarily non-equity links with TNCs, such as technology agreements) and fostered world-class enterprises with strong innovative capabilities. But similar restrictions in many more developing countries did not have these results. These policies did foster local firms, but only a few of them became world-class enterprises. Many of the protected local firms were technologically weak and internationally uncompetitive—and many could not survive exposure to competition when the protection was removed. Conversely, there are also cases of economies with dynamic local firms that benefited from a strong foreign presence—as competitors, buyers or suppliers of their products. Examples include Hong Kong (China) and the second tier of newly industrializing economies in East Asia.

Neither FDI restrictions nor FDI liberalization can foster healthy enterprise development unless other conditions are met. For restrictions, the government must be able to select activities in which local firms have the potential to become and remain competitive. Protection from competition must be supported by strengthening institutions and infrastructure and by upgrading local inputs, such as skills, information, technical support and risk capital. And enterprises must have incentives to build world-class capabilities; if protection is open-ended, such incentives may not work.

Few developing country governments have shown the capacity to blend FDI with institutional, infrastructure and industrial policies. Their interventionist policies have tended to be rigid, prone to “hijacking” by vested interests and open to rent seeking with little improvements in efficiency or skills. So, the costs of government failure can be as high as those of market failure.

On the costs of FDI from “losing” innovations to parent companies and having lower spillover benefits, the evidence is again unclear (*WIR99*). Foreign affiliates that do R&D tend to interact with capable R&D institutions and universities in the host economy. Although the trend—slow as it is—for TNCs to set up global R&D centres in developing countries (where the skills exist) is growing, R&D activities remain concentrated in home countries and other developed countries. Indeed, it is in their interest to deploy the most efficient technologies where this furthers their competitive advantage. Over the longer term, it is not necessarily the case that foreign affiliates strike fewer local linkages than comparable local firms. On the contrary, their new supply chain management and training techniques often serve as a model.

The specific advantages of R&D by foreign affiliates must also be remembered. Affiliates can gain from the access they have to R&D in the parent firm’s networks. Local firms can capture spillover benefits from R&D in foreign affiliates by learning from their research methods, hiring their trained employees and collaborating with them on specific projects or as suppliers. Note that Ireland and Singapore have induced foreign affiliates to increase local R&D greatly, using a mix of policy tools, including incentives. Foreign firms in Ireland account for around 80% of national enterprise-financed R&D (*WIR02*).

Footloose FDI was much feared some three decades ago when the massive relocation of labour-intensive processes in clothing, footwear, electronics and similar activities started. It was felt that the facilities were temporary and would move elsewhere in response to wage hikes or the end of tax incentives. The fears have generally turned out to be exaggerated. Typically, only very simple assembly activities (primarily apparel and some electronics) have been footloose. Others, particularly in the automobile industry, built local capabilities, with the sunk costs inducing them to upgrade technologies rather than relocate as wages and other costs rise. Large shifts in comparative advantage would force facilities to close or move, but it is not clear that foreign affiliates are more prone to do this than comparable local firms.

Loss of economic control remains a risk, but how much of a risk is difficult to assess. Most governments seem to consider it less important today—the “tolerance threshold” for FDI has risen with experience. That threshold varies by country, region and over time, but there is a general trend for it to rise. Still, countries have legitimate concerns about the vulnerability of their domestic economies to changes in attitude or strategy by TNCs that can impact on their economic prospects.

Also affecting policy on FDI entry today: the world has changed. When the Republic of Korea or Taiwan Province of China used FDI restrictions

to promote domestic firms some 20–30 years ago, technical change was slower and national production systems were not so highly integrated. The costs of keeping FDI out have risen considerably. Technical change is faster. FDI is the dominant form of technology transfer. And integrated production systems are much more prominent, particularly in the most dynamic export products (*WIR02*). So restricting FDI can reduce access to technology and some of the other main drivers of competitiveness.

The conclusions, therefore, must be nuanced. The evidence suggests that there may be good economic reasons for restricting FDI or liberalizing entry selectively and gradually. But that tool has to be used carefully. In the new global setting, strong regulations on market-driven resource allocation may deter FDI and create undesirable distortions in the host economy.

b. Post-establishment

Political and social preferences apart, there can be an economic case for restricting national treatment for foreign investors, resting on market and institutional failures. First, foreign affiliates may be more efficient, and denying them national treatment is a version of the infant enterprise argument. But denying foreign affiliates national treatment on infant enterprise grounds is justified only if the differentiation is limited in duration and local enterprises are able to become fully competitive. There is little economic justification for a long-term or open-ended policy of treating firms differently because of ownership. Host countries can also tap into the greater efficiency of foreign affiliates by insisting on local equity participation or high-level employment.

Second, foreign affiliates may have advantages over local firms—not because they are more efficient but because markets for credit and skills and so on are segmented, with foreign affiliates getting better terms simply because of their foreign ownership. Offering better treatment to local firms offsets the adverse effects of segmentation. But factor market segmentation should be tackled at source rather than by suppressing its symptoms (what economists call a "second best" response). If foreign affiliates are treated better in credit markets because banks are poorly informed about local borrowers, the solution is to improve banking practices. Preventing banks from lending to foreign affiliates may not ensure that credit is efficiently allocated. Note, too, that segmentation is difficult to distinguish from healthy commercial practice: banks may prefer foreign affiliates because they may be better credit risks or cost less to service. The use of a discriminating national treatment policy thus has to be carefully managed.

Third, foreign affiliates may need to be restricted from privileges that give them access to sensitive strategic information or technologies—or to activities of cultural and social significance. Resting on non-economic premises, this is difficult to evaluate. But it is an important argument, and many otherwise FDI-friendly governments, such as the United States, grant certain subsidies (say, for defence) for national firms.

Fourth, foreign affiliates may become dominant and abuse their market power. Preventing this is another "second best" solution. The best might be to strengthen competition policy rather than hold back some firms on grounds of ownership.

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In all this, government capacities are central. Discretionary instruments of any kind call for considerable skills, information, speed and flexibility in implementation. Moreover, FDI restrictions cannot be mounted in isolation from other capacity-building measures. Simply opening to FDI and removing restrictions is unlikely to be enough to stimulate sustained development. To benefit fully requires policies that encourage TNCs to make the best possible contribution to economic development. These policies go beyond national treatment in the post-establishment phase and involve encouraging the dissemination of the tangible and intangible assets of foreign affiliates to domestic enterprises and, more generally, national enterprise development policies.

4. National treatment in IIAs

The great majority of IIAs preserve full host-government control over admission and establishment, while granting national treatment in the post-establishment phase of an investment. This is the approach in most BITs: to encourage the contracting parties to promote favourable investment conditions, while leaving the precise conditions of admission and establishment to national laws and regulations (Dolzer and Stevens 1995, pp. 50–57; UNCTAD 1998a, pp. 46–48).

Early regional IIAs between developing countries also used this approach, but some went further in introducing a coordinated or common investor-screening regime (Andean Pact and the Customs and Economic Union of Central Africa).[24] The 1967 OECD Draft Convention on the Protection of Foreign Property (UNCTAD 1996b, vol. II, pp. 113–119) left the matter of admission

and establishment to the discretion of member countries. More recently, the Energy Charter Treaty extended national treatment to the post-entry stage, but left its application before entry to a subsequently negotiated supplementary agreement (UNCTAD 1999a, pp. 41–42; Wälde 1996; Wälde and Weiler 2002; Andrews-Speed and Wälde 1996).

Some recent IIAs contain the right of establishment based on a combined national treatment and MFN standard. These include the BITs between the United States and developing countries (and, more recently, between Canada and developing countries), the 2002 economic partnership agreement between Japan and Singapore and the free trade agreement between the United States and Singapore. Exceptions are dealt with through a negative list of industries, for which rights of admission and establishment do not apply. An increasing number of regional agreements offer full reciprocal rights of admission and establishment to firms from member countries, as with MERCOSUR and ASEAN. NAFTA's liberalization also combines national and MFN treatment with negative lists.

So far the GATS is the only multilateral agreement that allows countries to bind themselves on admission and establishment. It does so flexibly, by using a positive list of service activities to which the right applies. The right to national treatment then applies only to those scheduled activities—and only to the extent specified by the host country in its schedule of national treatment commitments.[25]

The great majority of IIAs provide for national treatment in the post-establishment phase of an investment. There are, however, two important issues: the situation to which national treatment applies and the definition of the standard. The standard in many IIA provisions is applied to "like situations", "similar situations" or "like circumstances"; what constitutes a "like" or "similar" circumstance or situation is an issue that needs to be determined case-by-case. But some IIAs do not contain an explicit reference to "like circumstances". Instead, they may refer to specific activities to which national treatment applies. Other agreements are silent on this, offering a wider scope for comparison without any limitation to "like circumstances" or specific activities (UNCTAD 1999b, pp. 29–34).[26]

On the second issue, the dominant trend is to offer treatment "no less favourable" than accorded to domestic investors, though some agreements refer to "same" or "as favourable as" treatment (UNCTAD 1999b, pp. 37–40).[27] The latter offers a lower standard of investor protection in that, to meet the standard, the host country need only accord treatment that is no worse than that offered to domestic investors in like or similar circumstances. The "no-less-favourable" standard goes beyond that: where treatment accorded to domestic investors falls below certain international minimum standards, the foreign investor may be treated more favourably.

Current developments in international legal practice are seeing a shift in dispute settlement from expropriation to national treatment. Three main questions arise. When are two situations really alike? When is treatment "less favourable" to the foreign investor? What is the policy justification for the alleged difference in treatment? A fourth question is whether there is a need for proof of the intention to discriminate by a host country.

Recent decisions under NAFTA have followed WTO jurisprudence on national treatment in trade cases and treated the first question as one of fact, to be decided case-by-case, centring on whether the foreign and domestic investors are in the same economic or business sector. The second question requires that the treatment, under the "no-less-favourable treatment" formulation in NAFTA, be no less favourable than the best treatment accorded to the domestic competitor.

The third question has been approached through a consideration of the objective, design and architecture of the measure as indicating the intention of the host government (Weiler 2002).[28] This case law approach has difficulties. How far should rules dealing with discrimination against goods based on national origin apply to discrimination against an investor on the grounds of their nationality? In addition, the factual contexts of several cases involved an inhibition on the ability of the claimant to provide a cross-border good or service.[29] They did not involve an impairment of the ability to manage, operate, control or dispose of its investment. Perhaps explaining this is that individuals have no rights to bring claims against parties to NAFTA under the trade rules, but only under the investment rules (Menaker 2002).

Both pre- and post-establishment national treatment are generally subject to exceptions. General exceptions may be based on national security, public health or morals. Specific exceptions may be in fields requiring reciprocal treatment by the home countries of investors, as with taxation or intellectual property. Exceptions can also relate to national policy measures like culture or the environment, incentives or public procurement and specific industries.[30] Exceptions based on economic development are particularly

important for developing countries. General exceptions can apply to both pre- and post-establishment phases; country-specific and "generic" exceptions apply to pre-establishment only. There are also differences among sectors: services in general are more prone to exceptions to national treatment than manufacturing industries. Leading examples of a wide-ranging use of exceptions are NAFTA and the OECD Code of Liberalisation of Capital Movements.

5. Options for the future

The core development issues here are, first, the extension of national treatment to the pre-establishment phase of an investment and, then, how much flexibility developing countries should have in the application of the principle in the post-entry phase. The liberalization of foreign admission and establishment has until now been largely unilateral. While developing countries have gone far in opening their economies to FDI, most remain cautious about binding themselves in IIAs to preserve flexibility in pursuing development objectives. Enshrining systematically an extension of national treatment to the pre-establishment phase in future IIAs would represent a major policy shift. But even if that should occur, IIAs can be framed to permit countries to retain flexibility on allowing entry—they can specify the industries into which foreign investors can enter freely (the positive list) or at a minimum they can exclude selected activities from entry (the negative list). In either case limitations and conditions can be attached.

It is, however, common to offer national treatment in the post-establishment phase. The key issue here is what scope exists for exceptions, especially on development grounds.

The two forms of national treatment are furthermore independent of each other: granting pre-establishment national treatment does not affect the post-establishment treatment offered to foreign investors.

Maintaining flexibility is an important matter for many countries. At its core is the desire to preserve their ability to determine the pace and conditions of liberalization. The mechanisms to protect this ability include best-endeavour commitments, a GATS-type positive list approach and exceptions (box IV.2). Decisions need to be made in the context of the development objectives that countries pursue and the tradeoffs that have to be considered.

Box IV.2. The impact of NAFTA on Mexico's policy on admission and establishment

NAFTA membership contributed to Mexico's long-term policy of liberalizing the admission and establishment of FDI in the context of a broader policy to increase the role of FDI in economic development. NAFTA's investment provisions allowed Mexico to retain certain FDI admission and establishment restrictions for economic and non-economic purposes (protecting domestic SMEs and national culture). Because investment was part of a much broader set of issues, agreement on it needs to be seen in this wider context.

Before NAFTA

Mexico started to liberalize its FDI regime prior to NAFTA. But it still restricted foreign entry and foreign equity shares of Mexican companies in some activities for cultural, security and political reasons and for such socioeconomic objectives as the protection of domestic SMEs, income distribution and domestic enterprise development.

The bans and restrictions fell into three categories:

- *Activities reserved for the State in whole or in part*: petroleum and other hydrocarbons; basic petrochemicals; telegraphic and radio-telegraphic services; radioactive materials; electric power generation; nuclear energy; coinage and printing of money and postal services.
- *Activities reserved for Mexican nationals*: retail sales of gasoline and liquid petroleum gas; non-cable radio and television services; credit unions, savings and loan institutions; development banks; certain professional and technical services and non-rail land transportation within Mexico of passengers and freight, except for messenger or package delivery services (but foreign majority stakes in companies providing point-to-point-trucking services were permitted).
- *Activities with ownership restrictions*: the most important among these were airlines (25%) and cable-TV (49%). Approval was needed for foreign ownership to exceed 49% in cellular telephone services, banking, and oil and gas pipelines.

When NAFTA negotiations began, FDI restrictions were scattered through many pieces of legislation. There was nothing mentioned specifically about standards of treatment of foreign investors in the 1989 FDI regulations and little is known about the practice with respect to treatment (Graham and Wilkie 1999).

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Box IV.2. The impact of NAFTA on Mexico's policy on admission and establishment (concluded)

NAFTA's effect on Mexico's policy on admission and establishment

NAFTA took Mexico's FDI liberalization a step further, using the negative list approach. It introduced national treatment standards and extended them to the pre-establishment phase (except in areas reserved for Mexican nationals and the State). Now, all investors (except financial institutions) benefit from national treatment. NAFTA also made Mexico's policies more transparent, giving United States and Canadian investors greater security (Rugman 1994, p. 53). It also gave Mexico the opportunity to consolidate many of the changes to its admission, establishment, treatment and protection of foreign investment in a new Foreign Investment Law enacted in 1993.

How did NAFTA affect Mexico's right to retain existing bans and ownership restrictions on FDI and introduce new ones in the future? NAFTA incorporated existing restrictions in the lists of specific country reservations taken by all NAFTA parties. Mexico reserved the right to adopt any measures (including FDI measures) in entertainment, telecommunication and social services. But it could not introduce any discriminatory admission or establishment measures in "unreserved" activities, particularly against United States and Canadian investors, without breaching the agreement.

Increasing the economic benefits

One of the Mexico's objectives in NAFTA was to increase the economic benefits from FDI. NAFTA did this in two ways. First, it raised the confidence of United States and Canadian investors and so encouraged their investment in Mexico. Second, by giving free access to the United States and Canadian markets (coupled with the rules of origin), it created an incentive for other investors (apart from Canadian and United States ones) to set up facilities in Mexico. The result: FDI in Mexico rose significantly, especially into export-oriented manufacturing (*WIR02,* pp. 173–176). Bear in mind, however, that NAFTA is a broad regional integration scheme, not just an IIA—so several factors come into play.

Did NAFTA hinder Mexico's FDI policies, especially its right to regulate? It did not stop Mexico from retaining existing restrictions or introducing new ones in the areas agreed on during negotiations. It did prohibit Mexico (and the other two countries) from making existing regulations on admission and establishment more restrictive for United States and Canadian FDI, except in reserved areas.

Source: UNCTAD.

C. Nationalization and expropriation

Nationalizations and expropriations ("takings of property") are the oldest issue in FDI regulation. Indeed, major takings of foreign-owned property in the 20th century led to rules of customary international law that sought to establish the conditions under which such takings could be lawful. Taking property is lawful if it fulfils three basic criteria: it must be for a public purpose, be non-discriminatory and give rise to the payment of compensation. These basic principles have been universally accepted, and many countries refer to them these days as the legal basis for their national laws and practices. They are also extensively referred to in the provisions of IIAs. In addition, some IIAs require that a taking must be in accordance with due process of law.

Until recently, the main controversy was over the precise compensation payable on nationalization or expropriation. This has now been joined by the extent to which indirect takings, including so-called "creeping expropriation" and "regulatory takings", should be covered by protection standards.

1. The sensitivity of indirect takings and national policy dilemmas

Direct takings of property, involving the transfer of the physical possession of an asset as well as the legal title, can take various forms, ranging from outright nationalizations in all economic sectors or on an industry-wide basis, to large-scale takings of land by the State, or specific takings (expropriations).[31] Indirect takings include creeping expropriations, involving an incremental but cumulative encroachment on one or more of the range of recognized ownership rights until the measures involved lead to the effective negation of the owner's interest in the property (UNCTAD 2000b, pp. 11–12; Dolzer 2002). They also include regulatory takings, in which the exercise of governmental regulatory power—the power to tax

or to control operations for environmental protection—diminishes the economic value of the owners' property without depriving them of formal ownership. Distinguishing between the two types is not always easy (Sornarajah 1994, pp. 278–294).

In addition, the notion of indirect takings is itself problematic, given the ever increasing and changing conception of property rights and, in particular, of the social function of property. Against this background, governments have broad powers of regulatory intervention so as to ensure the subjection of private property to the public interest. These powers are highly complex. In the circumstances, indirect takings may be better understood by looking at the results of a governmental action rather than defining the process by which the result is reached.[32]

It is fairly easy to identify acts of outright nationalization or expropriation. They are normally carried out on a given date and on the basis of an explicit national policy. Not so for creeping expropriations. They are usually carried out under the guise of a policy in which the deprivation of the owner's property is not an explicit purpose, and they do not necessarily have a clear date when it can be said that the owners have been deprived of their title to the expropriated property.

For example, the Iran–United States Claims Tribunal had to assess whether emergency measures taken in 1978–1979 in the wake of the revolution in the Islamic Republic of Iran to preserve United States-owned commercial property, after its United States managers had fled, amounted to an indirect taking by the State.[33] Another example may be the action of a host country to intervene in a failing foreign-owned company to protect various stakeholders against an impending bankruptcy (Sornarajah 1994, pp. 306–307). If this effectively deprives the owners of their ability to control the company can this be said to amount to a "creeping expropriation"?

The major difficulty that such cases create is how to identify the point at which a process of governmental action changes to an incremental deprivation of an owner's rights, such that the deprivation becomes the subject of a duty to compensate.[34] If that definition is drawn too widely it will catch entirely legitimate regulatory and administrative action.

Regulatory takings are particularly sensitive because many government regulations can have an impact on the value of private property. So an expansive interpretation of "regulatory takings" can limit the national policy space by hindering a government's right to regulate, creating the risk of "regulatory chill", with governments unwilling to undertake legitimate regulation for fear of lawsuits from investors.[35]

The three main criteria of the lawfulness of takings may give rise, in principle, to certain disagreements between investors, both foreign and domestic, and host countries. In some cases, for example, investors challenge the public purpose of a taking before an arbitral tribunal or the courts. In most cases, however, it is difficult to prove a total lack of public purpose. In addition, potential disagreement can arise from the way non-discrimination is interpreted and applied in the case of individual takings.

As for the issue of compensation, a distinction must be made between the standard of compensation on the one hand and the method of calculation on the other. The former issue is practically always addressed in IIAs, whereas the latter issue has received less attention. There is no hard and fast agreement among States as to the appropriate level and method of calculating the compensation payable upon a nationalization or expropriation. The approach taken under national law is within the discretion of the State concerned. However, this can lead to disputes over compensation at the international level where States may differ over the correct approach to compensation (UNCTAD 2000b, pp. 13–14).

In relation to regulatory takings, the national practice of countries does not always provide clear answers to the questions raised (Dolzer 2002, pp. 68–69). Even in a deregulated, liberal market environment, investors need to observe certain basic standards of good market behaviour, as prescribed for example by competition rules, and sound practices in areas of concern to public policy whether these involve the protection of the environment, public health, morals, consumers or the promotion of development. Given that public policy goals may not always be achieved through voluntary compliance on the part of private owners of productive assets, a degree of regulation by the State is inevitable.[36]

The major problem today is to distinguish between a legitimate exercise of governmental discretion that interferes with the enjoyment of foreign-owned property and a regulatory taking that requires compensation. This requires a balance to be struck between:

- Achieving the public policy goals of a regulatory regime, which could reduce property values—or values potentially generated in the absence of regulation by unregulated business entities.
- Preserving the economic value of the productive assets of those entities.

Where the interference with private property rights violates the legitimate rights or expectations of owners, the State may need to provide compensation. But where a measure is undertaken as part of the right to regulate in the public interest, compensation may not be due. Similarly, where a measure is penal, confiscation without compensation may be a part of the sanction to be visited on the owner because they violate required regulatory or criminal standards.

2. Coverage in IIAs

Most IIAs contain provisions on taking property, generally defining a "taking" as including traditional notions of nationalization or expropriation as well as creeping expropriations and regulatory takings (UNCTAD 2000b, pp. 19–24). The indirect taking may or may not be qualified by a carve-out for normal regulatory powers, as in the areas of taxation, intellectual property rights and public debt. If such a clause is included, it may subject the carve-out to an obligation that the regulatory powers must be non-discriminatory (UNCTAD 2000b, p. 23).[37] Furthermore, the majority of such agreements require observance, by the contracting parties, of the principal elements of a lawful taking: public purpose, non-discrimination and compensation (UNCTAD 2000b, pp. 24–26). In addition, some agreements refer expressly to the need for observance of due process. [38]

However, there is no uniformity on the standard of compensation to be applied, reflecting an absence of full consensus among States on this issue and, also, the relative bargaining positions of parties to IIAs. Some agreements refer to "appropriate" or "just" compensation, while others refer to "prompt, adequate and effective" compensation or similar phrasing. The trend in recent years has moved towards the latter approach, in both bilateral or regional agreements (UNCTAD 2000b, pp. 26–31).

From a developmental perspective, recent practice in IIAs suggests that developing countries strive to strike a balance between offering reasonable protection to investors and retaining their right to regulate. The utility of IIAs in referring to takings of property has usually been judged for the effect on the investment climate in developing countries. Treaty-based controls over the scope and legal requirements of a valid taking of foreign-owned property are assumed to have been good for investment conditions. But international disciplines have sometimes been criticized as imposing too much control over the sovereign discretion to limit the enjoyment of private property in the public interest. Where a host country wishes to preserve discretion to discriminate, this may need to be protected under limited and transparent circumstances. The question remains whether the rules of expropriation or other standards of protection, such as non-discrimination, are the best way to offer some protection to investors while preserving the right to regulate.

The issue of compensation may attract renewed interest in light of the emergence of regulatory takings as an important issue. If regulatory measures give rise to compensation, two questions arise: first, when is compensation due and, secondly, how to measure the right amount? For example, if environmental measures were subject to a duty of compensation, could this not, in effect, insure the investor against compliance costs, or the costs of causing environmental harm, if the regulatory measure in question was seen as a regulatory taking? Equally, such a duty to compensate might inhibit a host country from enforcing its laws or from complying with international environmental agreements (UNCTAD 2000b, pp. 15–16).[39] These dilemmas lead governments to protect themselves through interpretative provisions, carve-outs or international review mechanisms—to permit a legitimate exercise of regulatory power.[41] So how will international arbitral tribunals develop the applicable principles in the course of settling disputes brought before them?

There is no one settled approach, but two are emerging (Dolzer 2002, pp. 79–90). The first is that the only relevant criterion for determining whether a regulatory taking requires compensation is the effect on the investor's property rights, without consideration of the public policy purpose behind the regulatory measure in question. That approach can be discerned in the Metalclad case (box IV.3) and the Santa Elena Case (box IV.4). The second is to consider both the effect on an investor's property rights and the public purpose behind the measure and to balance the two. This can be discerned in the S.D. Myers and the Feldman cases, in which the measure was not seen as a regulatory taking (box IV.3). The former approach gives more protection to the investor's property rights, while the latter allows more consideration of the regulatory intent.

Provisions on taking property can be expected in future IIAs. Indeed, given the need to determine the proper balance between legitimate regulation and undesirable interference with private property rights through regulatory acts, such provisions are likely to gain in importance. They are closely linked to the "right to regulate" in the context of the development priorities of host countries.[41]

One of the key policy choices is the definition of takings. The traditional "narrow" approach covers only the classical instances of direct takings. A more comprehensive definition includes some forms of indirect takings. Closely related is the boundary between the legitimate exercise of governmental regulatory activity, and regulatory takings (which require compensation). An affirmation of the right to regulate is the governing principle here. Another policy choice is how far IIAs should permit international review of takings by host country authorities: should these be subject to a prior requirement to exhaust domestic remedies or should international review be available as a matter of right?

Box IV.3. Regulatory takings under Chapter 11 of NAFTA—four cases

The problems associated with the issue of regulatory takings for national policy space can be illustrated by four cases brought by investors against host countries under Chapter 11 of NAFTA.

Case 1: Ethyl. In 1997 the Government of Canada passed legislation banning the use of the gasoline additive MMT from inter-provincial trade and importation into Canada. In 1998 the Ethyl Corporation, a United States importer of MMT into Canada, brought a claim challenging the legislation under Chapter 11 of NAFTA. The Government of Canada settled the claim out of court (without an award being issued by the arbitral tribunal), paying $13 million to Ethyl, the reasonable and independently verified costs and lost profits in Canada. Ethyl dropped its claims against the Government. The Ethyl case caused alarm over whether the investor protection provisions of NAFTA could be used to limit host country powers to regulate in the field of environment, public health or similar areas (UNCTAD 2000b, pp. 7–8).

Case 2: Metalclad. These fears were reinforced by the Metalclad Corporation vs. Mexico case. The claimant alleged (among other issues) that an investment in a landfill facility in Mexico had been taken by a measure tantamount to expropriation. Having been assured by the federal Government that the project had complied with all applicable environmental and planning regulations, it had been subsequently denied a construction permit by the local municipal authorities and the land in question had been declared a national area for the protection of rare cactus by the regional government. The Tribunal upheld this claim on the ground that the actions of the municipal and regional governments had denied the use of the property to the claimant, contrary to the assurances given by the federal Government, depriving the owner of the expected benefit in the property. This conduct also amounted to a denial of fair and equitable treatment. The Tribunal awarded a sum of $16.7 million in compensation. But the Government of Mexico launched a judicial review of the Tribunal's decision before the Supreme Court of British Columbia, the place of arbitration. That court set aside the award but upheld the finding that the regional government's decision to make the landfill site an ecological reserve was expropriation.

Case 3: S.D. Myers. Not all regulatory takings have been seen as measures tantamount to expropriation by NAFTA tribunals. In 2000 S.D. Myers, a United States company specializing in the remediation of PCB waste, brought a claim against the Government of Canada, alleging that it had violated Chapter 11 of NAFTA by promulgating an export ban on PCB waste, denying the claimant the opportunity to undertake PCB remediation business based on imports, from Canada, of such waste to its United States remediation facilities. The claimant argued that the ban had been applied in a discriminatory and unfair manner, in effect, favouring Canadian rivals not subject to the ban. The Tribunal found that Canada had violated the national treatment and fair and equitable treatment provisions of NAFTA. But it did not find this to be a case of an expropriation, as regulatory action was not usually to be treated as an expropriation. That did not rule out the possibility of a legitimate complaint on this ground. On the facts the border closure was a temporary postponement of the claimant's entry into the Canadian market for some 18 months.

Case 4: Marvin Feldman. Marvin Feldman, a United States national, brought a claim against Mexico alleging that his investment in a Mexico-based export company had been indirectly expropriated because he was forced to pay export taxes on exports of cigarettes from Mexico while his only appreciable Mexican-owned and controlled competitor received rebates on such taxes. The Tribunal did not uphold the claim of indirect expropriation, though it did find a violation of the national treatment standard. On the indirect expropriation claim, the Tribunal held that not every business problem of a foreign investor is an expropriation under NAFTA. NAFTA and principles of customary international law did not require a State to permit a "grey market" in the export of cigarettes. At no time had the relevant law, as written, afforded Mexican cigarette resellers a right to export cigarettes. The claimant's business remained under his control and he was able to profit from the export of other products. While none of these factors was conclusive on its own, together they tipped the balance away from a finding of expropriation.

Source: UNCTAD, based on ICSID Case No. Arb. (AF)/97/1; 30 August 2000 (www.worldbank.org/icsid/cases/mm-award-e.pdf); Supreme Court of British Columbia, "The United Mexican States v. Metalclad Corporation", 2 May 2001 (www.courts.gov.bc.ca/jdb-txt/sc/01/06/2001bcsc0664.htm); "North American Free Trade Agreement (NAFTA) arbitration: S.D. Myers, Inc. v. Government of Canada: text of the decision" Award of 12 November 2000, *International Legal Materials*, 40, 6 (2001), pp. 1408–1492; ICSID case no. Arb (AF)/99/1, 16 December 2002; see www.naftaclaims.com.

Box IV.4. Calculating compensation—the Santa Elena-Costa Rica arbitration

Consider the calculation of compensation in the ICSID arbitration between the Compania del Desarrollo de Santa Elena, a predominantly United States-owned company, and the Republic of Costa Rica. In 1978 the Government of Costa Rica expropriated land owned by the claimant under national regulations with the aim of expanding the Santa Rosa National Park—to make it large enough to act as a reserve for rare flora and fauna. There was no dispute about whether compensation was payable. The main issues concerned the date and the amount of compensation payable.

The Tribunal held that the proper date for calculating compensation was the date of the taking, 5 May 1978, not the present value of the property (regardless of any act of expropriation), as argued by the claimant. The parties agreed that the compensation should be based on fair market value but differed on the actual amount. The claimant asserted $6.4 million while the Government asserted $1.9 million. The Tribunal assessed the value of the assets at the relevant date as $4.15 million. Adding compound interest lost by the claimant as a result of the expropriation, the final award was $16 million.

In the course of the award the Tribunal noted that the fact that the measure was taken for the public purpose of environmental protection made no difference to the legal character of the taking for which full compensation, based on the fair market value of the expropriated land, had to be paid. Expropriation for environmental purposes was held to be no different from any other expropriatory measures. The Tribunal added that a measure that gradually deprives owners of the value of their property over time can be identified as the starting point of the expropriation, even where the deprivation of the economic value of the property to its owner does not take effect within a reasonable period of time.

Source: UNCTAD, based on ICSID Case No. ARB/96/1, Award of 17 February 2000.

D. Dispute settlement

The two key issues in dispute settlement concern the role of investor-State procedures in future IIAs and the extent to which the investment dispute settlement process is self-contained. IIAs normally have State-State dispute settlement provisions, but investor-State procedures are now being included more as well. That raises fears of frivolous or vexatious claims that could inhibit legitimate regulatory action by governments. Another issue is balancing national and international methods of dispute settlement. The second key issue concerns the isolation of investment disputes from existing State-State systems of dispute settlement, such as that in the WTO. Questions also arise as regards open and well-functioning procedures that can deal better with the developmental aspects of investment disputes.

1. National policies on dispute settlement in the investment field

The settlement of disputes between investors and host countries is central to national FDI policy. Usually, a host country provides dispute settlement procedures and remedies as a part of the general law of the land. But investors may, in some circumstances, prefer an internationalized approach to dispute settlement, usually arbitration between an investor and a host country. This can be ad hoc, with a panel and procedure agreed between the investor and the host country. Or there may be an institutional system of international arbitration for the dispute in question.

National policies on investor-State dispute settlement differ. Some require the exclusive use of national procedures and remedies.[42] Some require the prior exhaustion of domestic remedies in the host country before recourse to internationalized dispute settlement systems is permitted.[43] And some offer the investor free choice between national and international dispute settlement (UNCTAD 2003i).

National investment laws often expressly permit such internationalization of investment disputes by enshrining investor choice in a special dispute settlement provision in the FDI legislation.[44] But many FDI laws are silent on this.[45] In such cases, the investor is required to use the internal legal remedies available to them under host country law. The same is true of countries that have no FDI laws. In these cases international remedies may be available under the international treaty obligations of the host country in IIAs.

So a dispute settlement clause in a BIT that allows the investor choice between national and international procedures binds the host country as a matter of international legal obligation. Such an international obligation can also be made

enforceable before national tribunals where the investment contract between the investor and host country includes a dispute settlement clause that incorporates the country's international treaty obligations to allow the use of internationalized systems of dispute settlement.

2. Legal effectiveness

The effective settlement of any dispute, not just an investment dispute, often requires adopting the most speedy, informal, amicable and inexpensive method available. In recent years the emphasis has been on "alternative dispute resolution" mechanisms—avoiding procedures provided by the public courts of a country or of an international court. They usually include direct methods of settlement through negotiation or informal methods employing a third party, such as the provision of good offices, mediation or conciliation.[46] Arbitration can be an alternative dispute resolution mechanism, but its practical conduct may be only marginally different from that of a court proceeding (Merills 1998; Asouzu 2001, pp. 11–26).

So the first step in the resolution of any investment dispute is to use direct, bilateral, informal and amicable means of settlement. Only where such informal means fail to resolve a dispute should the parties contemplate informal third-party measures, such as good offices, mediation or conciliation. The use of arbitration should be contemplated only where bilateral and third-party informal measures have failed to achieve a negotiated result. Indeed, this gradation of dispute settlement methods is commonly enshrined in the dispute settlement provisions of IIAs.

The choice of a dispute settlement method is but one choice that the investor and State have to make when seeking to resolve a dispute. Another concerns the forum. Most recent BITs provide for some type of international dispute settlement mechanism to be used in relation to investment disputes. Foreign investors have traditionally maintained that, in developing countries, investor-State disputes should be resolved by internationalized dispute settlement governed by international standards and procedures. But host countries may perceive such an emphasis on international systems as a sign of low investor confidence, which may or may not be justifiable.

The willingness of the host country to accept internationalized dispute settlement may be motivated by a desire to show its commitment to creating a good investment climate. This may be of importance where the country has followed a restrictive policy on FDI and wishes to change that policy. In so doing, it should be entitled to expect that the internationalized system is impartial and even-handed.[47]

An institutional system of arbitration may be a more reliable means of resolving a dispute than an ad hoc approach. Once the parties have consented to its use, they have to abide by the system's procedures. These are designed to ensure that, while the parties retain a large measure of control over the arbitration, they are constrained from any attempt to undermine the proceedings. Furthermore, an award made under the auspices of an institutional system is more likely to be consistent with principles of procedural fairness applicable to that system—and so is more likely to be enforceable before municipal courts. Indeed, recognition of awards may be no more than a formality. One system has been developed for investment disputes between a host country and a foreign investor: the conciliation and arbitration procedures available under the auspices of ICSID.

3. Coverage in IIAs

Dispute settlement has evolved significantly in IIAs. In trade agreements, disputes centre on State-State issues pertaining to either a violation of trade rules under an applicable agreement or to the nullification or impairment of benefits arising from the agreement. For investment, State-State disputes arise over the interpretation and application of an IIA agreement. But IIAs differ from trade agreements in that they recognize disputes between investors and States, virtually unknown before the introduction of the ICSID system in 1965. Most bilateral and many regional agreements now include provisions on investor-State dispute settlement.

Provisions for State-State dispute settlement appear in almost all IIAs.[48] Some regional agreements contain provisions only for disputes arising between the parties, thus not covering disputes between a party and an investor of another party. This is the case for the 1997 EU–Mexico Partnership Agreement, the 1998 Framework Agreement on the ASEAN Investment Area and many of the Europe Agreements, Association Agreements and Partnership and Cooperation Agreements recently concluded by the EU.

The usual approach to investor-State disputes in IIAs is to specify that the parties to the dispute must seek an amicable negotiated settlement. Only where such an approach fails to resolve the dispute can they resort to arbitration. Most BITs and some regional agreements provide for the possibility of settling disputes by consultation and negotiation.[49] Some bilateral agreements also have as one of their

main purposes the provision of a consultation mechanism in a bilateral body.[50]

If amicable negotiations fail to resolve a dispute, international arbitration is usually the next step—either on an ad hoc or institutional basis. Agreements differ on the extent of choice. The precise terms of the agreement must be perused to determine which types and systems of arbitration are permitted.

Agreements also differ on the extent of investor choice over the applicable means of dispute settlement. Some agreements require agreement by both parties on the applicable method. But more IIAs now permit unilateral investor choice of a method if amicable means fail to resolve the dispute (UNCTAD 2003i). For this, many agreements refer to the ICSID system of investor-State dispute settlement. That system offers a structured procedure for international investment disputes covering jurisdiction, initiation of proceedings, establishment and selection of panels, choice of applicable law, rules of procedure and evidence and recognition and enforcement of awards (see UNCTAD 2003i; Schreuer 2001). The majority of BITs refer to ICSID arbitration or to a choice between ICSID and other international arbitration systems, most commonly the UNCITRAL Arbitration Rules (UNCTAD 1998a, pp. 94–95).

For regional agreements, Articles 1115–1138 of NAFTA provide for international arbitration of disputes between a party and an investor of another party. An investor may submit to international arbitration a claim that another party has breached an obligation under Chapter 11, or under certain provisions of the chapter on monopolies and State enterprises—and that the investor has incurred loss or damage from that breach. Article 1122 contains the unconditional consent of the parties to the submission of a claim to arbitration.

The investor can elect to proceed under the ICSID Convention, the Additional Facility Rules of ICSID or the UNCITRAL Arbitration Rules. Detailed rules are contained in these provisions on matters such as the constitution of arbitral tribunals, consolidation of claims, applicable law, nature of remedies, and finality and enforcement of arbitral awards. Several regional agreements follow this approach with certain modifications and with varying detail.[51]

Some other regional agreements—such as the 2000 Agreement between New Zealand and Singapore on Closer Economic Partnership and the 1994 Colonia Protocol on Reciprocal Promotion and Protection of Investments within MERCOSUR—also provide for international arbitration of disputes between a party and an investor of another party under the ICSID Convention but do not include as detailed rules as in the NAFTA.

After the choice of ad hoc or institutional arbitration, some further issues must be resolved: the procedure for the initiation of a claim, the establishment and composition of the arbitral tribunal, the admissibility of claims and the determination of the applicable law. Such issues may be directly addressed in the investor-State dispute settlement clause in an IIA. Or they may be left to determination either by the parties to the dispute when ad hoc procedures are chosen or by the instrument that governs the institutional system chosen by the parties. In addition, the resulting award must be a final determination, and it must conform to the requirements of a properly determined decision to be enforceable. Institutional systems of arbitration may provide procedures for enforcement and for the review of an award by another panel of arbitrators when there is an error claimed in the original award.

Last, the costs of arbitration must be determined, clarifying the allocation between an investor and the host country. Generally, the losing party bears the costs or they are shared. But in institutional systems of arbitration, the costs may be pre-determined by the administrative organs of that system. Even so, considerable discretion may remain.

4. Key issues and options for the future

The issues identified at the outset are taken up again here.

Including investor-State dispute settlement. In attracting FDI the inclusion of investor-State dispute settlement clauses in IIAs can help improve the investment environment by giving some reassurance to investors that their rights under the agreement can be backed up through third-party procedures of dispute settlement when amicable resolution proves elusive. For many investors an investor-State dispute settlement system is an essential part of an effective protection framework.

Indeed, recourse to investor-State arbitration may offer an alternative to the traditional international remedy of diplomatic protection. The latter converts an investor-State dispute into a State-State dispute, possibly, leading to an increased politicization of the dispute. Such politicization could hinder good relations between the home and host country—and between the host country and the investor—to the long-term detriment of the investment. Because the remedy

is discretionary, there is no guarantee for investors that the claim will be taken up by their governments. And in a complex TNC system, it may even be difficult to ascertain which government is entitled to exercise diplomatic protection, with the nationality of the investor being hard to establish. Because most disputes involve the host country and a locally incorporated affiliate of a foreign owned firm, the affiliate normally possesses the same nationality as the host country, making diplomatic protection difficult.[52] An investor-State dispute settlement system may also be in a better position to give awards. Why? Because it is better suited to assessing the issues and valuing compensation than a more general dispute settlement body with less experience in these types of claims.

The case for an investor-State system's enhancing a good investment climate can be overstated. Investors may be prepared to invest in host countries that do not offer such remedies where the return on investment could be high. Similarly, since diplomatic protection is discretionary and politically sensitive, it may be used with greater restraint. Conversely, because investor-State dispute settlement is a remedy of right in contemporary IIA practice, investors might initiate more disputes. That is why internationalized systems of dispute settlement must guard against frivolous or vexatious claims—safeguards that are usual in national courts and tribunals. There is little reason to depart from this practice in investor-State dispute settlement (box IV.5).

Dispute settlement cases have become very expensive. It is important that the award of damages against a host country be commensurate with the actual loss. Some recent arbitral tribunals have awarded large sums, so there is concern about the ability of developing countries to pay them.[53] The development impact of an award should be taken into account.

International arbitration itself can demand much in resources and expertise, possibly putting developing country parties at a disadvantage. Any international body must also be truly independent, not perceived as favouring investors over host countries or vice versa. Arbitrators should thus be drawn from a wide pool of experience and origin, to ensure a body representative of all the major interests in the investment process.

The trend towards internationalization needs to be balanced against the loss of sovereign control over dispute settlement. Local settlement might be left underused, retarding the development of local expertise, while increasing the costs (Asouzu 2001). So, requiring the prior use of local procedures (whatever the difficulties), before recourse to international procedures, becomes important. But recent IIA practice generally has not followed this approach. A possible disadvantage in requiring the prior exhaustion of domestic remedies is that the investor, after an unsatisfactory outcome, may have recourse to international arbitration, subjecting the host country's national court system to possible "second guessing".

Box IV.5. Investment arbitration and the control of claims made by investors

In the NAFTA case of *Azanian v Mexico* (ICSID Case No ARB(AF)/97/2, 1 November 1999), the termination of a contractual concession to supply solid refuse collection and disposal services to a local authority in Mexico was claimed to be an expropriation. The tribunal held that the termination could not amount to an expropriatory taking in violation of Chapter 11 of NAFTA because the Mexican authorities had not violated the international law standard embodied in NAFTA. The alleged breach had been reviewed by three levels of Mexican courts, and in none was the alleged breach affirmed. Without proof that the Mexican courts had breached Chapter 11, by violating international standards of due process through a denial of justice or a pretence of form, the claimant's case failed.

The case suggests that an investor-State mechanism should operate within the limits of international law and that its rules should be the only ones that determine whether a claim is valid. If a claim fails to show that an international standard, embodied in an IIA, has been breached by a host country, it has no right to success before an international tribunal. International law may thus check excessive claims by investors against host countries. Only the most serious claims, involving violations of international standards embodied in IIAs, should be brought before dispute settlement bodies.

Perhaps a penalty could be imposed on a claimant who brings a clearly unmeritorious claim before a tribunal. Or perhaps safeguards could be built into the procedure for determining the admissibility of a claim. Under the ICSID Convention a preliminary review by the Secretary General of ICSID determines whether the request for arbitration is manifestly outside the jurisdiction of ICSID. But this power relates to jurisdiction only. There is no power to determine whether the claim is sufficiently meritorious to warrant a full hearing. That is for the tribunal to decide.

Source: Schreuer 2001, pp. 458–459; Muchlinski 2000, pp. 1051–1052.

Dealing with cross-retaliation. The foregoing concerns are particularly relevant for IIAs that *only* have State-State dispute settlement mechanisms. To allow investor-State procedures would require a substantial reorientation, as for the WTO, should modalities be agreed upon to negotiate investment in that Organization. (The Doha Declaration expressly refers only to "disputes between Members" as a subject for clarification.[54]) To include investment dispute settlement procedures under these circumstances raises the possibility of cross-retaliation—for example, of increasing tariffs or introducing quotas to enforce compliance with an award against the losing State. This could have adverse consequences for the economic welfare of a developing country, doing disproportionate damage to its export earnings.

Countries could protect themselves against cross-retaliation by limiting it or indeed by not allowing it.[55] It is also possible to establish a separate self-contained dispute settlement mechanism (with appeal possibilities) for investment matters. Although ICSID already exists as a self-contained mechanism, it does not provide such wide-ranging functions, focusing instead on the settlement of individual disputes that come before it. In addition it has limited powers to review and annul the award of a tribunal that does not allow for a full appeal process (Schreuer 2001, pp. 891–893). Still, if governments so decide, it may be possible to broaden the competence of ICSID.

Procedures could also be established to prevent the use of retaliatory measures until all other alternative methods of enforcement have been exhausted. Such measures could be excluded until parties have held consultations over compliance, both bilaterally and with the intervention of the relevant dispute settlement body—to arrive at a mutually agreed compliance process. This would seek to reconcile the winning party's interest in enforcement with the losing party's essential development needs. In a climate of intense competition for FDI, as well as greater scrutiny of investor action, both parties have an interest in settling disputes amicably.

There is also a broader consideration: State-State procedures may be preferable to investor-State ones because a government could look at a dispute in the broader context of its entire relations with another government, rather than focusing on the narrower concerns of the investor claimant. But a problem could arise if only State-State procedures are available: an investor-State dispute could be introduced under the guise of a State-State dispute.[56] In this situation, the investor has all the resources of its home government at its disposal and (vice versa). (But even in this case, it is the government's decision to proceed with a case and, if it does, in what way.) Furthermore, if the claimant country is successful, how should the award be made, and would the home government pass on any advantages to the investor?[57]

Considering third parties. A final set of issues, raised especially by NGOs, concerns the participation of third parties who have a stake in the outcome of dispute settlement cases. For example, where an investor and a host country are in dispute over the application of environmental regulations to the investment, local communities affected by the environmental performance of that investment might wish to participate as interested third parties. This can be accommodated through rights of audience before national tribunals in countries in which there is a strong tradition of access to justice by interested third-party individuals or groups.

Where the investor exercises a treaty-based right to international arbitration, interested third parties may have no standing before such a body and will be denied the possibility of a hearing. But a limited right of third-party representation before international arbitral tribunals is beginning to emerge. The WTO Appellate Body has accepted a limited right for third-party participation through the submission of information and technical advice where the WTO panel feels this appropriate, though a panel is obliged to consider only the submissions made by the parties to the dispute (WTO Appellate Body 1998).

Given the significance of stakeholder perspectives on investment issues and disputes, particularly to the development dimension, this issue could be important in future IIAs. But if wider third-party rights of access to tribunals continue to grow, some safeguards against the manipulation of those processes might also be required—to prevent the raising of costs by way of "piling on" third-party interventions on one side or the other of the dispute.

Other measures could aim at enhancing good arbitral practice and the fullest possible review of the development dimension in investment disputes. For example, cases of disputes under IIAs, could be made public, as by ICSID. Procedures could also be more open and transparent, including public access to hearings, the full publication of awards and their reasons and the possibility of an appeal for awards that do not take place within an institutional system that already provides for this. Such issues are already being addressed by arbitral tribunal themselves.

Investment disputes are likely to increase, making dispute settlement procedures more important. But they need to safeguard against frivolous and vexatious claims, as well as cross-retaliation.

E. Performance requirements

Performance requirements can be an important policy tool to enhance the benefits of inward FDI, so developing countries seek to preserve their right to use them. But developed countries associate them with interventionist strategies of the past and question their effectiveness. The use of performance requirements has declined, and they are typically linked to some kind of incentives. Because there are valid economic arguments for using performance requirements in some circumstances, they are important in the negotiation of IIAs.

1. Why use them?

Performance requirements are stipulations imposed on foreign affiliates to act in ways considered beneficial for the host economy. The most common ones relate to local content, export performance, domestic equity, joint ventures, technology transfer and employment of nationals.[58] The requirements can be mandatory (say, as a pre-condition for entry or access to the local market) or voluntary (as a condition for obtaining an incentive). Requirements can be non-discriminatory, applied to all companies (local and foreign) or they can discriminate between companies by ownership (as an exception to national treatment) or even by particular nationality (as an exception to the MFN standard).

Their purpose is to induce TNCs to do more to promote local development—by raising local content, creating linkages, transferring managerial techniques, employing nationals, investing in less developed regions, strengthening the technological base and promoting exports. TNCs may be unwilling to use a location as an export base since it might compete with other parts of their production systems.[59] Or they may not be fully aware of local potential and so are less willing to invest in using local resources (instead of using production bases abroad). Performance requirements can induce them to explore local resources and, where necessary, invest in improving them.

Moreover, some countries following import substitution strategies tried to counterbalance the anti-export bias of the trade regime by introducing export performance requirements. Local content and joint venture and other requirements have been used to offset or pre-empt restrictive business practices by TNCs.[60] They have also been used to pursue such non-economic objectives as political or economic independence, shifting the distribution of power or securing rents from the exploitation of natural resources (UNCTAD 2003f).

2. Declining incidence

Performance requirements have been used extensively by a wide range of countries.[61] In developed countries, performance requirements were particularly used in the 1970s and 1980s in industries in which FDI was concentrated: electrical, transport equipment (especially automobiles), chemicals, non-electrical machinery and primary sector industries such as mining and petroleum.[62] For several reasons, the incidence of performance requirements by developed countries has declined over time (UNCTAD 2003f).[63] This does not mean, however, that developed countries stopped trying to influence the trade and investment behaviour of TNCs. To achieve similar objectives, they now use other strategic trade and investment policy instruments, such as rules of origin and locational incentives.[64] In the 1980s and early 1990s, voluntary export restraints were also used extensively by developed countries (Messerlin 1989; Prusa 1992).[65] These instruments, too, may have distorting effects on international trade and investment (Belderbos 1997; Moran 1998, 2002; Safarian 1993).

Developing countries also use performance requirements (UNCTAD 2003f; OECD 1989; WTO/UNCTAD 2002),[66] particularly because of their desire to promote infant industries and address balance-of-payments problems (UNCTC 1991; Bora 2002). A survey of some 400 European business executives recently noted that the highest incidence of performance requirements was in Brazil, China, India and Russia, all large developing countries or economies in transition (Taylor Nelson Sofres Consulting 2000). But the general policy trend resembles that of the developed countries: there is a declining incidence of performance requirements and a shift from mandatory requirements on investors to requirements linked to investment incentives (UNCTAD 2003f).[67]

The general trend to reduce mandatory performance requirements reflects several factors:

- WTO rules oblige members to abandon some measures—notably those covered by the TRIMs Agreement.
- Falling trade barriers and a more competitive environment for FDI make it more difficult to impose performance requirements without increasing the risk of deterring FDI and affecting competitive performance. Thus, mandatory requirements are now rarely applied in activities in which host countries are in a relatively weak

bargaining position for FDI, such as efficiency-seeking export-oriented FDI. Similarly, they are less used to promote local linkages in activities that feed into exports. Countries have generally shifted from sticks to carrots—they use incentives to induce foreign affiliates (and domestic firms) to operate in a way that promotes the type of development that is desired.

- There is a growing preference among governments for more market-friendly tools to meet development objectives.
- Some of the development objectives that governments sought to promote through performance requirements may now have been realized (UNCTAD 2003f).

3. How effective are they?

Broad comparisons of growth or export performance do not show whether the economic benefits of particular performance requirements outweigh their costs (administration, incentives and possible distorting effects). Comparisons with counterfactuals (what would have happened had certain performance requirements not been applied in a given situation) are even more difficult.

Even so, there is evidence that performance requirements can be effective. A number of studies have found positive effects of local content requirements (Balasubramanyam 1991; Wong 1992; Halbach 1989; Dahlman and Sananikone 1990), export performance requirements (Moran 1998; Rosen 1999; Kumar 2002), employment and training requirements (UNCTAD 2001i, 2003f) and domestic equity or joint venture requirements (UNCTAD 2003f, chapter III). By contrast, other studies have found that the measures imposed considerable costs on host countries, suggesting that the results have been inefficient (Moran 2002; Ernst and Ravenhill 2000; Ramachandran 1993; Urata and Kawai 2000; Hackett and Srinivasan 1998; UNCTAD 2003f). It appears that some countries used performance requirements uneconomically, forcing firms to act in a manner that led to higher costs and inefficiencies. But there are also cases where performance requirements were both effective and efficient— namely when local capabilities were high and the supply response was dynamic. And if the host country had strong attractions for FDI, it could impose more stringent requirements without putting off foreign investors.

Countries have to balance the potential benefits of performance requirements against the costs of creating inefficiency and the risks of deterring FDI. The evidence suggests that achieving the objectives of performance requirements depends largely on the clarity of these objectives, and the broader industrial and trade policies in which the requirements are set (UNCTAD 2003f). Particularly relevant are strong local enterprises, flexible and well-managed institutions and policies that support local capability development.

Also important are the capacity of officials to enforce requirements pragmatically, respond to changing conditions and needs and monitor their impact—not easy, even in advanced economies. Take Canada. The predecessor to the Investment Canada Agency, the Foreign Investment Review Agency, was responsible for implementing and monitoring performance requirements. Even with more than 130 employees, half of whom were professional or technical staff, it had difficulty performing its tasks properly (Safarian 1993).

From an international perspective, the impact of performance requirements on the patterns of trade and investment in third countries needs to be taken into consideration. The growth of local content in one host country, for instance, can adversely affect producers in other countries (which may be more efficient). And export performance requirements imposed by large countries may divert export-oriented FDI from smaller competing locations, which may not be in as strong a position to bargain with a potential investor. Such effects are relevant for IIAs.

4. Coverage in IIAs

Performance requirements have received more attention in IIAs over the past decade. They fall into three categories: those explicitly prohibited at the multilateral level; those prohibited, conditioned or discouraged by interregional, regional or bilateral (but not by multilateral) agreements and those not subject to control by any international agreement.

At the multilateral level, the WTO TRIMs Agreement prohibits certain performance requirements considered to be trade distorting: local content requirements, trade-balancing requirements, restrictions on foreign exchange inflows attributable to an enterprise and export controls.[68] The Agreement prohibits not only mandatory TRIMs but also those linked to an advantage. It applies equally to measures imposed on domestic and foreign enterprises. With the transition periods for phasing out measures agreed for developing countries and LDCs having expired, the Agreement's provisions apply to all WTO members, except those granted an extended transition period.[69] Export performance requirements linked to the receipt of a subsidy are furthermore restricted

under the WTO Agreement on Subsidies and Countervailing Measures. They are prohibited for developed countries and generally for middle income developing countries as of 1 January 2003, with some exceptions.[70]

Both these agreements apply only to measures related to trade in goods. In services, by contrast, the scheduling approach of the GATS (based on a "positive list" combined with the ability of individual countries to schedule specific limitations to market access and national treatment) gives countries the flexibility to use performance requirements.[71]

At the bilateral and regional levels, IIAs traditionally have not addressed performance requirements. But this has started to change.[72] Some countries restrict a wider range of performance requirements than those in the TRIMs Agreement (table IV.1). For example, NAFTA forbids domestic equity requirements, export performance requirements (in goods and services) and requirements to transfer technology, production know-how or other proprietary knowledge for investments by investors from both parties and non-parties.[73] MERCOSUR bans requirements to export and source goods or services locally. BITs and free trade agreements involving the United States and Canada restrict the use of additional performance requirements.

5. Options for the future

The treatment of performance requirements in IIAs remains controversial, and there is no consensus either on their effectiveness in helping countries to promote development, or conversely on their distorting effects. Some host developing countries consider performance requirements to be an effective development tool and perceive the disciplining of performance requirements as undue interference with their policy space. Others, mostly developed home countries, believe that such restrictions are necessary to avoid distorting patterns of trade and investment.

As part of the review of the TRIMs Agreement (as stipulated in Article 9), countries may leave the treatment of performance requirements unchanged or renegotiate its provisions.[74] Such renegotiations could change the coverage of investment measures in the Agreement. But to do that, countries would first have to agree on a modification of the coverage of Article 2 for the types of measures that would be subject to the prohibition set out in this Article. Currently, Article 2 refers only to measures deemed inconsistent with Articles III and XI of GATT 1994.[75]

Renegotiation could also focus on ways to extend the transition period or to allow for a new transition period, including criteria for phasing out inconsistent measures that could be applied to countries at different levels of development. (One such criterion could be reaching a certain level of GNP per capita.) As noted, the phase-out periods established under Article 5.2 have already expired for all WTO members. But eight WTO members have been granted an extension of the transition period, which will in turn have expired by the end of 2003. These extensions were given on the condition that the remaining TRIMs be effectively eliminated at the end of the extended period.[76]

There is a considerable divergence of views on how best to proceed. Some developing country governments advocate reopening the TRIMs Agreement to reduce its coverage, make it more flexible and allow greater policy space for governments to decide whether to use performance requirements. For example, in a communication to the WTO, Brazil and India advocated reopening the TRIMs Agreement to increase policy flexibility and to allow developing countries greater freedom in implementing their development policies to promote domestic manufacturing capabilities, technology transfer and competition, for example. The proposal notes that one option could be to extend the range of situations in which developing countries are allowed to deviate from Article 2.[77]

Some developed country governments maintain that further international regulation of performance requirements under the TRIMs Agreement is desirable. The United States, for example, has argued in favour of an expansion of the list of restricted TRIMs to include exports, technology transfer and product mandating requirements.[78]

Some academic experts (such as Moran 2002) maintain that the banning of additional mandatory requirements would be in the interest of developing countries since such policy instruments can deter inward FDI, although as indicated above there is no conclusive evidence for this proposition. Other scholars take the opposite view and caution against further regulation on the ground that host countries may deliberately choose to use performance requirements and take the risk of reducing FDI for the sake of specific development objectives (Balasubramanyam 2002). They also note that the incidence of mandatory requirements has declined even in the absence of multilateral rules restricting their use. This may suggest that developing countries are themselves best positioned to determine the usefulness of various requirements in the light of their specific

Table IV.1. Examples of IIAs prohibiting various types of performance requirements not covered under the TRIMs Agreement

Type of prohibited measure	NAFTA, 1992	Draft MAI	US-Croatia BIT, 1996[a]	Canada-Chile FTA, 1996[b]	El Salvador-Peru BIT, 1996	US-Jordan BIT, 1997	Canada-Croatia BIT, 1997[b]	Mexico-Nicaragua, FTA, 1997	US-Bahrain BIT, 1999	US-El Salvador BIT, 1999	Dominican Republic-Ecuador BIT, 1998	Chile-Mexico FTA, 1999	Mexico- El Salvador, Guatemala, and Honduras FTA, 2000	Japan-Republic of Korea BIT, 2001	Chile-US FTA, 2003	EFTA-Singapore, 2002	Japan-Singapore Economic Partnership, 2002	Chile-Republic of Korea, FTA, 2003	United States-Singapore FTA, 2003	Chile-EU Asssociation, 2003
Establish a joint venture with domestic participation		x														x				x
Requirements to locate headquarters for a specific region or the world market		x												x			x			
Requirements to export a given level or percentage of services	x	x	x	x	x	x		x	x	x		x	x	x	x		x	x	x	
Employment performance requirements		x												x						
Requirements to supply services provided to a specific region of the world market exclusively from a given territory		x	x		x	x			x	x				x			x		x	
Requirements to act as the exclusive supplier of services provided	x			x				x				x	x						x	
Requirements to transfer technology, production processes or other proprietary knowledge	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x		x	x	x	
Research and development requirements		x	x			x			x	x				x			x			
To restrict sales of services in its territory that such investment produces or supplies by relating such sales in any way to the volume or value of its exports or foreign exchange earnings	x	x	x	x	x	x		x	x	x		x	x	x	x		x	x	x	
To purchase or use services provided in its territory, or to purchase services from natural or legal persons in its territory	x		x	x	x	x	x	x	x	x	x	x	x	x			x	x	x	
Appointment to senior management positions individuals of any particular nationality	x	x	x	x		x	x	x	x	x	x	x	x	x	x			x	x	
Require labour certification, academic certifications or other procedures of similar effect			x		x	x			x	x										
Numerical restrictions in the form of quotas														x [c]		x				x

Source: UNCTAD.

a Most of the recent BITs signed by the United States contain clauses prohibiting similar measures, for example the BITs with Azerbaijan (1997), Bolivia (1998), Lithuania (1998), and Mozambique (1998).

b Most of the recent BITs signed by Canada contain clauses prohibiting similar measures, for example the BITs with Romania (1996), Ecuador (1996), Panama (1996), Egypt (1996), Lebanon (1997), Thailand (1997), Croatia (1997), Armenia (1997), Uruguay (1997), and Costa Rica (1998).

c Pursuant to Article 8 (2) of the treaty, the party seeking to introduce such measure may do so if (a) it notifies the other contracting party of its intent to apply the restriction no later than 60 days before the intended date of the implementation of the restriction; and (b) upon request by the other contracting party before the implementation of the restriction.

Note: Apart from the four performance requirements measures prohibited by the TRIMs (local content requirement, trade-balancing requirements, foreign exchange restrictions related to foreign exchange flows attributable to an enterprise and export controls), countries have continued to include other specific prohibitions in their bilateral and regional agreements. This table is an example of some of the instruments concluded between 1996 and 2003 that have introduced express provisions prohibiting certain types of performance requirements. The NAFTA and draft MAI are included for reference purpose. For additional examples of other agreements see UNCTAD 2001i.

resource endowments and development objectives.[79]

Another relevant question relates to the interaction between the rules governing the use of performance requirements and the application of non-discrimination clauses in IIAs (see also box V.4). The scope of governmental discretion in granting performance requirements is regulated by investor protection standards voluntarily adopted by a country party to the IIA. In particular, non-discrimination standards normally require that performance requirements be applied in a way that does not discriminate between different investors in like circumstances. But this general standard can be subject to qualifications and exceptions that preserve a degree of policy space for differential treatment in appropriate cases. So, much depends on the actual content of the IIA and on the balance of obligations undertaken by the host country in this regard.

International rules on performance requirements are linked to other trade and investment policies that may also give rise to distortions. This is particularly true of location incentives. There is now a regulatory imbalance in IIAs between provisions that limit the use of performance requirements (applied mainly by developing countries) while omitting provisions to discipline the use of location incentives (notably in the form of up-front grants provided mainly by developed host countries) (Moran 2002). As discussed in the next section on investment incentives, incentive-based competition for FDI may put developing countries at a disadvantage (*WIR02*).

The use of rules of origin and other strategic policies also affects third countries, so these need to be taken into account when discussing performance requirements in future IIAs. It may sometimes be more difficult for developing countries to have recourse to other policy instruments (such as strategic trade policies) to influence TNC behaviour.

As long as governments are aware of the possible costs of performance requirements, they could be left free to weigh their benefits and costs, subject to existing international commitments. Indeed, further discussions on the treatment of performance requirements in IIAs need to recognize the right of developing countries to regulate and allow sufficient policy space for the pursuit of development objectives.

F. Incentives

Investment incentives induce new investors to establish a presence, to expand an existing business or not to relocate elsewhere. They may also be provided to increase the benefits from FDI by stimulating foreign affiliates to operate in desired ways or to direct them into favoured industries or regions. As the use of investment restrictions has declined, incentives have become more prevalent across the world, especially because the market for FDI in some industries has become global.

In general, IIAs do not address the use of incentives directly, though the principle of non-discrimination may apply to them. The WTO Agreement on Subsidies and Countervailing Measures may also apply to subsidies offered to foreign investors if they relate to activities in trade in goods. And a few agreements have “no-lowering-of-standards” clauses. Still, host countries usually retain considerable discretion in the use of incentives, permitting them to differentiate investment by industry, size and location, for example. In addition, IIAs may include exceptions to allow for differential treatment of investors in like circumstances.

1. Why use them?

Governments use three main categories of investment incentives to attract FDI and benefit more from it (UNCTAD 1996a): financial incentives (such as outright grants and loans at concessional interest rates), fiscal incentives (such as tax holidays and reduced tax rates) and other incentives (such as subsidized infrastructure or services, market preferences and regulatory concessions, including exemptions from labour or environmental laws). Incentives can be used for attracting new FDI to a particular host country (locational incentives)[80] or for making foreign affiliates in a country undertake functions regarded as desirable such as training, local sourcing, R&D or exporting (behavioural incentives). Most incentives do not discriminate between domestic and foreign investors, but they sometimes target one of the two. In some countries, such as Ireland, the entire incentive scheme was geared to FDI for a long period.[81] Incentives may also favour small firms over large, or vice versa. They are offered by national, regional and local governments.

The main reason for providing incentives is to correct for the failure of markets to capture wider benefits from externalities of production. Such externalities may be the result of economies of scale, the diffusion of knowledge or the upgrading of skills. They may justify incentives to the point that the private returns equal the social returns (a difficult calculation). Major incentive packages have also been justified on the grounds that the attraction of one or a few "flagship" firms would signal to the world that a location has an attractive business environment and lead other investors to follow.[82] From a dynamic perspective, incentives can reflect potential gains that can accrue over time from declining unit costs and learning by doing. They can also compensate investors for other government interventions, such as performance requirements, or correct for an anti-export bias in an economy arising from tariffs or an overvalued exchange rate. And they can compensate for various deficiencies in the business environment that cannot easily be remedied (UNCTAD 1996a, pp. 9–11).[83]

When considering incentives, governments need to take various cost aspects into account—of different kinds.

- One risk is offering incentives to TNCs that would have invested anyway, so the incentive is a mere transfer from governments to companies (or, in some circumstances, to the treasuries of the home countries).
- Where a fiscal incentive is offered, costs may include revenues forgone by the government,[84] while financial incentives imply a disbursement of public funds to the investor in question, closing the opportunity to use those funds for other purposes, such as improving the infrastructure or training the workforce (locational determinants that enhance the ability of countries to attract sustainable FDI).
- Incentives give rise to administrative costs, which tend to increase as the discretion and complexity of schemes increase.
- There are potential efficiency losses if firms are induced to locate where incentive-based subsidies are most generous and not where locational factors might otherwise be most favourable to an efficient allocation of resources.
- Incentives may sometimes give rise to unintended distortions by discriminating between firms that are relatively capital-intensive and those that are relatively labour-intensive, between projects of different cash-flow profiles or between large and small firms (UNCTAD 1996a; Moran 1998).
- Tax incentives may induce TNCs to use transfer pricing to shift profits to locations with the most generous tax conditions, eroding the tax base in several host countries.

2. Incentives-based competition for FDI intensifies

The use of locational incentives to attract FDI has considerably expanded in frequency and value. The widespread and growing incidence of both fiscal and financial incentives is well documented until the mid-1990s (UNCTAD 1996a; Moran 1998; Oman 2000), and anecdotal evidence since then suggests that this trend has continued (*WIR02*; Charlton 2003). In general, developed countries and economies in transition frequently employ financial incentives, while developing countries (which cannot afford a direct drain on the government budget) prefer fiscal measures (UNCTAD 1996a, 2000g).[85]

The expanded use of incentives reflects more intense competition, especially between similar and geographically proximate locations. Governments seeking to divert investments into their territories often find themselves part of various "bidding wars", with investors playing off different locations against each other, leading them to offer ever more attractive incentive packages to win the investment. Bidding wars are typically regional or local, reflecting competition between different countries, or between regions, provinces or cities within a country. For example, in the United States, more than 20 States have sometimes competed for the same FDI project, and more than 250 European locations competed for a BMW plant, which in 2001 ended up in Leipzig, Germany. For developing countries and economies in transition, bidding wars have been documented, for example, in Brazil and among ASEAN countries, among provinces of China as well as in CEE (Charlton 2003).

An emerging trend in certain industries, in which investment projects can be located anywhere, is that competition over investment incentives has become global, adding a new layer to such competition, which previously had mainly been regional or national.[86] A further consequence of global investment competition has been the increased use of regulatory concessions, frequently used in export processing zones (EPZs). Such zones often create "policy enclaves" in which the normal regulatory rules and practices of the host country may not apply (or are implemented more efficiently) to reduce investment costs.

3. Are incentives worth their cost?

The effectiveness of locational incentives can be assessed for their economic desirability or their success in actually attracting new investment—and that of behavioural incentives, for inducing foreign affiliates to operate in particular ways.

Start with the economic desirability of locational incentives, for which there is a long-standing debate on the economic benefits (Charlton 2003). Do they distort the allocation of resources (and so reduce global welfare, including that of developing countries)? And do their costs to particular host countries offset their benefits? They may be economically justifiable if they offset market failures—that is, if they allow a host country to close the gap between social and private returns,[87] to overcome an initial "hump" in attracting a critical mass of FDI or a flagship investor that attracts other investors or to attract investors to efficient but otherwise little known locations.

Locational incentives can be economically inefficient if they divert investment from other locations that would have been selected on economic grounds. And once the incentive ends, the investor may move on if the underlying cause for poor competitiveness still persists. If the offer of incentives by one country leads to a "bidding war" for FDI, host countries lose to the TNC (or to its home country, if it can tax away the concessions). If incentives are used to address market failures, the first best policy may often be to correct the failure rather than to compensate for it; for example, if the incentive intends to overcome an overvalued exchange rate, it may be better to realign the currency than to add a new distortion through the incentive. Moreover, if the incentive tries to offset a decline in the locational advantages of a country (such as rising wages in a labour-intensive activity), it just delays the day of reckoning at considerable cost to the taxpayer.

Another problem is that the asymmetry between developed and developing countries can bias FDI flows, at least where they compete for the same investment. Rich countries can afford to offer more incentives, and in more attractive (upfront grant) forms, than poorer countries. With no constraints on incentives, the richer can out-compete the poorer, or force them into very expensive competition for FDI projects.

There is an emerging consensus among economists that countries should try to attract FDI not so much by offering incentives but by building genuine economic advantages (and offering stable, low and transparent tax rates). Incentives should not be a substitute for building competitive capabilities. Many governments realize that incentive competition can be costly (particularly against better-endowed rivals). But in the absence of international cooperation on location incentives, each wishes to retain the right to offer them. As a result, all or most countries involved are worse off, and TNCs benefit from the lack of cooperation.

Next comes the issue of whether locational incentives are effective in attracting significant new FDI. It is generally accepted that location incentives are seldom the main determinant of location decisions by TNCs. But where all else is equal, incentives can tilt the balance in favour of a particular location. This is most likely for export-oriented projects seeking a low-wage location in EPZ facilities, where many host countries offer similar conditions and other attributes (UNCTAD 1996a, 2000g; Wells and Allen 2001; Morisset and Pirnia 2001).

Some evidence suggests that locational incentives have become more important as the mobility of firms has increased. Econometric studies that previously found incentives ineffective now find that they have become more significant determinants of FDI flows (Clark 2000; Taylor 2000).[88] For domestic market-seeking or natural resource-seeking FDI, however, locational incentives are not as important—and they are harder to justify.

Activity-specific and behavioural incentives are generally considered more effective. Export subsidies have been frequently used to promote export-oriented FDI, particularly in EPZs (*WIR02*). Incentives to encourage foreign affiliates to increase employee training and assistance to local suppliers seem to have worked well in Hungary, Malaysia, Republic of Korea, Singapore and South Africa (*WIR01*; UNCTAD 2003f). But this does not mean that they should be used indiscriminately. Some incentives can be wasted if foreign affiliates would have undertaken the activity anyway, or if they would have been happy with much smaller incentives. Yet even generous incentives may not have much effect if the setting is wrong. For example, R&D incentives are unlikely to raise affiliate spending on R&D in an economy without the local capabilities and technical skills to undertake design and innovation. In general, incentives alter slightly the ratio of benefits to costs of a particular activity—they cannot change it dramatically.

For regulatory concessions, labour and environmental standards are sometimes lowered in EPZs to attract FDI. Wages on average tend to be higher in the zones than in the rest of the

economy, but working conditions are at times affected by lax labour, safety and health regulations. Trade unions are often barred from organizing to improve those conditions (ILO 1998; *WIR99,* box IX.5). But there is no systematic evidence suggesting that lowering standards helps to attract quality FDI. On the contrary—the cost of offering regulatory concessions as incentives is that countries may find themselves trapped on a "low road" of cost-driven competition involving a race to the bottom in environmental and labour standards.

Countries that pursue more integrated approaches for attracting export-oriented FDI—placing FDI policies in the context of their national development strategies and focusing on productivity improvements, skills development and technology upgrading—have tended to attract higher quality FDI. Ireland and Singapore have pursued such integrated policy approaches, and both made efforts to promote training, facilitate dialogue between labour and management and provide first-class infrastructure for investors. They have demonstrated that good labour relations and the upgrading of skills enhance productivity and competitiveness (*WIR02*).

In sum, incentives can be effective in attracting and influencing the location and behaviour of TNCs. But the economic desirability of locational incentives is not clear, particularly if they detract from building competitive capabilities and encourage bidding wars. The case for incentives at the site, activity and behavioural level is stronger, but only when the setting is appropriate. To increase the chances of efficiently applying both locational and behavioural incentives, governments also use "claw back" provisions that stipulate the return of incentives awarded if conditions are not met.[89] Moreover, behavioural incentives are more likely to be effective in inducing benefits from FDI when complemented with other policy measures aimed, for example, at enhancing the level of skills, technology and infrastructure quality.

4. Few international agreements restrict the use of incentives—but some do

IIAs have not, in the main, covered incentives specifically (UNCTAD 2003h). But there have been a few endeavours at the international level to limit explicitly the use of incentives. The most important instrument in this respect is the WTO Agreement on Subsidies and Countervailing Measures (SCM), which may apply to subsidies granted to foreign investors if they relate to their activities in trade in goods. The SCM Agreement in principle covers a wide range of incentives (see *WIR02* for a detailed discussion). It prohibits export subsidies and subsidies aimed at increasing local content of manufactured goods. Moreover, other firm-, industry- or region-specific subsidies are actionable under the SCM Agreement if they cause injury to another WTO member's domestic market or serious prejudice in world markets. The definition of subsidy is fairly broad (see Article 1), including possibly fiscal and financial incentives as well as the provision of land and infrastructure at less than market prices.

Recognizing what subsidies can do for economic development, the SCM Agreement contains some important exceptions to the general rule. The prohibitions concerning export-related subsidies (Article 3.1(a)) do not fully apply to all developing countries: WTO members listed in Annex VII of the SCM Agreement are exempted, and WTO members have agreed to extend the transition period for some additional member countries.[90] Special provisions for developing countries also exist for actionable subsidies.[91]

The disciplines of the SCM Agreement may not be easily applied to all kinds of investment incentives, particularly locational incentives. For example, if a locational incentive is provided as a cash grant before production commences, it can be difficult to prove, at a later stage, that the incentive has led to adverse effects on another WTO member's industry. A similar issue arises for remedies. By the time production and export have commenced, the incentives aimed to attract the investment may have ended. In this situation, neither a recommendation to withdraw or modify a subsidy under the WTO dispute settlement mechanism, nor the application of a countervailing duty to the exported goods in the context of a domestic action, would be likely to "undo" or change an investment already made (*WIR02*).

At the regional and bilateral levels, IIAs discourage the use of regulatory concessions (for example, in social and environmental standards) to attract investment. For instance, Article 1114 of NAFTA discourages the contracting parties to use regulatory incentives to attract investment.[92] In a similar vein, certain free trade agreements concluded between Latin American countries contain a "no-lowering-of-standards" clause preventing a contracting party from relaxing regulatory standards in the fields specified in the clause as an incentive for attracting FDI.[93] Similar provisions or commitments on "not lowering standards" in environment, health and safety have been included in APEC's Non-binding Investment

Principles, whereas the ILO's Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy contains various positive commitments to certain principles and achieving certain goals over and above minimum standards (Wilkie 2002).[94] The OECD (2002) Guidelines for Multinational Enterprises also stress the responsibility of enterprises, which should "[r]efrain from seeking or accepting exemptions not contemplated in the statutory or regulatory framework related to environmental, health, safety, labour, taxation, financial incentives, or other issues" (chapter II, paragraph 5).

Some international agreements stipulate that parties shall enter future negotiations to establish multilateral disciplines on incentives. Examples are in Article XV of the GATS, which notes that incentives may have distortive effects on trade in services and that WTO members will negotiate ways to avoid such trade diversion effects.[95] The OECD Declaration and Decisions on International Investment and Multinational Enterprises includes a chapter on "International Investment Incentives and Disincentives", which establishes such a consultation mechanism. And Article 10.8 of the Energy Charter Treaty contains a review clause concerning specific incentives.[96]

Even when IIAs do not explicitly restrict the use of incentives by the parties to an agreement, the non-discrimination principle may have an effect on their use and application. The issue is here whether incentives could be given to domestic investors only, and not to foreign investors in like circumstances, raising the question of non-discrimination. The GATS does allow countries to preserve the right to provide subsidies in a discriminatory manner in scheduled sectors. Where a host country wishes to offer incentives selectively, it has to ensure that such selectivity does not fall foul of the national treatment and MFN standards. The difference in treatment can be justified by referring to the differing circumstances that apply to the favoured investors, as opposed to those not benefiting from the incentive (such as incentives reserved to a specific industry or to SMEs). Or it can be justified by reserving an exception to those standards in the host country schedule of exceptions, where such a practice is permitted under the IIA. NAFTA is the most relevant instrument in this context. Rather than limiting the use of fiscal or financial incentives, it includes important exceptions from the principle of non-discrimination. Following the NAFTA model, some bilateral agreements involving the United States or Canada include exceptions from the non-discrimination principle on subsidies. In United States agreements, the exceptions relate only to the principle of national treatment; the MFN principle remains applicable. On the other hand, Canadian agreements exclude both principles, in line with the NAFTA approach.

Moreover, most BITs contain legally binding rules only for the post-establishment treatment of foreign investors. This means that the application of the principle of non-discrimination is limited to behavioural incentives once an investment has been made—it does not extend to locational incentives in connection with the establishment of a foreign affiliate.

To alert policymakers to some of the questions that arise for jurisdictions that decide to use incentives, the OECD's Committee on International Investment and Multinational Enterprise adopted (April 2003), after considerable debate, a checklist for assessing FDI incentives policies, with operational criteria in six categories (box IV.6). One of these, the extra-jurisdictional consequences of FDI incentives, may be of particular relevance to IIAs. And the checklist calls on individual authorities to take into account the risk that their actions may trigger policy responses elsewhere that could lead to potentially wasteful bidding wars. According to the Committee, careful evaluation of the checklist and its application would help minimize potential harmful effects of incentives both for those that employ them and for other governments seeking to attract FDI (OECD 2003b).

5. Options for the future

Most IIAs do not contain explicit provisions on incentives, though the principle of non-discrimination may apply. The SCM Agreement's provisions limit the use of investment incentives to the extent that they fall under the definition of export subsidies. At the same time, in response to the need among developing countries to influence the activities of investors to enhance the benefits from FDI, there may be a case for making certain incentives "non-actionable" in the WTO if they can be shown to have a clear developmental impact in developing countries (*WIR01*, p. 171). This could involve, for example, the creation of more and deeper linkages, the provision of technology and the training of local suppliers and their personnel.

In general, however, host countries retain considerable freedom to develop and apply incentive programmes to attract FDI and increase the benefits from it. This also gives countries considerable discretion in conducting their development policies. There does, however, seem to be an emerging practice to control regulatory

Box IV.6. The OECD's checklist on FDI incentives

In April 2003 the OECD Committee on International Investment and Multinational Enterprise agreed on a checklist to serve as a tool to assess the costs and benefits of using incentives to attract FDI; to provide operational criteria for avoiding wasteful effects and to identify the potential pitfalls and risks of excessive reliance on incentives-based competition. Under six categories, 20 questions are raised:

The desirability and appropriateness of offering FDI incentives

1. Are FDI incentives an appropriate tool in the situation under consideration?
2. Are the linkages between the enabling environment and incentives sufficiently well understood?

Frameworks for policy design and implementation

3. What are the clear objectives and criteria for offering FDI incentives?
4. At what level of government are these objectives and criteria established, and who is responsible for their implementation?
5. In countries with multiple jurisdictions, how does one prevent local incentives from canceling each other out?

The appropriateness of strategies and tools

6. Are the linkages between FDI attraction and other policy objectives sufficiently clear?
7. Are effects on local business of offering preferential treatment to foreign-owned enterprises sufficiently well understood?
8. Are FDI incentives offered that do not reflect the degree of selectiveness of the policy goals they are intended to support?
9. Is sufficient attention given to maximising effectiveness and minimising overall long-term costs?

The design and management of programmes

10. Are programmes being put in place in the absence of a realistic assessment of the resources needed to manage and monitor them?
11. Is the time profile of incentives right? Is it suited to the investment in question, but not open to abuse?
12. Does the imposition of spending limits on the implementing bodies provide adequate safeguards against wastefulness?
13. What procedures are in place to deal with large projects that exceed the normal competences of the implementing bodies?
14. What should be the maximum duration of an incentive programme?

Transparency and evaluation

15. Have sound and comprehensive principles for cost-benefit analysis been established?
16. Is cost-benefit analysis performed with sufficient regularity?
17. Is additional analysis undertaken to demonstrate the non-quantifiable benefits from investment projects?
18. Is the process of offering FDI incentives open to scrutiny by policymakers, appropriate parliamentary bodies and civil society?

Extra-jurisdictional consequences

19. Have authorities ensured that their incentive measures are consistent with international commitments that their country may have undertaken?
20. Have authorities sufficiently assessed the responses that their incentive policies are likely to trigger in other jurisdictions?

Source: OECD 2003b.

concessions in certain areas by way of a no-lowering-of-standards clause. Furthermore, the use of locational incentives might become more controlled, if the recent practice in some IIAs towards extension of the non-discrimination principle to the pre-establishment phase of an investment continues.

Increasing competition for export-oriented FDI risks accelerating the incentives race among competing locations. The difference in financial resources available for public support to private investment suggests that developing countries would be at a disadvantage in such a race. That may further suggest the need to rectify this imbalance by restricting in the SCM Agreement the use by developed countries of financial location incentives. A reduction of investment subsidies would help governments allocate more resources for the development of skills, infrastructure and other areas that attract export-oriented activities. Given the nature of the problem, any approach to dealing with incentives, including increasing transparency, would have to be regional or multilateral. But further international cooperation remains controversial. There does not seem to be interest among either developed or developing countries to reach an agreement on the use of incentives beyond what is already addressed in the SCM Agreement.

G. Transfer of technology

The transfer and dissemination of technology and the promotion of innovation are among the most important benefits that host countries seek from FDI. TNCs are the dominant source of innovation. Direct investment by them is an important mode of international technology transfer, possibly contributing to local innovative activities in host countries. But attracting technology and innovative capacities and mastering, upgrading and diffusing them throughout the domestic economy require government support—through national policies and international treaty making.

The policies on technology transfer have changed. Most governments have moved from direct controls and restrictions to market-friendly approaches—improving the business and FDI environment, strengthening legal and other institutions and enhancing the skills and raising the capabilities of local enterprises. Market-friendly approaches are themselves shifting—from providing an enabling environment to stronger pro-innovation (technology seller) regimes, while continuing to encourage technology transfer. In the international arena, national market-friendly approaches are complemented by TRIPS, restrictions on performance requirements and a number of other agreements (UNCTAD 2001h).

Important choices remain on the right balance between regulation and markets in the transfer of technology. The realization that developing countries, particularly the LDCs, need special support has led to some mandatory requirements on technology transfer. But implementation remains an issue.

1. The need for policies to promote technology transfer

In a world of rapid technological change and intense competition, creating, acquiring and efficiently using new technologies is a vital ingredient of growth. In the generation and dissemination of new technologies, TNCs can provide them in many forms: internalized in FDI, through non-equity forms (such as strategic alliances) and at arm’s length (licensing and other contracts and arrangements). The rising cost of innovation, the perceived need to protect and control intangible assets and the liberalization of policies are leading TNCs to use FDI as the main mode for allowing access to valuable technologies (*WIR99*). As a result, the role of FDI in international technology transfer is growing. Indeed, many new technologies, particularly those used in integrated production systems, are available only through FDI (*WIR02*).

Making the best use of FDI-mediated technology transfer requires policy support in the host economy. To start with, TNCs with the most suitable technologies have to be attracted. Then they have to be induced to transfer the technologies that offer the best potential for local development. If TNCs start with simple technologies suited to the low wage and low skill setting of many developing countries, they have to be persuaded to upgrade them as wages and skills rise. In more advanced economies, they have to be induced to transfer the technology development process itself, undertaking more design and R&D locally (*WIR99*). The development impact of technology transfer through FDI goes well beyond what happens within foreign affiliates—it extends to diffusing technology and technological capabilities to local suppliers and buyers and contributing to local innovation capacity.

In all these areas, there is a risk that markets will not by themselves optimize technology transfer and development. International technology markets are imperfect and fragmented, dominated by a few large enterprises, mostly TNCs. Once transferred, the efficient use of technology faces problems that may call for policy intervention.[97] Some imperfections are inherent to transactions in information; others arise from weak institutions and markets in host countries, from a legacy of inefficient policies (say, on trade and competition) or from the strategies of technology suppliers. For these reasons, most countries have used policies to influence technology transfer by TNCs.

The measures span a wide range, from those affecting technology transfer through FDI—the focus here—to broader policies on enterprise development, skill creation, inter-firm linkages and the promotion of innovation. Some measures affecting technology transfer through FDI are covered elsewhere in this Part (in the discussions of incentives, performance requirements, targeting and promotion). This section covers direct controls on technology transfer, stipulations on the extent of foreign ownership, technology transfer requirements in FDI contracts, competition law and the protection of intellectual property rights (IPRs).

2. Shifting towards a more market-friendly approach in national policies

Developed and developing countries have differed in their technology transfer policies. Most developed countries are significant innovators and both sell and buy new technology. Their concerns have been mainly to strengthen the technological position of their firms—through more stringent IPRs, though several countries, such as Japan and Switzerland, did not fully protect and enforce IPRs at critical stages of development—and encourage local innovative activity by foreign affiliates. Developing countries, as importers of technology, have tried to improve the terms and conditions of technology transfer, strengthen the bargaining position of local firms and promote technology diffusion and generation, sometimes by a relaxed application of IPRs (Kim 2002). They have also used incentives and performance requirements to induce greater technology transfer and diffusion by TNCs (see sections E and F) and to encourage technology generation by local firms.

This pattern is changing: countries are converging in their policies on technology transfer. Developed countries are strengthening IPR protection, while reducing remaining barriers to TNC activities. (But competition policies still counter the abuse of market power by large firms.) Developing countries have moved from the direct regulation of technology transfer towards a more market-friendly approach. Most policy changes have been national, but IIAs mirror this pattern (see below). There are now few developing countries with comprehensive systems for vetting technology contracts, either between independent firms or between TNCs and their affiliates.

Many countries—developed and developing—had slack IPR systems until recently, in part to encourage technological capability development in local firms. Most now offer stronger IPR protection, with the TRIPS Agreement providing the international setting. But the case for strengthening IPRs in countries with a weak technological base remains in dispute. The case is more valid for developing countries whose enterprises are launching into innovation or that host (or would like to host) high-technology TNC activities (sensitive to weak IPRs). But non-innovative poor countries may not receive greater technology inflows and yet have to pay more for patented products and technologies (Lall and Albaledejo 2001; United Kingdom, Commission on Intellectual Property Rights 2002).

Another set of measures on FDI-related technology transfer is less obvious. In the past, many economies restricted FDI as the mode of technology transfer while encouraging imports in other forms to promote local R&D capabilities. Of the ones that succeeded, Japan, the Republic of Korea and Taiwan Province of China are the best-known examples (Lall 2001; Kim 2002). But such strategies did not work well in other countries, largely because the context and the way strategies were applied differed.

Controls on inward FDI (used, among other things, to regulate technology transfer) have declined in recent years. But governments use other policy tools more actively to promote technology transfer and development by TNCs. These include targeting technology-intensive activities and functions by promotion agencies seeking to attract new FDI (*WIR02*), incentives for existing foreign affiliates to upgrade technologies and undertake more R&D and the encouragement of greater local content and stronger local linkages by TNCs (*WIR01*).

The development and refinement of investment promotion tools—this can cover both the attraction of new investments and the upgrading of existing ones—is perhaps the cutting edge of FDI policies for technology transfer. Mature industrial countries use them as actively as developing countries. Ireland and Singapore are cases in point, showing how this is done and how it needs to be combined with improvement in local capabilities. Policies directed only at foreign investors are unlikely to work if the environment is not conducive to more advanced technological activity.

3. The right mix of policy instruments and conditions

Direct controls. Direct controls on technology transfer and FDI did not fully succeed largely because they did not address two issues: the information and administrative requirements of technology regulation, and the absorption and upgrading of imported technology. Take the first. It is difficult for any government to dictate effectively to private enterprises the best technology to buy, the most economical terms for procuring it and the optimal structure of transfers over time. On the FDI front, it is similarly difficult for governments to dictate which technologies to transfer or how much to restrict entry to encourage infant local enterprises. The difficulties are far greater in developing countries, where information and skills are more scarce, institutional structures

more rigid and local enterprises and institutions less developed.

Controls thus tended to impose uniform, inflexible rules across industries, stipulating the duration of contracts, payment terms, foreign shares and the like without taking the specific circumstances into account. This led in some cases to the transfer of older, less valuable technologies, sometimes barring access to new technologies. The transfer process itself tended to be shallow and incomplete, because the seller had little incentive to transfer more complex segments of the technology or to help the buyer continuously to upgrade technologies over time. The outright prohibition of restrictive clauses in technology transfer contracts by a number of countries often raised the price of the technology and reinforced the propensity to provide less valuable technologies (Contractor 1982; Desai 1988; Correa 1995).

The second issue was that regulations focused on the cost of the transfer, not on the conditions needed for the effective absorption and upgrading of imported technology. It was simply assumed that the technology would be used efficiently and would keep abreast of new developments. This often turned out to be optimistic. It imposed costs on host countries, saddling them with technological lags and inefficiencies. Moreover, the settings for implementing restrictive technology transfer policies—protected regimes that gave few incentives to firms to master and upgrade imported technologies—concealed these inefficiencies and added to the ineffectiveness of such policies (Desai 1988; Lall 1987).

Stipulating greater local ownership—or requiring transfers. Many countries sought to encourage technology absorption by stipulating foreign equity shareholding or insisting on minority joint ventures. The presumption was that greater local ownership would lead to better absorption and diffusion of technology. Where imposed on reluctant technology sellers, however, the results were often not in accordance with expectations.[98] The strategy worked best in countries that had strong local firms, a large skills base and an export-oriented environment.[99] It also worked in some large developing countries. For instance, in India, joint ventures—stipulated by domestic equity ownership requirements—were found to have generated substantial local learning and transfers of technology (UNCTAD, 2003f).

The scant evidence on technology transfer requirements suggests that, for the reasons mentioned above, they too did not work well (Kumar 2002).[100] The requirements tended to raise the cost of transfer to TNCs, inducing them to provide less valuable knowledge or invest less in rooting the technology locally.[101] They thus appeared to be less effective than joint venture requirements.

Providing behavioural incentives. The effectiveness of incentives for technology transfer to host countries depends on the competitive environment and the capabilities of local suppliers (*WIR99*). Where the host economy is open to competition and local suppliers are capable, incentives enhance technology transfer. Some countries used incentives not only to attract TNCs into high-technology activities but also to encourage foreign affiliates to move into more complex technologies and R&D (*WIR99*). But they were successful not because they gave exceptionally generous incentives—but because they created other preconditions for TNCs to deepen technological activity (such as more advanced skills, better local suppliers, more active and innovative research institutions).

Strengthening IPRs. The strengthening of IPRs can be beneficial for some types of technology transfer, but implementing the IPR regime can be costly and challenging. And its effects on development and on FDI flows are controversial.[102] Stronger IPRs can increase the scope for the abuse of market power by technology owners, and developing countries with weak competition policies may not be able to cope with this effectively. Stronger IPRs may also raise the cost of technologies without the compensation, at least in LDCs, of stimulating local innovation or international technology transfer. However, strong IPRs are likely to benefit developing countries with an advanced industrial sector, stimulating local innovation and increasing TNC transfer of technology-intensive activities or R&D functions.

In sum, policies to regulate and stimulate technology transfer through FDI can work, but under special conditions (table IV.2). Where these conditions do not exist, attempts to control contracts and transfer arrangements may not produce the desired results.

4. International agreements mirror the shift in national policies

International agreements reflect the shift in national technology transfer policies from a regulatory to a market-friendly approach.[103] The regulatory approach was characteristic of

international agreements in the 1960s and 1970s. It concentrated on deficiencies in international markets for technology and sought to reduce its transfer costs rather than promote its absorption, development or diffusion. The prime example was the Andean Community's Decision 24.[104] Under that Decision the Community's countries adopted stringent controls on technology transfer, scrutinizing the terms of individual contracts, setting limits on cost, duration and coverage and intervening to improve the bargaining position of local enterprises. Other international initiatives based on the regulatory approach include the draft UNCTAD Code on Transfer of Technology, which did not materialize into an international agreement (Patel, Roffe and Yusuf 2001).

Market-friendly policies at the national and international levels have replaced controls and regulations used earlier to promote technology transfer through FDI. This does not mean, however, that current international agreements do not envisage any policy interventions. But the market-friendly approach largely leaves technology contracts to the enterprises concerned, treating technology as a private asset that is traded on market principles, subject, among others, to general competition rules that control abuses. In other words, the inclusion of such practices in licensing arrangements is never entirely out of the reach of competition law.

For example, the TRIPS Agreement addresses some licensing practices pertaining to intellectual property rights, which restrain competition, may have adverse effects on trade and may impede the transfer and dissemination of technology. In doing so, the Agreement provides, for the first time in a binding international instrument, rules on restrictive practices pertaining in licensing contracts (Roffe 1998; UNCTAD 2001f, p. 83; UNCTAD-ICTSD 2003). Enhancing the capacity of developing host countries to undertake regulatory activities and making a commitment to home and host country cooperation in the control of anticompetitive practices would also help to strengthen the international regime for technology transfer to developing countries.

The current approach accepts the potential inequality of market power between sellers and buyers—and that between developed and developing countries—in the market for

Table IV.2. Technology import strategies, policies and conditions

Strategy objective	Policy	Policy instrument	Condition
Promote domestic technological capabilities by minimizing reliance on FDI	- Conditions on FDI - Incentives to partnership agreements - Government support to domestic firms - Foster national flagship firms	- Foreign ownership restrictions - Financial and tax incentives to local firms - Technical support, R&D promotion programmes - Effective export promotion - Encourage hiring of foreign experts, licensing and capital goods imports	- Exposure to international competition (as by strong export orientation) - Availability of skilled labour - Financial resources - Entrepreneur's willingness and ability to undertake risky technology investment - Institutions able to support skill, technology and export activity
Promote FDI with minimal government intervention in the expectation that it will involve technology transfer	- Encourage large FDI inflows - Relax FDI restrictions - Ensure macroeconomic stability	- Remove FDI restrictions or provide incentives - Liberalize trade - Foster competition and well-structured IPR regimes - Provide good infrastructure - General FDI promotion	- Efficient and credible institutions to administer market-friendly policies - High local absorptive capacity
Promote technology transfer by FDI with proactive government intervention	- Target specific TNCs - Provide incentives for TNCs to upgrade their technologies	- Industrial parks and advanced infrastructure - Well structured IPR regimes - High level skills and strong training system geared to activities promoted - Rigorous quality standards - Targeted incentives for activities and/or firms	- Institutions able to handle incentives - Institutions able to select technologies - Institutions for technology support and skill formation
Mixed strategy	- Promote linkages with domestic economy - Build local technological capabilities - Encourage deepening of TNC activity	- Business incubators - Information clearinghouses - Industrial parks - Supporting R&D - Supporting joint ventures, licensing and collaboration - Supporting training of domestic labour force	- Institutions able to bargain with TNCs - Institutions able to plan strategically - Ability to integrate skills, financial markets, infrastructure and technological capability development

Source: Adapted from WTO 2002a.

technology. It thus includes provisions to encourage cooperation with—and provide assistance to—developing countries in building a technological base. It also encourages TNCs to transfer technology and innovative capacity to developing countries, and it uses incentives to TNCs by their home countries to encourage technology transfer. For instance, the OECD Guidelines of 1976 noted the need for TNCs to transfer innovative activities as well as technology to developing countries, to help diffuse technology locally and to grant licences on reasonable terms. Various IIAs and agreements concluded by the EU with developing countries also encourage technology transfer.[105]

Perhaps the best example is the TRIPS Agreement, which considerably strengthened IPRs at the international level. While protecting the interests of technology sellers, Article 66.2 of the TRIPS Agreement stipulates that "developed country Members shall provide incentives to enterprises and institutions in their territories for the purpose of promoting and encouraging technology transfer to least developed country Members in order to enable them to create a sound and viable technological base". This is a mandatory provision on developed countries to promote technology transfer to LDCs. It does not specify what kind of technology transfer is to be supported and how, but it potentially strengthens the position of technology buyers in poorer countries.[106] The Doha Ministerial Conference then decided that this obligation needed to be strengthened through a monitoring mechanism (WTO 2001a, paragraph 11.2). This led in February 2003 to a reporting mechanism on actions taken or planned in pursuance of the commitments undertaken by developed countries under this article (box IV. 7).

An area receiving special attention concerns environmentally sound technologies, with provisions for their transfer to developing countries are more common in international environmental agreements.[107] These instruments, while market-friendly, accept the need for the commercial transfer of technology but seek to ensure that transfers are not harmful in environmental terms. They encourage TNCs to transfer environmentally

Box IV.7. Implementation of transfer of technology provisions

An example of how transfer of technology provisions in an agreement can be implemented is the 19 February 2003 Decision of the WTO Council for TRIPS, which provided for the following:

- "Developed country Members shall submit annually reports on actions taken or planned in pursuance of their commitments under Article 66.2. To this end, they shall provide new detailed reports every third year and, in the intervening years, provide updates to their most recent reports. These reports shall be submitted prior to the last Council meeting scheduled for the year in question.
- The submissions shall be reviewed by the Council at its end of year meeting each year. The review meetings shall provide Members an opportunity to pose questions in relation to the information submitted and request additional information, discuss the effectiveness of the incentives provided in promoting and encouraging technology transfer to least-developed country Members in order to enable them to create a sound and viable technological base and consider any points relating to the operation of the reporting procedure established by the Decision.
- The reports on the implementation of Article 66.2 shall, subject to the protection of business confidential information, provide, *inter alia*, the following information:
  (a) an overview of the incentives regime put in place to fulfil the obligations of Article 66.2, including any specific legislative, policy and regulatory framework;
  (b) identification of the type of incentive and the government agency or other entity making it available;
  (c) eligible enterprises and other institutions in the territory of the Member providing the incentives; and
  (d) any information available on the functioning in practice of these incentives, such as:
    - statistical and/or other information on the use of the incentives in question by the eligible enterprises and institutions;
    - the type of technology that has been transferred by these enterprises and institutions and the terms on which it has been transferred;
    - the mode of technology transfer;
    - least-developed countries to which these enterprises and institutions have transferred technology and the extent to which the incentives are specific to least-developed countries; and
    - any additional information available that would help assess the effects of the measures in promoting and encouraging technology transfer to least-developed country Members in order to enable them to create a sound and viable technological base.
- These arrangements shall be subject to review, with a view to improving them, after three years by the Council in the light of the experience."

Source: WTO 2003a.

sound technologies to developing countries that may otherwise not be able to use them.

Overall, most provisions consist of "best endeavour" commitments rather than mandatory rules. These have on the whole proven to be somewhat ineffective. International instruments with built-in implementation mechanisms, including finance and monitoring, have a better implementation record—but these are scarce, used mainly for such "public goods" as environmental protection rather than technology transfer. One indicator of the continuing importance of the subject is that the WTO Doha Ministerial Declaration set up a Working Group on Trade and Transfer of Technology in 2001 to examine the relationship between trade and transfer of technology and to recommend measures to increase flows of technology to developing countries.

This indicates that the concerns prompting earlier interventions in technology transfer have not disappeared, since market and institutional failures remain to be addressed. What has changed is the perception of how best to tackle them. The current thinking is that measures to strengthen local capabilities, markets and institutions are more likely to promote technology transfer and development than interventions in the contractual process. There is, however, a need to retain preferential treatment for developing countries. Indeed, the requirement that TRIPS places on developed countries to promote transfers to LDCs suggests that this is generally accepted.

Some questions to be tackled in the future: how to operationalize transfer-of-technology provisions for developing countries in international agreements? How to further encourage technology transfer? How to handle the anti-competitive effects of technology transactions? And how to strengthen national innovative capacity? There is thus a need to consider stronger international cooperation in technology generation, transfer and diffusion.

H. Competition policy

The Declaration of the first ministerial meeting of the WTO in Singapore in 1996 recognized the relationship between investment and competition policy. FDI, particularly in developing countries, may have undesirable effects, stemming especially from restrictive business practices, abuses of dominant positions and cross-border M&As. Competition law and policy are particularly important for FDI, because economic liberalization results in greater reliance on market forces to determine the development impact of that FDI. Host countries want to ensure that the reduction of regulatory barriers to FDI and the strengthening of standards of treatment of foreign investors are not accompanied by the emergence of private barriers to entry and anticompetitive behaviour of firms.

Where countries choose to open their economies and, as part of this process, remove the screening of FDI at the point of entry, competition policy may acquire special importance. The major difficulty in developing countries is adopting effective legal frameworks and monitoring and enforcement systems. International cooperation has a role in this, especially when national policies cannot deal with the full range of cross-border effects of anticompetitive behaviour. Nevertheless, competition issues are typically not addressed in IIAs.

1. Policy challenges

Competition policy deals, among other things, with the anticompetitive effects of restrictive business practices, the abuse of a dominant positions and M&As. Each presents different issues and challenges. The control of restrictive practices is a major issue for developing countries because restrictive arrangements by TNCs can limit the positive developmental impact of FDI—say by reducing exports or limiting the use of technology. This can happen if a parent company limits the external markets of its individual affiliates (Puri and Brusick 1989; Correa and Kumar 2003). A possible abuse of dominant positions can occur as a result of large cross-border M&As. Indeed, the main interface between competition law and FDI occurs when foreign affiliates are established by significant M&As.[108]

When foreign entry is accomplished by cross-border M&As, the probability of an anticompetitive impact increases for two reasons: first, because the number of competitors may be reduced; second, because cross-border M&As do not necessarily add new capacities. So countries tend to screen those transactions and often regulate them both at the entry and post-entry phases. Regulation at entry considers the potential market effect of the acquisition of a local enterprise by the foreign investor on competition in the host

country industry, where the foreign investor might acquire sufficient market dominance to warrant such review. The control of potential post-entry anticompetitive behaviour by TNCs may be necessary to deal with the conflicting objectives of effective competition and local capacity building. Such action may be particularly needed for a host developing country in which the free play of market forces does not always bring the desired development results (*WIR97,* pp. 229–231).

Developed countries were the first to adopt competition laws and set up regulatory agencies. In 1980 fewer than 40 countries—mostly developed—had competition laws (*WIR97*, p. 189). Since then more developing countries and economies in transition have adopted competition laws as well and set up agencies to administer them. By 1996 the number of economies with competition rules and authorities in place had reached 77 (*WIR97*, p. 290). By the first half of 2003 some 93 economies had adopted competition rules and established competition agencies—in other words: almost half the world's economies (UNCTAD, forthcoming c).

Some national laws in developing countries and economies in transition have followed developed country models. A significant number of laws in CEE, moreover, have replicated the main provisions of the competition rules of the European Community. This is especially so for economies in transition that have entered association agreements with the EU and that aspire, in due course, to full EU membership. For other countries, however, it is fully recognized that a "one size fits all" competition law is not advisable. Developing countries, based on the commentary in UNCTAD's Model Law on Competition (UNCTAD 2002g), have adopted different models to suit their needs, taking into account their juridical systems, levels of development, business customs and the like.

In addition, having a competition law and authority in place does not necessarily mean effective action by governments. Competition authorities in poorer developing countries may lack the resources and the expertise to work efficiently, especially when large-scale cross-border M&As, abuse of a dominant position or vertical restraints to competition are involved.

Current models of competition law and policy do not distinguish firms by their nationality. Only their impact on competition matters. Moreover, they assume that maintaining and strengthening competition would lead to more development. Indeed, a shielding from market forces may become counter-productive in the longer term if it prevents enterprises from responding positively to market stimuli, if it brings about a loss of productive efficiency and innovation or if it allows collaborative R&D activity that is a front for anticompetitive collusion between enterprises.

A host country can limit the application of its competition policy when the expected benefits outweigh the welfare loss due to anticompetitive effects—say, for nurturing particular enterprises, or new and innovative R&D—by providing temporary protection and exclusivity. The aim behind such an exception is to reduce the risk to infant enterprises—and to the undertaking of innovative research that may not be easily undertaken in full competitive conditions, or which requires a degree of inter-firm cooperation that might be otherwise incompatible with rules against anticompetitive collaboration between enterprises. Other reasons for limiting the application of competition policy—typically arising from competing objectives—include ensuring the provision of basic services, reducing foreign exchange shortages, safeguarding national security and culture and avoiding negative externalities through tightly regulating pollution, to mention a few (*WIR97*, pp. 229–233).

Exceptions need to be treated with care, so that an exception unwarranted by market conditions is not permitted to continue indefinitely.

2. International cooperation arrangements

Most IIAs do not cover competition issues. It is usually assumed that the international element of competition law and policy is dealt with in a separate, specialized instrument. At the multilateral level, the only instrument to cover all aspects of competition regulation is the 1980 UNCTAD Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices.[109] This instrument stresses the close relationship between the control of restrictive business practices and development policies. Indeed, the UNCTAD Set is the only major international instrument that makes a significant link between the economic policy concerns of developing countries and the control of anticompetitive practices. But some trends are developing for competition provisions in IIAs and free trade agreements.

First, as a supplement to national competition rules and as a response to the unilateral application of competition rules outside the territory of the regulating country, there has been more international cooperation by way of procedural agreements covering competition policy issues

(Woolcock 2003; *WIR97*). Initially, few of these cooperation agreements involved developing countries, with the exceptions of the Andean Common Market Commission Decision 285 of 1991, the MERCOSUR Protocol on the Protection of Competition of 1996 and certain EU Association Agreements with various southern Mediterranean countries concluded since 1995. More recently, the Cotonou Agreement of 2000 included a commitment, in Article 45, to implement national competition rules in the developing country parties and to further cooperation in this field.

A second trend is the gradual adoption, by regional economic integration organizations, of competition policies administered by a supranational competition authority. Following the model of the EU, other regional organizations that took this step include MERCOSUR, the Caribbean Community and ECOWAS.

A third trend is that some agreements seek to ensure the appropriate application of competition laws in support of trade, development and consumer welfare. Some go even further and seek to harmonize national laws for competition. The Recommendation of the OECD Council concerning Effective Action against Hard Core Cartels (OECD 1998b) is an example of the former, as is NAFTA's Chapter 15.[110] The EU Association and Europe Agreements that require the non-EU contracting parties to bring their national laws into conformity with the *acquis* of EU law are an example of the latter.

A fourth trend arises in free trade agreements requiring parties to regulate anticompetitive practices that may interfere with the conduct of cross-border trade between the signatory States. Such provisions are a significant feature of trade agreements of EFTA and Turkey with some countries in CEE and between some CEE countries.

Partly as a result of these trends, the WTO has included trade and competition issues in its work programme, beginning with the 1996 Ministerial Meeting. At that time, the link between competition and investment was explicitly recognized.[111] At the subsequent Doha Ministerial Meeting, this explicit link was dropped,[112] suggesting perhaps that—despite the links between FDI and competition identified earlier—competition issues are considered to be sufficiently self-contained to warrant separate attention. Still, an effective competition policy is an important regulatory tool to ensure that FDI contributes fully to development, paying special attention to restrictive business practices and anticompetitive effects of cross-border M&As.

* * *

To conclude, all eight areas reviewed here are key sensitive issues that arise in the interface between national and international rule-making—as countries seek to attract FDI and benefit more from it. In each case, governments face options for treating each individual issue in the context of future IIAs. The option that is most development friendly is specific to the issue under consideration.

However, looking at individual issues or provisions—these eight as well as others—does not offer enough guidance for assessing the overall strengths and weaknesses of agreements. IIAs are packages in which acceptance of one provision may be balanced with concessions on other provisions. So their orientation and impact are informed by the inclusion or exclusion of certain issues, by their objectives, by their overall design (that is, their structure), by the way provisions are drafted and implemented in practice and by the various and complex interactions among provisions and with other agreements.

IIAs need to strike a balance between the diverging interests and priorities of the countries that negotiate them in light of the goals they seek to achieve. From a developing country perspective, it is important that IIAs are negotiated with the goal of promoting their development. Several issues that cut across individual provisions deserve attention in this regard, notably the importance of national policy space—and thus policy flexibility—to meet development objectives and the special needs of developing countries, especially least developed countries. These cross-cutting issues are addressed in the next chapter.

Notes

1 They are examined in UNCTAD 1999c, 1999d, 2000a, 2001e and forthcoming b.

2 Extraterritoriality was quite controversial in the MAI negotiations.

3 In addition, a new question is emerging from recent arbitral decisions under NAFTA as to whether measures relating to investment (such as, for example, bans on certain types of cross-border trade) that affect the operation of transnational supply and distribution activities of a foreign investor, should be included in any definition of "investment".

4 IMF 1993 and OECD 1996. Direct investment is the category of international investment that reflects the objective of obtaining a lasting interest by a resident entity in one economy in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the investor on the management of the enterprise. It consists of equity (at least 10% of total equity), reinvested earnings and inter-company debt transactions; the last of these includes loans, debt securities and suppliers' credits between direct investors and their affiliates. Portfolio investment includes equity up to or below 10% ownership (shares, stocks, preferred shares and preferred stock and depositary receipts) and debt securities not included under direct investment (bonds, debentures, notes and money market instruments). Financial derivatives include options (on currencies, interest rates, commodities, indices and the like), traded financial futures, warrants and arrangements such as currency and interest rate swaps. Other investments include trade credits, loans (including financial leases and repurchase agreements), currency (notes and coins in circulation), deposits and other assets and liabilities (such as miscellaneous accounts payable and receivable). In 1999 the IMF Committee on Balance of Payments Statistics created the new functional category of "financial derivatives" in the financial account of the balance of payments and excluded them from "portfolio investment". For a general description of FDI terms and concepts, see IMF/OECD, n.d.

5 An example of a broad, open-ended definition is the following. "The term 'investment' shall mean every kind of asset and in particular shall include though not exclusively:
a) movable and immovable property and any other property rights such as mortgages, liens and pledges;
b) shares, stocks and debentures of companies or interests in the property of such companies;
c) claims to money or to any performance under contract having a financial value;
d) intellectual property rights and goodwill;
e) business concessions conferred by law or under contract, including concessions to search for, cultivate, extract or exploit natural resources" (ASEAN Agreement for the Promotion and Protection of Investments, article 1(3), from UNCTAD 1996b, volume II, p. 294).

6 In the GATS, the Annex on Financial Services excludes from the agreement "services supplied in the exercise of governmental authority", covering, among other things, activities conducted by a central bank or monetary authority or by any other public entity in pursuit of monetary or exchange rate policies (Article 1(b) of the Annex on Financial Services of the GATS Agreement). It also includes a provision on domestic regulation providing for a carve-out for prudential regulations, notably to ensure the integrity and stability of the financial system (Article 2(a) of the Annex on Financial Services of the GATS Agreement).

7 See, for example, Article XII of the GATS and Article 1109 of NAFTA for examples of traditional balance-of-payments safeguards.

8 The inter-agency task force that produced the *Manual on Statistics on International Trade in Services* in 2002 recommended using majority ownership (more than 50% share ownership) in defining foreign-controlled affiliates for collection of statistics on foreign affiliates' trade in services. These statistics are designed to provide data categorized along the lines of the four modes of services delivery under the GATS. The threshold used in these statistics to identify foreign affiliates (more than 50%) is much higher than the 10% threshold used for FDI statistics.

9 Moreover, the definition of FDI includes reinvested earnings and loans between parent companies and foreign affiliates. These can be used for rapid financial transactions.

10 The OECD Code of Liberalisation of Capital Movements seeks specifically to liberalize capital flows between members and to encourage such liberalization between members and non-members.

11 There have been discussions within the WTO Working Group on Trade and Investment on the issue of definition. The Doha Declaration (paragraph 20) makes reference to particular types of investment for consideration under trade and investment: "long-term cross-border investment, particularly foreign direct investment, that will contribute to the expansion of trade". Within the Working Group, various WTO members have put forward a range of proposals for defining investment: including FDI only, including FDI and long-term foreign portfolio investment, including FDI and foreign portfolio investment and using a broad, asset-based definition.

12 For an elaboration, see UNCTAD 1999f, pp. 61–66.

13 Related standards pertain to MFN treatment and fair and equitable treatment. While important, these standards raise fewer sensitive questions, so they are not examined here. For a discussion, see UNCTAD 1999c and 1999d.

14 The GATS uses "market access".

15 For why a distinction between pre- and post-establishment national treatment is not advisable, see Wilkie 2001. Note that there is a difference between the "right of establishment" and "national treatment in the pre-establishment phase". The former refers to an absolute obligation of a host government to admit an investor. The latter remains a relative standard, even in the pre-establishment phase. In other words, where a host country grants a "right of establishment", it offers a right to set up a permanent business operation (which may be subject to exceptions and restrictions), regardless of how other investors are treated, while the latter conditions the right to enter a host economy on granting treatment that is at least as favourable as the treatment of domestic investors.

16 "Like circumstances" can apply to pre-establishment provisions too (for example, in NAFTA).

17 The 1984 amendment of the OECD Code of Liberalisation of Capital Movements reads as follows: "The authorities of Members shall not maintain or introduce: Regulations or practices applying to the granting of licences, concessions or similar authorisations, including conditions or requirements attaching to such authorisations and affecting the operations of enterprises, that raise special barriers or limitations with respect to non-resident (as compared to resident) investors, and that have the intent or the effect of preventing or significantly impeding inward direct investment by non-residents".

18 National laws may include a general law prohibiting discrimination based, say, on nationality, such as the United States Civil Rights Act, Title VII. Legal persons could use such laws to challenge what they might perceive as nationality-based discrimination. Thus, in principle, a foreign investor treated more disadvantageously than other investors could say that this is based on nationality and amounts to unlawful discrimination. In the European Union, this would be possible for intra-EU investors under the EC Treaty, Article 12. In any event, in many jurisdictions, foreign affiliates are considered to be domestic firms once they are established.

19 See, for example, the Federal Law on Foreign Investment in the Russian Federation (9 July 1999), Article 4: *International Legal Materials*, 39 (4), 2000, p. 894-906.

20 The BITs of Canada and the United States treat special programmes directed to minorities as exceptions to national treatment.

21 The benefits that FDI offers are well known but worth reiterating. It can add to physical investment. It can provide new technology, skills and organizational and managerial techniques (*WIR99*). It can stimulate local competitors and assist local suppliers (*WIR01*). It can take over and upgrade ailing local private or public enterprises (*WIR00*). It can transfer high value functions like design and development to countries with the requisite skills. It can provide the "missing elements" to develop manufactured exports in economies with weak domestic capabilities (in labour-intensive activities); its traditional strengths, of course, lie in resource-based exports. It can provide access to new global markets, some of which are internal to the TNC (*WIR96*) and so not accessible in any other way. These include the high technology exports organized in integrated production systems that provide the basis of export dynamism in several newly industrializing countries (*WIR02*).

22 The infant industry case applies to all enterprises regardless of ownership, and the threat to local capacity-building comes from exposure to imports from countries that have already undergone the learning process. It may therefore also apply to foreign affiliates that need to create new capabilities in a host developing country. But there is a relationship between infant entrepreneurship and infant industry policies: the case for the former (by restricting competition from FDI) is likely to be made only where local enterprises are also protected from import competition. In a liberal trading environment, local enterprises able to cope with import competition are unlikely to need protection from their overseas competitors setting up local affiliates. On the contrary, local enterprises should lead in the learning process because they know local conditions better and have been there longer than a new foreign entrant.

23 Note that this is based on an implicit preference for local ownership. It is also sometimes argued that FDI should be restricted from entering highly protected industries because TNCs would make, and repatriate, "excessive" profits. This may well be the case, but the fault lies not necessarily with the foreign affiliates but with the trade and tax regimes that allow excessive profits—it is a secondary matter if the profits are made by foreign rather than local firms.

24 For examples, see UNCTAD 1999a, pp. 18–19.

25 Under Article I of the GATS, trade in services is defined as the supply of a service, among other things, through the commercial presence of a service supplier of one member in the territory of any other member. By Article XXVIII(d) "commercial presence" is defined as meaning "any type of business or professional establishment, including through (i) the constitution, acquisition or maintenance of a juridical person or (ii) the creation or maintenance of a branch or a representative office within the territory of a Member for the purpose of supplying a service".

26 However, it should be noted that in these latter two cases an objective element of comparison between the domestic and foreign investor is inherent in the standard itself. Thus they do not remove the need to show an objective justification for any difference in treatment between a foreign and domestic investor that are in a competitive situation with each other.

27 A further issue of substantive content, but one addressed in only a few IIAs, is whether national treatment extends not only to laws and practices that are on their face discriminatory as between national and foreign investors ("*de jure*"), but also to measures that are not expressly discriminatory but are applied in a manner that leads to *de facto* discrimination between national and foreign investors. This approach is taken in Article XVII (3) of the GATS, which asserts that: "Formally identical or formally different treatment shall be considered to be less favourable if it modifies the conditions of competition in favour of services or service suppliers of the Member compared to like services or service suppliers of any other Member".

28 According to OECD publications on national treatment the issue needs to be determined in good faith and in full consideration of all relevant facts. Among the most important matters are whether the enterprises are in the same industry, the impact of the policy objectives of a host country and the motivation behind the measure involved. A key question in such cases is whether the difference in treatment is motivated, at least in part, by fact that the enterprises are under foreign control (UNCTAD 1999b, pp. 28–34; OECD 1985, pp. 16–17; OECD 1993, p. 22).

29 See further the NAFTA cases *S.D. Myers v Canada, Pope and Talbot v Canada, ADF Group v United States* and *Methanex v United States* available on www.naftaclaims.com.

30 See UNCTAD 1999b, pp. 43–46. A good example of a national law that uses a range of such exceptions is the 1993 Foreign Investment Act of Mexico, *International Legal Materials*, 33, p. 207 (1994), discussed in Muchlinski 1999, pp. 195–196. These exceptions are, in turn, reserved from the operation of the non-discrimination provisions of NAFTA in Mexico's schedule of exceptions to that agreement, as are the corresponding exceptions of the United States and Canada.

[31] The term "nationalization" refers to takings in whole industries or the entire national economy, while "expropriation" denotes takings of individual firms (UNCTAD 2000b, p. 4).

[32] In the United States–Singapore Free Trade Agreement (2003), an exchange of letters contains, in paragraph 4 of the United States letter to Singapore (which was accepted by Singapore), the following: "…4. The second situation addressed by Article 15.6.1 (Expropriation) is indirect expropriation, where an action or series of actions by a Party has an effect equivalent to direct expropriation without formal transfer of title or outright seizure.
(a) The determination of whether an action or series of actions by a Party, in a specific fact situation, constitutes an indirect expropriation, requires a case-by-case, fact-based inquiry that considers, among other factors:
(i) the economic impact of the government action, although the fact that an action or series of actions by a Party has an adverse effect on the economic value of an investment, standing alone, does not establish that an indirect expropriation has occurred;
(ii) the extent to which the government action interferes with distinct, reasonable investment-backed expectations; and
(iii) the character of the government action.
(b) Except in rare circumstances, nondiscriminatory regulatory actions by a Party that are designed and applied to protect legitimate public welfare objectives, such as public health, safety, and the environment, do not constitute indirect expropriations."

[33] See for a full discussion Khan 1990, pp. 171–202.

[34] In the Santa Elena Case (box IV.4), the ICSID Tribunal held that a measure that gradually deprives owners of the value of their property over time can be identified as the starting point of the expropriation, even where the deprivation of the economic value of the property to its owner does not take effect within a reasonable period of time.

[35] Indeed, the difficulty of drawing a clear line between general regulations, which investors must comply with, and regulatory takings, for which compensation must be paid if they are to be lawful, was one of the controversial issues of the Multilateral Agreement on Investment (MAI) negotiations. In addition, the risk of "regulatory chill" was a major focus of the opposition voiced by civil society groups to the MAI, especially after the proceedings in the case of *Ethyl Corporation v Canada* (Geiger 2002, pp. 97, 100–101). It should be noted that, during the course of the MAI negotiations an interpretative note to Article 1 of Annex 3 explained that the reference to measures "tantamount to expropriation" did not establish "a new requirement that Parties pay compensation for losses which an investor or investment may incur through regulation, revenue raising and other normal activity in the public interest undertaken by governments" (OECD 1998a, p. 13).

[36] For example, in 1993 the Bavarian State Courts ruled that a claimant, who owned property on a lakefront that had become encompassed in a new State-regulated nature reserve, could not receive compensation even though this re-designation of the site meant that he could no longer leave the roads, camp, swim or use any watercraft (Dolzer 2002, p. 77). Some national regulatory takings have given rise to a number of recent arbitral awards under NAFTA; see box IV.3 for examples.

[37] For example, Article 11 of the MIGA Convention expressly excludes from the covered risk of expropriation "non-discriminatory measures of general application which the governments normally take for the purpose of regulating economic activity in their territories".

[38] Only United States agreements expressly use this terminology. Many agreements require the availability of judicial review before national tribunals, though this is usually restricted to a review of the taking after it has occurred. It does not extend to a review of a proposed taking (UNCTAD 2000b, pp. 31–32). Related to this is whether, and how far, IIAs should permit international review of takings by host country authorities: should these be subject to a prior requirement to exhaust domestic remedies or should international review be available as a matter of right? This issue is discussed further in relation to dispute settlement.

[39] Notwithstanding such concerns, the possibility of governmental action, conducted under the guise of environmental regulation, which actually abuses the rights of investors, cannot be ignored. In such cases, the payment of compensation may well be appropriate, especially where the legitimate expectations of the investor have been undermined through arbitrary governmental action (Wälde and Kolo 2001).

[40] Policy dilemmas may also arise from the area of punitive takings. If a punitive taking has been properly and lawfully imposed, resulting in a legally sanctioned confiscation of the investor's assets, would the investor nevertheless be entitled to sue for compensation under international obligations? In order to avoid such an eventuality, some instruments explicitly exclude such takings, for example, punitive tax measures, from the compensation obligation (UNCTAD 2000b, pp. 14–15).

[41] As mentioned earlier, the issue of takings was not mentioned in paragraph 22 of the Doha Declaration, nor has it been suggested to be discussed by the WTO Working Group on the Relationship between Trade and Investment.

[42] In keeping with traditional perspectives, some developing countries, and especially Latin American ones among them, have historically maintained that disputes between an investor and a host country should be settled exclusively before the tribunals or courts of the latter (referred to as the Calvo Doctrine; see Shea 1955). This viewpoint was manifested not only in the domestic legislation of individual countries; it also prevailed in certain regional agreements that prohibited parties from according foreign investors treatment more favourable than to national investors—and demonstrated a decidedly clear preference for dispute settlement in domestic courts. The United Nations Charter of Economic Rights and Duties of States of 1974 also took such an approach. More recently, Latin American countries have departed from this doctrine, for instance in their BITs and in MERCOSUR. Mexico abandoned the Calvo Doctrine when it entered NAFTA.

[43] China, for example, requires recourse to local tribunals.

[44] See for example the Nigerian Investment Promotion Commission Law 1995, section 26.

[45] See for example the Federal Law on Foreign Investment in the Russian Federation (9 July 1999), *International Legal Materials*, 39 (4), 2000, pp. 894–904.

46 The concept of negotiation as a technique of dispute settlement used directly by each party is self-explanatory and requires no further definition. However, the other terms used in the text have some specialized connotations and may be defined as follows: *good offices* involves the use of a third party to liaise with the disputing parties and to convey to each party the views of the other on the dispute. The third party plays no part in suggesting solutions to the dispute. By contrast *mediation* and *conciliation* involve the third party in a more active role, in that they may intervene with suggestions as to how the dispute might be resolved, thereby helping the disputing parties towards a negotiated settlement. In practice it may be difficult to differentiate between mediation and conciliation on a functional basis, and the two terms can be used interchangeably (Asouzu 2001, p. 20). But they differ from arbitration in that the third party has no right or authority to determine the dispute independently of the parties.

47 Such impartiality has at times been questioned (Dezaly and Garth 1996).

48 This issue is discussed further in UNCTAD 2003d.

49 See for instance the 2002 Agreement between Singapore and Japan for a New-Age Economic Partnership, the 2000 Free Trade Agreement between Mexico and El Salvador, Guatemala and Honduras, the 1994 Colonia Protocol on Reciprocal Promotion and Protection of Investments within MERCOSUR and the 1997 EU–Mexico Partnership Agreement. Many of the Europe Agreements, Association Agreements and Partnership and Cooperation Agreements recently concluded by the EU provide for consultation through the body (cooperation or association councils) entrusted with the monitoring and implementation of the specific agreement.

50 See the Trade and Economic Cooperation Arrangements between Canada and, respectively the Andean Community (1999), Australia (1995), Iceland (1998), MERCOSUR (1998), Norway (1997), Switzerland (1997) and South Africa (1998), as well as the Agreements Concerning the Development of Trade and Investment Relations between the United States and, respectively, Egypt, Ghana, South Africa and Turkey (all concluded in 1999) and with Nigeria (concluded in 2000).

51 See, for instance, the 1994 Mexico–Costa Rica Free Trade Agreement, 1994 Treaty on Free Trade between Colombia, Venezuela and Mexico, the 1997 Canada–Chile Free Trade Agreement, the 1997 Mexico–Nicaragua Free Trade Areas, the 1998 Chile–Mexico Free Trade Agreement, the 1998 Free Trade Agreement between Central America (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) and the Dominican Republic, the 2000 Free Trade Agreement between Mexico and El Salvador, Guatemala and Honduras, the 2000 Agreement between the United States and Viet Nam on Trade Relations and the 2002 Agreement between Singapore and Japan for a New-Age Economic Partnership (box III.2).

52 In this regard Article 25 (2)(b) of the ICSID Convention establishes that the local affiliate may be treated as a national of a foreign contracting party where it is controlled by nationals of that other contracting party, and it has been agreed between the parties that it should be treated as a foreign national for the purposes of the Convention.

53 For example in the case of Central European Media Enterprises Ltd., Bermuda v the Czech Republic (14 March 2003), an award of $269,814,000 was made, together with $1,007,750 of costs plus interest and legal costs. This amounted to a total of $354,943,542. See www.cetv-net.com.

54 The Dispute Settlement Understanding deals with investment related questions under the GATS and TRIMs Agreement.

55 Article 23 of the WTO Dispute Settlement Undertaking requires the members to use cross-retaliation only in accordance with the procedures set down in Article 22 and only upon a finding of a violation of the WTO agreements or of a nullification or impairment of benefits by a WTO Panel. Article 24 introduces special provisions for application in the case of LDC members. It requires due restraint in asking for compensation or in the use of cross-retaliation in cases where such members are found to have nullified or impaired the benefits of another member.

56 For example the WTO Kodak Fuji case was based on a claim on the part of Kodak that it was being systematically excluded form the Japanese market by the restrictive business practices of its major rival, Fuji. The case was brought before the WTO Panel by the United States, alleging that the restrictive practices of Fuji had been sanctioned by the Government of Japan in breach of its obligations under Article XXIII (1)(b) of the GATT.

57 Typically, awards in the investment area have taken the form of monetary compensation. But it is also conceivable that they could take the form of further market opening on the part of the loosing disputant, requiring it to open its market in certain areas to the assessed monetary value of the losses caused.

58 Joint venture and domestic equity requirements could also be classified as ownership restrictions.

59 Surveys of foreign investment in India report a high incidence of export restriction clauses imposed on foreign affiliates (Kumar 2001). Another study concluded that foreign parent firms actually discouraged their affiliates from exporting from India in view of the large domestic market (NCAER 1994).

60 These restrictive practices could take the form of market allocation, price fixing, exclusive dealing and collusive tendering (Puri and Brusick 1989). It was felt that local participation in management would lead to more competitive business practices. But such performance requirements sometimes allowed local partners to appropriate the rents from anticompetitive practices at the expense of the larger public.

61 See WTO/UNCTAD 2002; Moran 1998; Kumar 2001; Safarian 1993; UNCTAD 2003f.

62 Local content requirements have been employed by most of the developed countries from time to time, especially in the automotive industry. For instance, Italy required 75% local content on the Mitsubishi Pajero, the United States imposed a 75% rule on the Toyota Camry and the United Kingdom 90% on the Nissan Primera (Sercovich 1998). Australia imposed an 85% local content rule on motor vehicles until 1989 (Pursell 1999). See also OECD 1989; Safarian 1993; Guisinger et al. 1985; Chang 2002.

63 By the end of the 1980s, seven developed countries still had local equity requirements, six had local content requirements, three had export requirements, three had R&D requirements, two applied product

mandate requirements and one a trade-balancing requirement (UNCTC 1991, table 8).

64 Rules of origin are used by, say, the EU and NAFTA member countries to determine the extent of domestic or regional content a product must have to qualify as an internal product in a regional trading area and, hence, have similar effects as local content requirements for the region as a whole. The European Commission has applied various measures to regulate imports of a wide range of consumer-electronic goods and office equipment products from Japan and South-East Asia (Messerlin 1989), and the United States has used measures such as anti-dumping and voluntary export restraints in trade and investment with Japan and other countries. In the United States, provisions of the Buy American Act have acted as local content requirements (Krugman and Obstfeld 2000, p. 205).

65 According to Article 11(1b) of the WTO Agreement on Safeguards, voluntary export restraints are no longer permitted.

66 In a 1989 study as many as 23 of 31 developing countries surveyed used local content requirements, 17 applied local equity requirements, 16 used export performance requirements, 11 had technology transfer requirements and 5 countries imposed R&D requirements (UNCTC 1991, table 8).

67 In India, for example, the overall incidence of performance requirements on FDI approvals has declined sharply over the 1990s. In 1991, 33% of FDI approvals contained performance requirements. This proportion has come down gradually to 18% in 1996 and to just about 9% by 2000 (UNCTAD 2003f, chapter III).

68 These measures were seen as being inconsistent with the national treatment obligation in trade in goods and the prohibition against quantitative restrictions in the GATT (UNCTAD 2001i, pp. 17–26).

69 Argentina, Colombia, Malaysia, Mexico, Pakistan and Thailand have been granted extensions of the transition period until December 2003, the Philippines until June 2003 and Romania until May 2003 under the Agreement's Article 5 provisions (see WTO documents G/L/497 through G/L/504 and document WT/L/441). The implication is that, for those countries to which the TRIMs Agreement applies without any transitional exception, any attempt to reverse the right to impose performance requirements, prohibited by that Agreement through provisions in bilateral or regional IIAs, would be inconsistent with their obligations under the TRIMs Agreement.

70 LDCs and other countries listed in Annex VII of this Agreement are exempted (see footnote 90 in section IV.F).

71 Indeed, the GATS article XIX:2 states that "There shall be appropriate flexibility for individual developing country Members for [...] progressively extending market access in line with their development situation and, when making access to their markets available to foreign service suppliers, attaching to such access conditions aimed at achieving the objectives referred to in Article IV."

72 The way performance requirements are treated in bilateral or regional IIAs varies. Some prohibit certain requirements that are currently not covered by the TRIMs Agreement (with or without exceptions); some make cross-reference to provisions included in other IIAs; some include hortatory provisions on measures not covered by the TRIMs Agreement and many do not make any reference to performance requirements, save those covered by the TRIMs Agreement, binding on all parties that are also WTO members.

73 NAFTA allows for reservations against the performance requirement article. This can be seen as an embodiment of flexibility that does not apply in some other agreements, including the TRIMs Agreement.

74 Article 9 of the TRIMs Agreement provides that not later than five years after the date of entry into force of the WTO Agreement, the Council for Trade in Goods shall review the operation of the Agreement. No concrete progress has been made so far. Positions remain quite polarized between, on the one hand, some developing countries who want to amend the Agreement so as to allow the use of TRIMs on developmental grounds, and the developed countries on the other hand, who want to maintain the status quo.

75 Article III relates to national treatment and stipulates among other things that "No contracting party shall establish or maintain any internal quantitative regulation relating to the mixture, processing or use of products in specified amounts or proportions which requires, directly or indirectly, that any specified amount or proportion of any product which is the subject of the regulation must be supplied from domestic sources." Article XI is related to the general elimination of quantitative restrictions.

76 Only those TRIMs that were notified in accordance with Article 5.1 of the TRIMs Agreement were eligible to benefit from the transition period in the first place.

77 See the Communication by Brazil and India on the need for an amendment to the TRIMs Agreement (WTO Document G/C/W/428).

78 See the Communication from the United States (WT/GC/W/115).

79 It has, for example, been suggested that local content and trade balancing requirements should instead be examined case-by-case to determine whether they have a significant and adverse effect on trade that outweighs their beneficial development impact (Mashayekhi 2000).

80 A variation of locational incentives are site incentives seeking to influence the choice of a site within an economy, for instance, inducing investors to locate in a backward area or away from a congested area. Similarly, incentives can be used to attract FDI into certain industries.

81 The application of the corporate tax regime in Ireland has never explicitly distinguished between foreign and domestic companies. However, most analysts agree that it was more beneficial to TNCs, because of their greater level of exports and profits.

82 In this case, there are likely to be diminishing returns from the use of incentives.

83 As noted in section IV.E, countries are increasingly using incentives to influence firm behaviour with a view to achieving objectives related to development.

84 Obviously, a tax holiday would not constitute a cost if an investment would not have been attracted in the absence of the incentive scheme, in which case there might not have been a base to tax.

85 CEE countries tend to use a mix of fiscal and financial incentives (Mah and Tamulaitis 2000).

86 For example, when Intel decided to locate its sixth semiconductor assembly and test plant in Costa Rica, it did so after having evaluated sites not only in Latin

America but also in China, India, Indonesia, Singapore and Thailand (Spar 1998).

87 These gaps may arise from the general benefit of attracting TNCs to integrate the host economy more closely into global value chains, from specific technological and skill benefits of FDI, the stimulus to local competition or from launching a cumulative process of building industrial capabilities or agglomerations.

88 On the other hand, investments that are largely determined by incentives are more likely to leave as soon as the financial or fiscal benefits expire. In Botswana, for example, which offered generous investment incentives for the duration of five years for individual projects, many companies, both domestic and foreign, decided to close down their activities after the incentives had expired (UNCTAD 2003g).

89 For example, economic development agencies in the United States have included claw back clauses in incentive agreements, stating that, if the company concerned did not maintain this many jobs or spend that much capital, then the development agencies had the right to ask for the money back. While this right has traditionally seldom been exercised, there are signs that things are changing. For example, in response to such claims, Alltel, a large telecom company, volunteered to repay $11.5 million of the $13 million it got from the state of Georgia two years ago to set up a call centre in the state (*FDI Magazine*, "No more Mr nice guy", 2 February 2003).

90 LDCs and members listed in Annex VII until their per capita GNP reaches $1,000 are exempted. The list of "other countries" consists of Bolivia, Cameroon, Congo, Côte d'Ivoire, Dominican Republic, Egypt, Ghana, Guatemala, Guyana, Honduras, India, Indonesia, Kenya, Morocco, Nicaragua, Nigeria, Pakistan, Philippines, Senegal, Sri Lanka and Zimbabwe. In addition, extended transition periods were granted in December 2002 for specific programmes in Antigua and Barbuda, Barbados, Belize, Colombia, Costa Rica, Dominica, the Dominican Republic, El Salvador, Fiji, Grenada, Guatemala, Jamaica, Jordan, Mauritius, Panama, Papua New Guinea, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Thailand and Uruguay. These extensions can be annually renewed until 2007 (WTO Documents G/SCM/50 through G/SCM/102).

91 According to Article 27.8, there shall be no automatic presumption that certain subsidies granted by a developing country (i.e. those listed in Article 6.1 of the SCM Agreement) result in serious prejudice. Rather, such prejudice needs to be demonstrated. (However, the legal status of this provision remains unclear given the expiry of Article 6.1.) Finally, Article 29 granted some temporary exemptions for transition economies.

92 "The Parties recognize that it is inappropriate to encourage investment by relaxing domestic health, safety or environmental measures..."

93 See for example, Article G.14 of the 1997 Canada–Chile Free Trade Agreement. Similar restrictions exist in other Latin American free trade agreements though they are not as detailed as this provision.

94 For example, the ILO (2000) Tripartite Declaration "sets out principles in the fields of employment, training, conditions of work and life and industrial relations which governments, employers' and workers' organizations and multinational enterprises are recommended to observe on a voluntary basis" (paragraph 7). Similarly, in paragraph 41, it states that "Multinational enterprises should observe standards of industrial relations not less favourable than those observed by comparable employers in the country concerned".

95 Very little progress has been made under this negotiating mandate.

96 Accordingly, the modalities of the application of the non-discrimination principle in relation to programmes under which a contracting party provides grants or other financial assistance, or enters into contracts, for energy technology R&D shall be reserved for a "Supplementary Treaty". As of June 2003, this agreement had not yet been concluded. Each contracting party shall, through the ECT Secretariat, keep the Charter Conference informed of the modalities it applies to such programmes.

97 The technology "product" may be difficult to define. Its price often depends on the skills, information and bargaining power of the parties involved. Once transferred, the product is difficult to use without building new capabilities and it needs constant upgrading to remain competitive. Where the host economy does not provide the skills needed, the imported technology may not be upgraded sufficiently. The technological functions transferred also may not be upgraded: TNCs may transfer the operational end of technology but not its R&D stages, because the costs of doing so in new locations, particularly developing countries without strong technology systems, can be high (Lall 2002). The local diffusion of technology may be held back by the lack of capable local enterprises. TNCs may hem the transfer, use and diffusion of the technology by clauses to protect and maximize their returns. And stringent government restrictions on foreign ownership, operations and so on may deter TNCs from transferring their most valuable technologies.

98 A study of FDI in CEE found that joint ventures in R&D intensive activities led to less technology transfer than wholly owned foreign affiliates (Smarzynska 2000). Another study found that joint-venture obligations affected adversely the quality of technology transferred by foreign firms (Lee and Shy 1992). Moran (2002) argues that mandatory joint ventures are not effective because the technology employed is on average 10 years older than the most advanced technology in the industry, and training by TNCs in joint ventures is a fraction of that in wholly owned affiliates.

99 Only a few countries managed to intervene effectively in the transfer process by providing information and assistance to local enterprises in the context of strong export orientation and massive investments in skills creation and development (Kim 1997, 2002). Technologies from TNCs to the Republic of Korea, for example, were transferred mainly through imports of capital goods, reverse engineering in the 1960s and 1970s and various non-equity forms, given the restrictive FDI regime.

100 A number of foreign operations failed to meet government requirements because affiliates were unable to achieve full economies of scale, utilize the most advanced techniques or implement rigorous quality control (Moran 2002). A study of United States affiliates in 33 countries found that technology transfer requirements were negatively

correlated with technology flows to host countries (Blomström and Kokko 1995). Another found that intra-firm technology transfer by Japanese TNCs was discouraged when host authorities imposed technology transfer requirements as a condition of entry (Urata and Kawai 2000).

101 For example, technology transfer laws in Nigeria have not led to greater transfers of modern technology (Muchlinski 1999), largely because local capabilities and skills are weak and the business and trade environment is not conducive to technology upgrading (Okejiri 2000).

102 The empirical evidence on the impact of stronger IPRs is mixed. One study, based on firm-level data from economies in transition, indicates that a weak IPR system in a host country may discourage all investors, not only those in sensitive industries (Smarzynska-Javorcik, forthcoming). Another study suggests that stricter contract enforcement makes TNCs better off, while the outcome for host countries depends on TNCs' reactions to such enforcement (Markusen 2001). The host country's welfare improves if TNCs switch from exporting to the country to undertaking local production; however, a host country may be made worse off if local production exists and stricter IPRs affect it adversely. Furthermore, referring to various other studies, Kumar (2003) concludes that, in general, there is no strong link between stronger IPRs and FDI inflows and that the strength of patent protection does not appear to be a significant factor in determining the location of TNCs' R&D activities in host economies. See also UNCTAD 1993 and 1997.

103 For a compilation of instruments containing transfer-of-technology provisions, see UNCTAD 2001g.

104 Decision 24 was superseded by Decision 220, which was, in turn, superseded by Decision 291 of 21 March 1991, which now represents Andean Community policy in this area (UNCTAD 1996b).

105 Thus the Lomé Convention of 1989 contained numerous commitments on the part of the EU to assist in the transfer and acquisition of technology by developing countries in a variety of fields, including agriculture, industry, energy and tourism. The more recent Cotonou Agreement of 2000 revises this approach, further emphasizing market-led technology transfer. In a similar vein, agreements concluded between the EU and Latin American economic integration groups contain a commitment to economic cooperation that includes the encouragement of technology transfer.

106 Under Article 67 of TRIPS Agreement, developed country members are to provide, on request and on mutually agreed terms and conditions, technical and financial cooperation in favour of developing and least developed countries to facilitate the implementation of the Agreement. A similar approach is found in Article 8 of the Energy Charter Treaty, Article IV of the GATS Agreement and the revised OECD Guidelines for Multinational Enterprises, which state (in section VIII) that TNCs should "endeavour to ensure that their activities are compatible with the science and technology (S&T) policies and plans of the countries in which they operate and as appropriate contribute to the development of local and national innovative capacity". For a detailed discussion see UNCTAD 2001f, pp. 64–67.

107 See UNCTAD 2001g, pp. 41–50.

108 For an extensive discussion of this issue, see *WIR97*.

109 Updated information is available from: www.unctad.org/en/subsites/cpolicy/docs/CPSet/cpset.htm.

110 NAFTA's Articles 1502 and 1503 seek to ensure that monopolies and State enterprises do not act in a discriminatory fashion towards investments of investors of another party.

111 "Investment and Competition
These groups shall draw upon each other's work if necessary and also draw upon and be without prejudice to the work in UNCTAD and other appropriate intergovernmental fora..." (WTO 1996, paragraph 20). It should be noted that Article 9 of the 1995 TRIMs Agreement also made the connection between investment policy and competition policy by requiring the Council for Trade in Goods to consider whether the TRIMs Agreement should be complemented with provisions on these two issues in the course of its five-year review of the TRIMs Agreement.

112 The Doha Ministerial Declaration stated, in its paragraphs 23–25:
"Interaction between Trade and Competition Policy
23. Recognizing the case for a multilateral framework to enhance the contribution of competition policy to international trade and development, and the need for enhanced technical assistance and capacity-building in this area as referred to in paragraph 24, we agree that negotiations will take place after the Fifth Session of the Ministerial Conference on the basis of a decision to be taken, by explicit consensus, at that Session on modalities of negotiations.
24. We recognize the needs of developing and least developed countries for enhanced support for technical assistance and capacity-building in this area, including policy analysis and development so that they may better evaluate the implications of closer multilateral cooperation for their development policies and objectives and human and institutional development. To this end, we shall work in cooperation with other relevant intergovernmental organisations, including UNCTAD, and through appropriate regional and bilateral channels, to provide strengthened and adequately resourced assistance to respond to these needs.
25. In the period until the Fifth Session, further work in the Working Group on the Interaction between Trade and Competition Policy will focus on the clarification of: core principles, including transparency, non-discrimination and procedural fairness and provisions on hardcore cartels; modalities for voluntary cooperation and support for progressive reinforcement of competition institutions in developing countries through capacity building. Full account shall be taken of the needs of developing and least-developed country participants and appropriate flexibility provided to address them" (WTO 2001b, p. 5).

CHAPTER V

THE IMPORTANCE OF NATIONAL POLICY SPACE

The preceding analysis revealed that IIAs need to accommodate different perspectives on the policy priorities in the investment process. The common goal, shared by all parties to IIAs, is to increase the flows of FDI. In addition, home countries (and their investors) seek transparency, stability, predictability and security—and greater market access. And host developing countries, for their part, want to advance their development by increasing the benefits from FDI. To do so, they need to have enough flexibility to use a range of development-oriented policies. In the final analysis, IIAs have to be acceptable to all parties, many in different development situations with widely differing endowments. IIAs therefore need to strike a mutually advantageous balance of rights and obligations between the diverging interests and priorities of various groups of countries.

The concept of "national policy space" and the flexibility it affords to governments to pursue development-oriented FDI policies is the operational bridge between the differing perspectives of host countries, home countries and investors (UNCTAD 2000d). (Although the focus here is on developing countries, developed countries also need policy space to pursue their own national objectives.) Its foundation is the right to regulate, a sovereign prerogative that arises out of a State's control over its own territory and that is a fundamental element in the international legal regime of State sovereignty. Although host countries already limit their regulatory autonomy as a result of liberalization policies—and have their autonomy limited as part of the wider process of economic globalization—IIAs create distinctive issues in this connection. Such international agreements, like other legal texts, are specifications of legal obligations that limit the sovereign autonomy of the parties. Given that international legal obligations generally prevail over domestic rules, tension can arise between the will to cooperate at the international level through binding rules and the need for governments to discharge their domestic regulatory functions.[1] This challenge is not unprecedented: similar issues of the relationship between a country's commitments and its regulatory discretion have arisen in trade agreements (box V.1).

Box V.1. Regulatory discretion in international trade agreements

The scope of a country's regulatory discretion has been debated and litigated in the GATT/WTO system, where the dispute settlement process has been used to review domestic regulatory measures that have an impact on trade. The main instrument for reviewing regulatory discretion in the WTO is found in Article III of the GATT, which contains a non-discrimination (national treatment) obligation as complemented by the exceptions contained in Article XX. Article III provides that internal taxes and regulations must not treat imports less favourably than domestic products in like circumstances. If a domestic regulatory measure is found to discriminate against imports, the regulating government may attempt to justify the discrimination by proving that it is necessary to achieve some legitimate purpose. Article XX exceptions include those necessary to protect public morals; to protect human, animal and plant life or health and those relating to the conservation of exhaustible resources.

It should be noted that this list of policies is "closed" and thus provides limited scope for claiming an exception in many areas in which countries may want to pursue regulatory action. It is also subject to the general requirement that the exception does not constitute a means of arbitrary discrimination or a disguised restriction on international trade. This requirement has been interpreted as introducing a principle of proportionality, in that a country must apply the least trade-restrictive exception compatible with its regulatory policy.

The WTO Agreement on Technical Barriers to Trade explicitly calls for an integrated examination of the purpose of the measures in question and its trade-restricting effects. The Agreement requires a balancing of the degree of

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Box V.1. Regulatory discretion in international trade agreements (concluded)

trade restriction against the regulatory purpose of the disputed measure. Furthermore, the analysis of the regulatory aim is part of the review of the legality of the measure itself, with an illustrative (not closed) list of legitimate objectives. In this context, there is no need first to establish a violation (which requires a conclusive determination of likeness), followed by a review of the regulatory justification by way of exception. The balancing analysis also calls for an appreciation of the trade effects in light of existing less restrictive alternatives and of the risk of non-fulfilment of the regulatory objectives.

The WTO Agreement on Sanitary and Phytosanitary Standards adopts a similar approach to the control of regulatory discretion as the Technical Barriers to Trade Agreement and Article XX of GATT. It affirms the right of WTO members to impose sanitary or phytosanitary measures, provided that they are applied "only to the extent necessary" and that they are based on scientific principles and evidence. Where the scientific evidence is insufficient, members may adopt such measures on the basis of "available pertinent information".

While the GATS recognizes the sovereign right of a country to regulate services for legitimate purposes (box V.2), Article VI seeks to prevent the use of administrative decisions to disguise protectionist measures. Generally applied measures that affect trade in services for which a country has made commitments must be applied reasonably, objectively and impartially. Applications to supply services under such commitments must receive a decision within a reasonable period. The Council for Trade in Services is called on to develop rules to prevent requirements governing qualifications for service suppliers, technical standards or licensing from being unnecessary barriers to trade. Until such rules are ready, governments are to follow (in activities in which they have undertaken specific commitments) the same principles in applying their requirements and standards, so that these do not nullify or impair specific commitments (on market access and national treatment).

Source: UNCTAD.

For investment the right to regulate has recently gained renewed prominence in investment protection from expropriation and in national treatment. It was evoked as a "shield" against an expansive use of expropriation claims by investors that have threatened to encroach on a sovereign government's right to regulate in the public interest, with the possible effect of "regulatory chill". It involves the determination of where the property rights of investors could be legitimately subjected to the regulatory power of governments and where they could not. (This was discussed in IV.C.)

The right to regulate arose concretely in the context of investor-State disputes under NAFTA, particularly in environmental protection. The three member countries of NAFTA adopted in 2001 a "Note of Interpretation of Certain Chapter 11 Provisions" (NAFTA 2001) to clarify the provision governing the minimum standard of treatment to be accorded to foreign investors under the fair and equitable treatment provision in Article 1105 (1). They determined that the NAFTA's standard is the customary international law minimum standard of treatment. The concept of the "right to regulate" was also included in the GATS, the WTO Doha Ministerial Declaration and the draft Multilateral Agreement on Investment (MAI). And it was highlighted in intergovernmental deliberations within the context of UNCTAD's Commission on Investment, Technology and Related Financial Issues (box V.2).

Box V.2. The right to regulate

The language in these instruments is as follows:

The GATS (Preamble):

"Recognizing the right of Members to regulate, and to introduce new regulations, on the supply of services within their territories in order to meet national policy objectives and, given asymmetries existing with respect to the degree of development of services regulations in different countries, the particular need of developing countries to exercise this right;" (UNCTAD 1996b, I, p. 287).

WTO Doha Ministerial Declaration (paragraph 22):

"Any framework should reflect in a balanced manner the interests of home and host countries, and take due account of the development policies and objectives of host governments as well as their right to regulate in the public interest." (WTO 2001b, p. 5).

Draft Multilateral Agreement on Investment:

Article 3
Right to Regulate [a]

"A Contracting Party may adopt, maintain or enforce any measure that it considers appropriate to ensure that investment activity is undertaken in a manner sensitive to health, safety or environmental concerns, provided such measures are consistent with this agreement..." (OECD 1998a, p. 14).

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As these references suggest—and this is consistent with the sovereign prerogative of States to regulate the entry and behaviour of aliens into their own territories—the right to regulate is broader in its conceptual scope than the specific context in which it recently gained renewed prominence. It is, in effect, the principle on which the notion of "national policy space" and hence flexibility is based.

Ensuring sufficient flexibility is a difficult balancing act. In IIAs it is the result of negotiations in the light of overlapping—but not identical—objectives between home and host countries. It finds expression in the objectives of IIAs, their structure, content and implementation, including through the recognition of the concept of special and differential treatment, and the use of exceptions and the like, to further development goals. Each is considered in turn (UNCTAD 2000d).

Box V.2. The right to regulate (concluded)

UNCTAD Commission on Investment, Technology and Related Financial Issues:

> "Many delegates stressed that policies needed to reflect the special circumstances prevailing in a country and that they should evolve over time. In this context, many delegates underscored the need to ensure sufficient policy space for the pursuit of national policy objectives and the importance of the right to regulate. Specific reference was made to the LDCs' need of special and differential treatment in the context of various international agreements" (paragraph 50).
>
> "The right to regulate was relevant in this context, in particular the recognition of the public interest to pursue objectives related to security, health, morals, and so forth. Exceptions were also important, especially those related to balance-of-payments safeguards" (paragraph 57) (UNCTAD 2003j, pp. 14 and 16).

[a] Text as contained in Chairperson's proposed package on Labour and Environment.

A. Objectives of IIAs

Many IIAs incorporate the objective of development among their basic aims, purposes or principles, as a part of their preambular statements or as specific declaratory clauses articulating general principles. For example, the Preamble to the GATS Agreement (which covers FDI in services) includes among its objectives "the expansion of [services] trade under conditions of transparency and progressive liberalization and as a means of promoting the economic growth of all trading partners and the development of developing countries". It also expresses a desire for the "early achievement of progressively higher levels of liberalization of trade in services through successive rounds of multilateral negotiations aimed at promoting the interests of all participants on a mutually advantageous basis and at securing an overall balance of rights and obligations, while giving due respect to national policy objectives". It continues, by expressing a further desire, "to facilitate the increasing participation of developing countries in trade in services and the expansion of their service exports including, *inter alia*, through the strengthening of their domestic services capacity and its efficiency and competitiveness".

The main advantage of such provisions is that they may assist in the interpretation of other substantive obligations, permitting adoption of the most development friendly interpretation. This in turn assists in the promotion of flexibility and the right to regulate by ensuring that the objective of development is implied in all obligations and exceptions thereto—and that it informs the standard for assessing the legitimacy of governmental action under an agreement.

B. Structure

The structure of agreements may reflect development concerns through the application of special and differential treatment for developing country parties. This entails differences in the extent of obligations undertaken by developed and developing country parties, with the latter assuming less onerous obligations, either on a temporary or permanent basis, that are also non-reciprocal. This may be achieved in a number of ways:

- Agreements can distinguish between developed and developing countries, with different obligations for both. MIGA, for example, restricts its investment insurance to investment in developing countries only, listed in an annex to the MIGA Convention.
- Differences may be introduced for stages and degrees of participation by developing country parties, with accession less onerous for them

or allowing for association rather than full commitment to treaty obligations.

Particularly important is the approach to arrive at commitments:

- Under the "negative list" approach, countries agree on a series of general commitments and then list individually all those areas to which these commitments do not apply. For example, the NAFTA parties have agreed to grant the right of establishment; at the same time, each of the parties lists those activities to which this right does not apply. To all other activities, it applies. This approach tends to produce an inventory of all non-conforming measures. It also locks in the status quo.
- Under the (GATS-type) "positive list" approach, countries list commitments they agree to make, and the conditions they attach to them.[2] For example, the GATS parties list all activities that they agree to make subject to the provisions of the Agreement concerning, for example, commercial presence, and the conditions under which this is the case (such as only a certain number of foreign affiliates can be established in a particular industry). The implication is that the same provisions do not apply to all other activities—that is, they remain "unbound". This approach has the advantage that countries can take commitments at their own pace and determine the conditions under which this occurs. For these reasons, the positive list approach is generally regarded as more development friendly than the negative list approach.

In theory, both approaches should arrive at the same result, if countries had the capacity to make proper judgments about individual activities—or, more broadly, about the taking of commitments—at the time of concluding an agreement. In practice, the negative list approach tends to involve greater liberalization. In practice, too, even a positive list approach can lead to liberalization, because negotiations put pressure on countries to assume higher and broader commitments, particularly since those negotiations are bilateral.[3] Under both approaches countries often use various devices to keep options open when scheduling their commitments. Moreover, once a commitment has been made, it is locked in, making it virtually impossible to reverse it.

Table V.1 presents graphically how a broad positive list approach could work for investment should countries decide on modalities to negotiate and should they consider a positive list approach. It is "broad" because it applies not only to activities but also to other issues addressed in IIAs. It is structured along the two main fracture lines that emerged during the analytical discussions in the WTO's Working Group on Trade and Investment:

- National treatment in the pre-establishment phase versus national treatment in the post-establishment phase.

Table V.1. A thought experiment to help analysis—applying the positive list approach to investment

	National treatment in the pre-establishment phase		*National treatment in the post-establishment phase*	
Issue/measure	**FDI**	**Foreign portfolio investment**	**FDI**	**Foreign portfolio investment**
Definition				
National treatment				
MFN				
Fair and equitable treatment				
Transparency				
Nationalization and expropriation				
Home country measures				
Good corporate citizenship				
Dispute settlement (State-State, investor-State)				
Incentives				
Transfer of technology				
Competition policy				
Other				

Source: UNCTAD, based on Eglin 2002.

- FDI versus foreign portfolio investment, financial derivatives and other investment—that is, the scope of an agreement.

In this approach, countries would need to decide, cell by cell, whether they would want to commit themselves and, if so, under what conditions. For example, a country prepared to offer high standards could do so by filling out every cell attaching few conditions to its commitments; a country that wants to commit itself only to certain standards as regards FDI (for example, national treatment in the post-establishment phase) could do so as well, including by attaching the conditions it requires to promote its development. In other words, each country would fill out the table as best suits its own interests. (Certain cells that do not apply would remain empty.) In principle, a party to such an agreement could also refrain from filling out any cell.

A variation of this approach is that certain commitments are taken by all parties for a limited number of issues.[4] Such commitments would be easiest in areas that are important but not particularly sensitive in international investment negotiations—such as MFN treatment and transparency. This approach could be combined with a general commitment to extend, in due course and through negotiations, such stronger commitments to other issues, such as national treatment in the post-establishment phase.

Whatever the approach chosen, the experience of international economic agreements suggests that countries in most cases prefer a gradual approach.

C. Content

As to the substantive content of agreements, the key substantive issues were addressed in the preceding chapter. Central to IIAs, they determine their effect on national policies. For each of them, more development friendly or less development friendly solutions exist. (For example, as discussed earlier, national treatment at the pre-establishment phase—market access—is perhaps the single most difficult issue for developing countries to accept in IIAs.) And given their importance, they require the full attention of negotiators.

When negotiating content, flexibility can also be introduced through various means:

- Flexibility can be ensured by excluding some issues altogether. For example, excluding provisions on incentives from the draft MAI would have allowed countries to have maximum policy flexibility in this area (consistent with other international obligations). Most IIAs exclude taxation issues (covered in double taxation treaties).
- Circumscribing the scope of key provisions—say, by limiting the definition of investment to FDI only.
- Agreements can include provisions of special interest to developing countries, such as those pertaining to transfer of technology or home country measures.
- Various traditional methods can preserve policy space. These range from various kinds of exceptions, reservations, derogations and waivers to transition arrangements that aim to ensure that signatories retain their prerogative to apply non-conforming domestic regulations in certain areas. Examples include exclusions from the non-discrimination principle;[5] safeguards aimed at preserving the right to regulate (box V.3), as in balance-of-payments difficulties; and general exceptions for reasons of public security and order, public health and morality.

Note that the provisions of IIAs interact with one another to complement, clarify, expand, limit or elaborate on the rights and obligations of parties. For example, general exclusion or exception clauses have the effect of limiting the scope of an agreement or modifying the application of its provisions. Similarly, general standards of treatment, such as national treatment or fair and equitable treatment, affect and complement the substance of more specific standards dealing with, for example, operational conditions or expropriation. These interactions offer multiple possibilities for structuring and combining provisions in IIAs to achieve the desired overall balance of rights and obligations, and accommodate diverging country interests (for examples of these combinations, see UNCTAD 2000d).

Box V.3. Emergency safeguard mechanisms in the area of investment

To preserve the right of countries to regulate in the public interest, various safeguards are often used in international agreements. Safeguards, or "escape clauses", are provisions that allow parties to take action otherwise not permitted by an agreement, to cope with exceptional events arising after its adoption. Relevant provisions normally set definite limits, in time and substantive measures, on the action to be taken. The most common situations contemplated in safeguard clauses in IIAs relate to balance-of-payments safeguards.

In trade, if a production sector in a country suffers because of increased imports, the WTO Agreement on Safeguards authorizes WTO members to restrict imports temporarily by imposing higher tariffs or by directly limiting import quantities under certain conditions which may cause or threaten to cause serious injury to the domestic industry that produces like or indirectly competitive products. The main rationale for this provision is that the particular sector in the country should be allowed time to adjust to the new competition from imports.

If similar emergency safeguard mechanisms (ESMs) were included in IIAs, some complex issues would have to be addressed. What conditions would have to be met, and what procedures would have to be observed in order to invoke the ESM in the context of an investment agreement? What would be the equivalent of an import surge in the investment context, and how would one address emergency situations arising, for example, from the "crowding out" of SMEs? Could emergency situations also be considered in case of sudden withdrawal of investment (as opposed to a surge in inflows)? Moreover, since it may be difficult to distinguish between foreign affiliates and domestic firms once the former are established, would an ESM have to focus on new investment only?

The complexities can be seen from the lack of progress on this for trade in services. Article X of the GATS states that: "There shall be multilateral negotiations on the question of emergency safeguard measures based on the principle of non-discrimination. The results of such negotiations shall enter into effect on a date not later than three years from the date of entry into force of the WTO Agreement". Still, after more than seven years of discussions, the Working Party on GATS Rules has failed to produce an agreement. These discussions are relevant to the area of investment, since Mode 3 of trade in services (commercial presence or establishment trade) involves FDI.

So, very few IIAs include ESMs other than those associated with balance-of-payments difficulties. One example is Article 14 of the ASEAN Investment Area Agreement (AIA), which states that:

"1. If, as a result of the implementation of the liberalisation programme under this Agreement, a Member State suffers or is threatened with any serious injury and threat, the Member State may take emergency safeguard measures to the extent and for such period as may be necessary to prevent or to remedy such injury. The measures taken shall be provisional and without discrimination.

2. Where emergency safeguard measures are taken pursuant to this Article, notice of such measure shall be given to the AIA Council within 14 days from the date such measures are taken.

3. The AIA Council shall determine the definition of serious injury and threat of serious injury and the procedures of instituting emergency safeguards measures pursuant to this Article."

Although the ESM in the ASEAN Agreement has never been used, it serves the purpose of providing an assurance to countries that if exceptional consequences seriously or adversely affect their economies as a result of liberalization measures undertaken by them, they could resort to safeguard measures. Liberalization is something that some countries are cautious about in view of the possible impact on domestic industries.

If countries wish to include an ESM when negotiating IIAs, another approach could be along the lines of the Europe Agreements between the EU and various Central and Eastern European countries. In the Europe Agreement with Poland (1991), for example, Article 50 provides for the use of "safeguards" during specified transitional periods if certain industries are undergoing restructuring; are facing serious difficulties; face the elimination or a drastic reduction of the total market share held by Polish companies or nationals in a given sector or industry in Poland or are newly emerging industries in Poland. Safeguard measures (not specified) used shall cease to apply, at the latest two years after the expiration of the first stage or upon the expiration of the transitional period; they relate only to establishments in Poland to be created after the entry into force of such measures and shall not introduce discrimination concerning the operations of Community companies or nationals already established in Poland. The Agreement further notes that Poland shall, prior to the introduction of these measures, consult the Association Council. Upon the termination of the first stage or of the transitional period, Poland may introduce such measures only with the authorization of the Association Council and under conditions determined by the latter.

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D. Implementation of IIAs

The implementation of IIAs can also be designed with flexibility for development as its organizing principle. Two approaches are particularly relevant here: first, the legal character, mechanisms and effects of an agreement, and second promotional measures and technical assistance:

- Whether an agreement is legally binding or voluntary affects the intensity of particular obligations. Indeed, it is possible to have a mix of binding commitments and non-binding "best effort" provisions in one agreement. Thus, development- oriented provisions could be either legally binding or hortatory, depending on the extent to which the parties are willing to undertake commitments in this area. Evidently, "best effort" development provisions are of considerably less value to developing countries than legally binding ones.
- The asymmetries between developed and developing country parties to IIAs can be tackled by commitments addressed to the developed country parties to undertake measures of assistance to the developing and especially LDC parties. A leading example is the technology transfer commitment by developed country parties to the TRIPS Agreement towards LDCs. (The wider issue of home country commitments in IIAs to promote the flow of FDI to developing countries is discussed further in chapter VI.) Such developed country commitments can be complemented by provisions for technical assistance through relevant international organizations. These are particularly important, given the complexity of the subject matter and the limited capacity of many developing countries, and especially the LDCs, to undertake FDI related policy analysis and development, as well as human and institutional development. The last of these also involves assistance to developing countries to attract FDI and benefit more from it.

Box V.3. Emergency safeguard mechanisms in the area of investment (concluded)

A number of features of the approach taken in the Europe Agreements are worth noting. "Serious injury" is not stipulated as a test or condition, nor is "causation" (of the injury or of any of the circumstances specified), nor is "unforeseen developments" or "unforeseeability", nor is "sudden surge in investment or imports". The article simply lists circumstances or situations that would be sufficient to justify, during the transitional period, derogations from a specific obligation. The language also avoids the problem of discrimination by limiting the derogation to companies that have not yet established themselves in Poland. Notification and authorization requirements are intended to prevent protectionist abuse. Many developing countries could identify with the situations listed in Article 50. Moreover, developing countries could enjoy such "safeguards" or derogations only during a transitional period—that is, until their rising incomes and competitiveness led to their disqualification.

Source: UNCTAD.

Beyond that, each IIA is part of a larger set of investment agreements at bilateral, regional, inter-regional and global levels—and addresses a broad range of issues related to investment and the operations of TNCs. When the same parties participate in various agreements, their respective provisions also interact, to complement, elaborate, expand or limit these parties' obligations. It is therefore important, when designing IIAs, to bear in mind this broader context, and ensure that the standards, exceptions and the like that the parties seek to negotiate in agreements would not be modified or otherwise affected by other agreements in ways that were not intended. One example is the question of how investor protection standards interact with the environmental obligations of countries in multilateral environmental agreements.

In case of possible conflict between provisions in different agreements, it is also important to consider how IIAs can ensure their compatibility with conflicting obligations arising from these agreements. In principle, questions of compatibility between agreements are resolved in accordance with the principles set out by Article 30 of the Vienna Convention on the Law of Treaties. When the parties desire to ensure that no conflict of compatibility arises between an IIA and other treaties to which the signatory States may be a party, they can do so by inserting clauses in the agreement expressing this intent. Examples of such clauses include the "regional economic integration organization" clause, which ensures that the benefits of membership of such an organization are not extended to non-member countries that are also partners to the IIA on the basis of the MFN clause, and the preservation of rights clause found in bilateral investment treaties (BITs). Difficult questions remain however in this area, notably the operation of MFN clauses in BITs (box V.4).

Box V.4. The effect of the MFN clause in BITs—the example of performance requirements

The MFN standard in IIAs seeks to prevent discrimination between different foreign investors. It does so by requiring that the foreign investor protected by the standard enjoys treatment no less favourable than that enjoyed by the most favourably treated foreign investor. The application of this standard raises some particular problems for the operation of IIAs. The example of performance requirements is used here to illustrate these problems. The national treatment standard is also discussed so as to give a more complete analysis of how non-discrimination can operate in this context.

The great majority of IIAs, particularly BITs concluded by countries other than the United States or Canada, do not contain specific rules on the use of performance requirements. But such IIAs may nevertheless constrain the flexibility of governments to impose and implement performance requirements. The reason is that virtually all IIAs contain non-discrimination provisions, typically national treatment and MFN treatment. Thus, even if governments are otherwise free to impose performance requirements, they may not do so in a way that treats differently foreign and domestic investors—or foreign investors from different countries—in like circumstances. Such restrictions may, in turn, be subject to conditions and qualifications, described here.

National treatment standard

The national treatment standard (in both the pre- and post-establishment phases) precludes governments from discriminating between foreign and domestic enterprises in like circumstances when they impose performance requirements. A government may impose different performance requirements on investors that are not in like circumstances. This flexibility, however, is not unlimited: "like circumstances" are typically understood to refer to broad, objective characteristics of a business, such as its economic sector, the size of the entity or its geographic location.

So performance requirements could be imposed on foreign investors to ensure compliance with national development policies. These could be specifically geared to the particular benefits hoped to be obtained from their investments, investments that domestic investors may be unable or unwilling to undertake. Equally, preferential treatment of domestic investors could be justifiable on the basis of their actual economic condition—for example, with firms classified as "infant enterprises". The scope of protection thus needs to be determined case-by-case. Discrimination based on "circumstances" related only to the investors' nationality usually violates the national treatment obligations of IIAs.

Governments concluding IIAs often do not take commitments or negotiate to exempt certain activities or certain geographic regions from the market access and national treatment provisions of those agreements—as is the case under the "opt-out" provisions on national treatment in NAFTA, under which even entire industries (such as air transport) can be excluded. Articles XVI and XVII of the GATS allow governments selectively to liberalize particular industries of the economy by way of an "opt-in" provision and then to delimit the scope of national treatment in those industries. In such cases, or where national treatment is restricted in its application, a government could impose different performance requirements on foreign and domestic entities without breaching its treaty obligations to provide national treatment. Outside such situations any performance requirements must be imposed in an even-handed manner on foreign and domestic enterprises that are similarly situated.

MFN standard

The MFN provisions of IIAs have a similar effect. Even if the IIAs to which a country is a party do not preclude the imposition of performance requirements as such, the government will not be able to impose different requirements on investors from different foreign countries that are otherwise in like circumstances. Here, as with national treatment, "like circumstances" refer to neutral characteristics, such as industries, scale of operations, geographic regions and so forth. Where a government intends to discriminate between foreign investors from different countries, it can seek to include an exemption from MFN treatment for particular industries when negotiating an IIA. In most cases, it is difficult to justify such exemptions, but there are cases in which granting more favourable treatment to investors from certain countries is necessary. For example, a common exemption from the MFN standard is the one that permits preferential treatment for fellow members of a regional economic organization. Under the GATS, member countries can exempt specific measures from the MFN provision.

A particular issue that arises in the context of the MFN standard, but not in relation to the national treatment standard, is whether investors from a home country that has concluded a BIT (BIT A) with a host country, without a specific clause prohibiting the use of performance requirements, could nonetheless benefit from such a prohibition in a BIT between the host country and a second home country (BIT B), on the basis

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Box V.4. The effect of the MFN clause in BITs—the example of performance requirements (concluded)

of the MFN obligation in BIT A. Investors from home country A could assert that they have been discriminated against, in violation of the MFN standard, because they are subject to performance requirements that cannot be extended to investors from home country B by virtue of the prohibition against such requirements in BIT B. The success of such a claim would initially depend on establishing that the investors from country A and those from country B are in fact in like circumstances. Assuming this to be so, the next question is whether such a claim can be sustained on the terms of the BITs themselves. This question has not yet been faced or resolved in dispute settlement proceedings under IIAs.

The BIT with each home country is a specifically negotiated instrument. According to the ICSID Tribunal in the case of *Maffezini v Spain* (Case No.Arb/97/7 Decision on Objections to Jurisdiction, 25 January 2000), if the third-party treaty deals with matters not dealt with in the basic treaty applicable between the parties, those matters cannot be transferred to the basic treaty through the MFN clause. But where the third-party treaty does deal with the same subject matter, MFN treatment can apply to extend the better treatment in that treaty to investors under the basic treaty that is under review. Thus, in the Maffezini case, MFN was applied to the procedural question of the scope of the dispute settlement provision in the BIT between the parties. It was held that the MFN clause allowed the application of the higher standard of treatment offered by third-party treaties.

This was a special case. But it opens the issue of whether it is possible to argue that provisions other than procedural provisions might be subject to MFN review. An investor from Country A may seek to use the MFN provision in BIT A and argue, on the basis of Maffezini, that the prohibition of performance requirements in BIT B should also extend to investors from Country A and that it has been denied that protection. This is a question that stands to be determined by reference to the intention of the parties to the BIT, as expressed in the actual terms and text of the agreement—and in the subsequent investment treaty practice of the parties. This was a matter that the Tribunal in Maffezini considered in some detail as regards the approach of the countries concerned, Argentina and Spain, to the scope of dispute settlement clauses in their BIT practice.

Could it be said that, in concluding BIT A, the host country intended the more beneficial investment protection terms that it concluded in BIT B automatically to extend to investors and investments from country A? It is within the discretion of host countries to conclude BITs on more or less favourable terms with different home countries as they see fit. So, in the absence of clear evidence of such an intention, it is unlikely that BIT A could be interpreted on its face to extend the specific prohibition against performance requirements negotiated by home country B in favour of its investors and investments, to those of home country A, which did not negotiate a similar prohibition. The MFN standard does not confer benefits on the investors from country A in view of the substantive scope of BIT A. One case in which such an argument could succeed is where the host country adopts a general policy that prohibits the use of performance requirements, at the national level, or through a long and consistent practice of prohibition of such requirements in its BITs, but still applies such requirements to investors and investments from home country A. Here, there is discrimination as the application of the requirements would not be in accordance with a general policy, and only investors from A are being affected by the imposition of prohibited requirements. So long as the host country continues to apply performance requirements in general, it is free to offer preferential treatment to certain foreign investors if it so wishes.

The foregoing makes it obvious that the application of the non-discrimination provisions of IIAs, and of the MFN standard in particular, has considerable implications for the interactions between different IIAs. The issue needs to be borne in mind in the conclusion, application and interpretation of these agreements.

Source: UNCTAD.

Notes

1 There is no common understanding of the notion of regulation. In the OECD context "regulation refers to the instruments by which governments place requirements on enterprises, citizens, and government itself, including laws, orders and other rules issued by all levels of government and by bodies to which governments have delegated regulatory powers. Economic regulation intervenes directly in enterprise and market decisions such as pricing, competition, market entry or exit. Social regulation protects values such as health, safety, the environment and social cohesion. Administrative regulation concerns government formalities and paperwork, so-called 'red tape'" (OECD 2001c, p. 2).

2 In a sense, the conditions attached to any commitments imply a negative list approach to conditions—unless a country does not take any commitments in the first instance. To quote Oxfam

et al. (2003b, p. 4): "It requires governments to know, in advance, all the possible GATS-incompatible regulations they, or successive governments, might want to use in future in order to list exemptions at the time of making commitments".

3 The matter is further complicated by the fact that most developing countries are only host countries and not (or only marginally so) home countries. In request-offer bargaining situations these countries may therefore not have much to request when it comes to commercial presence.

4 This, for instance, is the case in the GATS.

5 For example, development considerations play a role in the case of Germany's approach in bilateral investment treaties (BITs) to national treatment in the post-establishment phase, insofar as Germany has accepted certain exceptions to the national treatment principle provided that these are undertaken for development purposes only (for example, to develop small-scale industries) and that the measures do not substantially impair investments by German investors (see the BIT between Germany and Papua New Guinea, 1980).

CHAPTER VI

HOME COUNTRIES AND INVESTORS

The investment process involves host countries, home countries and TNCs making investments. In general only the host country has been addressed in IIAs, with the most important and sensitive aspects reviewed in the preceding chapters. In future IIAs consideration should especially also go to home countries, actual parties to such agreements, to encourage FDI flows to developing countries and help increase the benefits from them. It is against this background that this chapter takes up home country measures and good corporate citizenship.

Home country measures (HCMs) seek to facilitate—partly in the interest of home countries themselves—FDI flows into developing countries by helping to overcome various problems that developing countries face when seeking to attract FDI and increasing benefits from it. Good corporate citizenship makes relations harmonious between investors and the economies they operate in—and it can help advance development. How future IIAs will deal with these matters is an open question. The analysis here explores options for governments to consider.

A. Home country measures

Outward FDI from developing countries increased rapidly in the late 1990s, but they remain net importers of FDI. Developed countries, by contrast, have a more balanced pattern of inward and outward flows.[1] So the focus for most developing countries and economies in transition is to attract inward FDI and benefit more from it. Measures that facilitate more and better FDI into developing countries—and that address concerns related to such investment—would do more than help developing countries. They could also be undertaken by "self-enlightened" home countries to create new investment and trade opportunities for their business communities.

Many developed home countries already have in place a wide range of unilateral policies and measures in this area. But IIAs have traditionally paid limited attention to them. Possible options range from hortatory policy declarations that recognize the need for home countries to promote FDI into developing host countries—to mandatory assistance and cooperation obligations set out in the agreements themselves. Binding commitments might make HCMs more transparent, stable and secure than if they are entirely voluntary, the norm today.

1. Broad scope of measures

Many types of HCMs can influence the magnitude and the quality of FDI flows to developing host countries.

- General aid-based development assistance to strengthen a host country's business environment.
- Improving the access of goods and services produced by developing countries to the markets of the developed countries.[2]

While aid-based measures and market access are important, the focus here is on measures directly related to FDI,[3] many of them already undertaken by home countries (UNCTAD 2001a, pp. 8–11):

- *Liberalizing outflows*. Home countries can remove obstacles to FDI outflows.
- *Providing information*. They can assist developing countries in collecting and disseminating information related to investment opportunities through cooperation with investment promotion agencies (IPAs), the provision of technical assistance, the organization of investment missions and seminars and the like.
- *Encouraging technology transfers*. Home countries can promote technology transfer by providing assistance to strengthen a host country's technological base, its capacity to act as a host to FDI in technology-intensive industries and its capacity in reaching specific technology-intensive goals.

- *Providing incentives to outward investors*. Various forms of financial and fiscal incentives can be provided to outward investors or to support feasibility studies and environmental assessments.
- *Mitigating risk*. Home countries can help to mitigate risk—say, by providing investment insurance against losses arising from political or other non-commercial risks that may not normally be covered through the private insurance market.

In addition, some new issues are being raised. These require the use of a home country's legal and regulatory system to ensure that TNCs based there conform to certain standards of good corporate citizenship through the sanctions of such home country laws and regulations. Of significance has been the increasing demand to apply home country liability rules to parent companies for the wrongful acts of their foreign affiliates in developing countries (Muchlinski 2001a, 2001b). This has already occurred in the course of litigation, mainly in the United States and United Kingdom, where foreign claimants have sought redress for wrongs allegedly committed against them in the host country by foreign affiliates (United States Court of Appeals Second Circuit 1987; United Kingdom House of Lords 2000). Cases have been brought in the United States for alleged violations of fundamental human rights standards by United States-based TNCs in their foreign operations, under the Alien Tort Claims Act (Muchlinski 2001a, 2001b, 2002; United States Court of Appeal for the Ninth Circuit 2002).[4]

Other areas of concern to home countries, as the principal regulators of parent company activities, may include combating corruption by penalizing TNCs that use corrupt practices to further their FDI activities and regulating fraudulent behaviour and unacceptable corporate accounting practices that may adversely affect the global operations of TNCs.[5] Other possible action arises for the global environmental practices of TNCs, ranging from control over trade in hazardous technology to determining responsibility for environmental damage.

In addition, it might be possible for current policies of international cooperation to evolve in ways that assist developing countries. For example, if developing countries could gain access to the competition enforcement systems of the EU and the United States, this would empower them, in dealing with anticompetitive practices of TNCs, to use the stronger regulatory and institutional frameworks of developed countries. And developed home countries could perhaps do more to assist developing countries by sharing information about the "track record" of an investor, to alert host countries about firms with a poor record of business probity.

Such approaches do have problems. Under what conditions do claimants in a host country have the right to bring a claim before courts in the parent company's home country? Can they show that the parent firm was sufficiently involved in the alleged wrongdoing to be itself liable? Or in the absence of direct involvement in an alleged wrongdoing, can the parent firm nonetheless be held liable on the basis of "piercing of the corporate veil" between itself and its overseas affiliate?[6] Such litigation could however undermine the attraction of the home country as a base for TNCs, indeed encourage "floods of litigation" that the courts of a given home country might be unable to deal with (Lord Hoffmann 1997).

On some of these measures, a potential problem is that action by a home country involves an assertion of an extraterritorial jurisdiction to prescribe legal standards for operations that, by definition, occur in the territory of another sovereign State. This increases the risk of conflicting requirements, especially where policies and laws in the home and host countries diverge. The problem arises not only where there is a divergence of approach to the resolution of a common problem, but where different procedural policies apply. For example, disputes have arisen between the United States, European countries and Japan over extraterritorial prescription and enforcement of United States regulatory laws on foreign affiliates of United States companies and on non-United States companies that were allegedly involved in breaches of United States laws (Muchlinski 1999, chapter 5; Wallace 2002).

2. Current use by developed countries

All home countries have measures that affect FDI flows to developing countries. In general, developed countries have removed most national obstacles on outward FDI. But policy declarations aimed at encouraging outward FDI are seldom linked to specific international commitments to that effect (UNCTAD 2001a). With some exceptions, assistance remains at the discretion of each country and is commonly shaped to serve a home country's business interests and general development objectives. This home country perspective is especially evident in the design of financial or fiscal assistance programmes as well as preferential market access measures.

Information on the investment climate is an important element for FDI decisionmaking. Home country assistance can be offered to gather, publish and disseminate basic information on a country's regulatory framework, macroeconomic conditions, sectoral conditions and other factors that affect investment opportunities. Although host developing countries do compile many of these data, their efforts can be supported, particularly in the dissemination stage, by home country governments and relevant international institutions. Indeed, a number of home countries provide assistance of such a kind. For example, the Swiss Organisation for Facilitating Investments facilitates matchmaking between Swiss and foreign enterprises in developing countries and economies in transition and supports the transfer of know-how. At the international level, various programmes strengthen the capabilities of developing country IPAs and disseminate information about investment opportunities.[7]

Some HCMs are geared specifically to facilitating the transfer of technology (see IV.G), and several international agreements contain clauses in this regard. The measures include (UNCTAD 2001f):

- Supporting technology partnerships between firms from developed and developing countries to strengthen the technological capabilities of the latter, either through facilitating access to advanced technology or learning in the interaction between firms. Supported by various initiatives, such partnerships can take many forms, ranging from sharing technology on an ad hoc basis to entering long-term contractual or business engagements. The Business Linkages Challenge Fund of the United Kingdom is one such approach (box VI.1).
- Promoting the transfer of specific technology (such as telecommunications, energy production and environmental protection technologies) is at the heart of several developed country initiatives.
- Targeting measures for R&D at specific technological problems of developing countries can provide a venue for public-private cooperation in promoting transfers of technology.

Box VI.1. The Business Linkages Challenge Fund

Established by the Department for International Development in the United Kingdom, the Business Linkages Challenge Fund provides grants for the development of innovative business linkages that transfer the technology, skills, information and market access necessary for LDC enterprises to compete in the global economy and bring benefits to the poor. Grants of £50,000 to £1 million are allocated on a competitive basis, and bids must be led by private sector partners. All grant awards have to be matched by an equal or greater contribution from the linkage partners.

Projects must be implemented in LDCs. The target are countries in central and southern Africa and in the Caribbean. One leg of the partnership must fall within a targeted country. But because the United Kingdom qualifies as a targeted country, linkage partnerships between United Kingdom companies and developing country counterparts can be supported. Similarly, partnerships between companies in South Africa and companies in developing countries outside the Fund's target regions are also eligible, hence the project in the United Republic of Tanzania linking with BP South Africa.

The programme has been running in sub-Saharan Africa and the Caribbean since 2001. To date, 32 projects have been supported, with total grants of £8 million and more than £10 million of private sector resources mobilized. In the United Republic of Tanzania, the Fund supports a project that aims to develop links between BP Tanzania and other major local corporations, and local SME suppliers. The project builds on BP's experience working with local suppliers in South Africa to develop their capacity to latch onto the supply chains of large corporations. BP Tanzania's major partners include Kahama Mining Corporation, Kolombero Sugar Company, National Microfinance Bank, Sumaria Group, Tanga Cement Company and Tanzania Breweries. In 2002 the eight participating corporations spent 35% of their $60 million purchasing budget on supplies from SMEs. The objective of the project is to increase this proportion and gradually ratchet up the quality and complexity of goods and services bought locally, developing the "missing middle" of the Tanzanian economy.

Other project examples include linkages between a sports management company in the United Kingdom and South African partners, to expand the capacity in South Africa to host and staff major sporting events; linkages between small fruit farmers in Mozambique and South Africa to increase access to export markets in Europe; and linkages between a large cocoa cooperative in the Dominican Republic and a Swiss chocolate manufacturer to develop a supply of high-quality organic cocoa.

Source: United Kingdom, Department for International Development (DFID).

Many developed countries have specialized agencies to provide long-term financing for private sector development in developing and transition economies.[8] This assistance is usually channelled through development finance institutions that provide both loan and equity financing for FDI projects in developing countries, sometimes by taking minority equity positions. For example, the mission of the Overseas Private Investment Corporation (OPIC) of the United States is to mobilize and facilitate the participation of United States private capital and skills in the economic and social development of developing countries and economies in transition to complement the development assistance objectives of the United States. OPIC's main instruments are investment funds and medium- to long-term financing, but it also provides political risk insurance (see below). Several public organizations in developed countries support outward FDI by SMEs. The Swiss "Start-up Fund", for example, offers loans for studies, pilot projects, purchases of machinery and technology transfer.

Complementing these unilateral efforts are various schemes of international institutions that provide financial assistance for projects in developing countries (for a summary see Hughes and Brewster 2002). Within the World Bank Group, the International Finance Corporation and its decentralized instruments for the Caribbean and the South Pacific provide various forms of financial and technical assistance to promote private enterprise. The regional development banks use a range of instruments to facilitate investment in developing countries.[9] The Commonwealth Private Investment Initiative has established several investment funds.

In mitigating risk, investment insurance to alleviate non-commercial risk is particularly important. Some of the largest official bilateral insurers are OPIC (United States), the Export Insurance Department of the Ministry of Trade and Industry (Japan), HERMES and Treuarbeit (Germany), the Compagnie Française d'Assurance pour le Commerce Exterieur (France) and the Export Credit Guarantee Department (United Kingdom). Similar institutions exist in Australia, Canada, Italy, the Netherlands, Spain and Sweden (Mistry and Olesen 2003, pp. 212–213). In general, such insurers will only insure investment in developing countries with which their own countries have a bilateral investment treaty (BIT). In 2001, bilateral institutions insured outward FDI of some $20–25 billion (ibid.).

Of multilateral institutions, the Multilateral Investment Guarantee Agency (MIGA) is the most important, with a capital base of almost $2 billion in 2001.[10] The regional development banks and other institutions, such as the Inter-Arab Investment Guarantee Agency, also provide non-commercial risk insurance. In the EU, the European Investment Bank has established an "Investment Facility" to provide risk capital and guarantees in support of domestic and foreign investment, loans and credits (Cotonou Agreement, Article 76, Annex II, Article 2).

The trade policies of home countries—even though not FDI-specific—can also have an important effect on the scope for especially export-oriented FDI in developing countries. Non-reciprocal preferential schemes are particularly important here, including the Generalized System of Preferences, and trade preferences under the Cotonou Agreement, the Caribbean Basin Initiative, the EU's Everything-but-Arms Initiative and the United States' African Growth and Opportunity Act. The Government of Japan also grants certain LDC exports (corresponding to 99% of industrial products) duty-free and quota-free access to its market. Such schemes remain important for the location of export production but do not—in and by themselves—provide either a sufficient or a sustainable basis for developing competitive export industries. Home countries also use a variety of trade and industry policies to restrict access to their markets. These include anti-dumping and safeguard measures as well as targeted subsidies in developed countries.

3. Effectiveness

Lack of information and difficulties in isolating the influence of other factors complicate the evaluation of the effectiveness of the wide range of HCMs. In addition, the use and impact of HCMs is a vastly under-researched area. But some important considerations can be identified for enhancing the effectiveness of HCMs as a development tool.

A stronger link between the explicit needs of developing countries and the design and execution of HCMs would likely enhance the beneficial impact of such programmes on development. As noted earlier, most HCMs remain at the discretion of each developed country and are commonly shaped to serve a home country's own business interests along with general development objectives. Moreover, the awareness among developing countries of HCMs is generally low. Interviews with IPAs from developing countries indicate that HCMs are not yet regarded a strategic complementary element to their own promotion efforts. This may imply that the measures have not been well advertised or that they are not perceived to be very effective. It may also

suggest a need for closer developing country involvement in the design and execution of future HCMs.

For the dissemination of investment information, there is a clear need for assistance, especially for the least known FDI locations (such as LDCs) and for informing SMEs. For the 49 LDCs, investment guides of the sort produced by international consulting firms are available only exceptionally.[11] Nor do available sources always match the requirements of investors. The information revolution has in some ways aggravated the situation by sharpening the contrast between the LDCs and other countries—which can update information available through the Internet, for example.

On mitigating financial cost and risks, there are many examples of investments that have benefited from home country or international schemes for financing and investment insurance.[12] But it has also been argued that such efforts often do not trickle down to those countries that need assistance the most (Hughes and Brewster 2002). While most international finance institutions have policy statements that acknowledge the need to focus on such countries, LDCs tend to lag far behind the rest of the developing world in the use of finance and insurance schemes. One of the reasons is that many of the investment funds are publicly funded only in part and therefore tend to be managed on commercially based criteria, with less focus on the least developed investment locations as a result.

Interestingly, there seems to be a trend towards making HCMs more development-oriented. For example, the Government of Norway has obliged the Norwegian Investment Fund for Developing Countries to invest at least a third of its capital in LDCs, with the obligation to have Norwegian co-investors abolished.[13] A similar shift has been noted for OPIC (United States), which specified in its 2003 budget request that it would continue to refocus its efforts on providing support to projects in locations and sectors in which the developmental impact will be greatest.

HCMs could result in policy conflicts between host and home countries. One general issue is the potential for extraterritorial control. For example, home country tax policies and transfer pricing regulations sometimes influence FDI flows to developing countries. Some countries employ a residence-based system of taxing foreign source income and claim tax revenues on income generated worldwide. Such extraterritorial tax policies are based on a general principle that tax reductions should not encourage FDI from the home country—and may in effect offset the impact of lower tax rates or tax holidays offered by developing countries as an incentive to attract FDI. To counter such effects, several developed countries have adopted tax-sparing treaty practices. A contracting State agrees to grant relief from residence taxation for source taxes that have not actually been paid (taxes that have been “spared”). Because such clauses may induce firms to engage in sophisticated tax planning and avoidance behaviour, OECD guidelines include the specific inclusion in treaties of an anti-abuse clause and the setting of time limits for any tax-sparing relief (OECD 1998c).

4. The IIA dimension

Traditionally, HCMs have attracted little attention in IIAs, which have instead emphasized the obligations of host countries to protect inward FDI through their standards and guarantees. But with the investment process involving home countries, it is relevant to consider if and how HCMs are—and could be—addressed in IIAs. This question has implications for the potential development impact of such agreements and for the effectiveness of various HCMs. Arguably, the stronger the policy commitments in international agreements—running along a continuum from hortatory declarations to binding obligations accompanied by detailed implementation plans (backed by financial resources) and monitoring mechanisms—the bigger the likely impact of HCMs. Just as countries see advantages in complementing unilateral efforts in trade and investment liberalization with commitments in international agreements, IIA provisions addressing HCMs could lend greater transparency, predictability and stability to the way HCMs address development concerns (UNCTAD 2001a, p. 53).

Some emerging trends may be the basis for further developments in this field. These go beyond simple general exhortations for the parties to an IIA to promote investment through appropriate measures, which may, by implication, include investment-promoting HCMs.[14] They encompass, first, the emergence of a cooperation process expressed through international agreements involving multiple developed and developing countries and containing specific provisions on HCMs. Second, a number of IIAs contain cooperation provisions concerning technology transfer, possibly the most common type of HCM provision in these agreements. Third, regional and multilateral investment insurance schemes (such as that of MIGA) complement national insurance schemes.

For instruments involving multiple developing country participants, the key example is the Cotonou Agreement between the EU and the ACP countries, the successor to the Fourth Lomé Convention (UNCTAD 2001c, p. 441). It includes detailed provisions related to investment promotion, investment finance and support and investment guarantees (box VI.2). Moreover, in the area of investment protection, the Community and the ACP States affirm the need for such protection and the importance of concluding investment promotion and protection agreements, which could also provide the basis for investment insurance and guarantee schemes (Article 78). The parties also agree that special agreements on particular projects may be concluded, with the Community and

Box VI.2. Support for investment and private sector development in the Cotonou Agreement

Article 74

"Cooperation shall, through financial and technical assistance, support the policies and strategies for investment and private-sector development as set out in this Agreement."

Article 75: Investment promotion

"The ACP States, the Community and its Member States [...] shall:

(a) implement measures to encourage participation in their development efforts by private investors [...];
(b) take measures and actions which help to create and maintain a predictable and secure investment climate as well as enter into negotiations on agreements which will improve such climate;
(c) encourage the EU private sector to invest and to provide specific assistance to its counterparts in the ACP countries under mutual business cooperation and partnerships;
(d) facilitate partnerships and joint ventures by encouraging co-financing;
(e) sponsor sectoral investment fora to promote partnerships and external investment;
(f) support efforts of the ACP States to attract financing, with particular emphasis on private financing, for infrastructure investments and revenue-generating infrastructure critical for the private sector;
(g) support capacity-building for domestic investment promotion agencies and institutions involved in promoting and facilitating foreign investment;
(h) disseminate information on investment opportunities and business operating conditions in the ACP States;
(i) promote [...] private-sector business dialogue, cooperation and partnerships [...]."

Article 76: Investment finance and support

"1. Cooperation shall provide long-term financial resources, including risk capital, to assist in promoting growth in the private sector and help to mobilise domestic and foreign capital for this purpose. To this end, cooperation shall provide, in particular:

(a) grants for financial and technical assistance to support policy reforms, human resource development, institutional capacity-building or other forms of institutional support related to a specific investment, measures to increase the competitiveness of enterprises and to strengthen the capacities of the private financial and non-financial intermediaries, investment facilitation and promotion and competitiveness enhancement activities;
(b) advisory and consultative services to assist in creating a responsive investment climate and information base to guide and encourage the flow of capital;
(c) risk capital for equity or quasi-equity investments, guarantees in support of domestic and foreign private investment and loans or lines of credit [...];
(d) loans from the Bank's own resources. [...]."

Article 77: Investment guarantees

"[...] 2. Cooperation shall offer guarantees and assist with guarantees funds covering the risks for qualified investment. Specifically, cooperation shall provide support to:

(a) reinsurance schemes to cover foreign direct investment by eligible investors; against legal uncertainties and the major risks of expropriation, currency transfer restriction, war and civil disturbance, and breach of contract. [...]
(b) guarantee programmes to cover risk in the form of partial guarantees for debt financing. [...]
(c) national and regional guarantee funds, involving, in particular, domestic financial institutions or investors for encouraging the development of the financial sector.

3. Cooperation shall also provide support to capacity-building, institutional support and participation in the core funding of national and/ or regional initiatives to reduce the commercial risks for investors [...].

4. [...] The ACP and the EC will within the framework of the ACP-EC Development Finance Cooperation Committee undertake a joint study on the proposal to set up an ACP-EC Guarantee Agency to provide and manage investment guarantee programmes."

Source: UNCTAD 2001c, pp. 452–454.

European enterprises contributing to their financing. These provisions represent the most comprehensive instrument on HCMs concluded to date at the international level. But a careful evaluation of the implementation of these provisions (and the corresponding ones under Lomé IVbis) has still to be made. The prime instruments are the Investment Facility and Proinvest of the European Investment Bank.

Apart from the Cotonou Agreement, certain intra-regional cooperation agreements between developing countries introduce various home country commitments to promote investment in host countries party to the agreement. For example, the Treaty Establishing the Caribbean Community differentiates between the more and less developed countries among its membership, establishing a special regime for financial assistance "with a view to promoting the flows of investment capital to the Less Developed Countries" (chapter VII, article 59(1)). The Agreement on Investment and Free Movement of Arab Capital Among Arab Countries endorses a policy in article 1(a) that "Every Arab state exporting capital shall exert efforts to promote preferential investments in the other Arab states and provide whatever services and facilities required in this respect". As a follow-up mechanism to this commitment, the Convention Establishing the Inter-Arab Investment Guarantee Corporation provides investment insurance as well as other promotional activities designed to stimulate FDI.

Provisions encouraging development-oriented transfer of technology go beyond the sharing of know-how in most development assistance programmes and require a more substantial application of technology to business operations.[15] Most provisions dealing with this issue have tended to be non-binding hortatory provisions (see section IV.G).

For regional, interregional and multilateral investment insurance schemes, an early and continuing example is the Convention Establishing the Inter-Arab Investment Guarantee Corporation, which established an intra-regional insurance scheme for use by investors from an Arab home country in an Arab host country. More recently, as noted, the Cotonou Agreement has reaffirmed the importance of investment guarantee insurance. To this end, the Agreement calls for the ACP-EU Development Finance Cooperation Committee to "undertake a joint study on the proposal to set up an ACP-EU Guarantee Agency to provide and manage investment guarantee programmes" (Article 77(4), Cotonou Agreement in UNCTAD 2001a, p. 38). The only multilateral instrument in this field is the MIGA Convention approved in 1988. Its objective, under Article 2, is "to encourage the flow of investments for productive purposes among member countries, and, in particular to developing member countries". This is done by reducing investor concerns about non-commercial risk through a multilateral investment insurance fund to arrange cover against such risk.[16]

5. Enhancing the development dimension

Greater attention in IIAs to the role of HCMs by developed countries would help incorporate the "second point" of the triangular relationship between host countries, home countries and TNCs—and enhance the development dimension of FDI.[17] In the WTO Working Group on Trade and Investment, for example, some developing countries put the issue on the table. It has been argued that "Home governments should undertake obligations: (1) to refrain from policies or measures that influence [TNCs] originating in their territories to have operations or behaviour in host members that are adverse to the interests of the host members; (2) to institute measures that influence and oblige [TNCs] originating in their territories to behave and operate with full corporate responsibility and accountability in their operations in host members, and to fulfil their [...] obligations to the host member and government, in accordance with the objectives and policies of the latter."[18]

In a non-binding, hortatory approach a general expression of commitment to improving investment flows to developing country parties could be included, though its practical effect might be questioned. More concrete, but still non-binding, would be to link general policy language with more specific commitments to HCMs, possibly project-by-project. And commitments could be made on "soft" cooperation such as cooperative information exchange, assisted outreach to home-country business groups, FDI seminars and general education on business opportunities in developing countries.

An alternative approach is to introduce binding obligations to give assistance to host developing countries in promoting FDI. As noted, many developed countries—either unilaterally or through intermediaries—are already offering various measures. But such a step would give IIAs more balance in the distribution of rights and obligations of parties involved and could strengthen their impact as development-promoting instruments—while in most cases also serving the self-interest of home countries. In this situation, home countries would accept obligations, recognizing the real difficulties associated with turning the aspiration of host developing countries

for more investment into reality. The inclusion of obligations would seek to offset some of the locational disadvantages of developing host country parties not only through—in a defensive way—enhanced investor protection provisions of IIAs, but through proactive economic and commercial policies aimed at facilitating more and better FDI to developing countries, particularly the least developed.

Where possible, commitments should be linked to follow-up implementation programmes and specific mechanisms to monitor implementation. Practical outcomes are more likely if an agreement's general statement of policy principles is followed by provisions containing a more detailed list of measures or a specific implementation process that will translate policy into practice, including actions involving other types of HCMs. Some IIAs include for this purpose a provision for a "Supervisory Committee" to ensure the proper implementation of what has been agreed.[19] A forum is put in place for the future development of more specific policies of home country assistance for investment in host developing countries. The recent decision to introduce a monitoring mechanism to implement Article 66.2 of the TRIPS Agreement is an interesting step in this direction (box IV.7). Review and monitoring through follow-up mechanisms help create an organic progression in policy development through dialogue and the sharing of common experience. Indeed, as cooperation proceeds, more "hard" commitments, involving specific or general assistance through funded programmes, could become feasible. The utility of the organic development of cooperation in this field should not be overlooked.

A further issue is whether HCMs should be directed to a particular group of developing countries, such as the LDCs, under special and differential treatment provisions. LDCs are likely to need disproportionate help from home countries in attracting FDI. One recent study identified measures that home countries can take in the short, medium and long terms to mitigate risks and unblock FDI flows to LDCs by addressing both the entry-cost and post-entry risk barriers for investors (box VI.3). The Commonwealth Secretariat has

Box VI.3. Home country measures to mitigate risk linked to FDI in LDCs

In a study commissioned by the Government of Sweden on ways to mitigate risk associated with investing in LDCs, a number of measures were identified, some of them listed here:

Short-term measures to extend risk mitigation capabilities

- Increase funding of multilateral risk insurance agencies (such as MIGA and the political risk insurance facilities being opened up in regional banks) specifically to cover LDC political and other non-commercial risk through a special purpose capital or guarantee pool provided.
- Create more effective regional risk cover capacity either by: (a) regionalizing more effectively the operations of MIGA and transforming it into a more independent global facility; or (b) create separate MIGA-like regional multilateral political risk insurance capacity affiliated with the regional development banks.
- Increase the non-commercial risk insurance capacity of bilateral Export Credit Agencies and Official Bilateral Insurers through specific funding or subsidies for covering a much wider range of non-commercial risks in LDCs.
- Provide project-related subsidies to cover part of the premium costs for PRI or NCRI for specific projects being undertaken by OECD source country or eligible developing country firms in LDCs.
- Encourage the development of public-public partnerships between official bilateral insurers and their nascent counterparts in key developing countries that are becoming major home countries for FDI in neighbouring LDCs.
- Establish credit enhancement arrangements for mobilizing available domestic funding (in order to reduce currency risk) in developing countries (particularly LDCs).

Other short-term measures to increase FDI to LDCs

- Provide full (100%) or large partial (50–80%) tax credits, rebates or deductions for the equity invested by home country companies in LDCs against their tax liabilities in their home countries.
- Establish special-purpose "FDI-in-LDCs" investment promotion departments (with commensurate budgets) within bilateral aid or investment agencies thus ensuring that support for FDI flows would be as important a bilateral priority as any other in aid programmes. They could extend the limited capacity of LDC-IPAs by enabling them to leverage their limited resources. Their activities could include: determining investment priorities; targeting specific companies in their home countries; informing them of opportunities in LDCs; helping to finance environmental and social impact assessments; helping to prepare documentation

/...

suggested that a new facility be set up in the form of a dedicated and separate fund owned by international finance institutions but legally distinct from them. The fund would focus specifically on LDCs and other small and vulnerable economies. It would assist private investment in the production of traded goods and services in eligible States by offering domestic-currency loans, quasi-equity investment capital and guarantees—and by retailing a specially simplified form of MIGA cover for political risk (Hughes and Brewster 2002).

Dealing with HCMs is a new but potentially important aspect of how to make the evolving architecture of IIAs more development friendly. It is by no means an easy task, especially because the degree and extent of binding commitments on the part of home countries in IIAs have been rather limited. But all developed countries have already put various HCMs in place on their own. At the multilateral level, the Doha Declaration (paragraph 22) recognizes the need for any framework to "reflect in a balanced manner the interests of home and host countries". The same principle could apply to IIAs at other levels as well. This suggests that future IIAs should contain commitments for home country measures, building on the experience to date.

Box VI.3. Home country measures to mitigate risk linked to FDI in LDCs (concluded)

(such as Memoranda of Understanding, Letters of Intent) and institutional capacity building in partner-IPAs.

- Explore the possibility of establishing a small special purpose LDC Infrastructure Investment Fund that would provide equity and debt financing as well as mobilize domestic currency resources for lending to infrastructure projects in LDCs.

Medium-term initiatives by home countries

- Working with multilateral partners and the private sector to develop financial systems and capital markets of LDCs more rapidly than currently envisaged.
- Bilateral aid agencies can make a unique contribution over multilateral counterparts in engaging in intensive "regulatory-partnership" arrangements between financial system regulators in particular donor countries with regulatory agencies in LDCs to ensure not only that sound laws, rules and regulations are developed, but that they are applied and enforced.
- Bilateral aid agencies can provide seed funding to encourage their non-banking institutions to establish a presence in LDC financial systems that would be shunned by the private sector.
- Bilateral donors (especially members of the EU) can do more to provide open access to their domestic consumer markets to all products of LDCs; encourage their domestic firms through favourable tax treatment or through grant support for partial cost coverage to develop supply sources so that LDCs can take advantage of the preferential access they have but are not availing of and encourage developing country investors to invest in LDCs to take advantage of privileged access to donor markets.
- Set up an International Commercial Court specifically designed to resolve disputes between LDCs (not all developing countries) and foreign investors, especially where complex infrastructure investments involving regulatory risk are concerned.

Long-term options for home countries to consider

- Providing sustained long-term institutional and human capacity building assistance for LDC accounting, legal and judicial systems to improve their performance and capacities when it comes to dealing with foreign investors swiftly, impartially and equitably. Such assistance could be provided through counterpart accounting, legal firms and judiciaries in partner donor countries through long-term partnership programmes that would be partly funded by aid.
- Providing similar support for political and broader governance institutions, that is, government machinery and ministries, especially the law and justice ministries as well as for parliament and parliamentary institutions for the effective functioning of democracy and representative civil society institutions that can exert additional checks and balances in ways that even parliamentary systems in developed countries cannot. In some LDCs it may be appropriate to take a pause in pushing through successive rounds of fur ther economic reforms that are unlikely to work unless they can be embedded in political and judicial reform.
- Supporting the future evolution and development of political and non-commercial risk insurance capacity in their own domestic markets and in the wider regional European market through more productive public-private partnerships between official bilateral insurers and private risk insurers

Source: Mistry and Olesen 2003.

B. Good corporate citizenship

To what extent can foreign investors themselves complement the efforts of host (and home) countries and help especially developing countries to reap maximum benefits from FDI? There has been an increasing number of international instruments on this, but most of them are voluntary. Moreover, most instruments deal with social and environmental issues, leaving economic development issues out of their scope. Indeed, there has been a notable lack of debate on issues pertaining directly to the economic development interests of developing countries.

Even so, there are rising expectations that TNCs can contribute directly to the advance of development goals as one aspect of good corporate citizenship. Such firms are expected not only to abide by the laws of the host country, but also pay greater attention to contributing to public revenues, creating and upgrading linkages with local enterprises, creating employment opportunities, raising skill levels and transferring technology. But how could IIAs contribute to enhancing such good corporate practices, especially with international treaties normally focusing on State conduct, not on the conduct of non-State actors?

1. The concept

With liberalization and globalization, there is a greater mutual interest for host country governments and TNCs to cooperate with each other to achieve their public and private goals. Firms benefit from the more open, market-oriented and business-friendly policy frameworks of the recent decade. Host countries expect, in return, to draw net economic and social benefits from the presence of TNCs. As these firms have transnationalized, their impact on host countries has increased. A case can be made therefore that the increased role of TNCs, as the most important actors in the global economy, should be accompanied by an increased recognition of their responsibilities towards the countries in which they operate.

The concept that captures the essence of a cooperative relationship between TNCs and their host countries, aimed at achieving a balance of public and private objectives and benefits, is good corporate citizenship. It can complement actions of developing countries and home countries to maximize the benefits of FDI, while minimizing the costs. To ensure full support, however, the content of this concept should be defined with the full involvement of all stakeholders, beginning of course with business.

Good corporate citizenship encompasses standards of business behaviour that apply to domestic companies as well as TNCs. Still, TNCs are seen to have special responsibilities (especially in developing countries) because of their economic power and because they get rights under IIAs that can go beyond those available to domestic firms and because the capacity of many host developing countries to introduce and implement certain laws is limited.[20] Good corporate citizenship differs from the concept of "corporate social responsibility"[21] in that it addresses economic aspects more explicitly.[22] Normally, a company is a legal entity and thus the subject of direct rights and obligations under the law. But compliance with the law is little more than a minimum standard necessary for a company's existence and operation, especially in developing countries. Corporate citizenship commitments that extend beyond compliance with the letter of the law are particularly important to meet societal expectations, especially in the absence of fully developed legal frameworks and the capacity to enforce them.[23]

The discussion of how the responsibilities of companies should be defined is as old as the idea of free enterprise, evolving over time. The emergence of an increasingly diverse civil society illustrated by a growing number of interest groups in developed and developing countries confronts firms with growing societal expectations. Increasingly, companies are held responsible not only to shareholders but also to other stakeholders, including creditors, employees, consumers—and more generally to those directly or indirectly affected by their business activities (*WIR99*, chapter XII). For TNCs, the underlying intellectual foundation for good corporate citizenship is complicated by the fact that they operate in multiple societies around the world and thus have to respond to different—sometimes conflicting—expectations.

The global goals of TNCs do not always coincide with the social and developmental goals of the individual countries they operate in. In fact, the responsibility of foreign affiliates is not only to their host countries, but also to their parent firms. Yet governments welcome TNCs with the expectation that they contribute to national economic and social objectives, while benefiting from their global strategies and capabilities. TNCs, on their part, have a self-interest in maintaining a mutually supportive relationship with their host countries—to avoid revocation of their enhanced rights and freedoms. They also have a self-interest

in keeping a good reputation and the value of their brands, to prevent competitors from gaining advantages from irresponsible behaviour.

The range of issues considered under the umbrella of good corporate citizenship is broad. It includes developmental responsibilities, socio-political responsibilities, environmental protection, employment and labour relations, ensuring competition and refraining from restrictive business practices, consumer protection, corporate governance, corruption, disclosure and reporting requirements and respect for human rights (UNCTAD 2001b, pp. 4–12; OECD 2001a). But the discussion focuses on environment, human rights and labour rights, at least in developed countries.[24] Their dominance may be a function of the societal preferences of these countries, the emergence of influential civil society interest groups that challenge companies to engage in a dialogue on their policies and performances and the fact that globally agreed standards on these issues exist. A number of companies accept this challenge as these groups are often able to influence the decisions of consumers, business partners, financiers and employees. Even if companies do not feel responsible for certain issues, they might need to engage in a dialogue with stakeholders as to how they handle certain issues, being aware that refusing to do so might have economic consequences for their core businesses.[25]

There is, however, little debate about issues pertaining directly to the economic development interests of developing countries.[26] This is curious for at least two reasons. One, the first and foremost impact of companies is economic—after all, they are business entities. Two, this impact has increased in recent years with the expansion of FDI, particularly for developing countries (*WIR99*). The matter is complicated, however, by the fact that there is no single model for successful development. Nor is there a single internationally agreed instrument from which one could derive specific development obligations, as in human rights. But there are societal expectations about the potential developmental contributions of TNCs, not often fully captured by either competitive market disciplines or (insufficient) government regulation. The resulting governance void poses a challenge for good corporate citizenship (*WIR99*, chapter XII).

The starting point is that TNCs (like other firms) need to respect in good faith the laws of their host countries. They should not be tempted to take advantage of weak legal and administrative systems—say, by engaging in anticompetitive practices (especially restrictive business practices) or corrupt practices.[27] On the contrary, they might be expected to go beyond the local law to meet important needs of host developing countries where legal norms relating to good corporate citizenship may be absent or underdeveloped.

Beyond that, TNCs can make a difference in advancing development goals by making an effort in addition to what they already do, while still serving their own corporate objectives:

- *Contributing to the public revenues of host countries.* Domestic public revenues are one of the principal sources of financing development, especially when it comes to infrastructure and basic services. Tax minimization can have serious repercussions for the development needs of host developing countries. TNCs are thus expected to abide by the spirit of a country's tax law and to meet their tax obligations in good faith—and not purposely shift revenues through abusive transfer pricing to deny the governments of taxes on income originating in their territories.[28] To that end, they are expected to cooperate with the tax authorities of relevant countries and provide appropriate accounting data and tax reconciliation records for tax inspections when required.
- *Creating and upgrading linkages with domestic firms.* Forging linkages between foreign affiliates and local firms—for example, through supplier and other sub-contractual relations—enhances the competitiveness of the domestic enterprise sector, especially where this is consistent with a dynamic comparative advantage. This requires a strong and long-term commitment by foreign affiliates to integrate into the local economy, source locally and increase over time the technological sophistication of their production in developing countries. An often-cited example of a proactive, long-term collaboration between public authorities, local business and TNCs has been the electronic industry cluster in Penang, Malaysia (*WIR01*). In this case, foreign affiliates also made a considerable contribution to Malaysia's exports.
- *Creating employment opportunities and raising local skills level.* In addition to employing and training people directly, TNCs that create linkages with local companies can have a multiplier effect in creating jobs and raising skill levels. Corporate commitments in these respects can generate important positive spillovers for the host economy and thus enhance its development prospects. Parent companies are also expected to cooperate to reduce negative effects that would result, for example, from decisions to close down large existing operations

(*WIR99*, chapter IX). This is also recognized in the OECD Guidelines.[29]

- *Transferring technology*. TNCs can help bring important developmental benefits to host countries by cooperating with local suppliers, private institutions and host governments in the transfer and dissemination of technologies and management skills. They can contribute to upgrading local technological capabilities through various modalities that do not put at risk their technological edge vis-à-vis competitors (*WIR99*, chapter VII).

There are, of course, other ways for TNCs to make a positive contribution to development. For example, they can seek to influence home country governments to open their markets more for imports from developing countries. They can help create a business-enabling environment by actively participating in public-private fora on improving investment conditions in a given country. And they can also serve on advisory panels to national governments and regional bodies.[30]

2. Its international dimension

In many respects, good corporate citizenship is linked to liberalization and globalization (Picciotto 2002). The more that companies expand their operations beyond national boundaries, the more the debate about good corporate citizenship shifts from the national level to the international. The growth of civil society groups around the globe, with enhanced means of sharing information on corporate activities, facilitates this process.

Yet the issue is not new. The ILO adopted its Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy in 1977. The purpose of the declaration (article 2) is "to encourage the positive contribution which multinational enterprises can make to economic and social progress and to minimize and resolve the difficulties to which their various operations may give rise [...]". But the OECD Guidelines for Multinational Corporations, adopted in 1976, are probably the most comprehensive instrument for corporate citizenship issues of interest to developed and developing countries alike.[31] The Guidelines have been revised over the years (the latest revision dates from 2000) and adapted to reflect changing priorities (box VI.4).

Developmental standards—stressing duties of enterprises to contribute to economic and social developmental objectives, encouraging local capacity building or encouraging human capital formation, among others—can also be found in the International Chamber of Commerce Guidelines for International Investment of 1972, as well as the World Development Movement's Core Standards of 1999. But responsibilities on economic matters, which were prominent in the past, are receiving less attention in recent international instruments, reflecting the general tendency to leave economic matters to the discipline of market forces (*WIR99;* UNCTAD 2001b, p. 11).

International standards of good corporate citizenship are for the most part embodied in voluntary instruments or codes of various types, including those prepared by NGOs and individual companies. The scope, content and formality of these instruments vary considerably, especially the arrangements for monitoring compliance.[32] And there are few legally binding provisions, mainly because treaties normally entail binding obligations on States not firms. Even though they can also be drawn up to create obligations for individuals, the procedure for creating binding law for individuals or firms at the international level is cumbersome and uncertain (Picciotto 2002, p.16). The growing number of international conventions and declarations dealing with labour, human rights, environmental, ethical and other social issues—as well as regional efforts to harmonize relevant national laws—shows that companies are operating under clearer national and international frameworks on key good corporate citizenship issues. They are thus bound (directly or indirectly) by relevant minimum standards. This aspect is stressed in the 1999 initiative by the Secretary-General of the United Nations for "A Compact for the New Century". The Global Compact calls on world business to embrace and enact—both in their individual corporate practices and in support of their appropriate public policies—nine universally agreed values and principles derived from United Nations instruments (Kell and Ruggie 1999).

The question is whether and how IIAs can address the issue of good corporate citizenship of TNCs in a way that combines best the interests of host developing countries and TNCs. Several approaches and instruments, direct and indirect, can be considered:

- *To enshrine good corporate citizenship principles in non-binding instruments*. The OECD Guidelines for Multinational Enterprises are an example of an inter-governmental instrument containing voluntary recommendations for TNCs. Similarly, the Asia Pacific Economic Cooperation (APEC) Non-Binding Principles contain specific provisions for investor behaviour. This "soft-law" approach offers advantages to countries that recognize the need for international standards in this area, but

are not ready to negotiate binding rules. It also offers advantages to TNCs by allowing them flexibility in adapting to different conditions and practices in developing countries, rather than being locked into one standard to be applied everywhere. Voluntary standards can be monitored through formal and informal means.

- *To link voluntary instruments to legally binding ones*. For example, countries adhering to the OECD Guidelines for Multinational Enterprises could sign a binding commitment to promote them among TNCs operating in or from their territories. The same approach was, at one point, proposed for the draft OECD Multilateral Agreement on Investment. The Joint Declaration in the Chile–EU Agreement reminds, in hortatory language, the TNCs of these countries "of their recommendation to observe the OECD Guidelines for Multinational Enterprises, wherever they operate".
- *To prescribe that treaty benefits are granted only to investments made in accordance with the national laws and regulations of the host country*. Alternatively, a treaty can prescribe that the admission, establishment and operation of foreign investors is subject to the national laws and regulations of the host country. The model BIT used by the People's Republic of China, for example, in article 1.1, states that "'investment' means every kind of asset invested by investors of one Contracting Party in accordance with the laws and regulations of the other Contracting Party in the territory of the Latter…" (UNCTAD 1996b). In this approach—reflected in the majority of BITs—good corporate citizenship issues are not explicitly mentioned in an IIA. Nor are voluntary corporate actions—an integral part of good corporate citizenship—affected. But to the extent that the laws of the countries parties to an IIA reflect certain good corporate citizenship standards, these become part of the obligations investors have to observe if they want to benefit from treaty coverage (which may even become relevant in dispute settlement procedures). As mentioned earlier, firms may even be expected to exceed the requirements of local laws. And the inclusion of this type of provision in an IIA—however indeterminate and indirect—offers guarantees to foreign investors that such standards would need to be applied in a manner consistent with the protection standards (such as non-discrimination, fair and equitable treatment) granted in the same agreement.
- *To include a reference to the importance the parties attach to observing good corporate citizenship objectives in the preamble of IIAs*. Preambular language is not part of the operational provisions of an agreement. Instead, it reflects the context, objectives and philosophy behind it. It can therefore influence the interpretation of provisions in a manner consistent with development concerns.
- *To create mandatory procedural obligations for governments* to encourage firms to comply with substantive good corporate citizenship standards and to provide a mechanism for follow-up. This is the case with the OECD Guidelines for Multinational Enterprises.
- *To incorporate legally binding provisions into IIAs* to deal with good corporate citizenship issues. Transfer-of-technology provisions in various international agreements are examples (chapter IV.G).

Both binding and voluntary approaches have their advantages and shortcomings. The effectiveness of both approaches depends on appropriate monitoring mechanisms (which public pressure may increasingly demand). In the future, it is likely that both will be pursued in parallel or in combination with each other, on the national and international levels. IIAs cannot be expected to set out comprehensive rules for business activities. Nor can they substitute for voluntary corporate citizenship actions, NGO instruments or specific international agreements. But IIAs are the instruments that focus on the investment process, and that process involves TNCs. So IIAs could in principle address all relevant actors.

How that is done, and how far negotiations can go, is a function of the interests of the actors and the negotiating process. But in a time when the societal implications of corporate actions are receiving more attention and scrutiny, good corporate citizenship—especially when it combines the interests of host countries and firms—deserves a careful examination in future IIAs.

Box VI.4. The OECD Guidelines for Multinational Enterprises

"II. General Policies

Enterprises should take fully into account established policies in countries in which they operate and consider the views of other stakeholders. In this regard, enterprises should:

- Contribute to economic, social and environmental progress with a view to achieving sustainable development.
- Respect the human rights of those affected by their activities consistent with the host government's international obligations and commitments.
- Encourage local capacity building through close co-operation with the local community, including business interests, as well as developing the enterprise's activities in domestic and foreign markets, consistent with the need for sound commercial practice.
- Encourage human capital formation, in particular by creating opportunities and facilitating training opportunities for employees.
- Refrain from seeking or accepting exemptions not contemplated in the statutory or regulatory framework related to environmental health, safety, labour, taxation, financial incentives or other issues.
- Support and uphold good corporate governance principles and develop and apply good corporate governance practices.
- Develop and apply effective self-regulatory practices and management systems that foster a relationship of confidence and mutual trust between enterprises and the societies in which they operate.
- Promote employee awareness of, and compliance with, company policies, including through dissemination of these policies, including through training programmes.
- Refrain from discriminatory or disciplinary action against employees who make *bona fide* reports to management or, as appropriate, to the competent authorities, on practices that contravene the law, the *Guidelines*, or the enterprise's policies.
- Encourage, where practicable, business partners, including suppliers and subcontractors, to apply principles of corporate conduct compatible with the *Guidelines*.

Abstain from any improper involvement in local political activities."

Other chapters of the Guidelines deal with disclosure, employment and industrial relations, environment, combating bribery, consumer interests, science and technology and competition and taxation. The science and technology chapter reads as follows:

"...endeavour to ensure that their activities are compatible with the science and technology (S&T) policies and plans of the countries in which they operate and as appropriate contribute to the development of local and national innovative capacity."

Source: UNCTAD 2001c, p. 34 and p. 40; OECD 2002.

Notes

1 The stock of outward FDI from developing countries increased rapidly since the 1990s and stood at $849 billion in 2002. (It was, however, only about a third of the inward stock of about $2.3 trillion.) The 10 largest developing economy sources—with Hong Kong (China), Singapore, Taiwan Province of China and the Republic of Korea in the top four positions—accounted for 85% of the outward stock. Only 13 of 116 developing economies for which data are available reported outward stocks of more than $10 billion in 2002.

2 Market access regulations in home countries can affect—negatively or positively—the scope for export-oriented FDI in developing countries. Measures that inhibit domestic market access for exports from overseas facilities (such as anti-dumping regulations, countervailing measures and technical barriers to trade), or conversely grant favoured treatment to imports from selected countries, affect the comparative profitability of FDI in various developing country locations.

3 Issues related to foreign affiliates themselves will be dealt with in the next section on good corporate citizenship.

4 Such cases may be of particular relevance where evidence exists of a systematic abuse of fundamental labour rights or the abuse of child labour contrary to international law and international conventions.

5 For example, the United States Sarbanes-Oxley Act (2001) has been passed to deal with such practices on an international level in the wake of the Enron scandal.

6 To date only one case, decided in the United States in 1984, has found the parent to be liable for the wrongs of its foreign affiliates, both as a direct wrongdoer and as a result of the parent subsidiary relationship between itself and its operating subsidiaries: Amoco Cadiz (1984). In recent cases in the United Kingdom claimants have been granted the right to bring proceedings against a United Kingdom-based parent company where the host country's courts and legal system can be shown not to be capable of ensuring that substantive justice is done to the claim (United Kingdom, House of Lords, 2000).

[7] Assistance is provided, for example, by UNCTAD, the World Bank (MIGA and FIAS) and the World Association of Investment Promotion Agencies. The "Proinvest" programme of the EU is dedicated to making IPAs in the ACP countries more effective and efficient in attracting FDI and making FDI achieve national development objectives. One of its tasks is to link outward investment promotion agencies in Europe with IPAs in the ACP countries.

[8] In Europe alone, there are at least 12 development finance institutions (see, for example, http://www.edfi.be).

[9] The regional development banks include the African Development Bank, Asian Development Bank, Caribbean Development Bank and the Inter-American Development Bank.

[10] MIGA was established in 1988 and works as a complement to national and regional FDI guarantee programmes as well as private insurers to issue guarantees, including co-insurance and re-insurance. Since 1990 MIGA has provided $11 billion in coverage and has facilitated $45.8 billion in FDI to developing countries. Other relevant World Bank institutions include the International Finance Corporation and ICSID.

[11] A compilation by UNCTAD found only five exceptions in 1999—hence UNCTAD's project (with the ICC) to produce such guides; see UNCTAD-ICC 2000a– Ethiopia, 2001a – Mali, 2000b – Bangladesh, 2001c – Uganda, 2001b – Mozambique, 2003–Nepal, and forthcoming – Cambodia.

[12] For example, the Norwegian Norfund has committed 265 million kroners to 17 projects across 15 countries, many of which are in Africa, Asia and Latin America (Torp and Rekve, 2003). The Overseas Private investment Corporation has reportedly helped host developing countries develop more than 600,000 jobs over its 30-year history and as of September 2001 was managing a portfolio of 133 active finance projects and 254 active insurance contracts. And MIGA has issued more than 500 guarantees for projects in 78 developing countries since 1988. According to the MIGA website, total coverage issued exceeded $9 billion in June 2001, bringing the estimated amount of FDI facilitated since inception to more than $41 billion. The agency mobilized an additional $153 million in investment coverage in fiscal 2001 through its Cooperative Underwriting Program, encouraging private sector insurers into transactions they would not have otherwise undertaken, and helping the agency serve more clients.

[13] The corresponding financing institutions in Denmark have 12% and of their investments in LDCs and those in Sweden 7% (Torp and Rekve 2003).

[14] For examples of such general policy exhortations, see UNCTAD 2001a, pp. 13–18.

[15] For a compilation of provisions in international arrangements for the transfer for technology, see UNCTAD, 2001h.

[16] See further the MIGA website at www.miga.org.

[17] Although a number of developing countries too have emerged as home countries, the principal purpose of HCMs in the context of IIAs is to enhance investment flows from developed to developing countries.

[18] See "Investors' and home governments' obligations", Communication from China, Cuba, India, Kenya, Pakistan and Zimbabwe (WTO doc. WT/WFTI/W/152).

[19] See for example Chapter 1, Article 8 of the Agreement between Japan and Singapore for a New Age Partnership (box III.2).

[20] This raises an issue that deserves consideration, namely that private entities (primarily from developed countries) are implicitly called upon to take on functions (such as upholding certain norms) that are normally reserved for governments.

[21] For a fuller discussion on the nature, scope and content of the corporate social responsibilities of TNCs, see *WIR99*, chapter XII, and UNCTAD 2001b.

[22] The Monterrey Consensus (paragraph 23), adopted in 2002 by the Financing for Development Conference, uses "good corporate citizenship". This is not to say that issues relating, for example, to the environment and social matters (such as industrial relations) are not also an integral part of development. Here, the focus is on economic issues themselves. In any event, it should be noted that that the concept does not cover corporate philantrophy as this has in a strict sense little to do with a company's core business.

[23] Good corporate citizenship should be distinguished from "corporate governance", which is limited to issues of how a corporation should be structured or organized to achieve effective control over its activities in the interests of shareholders and other direct stakeholders such as employees and creditors. But corporate governance is beginning to interact with "corporate social responsibility" to the extent that the interests of indirect stakeholders—that is, groups affected by the activities of a company, but without direct economic ties to it—may seek a formal role in the organizational structure of a company.

[24] In these areas the elaboration of good corporate citizenship standards has received increased attention in recent years, both in general instruments (such as the OECD Guidelines) as well as specialized ones developed by international and regional organizations (such as the United Nations and its specialized agencies, the OECD, international federations of business, trade unions, professional associations and individual companies). Examples of increasingly detailed and sector-specific standards are numerous (UNCTAD 2001b, g; Karl 1998). The development of corporate standards in these areas is facilitated by broadly accepted international conventions and supported by civil society groups. A current effort in this area is being undertaken by the Working Group on the Working Methods and Activities of Transnational Corporations of the Sub-Commission on the Promotion and Protection of Human Rights, see its draft "Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights" (E/CN.4/Sub.2/2002/13, annex).
Several new issues are emerging in the international good corporate citizenship sphere. One is corporate governance for which standards are being clarified and strengthened in, for example, the OECD Principles of Corporate Governance (1999). The Principles aim at reinforcing the rights of minority shareholders, while giving increasing recognition to the rights of other stakeholders and stressing duties of proper reporting and consultation.

[25] The way parts of the good corporate citizenship agenda is set may constitute a problem for policymakers in developing countries. While some standards (such as ILO labour standards) are globally

set, there is also a tendency towards the establishment of standards involving only companies or industry associations on the one hand, and NGOs on the other. Governments are sometimes bypassed when these standards are set. At the same time, however, standards negotiated without government participation might have concrete effects on where companies are locating their investments, with which suppliers they choose to do business and other decisions with a concrete bearing on a country's trade and investment performance and, ultimately, their economic development. An example of this is the United States Fair Labor Association (FLA). This body was formed by 11 leading apparel companies (including Nike, Patagonia and Liz Clairborne) as well as NGOs such as the Lawyers Committee for Human Rights and the National Consumers League. FLA members have developed a code that prohibits forced as well as child labour and supports freedom of association, minimum wages, limits on working hours and a plethora of similar rights (Garten 2002). While such codes and standards are often meant to raise and harmonize production standards in the industry worldwide, they can have side effects, too. The negotiated standards might help to divert trade and investment flows from countries that do not yet meet these standards without, however, their being involved in setting them. While some countries may benefit from such business-NGO partnership initiatives in terms of additional FDI, other countries might loose out. Thus, the emergence of these non-governmental standard setting initiatives poses a challenge to policymakers particularly in developing countries.

26 A number of companies, in their own materials, however, make reference to such matters as tax returns, local development and local business partners.

27 This is actually one of the most common commitments that TNCs make publicly; see OECD 2001b. The situation is, however, more difficult when national laws do not reflect the spirit of internationally accepted standards, such as in the case of the apartheid regime in South Africa. Good corporate citizenship would, in these cases, require different behaviour than just "playing by the rules".

28 The OECD and ISAR, for example, have guidelines concerning transfer pricing (OECD 2001b; UNCTAD/ISAR 1998). It should be noted that tax competition between countries invites TNCs to shift tax burdens across borders.

29 "Enterprises should:... In considering changes in their operations which would have major effects upon the livelihood of their employees, in particular in the case of the closure of an entity involving collective lay-offs or dismissals, provide reasonable notice of such changes to representatives of their employees, and, where appropriate, to the relevant governmental authorities, and co-operate with the employee representatives and appropriate governmental authorities so as to mitigate to the maximum extent practicable adverse effects." (UNCTAD 2001c, Section IV (6)).

30 Such advisory councils exist in Malaysia, Singapore and South Africa, as well as for ASEAN. UNCTAD and the International Chamber of Commerce established an Investment Advisory Council for LDCs.

31 Other instruments were negotiated during the 1970s and early 1980s but not completed. These include the draft United Nations Code of Conduct on Transnational Corporations and the draft Code of Conduct on the Transfer of Technology. They tended to reflect the concerns of developing countries at that time.

32 For a comprehensive review of voluntary codes of conduct, their current status and prospects of future expansion and effectiveness, see Sethi 2003.

PART TWO CONCLUSIONS

THE CHALLENGE OF THE DEVELOPMENT DIMENSION

Most host countries conclude international investment agreements (agreements that address, at least in part, investment issues) mainly to help attract FDI to further their development. Most home countries conclude them mainly to make the regulatory framework for FDI in host countries more transparent, stable, predictable and secure—and to reduce obstacles to future FDI flows. Because the regulatory framework for FDI—at whatever level—is at best enabling whether FDI actually flows depends mainly on the economic determinants in host countries.

The number of IIAs has greatly increased in the past decade, particularly at the bilateral and regional levels, and more are under negotiation. They reflect and complement national policies which have become more welcoming to FDI. They also set parameters for national policies, putting investment at the interface of national and international policies in the globalizing world economy.

Issues relating to IIAs are coming to the fore in international economic diplomacy regardless of what will or will not happen at the multilateral level, simply because of what is happening now at both the bilateral and regional levels. But if negotiations should take place at the multilateral level, these issues will acquire even greater importance. Whether governments negotiate IIAs—and, if so, at what level and for what purpose—is their sovereign decision. This *WIR* has sought to throw light on issues that need to be considered when negotiating IIAs, seeking to clarify them from a development perspective.

What are the issues?

The most important challenge for developing countries in future IIAs is to strike a balance between the potential for IIAs to increase FDI flows and the ability of countries to pursue development-oriented FDI policies—as an expression of their right to regulate in the public interest. This requires maintaining sufficient policy space to give governments the flexibility to use such policies within the framework of the obligations established by the IIAs they are parties to. The tension is obvious. Too much policy space reduces the value of international obligations. Too stringent obligations overly constrain the national policy space. Finding a development-oriented balance is the challenge.

When negotiating IIAs, this challenge is addressed in respect to the objectives of IIAs, their structure, content and implementation. Their content is central as the quest for a development friendly balance plays itself out in the resolution of issues that are particularly important for the ability of countries to pursue development-oriented national FDI policies and that are particularly sensitive in international investment negotiations, because countries have diverging views about them in light of their own predominating objectives.

From a development perspective, these issues are: the definition of “investment”, because it determines the scope and reach of the substantive provisions of an agreement; the scope of national treatment (especially as it relates to the right of establishment), because it determines how much and in which ways preference can be given to domestic enterprises; the circumstances under which government policies should be regarded as regulatory takings, because this involves testing the boundary line between the legitimate right to regulate and the rights of private property owners; the scope of dispute settlement, because this raises the question of the involvement of non-State actors and the extent to which the settlement of investment disputes is self-contained and the use of performance requirements, incentives, transfer-of-technology policies and competition policy, because they can advance development objectives. (Other important matters also arise in negotiations of IIAs, especially MFN, fair and equitable treatment and transparency. But these appear to be less controversial in investment negotiations.)

For each of these issues, more development friendly and less development friendly solutions exist. From the perspective of many developing countries, the preferable approach is therefore a

broad GATS-type positive list approach that allows each country to determine for itself for which of these issues to commit itself to in IIAs, under what conditions, and at what pace, commensurate with its individual needs and circumstances.

In pursuit of an overall balance, furthermore, future IIAs need to pay more attention to commitments by home countries. In fact, all developed countries (the main home countries), out of their own self-interest, already have various measures to encourage FDI flows to developing countries in place. And a number of bilateral and regional agreements contain commitments. Developing countries would benefit from making home country measures more transparent, stable and predictable in future IIAs.

TNCs too can contribute more to advancing the development impact of their investment in developing countries, as part of good corporate citizenship responsibilities, whether through voluntary action or more legally-based processes. Areas particularly important from a development perspective are contributing fully to public revenues of host countries; creating and upgrading linkages with local enterprises; creating employment opportunities; raising local skill levels; and transferring technology.

These issues are all complex. Because the potential implications of some provisions in IIAs are not fully known, it is not easy for individual countries to make the right choices. The complexities and sensitivities are illustrated by the experience of NAFTA for the regional level; that of the MAI negotiations for the interregional level and that of the GATS and the TRIMs Agreement for the multilateral level. Given the evolving nature of IIAs, other complexities tend to arise in applying and interpreting agreements. Indeed, disputes may arise from these processes, and their outcome is often hard to predict.

That is why governments need to ensure that such difficulties are kept to a minimum. How? By including appropriate safeguards at the outset to clarify the range of special and differential rights and qualifications of obligations that developing country parties might enjoy. Moreover, the administrative burden arising from new commitments at the international level is likely to weigh disproportionately on developing countries, especially the least developed, because they often lack the human and financial resources needed to implement agreements. This underlines the importance of capacity-building technical cooperation to help developing countries assess better various policy options before entering new agreements and in implementing the commitments made.

The overriding challenge for countries is to find a development-oriented balance when negotiating the objectives, content, structure and implementation of future IIAs at whatever level and in whatever context. The development dimension has to be an integral part of international investment agreements—in support of national policies to attract more FDI and to benefit more from it.

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ANNEXES

Annex table A.I.1. The world's top 100 non-financial TNCs, ranked by foreign assets, 2001[a]

(Millions of dollars and number of employees)

Ranking in 2001: Foreign assets	Ranking in 2001: TNI[b]	Ranking in 2000: Foreign assets	Ranking in 2000: TNI[b]	Corporation	Home economy	Industry[c]	Assets: Foreign	Assets: Total	Sales: Foreign[e]	Sales: Total	Employment: Foreign	Employment: Total	TNI[b] (Percent)
1	13	1	15	Vodafone	United Kingdom	Telecommunications	187 792	207 458	24 602	32 744	56 430	67 178	83.2
2	83	2	73	General Electric	United States	Electrical & electronic equipment	180 031	495 210	39 914	125 913	152 000	310 000	39.0
3	15	7	24	BP	United Kingdom	Petroleum expl./ref./distr.	111 207	141 158	141 225	175 389	90 500	110 150	80.5
4	36	4	42	Vivendi Universal	France	Diversified	91 120 [d]	123 156	29 652	51 423	256 725 [f]	381 504	66.3
5	82	-	-	Deutsche Telekom AG	Germany	Telecommunications	90 657 [d]	145 802	11 836	43 309	78 722	257 058	40.0
6	39	3	30	Exxonmobil Corporation	United States	Petroleum expl./ref./distr.	89 426	143 174	145 814	209 417	61 148 [g]	97 900	64.8
7	85	38	85	Ford Motor Company	United States	Motor vehicles	81 169	276 543	52 983	162 412	188 919	354 431	38.4
8	87	5	84	General Motors	United States	Motor vehicles	75 379	323 969	45 256	177 260	148 000	365 000	29.8
9	48	6	46	Royal Dutch/Shell Group [h]	United Kingdom/ Netherlands	Petroleum expl./ref./distr.	73 492 [f]	111 543	72 952	135 211	52 109	89 939	59.3
10	21	19	62	TotalFinaElf	France	Petroleum expl./ref./distr.	70 030 [d]	78 500	74 647	94 418	69 037	122 025	74.9
11	18	15	23	Suez	France	Electricity, gas and water	69 345	79 280	29 919	37 975	128 750	188 050	78.2
12	47	8	80	Toyota Motor Corporation	Japan	Motor vehicles	68 400 [d]	144 793	59 880	108 808	186 911	246 702	59.3
13	63	10	47	Fiat Spa	Italy	Motor vehicles	48 749	89 264	24 860	52 002	103 565	198 764	51.5
14	52	9	55	Telefonica SA[f]	Spain	Telecommunications	48 122	77 011	14 303	27 775	93 517	161 527	57.3
15	51	12	23	Volkswagen Group	Germany	Motor vehicles	47 480	92 520	57 426	79 376	157 579	324 413	57.4
16	57	13	93	ChevronTexaco Corp.	United States	Petroleum expl./ref./distr.	44 943	77 572	57 673	104 409	35 569	67 569	55.3
17	38	14	52	Hutchison Whampoa Limited	Hong Kong, China	Diversified	40 989 [f]	55 281	6 092	11 415	53 478	77 253	65.6
18	11	17	11	News Corporation	Australia	Media	35 650	40 007	13 880	15 087	24 700	33 800	84.7
19	44	29	43	Honda Motor Co Ltd	Japan	Motor vehicles	35 257	52 056	40 088	55 955	59 000	120 600	62.8
20	86	23	77	E.On	Germany	Electricity, gas and water	33 990 [d]	87 755	22 744	71 419	64 285	151 953	37.6
21	20	18	4	Nestlé SA[h]	Switzerland	Food & beverages	33 065	55 821	34 704 [i]	50 717	223 324 [f]	229 765 [f]	75.0
22	81	61	86	RWE Group[j]	Germany	Electricity, gas and water	32 809	81 024	23 151	58 039	65 609	155 634	40.8
23	65	11	57	IBM	United States	Electrical & electronic equipment	32 800	88 313	50 651 [i]	85 866	173 969 [f]	319 876	50.2
24	3	24	3	ABB	Switzerland	Machinery and equipment	30 586 [f]	32 305	18 876 [f]	19 382	148 486 [f]	156 865	95.6
25	35	37	49	Unilever [h]	United Kingdom/ Netherlands	Diversified	30 529 [d]	46 922	28 675	46 803	204 000	279 000	66.5
26	75	36	74	ENI Group	Italy	Petroleum expl./ref./distr.	29 935	55 584	19 437	43 861	26 570 [f]	80 178	43.8
27	60	21	51	BMW AG	Germany	Motor vehicles	29 901	45 415	25 304 [i]	34 482	23 338 [f]	97 275	54.4
28	7	25	10	Philips Electronics	Netherlands	Electrical & electronic equipment	29 416	34 070	27 598	28 992	157 661	188 643	88.4
29	45	45	41	Carrefour SA	France	Retail	29 342 [d]	41 172	31 513	62 294	235 894	358 501	62.6
30	91	-	-	Electricité De France	France	Electricity, gas and water	28 141	120 124	12 468	36 502	38 066	162 491	27.0
31	69	20	87	Repsol YPF SA	Spain	Petroleum expl./ref./distr.	27 028	45 575	13 752	39 135	16 455	35 452	47.0
32	53	22	48	Sony Corporation	Japan	Electrical & electronic equipment	26 930 [d]	61 393	38 605	57 595	99 300	168 000	56.7
33	40	40	56	Aventis SA	France	Pharmaceuticals	26 368 [d]	34 761	13 377	20 567	47 968 [h]	91 729	64.4
34	95	28	91	Wal-Mart Stores	United States	Retail	26 324	83 451	35 485	217 799	303 000	1 383 000	23.2
35	97	16	93	DaimlerChrysler AG	Germany/ United States	Motor vehicles	25 795	183 765	43 556 [i]	137 051	76 441	372 470	22.1
36	6	-	-	Lafarge SA	France	Construction materials	24 906	26 493	10 537	12 280	73 940	82 892	89.7
37	70	32	66	Nissan Motor Co Ltd	Japan	Motor vehicles	24 382	54 113	29 078	47 091	37 417 [f]	125 099	45.6
38	24	63	50	AES Corporation	United States	Electricity, gas and water	23 902 [d]	36 736	5 809	9 327	35 000 [f]	38 000	73.2
39	5	34	18	Roche Group	Switzerland	Pharmaceuticals	22 794	25 289	17 156	17 463	55 451	63 717	91.8
40	54	33	37	BASF AG	Germany	Chemicals	20 872	32 671	17 108	29 136	41 606	92 545	55.9
41	96	64	96	Deutsche Post AG	Germany	Transport and storage	20 840 [d]	138 837	9 844 [i]	29 924	52 680	276 235	22.3
42	58	35	31	Bayer AG	Germany	Pharmaceuticals/chemicals	20 297 [f]	32 817	15 778 [h]	27 142	52 300 [h]	116 900	54.9
43	29	70	53	GlaxoSmithkline Plc	United Kingdom	Pharmaceuticals	20 295	31 758	27 319	29 689	60 962	107 470	70.9
44	33	53	14	Royal Ahold NV[h]	Netherlands	Retail	19 967 [d]	28 562	40 150	59 701	183 851	270 739	68.4
45	27	57	33	Compagnie De Saint-Gobain SA	France	Construction materials	19 961	28 478	19 091	27 245	130 000	173 329	71.7
46	26	-	-	BHP Billiton Group	Australia	Mining & quarrying	19 898 [f]	29 552	14 821 [f]	17 778	33 070 [f]	51 037	71.8
47	10	27	19	Diageo Plc	United Kingdom	Food & beverages	19 731 [d]	26 260	13 747	16 020	59 868 [f]	62 124	85.8
48	55	95	67	Conoco Inc.	United States	Petroleum expl./ref./distr.	19 383 [d]	27 904	17 530	38 737	10 362 [f]	20 033	55.5
49	90	100	94	Philip Morris Companies Inc	United States	Diversified	19 339 [d]	84 968	33 944 [i]	89 924	39 831	175 000	27.8
50	28	-	-	National Grid Transco [h]	United Kingdom	Electricity, gas and water	19 080	24 839	3 829	6 308	10 154	13 236	71.4
51	59	-	-	Pinault-Printemps Redoute SA	France	Retail	18 285 [d]	30 991	13 627	24 921	54 231	107 571	54.7
52	68	43	59	Pfizer Inc	United States	Pharmaceuticals	18 160	39 153	12 327	32 259	54 000 [f]	90 000	48.2
53	62	55	69	Motorola Inc	United States	Telecommunications	18 116	33 398	16 051	30 004	57 720	111 000	53.2
54	72	41	79	Texas Utilities Company	United States	Electricity, gas and water	17 966 [d]	42 275	13 534	27 927	7 869	18 301	44.7
55	2	49	2	Thomson Corporation	Canada	Printing & publishing	17 815	18 402	7 086	7 237	43 338 [f]	44 000	97.7
56	12	-	-	Nortel Networks	Canada	Telecommunications	17 474 [d]	21 137	16 571	17 511	38 800	52 600	83.7
57	42	30	26	Alcatel	France	Machinery and equipment	17 356	32 382	15 786	22 729	68 191	99 314	63.9

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Annex table A.I.1. The world's top 100 non-financial TNCs, ranked by foreign assets, 2001[a] (concluded)

(Millions of dollars and number of employees)

Ranking in 2001: Foreign assets	Ranking in 2001: TNI[b]	Ranking in 2000: Foreign assets	Ranking in 2000: TNI[b]	Corporation	Home economy	Industry[c]	Assets: Foreign	Assets: Total	Sales: Foreign[e]	Sales: Total	Employment: Foreign	Employment: Total	TNI[b] (Percent)
58	73	46	60	Procter & Gamble	United States	Diversified	17 342 [d]	40 776	19 040	40 238	43 381	102 000	44.1
59	32	47	27	Coca-Cola Company	United States	Food & beverages	17 058 [k]	22 417	12 566 [k]	20 092	26 147	38 341	68.9
60	61	44	58	Hewlett-Packard	United States	Electrical & electronic equipment	17 007	32 584	26 393 [i]	45 226	44 992	86 200	54.2
61	1	-	-	NTL Incorporated	United States	Telecommunications	16 815 [d]	16 834	3 699	3 699	19 178	19 200	99.9
62	77	-	-	MMO2	United Kingdom	Telecommunications	16 744 [d]	31 605	2 057	6 129	6 366	15 116	42.9
63	31	78	36	Cable & Wireless Plc	United Kingdom	Telecommunications	16 659	23 258	4 955	8 472	27 750	35 561	69.4
64	88	96	90	Mitsubishi Corporation	Japan	Motor vehicles	16 556	61 087	15 821	100 553	18 779	44 034	28.5
65	22	69	28	Volvo AB	Sweden	Motor vehicles	15 928 [f]	24 449	17 011	18 322	47 463	72 031	74.6
66	25	26	8	Anglo American [h]	United Kingdom	Mining & quarrying	15 848 [d]	25 501	13 509	19 282	175 000	204 000	72.7
67	74	62	78	Matsushita Electric Industrial Co., Ltd.	Japan	Electrical & electronic equipment	15 712 [d]	57 204	26 815	52 263	142 984	267 196	44.1
68	37	-	-	Singtel Ltd.	Singapore	Telecommunications	15 594	19 108	1 362	4 054	17 574	21 535	65.6
69	78	-	-	Du Pont (E.I.) De Nemours	United States	Pharmaceuticals/chemicals	15 536 [d]	40 319	12 672	24 726	30 441	79 000	42.8
70	76	98	54	Renault SA	France	Motor vehicles	15 444 [d]	44 414	19 825 [i]	32 589	48 826	140 417	43.5
71	4	-	-	Holcim AG[f]	Switzerland	Non-metallic mineral products	15 016	16 097	7 454	8 170	44 613	47 362	92.9
72	94	42	89	Mitsui & Co Ltd	Japan	Wholesale trade	14 733	50 013	25 553	96 174	6 308 [f]	36 116	24.5
73	66	50	61	Dow Chemical Company	United States	Pharmaceuticals/chemicals	14 508 [d]	35 515	16 080	27 805	26 161 [f]	52 689	49.4
74	71	-	-	Thyssenkrupp AG	Germany	Metal and metal products	14 018	31 565	15 436	33 782	88 221	193 516	45.2
75	17	54	22	Stora Enso Oy[j]	Finland	Paper	13 471	18 214	11 415	12 111	29 221	44 275	78.1
76	67	-	-	Scottish Power	United Kingdom	Electricity, gas and water	13 186	23 269	4 520	9 050	6 349	15 758	49.0
77	98	56	95	Hitachi Ltd	Japan	Electrical & electronic equipment	12 769	70 412	14 130	60 753	72 849	321 517	21.4
78	14	52	9	Astrazeneca Plc	United Kingdom	Pharmaceuticals	12 762 [d]	17 985	15 508	16 480	42 400	52 600	81.9
79	49	67	39	McDonald's Corporation	United States	Restaurants	12 755	22 535	8 535	14 870	251 023	395 000	59.2
80	43	-	-	Bertelsmann	Germany	Media	12 755	21 028	11 834	17 015	48 426	80 296	63.5
81	30	76	40	Cemex S.A.	Mexico	Construction materials	12 645	16 282	4 390	6 730	17 449	25 519	70.4
82	23	-	-	Nokia	Finland	Telecommunications	12 592 [d]	19 870	27 557	27 963	35 470	57 716	74.5
83	19	-	-	Reed Elsevier	Netherlands/ United Kingdom	Publishing and printing	12 309	14 255	4 853	6 607	25 500	34 600	77.8
84	8	68	21	WPP Group Plc	United Kingdom	Business services	11 998	14 368	27 853	30 265	43 690	50 487	87.4
85	64	92	63	LG Electronics Inc.[f]	Korea, Republic of	Electrical & electronic equipment	11 561	20 304	10 009	22 528	21 017	42 512	50.3
86	16	75	17	Danone Groupe SA	France	Food & beverages	11 429	15 146	9 950	12 972	88 285	100 560	80.0
87	9	83	25	Pearson Plc	United Kingdom	Media	10 949 [d]	11 646	5 157	6 122	23 291	29 027	86.2
88	84	59	70	Johnson & Johnson	United States	Pharmaceuticals	10 891	38 488	12 800 [i]	33 004	50 645 [f]	101 800	38.9
89	46	39	1	Rio Tinto Plc	United Kingdom/ Australia	Mining & quarrying	10 852	19 616	6 052	10 438	26 384	36 141	62.1
90	92	73	81	Merck & Co	United States	Pharmaceuticals	10 750 [d]	44 007	7 803	47 716	27 700	78 100	25.4
91	56	-	-	Amerada Hess Corporation	United States	Petroleum expl./ref./distr.	10 721 [d]	15 369	3 589	13 413	7 560	10 838	55.4
92	34	31	5	British American Tobacco Plc	United Kingdom	Tobacco	10 355 [d]	16 403	11 613 [d]	17 352	59 358 [h]	81 425	67.7
93	80	-	-	Abbott Laboratories	United States	Pharmaceuticals	10 286 [d]	23 296	6 036	16 285	31 537	71 426	41.8
94	41	-	-	LVMH Moët-Hennessy Louis Vuitton SA	France	Luxury goods	10 208	21 115	8 907	10 963	34 095	53 795	64.3
95	100	58	100	Verizon Communications	United States	Telecommunications	10 159	170 795	2 541 [i]	67 190	10 012 [f]	250 309	4.6
96	79	-	-	Alcoa	United States	Metal and metal products	9 966	28 355	7 859	22 859	72 500	129 000	41.9
97	99	-	-	Bell Canada Enterprises	Canada	Telecommunications	9 900	34 160	2 066	14 027	11 250	75 000	19.6
98	50	-	-	Ericsson LM	Sweden	Telecommunications	9 742	24 130	17 461	22 442	47 870	85 198	58.1
99	93	60	99	Mirant Corp.	United States	Electricity, gas and water	9 730	22 754	4 961 [f]	31 502	1 600 [f]	10 000	24.8
100	89	-	-	International Paper Company	United States	Paper	9 536	37 158	5 808	26 363	37 000	100 000	28.2

Source: UNCTAD/Erasmus University database.

[a] All data are based on the companies' annual reports unless otherwise stated.
[b] TNI is the abbreviation for "transnationality index". The transnationlity index is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.
[c] Industry classification for companies follows the United States Standard Industrial Classification as used by the United States Securities and Exchange Commission (SEC).
[d] In a number of cases companies reported only partial foreign assets. In these cases the ratio of the partial foreign assets to the partial (total) assets was applied to total assets to calculate the total foreign assets. In all cases the resulting figures have been sent for confirmation to the companies.
[e] Foreign sales are based on the origin of the sales unless otherwise stated.
[f] Data were derived from the company as a response to an UNCTAD survey.
[g] Foreign employment data calculated by applying the ratio of foreign assets and total asets to total employment.
[h] Data for outside Europe.
[i] Foreign sales are based on customer location.
[j] In 2001 the company changed year-end from June to December. Sales calculated by summing the half year result for 2001 and 50% of 2000/01 sales.
[k] Data for outside North America.

Note: The list includes non-financial TNCs only. In some companies, foreign investors may hold a minority share of more than 10 per cent.

Annex table A.I.2. The top 50 non-financial TNCs from developing economies, ranked by foreign assets, 2001[a]
(Millions of dollars and number of employees)

Ranking by					Assets		Sales		Employment		
Foreign assets	TNI[b]	Corporation	Home economy	Industry [c]	Foreign[c]	Total	Foreign [e]	Total	Foreign	Total	TNI [b] (Per cent)
1	12	Hutchison Whampoa Ltd.	Hong Kong, China	Diversified	40 989 [f]	55 281	6 092	11 415	53 478	77 253	65.6
2	11	Singtel Ltd.	Singapore	Telecommunications	15 594	19 108	1 362	4 054	17 574 [g]	21 535	65.6
3	9	Cemex S.A.	Mexico	Non-metalic mineral products	12 645	16 282	4 390	6 730	17 449	25 519	70.4
4	22	LG Electronics Inc.[f]	Korea, Republic of	Electrical & electronic equipment	11 561	20 304	10 009	22 528	21 017	42 512	50.3
5	41	Petróleos De Venezuela	Venezuela	Petroleum expl./ref./distr.	7 964 [h]	57 542	19 801 [d]	46 250	5 480	46 425	22.8
6	42	Petronas - Petroliam Nasional Berhad	Malaysia	Petroleum expl./ref./distr.	7 877	37 933	5 359	17 681	4 006	25 724	22.2
7	45	New World Development Co., Ltd.	Hong Kong, China	Diversified	4 715	16 253	565	2 933	800	26 100	17.1
8	4	Neptune Orient Lines Ltd.	Singapore	Transport and storage	4 674 [f, h]	4 951	2 970	4 737	10 412 [f]	11 777 [f]	81.8
9	16	Citic Pacific Ltd.	Hong Kong, China	Diversified	4 184 [h]	7 798	1 109 [d]	2 212	7 354	11 733	55.5
10	14	Jardine Matheson Holdings Ltd.	Hong Kong, China	Diversified	4 080 [h]	7 166	6 297 [d]	9 413	62 629 [g]	110 000	60.3
11	28	Samsung Electronics Co., Ltd.	Korea, Republic of	Electrical & electronic equipment	3 840 [h]	41 692	25 112 [d]	37 155	23 953 [f]	73 682	36.4
12	2	Guangdong Investment Ltd.	Hong Kong, China	Diversified	3 694	4 042	854	932	6 869	7 641	91.0
13	5	Shangri-La Asia Ltd.	Hong Kong, China	Hotels and motels	3 606	4 565	458	560	13 033 [g]	16 500	79.9
14	10	Sappi Ltd.	South Africa	Paper	3 463 [h]	4 504	3 223	4 184	10 429	18 231	70.4
15	46	Hyundai Motor Company	Korea, Republic of	Motor vehicles	3 210	33 216	6 943	33 199	5516	91 958	12.2
16	8	Flextronics International Ltd.	Singapore	Electrical & electronic equipment	2 983 [h]	4 115	5 363 [d]	6 691	50734 [g]	70 000	75.0
17	13	City Developments Ltd. [i]	Singapore	Hotels	2 870	6 454	857	1 302	11 457 [g]	14 337	63.4
18	44	Samsung Corporation [f]	Korea, Republic of	Electrical & electronic equipment	2 800	9 400	5 800	32 300	..	4 164	17.4
19	26	China National Chemicals, Imp. & Exp. Corp.[h]	China	Diversified	2 788	4 928	9 145	16 165	350	7 950	39.2
20	18	South African Breweries Plc	South Africa	Food & beverages	2 785 [f]	4 399 [f]	2 433	4 364	15 450 [f]	33 230	55.2
21	34	América Móvil	Mexico	Telecommunications	2 323	10 137	919	4 385	7 142	14 786	30.7
22	31	Perez Companc	Argentina	Petroleum expl./ref./distr.	2 154	6 244	471	1 655	1 182	3 427	32.5
23	3	Guangzhou Investment Company Ltd.	Hong Kong, China	Diversified	2 129	2 559	362	433	12 920 [g]	13 120	88.4
24	49	Taiwan Semiconductor Manufacturing Co., Ltd.	Taiwan Province of China	Electrical & electronic equipment	2 033 [h]	10 446	..	3 751	... [g]	13 669	7.0
25	1	First Pacific Company Ltd.	Hong Kong, China	Electrical & electronic equipment	2 007 [h]	2 046	1 852	1 852	47 998	48 046	99.3
26	50	Petroleo Brasileiro S.A. - Petrobras	Brazil	Petroleum expl./ref./distr.	1 715	36 864	0 848	24 549	1 790 [g]	38 483	4.3
27	20	Acer Inc.	Taiwan Province of China	Electrical & electronic equipment	1 686	3 344	2 198	3 754	2 259	4 480	53.1
28	47	Posco	Korea, Republic of	Metal and metal products	1 589	18 164	1 378	10 497	1 949 [f]	28 619 [f]	9.6
29	33	San Miguel Corporation	Philippines	Food & beverages	1,584	3 203	743	2 384	3 460	26 697	31.2
30	48	CLP Holdings	Hong Kong, China	Electricity, gas and water	1 559	6 798	93	3 205	36	4 085	8.9
31	17	Panamco [k]	Mexico	Food & beverages	1 549	2 693	1 362	2 651	14955	26 000	55.5
32	32	Metalurgica Gerdau S.A.	Brazil	Metal and metal products	1 488 [h]	4 379	988 [d]	2 495	3 774	16 000	32.4
33	39	United Microelectronics Corporation	Taiwan Province of China	Electrical & electronic equipment	1 462	9 140	966	2 081	1 007	8 543	24.7
34	40	Keppel Corporation Ltd.	Singapore	Diversified	1,422	6 332	661	3 283	4 507	16 223	23.5
35	19	Barloworld Ltd.	South Africa	Diversified	1 409	2 403	2 027	3 521	10 222	23 233	53.4
36	21	Fraser & Neave Ltd.	Singapore	Food & beverages	1 229	4 282	949	1 660	7 920 [f]	11 455	51.7
37	25	Sime Darby Berhad	Malaysia	Diversified	1 225 [h]	3 290	1 911 [d]	3 174	6 827 [f]	26 384	41.1
38	6	Orient Overseas International Ltd. [l]	Hong Kong, China	Transport and storage	1 170 [h]	2 136	2 290	2 379	4 017	4 686	78.9
39	15	Gruma S.A. De C.V.	Mexico	Food & beverages	1 118	1 828	1 205	1 889	8 664	15 585	60.2
40	27	Naspers Ltd.	South Africa	Media	979	1 470	332	1 059	1 523 [g]	10 706	37.4

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Annex table A.I.2. The top 50 non-financial TNCs from developing economies, ranked by foreign assets, 2001[a]

(Millions of dollars and number of employees)

Ranking by					Assets		Sales		Employment		
Foreign assets	TNI[b]	Corporation	Home economy	Industry [c]	Foreign[c]	Total	Foreign [e]	Total	Foreign	Total	TNI[b] (Per cent)
41	43	Copec - Compania De Petroleos De Chile	Chile	Petroleum expl./ref./distr.	969	6 432	1 118	3 577	754	8 367	18.4
42	7	Savia SA De CV	Mexico	Diversified	961	1 585	635	683	5 983	8 085	75.9
43	30	Amsteel Corporation Berhad	Malaysia	Diversified	959	3 171	585	1 480	8 084 [g]	26 745	33.3
44	38	Johnnic Holdings Ltd.	South Africa	Telecommunications	839	2 606	336	1 687	2 138	9 408	24.9
45	35	Grupo Imsa	Mexico	Metal and metal products	828	3 041	824	2 233	4 457 [g]	16 373	30.4
46	24	Great Eagle Holdings Ltd.	Hong Kong, China	Business services	781	3 721	177	343	1 613	2 656	44.4
47	23	Delta Electronics Inc.	Taiwan Province of China	Electrical & electronic equipment	774	1 510	487	1 273	5 883	11 480	46.9
48	29	Genting Berhad	Malaysia	Hotels	740 [h]	2 690	306	829	5 611 [g]	15 200	33.8
49	36	Grupo Bimbo SA De Cv	Mexico	Food & beverages	738	2 443	883	3588	21 448 [g]	71 000	28.3
50	37	Advanced Semiconductor Engineering Inc.	Taiwan Province of China	Electrical & electronic equipment	732	3 038	271	1096	4 870	15 681	26.6

Source: UNCTAD/Erasmus University database.

[a] All data is based on the companies' annual reports unless otherwise stated.
[b] TNI is the abbreviation for "transnationality index". The transnationlity index is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.
[c] Industry classification for companies follows the United States Standard Industrial Classification as used by the United States Securities and Exchange Commission (SEC).
[d] In a number of cases companies reported only partial foreign assets. In these cases the ratio of the partial foreign assets to the partial (total) assets was applied to total assets to calculate the total foreign assets. In all cases, the resulting figures have been sent for confirmation to the companies.
[e] Foreign sales are based on the origin of the sales. In a number of cases companies reported only sales by destination.
[f] Data was derived from the company as a response to an UNCTAD survey.
[g] Foreign employment data calculated by applying the ratio of foreign assets and total asets to total employment.
[h] Foreign assets are calculated by applying the ratio of partial foreign assets and total assets to the balance total assets.
[i] Data for outside East and South East Asia.
[k] Data for outside Mexico, Costa Rica, Nicaragua and Guatemala.
[l] Data for outside Asia.

Annex table A.I.3. The top 25 non-financial TNCs from Central and Eastern Europe,[a] ranked by foreign assets, 2001

(Millions of dollars and number of employees)

Ranking by					Assets		Sales		Employment		TNI [b]
Foreign assets	TNI [b]	Corporation	Home country	Industry	Foreign	Total	Foreign	Total	Foreign	Total	(Per cent)
1	10	Lukoil Oil Co.	Russian Federation	Petroleum and natural gas	5 830.0	15 859.0	8 771.0 [d]	14 892.0	13 000	140 000	35.0
2	4	Novoship Co.	Russian Federation	Transport	998.9	1 133.6	302.3	392.1	85	6 976	55.5
3	1	Latvian Shipping Co.	Latvia	Transport	.. [e]	491.2	.. [e]	172.9	1 313	1 762	77.7
4	5	Pliva Group	Croatia	Pharmaceuticals	281.1	967.6	477.3	632.2	2 900	7 208	48.3
5	25	Hrvatska Elektroprivreda d.d.	Croatia	Energy	272.0	2 357.0	8.0	775.0	-	15 071	4.2
6	2	Primorsk Shipping Co.	Russian Federation	Transport	267.3	437.9	114.9	145.7	1 305	2 629	63.2
7	7	Gorenje Group	Slovenia	Domestic appliances	231.5	486.1	475.4	661.3	670	8 186	42.6
8	6	Krka d.d.	Slovenia	Pharmaceuticals	190.8	476.6	235.4	296.0	595	3 520	45.5
9	15	Far Eastern Shipping Co.	Russian Federation	Transport	123.0	377.0	101.0	318.0	233	5 608	22.8
10	21	Mercator d.d.	Slovenia	Retail trade	112.7	868.5	53.0	1 171.5	1 279	13 692	8.9
11	20	MOL Hungarian Oil and Gas Plc.	Hungary	Petroleum and natural gas	95.9	3 243.2	819.2	3 850.0	776	15 218	9.8
12	14	Podravka Group	Croatia	Food and beverages/ pharmaceuticals	69.3	357.2	134.3	303.5	790	6 885	25.0
13	22	Petrol Group	Slovenia	Petroleum and natural gas	66.9	478.4	80.0	1 122.8	24	1 572	7.5
14	3	Zalakerámia Rt.	Hungary	Clay product and refractory	65.0	120.0	39.0	64.0	1 889	2 921	59.9
15	19	Richter Gedeon Ltd.	Hungary	Pharmaceuticals	55.9	496.5	43.5	309.6	884	5 007	14.3
16	11	Malév Hungarian Airlines Ltd. [c]	Hungary	Transport	41.4	187.0	299.0	383.4	49	2 952	33.9
17	17	Intereuropa d.d.	Slovenia	Trade	34.0	200.0	25.0	163.0	662	2 230	20.7
18	12	Lek d.d.	Slovenia	Pharmaceuticals	28.1	332.4	219.7	281.2	252	2 663	32.0
19	24	Petrom SA National Oil Co.[c]	Romania	Petroleum and natural gas	28.0	3 151.0	303.0	2 423.0	149	77 630	4.5
20	13	Croatia Airlines d.d.	Croatia	Transportation	26.3	328.4	90.4	141.8	63	977	26.1
21	23	Merkur d.d.	Slovenia	Trade	26.1	397.9	44.8	436.7	89	2 824	6.7
22	9	Budimex Capital Group	Poland	Construction	23.8	372.6	50.4	610.0	1 076	1 189	35.0
23	8	BLRT Grupp AS	Estonia	Shipbuilding	22.6	83.7	31.5	83.8	1 521	3 415	36.4
24	16	Iskraemeco d.d.	Slovenia	Electrical machinery	19.0	86.5	32.8	115.0	267	2 114	21.0
25	18	Tiszai Vegyi Kombinát Ltd.	Hungary	Chemicals	16.6	462.5	245.6	489.9	182	2 987	19.9
Averages					373.2	1 350.1	525.2	1 209.4	1 252	13 409	30.3
Change from 2000 (in per cent)					15.2	9.7	8.8	1.6	- 10.6	- 5.3	- 1.9

Source: UNCTAD survey of top TNCs in Central and Eastern Europe.

[a] Based on survey responses.
[b] The transnationality index (TNI) is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.
[c] 2000 data.
[d] Including export sales by the parent firm.
[e] Data not revealed by the firm; estimates have been made using secondary sources of information.

Annex table A.I.4. Inward FDI flows, by industry, 1999-2001
(Billions of dollars and percentage distribution)

	Value in billion dollars						Percentage distribution					
	1999-2000 (annual average)			2001			1999-2000 (annual average)			2001		
Sector/industry	Developed countries	Developing economies	Total[a]	Developed countries	Developing economies	Total[a]	Developed countries	Developing economies	Total[a]	Developed countries	Developing economies	Total[a]
Primary	22.2	17.8	40.9	55.9	13.0	69.4	2.1	8.9	3.3	10.2	7.6	9.6
Agriculture, hunting, forestry and fishing	0.3	1.1	1.4	0.4	1.3	1.7	0.0	0.5	0.1	0.1	0.8	0.2
Mining, quarrying and petroleum	21.2	16.2	38.3	55.5	11.7	67.6	2.0	8.1	3.1	10.1	6.9	9.3
Unspecified primary	0.7	0.5	1.2	-	-	-	0.1	0.3	0.1	-	-	-
Secondary	217.2	61.8	280.5	91.4	56.0	148.8	21.0	30.8	22.6	16.6	33.0	20.5
Food, beverages and tobacco	7.5	3.9	12.4	4.8	2.6	8.0	0.7	2.0	1.0	0.9	1.5	1.1
Textiles, clothing and leather	5.4	1.6	7.0	- 0.2	0.2	-	0.5	0.8	0.6	-	0.1	-
Wood and wood products	5.9	0.4	6.4	6.3	0.3	6.7	0.6	0.2	0.5	1.1	0.2	0.9
Publishing, printing and reproduction of recorded media	5.1	-	5.1	3.7	0.2	3.9	0.5	-	0.4	0.7	0.1	0.5
Coke, petroleum products and nuclear fuel	36.1	0.3	36.4	- 1.8	0.2	- 1.5	3.5	0.1	2.9	- 0.3	0.1	- 0.2
Chemicals and chemical products	32.6	7.1	39.7	13.3	2.5	15.9	3.1	3.6	3.2	2.4	1.5	2.2
Rubber and plastic products	2.3	0.2	2.5	- 0.4	0.2	- 0.2	0.2	0.1	0.2	- 0.1	0.1	-
Non-metallic mineral products	4.8	0.5	5.4	2.0	0.5	2.5	0.5	0.3	0.4	0.4	0.3	0.3
Metal and metal products	13.4	1.5	15.0	7.0	1.3	8.5	1.3	0.8	1.2	1.3	0.8	1.2
Machinery and equipment	32.9	8.6	41.6	10.7	3.6	14.6	3.2	4.3	3.4	2.0	2.1	2.0
Electrical and electronic equipment	39.2	9.5	48.7	12.6	4.7	17.3	3.8	4.7	3.9	2.3	2.8	2.4
Precision instruments	1.3	-	1.3	- 0.4	0.1	- 0.2	0.1	-	0.1	- 0.1	0.1	-
Motor vehicles and other transport equipment	17.0	2.8	19.9	7.6	1.9	9.5	1.6	1.4	1.6	1.4	1.1	1.3
Other manufacturing	5.5	2.4	7.9	13.7	1.5	15.2	0.5	1.2	0.6	2.5	0.9	2.1
Unspecified secondary	8.1	22.9	31.2	12.5	36.1	48.8	0.8	11.4	2.5	2.3	21.3	6.7
Tertiary	734.2	113.2	849.7	357.4	99.1	459.4	71.0	56.3	68.5	64.9	58.4	63.3
Electricity, gas and water	16.8	9.7	26.5	5.4	6.8	12.4	1.6	4.8	2.1	1.0	4.0	1.7
Construction	2.5	1.9	4.4	2.0	2.3	4.4	0.2	0.9	0.4	0.4	1.3	0.6
Trade	54.4	16.3	71.5	27.1	12.9	40.9	5.3	8.1	5.8	4.9	7.6	5.6
Hotels and restaurants	2.7	2.4	5.1	2.2	2.7	4.9	0.3	1.2	0.4	0.4	1.6	0.7
Transport, storage and communications	126.2	15.8	143.0	52.9	20.1	74.2	12.2	7.9	11.5	9.6	11.8	10.2
Finance	284.8	24.4	309.3	111.0	28.9	140.3	27.5	12.1	24.9	20.2	17.0	19.3
Business activities	213.2	33.8	247.1	113.8	16.9	130.7	20.6	16.8	19.9	20.7	9.9	18.0
Health and social services	0.2	0.1	0.3	0.4	0.1	0.5	-	0.1	-	0.1	0.1	0.1
Community, social and personal service activities	3.7	2.4	6.1	4.2	2.7	7.0	0.4	1.2	0.5	0.8	1.6	1.0
Other services	26.3	4.9	31.2	33.6	3.7	37.3	2.5	2.4	2.5	6.1	2.2	5.1
Unspecified tertiary	3.6	1.5	5.2	4.8	2.0	6.8	0.4	0.8	0.4	0.9	1.2	0.9
Private buying and selling of property	0.4	-	0.4	0.5	-	0.5	-	-	-	0.1	-	0.1
Unspecified	60.1	8.1	68.3	45.3	1.7	47.2	5.8	4.0	5.5	8.2	1.0	6.5
Total	1 034.2	200.9	1 239.9	550.5	169.8	725.2	100.0	100.0	100.0	100.0	100.0	100.0

Source: UNCTAD, FDI database.

[a] Includes countries in Central and Eastern Europe.

Notes: Data cover 50 countries for which data are available for 1999, 2000 and 2001. They account for 94 % and 89 % of world inward flows in 1999-2000 and 2001, respectively. In the absence of actual data, approval data were used in some countries. For other notes, please see figure I.4.

Annex table A.I.5. Inward FDI Performance Index rankings, 1990-2001[a]

Economy	1988-1990	1989-1991	1990-1992	1991-1993	1992-1994	1993-1995	1994-1996	1995-1997	1996-1998	1997-1999	1998-2000	1999-2001
Albania	..	..	77	27	22	29	35	49	69	99	88	67
Algeria	101	99	113	116	129	130	124	119	114	112	109	101
Angola	106	32	30	7	12	7	18	18	9	2	3	2
Argentina	36	42	44	49	56	55	55	50	61	40	40	42
Armenia	..	..	27	74	114	102	99	79	22	19	19	38
Australia	15	24	37	45	51	48	56	59	90	104	95	91
Austria	77	80	82	82	79	87	75	89	86	93	80	74
Azerbaijan	..	..	..	..	116	28	4	1	1	1	10	33
Bahamas	66	101	132	98	94	62	54	33	39	47	52	66
Bahrain	23	4	3	4	10	46	1	2	2	36	43	56
Bangladesh	104	107	125	125	127	126	131	130	131	125	121	125
Belarus	..	..	124	122	112	119	113	92	94	77	92	87
Belgium and Luxembourg	8	6	9	9	14	24	25	26	20	3	1	1
Benin	16	5	7	17	43	105	95	102	100	89	84	82
Bolivia	46	41	39	37	34	27	20	10	7	7	13	14
Botswana	24	47	70	136	139	138	88	77	87	95	104	115
Brazil	78	89	93	93	103	101	90	83	66	54	45	37
Brunei Darussalam	103	106	115	107	115	18	7	4	3	4	8	10
Bulgaria	..	..	103	89	89	95	86	60	44	30	27	25
Burkina Faso	93	98	118	114	102	99	100	112	120	120	117	119
Cameroon	114	117	135	120	124	127	127	124	125	119	124	122
Canada	35	55	65	72	69	71	66	75	67	63	31	30
Chile	10	16	28	31	23	21	14	14	15	15	20	19
China	44	51	42	18	9	11	16	20	30	43	51	59
Colombia	40	45	50	51	48	65	57	39	38	61	82	80
Congo	84	65	72	12	13	6	37	31	62	14	14	16
Congo, Dem. Rep.	111	110	126	117	130	133	134	136	132	133	118	127
Costa Rica	18	21	21	26	31	38	33	43	40	50	65	73
Côte d'Ivoire	80	86	84	69	66	50	44	42	45	53	71	86
Croatia	..	..	..	94	84	89	69	64	50	38	30	22
Cyprus	27	31	41	54	63	79	92	52	56	29	26	20
Czech Republic	..	..	40	30	32	30	30	40	37	22	15	11
Denmark	53	52	63	64	44	43	59	84	72	31	12	9
Dominican Republic	26	30	36	38	39	40	58	55	59	34	32	31
Ecuador	30	39	48	36	29	34	38	48	43	51	50	35
Egypt	14	28	56	47	40	52	72	99	105	106	102	110
El Salvador	89	84	99	97	117	115	128	126	47	49	54	95
Estonia	..	..	59	29	19	15	23	24	14	16	18	21
Ethiopia	99	97	111	119	119	116	119	71	57	62	83	106
Finland	65	87	100	95	72	77	82	95	98	80	55	49
France	43	49	51	56	64	67	70	80	88	79	76	62
Gabon	33	114	67	133	137	139	140	140	140	140	140	139
Gambia	9	7	14	22	27	32	28	22	26	18	16	12
Georgia	..	..	..	..	122	121	89	35	25	26	38	63
Germany	87	83	112	121	121	112	115	116	116	101	47	39
Ghana	90	85	96	66	36	39	43	81	104	90	89	77
Greece	34	48	54	61	68	82	87	103	117	121	120	113

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Annex table A.I.5. Inward FDI Performance Index rankings, 1990-2001[a] (continued)

Economy	1988-1990	1989-1991	1990-1992	1991-1993	1992-1994	1993-1995	1994-1996	1995-1997	1996-1998	1997-1999	1998-2000	1999-2001
Guatemala	22	57	64	63	75	93	106	113	93	92	96	99
Guinea	60	60	69	76	108	124	123	120	121	111	111	114
Guyana	58	33	1	1	1	1	2	5	8	21	21	17
Haiti	81	82	104	110	136	135	135	131	134	124	122	123
Honduras	31	36	46	46	60	60	62	57	70	68	61	55
Hong Kong, China	3	14	17	15	8	14	12	15	12	13	2	3
Hungary	63	25	16	8	15	8	10	13	32	44	53	53
Iceland	85	81	108	124	134	132	117	100	89	98	100	97
India	98	103	116	113	111	107	104	105	113	116	119	120
Indonesia	54	56	57	59	65	57	52	53	80	128	137	138
Iran, Islamic Rep.	112	116	129	126	131	123	132	132	137	136	134	131
Ireland	59	35	25	25	35	51	41	46	21	9	4	4
Israel	82	88	97	88	92	81	71	73	85	81	72	65
Italy	64	79	91	99	105	109	120	123	130	127	115	109
Jamaica	25	12	8	13	20	36	31	44	35	35	28	23
Japan	105	105	117	123	128	128	133	133	136	135	130	128
Jordan	76	91	80	129	126	134	126	66	55	56	37	54
Kazakhstan	..	..	89	24	30	17	21	17	23	24	23	15
Kenya	74	68	92	111	125	120	125	127	129	126	116	118
Korea, Republic of	75	77	94	104	113	113	118	114	111	100	91	92
Kuwait	102	108	130	130	133	125	111	117	124	132	131	132
Kyrgyzstan	..	..	..	96	47	23	24	23	33	33	67	107
Latvia	..	..	62	42	17	20	13	11	13	23	33	51
Lebanon	94	95	106	108	110	114	114	107	108	105	99	96
Libyan Arab Jamahiriya	69	74	88	102	123	136	136	137	138	138	135	134
Lithuania	..	..	107	77	80	80	68	51	27	27	34	60
Madagascar	73	66	73	80	99	110	122	125	128	114	101	89
Malawi	41	102	134	135	106	129	130	135	135	115	129	133
Malaysia	4	3	4	3	5	5	9	12	18	32	49	70
Mali	86	92	133	131	132	47	39	41	77	83	86	68
Malta	21	17	32	32	26	22	11	21	16	10	5	5
Mexico	38	44	52	58	49	45	36	38	51	67	79	72
Moldova, Republic of	..	..	13	21	38	35	45	36	49	48	29	18
Mongolia	..	94	102	79	82	76	73	67	76	73	62	48
Morocco	62	59	60	48	45	64	77	70	84	70	90	46
Mozambique	88	72	68	57	54	54	53	61	41	25	25	24
Myanmar	57	34	29	39	58	53	32	19	19	37	70	85
Namibia	79	27	15	19	28	31	27	34	60	76	68	34
Nepal	97	100	110	112	118	122	121	121	127	130	132	130
Netherlands	13	13	23	40	42	41	34	37	24	17	9	8
New Zealand	6	10	10	11	11	12	19	25	53	69	59	44
Nicaragua	96	43	34	28	33	37	26	16	10	12	11	13
Niger	56	63	45	68	78	118	96	97	109	118	127	121
Nigeria	7	8	22	16	7	10	17	27	34	58	81	83
Norway	49	64	127	128	77	63	61	58	65	55	57	69
Oman	32	40	55	60	73	94	112	122	123	123	126	129
Pakistan	72	69	74	75	83	85	79	91	106	109	114	116

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Annex table A.I.5. Inward FDI Performance Index rankings, 1990-2001[a] (concluded)

Economy	1988-1990	1989-1991	1990-1992	1991-1993	1992-1994	1993-1995	1994-1996	1995-1997	1996-1998	1997-1999	1998-2000	1999-2001
Panama	116	29	31	35	24	26	22	9	5	8	17	32
Papua New Guinea	2	2	6	23	25	9	5	7	17	46	46	43
Paraguay	55	50	43	53	52	68	67	72	64	75	85	104
Peru	91	96	105	67	21	19	15	29	36	59	75	78
Philippines	28	46	49	43	37	44	47	65	78	85	87	90
Poland	100	93	81	62	50	42	40	45	46	45	42	47
Portugal	12	11	19	33	46	73	80	85	73	86	69	52
Qatar	110	90	86	73	67	69	46	47	42	74	97	98
Romania	..	..	109	103	85	84	83	69	52	52	64	75
Russian Federation	..	..	120	109	109	108	107	104	110	107	105	108
Rwanda	61	76	98	101	107	117	129	129	133	131	128	126
Saudi Arabia	83	73	76	91	98	131	137	134	95	94	125	135
Senegal	67	75	85	115	90	90	91	78	83	71	94	94
Sierra Leone	47	23	47	132	138	137	105	101	112	129	133	117
Singapore	1	1	2	5	4	2	3	3	6	5	7	6
Slovakia	..	..	71	65	61	56	64	86	79	84	41	26
Slovenia	..	..	83	70	76	88	94	93	101	108	112	105
South Africa	108	109	119	118	120	106	103	90	103	102	113	81
Spain	19	22	24	34	41	61	74	94	96	87	60	41
Sri Lanka	68	70	66	55	55	74	85	82	92	91	106	111
Sudan	109	113	131	127	101	100	108	118	91	72	66	57
Suriname	117	118	11	137	140	140	138	138	81	134	139	140
Sweden	50	38	58	52	53	25	29	28	29	6	6	7
Switzerland	29	37	53	90	95	96	84	87	68	57	35	36
Syrian Arab Republic	51	67	87	86	70	72	76	109	118	110	103	103
Taiwan Province of China	48	58	75	84	97	98	101	108	122	117	110	102
Tajikistan	..	..	90	81	81	59	63	68	82	88	93	93
TFYR Macedonia	..	..	..	..	104	111	116	128	102	97	73	29
Thailand	17	19	26	41	59	75	78	76	54	42	44	61
Togo	42	61	95	134	135	70	48	63	74	66	58	45
Trinidad and Tobago	20	15	20	10	6	4	8	6	4	11	22	27
Tunisia	52	53	33	20	18	33	50	74	71	78	74	76
Turkey	70	71	78	87	100	103	109	115	126	122	123	112
Uganda	107	111	128	78	57	49	51	56	63	65	63	58
Ukraine	..	..	61	71	86	97	98	96	99	96	98	88
United Arab Emirates	92	112	122	83	93	92	102	111	119	137	136	136
United Kingdom	11	18	35	50	62	66	65	62	48	41	24	28
United Republic of Tanzania	95	104	114	105	88	58	49	54	75	60	48	40
United States	39	62	79	85	91	91	93	98	97	82	78	79
Uruguay	71	78	101	92	87	86	97	106	115	113	107	100
Uzbekistan	..	..	123	106	74	104	110	110	107	103	108	84
Venezuela	37	26	38	44	71	78	60	32	31	39	56	71
Viet Nam	45	20	12	6	3	3	6	8	11	20	36	50
Yemen	115	54	5	2	2	13	139	139	139	139	138	137
Zambia	5	9	18	14	16	16	42	30	28	28	39	64
Zimbabwe	113	115	121	100	96	83	81	88	58	64	77	124

Source: UNCTAD.

[a] Three-year moving average.

Note: Covering 140 economies.

Annex table A.I.6. Inward FDI Performance Index, by region, 1988-1990, 1993-1995, 1998-2000 and 1999-2001[a]

Region	1988-1990	1993-1995	1998-2000	1999-2001
World	1.00	1.00	1.00	1.00
Developed countries	1.03	0.76	0.99	1.00
Western Europe	1.33	1.11	1.62	1.77
European Union	1.33	1.12	1.63	1.80
Other Western Europe	1.33	0.95	1.37	1.29
North America	1.13	0.77	0.86	0.78
Other developed countries	0.29	0.20	0.12	0.12
Developing countries	0.99	1.98	1.04	1.01
Africa	0.80	1.11	0.52	0.67
North Africa	0.85	1.05	0.39	0.47
Other Africa	0.76	1.15	0.62	0.82
Latin America and the Caribbean	0.90	1.62	1.42	1.41
South America	0.74	1.21	1.33	1.31
Other Latin America and the Caribbean	1.26	2.57	1.60	1.59
Asia	1.06	2.30	0.92	0.87
West Asia	0.27	0.36	0.14	0.11
Central Asia	..	2.93	1.53	1.63
South, East and South-East Asia	1.31	2.70	1.08	1.02
East and South-East Asia	1.74	3.22	1.30	1.22
South Asia	0.11	0.41	0.16	0.16
The Pacific	4.49	4.22	0.75	0.58
Central and Eastern Europe	1.02[b]	1.31	1.01	0.99

Source: UNCTAD.

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

Annex table A.I.7. Raw data and scores for the variables included in the UNCTAD Inward FDI Potential Index, 1999-2001

Economy	Real GDP growth, Average 1991-2001 (%)	Real GDP growth (Score 0-1)	GDP per capita, Average 1999-2001 (Dollars)	GDP per capita (Score 0-1)	Total exports (As % of GDP)	Total exports (Score 0-1)	Telephone mainlines (Per 1000 inhabitants)	Telephone mainlines (Score 0-1)	Mobile phones (Per 1000 inhabitants)	Mobile phones (Score 0-1)	Commercial energy use (Per capita)	Commercial energy use (Score 0-1)	R&D expenditures (As % of GDP)	R&D expenditures (Score 0-1)	Students in the tertiary level, 1999 (As a % of total population)	Students in the tertiary level (Score 0-1)	Country risk, As of December 2001 (Composite risk rating)	Country risk (Score 0-1)	Exports of natural resources, Average 1999-2001 (As a % of world total)	Exports of natural resources (Score 0-1)	Imports of parts/accessories of electronics and automobiles (As a % of world Total)	Imports of parts/accessories (Score 0-1)	Exports in services (As a % of world total)	Exports in services (Score 0-1)	Inward FDI stock (As a % of world total)	Inward FDI stock (Score 0-1)
Albania	5.4	0.748	1 226.4	0.031	18.0	0.067	41.73	0.057	32.88	0.042	514.1	0.014	..	..	1.29	0.207	62.5	0.439	0.00	0.000	0.01	0.000	0.03	0.001	0.01	0.004
Algeria	2.3	0.561	1 702.4	0.044	37.6	0.185	57.28	0.078	2.82	0.003	956.8	0.031	..	..	1.52	0.245	62.3	0.436	2.40	0.267	0.03	0.002	0.08	0.004	0.06	0.007
Angola	3.1	0.610	608.1	0.014	85.4	0.473	5.51	0.007	3.43	0.004	588.4	0.017	..	..	0.06	0.005	50.5	0.215	0.82	0.091	-	-	0.01	0.001	0.14	0.011
Argentina	2.9	0.598	7 531.3	0.205	10.7	0.023	215.04	0.296	160.84	0.208	1 674.4	0.059	0.45	0.118	4.38	0.715	64.8	0.482	0.73	0.082	0.43	0.023	0.30	0.016	1.18	0.064
Armenia	1.6	0.520	517.3	0.011	23.3	0.098	149.01	0.205	4.56	0.006	513.7	0.014	..	..	1.00	0.159	59.8	0.389	0.01	0.001	0.00	0.000	0.01	0.000	0.01	0.004
Australia	4.1	0.666	19 915.1	0.546	20.7	0.083	519.61	0.715	452.17	0.585	5 710.8	0.214	1.51	0.397	4.52	0.739	81.5	0.794	3.61	0.401	0.90	0.049	1.18	0.065	1.87	0.100
Austria	2.2	0.554	24 332.8	0.668	49.4	0.256	470.78	0.648	698.79	0.904	3 527.3	0.130	1.81	0.477	3.19	0.521	86.5	0.888	0.37	0.041	1.04	0.057	2.20	0.121	0.50	0.029
Azerbaijan	-3.0	0.247	643.1	0.015	36.6	0.179	103.21	0.142	61.16	0.079	1 526.0	0.053	0.24	0.062	1.91	0.309	68.5	0.551	0.23	0.025	0.01	0.000	0.02	0.001	0.06	0.007
Bahamas	2.4	0.568	15 184.7	0.416	54.3	0.285	381.42	0.525	117.60	0.152	..	..	..	..	2.20	0.358	76.0	0.692	0.01	0.001	0.01	0.000	0.13	0.007	0.03	0.005
Bahrain	4.2	0.677	11 728.5	0.320	82.0	0.453	248.30	0.341	308.70	0.399	9 574.2	0.363	..	..	1.86	0.301	78.5	0.738	0.70	0.077	0.02	0.001	0.06	0.003	0.10	0.009
Bangladesh	5.0	0.720	332.0	0.006	14.1	0.043	3.78	0.005	2.43	0.003	140.4	0.000	..	..	0.57	0.089	60.5	0.402	0.00	0.000	-	-	0.02	0.001	0.02	0.005
Belarus	0.0	0.428	1 137.1	0.029	64.7	0.348	268.12	0.369	6.86	0.009	2 406.4	0.087	1.09	0.287	3.67	0.599	61.3	0.417	0.17	0.019	0.03	0.002	0.06	0.003	0.02	0.005
Belgium and Luxembourg	2.5	0.573	23 852.2	0.654	87.2	0.484	628.20	0.865	612.01	0.792	6 998.3	0.264	1.96	0.516	3.39	0.552	87.9	0.914	1.88	0.209	2.31	0.126	2.94	0.161	3.23	0.169
Benin	4.9	0.714	364.3	0.007	27.5	0.124	8.32	0.011	9.91	0.013	373.1	0.009	..	..	0.32	0.047	..	..	0.00	0.000	0.00	0.000	0.01	0.001	0.01	0.004
Bolivia	3.7	0.646	984.7	0.024	17.7	0.065	61.78	0.085	71.82	0.093	587.0	0.017	0.29	0.077	3.10	0.506	66.3	0.510	0.07	0.008	0.01	0.001	0.02	0.001	0.09	0.008
Botswana	5.4	0.743	3 257.7	0.087	53.2	0.279	84.14	0.115	120.54	0.156	..	..	..	..	0.40	0.060	78.5	0.738	0.05	0.005	0.01	0.001	0.03	0.001	0.03	0.005
Brazil	2.9	0.597	3 181.1	0.085	11.5	0.028	182.89	0.251	131.11	0.170	1 073.8	0.036	0.77	0.202	1.46	0.236	62.5	0.439	0.97	0.107	1.05	0.057	0.57	0.031	3.24	0.170
Brunei Darussalam	2.2	0.555	15 177.7	0.415	..	..	251.67	0.346	301.17	0.390	5 235.0	0.196	..	..	1.15	0.185	88.3	0.921	0.24	0.027	-	-	..	..	0.06	0.007
Bulgaria	-0.7	0.386	1 617.1	0.042	52.6	0.276	351.76	0.484	108.01	0.140	2 258.4	0.082	0.57	0.150	3.16	0.515	72.3	0.622	0.13	0.014	0.02	0.001	0.15	0.008	0.05	0.006
Burkina Faso	4.3	0.683	202.7	0.003	11.2	0.025	4.54	0.006	3.03	0.004	..	..	0.19	0.051	0.08	0.009	60.5	0.402	0.00	0.000	0.00	0.000	0.00	0.000	0.00	0.004
Cameroon	2.8	0.590	606.6	0.014	28.5	0.130	6.46	0.008	10.20	0.013	423.2	0.011	..	..	0.45	0.069	64.0	0.467	0.14	0.015	0.01	0.000	0.03	0.001	0.02	0.005
Canada	3.5	0.631	22 416.5	0.615	44.1	0.224	677.35	0.932	294.15	0.381	8 062.4	0.305	1.82	0.479	3.96	0.646	84.8	0.856	6.43	0.713	6.22	0.341	2.52	0.138	3.29	0.172
Chile	5.9	0.777	4 595.9	0.124	32.7	0.155	220.26	0.303	238.49	0.309	1 644.3	0.058	0.54	0.143	3.00	0.489	76.3	0.697	1.17	0.130	0.12	0.007	0.27	0.015	0.76	0.043
China	9.7	1.000	852.5	0.021	24.4	0.105	111.67	0.153	70.11	0.091	898.5	0.029	0.92	0.240	0.58	0.091	74.3	0.660	1.73	0.192	4.26	0.233	2.03	0.112	5.87	0.304
Colombia	2.5	0.576	1 983.7	0.052	19.2	0.074	166.90	0.229	58.97	0.076	678.3	0.021	0.24	0.063	2.11	0.343	58.8	0.370	0.77	0.085	0.08	0.004	0.14	0.007	0.23	0.016
Congo	1.4	0.512	894.5	0.022	83.9	0.464	7.38	0.010	24.58	0.032	270.8	0.005	..	..	0.55	0.085	57.5	0.346	0.26	0.029	-	-	0.01	0.000	0.03	0.006
Congo, Dem. Rep.	-4.3	0.174	113.3	0.000	16.4	0.057	0.36	0.000	1.13	0.001	292.6	0.006	..	..	0.12	0.015	50.3	0.211	0.02	0.003	-	-	..	..	0.01	0.004
Costa Rica	5.1	0.726	3 978.0	0.107	47.4	0.244	219.05	0.301	54.00	0.070	839.7	0.027	0.20	0.052	2.72	0.443	74.0	0.654	0.01	0.001	0.05	0.003	0.11	0.006	0.09	0.008
Côte d'Ivoire	3.4	0.628	618.7	0.014	45.3	0.231	16.93	0.023	31.42	0.040	430.1	0.011	..	..	0.68	0.106	57.5	0.346	0.09	0.010	0.01	0.000	0.03	0.002	0.06	0.007
Croatia	2.7	0.585	4 251.1	0.114	44.1	0.224	371.59	0.511	224.62	0.291	1 805.4	0.064	0.98	0.257	3.55	0.579	75.0	0.673	0.08	0.009	0.04	0.002	0.29	0.016	0.06	0.007
Cyprus	4.2	0.675	11 498.6	0.314	46.2	0.237	635.74	0.875	333.95	0.432	3 129.1	0.115	0.25	0.065	1.34	0.215	80.0	0.766	0.01	0.001	0.03	0.001	0.21	0.011	0.06	0.007
Czech Republic	1.9	0.536	5 281.2	0.143	67.4	0.365	374.01	0.515	428.89	0.555	3 825.0	0.142	1.30	0.342	2.47	0.402	75.8	0.688	0.22	0.024	0.50	0.027	0.48	0.026	0.37	0.023
Denmark	2.6	0.578	31 209.5	0.857	42.1	0.212	707.21	0.974	621.21	0.804	3 698.7	0.137	2.09	0.550	3.58	0.584	87.3	0.903	0.49	0.054	0.49	0.027	1.66	0.091	0.97	0.053
Dominican Republic	6.3	0.798	2 388.6	0.063	43.3	0.219	104.53	0.143	93.26	0.121	918.2	0.030	..	..	2.22	0.361	70.3	0.585	0.00	0.000	-	-	0.19	0.011	0.09	0.008
Ecuador	1.5	0.514	1 320.2	0.034	33.8	0.162	98.25	0.135	45.24	0.058	672.8	0.020	0.09	0.024	2.01	0.326	60.8	0.407	0.29	0.032	0.02	0.001	0.06	0.003	0.12	0.010
Egypt	4.7	0.704	1 364.3	0.035	16.3	0.056	88.34	0.121	24.14	0.031	714.9	0.022	0.19	0.050	3.71	0.605	68.8	0.557	0.32	0.035	0.09	0.005	0.65	0.036	0.32	0.021
El Salvador	4.3	0.682	2 087.9	0.055	27.1	0.121	88.12	0.121	106.94	0.138	643.8	0.019	2.20	0.577	1.96	0.318	73.5	0.645	0.01	0.002	0.02	0.001	0.04	0.002	0.03	0.006
Estonia	1.6	0.522	3 771.9	0.101	87.6	0.486	357.57	0.492	370.24	0.479	3 332.5	0.123	0.76	0.200	3.80	0.620	75.0	0.673	0.05	0.005	0.09	0.005	0.11	0.006	0.05	0.006
Ethiopia	5.3	0.739	102.0	0.000	14.7	0.047	3.70	0.005	0.27	0.000	290.8	0.006	..	..	0.11	0.013	60.5	0.402	0.00	0.000	0.01	0.000	0.03	0.001	0.02	0.005
Finland	3.7	0.643	23 907.4	0.656	40.3	0.201	549.89	0.757	710.86	0.920	6 432.9	0.242	3.29	0.867	5.23	0.856	88.3	0.921	0.40	0.045	0.51	0.028	0.43	0.023	0.38	0.024
France	2.0	0.545	22 824.6	0.626	27.6	0.124	577.43	0.795	488.09	0.632	4 359.5	0.162	2.17	0.571	3.42	0.558	81.0	0.785	2.00	0.222	3.97	0.217	5.67	0.311	4.43	0.230
Gabon	2.6	0.579	3 729.2	0.100	65.6	0.354	31.00	0.042	103.27	0.133	1 305.1	0.045	..	..	0.64	0.100	69.3	0.566	0.28	0.031	0.00	0.000	0.02	0.001	-0.03	0.003
Gambia	3.5	0.635	322.5	0.006	63.9	0.344	24.92	0.034	16.56	0.021	..	..	..	..	0.09	0.010	68.8	0.557	0.00	-	0.00	0.000	0.01	0.000	0.00	0.004
Georgia	-2.5	0.277	568.0	0.013	22.4	0.093	140.07	0.192	35.55	0.046	502.5	0.014	0.33	0.086	2.74	0.446	..	..	0.01	0.002	0.00	0.000	0.01	0.001	0.01	0.004
Germany	1.5	0.515	23 688.9	0.650	32.8	0.156	610.50	0.840	517.91	0.670	4 143.0	0.154	2.46	0.647	2.54	0.413	83.8	0.837	3.18	0.353	6.22	0.340	5.80	0.319	6.61	0.342
Ghana	4.2	0.676	312.6	0.006	44.1	0.224	10.43	0.014	6.42	0.008	396.1	0.010	..	..	0.23	0.032	59.5	0.383	0.03	0.003	0.01	0.000	0.03	0.002	0.02	0.005
Greece	2.5	0.576	11 164.4	0.305	22.8	0.096	530.96	0.731	560.10	0.725	2 580.5	0.094	0.67	0.176	3.97	0.649	74.0	0.654	0.32	0.035	0.30	0.017	1.28	0.070	0.23	0.015

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Annex table A.I.7. Raw data and scores for the variables included in the UNCTAD Inward FDI Potential Index, 1999-2001 (continued)

Economy	Real GDP growth		GDP per capita		Total exports		Telephone mainlines		Mobile phones		Commercial energy use		R&D expenditures		Students in the tertiary level		Country risk		Exports of natural resources		Imports of parts/accessories of electronics and automobiles		Exports in services		Inward FDI stock	
	Average 1991-2001		Average 1999-2001												1999		As of December 2001		Average 1999-2001							
	%	Score 0-1	Dollars	Score 0-1	As % of GDP	Score 0-1	Per 1000 inhabitants	Score 0-1	Per 1000 inhabitants	Score 0-1	Per capita	Score 0-1	As % of GDP	Score 0-1	As a % of total population	Score 0-1	Composite risk rating	Score 0-1	As a % of world total	Score 0-1	As a % of world Total	Score 0-1	As a % of world total	Score 0-1	As a % of world total	Score 0-1
Guatemala	4.1	0.666	1 693.5	0.044	19.3	0.075	59.42	0.081	67.18	0.087	626.8	0.019	0.16	0.041	0.80	0.127	70.3	0.585	0.02	0.003	0.04	0.002	0.05	0.003	0.06	0.007
Guinea	4.4	0.687	381.9	0.008	25.0	0.109	4.05	0.005	5.17	0.006	..	..	..	..	0.11	0.013	61.8	0.426	0.05	0.005	0.00	0.000	0.00	0.000	0.00	0.004
Guyana	4.5	0.693	916.5	0.022	96.6	0.540	82.03	0.112	45.38	0.059	..	..	..	..	1.07	0.171	65.8	0.501	0.01	0.001	-	-	0.01	0.001	0.01	0.005
Haiti	-0.0	0.424	462.0	0.010	12.3	0.032	9.06	0.012	6.97	0.009	263.0	0.005	..	..	0.10	0.012	57.3	0.342	0.00	0.000	-	-	0.01	0.001	0.00	0.004
Honduras	3.0	0.601	922.6	0.023	40.1	0.200	45.79	0.063	24.18	0.031	468.9	0.013	..	..	1.27	0.203	64.8	0.482	0.01	0.001	0.01	0.001	0.03	0.002	0.02	0.005
Hong Kong, China	3.6	0.639	23 712.0	0.650	140.1	0.803	583.00	0.802	772.56	1.000	2 500.0	0.091	0.44	0.117	1.63	0.263	83.3	0.828	0.08	0.008	4.79	0.262	2.81	0.154	7.14	0.369
Hungary	2.8	0.590	4 902.3	0.132	58.2	0.309	374.85	0.516	322.57	0.417	2 475.6	0.090	0.75	0.198	3.05	0.497	76.0	0.692	0.16	0.018	0.94	0.051	0.45	0.025	0.35	0.022
Iceland	3.4	0.628	29 410.4	0.807	36.7	0.179	674.69	0.929	735.48	0.952	11 839.7	0.450	2.33	0.613	3.47	0.566	77.3	0.716	0.06	0.006	0.01	0.001	0.06	0.003	0.01	0.004
India	6.1	0.786	458.3	0.010	13.0	0.036	32.02	0.044	3.89	0.005	490.1	0.013	1.23	0.323	0.64	0.100	65.3	0.492	0.29	0.032	0.20	0.011	1.20	0.066	0.32	0.020
Indonesia	3.2	0.617	689.8	0.016	39.5	0.197	31.94	0.043	19.86	0.025	688.6	0.021	0.07	0.017	1.17	0.187	56.3	0.323	2.51	0.279	0.24	0.013	0.33	0.018	1.02	0.056
Iran, Islamic Rep.	3.3	0.624	1 516.0	0.039	24.5	0.106	150.36	0.207	18.42	0.024	1 710.9	0.060	0.49	0.127	1.02	0.162	69.3	0.566	3.12	0.346	0.24	0.013	0.08	0.004	0.04	0.006
Ireland	8.3	0.914	25 601.7	0.703	95.0	0.531	458.99	0.632	609.62	0.789	3 784.2	0.140	1.21	0.318	4.33	0.709	88.8	0.931	0.12	0.014	1.72	0.094	1.21	0.067	1.84	0.098
Israel	4.5	0.692	18 011.0	0.493	37.6	0.185	476.50	0.656	660.61	0.855	3 123.8	0.115	3.62	0.952	4.19	0.685	67.8	0.538	0.08	0.009	0.20	0.011	0.89	0.049	0.39	0.024
Italy	1.7	0.528	19 366.6	0.531	27.4	0.123	469.15	0.646	701.66	0.908	2 953.0	0.108	1.04	0.273	3.09	0.503	81.8	0.800	1.12	0.125	2.07	0.113	3.99	0.219	1.84	0.098
Jamaica	0.1	0.433	2 932.0	0.078	43.5	0.220	195.41	0.269	156.09	0.202	1 488.2	0.052	..	..	1.41	0.226	70.3	0.585	0.11	0.012	0.01	0.001	0.14	0.008	0.06	0.007
Japan	1.2	0.497	35 149.8	0.966	10.4	0.021	579.87	0.798	520.94	0.674	4 103.3	0.153	2.96	0.779	3.15	0.513	84.3	0.847	1.10	0.123	3.85	0.211	4.48	0.246	0.76	0.043
Jordan	4.5	0.691	1 719.4	0.045	42.8	0.216	112.53	0.154	87.52	0.113	1 044.4	0.035	..	..	2.19	0.356	71.0	0.598	0.05	0.005	0.05	0.003	0.11	0.006	0.03	0.006
Kazakhstan	-1.9	0.314	1 196.4	0.030	48.6	0.251	110.58	0.152	17.12	0.022	2 465.6	0.090	0.29	0.077	2.28	0.370	72.0	0.617	0.71	0.079	0.02	0.001	0.07	0.004	0.17	0.013
Kenya	2.1	0.548	340.4	0.007	26.8	0.120	10.40	0.014	8.04	0.010	511.6	0.014	..	..	0.15	0.020	61.0	0.411	0.03	0.003	0.01	0.000	0.05	0.003	0.02	0.005
Korea, Republic of	5.4	0.748	9 198.0	0.251	43.3	0.219	466.80	0.642	568.07	0.735	4 003.3	0.149	2.57	0.677	6.11	1.000	79.3	0.753	1.48	0.164	1.81	0.099	1.96	0.107	0.59	0.034
Kuwait	8.5	0.929	17 162.5	0.470	53.5	0.281	241.29	0.332	284.07	0.368	9 755.2	0.370	0.20	0.051	1.78	0.289	84.0	0.841	1.98	0.220	0.03	0.002	0.10	0.006	0.01	0.004
Kyrgyzstan	-1.6	0.329	280.8	0.005	40.2	0.201	77.11	0.106	2.60	0.003	501.0	0.014	0.19	0.051	2.83	0.460	..	..	0.01	0.001	0.00	0.000	0.00	0.000	0.01	0.004
Latvia	-0.2	0.412	2 949.1	0.078	44.8	0.228	303.72	0.418	185.80	0.240	1 573.7	0.055	0.40	0.104	3.82	0.624	76.0	0.692	0.02	0.002	0.02	0.001	0.08	0.004	0.03	0.006
Lebanon	4.1	0.668	4 742.4	0.128	12.0	0.031	197.85	0.272	203.13	0.263	1 224.6	0.042	..	..	3.59	0.585	56.8	0.333	0.01	0.001	0.04	0.002	..	..	0.02	0.005
Libyan Arab Jamahiriya	1.1	0.490	6 049.9	0.164	28.1	0.128	105.92	0.145	7.19	0.009	2 818.1	0.103	..	..	5.30	0.868	73.8	0.650	1.44	0.160	-	-	0.00	0.000	-0.08	-
Lithuania	-0.9	0.374	3 061.6	0.082	45.1	0.230	315.32	0.434	161.61	0.209	2 131.0	0.077	..	..	3.31	0.540	74.0	0.654	0.13	0.014	0.03	0.002	0.08	0.004	0.04	0.006
Madagascar	2.9	0.597	252.7	0.004	28.1	0.128	3.40	0.004	5.08	0.006	..	..	0.18	0.046	0.21	0.029	67.0	0.523	0.00	0.000	0.00	0.000	0.02	0.001	0.01	0.004
Malawi	3.7	0.642	155.4	0.001	27.3	0.123	4.52	0.006	4.11	0.005	..	..	..	..	0.03	0.000	60.0	0.393	0.00	0.000	0.00	0.000	0.00	0.000	0.00	0.004
Malaysia	6.1	0.787	3 856.6	0.103	120.9	0.687	199.27	0.274	221.44	0.286	2 002.0	0.072	0.40	0.104	2.17	0.352	76.0	0.692	1.34	0.149	3.86	0.211	0.91	0.050	0.87	0.048
Mali	4.3	0.680	221.7	0.003	26.8	0.120	3.59	0.004	1.80	0.002	..	..	..	..	0.17	0.024	57.8	0.351	0.00	0.000	-	-	0.00	0.000	0.01	0.004
Malta	4.5	0.691	9 256.7	0.252	93.8	0.524	521.91	0.718	248.24	0.321	2 172.0	0.078	0.00	0.000	1.50	0.242	77.8	0.725	0.00	0.000	0.02	0.001	0.08	0.004	0.05	0.006
Mexico	3.1	0.612	5 651.2	0.153	29.8	0.138	124.71	0.171	146.18	0.189	1 559.8	0.055	0.43	0.113	2.02	0.327	70.8	0.594	2.24	0.249	4.30	0.235	0.88	0.048	1.76	0.094
Moldova, Republic of	-7.0	0.011	305.8	0.006	50.6	0.263	138.00	0.190	27.89	0.036	713.0	0.022	1.13	0.296	2.14	0.348	63.8	0.464	0.00	0.000	0.00	0.000	0.01	0.001	0.01	0.004
Mongolia	2.1	0.553	384.5	0.008	58.0	0.308	48.43	0.066	53.69	0.069	..	..	..	..	2.82	0.460	64.3	0.473	0.03	0.003	0.00	0.000	0.01	0.000	0.00	0.004
Morocco	2.5	0.576	1 143.7	0.029	26.1	0.116	47.73	0.065	86.14	0.111	363.2	0.009	..	..	0.99	0.158	71.8	0.613	0.14	0.015	0.04	0.002	0.20	0.011	0.13	0.010
Mozambique	7.3	0.856	207.2	0.003	31.1	0.146	4.26	0.005	3.88	0.005	403.3	0.010	..	..	0.04	0.001	59.0	0.374	0.03	0.004	0.00	0.000	0.02	0.001	0.02	0.005
Myanmar	7.8	0.887	267.9	0.005	16.5	0.057	5.76	0.007	0.27	0.000	264.1	0.005	..	..	0.85	0.135	62.0	0.430	0.02	0.002	-	-	0.04	0.002	0.05	0.007
Namibia	4.5	0.690	1 885.8	0.049	44.6	0.227	64.06	0.088	40.10	0.052	583.3	0.017	..	..	0.56	0.088	76.3	0.697	0.02	0.002	0.01	0.000	0.02	0.001	0.02	0.005
Nepal	4.9	0.714	229.1	0.004	22.8	0.096	12.13	0.016	0.49	0.000	343.3	0.008	..	..	0.30	0.044	..	..	0.00	0.000	0.00	0.000	0.03	0.002	0.00	0.004
Netherlands	3.0	0.606	24 232.6	0.665	64.3	0.346	615.12	0.847	621.63	0.805	4 739.3	0.177	2.02	0.531	3.10	0.505	87.0	0.897	2.74	0.304	3.31	0.181	3.65	0.200	4.04	0.211
New Zealand	3.2	0.618	13 830.2	0.378	34.8	0.168	485.94	0.669	457.78	0.592	4 808.1	0.180	1.11	0.292	4.37	0.714	80.3	0.772	0.14	0.015	0.14	0.008	0.30	0.016	0.44	0.026
Nicaragua	4.2	0.673	449.4	0.010	37.7	0.186	30.82	0.042	18.88	0.024	540.2	0.015	0.15	0.038	1.21	0.194	57.8	0.351	0.00	0.000	0.01	0.000	0.02	0.001	0.02	0.005
Niger	2.9	0.595	178.1	0.002	15.3	0.050	1.86	0.002	0.20	0.000	..	..	..	..	0.06	0.004	59.5	0.383	0.01	0.001	0.00	0.000	0.00	-	0.01	0.004
Nigeria	2.4	0.570	394.0	0.008	55.0	0.290	4.23	0.005	1.59	0.002	708.7	0.022	..	..	0.40	0.060	57.3	0.342	3.07	0.341	0.01	0.001	0.07	0.004	0.34	0.021
Norway	3.4	0.629	36 399.2	1.000	44.6	0.227	667.56	0.919	729.70	0.945	5 836.5	0.219	1.70	0.446	4.30	0.703	92.3	0.996	5.43	0.603	0.34	0.019	1.18	0.065	0.51	0.030
Oman	3.9	0.655	7 270.6	0.197	54.5	0.287	89.34	0.123	79.64	0.103	3 786.3	0.140	..	..	0.70	0.109	81.8	0.800	1.19	0.133	0.09	0.005	0.02	0.001	0.04	0.006
Pakistan	3.5	0.634	411.0	0.009	16.4	0.057	22.35	0.030	3.38	0.004	463.9	0.012	..	..	0.18	0.025	56.0	0.318	0.02	0.003	0.06	0.003	0.09	0.005	0.11	0.010
Panama	3.5	0.630	3 684.1	0.099	73.1	0.399	154.56	0.212	144.74	0.187	895.1	0.029	0.35	0.090	3.03	0.493	71.5	0.607	0.01	0.001	0.02	0.001	0.12	0.007	0.12	0.010

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Annex table A.I.7. Raw data and scores for the variables included in the UNCTAD Inward FDI Potential Index, 1999-2001(concluded)

Economy	Real GDP growth, Average 1991-2001: %	Real GDP growth: Score 0-1	GDP per capita, Average 1999-2001: Dollars	GDP per capita: Score 0-1	Total exports: As % of GDP	Total exports: Score 0-1	Telephone mainlines: Per 1000 inhabitants	Telephone mainlines: Score 0-1	Mobile phones: Per 1000 inhabitants	Mobile phones: Score 0-1	Commercial energy use: Per capita	Commercial energy use: Score 0-1	R&D expenditures: As % of GDP	R&D expenditures: Score 0-1	Students in the tertiary level, 1999: As a % of total population	Students in the tertiary level: Score 0-1	Country risk, As of December 2001: Composite risk rating	Country risk: Score 0-1	Exports of natural resources, Average 1999-2001: As a % of world total	Exports of natural resources: Score 0-1	Imports of parts/accessories of electronics and automobiles: As a % of world Total	Imports of parts/accessories: Score 0-1	Exports in services: As a % of world total	Exports in services: Score 0-1	Inward FDI stock: As a % of world total	Inward FDI stock: Score 0-1
Papua New Guinea	2.7	0.586	695.6	0.016	61.1	0.326	12.35	0.017	1.73	0.002	..	..	..	..	0.21	0.030	61.8	0.426	0.17	0.019	0.00	0.000	0.02	0.001	0.03	0.006
Paraguay	2.0	0.543	1 354.8	0.035	21.5	0.088	51.92	0.071	144.88	0.187	743.8	0.023	..	..	0.85	0.135	63.0	0.449	0.00	0.000	0.02	0.001	0.04	0.002	0.02	0.005
Peru	4.3	0.683	2 067.2	0.054	15.5	0.052	69.64	0.095	47.13	0.061	495.6	0.014	0.08	0.022	2.96	0.482	68.8	0.557	0.37	0.041	0.05	0.003	0.10	0.006	0.17	0.012
Philippines	3.5	0.635	980.5	0.024	52.0	0.272	40.40	0.055	90.74	0.117	548.0	0.016	0.21	0.056	3.03	0.493	70.0	0.579	0.14	0.016	2.49	0.136	0.28	0.015	0.17	0.013
Poland	5.0	0.725	4 223.5	0.114	28.5	0.130	280.32	0.386	178.96	0.231	2 373.1	0.086	0.72	0.190	4.08	0.666	75.3	0.679	0.48	0.053	0.60	0.033	0.72	0.039	0.57	0.033
Portugal	2.9	0.595	11 043.7	0.301	30.7	0.143	426.71	0.587	635.49	0.823	2 448.2	0.089	0.73	0.192	3.79	0.618	78.3	0.735	0.14	0.015	0.54	0.030	0.60	0.033	0.47	0.028
Qatar	7.5	0.872	24 539.9	0.673	36.1	0.176	268.36	0.369	212.74	0.275	26 119.0	1.000	..	..	1.53	0.247	70.8	0.594	1.34	0.149	0.02	0.001	..	..	0.03	0.006
Romania	0.2	0.439	1 660.6	0.043	31.6	0.149	174.86	0.240	114.77	0.148	1 620.9	0.057	0.39	0.102	1.82	0.294	64.3	0.473	0.19	0.021	0.11	0.006	0.11	0.006	0.11	0.010
Russian Federation	-2.9	0.254	1 730.0	0.045	42.2	0.213	223.91	0.308	23.14	0.030	4 169.9	0.155	1.01	0.264	4.91	0.803	69.5	0.570	8.25	0.916	0.13	0.007	0.70	0.038	0.30	0.020
Rwanda	1.9	0.536	236.8	0.004	6.9	0.000	2.23	0.003	4.91	0.006	..	..	..	..	0.09	0.009	..	..	0.00	0.000	0.00	0.000	0.00	0.000	0.00	0.004
Saudi Arabia	1.2	0.499	8 472.2	0.231	41.6	0.209	137.15	0.188	72.33	0.093	4 769.9	0.178	..	..	1.93	0.313	77.3	0.716	9.01	1.000	0.27	0.015	0.36	0.020	0.45	0.027
Senegal	4.3	0.680	486.3	0.011	30.2	0.140	21.32	0.029	22.33	0.029	321.2	0.007	0.01	0.003	0.21	0.029	66.3	0.510	0.02	0.002	0.01	0.000	0.03	0.001	0.01	0.005
Sierra Leone	-4.3	0.169	154.8	0.001	18.1	0.067	4.13	0.005	3.99	0.005	..	..	..	..	0.14	0.018	48.5	0.178	0.00	0.000	-	-	0.01	0.000	0.00	0.004
Singapore	7.2	0.853	21 775.9	0.597	172.8	1.000	479.26	0.660	608.94	0.788	5 897.8	0.222	1.89	0.497	2.73	0.444	89.3	0.940	1.82	0.202	3.78	0.207	1.80	0.099	1.85	0.098
Slovakia	3.3	0.619	3 699.1	0.099	69.5	0.377	302.99	0.417	241.97	0.313	3 226.7	0.119	0.68	0.180	2.53	0.411	73.3	0.641	0.17	0.019	0.28	0.015	0.17	0.009	0.08	0.008
Slovenia	3.7	0.647	9 558.6	0.261	57.2	0.303	389.64	0.536	562.69	0.728	3 254.4	0.120	1.48	0.388	4.01	0.655	78.8	0.744	0.07	0.007	0.13	0.007	0.13	0.007	0.05	0.006
South Africa	2.4	0.568	2 869.2	0.076	28.4	0.129	117.84	0.162	188.14	0.243	2 555.2	0.093	0.62	0.163	1.61	0.260	68.8	0.557	0.66	0.074	0.22	0.012	0.33	0.018	0.81	0.045
Spain	2.9	0.598	14 576.8	0.399	29.0	0.133	422.40	0.581	525.94	0.681	3 015.1	0.111	0.91	0.239	4.61	0.755	80.5	0.776	0.90	0.100	3.23	0.177	3.82	0.210	2.38	0.125
Sri Lanka	4.9	0.719	839.4	0.020	37.1	0.182	40.57	0.055	24.21	0.031	425.9	0.011	0.18	0.048	0.36	0.053	57.0	0.336	0.01	0.001	0.02	0.001	0.07	0.004	0.04	0.006
Sudan	5.5	0.754	362.0	0.007	12.8	0.036	11.79	0.016	1.50	0.002	505.6	0.014	..	..	0.71	0.112	54.0	0.280	0.00	0.000	0.01	0.000	0.00	0.000	0.02	0.005
Suriname	3.0	0.607	1 981.5	0.052	57.2	0.303	171.35	0.236	111.00	0.143	..	..	..	..	1.08	0.173	60.8	0.407	0.05	0.005	0.00	0.000	0.01	0.000	-0.01	0.003
Sweden	2.4	0.568	26 434.7	0.725	45.1	0.230	724.11	0.997	696.80	0.902	5 526.6	0.207	3.80	1.000	3.90	0.637	84.3	0.847	0.61	0.068	1.32	0.072	1.43	0.079	1.45	0.078
Switzerland	1.1	0.493	34 617.5	0.951	42.7	0.215	726.45	1.000	600.45	0.777	3 721.1	0.138	2.64	0.695	2.14	0.347	92.5	1.000	0.61	0.068	0.49	0.027	1.82	0.100	1.41	0.076
Syrian Arab Republic	4.3	0.681	1 053.0	0.026	37.4	0.184	101.91	0.140	4.71	0.006	1 139.9	0.038	0.18	0.048	0.61	0.096	71.5	0.607	0.43	0.047	0.01	0.000	0.10	0.006	0.03	0.005
Taiwan Province of China	5.8	0.768	13 150.4	0.359	51.2	0.267	562.18	0.774	763.43	0.988	4 052.0	0.151	2.09	0.550	5.30	0.867	81.5	0.794	0.48	0.053	1.20	0.066	1.35	0.074	0.46	0.028
Tajikistan	-7.2	0.003	171.7	0.002	75.4	0.413	35.45	0.048	0.18	0.000	506.4	0.014	..	..	1.31	0.211	..	..	0.07	0.008	0.00	0.000	..	..	0.00	0.004
TFYR Macedonia	0.1	0.434	1 753.1	0.045	42.3	0.213	249.34	0.343	63.38	0.082	..	..	0.52	0.136	2.00	0.323	..	..	0.02	0.002	0.00	0.000	0.02	0.001	0.01	0.004
Thailand	3.2	0.617	1 906.9	0.050	64.0	0.344	92.60	0.127	70.90	0.092	1 191.0	0.040	0.10	0.026	3.12	0.509	73.8	0.650	0.36	0.040	1.97	0.108	0.96	0.053	0.44	0.027
Togo	2.7	0.584	289.7	0.005	32.1	0.151	9.32	0.012	11.66	0.015	331.8	0.007	..	..	0.34	0.050	61.0	0.411	0.01	0.001	0.00	0.000	0.00	0.000	0.01	0.004
Trinidad and Tobago	4.0	0.660	5 879.0	0.159	58.8	0.312	228.88	0.315	109.94	0.142	6 447.2	0.243	0.14	0.035	0.60	0.094	73.5	0.645	0.35	0.039	0.01	0.001	0.04	0.002	0.11	0.010
Tunisia	4.8	0.707	2 130.7	0.056	44.4	0.226	99.44	0.136	19.46	0.025	818.1	0.026	0.44	0.116	1.90	0.308	72.8	0.632	0.10	0.011	0.05	0.003	0.19	0.010	0.19	0.014
Turkey	3.2	0.617	2 659.9	0.070	26.9	0.120	281.79	0.388	224.70	0.291	1 138.6	0.038	0.63	0.166	1.55	0.250	48.5	0.178	0.17	0.019	0.45	0.025	1.20	0.066	0.31	0.020
Uganda	7.0	0.840	261.9	0.004	11.0	0.025	2.74	0.003	8.47	0.011	..	..	0.75	0.198	0.26	0.038	62.5	0.439	0.00	0.000	0.00	0.000	0.01	0.001	0.02	0.005
Ukraine	-7.2	0.000	679.4	0.016	56.2	0.297	205.80	0.283	21.58	0.028	2 824.9	0.103	0.95	0.249	3.11	0.507	66.8	0.520	0.37	0.041	0.03	0.002	0.27	0.015	0.07	0.007
United Arab Emirates	3.2	0.615	18 297.4	0.501	67.4	0.364	364.49	0.501	483.02	0.625	10 114.9	0.384	..	..	0.89	0.142	82.5	0.813	2.28	0.253	-	-	..	..	0.02	0.005
United Kingdom	2.9	0.596	24 228.0	0.665	27.1	0.121	583.77	0.803	651.44	0.843	3 953.1	0.147	1.87	0.492	3.45	0.562	83.5	0.832	3.98	0.442	6.58	0.360	7.84	0.430	7.66	0.396
United Republic of Tanzania	3.4	0.626	252.5	0.004	15.0	0.049	4.52	0.006	6.19	0.008	456.5	0.012	..	..	0.06	0.004	57.5	0.346	0.00	0.000	0.01	0.000	0.04	0.002	0.03	0.005
United States	3.6	0.639	34 260.1	0.941	10.7	0.023	668.18	0.920	385.11	0.498	8 107.2	0.307	2.67	0.702	4.78	0.782	79.0	0.748	3.78	0.420	18.28	1.000	18.22	1.000	19.48	1.000
Uruguay	2.6	0.578	5 936.1	0.161	19.0	0.073	277.32	0.381	127.35	0.165	949.6	0.031	0.26	0.067	2.75	0.448	74.3	0.660	0.01	0.001	0.04	0.002	0.09	0.005	0.03	0.006
Uzbekistan	1.0	0.485	451.1	0.010	34.6	0.167	66.22	0.091	2.10	0.002	2 049.1	0.073	..	..	3.05	0.497	..	..	0.09	0.010	-	-	..	..	0.01	0.005
Venezuela	1.1	0.489	4 815.8	0.130	24.2	0.104	107.25	0.147	216.16	0.280	2 413.6	0.088	0.33	0.087	2.82	0.459	66.8	0.520	3.35	0.372	0.10	0.005	0.08	0.004	0.45	0.027
Viet Nam	7.2	0.851	395.5	0.008	53.4	0.280	32.05	0.044	9.83	0.012	462.5	0.012	..	..	0.93	0.148	69.5	0.570	0.45	0.050	-	-	0.18	0.010	0.24	0.016
Yemen	5.9	0.777	465.0	0.010	42.0	0.211	19.08	0.026	3.76	0.005	202.7	0.002	..	..	0.97	0.155	65.3	0.492	0.43	0.048	-	-	0.01	0.001	0.02	0.005
Zambia	1.0	0.484	319.3	0.006	27.9	0.126	8.38	0.011	8.00	0.010	618.6	0.018	..	..	0.13	0.017	53.5	0.271	0.09	0.010	0.01	0.000	0.01	0.000	0.04	0.006
Zimbabwe	1.8	0.535	572.7	0.013	32.5	0.154	19.23	0.026	20.70	0.027	836.4	0.027	..	..	0.37	0.056	39.0	0.000	0.04	0.004	0.00	0.000	0.05	0.003	0.02	0.005

Sources: UNCTAD, based on data from the World Bank and IMF (real GDP growth); UNCTAD (GDP per capita, exports); World Bank, WDI online (telephone mainlines, mobile phones, commercial energy use, R&D expenditures); UNESCO (students in the tertiary level); the PRS Group/International country risk guide (country risk); United Nations Statistics Division, DESA and COMTRADE database (exports of natural resources, imports of parts and accessories of electronics and automobiles and exports in services); UNCTAD FDI database (inward FDI stock).

Annex table A.I.8. Inward FDI Potential Index rankings, 1990-2001[a]

Economy	1988-1990	1989-1991	1990-1992	1991-1993	1992-1994	1993-1995	1994-1996	1995-1997	1996-1998	1997-1999	1998-2000	1999-2001
Albania	..	..	123	121	118	123	120	131	124	109	103	97
Algeria	53	61	79	87	91	96	93	89	89	91	83	81
Angola	75	84	106	122	122	109	117	125	116	124	108	105
Argentina	59	58	53	48	45	50	47	46	43	46	47	51
Armenia	..	..	127	131	120	116	127	123	129	125	126	118
Australia	14	14	13	10	11	12	12	12	15	16	19	21
Austria	19	19	20	19	18	18	18	20	21	24	23	22
Azerbaijan	..	..	..	..	134	131	133	130	130	131	118	106
Bahamas	28	31	32	31	33	36	35	35	36	37	37	39
Bahrain	26	28	30	29	29	30	30	30	31	33	34	31
Bangladesh	105	103	113	101	107	118	110	111	111	113	110	121
Belarus	..	..	28	32	31	71	72	66	68	68	64	63
Belgium and Luxembourg	10	10	9	11	10	11	10	11	9	9	9	8
Benin	111	112	129	132	135	135	132	132	134	133	132	132
Bolivia	81	77	92	95	90	90	90	83	79	78	80	82
Botswana	32	32	48	47	46	49	50	52	60	55	58	59
Brazil	48	48	69	69	71	74	71	71	74	73	70	71
Brunei Darussalam	30	30	23	26	27	28	28	28	28	28	31	32
Bulgaria	..	..	42	53	60	48	59	74	58	63	68	64
Burkina Faso	94	98	114	110	116	121	119	124	118	110	115	125
Cameroon	79	99	119	124	131	130	129	127	119	118	122	115
Canada	2	2	2	2	2	2	2	2	5	4	5	5
Chile	41	41	47	43	41	40	39	39	44	44	44	45
China	45	43	52	56	59	55	45	41	42	42	42	40
Colombia	58	56	71	71	80	86	86	100	90	89	86	94
Congo	73	85	112	114	105	106	100	126	108	108	102	104
Congo, Dem. Rep.	103	111	131	137	139	139	139	139	139	138	139	139
Costa Rica	50	47	55	54	54	58	57	57	59	56	57	60
Côte d'Ivoire	96	94	102	107	111	112	104	105	98	96	109	110
Croatia	..	..	..	117	106	82	80	77	57	53	51	46
Cyprus	33	33	37	37	38	37	37	38	39	41	41	42
Czech Republic	..	..	58	50	48	39	40	40	40	39	38	37
Denmark	16	16	14	15	16	16	16	16	16	15	16	16
Dominican Republic	66	68	73	67	66	67	65	59	66	62	59	65
Ecuador	69	72	83	85	86	95	97	90	95	103	104	103
Egypt	67	65	88	82	79	85	87	87	69	71	71	70
El Salvador	80	75	86	76	73	51	52	47	51	54	55	54
Estonia	..	..	76	90	83	65	60	55	47	40	39	38
Ethiopia	114	117	135	129	128	125	122	112	126	126	120	124
Finland	9	9	11	14	15	15	14	14	12	10	10	10
France	7	7	5	5	6	7	9	9	10	12	12	14
Gabon	60	63	80	77	84	79	79	69	76	76	82	77
Gambia	63	66	84	74	93	97	88	82	85	85	87	87
Georgia	..	..	..	..	129	133	137	137	137	136	135	131
Germany	4	4	4	4	3	3	5	6	6	7	6	6
Ghana	91	88	100	100	103	110	111	110	109	114	116	113
Greece	34	34	34	38	39	38	38	37	35	35	36	36

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Annex table A.I.8. Inward FDI Potential Index rankings, 1990-2001[a] (continued)

Economy	1988-1990	1989-1991	1990-1992	1991-1993	1992-1994	1993-1995	1994-1996	1995-1997	1996-1998	1997-1999	1998-2000	1999-2001
Guatemala	102	100	108	108	108	108	105	102	103	102	100	101
Guinea	89	90	104	105	109	115	115	113	105	106	111	111
Guyana	101	101	94	89	70	61	55	56	56	58	60	62
Haiti	115	115	132	133	136	136	136	135	135	135	136	135
Honduras	83	79	96	97	99	99	101	99	94	90	94	96
Hong Kong, China	17	17	18	16	13	13	13	13	13	13	13	13
Hungary	47	50	63	63	63	57	54	54	48	45	45	41
Iceland	15	15	17	18	20	19	21	19	19	19	18	17
India	72	71	97	94	95	93	84	92	88	87	91	84
Indonesia	42	44	54	51	53	60	58	72	91	84	85	92
Iran, Islamic Rep.	51	46	51	49	49	56	56	61	67	77	72	74
Ireland	24	24	29	28	28	22	19	18	18	18	15	11
Israel	27	26	31	30	30	26	26	25	24	21	22	23
Italy	18	18	19	20	19	23	22	22	25	25	25	26
Jamaica	61	62	74	72	65	66	70	68	72	74	81	78
Japan	12	12	12	9	8	8	7	7	11	11	11	12
Jordan	65	69	68	68	64	62	62	60	62	65	67	68
Kazakhstan	..	..	61	75	85	92	98	97	96	97	93	83
Kenya	84	89	101	104	102	101	103	114	114	123	123	127
Korea, Republic of	20	20	26	24	21	17	17	17	17	17	17	18
Kuwait	46	49	40	40	32	32	32	31	34	34	29	28
Kyrgyzstan	..	..	..	126	133	134	134	134	132	132	130	128
Latvia	..	..	43	66	89	87	91	86	71	66	63	55
Lebanon	85	80	60	52	55	77	69	64	53	50	50	58
Libyan Arab Jamahiriya	55	51	46	45	51	63	66	70	45	47	46	47
Lithuania	..	..	70	91	92	89	85	81	61	60	61	56
Madagascar	99	102	122	119	126	127	126	120	113	117	114	114
Malawi	88	91	103	109	115	111	107	104	106	104	112	120
Malaysia	38	36	39	39	37	31	31	32	32	29	32	33
Mali	106	107	120	113	114	119	113	108	102	99	105	117
Malta	35	39	38	35	36	33	33	34	38	38	40	44
Mexico	44	45	44	41	42	53	51	50	52	52	48	49
Moldova, Republic of	..	..	35	36	40	46	96	98	107	120	125	109
Mongolia	..	57	91	92	88	84	76	78	73	67	66	69
Morocco	71	74	81	80	77	91	92	96	92	92	96	93
Mozambique	112	110	126	127	127	129	130	133	122	122	124	108
Myanmar	117	118	128	130	132	126	125	115	115	111	106	100
Namibia	87	82	90	86	74	76	68	67	77	75	77	79
Nepal	109	108	125	128	130	132	131	129	133	134	134	133
Netherlands	8	8	8	7	9	10	11	10	8	8	8	9
New Zealand	23	25	25	25	24	25	27	27	27	27	27	27
Nicaragua	95	97	116	123	121	120	121	119	123	115	113	112
Niger	108	109	121	120	125	128	128	128	128	121	119	126
Nigeria	68	60	77	83	87	98	99	91	93	93	89	89
Norway	5	5	6	6	5	5	4	4	3	5	4	3
Oman	36	38	45	46	47	52	49	51	55	59	56	50
Pakistan	92	87	107	103	101	113	109	117	125	128	129	129

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Annex table A.I.8. Inward FDI Potential Index rankings, 1990-2001[a] (concluded)

Economy	1988-1990	1989-1991	1990-1992	1991-1993	1992-1994	1993-1995	1994-1996	1995-1997	1996-1998	1997-1999	1998-2000	1999-2001
Panama	54	55	67	55	50	42	44	42	46	48	52	53
Papua New Guinea	77	78	93	88	75	70	67	76	80	83	84	98
Paraguay	70	67	75	73	78	83	83	85	99	98	99	107
Peru	78	83	95	98	94	94	95	88	83	82	79	80
Philippines	76	76	78	70	72	68	61	58	64	61	69	66
Poland	49	52	59	57	56	54	53	53	41	43	43	43
Portugal	39	35	36	34	34	35	34	33	33	32	33	34
Qatar	22	22	16	17	17	20	24	24	22	22	21	20
Romania	..	..	85	93	97	88	89	101	97	101	98	91
Russian Federation	..	..	33	33	35	34	36	36	37	36	35	35
Rwanda	113	116	130	135	140	140	140	140	140	139	138	138
Saudi Arabia	31	27	22	21	25	29	29	29	29	31	28	30
Senegal	93	96	117	118	124	122	123	122	120	119	117	119
Sierra Leone	107	113	133	134	137	138	135	138	138	140	140	140
Singapore	13	13	15	13	7	4	3	3	2	2	2	2
Slovakia	..	..	62	62	61	47	48	48	49	49	49	48
Slovenia	..	..	89	78	69	43	42	43	30	30	30	29
South Africa	52	53	57	61	58	59	63	62	75	70	73	72
Spain	25	23	21	22	26	27	25	26	26	26	26	25
Sri Lanka	97	92	115	111	104	105	106	106	104	107	107	116
Sudan	116	114	134	136	138	137	138	136	131	130	127	123
Suriname	43	42	64	64	57	45	43	45	65	79	76	76
Sweden	6	6	7	8	12	9	8	8	7	6	7	7
Switzerland	11	11	10	12	14	14	15	15	14	14	14	15
Syrian Arab Republic	74	73	87	81	76	73	73	73	81	88	90	90
Taiwan Province of China	21	21	27	23	22	21	23	23	23	20	20	19
Tajikistan	..	..	105	116	119	103	116	121	136	137	137	136
TFYR Macedonia	..	..	..	..	110	104	112	109	110	105	101	102
Thailand	40	40	50	44	44	41	41	49	50	51	53	52
Togo	90	95	118	125	123	124	118	94	112	116	121	122
Trinidad and Tobago	57	64	72	79	82	80	78	65	70	69	65	61
Tunisia	64	70	82	84	81	78	77	75	78	72	74	73
Turkey	62	59	65	58	68	75	74	80	82	81	78	86
Uganda	104	106	124	115	113	107	102	103	100	95	95	99
Ukraine	..	..	49	65	67	64	75	79	84	86	88	85
United Arab Emirates	29	29	24	27	23	24	20	21	20	23	24	24
United Kingdom	3	3	3	3	4	6	6	5	4	3	3	4
United Republic of Tanzania	98	93	109	106	112	114	114	118	121	129	128	130
United States	1	1	1	1	1	1	1	1	1	1	1	1
Uruguay	56	54	66	60	62	69	64	63	63	64	62	67
Uzbekistan	..	..	56	59	52	72	94	95	101	100	97	95
Venezuela	37	37	41	42	43	44	46	44	54	57	54	57
Viet Nam	86	86	111	102	100	100	81	84	87	80	75	75
Yemen	110	104	98	96	96	81	82	93	86	94	92	88
Zambia	100	105	110	112	117	117	124	116	127	127	131	134
Zimbabwe	82	81	99	99	98	102	108	107	117	112	133	137

Source: UNCTAD.

[a] Three-year moving average.

Note: Covering 140 economies and based on 12 economic and policy variables.

Annex table A.I.9. Cross-border M&A deals with values of over $1 billion completed in 2002

Rank	Value ($ billion)	Acquired company	Host economy	Industry of the acquired company	Acquiring company	Home economy	Industry of the acquiring company
1	10.7	USA Networks Inc-Ent Asts	United States	Television broadcasting stations	Vivendi Universal SA	France	Telephone communications, except radiotelephone
2	8.3	AOL Europe, AOL Australia	Germany	Information retrieval services	America Online Inc	United States	Information retrieval services
3	8.0	Niagara Mohawk Holdings Inc	United States	Electric services	National Grid Group PLC	United Kingdom	Electric services
4	7.4	Westcoast Energy Inc	Canada	Natural gas transmission and distribution	Duke Energy Corp	United States	Electric and other services combined
5	7.4	Innogy Holdings PLC	United Kingdom	Electric services	RWE AG	Germany	Electric and other services combined
6	7.4	PowerGen PLC	United Kingdom	Electric services	E ON AG	Germany	Electric services
7	6.6	Aventis CropScience Hldg SA	France	Pesticides and agricultural chemicals, nec	Bayer AG	Germany	Medicinal chemicals and botanical products
8	6.5	Sonera Corp (Finland)	Finland	Telephone communications, except radiotelephone	Telia AB	Sweden	Telephone communications, except radiotelephone
9	6.2	Enterprise Oil PLC	United Kingdom	Crude petroleum and natural gas	Shell Resources PLC	United Kingdom	Crude petroleum and natural gas
10	5.6	Miller Brewing (Philip Morris)	United States	Malt beverages	South African Breweries PLC	United Kingdom	Beer and ale
11	4.6	Reemtsma Cigarettenfabrik GmbH	Germany	Cigarettes	Imperial Tobacco Group PLC	United Kingdom	Cigarettes
12	4.4	Castorama Dubois	France	Hardware stores	Kingfisher PLC	United Kingdom	Hardware stores
13	3.9	Motiva Enterprises LLC	United States	Petroleum refining	Investor Group	Netherlands	Investors, nec
14	3.7	Transgas (Czech Republic)	Czech Republic	Natural gas transmission and distribution	RWE Gas AG	Germany	Natural gas and transmission
15	3.6	VEBA Oel AG (E.On AG)	Germany	Petroleum refining	BP PLC	United Kingdom	Petroleum refining
16	3.3	Jefferson Smurfit Group PLC	Ireland	Converted paper and paperboard products, nec	MDP Acquisitions	Ireland	Investors, nec
17	3.3	BCOM3 Group Inc	United States	Advertising agencies	Publicis Groupe SA	France	Advertising agencies
18	3.1	NYA Birka Energi	Sweden	Electric services	Fortum Corp	Finland	Crude petroleum and natural gas
19	3.0	E-Plus Mobilfunk GmbH (Otelo)	Germany	Radiotelephone communications	Royal KPN NV	Netherlands	Telephone communications, except radiotelephone
20	2.9	Pennzoil-Quaker State Co	United States	Petroleum refining	Shell Oil Co	United States	Petroleum refining
21	2.8	Franco-Nevada Mining Corp Ltd	Canada	Gold ores	Newmont Mining Corp	United States	Gold ores
22	2.8	VAW Aluminium AG (VIAG)	Germany	Primary production of aluminum	Norsk Hydro ASA	Norway	Nitrogenous fertilizers
23	2.8	Daewoo Motor Co-Certain Assets	Republic of Korea	Motor vehicles and passenger car bodies	Investor Group	United States	Investors, nec
24	2.7	Zomba Group	United States	Business services, nec	Bertelsmann Music Group Inc	United States	Miscellaneous publishing
25	2.7	SPP	Slovakia	Crude petroleum and natural gas	Investor Group	France	Investors, nec
26	2.6	Simco SA	France	Operators of nonresidential buildings	Gecina	France	Operators of nonresidential buildings
27	2.6	Chef America Inc	United States	Frozen specialties, nec	Nestle SA	Switzerland	Chocolate and cocoa products
28	2.5	TXU Europe-Generation & Supply	United Kingdom	Electric services	PowerGen PLC	United Kingdom	Electric services
29	2.5	Zurich Scudder Investments Inc	United States	Investment advice	Deutsche Bank AG	Germany	Banks
30	2.4	United California Bank, LA, CA	United States	National commercial banks	BNP Paribas SA	France	Banks
31	2.3	Telecom Americas Ltd	Brazil	Radiotelephone communications	America Movil SA de CV	Mexico	Radiotelephone communications
32	2.2	Aceralia	Spain	Steel foundries, nec	Usinor SA	France	Steel works, blast furnaces, and rolling mills
33	2.2	Normandy Mining Ltd	Australia	Gold ores	Newmont Mining Corp	United States	Gold ores
34	2.1	Seeboard PLC	United Kingdom	Electric services	LE Group Plc	United Kingdom	Electric services
35	2.0	IBM Corp-Hard Disk Drive	United States	Computer storage devices	Hitachi Ltd	Japan	Electronic computers
36	2.0	Veba Oil & Gas GmbH-Certain	United Kingdom	Crude petroleum and natural gas	Petro-Canada	Canada	Crude petroleum and natural gas
37	2.0	Shell & DEA Oil GmbH	Germany	Petroleum refining	Deutsche Shell AG	Germany	Crude petroleum and natural gas
38	2.0	DSM Petrochemicals	Netherlands	Industrial inorganic chemicals, nec	Saudi Basic Industries Corp	Saudi Arabia	Industrial inorganic chemicals, nec
39	2.0	Ben (Belgacom SA,TeleDanmark)	Netherlands	Radiotelephone communications	Deutsche Telekom AG	Germany	Telephone communications, except radiotelephone
40	2.0	Avon Energy Partners Holdings	United Kingdom	Electric services	Aquila Inc(Utilicorp United)	United States	Combination utilities, nec
41	1.9	Viesgo	Spain	Electric services	Ente Nazionale per l'Energia	Italy	Electric services
42	1.9	TXU-Eastern Electricity	United Kingdom	Electric services	London Electricity(EdF)	United Kingdom	Electric services

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Annex table A.I.9. Cross-border M&A deals with values of over $1 billion completed in 2002 (concluded)

Rank	Value ($ billion)	Acquired company	Host economy	Industry of the acquired company	Acquiring company	Home economy	Industry of the acquiring company
43	1.8	Nissan Motor Co Ltd	Japan	Motor vehicles and passenger car bodies	Renault SA	France	Motor vehicles and passenger car bodies
44	1.8	Wessex Water PLC	United Kingdom	Water supply	YTL Utilities(UK)Ltd	United Kingdom	Water supply
45	1.7	Interbrew SA-Carling Business	United Kingdom	Malt beverages	Adolph Coors Co	United States	Malt beverages
46	1.7	Siemens-Engineering Units(7)	Germany	Engineering services	Demag Holding SARL	Luxembourg	Offices of holding companies, nec
47	1.7	Banco Santander Chile SA	Chile	Banks	Banco Santiago	Chile	Functions related to depository banking, nec
48	1.7	Haarmann & Reimer GmbH (Bayer)	Germany	Chemicals and chemical preparations, nec	EQT Northern Europe Fund	Sweden	Investors, nec
49	1.7	Renault SA	France	Motor vehicles and passenger car bodies	Nissan Motor Co Ltd	Japan	Motor vehicles and passenger car bodies
50	1.6	Berliner Kraft-und Licht	Germany	Electric and other services combined	Hamburgische Electricitaets	Germany	Electric and other services combined
51	1.6	Brauerei Beck GmbH & Co	Germany	Malt beverages	Interbrew SA	Belgium	Malt beverages
52	1.6	Schmalbach-Lubeca-PET Assets	Germany	Plastic bottles	Amcor Ltd	Australia	Setup paperboard boxes
53	1.5	Cedel International SA	Luxembourg	Security and commodity services, nec	Deutsche Boerse AG	Germany	Security and commodity exchanges
54	1.5	TRW Aeronautical Systems	United Kingdom	Search, detection, and navigation equipment	Goodrich Corp	United States	Guided missiles and space vehicles
55	1.5	Hyundai Merchant-Car Carrier	Republic of Korea	Deep sea foreign transportation of freight	Investor Group	Norway	Investors, nec
56	1.5	Telecom Italia-Real Estate	Italy	Operators of nonresidential buildings	Morgan Stanley, Pirelli-Real	United States	Real estate agents and managers
57	1.5	Proprieta Immobiliari SpA (RAS)	Italy	Real estate agents and managers	Aida (Morgan Stanley,Pirelli)	Italy	Investors, nec
58	1.4	Disputada de Las Condes	Chile	Copper ores	Anglo American PLC	United Kingdom	Gold ores
59	1.4	Vivendi Publish-Bis Publishing	France	Periodicals: publishing, or publishing & printing	Investor Group	United Kingdom	Investors, nec
60	1.4	TrizecHahn Corp	Canada	Land subdividers and developers, except cemeteries	TrizecHahn Corp	Canada	Land subdividers and developers, except cemeteries
61	1.3	VEBA Oel AG(E.On AG)	Germany	Petroleum refining	BP PLC	United Kingdom	Petroleum refining
62	1.3	RTL Group	Luxembourg	Television broadcasting stations	Bertelsmann AG	Germany	Newspapers: publishing, or publishing and printing
63	1.3	Navision A/S	Denmark	Computer programming services	Microsoft Corp	United States	Prepackaged software
64	1.3	Pegaso PCS SA de CV	Mexico	Radiotelephone communications	Telefonica SA	Spain	Telephone communications, except radiotelephone
65	1.3	Enex Resources Ltd (Glencore)	Australia	Bituminous coal and lignite surface mining	Xstrata AG	Switzerland	Primary production of aluminum
66	1.3	DiverseyLever Inc(Unilever)	Netherlands	Building cleaning and maintenance services, nec	Johnson Wax Professional	United States	Specialty cleaning and polishing preparations
67	1.2	Afore Banamex Aegon	Mexico	Pension, health, and welfare funds	Grupo Financiero Banamex SA	Mexico	Banks
68	1.2	Cereol	France	Vegetable oil mills, nec	Bunge Ltd	United States	Grain and field beans
69	1.2	Kruidvat Holding	Netherlands	Drug stores and proprietary stores	AS Watson & Co Ltd	Hong Kong, China	Grocery stores
70	1.2	AurionGold Ltd	Australia	Gold ores	Placer Dome Asia Pacific Ltd	Australia	Gold ores
71	1.2	Agora SpA (Montedison)	Italy	Investors, nec	Solvay SA	Belgium	Industrial organic chemicals, nec
72	1.1	Schmalbach-Lubeca AG	Germany	Metal cans	Ball Corp	United States	Metal cans
73	1.1	Grupo Financiero Bital SA	Mexico	Banks	HSBC Holdings PLC	United Kingdom	Banks
74	1.1	Nycomed Pharma AS	Norway	Pharmaceutical preparations	Investor Group	United States	Investors, nec
75	1.1	Pannon GSM Rt	Hungary	Radiotelephone communications	Telenor Mobile Communications	Norway	Telephone communications, except radiotelephone
76	1.1	Duiker Mining Ltd	South Africa	Bituminous coal and lignite surface mining	Xstrata AG	Switzerland	Primary production of aluminum
77	1.1	VHDB, DB Vida, DB Vita	Germany	Life insurance	Zurich Financial Services Grp	Switzerland	Life insurance
78	1.0	Cerestar (Montedison)	France	Wet corn milling	Cargill Inc	United States	Grain and field beans
79	1.0	Royal Canin SA(Guyomarc'h SA)	France	Dog, cat, and pet food	Masterfoods Holding SA	France	Dog, cat, and pet food
80	1.0	Green Property PLC	Ireland	Land subdividers and developers, except cemeteries	Investor Group	United Kingdom	Investors, nec
81	1.0	Amersham Biosciences	Sweden	Biological products, except diagnostic substances	Amersham Plc	United Kingdom	Biological products, except diagnostic substances

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

Note: Host and home economies represent the immediate partner economy of the transaction. Thus, for the M&A deals whose home economy is identical to the host economy, the ultimate parent economy is different. Therefore, they are considered as cross-border M&As. The data cover deals involving the acquisition of an equity stake of more than 10%.

Annex table A.I.10. Gross FDI[a] outflows and divestment in France, Germany, the United Kingdom and the United States, 1983-2002
(Millions of dollars and per cent)

	France			Germany			United Kingdom			United States		
Year	Gross FDI [b]	Divestment [b]	Divestment as percentage of gross FDI	Gross FDI	Divestment	Divestment as percentage of gross FDI	Gross FDI	Divestment	Divestment as percentage of gross FDI	Gross FDI	Divestment	Divestment as percentage of gross FDI
1983	..	..	..	..	..	..	5 302	1 008	19	21 188	11 663	55
1984	..	..	..	..	..	..	7 733	1 631	21	31 536	18 491	59
1985	..	..	..	..	..	..	11 068	2 251	20	24 027	10 639	44
1986	..	..	..	..	..	..	17 294	2 140	12	27 229	7 588	28
1987	..	..	..	..	..	..	31 309	4 309	14	43 940	13 786	31
1988	..	..	..	..	..	..	37 206	5 911	16	34 994	16 395	47
1989	..	..	..	..	..	..	35 164	5 692	16	65 365	27 761	42
1990	..	..	..	..	..	..	17 948	5 647	31	52 310	21 328	41
1991	29 636	4 504	15	..	..	..	16 409	6 268	38	45 991	13 295	29
1992	36 364	5 958	16	26 971	8 372	31	17 739	6 576	37	54 554	11 907	22
1993	25 296	5 563	22	22 474	5 278	23	26 033	6 734	26	89 610	12 363	14
1994	32 616	8 243	25	26 006	7 146	27	32 199	8 514	26	98 555	25 304	26
1995	25 642	9 886	39	56 690	17 641	31	43 562	5 807	13	112 848	20 774	18
1996	39 382	8 961	23	53 939	3 135	6	34 047	14 007	41	107 635	23 208	22
1997	46 843	11 259	24	51 344	9 546	19	61 586	8 176	13	129 488	33 719	26
1998	62 818	14 207	23	104 702	15 877	15	122 816	24 868	20	172 629	41 625	24
1999	139 045	12 189	9	110 907	1 461	1	201 451	22 665	11	229 371	54 794	24
2000	189 961	14 457	8	114 964	65 171	57	233 371	52 724	23	194 619	29 650	15
2001	101 620	18 806	19	63 283	18 305	29	66 118	36 168	55	140 636	26 659	19
2002	..	..	..	25 372	837	3	..	..	..	147 729	35 064	24

Source: UNCTAD, FDI/TNC database, based on Ministère de l'Economie, des Finances et de l'Industrie/Banque de France, Balance des paiements et position extérieure 2001, 15 May 2002; Deutsche Bundesbank, Zahlungsbilanzstatistik, February 2003, Statistisches Beiheft zum Monatsbericht 3; United Kingdom, Office for National Statistics, Business Monitor MA4, Foreign Direct Investment 2001, February 2003; and United States Department of Commerce, Bureau of Economic Analysis, U.S. International Transactions Accounts Data, www.bea.doc.gov, 14 March 2003.

a (Net) FDI flows plus divestment.
b Excludes short-term intra-company loans.

Annex table A.I.11. Germany, Japan and the United States: receipts of royalties and licence fees from affiliated firms, by country, 1985-2001
(Millions of dollars)

	Germany				Japan				United States			
	Intra-firm				Intra-firm				Intra-firm			
Year	German parent firms only	Foreign affiliates in Gernany	TNCs	Country as a whole	Japanese parent firms only	Foreign affiliates in Japan	TNCs	Country as a whole	United States parent firms only	Foreign affiliates in the United States	TNCs	Country as a whole
1985	464	83	..	617	..	..	..	723	..	..	..	6 680
1986	597	122	..	919	..	..	617	906	5 994	180	..	8 113
1987	698	146	..	1 165	..	..	..	1 293	7 668	220	..	10 174
1988	883	124	..	1 265	..	..	..	1 637	9 238	256	..	12 139
1989	1 122	106	..	1 341	..	..	1 034	2 016	10 612	349	12 800	13 818
1990	1 547	236	..	1 987	..	..	..	2 479	12 867	383	..	16 634
1991	1 515	345	..	1 888	..	..	..	2 866	13 523	583	..	17 819
1992	1 680	472	..	2 072	..	..	2 335	3 061	14 925	733	..	20 841
1993	1 629	501	..	2 058	..	..	..	3 861	14 936	752	..	21 695
1994	1 720	496	..	2 403	..	..	..	5 185	19 250	1 025	33 957	26 712
1995	2 231	617	..	3 134	..	..	3 919	6 005	21 399	1 460	..	30 289
1996	2 457	655	..	3 365	..	..	..	6 681	22 719	1 837	..	32 470
1997	2 321	518	..	3 222	..	..	..	7 303	23 091	1 374	..	33 228
1998	2 652	750	..	3 346	..	..	5 499	7 388	24 362	1 951	..	35 626
1999	2 321	629	..	3 108	..	..	..	8 190	24 807	1 700	..	36 902
2000	2 214	642	..	2 884	..	..	..	10 227	24 585	2 231	..	39 607
2001	2 404	745	..	3 149	..	..	..	10 462	23 502	2 371	..	38 668
2002	2 904	1 010	..	..	..	..	..	..	..	..	..	..

Source: UNCTAD, based on *WIR99;* IMF, *Balance of Payments Statistics CD-ROM* (January 2003); Germany, Deutsche Bundesbank (various issues); Japan, METI, 2002 and United States, Department of Commerce, 2002.

Annex table A.I.12. Receipts of royalties and licence fees by affiliated firms and by country, Germany and the United States, 1998, 2000-2001

(Millions of dollars)

	Germany			United States		
	Intra-firm			Intra-firm		
CountryRegion	German parent firms only	Foreign affiliates Germany	Country as a whole	United States parent firms only	Foreign affiliates in the United States	Country as a whole
			1998			
TOTAL WORLD	1 707	748	3 346	24 362	1 951	35 626
Developed Countries	1 300	636	..	20 993	2 037	26 853
European Union	482	267	..	13 192	1 108	17 525
North America	601	284	..	1 287	41	1 657
Japan	137	22	..	3 200	220	5 776
Developing countries	353	51	..	3 601	279	6 535
Africa	24	4	..	185	25	311
Latin America and the Caribbean	99	14	..	1 423	156	2 552
Asia and Pacific	230	..	..	1 993	98	3 672
South, East and South-East Asia	..	..	..	1 984	94	3 593
			2000			
TOTAL WORLD	2 194	640	2 884	24 585	2 231	39 607
Developed Countries	1 856	568	..	18 293	1 803	28 931
European Union	597	201	..	11 942	964	17 080
North America	677	100	..	1 520	49	2 259
Japan	212	20	..	3 416	331	7 120
Developing countries	224	36	..	4 818	239	8 188
Africa	37	3	..	190	-	393
Latin America and the Caribbean	104	18	..	2 500	188	3 279
Asia and Pacific	83	15	..	2 128	51	4 516
South, East and South-East Asia	..	..	..	2 113	51	4 374
			2001			
TOTAL WORLD	2 290	666	3 149	23 502	2 371	38 668
Developed Countries	1 900	555	..	17 318	1 872	28 214
European Union	549	134	..	11 252	952	16 333
North America	803	116	..	1 503	58	2 255
Japan	165	30	..	3 173	248	6 972
Developing countries	251	86	..	4 759	349	7 996
Africa	46	20	..	212	-	327
Latin America and the Caribbean	98	21	..	2 483	266	3 368
Asia and Pacific	108	45	..	2 064	83	4 301
South, East and South-East Asia	..	..	..	2 039	83	4 164

Source: UNCTAD, FDI/TNC database.

Annex table A.I.13. Main international instruments[a] dealing with FDI, 1948-2003

Year[b]	Title	Setting	Level	Form	Status
1948	Havana Charter for an International Trade Organization	International Conference on Trade and Employment	Multilateral	Binding	Not ratified
1948	Draft Statutes of the Arbitral Tribunal for Foreign Investment and of the Foreign Investments Court	International Law Association	Non-governmental	Non-binding	Not adopted
1949	International Code of Fair Treatment for Foreign Investments	International Chamber of Commerce	Non-governmental	Non-binding	Adopted
1957	Treaty Establishing the European Economic Community	European Economic Community	Regional	Binding	Adopted
1957	Agreement on Arab Economic Unity	Council of Arab Economic Unity	Regional	Binding	Adopted
1958	Convention on the Recognition and Enforcement of Foreign Arbitral Awards	United Nations	Multilateral	Binding	Adopted
1959	Draft Convention on Investments Abroad	Abs-Shawcross Draft Convention	Non-Governmental	Non-binding	Not adopted
1961	Code of Liberalisation of Capital Movements	OECD	Regional	Binding	Adopted
1961	Code of Liberalisation of Current Invisible Operations	OECD	Regional	Binding	Adopted
1962	United Nations General Assembly Resolution 1803 (XVII): Permanent Sovereignty over Natural Resources	United Nations	Multilateral	Non-binding	Adopted
1963	Model Tax Convention on Income and on Capital	OECD	Regional	Model	Adopted
1965	Common Convention on Investments in the States of the Customs and Economic Union of Central Africa	Customs and Economic Union of Central Africa	Regional	Binding	Adopted
1965	Convention on the Settlement of Investment Disputes between States and Nationals of Other States	World Bank	Multilateral	Binding	Adopted
1967	Revised Recommendation of the Council Concerning Co-operation Between Member Countries on Anticompetitive Practices Affecting International Trade	OECD	Regional	Non-binding	Adopted
1967	Draft Convention on the Protection of Foreign Property	OECD	Regional	Non-binding	Not adopted
1969	Agreement on Andean Subregional Integration	Andean Common Market	Regional	Binding	Adopted
1969	Agreement Establishing an Association between the European Economic Community and the Malagasy States	European Community-Malagasy States	Inter-regional	Binding	Adopted
1969	Agreement Establishing an Association between the European Economic Community and the United Republic of Tanzania, the Republic of Uganda and the Republic of Kenya	European Community-Tanzania, Uganda and Kenya	Inter-regional	Binding	Adopted

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Annex table A.I.13. Main international instruments[a] dealing with FDI, 1948-2003 (continued)

Year[b]	Title	Setting	Level	Form	Status
1970	Agreement on Investment and Free Movement of Arab Capital among Arab Countries	Arab Economic Unity	Regional	Binding	Adopted
1970	Decision No. 24 of the Commission of the Cartagena Agreement: Common Regulations Governing Foreign Capital Movement, Trade Marks, Patents, Licences and Royalties	Andean Common Market	Regional	Binding	Superseded
1971	Convention Establishing the Inter-Arab Investment Guarantee Corporation	Inter-Arab Investment Guarantee Corporation	Regional	Binding	Adopted
1972	Joint Convention on the Freedom of Movement of Persons and the Right of Establishment in the Central African	Central African Customs and Economic Union	Regional	Binding	Adopted
1972	Guidelines for International Investment	International Chamber of Commerce	Non-Governmental	Non-binding	Adopted
1973	Agreement on the Harmonisation of Fiscal Incentives to Industry	Caribbean Community	Regional	Binding	Adopted
1973	Treaty Establishing the Caribbean Community	Caribbean Community	Regional	Binding	Adopted
1974	United Nations General Assembly Resolution 3201 (S-VI): Declaration on the Establishment of a New International Economic Order and United Nations General Assembly Resolution 3202 (S-VI): Programme of Action on the Establishment of a New International Economic Order	United Nations	Multilateral	Non-binding	Adopted
1974	United Nations General Assembly Resolution 3281 (XXIX): Charter of Economic Rights and Duties of States	United Nations	Multilateral	Non-binding	Adopted
1975	The Multinational Companies Code in the UDEAC	Customs and Economic Union of Central Africa	Regional	Binding	Adopted
1975	Charter of Trade Union Demands for the Legislative Control of Multinational Companies	International Confederation of Free Trade Unions	Non-Governmental	Non-binding	Adopted
1975	International Chamber of Commerce Rules of Conciliation and Arbitration	International Chamber of Commerce	Non-Governmental	Non-binding	Adopted
1976	Declaration on International Investment and Multinational Enterprises	OECD	Regional	Binding/ non-binding[c]	Adopted
1976	Arbitration Rules of the United Nations Commission on International Trade Law	United Nations	Multilateral	Model	Adopted
1976	Agreement between the Government of the United States of America and the Government of the Federal Republic of Germany Relating to Mutual Cooperation Regarding Restrictive Business Practices	Germany-United States	Bilateral	Binding	Adopted
1977	ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy	International Labour Organization	Multilateral	Non-binding	Adopted

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Annex table A.I.13. Main international instruments[a] dealing with FDI, 1948-2003 (continued)

Year[b]	Title	Setting	Level	Form	Status
1977	International Chamber of Commerce Recommendations to Combat Extortion and Bribery in Business transactions	International Chamber of Commerce	Non-Governmental	Non-binding	Adopted
1979	Draft International Agreement on Illicit Payments	United Nations	Multilateral	Binding	Not adopted
1979	United Nations Model Double Taxation Convention between Developed and Developing Countries	United Nations	Multilateral	Model	Adopted
1980	Cooperation Agreement between the European Community and Indonesia, Malaysia, the Philippines, Singapore and Thailand member countries of the Association of South-East Asian Nations	ASEAN-EC	Inter-regional	Binding	Adopted
1980	The Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices	United Nations	Multilateral	Non-binding	Adopted
1980	Guidelines Governing the Protection of Privacy and Transborder Flows of Personal Data	OECD	Regional	Non-binding	Adopted
1980	Unified Agreement for the Investment of Arab Capital in the Arab States	League of Arab States	Regional	Binding	Adopted
1980	Treaty Establishing the Latin American Integration Association (LAIA)	LAIA	Regional	Binding	Adopted
1981	International Code of Marketing of Breast- milk Substitutes	World Health Organization	Multilateral	Non-binding	Adopted
1981	Convention for the Protection of Individuals with Regard to Automatic Processing of Personal Data	Council of Europe	Regional	Binding	Adopted
1981	Agreement on Promotion, Protection and Guarantee of Investments among Member States of the Organisation of the Islamic Conference	Islamic Conference	Regional	Binding	Adopted
1981	Treaty for the Establishment of the Preferential Trade Area for Eastern and Southern African States	Preferential Trade Area for Eastern and Southern African States	Regional	Binding	Adopted
1982	Community Investment Code of the Economic Community of the Great Lakes Countries (CEPGL)	CEPGL	Regional	Binding	Adopted
1983	Draft United Nations Code of Conduct on Transnational Corporations	United Nations	Multilateral	Non-binding	Not adopted
1983	Treaty for the Establishment of the Economic Community of Central African States	Economic Community of Central and African States	Regional	Binding	Adopted
1985	Draft International Code of Conduct on the Transfer of Technology	United Nations	Multilateral	Non-binding	Not adopted
1985	United Nations General Assembly Resolution 39/248: Guidelines for Consumer Protection	United Nations	Multilateral	Non-binding	Adopted

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Annex table A.I.13. Main international instruments[a] dealing with FDI, 1948-2003 (continued)

Year[b]	Title	Setting	Level	Form	Status
1985	Convention Establishing the Multilateral Investment Guarantee Agency	World Bank	Multilateral	Binding	Adopted
1985	Declaration on Transborder Data Flows	OECD	Regional	Non-binding	Adopted
1987	Agreement for the Establishment of a Regime for CARICOM Enterprises	Caribbean Common Market	Regional	Binding	Adopted
1987	Revised Basic Agreement on ASEAN Industrial Joint Ventures	ASEAN	Regional	Binding	Adopted
1987	An Agreement Among the Governments of Brunei Darussalam, the Republic of Indonesia, Malaysia, the Republic of the Philippines, the Republic of Singapore and the Kingdom of Thailand for the Promotion and Protection of Investments	ASEAN	Regional	Binding	Adopted
1989	Fourth ACP-EEC Convention of Lomé	African, Caribbean and Pacific countries-European Commnuity	Inter-regional	Binding	Adopted
1989	Cooperation Agreement between the European Economic Community, of the one part, and the countries parties to the Charter of the Cooperation Council for the Arab States of the Gulf (the State of the United Arab Emirates, the State of Bahrain, the Kingdom of Saudi Arabia, the Sultanate of Oman, the State of Qatar and the State of Kuwait) of the other part	Arab States of the Gulf-European Community	Inter-regional	Binding	Adopted
1990	Criteria for Sustainable Development Management: Towards Environmentally Sustainable Development	United Nations	Multilateral	Non-binding	Adopted
1990	Charter on a Regime of Multinational Industrial Enterprises (MIEs) in the Preferential Trade Area for Eastern and Southern African States	Preferential Trade Area for Eastern and Southern African States	Regional	Binding	Adopted
1984 1990	Protocol A/P1/11/84 Relating to Community Enterprises and Supplementary Protocol A/Sp.2/5/90 on the Implementation of the Third Phase (Right of Establishment) of the Protocol on Free Movement of Persons, Right of Residence and Establishment	ECOWAS	Regional	Binding	Adopted
1991	Treaty Establishing the African Economic Community	African Economic Community	Regional	Binding	Adopted
1991	Decision 285 of the Commission of the Cartagena Agreement: Rules and Regulations for Preventing or Correcting Distortions in Competition Caused by Practices that Restrict Free Trade Competition	Andean Community	Regional	Binding	Adopted
1991	Decision 291 of the Commission of the Cartagena Agreement: Common Code for the Treatment of Foreign Capital and on Trademarks, Patents, Licenses and Royalties	Andean Community	Regional	Binding	Adopted

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Annex table A.I.13. Main international instruments[a] dealing with FDI, 1948-2003 (continued)

Year[b]	Title	Setting	Level	Form	Status
1991	Decision 292 of the Commission of the Cartagena Agreement: Uniform Code on Andean Multinational Enterprises	Andean Community	Regional	Binding	Adopted
1991	The Business Charter for Sustainable Development: Principles for Environmental Management	International Chamber of Commerce	Non-Governmental	Non-binding	Adopted
1992	Agreement on the European Economic Area	EC-EFTA	Regional	Binding	Adopted
1992	Guidelines on the Treatment of Foreign Direct Investment	World Bank	Multilateral	Non-binding	Adopted
1992	Articles of Agreement of the Islamic Corporation for the Insurance of Investment and Export Credit	Islamic Conference	Regional	Binding	Adopted
1992	North American Free Trade Agreement	Canada, Mexico and the United States	Regional	Binding	Adopted
1992	The CERES Principles	CERES	Non-Governmental	Non-binding	Adopted
1993	Framework Cooperation Agreement between the European Economic Community and the Republics of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama	EC-Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama	Inter-regional	Binding	Adopted
1993	Permanent Court of Arbitration Optional Rules for Arbitrating Disputes between Two Parties of which only One is a State	Permanent Court of Arbitration	Multilateral	Binding	Adopted
1993	Revised Treaty of the Economic Community of West African States (ECOWAS)	ECOWAS	Regional	Binding	Adopted
1993	Framework Agreement for Cooperation between the European Economic Community and the Cartagena Agreement and its Member Countries, namely the Republic of Bolivia, the Republic of Colombia, the Republic of Ecuador, the Republic of Peru and the Republic of Venezuela	EC-Andean Community	Inter-regional	Binding	Adopted
1993	Treaty Establishing the Common Market for Eastern and Southern Africa	Common Market for Eastern and Southern Africa	Regional	Binding	Adopted
1994	Free Trade Agreement between Azerbaijan, Armenia, Belarus, Georgia, Moldova, Kazakhstan, the Russian Federation, Ukraine, Uzbekistan, Tajikistan and the Kyrgyz Republic	Azerbaijan, Armenia, Belarus, Georgia, Moldova, Kazakhstan, the Russian Federation, Ukraine, Uzbekistan, Tajikistan and the Kyrgyz Republic	Regional	Binding	Adopted
1994	Free Trade Agreement between the United Mexican States and the Republic of Bolivia	Mexico-Bolivia	Bilateral	Binding	Adopted
1994	Free Trade Agreement between Mexico and Costa Rica	Mexico-Costa Rica	Bilateral	Binding	Adopted

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Annex table A.I.13. Main international instruments[a] dealing with FDI, 1948-2003 (continued)

Year[b]	Title	Setting	Level	Form	Status
1994	Treaty on Free Trade between the Republic of Colombia, the Republic of Venezuela and the United Mexican States	Colombia, Venezuela, Mexico	Regional	Binding	Adopted
1994	Marrakesh Agreement Establishing the World Trade Organization. Annex 1A: Agreement on Trade-Related Investment Measures (1994)	World Trade Organization	Multilateral	Binding	Adopted
1994	Marrakesh Agreement Establishing the World Trade Organization. Annex 1B: General Agreement on Trade in Services	World Trade Organization	Multilateral	Binding	Adopted
1994	Marrakesh Agreement Establishing the World Trade Organization. Annex 1C: Agreement on Trade-Related Aspects of Intellectual Property Rights (1994)	World Trade Organization	Multilateral	Binding	Adopted
1994	Protocol of Colonia for the Reciprocal Promotion and Protection of Investments in the MERCOSUR	MERCOSUR	Regional	Binding	Adopted
1994	Protocol on Promotion and Protection of Investments from States not Parties to MERCOSUR	MERCOSUR	Regional	Binding	Adopted
1994	Agreement Among the Governments of the Member States of the Caribbean Community for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Taxes on Income, Profits or Gains and Capital Gains and for the Encouragement of Regional Trade and Investment	Caribbean Community	Regional	Binding	Adopted
1994	Recommendation of the OECD Council on Bribery in International Business Transactions	OECD	Regional	Non-binding	Adopted
1994	Free Trade Agreement of the Group of Three	Colombia, Mexico and Venezuela	Regional	Binding	Adopted
1994	APEC Non-Binding Investment Principles	APEC	Regional	Non-binding	Adopted
1994	Trade and Investment Agreement between the Government of Australia and the Government of the United Mexican States	Australia-Mexico	Bilateral	Binding	Adopted
1994	Energy Charter Treaty	European Energy Charter Organisation	Regional	Binding	Adopted
1995	Interregional Framework Cooperation Agreement between the European Community and its Member States, of the one part, and the Southern Common Market and its Party States, of the other part	EC- MERCOSUR	Inter-regional	Binding	Adopted
1995	ASEAN Framework Agreement on Services	ASEAN	Regional	Binding	Adopted
1995	Consumer Charter for Global Business	Consumers International	Non-Governmental	Non-binding	Adopted

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Annex table A.I.13. Main international instruments[a] dealing with FDI, 1948-2003 (continued)

Year[b]	Title	Setting	Level	Form	Status
1995	Pacific Basin Charter on International Investments	Pacific Basin Economic Council	Non-Governmental	Non-binding	Adopted
1995	Agreement between the Government of the United States of America and the Government of Canada regarding the Application of Their Competition and Deceptive Marketing Practice Laws	Canada- United States	Bilateral	Binding	Adopted
1995	Osaka Action Agenda on Implementation of the Bogor Declaration	APEC	Regional	Non-binding	Adopted
1996	Protocol to amend the 1987 Agreement among ASEAN Member Countries for the Promotion and Protection of Investments	ASEAN	Regional	Binding	Adopted
1996	Protocol on the Protection of Competition of MERCOSUR	MERCOSUR	Regional	Binding	Adopted
1996	Inter-American Convention Against Corruption	Organization of American States	Regional	Binding	Adopted
1996	Acuerdo de Complementación Económica MERCOSUR-Chile	Chile-MERCOSUR	Regional	Binding	Adopted
1996	Resolution 51/191. United Nations Declaration Against Corruption and Bribery in International Commercial Transactions	United Nations General Assembly	Multilateral	Non-binding	Adopted
1997	Free Trade Agreement between Mexico and Nicaragua	Mexico-Nicaragua	Bilateral	Binding	Adopted
1997	Fourth Protocol to the General Agreement on Trade in Services (on Basic Telecommunications Services)	WTO	Multilateral	Binding	Adopted
1997	Fifth Protocol to the General Agreement on Trade in Services (on Financial Services)	WTO	Multilateral	Binding	Adopted
1997	Protocol Amending the Treaty Establishing the Caribbean Community. Protocol II: Establishment, Services, Capital	Caribbean Community	Regional	Binding	Adopted
1997	Draft NGO Charter on Transnational Corporations	People's Action Network to Monitor Japanese TNCs	Non-Governmental	Non-binding	Not adopted
1997	United Nations General Assembly Resolution 52/87 on International Cooperation against Corruption and Bribery in International Commercial Transactions	United Nations General Assembly	Multilateral	Non-binding	Adopted
1997	Resolution (97) 24 on the Twenty Guiding Principles for the Fight Against Corruption	Council of Europe	Regional	Non-binding	Adopted
1997	OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions	OECD	Regional	Binding	Adopted

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Annex table A.I.13. Main international instruments[a] dealing with FDI, 1948-2003 (continued)

Year[b]	*Title*	*Setting*	*Level*	*Form*	*Status*
1991 1998	Agreement between the Government of the United States of America and the Commission of the European Communities Regarding the Application of their Competition Laws and Agreement between the European Communities and the Government of the United States of America on the Application of Positive Comity Principles in the Enforcement of their Competition Laws	European Community-United States	Bilateral	Binding	Adopted
1998	Agreement Establishing the Free Trade Area between the Caribbean Community and the Dominican Republic	Caribbean Community-Dominican Republic	Regional	Binding	Adopted
1998	Free Trade Agreement between Chile and Mexico	Chile-Mexico	Bilateral	Binding	Adopted
1998	DECISION 439 of the Andean Community: General Framework of Principles and Rules and for Liberalizing the Trade in Services in the Andean Community	Andean Community	Regional	Binding	Adopted
1998	DECISION 40 of the Andean Community: Approval of the Agreement Among Member Countries to Avoid Double Taxation and of the Standard Agreement for Executing Agreements on Double Taxation between Member Countries and Other States Outside the Subregion	Andean Community	Regional	Binding	Adopted
1998	Protocol Amending the Treaty Establishing the Caribbean Community. Protocol III: Industrial Policy.	Caribbean Community	Regional	Binding	Adopted
1998	Framework Agreement on the ASEAN Investment Area	ASEAN	Regional	Binding	Adopted
1998	Trade and Investment Cooperation Arrangement between Canada and MERCOSUR	Canada and MERCOSUR	Regional	Binding	Adopted
1998	Memorandum of Understanding on Trade and Investment between the Governments Canada, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua	Canada and Central American countries	Regional	Non-binding	Adopted
1998	OECD Council Recommendation on Counteracting Harmful Tax Competition	OECD	Regional	Non-binding	Adopted
1998	OECD Council Recommendation Concerning Effective Action Against Hard Core Cartels	OECD	Regional	Non-binding	Adopted
1998	Draft Multilateral Agreement on Investment	OECD	Regional	Binding	Not adopted
1998	ILO Declaration on Fundamental Principles and Rights at Work	International Labour Office	Multilateral	Non-binding	Adopted
1998	Draft International Agreement on Investment	Consumer Unity & Trust Society	Non-Governmental	Non-binding	Not adopted

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Annex table A.I.13. Main international instruments[a] dealing with FDI, 1948-2003 (continued)

Year[b]	*Title*	*Setting*	*Level*	*Form*	*Status*
1998	Towards a Citizens' MAI: an Alternative Approach to Developing a Global Investment Treaty Based on Citizen's Rights and Democratic Control	Council of Canadians	Non-Governmental	Non-binding	Adopted
1999	Resolution of the European Parliament on European Union Standards for European Enterprises Operating in Developing Countries: towards a European Code of Conduct	European Parliament	Regional	Non-binding	Adopted
1999	Criminal Law Convention on Corruption	Council of Europe	Regional	Binding	Adopted
1999	OECD Principles of Corporate Governance	OECD	Regional	Non-binding	Approved
1999	Model Clauses for Use in Contracts Involving Transborder Data Flows	International Chamber of Commerce	Model	Non-binding	Adopted
1999	Core Standards	World Development Movement	Non-Governmental	Non-binding	Not adopted
1999	Rules and Recommendations on Extortion and Bribery in International Business Transactions (1999 Revised Version)	International Chamber of Commerce	Non-Governmental	Non-binding	Adopted
1999	Agreement on Customs Union and Single Economic Area between the Kyrgyz Republic, the Russian Federation, the Republic of Belarus, the Republic of Kazakhstan and the Republic of Tajikistan	Kyrgyz Republic, the Russian Federation, the Republic of Belarus, the Republic of Kazakhstan and the Republic of Tajikistan	Regional	Binding	Adopted
1999	Civil Law Convention on Corruption	Council of Europe	Regional	Binding	Adopted
1999	The Treaty Establishing the East African Community	East African Community	Regional	Binding	Adopted
1982 1999	Agreement between the Government of the United States of America and the Government of Australia Relating to Cooperation on Antitrust Matters and Agreement between the Government of the United States of America and the Government of Australia on Mutual Antitrust Enforcement Assistance	Australia-United States	Bilateral	Binding	Adopted
1999	Agreement between the Government of the United States of America and the Government of the Federative Republic of Brazil Regarding Cooperation Between Their Competition Authorities in the Enforcement of Their Competition Laws	Brazil-United States	Bilateral	Binding	Adopted
1999	Agreement between the European Communities and the Government of Canada Regarding the Application of their Competition Laws	Canada-Eurpean Union	Bilateral	Binding	Adopted
1999	Agreement between the Government of the United States of America and the Government of Japan Concerning Cooperation on Anticompetitive Activities	Japan-United States	Bilateral	Binding	Adopted

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Annex table A.I.13. Main international instruments[a] dealing with FDI, 1948-2003 (continued)

Year[b]	Title	Setting	Level	Form	Status
1999	Free Trade Agreement between the Governments of Central America and the Government of the Republic of Chile	Chile-Central American countries	Regional	Binding	Adopted
1999	Short-Term Measures to Enhance Asean Investment Climate	ASEAN	Regional	Binding	Adopted
2000	Free Trade Agreement between Mexico, El Salvador, Guatemala and Honduras	The Northern Triangle	Regional	Binding	Adopted
2000	Revised OECD Declaration on International Investment and Multilateral Enterprises (including the Revised Guidelines for Multinational Enterprises and commentaries)	OECD	Regional	Binding/ non-binding[c]	Adopted
2000	Revised United Nations Model Taxation Convention between Developed and Developing Countries	United Nations	Multilateral	Model	Adopted
2000	Agreement between New Zealand and Singapore on Closer Economic Partnership	New Zealand-Singapore	Bilateral	Binding	Adopted
2000	Protocol VIII of the Caribbean Community: Competition Policy, Consumer Protection, Dumping and Subsidies Amending the Treaty of Chaguaramas	Caribbean Community	Regional	Binding	Adopted
2000	Revised Partnership Agreement between the Members of the African, Caribbean and Pacific Group of States of the One Part, and the European Community and Its Member States, of The Other Part	African, Caribbean and the Pacific-European community	Regional	Binding	Adopted
2001	European Convention on the Legal Protection of Services Based on, or Consisting of, Conditional Access	Council of Europe	Regional	Binding	Adopted
2001	Additional Protocol to the Convention for the Protection of Individuals with Regard to Automatic Processing of Personal Data Regarding Supervisory Authorities and Transborder Data Flows	Council of Europe	Regional	Binding	Adopted
2001	Convention Establishing the European Free Trade Association (Amendment)	EFTA	Regional	Binding	Adopted
2001	Protocol to Amend the Framework Agreement on the ASEAN Investment Area	ASEAN	Regional	Binding	Adopted
2001	Revised Treaty of Chaguaramas Establishing the Caribbean Community Including the CARICOM Single Market and Economy	Caribbean Community	Regional	Binding	Adopted
2001	Free Trade Agreement between the Government of Canada and the Government of the Republic of Costa Rica	Canada-Costa Rica	Bilateral	Binding	Adopted
2002	Agreement between Japan and The Republic of Singapore for a New-Age Economic Partnership (JSEPA)	Japan-Singapore	Bilateral	Binding	Adopted
2002	Free Trade Agreement between the Central America and Panama	Panama-Central American countries	Regional	Binding	Adopted
2002	Treaty on Investment and trade in Services between Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua	Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua	Regional	Binding	Adopted

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Annex table A.I.13. Main international instruments[a] dealing with FDI, 1948-2003 (concluded)

Year[b]	Title	Setting	Level	Form	Status
2002	ASEAN-China Framework Agreement on Comprehensive Economic Cooperation	ASEAN-China	Bilateral	Binding	Adopted
2003	Free Trade Agreement between the Government of the Republic of Chile and the Government of the Republic of Korea	Chile-Korea	Bilateral	Binding	Adopted
2003	Singapore-Australia Free Trade Agreement (SAFTA)	Singapore-Australia	Bilateral	Binding	Adopted
	ACP - EU	ACP - EU	Inter-regional		Under negotiation
	Algeria - United States	Algeria - United States	Bilateral		Under negotiation
	Andean Community - Canada	Andean Community - Canada	Bilateral		Under negotiation
	Andean Community - Mercosur	Andean Community - Mercosur	Inter-regional		Under negotiation
	Andean Community - Panama FTA	Andean Community - Panama	Bilateral		Under negotiation
	ASEAN - India	ASEAN - India	Bilateral		Under negotiation
	ASEAN - Japan	ASEAN - Japan	Bilateral		Under consultation
	Brazil - Russian Federation	Brazil - Russian Federation	Bilateral		Under negotiation
	CACM - Canada	Central American countries - Canada	Bilateral		Under negotiation
	CACM - United States	Central American countries - United States	Bilateral		Under negotiation
	Canada - CARICOM	Canada - CARICOM	Bilateral		Under negotiation
	Canada - Dominican Republic	Canada - Dominican Republic	Bilateral		Under negotiation
	Canada - Singapore FTA	Canada - Singapore	Bilateral		Under negotiation
	CARICOM - EFTA	CARICOM - EFTA	Inter-regional		Under negotiation
	CARICOM - EU	CARICOM - EU	Inter-regional		Under negotiation
	Chile - EFTA FTA	Chile - EFTA	Bilateral		Under negotiation
	Chile - Japan FTA	Chile - Japan	Bilateral		Under consultation
	Chile - New Zealand	Chile - New Zealand	Bilateral		Under negotiation
	China - Japan	Japan - China	Bilateral		Under consultation
	Costa Rica - Panama	Costa Rica - Panama	Bilateral		Under negotiation
	Ecuador - Mexico	Ecuador -Mexico	Bilateral		Under negotiation
	EU - Mercosur	EU - Mercosur	Inter-regional		Under negotiation
	Free Trade of the Americas (FTAA)	Americas	Regional		Under negotiation
	India - Singapore FTA	India - Singapore	Bilateral		Under negotiation
	Japan - Republic of Korea FTA	Japan - Korea FTA	Bilateral		Under consultation
	Japan - Malaysia	Japan - Malaysia	Bilateral		Under consultation
	Japan - Mexico FTA	Japan - Mexico	Bilateral		Under negotiation
	Japan - Thailand	Japan - Thailand	Bilateral		Under consultation
	Jordan - Singapore FTA	Jordan - Singapore	Bilateral		Under negotiation
	Mexico - Panama FTA	Mexico - Panama	Bilateral		Under negotiation
	Mexico - Peru FTA	Mexico - Peru	Bilateral		Under negotiation
	Mexico - Singapore FTA	Mexico - Singapore	Bilateral		Under negotiation
	Mexico - Trinidad and Tobago FTA	Mexico - Trinidad and Tobago	Bilateral		Under negotiation
	Singapore - ASEAN - China FTA	Singapore - ASEAN - China	Pluraliteral		Under negotiation
	Southern African Customs Union (SACU) - United States Agreement	SACU Member countries - United States	Bilateral		Under negotiation
	Uruguay - United States FTA	Uruguay - United States	Bilateral		Under negotiation

Source: UNCTAD. The instruments listed here are reproduced in whole or in part in UNCTAD, *International Investment Instruments: A Compendium,* vols. I, II, III, IV, V, VI, VII, VIII, IX, X and XI (United Nations publication, Sales Nos. E.96.II.A.9.10.11, E.00.II.D.13. 14, E.01.II.D.34, E.02.II.D.14, E.02.II.D.15, E.02.II.D.16, E.02.II.D. 21 and forthcoming).

[a] Bilateral treaties for the promotion and protection of investment (BITs) and for the avoidance of double taxation (DTTs) are not included in this table. For a list of BITs, as of 1 January 2000, see Bilateral Investment Treaties, 1959-1999 (UNCTAD/DITE/IIA/2), available on the Internet: www.unctad.org/en/pub/poiteiiad2.en.htm. The most recent list of BITs and DTTs (as of 1 January 2003) is available on the Internet: www.unctad.org. The list of bilateral association, partnership and cooperation agreements signed by the European Community and/or the European Free Trade Association and third countries, and including investment provisions, is available in a separate table (Annex table A.I.14).

[b] Dates given relate to original adoption. Subsequent revisions of instruments are not included, unless explicitly stated.

[c] The OECD Declaration on International Investment and Multinational Enterprises is a political undertaking supported by legally binding Decisions of the Council. The Guidelines on Multinational Enterprises are non-binding standards.

Annex table A.I.14. Bilateral association, cooperation, framework and partnership agreements including investment-related provisions, signed by the European Community, by the European Free Trade Association, by the United States and by Canada with third countries, as of July 2003

Country/territory/group of countries	Date of signature	Date of entry into force
European Community and its member States		
Malta	5 December 1970	1 April 1971
Jordan	18 January 1977	1 January 1979
Syrian Arab Republic	18 January 1977	1 January 1978
China	21 May 1985	1 October 1985
Pakistan	23 July 1985	1 May 1986
Argentina	2 April 1990	1 November 1990
Uruguay	4 November 1991	1 January 1994
Hungary	16 December 1991	1 February 1994
Poland	19 September 1989[a]	...
Poland	16 December 1991	1 February 1994
San Marino	16 December 1991	Not yet in force
Paraguay	3 February 1992	1 March 1992
Albania	11 May 1992	1 December 1992
Mongolia	16 June 1992	1 March 1993
Brazil	26 June 1992	1 November 1995
Macao	5 June 1992	Not yet in force
Romania	22 October 1990[a]	...
Romania	1 February 1993	1 February 1995
Czechoslovakia	16 December 1991[a]	...
Czech Republic	4 October 1993	1 February 1995
Bulgaria	8 May 1990[a]	...
Bulgaria	8 March 1993	1 February 1995
Slovakia	4 October 1993	1 February 1993
India	23 June 1981[a]	...
India	20 December 1993	1 August 1994
Ukraine	14 June 1994	1 February 1998
Soviet Union	8 December 1989[a]	
Russian Federation	24 June 1994	1 December 1997
Sri Lanka	2 July 1975[a]	
Sri Lanka	18 July 1994	2nd quarter 1995
Republic of Moldova	28 November 1994	1 July 1998
Kazakhstan	23 January 1995	1 July 1999
Kyrgyzstan	9 February 1995	1 July 1999
Belarus	6 March 1995	Not yet in force
Turkey	12 September 1963[a]	1 December 1964
Latvia	11 May 1992[a]	1 February 1993
Latvia	12 June 1995	1 February 1998
Lithuania	11 May 1992[a]	1 February 1993
Lithuania	12 June 1995	1 February 1998
Estonia	11 May 1992[a]	1 March 1993
Estonia	12 June 1995	1 February 1998
Tunisia	25 April 1976[a]	1 November 1978
Tunisia	17 July 1995	1 March 1998
Viet Nam	17 July 1995	1 June 1996
Israel	11 May 1975	1 July 1975
Israel	20 November 1995	1 June 2000
Nepal	20 November 1995	1 June 1996
Morocco	27 April 1976	1 November 1978
Morocco	26 February 1996	...
Armenia	22 April 1996	1 July 1999
Azerbaijan	22 April 1996	1 July 1999
Georgia	22 April 1996	1 July 1999

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Annex table A.I.14. (continued)

Country/territory/group of countries	Date of signature	Date of entry into force
Slovenia	5 April 1993	1 September 1993
Slovenia	10 June 1996	1 February 1999
Uzbekistan	21 June 1996	1 July 1999
Republic of Korea	28 October 1996	1 March 2000
Cambodia	29 April 1996	1 November 1999
Palestine Authority	24 February 1997	1 July 1997
Lao People's Democratic Republic	29 April 1997	1 December 1997
Macedonia, The Former Yugoslav Republic of	29 April 1997	1 January 1998
Macedonia, The Former Yugoslav Republic of	9 April 2001	...
Yemen	25 November 1997	...
Turkmenistan	25 May 1998	Not yet in force
South Afirca	11 October 1999	Not yet in force
Bangladesh	19 October 1978	1 December 1976
Bangladesh	22 May 2000	...
Mexico	8 December 1997	1 January 2000
Mexico	27 February 2001	1 March 2001
Egypt	18 January 1977	1 January 1979
Egypt	30 April 2001	Not yet in force
Croatia	29 October 2001	...
Algeria	26 April 1976	1 January 1978
Algeria	22 April 2002	...
Lebanon	3 May 1977	1 November 1978
Lebanon	17 June 2002	Not yet in force
Lebanon[d]	17 June 2002	Not yet in force
Chile	18 November 2002	...
Chile	21 June 1996	1 February 1999
European Free Trade Association and its member States		
Turkey	10 December 1991	1 April 1992
Israel	17 September 1992	1 January 1992
Poland	10 December 1992	1 September 1993
Romania	10 December 1992	1 May 1993
Bulgaria	29 March 1993	1 July 1993
Hungary	29 March 1993	1 October 1993
Czech Republic	20 March 1992	1 July 1992[c]
Slovakia	20 March 1992	1 July 1992[c]
Slovenia	13 June 1995	1 September 1998
Estonia	7 December 1995	1 October 1997
Latvia	7 December 1995	1 June 1996
Lithuania	7 December 1995	1 January 1997
Morocco	19 June 1997	1 December 1999
Palestine Authority	30 November 1998	1 July 1999
Macedonia, The Former Yugoslav Republic of	19 June 2000	1 January 2001
Mexico	27 November 2000	...
Croatia	21 June 2001	...
Jordan	21 June 2001	...
Singapore	26 June 2002	...
Chile	26 June 2003	...
United States		
Philippines	11 June 1989	...
Morocco	16 March 1995	...
Israel	22 April 1985	1 September 1985
Taiwan Province of China	19 September 1994	...
Indonesia	18 June 1996	...
Central America	20 March 1998	...
Andean Community	30 October 1998	...

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Annex table A.I.14. (concluded)

Country/territory/group of countries	Date of signature	Date of entry into force
Egypt	1 July 1999	1 July 1999
Egypt[b]	1 July 1999	1 July 1999
Ghana	26 February 1999	26 February 1999
South Africa	18 February 1999	18 February 1999
Turkey	29 September 1999	11 February 2000
Jordan	24 October 2000	24 October 2000
Nigeria	16 February 2000	16 February 2000
Viet Nam	13 July 2000	...
Algeria	13 July 2001	...
COMESA	1 October 2001	...
West African Economic and Monetary Union	24 April 2002	...
Bahrain	18 July 2002	...
Sri Lanka	25 July 2002	...
Brunei Darussalam	16 December 2002	...
Thailand	23 October 2002	...
Tunisia	2 October 2002	
Chile	19 May 1998	...
Chile	11 December 2002	...
Singapore	24 June 2003	...
Pakistan	25 June 2003	...
Canada		
ASEAN	28 July 1993	...
Ukraine	24 October 1994	...
Australia	15 November 1995	...
Chile	5 December 1996	5 July 1997
Norway	3 December 1997	...
Switzerland	9 December 1997	...
Iceland	24 March 1998	...
MERCOSUR	16 June 1998	...
South Africa	24 September 1998	...
Andean Community	31 May 1999	...
Costa Rica	23 April 2001	1 November 2002

Source: UNCTAD.

[a] No longer in force.
[b] Investment Incentive Agreement between the Government of the United States and the Government of the Arab Republic of Egypt.
[c] Signed with former CSFR on 20 March 1992. Protocols of the succession of the Czech Republic and the Slovak Republic were signed and entered into force on 19 April 1993 simultaneously.
[d] Interim Agreement on Trade and Trade-related Matters between the European Community, of the One Part, and the Republic of Lebanon, of the Other Part.

Annex table A.I.15. Number of parent corporations and foreign affiliates, by region and economy, latest available year

(Number)

Region/economy	Year	Parent corporations based in economy [a]	Foreign affiliates located in economy [a]
Developed economies		**49 048 [b]**	**105 830 [b]**
Western Europe		**39 715**	**77 415**
European Union		**34 291 [b]**	**65 460 [b]**
Austria	2001	935	2 607 [c]
Belgium/Luxembourg	1997	988 [d]	1 504 [d]
Denmark	1998	9 356	2 305 [e]
Finland	2001	900 [f]	2 030 [c, e]
France	2000	1 922	9 473
Germany	2000	8 522	13 826 [g]
Greece	2001	155	697
Ireland	2001	39 [h]	1 225 [i]
Italy	1999	1 017 [j]	1 843 [j]
Netherlands [k]	1998	1 608	3 132 [c]
Portugal	2001	600	3 000 [l]
Spain	1998	857 [m]	7 465
Sweden [n]	2002	4 260	4 656 [c]
United Kingdom [o]	2002	3 132	13 828
Other Western Europe		**5 424 [b]**	**11 955 [b]**
Gibraltar	2002	..	21
Iceland	2000	18	55
Malta	2002	..	1 000
Norway	1998	900	5 105 [p]
Switzerland	1995	4 506	5 774
North America		**4 674 [b]**	**19 437 [b]**
Canada	1999	1 439	3 725 [c]
United States	2000	3 235 [q]	15 712 [r]
Other developed countries		**4 659 [b]**	**6 847 [b]**
Australia	2001	682	2 352
Israel	2002	..	30
Japan	2002	3 760 [s]	3 359 [t]
New Zealand	1998	217	1 106
Developing economies		**13 936 [b]**	**517 611 [b]**
Africa		**1 202 [b]**	**7 049 [b]**
Algeria	2002	..	14
Angola	2002	2 [u]	31
Benin	2002	..	10
Botswana	2002	..	10
Burkina Faso	2002	1 [u]	14
Burundi	2002	..	3
Cameroon	2002	..	60
Central African Republic	2002	..	5
Chad	2002	..	5
Congo	2002	..	25
Côte d'Ivoire	2002	..	120
Congo, Democratic Republic of the	2002	4 [u]	6
Djibouti	2002	1 [u]	6
Egypt	1999	..	99
Equatorial Guinea	2002	..	3
Ethiopia	2002	4 [u]	14
Gabon	2002	..	39
Gambia	2002	..	5
Ghana	2002	..	62
Guinea	2002	..	15
Guinea-Bissau	2002	..	2
Kenya	2002	..	123
Lesotho	2002	..	1
Liberia	2002	..	11
Madagascar	2002	..	28
Malawi	2002	..	6
Mali	2002	1 [u]	8
Mauritania	2002	2 [u]	2
Mauritius	2002	..	35
Morocco	2002	..	194
Mozambique	2002	5 [u]	27
Namibia	2002	..	7
Niger	2002	1 [u]	5
Nigeria	2002	48 [f]	66
Rwanda	2002	..	2
Senegal	2002	6 [u]	42
Seychelles	1998	-	30
Sierra Leone	2002	1 [u]	6
Somalia	2002	1 [u]	..
South Africa	1998	941	2 044
Sudan	2002	2 [u]	4
Swaziland	2002	12	61
Togo	2002	3 [u]	9
Tunisia	2002	142 [v]	2 503 [w]
United Republic of Tanzania	2002	15 [u]	38
Uganda	2002	..	34
Zambia	1999	2 [x]	1 179
Zimbabwe	1998	8	36
Latin America and the Caribbean		**2 022 [b]**	**45 383 [b]**
Antigua and Barbuda	2002	..	10
Argentina	2002	..	1 123
Aruba	2002	..	29
Bahamas	2002	..	117
Barbados	2002	..	99
Belize	2002	..	7
Bermuda	2002	..	240
Bolivia	1996	..	257
Brazil	1998	1 225	8 050
British Virgin Islands	2002	..	129
Cayman Islands	2002	..	283
Chile	1998	478 [y]	3 173 [z]
Colombia	1995	302	2 220
Costa Rica	2002	..	154
Dominica	2002	..	5
Dominican Republic	2002	..	113
Ecuador	2002	..	165
El Salvador	2002	..	310
Grenada	2002	..	10
Guatemala	1985	..	287
Guyana	2002	4 [f]	56
Haiti	2002	3 [u]	11
Honduras	2002	..	49
Jamaica	1998	..	177
Mexico	2002	..	25 708
Netherlands Antilles	2002	..	145
Nicaragua	2002	..	34
Panama	2002	..	384
Paraguay	1995	..	109
Peru	1997	10 [aa]	1 183 [ab]
St. Kitts and Nevis	2002	..	5
Saint Lucia	2002	..	19
Saint Vincent and the Grenadines	2002	..	10
Suriname	2002	..	10
Trinidad and Tobago	1999	..	65 [ac]
Uruguay	2002	..	164 [ad]
Venezuela	2002	..	473
Asia		**10 685 [b]**	**464 631 [b]**
South, East and South-East Asia		**9 934 [b]**	**445 272 [b]**
Afghanistan	2002	..	4
Bangladesh	2002	10 [u]	13
Bhutan	1997	..	2
Brunei Darussalam	2002	..	16
Cambodia	1997	..	598 [ae]
China	2002	350 [af]	363 885 [ag]
Hong Kong, China	2001	948 [ah]	9 132
India	1995	187 [ai]	1 416
Indonesia	1995	313	2 241 [aj]
Lao People's Democratic Rep.	1997	..	669 [ak]

Annex table A.I.15. Number of parent corporations and foreign affiliates, by region and economy, latest available year (concluded)

(Number)

Region/economy	Year	Parent corporations based in economy [a]	Foreign affiliates located in economy [a]
Macau	2001	..	560
Malaysia	1999	..	15 567 [al]
Maldives	2002	..	1
Mongolia	1998	..	1 400
Myanmar	2002	..	6
Nepal	2002	1 [u]	6
Pakistan	2001	59 [am]	582
Philippines	1995	..	14 802 [an]
Republic of Korea	2002	7 460 [ao]	12 909
Singapore	2002	..	14 052 [ap]
Sri Lanka	1998	..	305 [aq]
Taiwan Province of China	2001	606 [ar]	2 841
Thailand	1998	..	2 721 [as]
Viet Nam	1996	..	1 544
West Asia		**751 [b]**	**11 672 [b]**
Bahrain	2002	..	36
Cyprus	2002	..	3 185
Iran	2002	..	28
Jordan	2002	..	13
Kuwait	2002	..	16
Lebanon	2002	..	58
Oman	1995	92 [at]	351 [at]
Qatar	2002	..	16
Saudi Arabia	1989	..	1 461
Syrian Arab Republic	2002	..	8
Turkey	2002	653	6 311
United Arab Emirates	2002	..	185
Yemen	2002	6 [u]	4
Central Asia		**-**	**7 687 [b]**
Armenia	1999	..	1 604 [au]
Azerbaijan	2002	..	12
Georgia	1998	..	190 [av]
Kazakhstan	1999	..	1 865 [aw]
Kyrgzstan	1998	..	4 004 [ax]
Uzbekistan	2002	..	12
The Pacific		**27 [b]**	**548 [b]**
Fiji	2002	2	151 [x]
Kiribati	2002	..	1
New Caledonia	2002	..	3
Papua New Guinea	1998	..	345 [ay]
Samoa	2002	7 [u]	8
Solomon Islands	2002	7 [u]	16
Tonga	2002	..	5
Vanuatu	2002	11 [u]	19
Central and Eastern Europe		**850 [b]**	**242 678 [b]**
Albania	1995	..	2 422 [az]
Belarus	1994	..	393
Bosnia and Herzegovina	2002	..	16
Bulgaria	2000	26 [h]	7 153 [ba]
Croatia	1997	70	353
Czech Republic	1999	660 [x]	71 385 [bb]
Estonia	1999	..	3 066 [bc]
Hungary	2000	..	26 645 [bd]
Latvia	2002	..	210
Lithuania	1999	16 [ag]	1 893
Poland	2001	58 [h]	14 469 [be]
Republic of Moldova	2002	..	2 402 [bf]
Romania	2002	20 [h]	89 911 [bg]
Russian Federation	1994	..	7 793
Serbia and Montenegro	2002	..	22
Slovakia	1997	..	5 560 [bh]
Slovenia	2000	..	1 617 [bi]
TFYR Macedonia	1999	..	7 362
Ukraine	1999	..	7 362
World		**63 834**	**866 119**

Source: UNCTAD, based on national sources.

[a] Represents the number of parent companies/foreign affiliates in the economy shown, as defined by that economy. Deviations from the definition adopted in the World Investment Report (see section on definitions and sources in the annex B) are noted below. The data for Afghanistan, Algeria, Angola, Antigua and Barbuda, Argentina, Aruba, Azerbaijan, Bahamas, Bahrain, Bangladesh, Barbados, Belize, Benin, Bermuda, Bosnia and Herzegovina, Botswana, British Virgin Islands, Brunei, Burkina Faso, Burundi, Cameroon, Cayman Islands, Central African Republic, Chad, Congo, Costa Rica, Côte d'Ivoire, Democratic Republic of the Congo, Djibouti, Dominica, Dominican Republic, Ecuador, Equatorial Guinea, Ethiopia, Gabon, Gambia, Ghana, Gibraltar, Grenada, Guinea-Bissau, Haiti, Honduras, Iran, Israel, Jordan, Kenya, Kiribati, Kuwait, Latvia, Lebanon, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Malta, Mauritania, Mauritius, Morocco, Mozambique, Myanmar, Namibia, Nepal, Netherlands Antilles, New Caledonia, Nicaragua, Niger, Nigeria, Panama, Qatar, Rwanda, Senegal, Serbia and Montenegro, Sierra Leone, Solomon Islands, Somalia, St. Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, Sudan, Suriname, Syria, TFYR Macedonia, Togo, Tonga, Uganda, United Arab Emirates, United Republic of Tanzania, Uzbekistan, Vanuatu, Venezuela and Western Samoa are from Who Owns Whom CD-Rom 2003 (London, Dun & Bradstreet). Syria, Togo, Tonga, Uganda, United Arab Emirates, United Republic of Tanzania, Uzbekistan, Vanuatu, Venezuela and Western Samoa are from Who Owns Whom CD-Rom 2003 (London, Dun & Bradstreet).

[b] Includes data only for the countries shown below.

[c] Majority-owned foreign affiliates.

[d] Provisional figures by Banque Nationale de Belgique.

[e] Directly and indirectly owned foreign affiliates (subsidiaries and associates), excluding branches.

[f] As of 1999.

[g] 2001; does not include the number of foreign-owned holding companies in Germany which, in turn, hold participating interests in Germany (indirect foreign participating interests).

[h] As of 1994.

[i] Refers to the number of foreign-owned affiliates in Ireland in manufacturing and services activities which receive assistance from the Investment and Development Authority (IDA).

[j] Relates to parent companies and foreign affiliates industrial activities (based on Consiglio Nazionale dell'Economia e del Lavoro, "*Italia Multinazionale, 2000, inward and outward FDI in the Italian industry in 1998 and 1999*" April 2002.

[k] Data for parent corporation, as of October 1993. Data for foreign affiliates refer to majority-owned affiliates and are taken from OECD.

[l] 2000.

[m] Includes those Spanish parent enterprises which are controlled, at the same time, by a direct investor.

[n] Data provided by Sveriges Riksbank. Includes those Swedish parent companies which are controlled, at the same time, by a direct investor.

[o] Data on the number of parent companies based in the United Kingdom, and the number of foreign affiliates in the United Kingdom are based on the register of companies held for inquiries on the United Kingdom FDI abroad, and FDI into the United Kingdom conducted by the Central Statistical Office. On that basis, the numbers are probably understated because of the lags in identifying investment in greenfield sites and because some companies with small presence in the United Kingdom and abroad have not yet been identified.

[p] Refers to Norwegian non-financial joint-stock companies with foreign shareholders owning more than 10 per cent of total shares in 1998.

[q] Represents a total of 2,466 non-bank parent companies in 2000 and 60 bank parent companies in 1994 with at least one foreign affiliate whose

assets, sales or net income exceeded $3 million, and 709 non-bank and bank parent companies in 1994 whose affiliate(s) had assets, sales and net income under $3 million. Each parent company represents a fully consolidated United States business enterprise, which may consist of a number of individual companies.

[r] Represents a total of 9,368 non-bank affiliates in 2000 and 438 bank affiliates in 1997 whose assets, sales or net income exceeded $3 million, and 5,906 bank and non-bank affiliates in 1996 with assets, sales, net income less than or equal to $3 million. Each affiliate represents a fully consolidated United States business entreprise, which may consist of a number of individual companies.

[s] Japanese firms with at least two foreign affiliates that have a more than 20 per cent equity share. *Source*: Toyokeizai, *Kaigai Shinshutsu Kigyo Soran 2002 (*Tokyo: Toyokeizai Shinposha, 2002).

[t] Number of foreign affiliates in late 2000. *Source*: *Toyokeizai, Gaishikei Kigyo Soran 2001* (Tokyo: *Toyokeizai Shimposha*, 2001), *The 35th Survey of Overseas Business Activities.*

[u] 2001.

[v] 1999.

[w] Provisional.

[x] 1997.

[y] Estimated by Comite de Inversiones Extranjeras.

[z] Number of foreign companies registered under DL600.

[aa] Less than 10.

[ab] Out of this number, 811 are majority-owned foreign affiliates, while 159 affiliates have less than 10 per cent equity share.

[ac] An equity stake of 25 per cent or more of the ordinary shares or voting power.

[ad] Number of enterprises included in the Central Bank survey (all sectors).

[ae] Number of projects approved, both domestic and foreign, since August 1994.

[af] In 2002, 350 companies invested abroad. The accumulative number of companies that invested abroad was 6,960.

[ag] As of 2000, Cumulative number of registered industrial enterprises with foreign capital.

[ah] Number of regional headquarters as at 1 June 2002.

[ai] As of 1991.

[aj] As of 1996.

[ak] Number of projects licensed since 1988 up to end 1997.

[al] May 1999. Refers to companies with foreign equity stakes of 51 per cent and above. Of this, 3,787 are fully owned foreign affiliates.

[am] 1998.

[an] This figure refers to directly and indirectly owned foreign affiliates.

[ao] As of 1999. Data refer to the number of investment projects abroad.

[ap] Number of wholly owned foreign companies.

[aq] Number of projects approved under section 17 of the BOI law which provides for incentives.

[ar] Number of approved new investment projects abroad in 1998.

[as] Data refer to the number of BOI-promoted companies which have been issued promotion certificates during the period 1960-1998, having at least 10 per cent of foreign equity participation.

[at] As of May 1995.

[au] Accumulated number of joint ventures and foreign enterprises registered as of 1 November 1999.

[av] Number of cases of approved investments of more than 100,000 dollars registered during the period of January 1996 up to March 1998.

[aw] Joint ventures and foreign firms operating in the country.

[ax] Joint venture companies established in the economy.

[ay] Number of applications received since 1993.

[az] 1,532 joint ventures and 890 wholly-owned foreign affiliates.

[ba] The number refers to registered investment projects between 1992 and 2000, Bulgarian Foreign Investment Agency, January 2002.

[bb] Out of this number 53,775 are fully-owned foreign affiliates. Includes joint ventures.

[bc] As of 15 March 1999. Only registered affiliates with the Estonian Commercial Register.

[bd] *Source*: Hungary Statistics Office.

[be] Cumulative number of companies with foreign capital share which participated in the statistical survey.

[bf] Number of enterprises with foreign participation set up in Moldova as of 1 January 2002.

[bg] Data refer to the cumulative number of companies with FDI as at end-December 2002.

[bh] Includes joint ventures with local firms.

[bi] *Source:* Bank of Slovenia.

Note: The data can vary significantly from preceding years, as data become available for countries that had not been covered before, as definitions change, or as older data are updated.

Annex table A.II.1. Asia and the Pacific: sources of FDI finance in selected economies, 1999-2002
(Millions of dollars)

Economy	1999				2000			
	Total FDI inflows	Equity	Other capital[a]	Reinvested earnings	Total FDI inflows	Equity	Other capital [a]	Reinvested earnings
Brunei Darusssalam	747	656	87	4	550	209	321	20
China	38 753	16 772	9 783	12 198	38 399	20 841	1 536	16 022
Indonesia	-2 746	1 110	-3 856	..	-4 450	992	-5 442	..
Hong Kong (China)	24 581	4 315	8 126	12 140	61 939	32 955	9 695	19 289
Kazakhstan	1 587	316	1 093	178	1 283	272	536	474
Republic of Korea	9 333	8 889	444	..	9 283	8 282	1 001	..
Taiwan Province of China	2 926	2 346	-69	649	4 928	4 493	-86	521
Malaysia	3 895	1 512	476	1 907	3 788	674	112	3 002
Philippines	1 734	1 145	219	370	1 354	1 024	504	-174
Singapore	12 825	7 951	1 252	3 622	5 389	1 342	-19	4 066
Thailand	6 149	6 139	10	..	3 366	3 402	-36	..
Papua New Guinea	297	274	-1	24	96	74.6	-0.4	21.7

Economy	2001				2002			
	Total FDI inflows	Equity	Other capital[a]	Reinvested earnings	Total FDI inflows	Equity	Other capital [a]	Reinvested earnings
Brunei Darusssalam	527	218	287	22	684	351	332	..
China	44 241	27 361	2 199	14 681	52 700	..	..	..
Indonesia	-3 278	688	-3 966	..	-1 522	1 817	-3 339	..
Hong Kong (China)	23 776	7 717	3 705	12 354	13 718	..	..	..
Kazakhstan	2 763	539	1 775	449	2 561	..	..	..
Republic of Korea	3 528	3 189	339	..	1 972	1 686	286	..
Taiwan Province of China	4 109	3 737	10	362	1 455	1 121	82	242
Malaysia	554	-854	-1 083	2 491	3 203	-204	-5	3 413
Philippines	1 537	628	421	488	494	945	-571	120
Singapore	10 916	9800b	1 117	..	6 102	7 661[b]	-1 559	..
Thailand	3 820	2 626	1 194	..	735	307	427	..
Papua New Guinea	63	45.3	-0.6	17.8	..	..	..	..

Source: UNCTAD, FDI/TNC database.

[a] Mainly consists of intra-company loans.
[b] Includes reinvested earnings.

Annex table A.II.2. Asia and the Pacific: rates of return[a] on FDI, selected economies, 1999-2001

(Per cent)

Region/economy	1999	2000	2001
World average	7.1	6.8	5.5
Developed countries average	7.4	7.1	5.7
Developing economies average	4.6	4.3	4.2
Azerbaijan	0.1	9.3	8.6
China	5.6	6.2	5.8
Hong Kong (China)	13.6	12.5	11.5
Indonesia	5.5	5.7	5.4
Kazakhstan	3.2	9.6	9.0
Republic of Korea	3.0	3.1	3.3
Malaysia	11.5	14.1	11.2
Pakistan	3.4	6.1	7.0
Papua New Guinea	13.6	10.1	10.1
Philippines	3.6	9.5	8.8

Source: UNCTAD.

[a] The estimated rates of return were calculated based on direct investment income divided by the average FDI stock between the beginning and end of a particular year. The data for 2002 were not yet available.

Annex table A.II.3. Asia and the Pacific: possible effects of selected regional agreements on FDI

Name/date	Objectives	Key elements	Effects on types of FDI (the regional instrument may lead to an increase in the following types of FDI) on intra-regional and from outside the region	Effects on corporate strategies
		Trade measures		
ASEAN Free Trade Area (AFTA) [a] Agreement signed in 1992 and established on 1 January 2002	• Increase ASEAN's competitiveness as a production base • Increase intra-regional trade • Promote FDI • Deepen regional economic cooperation and regional integration	• Elimination of tariff and non-tariff barriers • Trade facilitation measures - harmonization of customs procedures, expeditious customs clearance (AFTA green lane) - products standard and conformance - mutual recognition arrangement • Rules of origin of 40% regional content	• Market seeking (trade-led investment and regional market-oriented) • Efficiency seeking (cost reduction and export-oriented) • Resource seeking (due to opening up of resource sectors)	• Better utilization of regional location complementation that facilitates regional production network and division of labour • Greater market access and market enlargement leading to opportunities for exploitation of economies of scale in production and synergies • Consolidation and rationalization of production functions in the region • Improve corporate competitiveness • Localization of production, influenced by the 40% rules of origin and greater involvement in the regional integration process
		Investment measures		
ASEAN Investment Area(AIA)[b] Agreement signed in 1998 and established (for the manufacturing sector first) on 1 January 2003.	• To realize a competitive and attractive area for FDI • Increase FDI • Support regional integration process	• Grant national treatment • Open up of industries/liberalization • Sectors covered: manufacturing, agriculture, forestry, fishery, mining, and services incidental to these five sectors • Transparency • Investment facilitation and promotion of the region for FDI • Investment protection • Reduce or eliminate investment impediments • Joint promotion of ASEAN as an investment region • Establish a FTA by 2010	• Resource seeking (through opening up of resource sectors for FDI) • Market seeking (regional production networks and investment) • Efficiency seeking	• The liberalization programme and opening up of sectors for foreign investment could influence TNCs to establish specific production activity in specific host location • More corporate investment in services incidental to the manufacturing, agriculture, forestry, fishery and mining sectors can be expected • TNCs may invest in efficient location to manufacture to service the regional market • Lower transaction cost could influence TNCs investment decision in favour of the region. Greater information provisions, transparency and investment facilitation measures could contribute to this • Greater certainty from binding liberalization schedules and commitments may help TNCs plan their investment in the region
ASEAN-China Comprehensive Economic Cooperationc (ASEAN-China FTA) Agreement signed in 2002 and the FTA to be realized within 10 years.	• Strengthen and enhance economic, trade and investment cooperation • Progressively liberalize and promote trade, services and investment • Facilitate more effective economic integration of the newer ASEAN Member States and bridge the development gap	• Progressive elimination of tariffs and non-tariff barriers • Progressive liberalization of trade in services • Establishment of an open and competitive investment regime that facilitates and promotes FDI • Establishment of effective trade and investment facilitation measures such as simplification of customs procedures and mutual recognition arrangements • Other investment measures (currently being negotiated)	• Market seeking • Efficiency seeking • Resource seeking • Production network	• Better utilization of regional location complementation that facilitates regional production network and division of labour • Greater market access and market enlargement leading to opportunities for exploiting economies of scale in production and synergies • Consolidation and rationalization of production functions, including specialization of activities along value chain arrangement • Improving corporate competitiveness

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Annex table A.II.3. Asia and the Pacific: possible effects of selected regional agreements on FDI (concluded)

Name/date	Objectives	Key elements	Effects on types of FDI (the regional instrument may lead to an increase in the following types of FDI) on intra-regional and from outside the region	Effects on corporate strategies
SAARC Preferential Trading Arrangement (SAPTA) [d] Agreement signed on 11 April 1993 and in operation in 1995. Currently studying in moving towards an FTA.	• As a transition to a South Asian Free Trade Area (SAFTA) • To promote mutual trade and economic cooperation	• Exchanging concessions and granting preferential trading arrangements • Tariff and non-tariff reductions on preferential basis • Trade facilitation measures • Technical assistance and cooperation arrangements • Rules of origin	• Tariff jumping • Market seeking • Resource seeking • Efficiency seeking	• Potential influence on regional market oriented investment strategies • Greater opportunities for investment and trade-investment related activities • Localization of production to meet local content rules. As such TNCs may invest in a more efficient location and probably also in a host country with large market size as well as labour supply.
Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation (BIMSTEC) [e] Started in June 1997. Proposal has been made to move from PTA to FTA.	• Create an enabling environment for rapid economic development • Accelerate social progress • Promote active collaboration and mutual assistance	• Six priority areas, of which trade and investment is one area • Trade facilitation through harmonization of customs procedures and practices • Exchange of information on standard • Strengthening of banking arrangements to facilitate trade and investment and tourism • Promotion of transport and communication facilities • Promote mobility of business people by facilitating visa issuance	• Market seeking • Resource seeking • Efficiency seeking	• Opportunities for trade-led investment in: - Textiles and clothing - Drugs and pharmaceuticals - Gems and jewellery - Horticultural and floricultural products - Processed food - Automotive industry and parts - Rubber, tea and coffee - Coconut and spices
South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) [f] Signed on 14 July 1980 and came into effect for most Forum Island Countries on 1 January 1981.	• Economic, commercial and technical ooperation • Australia and New Zealand offer duty free and unrestricted or concessional access for virtually all products originating from the developing Forum Island Countries	• Duty free and unrestricted market access (almost all products) to Australia and New Zealand • General economic, commercial and technical cooperation • Rules of origin	• Market seeking • Resource seeking • Efficiency seeking	• Localization of production, influenced by the need to observe the 50% rules of origin • Opportunities for trade-investment related activities in servicing a larger market

Source: UNCTAD.

[a] Members of AFTA: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam. The Agreement was supported by further trade facilitation arrangements such as mutual recognition, standards and conformance.
[b] Members of AIA: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam.
[c] Members of ACFTA: Brunei Darussalam, Cambodia, China, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam.
[d] Members of SAARC Preferential Trading Arrangement (SAPTA): Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. SAARC represents the South Asian Association for Regional Cooperation.
[e] Members of BIMSTEC: Bangladesh, India, Myanmar, Sri Lanka and Thailand.
[f] Members of SPARTECA: Australia, New Zealand, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Papua New Guinea, Solomon Islands, Tonga, Tuvalu, Vanuatu and Western Samoa.

Annex table A.II.4. Selected cases of expansion and reduction of production capacities by foreign affiliates in Hungary, 2002-June 2003

Date announced	Foreign affiliate	Industry	Location in Hungary	Type of action	Activity concerned	Other location involved	Estimated employment effect in Hungary
January 2003	Alcoa-Köfém Kft.	Aluminium	Székesfehérvár	Relocation to Hungary	European regional computer centre	38 other European countries	+150
May 2002	Artesyn Kft.	Electronics	Tatabánya	Relocation to Hungary	Power supplies manufacturing for telecoms and wireless technology	Austria	+50-100
August 2002	Audi Hungária Motor Kft.	Automotive	Györ	Expansion of capacities	8-cylinder engine	..	+330
November 2002	Robert Bosch Kft.	Electronics	Miskolc	Relocation to Hungary	Car electronics	Germany	+500
February 2003	Robert Bosch Elektronika Kft.	Electronics	Hatvan	Relocation to Hungary	Car electronics	Austria, Germany	+250
February 2003	Bosch Rexroth Kft.	Electronics	Eger	New capacity	Car electronics	..	+400
December 2002	Elcoteq Magyarország Kft.	Electronics	Pécs	Expansion of capacities	..	..	+250
December 2002	Electrolux Lehel Kft.	White goods	Jászberény	Relocation to Hungary	Refrigerator production	Spain	+400
September 2002	Electronic Data Systems	Electronics	Budapest	New capacity	Regional service centre	..	+110
2002-2003[a]	Flextronics International Kft.	Electronics	Sárvár/ Zalaegerszeg	Expansion of capacities	In part, mobile phone production	..	+2 100
May 2002	Flextronics International Kft.	Electronics	Sárvár	Relocation from Hungary	X-box production	China	-1 000
June 2002	Foxconn Hon Hai	Electronics	Komárom	New capacity	Spare parts for computers, mobile phones and other consumer electronics	..	+1 600 (by 2006)
October 2002	GE Capital Kft.	Financial services	Budapest	Relocation to Hungary	Regional call centre	other European countries	+400-450
2003[a]	GE Hungary Rt.	Electronics	Nagykanizsa	Expansion of capacities	Lighting bulb production	..	+100
February 2002	GE Hungary Rt.	Electronics	Budapest	..	GE Lighting's regional headquarters	..	+500 (2004)
November 2002	Opel Southeast Európa Kft./ GM Daewoo Central and Eastern Europe Kft.	Automotive	Budaörs	Regional headquarters	GM's/Daewoo's regional headquarter for CEE	..	+60-80
October 2002	IBM Storage Products Kft.	Electronics	Székesfehérvár	Relocation from Hungary	Hard disk drive	China	-3 700
2002-2003[a]	IBM Magyarországi Kft.	Electronics	Vác	..	..	..	+377
January 2003	Jabil Circuit Kft.	Electronics	Tiszaújváros	Relocation to Hungary	..	United Kingdom	+600
December 2002	Kenwood Electronics Bretagne S. A.	Electronics	Székesfehérvár	Consolidation of global production network (from 9 to 5)	Car radios	..	-200
May 2002	Küpper Hungaria Ltd.	Metallurgy	Tiszaújváros	New capacity	Metalworking and foundry (for the production of car spare parts)	..	+80
December 2002	Magyar Suzuki Rt.	Automotive	Esztergom	Expansion of capacities	Car assembly	..	+150
June 2002	Ortech Europe Ltd.	Automotive	Kisbér	New capacity	Supplier to Opel Polska and Magyar Suzuki	..	..
January 2003	Philips Magyarország Kft.	Electronics	Székesfehérvár	Relocation to Hungary	Cathode ray tube televisions	France	330
January 2003	Philips Magyarország Kft.	Electronics	Szombathely	Relocation from Hungary	Cathode ray tube monitors	China	-500
May 2003	Philips Magyarország Kft.	Electronics	Györ	Expansion of capacities	..	..	+1 170
2002-2003[a]	Phoenix Mecano AG	Precision engineering	Kecskemét	New capacity	Product assembly and regional sales centre for Eastern Europe	..	+100
December 2002	Salamander Hungaria Kft.	Footwear	Bonyhád	Closure of factory	Shoes	..	-560
April 2003	Samsung Magyar Elektromechanikai Rt.	Electronics	Jászfényszaru	Expansion of production	Television production	..	..
February 2003	Samsung Magyar Elektromechanikai Rt.	Electronics	Göd	Relocation to Hungary	Cathode ray tube production	other European countries	+500-700
May 2003	Sara Lee Kávé és Tea Rt.	Food and beverages	Budapest	Expansion of capacities	Filtered tea production for exports	..	..
April 2003	Saubermacher Pannónia Kft.	Recycling	Nagykanizsa	Regional centre	Production and management	..	..
November 2002	SEWS Magyarország Kft. (Sumitomo)	Automotive supplier	Mór	New capacity	Car spare parts	..	+300
July 2002	Sunarrow Hungary Kft.	Electronics	Komárom	New capacity	Supplier to Nokia	..	+120 (2004)
October 2002	TDK Elektronika Kft.	Electronics	Rétság	Partial relocation from Hungary	..	Ukraine	-200
May 2002	Toyo Seat Europe Car Parts Producing and Trade Ltd.	Automotive	Százhalombatta	New capacity	Supplier of car seats	..	+150
January 2002	Visteon Hungary Kft.	Automotive supplier	Székesfehérvár	..	Product development centre	..	+30
March 2003	Visteon Hungary Kft.	Automotive supplier	Székesfehérvár	Partial relocation from Hungary	Manufacturing of starters	India (Chennai)	..
2002-2003[a]	Zenon Systems Manufacturing and Services Ltd.	Water treatment	Tatabánya	New capacity	R&D centre	..	+32.

Source: UNCTAD, based on ITDH 2002 and other reports.

[a] No specific date is available.

Annex table A.II.5. Developed countries: components of FDI flows in selected countries, 2001-2002

(Millions of dollars)

Country	Outflows				Inflows			
	Total	Equity	Reinvested earnings	Other capital[a]	**Total**	Equity	Reinvested earnings	Other capital[a]
France								
2001	**92 974**	54 472	6 604	31 899	**55 190**	20 659	2 180	32 351
2002	**62 544**	27 530	6 968	28 046	**51 503**	29 887	2 496	19 120
Germany								
2001	**42 078**	55 139	- 2 899	- 10 161	**33 917**	26 925	- 3 222	10 215
2002	**24 535**	44 065	-	- 19 529	**38 035**	25 397	- 3 388	16 026
Japan								
2001	**38 333**	27 295	6 958	4 084	**6 243**	4 908	1 546	- 215
2002	**31 482**	22 926	8 231	325	**9 326**	- 5 830	1 505	13 651
Luxembourg								
2002	**154 072**	116 627	408	37 036	**125 660**	111 218	2 403	12 038
Norway								
2001	**- 1 272**	575	300	- 2 148	**2 212**	1 314	- 382	1 280
2002	**3 810**	5 202	338	- 1 730	**615**	869	- 430	176
Sweden								
2001	**6 594**	5 625	2 016	- 1 046	**11 780**	9 168	- 589	3 205
2002	**10 869**	10 475	5 690	- 5 299	**11 081**	9 079	992	1 007
Switzerland								
2001	**17 300**	13 500	2 700	1 100	**8 900**	9 000	900	- 1 000
2002	**11 800**	8 800	4 200	- 1 200	**9 300**	2 400	3 300	3 600
United Kingdom								
2001	**68 037**	25 949	35 482	6 606	**61 958**	29 158	6 973	25 827
2002	**39 703**	20 375	44 048	- 24 720	**24 945**	14 724	15 405	- 5 185
United States								
2001	**127 800**	49 800	- 1 500	81 700	**130 800**	107 700	- 19 700	42 800
2002	**123 500**	27 300	14 500	79 700	**30 100**	57 600	10 200	- 37 700

Source: UNCTAD, based on national sources.

[a] Mainly intra-company loans.

Note: Up to 2001, data for the Belgium-Luxembourg Economic Union (BLEU) were reported by the National Bank of Belgium. Data on Luxembourg are not available separately before 2002.

DEFINITIONS AND SOURCES

A. General definitions

1. Transnational corporations

Transnational corporations (TNCs) are incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates. A *parent enterprise* is defined as an enterprise that controls assets of other entities in countries other than its home country, usually by owning a certain equity capital stake. An equity capital stake of 10 per cent or more of the ordinary shares or voting power for an incorporated enterprise, or its equivalent for an unincorporated enterprise, is normally considered as a threshold for the control of assets.[1] A *foreign affiliate* is an incorporated or unincorporated enterprise in which an investor, who is resident in another economy, owns a stake that permits a lasting interest in the management of that enterprise (an equity stake of 10 per cent for an incorporated enterprise or its equivalent for an unincorporated enterprise). In the *World Investment Report*, subsidiary enterprises, associate enterprises and branches – defined below – are all referred to as *foreign affiliates* or *affiliates*.

- A s*ubsidiary* is an incorporated enterprise in the host country in which another entity directly owns more than a half of the shareholder's voting power and has the right to appoint or remove a majority of the members of the administrative, management or supervisory body.
- *An associate* is an incorporated enterprise in the host country in which an investor owns a total of at least 10 per cent, but not more than half, of the shareholders' voting power.
- *A branch* is a wholly or jointly owned unincorporated enterprise in the host country which is one of the following: (i) a permanent establishment or office of the foreign investor; (ii) an unincorporated partnership or joint venture between the foreign direct investor and one or more third parties; (iii) land, structures (except structures owned by government entities), and /or immovable equipment and objects directly owned by a foreign resident; or (iv) mobile equipment (such as ships, aircraft, gas- or oil-drilling rigs) operating within a country, other than that of the foreign investor, for at least one year.

2. Foreign direct investment

Foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate).[2] FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. FDI may be undertaken by individuals as well as business entities.

Flows of FDI comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to an FDI enterprise, or capital received from an FDI enterprise by a foreign direct investor. FDI has three components: equity capital, reinvested earnings and intra-company loans.

- *Equity capital* is the foreign direct investor's purchase of shares of an enterprise in a country other than its own.
- *Reinvested earnings* comprise the direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends by affiliates, or earnings not remitted to the direct investor. Such retained profits by affiliates are reinvested.

- *Intra-company loans* or *intra-company debt transactions* refer to short- or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises.

FDI stock is the value of the share of their capital and reserves (including retained profits) attributable to the parent enterprise, plus the net indebtedness of affiliates to the parent enterprise. FDI flow and stock data used in the *World Investment Report* are not always defined as above, because these definitions are often not applicable to disaggregated FDI data. For example, in analysing geographical and industrial trends and patterns of FDI, data based on approvals of FDI may also be used because they allow a disaggregation at the country or industry level. Such cases are denoted accordingly.

3. Non-equity forms of investment

Foreign direct investors may also obtain an effective voice in the management of another business entity through means other than acquiring an equity stake. These are non-equity forms of FDI, and they include, *inter alia*, subcontracting, management contracts, turnkey arrangements, franchising, licensing and product sharing. Data on these forms of transnational corporate activity are usually not separately identified in the balance-of-payments statistics. These statistics, however, usually present data on royalties and licensing fees, defined as "receipts and payments of residents and non-residents for: (i) the authorized use of intangible non-produced, non-financial assets and proprietary rights such as trademarks, copyrights, patents, processes, techniques, designs, manufacturing rights, franchises, etc., and (ii) the use, through licensing agreements, of produced originals or prototypes, such as manuscripts, films, etc."[3]

B. Availability, limitations and estimates of FDI data presented in the *World Investment Report*

1 . FDI flows

Data on FDI flows in annex tables B.1 and B.2, as well as in most of the tables in the text, are on a net basis (capital transactions' credits less debits between direct investors and their foreign affiliates). Net decreases in assets (FDI outward) or net increases in liabilities (FDI inward) are recorded as credits (recorded with a positive sign in the balance of payments), while net increases in assets or net decreases in liabilities are recorded as debits (recorded with a negative sign in the balance of payments). In the annex tables, as well as in the tables in the text, the negative signs are deleted for practical purpose. Hence, FDI flows with a negative sign in the *World Investment Report* indicate that at least one of the three components of FDI (equity capital, reinvested earnings or intra-company loans) is negative and is not offset by positive amounts of the other components. These are instances of reverse investment or disinvestment.

UNCTAD regularly collects published and unpublished national official FDI flows data directly from central banks, statistical offices or national authorities on an aggregated and disaggregated basis for its FDI/TNC database. These data constitute the main source for the reported data on FDI flows. These data are further complemented by the data obtained from: (i) other international organisations such as the International Monetary Fund (IMF), the World Bank and the Organisation for Economic Co-operation and Development (OECD); (ii) regional organizations such as the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), the ASEAN Secretariat and the European Bank for Reconstruction and Development (EBRD); and (iii) UNCTAD's own estimates.

For those economies for which data were not available from national official sources, or for those for which data are not available for the entire period of 1980-2002 covered in the *World Investment Report 2003*, data from the IMF were obtained using the IMF's CD-ROMs on *International Financial Statistics* and *Balance of Payments*, June 2003.

For those economies for which data were not available from national official sources or the IMF, or for those for which data are not available for the entire period of 1980-2002, data from the World Bank's *World Development Indicators 2003* CD-ROM were used. This report covers data up to 2002 and reports data on net FDI flows (FDI inflows less FDI outflows) and FDI inward flows only.

Consequently, data on FDI outflows, which are reported as World Bank data, are estimated by subtracting FDI inward flows from net FDI flows.

For those economies in Latin America and the Caribbean for which data are not available from one of the above-mentioned sources, data from ECLAC were utilized. Data from the EBRD were also utilized for those economies in Central Asia for which data were not available from one of the above-mentioned sources.

Furthermore, data on the FDI outflows of the OECD, as presented in its publication, *Geographical Distribution of Financial Flows to Developing Countries,* and as obtained from its on-line databank, are used as a proxy for FDI inflows. As these OECD data are based on FDI outflows to developing economies from the member countries of the Development Assistance Committee (DAC) of OECD,[4] inflows of FDI to developing economies may be underestimated. In some economies, FDI data from large recipients and investors are also used as proxies.

Finally, in those economies for which data were not available from either of the above-mentioned sources, or only partial data (quarterly or monthly) were available, estimates were made by: annualising the data, if they are only partially available (monthly or quarterly) from either the IMF or national official sources; using data on cross-border mergers and acquisitions (M&As) and their growth rates; and using UNCTAD's own estimates.

The following sections give details of how data on FDI flows for each economy used in the *Report* were obtained.

a. FDI inflows

Those economies for which data from national official sources were used for the period, 1980-2002, or part of it, are listed below.

Period	Economy
1980-2002	Bolivia; Brazil; Canada; Chile; Finland; Japan; Republic of Korea; Peru; Taiwan Province of China; Tunisia; Turkey; United States and Venezuela
1980-1993 and 1995-2002	Congo
1980-1985 and 1995-2002	Paraguay
1982-2002	Sweden
1985-2002	Austria; Burundi; Denmark; Pakistan and Senegal
1986-2002	Ecuador; France and Switzerland
1987-2002	Germany and the Netherlands
1988-2002	Iceland; Lesotho; Mauritius and the United Kingdom
1988-1991 and 1994-2002	Slovenia
1989-2002	Australia
1989-1992 and 2000-2002	Armenia
1990-2002	Algeria; Angola; Anguilla; Antigua and Barbuda; Aruba; Bahamas; Benin; Botswana; Bulgaria; Colombia; Costa Rica; Côte d'Ivoire; Czech Republic; Dominica; Dominican Republic; Egypt; Fiji; Gambia; Ghana; Greece; Grenada; Guatemala; Honduras; Ireland; Israel; Jamaica; Kenya; Madagascar; Mexico; Montserrat; Morocco; Mozambique; Namibia; Nigeria; Norway; Portugal; Romania; Rwanda; Saint Kitts and Nevis; Saint Lucia; Saint Vincent and the Grenadines; Seychelles; Slovakia; South Africa; Sri Lanka; Suriname; Swaziland; United Republic of Tanzania; Togo; Trinidad and Tobago; Yemen and Zimbabwe
1990-1991 and 1992-2002	Zambia
1991-2002	Djibouti; Haïti; India; Nicaragua and Uganda;
1992-2002	Argentina; Belarus; Burkina Faso; Estonia; Guyana; Kazakhstan; Lithuania; Mongolia; Niger and Serbia and Montenegro
1992-1993 and 1996-2002	Russian Federation
1992-1993 and 1999-2002	Republic of Moldova and Ukraine
1993-2002	Croatia; Kuwait; Mali and Uruguay
1994-2002	Albania; Azerbaijan; Cape Verde; Spain and the TFYR Macedonia
1995-2002	Central African Republic; Chad; Equatorial Guinea and Gabon
1996-2002	Bosnia and Herzegovina and Sudan
1997-2002	Bahrain and Guinea-Bissau
1998-2002	El Salvador; Hong Kong (China); Latvia and New Zealand
1999-2002	China

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Period	Economy
2000-2002	Italy and Netherlands Antilles
2001-2002	Bangladesh
2002	Belgium; Jordan; Kyrgyzstan; Luxembourg; Poland and Vanuatu
1985-2001	Barbados
1990-2001	Belize and Malawi
1991-2001	Cyprus
1992-2001	Ethiopia
1993-2001	Libyan Arab Jamahiriya
1995-2001	Oman
1996-2001	Solomon Islands
1999-2001	Belgium and Luxembourg
2001	Macau (China) and Tajikistan
1997-2000	Occupied Palestinian Territory
1985-1997	Papua New Guinea
1994-1996	Georgia
1990-1995	Indonesia
1980-1994	Thailand
1990-1994	Malaysia; the Philippines; Singapore and Viet Nam
1986-1991	Hungary

Those economies for which national official sources provided either preliminary or estimated data are listed below.

Period	Economy
2002	Benin; Burkina Faso; Central African Republic; Chad; Congo; Côte d'Ivoire; Djibouti; Equatorial Guinea; Gabon; Ghana; Guinea-Bissau; Haiti; Jamaica; Madagascar; Mali; Morocco; Niger; Senegal; Suriname;Togo and Uganda

As mentioned above, one of the main sources for annex table B.1 is the IMF. Those economies for which IMF data were used for the period, 1980-2002, or part of it, are listed below.

Period	Economy
1980-2002	Malta and Panama
1997-2002	Georgia
1980-2001	Jordan; Poland and Saudi Arabia
1980-1984 and 1998-2001	Papua New Guinea
1982-2001	Vanuatu
1984-1993 and 2000-2001	Tonga
1986-2001	Guinea and Maldives
1993-2001	Kyrgyzstan
2001	São Tomé and Principe
1983-1984 and 1986-2000	Bangladesh
1994-2000	Islamic Republic of Iran
1996-2000	Eritrea and Nepal
1980-1999	Netherlands Antilles
1993-1999	Armenia
1980-1998	Belgium and Luxembourg; China and Italy
1980-1995 and 1998	Mauritania
1994-1998	Republic of Moldova and Ukraine
1980-1997	New Zealand
1980-1993 and 1995-1997	El Salvador
1992-1997	Latvia
1996-1997	Turkmenistan
1980 and 1982-1996	Bahrain
1980-1995	Cameroon; Sierra Leone and Solomon Islands
1987-1995	Comoros
1994-1995	Russian Federation
1980-1994	Central African Republic; Gabon and Oman
1983 and 1985-1994	Kiribati
1984-1989 and 1991-1994	Chad

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Period	Economy
1986-1994	Paraguay
1988-1994	Lao People's Democratic Republic
1989-1994	Equatorial Guinea and Myanmar
1992-1994	Cambodia
1994	New Caledonia
1980-1993	Spain
1986-1993	Cape Verde
1990-1993	Brunei Darussalam
1992-1993	Albania and Slovenia
1980-1992	Libyan Arab Jamahiriya and Mali
1980-1991	Argentina and Niger
1980-1990	Cyprus
1980-1989	Algeria; Antigua and Barbuda; Bahamas; Botswana; Burkina Faso; Colombia; Costa Rica; Côte d'Ivoire; Dominican Republic; Egypt; Fiji; Ghana; Greece; Guatemala; Haiti; Honduras; Indonesia; Ireland; Israel; Jamaica; Kenya; Malaysia; Mexico; Morocco; Nigeria; Norway; Philippines; Portugal; Rwanda; Saint Kitts and Nevis; Saint Lucia; Saint Vincent and the Grenadines; Seychelles; Singapore; South Africa; Sri Lanka; Suriname; Swaziland; Togo; Trinidad and Tobago; Zambia and Zimbabwe
1980-1984 and 1988-1989	Benin
1981 and 1987-1989	Gambia
1982-1989	Dominica and Grenada
1984-1989	Belize
1984-1985 and 1989	Sudan
1985-1989	Angola
1986-1989	Montserrat and Mozambique
1989	Madagascar amd Nicaragua
1980-1988	Australia
1980-1981, 1986-1988	Uruguay
1980-1987	Iceland; Lesotho; Mauritius; United Kingdom and Yemen
1980-1981, 1983, 1985 and 1987	Malawi
1982-1987	Liberia
1980-1986	Germany and the Netherlands
1980-1985	Ecuador; France and Guyana
1982-1985	Somalia
1983-1985	Switzerland
1980-1984	Austria; Barbados; Pakistan and Senegal
1981-1984	Denmark
1981-1982	Hungary
1980-1981	Sweden

Those economies for which World Bank data were used for the period, 1980-2002, or part of it, are listed below.

Period	Economy
1995-2000	Lebanon
1996-2000	Cameroon
1992-1994 and 1998-1999	Samoa
1995-1999	Tonga
1997	Kiribati
1992-1995	Nepal
1993-1995	Somalia
1992	Zambia
1990-1991	Ethiopia
1990	Haiti
1989	Czech Republic

ECLAC data were used for the Virgin Islands (the United Kingdom) for the period 1990-1997.

Data from the ASEAN Secretariat were used for the South-East Asian countries for the period 1995 to 2002. The data are on a balance-of-payments basis. Malaysia and Singapore report data based on surveys of companies.

Those economies for which data from EBRD's *Transition Report 2002* were used for the period, 1980-2002, or part of it, are listed below.

Period	Economy
1992-2000 and 2002	Uzbekistan
1993-1995 and 1998-2002	Turkmenistan
1992-2000	Tajikistan

For those economies in which FDI inflows data were unavailable from the above-mentioned sources, UNCTAD's estimates were used on the following basis:

- ***Net foreign direct investment flows***

Estimates were applied by using the net FDI flows from either national official sources or the IMF for the economies and the years listed below.

(a) National official sources

Year	Economy
1995-2002	Trinidad and Tobago

(b) IMF

Year	Economy
1995-2000	Syrian Arab Republic

- ***Annualised data***

Estimates were applied by annualising quarterly data obtained from either national official sources or the IMF for the economies and the years listed below.

(a) National official sources

Year	Latest quarter/month	Economy
2002	Third quarter	Cyprus
	First quarter	Tajikistan
2001	August	Ethiopia

(b) IMF

Year	Latest quarter	Economy
1994	Second quarter	Tonga

- ***Proxy***

In estimating FDI inflows for some economies for which data were not available, OECD data on outward flows from DAC member countries are used as proxies for FDI inflows. These economies for which this methodology was applied, for the period 1980-2002, or part of it, are listed below (these data were available until 2001 only at the time of the compilation of inflow data):

Period	Economy
1980-2001	Bermuda; Cayman Islands; Democratic Republic of Congo; Gibraltar and United Arab Emirates
1980-1981, 1986-1992 and 1998-2001	Somalia
1980, 1982-1989 and 1998-2001	Virgin Islands (United Kingdom)
1980-1981 and 1988-2001	Liberia
1980, 1983, 1985-1986, 1988-1993, 1995-1996 and 1998-2001	New Caledonia
1980-1993 and 2001	Islamic Republic of Iran
1980-1991 and 2001	Nepal
1980 and 1982-2001	Cuba
1980 and 1983-2001	Qatar
1980-1983, 1987, 1991-1994 and 1996-2001	Afghanistan
1980-1995 and 1997-2001	Iraq
1982 and 1996-2001	Comoros
1987-2001	Democratic People's Republic of Korea
1994, 1996, 1998-1999 and 2001	Tuvalu
1996-2001	Sierra Leone
1996-1997 and 1999-2001	Mauritania
2001	Eritrea; Cameroon and Uzbekistan
1982-1983 and 1985-2000	Macao (China)
1983-1988, 1990-1991, 1995-1997 and 2000	Samoa
1987-1989, 1993 and 1995-2000	São Tomé and Principe
1990-1991, 1995-1997 and 2000	Bhutan
1984-1992 and 1994-1996	Guinea-Bissau
1980-1983, 1986-1988 and 1990-1995	Sudan
1995	Bosnia and Herzegovina
1980-1994	Lebanon
1980, 1982-1988 and 1994	Brunei Darussalam
1994	Congo and El Salvador
1980-1992	Kuwait
1980-1981 and 1983-1992	Syrian Arab Republic
1982-1985 and 1989-1992	Uruguay
1986-1991	Guyana
1990-1991	Burkina Faso
1986 and 1991	Mongolia
1980-1990	India
1980-1987 and 1989-1990	Djibouti
1980, 1982, 1985 and 1988-1990	Uganda
1980-1989	United Republic of Tanzania
1981-1982,1985-1986 and 1988-1989	Viet Nam
1982, 1984, 1986 and 1988-1989	Malawi
1985 and 1987-1989	Namibia
1988-1989	Yemen
1989	Aruba
1980-1988	Ethiopia and Madagascar
1981-1988	Equatorial Guinea
1981, 1985-1988 and 1990	Nicaragua
1985-1987	Benin
1980 and 1982-1986	Gambia
1980, 1983-1984 and 1986-1987	Myanmar
1980-1981 and 1983-1985	Guinea
1980-1982 and 1985	Bangladesh
1980-1985	Maldives and Mozambique
1985	Lao People's Democratic Republic
1980-1984	Angola; Burundi
1980-1981 and 1983	Chad
1980-1981	Vanuatu
1981	Bahrain; Belize and Dominica
1980	Cambodia; Grenada

• *Estimates of UNCTAD*

Estimates of UNCTAD based on national and secondary information sources are applied to the following economies and periods where FDI inflows data are not available:

Period	Economy	Methodology
1980-1982, 1989 and 2001-2002	Samoa	Estimated by projecting investment trend.
1981-1982, 1984, 1987, 1997 and 2002	New Caledonia	
1981-1982 and 2002	Qatar	
1982 and 2001-2002	Syrian Arab Republic	
1983 and 2002	Guinea	
1995-1996 and 1998-2002	Kiribati	
1995, 1997, 2000 and 2002	Tuvalu	
1995 and 2002	Afghanistan	
1996-1997 and 2002	Somalia	
1996 and 2001-2002	Occupied Palestinian Territory	
1996 and 2002	Iraq	
1998-1999 and 2001-2002	Bhutan	
2001-2002	Lebanon	
2002	Barbados; Belize; Bermuda; Cayman Islands; Cuba; Gibraltar; Liberia; Mauritania and Virgin Islands (the United Kingdom)	Estimated by monitoring investment situation using secondary sources. For Barbados, Bermuda, Cayman Islands and Virgin Island investment reported by major investor economies were used in addition.
	Cameroon; Comoros; Democratic Republic of Congo; Eritrea; Ethiopia; Libyan Arab Jamahiriya; Malawi; São Tomé and Principe and Sierra Leone	Estimated by using averages of the proportion of FDI on GDP, for four years (current account cycle of depreciation), adjusted for the 2002 GDP growth rate. Data for Libyan Arab Jamahiriya were estimated by netting UNCTAD's estimate on FDI outward flows from net FDI flows
	Islamic Republic of Iran; Democratic People's Republic of Korea; Macau (China); Maldives; Nepal; Oman; Papua New Guinea; Saudi Arabia; Solomon Islands; Tonga and United Arab Emirates	Estimated by using averages of the proportion of FDI on GDP for four years (current account cycle of depreciation), adjusted for the 2002 GDP growth rate. Data for Saudi Arabia and Oman were obtained after consulting with Balance of Payments department officials.
1980-1997	Hong Kong (China)	Reported investment by major investor economies were used.
1993	Guinea-Bissau	Estimated by projecting investment trend.
1982, 1990	Chad	
1981 and 1989	Brunei Darussalam	
1989	Ethiopia	
1988	Djibouti	
1980, 1983-1984 and 1987	Viet Nam	
1986	Namibia	
1980	Denmark and Equatorial Guinea	

The data for India, presented in Annex table B.1., are equity investment only, as reported by the Reserve Bank of India. After closing the data collection for this *Report*, the Reserve Bank of India released the revised FDI data on 30 June 2003. The revised data include all of the three components of FDI, which for fiscal year 2000/01 was $ 4.1 billion and $ 6.1 billion for fiscal year 2001/02.

b. FDI outflows

Those economies for which national official sources data were used for the period, 1980-2002, or part of it, are listed below.

Period	Economy
1980-2002	Brazil; Canada; Chile; Finland; Japan; Republic of Korea; Taiwan Province of China; Thailand; United Kingdom and the United States
1981-2002	Tunisia
1982-2002	Sweden
1983-2002	Zimbabwe
1985-2002	Austria; Denmark and Pakistan
1986-2002	France and Switzerland
1986-1989 and 1991-2002	Poland
1987-2002	Germany; Netherlands and Turkey
1998-2002	Algeria; Iceland and Mauritius
1989-2002	Australia and Nigeria
1990-2002	Bahamas; Botswana; Burundi; Colombia; Costa Rica; Côte d'Ivoire; Egypt; Fiji; Gambia; Ireland; Israel; Jamaica; Kenya; Kuwait; Morocco; Namibia; Norway; the Philippines; Portugal; Romania; Senegal; Seychelles; Singapore; South Africa; Sri Lanka; Swaziland; Togo and Venezuela
1990-1996 and 2000-2002	Bangladesh
1992-2002	Argentina; Aruba; Estonia; Latvia; Niger and Slovakia
1992-1998 and 2001-2002	Mexico
1993-2002	Burkina Faso; Croatia; Czech Republic; India; Mali and the Russian Federation
1994-2002	Cape Verde; Kazakhstan; Republic of Moldova; Slovenia; Spain and Ukraine
1995-2002	Central African Republic; Chad; Congo; Equatorial Guinea; Gabon; Lithuania and Paraguay
1996-2002	Benin and TFYR Macedonia
1997-2002	Bahrain; Belarus and Uruguay
1998-2002	El Salvador; Greece; Hong Kong (China) and New Zealand
1999-2002	Ecuador and Italy
2000-2002	Guinea-Bissau and the Netherlands Antilles
2002	Belgium; China; Jordan and Luxembourg
1980-2001	Malaysia
1985-2001	Barbados
1990-2001	Indonesia
1991-2001	Cyprus
1992-2001	Albania
1993-2001	Libyan Arab Jamahiriya
1999-2001	Belgium and Luxembourg and Trinidad and Tobago
1995-2001	Bulgaria
2001	Macau (China)
1990-2000	Belize
2000	Brunei Darussalam; Samoa; Solomon Islands and Tonga
1980-1999	Bolivia
1998-1999	Azerbaijan
1999	Armenia
1992 and 1995-1997	Bosnia and Herzegovina
1991-1995	Hungary
1988-1992	Papua New Guinea
1990-1991	Haiti

Those economies for which national official sources provided either preliminary or estimated data are listed below.

Period	Economy
2002	Benin; Burkina Faso; Central African Republic; Chad; Congo; Côte d'Ivoire; Equatorial Guinea; Gabon; Guinea-Bissau; Madagascar; Mali; Morocco; Niger; Senegal; Singapore and Togo

As mentioned above, one of the main sources for annex table B.2 is the IMF. Those economies for which IMF data were used for the period, 1980-2002, or part of it, are listed below.

Period	Economy
1993-2002	Malta
1996-2002	Hungary
1999-2002	Georgia
2000 and 2002	Azerbaijan
1980-1996 and 1999-2001	Jordan
1982-2001	China
1998-2001	Kyrgyzstan
2000-2001	Bolivia
1980-1999	Netherlands Antilles
1995-1999	Peru
1997-1999	Bangladesh
1980-1998	Belgium and Luxembourg and Italy
1998	Armenia
1980-1997	New Zealand
1990-1996	Bahrain
1993-1996	Dominican Republic
1996	El Salvador; Guinea
1980-1995	Cameroon
1981-1984 and 1995	Benin
1980-1983, 1985-1989 and 1991-1994	Chad
1982-1994	Central African Republic
1990 and 1993-1994	Angola
1994	Kiribati
1980-1993	Gabon and Spain
1988-1993	Cape Verde
1990-1993	Tonga
1992-1993	Slovenia
1980-1982 and 1987-1992	Libyan Arab Jamahiriya
1980-1991	Algeria; Niger
1989-1991	Czechoslovakia (former) and Equatorial Guinea
1985 and 1987-1990	Cyprus
1990	Comoros
1980-1989	Colombia; Costa Rica; Egypt; Fiji; Israel; Kenya; Kuwait; Norway; Portugal; Senegal; Seychelles; Singapore; South Africa and Swaziland
1982 and 1984-1989	Venezuela
1985-1989	Sri Lanka
1989	Bahamas and Burundi
1980-1988	Australia
1982-1988	Uruguay
1986-1988	Mauritania
1988	Lesotho; São Tomé and Principe
1980-1987	Papua New Guinea
1983-1987	Trinidad and Tobago
1986-1987	Iceland
1980-1986	Burkina Faso; Germany and the Netherlands
1982-1986	Yemen
1980-1985	France and Poland
1980-1981 and 1983-1985	Botswana
1983-1985	Switzerland
1980-1984	Austria and Barbados
1981-1984	Denmark
1984	Pakistan
1980-1983	Argentina
1980-1981	Sweden

Where data were unavailable from the above-mentioned sources, estimates were applied by annualising quarterly data obtained from national official sources for the economies and the years listed below.

Year	Latest quarter	Economy
2002	Third quarter	Cyprus

The World Bank reports only data on net FDI flows and FDI inward flows. Therefore, for selected economies, FDI outward flows were estimated by subtracting FDI inflows from net FDI flows. This methodology was used for the economies and years listed below.

Period	Economy
1985, 1988-1989 and 1992-2000	Uganda
1990-2000	Saint Kitts and Nevis
1990-1991 and 1995-2000	Saint Lucia
1990-1992 and 1996-2000	Mozambique
1990-1993 and 1997-2000	Grenada
1997-2000	Ethiopia
1984, 1987, 1990-1991and 1999	Honduras
1991, 1995-1997 and 1999	Angola
1991; 1995 and 1998-1999	Lao People's Democratic Republic
1992-1993, 1998	United Republic of Tanzania
1995 and 1998	Papua New Guinea
1980-1984, 1990-1991 and 1993-1994	Paraguay
1991 and 1993-1994	Sierra Leone
1993-1994	Uruguay
1989-1993	El Salvador
1993	Nicaragua
1990-1992	Guatemala and Solomon Islands
1992	Bulgaria and Lesotho
1991	Comoros
1986-1988 and 1990	Saint Vincent and the Grenadines
1990	Mauritania
1984 and 1986-1989	Bangladesh
1986-1989	Tonga
1987 and 1989	Belize
1980-1981, 1983, 1985 and 1987	Togo
1984-1987	Mauritius
1980-1983	Pakistan

In the case of economies for which FDI outflows data were unavailable from the above-mentioned sources, three methodologies were used to calculate the estimates of UNCTAD.

- ***Proxy***

Inflows of FDI to large recipient economies were used as a proxy. Those economies for which this methodology was used for the period, 1980-2002, or part of it, are listed below.

Economy	Period	Proxy countries/region
Algeria	1992-1996	Belgium and Luxembourg and France
	1997	Belgium and Luxembourg; France and the United States
Anguilla	1997-2000	United States
Antigua and Barbuda	1992-1996 and 1998	Belgium and Luxembourg and the United States
	1997 and 1999-2000	United States
Argentina	1984-1986	United States and Venezuela
	1987-1988	Brazil; Chile; France; Germany; United States and Venezuela
	1989-1991	Belgium and Luxembourg; Bolivia; Brazil; Chile; Colombia; Ecuador; France; Germany; Netherlands; United States and Venezuela
Bahamas	1980-1985	United States
	1986-1988	Belgium and Luxembourg; France and the United States
Bahrain	1982	United States
	1985-1989	Belgium and Luxembourg; France and the United States
Bermuda	1980-1984	Brazil; Colombia; United States and Venezuela
	1985-1999	Belgium and Luxembourg; Brazil; Colombia; France; United States and Venezuela
	2001-2002	Belgium and Luxembourg; France and the United States
Bosnia and Herzegovina	1993-1994	United States
Burkina Faso	1987-1990	Belgium and Luxembourg and France
Cameroon	1996-1999	Belgium and Luxembourg; France and the United States

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Economy	Period	Proxy countries/region
Cayman Island	1980-1987	Belgium and Luxembourg; Brazil; Chile; Colombia and Venezuela
	1988-2002	Belgium and Luxembourg; Brazil; Chile; Colombia; France; Mexico; Sweden and Venezuela
Congo	1988-1994	Belgium and Luxembourg and France
Côte d'Ivoire	1989	Belgium and Luxembourg and France
Dominican Republic	1992 and 1997-2002	United States
Ecuador	1980-1983	Brazil; Colombia; Peru and the United States
	1984-1998	Belgium and Luxembourg; Brazil; Colombia; Peru and the United States
Equatorial Guinea	1993	Belgium and Luxembourg; France and the United States
Greece	1987-1994	Belgium and Luxembourg; Denmark; France; Germany; Netherlands; Spain and the United States
	1995-1997	Belgium and Luxembourg; Denmark; France; Germany; Italy; the Netherlands; Portugal; Spain and the United States
Guatemala	1995-2001	Colombia; Honduras and the United States
Guinea	1997-1999	Belgium and Luxembourg; France and the United States
Guyana	1992-1993, 1996 and 1999-2000	United States
Haiti	1993 and 1995-2000	United States
Hong Kong (China)	1980-1997	China; the European Union and the United States
India	1980-1992	The European Union and the United States
Indonesia	1980-1989	The European Union and the United States
Islamic Republic of Iran	1991-1994 and 2000-2001	Belgium and Luxembourg; France and Germany
	1995-1999	Belgium and Luxembourg; France; Germany and the United States
Ireland	1987-1989	Belgium and Luxembourg; France; Germany; Netherlands; United Kingdom and the United States
Jordan	1997-1998	United States
Lao People's Democratic Republic	2000-2001	Thailand
Lebanon	1982-2000	Belgium and Luxembourg; France and the United States
	2000-2001	France
Liberia	1980-2001	Belgium and Luxembourg; France and the United States
Madagascar	1986-1996	Belgium and Luxembourg and France
	1997-2000	Belgium and Luxembourg; France and the United States
Mali	1986-1992	Belgium and Luxembourg and France
Mexico	1980-1991 and 1990-2000	Belgium and Luxembourg; Colombia; Ecuador; France; United States; Venezuela
Nicaragua	1996-2001	Belgium and Luxembourg; Costa Rica; El Salvador and the United States
Nigeria	1980-1982 and 1986-1988	Belgium and Luxembourg; Brazil and the United States
Oman	1985-1986 and 1988-2000	Belgium and Luxembourg; the United States
Panama	1980-2002	Bolivia; Brazil; Chile; Colombia; Peru; United States and Venezuela
Peru	1990-1994 and 2002	Belgium and Luxembourg; Colombia; Ecuador and France
The Philippines	1980-1989	The European Union and the United States
Qatar	2000-2001	France and the United States
Rwanda	1985-1998	Belgium and Luxembourg
Saudi Arabia	1980-2001	Belgium and Luxembourg; France; Morocco and the United States
Sierra Leone	1985, 1988-1990, 1992, 1995-1996 and 1998	Belgium and Luxembourg
Togo	1986 and 1988-1989	Belgium and Luxembourg and France
Trinidad and Tobago	1988-1990, 1993-1994 and 1997-1998	United States
United Arab Emirates	1980-1984	United States
	1985-2002	Belgium and Luxembourg; France; Netherlands and the United States
United Republic of Tanzania	2000	United States
Virgin Islands (United Kingdom)	1993-2002	United States

• *Cross-border M&As*

Data on cross-border M&As and their growth rates were used to estimate FDI outflows. Those economies are listed below.

Period	Economy
1996 and 1998	Ghana
1995-1998	Qatar
1991; 1993 and 1995-1996	Brunei Darussalam
1993	Cambodia

• *Estimates of UNCTAD*

Estimates of UNCTAD based on national and secondary information sources are applied to the following economies and periods where FDI inflows data are not available:

Period	Economy	Methodology
1983-1986 and 2002	Libyan Arab Jamahiriya	
1985-1986, 1988-1989, 1992-1998 and 2000-2002	Honduras	
1986-1987, 1997 and 1999-2002	Sierra Leone	
1986-1987, 1990-1991 and 2001-2002	Uganda	
1987 and 2001-2002	Oman	
1988 and 2001-2002	Belize	
1992-1994, 1996-1997 and 2002	Lao People's Democratic Republic	Estimated by monitoring investment situation using secondary sources and investments reported by major investment recipients.
1992-1994 and 2001-2002	Saint Lucia	
1992, 1994 and 2001-2002	Haiti	
1994-1995, 1997-1998 and 2001-2002	Guyana	
1994-1997, 1999 and 2001-2002	United Republic of Tanzania	
1994-1996 and 2001-2002	Grenada	
1993-1994 and 2002	Guatemala	
1993-1994, 1996-1997, 1999 and 2002	Papua New Guinea;	
1995-1996 and 2002	Trinidad and Tobago	
1996-2002	Malawi	Estimated by calculating the difference in stock and by projecting investment trend.
1997-1999 and 2001-2002	Brunei Darussalam	
1997 and 1999-2002	Ghana	
1998 and 2000-2002	Angola	
1999-2002	Rwanda;	
1999 and 2002	Qatar;	
2000-2002	Armenia; Cameroon; Guinea; Peru	Estimated by monitoring investment situation using secondary sources and investments reported by major investment recipients.
2001-2002	Anguilla; Antigua and Barbuda; Ethiopia; Mozambique; Saint Kitts and Nevis;	
2002	Albania; Barbados; Bolivia; Indonesia; Islamic Republic of Iran; Kyrgyzstan; Lebanon; Liberia; Malaysia; Nicaragua and Saudi Arabia	
2001	Azerbaijan	
1999	Dominican Republic; Virgin Islands (United Kingdom)	
1997	El Salvador	
1994	Gabon	
1985-1989 and 1992	Paraguay	
1991-1992	Burkina Faso	

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Period	Economy	Methodology
1992	Czech Republic	Estimated by calculating the difference in stock.
1984 and 1990	Chad	Estimated by monitoring investment situation using secondary sources and investments reported by major investment recipients.
1990	Poland	
1980-1989	Morocco	
1982 and 1986-1989	Botswana	
1989	Saint Vincent and the Grenadines	
1989-1992, 1995-1996	Uruguay	
1986	Cyprus	
1983-1985	Nigeria	
1985	Bangladesh	
1983	Venezuela	
1982 and 1984	Togo	
1980-1981	Central African Republic	
1980	Denmark	

Up to 2001, the National Bank of Belgium reported FDI data for the Belgium and Luxembourg Economic Union. As of 2002, this economic union is no longer in effect. Consequently, FDI data are reported separately by the respective national authorities. It is, therefore, difficult to compare the 2002 data with the combined flows as reported in previous years because of different methodologies.

In the case of Lesotho, the Lesotho Highland Water Project is excluded from its FDI as it is not considered as foreign investment.

2. FDI stocks

Annex tables B.3 and B.4, as well as some tables in the text, present data on FDI stocks at book value or historical cost, reflecting prices at the time when the investment was made.

UNCTAD regularly collects published and unpublished national official FDI stock data directly from central banks, statistical offices or national authorities on an aggregated and disaggregated basis for its FDI/TNC database. These data constitute the main source for the reported data on FDI stocks. They are further complemented by the data obtained from the IMF.

For economies in which data were not available from national official sources, or for those in which data were not available for the entire period of 1980-2002, data on *International Investment Position* assets and liabilities from the IMF's CD-ROMs on *International Financial Statistics* and *Balance of Payments*, June 2003, were used instead.

For a large number of economies (as indicated in the footnotes of annex tables B.3 and B.4), FDI stocks are estimated by either cumulating FDI flows over a period of time or adding or subtracting flows to an FDI stock that has been obtained for a particular year from national official sources or the IMF data series on assets and liabilities of direct investment.

In the case of the Republic of Korea, outward investment stocks obtained from the Bank of Korea were used to estimate the data for the period 1994 to 2001.

Those economies for which national official data were used for the period, 1980-2002, or part of it, are listed below.

Country/economy	Inward stock	Outward stock
Australia	1980-1985 and 1989-2002	1980-2002
Austria	1990-2002	1990-2002
Argentina	1980-1989 and 1991-2001	1991-1999
Bangladesh	1980-1988	None
Belgium and Luxembourg	1980	1980
Bolivia	1980-1999	1986-1999
Bosnia and Herzegovina	1998	None
Botswana	1990-2002	1990-2002
Brazil	1980-1992 and 1995-1999	None

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Country/economy	Inward stock	Outward stock
Cambodia	1994-1998	None
Canada	1980-2002	1980-2002
Chile	1980-2001	1980-1992 and 1996-2001
China	1997 and 2000	1981-1989
Colombia	1980-2002	1980-2002
Costa Rica	1980-1990	None
Croatia	1996-1997	1992-1997
Czech Republic	1992-2002	1992-2002
Denmark	1980-2001	1980-2001
Dominican Republic	1980-1990	None
Ecuador	1980-1990 and 1993-2002	None
El Salvador	1980-1990, 1993-1995 and 1998-2002	1998-2002
Estonia	1996-2002	1996-2002
Fiji	1980-1989	None
Finland	1980-2001	1980-2001
France	1989-2002	1989-2002
Gambia	1990-2001	1990-2001
Georgia	1995-1998	None
Germany	1980-2001	1980-2001
Greece	1980-1989 and 1999-2000	1999-2000
Guatemala	1990-2002	None
Hong Kong (China)	1997-2001	1998-2001
Hungary	1990-2001	1990-2001
Iceland	1988-2002	1988-2002
India	1980-1988	1992
Indonesia	1980-1999	1993-1999
Ireland	1999-2001	1999-2001
Israel	1990-2002	1990-2002
Italy	1980-2002	1994-2002
Japan	1996-2001	1996-2001
Kazakhstan	1993-2002	1995-2002
Republic of Korea	1980-2002	1980-2001
Latvia	1995-2002	1991-2002
Lithuania	1991-2002	1994-2002
Macau (China)	2001	2001
Malawi	None	1996-1998
Malaysia	None	1980-1998
Mexico	1990-2001	2001-2002
Republic of Moldova	1992-2002	1994-2002
Namibia	1990-2001	1990-2001
Nepal	2001	None
Netherlands	1980-2001	1980-2001
New Zealand	1980-1988	None
Norway	1987-2001	1988-2000
Pakistan	1980-2001	1980-2001
Papua New Guinea	1980-1997	1980-1989
Peru	1980-1999 and 2001-2002	1980-1990
The Philippines	1980-2001	1980-1988 and 1990-2001
Poland	1990-1999	1990-2000
Portugal	1990-2002	1990-2002
Romania	1990-2002	1990-2002
Russian Federation	1993-1999	1992-1999
Singapore	1980-2000	1990-2000
Slovakia	1990-2000	1994-2000
Slovenia	1993-2000	1990-2000
South Africa	1980-2002	1980-2002
Spain	1980-2001	1990-2002
Sri Lanka	1980-1988	None
Swaziland	1990-2002	1990-2002
Sweden	1986-2002	1986-2002
Switzerland	1980-2002	1980-1983 and 1986-2002
Taiwan Province of China	1980-1988	1980-1988
Thailand	1980-2000	1980-2000
Trinidad and Tobago	1980-1990	None
Tunisia	1980-2002	1980-2002
Turkey	2000-2001	2000-2001

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Country/economy	Inward stock	Outward stock
Ukraine	1991-2001	1993-2001
United Kingdom	1980-2002	1980-2002
United States	1980-2001	1980-2001
Uruguay	1996-2002	1996-1999
Venezuela	1980-2002	1990-2002
Yemen	1990-2002	None

Those economies for which national official sources provided either preliminary or estimated data are listed below.

Country/economy	Inward stock	Outward stock
1990-2002	Yemen	None
2001-2002	Colombia and Portugal	Colombia and Portugal
2002	Iceland	Iceland
1990-1993	Israel	None

Those economies for which IMF data were used for the period, 1980-2002, or part of it, are listed below.

Country/economy	Inward stock	Outward stock
Australia	1986-1988	None
Austria	1980-1989	1980-1989
Argentina	None	2000-2001
Armenia	1997-2001	None
Azerbaijan	1999-2002	None
Bahrain	1989-2001	1989-2001
Belarus	1996-2001	None
Belgium and Luxembourg	1981-2001	1981-2001
Bolivia	2000-2001	2000-2001
Brazil	None	2001
Bulgaria	1998-2001	1998-2001
Cambodia	1999-2001	None
Croatia	1998-2001	1998-2001
El Salvador	1996-1997	1996-1997
Finland	2002	2002
France	None	1987-1988
Greece	1998 and 2001	2001
Italy	None	1980-1993
Japan	1980-1995	1980-1995
Kyrgyzstan	1993-2001	1998-2001
Malaysia	1980-1994	None
Malta	None	1994-2000
Myanmar	1999-2001	None
New Zealand	1989-2002	1992-2002
Norway	None	1980-1987
Panama	1995-2002	None
Paraguay	1995-2002	1995-2002
Peru	2000	1990-2002
Poland	2000-2001	2001
The Russian Federation	2000-2001	2000-2001
Singapore	2001	2001
Slovenia	2001	2001
Spain	None	1980-1989
Swaziland	1981-1989	1981-1989
Sweden	1982-1985	1982-1985
Switzerland	None	1984-1985
Thailand	2001	None
Venezuela	None	1983-1989

C. Data revisions and updates

All FDI data and estimates in the *World Investment Report* are continuously revised. Because of the ongoing revision, FDI data reported in the *World Investment Report* may differ from those reported in earlier *Reports* or other publications of UNCTAD. In particular, recent FDI data are being revised in many economies according to the fifth edition of the balance-of-payments manual of IMF. Because of this, the data reported in last year's *Report* may be completely or partly changed in this report.

D. Data verification

In compiling data for this year's *Report*, requests for verifications and confirmation were made to national official sources for virtually all economies to reflect the latest data revisions and accuracy. In addition, websites of certain national official sources were also consulted. This verification process continued until end June 2003. Any revisions made after this process are not reflected in the *Report*.

Below is a list of economies for which data were checked using either means. For the economies, which are not mentioned below, the UNCTAD Secretariat could not have the data verified or confirmed by their respective Governments.

Communiqué
Algeria; Angola; Aruba; Australia; Austria; ASEAN Secretariat; Bahamas; Barbados; Banque Centrale de l'Afrique de l'Ouest; Banque des Etats de l'Afrique Centrale; Belgium; Bosnia and Herzegovina; Botswana; Burundi; Canada; Chile; Colombia; Costa Rica; Cyprus; Denmark; Djibouti; Eastern Caribbean Central Bank; Ecuador; Egypt; El Salvador; Ethiopia; Fiji; Finland; France; Gambia; Germany; Ghana; Greece; Guatemala; Guyana; Haiti; Honduras; Hong Kong (China); Iceland; Indonesia; Ireland; Israel; Italy; Jamaica; Japan; Jordan; Kazakhstan; Kenya; Kuwait; Lesotho; Libyan Arab Jamahiriya; Luxembourg; Macau (China); Malawi; Malaysia; Madagascar; Mauritius; Mexico; Morocco; Mozambique; Namibia; Netherlands; New Zealand; Nicaragua; Nigeria; Norway; Pakistan; Philippines; Portugal; Romania; Rwanda; Seychelles; Singapore; South Africa; Spain; Sri Lanka; Sudan; Suriname; Swaziland; Sweden; Switzerland; United Republic of Tanzania; Taiwan Province of China; Thailand; Tunisia; Turkey; Uganda; Uruguay; United Kingdom; United States; Venezuela; Viet Nam; Yemen; Zambia and Zimbabwe
Web sites
Albania; Argentina; Armenia; Australia; Austria; Azerbaijan; Bahrain; Bangladesh; Belarus; Belgium; Belize; Bolivia; Brazil; Bulgaria; Canada; Cape Verde; China; Colombia; Costa Rica; Croatia; Cyprus; Czech Republic; Denmark; Dominican Republic; Eastern Caribbean Central Bank; Ecuador; Egypt; El Salvador; Estonia; Fiji; Finland; France; Germany; Guatemala; Haiti; Honduras; Hong Kong (China); Hungary; Iceland; India; Ireland; Israel; Italy; Japan; Kazakhstan; Kuwait; Republic of Korea; Latvia; Lithuania; Luxembourg; TFYR Macedonia; Mauritius; Republic of Moldova; Mongolia; Morocco; Mozambique; Namibia; Netherlands; New Zealand; Norway; Nicaragua; Occupied Palestinian Territory; Oman; Pakistan; Paraguay; Peru; the Philippines; Poland; Portugal; Romania; Russian Federation; Rwanda; Serbia and Montenegro; Slovakia; Slovenia; Solomon Islands; South Africa; Spain; Sudan; Swaziland; Sweden; Switzerland; Tajikistan; United Republic of Tanzania; Taiwan Province of China; Trinidad and Tobago; Thailand; Tunisia; Turkey; Ukraine; Uruguay; United Kingdom; United States; Vanuatu; Venezuela and Yemen

E. Definitions and sources of the data in annex tables B.5 and B.6

These two annex tables show the ratio of inward and outward FDI flows to gross fixed capital formation (annex table B.5) and inward and outward FDI stock to GDP (annex table B.6), respectively. All of these data are in current prices.

The data on GDP were obtained from the UNCTAD Secretariat, IMF's CD-ROM on *International Financial Statistics*, June 2003 and IMF's *World Economic Outlook*, April 2003. For some economies such as Taiwan Province of China, data are complemented by national official sources.

The data on gross fixed capital formation were obtained from IMF's CD-ROM on *International Financial Statistics*, June 2003. For some economies for which data are not available for the period 1980-2002, or part of it, data are complemented using data on gross capital formation. These data are further complemented by data obtained from: (i) national official sources; (ii) World Bank data on gross fixed capital formation or gross capital formation, obtained from the *World Development Indicators 2003* CD-ROM.

For annex table B.5, figures exceeding 100 per cent may result from the fact that, for some economies, the reported data on gross fixed capital formation do not necessarily accurately reflect the value of capital formation and FDI flows do not necessarily translate into capital formation.

Data on FDI are from annex tables B.1-B.4.

F. Definitions and sources of the data on cross-border M&As in annex tables B.7-B.10

FDI is a balance-of-payments concept involving cross-border transfer of funds. Cross-border M&A statistics shown in the report are based on information reported by Thomson Financial. In some cases, these include M&As between foreign affiliates and firms located in the same host economy. Therefore, such M&As conform to the FDI definition as far as the equity share is concerned. However, the data also include purchases via domestic and international capital markets, which should not be considered as FDI flows. Although it is possible to distinguish types of financing used for M&As (e.g. syndicated loans, corporate bonds, venture capital), it is not possible to trace the origin or country sources of the funds used. Therefore, the data used in the report include the funds not categorized as FDI.

FDI flows are recorded on a net basis (capital account credits less debits between direct investors and their foreign affiliates) in a particular year. On the other hand, M&A data are expressed as the total transaction amount of particular deals, not as differences between gross acquisitions and divestment abroad by firms from a particular country. Transaction amounts recorded in the UNCTAD M&A statistics are those at the time of closure of the deals, not at the time of announcement. The M&A values are not necessarily paid out in a single year.

Cross-border M&As are recorded in both directions of transactions. That is, when a cross-border M&A takes place, it registers as both a sale in the country of the target firm (annex table B.7), and as a purchase in the home country of the acquiring firm (annex table B.8). Data showing cross-border M&A activities on an industry basis are also recorded as sales and purchases (annex tables B.9-B.10). Thus, if a food company acquires a chemical company, this transaction is recorded in the chemical industry in the table on M&As by industry of seller (annex table B.9), it is also recorded in the food industry in the table on M&As by industry of purchaser (annex table B.10).

Notes

1. In some countries, an equity stake other than that of 10 per cent is still used. In the United Kingdom, for example, a stake of 20 per cent or more was a threshold used until 1997.
2. This general definition of FDI is based on OECD, *Detailed Benchmark Definition of Foreign Direct Investment*, third edition (Paris, OECD, 1996) and International Monetary Fund, *Balance of Payments Manual*, fifth edition (Washington, D.C., IMF, 1993).
3. International Monetary Fund, op. cit., p. 40.
4. Includes Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Spain, Sweden, the United Kingdom and the United States.

Annex table B.1. FDI inflows, by host region and economy, 1991-2002
(Millions of dollars)

Host region/economy	1991-1996 (Annual average)	1997	1998	1999	2000	2001	2002
World	**254 326**	**481 911**	**686 028**	**1 079 083**	**1 392 957**	**823 825**	**651 188**
Developed economies	**154 641**	**269 654**	**472 265**	**824 642**	**1 120 528**	**589 379**	**460 334**
Western Europe	**91 030**	**139 274**	**263 025**	**496 205**	**709 877**	**400 813**	**384 391**
European Union	**87 584**	**127 888**	**249 934**	**475 542**	**683 893**	**389 432**	**374 380**
Austria	1 894	2 654	4 533	2 975	8 840	5 883	1 523
Belgium and Luxembourg	10 777	11 998	22 691	119 693	88 739	88 203	..
Belgium	..	..	..	..	..	..	18 252
Luxembourg	..	..	..	..	..	..	125 660
Denmark	2 374	2 801	7 730	16 700	32 772	11 486	5 953
Finland	796	2 119	2 040	4 581	8 015	3 732	9 148
France	18 444	23 174	30 984	46 545	43 250	55 190	51 505
Germany	4 790	12 244	24 593	55 797	203 080	33 918	38 033
Greece	1 058	984	85	571	1 089	1 589	50
Ireland	1 469	2 712	8 579	18 500	26 447	15 681	19 033
Italy	3 307	3 700	2 635	6 911	13 375	14 871	14 545
Netherlands	9 086	11 132	36 964	41 187	60 313	51 244	29 182
Portugal	1 550	2 477	3 144	1 234	6 787	5 892	4 276
Spain	9 512	7 697	11 797	15 758	37 523	28 005	21 193
Sweden	6 066	10 968	19 836	60 853	23 239	11 780	11 081
United Kingdom	16 463	33 229	74 324	84 238	130 422	61 958	24 945
Other Western Europe	**3 446**	**11 386**	**13 091**	**20 662**	**25 984**	**11 381**	**10 011**
Gibraltar	25[a]	126[a]	- 162[a]	17[a]	138[a]	21[a]	59[a]
Iceland	13	149	146	66	158	141	152
Malta	122	81	273	815	604	294	- 375
Norway	1 346	4 394	3 893	8 046	5 829	2 062	872
Switzerland	1 940	6 636	8 940	11 719	19 255	8 864	9 303
North America	**53 406**	**114 925**	**197 243**	**308 118**	**380 764**	**172 787**	**50 625**
Canada	6 571	11 527	22 809	24 742	66 757	28 809	20 595
United States	46 834	103 398	174 434	283 376	314 007	143 978	30 030
Other developed economies	**10 205**	**15 455**	**11 997**	**20 319**	**29 887**	**15 778**	**25 319**
Australia	6 238	7 657	6 015	2 924	13 071	4 006	13 978
Israel	716	1 950	1 839	3 068	4 988	3 520	1 648
Japan	890	3 225	3 192	12 742	8 323	6 243	9 326
New Zealand	2 361	2 624	951	1 586	3 505	2 009	367
Developing economies	**91 502**	**193 224**	**191 284**	**229 295**	**246 057**	**209 431**	**162 145**
Africa	**4 606**	**10 667**	**8 928**	**12 231**	**8 489**	**18 769**	**10 998**
North Africa	**1 615**	**2 716**	**2 882**	**3 569**	**3 125**	**5 474**	**3 546**
Algeria	63	260	501	507	438	1 196	1 065
Egypt	714	887	1 076	1 065	1 235	510	647
Libyan Arab Jamahiriya	- 12	- 82	- 150	- 118	- 142	- 101	- 96[a]
Morocco	406	1 188	417	1 376	423	2 808	428
Sudan	18	98	371	371	392	574	681
Tunisia	425	365	668	368	779	486	821
Other Africa	**2 992**	**7 951**	**6 046**	**8 663**	**5 364**	**13 295**	**7 452**
Angola	346	412	1 114	2 471	879	2 146	1 312
Benin	41	26	35	61	60	44	41
Botswana	- 28	100	90	37	54	26	37
Burkina Faso	9	13	10	13	23	9	8
Burundi	1	-	2	-	12	-	-
Cameroon	9	45	50	40	31	67[a]	86[a]
Cape Verde	10	12	9	53	34	9	14
Central African Republic	- 1	-	-	3	1	5	4
Chad	20	44	21	27	115	-	901
Comoros	-	-[a]	3[a]	-[a]	1[a]	-[a]	1[a]
Congo	86	79	33	521	166	77	247
Congo, Democratic Republic of	3	- 44[a]	61[a]	11[a]	23[a]	1[a]	32[a]

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Annex table B.1. FDI inflows, by host region and economy, 1991-2002 (continued)
(Millions of dollars)

Host region/economy	1991-1996 (Annual average)	1997	1998	1999	2000	2001	2002
Côte d'Ivoire	158	450	416	381	235	44	223
Djibouti	2	2	3	4	3	3	4
Equatorial Guinea	66	53	291	252	108	945	323
Eritrea	37[b]	41	149	83	28	1[a]	21[a]
Ethiopia	10	288	261	70	135	20[a]	75[a]
Gabon	- 243	- 587	- 200	- 625	- 43	169	123
Gambia	12	21	24	49	44	35	43
Ghana	105	82	56	267	115	89	50
Guinea	14	17	18	63	10	2	30[a]
Guinea-Bissau	2	11	4	9	1	1	1
Kenya	13	40	42	42	127	50	50
Lesotho	21	32	27	33	31	28	24
Liberia	- 28	214[a]	190[a]	256[a]	- 431[a]	- 20[a]	- 65[a]
Madagascar	13	14	16	58	70	93	8
Malawi	- 4	- 1	- 3	46	- 33	- 20	-[a]
Mali	29	74	36	51	83	122	102
Mauritania	7	1[a]	-	1[a]	9[a]	- 6[a]	12[a]
Mauritius	21	55	12	49	277	32	28
Mozambique	39	64	235	382	139	255	406
Namibia	112	84	77	111	153	275	181
Niger	16	25	9	-	9	23	8
Nigeria	1 264	1 539	1 051	1 005	930	1 104	1 281
Rwanda	3	3	7	2	8	4	3
São Tomé and Principe	-[c]	-[a]	-[a]	1[a]	2[a]	6	2[a]
Senegal	20	176	71	136	63	32	93
Seychelles	24	54	55	60	56	59	63
Sierra Leone	1	10[a]	- 10[a]	6[a]	5[a]	3[a]	5[a]
Somalia	1	1[a]	-[a]	- 1[a]	-[a]	-[a]	-[a]
South Africa	450	3 817	561	1 502	888	6 789	754
Swaziland	62	- 15	152	100	39	78	107
Togo	11	23	42	70	42	63	75
Uganda	65	175	210	222	254	229	275
United Republic of Tanzania	63	158	172	517	463	327	240
Zambia	108	207	198	163	122	72	197
Zimbabwe	50	135	444	59	23	4	26
Latin America and the Caribbean	**27 069**	**73 275**	**82 040**	**108 255**	**95 358**	**83 725**	**56 019**
South America	**14 982**	**48 228**	**52 424**	**70 346**	**57 248**	**39 693**	**25 836**
Argentina	4 309	9 160	7 291	23 988	11 657	3 206	1 003
Bolivia	212	879	1 023	1 008	723	660	553
Brazil	3 633	18 993	28 856	28 578	32 779	22 457	16 566
Chile	2 191	5 271	4 628	8 761	3 639	4 477	1 603
Colombia	1 279	5 562	2 829	1 452	2 237	2 521	2 034
Ecuador	392	724	870	648	720	1 330	1 275
Guyana	84	53	47	48	67	56	44
Paraguay	111	236	342	95	104	95	- 22
Peru	1 538	1 697	1 842	2 263	681	1 151	1 462
Suriname	- 16	- 9	38	- 24	- 97	- 27	- 85
Uruguay	99	126	164	238	274	318	85
Venezuela	1 150	5 536	4 495	3 290	4 465	3 448	1 318
Other Latin America and the Caribbean	**12 087**	**25 047**	**29 616**	**37 910**	**38 110**	**44 032**	**30 183**
Anguilla	15	21	28	38	39	33	33
Antigua and Barbuda	28	23	23	31	33	39	36
Aruba	26	196	84	392	- 144	- 319	241
Bahamas	41	210	147	149	250	101	200
Barbados	12	15	16	17	19	19	11[a]
Belize	16	12	19	50	19	40	52[a]
Bermuda	2 353[a]	2 928[a]	5 399[a]	9 470[a]	10 627[a]	12 584[a]	9 093[a]
Cayman Islands	371[a]	3 151[a]	4 354[a]	6 569[a]	6 922[a]	1 382[a]	3 095[a]
Costa Rica	285	407	612	620	409	454	642
Cuba	10[a]	1[a]	15[a]	9[a]	- 10[a]	4[a]	4[a]
Dominica	24	21	7	18	11	12	14
Dominican Republic	205	421	700	1 338	953	1 079	961
El Salvador	15	59	1 104	216	173	250	208
Grenada	19	34	49	42	37	49	41
Guatemala	91	85	673	155	230	456	110
Haiti	1	4	11	30	13	4	6
Honduras	60	128	99	237	282	195	143

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Annex table B.1. FDI inflows, by host region and economy, 1991-2002 (continued)

(Millions of dollars)

Host region/economy	1991-1996 (Annual average)	1997	1998	1999	2000	2001	2002
Jamaica	160	203	369	524	468	614	479
Mexico	7 351	14 160	12 170	12 856	15 484	25 334	13 627
Montserrat	5	3	3	8	4	1	1
Netherlands Antilles	- 17	- 88	- 53	- 22	- 63	- 1	- 15
Nicaragua	56	173	195	300	267	150	174
Panama	244	1 299	1 296	652	603	513	57
Saint Kitts and Nevis	20	20	32	58	96	88	81
Saint Lucia	36	48	83	83	55	22	22
Saint Vincent and the Grenadines	29	93	89	56	29	21	19
Trinidad and Tobago	317	923	732	366	472	685	737
Virgin Islands	315	500	1 362[a]	3 648[a]	830[a]	222[a]	111[a]
Asia and the Pacific	**59 826**	**109 282**	**100 316**	**108 809**	**142 209**	**106 937**	**95 129**
Asia	**59 411**	**109 092**	**99 983**	**108 529**	**142 091**	**106 778**	**94 989**
West Asia	**2 228**	**5 918**	**6 893**	**754**	**1 523**	**5 211**	**2 341**
Bahrain	650	329	180	454	364	81	218
Cyprus	81	491	264	685	804	652	297
Iran, Islamic Republic of	47	53	24	35	39	50[a]	37[a]
Iraq	2[a]	1[a]	7[a]	- 7[a]	- 3[a]	- 6[a]	- 9[a]
Jordan	4	361	310	158	787	100	56
Kuwait	55	20	59	72	16	- 147	7
Lebanon	28	150	200	250	298	249[a]	257[a]
Oman	91	65	101	21	44	42	40[a]
Occupied Palestinian Territory	8[b]	7	58	19	62	11[a]	41[a]
Qatar	120[a]	418[a]	347[a]	113[a]	252[a]	296[a]	326[a]
Saudi Arabia	- 201	3 044	4 289	- 780	- 1 884	20	- 350[a]
Syrian Arab Republic	105	80	82	263	270	205[a]	225[a]
Turkey	751	805	940	783	982	3 266	1 037
United Arab Emirates	220[a]	232[a]	258[a]	- 985[a]	- 515[a]	257[a]	95[a]
Yemen	274	- 139	- 226	- 328	6	136	64
Central Asia	**1 035**	**3 107**	**2 997**	**2 462**	**1 871**	**3 963**	**4 035**
Armenia	12	52	221	122	104	70	100
Azerbaijan	326[d]	1 115	1 023	510	129	227	1 067
Georgia	19[d]	243	265	82	131	110	146
Kazakhstan	826[e]	1 321	1 152	1 472	1 283	2 823	2 561
Kyrgyzstan	48[c]	84	109	44	- 2	5	- 12[a]
Tajikistan	12[e]	18[a]	25[a]	21[a]	22[a]	9	9
Turkmenistan	131[c]	108[a]	62[a]	89[a]	131[a]	150[a]	100[a]
Uzbekistan	39[e]	167[a]	140[a]	121[a]	73[a]	570[a]	65[a]
South, East and South-East Asia	**56 147**	**100 067**	**90 093**	**105 313**	**138 698**	**97 604**	**88 613**
Afghanistan	-[a]	- 1[a]	-[a]	6[a]	-[a]	1[a]	-[a]
Bangladesh	8	139	190	180	280	79	45
Bhutan	1[a]	- 1[a]	-[a]	-[a]	-[a]	-[a]	-[a]
Brunei Darussalam	210	702	573	748	549	526	1 035
Cambodia	120[e]	168	243	230	149	148	54
China	25 476	44 237	43 751	40 319	40 772	46 846	52 700
Hong Kong, China	6 057[a]	11 368[a]	14 766	24 580	61 939	23 775	13 718
India	1 085	3 619	2 633	2 168	2 319	3 403	3 449
Indonesia	2 985	4 678	- 356	- 2 745	- 4 550	- 3 279	- 1 523
Korea, Democratic People's Republic of	24[a]	307[a]	31[a]	- 15[a]	5[a]	- 24[a]	12[a]
Korea, Republic of [f]	1 234	2 844	5 412	9 333	9 283	3 528	1 972
Lao People's Democratic Republic	53	86	45	52	34	24	25
Macau, China	-[a]	2[a]	- 18[a]	9[a]	- 1[a]	133	150[a]
Malaysia	5 436	6 323	2 714	3 895	3 788	554	3 203
Maldives	8	11	12	12	13	12	12[a]
Mongolia	9	25	19	30	54	43	78
Myanmar	256	879	684	304	208	192	129
Nepal	8	23	12	4	-	21[a]	10[a]
Pakistan	501	713	507	530	305	385	823
Philippines	1 226	1 261	1 718	1 725	1 345	982	1 111
Singapore	6 856	13 533	7 594	13 245	12 464	10 949	7 655
Sri Lanka	125	433	150	201	175	82	242
Taiwan Province of China	1 311	2 248	222	2 926	4 928	4 109	1 445
Thailand	1 964	3 882	7 491	6 091	3 350	3 813	1 068
Viet Nam	1 217	2 587	1 700	1 484	1 289	1 300	1 200

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Annex table B.1. FDI inflows, by host region and economy, 1991-2002 (concluded)

(Millions of dollars)

Host region/economy	1991-1996 (Annual average)	1997	1998	1999	2000	2001	2002
The Pacific	**416**	**190**	**333**	**280**	**118**	**159**	**140**
Fiji	71	29	196	- 20	- 25	90	77
Kiribati	-	1	1[a]	1[a]	1[a]	1[a]	1[a]
New Caledonia	5	10[a]	-[a]	4[a]	22[a]	- 1[a]	-[a]
Papua New Guinea	295	88	110	296	96	63	50[a]
Samoa	3	20[a]	3	2	- 2[a]	1[a]	1[a]
Solomon Islands	10	9	2	- 19	1	- 12	- 7[a]
Tonga	1	3	2	2	5	1	2[a]
Tuvalu	-[d]	-[a]	-[a]	-[a]	-[a]	-[a]	-[a]
Vanuatu	29	30	20	13	20	18	15
Central and Eastern Europe	**8 183**	**19 033**	**22 479**	**25 145**	**26 373**	**25 015**	**28 709**
Albania	58[e]	48	45	41	143	207	213
Belarus	31[e]	352	203	444	119	96	227
Bosnia and Herzegovina	- 1[g]	1	56	154	147	130	321
Bulgaria	74	505	537	819	1 002	813	479
Croatia	216[c]	533	932	1 467	1 089	1 561	981
Czech Republic	1 177	1 286	3 700	6 310	4 984	5 639	9 319
Estonia	162[e]	267	581	305	387	542	307
Hungary	2 205	2 167	2 037	1 977	1 646	2 440	854
Latvia	170[e]	521	357	347	410	164	396
Lithuania	59[e]	355	926	486	379	446	732
Moldova, Republic of	27[e]	79	76	38	129	156	111
Poland	2 119	4 908	6 365	7 270	9 341	5 713	4 119
Romania	206[e]	1 215	2 031	1 041	1 025	1 157	1 106
Russian Federation	1 449[e]	4 865	2 761	3 309	2 714	2 469	2 421
Serbia and Montenegro	66	740	113	112	25	165	475
Slovakia	201	220	684	390	1 925	1 579	4 012
Slovenia	122	334	216	107	136	503	1 865
TFYR Macedonia	15[d]	16	118	32	177	442	77
Ukraine	269	623	743	496	595	792	693
Yugoslavia (former)	119[h]	..	..	..	..	..	..
Memoraudum							
Least developed countries [i]	1 713	3 401	4 573	5 974	3 427	5 629	5 232
Oil-exporting countries [j]	7 647	18 427	14 010	5 254	2 468	8 099	7 364
All developing economies, excluding China	66 061	148 987	147 533	188 976	205 285	162 585	109 445

Source: UNCTAD, FDI/TNC database.

a Estimates. For details, see "Definitions and Sources" in annex B.
b 1996.
c Annual average from 1993 to 1996.
d Annual average from 1994 to 1996.
e Annual average from 1992 to 1996.
f The data reported by the Ministry of Commerce, Industry and Energy in accordance with the Republic of Korea's Foreign Investment Promotion Act, including investments in capital goods and technology, and reinvested earnings, are as follows: for the annual average from 1991 to 1996, 1,045; for 1997, 2,640; for 1998, 5,029; for 1999, 9,433; for 2000, 8,562; for 2001, 3,659 and for 2002, 2,935.
g Annual average from 1995 to 1996.
h 1991.
i Least developed countries include: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.
j Oil-exporting countries include: Cameroon, Algeria, Angola, Bahrain, Brunei Darussalam, Congo, Ecuador, Gabon, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates and Venezuela.

Annex table B.2. FDI outflows, by home region and economy, 1991-2002
(Millions of dollars)

Home region/economy	1991-1996 (Annual average)	1997	1998	1999	2000	2001	2002
World	**280 550**	**476 934**	**683 211**	**1 096 554**	**1 200 783**	**711 445**	**647 363**
Developed economies	**240 639**	**396 057**	**630 891**	**1 021 307**	**1 097 796**	**660 558**	**600 063**
Western Europe	**140 132**	**244 115**	**436 525**	**770 608**	**872 422**	**468 807**	**411 665**
European Union	**127 762**	**220 953**	**415 367**	**731 068**	**819 169**	**451 911**	**394 146**
Austria	1 417	1 987	2 745	3 301	5 740	3 137	5 670
Belgium and Luxembourg	7 264	7 252	28 845	122 304	86 362	100 646	..
Belgium	..	..	..	..	..	..	13 288
Luxembourg	..	..	..	..	..	..	154 073
Denmark	2 535	4 209	4 477	16 943	25 052	12 964	4 839
Finland	1 654	5 278	18 647	6 605	22 572	8 367	9 891
France	24 303	35 584	48 611	126 856	177 449	92 974	62 547
Germany	27 908	41 797	88 823	109 648	56 846	42 079	24 534
Greece	5	156	262	539	2 102	607	655
Ireland	436	1 016	3 906	6 109	4 629	5 864	2 706
Italy	6 662	10 414	12 407	6 722	12 316	21 472	17 123
Netherlands	17 573	24 494	36 669	57 627	73 540	48 514	26 270
Portugal	510	1 903	3 847	3 168	7 512	7 564	3 523
Spain	3 871	12 626	18 936	42 084	54 675	33 093	18 456
Sweden	5 294	12 648	24 371	21 928	40 592	6 594	10 869
United Kingdom	28 331	61 590	122 820	207 235	249 783	68 037	39 703
Other Western Europe	**12 370**	**23 162**	**21 159**	**39 540**	**53 253**	**16 896**	**17 519**
Gibraltar	..	..	..	..	..	..	..
Iceland	25	55	71	106	362	323	195
Malta	3[a]	16	14	45	26	6	-
Norway	2 257	5 359	2 306	6 113	8 193	- 734	5 537
Switzerland	10 086	17 732	18 767	33 276	44 673	17 300	11 787
North America	**75 220**	**118 838**	**165 362**	**226 638**	**189 251**	**140 406**	**148 534**
Canada	8 163	23 069	34 358	17 247	46 625	36 642	28 793
United States	67 057	95 769	131 004	209 391	142 626	103 764	119 741
Other developed economies	**25 287**	**33 104**	**29 003**	**24 061**	**36 122**	**51 345**	**39 864**
Australia	3 603	6 448	3 352	- 688	561	11 014	6 828
Israel	573	708	1 124	932	3 440	805	1 232
Japan	20 943	25 994	24 151	22 745	31 557	38 333	31 481
New Zealand	169	- 45	376	1 072	564	1 193	322
Developing economies	**39 439**	**76 662**	**49 837**	**72 786**	**99 052**	**47 382**	**43 095**
Africa	**1 861**	**3 788**	**1 997**	**2 574**	**1 309**	**- 2 522**	**173**
North Africa	**27**	**476**	**367**	**313**	**228**	**202**	**267**
Algeria	14	8	1	47	18	9	100
Egypt	32	166	46	38	51	12	28
Libyan Arab Jamahiriya	- 47	284	299	208	98	84	110[b]
Morocco	24	9	20	18	59	97	29
Sudan	..	..	..	..	..	..	..
Tunisia	4	9	2	3	2	-	-
Other Africa	**1 834**	**3 312**	**- 1 630**	**- 2 262**	**1 081**	**- 2 725**	**- 94**
Angola	-	-[b]	-[b]	-[b]	-[b]	-[b]	-[b]
Benin	6[c]	12	2	23	4	2	-
Botswana	13	4	3	1	2	318	2
Burkina Faso	2	1	5	5	-	-	1
Burundi	-	-	-	-	-	-	-
Cameroon	15	7[b]	-[b]	3[b]	4[b]	3[b]	3[b]
Cape Verde	-	-	-	-	-	-	-
Central African Republic	4	-	-	-	-	-	-
Chad	5	-	-	2	-	-	-
Comoros	-[d]	..	..	..	..	..	..
Congo	-	3	- 8	2	4	6	8
Congo, Democratic Republic of	..	..	..	..	..	..	..

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Annex table B.2. FDI outflows, by home region and economy, 1991-2002 (continued)
(Millions of dollars)

Home region/economy	1991-1996 (Annual average)	1997	1998	1999	2000	2001	2002
Côte d'Ivoire	86	34	36	57	-	2	2
Djibouti	..	..	..	..	..	..	..
Equatorial Guinea	-	-	-	2	- 4	4	-
Eritrea	..	..	..	..	..	..	..
Ethiopia	..	228[b]	254[b]	- 46[b]	- 1[b]	69[b]	7[b]
Gabon	16	- 13	- 14	14	25	2	-
Gambia	5	5	6	4	5	5	5
Ghana	150[e]	50[b]	30[b]	77[b]	52[b]	53[b]	61[b]
Guinea	-[e]	1[b]	-[b]	3[b]	2[b]	2[b]	2[b]
Guinea-Bissau	..	..	..	..	-	-	-
Kenya	7	5	14	30	29	50	76
Lesotho	-[f]	..	..	..	..	..	..
Liberia	76	501[b]	- 731[b]	310[b]	608[b]	- 167[b]	- 50[b]
Madagascar	-	- 2[b]	1[b]	-[b]	1[b]	-	-
Malawi	2[e]	-[b]	6[b]	3[b]	3[b]	4[b]	3[b]
Mali	-	5	27	50	4	17	19
Mauritania	..	..	..	..	..	..	..
Mauritius	16	3	14	6	13	2	1
Mozambique	-[g]	-[b]	-[b]	-[b]	-[b]	-[b]	-[b]
Namibia	- 3	-	- 1	-	3	- 13	- 5
Niger	12	8	10	-	-	- 4	-
Nigeria	238	58	107	92	85	94	101
Rwanda	-	1[b]	-[b]	-[b]	-[b]	-[b]	-[b]
São Tomé and Principe	..	..	..	..	..	..	..
Senegal	8	-	10	6	-	- 7	39
Seychelles	8	10	3	9	7	11	14
Sierra Leone	-	-[b]	-[b]	-[b]	-[b]	-[b]	-[b]
Somalia	..	..	..	..	..	..	..
South Africa	1 204	2 351	1 779	1 580	271	- 3 180	- 401
Swaziland	27	- 10	24	- 13	- 16	9	27
Togo	7	4	22	41	-	- 7	-
Uganda	42	15[b]	20[b]	- 8[b]	- 28[b]	- 5[b]	- 14[b]
United Republic of Tanzania	-[h]	-[b]	-[b]	-[b]	1[b]	-[b]	-[b]
Zambia	..	..	..	..	..	..	..
Zimbabwe	17	28	9	9	8	4	3
Latin America and the Caribbean	**5 953**	**23 666**	**19 057**	**30 845**	**13 534**	**7 961**	**5 770**
South America	**2 671**	**7 902**	**7 689**	**6 766**	**7 820**	**- 758**	**3 726**
Argentina	997	3 653	2 325	1 727	1 018	- 200	- 1 066
Bolivia	2	2	3	3	2	2	2[b]
Brazil	493	1 116	2 854	1 690	2 282	- 2 258	2 482
Chile	626	1 463	1 484	2 558	3 987	1 432	464
Colombia	154	809	796	116	325	16	783
Ecuador	25	257[b]	- 84[b]	-	-	-	-
Guyana	-[h]	-[b]	-[b]	- 2[b]	2[b]	-[b]	-[b]
Paraguay	8	6	6	6	6	6	- 3[b]
Peru	1	84	64	128	92[b]	95[b]	156[b]
Suriname	..	..	..	..	..	..	..
Uruguay	-	13	9	40	-	1	15
Venezuela	364	500	233	501	107	148	893
Other Latin America and the Caribbean	**3 282**	**15 763**	**11 368**	**24 079**	**5 714**	**8 720**	**2 044**
Anguilla	..	1[b]	1[b]	1[b]	1[b]	1[b]	1[b]
Antigua and Barbuda	1[h]	- 3[b]	- 1[b]	-[b]	1[b]	-[b]	-[b]
Aruba	2[h]	- 2	1	- 8	12	13	5
Bahamas	-	-	1	-	-	-	-
Barbados	2	1	1	1	1	1	1[b]
Belize	3	4	6	10	10	8[b]	9[b]
Bermuda	183	4 220[b]	2 980[b]	18 137[b]	2 426[b]	- 5 407[b]	- 1 823[b]
Cayman Islands	375	4 871[b]	4 452[b]	2 187[b]	1 795[b]	2 811[b]	967[b]
Costa Rica	5	4	5	5	9	9	57
Cuba	..	..	..	..	..	..	..
Dominica	..	..	..	..	..	..	..
Dominican Republic	10[h]	2[b]	2[b]	6[b]	61[b]	- 33[b]	-[b]
El Salvador	-	-[b]	1	54	- 5	- 10	- 26
Grenada	-	-[b]	-[b]	-[b]	-[b]	-[b]	-[b]
Guatemala	- 4	7[b]	8[b]	- 3[b]	16[b]	1[b]	5[b]
Haiti	- 5	1[b]	1[b]	- 1[b]	1[b]	-[b]	-[b]
Honduras	-	-[b]	-[b]	-[b]	-[b]	-[b]	-[b]

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Annex table B.2. FDI outflows, by home region and economy, 1991-2002 (continued)

(Millions of dollars)

Home region/economy	1991-1996 (Annual average)	1997	1998	1999	2000	2001	2002
Jamaica	60	57	82	95	74	89	74
Mexico	257	1 108	1 363	1 475[b]	984[b]	846	969
Montserrat	..	..	..	..	..	..	..
Netherlands Antilles	-	- 7	- 2	- 1	- 2	-	1
Nicaragua	- 4[a]	2[b]	7[b]	3[b]	4[b]	5[b]	4[b]
Panama	672	2 068[b]	3 289[b]	356[b]	- 839[b]	1 902[b]	1 861[b]
Saint Kitts and Nevis	-	-[b]	-[b]	-[b]	-[b]	-[b]	-[b]
Saint Lucia	-	-[b]	-[b]	-[b]	-[b]	-[b]	-[b]
Saint Vincent and the Grenadines	..	..	..	..	..	..	..
Trinidad and Tobago	-	- 18[b]	1[b]	264	25	150	146[b]
Virgin Islands	2 586[a]	3 444[b]	- 830[b]	1 500[b]	1 141[b]	8 333[b]	- 209[b]
Asia and the Pacific	**31 624**	**49 209**	**28 783**	**39 367**	**84 208**	**41 943**	**37 151**
Asia	**31 564**	**49 199**	**28 839**	**39 390**	**84 139**	**41 827**	**37 121**
West Asia	**452**	**- 99**	**- 1 193**	**1 943**	**3 508**	**4 718**	**2 131**
Bahrain	105	48	181	163	10	216	178
Cyprus	17	27	57	166	166	220	- 18
Iran, Islamic Republic of	9	78[b]	10[b]	738[b]	348[b]	2 812[b]	1 299[b]
Iraq	..	..	..	..	..	..	..
Jordan	- 23	2[b]	2[b]	5	5	8	25
Kuwait	147	- 969	- 1 867	23	- 303	365	- 155
Lebanon	8	19[b]	- 1[b]	5[b]	125[b]	92[b]	74[b]
Oman	3	1[b]	- 5[b]	3[b]	- 2[b]	- 1[b]	-[b]
Occupied Palestinian Territory	..	..	..	..	..	..	..
Qatar	35[c]	20[b]	20[b]	30[b]	41[b]	112[b]	61[b]
Saudi Arabia	93	215[b]	74[b]	50[b]	155[b]	- 44[b]	50[b]
Syrian Arab Republic	..	..	..	..	..	..	..
Turkey	63	251	367	645	870	497	175
United Arab Emirates	17	208[b]	- 30[b]	115[b]	2 094[b]	441[b]	442[b]
Yemen	..	..	..	..	..	..	..
Central Asia	**-**	**1**	**179**	**360**	**17**	**201**	**765**
Armenia	..	..	12	13	8[b]	11[b]	11[b]
Azerbaijan	..	..	137	336	-	158[b]	326
Georgia	..	..	..	1	-	-	-
Kazakhstan	-[i]	1	8	4	4	27	423
Kyrgyzstan	..	..	23	6	5	6	6[b]
Tajikistan	..	..	..	..	..	..	..
Turkmenistan	..	..	..	..	..	..	..
Uzbekistan	..	..	..	..	..	..	..
South, East and South-East Asia	**31 113**	**49 297**	**29 852**	**37 087**	**80 614**	**36 907**	**34 225**
Afghanistan	..	..	..	..	..	..	..
Bangladesh	3	3	3	-	2	21	4
Bhutan	..	..	..	..	..	..	..
Brunei Darussalam	28[j]	10[b]	10[b]	20[b]	- 3	9[b]	8[b]
Cambodia	2[k]	..	..	..	..	..	..
China	2 571	2 563	2 634	1 775	916	6 884	2 850
Hong Kong, China	16 960	24 407[b]	16 985	19 358	59 375	11 345	17 694
India	76	113	47	80	336	757	431
Indonesia	1 068	178	44	72	150	125	116[b]
Korea, Democratic People's Republic of	..	..	..	..	..	..	..
Korea, Republic of	2 446	4 449	4 740	4 198	4 999	2 420	2 674
Lao People's Democratic Republic	-	-[b]	-[b]	-[b]	168[b]	3[b]	57[b]
Macau, China	..	..	..	..	..	16	..
Malaysia	1 656	2 675	863	1 422	2 026	267	1 238[b]
Maldives	-[i]	..	..	..	..	..	..
Mongolia	..	..	..	..	..	..	..
Myanmar	..	..	..	..	..	..	..
Nepal	..	..	..	..	..	..	..
Pakistan	- 2	- 25	5	1	11	31	- 17
Philippines	181	136	160	- 29	- 108	- 160	85
Singapore	2 967	8 955	380	5 397	6 061	9 548	4 082
Sri Lanka	6	5	13	24	2	-	11
Taiwan Province of China	2 683	5 243	3 836	4 420	6 701	5 480	4 886
Thailand	479	584	132	349	- 22	162	106
Viet Nam	..	..	..	..	..	..	..

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Annex table B.2. FDI outflows, by home region and economy, 1991-2002 (concluded)
(Millions of dollars)

Home region/economy	1991-1996 (Annual average)	1997	1998	1999	2000	2001	2002
The Pacific	**60**	**9**	**- 56**	**- 24**	**69**	**116**	**30**
Fiji	- 11	- 40	- 56	- 58	69	7	- 17
Kiribati	-[l]	..	..	..	..	..	..
New Caledonia	..	..	..	..	..	..	..
Papua New Guinea	70	49[b]	-[b]	35[b]	- 2[b]	109[b]	47[b]
Samoa	..	..	..	..	-	..	..
Solomon Islands	-[g]	..	..	..	-	..	..
Tonga	-[m]	..	..	..	1	..	..
Tuvalu	..	..	..	..	..	..	..
Vanuatu	..	..	..	..	..	..	..
Central and Eastern Europe	**472**	**4 215**	**2 484**	**2 462**	**3 936**	**3 505**	**4 205**
Albania	12[h]	10	1	7	6	-	4[b]
Belarus	..	2	2	-	-	-	- 206
Bosnia and Herzegovina	8[h]	- 2	..	..	..	..	..
Bulgaria	- 12[h]	- 2	-	17	3	10	28
Croatia	14[a]	186	98	47	4	155	95
Czech Republic	84[h]	28	125	90	43	165	281
Czechoslovakia (former)	14[d]	..	..	..	..	..	..
Estonia	11[h]	137	6	83	63	200	122
Hungary	21	433	478	252	532	337	264
Latvia	- 26[h]	6	54	17	10	12	9
Lithuania	-[c]	27	4	9	4	7	18
Moldova, Republic of	6[i]	-	-	-	-	-	-
Poland	25	45	316	31	17	- 90	173
Romania	3	- 9	- 9	16	- 11	- 17	16
Russian Federation	488[a]	3 184	1 270	2 208	3 177	2 533	3 284
Serbia and Montenegro	..	..	..	..	..	..	..
Slovakia	20[h]	95	147	- 371	21	37	5
Slovenia	- 3[h]	31	- 5	48	65	133	117
TFYR Macedonia	-[e]	1	1	1	-	1	-
Ukraine	4[i]	42	- 4	7	1	23	- 5
Yugoslavia (former)	..	..	..	..	..	..	..
Memorandum							
Least developed countries [n]	164	785	- 362	395	768	- 61	75
Oil-exporting countries [o]	2 084	869	- 1 028	2 341	2 851	4 527	3 358
All developing economies, excluding China	36 867	74 099	47 203	71 011	98 136	40 498	40 245

Source: UNCTAD, FDI/TNC database.

a Annual average from 1993 to 1996.
b Estimates. For details, see "Definitions and Sources" in annex B.
c Annual average from 1995 to 1996.
d 1991.
e 1996.
f 1992.
g Annual average from 1991 to 1992.
h Annual average from 1992 to 1996.
i Annual average from 1994 to 1996.
j Annual average from 1991 to 1996.
k 1993.
l 1994.
m Annual average from 1991 to 1993.
n Least developed countries include: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.
o Oil-exporting countries include: Cameroon, Algeria, Angola, Bahrain, Brunei Darussalam, Congo, Ecuador, Gabon, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates and Venezuela.

Annex table B.3. FDI inward stock, by host region and economy, 1980, 1985, 1990, 1995, 2000, 2001 and 2002 [a]

(Millions of dollars)

Host region/economy	1980	1985	1990	1995	2000	2001	2002
World	**699 415**	**977 755**	**1 954 152**	**3 002 152**	**6 146 812**	**6 606 855**	**7 122 506[b]**
Developed economies	**391 946**	**570 901**	**1 399 880**	**2 041 408**	**3 988 075**	**4 277 195**	**4 594 850[b]**
Western Europe	**232 717**	**286 179**	**796 179**	**1 213 733**	**2 361 428**	**2 544 445**	**2 779 857[b]**
European Union	**217 476**	**268 253**	**748 669**	**1 136 387**	**2 240 506**	**2 418 136**	**2 623 903[b]**
Austria	3 163	3 762	9 884	17 532	30 431	34 328	42 539
Belgium and Luxembourg	7 306	18 447	58 388	112 960	195 219	203 580	..
Belgium	..	..	..	..	..	..	..
Luxembourg	..	..	..	..	..	..	..
Denmark	4 193	3 613	9 192	23 801	66 467	65 830	71 784[c]
Finland	540	1 339	5 132	8 465	24 272	26 267	35 509
France	25 927[d]	36 701[d]	86 845	191 434	259 775	289 015	401 305
Germany	36 630	36 926	119 618	192 898	470 938	413 556	451 589[c]
Greece	4 524	8 309	5 667[e]	10 957[e]	12 499	12 006	12 056[c]
Ireland	32 461[f]	33 361[f]	34 208[f]	40 406[f]	118 550	138 266	157 298[c]
Italy	8 892	18 976	57 985	63 456	113 047	107 921	126 481
Netherlands	19 167	24 921	68 731	116 049	246 643	285 387	314 569[c]
Portugal	3 665[g]	4 599[g]	10 571	18 381	28 469	32 921	43 962
Spain	5 141	8 939	65 916	109 200	144 803	164 754	217 769[c]
Sweden	2 852[h]	4 333	12 636	31 089	93 970	92 243	110 482
United Kingdom	63 014	64 028	203 894	199 760	435 422	552 062	638 561
Other Western Europe	**15 241**	**17 926**	**47 511**	**77 346**	**120 923**	**126 309**	**155 954**
Gibraltar [i]	33	98	263	432	529	550	609
Iceland	..[j, k]	71	147	129	488	644	864
Malta [i]	156	286	465	922	2 972	3 266	2 891
Norway	6 577[l]	7 412[l]	12 391	18 800	30 130	32 580	33 452[c]
Switzerland	8 506	10 058	34 245	57 063	86 804	89 269	118 139
North America	**137 209**	**249 272**	**507 793**	**658 843**	**1 419 383**	**1 530 527**	**1 572 561**
Canada	54 163	64 657	112 882	123 290	205 129	209 464	221 468
United States	83 046	184 615	394 911	535 553	1 214 254	1 321 063	1 351 093[c]
Other developed economies	**22 021**	**35 450**	**95 908**	**168 833**	**207 263**	**202 224**	**242 432**
Australia	13 173	25 049	73 644	104 074	109 263	105 391	128 696
Israel	3 214[g]	3 619[g]	4 476	5 677	24 055	25 111	24 762
Japan	3 270	4 740	9 850	33 508	50 323	50 319	59 646[c]
New Zealand	2 363	2 043	7 938	25 574	23 623	21 402	29 328
Developing economies	**307 469**	**406 805**	**551 481**	**920 400**	**2 029 412**	**2 173 769**	**2 339 632**
Africa	**32 162**	**33 844**	**50 775**	**77 400**	**144 503**	**157 823**	**170 876**
North Africa	**4 322**	**8 242**	**16 903**	**26 300**	**38 082**	**43 191**	**48 310**
Algeria [i]	1 320	1 281	1 355	1 465	3 441	4 637	5 702
Egypt [i]	2 260	5 703	11 043	14 690	19 589	20 099	20 746
Libyan Arab Jamahiriya [i]	..[k]	..[k]	..[k]	..[k]	..[k]	..[k]	..[k]
Morocco [i]	189	440	917	3 032	6 758	9 566	9 994
Sudan [i]	28	76	54	164	1 396	1 970	2 651
Tunisia	3 341	4 917	7 615	10 967	11 545	11 667	14 061
Other Africa	**27 840**	**25 602**	**33 872**	**51 101**	**106 421**	**114 632**	**122 566**
Angola [i]	61	675	1 025	2 921	7 977	10 122	11 435
Benin [i]	32	34	159	381	588	632	673
Botswana	698[g]	947[g]	1 309	1 126	1 821	1 494	1 946
Burkina Faso [i]	18	24	39	74	149	158	166
Burundi [i]	7	24	30	34	48	48	48
Cameroon [i]	330	1 125	1 044	1 062	1 263	1 331	1 417
Cape Verde [m]	..	..	4	38	174	183	197
Central African Republic [i]	50	77	95	80	95	101	105
Chad [i]	150	223	289	370	618	618	1 519
Comoros [n]	2	2	17	19	24	24	26
Congo [i]	315	485	575	1 022	1 893	1 970	2 217
Congo, Democratic Republic of [i]	709	620	546	541	617	618	650

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Annex table B.3. FDI inward stock, by host region and economy, 1980, 1985, 1990, 1995, 2000, 2001 and 2002 [a] (continued)

(Millions of dollars)

Host region/economy	1980	1985	1990	1995	2000	2001	2002
Côte d'Ivoire [i]	530	699	975	1 624	3 407	3 451	3 674
Djibouti [o]	4	4	6	17	34	37	40
Equatorial Guinea [p]	..	6	25	175	1 128	2 073	2 396
Eritrea [q]	..	..	..	..	301	301	322
Ethiopia [i]	110	114	124	165	941	961	1 036
Gabon [i]	512	833	1 208	441	..[k]	..[k]	..[k]
Gambia	127[g]	127[g]	157	185	216	221	264[c]
Ghana [i]	229	272	315	822	1 462	1 551	1 601
Guinea [o]	1	2	69	131	263	265	295
Guinea-Bissau [r]	-	4	8	20	46	47	48
Kenya [i]	386	476	668	732	996	1 047	1 097
Lesotho [s]	5	25	83	179	330	358	382
Liberia [i]	868	1 260	2 454	2 419	2 516	2 496	2 431
Madagascar [i]	40	52	107	173	341	434	442
Malawi [i]	113	151	198	163	183	163	163
Mali [t]	12	33	38	162	453	576	678
Mauritania [i]	..[k]	39	57	92	108	101	113
Mauritius [i]	26	43	169	256	687	719	746
Mozambique [i]	15	17	42	201	1 094	1 350	1 755
Namibia	1 994[g]	2 010[g]	2 047	1 708	1 230	797	978[c]
Niger [i]	190	206	286	363	426	449	457
Nigeria [i]	2 405	4 417	8 072	14 065	20 184	21 289	22 570
Rwanda [i]	54	133	213	231	252	256	259
São Tomé and Principe [m]	..	..	-	-	4	9	11
Senegal [i]	150	188	258	374	827	859	952
Seychelles [i]	54	105	204	321	577	636	699
Sierra Leone [i]	79	68	..[k]	..[k]	19	22	26
Somalia [i]	34	10	..[k]	2	4	4	4
South Africa	16 519	9 024	9 121	15 099	47 418	50 246	50 998
Swaziland	243[u]	104	336	535	432	479	656
Togo [i]	176	210	268	307	511	574	649
Uganda [i]	9	7	4	272	1 255	1 484	1 759
United Republic of Tanzania [i]	47	91	93	325	1 783	2 111	2 351
Zambia [t]	355	450	1 012	1 543	2 350	2 422	2 619
Zimbabwe [i]	186	187	124	342	1 085	1 088	1 114
Latin America and the Caribbean	**50 404**	**80 129**	**116 963**	**201 755**	**608 924**	**705 746**	**762 229**
South America	**29 345**	**42 238**	**66 625**	**112 150**	**380 061**	**414 979**	**441 110**
Argentina	5 344	6 563	8 778[v]	27 991	72 935	75 989	76 992[c]
Bolivia	420	592	1 026	1 564	5 176	5 839	6 392[c]
Brazil	17 480	25 664	37 143	42 530	196 884[w]	219 342[w]	235 908[w]
Chile	886	2 321	10 067	15 547	44 955	44 693	46 296[c]
Colombia	1 061	2 231	3 500	6 407	12 144	16 008	19 375
Ecuador	719	982	1 626	3 619	7 081	8 410	9 686
Guyana [i]	25	39	42	452	759	815	859
Paraguay	212[x]	301[x]	405[x]	705	1 311	1 162	867
Peru	898	1 152	1 302	5 541	10 503	10 669	12 565
Suriname [i]	..[k]	52	..[k]	..[k]	..[k]	..[k]	..[k]
Uruguay	727[y]	794[y]	1 007[y]	1 464[y]	2 088	2 406	1 291
Venezuela	1 604	1 548	2 260	6 975	26 944	30 392	31 710
Other Latin America and the Caribbean	**21 059**	**37 890**	**50 337**	**89 605**	**228 863**	**290 767**	**321 119**
Anguilla [z]	..	..	11	68	227	260	293
Antigua and Barbuda [s]	23	94	292	438	566	606	642
Aruba [aa]	..	..	132	204	816	497	738
Bahamas [i]	547	543	586	742	1 587	1 688	1 888
Barbados [i]	102	125	171	227	308	326	338
Belize [i]	12	10	73	153	269	310	362
Bermuda [i]	5 131	8 053	13 849	23 997	56 393	68 977	78 070
Cayman Islands [ab]	222	1 479	1 749	2 745	24 973	26 356	29 451
Costa Rica	672	957	1 447	2 733[ac]	5 206[ac]	5 660[ac]	6 302[ac]
Cuba [i]	-	-	2	40	74	78	82
Dominica [s]	-	11	71	197	271	283	297
Dominican Republic	239	265	572	1 707[ac]	5 214[ac]	6 293[ac]	7 254[ac]
El Salvador	154	181	212	293	1 973	2 223	2 431
Grenada [s]	1	13	70	168	346	395	436
Guatemala	701[ad]	1 050[ad]	1 734	2 202	3 420	3 876	4 155
Haiti [i]	79	112	149	153	215	220	226
Honduras [i]	92	172	383	652	1 489	1 684	1 826

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Annex table B.3. FDI inward stock, by host region and economy, 1980, 1985, 1990, 1995, 2000, 2001 and 2002 [a] (continued)

(Millions of dollars)

Host region/economy	1980	1985	1990	1995	2000	2001	2002
Jamaica [i]	564	522	791	1 568	3 316	3 930	4 409
Mexico	8 105[ad]	18 802[ad]	22 424	41 130	97 170	140 376	154 003[c]
Montserrat [ae]	..	..	40	68	84	85	86
Netherlands Antilles [i]	770	257	408	364	78	77	61
Nicaragua [i]	109	109	115	354	1 386	1 536	1 710
Panama	2 461[af]	3 142[af]	2 198[af]	3 245	6 744	7 257	7 314
Saint Kitts and Nevis [ag]	1	32	160	244	484	572	653
Saint Lucia [ah]	94	197	319	517	804	826	849
Saint Vincent and the Grenadines [n]	1	9	48	179	489	510	529
Trinidad and Tobago	976	1 719	2 093	3 601[ac]	6 489[ac]	7 173[ac]	7 910[ac]
Virgin Islands [ah]	1	39	240	1 622	8 472	8 695	8 806
Asia and the Pacific	**224 904**	**292 832**	**383 743**	**641 245**	**1 275 985**	**1 310 200**	**1 406 527**
Asia	**223 707**	**291 626**	**381 481**	**638 222**	**1 272 245**	**1 306 301**	**1 402 488**
West Asia	**7 568**	**37 657**	**41 196**	**51 662**	**69 979**	**70 035**	**72 376**
Bahrain	61[d]	399[d]	552	2 403	5 906	5 986	6 205[c]
Cyprus [i]	460	789	1 146	1 579	3 878	4 530	4 827
Iran, Islamic Republic of [i]	2 962	2 780	2 039	2 297	2 474	2 524	2 561
Iraq [i]	..[k]	..[k]	..[k]	..[k]	..[k]	..[k]	..[k]
Jordan [ai]	155	493	615	627	2 258	2 358	2 414
Kuwait [i]	30	33	26	12	527	380	387
Lebanon [t]	20	34	53	138	1 116	1 365	1 622
Oman [i]	483	1 201	1 723	2 210	2 501	2 543	2 583
Occupied Palestinian Territory [aj]	..	..	..	..	155	165	206
Qatar [i]	83	93	71	451	1 920	2 216	2 541
Saudi Arabia [i]	..[k]	21 828	22 500	22 423	25 963	25 983	25 633
Syrian Arab Republic [i]	-	37	374	915	1 699	1 904	2 129
Turkey	8 845[ak]	9 253[ak]	11 194[ak]	14 977[ak]	19 209	17 521	18 558[c]
United Arab Emirates [i]	409	482	751	1 770	1 061	1 318	1 413
Yemen	195[g]	283[g]	180	1 882	1 336	1 271	1 336
Central Asia	**..**	**..**	**..**	**4 018**	**16 123**	**20 856**	**25 139**
Armenia	..	..	..	34[al]	513	580	680[c]
Azerbaijan	..	..	..	352[am]	3 735	3 962	5 354
Georgia	..	..	..	32	423[an]	533[an]	679[an]
Kazakhstan	..	..	..	2 895	9 259	12 871	15 354
Kyrgyzstan	..	..	..	144	439	427	415[c]
Tajikistan [ao]	..	..	..	40	144	153	162
Turkmenistan [ap]	..	..	..	415	913	1 063	1 163
Uzbekistan [ao]	..	..	..	106	697	1 267	1 332
South, East and South-East Asia	**216 139**	**253 969**	**340 285**	**582 542**	**1 186 143**	**1 215 410**	**1 304 973**
Afghanistan [i]	11	11	12	12	17	18	18
Bangladesh	63	112	147[aq]	180[aq]	983[aq]	1 062[aq]	1 107[aq]
Bhutan [z]	..	..	2	2	3	4	4
Brunei Darussalam [i]	19	28	23	631	3 856	4 383	5 418
Cambodia	38[ar]	38[ar]	38[ar]	356	1 336	1 449	1 503[c]
China	6 251[al]	10 499[al]	24 762[al]	137 435[al]	348 346	395 192[as]	447 892[as]
Hong Kong, China	177 755[at]	183 219[at]	201 652[at]	227 532[at]	455 469	419 348	433 065[c]
India	1 177	1 075	1 668[aq]	5 652[aq]	18 916[aq]	22 319[aq]	25 768[aq]
Indonesia	10 274	24 971	38 883	50 601	60 638[au]	57 359[au]	55 836[au]
Korea, Democratic People's Republic of [m]	..	..	572	716	1 046	1 022	1 034
Korea, Republic of	1 327	2 160	5 186	9 451	37 106	40 767	43 689
Lao People's Democratic Republic [i]	2	1	13	205	550	574	599
Macau, China	2 725[av]	2 733[av]	2 733[av]	2 726[av]	2 725[av]	2 858	3 008[c]
Malaysia	5 169	7 388	10 318	28 731[aw]	52 747[aw]	53 301[aw]	56 505[aw]
Maldives [o]	5	3	25	61	118	130	142
Mongolia [ae]	..	..	-	38	182	225	302
Myanmar	..[k, ax]	..[k, ax]	..[k, ax]	649[ax]	3 178	3 266	3 395[c]
Nepal	1[az]	2[az]	12[az]	39[az]	97[az]	116	126[c]
Pakistan	691	1 079	1 928	5 552	6 912	5 536	6 359[c]
Philippines	1 281	2 601	3 268	6 086	9 081	10 468	11 579[c]
Singapore	6 203	13 016	30 468	65 644	113 431	116 428	124 083[c]
Sri Lanka	231	517	681[aq]	1 297[aq]	2 389[aq]	2 471[aq]	2 713[aq]
Taiwan Province of China	2 405	2 930	9 735[aq]	15 736[aq]	27 924[aq]	32 033[aq]	33 478[aq]
Thailand	981	1 999	8 209	17 452	24 468	29 158	30 226[c]
Viet Nam [i]	9	64	260	5 760	14 624	15 924	17 124

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Annex table B.3. FDI inward stock, by host region and economy, 1980, 1985, 1990, 1995, 2000, 2001 and 2002 [a] (concluded)

(Millions of dollars)

Host region/economy	1980	1985	1990	1995	2000	2001	2002
The Pacific	**1 196**	**1 207**	**2 263**	**3 022**	**3 740**	**3 899**	**4 039**
Fiji	358	393	414[ba]	834[ba]	1 017[ba]	1 106[ba]	1 183[ba]
Kiribati [bb]	..	- 1	-	1	5	5	6
New Caledonia [ai]	28	35	76	110	146	144	144
Papua New Guinea	748	683	1 582	1 667	2 007[bc]	2 069[bc]	2 119[bc]
Samoa [i]	1	2	9	29	53	55	56
Solomon Islands [t]	28	32	70	126	126	114	107
Tonga [s]	-	-	1	8	21	22	25
Tuvalu [bd]	..	..	..	-	1	1	1
Vanuatu [t]	33	62	110	249	366	384	399
Central and Eastern Europe	**..**	**49**	**2 841**	**40 187**	**129 169**	**155 734**	**187 868**
Albania [ao]	..	..	..	201	568	775	988
Belarus	..	..	..	50[be]	1 306	1 374	1 602[c]
Bosnia and Herzegovina	..	..	..	20[bf]	376[an]	506[an]	828[an]
Bulgaria	..	..	112[bf]	446[bf]	2 716	3 410	3 889[c]
Croatia	..	..	..	478[bg]	3 560	5 049	6 029[c]
Czech Republic	..	..	1 363[bh]	7 350	21 644	27 092	38 450
Estonia	..	..	..	688[bg]	2 645	3 160	4 226
Hungary	..	49[g]	569	11 919	19 804	23 562	24 416[c]
Latvia	..	..	..	615	2 084	2 332	2 723
Lithuania	..	..	..	352	2 334	2 666	3 981
Moldova, Republic of	..	..	..	93	446	600	717
Poland	..	..	109	7 843	34 227	41 031	45 150[c]
Romania	..	..	-	821	6 480	7 638	8 786
Russian Federation	..	..	..	5 465	17 956	20 142	22 563[c]
Serbia and Montenegro [ao]	..	..	..	329	1 319	1 484	1 959
Slovakia	..	..	81	810	4 634	6 213[as]	10 225[as]
Slovenia	..	..	607[bi]	1 763	2 809	3 209	5 074[c]
TFYR Macedonia [bd]	..	..	..	33	387	829	907
Ukraine	..	..	..	910	3 875	4 662	5 355[c]
Yugoslavia (former)	..	..	..	..	..	..	..
Memorandum							
Least developed countries [bj]	3 419	5 132	8 165	16 208	35 609	40 867	46 099
Oil-exporting countries [bk]	13 281	59 568	81 047	113 781	174 176	182 275	189 638
All developing economies, excluding China	301 219	396 306	526 669	783 121	1 681 222	1 778 733	1 891 896

Source: UNCTAD, FDI/TNC database.

a Estimates. For details, see “Definitions and Sources” in annex B. For the countries for which the stock data are estimated by either cumulating FDI flows or adding or subtracting flows to FDI stock in a particular year, notes are given below.
b Value does not include data for Belgium and for Luxembourg. For details, see “Definitions and Sources” in Annex B, p. 231.
c Stock data after 2001 are estimated by adding flows.
d Stock data prior to 1989 are estimated by subtracting flows.
e Stock data from 1990 to 1998 are estimated by subtracting flows from the stock of 1999.
f Stock data prior to 1999 are estimated by subtracting flows.
g Stock data prior to 1990 are estimated by subtracting flows.
h Stock data prior to 1982 are estimated by subtracting flows.
i Stock data are estimated by accumulating flows since 1970.
j Stock data prior to 1988 are estimated by subtracting flows.
k Negative stock value. However, this value is included in the regional and global total.
l Stock data prior to 1987 are estimated by subtracting flows.
m Stock data are estimated by accumulating flows since 1987.
n Stock data are estimated by accumulating flows since 1978.
o Stock data are estimated by accumulating flows since 1973.
p Stock data are estimated by accumulating flows since 1982.
q Stock data are estimated by accumulating flows since 1997.
r Stock data are estimated by accumulating flows since 1975.
s Stock data are estimated by accumulating flows since 1977.
t Stock data are estimated by accumulating flows since 1971.
u Stock data prior to 1981 are estimated by subtracting flows.
v Stock data for 1990 is estimated by subtracting flows from the stock of 1991.
w Stock data are estimated by adding flows to the stock of 1995.
x Stock data up to 1993 are estimated by accumulating flows since 1970.
y Stock data up to 1996 are estimated by accumulating flows since 1970.
z Stock data are estimated by accumulating flows since 1990.
aa Stock data are estimated by accumulating flows since 1989.
ab Stock data are estimated by accumulating flows since 1974.
ac Stock data after 1990 are estimated by adding flows.
ad Stock data up to 1989 are estimated by accumulating flows since 1970.
ae Stock data are estimated by accumulating flows since 1986.

[af] Stock data prior to 1995 are estimated by subtracting flows.
[ag] Stock data are estimated by accumulating flows since 1980.
[ah] Stock data are estimated by accumulating flows since 1976.
[ai] Stock data are estimated by accumulating flows since 1972.
[aj] Stock data are estimated by accumulating flows since 1996.
[ak] Stock data prior to 2000 are estimated by subtracting flows.
[al] Stock data prior to 1997 are estimated by subtracting flows.
[am] Stock data up to 1998 are estimated by accumulating flows since 1994.
[an] Stock data after 1998 are estimated by adding flows.
[ao] Stock data are estimated by accumulating flows since 1992.
[ap] Stock data are estimated by accumulating flows since 1993.
[aq] Stock data after 1988 are estimated by adding flows.
[ar] Stock data prior to 1994 are estimated by subtracting flows.
[as] Stock data after 2000 are estimated by adding flows.
[at] Stock data prior to 1998 are estimated by subtracting flows.
[au] Stock data after 1999 are estimated by adding flows.
[av] Stock data prior to 2001 are estimated by subtracting flows.
[aw] Stock data after 1994 are estimated by adding flows.
[ax] Stock data prior to 1999 are estimated by subtracting flows.
[az] Stock data up to 2000 are estimated by accumulating flows since 1972.
[ba] Stock data after 1989 are estimated by adding flows.
[bb] Stock data are estimated by accumulating flows since 1983.
[bc] Stock data after 1997 are estimated by adding flows.
[bd] Stock data are estimated by accumulating flows since 1984.
[be] Stock data up to 1995 are estimated by accumulating flows since 1992.
[bf] Stock data prior to 1998 are estimated by subtracting flows.
[bg] Stock data prior to 1996 are estimated by subtracting flows.
[bh] Stock data prior to 1992 are estimated by subtracting flows.
[bi] Stock data prior to 1993 are estimated by subtracting flows.
[bj] Least developed countries include: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People’s Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.
[bk] Oil-exporting countries include: Cameroon, Algeria, Angola, Bahrain, Brunei Darussalam, Congo, Ecuador, Gabon, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates and Venezuela.

Note: For data on FDI stock which are calculated as an accumulation of flows, price changes are not taken into account.

Annex table B.4. FDI outward stock, by home region and economy, 1980, 1985, 1990, 1995, 2000, 2001 and 2002 [a]

(Millions of dollars)

Home region/economy	1980	1985	1990	1995	2000	2001	2002
World	**563 997**	**743 267**	**1 762 963**	**2 901 059**	**5 991 756**	**6 318 861**	**6 866 362[b]**
Developed economie	**499 391**	**665 090**	**1 629 259**	**2 583 824**	**5 154 968**	**5 487 592**	**5 987 746[b]**
Western Europe	**237 694**	**330 825**	**874 369**	**1 463 467**	**3 248 357**	**3 453 487**	**3 771 452[b]**
European Union	**215 582**	**304 579**	**797 322**	**1 298 257**	**2 980 615**	**3 171 860**	**3 434 297[b]**
Austria	530	1 343	4 273	11 702	24 820	28 511	40 220
Belgium and Luxembourg	6 037	9 551	40 636	80 690	179 773	181 460	..
Belgium	..	..	..	..	..	..	..
Luxembourg	..	..	..	..	..	..	..
Denmark	2 065	1 801	7 342	24 703	65 881	69 766	74 605[c]
Finland	737	1 829	11 227	14 993	52 109	56 055	69 468
France	24 281[d]	37 753[d]	110 125	204 431	445 091	489 441	652 105
Germany	43 127	59 909	148 456	258 142	483 946	553 315	577 849[c]
Greece	2 923[e]	2 923[e]	2 948[e]	3 004[e]	5 861	6 371	7 026[c]
Ireland	..	8 852[e]	11 588[e]	13 473[e]	27 925	33 748	36 453[c]
Italy	7 319	16 600	57 261	97 042	180 275	182 375	194 498
Netherlands	42 116	47 898	106 899	172 672	307 760	329 383	355 652[c]
Portugal	512[f]	583[f]	900	3 173	17 170	23 491	31 983
Spain	1 931	4 455	15 652	36 243	164 791	189 418	216 051[c]
Sweden	3 572[g]	10 768	50 720	73 143	123 125	122 053	145 382
United Kingdom	80 434	100 313	229 294	304 847	902 087	906 474	1 033 003
Other Western Europe	**22 112**	**26 245**	**77 047**	**165 210**	**267 742**	**281 627**	**337 156**
Gibraltar	..	..	..	..	..	..	..
Iceland	59[h]	59[h]	75	179	663	839	1 068
Malta	..	..	..	32	203	210[i]	210[i]
Norway	561	1 093	10 884	22 519	33 505	32 771[i]	38 308[i]
Switzerland	21 491	25 093	66 087	142 479	233 371	247 807	297 570
North America	**239 158**	**281 512**	**515 358**	**817 224**	**1 528 943**	**1 626 312**	**1 775 134**
Canada	23 783	43 143	84 837	118 209	235 512	244 638	273 719
United States	215 375	238 369	430 521	699 015	1 293 431	1 381 674	1 501 415[c]
Other developed economies	**22 539**	**52 754**	**239 533**	**303 132**	**377 667**	**407 792**	**441 160**
Australia	2 260	6 653	30 507	53 009	83 232	91 343	91 249
Israel	141[f]	623[f]	1 188	4 041	9 361	9 607	10 783
Japan	19 610	43 970	201 440	238 452	278 445	300 115	331 596[c]
New Zealand	529[j]	1 508[j]	6 398[j]	7 630	6 629	6 728	7 532
Developing economies	**64 606**	**78 176**	**133 088**	**310 864**	**817 450**	**806 524**	**849 464**
Africa	**6 871**	**10 960**	**20 777**	**33 004**	**48 591**	**43 066**	**43 574**
North Africa	**460**	**872**	**1 474**	**1 528**	**2 998**	**3 200**	**3 471**
Algeria [k]	98	156	183	266	343	352	452
Egypt [l]	39	91	163	350	655	668	695
Libyan Arab Jamahiriya [m]	162	287	624	279	1 230	1 314	1 424
Morocco [l]	155	333	489	603	737	834	863
Sudan	..	..	..	..	..	..	..
Tunisia	6	6	15	30	33	32	37
Other Africa	**6 412**	**10 088**	**19 303**	**31 475**	**45 592**	**39 866**	**40 103**
Angola	..	..	..	..	..	..	..
Benin [n]	-	2	2	2	55	58	58
Botswana	438[f]	439[f]	447	650	517	866	1 123
Burkina Faso [o]	3	3	4	13	24	25	26
Burundi [p]	..	..	-	1	2	2	2
Cameroon [q]	23	53	150	227	255	257	261
Cape Verde [r]	..	..	1	5	5	5	5
Central African Republic [s]	-	1	17	40	42	42	42
Chad [t]	1	1	48	81	79	79	79
Comoros [u]	..	..	1	2	2	2	2
Congo	..	..	..	..	..	..	..
Congo, Democratic Republic of	..	..	..	..	..	..	..

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Annex table B.4. FDI outward stock, by home region and economy, 1980, 1985, 1990, 1995, 2000, 2001 and 2002 [a] (continued)

(Millions of dollars)

Home region/economy	1980	1985	1990	1995	2000	2001	2002
Côte d'Ivoire [u]	..	..	31	517	677	679	682
Djibouti	..	..	..	..	..	..	..
Equatorial Guinea [p]	..	..	-	-	..[v]	3	3
Eritrea	..	..	..	..	..	..	..
Ethiopia [w]	..	..	..	..	435	504	511
Gabon [o]	78	103	164	257	271	273	273
Gambia	..	..	22	36	44	42	46[c]
Ghana [x]	..	..	..	..	359	412	472
Guinea [x]	..	..	..	..	8	9	12
Guinea-Bissau	..	..	..	..	..	..	..
Kenya [s]	18	60	99	116	218	268	344
Lesotho [r]	..	..	-	-	-	-	-
Liberia [y]	48	361	453	1 113	1 524	1 357[i]	1 307[i]
Madagascar [z]	..	..	1	5	4	4	4
Malawi	..	..	..	..	15[aa]	18[aa]	22[aa]
Mali [s]	22	22	22	23	112	129	148
Mauritania [z]	..	..	3	3	3	3	3
Mauritius [ab]	..	-	2	94	133	135	136
Mozambique [ac]	..	..	..	-	1	1	1
Namibia	..	..	80	15	45	10	5[c]
Niger [o]	2	8	54	109	145	141	141
Nigeria [t]	9	..[v]	2 586	3 975	4 358	4 452	4 553
Rwanda [u]	..	..	-	..[v]	3	4	5
São Tomé and Principe	..	..	..	..	..	..	..
Senegal [m]	7	43	49	96	116	109	148
Seychelles [ad]	14	44	61	94	136	147	161
Sierra Leone	..	..	..	..	..	..	..
Somalia	..	..	..	..	..	..	..
South Africa	5 722	8 963	14 864	23 433	35 277	29 155	28 755
Swaziland	19[ae]	9	38	136	100	53	162
Togo [af]	10	10	16	44	125	118	118
Uganda [ag]	..	..	..	255	265	259	246
United Republic of Tanzania	..	..	..	..	..	..	..
Zambia	..	..	..	..	..	..	..
Zimbabwe [ah]	..	10	88	137	241	245	249
Latin America and the Caribbean	**51 529**	**55 517**	**63 358**	**90 861**	**160 186**	**167 906**	**173 187**
South America	**46 085**	**47 356**	**51 476**	**64 620**	**95 458**	**94 459**	**98 185**
Argentina	5 997[ai]	5 945[ai]	6 106[ai]	10 696	20 681	20 473	19 407[c]
Bolivia	1[aj]	1[j]	9	18	29	32	34[c]
Brazil	39 601[ak]	40 496[ak]	42 101[ak]	45 530[ak]	53 003[ak]	50 745	53 227[c]
Chile	42	102	178	2 425[al]	11 793	12 976	13 439[c]
Colombia	136	301	402	1 027	2 989	3 047	3 830
Ecuador [am]	..	..	..	73	270	270	270
Guyana [an]	..	..	..	2	-	-	-
Paraguay	113[ao]	128[ao]	137[ao]	179	214	220	217
Peru	3	38	122	567	505	574	730
Suriname	..	..	..	..	..	..	..
Uruguay	169[ap]	181[ap]	183[ap]	186[ap]	208[aq]	209[aq]	224[aq]
Venezuela	23	165	2 239	3 918	5 766	5 914	6 807
Other Latin America and the Caribbean	**5 444**	**8 161**	**11 882**	**26 240**	**64 728**	**73 447**	**75 002**
Anguilla	..	..	..	..	..	..	..
Antigua and Barbuda	..	..	..	..	..	..	..
Aruba [an]	..	..	..	10	14	27	32
Bahamas [y]	285	154	614	1 286	1 385	1 385[i]	1 385[i]
Barbados [k]	5	13	23	33	41	42	43
Belize [ac]	..	..	..	12	47	55	64
Bermuda [y]	727	1 691	1 550	2 626	14 942	9 535[i]	7 712[i]
Cayman Islands [ar]	5	85	694	1 984	16 247	19 059	20 026
Costa Rica [t]	7	27	44	67	95	104	160
Cuba	..	..	..	..	..	..	..
Dominica [w]	..	..	..	..	-	-	-
Dominican Republic [an]	..	..	..	38	122	89	89
El Salvador	..	..	54[ap]	53[ap]	74	64	39
Grenada [u]	..	..	-	-	1	1	1
Guatemala [x]	..	..	..	..	31	32	36
Haiti [am]	..	..	..	1	4	4	4
Honduras	..	..	..	..	..	..	..

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Annex table B.4. FDI outward stock, by home region and economy, 1980, 1985, 1990, 1995, 2000, 2001 and 2002 [a] (continued)

(Millions of dollars)

Home region/economy	1980	1985	1990	1995	2000	2001	2002
Jamaica [k]	5	5	42	308	709	798	872
Mexico	3 589[ak]	3 957[ak]	4 628[ak]	6 130[ak]	11 098[ak]	11 944	12 425
Montserrat	..	..	..	..	..	..	..
Netherlands Antilles [ad]	9	10	21	24	11	11	12
Nicaragua [an]	..	..	..	-	8	13	17
Panama [y]	811	2 204	4 188	4 939	4 004	5 906[i]	7 767[i]
Saint Kitts and Nevis [u]	..	..	-	-	-	-	-
Saint Lucia [u]	..	..	-	1	1	-	-
Saint Vincent and the Grenadines [as]	..	..	1	1	1	1	1
Trinidad and Tobago [ah]	..	15	22	24	297	447	594
Virgin Islands [ah]	..	..	..	8 704	15 598	23 930	23 722
Asia and the Pacific	**6 206**	**11 699**	**48 953**	**187 000**	**608 673**	**595 552**	**632 702**
Asia	**6 193**	**11 662**	**48 868**	**186 574**	**608 232**	**594 994**	**632 114**
West Asia	**1 447**	**2 143**	**7 609**	**7 112**	**13 318**	**17 646**	**19 777**
Bahrain	600[at]	599[at]	719	1 044	1 752	1 968	2 146[c]
Cyprus [ab]	..	-	9	78	529	749	731
Iran, Islamic Republic of [ag]	..	..	..	..[v]	1 207	4 019	5 318
Iraq	..	..	..	..	..	..	..
Jordan [m]	35	38	28	..[v]	..[v]	..[v]	..[v]
Kuwait [s]	568	930	3 662	2 804	1 427	1 793	1 638
Lebanon [au]	..	42	49	94	248	340	414
Oman [ab]	..	2	7	23	23	22	22
Occupied Palestinian Territory	..	..	..	..	..	..	..
Qatar [am]	..	..	..	30	181	293	353
Saudi Arabia [av]	239	508	1 873	1 621	2 120	2 076	2 126
Syrian Arab Republic	..	..	..	..	..	..	..
Turkey	..	..	1 157[aw]	1 425[aw]	3 668	3 775	3 950[c]
United Arab Emirates [y]	5	19	99	98	2 253	2 695[i]	3 136[i]
Yemen [au]	..	4	5	5	5	5	5
Central Asia	**..**	**..**	**..**	**-**	**558**	**758**	**1 521**
Armenia [ax]	..	..	..	..	33	44	55
Azerbaijan [ax]	..	..	..	..	474	632	957
Georgia	..	..	..	..	..	..	..
Kazakhstan	..	..	..	-	18	43	464
Kyrgyzstan	..	..	..	..	33	39	45[c]
Tajikistan	..	..	..	..	..	..	..
Turkmenistan	..	..	..	..	..	..	..
Uzbekistan	..	..	..	..	..	..	..
South, East and South-East Asia	**4 746**	**9 519**	**41 259**	**179 462**	**594 356**	**576 590**	**610 816**
Afghanistan	..	..	..	..	..	..	..
Bangladesh [z]	..	..	6	9	29	50	54
Bhutan	..	..	..	..	..	..	..
Brunei Darussalam [ac]	..	..	..	71	148	156	165
Cambodia [an]	..	..	..	2	2	2	2
China	..	131	2 489[ay]	15 802[ay]	25 804[ay]	32 688[ay]	35 538[ay]
Hong Kong, China [az]	148	2 344	11 920	78 833	388 380	352 602	370 296
India	235[j]	250[j]	281[j]	495[ba]	1 311[ba]	2 068[ba]	2 499[ba]
Indonesia	..	55[bb]	77[bb]	1 295	2 339[aq]	2 464[aq]	2 580[aq]
Korea, Democratic People's Republic of	..	..	..	..	..	..	..
Korea, Republic of	127	461	2 301	7 787	50 552	40 825	43 500[c]
Lao People's Democratic Republic [ac]	..	..	..	1	169	172	229
Macau, China	..	..	..	..	..	137	137[c]
Malaysia	197	1 374	2 671	11 143	18 688[aa]	18 955[aa]	20 194[aa]
Maldives [u]	..	..	-	-	-	-	-
Mongolia [am]	..	..	..	-	-	-	-
Myanmar [bc]	..	..	..	-	-	-	-
Nepal	..	..	..	..	..	..	..
Pakistan	40	127	250	403	521	588	571[c]
Philippines	171	171	155	1 220	1 597	1 273	1 358[c]
Singapore	3 718[f]	4 387[f]	7 808	35 050	53 104	67 255	71 336[c]
Sri Lanka [ab]	..	1	8	35	86	86	97
Taiwan Province of China	97	204	12 888[bd]	25 144[bd]	49 187[bd]	54 667[bd]	59 553[bd]
Thailand	13	14	404	2 173	2 439	2 601[i]	2 707[i]
Viet Nam	..	..	..	..	..	..	..

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Annex table B.4. FDI outward stock, by home region and economy, 1980, 1985, 1990, 1995, 2000, 2001 and 2002 [a] (concluded)

(Millions of dollars)

Host region/economy	1980	1985	1990	1995	2000	2001	2002
The Pacific	**13**	**37**	**85**	**426**	**442**	**558**	**588**
Fiji [ar]	2	15	70	43	..[v]	..[v]	..[v]
Kiribati [bc]	..	..	..	-	-	-	-
New Caledonia	..	..	..	..	..	..	..
Papua New Guinea	10	22	15[ay]	383[ay]	519[ay]	628[ay]	675[ay]
Samoa	..	..	..	..	..	..	..
Solomon Islands [u]	..	..	-	-	-	-	-
Tonga [z]	..	..	-	-	1	1	1
Tuvalu	..	..	..	..	..	..	..
Vanuatu	..	..	..	..	..	..	..
Central and Eastern Europe	**..**	**..**	**616**	**6 372**	**19 339**	**24 746**	**29 152**
Albania [ag]	..	..	..	48	82	82	86
Belarus [an]	..	..	..	-	5	6	..[v]
Bosnia and Herzegovina [an]	..	..	..	13	40	40	40
Bulgaria	..	..	..	105[be]	87	97	125[c]
Croatia	..	..	..	703	875	969	1 064[c]
Czech Republic	..	..	..	346	738	1 136	1 496
Czechoslovakia (former)	..	..	..	..	..	..	..
Estonia	..	..	..	70[be]	259	442	670
Hungary	..	..	197	489	2 068	4 377	4 641[c]
Latvia	..	..	..	231	241	47	67
Lithuania	..	..	..	1	29	48	60
Moldova, Republic of	..	..	..	18	19	19	19
Poland	..	..	95	539	1 025	1 107	1 280[c]
Romania	..	..	66	121	142	127	155
Russian Federation	..	..	..	3 015	12 394	14 734	18 018[c]
Serbia and Montenegro	..	..	..	..	..	..	..
Slovakia	..	..	..	87	367	404[i]	409[i]
Slovenia	..	..	258	490	794	950	1 066[c]
TFYR Macedonia [x]	..	..	..	..	4	5	5
Ukraine	..	..	..	97	170	158	153[c]
Yugoslavia (former)	..	..	..	..	..	..	..
Memorandum							
Least developed countries [bf]	92	456	704	1 843	3 216	3 147	3 223
Oil-exporting countries [bg]	1 782	2 794	12 256	15 733	23 985	28 506	31 856
All developing economies, excluding China	64 606	78 046	130 600	295 062	791 646	773 837	813 926

Source: UNCTAD, FDI/TNC database.

- a Estimates. For details, see “Definitions and Sources” in annex B. For the countries for which the stock data are estimated by either cumulating FDI flows or adding or subtracting flows to FDI stock in a particular year, notes are given below.
- b Value does not include data for Belgium and for Luxembourg. For details, see “Definitions and Sources” in Annex B, p. 231.
- c Stock data after 2001 are estimated by adding flows.
- d Stock data prior to 1987 are estimated by subtracting flows.
- e Stock data prior to 1999 are estimated by subtracting flows.
- f Stock data prior to 1990 are estimated by subtracting flows.
- g Stock data prior to 1982 are estimated by subtracting flows.
- h Stock data prior to 1988 are estimated by subtracting flows.
- i Stock data after 2000 are estimated by adding flows.
- j Stock data prior to 1992 are estimated by subtracting flows.
- k Stock data are estimated by accumulating flows since 1970.
- l Stock data are estimated by accumulating flows since 1977.
- m Stock data are estimated by accumulating flows since 1972.
- n Stock data are estimated by accumulating flows since 1979.
- o Stock data are estimated by accumulating flows since 1974.
- p Stock data are estimated by accumulating flows since 1989.
- q Stock data are estimated by accumulating flows since 1973.
- r Stock data are estimated by accumulating flows since 1988.
- s Stock data are estimated by accumulating flows since 1975.
- t Stock data are estimated by accumulating flows since 1978.
- u Stock data are estimated by accumulating flows since 1990.
- v Negative stock value. However, this value is included in the regional and global total.
- w Stock data are estimated by accumulating flows since 1997.
- x Stock data are estimated by accumulating flows since 1996.
- y Stock data are estimated by using the inward stock of the United States from 1980 to 2000 as a proxy.
- z Stock data are estimated by accumulating flows since 1986.
- aa Stock data after 1998 are estimated by adding flows.
- ab Stock data are estimated by accumulating flows since 1985.
- ac Stock data are estimated by accumulating flows since 1991.
- ad Stock data are estimated by accumulating flows since 1976.
- ae Stock data prior to 1981 are estimated by subtracting flows.

[af] Stock data are estimated by accumulating flows since 1971.
[ag] Stock data are estimated by accumulating flows since 1992.
[ah] Stock data are estimated by accumulating flows since 1983.
[ai] Stock data prior to 1991 are estimated by subtracting flows.
[aj] Stock data from 1980 to 1985 are estimated by accumulating flows since 1980.
[ak] Stock data prior to 2001 are estimated by subtracting flows.
[al] Stock data from 1993 to 1995 are estimated by subtracting flows from 1996 stock.
[am] Stock data are estimated by accumulating flows since 1995.
[an] Stock data are estimated by accumulating flows since 1993.
[ao] Stock data prior to 1995 are estimated by subtracting flows.
[ap] Stock data prior to 1996 are estimated by subtracting flows.
[aq] Stock data after 1999 are estimated by adding flows.
[ar] Stock data are estimated by accumulating flows since 1980.
[as] Stock data are estimated by accumulating flows since 1987.
[at] Stock data prior to 1989 are estimated by subtracting flows.
[au] Stock data are estimated by accumulating flows since 1982.
[av] Stock data are estimated by using the inward stock of Canada and the United States from 1980 to 1991 and France, Netherlands and the United States from 1995 to 1997as a proxy. Stock data after 1997 are estimated by adding flows.
[aw] Stock data prior to 2000 are estimated by subtracting flows.
[ax] Stock data are estimated by accumulating flows since 1987.
[ay] Stock data after 1989 are estimated by adding flows.
[az] Stock data are estimated by using the inward stock of the United States from 1980 to 1983 and by using the inward stock of the United States and China as a proxy from 1984 to 1997 as a proxy. Stock data after 1997 are estimated by adding flows.
[ba] Stock data after 1992 are estimated by adding flows.
[bb] Stock data are estimated by using the inward stock of Germany and the United States from 1984 to 1992 as a proxy.
[bc] Stock data are estimated by accumulating flows since 1994.
[bd] Stock data after 1988 are estimated by adding flows.
[be] Stock data prior to 1996 are estimated by subtracting flows.
[bf] Least developed countries include: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.
[bg] Oil-exporting countries include: Cameroon, Algeria, Angola, Bahrain, Brunei Darussalam, Congo, Ecuador, Gabon, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates and Venezuela.

Note: For data on FDI stock which are calculated as an accumulation of flows, price changes are not taken into account.

Annex table B.5. Inward and outward FDI flows as a percentage of gross fixed capital formation, by region and economy, 1991-2002

(Percentage)

Region/economy	1991-1996 (Annual average)	1997	1998	1999	2000	2001	2002
World							
inward	**4.4**	**7.5**	**10.9**	**16.5**	**20.8**	**12.8**	**12.2**
outward	***5.0***	***7.4***	***11.0***	***16.9***	***18.3***	***11.3***	***13.6***
Developed countries							
inward	**3.7**	**6.0**	**10.4**	**17.1**	**22.9**	**12.7**	**12.3**
outward	***5.7***	***8.8***	***13.9***	***21.1***	***22.4***	***14.3***	***15.6***
Western Europe							
inward	**5.5**	**8.3**	**14.8**	**27.3**	**41.6**	**24.0**	**22.0**
outward	***8.4***	***14.5***	***24.5***	***42.4***	***51.1***	***28.0***	***23.7***
European Union							
inward	**5.5**	**8.0**	**14.8**	**27.5**	**42.2**	**24.5**	**22.5**
outward	***8.1***	***13.8***	***24.6***	***42.3***	***50.5***	***28.4***	***23.8***
Austria							
inward	4.0	5.5	9.1	6.0	19.4	13.4	..
outward	*3.2*	*4.1*	*5.5*	*6.7*	*12.6*	*7.1*	..
Belgium and Luxembourg							
inward	21.1	22.3	40.6	209.5	169.7	171.2	..
outward	*14.0*	*13.5*	*51.6*	*214.1*	*165.2*	*195.4*	..
Belgium							
inward	..	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Luxembourg							
inward	..	..	..	..	..	..	2865.0
outward	..	..	..	..	..	..	*3512.8*
Denmark							
inward	8.4	8.4	21.6	47.0	93.6	35.9	17.7
outward	*8.9*	*12.6*	*12.5*	*47.6*	*71.6*	*40.5*	*14.4*
Finland							
inward	4.6	9.6	8.5	18.8	34.4	15.0	35.0
outward	*9.6*	*24.0*	*77.3*	*27.2*	*96.9*	*33.7*	*37.8*
France							
inward	6.7	9.2	11.6	16.8	16.5	20.9	18.4
outward	*8.9*	*14.1*	*18.2*	*45.8*	*67.6*	*35.1*	*22.4*
Germany							
inward	0.9	2.7	5.4	12.4	50.3	9.1	10.4
outward	*5.6*	*9.2*	*19.4*	*24.3*	*14.1*	*11.3*	*6.7*
Greece							
inward	5.2	4.1	0.3	2.1	4.2	6.0	0.2
outward	-	*0.6*	*1.0*	*2.0*	*8.2*	*2.3*	*2.1*
Ireland							
inward	14.7	16.8	45.4	81.4	115.9	65.7	70.9
outward	*4.2*	*6.3*	*20.7*	*26.9*	*20.3*	*24.6*	*10.1*
Italy							
inward	1.6	1.7	1.2	3.1	6.3	6.9	6.2
outward	*3.2*	*4.9*	*5.6*	*3.0*	*5.8*	*10.0*	*7.3*
Netherlands							
inward	13.0	15.3	48.9	45.9	72.1	60.9	33.2
outward	*25.4*	*33.6*	*48.5*	*64.3*	*88.0*	*57.6*	*29.9*
Portugal							
inward	7.1	9.6	11.3	4.0	22.9	19.1	13.6
outward	*2.2*	*7.4*	*13.9*	*10.2*	*25.4*	*24.5*	*11.2*
Spain							
inward	8.3	6.3	8.8	10.9	26.4	19.2	12.8
outward	*3.3*	*10.3*	*14.1*	*29.0*	*38.5*	*22.7*	*11.1*
Sweden							
inward	16.8	28.2	48.6	140.3	54.7	30.1	27.0
outward	*14.2*	*32.6*	*59.7*	*50.6*	*95.5*	*16.9*	*26.5*
United Kingdom							
inward	9.2	15.1	29.7	33.9	54.2	26.2	10.1
outward	*16.1*	*28.0*	*49.0*	*83.3*	*103.9*	*28.8*	*16.1*
Other Western Europe							
inward	**3.8**	**12.9**	**14.2**	**22.9**	**30.2**	**14.1**	**12.0**
outward	***14.0***	***26.5***	***22.7***	***43.9***	***62.2***	***20.9***	***21.2***

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Annex table B.5. Inward and outward FDI flows as a percentage of gross fixed capital formation, by region and economy, 1991-2002 (continued)

(Percentage)

Region/economy	1991-1996 (Annual average)	1997	1998	1999	2000	2001	2002
Gibraltar							
inward	..	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Iceland							
inward	0.9	10.2	7.5	3.5	7.9	8.2	..
outward	*2.0*	*3.8*	*3.6*	*5.7*	*18.2*	*19.0*	..
Malta							
inward	14.0	9.6	31.8	95.6	64.7	34.9	-41.8
outward	*0.3*[a]	*1.9*	*1.7*	*5.2*	*2.8*	*0.8*	-
Norway							
inward	4.7	12.7	10.3	23.1	18.1	6.8	2.7
outward	*7.9*	*15.4*	*6.1*	*17.5*	*25.4*	*-2.4*	*17.1*
Switzerland							
inward	3.2	13.2	17.1	22.3	38.2	18.5	19.2
outward	*17.2*	*35.3*	*35.8*	*63.4*	*88.5*	*36.0*	*24.3*
North America							
inward	**4.7**	**7.9**	**12.4**	**18.0**	**20.8**	**9.7**	**2.9**
outward	***6.7***	***8.2***	***10.4***	***13.3***	***10.3***	***7.9***	***8.6***
Canada							
inward	6.1	9.1	18.6	19.0	47.2	20.6	14.3
outward	*7.6*	*18.3*	*28.1*	*13.2*	*33.0*	*26.2*	*19.9*
United States							
inward	4.5	7.8	11.9	18.0	18.6	8.7	1.9
outward	*6.6*	*7.2*	*8.9*	*13.3*	*8.4*	*6.3*	*7.5*
Other developed countries							
inward	**0.7**	**1.2**	**1.0**	**1.6**	**2.2**	**1.3**	**13.1**
outward	***1.8***	***2.5***	***2.5***	***1.8***	***2.7***	***4.4***	***6.8***
Australia							
inward	8.4	8.3	7.1	3.2	15.4	5.2	15.0
outward	*4.8*	*7.0*	*4.0*	*-0.7*	*0.7*	*14.3*	*7.3*
Israel							
inward	3.5	8.0	8.2	13.8	21.9	16.9	9.0
outward	*3.2*	*2.9*	*5.0*	*4.2*	*15.1*	*3.9*	*6.7*
Japan							
inward	0.1	0.3	0.3	1.1	0.7	0.6	..
outward	*1.7*	*2.1*	*2.3*	*1.9*	*2.6*	*3.6*	..
New Zealand							
inward	24.4	19.2	8.9	14.4	36.4	21.1	3.3
outward	*2.8*	*-0.3*	*3.5*	*9.7*	*5.9*	*12.6*	*2.9*
Developing countries							
inward	**6.5**	**11.4**	**12.0**	**14.3**	**14.6**	**12.7**	**10.5**
outward	***2.9***	***4.1***	***3.1***	***3.7***	***6.2***	***2.9***	***4.6***
Africa							
inward	**5.3**	**9.7**	**8.0**	**11.8**	**8.8**	**19.4**	**8.9**
outward	***2.2***	***3.2***	***2.6***	***2.3***	***0.7***	***-2.6***	***0.1***
North Africa							
inward	**4.3**	**5.9**	**5.8**	**7.1**	**6.0**	**11.5**	**7.1**
outward	***0.1***	***1.1***	***0.8***	***0.6***	***0.5***	***0.4***	***0.4***
Algeria							
inward	0.5	2.4	4.0	4.3	3.8	8.6	8.1
outward	*0.1*	*0.1*	-	*0.4*	*0.2*	*0.1*	*0.8*
Egypt							
inward	8.3	5.2	5.5	5.2	5.9	3.4	4.6
outward	*0.4*	*1.0*	*0.2*	*0.2*	*0.2*	*0.1*	*0.2*
Libyan Arab Jamahiriya							
inward	-0.2	-1.9	-4.2	-3.8	-3.2	-2.7	..
outward	*-0.8*	*6.4*	*8.4*	*6.8*	*2.2*	*2.3*	..

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Annex table B.5. Inward and outward FDI flows as a percentage of gross fixed capital formation, by region and economy, 1991-2002 (continued)

(Percentage)

Region/economy	1991-1996 (Annual average)	1997	1998	1999	2000	2001	2002
Morocco							
inward	6.3	17.2	5.3	16.5	5.3	37.2	4.8
outward	*0.4*	*0.1*	*0.3*	*0.2*	*0.7*	*1.3*	*0.3*
Sudan							
inward	0.9	6.8	22.6	25.6	23.8	27.7	..
outward	..	..	..	..	..	..	..
Tunisia							
inward	10.3	7.8	13.6	7.0	15.2	9.3	15.0
outward	*0.1*	*0.2*	-	-	-	-	-
Other Africa							
inward	**6.1**	**12.5**	**9.8**	**16.4**	**11.7**	**27.0**	**10.7**
outward	***4.0***	***4.8***	***4.1***	***4.0***	***1.0***	***-5.5***	***-0.2***
Angola							
inward	45.3	21.1	48.6	86.8	28.0	66.7	..
outward	-	-	-	-	-	-	..
Benin							
inward	14.5	6.8	8.5	13.9	13.8	9.6	..
outward	*1.6*[b]	*3.2*	*0.5*	*5.3*	*0.8*	*0.5*	..
Botswana							
inward	-2.7	8.6	7.4	2.7	4.2	2.2	3.0
outward	*1.1*	*0.4*	*0.2*	*0.1*	*0.2*	*26.9*	*0.2*
Burkina Faso							
inward	1.7	1.9	1.3	2.0	3.9	1.4	1.1
outward	*0.4*	*0.2*	*0.7*	*0.7*	-	*0.1*	*0.2*
Burundi							
inward	0.5	-	3.7	0.3	21.8	-	-
outward	*0.1*	*0.1*	*0.7*	*1.3*	-	-	-
Cameroon							
inward	0.6	3.1	3.1	2.3	2.1	4.4	5.0
outward	*0.8*	*0.4*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*
Cape Verde							
inward	7.0	10.4	8.2	43.4	31.1	8.6	..
outward	*0.4*	-	-	*0.3*	-	-	..
Central African Republic							
inward	2.4	0.3	0.3	2.1	0.9	3.8	..
outward	*3.5*	*0.2*	*0.2*	-	-	-	..
Chad							
inward	14.6	23.3	8.8	10.5	39.9	-	..
outward	*5.6*	*-0.4*	*-0.1*	*0.8*	-	-	..
Comoros							
inward	1.3	0.1	10.0	1.3	5.9	0.1	..
outward	*1.1*[c]	..	..	..	..	..	..
Congo							
inward	15.1	15.7	6.9	111.4	17.9	8.3	27.4
outward	*0.1*	*0.7*	*-1.7*	*0.4*	*0.4*	*0.6*	*0.9*
Congo, Democratic Republic of							
inward	0.4	-8.7	13.5	1.2	1.8	0.1	..
outward	..	..	..	..	..	..	..
Côte d'Ivoire							
inward	14.2	27.4	21.6	20.9	20.3	4.3	19.8
outward	*10.0*	*2.1*	*1.9*	*3.1*	-	*0.2*	*0.2*
Djibouti							
inward	7.5[b]	5.1	4.4	8.9	4.7	5.2	..
outward	..	..	..	..	..	..	..
Equatorial Guinea							
inward	53.4	15.8	69.8	52.8	21.4	202.9	..
outward	*0.1*	-	-	*0.3*	*-0.7*	*0.9*	..
Eritrea							
inward	19.9[d]	15.3	46.2	26.1	11.8	0.3	..
outward	..	..	..	..	..	..	..
Ethiopia							
inward	1.1	27.5	23.4	6.7	14.9	1.8	5.8
outward	..	*21.7*	*22.8*	*-4.4*	*-0.1*	*6.3*	*0.6*

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Annex table B.5. Inward and outward FDI flows as a percentage of gross fixed capital formation, by region and economy, 1991-2002 (continued)

(Percentage)

Region/economy	1991-1996 (Annual average)	1997	1998	1999	2000	2001	2002
Gabon							
inward	-20.9	-45.1	-14.0	-51.2	-3.3	12.8	7.4
outward	*1.4*	*-1.0*	*-1.0*	*1.1*	*2.0*	*0.1*	-
Gambia							
inward	16.2	29.2	30.9	64.4	59.7	50.0	..
outward	*6.2*	*7.7*	*7.3*	*5.8*	*6.5*	*7.1*	..
Ghana							
inward	8.1	5.0	3.3	16.1	9.6	7.1	4.0
outward	*10.5*[d]	*3.1*	*1.8*	*4.6*	*4.4*	*4.2*	*4.9*
Guinea							
inward	2.6	2.6	2.8	8.7	1.5	0.2	..
outward	*0.1*[d]	*0.2*	*0.2*	*0.4*	*0.3*	*0.3*	..
Guinea-Bissau							
inward	2.3	31.5	16.6	22.8	1.8	2.1	..
outward	..	..	..	..	-	-	..
Kenya							
inward	0.8	2.1	2.2	2.6	8.3	3.2	2.9
outward	*0.4*	*0.2*	*0.8*	*1.9*	*1.9*	*3.2*	*4.4*
Lesotho							
inward	11.4	5.6	6.1	7.5	8.2	8.7	11.2
outward	*0.1*[e]	..	..	..	..	..	..
Liberia							
inward	..	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Madagascar							
inward	3.9	3.3	3.3	10.9	11.1	11.4	1.2
outward	*0.1*	*-0.4*	*0.2*	-	*0.2*	-	-
Malawi							
inward	-1.3	-0.4	-1.4	20.7	-14.3	-10.5	..
outward	*0.9*[d]	*0.4*	*2.9*	*1.3*	*1.4*	*2.1*	..
Mali							
inward	4.8	12.5	6.9	10.1	18.5	17.6	16.1
outward	*0.1*	*0.8*	*5.2*	*9.8*	*0.9*	*2.5*	*2.9*
Mauritania							
inward	4.1	0.5	0.1	0.5	3.3	-2.4	..
outward	..	..	..	..	..	..	..
Mauritius							
inward	2.1	5.0	1.3	4.2	25.9	3.2	2.7
outward	*1.8*	*0.3*	*1.4*	*0.5*	*1.2*	*0.2*	*0.1*
Mozambique							
inward	8.4	10.5	27.4	30.0	10.8	23.0	24.0
outward	-	*-0.1*	-	-	-	-	-
Namibia							
inward	18.3	11.7	9.9	14.3	23.8	39.9	..
outward	*-0.2*	*0.1*	*-0.2*	*-0.1*	*0.4*	*-1.8*	..
Niger							
inward	7.3	11.1	3.5	0.1	4.5	9.7	..
outward	*5.1*	*3.6*	*4.0*	*0.1*	*-0.3*	*-1.5*	..
Nigeria							
inward	29.0	16.4	11.9	52.1	49.4	31.3	34.9
outward	*6.3*	*0.6*	*1.2*	*4.7*	*4.5*	*2.6*	*2.8*
Rwanda							
inward	1.2	1.0	2.4	0.5	2.6	1.3	..
outward	*-0.1*	*0.5*	*0.1*	*0.3*	*0.2*	*0.2*	..
São Tomé and Principe							
inward	-0.5	0.6	2.7	4.2	11.0	24.8	..
outward	..	..	..	..	..	..	..
Senegal							
inward	3.4	22.3	7.5	15.1	7.3	3.6	9.2
outward	*1.1*	*0.1*	*1.1*	*0.6*	*0.1*	*-0.8*	*3.8*
Seychelles							
inward	19.4	31.7	26.3	26.4	31.3	28.9	..
outward	*5.3*	*5.8*	*1.4*	*4.0*	*4.1*	*5.4*	..
Sierra Leone							
inward	-0.2	22.6	-25.9	21.0	12.2	4.4	..
outward	*0.4*	-	*-0.1*	-	-	-	..

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Annex table B.5. Inward and outward FDI flows as a percentage of gross fixed capital formation, by region and economy, 1991-2002 (continued)

(Percentage)

Region/economy	1991-1996 (Annual average)	1997	1998	1999	2000	2001	2002
Somalia							
inward	..	..	..	..	..	..	..
outward	*..*	*..*	*..*	*..*	*..*	*..*	*..*
South Africa							
inward	2.0	15.5	2.5	7.4	4.7	40.5	4.8
outward	*5.5*	*9.6*	*7.8*	*7.8*	*1.4*	*-19.0*	*-2.5*
Swaziland							
inward	24.5	-3.5	34.6	20.5	10.4	34.0	..
outward	*10.1*	*-2.3*	*5.5*	*-2.7*	*-4.4*	*3.7*	*..*
Togo							
inward	6.5	11.3	19.3	34.9	20.9	30.5	..
outward	*3.9*	*2.2*	*10.3*	*20.5*	*0.2*	*-3.5*	*..*
Uganda							
inward	7.7	15.5	18.5	21.1	22.7	21.3	24.0
outward	*5.2*	*1.3*	*1.8*	*-0.8*	*-2.5*	*-0.5*	*-1.2*
United Republic of Tanzania							
inward	6.0	14.0	12.8	38.9	29.3	20.8	14.5
outward	*-* [f]	*-*	*-*	*-*	*0.1*	*-*	*-*
Zambia							
inward	21.6	14.1	41.3	32.5	21.2	10.1	25.8
outward	*..*	*..*	*..*	*..*	*..*	*..*	*..*
Zimbabwe							
inward	3.0	8.0	44.0	7.2	2.6	0.5	7.5
outward	*1.0*	*1.7*	*0.9*	*1.1*	*0.8*	*0.6*	*0.9*
Latin America and the Caribbean							
inward	**8.1**	**16.6**	**17.3**	**25.8**	**20.7**	**20.0**	**14.6**
outward	***1.3***	***2.8***	***3.0***	***2.6***	***2.2***	***0.6***	***1.4***
South America							
inward	**6.9**	**15.9**	**17.6**	**32.6**	**25.5**	**19.7**	**17.3**
outward	***1.3***	***2.6***	***2.6***	***3.1***	***3.5***	***-0.4***	***2.1***
Argentina							
inward	10.0	16.1	12.2	46.9	25.3	8.4	8.2
outward	*2.2*	*6.4*	*3.9*	*3.4*	*2.2*	*-0.5*	*-8.7*
Bolivia							
inward	20.8	58.4	52.0	63.7	49.0	56.7	44.7
outward	*0.2*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*
Brazil							
inward	3.0	11.8	18.6	28.2	28.4	22.7	19.6
outward	*0.5*	*0.7*	*1.8*	*1.7*	*2.0*	*-2.3*	*2.9*
Chile							
inward	16.0	23.5	22.3	56.9	22.9	31.4	11.4
outward	*4.7*	*6.5*	*7.2*	*16.6*	*25.1*	*10.1*	*3.3*
Colombia							
inward	9.3	25.8	15.2	12.7	21.1	21.8	17.0
outward	*1.0*	*3.8*	*4.3*	*1.0*	*3.1*	*0.1*	*6.5*
Ecuador							
inward	13.0	19.2	21.0	31.9	32.7	45.2	..
outward	*0.8*	*6.8*	*-2.0*	*-*	*-*	*-*	*..*
Guyana							
inward	35.2	15.9	22.5	29.7	41.6	36.7	..
outward	*-0.1* [f]	*-0.1*	*-0.2*	*-1.2*	*1.2*	*-0.1*	*..*
Paraguay							
inward	6.4	10.8	18.0	5.5	6.4	7.4	..
outward	*0.4*	*0.3*	*0.3*	*0.3*	*0.4*	*0.4*	*..*
Peru							
inward	14.6	12.1	13.8	20.2	6.3	11.6	14.9
outward	*-*	*0.6*	*0.5*	*1.1*	*0.9*	*1.0*	*1.6*
Suriname							
inward	-2.3	-2.9	19.7	-17.8	-104.5	-19.1	..
outward	*..*	*..*	*..*	*..*	*..*	*..*	*..*
Uruguay							
inward	4.0	4.0	4.8	7.9	10.3	14.0	..
outward	*-*	*0.4*	*0.3*	*1.3*	*-*	*-*	*..*

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Annex table B.5. Inward and outward FDI flows as a percentage of gross fixed capital formation, by region and economy, 1991-2002 (continued)

(Percentage)

Region/economy	1991-1996 (Annual average)	1997	1998	1999	2000	2001	2002
Venezuela							
inward	10.5	33.3	24.6	20.2	25.9	16.7	..
outward	*3.2*	*3.0*	*1.3*	*3.1*	*0.6*	*0.7*	..
Other Latin America and the Caribbean							
inward	**11.6**	**18.6**	**16.6**	**14.1**	**13.5**	**20.4**	**11.8**
outward	***1.3***	***3.3***	***4.3***	***1.8***	***0.2***	***2.0***	***0.8***
Anguilla							
inward	93.9[g]	95.3	101.6	109.3	113.5	100.7	..
outward	..	*4.5*	*3.6*	*2.9*	*2.9*	*3.1*	..
Antigua and Barbuda							
inward	16.8	10.1	8.5	10.4	10.4	21.8	..
outward	*0.8*[f]	*-1.3*	*-0.4*	*-0.3*	*0.3*	*-0.2*	..
Aruba							
inward	..	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Bahamas							
inward	6.4	32.7	22.6	23.5	38.9	15.7	..
outward	-	*0.1*	*0.2*	-	-	-	..
Barbados							
inward	5.3	4.4	3.6	3.6	4.1	4.0	..
outward	*0.9*	*0.4*	*0.2*	*0.3*	*0.2*	*0.2*	..
Belize							
inward	11.7	8.2	12.4	24.4	7.7	16.2	..
outward	*2.1*	*2.7*	*3.6*	*4.8*	*3.9*	*3.4*	..
Bermuda							
inward	..	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Cayman Islands							
inward	..	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Costa Rica							
inward	15.1	17.6	21.3	21.8	14.4	15.3	20.0
outward	*0.3*	*0.2*	*0.2*	*0.2*	*0.3*	*0.3*	*1.8*
Cuba							
inward	..	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Dominica							
inward	39.3	27.5	9.2	24.3	12.9	15.6	..
outward	..	..	..	..	..	..	..
Dominican Republic							
inward	10.0	14.3	19.1	32.2	20.5	22.1	19.7
outward	*0.4*[f]	*0.1*	*0.1*	*0.1*	*1.3*	*-0.7*	-
El Salvador							
inward	1.3	3.3	55.2	10.8	7.8	11.0	9.0
outward	-	-	*0.1*	*2.7*	*-0.2*	*-0.4*	*-1.1*
Grenada							
inward	22.1	29.1	38.2	27.5	22.3	38.4	..
outward	-	*0.4*	*0.2*	*0.3*	*-0.2*	*0.1*	..
Guatemala							
inward	5.4	3.1	20.8	4.7	7.4	14.0	..
outward	*-0.2*	*0.3*	*0.2*	*-0.1*	*0.5*	-	..
Haiti							
inward	-0.3	0.5	1.1	2.6	1.3	0.5	0.7
outward	*-2.5*	*0.1*	*0.1*	*-0.1*	*0.1*	-	-
Honduras							
inward	7.0	10.6	6.7	14.7	17.9	12.9	9.8
outward	-	-	-	-	-	-	-
Jamaica							
inward	12.4	9.4	18.6	27.8	22.1	26.4	..
outward	*4.3*	*2.6*	*4.1*	*5.0*	*3.5*	*3.8*	..
Mexico							
inward	11.9	18.1	13.8	12.6	12.6	20.7	11.3
outward	*0.3*	*1.4*	*1.5*	*1.4*	*0.8*	*0.7*	*0.8*
Montserrat							
inward	13.6[g]	12.8	10.4	37.7	19.9	4.7	..
outward	..	..	..	..	..	..	..

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Annex table B.5. Inward and outward FDI flows as a percentage of gross fixed capital formation, by region and economy, 1991-2002 (continued)

(Percentage)

Region/economy	1991-1996 (Annual average)	1997	1998	1999	2000	2001	2002
Netherlands Antilles							
inward	..	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Nicaragua							
inward	13.5	28.3	28.2	31.5	32.0	17.9	19.4
outward	*-0.8*[a]	*0.2*	*1.0*	*0.3*	*0.5*	*0.6*	*0.5*
Panama							
inward	14.5	56.6	49.4	22.4	22.9	18.8	..
outward	*44.0*	*90.1*	*125.3*	*12.2*	*-31.8*	*69.9*	..
Saint Kitts and Nevis							
inward	22.8	16.3	25.9	53.1	63.3	44.9	..
outward	*-0.1*	*0.3*	*0.1*	*0.2*	*-0.1*	-	..
Saint Lucia							
inward	28.1	30.9	52.0	44.7	31.2	13.5	..
outward	*0.1*	*0.1*	*-0.2*	-	-	*-0.1*	..
Saint Vincent and the Grenadines							
inward	41.6	106.2	88.4	52.4	33.1	20.5	..
outward	..	..	..	..	..	..	..
Trinidad and Tobago							
inward	38.1	60.2	46.9	25.5	32.1	46.0	..
outward	*0.1*	*-1.2*	*0.1*	*18.4*	*1.7*	*10.1*	..
Virgin Islands (OECD data UK)							
inward	..	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Asia and the Pacific							
inward	**6.2**	**9.7**	**10.2**	**10.7**	**13.0**	**9.8**	**7.2**
outward	***3.5***	***4.6***	***3.2***	***4.2***	***8.2***	***4.1***	***8.9***
Asia							
inward	**6.1**	**9.7**	**10.2**	**10.7**	**13.1**	**9.8**	**7.2**
outward	***3.5***	***4.6***	***3.2***	***4.2***	***8.2***	***4.1***	***8.9***
West Asia							
inward	**1.1**	**3.9**	**4.5**	**0.6**	**1.1**	**4.0**	**0.2**
outward	***0.2***	***-0.1***	***-0.9***	***1.6***	***2.8***	***4.2***	***-4.8***
Bahrain							
inward	77.0	43.3	20.7	50.5	33.8	7.7	..
outward	*11.8*	*6.3*	*20.8*	*18.2*	*0.9*	*20.4*	..
Cyprus							
inward	5.1	32.0	16.9	46.1	52.6	42.7	..
outward	*1.1*	*1.7*	*3.6*	*11.2*	*10.9*	*14.4*	..
Iran, Islamic Republic of							
inward	0.3	0.2	0.1	0.2	0.2	0.2	..
outward	-	*0.3*	-	*3.8*	*1.9*	*12.1*	..
Iraq							
inward	-[h]	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Jordan							
inward	0.2	19.3	18.5	10.3	46.5	5.2	..
outward	*-1.1*	*0.1*	*0.1*	*0.3*	*0.3*	*0.4*	..
Kuwait							
inward	1.2	0.5	1.2	1.6	0.6	-4.9	0.2
outward	*2.4*	*-23.7*	*-39.3*	*0.5*	*-10.7*	*12.3*	*-4.8*
Lebanon							
inward	0.9	3.8	4.2	7.0	10.0	8.0	..
outward	*0.4*	*0.5*	-	*0.1*	*4.2*	*2.9*	..
Oman							
inward	4.6	2.3	3.0	0.9	1.9	1.7	..
outward	*0.1*	-	*-0.1*	*0.1*	*-0.1*	-	..
Occupied Palestinian Territory							
inward	0.7[d]	0.4	3.9	1.1	4.3	0.7	..
outward	..	..	..	..	..	..	..
Qatar							
inward	5.6	12.1	11.5	3.5	7.8	9.4	..
outward	*1.2*[b]	*0.6*	*0.7*	*0.9*	*1.3*	*3.5*	..

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Annex table B.5. Inward and outward FDI flows as a percentage of gross fixed capital formation, by region and economy, 1991-2002 (continued)

(Percentage)

Region/economy	1991-1996 (Annual average)	1997	1998	1999	2000	2001	2002
Saudi Arabia							
inward	-0.7	10.4	14.2	-2.5	-5.7	0.1	..
outward	*0.4*	*0.7*	*0.2*	*0.2*	*0.5*	*-0.1*	..
Syrian Arab Republic							
inward	1.0	0.6	0.6	1.9	1.9	1.5	..
outward	..	..	..	..	..	..	..
Turkey							
inward	1.9	1.6	1.9	1.9	2.2	12.4	..
outward	*0.2*	*0.5*	*0.7*	*1.6*	*2.0*	*1.9*	..
United Arab Emirates							
inward	2.2	1.8	1.9	-7.8	-3.9	2.0	..
outward	*0.2*	*1.6*	*-0.2*	*0.9*	*16.0*	*3.4*	..
Yemen							
inward	8.9	-12.0	-13.8	-24.3	0.4	8.7	..
outward	..	..	..	..	..	..	..
Central Asia							
inward	**10.3**	**30.2**	**30.1**	**25.3**	**20.5**	**37.1**	**..**
outward	***-[g]***	**-**	***3.2***	***7.1***	***0.3***	***2.6***	**..**
Armenia							
inward	4.7	19.6	72.0	40.3	30.8	18.6	..
outward	..	..	*3.8*	*4.3*	*2.4*	*2.9*	..
Azerbaijan							
inward	56.9	76.1	64.8	39.1	12.9	14.6	..
outward	..	..	*8.7*	*25.7*	*0.1*	*10.2*	..
Georgia							
inward	13.1	67.0	65.8	16.2	27.4	19.9	..
outward	..	..	..	*0.2*	*-0.1*	-	..
Kazakhstan							
inward	19.3	36.7	33.1	53.9	41.2	55.6	..
outward	*-[g]*	-	*0.2*	*0.1*	*0.1*	*0.5*	..
Kyrgyzstan							
inward	21.4[a]	38.3	51.7	22.6	-1.0	2.3	..
outward	..	..	*10.7*	*3.1*	*1.8*	*2.8*	..
Tajikistan							
inward	4.5	11.0	14.4	11.3	12.3	5.3	..
outward	..	..	..	..	..	..	..
Turkmenistan							
inward	..	10.7	4.9	5.9	7.7	10.1	..
outward	..	..	..	..	..	..	..
Uzbekistan							
inward	1.0[f]	5.2	5.6	4.0	3.5	45.7	..
outward	..	..	..	..	..	..	..
South, East and South-East Asia							
inward	**7.4**	**10.4**	**11.0**	**12.2**	**14.8**	**10.3**	**7.3**
outward	***4.2***	***5.4***	***3.9***	***4.6***	***9.1***	***4.1***	***9.1***
Afghanistan							
inward	..	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Bangladesh							
inward	0.1	1.6	2.1	1.8	2.7	0.8	0.4
outward	-	-	-	-	-	*0.2*	-
Bhutan							
nward	0.6	-0.5	0.2	0.2	-	0.2	..
outward	..	..	..	..	..	..	..
Brunei Darussalam							
inward	..	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Cambodia							
inward	22.2	28.6	56.4	48.2	31.1	32.1	..
outward	*0.7[i]*	..	..	..	..	..	..
China							
inward	11.6	14.6	13.1	11.3	10.3	10.5	..
outward	*1.3*	*0.8*	*0.8*	*0.5*	*0.2*	*1.5*	..

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Annex table B.5. Inward and outward FDI flows as a percentage of gross fixed capital formation, by region and economy, 1991-2002 (continued)

(Percentage)

Region/economy	1991-1996 (Annual average)	1997	1998	1999	2000	2001	2002
Hong Kong, China							
inward	15.9	19.5	29.4	58.6	138.9	54.2	35.2
outward	*43.8*	*41.8*	*33.8*	*46.2*	*133.2*	*25.9*	*45.4*
India							
inward	1.3	4.0	2.9	2.2	2.3	3.2	..
outward	*0.1*	*0.1*	*0.1*	*0.1*	*0.3*	*0.7*	..
Indonesia							
inward	5.8	7.7	-1.5	-9.7	-14.3	-10.8	..
outward	*2.2*	*0.3*	*0.2*	*0.3*	*0.5*	*0.4*	..
Korea, Democratic People's Republic of							
inward	..	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Korea, Republic of							
inward	0.8	1.7	5.7	8.3	7.1	3.1	1.5
outward	*1.6*	*2.7*	*5.0*	*3.7*	*3.8*	*2.1*	*2.1*
Lao People's Democratic Republic							
inward	21.4[b]	18.2	14.4	15.7	9.8	7.2	..
outward	-[b]	-	-	-	*48.2*	*0.9*	..
Macau, China							
inward	0.1	0.2	-1.5	0.9	-0.1	20.8	21.5
outward	..	..	..	..	..	*2.6*	..
Malaysia							
inward	19.3	14.7	14.0	22.2	16.5	2.5	..
outward	*4.8*	*6.2*	*4.4*	*8.1*	*8.8*	*1.2*	..
Maldives							
inward	8.5	6.5	6.6	5.8	8.9	6.5	..
outward	..	..	..	..	..	..	..
Mongolia							
inward	4.8[a]	10.3	7.3	12.0	18.7	13.9	..
outward	..	..	..	..	..	..	..
Myanmar							
inward	2.8	3.7	2.1	0.8	0.7	0.6	..
outward	..	..	..	..	..	..	..
Nepal							
inward	0.9	2.2	1.2	0.5	-	2.0	0.9
outward	..	..	..	..	..	..	..
Pakistan							
inward	5.3	7.4	5.7	6.4	3.7	4.9	10.7
outward	-	*-0.3*	*0.1*	-	*0.1*	*0.4*	*-0.2*
Philippines							
inward	8.5	6.3	12.5	11.9	9.7	8.0	8.6
outward	*1.3*	*0.7*	*1.2*	*-0.2*	*-0.8*	*-1.3*	*0.7*
Singapore							
inward	28.8	37.0	24.7	47.6	45.6	43.8	..
outward	*11.6*	*24.5*	*1.2*	*19.4*	*22.2*	*38.2*	..
Sri Lanka							
inward	4.6	11.8	3.8	4.7	3.8	2.4	6.6
outward	*0.2*	*0.1*	*0.3*	*0.6*	-	-	*0.3*
Taiwan Province of China							
inward	2.4	3.4	0.4	4.4	6.8	7.8	2.9
outward	*4.8*	*7.9*	*6.1*	*6.7*	*9.2*	*10.4*	*9.8*
Thailand							
inward	3.7	7.6	29.9	23.8	12.4	14.4	3.7
outward	*0.8*	*1.1*	*0.5*	*1.4*	*-0.1*	*0.6*	*0.4*
Viet Nam							
inward	34.9	37.3	23.9	20.1	15.0	13.7	..
outward	..	..	..	..	..	..	..
The Pacific							
inward	**31.0**	**14.1**	**35.1**	**35.0**	**10.3**	**17.9**	**..**
outward	***4.9***	***1.0***	***-7.2***	***-3.9***	***7.9***	***16.1***	**..**
Fiji							
inward	33.0	13.6	80.2	-10.2	-11.5	40.6	..
outward	*-5.0*	*-18.6*	*-22.9*	*-29.4*	*31.6*	*3.3*	..
Kiribati							
inward	1.2	4.8	2.4	2.4	3.2	2.6	..
outward	*0.1*[j]	..	..	..	..	..	..

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Annex table B.5. Inward and outward FDI flows as a percentage of gross fixed capital formation, by region and economy, 1991-2002 (continued)

(Percentage)

Region/economy	1991-1996 (Annual average)	1997	1998	1999	2000	2001	2002
New Caledonia							
inward	..	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Papua New Guinea							
inward	32.2	11.7	20.9	71.7	17.0	12.5	..
outward	*7.4*	*6.5*	*0.1*	*8.4*	*-0.4*	*21.8*	..
Samoa							
inward	..	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Solomon Islands							
inward	15.8	14.0	2.8	-28.5	2.1	-18.5	..
outward	*0.2*[k]	..	..	..	*0.3*	..	..
Tonga							
inward	6.8	14.0	9.3	9.3	21.8	4.7	..
outward	*0.1*[c]	..	..	..	*5.3*	..	..
Tuvalu							
inward	..	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Vanuatu							
inward	51.5	48.0	31.3	21.4	31.9	28.2	..
outward	..	..	..	..	..	..	..
Central and Eastern Europe							
inward	**5.8**	**9.7**	**13.6**	**18.5**	**17.9**	**14.6**	**17.2**
outward	***0.3***	***2.2***	***1.5***	***1.8***	***2.7***	***2.1***	***2.7***
Albania							
inward	28.5[f]	12.9	9.2	6.7	20.5	26.0	..
outward	*13.2*[f]	*2.7*	*0.2*	*1.1*	*0.9*	-	..
Belarus							
inward	0.9[f]	9.9	5.1	13.9	4.5	3.4	5.8
outward	..	*0.1*	*0.1*	-	-	-	*-5.3*
Bosnia and Herzegovina							
inward	-0.1[b]	0.1	4.2	16.5	16.4	12.3	33.3
outward	*3.3*[b]	*-0.2*	..	..	..	..	..
Bulgaria							
inward	5.1	46.1	33.2	41.4	51.7	32.8	17.0
outward	*-0.8*[f]	*-0.2*	-	*0.9*	*0.2*	*0.4*	*1.0*
Croatia							
inward	7.3[a]	10.9	18.1	31.6	27.2	35.0	..
outward	*0.6*[a]	*3.8*	*1.9*	*1.0*	*0.1*	*3.5*	..
Czech Republic							
inward	9.6	7.9	22.3	41.3	34.3	35.6	59.1
outward	*0.6*[f]	*0.2*	*0.8*	*0.6*	*0.3*	*1.0*	*1.8*
Czechoslovakia (former)							
inward	..	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Estonia							
inward	23.9[f]	20.6	37.6	23.5	32.9	37.8	16.8
outward	*1.2*[f]	*10.6*	*0.4*	*6.4*	*5.4*	*13.9*	*6.7*
Hungary							
inward	26.8	21.3	18.3	17.2	14.6	20.1	..
outward	*0.3*	*4.3*	*4.3*	*2.2*	*4.7*	*2.8*	..
Latvia							
inward	23.5[f]	49.3	21.5	20.7	21.6	7.9	18.0
outward	*-4.3*[f]	*0.6*	*3.3*	*1.0*	*0.5*	*0.6*	*0.4*
Lithuania							
inward	3.7[f]	15.2	35.4	20.7	18.0	18.2	24.7
outward	-[b]	*1.2*	*0.2*	*0.4*	*0.2*	*0.3*	*0.6*
Moldova, Republic of							
inward	5.7[f]	20.5	20.2	17.5	64.9	77.9	..
outward	*1.2*[g]	*0.1*	*-0.2*	-	-	-	..
Poland							
inward	10.1	14.5	15.9	18.4	23.4	14.9	11.4
outward	*0.1*	*0.1*	*0.8*	*0.1*	-	*-0.2*	*0.5*

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Annex table B.5. Inward and outward FDI flows as a percentage of gross fixed capital formation, by region and economy, 1991-2002 (continued)

(Percentage)

Region/economy	1991-1996 (Annual average)	1997	1998	1999	2000	2001	2002
Romania							
inward	3.2	16.3	26.5	16.5	14.7	14.1	..
outward	*0.1*	*-0.1*	*-0.1*	*0.3*	*-0.2*	*-0.2*	..
Russian Federation							
inward	1.8[f]	5.9	5.7	11.9	6.7	4.3	3.9
outward	*0.6*[a]	*3.9*	*2.6*	*8.0*	*7.8*	*4.4*	*5.3*
Serbia and Montenegro							
inward	..	..	..	..	1.9	9.8	..
outward	..	..	..	..	..	..	..
Slovakia							
inward	4.4	3.0	8.6	6.4	33.1	24.7	56.9
outward	*0.4*[f]	*1.3*	*1.8*	*-6.1*	*0.4*	*0.6*	*0.1*
Slovenia							
inward	4.0	7.9	4.5	1.9	2.8	10.8	37.1
outward	*-0.1*[f]	*0.7*	*-0.1*	*0.9*	*1.4*	*2.8*	*2.3*
TFYR Macedonia							
inward	2.5[g]	2.4	18.9	5.2	26.7	96.4	..
outward	*0.1*[d]	*0.2*	*0.2*	*0.2*	-	*0.2*	..
Ukraine							
inward	2.8[f]	6.2	9.0	8.1	9.9	10.7	..
outward	*0.1*[g]	*0.4*	-	*0.1*	-	*0.3*	..
Yugoslavia (former)							
inward	..	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Memoraudum							
Least developed countries [l]							
inward	5.2	6.0	7.0	8.1	5.9	8.2	6.6
outward	*0.6*	*1.4*	*1.6*	*0.3*	*0.6*	*0.4*	*0.3*
Oil-exporting countries [m]							
inward	3.4	8.7	7.9	2.9	1.2	4.3	12.1
outward	*1.1*	*0.5*	*-0.7*	*1.6*	*1.9*	*2.8*	*0.2*
All developing countries minus China							
inward	5.5	10.6	11.7	15.3	16.0	13.6	..
outward	*3.2*	*4.8*	*3.8*	*4.8*	*8.4*	*3.4*	..

Source: UNCTAD, FDI/TNC database.

a Annual average from 1993 to 1996.
b Annual average from 1995 to 1996.
c 1991.
d 1996.
e 1992.
f Annual average from 1992 to 1996.
g Annual average from 1994 to 1996.
h Annual average from 1991 to 1993.
i 1993.
j 1994.
k Annual average from 1991 to 1992.
l Least developed countries include: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.
m Oil-exporting countries include: Cameroon, Algeria, Angola, Bahrain, Brunei Darussalam, Congo, Ecuador, Gabon, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates and Venezuela.

Annex table B.6. Inward and outward FDI stocks as a percentage of gross domestic product, by region and economy, 1980, 1985, 1990, 1995, 2000, 2001 and 2002

(Percentage)

Region/economy	1980	1985	1990	1995	2000	2001	2002
World							
inward	**6.7**	**8.4**	**9.3**	**10.3**	**19.6**	**21.2**	**22.3**
outward	***5.8***	***6.6***	***8.6***	***10.0***	***19.3***	***20.4***	***21.6***
Developed countries							
inward	**4.9**	**6.2**	**8.2**	**8.9**	**16.5**	**17.9**	**18.7**
outward	***6.2***	***7.3***	***9.6***	***11.3***	***21.4***	***23.0***	***24.4***
Western Europe							
inward	**6.2**	**9.4**	**11.0**	**13.4**	**28.5**	**30.4**	**31.4**
outward	***6.4***	***10.8***	***12.1***	***16.1***	***39.3***	***41.3***	***42.7***
European Union							
inward	**6.1**	**9.3**	**10.9**	**13.2**	**28.5**	**30.5**	**31.4**
outward	***6.1***	***10.5***	***11.6***	***15.1***	***37.9***	***40.0***	***41.0***
Austria							
inward	4.0	5.6	6.1	7.5	16.1	18.1	20.6
outward	*0.7*	*2.0*	*2.6*	*5.0*	*13.2*	*15.0*	*19.5*
Belgium and Luxembourg							
inward	5.8	21.2	27.8	38.3	79.1	81.8	..
outward	*4.8*	*11.0*	*19.4*	*27.4*	*72.8*	*72.9*	..
Belgium							
inward	..	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Luxembourg							
inward	..	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Denmark							
inward	6.1	6.0	6.9	13.2	42.0	41.3	41.7
outward	*3.0*	*3.0*	*5.5*	*13.7*	*41.6*	*43.8*	*43.4*
Finland							
inward	1.0	2.5	3.8	6.5	20.2	21.6	27.0
outward	*1.4*	*3.4*	*8.2*	*11.6*	*43.4*	*46.1*	*52.8*
France							
inward	3.8	6.9	7.1	12.3	19.9	22.0	28.2
outward	*3.6*	*7.1*	*9.1*	*13.2*	*34.1*	*37.3*	*45.8*
Germany							
inward	3.9	5.1	7.1	7.8	25.2	22.3	22.7
outward	*4.6*	*8.4*	*8.8*	*10.5*	*25.9*	*29.8*	*29.0*
Greece							
inward	9.3	20.2	6.7	9.3	11.2	10.2	9.0
outward	*6.0*	*7.1*	*3.5*	*2.6*	*5.2*	*5.4*	*5.3*
Ireland							
inward	155.6	163.5	72.3	60.7	124.4	133.9	129.1
outward	..	*43.4*	*24.5*	*20.2*	*29.3*	*32.7*	*29.9*
Italy							
inward	2.0	4.5	5.3	5.8	10.5	9.9	10.6
outward	*1.6*	*3.9*	*5.2*	*8.8*	*16.8*	*16.7*	*16.4*
Netherlands							
inward	10.8	18.8	23.3	28.0	66.7	74.2	74.9
outward	*23.7*	*36.1*	*36.3*	*41.6*	*83.3*	*85.7*	*84.7*
Portugal							
inward	12.3	18.7	14.8	17.1	26.9	29.9	36.0
outward	*1.7*	*2.4*	*1.3*	*3.0*	*16.2*	*21.3*	*26.2*
Spain							
inward	2.3	5.2	12.8	18.7	25.8	28.2	33.2
outward	*0.9*	*2.6*	*3.0*	*6.2*	*29.4*	*32.5*	*33.0*
Sweden							
inward	2.2	4.2	5.3	12.9	41.0	42.0	46.0
outward	*2.8*	*10.4*	*21.3*	*30.5*	*53.8*	*55.6*	*60.5*
United Kingdom							
inward	11.8	14.1	20.6	17.6	30.5	38.6	40.8
outward	*15.0*	*22.0*	*23.2*	*26.9*	*63.1*	*63.4*	*66.1*
Other Western Europe							
inward	**8.7**	**10.9**	**13.4**	**16.6**	**29.1**	**29.4**	**32.9**
outward	***12.7***	***16.1***	***22.0***	***35.6***	***64.8***	***65.8***	***71.5***

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Annex table B.6. Inward and outward FDI stocks as a percentage of gross domestic product, by region and economy, 1980, 1985, 1990, 1995, 2000, 2001 and 2002 (continued)

(Percentage)

Region/economy	1980	1985	1990	1995	2000	2001	2002
Gibraltar							
inward	..	..	..	..	..	..	..
outward	*..*	*..*	*..*	*..*	*..*	*..*	*..*
Iceland							
inward	..[a]	2.4	2.3	1.8	5.8	8.4	10.0
outward	*1.7*	*2.0*	*1.2*	*2.6*	*7.9*	*11.0*	*12.3*
Malta							
inward	13.8	28.1	20.1	28.4	83.4	90.0	73.8
outward	*..*	*..*	*..*	*1.0*	*5.7*	*5.8*	*5.4*
Norway							
inward	10.4	11.7	10.7	12.8	18.6	19.2	17.4
outward	*0.9*	*1.7*	*9.4*	*15.4*	*20.7*	*19.3*	*20.0*
Switzerland							
inward	7.9	10.4	15.0	18.6	36.3	36.1	44.2
outward	*20.0*	*26.0*	*28.9*	*46.4*	*97.5*	*100.3*	*111.3*
North America							
inward	**4.5**	**5.5**	**8.0**	**8.3**	**13.5**	**14.2**	**14.1**
outward	***7.9***	***6.2***	***8.1***	***10.3***	***14.5***	***15.1***	***15.9***
Canada							
inward	20.4	18.4	19.6	21.1	29.0	29.7	30.4
outward	*8.9*	*12.3*	*14.7*	*20.3*	*33.3*	*34.7*	*37.6*
United States							
nward	3.0	4.4	6.9	7.3	12.4	13.1	12.9
outward	*7.8*	*5.7*	*7.5*	*9.5*	*13.2*	*13.7*	*14.4*
Other developed countries							
inward	**1.7**	**2.2**	**2.8**	**2.9**	**3.9**	**4.3**	**5.3**
outward	***1.8***	***3.3***	***6.9***	***5.2***	***7.1***	***8.7***	***9.7***
Australia							
inward	7.9	14.5	23.7	27.9	28.9	29.5	32.2
outward	*1.4*	*3.8*	*9.8*	*14.2*	*22.0*	*25.5*	*22.9*
Israel							
inward	14.8	15.0	8.5	6.4	21.8	22.5	24.1
outward	*0.6*	*2.6*	*2.3*	*4.6*	*8.5*	*8.6*	*10.5*
Japan							
inward	0.3	0.3	0.3	0.6	1.1	1.2	1.5
outward	*1.8*	*3.2*	*6.6*	*4.5*	*5.8*	*7.2*	*8.3*
New Zealand							
inward	10.3	8.9	18.2	42.1	47.0	42.3	50.3
outward	*2.3*	*6.6*	*14.7*	*12.5*	*13.2*	*13.3*	*12.9*
Developing countries							
inward	**12.6**	**16.4**	**14.8**	**16.6**	**31.1**	**33.4**	**36.0**
outward	***3.8***	***3.8***	***3.9***	***5.8***	***12.9***	***12.8***	***13.5***
Africa							
inward	**8.2**	**9.9**	**10.8**	**15.6**	**25.9**	**28.5**	**30.6**
outward	***2.2***	***4.1***	***5.2***	***7.3***	***9.4***	***8.5***	***8.6***
North Africa							
inward	**3.2**	**5.3**	**9.1**	**13.9**	**15.3**	**17.4**	**20.9**
outward	***0.4***	***0.6***	***0.9***	***0.8***	***1.3***	***1.4***	***1.6***
Algeria							
inward	3.1	2.2	2.2	3.5	6.4	8.5	10.5
outward	*0.2*	*0.3*	*0.3*	*0.6*	*0.6*	*0.6*	*0.8*
Egypt							
inward	9.9	16.4	25.6	24.4	20.1	20.4	24.3
outward	*0.2*	*0.3*	*0.4*	*0.6*	*0.7*	*0.7*	*0.8*
Libyan Arab Jamahiriya							
inward	..[a]	..[a]	..[a]	..[a]	..[a]	..[a]	..[a]
outward	*0.4*	*1.0*	*2.2*	*0.9*	*3.6*	*4.6*	*7.2*
Morocco							
inward	1.0	3.4	3.5	9.2	20.3	28.0	26.9
outward	*0.8*	*2.6*	*1.9*	*1.8*	*2.2*	*2.4*	*2.3*

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Annex table B.6. Inward and outward FDI stocks as a percentage of gross domestic product, by region and economy, 1980, 1985, 1990, 1995, 2000, 2001 and 2002 (continued)

(Percentage)

Region/economy	1980	1985	1990	1995	2000	2001	2002
Sudan							
inward	0.4	0.6	0.4	2.3	12.4	15.7	19.4
outward	..	..	..	..	..	..	..
Tunisia							
inward	38.2	58.5	62.0	61.0	59.3	58.4	66.2
outward	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*
Other Africa							
inward	**10.9**	**13.5**	**11.9**	**16.6**	**34.5**	**37.5**	**37.5**
outward	***3.6***	***8.2***	***8.5***	***11.8***	***16.5***	***14.7***	***13.8***
Angola							
inward	1.8	9.9	10.0	58.0	90.0	106.9	98.3
outward	..	..	..	..	..	..	..
Benin							
inward	2.2	3.2	8.6	18.9	26.1	26.5	25.0
outward	-	*0.2*	*0.1*	*0.1*	*2.5*	*2.4*	*2.1*
Botswana							
inward	61.8	79.5	34.8	23.0	37.2	28.5	38.6
outward	*38.7*	*36.8*	*11.9*	*13.3*	*10.6*	*16.5*	*22.3*
Burkina Faso							
inward	1.0	1.7	1.4	3.4	6.7	6.3	5.9
outward	*0.2*	*0.2*	*0.1*	*0.6*	*1.1*	*1.0*	*0.9*
Burundi							
inward	0.7	2.1	2.7	3.4	7.0	6.9	6.8
outward	..	..	-	*0.1*	*0.3*	*0.3*	*0.3*
Cameroon							
inward	4.9	13.8	9.4	13.3	14.3	15.7	15.7
outward	*0.3*	*0.6*	*1.3*	*2.9*	*2.9*	*3.0*	*2.9*
Cape Verde							
inward	..	..	1.1	7.7	31.1	31.1	30.4
outward	..	..	*0.4*	*0.9*	*1.0*	*0.9*	*0.8*
Central African Republic							
inward	6.2	8.9	6.4	7.1	10.0	10.4	9.9
outward	..[a]	*0.1*	*1.2*	*3.6*	*4.5*	*4.4*	*4.0*
Chad							
inward	14.6	21.6	16.6	25.7	47.4	38.6	78.4
outward	*0.1*	*0.1*	*2.7*	*5.6*	*6.0*	*4.9*	*4.1*
Comoros							
inward	1.6	1.8	6.8	8.4	11.9	11.1	10.5
outward	..	..	*0.4*	*0.7*	*0.8*	*0.7*	*0.7*
Congo							
inward	18.5	22.4	20.6	40.7	58.8	65.9	69.5
outward	..	..	..	..	..	..	..
Congo, Democratic Republic of							
inward	4.9	8.6	5.8	9.6	14.3	11.6	11.8
outward	..	..	..	..	..	..	..
Côte d'Ivoire							
inward	5.2	10.0	9.0	16.2	36.4	32.1	31.3
outward	..	..	*0.3*	*5.2*	*7.2*	*6.3*	*5.8*
Djibouti							
inward	1.2	1.1	1.5	3.4	6.1	6.4	6.8
outward	..	..	..	..	..	..	..
Equatorial Guinea							
inward	..	7.0	19.2	106.9	90.0	115.0	92.8
outward	..	..	*0.2*	*0.2*	..[a]	*0.2*	*0.1*
Eritrea							
inward	..	..	..	..	48.0	42.3	49.1
outward	..	..	..	..	..	..	..
Ethiopia							
inward	2.7	1.7	1.8	2.9	14.8	15.4	17.3
outward	..	..	..	..	*6.8*	*8.1*	*8.5*
Gabon							
inward	12.0	24.9	20.3	8.9	..[a]	..[a]	..[a]
outward	*1.8*	*3.1*	*2.7*	*5.2*	*6.7*	*5.8*	*5.5*
Gambia							
inward	52.7	56.3	49.4	48.4	51.2	54.0	74.9
outward	..	..	*6.9*	*9.4*	*10.4*	*10.2*	*13.2*

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Annex table B.6. Inward and outward FDI stocks as a percentage of gross domestic product, by region and economy, 1980, 1985, 1990, 1995, 2000, 2001 and 2002 (continued)

(Percentage)

Region/economy	1980	1985	1990	1995	2000	2001	2002
Ghana							
inward	5.2	6.0	5.4	12.7	29.4	29.3	26.4
outward	..	..	..	..	*7.2*	*7.8*	*7.8*
Guinea							
inward	0.1	0.1	2.4	3.5	8.6	8.9	9.4
outward	..	..	..	..	*0.2*	*0.3*	*0.4*
Guinea-Bissau							
inward	0.1	2.7	3.3	7.8	21.3	23.3	22.0
outward	..	..	..	..	..	..	..
Kenya							
inward	5.3	7.8	7.8	8.1	9.5	9.2	9.3
outward	*0.2*	*1.0*	*1.2*	*1.3*	*2.1*	*2.4*	*2.9*
Lesotho							
inward	1.2	8.5	5.3	35.9	58.3	64.5	75.3
outward	..	..	-	-	-	-	*0.1*
Liberia							
inward	77.7	115.1	194.9	379.3	478.7	477.4	455.8
outward	*4.3*	*33.0*	*36.0*	*174.5*	*290.0*	*259.5*	*245.1*
Madagascar							
inward	1.0	1.8	3.5	5.5	8.8	9.4	9.9
outward	..	..	-	*0.1*	*0.1*	*0.1*	*0.1*
Malawi							
inward	9.2	13.3	10.5	11.4	11.2	9.3	8.4
outward	..	..	..	..	*0.9*	*1.1*	*1.1*
Mali							
inward	0.7	2.5	1.6	6.6	18.5	20.3	21.9
outward	*1.2*	*1.7*	*0.9*	*0.9*	*4.6*	*4.6*	*4.8*
Mauritania							
inward	..[a]	5.7	5.6	8.6	11.3	10.2	11.3
outward	..	..	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*
Mauritius							
inward	2.3	4.0	6.4	6.5	15.6	15.9	15.6
outward	..	-	*0.1*	*2.4*	*3.0*	*3.0*	*2.8*
Mozambique							
inward	0.4	0.4	1.7	8.7	29.1	37.4	44.8
outward	..	..	..	-	-	-	-
Namibia							
inward	86.4	134.2	80.9	48.7	36.7	25.2	34.1
outward	..	..	*3.1*	*0.4*	*1.3*	*0.3*	*0.2*
Niger							
inward	7.6	14.3	11.5	19.3	23.7	23.0	21.0
outward	*0.1*	*0.6*	*2.2*	*5.8*	*8.1*	*7.2*	*6.5*
Nigeria							
inward	3.7	15.5	28.3	50.0	49.1	51.5	42.4
outward	-	..[a]	*9.1*	*14.1*	*10.6*	*10.8*	*8.5*
Rwanda							
inward	4.6	7.8	8.2	17.9	14.4	15.0	14.6
outward	..	..	-	..[a]	*0.2*	*0.2*	*0.3*
São Tomé and Principe							
inward	..	..	0.7	..[a]	8.1	19.0	20.2
outward	..	..	..	..	..	..	..
Senegal							
inward	5.0	7.3	4.5	8.3	18.9	18.5	18.6
outward	*0.2*	*1.7*	*0.9*	*2.1*	*2.6*	*2.3*	*2.9*
Seychelles							
inward	36.8	62.1	55.4	63.3	97.0	111.7	115.0
outward	*9.4*	*25.9*	*16.6*	*18.5*	*22.9*	*25.8*	*26.5*
Sierra Leone							
inward	6.8	5.7	..[a]	..[a]	2.9	2.9	3.3
outward	..	..	..	..	..	..	..
Somalia							
inward	5.6	1.1	..[a]	0.2	0.2	0.2	0.2
outward	..	..	..	..	..	..	..
South Africa							
inward	20.5	15.8	8.1	10.0	37.1	44.0	48.7
outward	*7.1*	*15.7*	*13.3*	*15.5*	*27.6*	*25.5*	*27.4*
Swaziland							
inward	41.8	29.1	39.9	41.1	31.1	37.1	54.6
outward	*3.3*	*2.4*	*4.5*	*10.4*	*7.2*	*4.1*	*13.5*

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Annex table B.6. Inward and outward FDI stocks as a percentage of gross domestic product, by region and economy, 1980, 1985, 1990, 1995, 2000, 2001 and 2002 (continued)

(Percentage)

Region/economy	1980	1985	1990	1995	2000	2001	2002
Togo							
inward	15.5	27.5	16.5	23.4	42.1	45.6	47.0
outward	*0.9*	*1.3*	*1.0*	*3.4*	*10.3*	*9.4*	*8.6*
Uganda							
inward	0.7	0.2	0.1	4.7	21.3	26.1	30.0
outward	..	..	..	*4.4*	*4.5*	*4.6*	*4.2*
United Republic of Tanzania							
inward	0.9	1.4	2.2	6.2	19.6	22.6	25.0
outward	..	..	..	..	..	..	..
Zambia							
inward	9.1	20.0	30.8	44.5	72.6	66.5	70.0
outward	..	..	..	..	..	..	..
Zimbabwe							
inward	2.8	3.3	1.4	4.8	15.5	11.8	5.8
outward	..	*0.2*	*1.0*	*1.9*	*3.4*	*2.7*	*1.3*
Latin America and the Caribbean							
inward	**6.5**	**11.0**	**10.4**	**11.8**	**30.6**	**36.2**	**44.7**
outward	***7.2***	***8.4***	***5.9***	***5.5***	***8.2***	***8.8***	***10.4***
South America							
inward	**5.9**	**9.0**	**8.5**	**8.6**	**30.2**	**35.6**	**48.7**
outward	***9.6***	***10.4***	***6.7***	***5.0***	***7.6***	***8.1***	***10.9***
Argentina							
inward	6.9	7.4	6.2	10.8	25.7	28.3	74.7
outward	*7.8*	*6.7*	*4.3*	*4.1*	*7.3*	*7.6*	*18.8*
Bolivia							
inward	15.1	19.0	21.1	23.4	62.2	72.8	79.2
outward	-	-	*0.2*	*0.3*	*0.4*	*0.4*	*0.4*
Brazil							
inward	7.4	11.5	8.0	6.0	33.2	43.1	52.1
outward	*16.8*	*18.2*	*9.1*	*6.5*	*8.9*	*10.0*	*11.8*
Chile							
inward	3.2	14.1	33.2	23.8	60.0	67.3	69.7
outward	*0.2*	*0.6*	*0.6*	*3.7*	*15.7*	*19.5*	*20.2*
Colombia							
inward	3.2	6.4	8.7	6.9	15.6	19.4	24.0
outward	*0.4*	*0.9*	*1.0*	*1.1*	*3.8*	*3.7*	*4.7*
Ecuador							
inward	6.1	6.2	15.2	20.2	50.8	40.0	39.5
outward	..	..	..	*0.4*	*1.9*	*1.3*	*1.1*
Guyana							
inward	4.2	8.6	10.6	72.7	106.6	116.8	120.0
outward	..	..	..	*0.3*	-	-	-
Paraguay							
inward	4.6	9.5	7.7	7.8	17.0	16.1	12.1
outward	*2.5*	*4.0*	*2.6*	*2.0*	*2.8*	*3.0*	*3.0*
Peru							
inward	4.3	6.1	5.0	10.3	19.9	19.7	22.1
outward	-	*0.2*	*0.5*	*1.1*	*1.0*	*1.1*	*1.3*
Suriname							
inward	..[a]	5.3	..[a]	..[a]	..[a]	..[a]	..[a]
outward	..	..	..	..	..	..	..
Uruguay							
inward	7.2	16.8	10.8	8.0	10.4	12.9	13.1
outward	*1.7*	*3.8*	*2.0*	*1.0*	*1.0*	*1.1*	*2.3*
Venezuela							
inward	2.3	2.5	4.7	9.0	22.2	24.1	33.6
outward	-	*0.3*	*4.6*	*5.1*	*4.8*	*4.7*	*7.2*
Other Latin America and the Caribbean							
inward	**7.4**	**14.7**	**14.7**	**22.5**	**31.3**	**37.1**	**40.1**
outward	***2.3***	***3.9***	***4.0***	***7.3***	***9.2***	***9.8***	***9.8***
Anguilla							
inward	..	..	19.8	90.0	227.4	254.9	281.8
outward	..	..	..	..	..	..	..

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Annex table B.6. Inward and outward FDI stocks as a percentage of gross domestic product, by region and economy, 1980, 1985, 1990, 1995, 2000, 2001 and 2002 (continued)

(Percentage)

Region/economy	1980	1985	1990	1995	2000	2001	2002
Antigua and Barbuda							
inward	21.3	46.5	74.5	88.6	85.9	88.8	99.7
outward	..	..	..	..	..	..	..
Aruba							
inward	..	..	15.2	15.8	44.0	26.3	38.3
outward	..	..	..	*0.8*	*0.7*	*1.4*	*1.6*
Bahamas							
inward	41.0	23.4	18.9	21.5	32.9	34.0	37.6
outward	*21.3*	*6.6*	*19.8*	*37.2*	*28.7*	*27.9*	*27.6*
Barbados							
inward	11.8	10.5	10.0	12.2	11.7	11.8	13.8
outward	*0.6*	*1.1*	*1.4*	*1.8*	*1.5*	*1.5*	*1.8*
Belize							
inward	6.4	5.0	18.2	25.8	34.8	38.4	43.2
outward	..	..	..	*2.0*	*6.0*	*6.8*	*7.7*
Bermuda							
inward	836.7	774.7	869.7	1181.7	2265.8	2717.1	3015.0
outward	*118.5*	*162.7*	*97.3*	*129.3*	*600.4*	*375.6*	*297.8*
Cayman Islands							
inward	242.8	680.1	353.3	357.5	2398.5	2481.7	2718.8
outward	*5.6*	*39.0*	*140.3*	*258.4*	*1560.5*	*1794.6*	*1848.7*
Costa Rica							
inward	13.9	24.4	25.3	23.3	32.7	34.5	37.2
outward	*0.1*	*0.7*	*0.8*	*0.6*	*0.6*	*0.6*	*0.9*
Cuba							
inward	..[a]	-	-	0.2	0.3	0.3	0.3
outward	..	..	..	..	..	..	..
Dominica							
inward	0.1	10.7	42.9	87.9	100.5	107.5	117.1
outward	..	..	..	..	-	-	-
Dominican Republic							
inward	3.6	5.2	8.1	14.3	26.6	29.4	33.2
outward	..	..	..	*0.3*	*0.6*	*0.4*	*0.4*
El Salvador							
inward	4.3	4.8	4.4	3.1	15.0	16.2	16.8
outward	..	..	*1.1*	*0.6*	*0.6*	*0.5*	*0.3*
Grenada							
inward	1.5	9.8	31.7	60.6	85.0	90.9	100.2
outward	..	..	*0.1*	-	*0.2*	*0.2*	*0.2*
Guatemala							
inward	8.9	10.8	22.7	15.0	18.1	18.5	21.1
outward	..	..	..	..	*0.2*	*0.2*	*0.2*
Haiti							
inward	5.4	5.6	5.0	5.8	5.9	5.9	6.3
outward	..	..	..	-	*0.1*	*0.1*	*0.1*
Honduras							
inward	3.6	4.7	12.6	16.5	25.1	26.4	27.8
outward	..	..	..	..	..	..	..
Jamaica							
inward	21.3	25.0	18.7	32.3	45.0	50.5	56.7
outward	*0.2*	*0.2*	*1.0*	*6.3*	*9.6*	*10.3*	*11.2*
Mexico							
inward	3.6	10.2	8.5	14.4	16.8	22.5	24.0
outward	*1.6*	*2.1*	*1.8*	*2.1*	*1.9*	*1.9*	*1.9*
Montserrat							
inward	..	..	55.7	105.2	359.6	356.7	353.8
outward	..	..	..	..	..	..	..
Netherlands Antilles							
inward	88.9	24.1	22.4	14.5	3.1	3.1	2.4
outward	*1.1*	*0.9*	*1.2*	*0.9*	*0.4*	*0.5*	*0.5*
Nicaragua							
inward	5.1	4.1	11.4	19.2	57.0	60.1	66.5
outward	..	..	..	-	*0.3*	*0.5*	*0.7*
Panama							
inward	64.6	58.2	41.4	41.0	61.5	65.7	65.1
outward	*21.3*	*40.8*	*78.8*	*62.5*	*36.5*	*53.5*	*69.1*
Saint Kitts and Nevis							
inward	2.1	40.5	100.6	105.7	147.5	166.6	192.1
outward	..	..	*0.1*	..[a]	..[a]	..[a]	-

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Annex table B.6. Inward and outward FDI stocks as a percentage of gross domestic product, by region and economy, 1980, 1985, 1990, 1995, 2000, 2001 and 2002 (continued)

(Percentage)

Region/economy	1980	1985	1990	1995	2000	2001	2002
Saint Lucia							
inward	70.1	104.2	80.2	92.1	117.0	114.1	119.4
outward	..	..	*0.1*	*0.2*	*0.1*	*0.1*	*0.1*
Saint Vincent and the Grenadines							
inward	2.0	7.5	24.3	67.9	144.9	144.3	146.4
outward	..	..	*0.3*	*0.2*	*0.2*	*0.2*	*0.2*
Trinidad and Tobago							
inward	15.7	23.3	41.3	67.6	84.2	80.1	87.6
outward	..	*0.2*	*0.4*	*0.5*	*3.9*	*5.0*	*6.6*
Virgin Islands (OECD data UK)							
inward	0.2	3.9	15.3	87.2	454.5	457.3	454.0
outward	..	..	..	*468.0*	*836.7*	*1258.6*	*1223.2*
Asia and the Pacific							
inward	**17.9**	**20.9**	**17.9**	**19.1**	**32.1**	**32.7**	**33.3**
outward	***0.9***	***1.0***	***2.6***	***5.8***	***15.8***	***15.3***	***15.4***
Asia							
inward	**17.9**	**20.9**	**17.9**	**19.1**	**32.1**	**32.7**	**33.3**
outward	***0.9***	***1.0***	***2.6***	***5.8***	***15.8***	***15.3***	***15.4***
West Asia							
inward	**1.6**	**10.0**	**8.2**	**9.5**	**9.9**	**10.4**	**10.1**
outward	***0.7***	***1.3***	***2.2***	***1.4***	***2.0***	***2.8***	***2.9***
Bahrain							
inward	2.0	10.9	13.0	41.1	74.1	75.4	72.9
outward	*19.5*	*16.4*	*17.0*	*17.8*	*22.0*	*24.8*	*25.2*
Cyprus							
inward	21.4	32.6	20.5	17.8	44.2	49.5	47.7
outward	..	-	*0.2*	*0.9*	*6.0*	*8.2*	*7.2*
Iran, Islamic Republic of							
inward	3.2	3.7	2.2	2.6	2.6	2.2	2.4
outward	..	..	..	..[a]	*1.3*	*3.6*	*5.0*
Iraq							
inward	..[a]	..[a]	..[a]	..[a]	..[a]	..[a]	..[a]
outward	..	..	..	..	..	..	..
Jordan							
inward	3.9	9.6	15.3	9.2	26.7	26.7	26.0
outward	*0.9*	*0.7*	*0.7*	..[a]	..[a]	..[a]	..[a]
Kuwait							
inward	0.1	0.2	0.1	-	1.5	1.1	1.1
outward	*2.0*	*4.3*	*19.9*	*10.6*	*4.0*	*5.2*	*4.6*
Lebanon							
inward	0.5	1.5	1.9	1.2	6.8	8.2	9.4
outward	..	*2.0*	*1.7*	*0.8*	*1.5*	*2.0*	*2.4*
Oman							
inward	8.1	12.0	16.4	18.3	13.2	12.7	12.6
outward	..	-	*0.1*	*0.2*	*0.1*	*0.1*	*0.1*
Occupied Palestinian Territory							
inward	..	..	..	..	4.6	4.2	5.3
outward	..	..	..	..	..	..	..
Qatar							
inward	1.1	1.5	1.0	5.5	11.7	13.4	14.7
outward	..	..	..	*0.4*	*1.1*	*1.8*	*2.0*
Saudi Arabia							
inward	..[a]	25.2	21.5	17.5	13.8	13.9	13.4
outward	*0.2*	*0.6*	*1.8*	*1.3*	*1.1*	*1.1*	*1.1*
Syrian Arab Republic							
inward	-	0.2	3.0	8.0	9.5	9.8	9.6
outward	..	..	..	..	..	..	..
Turkey							
inward	12.9	13.8	7.4	8.8	9.6	11.9	10.2
outward	..	..	*0.8*	*0.8*	*1.8*	*2.6*	*2.2*
United Arab Emirates							
inward	1.4	1.8	2.2	4.1	1.5	1.9	2.0
outward	-	*0.1*	*0.3*	*0.2*	*3.2*	*3.9*	*4.4*

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Annex table B.6. Inward and outward FDI stocks as a percentage of gross domestic product, by region and economy, 1980, 1985, 1990, 1995, 2000, 2001 and 2002 (continued)

(Percentage)

Region/economy	1980	1985	1990	1995	2000	2001	2002
Yemen							
inward	3.7	4.5	3.7	44.8	14.6	13.7	13.3
outward	*..*	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*	*-*
Central Asia							
inward	**..**	**..**	**..**	**8.8**	**32.9**	**38.9**	**45.8**
outward	***..***	***..***	***..***	***-***	***2.1***	***2.4***	***4.4***
Armenia							
inward	..	..	..	1.2	26.8	26.4	28.7
outward	*..*	*..*	*..*	*..*	*1.7*	*2.0*	*2.3*
Azerbaijan							
inward	..	..	..	12.2	70.8	69.4	86.4
outward	*..*	*..*	*..*	*..*	*9.0*	*11.1*	*15.4*
Georgia							
inward	..	..	..	1.7	14.0	16.7	19.9
outward	*..*	*..*	*..*	*..*	*..*	*..*	*..*
Kazakhstan							
inward	..	..	..	14.5	50.6	57.5	62.9
outward	*..*	*..*	*..*	*-*	*0.1*	*0.2*	*1.9*
Kyrgyzstan							
inward	..	..	..	9.7	32.1	28.0	25.9
outward	*..*	*..*	*..*	*..*	*2.4*	*2.6*	*2.8*
Tajikistan							
inward	..	..	..	7.0	14.5	14.5	14.8
outward	*..*	*..*	*..*	*..*	*..*	*..*	*..*
Turkmenistan							
inward	..	..	..	7.1	20.7	17.8	19.1
outward	*..*	*..*	*..*	*..*	*..*	*..*	*..*
Uzbekistan							
inward	..	..	..	1.0	5.1	10.9	13.8
outward	*..*	*..*	*..*	*..*	*..*	*..*	*..*
South, East and South-East Asia							
inward	**27.9**	**24.9**	**20.9**	**21.1**	**37.0**	**37.2**	**37.9**
outward	***1.1***	***1.0***	***2.6***	***6.7***	***18.9***	***18.0***	***18.1***
Afghanistan							
inward	0.3	0.2	0.1	0.1	0.1	0.2	0.2
outward	*..*	*..*	*..*	*..*	*..*	*..*	*..*
Bangladesh							
inward	0.4	0.5	0.5	0.5	2.2	2.3	2.4
outward	*..*	*..*	*-*	*-*	*0.1*	*0.1*	*0.1*
Bhutan							
inward	..	..	0.6	0.7	0.8	0.7	0.7
outward	*..*	*..*	*..*	*..*	*..*	*..*	*..*
Brunei Darussalam							
inward	0.4	0.8	0.7	12.1	76.4	85.1	103.2
outward	*..*	*..*	*..*	*1.4*	*2.9*	*3.0*	*3.1*
Cambodia							
inward	2.4	2.0	3.4	12.1	39.9	42.6	41.0
outward	*..*	*..*	*..*	*0.1*	*0.1*	*0.1*	*0.1*
China							
inward	3.1	3.4	7.0	19.6	32.3	33.2	36.2
outward	*..*	*-*	*0.7*	*2.3*	*2.4*	*2.7*	*2.9*
Hong Kong, China							
inward	623.8	525.5	269.6	163.4	280.2	255.7	265.7
outward	*0.5*	*6.7*	*15.9*	*56.6*	*238.9*	*215.0*	*227.2*
India							
inward	0.6	0.5	0.5	1.6	4.1	4.6	5.1
outward	*0.1*	*0.1*	*0.1*	*0.1*	*0.3*	*0.4*	*0.5*
Indonesia							
inward	13.2	28.2	34.0	25.0	40.4	39.5	32.2
outward	*..*	*0.1*	*0.1*	*0.6*	*1.6*	*1.7*	*1.5*
Korea, Democratic People's Republic of							
inward	..	..	3.4	13.7	10.0	9.6	9.5
outward	*..*	*..*	*..*	*..*	*..*	*..*	*..*

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Annex table B.6. Inward and outward FDI stocks as a percentage of gross domestic product, by region and economy, 1980, 1985, 1990, 1995, 2000, 2001 and 2002 (continued)

(Percentage)

Region/economy	1980	1985	1990	1995	2000	2001	2002
Korea, Republic of							
inward	2.1	2.3	2.1	1.9	8.0	9.5	9.2
outward	*0.2*	*0.5*	*0.9*	*1.6*	*11.0*	*9.6*	*9.1*
Lao People's Democratic Republic							
inward	0.3	-	1.5	11.6	32.1	32.6	33.4
outward	..	..	..	-	*9.9*	*9.8*	*12.8*
Macau, China							
inward	..	198.2	84.1	39.3	44.0	46.0	44.7
outward	..	..	..	..	..	*2.2*	*2.0*
Malaysia							
inward	20.7	23.3	23.4	32.3	58.6	60.5	59.4
outward	*0.8*	*4.3*	*6.1*	*12.5*	*20.8*	*21.5*	*21.2*
Maldives							
inward	11.4	2.8	12.6	16.7	19.8	20.8	22.6
outward	..	..	-	-	-	-	-
Mongolia							
inward	..	..	-	4.2	19.2	21.4	27.8
outward	..	..	..	-	-	-	-
Myanmar							
inward	..[a]	..[a]	..[a]	6.1	30.1	39.4	37.2
outward	..	..	..	-	-	-	-
Nepal							
inward	0.1	0.1	0.3	0.9	1.8	2.0	2.1
outward	..	..	..	..	..	..	..
Pakistan							
inward	2.9	3.5	4.8	9.1	11.8	9.2	9.8
outward	*0.2*	*0.4*	*0.6*	*0.7*	*0.9*	*1.0*	*0.9*
Philippines							
inward	3.9	8.5	7.4	8.2	12.2	14.7	15.0
outward	*0.5*	*0.6*	*0.3*	*1.6*	*2.1*	*1.8*	*1.8*
Singapore							
inward	52.9	73.6	83.1	78.7	124.0	132.2	137.5
outward	*31.7*	*24.8*	*21.3*	*42.0*	*58.1*	*76.4*	*79.1*
Sri Lanka							
inward	5.7	8.6	8.5	10.0	14.7	15.5	16.5
outward	..	-	*0.1*	*0.3*	*0.5*	*0.5*	*0.6*
Taiwan Province of China							
inward	5.8	4.7	6.1	5.9	9.0	11.4	11.9
outward	*0.2*	*0.3*	*8.0*	*9.5*	*15.9*	*19.4*	*21.2*
Thailand							
inward	3.0	5.1	9.6	10.4	20.3	25.3	23.9
outward	-	-	*0.5*	*1.3*	*2.0*	*2.3*	*2.1*
Viet Nam							
inward	0.2	1.1	4.0	28.5	48.2	48.4	50.2
outward	..	..	..	..	..	..	..
The Pacific							
inward	**22.5**	**24.8**	**29.2**	**27.1**	**41.2**	**44.5**	**44.5**
outward	***0.3***	***1.0***	***1.7***	***6.0***	***8.0***	***10.8***	***10.9***
Fiji							
inward	29.7	34.4	30.0	42.7	61.7	65.7	64.7
outward	*0.2*	*1.3*	*5.1*	*2.2*	..[a]	..[a]	..[a]
Kiribati							
inward	..	..[a]	1.2	2.6	10.6	11.9	12.5
outward	..	..	..	*0.1*	*0.1*	*0.1*	*0.1*
New Caledonia							
inward	2.4	4.1	3.0	3.0	4.8	4.6	4.5
outward	..	..	..	..	..	..	..
Papua New Guinea							
inward	29.4	28.2	49.1	36.1	58.8	69.9	70.0
outward	*0.4*	*0.9*	*0.5*	*8.3*	*15.2*	*21.2*	*22.3*
Samoa							
inward	1.1	2.2	8.1	14.9	22.5	21.4	21.7
outward	..	..	..	..	..	..	..

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Annex table B.6. Inward and outward FDI stocks as a percentage of gross domestic product, by region and economy, 1980, 1985, 1990, 1995, 2000, 2001 and 2002 (continued)

(Percentage)

Region/economy	1980	1985	1990	1995	2000	2001	2002
Solomon Islands							
inward	24.2	20.3	33.0	38.5	45.3	37.0	32.0
outward	..	..	..[a]	..[a]	-	-	-
Tonga							
inward	0.2	0.4	0.8	4.9	13.3	14.5	16.6
outward	..	..	*0.1*	*0.1*	*0.8*	*0.8*	*0.8*
Tuvalu							
inward	..	..	..	2.7	4.4	4.4	5.0
outward	..	..	..	..	..	..	..
Vanuatu							
inward	29.0	52.3	71.8	114.4	161.9	174.3	170.3
outward	..	..	..	..	..	..	..
Central and Eastern Europe							
inward	**..**	**0.2**	**1.3**	**5.3**	**18.3**	**19.1**	**20.8**
outward	**..**	**..**	***0.4***	***0.9***	***2.8***	***3.1***	***3.3***
Albania							
inward	..	..	..	8.3	15.2	18.8	21.0
outward	..	..	..	*2.0*	*2.2*	*2.0*	*1.8*
Belarus							
inward	..	..	..	0.5	12.5	11.1	11.2
outward	..	..	..	-	*0.1*	-	..[a]
Bosnia and Herzegovina							
inward	..	..	..	1.1	8.6	10.4	15.8
outward	..	..	..	*0.7*	*0.9*	*0.8*	*0.8*
Bulgaria							
inward	..	..	0.5	3.4	21.6	25.2	24.0
outward	..	..	..	*0.8*	*0.7*	*0.7*	*0.8*
Croatia							
inward	..	..	..	2.5	19.3	24.9	28.4
outward	..	..	..	*3.7*	*4.7*	*4.8*	*5.0*
Czech Republic							
inward	..	..	3.9	14.1	42.1	47.4	54.8
outward	..	..	..	*0.7*	*1.4*	*2.0*	*2.1*
Czechoslovakia (former)							
inward	..	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Estonia							
inward	..	..	..	14.4	51.5	57.2	65.9
outward	..	..	..	*1.5*	*5.0*	*8.0*	*10.5*
Hungary							
inward	..	0.2	1.7	26.7	42.5	45.4	38.2
outward	..	..	*0.6*	*1.1*	*4.4*	*8.4*	*7.3*
Latvia							
inward	..	..	..	12.5	29.1	30.4	32.4
outward	..	..	..	*4.7*	*3.4*	*0.6*	*0.8*
Lithuania							
inward	..	..	..	5.8	20.9	22.2	31.4
outward	..	..	..	-	*0.3*	*0.4*	*0.5*
Moldova, Republic of							
inward	..	..	..	6.5	34.6	40.5	45.0
outward	..	..	..	*1.3*	*1.5*	*1.3*	*1.2*
Poland							
inward	..	..	0.2	6.2	21.7	22.4	23.9
outward	..	..	*0.2*	*0.4*	*0.7*	*0.6*	*0.7*
Romania							
inward	..	..	-	2.3	17.5	19.0	20.5
outward	..	..	*0.2*	*0.3*	*0.4*	*0.3*	*0.4*
Russian Federation							
inward	..	..	..	1.6	6.9	6.5	6.5
outward	..	..	..	*0.9*	*4.8*	*4.8*	*5.2*
Serbia and Montenegro							
inward	..	..	..	2.7	16.3	13.7	20.4
outward	..	..	..	..	..	..	..

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Annex table B.6. Inward and outward FDI stocks as a percentage of gross domestic product, by region and economy, 1980, 1985, 1990, 1995, 2000, 2001 and 2002 (concluded)
(Percentage)

Region/economy	1980	1985	1990	1995	2000	2001	2002
Slovakia							
inward	..	..	0.5	4.4	23.6	30.4	43.2
outward	*..*	*..*	*..*	*0.5*	*1.9*	*2.0*	*1.7*
Slovenia							
inward	..	..	3.5	9.4	15.5	16.4	23.1
outward	*..*	*..*	*1.5*	*2.6*	*4.4*	*4.9*	*4.8*
TFYR Macedonia							
inward	..	..	..	0.8	10.8	23.6	23.9
outward	*..*	*..*	*..*	*..*	*0.1*	*0.1*	*0.1*
Ukraine							
inward	..	..	..	2.5	12.4	12.3	12.9
outward	*..*	*..*	*..*	*0.3*	*0.5*	*0.4*	*0.4*
Yugoslavia (former)							
inward	..	..	..	..	..	..	..
outward	*..*	*..*	*..*	*..*	*..*	*..*	*..*
Memoraudum							
Least developed countries [b]							
inward	3.1	4.1	4.9	9.9	19.6	21.8	23.4
outward	*0.6*	*2.6*	*1.1*	*1.9*	*2.6*	*2.5*	*2.5*
Oil-exporting countries [c]							
inward	1.9	10.0	12.4	14.9	19.2	19.6	20.2
outward	*0.4*	*0.7*	*2.6*	*2.2*	*2.8*	*3.2*	*3.6*
All developing countries minus China							
inward	13.5	18.3	15.6	16.1	30.9	33.4	36.0
outward	*#VALUE*	*4.4*	*4.3*	*6.3*	*15.1*	*15.1*	*16.1*

Source: UNCTAD, FDI/TNC database.

[a] Negative stock value. Stock data are estimated by accumulation or subtraction of flows. However, this value is included in the regional and global total.

[b] Least developed countries include: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.

[c] Oil-exporting countries include: Cameroon, Algeria, Angola, Bahrain, Brunei Darussalam, Congo, Ecuador, Gabon, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates and Venezuela.

Annex table B.7. Cross-border M&A sales, by region/economy of seller, 1988-2002

(Millions of dollars)

Region/economy	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
TOTAL WORLD	**115 623**	**140 389**	**150 576**	**80 713**	**79 280**	**83 064**	**127 110**	**186 593**	**227 023**	**304 848**	**531 648**	**766 044**	**1 143 816**	**593 960**	**369 789**
Developed economies	**112 749**	**135 305**	**134 239**	**74 048**	**68 349**	**67 622**	**110 632**	**163 950**	**187 616**	**232 085**	**443 200**	**679 481**	**1056 059**	**496 159**	**307 793**
Western Europe	**34 274**	**48 949**	**67 370**	**38 520**	**45 831**	**40 598**	**57 262**	**79 114**	**88 512**	**121 548**	**194 391**	**370 718**	**610 647**	**228 995**	**200 745**
European Union	**31 012**	**47 358**	**62 133**	**36 676**	**44 761**	**38 537**	**55 280**	**75 143**	**81 895**	**114 591**	**187 853**	**357 311**	**586 521**	**212 960**	**193 942**
Austria	253	32	189	244	107	417	540	609	856	2 259	3 551	380	574	9 175	38
Belgium	793	805	4 469	814	493	2 201	1 026	1 710	8 469	5 945	6 865	24 984	7 318	6 897	5 449
Denmark	218	225	496	272	99	590	570	199	459	566	3 802	4 615	9 122	2 461	2 014
Finland	80	229	51	463	209	391	550	1 726	1 199	735	4 780	3 144	6 896	490	8 206
France	3 018	3 338	8 183	2 623	9 150	8 497	16 290	7 533	13 575	17 751	16 885	23 834	35 018	14 424	30 122
Germany	1 300	4 301	6 220	3 407	5 521	2 285	4 468	7 496	11 924	11 856	19 047	39 555	246 990	48 641	46 605
Greece	22	-	115	70	413	52	15	50	493	99	21	191	245	1 854	65
Ireland	205	735	595	282	81	1 453	242	587	724	2 282	729	4 739	5 246	6 151	5 241
Italy	3 095	3 003	2 165	3 865	3 672	3 754	6 909	4 102	2 764	3 362	4 480	11 237	18 877	9 104	11 608
Luxembourg	5	-	531	82	-	254	380	280	506	3 492	35	7 360	4 210	2 681	2 952
Netherlands	1 182	3 965	1 484	3 490	9 362	4 779	2 789	3 607	3 538	19 052	19 359	39 010	33 656	27 628	11 037
Portugal	11	768	213	194	668	356	63	144	793	86	427	211	2 980	409	1 132
Spain	723	1 593	3 832	5 373	4 668	1 967	3 615	1 257	1 463	4 074	5 700	5 841	22 248	8 713	8 903
Sweden	192	1 849	4 489	2 478	2 455	1 844	6 016	9 451	3 863	3 327	11 093	59 676	13 112	5 774	7 614
United Kingdom	19 917	26 515	29 102	13 020	7 863	9 699	11 807	36 392	31 271	39 706	91 081	132 534	180 029	68 558	52 958
Other Western Europe	**3 262**	**1 591**	**5 237**	**1 844**	**1 070**	**2 061**	**1 982**	**3 971**	**6 617**	**6 958**	**6 538**	**13 407**	**24 126**	**16 035**	**6 802**
Andorra	-	-	-	-	-	-	-	-	-	-	-	-	6	-	-
Gibraltar	-	-	-	4	-	-	-	-	9	-	-	8	16	2	-
Guernsey	-	-	-	-	-	-	-	-	-	-	-	26	88	157	136
Iceland	-	-	-	1	-	-	-	-	4	-	-	-	-	-	229
Jersey	-	-	-	-	-	-	-	-	-	-	-	31	14	181	225
Liechtenstein	-	-	-	-	-	-	-	-	-	-	9	-	-	-	-
Malta	-	-	-	-	-	-	-	-	-	-	3	250	-	-	134
Man Island	-	-	-	-	-	-	-	-	-	-	-	-	36	85	52
Monaco	669	21	-	-	-	-	-	8	-	752	-	276	19	22	8
Norway	239	601	668	843	487	1 887	397	271	2 198	2 660	1 182	8 703	10 613	3 080	2 162
Switzerland	2 353	969	4 569	997	582	174	1 585	3 692	4 407	3 545	5 344	4 113	13 334	12 508	3 856
North America	**72 641**	**79 233**	**60 427**	**31 884**	**18 393**	**22 291**	**49 093**	**64 804**	**78 907**	**90 217**	**225 980**	**275 884**	**401 429**	**226 798**	**89 549**
Canada	8 737	10 412	5 731	3 658	2 554	2 313	4 364	11 567	10 839	8 510	16 432	23 950	77 079	41 918	16 317
United States	63 904	68 821	54 697	28 226	15 839	19 978	44 730	53 237	68 069	81 707	209 548	251 934	324 350	184 880	73 233
Other developed economies	**5 834**	**7 123**	**6 442**	**3 644**	**4 125**	**4 732**	**4 277**	**20 032**	**20 197**	**20 320**	**22 829**	**32 879**	**43 983**	**40 365**	**17 499**
Australia	4 380	4 704	2 545	2 592	2 446	3 191	2 975	17 360	13 099	14 794	14 737	11 996	21 699	16 879	10 653
Israel	106	134	44	58	293	18	235	303	541	1 097	1 754	2 854	2 346	4 452	466
Japan	29	1 612	148	178	230	93	750	541	1 719	3 083	4 022	16 431	15 541	15 183	5 689
New Zealand	1 320	674	3 704	815	1 157	1 430	317	1 828	4 839	1 346	2 316	1 598	4 397	3 851	692
Developing economies	**2 875**	**5 057**	**16 052**	**5 786**	**8 198**	**14 265**	**15 030**	**16 493**	**35 727**	**66 999**	**82 668**	**74 030**	**70 610**	**85 813**	**44 532**
Africa	**-**	**1 039**	**485**	**47**	**388**	**1 806**	**342**	**840**	**1 805**	**4 346**	**2 607**	**3 117**	**3 199**	**15 524**	**4 684**
North Africa	**-**	**24**	**-**	**1**	**139**	**242**	**100**	**10**	**211**	**680**	**456**	**914**	**956**	**2 916**	**598**
Algeria	-	-	-	1	-	-	-	-	-	-	-	42	127	-	-
Egypt	-	24	-	-	131	177	17	10	171	102	48	738	528	660	335
Morocco	-	-	-	-	-	64	83	-	40	578	5	123	-	2 211	47
Sudan	-	-	-	-	8	-	-	-	-	-	-	-	-	-	25
Tunisia	-	-	-	-	-	-	-	-	-	-	402	11	301	45	191
Other Africa	**-**	**1 015**	**485**	**46**	**249**	**1 565**	**241**	**830**	**1 595**	**3 666**	**2 151**	**2 203**	**2 243**	**12 608**	**4 086**
Angola	-	-	-	-	-	-	-	-	-	-	-	-	-	19	-

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Annex table B.7. Cross-border M&A sales, by region/economy of seller, 1988-2002 (continued)

(Millions of dollars)

Region/economy	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Botswana	-	-	-	-	-	-	-	4	11	4	-	-	-	-	78
Cameroon	-	-	-	-	-	-	-	4	0	-	-	-	-	70	-
Cape Verde	-	-	-	-	-	-	-	-	-	-	-	83	-	-	-
Central African Republic	-	-	-	-	-	4	-	2	1	-	-	1	-	-	-
Chad	-	-	-	-	-	-	-	-	-	-	-	-	21	-	-
Congo	-	-	-	-	-	-	-	61	14	-	-	-	-	-	-
Côte d'Ivoire	-	-	-	-	-	-	-	23	15	194	-	-	8	-	-
Dem. Rep. of the Congo	-	-	-	-	-	-	-	-	89	-	-	-	-	-	-
Equatorial Guinea	-	-	-	-	-	-	-	-	-	-	-	-	-	-	993
Eritrea	-	-	-	-	-	-	-	-	-	-	-	27	-	-	-
Ethiopia	-	-	-	-	-	-	-	-	-	-	-	36	-	-	-
Gabon	-	-	448	-	-	-	-	-	-	39	-	-	22	-	-
Ghana	-	-	-	-	-	-	1	4	48	52	-	38	4	1	50
Guinea	-	-	-	-	-	-	-	39	50	-	-	-	-	-	-
Kenya	-	15	-	-	-	-	-	-	25	-	-	-	18	300	-
Madagascar	-	-	-	-	-	-	-	-	58	-	-	4	-	-	-
Malawi	-	-	-	-	-	-	-	-	60	-	10	-	-	14	6
Mali	-	-	-	-	-	-	-	18	1	-	-	-	132	-	2
Mauritania	-	-	-	-	-	-	-	-	-	-	-	-	-	48	-
Mauritius	-	-	-	-	-	-	-	-	-	10	-	-	261	30	-
Mozambique	-	-	-	-	-	-	40	14	11	-	13	1	-	10	-
Namibia	-	-	-	36	-	-	-	-	-	3	-	-	-	8	-
Nigeria	-	1 000	-	-	-	-	-	-	-	-	12	18	15	1	-
Rwanda	-	-	-	-	-	-	-	-	-	-	-	2	-	2	-
Senegal	-	-	-	-	-	-	-	-	-	107	-	66	6	-	-
Sierra Leone	-	-	-	-	-	34	-	-	-	-	-	-	-	13	-
South Africa	-	-	-	10	211	1 506	187	640	1 106	2 664	1 932	1 902	1 171	11 916	2 933
Swaziland	-	-	37	-	-	-	-	-	-	387	-	-	-	4	-
Uganda	-	-	-	-	-	-	-	-	55	29	11	-	32	-	20
United Rep. of Tanzania	-	-	-	-	-	21	12	2	17	1	23	-	415	120	1
Zambia	-	-	-	-	-	-	-	18	27	173	150	1	133	53	-
Zimbabwe	-	-	-	-	38	-	1	1	7	2	-	24	5	-	4
Latin America and the Caribbean	**1 305**	**1 929**	**11 494**	**3 529**	**4 196**	**5 110**	**9 950**	**8 636**	**20 508**	**41 103**	**63 923**	**41 964**	**45 224**	**35 837**	**22 433**
South America	**1 148**	**322**	**7 319**	**2 901**	**2 109**	**2 840**	**7 324**	**6 509**	**16 910**	**25 439**	**46 834**	**39 033**	**35 584**	**16 174**	**12 395**
Argentina	60	27	6 274	302	1 164	1 803	1 315	1 869	3 611	4 635	10 396	19 407	5 273	5 431	1 207
Bolivia	-	15	26	-	-	-	-	821	273	911	180	232	19	-	80
Brazil	287	2	217	158	174	624	367	1 761	6 536	12 064	29 376	9 357	23 013	7 003	5 897
Chile	38	260	434	338	517	276	891	717	2 044	2 427	1 595	8 361	2 929	2 830	3 783
Colombia	764	-	341	49	31	8	1 248	67	2 399	2 516	1 780	302	1 589	170	830
Ecuador	-	-	-	-	49	-	44	35	105	27	79	214	153	6	70
Guyana	-	-	17	7	-	-	-	-	-	1	-	23	-	-	-
Paraguay	-	-	-	-	-	-	-	-	27	2	11	-	65	67	-
Peru	-	-	-	15	174	62	3 082	945	844	911	162	861	107	555	461
Suriname	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-
Uruguay	-	18	-	-	-	5	40	19	-	-	36	-	27	36	56
Venezuela	-	-	11	2 032	-	62	337	278	1 072	1 946	3 220	276	2 409	73	10
Other Latin America and Caribbean	**157**	**1 607**	**4 176**	**628**	**2 088**	**2 270**	**2 627**	**2 127**	**3 598**	**15 663**	**17 089**	**2 931**	**9 640**	**19 663**	**10 038**
Antigua and Barbuda	-	-	-	-	-	-	-	-	-	-	24	-	5	13	-
Aruba	-	-	-	-	3	-	-	-	-	23	-	-	-	-	-
Bahamas	83	27	120	210	915	79	214	2	104	32	28	-	25	198	28

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Annex table B.7. Cross-border M&A sales, by region/economy of seller, 1988-2002 (continued)

(Millions of dollars)

Region/economy	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Barbados	-	-	-	189	-	-	4	6	64	-	-	-	-	1	814
Belize	-	-	-	-	-	-	-	-	-	-	62	-	3	62	-
Bermuda	-	214	1 296	50	4	52	50	251	1 277	5 601	11 635	924	3 596	683	241
British Virgin Islands	-	-	143	6	-	-	89	412	254	19	4	13	284	34	230
Cayman Islands	5	374	170	138	41	-	-	-	245	-	-	122	54	8	-
Costa Rica	-	64	3	-	-	1	17	96	27	28	2	71	21	-	229
Cuba	-	-	-	-	-	-	-	299	-	300	38	-	477	8	-
Dominican Republic	-	-	-	-	-	-	-	-	46	-	28	673	464	-	-
El Salvador	-	-	-	-	-	-	-	40	-	41	978	-	-	168	-
Grenada	-	-	-	-	-	-	-	-	-	5	-	-	-	-	-
Guatemala	-	-	3	3	-	29	-	-	26	30	582	101	13	121	-
Haiti	-	-	-	-	-	-	-	-	-	-	2	-	-	-	-
Honduras	-	-	-	5	-	-	1	-	-	-	367	-	314	537	-
Jamaica	-	-	108	-	-	62	262	-	12	-	34	-	-	525	214
Mexico	54	395	2 326	10	961	1 864	1 913	719	1 428	7 927	3 001	859	3 965	17 017	7 137
Netherlands Antilles	-	533	8	-	-	-	2	291	-	-	86	-	-	89	301
Nicaragua	-	-	-	-	-	-	-	-	23	42	-	11	115	83	53
Panama	15	-	-	-	-	6	73	9	14	652	216	151	130	8	499
Saint Kitts and Nevis	-	-	-	-	-	-	-	-	78	-	-	-	-	-	-
Puerto Rico	-	-	-	-	142	-	-	-	-	-	-	6	174	108	250
Trinidad and Tobago	-	-	-	17	22	177	2	-	-	205	-	-	-	-	40
West Indies	-	-	-	-	-	-	-	-	-	760	-	-	-	-	-
Asia	**1 569**	**2 089**	**4 073**	**2 182**	**3 614**	**7 347**	**4 701**	**6 950**	**13 368**	**21 293**	**16 097**	**28 839**	**22 182**	**34 452**	**17 387**
West Asia	**59**	**60**	**113**	**131**	**203**	**71**	**49**	**222**	**403**	**368**	**82**	**335**	**970**	**1 323**	**458**
Abu Dhabi	-	-	-	-	58	-	-	-	-	-	-	-	-	-	-
Bahrain	-	-	-	-	-	4	-	-	-	-	-	36	161	2	-
Cyprus	-	-	-	-	-	-	-	-	-	-	-	-	-	43	-
Jordan	-	-	-	-	-	-	-	26	-	-	-	-	567	20	-
Kuwait	-	-	-	-	-	6	-	-	-	-	-	-	-	163	-
Lebanon	-	-	-	-	-	-	-	-	-	168	11	-	54	-	-
Oman	-	-	-	78	-	15	-	-	7	-	-	28	-	-	4
Qatar	-	-	-	43	-	12	-	-	-	-	-	-	-	-	-
Saudi Arabia	-	2	-	-	24	-	-	8	26	-	-	-	2	-	-
Syrian Arab Republic	-	-	-	-	-	-	-	-	-	-	-	3	-	-	-
Turkey	59	58	113	9	116	35	49	188	370	144	71	68	182	1 019	427
United Arab Emirates	-	-	-	-	-	-	-	-	-	56	-	200	4	76	9
Yemen	-	-	-	-	5	-	-	-	-	-	-	-	-	-	-
Central Asia	**-**	**-**	**-**	**-**	**-**	**9**	**-**	**450**	**3 221**	**2 340**	**174**	**73**	**107**	**15**	**122**
Armenia	-	-	-	-	-	-	-	-	-	-	173	29	-	-	52
Azerbaijan	-	-	-	-	-	-	-	-	1	-	-	-	36	-	52
Georgia	-	-	-	-	-	-	-	-	-	3	1	40	1	-	-
Kazakhstan	-	-	-	-	-	-	-	450	3 216	2 337	-	-	70	13	1
Uzbekistan	-	-	-	-	-	9	-	-	4	-	-	4	-	2	11
South, East and South-East Asia	**1 510**	**2 029**	**3 960**	**2 051**	**3 411**	**7 267**	**4 652**	**6 278**	**9 745**	**18 586**	**15 842**	**28 431**	**21 105**	**33 114**	**16 807**
Bangladesh	-	-	-	-	-	-	-	-	-	-	33	-	-	-	-
Brunei Darussalam	-	-	-	-	-	2	-	-	-	-	-	-	-	-	-
Cambodia	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-
China	-	-	8	125	221	561	715	403	1 906	1 856	798	2 395	2 247	2 325	2 072

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Annex table B.7. Cross-border M&A sales, by region/economy of seller, 1988-2002 (concluded)

(Millions of dollars)

Region/economy	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Hong Kong, China	1 046	826	2 620	568	1 674	5 308	1 602	1 703	3 267	7 330	938	4 181	4 793	10 362	1 865
India	-	-	5	-	35	96	385	276	206	1 520	361	1 044	1 219	1 037	1 698
Indonesia	100	150	-	149	233	169	206	809	530	332	683	1 164	819	3 529	2 790
Korea, Democratic People's Republic of	-	-	-	-	-	-	-	-	-	-	-	2	-	-	90
Korea, Republic of	-	68	-	673	-	2	1	192	564	836	3 973	10 062	6 448	3 648	5 375
Lao People's Dem. Rep.	-	-	-	-	-	10	-	-	-	-	-	-	-	269	266
Macao, China	-	-	-	29	-	-	-	-	-	-	-	-	-	-	109
Malaysia	20	701	86	128	46	518	443	98	768	351	1 096	1 166	441	1 449	485
Mongolia	-	-	-	-	-	-	1	-	-	-	-	1	-	-	-
Myanmar	-	-	-	-	-	10	-	9	-	260	-	-	-	-	-
Nepal	-	-	-	-	-	2	-	13	-	-	-	-	-	-	-
Pakistan	-	-	1	-	22	5	-	-	1 124	80	2 259	6	6	107	222
Philippines	45	161	15	63	404	136	828	1 208	462	4 157	1 905	1 523	366	2 063	544
Singapore	262	114	1 143	237	276	362	355	1 238	593	294	468	2 958	1 532	4 871	556
Sri Lanka	-	-	1	-	-	30	10	126	35	275	96	22	2	-	3
Taiwan Province of China	38	9	11	-	3	16	16	42	50	601	24	1 837	644	2 493	480
Thailand	-	-	70	79	498	42	89	161	234	633	3 209	2 011	2 569	957	247
Viet Nam	-	-	-	-	-	-	2	1	6	63	-	59	19	4	6
The Pacific	**-**	**-**	**-**	**28**	**-**	**2**	**37**	**67**	**46**	**257**	**41**	**110**	**5**	**-**	**28**
Cook Islands	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-
Fiji	-	-	-	-	-	-	-	-	5	-	-	4	-	-	-
French Polynesia	-	-	-	-	-	-	-	-	2	-	-	-	-	-	-
Marshall Islands	-	-	-	-	-	-	-	16	-	-	-	-	-	-	-
Papua New Guinea	-	-	-	28	-	2	36	51	39	257	41	106	-	-	28
Solomon Islands	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-
Vanuatu	-	-	-	-	-	-	-	-	-	-	-	-	4	-	-
Central and Eastern Europe	**-**	**27**	**285**	**880**	**2 733**	**1 178**	**1 419**	**6 050**	**3 679**	**5 764**	**5 116**	**10 371**	**17 147**	**11 988**	**17 463**
Albania	-	-	-	-	-	-	-	1	-	-	-	4	16	-	-
Bosnia and Herzegovina	-	-	-	-	-	-	-	-	-	-	-	-	45	25	19
Bulgaria	-	-	-	-	-	20	90	32	71	497	61	1 133	582	11	138
Croatia	-	-	-	-	43	23	45	94	48	61	16	1 164	146	676	875
Czech Republic	-	-	-	-	-	226	408	2 366	507	671	362	2 402	1 924	1 968	5 204
Former Czechoslovakia	-	-	-	477	780	-	-	-	-	-	-	-	-	-	-
Estonia	-	-	-	-	-	-	-	28	23	64	149	114	131	88	15
Hungary	-	24	226	267	392	382	139	2 106	1 594	298	612	537	1 117	1 370	1 278
Latvia	-	-	-	-	-	-	3	23	57	63	11	20	342	39	4
Lithuania	-	-	-	-	-	-	9	-	-	12	632	427	173	193	225
Macedonia, TFYR of	-	-	-	-	-	-	-	-	-	-	-	45	34	328	5
Moldova, Republic of	-	-	-	-	-	-	-	-	-	2	-	-	27	-	-
Poland	-	4	-	74	1 396	197	357	983	993	808	1 789	3 707	9 316	3 493	3 131
Romania	-	-	-	-	-	-	181	229	94	391	1 284	447	536	66	124
Russian Federation	-	-	59	-	33	309	63	100	95	2 681	147	180	758	2 039	1 252
Serbia and Montenegro	-	-	-	-	-	-	-	-	-	45	-	-	-	2	268
Slovakia	-	-	-	-	-	21	83	4	138	38	54	41	1 849	1 194	3 350
Slovenia	-	-	-	-	-	-	41	18	30	133	-	14	-	381	1 502
Ukraine	-	-	-	-	-	-	-	66	30	1	-	136	151	116	74
Yugoslavia (former)	-	-	-	62	88	-	-	-	-	-	-	-	-	-	-
Multinational[a]	**-**	**-**	**-**	**-**	**-**	**-**	**30**	**100**	**-**	**-**	**665**	**2 162**	**-**	**-**	**-**

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

[a] Involving sellers in more than two economies.

Note: The data cover the deals involving the acquisition of an equity stake of more than 10 per cent.

Annex table B.8. Cross-border M&A purchases, by region/economy of purchaser, 1988-2002
(Millions of dollars)

Region/economy	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
TOTAL WORLD	**115 623**	**140 389**	**150 576**	**80 713**	**79 280**	**83 064**	**127 110**	**186 593**	**227 023**	**304 848**	**531 648**	**766 044**	**1 143 816**	**593 960**	**369 789**
Developed economies	**113 389**	**135 781**	**143 070**	**77 435**	**72 995**	**72 153**	**112 401**	**173 139**	**196 735**	**269 275**	**508 916**	**700 808**	**1087 638**	**534 151**	**341 116**
Western Europe	**49 690**	**74 265**	**92 567**	**42 473**	**49 753**	**43 016**	**75 943**	**92 539**	**110 628**	**154 035**	**324 658**	**539 246**	**852 735**	**348 738**	**230 852**
European Union	**40 141**	**71 365**	**86 525**	**39 676**	**44 391**	**40 531**	**63 857**	**81 417**	**96 674**	**142 108**	**284 373**	**517 155**	**801 746**	**327 252**	**213 860**
Austria	-	21	236	208	62	169	23	157	4	242	302	1 771	2 254	1 171	1 848
Belgium	188	309	813	222	625	181	3 107	4 611	3 029	2 053	2 225	13 357	16 334	16 951	5 474
Denmark	63	261	767	573	258	372	172	152	638	1 492	1 250	5 654	4 590	4 163	2 012
Finland	172	979	1 136	568	8	98	417	471	1 464	1 847	7 333	2 236	20 192	7 573	5 304
France	5 486	17 594	21 828	10 380	12 389	6 596	6 717	8 939	14 755	21 153	30 926	88 656	168 710	59 169	33 865
Germany	1 857	3 468	6 795	6 894	4 409	4 412	7 608	18 509	17 984	13 190	66 728	85 530	58 671	57 011	45 110
Greece	-	100	3	16	19	127	21	-	2	2 018	1 439	287	3 937	1 267	139
Ireland	548	1 174	730	390	358	457	1 447	1 166	2 265	1 826	3 196	4 198	5 575	2 063	4 027
Italy	1 373	1 961	5 314	816	5 167	816	1 622	4 689	1 627	4 196	15 200	12 801	16 932	11 135	8 242
Luxembourg	80	-	734	1 023	415	1 555	244	51	1 037	973	891	2 847	6 040	4 537	3 683
Netherlands	2 350	3 292	5 619	4 251	5 304	2 848	8 714	6 811	12 148	18 472	24 280	48 909	52 430	31 160	14 947
Portugal	-	14	17	181	502	14	144	329	96	612	4 522	1 434	2 657	668	1 481
Spain	582	1 318	4 087	2 773	983	1 053	3 828	460	3 458	8 038	15 031	25 452	39 443	11 253	6 276
Sweden	3 104	2 645	12 572	2 882	1 813	1 923	3 118	5 432	2 058	7 625	15 952	9 914	21 559	7 365	12 231
United Kingdom	24 339	38 229	25 873	8 501	12 080	19 911	26 675	29 641	36 109	58 371	95 099	214 109	382 422	111 764	69 220
Other Western Europe	**9 549**	**2 900**	**6 043**	**2 797**	**5 362**	**2 485**	**12 086**	**11 122**	**13 954**	**11 928**	**40 285**	**22 091**	**50 989**	**21 486**	**16 992**
Gibraltar	-	-	-	3	-	-	-	-	-	-	-	-	18	-	-
Iceland	-	-	-	-	7	-	-	-	-	-	-	-	49	160	358
Jersey	-	-	-	-	-	-	-	-	-	-	-	6	-	730	236
Liechtenstein	-	-	160	-	-	-	62	10	-	142	-	8	-	-	-
Malta	-	-	-	-	-	7	-	-	-	-	-	4	-	43	-
Man Island	-	-	-	-	-	-	-	-	-	-	-	-	-	50	-
Monaco	-	-	-	35	113	-	4	-	-	-	-	-	318	102	-
Norway	19	126	1 380	1 301	270	143	643	1 276	3 956	1 212	1 170	1 382	7 376	1 510	6 823
Switzerland	9 530	2 774	4 503	1 458	4 973	2 336	11 378	9 836	9 998	10 574	39 115	20 691	43 228	18 892	9 575
North America	**38 577**	**47 862**	**30 766**	**20 702**	**17 190**	**25 534**	**33 610**	**69 833**	**69 501**	**99 709**	**173 039**	**138 881**	**198 915**	**135 019**	**91 419**
Canada	14 397	9 002	3 139	4 106	2 155	4 129	5 079	12 491	8 757	18 840	35 618	18 571	39 646	38 980	12 990
United States	24 181	38 860	27 627	16 596	15 035	21 405	28 531	57 343	60 744	80 869	137 421	120 310	159 269	96 039	78 429
Other developed economies	**25 122**	**13 655**	**19 736**	**14 260**	**6 052**	**3 603**	**2 848**	**10 767**	**16 606**	**15 531**	**11 219**	**22 681**	**35 988**	**50 395**	**18 845**
Australia	9 355	5 561	3 806	1 472	676	1 852	1 602	6 145	9 283	11 745	8 147	10 138	10 856	32 506	8 799
Israel	-	-	28	28	61	393	143	106	484	254	791	605	2 361	781	544
Japan	13 514	7 525	14 048	11 877	4 392	1 106	1 058	3 943	5 660	2 747	1 284	10 517	20 858	16 131	8 661
New Zealand	2 253	569	1 854	883	923	252	44	573	1 180	785	997	1 421	1 913	976	840
Developing economies	**2 204**	**3 995**	**7 181**	**3 258**	**6 264**	**10 784**	**14 360**	**13 372**	**29 646**	**35 210**	**21 717**	**63 406**	**48 496**	**55 719**	**27 585**
Africa	**24**	**5**	**146**	**430**	**1 746**	**406**	**4 221**	**645**	**2 148**	**2 800**	**2 678**	**5 762**	**6 659**	**3 041**	**1 999**
North Africa	**-**	**-**	**-**	**-**	**309**	**54**	**9**	**11**	**8**	**-**	**3**	**40**	**213**	**117**	**5**
Egypt	-	-	-	-	-	18	-	-	-	-	-	7	213	-	-
Libyan Arab Jamahiriya	-	-	-	-	309	-	5	-	-	-	3	-	-	45	-
Morocco	-	-	-	-	-	36	4	-	8	-	-	10	-	72	-
Tunisia	-	-	-	-	-	-	-	11	-	-	-	23	-	-	5
Other Africa	**24**	**5**	**146**	**430**	**1 436**	**352**	**4 212**	**634**	**2 140**	**2 800**	**2 675**	**5 722**	**6 446**	**2 924**	**1 994**
Botswana	-	-	-	-	-	-	-	4	-	-	-	-	-	-	-
Central African Republic	-	-	-	-	-	-	-	-	63	-	-	-	-	-	-
Gabon	-	-	-	229	-	-	-	-	-	-	-	-	-	-	-
Ghana	-	-	-	-	-	-	-	35	506	-	137	-	4	-	-
Kenya	-	-	-	-	-	-	-	-	-	-	-	-	3	9	-

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Annex table B.8. Cross-border M&A purchases, by region/economy of purchaser, 1988-2008 (continued)

(Millions of dollars)

Region/economy	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Liberia	-	-	-	-	-	-	-	-	15	-	-	-	-	-	-
Mauritius	-	-	-	-	-	-	-	-	4	34	7	7	-	4	40
Namibia	-	-	-	-	-	-	-	-	11	-	-	-	-	8	-
Nigeria	-	-	-	-	-	-	-	2	-	-	-	-	-	6	-
South Africa	24	5	146	201	1 436	352	4 196	593	1 522	2 766	2 514	5 715	6 393	2 594	1 947
United Republic of Tanzania	-	-	-	-	-	-	-	-	-	-	-	-	3	-	-
Uganda	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Zambia	-	-	-	-	-	-	-	-	15	-	-	-	43	-	-
Zimbabwe	-	-	-	-	-	-	16	-	4	-	16	-	-	304	7
Latin America and the Caribbean	**100**	**992**	**1 597**	**387**	**1 895**	**2 507**	**3 653**	**3 951**	**8 354**	**10 720**	**12 640**	**44 767**	**18 614**	**27 380**	**11 701**
South America	**10**	**91**	**130**	**269**	**594**	**1 795**	**682**	**3 405**	**5 939**	**6 038**	**9 510**	**3 874**	**2 191**	**3 411**	**3 643**
Argentina	-	-	10	181	-	71	62	1 984	321	1 170	3 545	1 313	675	343	4
Bolivia	-	-	-	-	-	-	-	-	0	-	-	-	-	-	4
Brazil	2	2	-	45	63	439	158	379	1 167	2 357	3 517	1 908	429	2 774	1 302
Chile	-	-	-	-	443	828	293	794	3 827	1 497	591	322	507	133	1 744
Colombia	-	-	-	-	-	11	10	91	272	157	436	102	203	19	530
Ecuador	-	-	-	-	-	-	22	50	45	-	-	-	-	-	-
Peru	-	-	-	-	-	-	7	62	237	44	47	220	62	28	59
Suriname	-	-	-	2	-	-	-	-	-	-	-	-	-	-	-
Uruguay	-	-	-	-	8	-	120	3	-	-	25	-	1	-	-
Venezuela	7	89	120	41	80	446	10	42	71	813	1 348	9	314	115	-
Other Latin America and Caribbean	**91**	**901**	**1 467**	**118**	**1 300**	**712**	**2 971**	**546**	**2 415**	**4 682**	**3 130**	**40 893**	**16 423**	**23 969**	**8 059**
Bahamas	83	-	1	-	17	-	9	142	344	23	51	459	-	748	44
Barbados	-	-	-	-	-	-	-	-	-	15	2	-	49	-	671
Belize	-	-	-	-	-	55	1	25	-	-	63	318	-	13	-
Bermuda	-	24	483	115	130	112	189	17	703	1 189	2 139	35 151	11 492	20 792	1 750
Cayman Islands	-	-	-	-	-	24	530	-	207	99	99	77	24	1 539	83
Costa Rica	-	-	-	-	-	-	-	2	7	3	-	-	-	-	-
Cuba	-	-	-	-	-	-	8	-	-	-	-	-	-	-	-
Dominican Republic	-	-	-	-	-	-	-	-	-	-	-	109	-	8	-
El Salvador	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-
Guatemala	-	-	-	-	-	-	-	-	-	48	-	-	-	-	-
Jamaica	-	-	16	-	10	-	-	4	-	-	-	-	-	-	-
Mexico	-	837	680	3	888	309	2 190	196	867	3 154	673	2 216	4 231	363	4 664
Netherlands Antilles	8	16	288	-	11	33	-	99	7	7	-	308	2	-	-
Panama	-	-	-	-	-	-	-	-	17	89	100	2 215	5	33	249
Puerto Rico	-	-	-	-	-	-	-	-	-	-	-	-	125	-	133
Trinidad and Tobago	-	24	-	-	245	175	-	-	-	-	5	-	5	-	-
Virgin Islands (United Kingdom)	-	-	-	-	-	4	44	62	260	56	-	40	489	473	464
Asia	**2 080**	**2 998**	**5 438**	**2 441**	**2 624**	**7 843**	**6 486**	**8 755**	**19 136**	**21 690**	**6 399**	**12 873**	**22 895**	**25 298**	**13 852**
West Asia	**124**	**253**	**2 112**	**113**	**105**	**1 013**	**1 199**	**1 697**	**1 589**	**3 797**	**399**	**1 538**	**1 750**	**454**	**3 074**
Abu Dhabi	-	-	528	-	-	-	-	-	-	-	-	-	-	-	201
Bahrain	-	168	1 537	-	-	811	300	-	-	1 472	45	563	79	274	646
Cyprus	-	-	-	-	-	-	-	-	41	1 881	-	73	15	32	36
Iran, Islamic Republic of	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jordan	-	-	-	-	-	-	-	-	-	-	-	-	22	-	-
Kuwait	-	83	-	112	-	-	-	4	648	-	-	119	32	105	114
Lebanon	-	-	-	-	-	21	-	3	0	58	-	-	-	-	-
Oman	-	-	-	-	-	-	-	-	-	8	55	-	-	-	9
Qatar	-	-	-	-	-	-	-	-	42	-	-	-	2	-	-
Saudi Arabia	-	-	-	-	100	182	630	1 671	350	334	217	3	1 550	39	2 020

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Annex table B.8. Cross-border M&A purchases, by region/economy of purchaser, 1988-2008 (concluded)
(Millions of dollars)

Region/economy	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Turkey	-	2	-	-	-	-	11	19	356	43	4	88	48	-	38
United Arab Emirates	124	-	48	1	-	-	257	-	153	2	77	655	2	4	10
Yemen	-	-	-	-	5	-	-	-	-	-	-	37	-	-	-
Central Asia	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**450**	**-**	**-**	**-**	**-**	**6**	**-**	**-**
Kazakhstan	-	-	-	-	-	-	-	450	-	-	-	-	6	-	-
South, East and South-East Asia	**1 956**	**2 745**	**3 325**	**2 329**	**2 518**	**6 830**	**5 287**	**6 608**	**17 547**	**17 893**	**6 001**	**11 335**	**21 139**	**24 844**	**10 778**
Afghanistan	-	-	-	-	13	-	-	-	-	-	-	-	-	-	-
Bangladesh	-	-	-	-	-	-	-	12	-	-	-	-	-	-	-
Brunei Darussalam	-	-	-	-	-	202	-	31	189	-	-	-	-	-	-
China	17	202	60	3	573	485	307	249	451	799	1 276	101	470	452	1 047
Hong Kong, China	1 649	773	1 198	1 342	1 263	4 113	2 267	2 299	2 912	8 402	2 201	2 321	5 768	3 012	5 062
India	22	11	-	1	3	219	109	29	80	1 287	11	126	910	2 195	270
Indonesia	260	-	49	3	16	50	32	163	218	676	39	243	1 445	-	197
Korea, Dem. People's Republic of	-	-	-	-	-	-	-	-	-	-	-	-	2	-	-
Korea, Republic of	-	235	33	187	72	74	500	1 392	1 659	2 379	187	1 097	1 712	175	98
Malaysia	-	27	144	149	148	774	812	1 122	9 635	894	1 059	1 377	761	1 375	930
Macao, China	-	-	-	-	-	-	-	-	-	-	-	450	-	-	-
Philippines	-	-	-	14	-	25	42	153	190	54	1	330	75	254	2
Pakistan	-	-	-	-	-	-	-	-	-	-	-	-	6	4	63
Singapore	8	764	438	570	294	849	1 174	892	2 018	2 888	530	4 720	8 847	16 516	2 946
Sri Lanka	-	-	-	-	-	-	2	-	-	-	26	8	-	-	3
Taiwan Province of China	-	464	1 385	-	131	-	30	122	4	433	628	408	1 138	161	74
Thailand	-	269	18	59	1	38	12	144	180	55	43	154	5	699	87
Viet Nam	-	-	-	-	6	-	1	-	11	27	-	-	-	-	-
The Pacific	**-**	**-**	**-**	**-**	**-**	**28**	**-**	**22**	**8**	**-**	**-**	**4**	**328**	**-**	**33**
Fiji	-	-	-	-	-	-	-	-	-	-	-	4	-	-	-
Nauru	-	-	-	-	-	28	-	-	-	-	-	-	-	-	-
Papua New Guinea	-	-	-	-	-	-	-	13	8	-	-	-	328	-	28
Vanuatu	-	-	-	-	-	-	-	9	-	-	-	-	-	-	-
Central and Eastern Europe	**-**	**6**	**-**	**14**	**22**	**113**	**329**	**59**	**504**	**275**	**1 008**	**1 549**	**1 694**	**2 225**	**1 087**
Bulgaria	-	-	-	-	-	-	-	-	3	60	-	797	8	-	8
Croatia	-	-	-	-	-	-	-	-	1	100	1	3	22	43	42
Czech Republic	-	6	-	-	-	19	51	48	176	60	142	13	775	-	30
Former Czechoslovakia	-	-	-	-	4	-	-	-	-	-	-	-	-	-	-
Estonia	-	-	-	-	-	-	22	-	15	1	12	5	2	41	-
Hungary	-	-	-	-	-	62	-	2	-	6	64	118	379	1331	242
Latvia	-	-	-	-	-	18	-	-	-	-	-	-	-	-	-
Lithuania	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-
Macedonia, TFYR of	-	-	-	-	-	-	-	-	2	-	-	-	-	-	16
Poland	-	-	-	14	-	8	11	8	23	45	465	132	118	324	58
Romania	-	-	-	-	-	-	-	-	-	0	-	-	-	10	19
Russian Federation	-	-	-	-	18	6	245	-	242	2	301	52	225	371	606
Slovakia	-	-	-	-	-	-	1	2	42	1	-	424	24	91	4
Slovenia	-	-	-	-	-	-	-	-	-	-	-	4	10	14	63
Ukraine	-	-	-	-	-	-	-	-	-	-	23	-	130	1	-
Unspecified	30	606	325	4	-	-	10	-	-	4	-	-	7	-	-
Multinational[a]	-	-	-	3	-	14	10	23	139	83	8	281	5 982	1 864	-

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

[a] Involving purchasers from more than two economies.

Note: The data cover the deals involving the acquisition of an equity stake of more than 10 per cent.

Annex table B.9. Cross-border M&As, by sector and industry of seller, 1988-2002

(Millions of dollars)

Sector/industry	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total	**115 623**	**140 389**	**150 576**	**80 713**	**79 280**	**83 064**	**127 110**	**186 593**	**227 023**	**304 848**	**531 648**	**766 044**	**1 143 816**	**593 960**	**369 789**
Primary	**3 911**	**1 941**	**5 170**	**1 164**	**3 637**	**4 201**	**5 517**	**8 499**	**7 935**	**8 725**	**10 599**	**10 000**	**9 815**	**28 280**	**12 751**
Agriculture, hunting, forestry and fishing	1 809	225	221	548	301	406	950	1 019	498	2 098	6 673	656	1 110	316	265
Mining, quarrying and petroleum	2 102	1 717	4 949	617	3 336	3 795	4 568	7 480	7 437	6 628	3 926	9 344	8 705	27 964	12 486
Manufacturing	**73 727**	**89 596**	**75 495**	**36 176**	**43 222**	**43 204**	**69 321**	**84 462**	**88 522**	**121 379**	**263 206**	**288 090**	**291 654**	**197 174**	**137 414**
Food, beverages and tobacco	14 462	8 719	12 676	5 127	9 398	7 751	13 528	18 108	6 558	22 053	17 001	28 242	50 247	34 628	32 072
Textiles, clothing and leather	812	1 720	1 281	731	760	1 173	1 431	2 039	849	1 732	1 632	5 276	2 526	3 510	915
Wood and wood products	1 793	9 176	7 765	2 714	1 588	2 031	4 262	4 855	5 725	6 854	7 237	9 456	23 562	13 878	7 325
Publishing, printing, and reproduction of recorded media	11 741	6 544	2 305	353	5 192	1 183	2 747	1 341	10 853	2 607	12 798	10 248	4 875	16 767	2 986
Coke, petroleum and nuclear fuel	17 868	9 151	6 480	5 676	1 596	1 479	4 216	5 644	13 965	11 315	67 280	22 637	45 015	31 167	33 018
Chemicals and chemical products	5 008	18 368	12 275	5 773	5 581	11 393	20 061	26 984	15 430	35 395	31 806	86 389	30 446	26 462	20 370
Rubber and plastic products	3 620	1 387	2 745	574	228	265	997	4 313	3 943	2 306	2 264	3 786	4 723	2 406	2 257
Non-metallic mineral products	2 452	3 887	5 630	1 113	5 410	2 204	5 201	2 726	2 840	6 153	8 100	12 129	11 663	8 359	3 183
Metal and metal products	1 606	6 399	4 426	2 246	2 534	2 252	2 743	2 515	8 728	9 853	8 376	10 825	16 782	12 890	10 034
Machinery and equipment	2 878	2 078	1 750	1 140	1 087	1 661	3 312	5 103	4 301	7 546	8 918	20 850	8 980	4 073	2 564
Electrical and electronic equipment	6 998	12 771	6 114	8 361	6 198	3 895	3 432	5 581	7 573	7 897	35 819	51 770	53 859	25 732	8 556
Precision instruments	3 596	2 626	3 992	1 112	1 080	4 495	1 882	2 023	3 300	3 322	9 251	7 269	13 518	10 375	5 064
Motor vehicles and other transport equipment	889	5 215	7 390	995	2 211	2 743	4 988	2 657	4 150	4 189	50 767	18 517	25 272	5 662	8 590
Other manufacturing	4	1 556	666	261	360	680	522	575	308	158	1 958	696	186	1 266	479
Tertiary	**37 986**	**48 851**	**69 911**	**43 297**	**32 384**	**35 649**	**52 270**	**93 632**	**130 232**	**174 744**	**257 843**	**467 853**	**842 342**	**368 506**	**219 623**
Electricity, gas, and water	116	1 028	609	1 072	1 847	1 783	2 510	12 240	21 274	29 620	32 249	40 843	46 711	21 047	61 572
Construction	295	813	533	279	651	331	838	1 738	4 410	602	1 434	3 205	5 170	2 167	1 465
Trade	10 013	12 377	9 095	7 904	5 703	7 537	8 753	10 159	27 928	21 664	27 332	55 463	34 918	27 668	17 813
Hotels and restaurants	6 829	3 316	7 263	1 293	1 408	1 412	2 335	3 247	2 416	4 445	10 332	4 836	2 883	6 169	2 758
Transport, storage and communications	2 182	3 578	14 460	3 757	3 035	6 559	13 540	8 225	17 523	17 736	51 445	167 723	365 673	121 490	30 824
Finance	14 471	14 616	21 722	14 188	13 178	12 168	10 568	31 059	36 693	50 836	83 432	126 710	183 665	122 005	41 903
Business services	3 009	5 264	11 831	5 100	3 808	3 664	8 406	9 715	13 154	26 480	42 497	52 748	137 416	54 319	47 248
Public administration and defence	-	-	-	-	-	-	-	605	-	111	395	1 769	8	329	76
Education	-	7	5	33	-	421	18	-	4	179	42	66	219	438	7
Health and social services	86	460	469	84	237	261	2 463	946	336	3 396	641	724	751	1 875	781
Community, social and personal service activities	984	7 363	3 858	9 554	2 474	1 404	2 319	12 110	6 494	19 656	7 976	13 724	64 855	10 862	15 169
Other services	3	30	66	33	44	110	520	3 588	-	19	69	42	73	136	7
Unknown[a]	-	-	-	76	37	10	1	-	334	-	-	101	5	-	-

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

[a] Includes non-classified establishments.

Note: The data cover the deals involving the acquisition of an equity stake of more than 10 per cent.

Annex table B.10. Cross-border M&As, by sector and industry of purchaser, 1988-2002

(Millions of dollars)

Sector/industry	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total	**115 623**	**140 389**	**150 576**	**80 713**	**79 280**	**83 064**	**127 110**	**186 593**	**227 023**	**304 848**	**531 648**	**766 044**	**1 143 816**	**593 960**	**369 789**
Primary	**4 398**	**2 976**	**2 131**	**1 556**	**2 978**	**4 155**	**5 032**	**7 951**	**5 684**	**7 150**	**5 455**	**7 397**	**8 968**	**6 537**	**9 309**
Agriculture, hunting, forestry and fishing	2 078	1 466	47	471	204	65	154	182	962	1 541	1 497	241	1 472	784	37
Mining, quarrying and petroleum	2 320	1 511	2 084	1 085	2 775	4 090	4 878	7 769	4 723	5 609	3 958	7 156	7 496	5 753	9 272
Manufacturing	**71 747**	**95 149**	**79 908**	**44 985**	**35 287**	**36 837**	**72 549**	**93 784**	**88 821**	**133 202**	**257 220**	**287 126**	**302 507**	**199 887**	**115 460**
Food, beverages and tobacco	19 774	15 484	13 523	5 212	6 383	7 668	7 872	22 546	9 684	21 439	16 922	33 014	60 189	23 238	20 996
Textiles, clothing and leather	608	1 636	3 363	1 401	406	3 767	332	1 569	778	1 254	3 062	2 122	3 741	1 129	549
Wood and wood products	3 115	5 637	6 717	2 244	1 743	2 933	2 483	6 466	3 143	6 157	13 131	7 138	18 342	12 498	5 258
Publishing, printing, and reproduction of recorded media	8 951	6 518	2 363	689	5 022	1 998	4 866	2 332	7 829	6 774	12 050	13 245	9 365	18 616	5 731
Coke, petroleum and nuclear fuel	15 360	9 384	7 051	6 199	1 442	2 243	3 499	6 679	12 994	11 860	67 665	36 939	40 701	30 971	28 201
Chemicals and chemical products	4 332	19 335	15 260	4 043	5 142	4 605	31 473	28 186	18 555	38 664	34 822	80 865	24 085	22 935	20 958
Rubber and plastic products	3 528	2 609	1 904	411	710	387	176	4 852	659	2 363	2 790	1 105	1 214	1 535	819
Non-metallic mineral products	1 865	2 983	6 183	911	3 939	2 404	5 232	2 740	4 585	6 965	8 823	12 494	12 881	8 392	2 186
Metal and metal products	2 729	5 992	3 076	1 874	2 308	2 046	2 475	1 472	13 395	8 512	7 947	10 974	12 713	20 081	9 015
Machinery and equipment	2 288	2 567	1 906	1 171	671	1 239	2 416	3 760	2 463	4 767	4 553	26 325	12 938	20 130	3 432
Electrical and electronic equipment	6 474	17 062	7 190	19 346	5 057	4 608	4 822	7 576	6 660	9 093	29 062	40 893	68 284	29 097	8 678
Precision instruments	1 251	1 511	2 861	445	619	1 415	1 135	2 809	3 033	4 757	7 209	4 302	6 195	5 875	2 689
Motor vehicles and other transport equipment	1 470	4 357	8 369	928	1 633	1 437	5 271	2 267	4 411	5 072	48 904	17 038	30 852	5 127	6 516
Other manufacturing	3	74	143	113	214	88	497	528	633	5 527	280	672	1 007	263	432
Tertiary	**39 221**	**42 264**	**68 423**	**33 985**	**40 965**	**42 028**	**49 519**	**84 824**	**132 414**	**164 457**	**268 486**	**471 497**	**832 303**	**387 425**	**243 771**
Electricity, gas, and water	1 034	771	332	1 072	1 012	1 250	830	10 466	16 616	18 787	27 527	55 111	84 409	17 953	57 866
Construction	2 740	1 181	257	695	316	177	1 350	1 160	6 955	2 546	1 336	1 787	2 921	1 397	1 041
Trade	4 109	4 356	6 205	3 739	2 870	6 186	5 636	8 854	15 176	16 515	19 624	29 524	19 399	20 238	23 189
Hotels and restaurants	3 561	1 534	3 066	340	323	569	997	3 402	1 713	2 482	2 799	3 593	2 120	2 895	1 130
Transport, storage and communications	1 062	5 004	4 785	1 367	1 596	4 048	10 480	6 085	11 424	14 735	30 165	163 928	368 954	112 498	37 115
Finance	13 218	23 402	43 671	22 395	30 406	24 589	24 268	45 368	61 304	82 616	142 066	174 238	241 282	181 234	90 787
Business services	9 888	4 949	6 377	3 100	3 298	3 532	3 972	4 843	17 084	14 721	22 889	35 695	82 790	33 111	29 805
Public administration and defence	1 952	13	667	-	-	81	-	31	-	102	-	310	17	13	318
Education	-	216	-	4	-	420	-	-	1	98	30	54	107	110	-
Health and social services	14	155	530	41	221	203	154	263	265	321	738	35	513	1 472	710
Community, social and personal service activities	1 640	678	2 469	1 206	835	906	1 332	3 366	1 857	11 000	19 887	7 214	29 784	16 467	1 809
Other services	3	5	66	27	88	69	500	986	20	534	1 426	8	7	37	-
Unknown[a]	258	-	114	187	50	45	10	34	104	38	488	24	38	110	1 248

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

[a] Includes non-classified establishments.

Note: The data cover the deals involving the acquisition of an equity stake of more than 10 per cent.

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