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World Investment Report

2004 The Shift Towards Services

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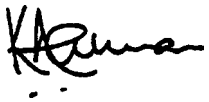
PREFACE

After three years of decline in global investment flows, there are signs of revival. With global economic growth improving in 2004, prospects for global investment look bright. This is particularly the case in services, which make up the largest economic sector in many countries, and which dominate foreign direct investment. The *World Investment Report 2004* looks at the shift towards services and examines the challenges and opportunities that arise for development.

In the knowledge-based economy, services are critical to the competitiveness of firms in all sectors. Foreign direct investment is a key source of financing for telecommunications, energy and financial services, as well as for other important industries. New information and communication technologies make it possible to trade in services, making their production increasingly subject to the international division of labour. The offshoring that results can lead to new opportunities for developing countries to become better integrated into global markets. The importance of services is therefore increasingly reflected in the policy agenda – ranging from liberalization to promotional efforts to regulation at national and international levels.

Foreign direct investment in services can offer important benefits. It can provide the capital, skills and technology required to make services more efficient, and thus improve the competitiveness of host countries. But there are risks, too – and these must be addressed through appropriate policies. Since many services are embedded in the social, cultural and political fabric of societies, the right balance must be struck between economic efficiency and broader developmental objectives. The overriding challenge is to create an environment that will help countries strike such a balance, so that the benefits of the new international division of labour in services can be reaped by all.



Kofi A. Annan
Secretary-General of the United Nations

New York, July 2004

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ABBREVIATIONS

ACP	African, Caribbean and Pacific (group of countries)
AGOA	African Growth and Opportunity Act (of the United States)
ASEAN	Association of South-East Asian Nations
BIT	bilateral investment treaty
BOT	build-operate and transfer
BTO	build-transfer and operate
BPO	business-process outsourcing
CARICOM	Caribbean Community
CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
DTT	double taxation treaty
EFTA	European Free Trade Association
EIU	Economist Intelligence Unit
EPZ	export processing zone
EU	European Union
FDI	foreign direct investment
FEZ	free economic zone
FTA	free trade agreement
GATS	General Agreement on Trade in Services
GDP	gross domestic product
ICC	International Chamber of Commerce
ICSID	International Centre for Settlement of Investment Disputes
ICT	information and communications technology
IIA	international investment agreement
IIF	Institute of International Finance
ILO	International Labour Organization
IPA	investment promotion agency
IPR	Investment Policy Review
IT	information technology
LAC	Latin America and the Caribbean
LDC	least developed country
M&A	merger and acquisition
MERCOSUR	Mercado Común del Sur (Southern Common Market)
MFN	most favoured nation
MIGA	Multilateral Investment Guarantee Agency
NAFTA	North American Free Trade Agreement
NEPAD	New Partnership for Africa's Development
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
R&D	research and development
RTA	regional trade agreement
SACU	Southern African Customs Union
SADC	Southern African Development Community
SCM	Subsidies and Countervailing Measures (Uruguay Round Agreement)
SME	small and medium-sized enterprise
TNB	transnational bank
TNC	transnational corporation
TNI	transnationality index (UNCTAD)
TRIMs	trade-related investment measures (also a WTO agreement)
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

OVERVIEW

Still declining in 2003, FDI flows show signs of recovery,...

Global inflows of foreign direct investment (FDI) declined in 2003 for the third year in a row, to $560 billion. This was prompted again by a fall in FDI flows to developed countries: at $367 billion, they were 25% lower than in 2002. Worldwide, 111 countries saw a rise in flows, and 82 a decline. The fall in flows to the United States by 53%, to $30 billion – the lowest level in the past 12 years – was particularly dramatic. FDI flows to Central and Eastern Europe (CEE) also slumped, from $31 billion to $21 billion. It was only developing countries as a group that experienced a recovery, with FDI inflows rising by 9%, to $172 billion overall. But in this group, the picture was mixed: Africa and Asia and the Pacific saw an increase, while Latin America and the Caribbean experienced a continuing decline. The group of 50 least developed countries (LDCs) continued to receive little FDI ($7 billion).

Prospects for 2004, however, are promising. Cross-border mergers and acquisitions (M&As) – still low at $297 billion in 2003 – began to pick up. They rose by 3% in the first six months of 2004 over the same period in 2003. This, combined with other factors – higher economic growth in the main home and host countries, improved corporate profitability, higher stock valuations – points to a recovery of FDI flows in 2004. Reflecting higher profits, reinvested earnings – one of the three components of FDI flows – had already resumed growth in 2003, reaching a record high. Other components of FDI (equity and intra-company loans) are also expected to pick up in 2004.

The continuing liberalization of FDI regimes may help the recovery. There were 244 changes in laws and regulations affecting FDI in 2003, 220 of which were in the direction of more liberalization. In that year, 86 bilateral investment treaties (BITs) and 60 double taxation treaties (DTTs) were concluded, bringing the totals to 2,265 and 2,316, respectively. However, the annual number of new treaties concluded has been declining, since 2002 in the case of BITs and since 2000 in the case of DTTs.

Surveys, conducted by UNCTAD during the first quarter of 2004, of 335 of the world's largest transnational corporations (TNCs) (from developed, developing and transition economies) and 87 international site-selection experts, corroborate the optimistic outlook for FDI flows. Flows are expected to pick up, particularly in Asia and the Pacific and CEE. China and India in Asia and Poland in CEE are considered to be especially well positioned for an upswing. Prospects are particularly bright for some services and for electrical and electronic equipment, motor vehicles and machinery, according to these experts. The relocation of a wide range of corporate functions is set to continue. Greenfield investment is predicted to dominate FDI in developing countries, and cross-border M&As in the developed world. Investment promotion agencies (IPAs) (also surveyed by UNCTAD in early 2004) anticipate sustained competition for FDI, with incentives and targeting viewed as key tools for investment promotion.

A recovery in FDI will further boost international production, presently carried out by at least 61,000 TNCs with over 900,000 foreign affiliates, representing an FDI stock of about $7 trillion. International production remains fairly concentrated: in 2002, the world's 100 largest TNCs, representing less than 0.2% of the global universe of TNCs, accounted for 14% of sales by foreign affiliates worldwide, 12% of their assets and 13% of their employment. Following a period of stagnation, these TNCs resumed growth in terms of their assets, sales and employment in 2002.

A recovery does not mean that all countries will realize their FDI potential. Indeed, UNCTAD's Inward FDI Performance Index, a measure of the attractiveness of a country to FDI, shows that economies such as the Czech Republic, Hong Kong (China) and Ireland continued to attract significant investment even during the FDI recession. In contrast, countries such as Japan, South Africa and Thailand have yet to realize their full potential to attract FDI, according to their ranking on UNCTAD's Inward FDI Potential Index as compared with that on the Inward FDI Performance Index.

...driven by TNCs from developed countries, but with increasing participation by developing-country firms.

As in the past, TNCs from developed countries will drive the renewed growth of world FDI flows.

But, increasingly, TNCs from developing countries are contributing too. Their share in the global FDI flows rose from less than 6% in the mid-1980s to some 11% during the latter half of the 1990s, before falling to 7% during 2001-2003 (for an annual average of $46 billion). They now account for about one-tenth of global outward FDI stock, which stood at $859 billion after rising by 8% in 2003. Measured as a share of gross fixed capital formation, some developing countries invest more abroad than some developed ones: e.g. Singapore (36%, during 2001-2003), Chile (7%) and Malaysia (5%), compared to the United States (7%), Germany (4%) and Japan (3%). As the economic recovery takes hold, FDI from these and other developing countries can be expected to resume growth. Is a new geography of FDI flows in the making, complementing the new geography of trade?

It may well be: the top 50 developing-country TNCs are becoming transnationalized (as measured by UNCTAD's Transnationality Index) at a faster rate than their developed-country counterparts. They are led by firms from developing Asia. FDI outflows from that region have averaged $37 billion per year over the past three years (almost comparable to average annual world FDI flows in the first half of the 1980s), or four-fifths of all outflows of developing countries. Latin America and the Caribbean accounts for another $10 billion, while outflows from Africa are much smaller and come mainly from South Africa. A good part of investment flows from developing countries goes to other developing countries. In developing Asia, for example, they account for some two-fifths of total inflows. And flows between developing countries are growing faster than flows between developed and developing countries.

Notwithstanding rising FDI from the developing world, developed countries continue to account for over 90% of total outward FDI. In fact, the ownership advantages of TNCs based in countries with significant outward FDI, such as the Netherlands, Sweden, Switzerland and the United Kingdom, appear to be getting stronger. UNCTAD's Outward FDI Performance Index, presented for the first time in *WIR04*, reveals how countries vary in this regard. Ranked according to this Index – measured as the ratio of a country's share in world outward FDI flows to its share in world GDP – the leaders are Belgium and Luxembourg (because of transshipped FDI), Panama and Singapore. But the four countries mentioned earlier as well as other developed countries also figure among those at the top of the list.

Trends and prospects vary by region, with turnarounds in Africa and Asia and the Pacific,...

FDI inflows to *Africa* rose by 28%, to $15 billion, in 2003, but fell short of their 2001 peak of $20 billion. Thirty-six countries saw a rise in inflows, and 17 a decline. The recovery was led by investment in natural resources and a revival of cross-border M&As, including through privatizations. Morocco was the largest recipient of inflows. Overall, natural-resource-rich countries (Angola, Chad, Equatorial Guinea, Nigeria, South Africa) continued to be the principal destinations, but a large number of smaller countries shared in the recovery. FDI in services is increasing, particularly in telecommunications, electricity and retail trade. In South Africa, for instance, FDI in telecommunications and information technology has overtaken that in mining and extraction.

Africa's outlook for FDI in 2004 and beyond is promising, given the region's natural-resource potential, buoyant global commodity markets and improving investor perceptions of the region. Leading TNCs surveyed by UNCTAD in 2004 viewed the region's prospects less favourably than those for other regions: only one out of five respondents expected higher inflows over the next two years, and two-thirds believed flows would remain unchanged.

Continuing improvements in regulatory frameworks should facilitate FDI inflows into African countries. In 2003, a number of them further liberalized their FDI regimes, and some resumed privatization programmes. Several countries concluded or made progress in negotiations on free trade agreements (FTAs). The extension of the African Growth and Opportunity Act (AGOA) of the United States

to 2015, through the AGOA Acceleration Act of 2004, should facilitate the expansion of international production in Africa.

The rebound of inflows to the *Asia-Pacific* region, up by 14%, to $107 billion in 2003, was driven by strong domestic economic growth in key economies, improvements in the investment environment, and regional integration that encourages intraregional investment and facilitates the expansion of production networks by TNCs. The outbreak of the Severe Acute Respiratory Syndrome (SARS) had only a marginal effect on FDI flows to the region. Overall, 34 economies received higher inflows, and 21 lower ones.

Within the region, there was considerable unevenness of FDI flows to different subregions and countries, as well as industries. Overall, inflows were concentrated in North-East Asia ($72 billion in 2003) and in services. Setting aside the special case of Luxembourg (owing to transshipping), China became the world's largest FDI recipient in 2003, overtaking the United States, traditionally the largest recipient. Flows to South-East Asia rose by 27% to $19 billion. South Asia received only $6 billion, in spite of a 34% increase. Flows to resource-rich Central Asia rose from $4.5 billion in 2002 to $6.1 billion, and to West Asia from $3.6 billion to $4.1 billion. Flows to the Pacific islands remained low (at $0.2 billion), despite a noticeable increase in FDI to Papua New Guinea.

The FDI stock in services climbed from 43% of the region's total inward stock in 1995 to 50% in 2002, while that of manufacturing fell to 44%. In the primary sector, oil and gas, in particular, were magnets. While manufacturing attracted the most FDI in China, the share of services in FDI inflows to other economies rose in absolute and relative terms. This is especially true for the newly industrializing economies and the ASEAN subregion. Regional cooperation agreements, such as the ASEAN Framework Agreement on Services, helped.

On the national policy front, Asia-Pacific countries continued to liberalize their FDI policies and improve their investment climate. Most countries have already concluded BITs and DTTs with their principal investment partners. They have also improved cooperation amongst themselves, with the conclusion of several FTAs in 2003, and other economic arrangements with investment components.

FDI prospects for the region continue to be strong: almost three-fifths of the top TNCs surveyed by UNCTAD expected FDI to increase over the next two years. In particular, prospects for China, India and Thailand were considered bright. There is less optimism for West Asia, with 13% of the respondents predicting a deterioration.

... another decline in Latin America and the Caribbean, a plunge in Central and Eastern Europe...

For the fourth year in a row, FDI flows into *Latin America and the Caribbean* (LAC) fell, by 3% in 2003, to $50 billion. This is the lowest annual level of inward FDI since 1995. Of 40 economies, 19 saw declining inflows. In particular, declines were registered in Brazil and Mexico, the region's largest recipients. With privatization running out of steam, weak economic recovery in the European Union (EU) (the region's principal source of FDI, apart from the United States) and recession or slow growth in several countries in the region in the aftermath of the Argentine crisis, LAC has been hit hard by the FDI downturn. The apparent decline of the *maquila* industry added to concerns that Mexico might be losing attractiveness for FDI. Several smaller economies, such as Chile and Venezuela, registered increases in 2003, the former recouping its losses of the previous year. As a result, the region's share in developing-country inflows has returned to the levels preceding the latest FDI boom. In 2003, FDI outflows from LAC rose to $11 billion.

With economic growth in LAC expected to pick up, there is optimism that a recovery in FDI inflows will follow. Indeed, a substantial share of corporate executives expect an increase, according to UNCTAD's TNCs survey. Several countries are putting more emphasis on further liberalizing their FDI regimes and streamlining administrative procedures for investors.

The unexpected plunge in FDI flows into *Central and Eastern Europe*, from $31 to $21 billion, was mainly due to the Czech Republic and Slovakia, two of the largest recipients in the region. Overall, inflows rose in ten countries and fell in nine. Inflows to the Russian Federation also declined, from $3.5 billion to $1 billion. By contrast, outflows from CEE rose from $5 billion to $7 billion, with the Russian Federation accounting for three-fifths of that figure. Four

out of the five top TNCs in 2002 among the region's 25 largest TNCs were Russian. FDI by Russian firms is motivated by a desire to gain a foothold in the enlarged EU, and a desire to control their value chains globally. TNCs from other CEE countries seek to improve their competitiveness by focusing their investment on the lower income CEE countries or developing countries.

Far from diverting FDI flows from the old members of the EU, the accession eight from CEE (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia) actually saw their FDI inflows shrink, from $23 billion in 2002 to $11 billion in 2003. As part of their efforts to enhance their attractiveness to investors (domestic and foreign), several new EU members have lowered their corporate taxes to levels comparable to those in locations such as Ireland. The combination of relatively low wages, low corporate tax rates and access to EU subsidies – enhanced by a favourable investment climate, a highly skilled workforce and free access to the rest of the EU market – makes the accession countries attractive locations for FDI, both from other EU countries and from third countries.

Not surprisingly, therefore, prospects for FDI into CEE are promising: more than two-thirds of the top TNCs and location experts surveyed by UNCTAD expected an upturn in FDI inflows during 2004-2005, the highest proportion of such responses among all regions. IPAs will help, according to survey results, especially through more targeting and further FDI policy liberalization.

...and uneven performances in the industrialized world.

The year 2003 saw a mixed FDI picture for the developed countries: ten posted higher inflows and 16 lower ones. Overall, inflows declined by 25%, to $367 billion. Intra-company loans plunged and, to a lesser extent, equity flows (two of the three components of FDI flows). However, reinvested earnings rose, thanks to improved profitability. The slow pace of economic recovery did not help. Cross-border M&As fell in number and value for the third year running. United States FDI inflows halved, from $63 to $30 billion, which placed that country behind Luxembourg (because of transshipped FDI), China and France. Flows into the EU as a whole declined by 21%, to $295 billion.

At the same time, FDI outflows from developed countries increased by 4% (to $570 billion), largely owing to higher outflows from the United States – they rose by close to a third, to $152 billion. The United States was again the largest source of FDI, followed by Luxembourg (because of transshipped FDI), France and the United Kingdom, in that order. Higher FDI outflows and lower inflows combined for a negative net balance of $122 billion for the United States on these two items, the largest such deficit ever.

FDI prospects for developed countries for 2004 and beyond are favourable. The first six months of 2004 saw an upsurge in announced M&As, suggesting a more positive scenario for the second half of that year. The findings of UNCTAD's surveys of TNCs and location experts were less optimistic regarding prospects for Western Europe than for North America and Japan.

The composition of FDI has shifted towards services in all regions, ...

The structure of FDI has shifted towards services. In the early 1970s, this sector accounted for only one-quarter of the world FDI *stock*; in 1990 this share was less than one-half; and by 2002, it had risen to about 60% or an estimated $4 trillion. Over the same period, the share of the primary sector in world FDI stock declined, from 9% to 6%, and that of manufacturing fell even more, from 42% to 34%

On average, services accounted for two-thirds of total FDI *inflows* during 2001-2002, valued at some $500 billion. Moreover, as the transnationalization of the services sector in home and host countries lags behind that of manufacturing, there is scope for a further shift towards services.

Outward FDI in services continues to be dominated by developed countries, but has become more evenly distributed among them. A few decades ago, almost the entire outward stock of services FDI was held by firms from the United States. By 2002, Japan and the EU had emerged as significant sources. Developing countries' outward FDI in services began to grow visibly from the 1990s. Their share in the global

outward FDI services stock climbed from 1% in 1990 to 10% in 2002, faster than in other sectors. Trade and trade-supporting services by manufacturing TNCs expanded particularly rapidly, while business services, hotels and restaurants, and financial services also grew.

On the *inward* side, the distribution of services FDI stock has been relatively more balanced, though developed countries still account for the largest share. The fastest growth has taken place in Western Europe and the United States, reflecting the fact that most service FDI is market-seeking. Today, developed countries account for an estimated 72% of the inward FDI stock in services, developing economies for 25% and CEE for the balance. In 2002, the United States was the largest host economy in terms of the size of its inward FDI stock in services. With a few exceptions (such as China), countries that have participated in the FDI boom in services also strengthened their position among home and host countries for all FDI. There is, however, considerable variation in the share of services in the FDI of individual countries.

The composition of services FDI is also changing. Until recently, it was concentrated in trade and finance, which together still accounted for 47% of the inward stock of services FDI and 35% of flows in 2002 (compared to 65% and 59%, respectively, in 1990). However, such industries as electricity, water, telecommunications and business services (including IT-enabled corporate services) are becoming more prominent. Between 1990 and 2002, for example, the value of the FDI stock in electric power generation and distribution rose 14-fold; in telecoms, storage and transport 16-fold; and in business services 9-fold.

... driven by various factors, ...

What explains the shift of FDI towards services? Partly it reflects the ascendancy of services in economies more generally: by 2001, this sector accounted, on average, for 72% of GDP in developed countries, 52% in developing and 57% in CEE countries. Moreover, most services are not tradable – they need to be produced when and where they are consumed. Hence the principal way to bring services to foreign markets is through FDI. In addition, countries have liberalized their services FDI regimes, which has made larger inflows possible, especially in industries previously closed to foreign entry. Of particular importance has been the privatization of State-owned utilities in Latin America and the Caribbean, and in CEE.

Firms have reacted by expanding their service production abroad. Traditionally, FDI in such services as banking, insurance and transportation had been undertaken by firms moving abroad to support or complement trade or overseas manufacturing by their manufacturing clients. This is still taking place, but the pattern has been changing: service providers more and more invest abroad on their own account, as they seek new clients and exploit their own ownership advantages. Added to that are competitive pressures. In non-tradable services, growth remains the principal location advantage for attracting FDI. In directly tradable services, the main location advantages are access to good information and communication technologies, an appropriate institutional infrastructure and the availability of productive and well-trained personnel at competitive costs.

... and with M&As and non-equity arrangements as the most common entry modes.

The shift towards services is also discernible in cross-border M&As. In fact, most M&As during the second half of the 1990s took place in services and then became a widely used mode of TNC entry. While, in the late 1980s, services accounted for some 40% of global cross-border M&As, their share rose to more than 60% by the end of the 1990s. Up to the 1980s, cross border M&As were almost exclusively the domain of United States TNCs. Since then, EU TNCs have become the dominant actors: in 2001-2003, they accounted for 61% of all M&A purchases worldwide. Cross-border M&As have also played a prominent role in the overseas expansion of services by TNCs based in developing countries.

Overall, the propensity of TNCs to enter new markets through M&As, rather than greenfield FDI, is much greater in such service industries as banking, telecommunications and water. Privatization programmes open to FDI, which peaked in many countries during the 1990s, have added to the number of M&As.

Across a number of service industries, the growth in TNC activity and international production takes the form of non-equity

arrangements – e.g. franchising, management contracts, partnerships – rather than FDI. The greater popularity of non-equity forms in services as compared with goods can be explained partly by differences in the nature of the proprietary assets of the firms involved. Soft technologies and knowledge-based, intangible assets, rather than tangible ones, provide service firms with competitive advantages. Intangible assets, such as organizational and managerial expertise, can be separated from tangible and capital-intensive ones (such as real estate in the case of hotels or water distribution networks). More importantly, because the critical knowledge transferred by TNCs and the capabilities of the local firms are frequently codifiable (e.g. in management contracts), these can be equally well protected and enhanced by non-equity arrangements – and without putting capital at risk. For instance, quality control, performance conditions and minimum transaction costs can often be embodied in management contracts or franchising agreements. Non-equity forms are common in hotels, restaurants, car rental, retailing, accounting, legal and other professional services. However, such activity is not captured in FDI stock and flow data, or in data on the economic activities of foreign affiliates.

International production networks in services are in their infancy, and service industries and TNCs are less transnationalized than their manufacturing counterparts – but they may be catching up.

FDI in services has traditionally been, and continues to be, market-seeking, despite the increase in the cross-border tradability of many information-intensive services. While some services (e.g. financial and, especially, business services) can be rationalized internationally, leading to efficiency-seeking FDI, the integrated production of services on the whole remains in its infancy. In 2001, for example, 84% of sales of services by foreign affiliates of United States TNCs were local sales in host countries, while the corresponding share for goods was 61%.

Nevertheless, there are signs that international services production is evolving in a direction similar to that of international goods production. In the United States, for instance, the share of intra-firm imports in total imports of "other private services" rose from 30% in 1986 to 47% in 2002. To the extent that integrated strategies of TNCs are being pursued, however, they take the form of simple rather than complex strategies, although world product mandates for foreign affiliates exist (e.g. accounting services for a corporate system as a whole), as do simultaneous international production networks (e.g. when affiliates in various countries work on a common R&D database at the same time).

Despite the growth and dominance of services FDI, the services sector is less transnationalized than the manufacturing sector. Judging from data for selected, mainly developed countries, the degree of transnationality of services production, as measured by the shares of foreign affiliates in value-added, employment or sales of services in host and home countries is lower than that in manufacturing, measured in a similar manner. Although a less satisfactory measure, the size of FDI stock relative to GDP in the two sectors for selected developed and developing countries indicates the same. This is because of: (i) the much larger size of the services sector; (ii) the continued provision by domestic enterprises of many services such as education, health, government services, media and transportation; and (iii) the relatively recent growth of FDI in other services (such as telecoms, electricity, gas and water and business services). Moreover, service TNCs have a lower degree of transnationality overall than their manufacturing counterparts (20% compared to 40%), according to United States data. However, the service TNCs on UNCTAD's lists of the largest TNCs worldwide, and those from developing economies are catching up fast with the manufacturing firms on the list.

FDI in services can have benefits – and costs – for host countries,...

To start with, FDI in services, like FDI in other sectors, injects *financial resources* into a host economy. To the extent that funds are raised internationally, they are a net addition to resource flows into a host country. If funds are raised locally, domestic interest rates may rise, making capital more expensive for domestic enterprises, although the difference between locally-raised and foreign-sourced resources becomes less important as countries open up to international capital markets. A large part of services FDI is in market-seeking, non-tradable activities, which do not contribute directly to foreign-exchange earnings. At the same time, they

entail external payments, for example, in the form of repatriated profits. Hence, FDI could have a negative impact on the balance of payments. And payments associated with FDI in services (e.g. repatriated profits) can quickly outweigh the initial capital inflow and exacerbate balance-of-payments crises.

Counterbalancing such possible negative impacts are the potentially positive effects on consumers of final services, and on producers using intermediate services in terms of better service provision and spillover effects. FDI in services affects the provision of services in terms of supply, cost, quality and variety of services in host economies. In some industries, it can add significantly to the volume of services available in a host country. The financial strength of TNCs, together with their ability to implement and manage complex systems, enables them to expand supply capacities rapidly in complex, capital-intensive services, such as telecommunications and transportation. However, in the absence of appropriate government policies and regulations, TNC involvement in utilities and other basic services may lead to a rise in prices, an inequitable distribution of services and limited access for the poorest segments of society.

Concerns also arise about the impact of services FDI on *competition* and the possible *crowding out* of domestic firms. In banking, for instance, foreign bank entry is sometimes found to be associated with a deterioration of the loan portfolio of domestic banks, a situation that potentially undermines their viability. Domestic banks face a challenge in competing with foreign banks due to their lack of geographical diversification and experience, limited financing capacity and higher costs of new product implementation. In industries such as retailing, the presence of TNCs introduces new ways of doing business, new pricing structures, improved information management processes and new marketing and merchandising methods; all these can squeeze out local producers – although, for the remaining ones, especially when they are able to upgrade, the effect may be beneficial. FDI can spur local service providers to become more competitive through demonstration and skills diffusions, thus helping them improve efficiency. All in all, the competitive impact of FDI entry on service supply conditions, as well as the likelihood of its crowding out domestic firms, depend considerably on initial conditions in a host country, especially the level of economic and service-industry development, market structure of service industries and the regulatory framework.

One of the biggest contributions of FDI in services to development is in the *transfer of technology*. Services TNCs can bring both hard technology (plant, equipment, industrial processes) and soft technology (knowledge, information, expertise, skills in organization, management, marketing). Soft technology is captured in skills – which is often reflected in wages. Evidence on employee remuneration in foreign affiliates of United States-based service TNCs in developing countries suggests that they are more skill-intensive than their manufacturing counterparts. In addition, compensation in service affiliates in developing countries is much closer to that of affiliates in developed countries than in the case of manufacturing. Both reflect the stand-alone nature of many service affiliates, which requires that the skills profile of parent firms be largely replicated in their foreign affiliates.

What determines whether or not skills transfer actually materializes are the intensity of competition, the quality of education and training in host countries, the training and personnel policies of TNCs, labour market structure and mobility, and linkages between foreign affiliates and domestic service suppliers and buyers. Although evidence exists that services FDI does provide some transfer of skills, expertise and knowledge, data on the overall extent of such transfers are scarce.

Direct *exports* by service TNCs have been relatively limited until recently, but their indirect impact on export competitiveness can be significant. FDI in intermediate services can directly and indirectly improve the efficiency of industrial products. Such services range from banking, insurance and business services to transport, electricity and telecommunications. International hotel chains play an important role in promoting competitiveness in tourism by helping to attract a critical mass of international tourists. Tourism is an important foreign-exchange earner for developing countries, through both equity and non-equity involvement.

FDI in services generates *employment* in host countries, although less so per dollar invested than in manufacturing. Moreover, employees in foreign service affiliates are, on average, better trained and better paid than those in manufacturing. These differences again arise mainly because of the stand-alone nature of most

foreign affiliates in services and the (still) limited ability of TNCs to separate labour-intensive activities and locate them in countries with lower labour costs. However, the potential for job creation is growing with the rise of FDI in export-oriented services. Indirect effects are also important, with services FDI supporting production in upstream and downstream industries, thus potentially adding to employment there.

... and managing services FDI requires appropriate regulatory structures.

Both direct and indirect benefits associated with services FDI can boost national and export competitiveness. However, benefits may not be realized if conditions in the host economy are not right. Services FDI can entail three kinds of risk: (i) systemic risk, when the absence of efficient regulation exposes a host economy to significant economic instability; (ii) structural risk, when the institutions and instruments needed to manage, say, privatization of utilities, are weak and there is the risk of turning State-owned monopolies into private ones; and (iii) contingent risk, when FDI in socially or culturally sensitive areas causes unintended harm.

These risks imply that, while services FDI is becoming an important element of competitiveness, it has to be managed carefully. Indeed, the special nature of some services, particularly in basic utilities and socially or culturally sensitive areas, means that free-market forces may not provide the desired outcomes. Strong, independent and competent regulatory structures are vital if the potential benefits of FDI are to be tapped. Considerable skills and information, as well as the ability to draw upon the experiences of regulators in other parts of the world, are required so that developing countries can build the appropriate structures and reap the maximum benefits from services FDI.

The offshoring of services, still a relatively new phenomenon, is on the rise,...

Services typically need to be produced when and where they are consumed. In the past decade or so, advances in information and communication technologies have made it possible for more and more of these services to be produced in one location and consumed elsewhere – they have become tradable. The implication of this "tradability revolution" is that the production of entire service products (or parts thereof) can be distributed internationally – in locations offshore from firms' home countries – in line with the comparative advantages of individual locations and the competitiveness-enhancing strategies of firms. This is a process well known in the manufacturing sector.

Offshoring of services can be done in two ways: internally, through the establishment of foreign affiliates (sometimes called "captive offshoring"); or by outsourcing a service to a third-party service provider ("offshore outsourcing"). Indeed, an integral part of the restructuring of corporate activities to enhance their international competitiveness is to concentrate on "core competencies". For many firms in all sectors, this means that the production of various services (accounting, billing, software development, architectural designs, testing, etc.) is outsourced, i.e. turned over to other (specialist) companies. Typically, the lion's share of such outsourcing takes place in the same country, but the international share of outsourcing is likely to increase as services become more tradable. After all, once a decision has been taken to outsource, it is, in principle, only a small step to move such production abroad – to offshore it – if this enhances a firm's international competitiveness. (See box 1 for a discussion of business models.)

While the offshoring of services is still in its infancy, the tipping point may be approaching rapidly. Offshoring represents the cutting edge of the global shift in production activity, giving rise to a new international division of labour in the production of services.

While the fragmentation and globalization processes in services and manufacturing are similar, there are important differences. First, although the services sector is much larger than the manufacturing sector, only some 10% of its output enters international trade, compared with over 50% for manufacturing. Second, the pace of globalization of services affected by the tradability revolution is faster than in manufacturing. Third, whereas the relocation of goods production has involved, overwhelmingly, firms in manufacturing only, service functions are offshored by companies in

all sectors. Fourth, the skill intensity is generally higher for offshored tradable services than for manufacturing located abroad, thus affecting white-collar jobs in particular. And fifth, services that are offshored may be more footloose than relocated manufacturing activities because of lower capital-intensity and sunk costs, especially services that do not require high skills.

Obviously, not all corporate services and service functions can or will relocate. For many services, proximity to markets, interaction with customers, trust and confidence outweigh the possible benefits of an international division of labour. Further, technological limitations cannot be discounted. It is not possible for all service functions to be digitized and/or separated from related activities. Some businesses will continue to need localized services or person-to-person contact for exchanging highly confidential information or for adapting to rapidly changing customer needs. Regulations and legal requirements (e.g. regarding privacy) may also raise transactions costs and limit international trade in services. Certain services, such as insurance and banking, are required by law in some countries to be provided by companies established locally. The lack of international recognition of professional qualifications is another obstacle, as is the lack of globally agreed privacy rules. Some international locations also lack the capacity to host offshored service activities. These include the supply of reliable telecom infrastructure, appropriately educated workers, rising wage costs and high levels of attrition in the fastest growing destinations, all giving rise to shortage risks, at least in the short run. TNCs too have different perceptions of the risks and benefits of offshoring services and some are reluctant to do so.

Box 1. Offshoring: captive or outsourced production?

Offshoring can be either captive or outsourced. Captive offshoring is preferred when strict control of an activity is crucial (as in R&D), information is sensitive, internal interaction is important, or when a firm seeks to capture savings and other advantages. Back-office and front-office work that can be easily standardized and separated from other activities are more likely to be outsourced (and eventually offshored). Smaller scale activities are more likely to be kept in-house, because their outsourcing would not generate enough savings. The availability of capable local firms also influences the choice of captive versus outsourced offshoring. If data for India are indicative, perhaps as much as 60% of offshored IT-enabled services takes place within TNCs.

Sometimes, offshoring takes place through a combination of outsourcing and captive models. The expansion of international offshoring has contributed to the emergence of a new breed of TNCs that provides services to other companies, imitating contract manufacturers. Most such "contract service providers" hail from the United States. Some of them have become global players by setting up their own international networks of foreign affiliates. While the main operations of these companies remain in industrialized countries, activities in developing countries are growing more rapidly, and are also expanding abroad.

Source: UNCTAD.

...driven by the search for competitiveness ...

Cost considerations often trigger offshoring. For example, 70-80% of companies interviewed in various studies mentioned lower costs as the main reason for setting up a shared service centre abroad. Cost savings of 20-40% are commonly reported by companies that have experience in offshoring. Savings relate both to the use of cheaper labour and the consolidation of activities in fewer locations. Hence, considerable savings can accrue from offshoring even among developed countries – where, in fact, most of it takes place.

But cost is only the trigger. In fact, many of the pioneers offshored to access skills and to improve the quality of the services provided. And they are staying (and expanding) to take advantage of the entire range of benefits resulting from the international division of labour in the production of services. Once important firms have started to reap the benefits of this new possibility, others are likely to follow for fear of compromising their own competitive position. Hence, many more companies – large and small, from developed and developing countries – can be expected to establish their own international production networks or otherwise offshore the production of certain services.

As a result, a wide range of newly tradable services is now entering the exports of countries, developed and developing alike. These can be simple, low-value added activities (such as data entry), or more sophisticated, high-value added activities (such as architectural designs, financial analysis, software programming, R&D). They span the full diversity of skills, and some cut across all sectors.

The size of the phenomenon is, however, difficult to establish. As noted above, most outsourcing at present takes place domestically in the home country; only 1-2% of all business-process outsourcing to date is done internationally. Second, about 90% of all FDI projects during 2002-2003 in export-oriented services originated in developed countries. Firms from the United States dominated, with two-thirds of all export-oriented information and telecommunication service projects, 60% of call-centre projects and 55% of shared-service projects. Third, a significant share of offshoring went to developed countries – for example, more than half of all export-oriented FDI projects related to call centres in 2002-2003. Ireland and Canada are among the most attractive offshore locations.

No one knows how big offshoring will become. The total market for all offshore service exports is estimated to have been $32 billion in 2001, of which Ireland accounted for one quarter. The fastest growth is expected in the offshoring of IT-enabled services, which is forecast to expand from $1 billion in 2002 to $24 billion in 2007. Even among the 1,000 largest firms in the world, 70% still have not offshored any services to low-cost locations, but many have plans to do so. While United States companies have been relatively active, European companies have shown less inclination to offshore services. But there are signs that this is starting to change, beginning with the United Kingdom. Research undertaken in 2004 by UNCTAD, in cooperation with Roland Berger Strategy Consultants, found that 83% of large European companies with offshoring were satisfied with the experience, only 3% were dissatisfied, and 44% of the companies interviewed planned further offshoring in the coming years. This is likely to compel more companies to consider offshoring as a potential strategy to increase their competitiveness.

Offshoring has a long way to go before it matures and settles down in pattern and location. A World Bank assessment of the mid-1990s concerning the number of jobs for which long-distance provision is technically feasible *and* for which cost savings of up to 30-40% would be plausible suggested that some 1-5% of the total employment in the G-7 countries could be affected. More recent estimates by business research groups of the likely impact concluded that 3.4 million service jobs may shift from the United States to low-income countries by 2015; another concluded that 2 million offshored jobs could be created in the financial services industry alone, and that the total number of jobs affected for all industries could be in the area of 4 million. However, this should be compared with an average turnover of 4 million jobs every month in the United States.

... and offering export opportunities for countries with the right mix of costs, skills and infrastructure,...

While offshoring is creating new FDI opportunities, not all countries are taking part in this process. As with FDI and trade in general, developed countries attract a sizeable share. Given that services generally require higher skills than manufacturing activities, the barriers to entry can be high for potential host countries. For those that do manage to become export bases for services, key benefits include increased export earnings, job creation, higher wages and the upgrading of skills. Export revenues are considerable, as exemplified by India, where exports of software and IT-enabled services grew from less than $0.5 billion a decade ago to some $12 billion in 2003-2004. Jobs created in the services sector, including through offshoring, are typically better paid than in the manufacturing sector. But wage increases are also more rapid than in manufacturing, which makes offshored services more vulnerable to relocation to other sites. Given the short time needed to implement an offshore FDI project, attracting offshored services can offer fast-track job creation for successful host countries.

FDI related to the offshoring of services may also be desirable because of spillover effects, especially if the services provided are also sold in the domestic market. Positive spillovers in terms of raising the competitiveness of human resources and improving the ICT infrastructure benefit all sectors of an economy, with most of the acquired skills being readily transferable to other parts of the economy. Negative spillovers,

such as environmental pollution and over-exploitation of natural resources are likely to be limited.

At the same time, given that export-oriented services tend to be relatively skill-intensive, they are mostly geographically concentrated and require a well-developed infrastructure. Therefore, the scope for broader development benefits outside the most advanced regions of an economy may be constrained. In the case of software development, the potential for linkages between foreign affiliates and local firms has also been found to be limited, particularly when production is solely export-oriented and when services are provided on an intra-firm basis. Moreover, an influx of export-oriented services FDI may attract the best skills to certain types of service activities. Unless continuously upgraded, such activities may easily move on to another location if the competitive situation changes.

Indeed, most offshored services are to date concentrated in a relatively small number of countries. In 2001, Ireland, India, Canada and Israel, in that order, accounted for over 70% of the total market for offshored services, mostly in software development and other IT-enabled services. However, the share of developing countries and CEE in offshored projects is increasing. For example, between 2002 and 2003, their share in the total number of related FDI projects rose from 39% to 52% and their share in the number of jobs created by such projects reached 57%.

Among developing countries, South and South-East Asia dominate as destinations for FDI projects related to service offshoring in developing countries, particularly in the area of IT services. India is the preferred destination for offshoring of virtually the whole range of services. Firms are attracted not just by its base of low-cost and skilled labour, it also has first-mover and agglomeration advantages. There is, however, scope for more countries to benefit from the offshoring trend, taking into account specific needs in terms of language skills, time zones and cultural affinity.

...but it creates concerns that need to be addressed.

The growth of services offshoring has given rise to concerns mainly in developed countries. In particular, the growth of white-collar, export-oriented service jobs in some developing countries is seen as leading to employment losses in developed countries. (The benefits arising from this new international division of labour typically receive less attention.) Consequently, proposals have been made – particularly in home countries – to constrain the trend towards offshoring.

What is the likely impact of services offshoring on home countries? Offshoring is essentially a manifestation of a shift in comparative advantage, and offers all the advantages and costs of such a shift. It is not a zero sum game in which one party (the country receiving service work, be it developed or developing) gains at the expense of another party (the country offshoring services). Rather, it offers benefits to home countries as well. First, offshoring allows firms to reduce costs and improve quality and delivery, thereby enhancing their competitiveness, with positive effects on the home country economy. Second, it allows home countries to shift to more productive and higher value activities, depending on their ability to adapt to changing comparative advantage. The impact on jobs is likely to be similar to, but smaller than, that of technical change, which makes some jobs redundant and creates others, generally at higher wage levels. Finally, host countries that gain from offshoring and earn more foreign exchange spend more on imports of the advanced products that industrialized countries export.

Indeed, there are no signs that offshoring leads to significant declines in similar service jobs in home countries. Recent estimates undertaken on behalf of the Department of Trade and Industry of the United Kingdom, for example, suggest that the number of call centres in the country is likely to increase from 5,500 to 6,000 over the next three years, and that associated employment will rise from below 500,000 in 2003 to 650,000 by 2007. At the same time, employment in industries that are expected to be the most affected by offshoring is showing rapid growth. In many cases, offshoring of services is a response to excess demand and the shortage of adequately trained people at home. Thus, every job created abroad as a result of offshoring does not necessarily equal a job lost in developed economies.

Nevertheless, there are short-term challenges to consider. All shifts in comparative advantage entail adjustment costs at the micro

level. Some people will lose their jobs, and there is likely to be a transition period in which they search for new ones. Many may have to acquire new skills or move to new locations to become employable. The challenge for home countries is to minimize such adjustment costs and make the transition process as smooth and efficient as possible for those directly affected. This does not require measures to force service jobs to stay at home, but rather policies that encourage education, training and R&D.

Thus, instead of implementing protectionist measures, white-collar workers in developed countries threatened with job losses could be given assistance (say, through retraining and with finding new jobs), similar to the trade adjustment assistance provided to vulnerable workers in manufacturing. Workers moving to new careers could perhaps be offered "wage insurance" to cover part of the difference between their former wages and new wages. Public-private partnerships could play a role in skills development, say through the use of fiscal incentives for employee training. Adjustment to any change in employment patterns needs greater labour mobility and changes in skills profiles. Preventing adjustment because of its costs would be only a short-term palliative, and could well handicap income and employment growth in the longer term. In the final analysis, protectionist measures are likely to destroy rather than save jobs in importing countries.

In principle, the challenge for developed countries is the same as that facing developing countries as far as the cost side of offshoring is concerned. Given the risk of some services moving to new locations, even the countries that attract offshored services risk a relocation of those activities to even more competitive sites.

There is a need for an enabling international framework to allow all countries to benefit from the advantages that the services tradability revolution can bring. Developing countries, in particular, should continue to be able to use their comparative advantage to benefit from the globalization of IT and IT-enabled services. Shifts in comparative advantage rarely offer immediate and visible benefits to all concerned. However, the economies from which services are offshored have to ensure that their workers share in the gains enjoyed by enterprises that become more competitive, and that customers get better and cheaper services. Governments need to introduce adjustment policies and consider the longer term benefits of globalization. Holding back offshoring to avoid adjustment costs would strengthen the critics of globalization, who argue that the rich countries only support globalization when they reap immediate gains. Hence the challenge is to maintain an environment in which the benefits from FDI in services in general, and offshoring in particular, can materialize. The WTO's General Agreement on Trade in Services may be of relevance in this respect.

In line with their development objectives, countries are gradually opening up to FDI in services and actively seeking to attract it,....

Returning to FDI in *all* services, there is a growing recognition by governments that, on balance, they benefit from such investment. The result has been a broad-based opening up to services FDI, although, the degree of openness varies across countries and industries. In general, developed countries are more open than developing ones. But even countries that have liberalized most of their service industries typically retain entry restrictions in specific services, such as media and air transportation. The nature of restrictions and the purpose for which these are introduced vary by industry. Services FDI can bring economic benefits, but policy-makers need to strike a balance between possible efficiency gains and other broader development objectives.

Beyond that, more and more countries are seeking actively to attract FDI in services through investor targeting. IPAs are particularly interested in attracting foreign-exchange-generating services, such as computer and related services, tourism and hotels and restaurants. They are also targeting service functions of manufacturing firms, especially call centres, shared-service centres and regional headquarters functions. In this context, many export processing zones shape their promotional packages to attract services-related FDI beyond commercial services and simple data entry, to include, for example, medical diagnosis, architectural, business, engineering and financial services as well. Countries are also setting up technology parks specifically geared to FDI in IT services, offering high-quality telecommunications, stable power supply, a highly educated workforce and a technology-supporting infrastructure.

General promotion measures, incentives and export processing zones are the most widely used tools for FDI promotion. Incentives, used in the whole range of service industries, are most common in tourism, transport and financial services. As in manufacturing, there is the risk of a race in the use of incentives, especially to attract export-oriented FDI in services. This risk is accentuated by the footloose nature of many export-oriented service projects.

Investment promotion can be particularly successful if the basic requirements are right. For services, skills are vital, as is a reliable, state-of-the-art international communications infrastructure, especially if offshored services are targeted. Regulatory issues are also receiving increasing attention, particularly in the area of data security, an area that needs to be improved in a number of destination countries.

The promotion of FDI in services should be complemented by policies aimed at addressing possible concerns about such FDI, as well as maximizing the benefits from the presence of foreign companies in this sector. The main rewards of FDI accrue over the longer term, when TNCs strike local roots, expand operations, improve local skills, link up with local institutions and upgrade technologies. Governments need to induce market-seeking TNCs to deepen and extend their operations, and export-oriented ones to stay and upgrade as wages rise and cheaper competitors appear. Policies in this area should seek to improve local capabilities, skills, institutions and infrastructure in line with the changing technological and market realities.

...including through privatization, which requires the implementation of complementary policies.

The opening up of various infrastructure services to FDI in the framework of privatization programmes has triggered unprecedented increases in such investment. While involving foreign companies in infrastructure services can bring new capital and more and better services, it can also entail costs. FDI in services through privatization raises a special challenge in terms of regulation and governance.

Governments need to establish clear objectives for involving FDI in the privatization of services. For privatization to succeed, it is particularly important for a government to strike a balance between budgetary and other considerations, such as the efficient and competitive provision of services, at affordable prices for the poor and/or those living in sparsely populated areas. Large privatizations require an appropriate institutional environment that guarantees policy consistency, coherence and efficiency. TNCs are sophisticated institutions, and transactions and related contracts tend to be technical in nature and involve the monitoring of numerous post-privatization obligations. Specialized privatization agencies can help by undertaking a competitive selection process, providing a one-stop shop for investors, as well as maintaining independence from governments and vested interests in State-owned enterprises.

The regulation of service industries is another challenge. While foreign investors are often attracted to assets that enjoy monopolistic or oligopolistic rents, the interest of host countries is to minimize those rents, including through well designed regulatory regimes. Such regimes should address the ability of investors to collect payment for the services they provide; they should also contain clear principles for tariff-setting and procedures for dispute settlement. In addition, they need to address issues related to securing universal access to essential services, taking into account the situation of poorer and remote populations. Furthermore, regulatory regimes should be complemented by an appropriate policy to encourage competition. The restructuring of an industry prior to privatization may be helpful; in low-income countries, this process can perhaps be facilitated through related official development assistance.

Services IIAs are proliferating, creating a multilayered and multifaceted network of rules that present challenges for development.

Over the past decade, the number of international investment agreements (IIAs) covering FDI in services has proliferated, resulting in a multilayered and multifaceted network of international rules. In many areas of services FDI, therefore, national policy-making increasingly takes place within the framework of these agreements. Agreements differ in their approach towards services FDI (investment-

based, services-based, mixed) and in their substantive provisions (e.g. regulating entry as opposed to protecting investment, adopting a positive- as opposed to a negative-list approach when making commitments). Several services IIAs contain follow-up procedures and separate chapters for specific service industries.

IIAs can provide a stable, predictable and transparent framework for attracting FDI in services and benefiting from it. At the same time, there is a complex process of interaction between international and national policies for services FDI. The nature of this interaction can be either autonomous-liberalization-led or IIA-driven, or anywhere in-between. Ultimately, this interaction is country- and context-specific, thereby creating additional challenges for policy-makers seeking to regulate services.

Moreover, policy-makers need to ensure that international rules are consistent with or complementary to each other in order to avoid conflicts. They also need to address issues arising at the interface of the liberalization and regulation of services. Finally, policy-makers need to strike a balance between using services IIAs for attracting FDI in services and preserving the flexibility necessary for the pursuit of national development objectives related to the services sector. It is important for IIAs to allow such flexibility. This is particularly important for developing countries, as they need to accommodate their development-oriented policy objectives and to undertake the sort of trial-and-error processes required to identify the policy options best suited to their level of development.

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In conclusion, to benefit from an increasingly globalized and interdependent world economy, countries need to strengthen their capabilities for the supply of competitive services. If conditions are right, FDI can help to achieve this. Its most important contribution is in bringing the capital, skills and technology countries need to set up competitive service industries. This applies not only to the new IT-enabled services, but also to traditional services such as infrastructure and tourism. Moreover, as services become more tradable, FDI can help link developing countries to global value chains in services. Such chains comprise international service production networks that are increasingly important to access international markets. At the same time, caution is necessary when attracting FDI in services. For instance, some services (especially basic utilities and infrastructure) may be natural monopolies and hence susceptible to abuses of market power (whether firms are domestic or foreign). Others are of considerable social and cultural significance; the whole fabric of a society can be affected by FDI in those industries. Hence, countries need to strike a balance between economic efficiency and broader developmental objectives.

This is why it matters to have the right mix of policies. In light of the shift towards FDI in services, developing countries face a double challenge: to create the necessary conditions – domestic and international – to attract services FDI and, at the same time, to minimize its potential negative effects. In each case, the key is to pursue the right policies, within a broader development strategy. Basic to them is the upgrading of the human resources and physical infrastructure (especially in information and communication technology) required by most modern services. An internationally competitive services sector is, in today's world economy, essential for development.

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PART ONE

FDI SET TO RECOVER

CHAPTER I

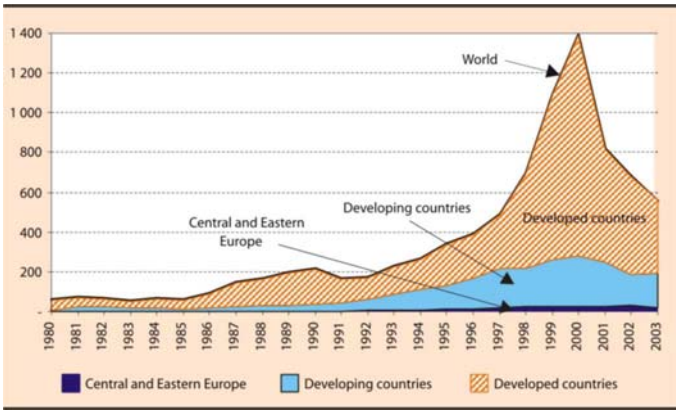
GLOBAL FDI GROWTH SET TO RESUME

A. FDI inflows down again – but recovery is on its way

Global FDI inflows fell again in 2003. But outflows increased and that, together with the improved economic climate, suggests that a recovery is under way in 2004.

FDI inflows declined by 18% (to $560 billion) in 2003, following a massive decline of 41% in 2001 (from $1.4 trillion in 2000 to $818 billion) and another 17% in 2002 (to $679 billion) (figure I.1). But FDI outflows rose in 2003 by 3%, to $612 billion,[1] and prospects are good for 2004 and beyond (section D below). Flows to developing countries rose already by 9%.[2] Excluding Luxembourg, China was the largest host country ahead of France and the United States. Cross-border mergers and acquisitions (M&As) – the key driver of global FDI since the late 1980s – remain weak, but they started to pick up in 2004, joining other healthy factors. Policies on FDI continue to become more liberal, and both countries and enterprises have been increasing their degrees of transnationality.

Figure I.1. FDI inflows, global and by group of countries, 1980–2003
(Billions of dollars)



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

1. An uneven picture

FDI flows to *developed countries* fell by 25%, from $490 billion in 2002 to $367 billion in 2003. This latter figure represents only two-thirds of the peak of $1.1 trillion reached in 2000. Flows to the United States declined to the lowest level since 1992, only one-tenth of their peak in 2000-2001. Members of the European Union (EU), notably Germany and the United Kingdom, recorded much lower flows than in 2002, as did Japan.

Flows to *developing countries*, on the other hand, rose by 9% from $158 billion in 2002 to $172 billion in 2003, but they varied by region. *Africa* recorded 28% higher inflows in 2003 ($15 billion, up from $12 billion in 2002), driven mainly by natural-resource projects. Inward FDI to the *Asia-Pacific region* reached $107 billion, up from $95 billion. *Latin America and the Caribbean*, however, experienced a fourth consecutive year of decline, although it was marginal, from $51 billion in 2002 to $50 billion. The share of developing countries in global FDI inflows rose by 8 percentage points, to 31% in 2003. The top ten recipients accounted for almost three-fourths of total flows to developing countries – 11 percentage points less than in 2000 when concentration was the highest.

After a record year in 2002, when inflows reached $31 billion, FDI to *Central and Eastern Europe* (CEE) fell sharply in 2003, to $21 billion. Inflows into the "accession-eight"[3] shrunk from $23 billion to $11 billion. In the Russian Federation also, inward FDI plunged from $3.5 billion in 2002 to $1.1 billion in 2003.

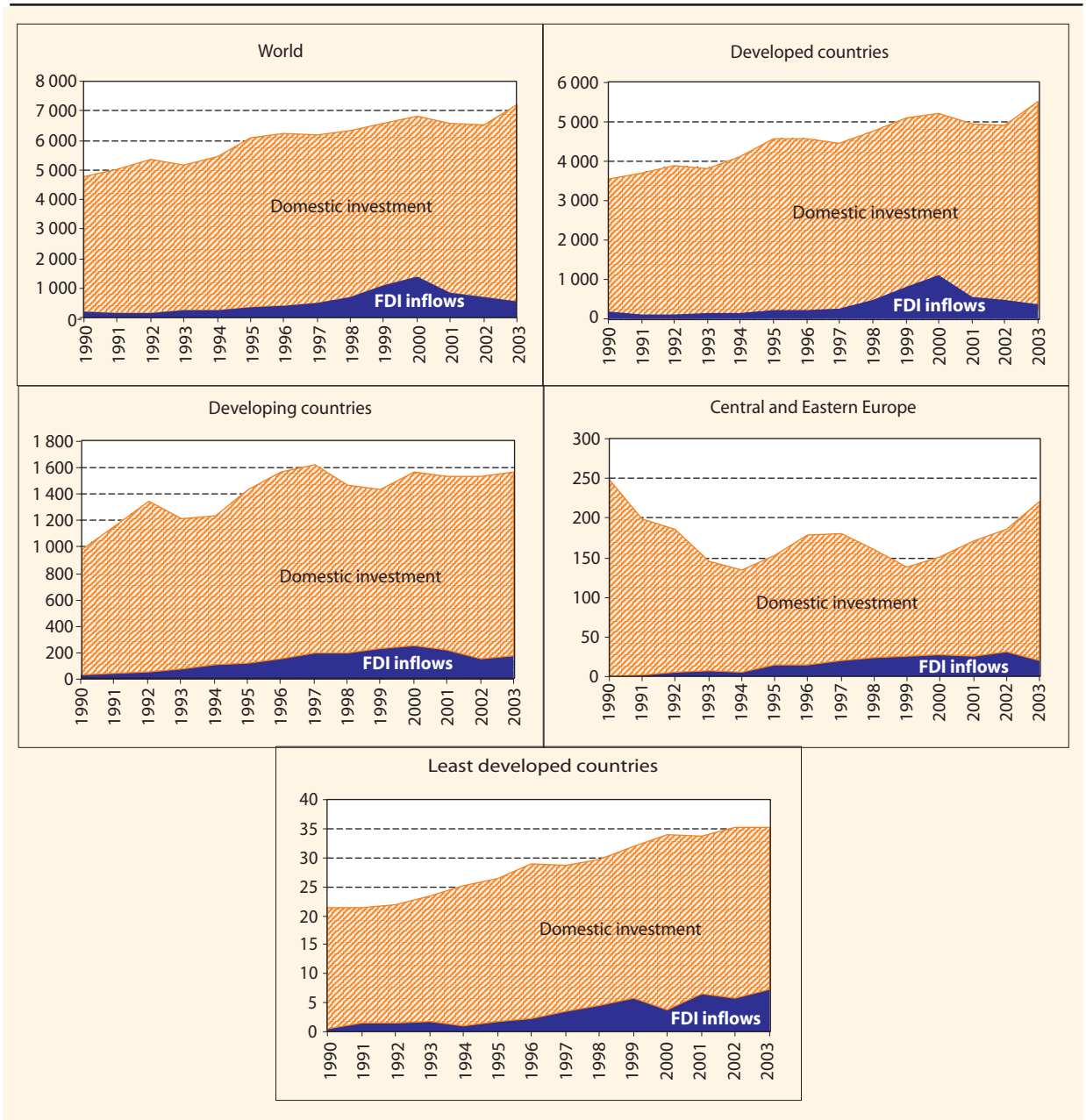
While world FDI flows have been in decline for three years in a row (from 2000 to 2003), this needs to be juxtaposed with domestic investment. For countries to maintain high levels of income and employment and to grow, of importance is the total amount of investment, regardless of its foreign and domestic mix. During the period 1990–2003, world FDI flows accounted for 8% of world domestic investment (gross fixed capital formation), which underlies the fact that FDI only complements domestic investment. This ratio was slightly higher in both developing countries and CEE than in developed

countries, and for the least developed countries (LDCs) the ratio was close to that of developing countries as a group. Foreign and domestic investors may be expected to respond in a similar way to economic fundamentals (such as economic growth) and structural features of countries. But, FDI and domestic investment do not always move in the same direction.[4] This suggests that FDI may be influenced by factors that do not necessarily or equally affect domestic investment.

In the period 2000-2003, the decline in FDI inflows followed the same trend as overall investment in most of the countries in the world (figure I.2).

FDI flows need to be seen within the context of all other capital flows to developing countries. They continued to be the largest component of such flows, and their share is increasing (figure I.3). FDI Inflows accounted for 72% of all resource flows to developing

Figure I.2. FDI flows and gross fixed capital formation, by group of countries,[a] 1990-2003
(Billions of dollars)

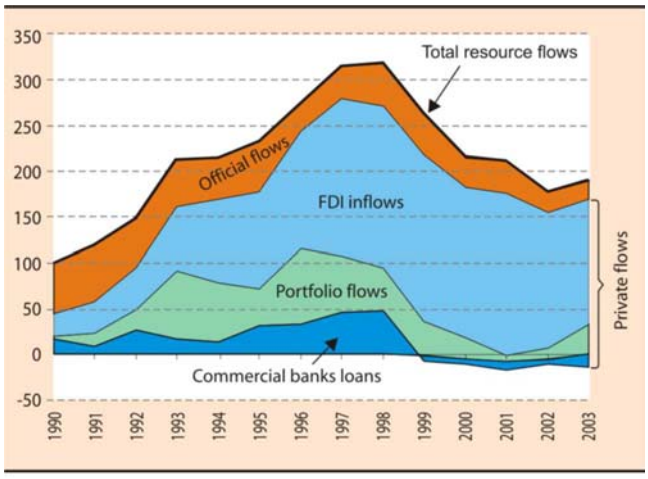


Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

[a] Domestic investment is defined as the difference between gross fixed capital formation and FDI inflows.

countries, six times higher than official flows. This contrasts with the latter half of the 1980s and the early 1990s, when official flows and FDI flows were almost the same, and with the mid-1990s, when portfolio flows and FDI flows were roughly equal. FDI is therefore recognized in the Monterrey Consensus as an important source of financing for development.[5] In the LDCs, official flows were larger than FDI flows between 2000 and 2002; but in six LDCs (Angola, Chad, Equatorial Guinea, Myanmar, the Sudan, Togo) FDI inflows exceeded total official development assistance (ODA). In 27 out of 50 LDCs, FDI flows grew between 1990 and 2002, while ODA declined (figure I.4).

Figure I.3. Total resource flows[a] to developing countries,[b] by type of flow, 1990-2003
(Billions of dollars)



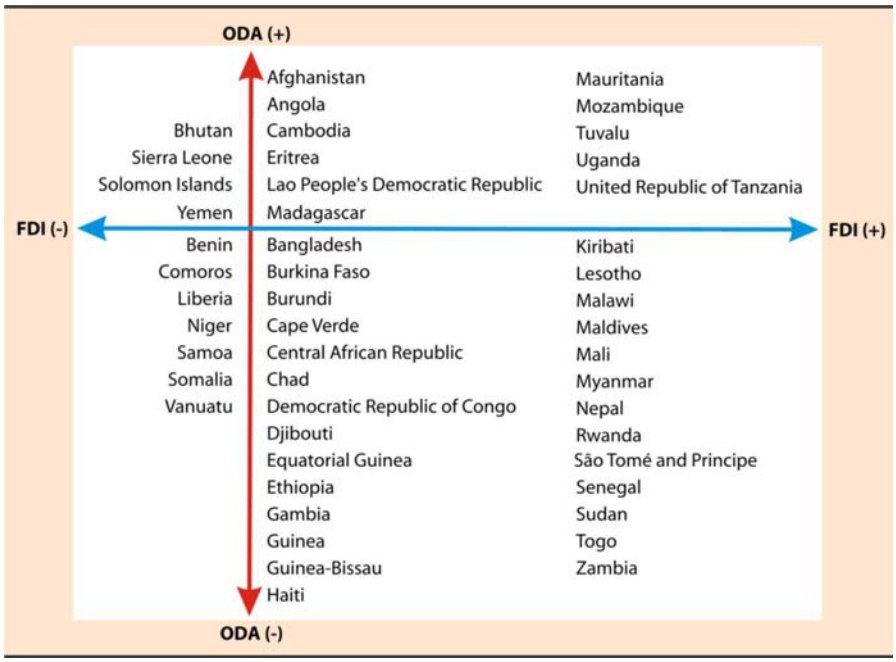
Source: UNCTAD, based on World Bank 2004a.

[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 developing countries.

The continued decline in inward FDI flows in 2003 reflected the impact of a combination of macro, micro and institutional factors (*WIR03*). At the macroeconomic level, growth prospects for many countries remained uncertain. In spite of some recovery in the second half of the year, major stock markets remained well below their historical peak of early 2000.[6] At the microeconomic level, increased profitability starting from the latter half of 2003 helped, but did not move FDI inflows upwards.[7] High debt-equity ratios[8] continued to force large companies to downsize their operations. At the institutional level, several new accounting scandals in 2003 may have deterred investors. Reflecting the interaction of these factors, the value of M&As fell from $370 billion in 2002

Figure I.4. Growth trends [a] in FDI and total ODA flows to LDCs, 1990-2002



Source: UNCTAD, FDI/TNC database (www.unctad.org./fdistatistics) and OECD Development Assistance Committee, International Development Statistics, online databases.

Note: Not including Timor-Leste, which joined the group of LDCs in 2004.

[a] Calculated as the slope of the linear regression for FDI and ODA flows between 1990 and 2002.

to $297 billion in 2003 – a decline of 20% (annex tables B.7 and B.8). There were only 56 mega deals (of $1 billion and over in transaction value) in 2003, a third of the peak number achieved in 2000 (table I.1 and annex table A.I.1). The largest single deal was the acquisition of Household International Inc. (United States) by HSBC Holdings Plc. (United Kingdom) for $15.3 billion.

In 2003, over 9,300 greenfield and expansion FDI projects worldwide were announced, at an estimated value of $440 billion.[9] China was the leading location for such projects worldwide, followed by the United States, India, the Russian Federation, the United Kingdom and Brazil. In terms of the announced values of investment, Australia and Canada were the leading locations, due to major capital-intensive, resource-extraction projects. The United States retained its position as the leading source for FDI projects (accounting for over one-fifth in terms of both number and value), followed by Japan, Germany, the United Kingdom and France.

The number of cross-border M&As in 2003 was, with more than 4,500 deals, much lower than the number of greenfield projects. Three of the six countries leading in terms of the number of greenfield projects also led in cross-border M&As. The United States was the largest target country (722 M&A deals), followed by the United Kingdom (459) and Germany (296). In the developing world, China (214) ranked first (4th place in the world), followed by Hong Kong (China) (108), India (83) and Brazil (69).[10] In terms of value, the top nine were all developed countries, followed by the Russian Federation and Hong Kong (China) (annex table B.7).

Table I.1. Cross-border M&As with values of over $1 billion, 1987-2003

Year	Number of deals	Percentage of total	Value ($ billion)	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	57.8
2003	56	1.2	141.1	47.5

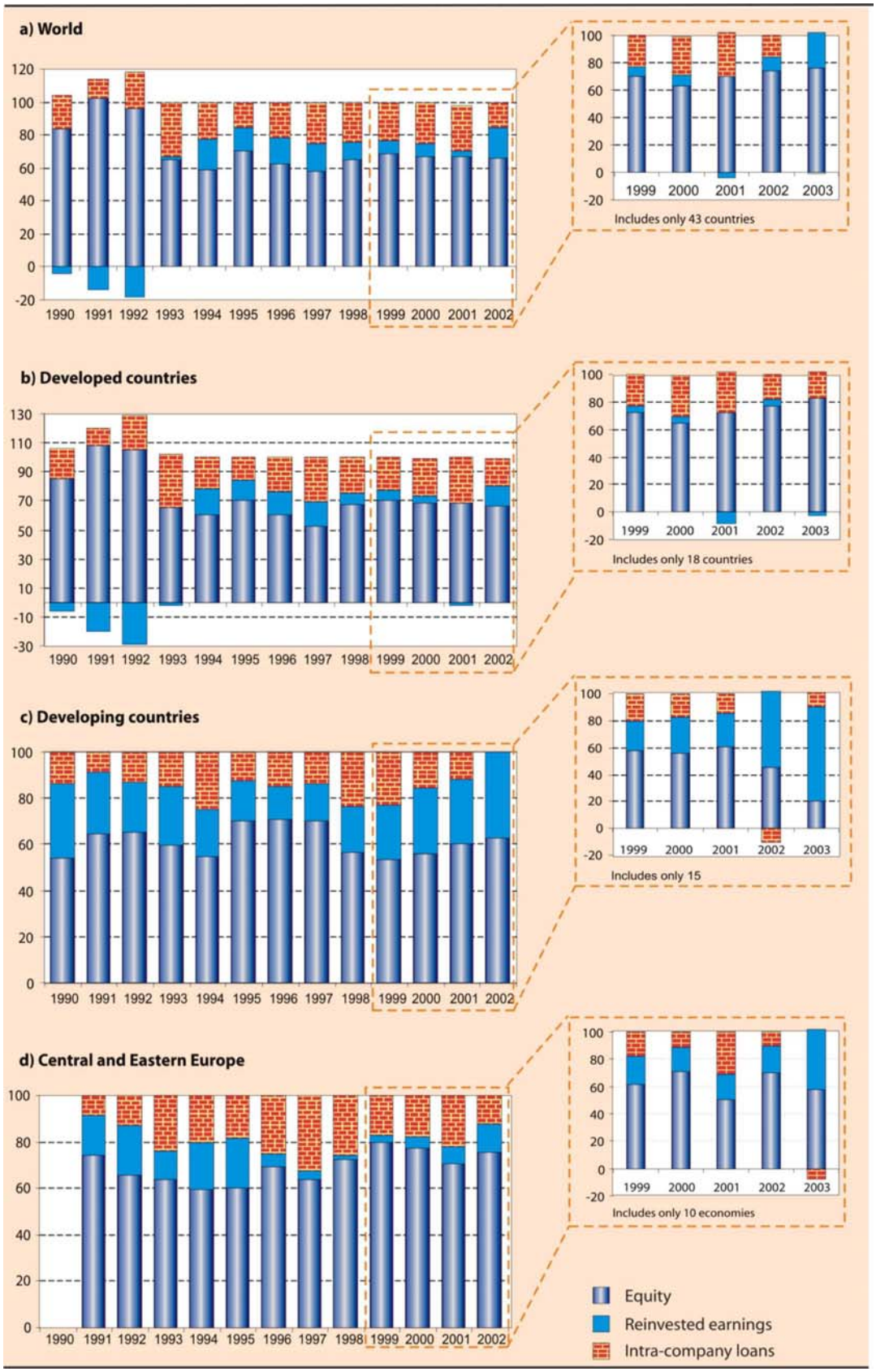
Source: UNCTAD, cross-border M&A database.

An important factor in the decline of FDI, and particularly of M&As, has been a slowdown or end in privatization. The total sale of State-owned assets fell from about $50 billion in 2000 to less than $20 billion in 2003 (World Bank 2004a). Privatization-related FDI in developing countries fell to one-tenth the level of 1998, from a record $33 billion that year to $3.5 billion in 2003.[11] Liquidity and other problems at home lowered TNCs' interests in privatization. At the same time, some developing countries, particularly in Latin America, became more sceptical of its benefits. Privatization-related FDI in CEE declined as well.

The pattern of FDI financing (new equity investment, intra-company loans, reinvested earnings) also reflected the macro and micro factors noted above. Intra-company loans by parent firms to their foreign affiliates have fallen since 2001 and were negative in 2003 (figure I.5). They were negative for United States FDI inflows in both 2002 and 2003 (-$21 billion and -$34 billion, respectively) and fell in 2003 in countries as diverse as Argentina, Indonesia, Sweden and Switzerland. Equity investment remained volatile. Reinvested earnings were the single largest component of FDI in developing countries, accounting for about 40% (compared to 17% in developed countries) of total FDI inflows to that part of the world (figure I.5). This underlines the importance of policies aimed at retaining established foreign affiliates through appropriate aftercare services.

The continued liberalization of FDI regimes may have been another factor that helped reverse the downturn of new TNC activity in developing countries in 2003. Worldwide, there were 244 changes in laws and regulations affecting FDI, 220 of which were in the direction of more liberalization (table I.2). At the bilateral level, 86 bilateral investment treaties (BITs) and 60 double taxation treaties (DTTs) were concluded that year, bringing the totals to 2,265 and 2,316, respectively (figure I.6). However, the annual number of such treaties concluded has been declining since 2002 in the case of BITs and 2000 in the case of DTTs. By contrast, the number of bilateral free trade agreements (FTAs)

Figure I.5. FDI inflows, by type of financing, 1990-2003[a]
(Per cent)



Source: UNCTAD, based on IMF *Balance of Payments Statistics, CD-ROM, April 2004* and UNCTAD FDI/TNC database (www.unctad.org/fdistatistics).

[a] The left set of figures is based on full country coverage. The right set of figures is based only on those countries for which data on all three components are available throughout the period 1999-2003.

Table I.2. Changes in national regulations on FDI, 1991-2003

Item	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Number of countries that introduced changes in their investment regimes	35	43	57	49	64	65	76	60	63	69	71	70	82
Number of regulatory changes	82	79	102	110	112	114	151	145	140	150	208	248	244
of which:													
More favourable to FDI [a]	80	79	101	108	106	98	135	136	131	147	194	236	220
Less favourable to FDI [b]	2	-	1	2	6	16	16	9	9	3	14	12	24

Source: UNCTAD, database on national laws and regulations.

[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.

and regional free trade agreements (RTAs) – which, today, typically include provisions covering FDI – continues to increase, particularly in Asia (chapter II).

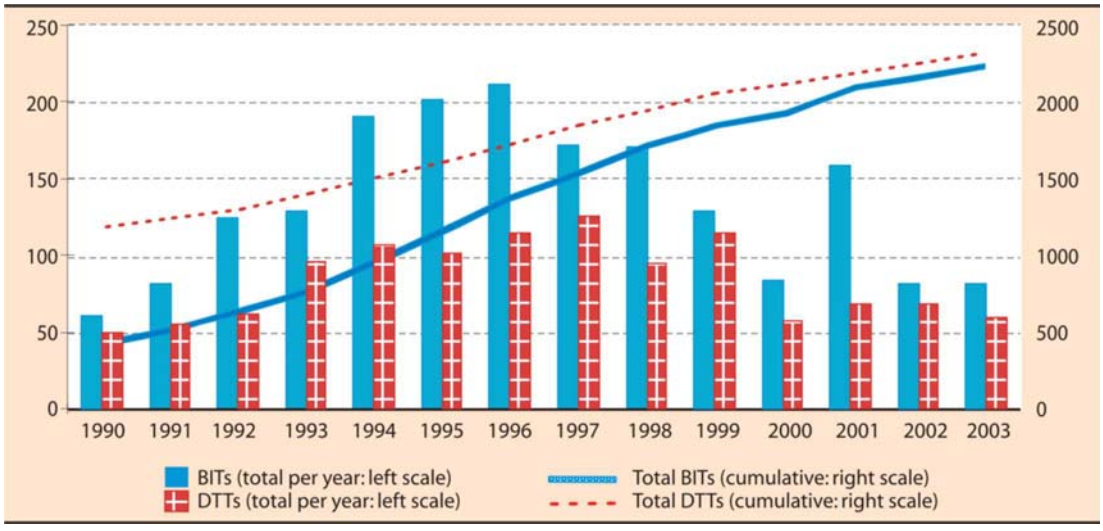
The failure of the WTO Ministerial Conference held in Cancún in September 2003 meant that no decision was taken on any of the issues under negotiation or consideration in the Doha Work Programme. Intensive consultations conducted since the Cancún meeting have focused on subjects that had proved to be particularly controversial at that meeting, including investment (one of the four Singapore Issues). A generally shared view emerging from these consultations appears to be (as of June 2004) that each of the Singapore Issues should be treated on its own merits. However, at the time of writing, no decision had been taken with regard to these Issues. The chairpersons of the Working Groups in which the Singapore Issues had been discussed before Cancún had not been designated, and these Groups had not met since Cancún.

2. International production continues to grow

The role of FDI and TNC activity in the global economy continues to grow, as reflected in the sales, assets, value-added (gross product), employment and exports of foreign affiliates. The degree of transnationalization is increasing for both TNCs and the countries in which they operate. Each of the above variables has resumed an upward trend since 2002 (table I.3).

UNCTAD's data show that international production is carried out by over 900,000 foreign affiliates of at least 61,000 TNCs worldwide (annex table A.I.2). These affiliates account for

Figure I.6. Number of BITs and DTTs concluded, cumulative and year to year, 1990–2003



Source: UNCTAD, BIT/DTT database (www.unctad.org/fdistatistics).

Table I.3. Selected indicators of FDI and international production, 1982-2003
(Billions of dollars and per cent)

Item	Value at current prices ($ billion)			Annual growth rate (Per cent)						
	1982	1990	2 003	1986-1990	1991-1995	1996-2000	2000	2001	2002	2003
FDI inflows	59	209	560	22.9	21.5	39.7	27.7	-41.1	-17.0	-17.6
FDI outflows	28	242	612	25.6	16.6	35.1	8.7	-39.2	-17.3	2.6
FDI inward stock	796	1 950	8 245	14.7	9.3	16.9	19.1	7.4	12.7	11.8
FDI outward stock	590	1 758	8 197	18.1	10.7	17.1	18.5	5.9	13.8	13.7
Cross-border M&As [a]	..	151	297	25.9[b]	24.0	51.5	49.3	-48.1	-37.7	-19.7
Sales of foreign affiliates	2 717	5 660	17 580[c]	16.0	10.2	9.7	16.7	-3.8	23.7[c]	10.7[c]
Gross product of foreign affiliates	636	1 454	3 706[d]	17.4	6.8	8.2	15.1	-4.7	25.8[d]	10.1[d]
Total assets of foreign affiliates	2 076	5 883	30 362[e]	18.2	13.9	20.0	28.4	-5.4	19.6[e]	12.5[e]
Exports of foreign affiliates	717	1 194	3 077[f]	13.5	7.6	9.9	11.4	-3.3	4.7[f]	16.6[f]
Employment of foreign affiliates (thousands)	19 232	24 197	54 170[g]	5.6	3.9	10.8	13.3	-3.2	12.3[g]	8.3[g]
GDP (in current prices) [h]	11 737	22 588	36 163	10.1	5.1	1.3	2.7	-0.9	3.7	12.1
Gross fixed capital formation	2 285	4 815	7 294	13.4	4.2	2.4	3.8	-3.6	-0.6	9.9
Royalties and licence fee receipts	9	30	77[i]	21.3	14.3	7.7	9.5	-2.5	6.7	..
Exports of goods and non-factor services [h]	2 246	4 260	9 228	12.7	8.7	3.6	11.4	-3.3	4.7	16.6

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

[a] Data are available only from 1987 onward.
[b] 1987-1990 only.
[c] Based on the following regression result of sales against FDI inward stock (in $ million) for the period 1980-2001: Sales = 1 542.5036+1.945042*FDI inward stock.
[d] Based on the following regression result of gross product against FDI inward stock (in $ million) for the period 1982-2001: Gross product = 493.8792+0.389537*FDI inward stock.
[e] Based on the following regression result of assets against FDI inward stock (in $ million) for the period 1980-2001: Assets = -1 389.4785+3.850915*FDI inward stock.
[f] For 1995-1998, based on the regression result of exports of foreign affiliates against FDI inward stock (in $ million) for the period 1982-1994: Exports = 288.4750+0.454011*FDI inward stock. For 1999-2003, the share of exports of foreign affiliates in world exports in 1998 (33.3 per cent) was applied to obtain the values.
[g] Based on the following regression result of employment (in thousands) against FDI inward stock (in $ million) for the period 1980-2001: Employment = 1,5162.6220+4.731003*FDI inward stock.
[h] Based on data from the International Monetary Fund, *World Economic Outlook*, April 2004.
[i] 2002.

Note: Not included in this table are the values of worldwide sales by foreign affiliates associated with their parent firms through non-equity relationships and the sales of 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, Estonia, Finland, France, Germany, Hungary, Italy, Japan, Portugal, Sweden, Switzerland and the United States (for employment), those from Austria, Finland, France, Germany, Hungary, 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, Japan and the United States (for assets) on the basis of the shares of those countries in worldwide outward FDI stock.

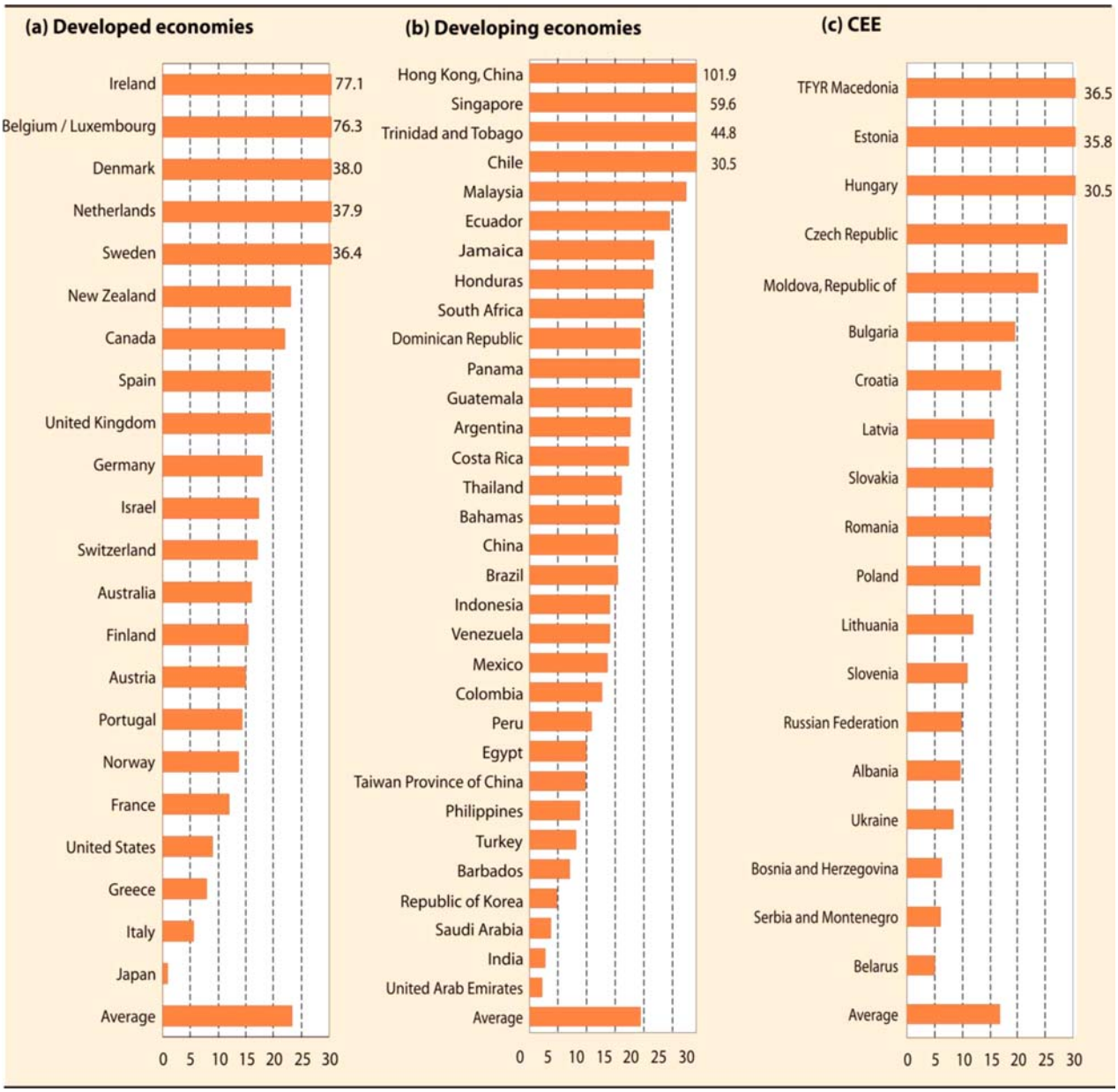
an estimated one-tenth of world GDP and one-third of world exports, and their shares are increasing.

As a result, the degree of transnationality of host countries[12] is continuing to rise. The most transnationalized host economy in 2001 was Hong Kong (China), followed by Ireland, and Belgium and Luxembourg (figure I.7). There are, however, large differences in the transnationality indices of different host countries. Estonia, Ireland, The Former Yugoslav Republic of Macedonia and Singapore saw their transnationality index increase by more than 10 percentage points over the previous year. Among the three groups of economies, CEE experienced a notable increase of 4 percentage points in the degree of transnationality over the previous year.

The bulk of international production is undertaken by a relatively small number of TNCs: the top 100 (less than 0.2% of the total number of TNCs worldwide) accounted for 14% of the sales of foreign affiliates worldwide, 12% of their assets and 13% of their employment in 2002, compared with 27%, 21% and 21%, respectively, in 1990.

There have been interesting developments in the world's 100 largest TNCs (box I.1; annex table A.I.3). As measured by UNCTAD's Transnationality Index – the average of three

Figure I.7. Transnationality index[a] of host economies,[b] 2001



Source : UNCTAD estimates.

[a] Average of the four ratios: FDI inflows to gross fixed capital formation for 1999-2001; FDI inward stocks to GDP in 2001; value added of foreign affiliates to GDP in 2001; and employment of foreign affiliates to total employment in 2001.

[b] Only the economies for which data for all of these four shares are available were selected. Data on value added are available only for Belarus, Czech Republic, Finland, France (1998), Hungary, Ireland (2000), Italy (1997), Japan (1999), Netherlands (1996), Norway (1998), Poland, Portugal, Sweden (2000), United Kingdom (1997), United States, China, India (1995), Malaysia (1995), Singapore (2000) and Taiwan Province of China (1994) . For Albania, Bosnia and Herzegovinia, Latvia, Lithuania, Republic of Moldova, Serbia and Montenegro and Slovakia, 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. For the other economies, data were estimated by applying the ratio of value added of United States affiliates to United States outward FDI stock to total inward FDI stock of the country. Data on employment are available only for Austria, Denmark (1996), Finland, France (1998), Germany, Ireland, Italy (1999), Japan, Netherlands (1996), Norway (1996), Portugal, Sweden, United Kingdom (1997), United States, Hong Kong (China) (1997), Indonesia (1996) and Singapore. For Albania and Bosnia and Herzegovina, 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. For the remaining countries, data were estimated by applying the ratio of employment of Finnish, German, Japanese, Swedish, Swiss and United States affiliates to Finnish, German, Japanese, Swedish, Swiss and United States outward FDI stock to total inward FDI stock of the economy. Data for France, Netherlands, Norway, Sweden and United Kingdom refer to majority-owned foreign affiliates only.

Box I.1. Developments in the world's 100 largest TNCs in 2002

Activities of the largest TNCs are picking up again. Having stagnated in 2001 for the first time after years of expansion, the operations of TNCs on UNCTAD's list of the world's 100 largest TNCs resumed growth, as measured by the rise in aggregate and foreign assets and sales in 2002, the latest year for which complete data are available (box table I.1.1). Foreign employment in the top 100, however, did not grow. By contrast, total and foreign sales and total assets of the top 50 TNCs from developing countries declined between 2001 and 2002, while their employment, both total and foreign, grew (box I.3). The 25 largest non-financial TNCs from CEE showed positive and relatively stronger growth in 2002 in terms of all indicators: assets, sales, employment, both domestic and foreign.

Box table I.1.1. Snapshot of the world's 100 largest TNCs, 2001, 2002
(Billions of dollars, thousands of employees and per cent)

Variable	2001		2002		Change 2002 vs. 2001 (Per cent)
	Value	Foreign share	Value	Foreign share	
Assets					
Foreign	2 958	48. 9	3 317	48.1	12.1
Total	6 052		6 891		13.9
Sales					
Foreign	2 247	50. 5	2 446	57.5	8.9
Total	4 450		4 749		6.7
Employment					
Foreign	7 038	51. 1	7 036	49.1	-2.8
Total	13 783		14 332		4.0
Average index of transnationality	58		57		-1.7[a]

Source: UNCTAD/Erasmus University database.

[a] The change between 2001 and 2002 is expressed in percentage points.

Overall, the rankings in the top 100 list remained fairly stable in 2002 as compared to 2001 (annex table A.I.3; *WIR03*, annex table A.I.1). In particular, the top end of the list – which was subject to major changes during the stock market boom and the subsequent bursting of the dotcom bubble – remained largely unchanged. Motor vehicle and petroleum companies, along with telecom firms, dominated the top ten spots. Given the deflation of assets, particularly in the telecom industry, it is somewhat surprising that so few companies at the top end dropped from their 2001 rankings. Further down the list, fewer changes occurred than might have been expected.

Two-thirds of the new entrants on the 2002 list were from the services sector, continuing a trend that has characterized the top 100 over the past ten years, with retailing, utilities and telecoms notably up. The number of newcomers in services (nine) in 2002 was the same as in the previous year. Overall, the top 100 list is more evenly balanced, with the number of industries increasing over a longer period. In manufacturing, the number of pharmaceutical firms fell, possibly because of market consolidation; there were fewer electronics TNCs too.

By and large, the size of international production activities of the companies on the top 100 list continued to expand. While there were some companies with reduced foreign and/or total assets and sales, aggregate values of most indicators rose, albeit at a modest pace. The majority of companies appear to have responded to the challenging environment facing them in 2002 by sticking to their course of internationalizing their operations, as indicated by the faster growth, overall, of foreign assets as compared to total assets. However, in many cases this internationalization drive seems to have been "jobless": employment, both foreign and total, fell. Since aggregate foreign employment shrank less than total employment, job cuts apparently took place more often at home than abroad. The average Transnationality Index of the top 100 TNCs declined marginally in 2002.

Almost 90% of the top 100 TNCs are headquartered in the Triad (the EU, Japan, the United States). The EU leads with more than half of the top 100. The United States accounts for slightly more than a quarter, while Japan's share has decreased over the years to fewer than ten. The number of TNCs from non-Triad countries has risen to more than ten over the years. Altogether, the top 100 TNCs now come from 19 countries. Although non-Triad TNCs, including a number from smaller economies, account for a relatively small proportion of the top 100 TNCs, their average Transnationality Index is higher.

Source: UNCTAD.

ratios related to the size of TNCs' operations: foreign sales to total sales, foreign assets to total assets and foreign employment to total employment – the world's most transnationalized TNC among the top 100 in 2002 was NTL (United States). Naturally, the transnationality of firms can be measured in several different ways (see annex to chapter I). If the network spread index (annex table A.I.4) is used, reflecting the geographic spread of foreign affiliates, the most transnationalized TNC was Deutsche Post World Net;[13] and if the composition of headquarters' management board members is considered, Hutchison Whampoa (Hong Kong, China) led the pack, with 11 of 14 board members being foreign nationals.[14]

3. Many countries have not realized their potential

a. Indices of Inward FDI Performance and Potential

This is the fourth set of *WIR* benchmarks of inward FDI performance and potential.

The UNCTAD *Inward FDI Performance Index* is a measure of the extent to which host countries receive inward FDI. The Index ranks countries by the amount of 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 attracts more FDI in proportion to its economic size, a value below one shows that it receives less (a negative value indicates that foreign investors disinvested in that period). Thus, a higher index implies success in the competition, explicit or implicit, to attract FDI.[15]

By region. How did regions fare in the Inward FDI Performance Index in 2003? The group of developed countries suffered a slight decline in its relative position, reflecting the large drop in FDI (on account of the slowdown in M&As) in these countries. Within the group, the largest declines were in the EU and North America. "Other developed countries" – mainly Japan, Australia – improved (table I.4).

All of the developing regions improved their performance index rank in 2001-2003, but remained below the peak reached in 1993-1995 (except Latin America). This is in contrast to the relative stagnation of the developed regions. However, large regional variations exist (figure I.8).

The best performer in the Index was Central Asia, both in the index score and its rise over the previous period; the sharp rise in its index reflects lumpy resource-based (oil and gas) foreign investments in a few countries. The second best performer in index value was East and South-East Asia and, in terms of improvement over the previous period, "other Africa" (i.e. sub-Saharan Africa). Over the period as a whole, however, South America showed the largest improvement in the index.

Two regions had indices below unity in the last period: West Asia and South Asia. Since the former region saw high political instability, its low ranking may not be surprising. South Asia

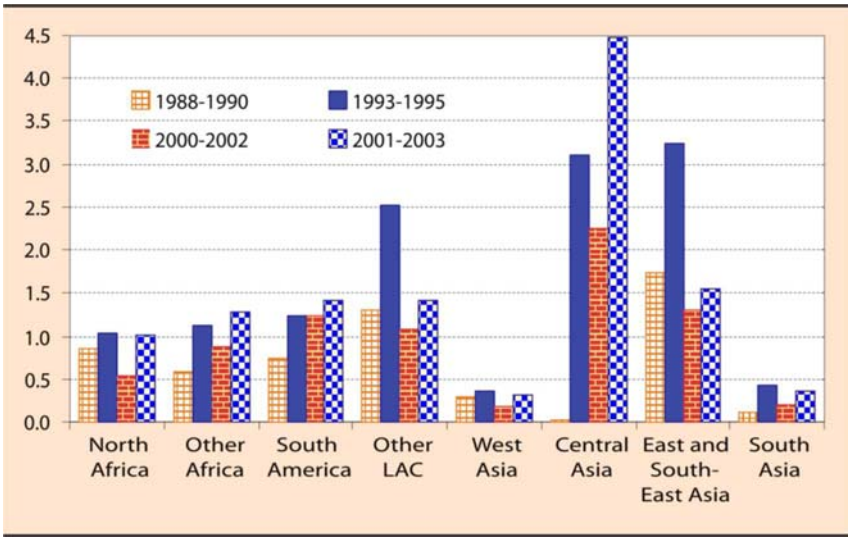
Table I.4. Inward FDI Performance Index, by region, 1988-2003[a]

Region	1988-1990	1993-1995	2000-2002	2001-2003
World	1.00	1.00	1.00	1.00
Developed regions	1.03	0.76	0.99	0.92
Western Europe	1.33	1.11	1.87	1.84
European Union	1.33	1.12	1.91	1.88
Other Western Europe	1.31	0.95	1.10	1.12
North America	1.13	0.76	0.67	0.45
Other developed countries	0.29	0.21	0.16	0.21
Developing regions	0.99	1.99	1.00	1.25
Africa	0.70	1.09	0.73	1.16
North Africa	0.85	1.05	0.55	1.00
Other Africa	0.59	1.12	0.89	1.28
Latin America and the Caribbean	0.90	1.60	1.18	1.42
South America	0.74	1.23	1.24	1.42
Other Latin America and the Caribbean	1.30	2.52	1.08	1.43
Asia	1.09	2.34	0.96	1.19
West Asia	0.30	0.36	0.18	0.31
Central Asia	..	3.11	2.26	4.49
South, East and South-East Asia	1.31	2.74	1.11	1.33
East and South-East Asia	1.73	3.25	1.30	1.54
South Asia	0.11	0.43	0.21	0.37
The Pacific	7.35	6.12	0.65	1.01
Central and Eastern Europe	1.04[b]	1.36	1.17	1.35

Source: UNCTAD.

[a] Three-year averages.
[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.

Figure I.8. Inward FDI Performance Index, by developing region, 1988–1990, 1993–1995, 2000–2002, 2001–2003



Source: UNCTAD.

underperformed for other reasons, mainly a historic legacy of inward-looking industrialization, poor infrastructure and (in some countries) political uncertainties.

By country. Belgium/Luxembourg continued to lead the performance index (table I.5; annex table A.I.5 for time-series data), having been the leader since 1998-2000. In part, this reflects Luxembourg's regime that favours financial FDI and involves transshipped FDI (*WIR03*). Azerbaijan came third (having risen from 35th place in 1999-2001 and 13th in 2000-2002) as a result of large investments in its oil and gas industry. In fourth place was Ireland, which had held the same rank in 1998-2000 and third place in the previous period; Ireland is a success story, with a history of steadily improving its locational advantages and competitiveness over time (it held 50th place in the mid-1990s). The bottom place continued to be held by Suriname, with Indonesia just ahead.

Of the top 20 performers, 3 were developed countries, 2 mature East Asian newly industrializing economies, 5 transition economies and 10 other developing countries (including 3 from sub-Saharan Africa). Many high performers in the developing and transition economies were relatively small, with lumpy FDI inflows in resource-based activities or privatization (the three leading developing countries, holding ranks 2, 3 and 5, are all small resource-based economies).

The spread of countries over the Index reflects a mixture of economic, political and policy-induced factors; the ranks do not appear to reflect any consistent correlation with levels of development. Of the highly developed countries, Japan continued to come last, at 132nd place, a continuing legacy of its small FDI receipts, despite recent proactive FDI policies (box II.21). The United States also ranked relatively low (112th place), a sharp deterioration over the previous period when it came 92nd (and from even earlier when it was 77th). The decline reflects a sharp drop in inward M&As, with GDP remaining relatively steady. Over the long term, despite being the largest recipient of FDI, the United States has always ranked comparatively low relative to its GDP. Other developed countries performed better, with Sweden at 42nd place, France 50th, the United Kingdom 83rd, Italy 98th and Germany 102nd.

Among the major developing economies, China ranked 37th, an improvement over its previous rank of 50th. Rather like the United States, China is a small recipient of FDI relative to its GDP, even though it dominates the developing world as an FDI host. Brazil ranked 46th, a worsening over 37th the two previous years. India ranked 114th, a gradual improvement over 121st in the previous year (and roughly the same as the previous few years). Mexico gained its ranking steadily from 73rd in the four earlier periods to 61st in the most recent period. One striking feature of the Index calculation is the

Table I.5. Rankings by Inward FDI Performance Index, 2001-2003

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

Source: UNCTAD calculations.

sharp deterioration in Malaysia's FDI performance. From ranking among the top 10 till the mid-1990s, Malaysia fell in ranking every year in the latter part of the decade, reaching 75th place in 2001-2003. For an economy that depends heavily on FDI to drive its exports, this may be cause for concern, especially since the reasons are not clear.

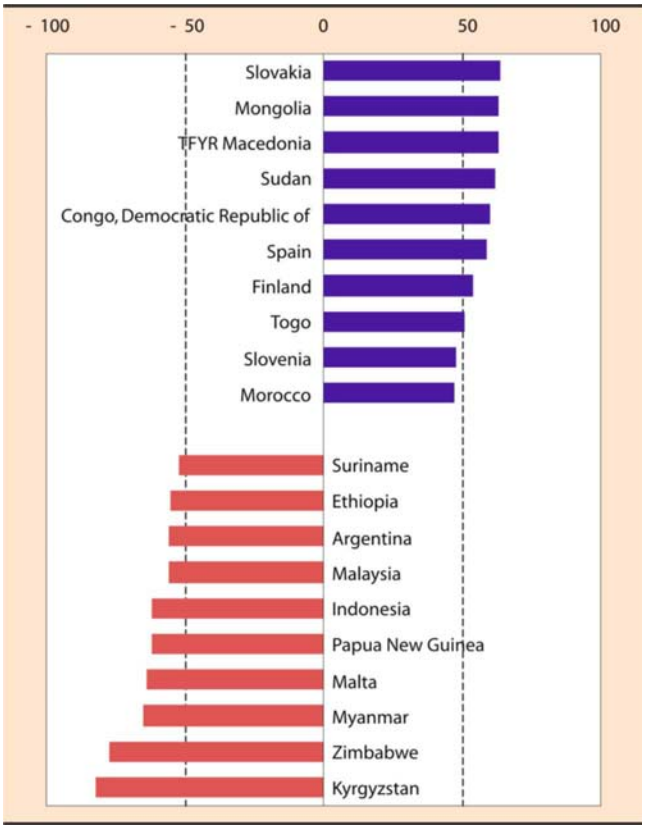
In the South-East Asian region, Indonesia continued to perform poorly, coming 139th in the last two periods; however, the reason here is clearer – the persistence of political and financial uncertainty following the Asian financial crisis. The two mature Asian Tigers that have, like Japan, been fairly restrictive towards FDI, are the Republic of Korea and Taiwan Province of China; they continued to rank low on the Index, at positions 120 and 117, respectively.

There have been some unexpected "winners" and "losers" in the FDI Performance Index over the five-year span from 1996-1998 to 2001-2003 (figure I.9). Slovakia showed the largest improvement, moving up 64 places; then came Mongolia, The Former Yugoslav Republic of Macedonia, the Sudan and the Democratic Republic of the Congo, all small economies that have only recently opened up to FDI. The largest losers included Zimbabwe (due to political uncertainty), Malaysia (reasons unclear as noted) and Argentina (macroeconomic disturbances).

Given the volatility inherent in any FDI flow index, too much importance should not be given to changes in ranking. Performance ranks are very unstable.[16] It is not possible to separate the elements causing instability; nor is it desirable, since political or economic turbulence, policy changes, privatizations and the like are central to TNC location decisions. Nevertheless, as noted in listings of the Index in earlier *WIRs*, there is a tendency for the more advanced and larger countries to be relatively stable in the

Figure I.9. Main winners and losers in the Inward FDI Performance ranking, 1996-1998 to 2001-2003

(Changes in ranking)



Source: UNCTAD.

Table I.6. Inward FDI Potential Index, by group of economies, average scores, 1988-2002[a]

Period[a]	World	Developed countries	Developing countries	Central and Eastern Europe
1988-1990	0.187	0.374	0.138	..
1989-1991	0.186	0.373	0.137	..
1990-1992	0.208	0.371	0.169	..
1991-1993	0.208	0.372	0.172	..
1992-1994	0.209	0.373	0.173	0.184
1993-1995	0.225	0.407	0.185	0.201
1994-1996	0.221	0.395	0.184	0.187
1995-1997	0.217	0.393	0.180	0.180
1996-1998	0.224	0.398	0.186	0.203
1997-1999	0.224	0.402	0.184	0.204
1998-2000	0.221	0.403	0.179	0.204
1999-2001	0.220	0.400	0.178	0.211
2000-2002	0.220	0.396	0.177	0.221

Source: UNCTAD.

Note: Data for the world and the major country groups shown above are averages of the scores for 140 economies, as follows: 24 developed countries; 99 developing economies; and 17 Central and Eastern Europe economies. They are based on 12 economic and policy variables.

[a] Three-year moving averages.

Index, though their rankings shift due to the changes in "newcomers" with more volatile positions.

The UNCTAD *Inward FDI Potential Index*, consisting mainly of structural variables, is far more stable than the Performance Index. Of the 12 variables comprising the Potential Index (see annex table A.I.6 for the raw data on individual variables),[17] only country risk and, to a lesser extent, trade-related measures, tend to vary sharply from one period to the next. Thus, the correlation coefficient between the Potential Index values for the sample countries over previous years is high and rises steadily over time (*WIR03*). This testifies to the structural nature of the measure.

This *WIR* presents, for the first time, Inward FDI Potential Indices averaged across different groups of countries: the world as a whole, developed countries, developing economies and Central and Eastern Europe (table I.6).

For the world as a whole, the average potential for attracting FDI has remained fairly stable. At the country level, the United States

Table I.7. Top 25 rankings by the Inward FDI Potential Index, 1988-2002

Economy	1988-1990	1996-1998	2000-2002
United States	1	1	1
Norway	4	3	2
United Kingdom	3	5	3
Singapore	12	2	4
Canada	2	4	5
Belgium and Luxembourg	10	8	6
Ireland	24	18	7
Qatar	22	20	8
Germany	7	6	9
Sweden	5	7	10
Netherlands	9	9	11
Hong Kong, China	17	14	12
Finland	8	13	13
France	6	10	14
Iceland	15	19	15
Japan	13	12	16
United Arab Emirates	29	11	17
Korea, Republic of	20	21	18
Denmark	16	16	19
Switzerland	11	17	20
Taiwan Province of China	21	24	21
Australia	14	15	22
Israel	27	25	23
Austria	19	22	24
Spain	25	26	25

Source: UNCTAD, based on annex table A.I.7.

remained in first place throughout the period 1988-2002 (table I.7). Among the 25 leading economies, the countries showing biggest improvements in rank were Ireland and Qatar (annex table A.I.7 for all economies). The leading economies in the Potential Index were, as before (*WIR03*), developed countries, the four Asian Tigers and, in the period 2000-2002, two oil-rich economies from West Asia. China, the largest recipient of FDI in the developing world, was 39th by FDI potential ranking.

A comparison between national performance according to the FDI Potential and Performance indices yields insights in terms of the factors that may cause a discrepancy between actual FDI inflows and the structural variables that affect FDI (table I.8). Countries can be grouped according to a matrix divided into four quadrants:

- 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.

As before, there are no real surprises for the first and last groups. The first group includes many developed, newly industrializing and advanced transition economies as well as a few developing countries. The last group mainly has poor (or unstable) economies, but it also includes countries affected by economic shocks such as Argentina and Indonesia. It too has some large economies such as India and Nigeria, and resource-rich countries like Venezuela, which, for various reasons, are performing below their economic potential. In policy terms, the first group has to ensure its continuing success and the latter group to boost its performance in both attracting FDI and enhancing its potential.

The other two groups 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 are doing the opposite. The first set should be concerned about raising their potential if they are to sustain past FDI performance, and the second should address the shortcomings that prevent their structural FDI potential from being realized. The below-potential economies include the United States, Australia, Egypt, Italy, Japan, the Republic of Korea, South Africa, Taiwan Province of China and Thailand.

b. The Outward FDI Performance Index

WIR04 introduces an index of *Outward FDI Performance*, calculated in the same way as the Inward FDI Performance Index: the world share of a country's outward FDI as a ratio of its share in world GDP. The Outward FDI Index captures two aspects of performance:

- A high index value indicates that a country's firms have strong "ownership advantages" that they are exploiting abroad, or wish to augment through foreign expansion. Ownership advantages are firm-specific competitive strengths of TNCs (or potential TNCs) arising from e.g. innovation, brand names, managerial and organizational skills, privileged access to information, financial or natural resources, historical or cultural links and size and network advantages. In the case of utilities, ownership advantages may arise from recent privatization and financial strength (to buy up privatized utilities elsewhere). Although they are firm-specific, many of these advantages are closely related to a home country's economic characteristics and competitive strengths. They may also capture strategic factors such as the need to establish a production presence in a dynamic new market, to follow major competitors abroad or to decentralize regional operations to diversify risk.
- A high index value may also indicate that a home country may be less desirable as a place to undertake (specific) productive activities relative to foreign locations; hence firms choose to deploy ownership advantages elsewhere. These "location factors" may reflect purely economic factors in home and host economies (e.g. relative market size, production or transport costs, skills, supply chains, infrastructure, technology support), but they can also reflect policy and institutional differences (such as protection, taxes or labour regulations and FDI-related policies).

Table I.8. Matrix of inward FDI performance and potential, 1988-1990, 1993-1995, 2000-2002

	High FDI performance	Low FDI performance
	2000-2002	
	Front-runners	**Below potential**
High FDI potential	Bahamas, Belgium and Luxembourg, Botswana, Brazil, Brunei Darussalam, Bulgaria, Canada, Chile, China, Costa Rica, Croatia, Cyprus, Czech Republic, Denmark, Dominican Republic, Estonia, Finland, France, Germany, Guyana, Hong Kong (China), Hungary, Ireland, Israel, Jordan, Latvia, Lithuania, Malaysia, Malta, Mexico, Mongolia, the Netherlands, New Zealand, Panama, Poland, Portugal, Singapore, Slovakia, Slovenia, Spain, Sweden, Switzerland, Trinidad and Tobago, United Kingdom, Viet Nam.	Australia, Austria, Bahrain, Belarus, Egypt, Greece, Iceland, Islamic Republic of Iran, Italy, Japan, Kuwait, Lebanon, Libyan Arab Jamahiriya, Norway, Oman, Philippines, Qatar, Republic of Korea, Russian Federation, Saudi Arabia, South Africa, Taiwan Province of China, Thailand, United Arab Emirates, United States.
	Above potential	**Under-performers**
Low FDI potential	Albania, Angola, Armenia, Azerbaijan, Bolivia, Colombia, Congo, Ecuador, Gambia, Georgia, Honduras, Jamaica, Kazakhstan, Mali, Morocco, Mozambique, Namibia, Nicaragua, Republic of Moldova, Sudan, TFYR Macedonia, Togo, Tunisia, Uganda, United Republic of Tanzania.	Algeria, Argentina, Bangladesh, Benin, Burkina Faso, Cameroon, Côte d'Ivoire, Democratic Republic of the Congo, El Salvador, Ethiopia, Gabon, Ghana, Guatemala, Guinea, Haiti, India, Indonesia, Kenya, Kyrgyzstan, Madagascar, Malawi, Myanmar, Nepal, Niger, Nigeria, Pakistan, Papua New Guinea, Paraguay, Peru, Romania, Rwanda, Senegal, Sierra Leone, Sri Lanka, Suriname, Syrian Arab Republic, Tajikistan, Turkey, Ukraine, Uruguay, Uzbekistan, Venezuela, Yemen, Zambia, Zimbabwe.
	1993-1995	
	Front-runners	**Below potential**
High FDI potential	Argentina, Australia, Bahamas, Bahrain, Belgium and Luxembourg, Brunei Darussalam, Canada, Chile, China, Costa Rica, Czech Republic, Denmark, Dominican Republic, Estonia, France, Guyana, Hong Kong (China), Hungary, Indonesia, Ireland, Jamaica, Malaysia, Malta, Mexico, the Netherlands, New Zealand, Norway, Panama, Papua New Guinea, Poland, Qatar, Republic of Moldova, Singapore, Slovakia, Spain, Sweden, United Kingdom.	Austria, Botswana, Bulgaria, 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, Uzbekistan, Venezuela.
	Above potential	**Under-performers**
Low FDI potential	Albania, Angola, Azerbaijan, Bolivia, Colombia, Congo, Côte d'Ivoire, Ecuador, Egypt, Gambia, Ghana, Honduras, Kazakhstan, Kyrgyzstan, Latvia, Mali, Morocco, Mozambique, Myanmar, Namibia, Nicaragua, Nigeria, Paraguay, Peru, Philippines, Tajikistan, Trinidad and Tobago, Tunisia, Uganda, United Republic of Tanzania, Viet Nam, Yemen, Zambia.	Algeria, Armenia, Bangladesh, Belarus, Benin, Brazil, Burkina Faso, Cameroon, Croatia, Democratic Republic of the 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, Togo, Turkey, Zimbabwe.
	1988-1990	
	Front-runners	**Below potential**
High FDI potential	Australia, Bahrain, Belgium and Luxembourg, Botswana, Canada, Chile, China, Colombia, Costa Rica, Cyprus, Denmark, France, Greece, Hong Kong (China), Indonesia, Ireland, Malaysia, Malta, Mexico, the Netherlands, New Zealand, Norway, Oman, Portugal, Singapore, Spain, Sweden, Switzerland, Taiwan Province of China, Thailand, Trinidad and Tobago, United Kingdom, United States, 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, Uruguay.
	Above potential	**Under-performers**
Low FDI potential	Argentina, 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, Zambia.	Angola, Bangladesh, Burkina Faso, Cameroon, Côte d'Ivoire, Congo, Democratic Republic of the Congo, El Salvador, Ethiopia, Ghana, Guinea, Haiti, India, Jordan, Kenya, Lebanon, Madagascar, Mali, Morocco, Mozambique, Namibia, Nepal, Nicaragua, Pakistan, Peru, Rwanda, Senegal, Sri Lanka, Sudan, Turkey, Uganda, United Republic of Tanzania, Yemen, Zimbabwe.

Source: UNCTAD.

The fact that some activities are no longer performed at home by a TNC does not mean that its home country is uncompetitive in a general sense. On the contrary, as a country develops and wages rise, its comparative advantages move up the skills and technology scale. The relocation of simpler activities overseas may well be an integral part of such upgrading. TNCs rarely move *all* their activities overseas; they generally retain the highest value functions (e.g. R&D, strategic decision-making) at home. In addition, overseas investment may be part of a firm's efforts to assemble a portfolio of locational assets (*WIR95*) as a source of global competitiveness. Indeed, often FDI is necessary to maintain export competitiveness, regardless of production costs. Increasingly, firms also invest abroad to tap specialized innovation and skills in other countries. Thus, location factors are a mix of "push" and "pull" forces in home and host economies.

The Outward FDI Performance Index does not distinguish between ownership and location factors. Theory suggests that the more industrialized countries – whose firms have greater ownership advantages and fewer locational advantages in simple activities – have higher index values than less developed ones. Given levels of development, larger home countries can be expected to have less outward FDI in relation to their size than smaller economies. And, given development and size, historical and location factors should affect the ratio. Finally, special factors can affect outward FDI: tax havens or offshore financial centres should have high values relative to their size.

The Index can be calculated on the basis of outward FDI flows or stocks: flows reflect current FDI activity, while stocks reflect accumulated activity. Both are subject to caveats on FDI data and the ambiguous nature of the origin of some FDI flows and stocks. "Roundtripping", where investment is made abroad for tax reasons and ends up back in the home country (e.g. in China), is one such problem.

Bearing in mind these qualifications, the Outward FDI Performance Index for flows for 2000-2002 is considered here (see table I.9 for the top 20 performers and annex table A.I.8 for all countries). As expected, the list of leaders contains several tax havens and offshore financial centres, the outward FDI of which originates elsewhere. Apart from these, most of the leaders are high-income economies. Of 11 economies with ratios above two, six are European; the remaining five are developing economies, including Hong Kong (China) and Singapore, both of which are rich and also act as conduits for investment from elsewhere. The larger developed economies – Germany, the United States, Japan – have low values, suggesting that even these major outward investors (in absolute terms) have some way to go before they reach the levels of outward FDI that would be expected of them.

Most developed countries have seen an increase in their outward FDI indices over time. The faster rise in FDI than their share of global GDP indicates that their enterprises are building ownership advantages more rapidly and/or are

Table I.9. Outward FDI Performance Index for the 20 leading investor economies, 1988-2003[a]

Rank	Economy	1988-1990	1993-1995	1999-2001	2000-2002	2001-2003
1	Belgium and Luxembourg	2.676	2.087	12.620	16.160	22.741
2	Panama	7.243	2.671	1.254	3.049	6.548
3	Singapore	2.892	4.783	3.579	3.695	5.104
4	Netherlands	3.872	3.964	4.904	5.090	4.643
5	Azerbaijan	..	..	0.993	1.057	3.764
6	Hong Kong, China	3.370	14.911	5.760	6.813	3.477
7	Sweden	4.540	2.688	3.035	3.120	2.329
8	Bahrain	0.559	1.203	0.540	0.647	2.309
9	Switzerland	3.442	3.562	4.040	3.541	2.303
10	France	1.844	1.292	2.996	2.914	2.209
11	Spain	0.429	0.636	2.317	2.500	2.178
12	Denmark	1.107	1.650	3.624	3.524	1.921
13	Canada	0.905	1.402	1.459	1.865	1.869
14	United Kingdom	2.963	2.927	3.559	2.791	1.603
15	Portugal	0.161	0.357	1.718	2.052	1.487
16	Australia	0.947	0.722	0.343	0.687	1.421
17	Iceland	0.059	0.277	1.091	1.462	1.407
18	Cyprus	0.036	0.181	0.649	0.966	1.382
19	Botswana	0.076	0.405	0.776	1.022	1.334
20	Ireland	1.895	0.778	1.579	1.397	1.251

Source: UNCTAD.

Notes: Economies are ranked in descending order of their performance index in 2001-2003. Figures were calculated based on outward flows.

[a] Three-year moving averages.

choosing to exploit their advantages in foreign locations. Some, such as Finland, are going overseas at a particularly fast pace, driven in this case by Nokia, a firm in an industry that is highly dynamic and transnationalized. The index for Hong Kong (China) has risen at an exceptionally fast pace, but this reflects in part its peculiar situation as a staging post for FDI into China and as a recipient of roundtripping by Chinese enterprises.

The Index based on outward FDI stock shows similar patterns (annex table A.I.9): there are nine economies with performance ratios above two, of which six are European; and the other three are Hong Kong (China), Panama and Singapore. Belgium-Luxembourg and Hong Kong (China) are again outliers. Germany is not below average by this measure, but the United States and Japan are. Among developing economies other than the three mentioned above, the highest performance ratios are seen for Malaysia, Bahrain and Bahamas, followed by Taiwan Province of China, Botswana and South Africa.

B. Outward FDI from developing countries is becoming important

As in the past, TNCs from developed countries will drive the recovery of world FDI flows. But those from developing countries, too, will contribute, increasingly so in manufacturing and especially in services. Some developing economies (e.g. Malaysia, the Republic of Korea, Singapore) already have an established track record. Others – such as Chile, Mexico, South Africa – have become players relatively recently. And again others – Brazil, China, India – are at the take-off stage. This reflects the recognition of firms that, in a globalizing world economy, they need a portfolio of locational assets to be competitive internationally (*WIR95*). Their investments span all sectors and country groups and involve complex as well as simple industries (annex table A.I.19). If outflows are viewed in relation to gross fixed capital formation (table I.10), a number of developing economies (Singapore, Hong Kong (China), Taiwan Province of China) rank higher than a number of developed countries (Germany, Japan, the United States). This suggests that a number of developing countries, relatively speaking, are already among top investors. (When stock is taken as the basis, this is also the case (annex table B.6).)

What is happening?

Annual FDI outflows from developing countries have grown faster over the past 15 years than those from developed countries. Negligible until the beginning of the 1990s (figure I.10), outward FDI from developing countries accounted for over one-tenth of the world total stock and some 6% of world total flows in 2003 ($0.9 trillion and $36 billion, respectively). FDI

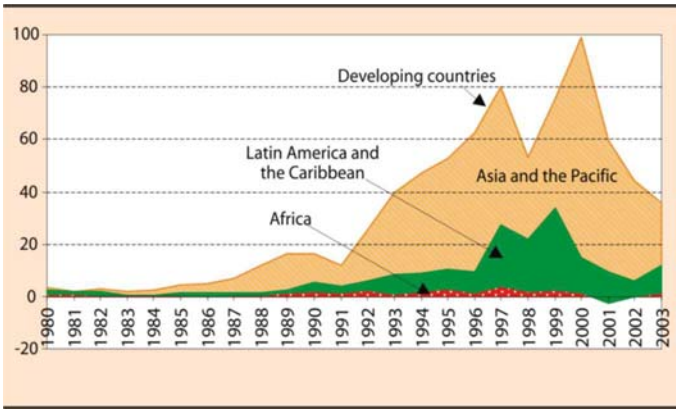
Table I.10. FDI outflows as a percentage of gross fixed capital formation in selected developing economies, 2001-2003[a]
(Per cent)

Economy	Value
Singapore	36.3
Hong Kong, China	28.2
Taiwan Province of China	10.5
Chile	7.4
Malaysia	5.3
India	1.0
China	0.8
Brazil	0.2
Memorandum:	
Sweden	27.4
France	22.0
United Kingdom	19.0
United States	6.6
Germany	4.1
Japan	3.2
Greece	1.8

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

[a] Annual average.

Figure I.10. FDI outflows from developing countries, by region, 1980–2003
(Billions of dollars)



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

from developing countries to other developing countries seems to be growing faster than that from developing countries to developed countries (box I.2). Some developing economies are now large investors by global standards. In 2003, for instance, Hong Kong (China) had a larger outward FDI stock than Sweden, even if roundtripping and indirect FDI is taken into account.[18] Its TNCs figure prominently among the leading TNCs from the developing world, along with those from Singapore, Mexico and, more recently, South Africa (box I.3).

There is, however, considerable regional variation in outward FDI performance. Asia, led by South, East and South-East Asia, was by far the largest outward investor in the developing world, followed by Latin America (table I.11). In recent years, FDI from Africa and Asia has been rising, while outflows from Latin America and the Caribbean have stagnated. Overall, however, the share of developing countries in outward FDI may rise as developing-country governments increasingly realize its benefits and encourage it further.[19] The following briefly

Box I.2. South-South FDI flows rose in the 1990s

In the 1990s, many developing countries emerged as significant sources of FDI to other developing countries. Due to the lack of data at the desired level of disaggregation, indirect data (Aykut and Ratha 2004) suggest that by the end of the decade, more than one-third of the FDI in developing countries originated from other developing countries. According to these estimates, South-South FDI flows appear to have grown faster than FDI from high-income countries to developing countries (North-South FDI) in the late 1990s, and have remained relatively more resilient in the post-Asian-crisis period as well.

The rise in South-South FDI flows has been motivated by similar push and pull factors, and similar structural, cyclical and policy factors, as the surge in North-South FDI flows. Some of the push factors include increased competition or limited growth opportunities in their domestic markets (e.g. South African retailing companies in Africa), efficiency-seeking (e.g. Malaysian manufacturing companies in Indonesia and Viet Nam) and procurement of raw materials (e.g. China's investments in iron ore and steel mills in Peru, oil in Angola and the Sudan). In addition to low labour costs and market-access opportunities, the most important pull factors for South-South FDI flows appear to be geographic proximity and ethnic and cultural ties. Since the cost of acquiring reliable information about foreign markets can be high for relatively small companies from the South, they tend to invest in neighbouring countries, where they have established a certain familiarity through trade or ethnic and cultural ties. For example, perhaps because of ethnic ties, companies from the Republic of Korea invest in Kazakhstan, and ethnic Chinese companies invest in the East Asia and Pacific region.[a]

South-South FDI also benefits from fiscal and other incentives provided by developing-country governments. For example, China is promoting outward FDI by offering loans on preferential terms, tax rebates and investment insurance (*WIR01*). The Government of Malaysia encourages South-South FDI flows through special deals signed with such countries as India, the Philippines, Viet Nam and the United Republic of Tanzania (Mirza 2000). Regional trading arrangements also contribute to the growth in South-South FDI. Since the late 1990s, increasing wealth in some emerging-market economies has increased the supply of capital; and capital-account liberalization in developing countries has enabled their companies to invest in other developing countries.

The growing importance of South-South FDI indicates that developing countries are more financially integrated with one another than was previously believed. Thus, a typical developing country has access to more sources of investment than before. This is particularly important for small economies, as TNCs from the South, because of their comparative advantages, tend to invest in countries with similar or lower levels of development than their home countries.

South-South FDI is expected to remain significant for developing countries (World Bank 2004). In particular, investment from China is bound to increase as the Government has decided to relax restrictions on outward investment, partly to ease the pressure of rising international reserves on the fixed currency regime (UNCTAD 2003).

Source: Aykut and Ratha 2004.

[a] For a different interpretation, see Mathews 2002.

Box I.3. The top 50 TNCs from developing economies

UNCTAD has published a list of the largest TNCs from developing countries since 1995 (*WIR95*). The average Transnationality Index value of the top 50 increased between 1995 and 2002. The composition of the largest TNCs among the top 50 did not change much during this period, and the ten largest accounted for almost two-thirds of foreign assets, almost the same as between 1995 and 2002. However, they now come from fewer economies (11) than in 1995 (14).

While many enterprises from the previous year's list disappeared from the list in 2002 and were replaced by newcomers, the top remained almost unchanged. Asia continued to dominate the top 50, with 32 enterprises. Hutchison (Hong Kong, China) and Singtel (Singapore) remained in the top positions. Telecom firms also retained their strong positions in the list (box table I.3.1).

The increase in the average Transnationality Index value in 2002 occurred against a backdrop of a decline of almost all indicators – foreign as well as total – in their operations. The exception was employment: foreign and total employment rose significantly (box table I.3.2). The TNCs with the largest increases in the Transnationality Index were from the food, steel, motor vehicle and telecom industries, along with diversified companies.

As in previous years, the number of exits and entries of the top 50 firms from developing economies was higher than for the top 100. The newcomers to the top 50 list were mostly companies entering the list for the first time. Most newcomers were from Asia, notably from Singapore and Hong Kong (China). From Latin America, there were only two new companies, both Mexican. There were also four new entrants from South Africa.

Source: UNCTAD.

Box table I.3.2. Snapshot of the top 50 TNCs from developing economies, 2002
(Millions of dollars, number of employees and per cent)

Variable	2001		2002		Change 2002 vs. 2001
	Value	Foreign share	Value	Foreign share	(Per cent)
Assets					
Foreign	186 471	35.3	195 196	42.0	4.7
Total	527 928		464 271		-12.1
Sales					
Foreign	145 318	40.1	139 991	45.4	-3.7
Total	362 249		308 440		-14.8
Employment					
Foreign	541 361	42.4	713 624	47.5	31.8
Total	1 275 493		1 503 279		17.8
Average TNI	44.8		49.2		4.4 [a]

Source: UNCTAD/Erasmus University database.

[a] The change between 2001 and 2002 is expressed in percentage points.

The top 50 TNCs span a wide range of activities. The main ones were electrical and electronic equipment (gradually declining in importance), food and beverages. The export-competitiveness of the electronics industry, especially in Asia, helped it maintain a dominant position. The strength of food and beverages was based more on home markets, again led by Asia and also, to a lesser extent, Latin America. Some service industries featured prominently, in particular transport (many Asian firms benefited from the region's rapidly expanding trade).

The degree of transnationality of the top 50 is lower than that of the top 100 TNCs worldwide. Most of the former have a much shorter history and are in the first stages of their transnationalization.

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examines outward FDI performance by region and analyses FDI outflows from a few of the major investors in the developing world.

In *Africa*, five countries – South Africa, Nigeria, the Libyan Arab Jamahiriya, Liberia, Botswana (in that order) – dominated outward FDI in 2003. They accounted for 84 % of Africa's total outward stock of $39 billion (table I.11 and annex table B.4). The continent's outward FDI, small as it is, has been rising since the late 1980s (figure I.11), mainly because of the expansion of South African firms within and, especially, outside Africa (South Africa accounted for about 60% of Africa's FDI outflows as well as FDI outward stock in 2003; annex tables B.2 and B.4). Outflows from the region were almost $2 billion during the first half of the 1990s.[20]

South Africa is by far the most important African outward investor. It ranked ninth among developing economies in 2003 in terms of

Box table I.3.1. The top 50 non-financial TNCs from developing economies, ranked by foreign assets, 2002[a]

(Millions of dollars, number of employees)

Rannking by					Assets		Sales		Employment		
Foreign assets	TNI [b]	Corporation	Home economy	Industry [c]	Foreign	Total	Foreign [e]	Total	Foreign	Total	TNI[b] (Per cent)
1	10	Hutchison Whampoa Limited	Hong Kong, China	Diversified	48 014	63 284	8 088	14 247	124 942	154 813	71.1
2	14	Singtel Ltd.	Singapore	Telecommunications	15 775 [d]	19 071	3 247	5 801	9 877	21 716	61.4
3	44	Petronas - Petroliam Nasional Berhad	Malaysia	Petroleum expl./ref./distr.	13 200	46 851	6 600	21 433	4 979	25 940	26.0
4	11	Cemex S.A.	Mexico	Construction Materials	12 193 [d]	16 044	4 366	7 036	17 568	26 752	67.9
5	33	Samsung Electronics Co., Ltd.	Republic of Korea	Electrical & electronic equipment	11 388	51 964	28 298	47 655	28 300 [f]	82 400	38.5
6	26	LG Electronics Inc.[f]	Republic of Korea	Electrical & electronic equipment	5 845	16 214	11 387	23 553	30 029	55 053	46.3
7	15	Jardine Matheson Holdings Ltd	Hong Kong, China	Diversified	5 729 [d]	8 255	4 449 [j]	7 398	60 000 [f]	114 000	60.7
8	2	Neptune Orient Lines Ltd.[f]	Singapore	Transport and storage	4 580 [d]	4 771	4 501	4 642	11 187	12 218	94.8
9	17	Citic Pacific Ltd.	Hong Kong, China	Construction	4 170	7 328	1 567	2 861	7 388	11 643	58.4
10	9	Sappi Limited	South Africa	Paper	3 733 [d]	4 641	2 941	3 729	9 807 [f]	17 572	71.7
11	6	Shangri-La Asia Limited	Hong Kong, China	Hotels and motels	3 663 [d]	4 593	463	601	13 000 [g]	16 300	78.9
12	34	Sasol Limited	South Africa	Industrial chemicals	3 623	8 960	3 687	7 114	7 107	31 150	38.4
13	3	Guangdong Investment Limited	Hong Kong, China	Diversified	3 601	3 924	815	876	5 994	6 580	92.0
14	5	Flextronics International Ltd.[k]	Singapore	Electrical & electronic equipment	3 488 [d]	4 897	5 903	7 812	76 187	78 000	81.5
15	25	Capitaland Limited	Singapore	Real estate	3 165	9 403	1 114	1 823	5 111 [l]	10 333 [l]	48.1
16	13	City Developments Limited[m]	Singapore	Hotels	2 954 [d]	6 490	806	1 278	11 001	13 940	62.5
17	50	Petroleo Brasileiro S.A. - Petrobras	Brazil	Petroleum expl./ref./distr.	2 863	32 018	1 085	22 612	2 200 [f]	46 723	6.1
18	22	MTN Group Limited	South Africa	Telecommunications	2 582	3 556	729	1 991	1 970	4 192	52.1
19	21	Anglogold Limited	South Africa	Gold ores	2 301	3 964	831	1 761	30 821 [g]	53 097	54.4
20	12	First Pacific Company Limited	Hong Kong, China	Electrical & electronic equipment	2 276 [d]	2 313	1 892	1 892	25 [f]	46 422	66.1
21	35	Companhia Vale do Rio Doce	Brazil	Mining & quarrying	2 265 [f]	7 955	2 928	4 268	1 493 [f]	13 973	35.9
22	31	Metalurgica Gerdau S.A.[f]	Brazil	Metal and metal products	2 089	4 093	1 340	3 136	5 977	18 995	41.7
23	27	Perez Companc	Argentina	Petroleum expl./ref./distr.	2 052	4 090	567	1 484	1 633 [g]	3 255	46.2
24	39	América Móvil	Mexico	Telecommunications	2 002	10 966	1 664	5 953	6 629	14 572	30.6
25	42	Singapore Airlines Limited	Singapore	Transport and storage	1 969 [h]	10 866	2 472	5 260	2 613	14 418	27.7
26	49	CLP Holdings	Hong Kong, China	Electricity, gas and water	1 905 [f]	7 793	130	3 350	37 [f]	4 303	9.7
27	45	Samsung Corporation	Republic of Korea	Electrical & electronic equipment	1 897 [h]	6 370	5 316 [l]	29 533	1 223 [g]	4 105	25.9
28	29	Kulim (Malaysia) Berhad	Malaysia	Food & beverages	1 729	3 689	166	516	10 800	22 112	42.6
29	40	Keppel Corporation Limited	Singapore	Diversified	1 657	6 609	604	3 087	8 722	19 947	29.5
30	32	Naspers Limited	South Africa	Media	1 655 [d]	2 498	412	1 148	1 742 [f]	10 711 [f]	39.5

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Box table I.3.1. The top 50 non-financial TNCs from developing economies, ranked by foreign assets, 2002[a] (concluded)

(Millions of dollars, number of employees)

Rannking by					Assets		Sales		Employment		
Foreign assets	TNI [b]	Corporation	Home economy	Industry [c]	Foreign	Total	Foreign [e]	Total	Foreign	Total	TNI[b] (Per cent)
31	20	Barloworld Ltd	South Africa	Diversified	1 596	2 569	1 984	3 409	9 973	23 192	54.5
32	41	United Microelectronics Corporation	Taiwan Province of China	Electrical & electronic equipment	1 531	9 418	1 320	2 180	1 002 [f]	10 136	28.9
33	19	Fraser & Neave Limited	Singapore	Food & beverages	1 466	4 374	1 037	1 931	9 130	11 816	54.8
34	46	Hyundai Motor Company	Republic of Korea	Motor vehicles	1 461 [h]	16 694	9 746	21 070	4 379 [g]	50 038	21.3
35	48	Nan Ya Plastics Corporation	Taiwan Province of China	Rubber and plastics	1 403 [d]	9 743	850	5 011	10 394 [g]	72 174	15.3
36	36	Grupo Bimbo SA De Cv	Mexico	Food	1 400	3 077	1 389	4 286	16 235	72 500	33.4
37	16	Orient Overseas International Ltd[k]	Hong Kong, China	Transport and storage	1 148	2 189	1 012	2 458	4 039	4 743	59.6
38	1	CP Pokphand Company Limited	Thailand	Food	1 086	1 107	1 542	1 542	52 976 [g]	54 000	98.7
39	18	Gruma S.A. De C.V.	Mexico	Food & beverages	1 084	2 148	1 301	1 986	8 314	14 887	57.3
40	38	Swire Pacific Limited	Hong Kong, China	Business services	1 000 [d]	8 880	963	1 951	17 969	55 700	31.0
41	7	Savia SA De CV[f]	Mexico	Diversified	941	1 362	633	682	5 316	7 375	78.0
42	37	Grupo Imsa	Mexico	Metal and metal products	831	3 037	1 182	2 827	4 149 [f]	15 800	31.8
43	8	Asia Pacific Breweries Ltd.	Singapore	Food & beverages	814	1 056	754	1 093	2 023 [g]	2 624	74.4
44	24	Nampak Limited	South Africa	Rubber and plastics	782 [d]	1 281	328	1 317	10 962 [f]	18 062	48.9
45	23	Kumpulan Guthrie Berhad	Malaysia	Rubber and plastics	780	2 397	369	811	40 199 [f]	56 143	49.9
46	4	Li & Fung Limited	Hong Kong, China	Wholesale trade	765	781	4 642	4 779	3 466	5 313	86.8
47	43	Cintra	Mexico	Air courier services	748 [d]	1 937	1 169	2 969	629 [f]	19 928	27.1
48	30	Advanced Semiconductor Engineering Inc	Taiwan Province of China	Computer and related activities	724 [d]	3 020	990	1 317	5 340	20 401	41.8
49	28	Hong Kong And Shanghai Hotels Ltd.	Hong Kong, China	Hotels	650	2 404	135	332	3 653	5 953	43.0
50	47	San Miguel Corporation	Philippines	Food & beverages	623 [d]	3 318	277	2 639	5 114 [g]	27 259	16.0

Source: UNCTAD/ Erasmus University database.

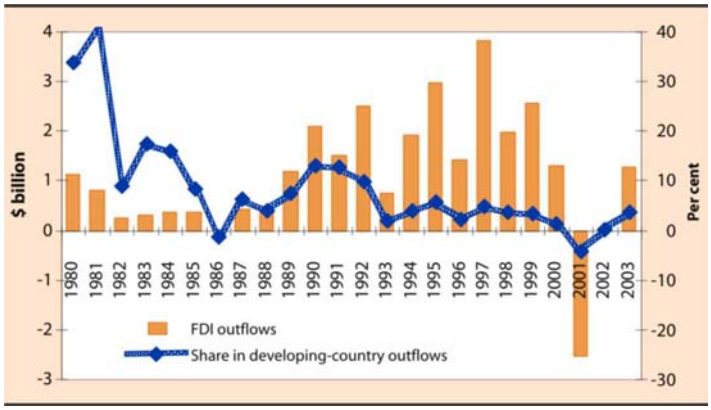
a All data are based on the companies' annual reports unless otherwise stated.
b TNI, or "Transnationality Index", is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.
c Industry classification 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 were obtained from the company as a response to an UNCTAD survey.
g Foreign employment data were calculated by applying the share of foreign assets in total asets to total employment.
h Foreign assets were calculated by applying the share of foreign employment in total employment to the balance total assets.
i Foreign sales were calculated by applying the share of foreign assets in total assets to total sales.
j Data for outside Hong Kong (China) and mainland China.
k Data for outside Asia.
l Data are for September 2003.
m Data for outside East and South-East Asia.

Table I.11. FDI from developing economies, by region and major economy, 1980-2003
(Billions of dollars)

Region/economy	FDI outflows (annual average)				FDI outward stock				
	1980-1989	1990-1994	1995-1999	2000-2003	1980	1990	1995	2000	2003
Developing economies	5.7	28.1	64.9	59.6	60.2	128.6	308.6	793.3	858.7
Africa	0.5	1.8	2.6	-	6.9	20.9	32.9	45.6	39.5
South Africa	0.2	0.7	1.9	- 0.6	5.7	15.0	23.3	32.3	24.2
Latin America and the Caribbean	0.9	4.7	18.0	10.6	46.9	58.8	86.3	155.5	183.8
Brazil	0.2	0.6	1.3	0.7	38.5	41.0	44.5	51.9	54.6
Chile	-	0.4	1.5	1.8	-	0.2	2.4	11.2	13.8
Mexico	0.1	0.4	0.7	1.9	-	1.1	2.6	7.5	13.8
Asia and the Pacific	4.3	21.6	44.3	49.0	6.5	48.9	189.5	592.3	635.4
South, East and South-East Asia	3.7	21.6	43.6	45.8	4.5	41.0	181.8	577.8	607.5
China	0.4	2.4	2.2	3.0	-	2.5	15.8	25.8	37.0
Hong Kong, China	1.2	10.5	22.5	23.0	0.1	11.9	78.8	388.4	336.1
India	-	-	0.1	1.0	-	-	0.3	1.9	5.1
Korea, Republic of	0.4	1.5	4.3	3.4	0.1	2.3	10.2	26.8	34.5
Malaysia	0.2	0.8	2.2	1.4	0.2	2.7	11.0	21.3	29.7
Memorandum									
World	93.3	234.8	603.1	779.3	559.6	1 758.2	2 897.6	5 983.3	8 196.9

Source: UNCTAD, based on annex tables B.2 and B.4; FDI/TNC database (www.unctad.org/fdistatistics).

Figure I.11. Africa: FDI outflows and their share in total developing-country outflows, 1980-2003
(Billions of dollars and per cent)



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

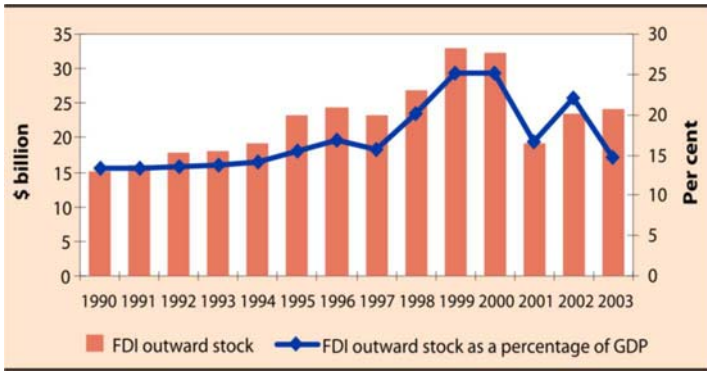
outward stock (annex table B.4), though the value of its stock that year was lower than in 2000 (figure I.12). Outward flows amounted to $720 million in 2003, about 3% of gross fixed capital formation (annex table B.5).[21] While 90% of its FDI stock is in developed countries (75% in Western Europe alone) (annex table A.I.10), an increasing number of large investments have been going to other African countries recently (annex table A.I.11). And in 2002, South Africa's FDI stock in Africa accounted for 7% of the country's total outward FDI. In absolute terms, the amounts invested in African countries may be small, but they account for a significant share of FDI for some African economies (e.g. Mozambique).

Several factors have driven South Africa's outward FDI in the rest of Africa:

- The liberalization of South Africa's regulatory regime for outward FDI has facilitated the expansion abroad of firms from that country. In addition, the country has signed 6 BITs and 14 DITs in the region.
- The liberalization of the country's trade and exchange controls has raised competition in local markets and encouraged firms to look abroad. At the same time, privatization and liberalization in other African countries have allowed South African companies to acquire firms in the region.
- South African firms often have technological advantages over local competitors in Africa and greater familiarity with African conditions than TNCs from other regions.

By the end of the 1990s, South Africa had over 900 TNCs (annex table A.I.2); seven of them were among the top 50 non-financial TNCs from developing economies in 2002. Some TNCs –

Figure I.12. South Africa: outward FDI stock and its share in GDP, 1990-2003[a]
(Billions of dollars and per cent)



Source: UNCTAD.

MTN, Eskom, Sasol, Vodacom SA – have started to expand regionally in the past few years such as in the Democratic Republic of the Congo, Mozambique, Namibia, the United Republic of Tanzania and Zimbabwe (annex table A.I.11). Others have become major world players in their industries: AngloGold of South Africa became the world's largest gold producer when it acquired the Ashanti gold mine of Ghana in 2003, and SABMiller (with its primary listing in the United Kingdom) has become one of the world's largest breweries, controlling more than 160 factories in over 40 countries.

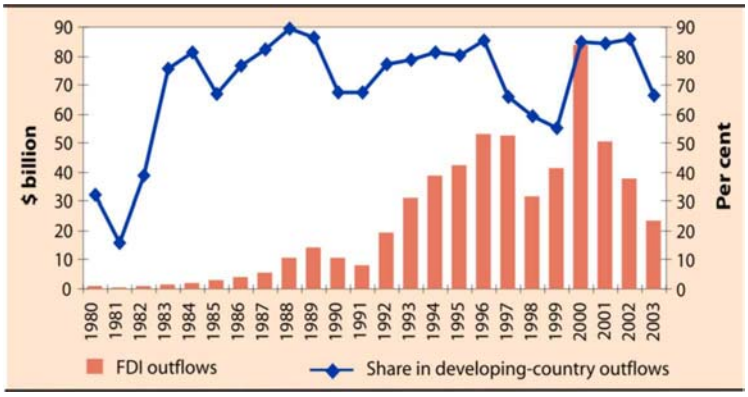
Developing *Asia* is the largest and fastest growing outward investor in the developing world. With an outward FDI stock amounting to $635 billion in 2003, the region accounted for three-quarters of the total outward FDI stock of developing economies (annex table B.4). It also accounted for some four-fifths of total outflows of $46 billion, on annual average, during 2000-2003 (figure I.13 and table I.11). Hong Kong (China) registered the highest levels of outward FDI, but those data need to be interpreted with caution: they include significant amounts of roundtripping and indirect FDI (box I.4). Other large investors are China, the Republic of Korea, Malaysia, Singapore and Taiwan Province of China. The key drivers of Asian FDI are the growing capabilities of Asian firms, their strong export orientation and their need to access technology, brand names and strategic assets abroad. Realizing the value of FDI, most governments in the region are actively encouraging their firms to become transnational. The growing number of regional FTAs, particularly involving economies in North-East and South-East Asia, is also increasing investor interest in the region.

The rapid rise of *China* as an outward investor, particularly in resource extraction, is noteworthy: its average annual outward FDI flows grew from $450 million in the 1980s to $2.3 billion in the 1990s, and its outward FDI stock was estimated at $37 billion by end 2003 (figure I.14). Its ranking in the Outward FDI Performance Index in 2001-2003 was 58, almost at the middle of the 128 country list (annex table A.I.8). Chinese TNCs invest not only in neighbouring countries, but also in Africa, Latin America, North America and Europe. Their main destinations, however, remain by far Hong Kong (China), followed by the United States: together these two destinations accounted for more than half of approved Chinese outward FDI during the period 1979-2003 (annex table A.I.12).

The expansion abroad of Chinese enterprises is driven by:

- their desire to support exports, expand their market presence and acquire foreign skills;
- their desire to establish local distribution networks, especially in industries with excess production capacity (such as machinery and electronic appliances);[22]
- growing exposure to international business and their increasing financial strength;
- intensified domestic competition and the need to relocate mature industries to lower

Figure I.13. Asia and the Pacific: FDI outflows and their share in total developing-country outflows, 1980–2003
(Billions of dollars and per cent)



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

Box I.4. FDI flows from Hong Kong (China)

Indirect FDI (undertaken by foreign affiliates in Hong Kong (China)) and roundtripping characterize a good part of investment from this economy. The territory is the largest outward direct investor among developing economies and the seventh overall largest contributor to global outward FDI stock.

Its outward FDI *stock* amounted to $309 billion in 2002. Four tax havens – the British Virgin Islands, Bermuda, Panama and the Cayman Islands, in that order – accounted for 54% of the total Hong Kong (China) outward FDI stock (box table I.4.1). If the channelling of funds to non-operating companies in these four offshore financial centres (as well as other locations) set up by Hong Kong (China) companies were excluded (which amount to $92 billion, i.e. more than half of the amount that corresponds to 54%), the outward FDI stock of the economy would shrink to $217 billion in 2002 (box table I.4.1). Mainland China accounted for another 35%. These four economies and China together received 89% of their FDI from Hong Kong (China) – they also contributed 66% of the total inward FDI to the economy.

Foreign affiliates established in Hong Kong (China) are also important outward investors, which represents indirect FDI. The close relationship between mainland China and Hong Kong (China) continues to attract such indirect FDI, as foreign affiliates (and domestic) based in the territory can take advantage of the privileges accorded under the Closer Economic Partnership Arrangement for investing in the mainland (box II.8).

In terms of FDI *outflows*, at least 14% of the total between 2000 and 2002 can be attributed to the channelling of funds to non-operating companies in tax-havens alone (China, Census and Statistics Department of Hong Kong 2004). Roundtripping FDI from China through Hong Kong (China) and back to China has been estimated at about 25% of outward FDI flows (*WIR03*, p. 45). However, according to a recent estimate by the Bank of China Group, roundtripping FDI to China accounts for 10-20% of FDI outflows (China, Hong Kong Trade and Development Cooperation 2003). Therefore, roundtripping involving China and tax havens probably amounts to 25-40% of total FDI outflows from Hong Kong (China).

Box table I.4.1. Hong Kong (China): outward FDI stock at market value, 2000-2002
(Billions of dollars)

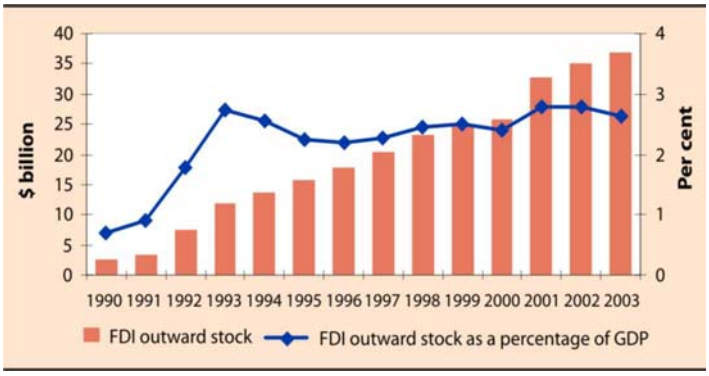
	Including outward FDI stock in non-operating companies in offshore financial centres set up by Hong Kong (China) companies to channel funds			Excluding outward FDI stock in non-operating companies in offshore financial centres set up by Hong Kong (China) companies to channel funds			Difference		
Economy	2000	2001	2002	2000	2001	2002	2000	2001	2002
Total	388.4	352.6	309.4	221.1	218.6	217.2	167.3	134.0	92.2
China	129.8	108.2	108.1	129.8	108.2	108.1	-	-	-
British Virgin Islands	201.3	184.3	147.3	56.5	73.7	68.7	144.8	110.6	78.5
United States	3.1	3.2	4.1	3.1	3.2	4.1	-	-	-
Malaysia	2.6	3.7	3.6	2.6	3.7	3.6	-	-	-
Singapore	3.3	3.1	3.3	3.3	3.1	3.3	-	-	-
Thailand	2.0	2.6	2.7	2.0	2.6	2.7	-	-	-
United Kingdom	3.0	2.6	2.6	3.0	2.6	2.6	-	-	-
Bermuda	11.4	11.8	9.8	0.7	1.6	1.9	10.7	10.1	8.0
Panama	3.0	4.2	5.0	0.4	0.4	1.9	2.6	3.7	3.1
Cayman Islands	9.1	10.6	3.6	-	-	-	9.1	10.6	3.6
Others	19.8	18.2	19.3	19.9	19.2	20.3	-0.1	-1.0	-1.0

Source: China, Census and Statistics Department of Hong Kong 2004.

Note: Individual figures may not add up exactly to the total due to rounding.

Source: UNCTAD.

Figure I.14. China: outward FDI stock and its share in GDP, 1990–2003
(Billions of dollars and per cent)



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

wage sites (e.g. bicycle production in Ghana and video players in South-East Asia); and

- their aspiration to build international brands and access advanced technologies, including through M&As and alliances, as well as to establish R&D centres in developed countries such as Germany, Japan, Sweden and the United States.[23]

The need to access natural resources (in oil, gas, mining) is also a powerful driving force. Today, China has investments in the oil industry in 14 countries, including Indonesia, Kazakhstan, Myanmar, the Sudan and Yemen. In May 2004 alone, Chinese FDI projects worth several billion dollars in alumina, steel and coke, were announced in Brazil.[24]

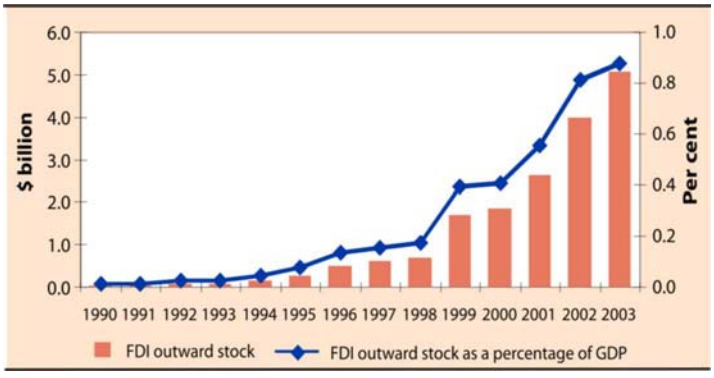
The Government of China, as well as some provincial administrations such as Guangdong and Shanghai, have been encouraging firms to invest abroad by relaxing approval procedures and offering them financial support and corporate income tax incentives. Interestingly, some investment promotion agencies (from Denmark, Malaysia, Singapore, Sweden, Thailand, the United Kingdom (Scotland and Wales)) have already responded to the increased investment activity by Chinese firms, and set up offices in China to court outward investors.

India also stands out among Asian investors, not so much because of its recent and significant increase in outward FDI (figure I.15) and because of its potential to be a large outward investor, but because of the new trend set by some of its information technology (IT) firms (chapter IV). Its total FDI outflows in 2001-2003[25] were comparable to those of Malaysia. In the same period, the average annual outflows reached $1 billion (annex table B.2). Its ranking in the Outward FDI Performance Index has improved over the years, placing it 61st in 2001-2003, close to China (58th) (annex table A.I.8). The most important destination for Indian FDI has been the United States (annex table A.I.13), accounting for 19% of its total outward flows over the past eight years, followed by the Russian Federation (with 18%), due mainly to acquisitions in the oil and gas industries. Overall, however, about half of total Indian outward FDI has gone to other developing countries.

Most Indian outward FDI is in manufacturing (about 55%), but non-financial services also account for a significant share (25%) (annex table A.I.14). FDI in IT services in particular has begun to grow rapidly. The top 15 Indian software and related service companies have all invested abroad, almost entirely in developed countries (annex table A.I.15),[26] while Indian call centres and business-process outsourcing companies are setting up foreign affiliates, particularly in the Philippines and Mexico.[27]

The growing technological capabilities of Indian firms and their rising exports, particularly in IT services and pharmaceuticals, are driving the FDI growth. Access to markets, distribution networks, foreign technology and strategic assets such as brand names, are the main

Figure I.15. India: outward FDI stock and its share in GDP, 1990–2003
(Billions of dollars and per cent)



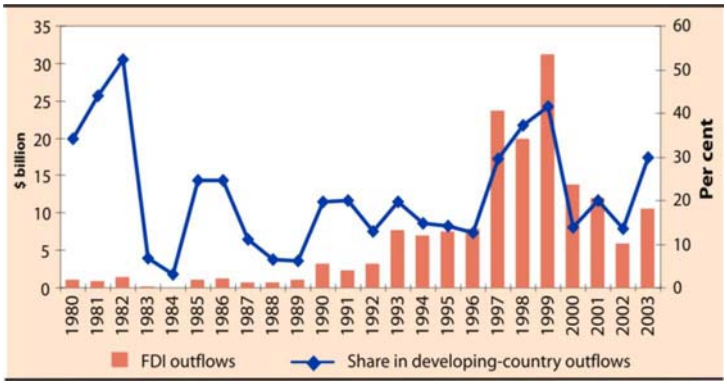
Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

motivations. Securing natural resources is also becoming an important driver for FDI in the oil and gas industries and mining.[28] The Government's liberalization of investment policies has helped the expansion abroad of Indian firms. In addition, India had signed 51 BITs and 41 DTTs by end 2003.

Latin America and the Caribbean remains the second largest investing region in the developing world, with its outward FDI stock reaching $184 billion in 2003. Although its FDI outflows fell – even more than FDI inflows – in the period 2000-2002 (annex table B.2 and figure I.16), they started to rise again thereafter. Apart from offshore financial centres (accounting for 56% of regional outflows), the main investors were Argentina, Brazil, Chile, Colombia, Mexico and Venezuela. Outflows from some countries such as Argentina and Brazil fluctuated significantly. In Argentina, they were negative in 2002, as companies sold foreign assets to overcome liquidity problems at home (*WIR03*, p. 55), but became positive again in 2003. Brazil, which registered negative outflows in 2001, became the largest investor in the region in 2002 ($2.5 billion); however, its flows fell back in 2003 (to $0.2 billion). Mexican outflows were stable at about $1 billion annually, except in 2001 ($4.4 billion), with most outward investors focusing on the region.

Figure I.16. Latin America and the Caribbean: FDI outflows and their share in total developing-country outflows, 1980–2003

(Billions of dollars and per cent)

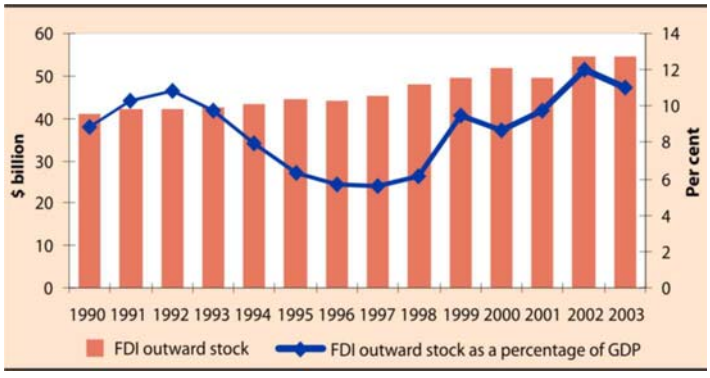


Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

Brazil has the largest outward FDI stock of all Latin America and the Caribbean – $55 billion in 2003 (figure I.17) – and the fourth largest outward FDI stock of the developing world (after Hong Kong (China), Singapore and Taiwan Province of China) (annex table B.4). However, in 2002, most of the stock was located in tax havens: the Cayman Islands, Bahamas and British Virgin Islands accounted for about two-thirds of the country's outward FDI stock, with the rest in the United States and a few other countries in the region. According to a 2001 survey by the Central Bank of Brazil,[29] a large proportion of outward FDI was driven by financial rather than production motives (to avoid taxes and to undertake currency transactions). The large share going to tax havens was reflected in the sectoral concentration of Brazilian outward FDI in services (95%), particularly financial services (annex table A.I.16). FDI in the primary sector was negligible, and in processing activities it was low (4% of outward stock in 2002) (annex table A.I.16).

Figure I.17. Brazil: outward FDI stock and its share in GDP, 1990–2003

(Billions of dollars and per cent)



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

Compared to the size of its economy, Brazil has a relatively low level of outward FDI. In terms of the Outward FDI Performance Index, this country ranked 91st in 2001-2003, well below other major countries in the region (Panama ranked first, Chile second, Trinidad and Tobago third) (annex table A.I.8). Its FDI outflows as a percentage of gross fixed capital formation barely reached 1%, that is one-eighth of the average for the region and one-tenth of that for all developing countries (annex table B.5). Hence, there is potential for more investment abroad. A recent survey by FUNCEX (Iglesias and Veiga 2002), indicated that 29% of the firms

surveyed had plans to invest abroad, mainly in Western Europe, the United States and Mexico (annex table A.I.17).

Brazil has concluded (but not ratified) 14 BITs, 10 of which are with developed countries. It has also concluded 34 DTTs: 23 with developed countries, 8 with developing countries and 3 with CEE countries. None of these are with tax havens.

***

TNCs from developing countries in all regions are acquiring ownership advantages. They are becoming a force in the world FDI market. With outward FDI stock of already $859 billion, they are building their own international production systems. They are driven by the same pressures as their counterparts in developed countries to remain competitive in the global economy. However, few developing countries' governments have paid much attention to this aspect of their integration into the world economy. Nonetheless, it is a challenge that more and more of them will face.

C. Changing sectoral distribution

FDI has grown over time in all three economic sectors – primary, manufacturing and services. But the sectoral composition has shifted towards services. Moreover, when indicators of FDI or TNC activity in various sectors in different countries are compared with the size of the respective countries' markets, or other measures of economic size, the significance of FDI in the various sectors and industries is different from that indicated by the distribution of FDI flows, stock or shares. FDI in manufacturing is increasingly geared to capital- and technology-intensive activities, while FDI in services has generally been growing in both capital-intensive and labour- or human-resource-intensive industries.

The global stock of both inward and outward FDI in the *primary* sector more than doubled between 1990 and 2002 (annex tables A.I.18 and A.I.19). Reflecting slower FDI growth than in manufacturing and services, the primary sector's share in world FDI *stock* decreased noticeably from 9% in 1990 to 6% in 2002 (figure I.18). In the case of FDI *flows* between 1989-1991 and 2001-2002 the share of the primary sector did not decline: it rose from 7% to 9% (annex figure A.I.1). Nearly all FDI in the sector continues to originate from developed countries. The main source countries in 2002 were Canada, the Netherlands and the United States. Among the developing economies, Brazil, Kazakhstan and the Republic of Korea were the leading sources.

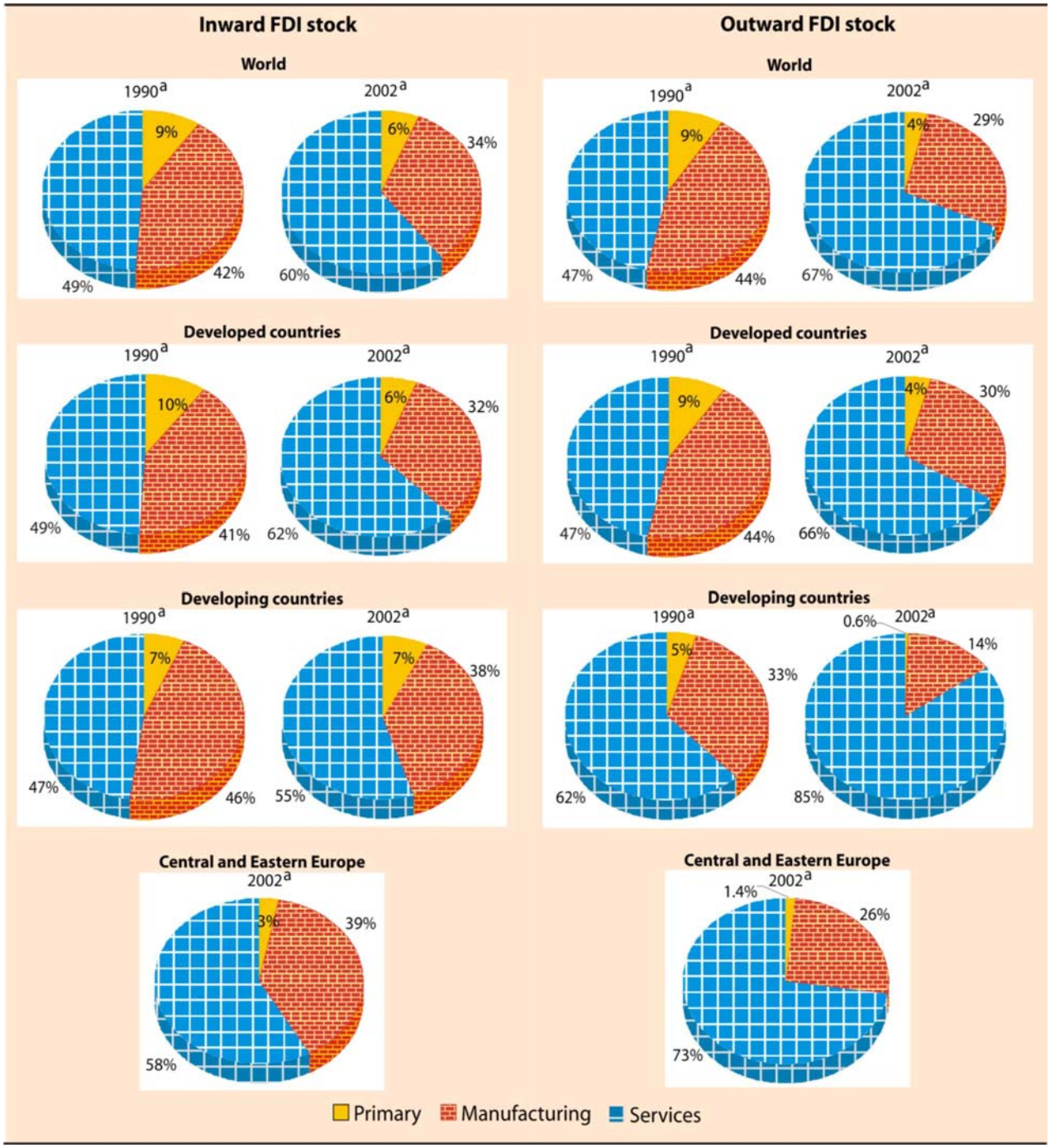
On the host-country side, however, developing countries – many of them rich in natural resources, but lacking internationally competitive national firms – attract considerable FDI (32% of total primary-sector FDI in 2002) (annex table A.I.18). Top host countries are Canada, the Netherlands and the United Kingdom among developed countries, and Chile, South Africa and Venezuela among developing countries.

FDI flows relative to GDP in the primary sector show a great deal of variation among countries. They are particularly high in Australia and Canada from the developed world, and Bolivia, Chile, Ecuador and Kazakhstan from the developing world. In these natural-resource-rich countries, the share of FDI flows in GDP in the primary sector has fluctuated widely over the past decade (annex figure A.I.2).

Within the primary sector, mining, quarrying and petroleum dominate: over 90% of inward FDI stock in the sector was in those industries in both 1990 and 2002 (annex table A.I.18). The share of agriculture, hunting, forestry and fishing in primary-sector FDI has been small, but it rose noticeably (from 4% to 6% of inward FDI stock) during the period 1990-2001. In 2002, developing countries attracted more than twice as much FDI as developed countries in these activities, but only about half as much in mining, quarrying and petroleum (annex table A.I.18).

FDI stock in *manufacturing* rose nearly threefold during the period 1990–2002 (annex tables A.I.18 and I.19). Given slower growth than in services, however, its share in global FDI stock worldwide fell from 42% in 1990 to 34% in 2002 (figure I.18). Developed countries accounted for more than 95% of outward FDI in manufacturing in 2002 – a lower share than the 99% they held in 1990. Their inward FDI stock in this sector was also several times larger than that in developing countries, but the gap is shrinking: in 1990, the manufacturing stock in developing countries was one-fifth of that in developed

Figure I.18. Sectoral distribution of FDI stock in the world, developed and developing countries and CEE, 1990, 2002



Source: UNCTAD, based on annex tables A.I.18 and A.I.19.

Note: In calculating the shares of the respective sectors, amounts recorded under "Private buying and selling of property" and "unspecified" are excluded from the totals.

[a] Or latest year available.

countries; in 2002, it was one half. Industries in which the gap narrowed considerably during this period included food, beverages and tobacco, wood, machinery and equipment and, especially, coke and petroleum products. The United States is still the largest FDI recipient, while China's inward stock of FDI in manufacturing was more than $300 billion in 2002, second only to the United States (over $500 billion).

Within manufacturing, chemicals and electronics accounted for one-third of the stock of inward manufacturing FDI in 1990, but their share fell slightly (to less than 30%) in 2002

(annex table A.I.18). As manufacturing is a mature FDI sector, few of its individual industries are as dynamic as many service industries (chapter III). Manufacturing FDI is increasingly geared to more capital- and knowledge-intensive activities. For example, the shares of food, beverages and tobacco, textiles, clothing and leather, and rubber and plastic products in total inward FDI stock in manufacturing fell significantly between 1990 and 2002 (annex table A.I.18). There are two major reasons for the declining importance of labour-intensive FDI in manufacturing:

- There has been a decline in labour-intensive manufacturing in general, and the share of traditional manufacturing employment has also steadily declined (ILO 2001, p. 109).[30] Technological change (including advances in telecommunications and information-processing technology) has been a key element in the decline of labour-intensive FDI in manufacturing. Labour is increasingly being replaced by capital and knowledge.
- Firms in more and more countries, especially developing countries, have developed their own ownership-specific advantages based on different factor endowments, particularly low-cost labour, vis-à-vis developed countries. Certain developing countries with low-cost labour are increasingly attracting capital- and technology-intensive FDI.

The industrial pattern of FDI in manufacturing varies among different home and host countries (annex tables A.I.18 and A.I.19). Developed countries' outward FDI in manufacturing shows that FDI is concentrated in technology-intensive industries, while TNCs based in those countries having abundant low-cost labour often develop ownership advantages in more labour-intensive industries. In the case of inward FDI, its industrial distribution largely reflects, on the one hand, the size of markets (reflecting GDP and per capita GDP), and on the other, the structure of the comparative advantages of the countries, based on immobile location advantages.

The pattern of FDI may be different among countries with similar endowments and resources. The locational choices of TNCs between countries are increasingly related to advantages arising from other factors that influence the supply capacities of host countries, such as scale economies (particularly in the manufacturing sector) and clustering (agglomeration economies), as well as institutional and policy variables. Indeed, TNCs are more and more attracted to clusters of knowledge, and seek to upgrade ownership advantages by tapping into location-bound sources of collective learning and innovation; incentive structures in host countries also play a role. This is particularly so for TNCs in more technology-intensive activities (including innovative activities), as evidenced by its concentration in a limited number of countries (*WIR01*).

In the *services* sector, the global FDI stock more than quadrupled during the period 1990-2002 (annex tables A.I.18 and A.I.19). As a result of more rapid growth in this sector than in the other sectors, services accounted for about 60% of the global stock of inward FDI in 2002, compared to less than 50% a decade earlier (figure I.18). In terms of inflows, the increase in the share of services between 1989-1991 (54%) and 2001-2002 (67%) was even larger than that of the stock (annex figure A.I.1 and figure I.18). Inward and outward FDI, both flows and stock, in services grew in most countries (annex tables A.I.20 and A.I.21), as did the share of services in overall FDI flows and stock (annex table A.I.22 and A.I.23). The dynamic growth of FDI in services, which is reshaping FDI, is examined more closely in chapter III.

D. Prospects: growth set to resume

FDI flows are set to rebound in 2004 – by how much was difficult to say as of July 2004. A few large cross-border M&As may make all the difference, and they are impossible to predict. The recovery of the world economy and improved corporate profits are the major drivers. UNCTAD's survey results support this expectation. Other forecasts (box I.5) arrive at a similar conclusion. This convergence of views lends credibility to the renewed optimism about the recovery of FDI.

As examined in *WIR03*, FDI prospects depend largely on the following three factors:

Macroeconomic factors. Global growth forecasts for 2004 range between 3.5% and 4.2%.[31] In the developing world, growth is expected to exceed 5%, though regional performance may vary.[32] The revival of growth, especially in the largest source countries, augurs

well for FDI. Given the two-year lag observed for flows to respond to a pick-up in growth (*WIR03*), the rebound in FDI is expected to continue in 2005.

Microeconomic factors. Share prices rose in 2003, and are expected to climb further in 2004 (World Bank 2004a). During the first four months of 2004, the value of share trading in the world increased by 60% over the corresponding period in 2003; in the United States, the volume of trading on the New York Stock Exchange rose by 36%.[33] Higher stock valuations boost the value of cross-border M&As, even if their number remains unchanged. Corporate profits, a key driver of stock values, are also on the rise. In 2003, corporate profitability increased significantly in the main source countries. In the United States, companies posted the strongest quarterly profit growth since 1993 (United States, Department of Commerce 2004a), with technology and financial service companies posting significant gains.[34] Profit growth and liquidity are expected to boost FDI flows in the near future (IIF 2004). For example, Japanese plant and equipment investment expenditures abroad are expected to rise by 12.3% in all industries in fiscal year 2004, compared with a decline of 3.5% in fiscal year 2003, according to a survey of 757 firms in May 2004 by Nikkei.[35]

Institutional factors. Cross-border M&As are increasing. The number of deals was slightly higher in 2003 (4,562) than in 2002 (4,493 deals). In the first half of 2004, 27 mega deals (with a value of more than $1 billion) were concluded.[36] Some TNCs from developing countries are active as well. For example, Singapore investors purchased Mayne Group, a health services company, for $569 million; China Huaneng Group purchased OzGen (Australia), an electrical services company, for $227 million; and Jubilant Organosys Ltd. (India) acquired Pharmaceutical Services NV (Belgium), for $17 million. The total value of cross-border M&As during the first six months of 2004 was $150 billion, 3% higher than that of the corresponding period in 2003.

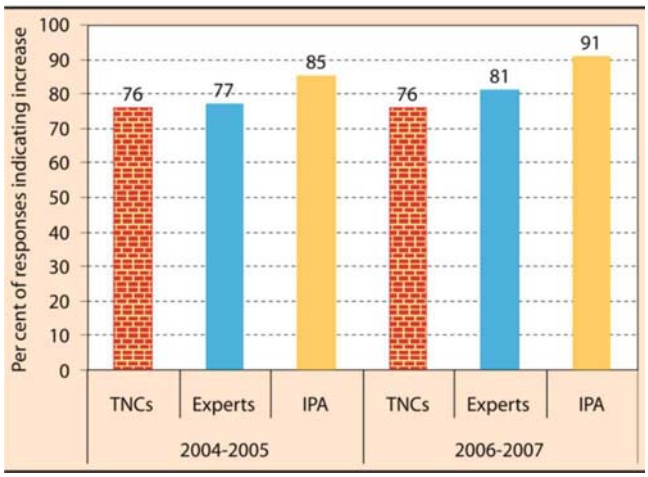
On the other hand, privatization in many developing countries is winding down. In Brazil, for example, FDI in privatization all but ceased in 2003. Even in countries that are still active privatizers, the number of large projects is declining. Bucking the declining trend, however, is China, which now allows foreign investors to buy majority stakes in previously barred enterprises.[37] Its privatization plans include China Power, China Construction Bank, Air China and Semiconductor Manufacturing International.[38] In several other countries, privatization is at an early stage and may accelerate (e.g. Kyrgyzstan, the Libyan Arab Jamahiriya, Turkey, Viet Nam), but the amounts involved are likely to be small.

Greenfield investment grew robustly in 2003, and continued to grow in 2004. Data for the first four months of 2004 showed significant growth compared with the same period in 2003, with associated announced investment amounting to $155 billion in some 3,500 FDI projects.[39]

Complementing these data are the results of UNCTAD's Global Investment Prospects Assessment, meant to gauge future FDI trends. It seeks to do this by undertaking and then combining surveys of the largest TNCs, location experts advising firms where to locate FDI projects and investment promotion agencies (IPAs) (box I.6). The results of the first round of these surveys, undertaken in early 2004, support expectations of a recovery this year (UNCTAD 2004 a, b, c).[40]

More than three-quarters of the companies surveyed and almost four out of five location experts expressed optimism for FDI prospects over the next two years (figure I.19). TNCs, however, were less optimistic than location experts as regards the strength of recovery, with almost a fifth of the respondents expecting no major change in FDI prospects over the next year. There was no change expected as

Figure I.19. Overall FDI prospects, 2004-2007, as reported by TNCs, location experts and IPAs



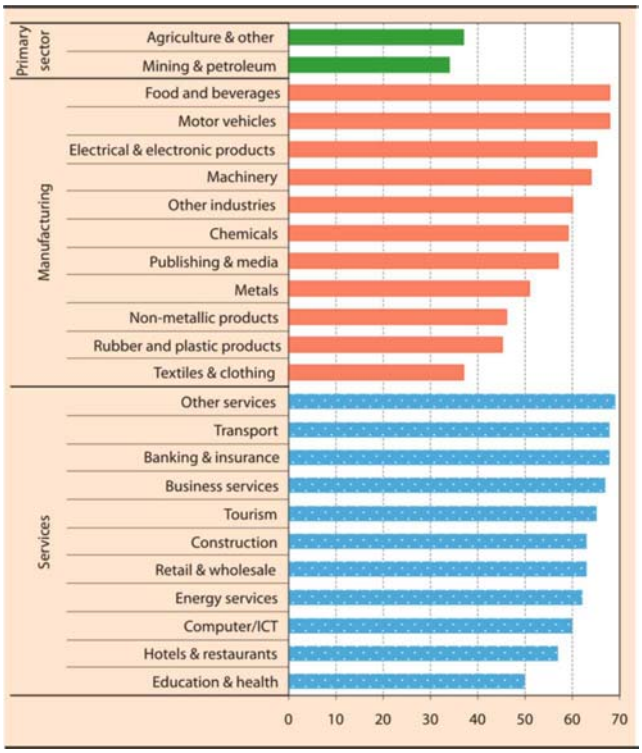
Source: UNCTAD, www.unctad.org/fdiprospects.

regards the preferred mode of investing abroad: greenfield facilities were favoured in the developing countries and M&As in the developed world.

Both top TNCs and international location experts also expected important inter- and intra-regional differences (chapter II examines each region separately). TNCs forecast that FDI flows will pick up, particularly in Asia and the Pacific and in CEE. For the first of these two groups, China emerged as the top destination for both TNCs and location experts. For CEE both TNCs and location experts ranked Poland highest. In Africa, South Africa was the most attractive country for both TNCs and international location experts. In Latin America and the Caribbean, Brazil was placed on the top list by TNCs and Mexico by location experts. In the developed world, the United States led for both TNCs and location experts.

Location experts indicated that the rebound in FDI would be geared more towards services, especially transport, banking and insurance and management (figure I.20). Selected manufacturing industries also did well, especially food and beverages, motor vehicles and electrical and electronic products. Concerning the relocation of corporate functions abroad, location experts expect this will occur mainly in production, logistics and support services, and R&D, while TNCs expect production, distribution and sales, and logistics and support services to relocate (figure I.21).

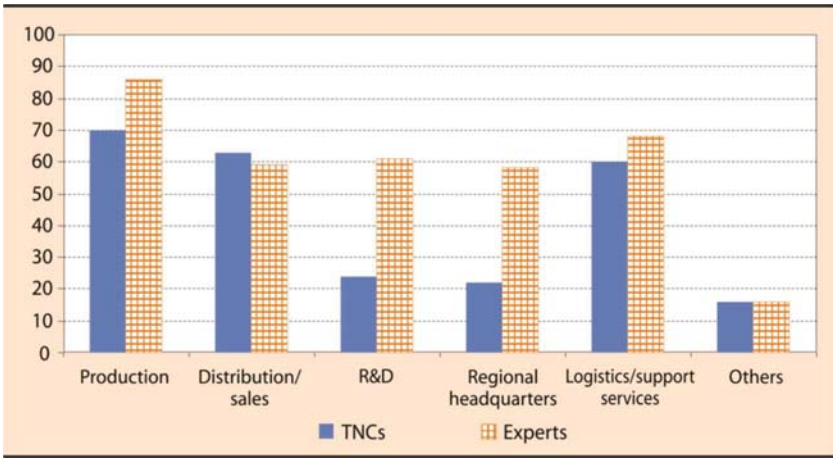
Figure I.20. FDI prospects by industry, 2004-2005, as reported by location experts
(Per cent of respondents)



Source: UNCTAD, www.unctad.org/fdiprospects.

The survey of IPAs indicates that they more than share the optimism of TNCs and international location experts. More importantly, they expect to step up efforts to lure FDI by focusing on investor targeting (figure I.22) – presumably especially of investors in the United States, Germany, the United Kingdom and France, followed by China and Japan, as these are viewed as the most important sources of FDI. IPAs are prepared to support their efforts through the greater use of incentives. In fact, nearly half of the respondents were prepared to introduce additional incentives or further liberalize their countries' FDI regimes. The findings of UNCTAD's IPA survey support the view that intense competition for FDI no longer takes place only during an FDI recession; rather it has become embedded in IPA strategy, even when investment is expected to pick up.

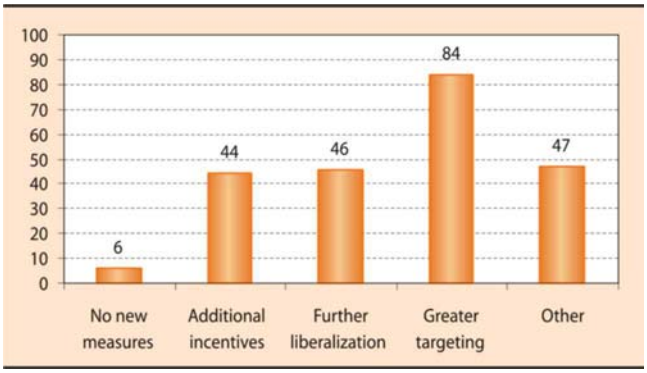
Figure I.21. Corporate functions expected to be relocated, 2004-2005, as reported by TNCs and location experts
(Per cent of respondents)



Source: UNCTAD, www.unctad.org/fdiprospects.

These various data sets combine to present an optimistic picture for 2004 and, indeed, 2005. But prospects are uneven across geographic regions – extending the mixed picture that prevailed in 2003.

Figure I.22. Policy responses, 2004-2005, as reported by IPAs
(Per cent)



Source: UNCTAD, www.unctad.org/fdiprospects.

Box I.5. FDI prospects: reports paint a rosy picture

Most reports published in the first half of 2004 forecast an upturn in FDI for 2004 and 2005. The following are findings of some of them:

- In April 2004, the Institute for International Finance forecast an increase in FDI flows in 29 emerging-market economies, to an estimated $113.8 billion in 2004 from $94.9 billion in 2003 (IIF 2004).
- According to the April 2004 issue of the International Monetary Fund's *World Economic Outlook* (IMF 2004), FDI flows to emerging-market economies are expected to increase to $134 billion in 2004 from $128.2 billion in 2003. For 2005, the Fund predicts another increase to $141 billion.
- The World Bank, in its *Global Development Finance 2004* (World Bank 2004a), projected FDI flows to developing countries in 2004 of $152 billion, compared with $135 billion in 2003. For 2005, the Bank projects these flows to reach $165 billion.
- The *7th Annual Global CEO Survey*, carried out by PricewaterhouseCoopers in the fourth quarter of 2003, found that chief executive officers (CEOs) worldwide are optimistic about their companies' growth potential; more than 80% of the nearly 1,400 CEOs surveyed were confident about revenue growth over the next 12 months, as well as over the next three years (PricewaterhouseCoopers 2004a).
- The world survey of business sentiment by the International Chamber of Commerce and the IFO Research Institute found global economic confidence at a ten-year high; the overall economic climate indicator of the joint ICC/IFO poll, conducted in January 2004, hit 7.3 out of a possible 9. More than 1,100 experts from 92 countries took part in this survey (ICC and IFO Research Institute 2004).
- Drawing on the results of a survey of 527 senior executives worldwide, the Economist Intelligence Unit (EIU) found much greater business confidence at the outset of 2004 than a year ago (EIU 2004).

/...

Box I.5. FDI prospects: reports paint a rosy picture (concluded)

- PricewaterhouseCoopers' latest quarterly *Manufacturing Barometer* (first quarter 2004) surveyed senior executives from large manufacturing TNCs about their future business prospects (PricewaterhouseCoopers 2004b). Of the executives surveyed, 79% were optimistic about the United States economy's prospects over the next 12 months, and 65% were optimistic about prospects for the world economy. In addition, 82% expected positive revenue growth in 2005.
- Business sentiment among Japanese TNC executives regarding 12 East Asian countries improved in April 2004 over the previous month, according to an April survey published by the Japan External Trade Organization, but the overall outlook over the next 2-3 months remained roughly unchanged. Business sentiment has improved in Thailand, Singapore and Indonesia, as well as in North Asia and China (JETRO 2004).
- The Japan Bank for International Cooperation (JBIC) published the report of a survey carried out in the second half of 2003, of 578 Japanese manufacturing TNCs (JBIC 2004). Three-fourths (78%) of the respondents indicated they would strengthen and expand their overseas operations in the medium term, while 21% said they would maintain their current level. Only 0.2% of the surveyed companies said they would withdraw from overseas business operations. These findings represent an improvement over those of the previous survey.

Source: UNCTAD.

Box I.6. Global Investment Prospects Assessment by UNCTAD

UNCTAD's Global Investment Prospects Assessment project analyses expected future patterns of FDI flows at the global, regional, national and industry levels as seen from the perspectives of global investors, host countries and international FDI experts. It also analyses evolving trends in the strategies of TNCs as well as FDI policies.

UNCTAD bases its assessments on the findings of three large-scale surveys:

- A worldwide survey of the largest TNCs with headquarters in developed and developing countries and in Central and Eastern Europe regarding their strategies and investment plans in the industries that they are operating.
- A worldwide survey of international FDI experts who typically assist TNCs in their overseas location decisions regarding their observations on future trends in FDI flows and policies.
- A worldwide survey of national IPAs regarding their perception of FDI prospects for and investment policies and promotion strategies of their respective countries and regions.

The surveys complement each other and allow for direct comparison of the results obtained.

The surveys involved 335 of the largest TNCs (ranked by size of their foreign assets) from developed, developing and transition economies (for a response rate of 24%), 87 international location experts interviewed and 158 IPAs (for a response rate of 63%).

Source: UNCTAD.

Notes

1 Growth rates of FDI inflows and outflows do not necessarily move in parallel. This is because inflows and outflows do not balance, even though they should do so in principle. This imbalance is due to various reasons, including different methods of data collection between host and home countries, different data coverage of FDI flows (i.e. treatment of reinvested earnings), and different times used for recording FDI transactions. Growth rates of these two flows moved in opposite directions also in 1974, 1980, 1981, 1983 and 1985.

2 The World Bank reported a decline of 9% in FDI inflows to developing countries in 2003 (World Bank 2004). This discrepancy is partly due to differences in coverage, as the World Bank's classification of developing economies includes Central and Eastern Europe (CEE), but excludes, among others, Hong Kong (China), Singapore and Taiwan Province of China.

3 These are the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovenia and Slovakia, which acceded to the EU in 2004. Cyprus and Malta are the other two accession countries.

4 The correlation coefficient between the share of FDI inflows in GDP and the share of gross fixed capital formation in GDP during the period 1990-2003 was 0.11 for the world, 0.66 for developed countries, -0.62 for developing countries and -0.64 for CEE. For LDCs, these two types of investment are positively correlated (0.67).

5 "Report of the International Conference of Financing for Development", Monterrey, Mexico, 18-22 March 2002, United Nations document, A/CONF.198/11.

6 Based on 49 markets in 47 countries, the value of stocks traded rose by 13% in 2003, but it was still 40% lower than the peak level of 2000 (World Federation of Exchanges: www.world-exchanges.org).

7 Many large firms reported higher profits in 2003. For example, Japanese firms listed in stock markets registered record profits in 2003. Profits also rose by 18%, on average, for United States companies (United States, Department of Commerce 2004a). The market capitalization of Asian firms rose more than twofold in Thailand and by 50% in Hong Kong (China), Malaysia and Singapore (World Federation of Exchanges). However, the recovery in profits was concentrated in selected firms in certain industries such as electronics and IT-related companies.

8 For example, the debt-equity ratio for United States non-farm, non-financial companies was 49% at the end of 2003, lower than that in 2002, but still higher than in the previous years (United States, Board of Governors of the Federal Reserve System 2004).

9 Based on the OCO Consulting's LOCOmonitor database. Not all projects were implemented in that year. This does not include M&As and privatization-related FDI.

10 Data from UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

11 Ibid.

12 Measured as the average of four ratios: FDI inflows to gross fixed capital formation, inward FDI stock to GDP, value added of foreign affiliates to GDP and employment of foreign affiliates to total employment.

13 Deutsche Post World Net has majority-owned foreign affiliates in as many as 99 countries.

14 Based on 42 TNCs surveyed.

15 In effect, the Index captures the influence of factors *other than market size* on FDI flows, assuming, *ceteris*

paribus, that size is the "baseline" 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.

16 A correlation of the changes in rank over these five periods with the previous eight periods (1988-1990 to 1996-1998) turns out to be negative and significant (-0.29).

17 The methodology for building the index is the same as in *WIR02*. It is an unweighted average of the following 12 variables, as measured on a score of 0-1: GDP per capita, the rate of growth of GDP, the share of exports in GDP, telecom infrastructure (the average of telephone lines per 1,000 inhabitants and mobile phones per 1,000 inhabitants), commercial energy use per capita, share of R&D expenditures in gross national income, the share of tertiary students in the population, country risk, exports of natural resources as a percentage of the world total, imports of parts and components of electronics and automobiles as a percentage of the world total, exports in services as a percentage of the world total and inward FDI stock as a percentage of the world total (annex table A.I.6).

18 It is assumed that roundtripping and indirect FDI account for 25-40% of FDI from Hong Kong (China) (box I.4).

19 For an analysis of the economic benefits of outward FDI for home developing countries, and policies pursued by them, see *WIR95*.

20 The FDI outflow data for the latter half of the 1990s and early 2000s are distorted because of exceptional transactions related to the unbundling of cross-share holdings or the de-listing of two firms in the United Kingdom and South Africa (*WIR02*).

21 The decline registered in 2001-2002 was largely due to the shift of De Beers' headquarters from South Africa to the United Kingdom.

22 This is the case, for instance, of Chinese TV producers such as Konka Electronics, Skyworth and Changhong Electronic Groups, and household appliance manufacturers like Haier and Guangdong Midea Group.

23 Huawei Technologies and ZTE Corporation have done this in Sweden, Guangdong Glanz Group in Seattle, Konka (an electronics company) in Silicon Valley in the United States, Haier in Germany (and in a design centre in Boston, United States), and Kelon in a design centre in Japan.

24 *Financial Times*, 25 May 2004.

25 Fiscal year covers April of the current year to March of the following year.

26 This trend is continuing in 2004. For example, Infosys Technologies Ltd announced in 2004 that it would establish a new affiliate in the United States (Infosys Consulting) to expand consulting businesses.

27 Daksh eServices, India's largest business-process outsourcing company, which was acquired by IBM in 2004, had established a facility in the Philippines; MsourcE established a Spanish language centre in Tijuana, Mexico, in 2003; and Hinduja TMT Ltd acquired a controlling interest in c3, a call centre in the Philippines, in 2003.

28 In 2003, Hindalco acquired two copper mines in Australia. The Oil and Natural Gas Commission (ONGC) Ltd, a State-owned company, bought a 25% stake in a Sudan oil field from Talisman Energy (Canada) for $720 million.

29 It was conducted for the first time in 2001 to obtain reliable information on the value and the forms of stock of Brazilian capital abroad. For further information, see Brazil, Central Bank of Brazil 2004.

30 Manufacturing employment worldwide fell by 11% during the period 1995-2002. This trend was not confined to developed countries only. In China, for example, manufacturing employment fell from 98 million in 1995 to 83 million in 2002. Estimates by Alliance Capital Management, as cited in "Study undermines charge China is stealing U.S. factory jobs", *Philadelphia Enquirer*, 22 October 2003.

31 Forecasts by the IMF (2004) expect the world economy to grow by 4.6% in 2004, while the Economist Intelligence Unit (2004) expects it to grow by 4.2%, after expanding by an estimated 3.5% in 2003. UNDESA and UNCTAD (2004) forecast world growth at 3.5% in 2004. For further discussion on growth prospects, see UNCTAD 2004j.

32 The IMF forecasts growth in developing countries to rise to 6%. The Institute of International Finance (2004) expects growth in emerging markets to be 5.3% for 2004, up from an estimated 4.6% in 2003. The Economic Commission for Latin America and the Caribbean (2003a) forecasts the region's economy to grow by 3.5% in 2004, having grown by an estimated 1.5% in 2003. The Economic Commission for Africa (2003) had forecast the region's growth in 2004 to be 4.2%.

33 Data from the World Federation of Exchanges (www.world-exchanges.org). Data for the world based on 49 stock exchange markets in 47 countries.

34 *Business Week*, 9 February 2004.

35 *Nihon Keizai Shimbun*, 17 May 2004. The survey shows that investment in the United States is expected to decline by 4.1% (due to drastically reduced investment in the non-manufacturing sector), and that in China to increase by 22.5%.

36 The largest cross-border M&A deal concluded in the first six months was the acquisition of John Hancock Financial Services (United States) by Manulife Financial Corp. (Canada) for $11 billion.

37 *Washington Post*, "China accelerates privatization, continuing shift from doctrine", 12 November 2003, http://www.globalpolicy.org/socecon/ffd/fdi/2003/1112chinaprivatization.htm.

38 *International Herald Tribune*, "China Power readies $1 billion share sale", 14 January 2004, http://www.iht.com/articles/124955.html.

39 Based on data from the OCO Consulting's LOCOmonitor database.

40 For an integrated analysis of these three surveys, see UNCTAD (forthcoming a).

Annex to chapter I. How transnational are TNCs?

The transnationality of TNCs can be considered from a number of perspectives: their operations, stakeholders and the spatial organization of management. From each perspective, various dimensions can be considered:

- From the *operations perspective*, key dimensions include the intensity or relative importance of a TNC's foreign operations, as measured by various variables: the geographical spread of its operations, the modalities of foreign operations and the degree of integration of the production process across locations.
- From the *stakeholders' perspective*, key dimensions include the composition of managers or board members, the nationality composition of shareholders by nationality, the international mobility and international experience of managers and the composition of the labour force by nationality.
- From the perspective of the *spatial organization of management*, key dimensions include: the extent and spread of the location of regional headquarters in host countries and the legal nationality(ies) of a TNC.

Given the range of perspectives and dimensions that can be considered for each, the degree of transnationality of a TNC cannot be fully captured by a single synthetic measure – it requires a variety of indicators. Some of these can be expressed as indices calculated or estimated on the basis of empirical data; others may consist of empirical data not expressed as indices; and still others may be expressed in qualitative rather than quantitative form.

UNCTAD's Transnationality Index (TNI) measures the degree of transnationalization of the top TNCs worldwide (box I.1; annex table A.1.3) and the top TNCs in the developing countries (box I.3; box table I.3.1) and CEE (annex table A.II.2) from an operations perspective. It uses three variables (sales, assets, employment) to measure the intensity of foreign, relative to total, operations. Some aspects of the transnationalization of the top TNCs according to the TNI are highlighted in box I.1.

One aspect of transnationality from the operations perspective not included in UNCTAD's TNI is the intensity of foreign operations according to the number of foreign affiliates. The "internationalization index" – the ratio of the number of foreign to the total number of affiliates – shows that, on average, some two-thirds of the affiliates of the top 100 TNCs are located abroad (annex table A.I.4). The information on foreign affiliates by TNCs' home country and industry shows that the internationalization index (like the TNI) is highest for top TNCs from small countries (Belgium, Finland, Ireland, Switzerland) and for machinery and equipment, construction and building materials, and chemicals and pharmaceuticals industries (annex tables A.I.24 and A.I.25). The TNI as well as the internationalization index give an idea of the degree of embeddedness and interests of a company in the home country versus abroad. The level and pattern of trade can also be affected by the intensity of foreign operations, i.e. by the share of business activities abroad.

Another aspect of transnationality from the operations perspective is the extent of geographic spread of a company's operations and interests – whether spread over several countries or concentrated in one or two. This concept of transnationality has several aspects: the spread of operations across many countries affects the strategic stance of a company; it also affects its ability to develop and spread knowledge and innovation, as well as its strategies concerning labour or governments. The indicators used for this concept are: the number of foreign countries in which the TNC has affiliates and the (closely related) network spread index (NSI), both reported in annex tables A.I.4, A. I.24 and A. I.25, along with values for the internationalization index. The notes to table A.I.4 explain how the NSI is calculated. On average, the top TNCs have affiliates in 35 foreign countries and a NSI of almost 18%. These indicators of the spread of TNCs' operations have the limitation that they are derived using the number of affiliates, and cannot be complemented, as in the case of the internationalization index, by an indicator similar to the TNI, which takes the value or magnitude of activities in each country into account, because no reliable data exist on the latter.

A subsidiary perspective refers to *regionality*. It may be relevant to ask whether the operations and interests of a firm are concentrated in a region or equally spread among several regions. Annex tables A.I.26-A.I.27 give insights into the *regional dimension of transnationality* in terms of the number of foreign countries in which a TNC has affiliates. The breakdown by home country and by industry of TNCs (annex tables A.I.26 and A.I.27) shows that the EU is a favourite region for the location of foreign affiliates of the top TNCs from most countries. Top TNCs from Japan, however, spread their affiliates largely in three regions: the EU, North America and South-East Asia.

The indicators of intensity, as well as of the spread of TNCs' operations concentrate on the operations of foreign affiliates in which TNCs have an equity interest, and therefore underestimate the interest that companies have via non-equity modes. For example, McDonald's is listed as operating in only 14 foreign countries, having, therefore, a Network Spread Index of 7.18 (annex table A.I.4) – well below the average for the entire top 100 TNCs (17.93). This is because the information from which the data are gathered does not include its franchising activities. This shows that the *modalities* perspective is also important. Does a company operate abroad directly (via FDI) or through alliances or trade or franchising (as in the case of McDonald's)? Operations via different modalities have implications for the host countries and their firms, as well as for the integration of production.

Information and communications technologies are making a new modality of operations possible: the electronic delivery of final or intermediate products. This affects the velocity of international operations, the international division of labour and the integration of the production process (Ietto-Gillies 2002). The last point has implications for another aspect of transnationality from an operations perspective: the international integration of production processes. Such integration has, so far, been more common in manufacturing than in services, but is also being extended to the latter. It is not easy to develop indicators of international integration; however, intra-firm trade might be a good proxy, if and when available.

In addition to assessing transnationality from an operational perspective by indicators such as those discussed above, one can also try to do so from other perspectives, as also mentioned above. For example, annex table A.I.28 shows the regional composition of directors from the boards of 42 of the top 100 TNCs, thereby providing an indicator based on *the stakeholders' perspective*. It shows that top TNCs originating in Europe have a much higher representation of non-home-country nationals among their directors than do top TNCs from the United States and Japan. The percentages are 33 for the EU, 47 for Switzerland, 18 for the United States and 2 for Japan. Within the EU, the highest percentage applies to TNCs from the United Kingdom (52%).

CHAPTER II

REGIONAL FDI TRENDS: A MIXED PICTURE

FDI to developed countries continued to decline in 2003, despite signs of an imminent recovery, and flows to Central and Eastern Europe (CEE) fell sharply. At the same time, developing countries as a group saw increased inflows, reversing the trend during the previous two years. However, the picture differed considerably by region and country. In the developing world, Africa and Asia and the Pacific received larger inflows than in 2002, while they fell in Latin America and the Caribbean for the fourth consecutive year. In the developed world, FDI flows to "other Western Europe" increased while those to the EU, the United States and Japan decreased (annex table B.1). In CEE, flows to large host countries that have almost completed their privatization programmes fell, while those to other countries rose. In general, prospects for FDI in 2004 are promising for all regions.

A. Developing countries

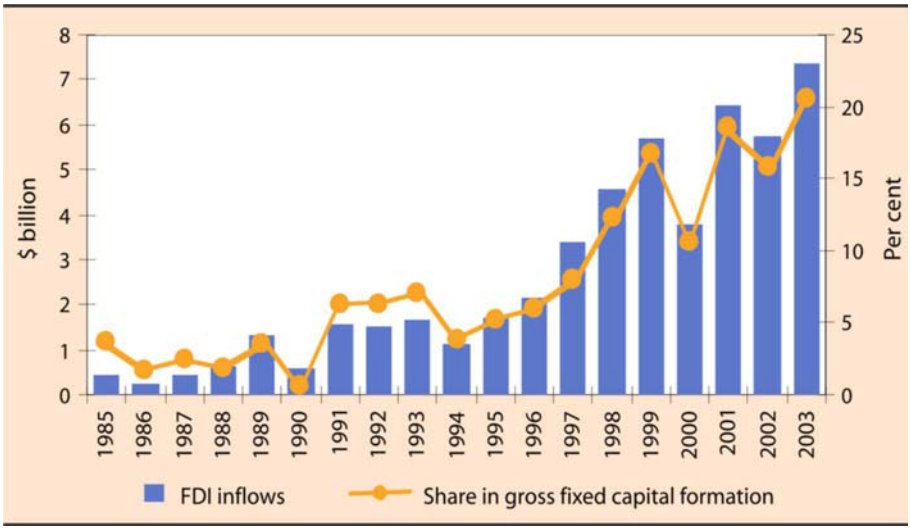
In 2003, FDI flows to the developing countries as a group picked up, following two years of decline. The increase in Africa's FDI inflows was driven mainly by natural resources, and was spread more evenly among countries as well as industries than the previous increase in 2001. Flows to Asia and the Pacific rebounded, attracted by strong domestic growth in some countries, with an increase in efficiency-seeking FDI to competitive locations in the region. In faster growing East and South-East Asia, it was concentrated in services, while FDI in manufacturing fell and that in primary remained stable. In Latin America and the Caribbean, on the other hand, the downturn persisted due to several factors in particular, a slowdown in privatization (a key factor behind increased FDI flows to Latin America during most of the 1990s), economic and political uncertainties in some countries and the relocation of production from some Latin American countries to lower-cost locations such as China. Nonetheless, with regional and global economic conditions improving, the outlook for FDI flows in 2004 to all three developing regions is favourable. Moreover, developing countries have taken additional steps to liberalize and reform their national and regional policy frameworks for FDI, and this too boosts prospects for increased inflows.

FDI flows to the least developed countries (LDCs) remained low. In the case of Africa's 34 LDCs, all except three oil-producing countries (Equatorial Guinea, Angola, the Sudan) received less than $1 billion dollars in 2003, with 26 of them receiving no more than $200 million. The same applied to Asia and the Pacific, where all but two of the region's 15 LDCs received less than $100 million in flows in 2003, and 11 of them less than $50 million. The only LDC in Latin America and the Caribbean, Haiti, continued to record a small amount of FDI. While flows to LDCs seem low, when viewed in relation to their gross fixed capital formation, they are more significant for their host economies than they are for other developing countries that have received larger absolute amounts of FDI: as a percentage of gross fixed capital formation in LDCs, FDI inflows amounted to 21% in 2003 (figure II.1), compared to 11% for other developing countries. Increasing these flows to assist the development efforts of LDCs remains an objective not only of national governments but also of the international community. This is reflected in both national policy-making in LDCs and international initiatives.

1. Africa: a turnaround

FDI inflows to Africa in 2003 grew by 28%, to $15 billion, in contrast to the fall in 2002 of 40%. But the volume was still below the peak recorded in 2001 (figure II.2). The recovery was led by investment in natural resources and facilitated by the continued liberalization of FDI policies. FDI inflows as a percentage of gross fixed capital formation also grew, from 12% in 2002 to 14% in 2003, the second highest level in the past decade (figure II.2). However, the picture varied for different countries: there was an increase in inflows in 36 countries and a decline in 17. The value of M&A sales also grew, from $4.7 billion in 2002 to $6.4 billion in 2003 (annex table B.8). The resource-rich countries

Figure II.1. LDCs: FDI inflows and their share in gross fixed capital formation, 1985-2003



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

were once again the main attraction for TNCs. Although Africa's potential for obtaining FDI through privatization has diminished in several countries, the prospects for 2004 are quite good, mainly because of bullish commodity markets (in diamonds, gold, oil, platinum). As regards outward FDI, Africa (except for South Africa) remains a minor player (chapter I).

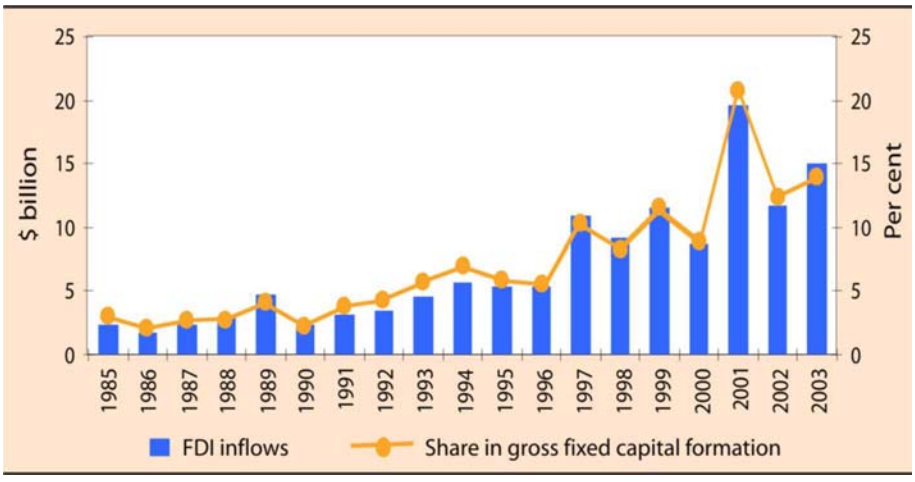
a. Inflows regain momentum

FDI inflows to Africa increased from $12 billion in 2002 to $15 billion in 2003. This performance was noteworthy for three reasons:

- The growth rate of 28% was higher than that of the other groups of countries, developed and developing.
- Several small African economies shared in the growth of FDI. As a result, the distribution of inflows was more broad-based than in any year since 1999, with 22 countries receiving more than $0.1 billion compared to 16 in 2001 (tables II.1 and II.2).
- Oil accounted for the bulk of the increase, especially in Equatorial Guinea.

A number of LDCs were among the top ten countries attracting the most FDI in 2003. These included Angola, Chad, Equatorial Guinea and the Sudan (figure II.3). Petroleum exploration and extraction received the most FDI in Algeria, Angola, Chad, the Libyan Arab Jamahiriya, Nigeria and the Sudan. The highest growth rates in inflows were registered in Djibouti, Equatorial

Figure II.2. Africa: FDI inflows and their share in gross fixed capital formation, 1985-2003



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

Table II.1. Africa: frequency distribution of host countries, by range of FDI inflows, 1999-2003
(Number)

Range	1999	2000	2001	2002	2003
More than $6 billion	–	–	1	–	–
$2-5.9 billion	1	–	2	–	1
$1-1.9 billion	3	1	2	4	4
$0.5-0.9 billion	3	3	3	4	5
$0.1-0.4 billion	11	17	8	14	12
$0-0.09 billion	32	30	35	30	31
Less than $0 billion	3	2	2	1	–
Total	53	53	53	53	53

Source: UNCTAD, based on annex table B.1.

Guinea, Kenya, the Libyan Arab Jamahiriya, Madagascar, Malawi and Morocco, where total inflows were at least twice higher in 2003 than in 2002 (annex table B.1).

Among the countries in the league of the top ten recipients, Morocco was the number one recipient (figure II.3): inflows rose from $480 million in 2002 to $2.3 billion in 2003, thanks to privatizations (e.g. Altadis, the Franco-Spanish tobacco group purchased the Régie des Tabacs Marocains for € 1.7 billion).

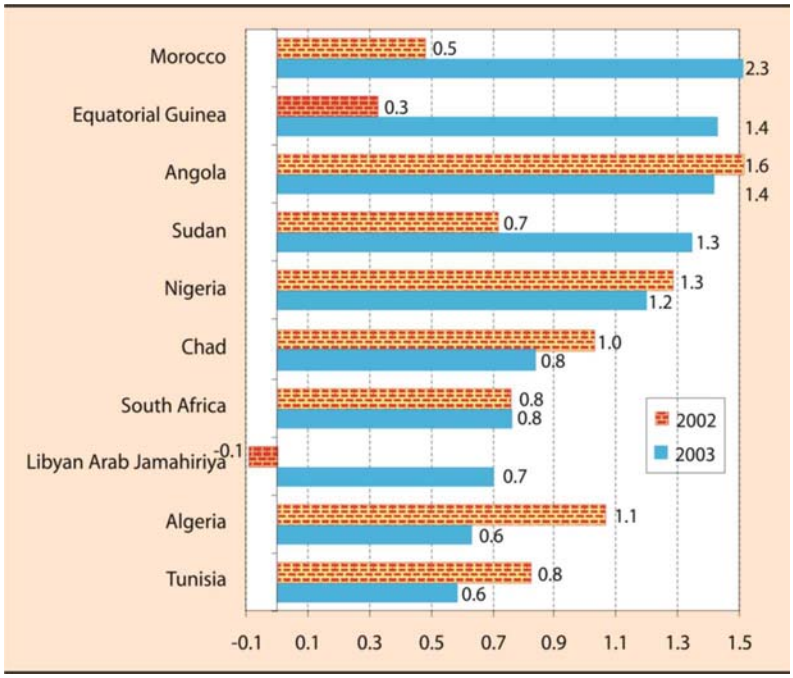
Based on UNCTAD's *Inward FDI Performance Index* in 2001-2003, the value for Africa was 1.2 in the period 2001-2003, up from

Table II.2. Africa: country distribution of FDI inflows, by range, 2003

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

Source: UNCTAD, based on annex table B.1.

Figure II. 3. Africa: top 10 recipients of FDI inflows, 2002, 2003[a]
(Billions of dollar)



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

[a] Ranked on the basis of the magnitude of 2003 FDI inflows.

0.7 in 2000-2002 (table I.4). Specifically, 24 countries improved their rankings, 3 remained the same and 9 saw a decline. Morocco performed best among African countries, improving its ranking from 62 in 2000-2002 to 32 in 2001-2003, an upward climb of 30 points. Most of this improvement can be attributed to more FDI-friendly policies in the country. On the *Inward FDI Potential Index*, 18[1] African countries improved their rankings, 2 achieved the same level[2] and 16 saw a fall (annex table A.I.7).[3] The last group included two countries (the Libyan Arab Jamihiriya and Nigeria) that were among the top ten recipients of FDI in Africa. Africa's inward FDI performance, however, is weak because key industries remain underdeveloped: the margin of under-performance is large mostly in some natural-resource-rich, particularly oil-producing, economies. This could change as trade preferences offered by the United States under its African Growth and Opportunity Act (AGOA) take effect and international sanctions on the Libyan Arab Jamahiriya come to an end.

From the perspective of financing Africa's development needs, FDI inflows continued to make up a large part of Africa's external resource receipts (figure II.4), at 46% of total external net resource flows in 2002. Average FDI inflows during 2000-2002 were higher than official net resource flows as well as portfolio and commercial bank loans combined (the latter were negative). Over the period 1990-2002, FDI inflows as a proportion of overall resource flows have thus gained some ground, albeit with fluctuations (figure II.4).

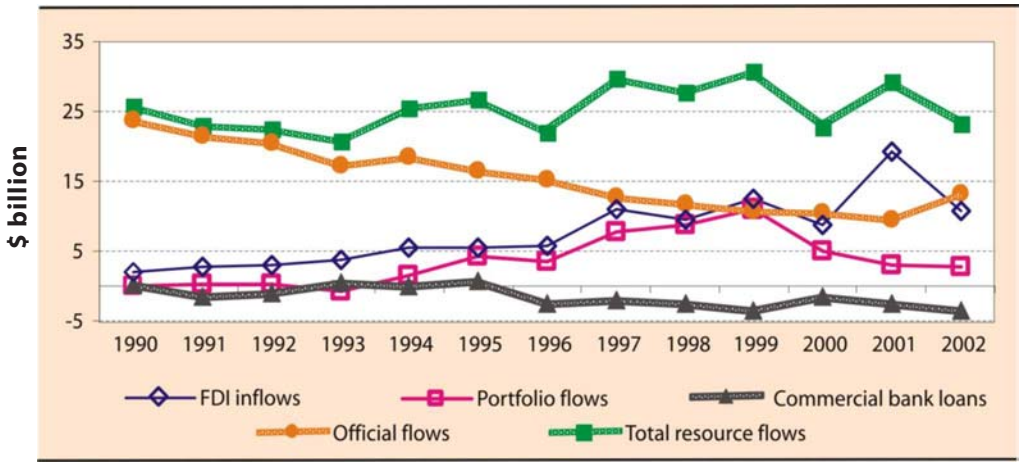
b. Policies increasingly liberal

African countries continued to liberalize their FDI policies, increase their efforts to attract more FDI or initiated action in these respects. Burundi, Kenya, Nigeria and Rwanda resumed economic reforms, privatization and liberalization, further reducing their restrictions on foreign investors. Much of the privatization was related to infrastructure development. The Rwanda Privatisation Secretariat, for instance, announced in November 2003 that Rwandatel, the State-owned telecom company, is to be sold, without any restriction on the participation by foreign investors. A number of other African countries also made changes in various aspects of their FDI policies (boxes II.1-II.3).

National efforts were complemented by the conclusion of BITs and DTTs. Of the 35 BITs concluded in 2003 by African countries, 13 were between African countries themselves; the rest were signed mainly with European countries (in particular, Italy, Luxembourg, the Netherlands, Switzerland). African countries also concluded nine DTTs, five of these between African countries and the others with Belarus, Germany, Oman and Ukraine. This brought the cumulative numbers to 567 BITs and 374 DTTs (figure II.5).

A number of negotiations were started in 2003 to establish FTAs between groups of African countries and other countries/regions, particularly the United States and EU (annex table A II.1). Also, the number of African countries designated as eligible for the benefits of the AGOA initiative

Figure II.4. Africa: total external resource flows, by type of flow, 1990-2002



Source: UNCTAD, based on World Bank 2004.

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

Box II.1. Africa: examples of FDI-related policy changes in selected countries, 2003-2004

- Algeria (box II.2), Benin, Botswana, Ghana, Kenya , Lesotho and Zambia[a] undertook, or are in the process of undertaking, Investment Policy Reviews (IPRs), with a view to improving their investment climate.
- Angola enacted a new law on private investment allowing projects to be undertaken with the participation of both domestic and foreign private investors.
- The Democratic Republic of the Congo adopted an investment law reinforcing its mining code and abolishing the previous requirement to approve investment projects in an ad hoc manner, often by the executive, or by various bodies acting without consultation.
- Djibouti introduced a new law on port operations barring foreign companies from key handling and transit operations in its international port, and limiting them only to undertake stevedoring and forwarding services at the port in conjunction with Djiboutian business partners.
- Ethiopia amended its investment law to allow the private sector to participate in all areas except electric power development and distribution, postal service delivery and air transport using over 20 seater planes, which are solely reserved for the Government. The new law allows foreign investors to generate power using wind, biomass and other sources - lifting earlier restrictions on them to invest only in the hydroelectric power generation. It also lowered the investment capital requirement for foreign investors from $500,000 to $100,000, further lowering the capital requirement to $50,000 for foreign investors launching projects in joint ventures. The law allows investors participating in production and service delivery to import their capital equipment free of tax, and spare parts with 15 % tax.
- Ethiopia, Mali, Mauritania (box II.3) and Uganda[b] published investment guides to attract foreign investors.
- The Libyan Arab Jamahiriya amended its law to encourage foreign capital investment; cancelled investment registration requirements in its industrial register and its registers of importers and exporters and established a separate incorporation and registration procedure for investment (see also box II.5).
- Madagascar has earmarked a number of operations for privatization (or is privatizing or offering concession management), including its fuel refining and distribution industry, Airlines (Air Madagascar), northern railway company, southern railway, telecommunications, cotton, sugar and electricity and water industries.
- Sierra Leone issued a petroleum law offering foreign and domestic investors generous fiscal terms: a 30% income tax and a 6.5% offshore royalty.

Source: UNCTAD, based on national sources.

[a] See, respectively, UNCTAD 2004d, UNCTAD forthcoming b, UNCTAD 2003b, UNCTAD 2003c, UNCTAD forthcoming c, UNCTAD 2004e, and UNCTAD forthcoming d.

[b] See, respectively, UNCTAD-ICC 2004a, UNCTAD-ICC 2004b,UNCTAD-ICC 2004c, UNCTAD-ICC 2004d.

Box II.2. Algeria: policy reforms may keep FDI high

Algeria was the third biggest FDI recipient in Africa in 2002, and the largest in the Maghreb region. This was mainly due to macroeconomic stabilization and economic liberalization implemented by the Government in the early 1990s. However, its FDI inflows declined by 40% in 2003 (from $1.1 billion in 2002 to $634 million in 2003). So far Algeria has not fully benefited from the downstream effects of FDI in terms of local enterprises' competitiveness, job creation, domestic capital and technology transfer. Historically, high levels of investment went to oil and gas exploration. More recently, steel, chemicals, pharmaceuticals and telecommunication have started to attract FDI.

An UNCTAD Investment Policy Review (IPR)[a] was undertaken in 2003 to help Algeria remove impediments to more stable FDI inflows. It encouraged the Government to continue its efforts at macroeconomic stabilization and economic liberalization, strengthen its regulatory framework and implement proactive strategies for

/...

Box II.2. Algeria: policy reforms may keep FDI high (concluded)

investment promotion, at the national and sectoral levels. In particular, whereas the Investment Code of 1993 and the Ordonnance 2001 achieved important goals,[b] the UNCTAD IPR suggested further reforms of the regulatory and institutional framework. Algeria could benefit from additional measures such as a modernized investment code, enhanced transparency in investment procedures and more effective judicial procedures, in particular in the area of arbitration.

The IPR also identified areas in which Algeria has good prospects to leverage its competitive advantage: ICT, electronics, mining, banking and finance, infrastructure and agribusiness. Promotional activities, including targeting, could help to attract high-quality FDI into these areas.

Several recommendations of the IPR were already implemented in 2004 in cooperation with UNCTAD. They include the use of an investor tracking software at the Agence nationale de développement de l'investissement, an evaluation of the Agency's needs in terms of proactive investment promotion techniques and capacity building in investor aftercare activities.

Source: UNCTAD 2004d.

[a] IPRs are intended to familiarize governments and the international private sector with an individual country's investment environment and policies. Apart from those mentioned in the text, IPRs have been completed for the following African countries: Egypt (1999a), Ethiopia (2002a), Mauritius (2001a), the United Republic of Tanzania (2002b) and Uganda (2000a).

[b] Restrictions on foreign ownership of capital no longer apply, the fundamental principle of freedom of investment and key international standards of treatment and protection were introduced, the right to repatriate profits is granted to foreign investors and an "Agence nationale de développement de l'investissement" was created.

Box II.3. Mauritania: better opportunities set to boost FDI

FDI inflows into Mauritania are small, although they have increased quite rapidly, from $118 million in 2002 to $214 million in 2003. FDI in the oil and telecom industries has accounted for most of the recent surge. Mauritania is an example of a country with potential for more FDI, where the Government is working to attract inflows into sectors that still remain unexploited. The recently completed investment guide on Mauritania by UNCTAD and the International Chamber of Commerce (ICC)[a] shows that the country's wealth lies primarily in seafood products and mining. Mauritania is also rich in mineral resources, notably iron ore, copper, cobalt, diamonds, gold, gypsum and phosphates, but so far only iron ore is being exploited industrially. Oil reserves are estimated at 140-180 million barrels, and production is scheduled to begin in 2005. The country has implemented a plan to enhance the capacity and competitiveness of the mining industry to attract FDI.

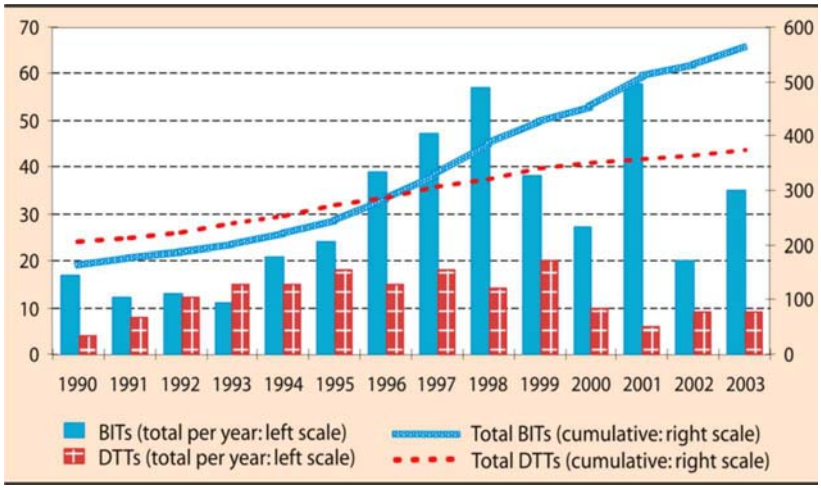
Mauritania's exclusive economic zone contains rich fishery resources. Current annual catch is 600,000 tons, but the estimated potential yield is 1.6 million tons per year. In 2001, the fishing agreement between the EU and Mauritania was renewed for another five years. Agriculture also offers investment opportunities, particularly because Mauritania is the tropical country closest to Europe, and could provide the European market with fresh produce. It also has considerable tourist potential: situated on the edge of the Sahara Desert, it offers magnificent dunes, over 700 kilometres of coastline, pristine beaches and rich cultural diversity. In addition, the country enjoys favourable access to international markets. Under the Cotonou Agreement, Mauritanian products are given non-reciprocal preferential treatment in EU markets. Furthermore, because of its LDC status, Mauritania is eligible for the advantages bestowed by the EU's Everything-but-Arms initiative and also qualifies for AGOA preferential treatment.

Source: UNCTAD-ICC 2004c.

[a] UNCTAD has published, in cooperation with the ICC, a series of investment guides on selected LDCs. Such guides provide information on general conditions, potential areas for investment and regulations governing investment in LDCs. Apart from those mentioned in the text, see also UNCTAD-ICC 2001, on Mozambique.

increased from 34 in 2000 to 37 in 2003.[4] At the end of 2003, 18 countries met the rules-of-origin required to take advantage of the provisions of the initiative.[5] Botswana and Namibia qualified for the "special provision" which permits lesser developed AGOA beneficiary countries to utilize fabric manufactured anywhere in the world, and a new bill, the AGOA Acceleration Act of 2004, was enacted to extend the overall programme until 2015.[6]

Figure II.5. Africa: number of BITs and DTTs concluded, 1990-2003



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

The AGOA Acceleration Act of 2004 improved the likelihood of TNCs already engaged in apparel and textile production in Africa to stay longer. However, unless African exporters increase their productivity, they still may not survive full global competition, in spite of continuing tariff advantages (Lall 2003). The fact that no other labour-intensive activities, such as footwear, toys, sports goods or electronics have moved to Africa suggests that it is primarily the quota system and high tariffs for apparel applied to other regions that are attracting FDI apparel production in Africa.

Additional measures were also taken to facilitate foreign investment. In September 2003, the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group and the African Trade Insurance Agency[7] started to offer risk insurance to long-term FDI in Africa for physical damage resulting from war and terrorism and for debt-related projects and trade transactions. As of June 2004, 46 African countries were members of MIGA, and three (Guinea-Bissau, Liberia, Niger) were in the process of fulfilling membership requirements.

c. Natural resources and services dominate

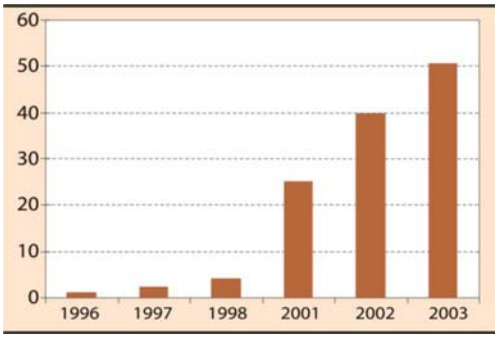
Depending on the country, 50-80% of FDI in Africa is in natural-resource exploitation. FDI in manufacturing and agriculture in the region lags behind that in services, with some exceptions. In Mozambique, for example, BHP Billiton (South Africa) is building a second aluminium plant for $1 billion, and in South Africa, the Council for Scientific and Industrial Research (CSIR) and the Boeing Company inaugurated the world's first Ka band telemetry, tracking and command facility.

FDI in services is increasing, particularly in telecommunications, electricity, management and trade. A large part of the increase is attributable to privatization programmes. FDI in telecommunications was mainly in mobile phone services. In South Africa, FDI in telecommunications and information technology has overtaken that in mining and extraction. The number of Africans subscribing to mobile phone services, mostly offered by TNCs (box II.4), grew from 1.2 million in 1996 to 51 million in 2003 (figure II.6).

Non-equity relations between State-owned firms and TNCs are also increasing in the services sector. For example, the Government of

Figure II.6. Africa: mobile phone subscribers, 1996-2003

(Millions of subscribers)



Source: ITU (www.itu.int/ITU-D/ict/statistics).

Box II.4. Private mobile operators in Africa

While fixed-line telecommunications remain largely in the hands of State-owned incumbents in Africa, mobile telecommunications are largely offered by private operators. Some are affiliates of global firms (e.g. Vodafone, France Télécom/Orange), but many are affiliates of TNCs based in Africa (e.g. MTN, Orascom – box table II.4.1). Both types of firms are investing in other African countries. The six largest African mobile operators cover 28 African economies and had more than 33 million subscribers in 2003, representing two-thirds of the total for Africa (ITU 2004, p. 5). These market leaders have shown a strategic interest in investing within Africa. They have experience and resources to tackle large markets such as Algeria, the Democratic Republic of the Congo, Nigeria and Tunisia. They are gradually moving away from the high-end subscribers, reaching larger groups of residential clients, outside capital cities.

The largest mobile operators of the region are relatively profitable on their African segment, partly due to the fact that they are not saddled with high debts as a result of excessive bids for licences to offer third generation (3G) mobile services (ITU 2004, p. 5). The profitability of the five operators, for which geographical segment information is available, reached an average of almost 12% in 2003 in Africa (box table II.4.1).

Some of the region's smaller and riskier markets tend to attract lesser known TNCs. For example, the Lebanese Investcom has started mobile operations in Burundi, Congo, Ghana, Guinea and Liberia. Telkom Malaysia in turn has acquired mobile operations through participations in South Africa and Guinea.

/...

Source: UNCTAD, based on ITU 2004.

the United Republic of Tanzania contracted Eskom of South Africa to manage the Tanzania Electricity Supply Company. The Nigerian National Electric Power Authority also signed a partnership agreement with Eskom to develop its repair capabilities, execute transmission line projects and participate in rehabilitation, operation and transfer projects. This is part of the gradual effort to privatize electricity in the country. In Zimbabwe, the State-owned utility has awarded Eskom a contract to manage its main power station.

However, the privatization of services has faced problems, particularly owing to the absence of adequate regulatory frameworks. For example, in Guinea, the electricity company was returned to State control in 2002 following the departure of its foreign partners, Saur of France and HydroQuébec of Canada, due to regulatory difficulties (EIU 2003). In Ghana, Telekom Malaysia's management contract was not renewed after the company apparently failed to meet targets for installing telephone lines and improving the infrastructural and financial base of the company in 2003. In Rwanda, the Engen Corporation (South Africa/Malaysia) left just three years after its arrival for reasons attributed to a difficult operating environment (EIU 2003).

d. Prospects are positive

UNCTAD projects FDI inflows in Africa to increase further in 2004. A large part of this increase will come from investment in natural resource exploitation, and will be driven by higher economic growth, a buoyant global commodities market and improving investor perceptions.

Higher economic growth forecast for sub-Saharan Africa in 2004 (4.2% according to the IMF (2004)) underlies the expected improvement in the level of FDI. Strengthened growth in South Africa, in particular, will be important, especially since South Africa is becoming an important source of FDI for the region. In North Africa, privatization drives in the Libyan Arab Jamahiriya and Egypt will help attract FDI. The extension of AGOA (AGOA Acceleration Act 2004), as well as the allowance for the 37 participating African countries to continue importing raw materials from elsewhere (typically Asia) in order to manufacture final

Box table II.4.1. Africa's largest mobile operators, ranked by the number of subscribers in the region, 2003

Firm	Vodacom[a]	MTN Group	Orascom Telecom	Orange	Celtel International	Millicom International	Total
Headquarters	South Africa	South Africa	Egypt	France	Netherlands	Luxembourg	
Ownership	Vodafone (35%), Telcom SA[b] (50%), VenFin (South Africa; 15%)	Private owners (55%)[c], publicly traded shares (45%)	Privately owned	France Télécom (99%)	Institutional investors[d]	Kinnevik (Sweden, 35%); rest is publicly traded	
Subscribers (million)	10.2	8.9	5.6	5.6	2.5	0.7	33.5
Revenue ($ million)	2 482	2 434	1 119	..	446	85	6 566
Profits ($ million)	278	258	123	..	74	36	769
Profitability (%)	11.2	10.6	11	..	16.6	42	11.7
Number of countries in Africa	5	6	7	5	13	5	28
Host countries	Democratic Republic of the Congo, Lesotho, Mozambique, United Republic of Tanzania	Cameroon, Nigeria, Rwanda, Swaziland, Uganda	Algeria, Chad, Congo, Democratic Republic of the Congo, Tunisia, Zimbabwe	Botswana, Cameroon, Côte d'Ivoire, Egypt, Madagascar	Burkina Faso, Chad, Congo, Democratic Republic of the Congo, Gabon, Kenya (2004), Malawi, Niger, Sierra Leone, Sudan, United Republic of Tanzania, Uganda, Zambia	Ghana, Mauritius, Senegal, Sierra Leone, United Republic of Tanzania	

Source: UNCTAD, partly based on ITU 2004, p. 5.

a Financial data refer to fiscal years ending in March.

b Thintana Communications, a consortium of SBC Communications (United States) and Telekom Malaysia, owns 30% of Telcom SA. The Government of South Africa owns 39.3%. The rest is subscribed by portfolio investors.

c Johnnic, an investment holding company (South Africa, 36%), ICE Finance, an investment company (Netherlands, 18%), others (1%).

d AIG Infrastructure Fund, African Merchant Bank, Blakeney Management, Bessemer Venture Partners, Capital International, CDC Capital Partners, Citigroup, Communication Venture partners, Corporacion Financiera Alba, DEG, FMO, Fonditel, International Finance Corporation, Old Mutual, Palio, Standard Bank of London, Zephyr Management, LP Fund.

products for another three years will also contribute to the region's FDI appeal.

As to commodities, oil prices rose by over 40% in the period 2003-2004, and prices of gold, diamonds and platinum have also been quite high.[8] As a result, such natural-resource-rich countries as Algeria, Angola, Equatorial Guinea, the Libyan Arab Jamahiriya, Mauritania, Mozambique, Nigeria and the Sudan are expected to receive more FDI. For example, ExxonMobil Corporation has announced contracts worth $1.7 billion for an offshore project in Nigeria; the French-owned Total Oil Nigeria PLC has announced plans to invest about $10 billion in the Nigerian oil industry over the next six years. The large coal deposits in Enugu in Eastern Nigeria are also attracting foreign investors. Oil TNCs are re-entering the Libyan Arab Jamahiriya as international sanctions end (box II.5).

In the longer term, structural problems, such as low labour productivity and insufficient infrastructure, will hamper the growth of FDI, especially in export-oriented manufacturing. Policies for human resource development and capacity building are imperative, as are incentives for firms to invest more in export-oriented manufacturing. Some progress has been made in this respect as far as the latter is concerned, in response to the various preferential trade arrangements in place. But there is scope for improvement.

Surveys of the investment community also give rise to cautious optimism (e.g. UNIDO 2003). One-fifth of the respondents to UNCTAD's 2004 survey of the world's largest TNCs (UNCTAD 2004c) expected FDI in Africa to increase in 2004-2005, with two-thirds expecting flows to remain steady (figure II.7). TNCs perceived South Africa to be the most attractive destination for FDI, with Egypt, Morocco and Nigeria also ranking high (UNCTAD 2004c). The survey of international location experts conducted by UNCTAD (UNCTAD 2004a) showed South Africa as the most attractive country, followed by Angola and the United Republic of Tanzania. According to these experts, foreign investors saw opportunities in non-metallic products, food and beverages, and textiles and clothing; in the services sector,

Box II.5. The Libyan Arab Jamahiriya: the end of sanctions and the resumption of FDI

After the United Nations imposed sanctions in 1992, most investors abandoned or withdrew their assets from the Libyan Arab Jamahiriya. With an end to sanctions, the country may become a major destination for FDI, owing to its large reserves of oil.

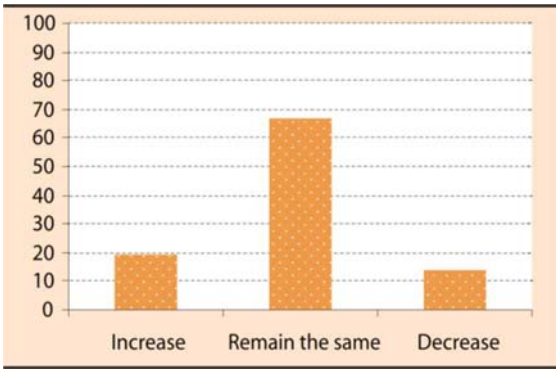
United States oil companies – key investors prior to the sanctions – are now allowed to hold talks on standstill agreements covering assets they hold in the country that they have been unable to operate since 1986. India's ONGC Videsh (OVL) has joined hands with the Turkish Petroleum Overseas Company for a project in the country. Norsk Hydro (Norway) already has activities in oil and energy production, while Statoil (Norway) is considering exploration and development possibilities.[a] Tekhnopromexport (Russian Federation), LG Petrochemicals (Republic of Korea) and Abengoa and Cobra (Spain) are engaged in electricity and power generating projects worth over $1.5 billion. The construction of a $10 billion project to carry Egyptian natural gas to the Libyan Arab Jamahiriya for power generation and water desalination, and another to carry oil from the country to Alexandria in Egypt, is under way. An affiliate of Eni (Italy) has a $500-$550 million contract to build and install an offshore natural gas platform northwest of Tripoli, while a consortium led by Japan's JGC, and including France's Sofregaz and Italy's Technimont, has contracts worth $1 billion for engineering, procurement and construction. Based on the value of active projects, it is estimated that the Libyan Arab Jamahiriya will attract $6-7 billion of FDI in 2004-2005.[b]

Source: UNCTAD, based on information from the United States Energy Information Administration/Department of Energy and other sources.

[a] webbolt.ecnext.com/coms2/description_ 25077_STATOIL310304_TRN.

[b] Estimates based on 60-70% of the projects already awarded to TNCs and due for completion before 2005 in oil refineries for $3.5 billion, power generation for $2 billion and the West Libya gas project for $5.6 billion. The Libyan Arab Jamahiriya does not allow 100% private foreign ownership; the usual share is 30-40% State ownership.

Figure II.7. Africa: prospects for FDI inflows, 2004-2005, as reported by TNCs
(Per cent of respondents)



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

they identified energy services and banking and insurance.

IPAs will do what they can to attract new investment, especially by intensifying investor targeting, introducing more incentives to lure investors and further liberalizing their investment regimes (figure II.8). In doing so, they expect to look to new sources of FDI. South Africa and China were most frequently mentioned (UNCTAD 2004b). But, of course, the traditional ones (e.g. the United Kingdom, France) will remain important.

To conclude, 2003 was better than 2002 for FDI inflows into Africa, and prospects for the immediate future are promising. The structure of FDI in Africa remains skewed towards primary products, although inflows to services are rising. International initiatives such as AGOA, the Everything-but-Arms Initiative, the ACP-EU Cotonou agreements and New Partnership for Africa's Development (NEPAD) could help boost the region's FDI performance. African IPAs appear focused on greater targeting as a preferred policy measure to attract more FDI, but low labour productivity in the region is constraining FDI in export-oriented manufacturing. To change this situation, governments need to pursue policies for human resource development and capacity building, improve the infrastructure in key areas and provide better incentives for firms – domestic and foreign – to invest more in export-oriented manufacturing. Official development assistance has an important role to play here, especially in LDCs.

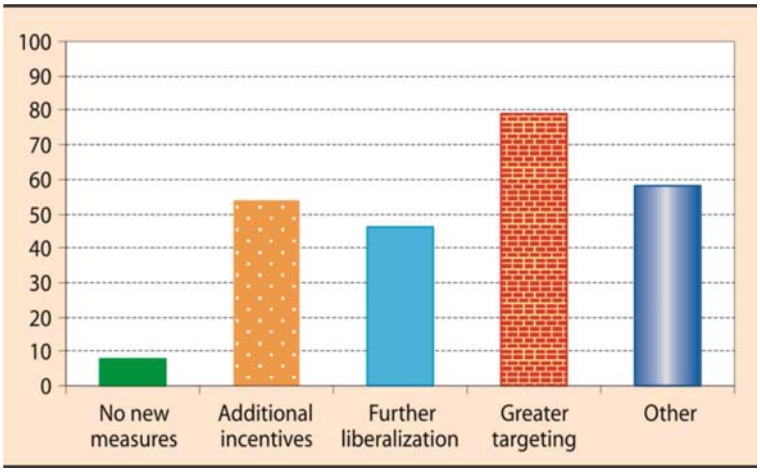
2. Asia and the Pacific: a rebound

a. A mild upturn

FDI flows to the region rebounded in 2003. Total inflows rose from $94 billion in 2002 to $107 billion in 2003, ending the downturn that started in 2001. However, the pattern was uneven. High-growth economies attracted more FDI, aided by their improving economic and policy environment, while countries suffering from political tensions attracted less. The outbreak of the Severe Acute Respiratory Syndrome (SARS) had only limited effects on FDI inflows. Out of 55 economies for which data are available, 34 received higher flows than in 2002, and 21 lower inflows (annex table B.1). Regional integration is encouraging intraregional investment and facilitates the expansion of production networks by TNCs. The policy framework for FDI continued to improve. Prospects are promising, owing to an upturn in the global economy, a healthier outlook for key industries and favourable subregional developments and country-specific factors.

Asia and the Pacific attracted more FDI than most other regions, thus remaining the largest recipient of FDI in the developing world. FDI inflows as a percentage of gross fixed capital formation rose, from 8% in 2002 to 9% in 2003 (figure II.9). But FDI remained concentrated: ten economies accounted for about 90% of all inflows. The distribution of flows by size and range of inflows has been largely stable, with the majority of economies receiving less than $1

Figure II.8. Africa: expected policy measures to attract FDI, 2004-2005, as reported by IPAs
(Per cent of respondents)



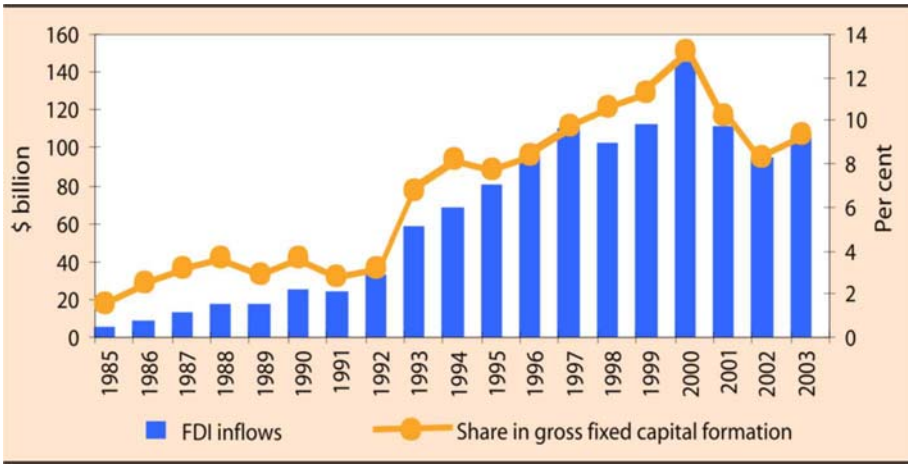
Source: UNCTAD (www.unctad.org/fdiprospects).

billion (tables II.3 and II.4). However, UNCTAD's Performance Index indicates that some of the smaller economies received proportionately more FDI (annex table A.1.5). The top ten recipients in 2003 were headed by China, Hong Kong (China), Singapore, India and the Republic of Korea, in that order (figure II.10).

The following are some salient features of the subregional distribution of FDI inflows in 2003:

- Flows to *North-East Asia*[9] rose from $67 billion in 2002 to $72 billion in 2003. Falling inflows to Macao (China) and Taiwan Province of China (partly because of SARS) were partially offset by higher flows to China,[10] Hong Kong (China), the Republic of Korea and Mongolia. The significant increase in cross-border M&As in Hong Kong (China), from $1.9 billion in 2002 to $6.1 billion in 2003, mitigated a downturn in flows to that economy (annex table B.7). In the Republic of Korea, FDI was driven by large M&As in finance (e.g. Lone Star Fund (United States) acquired a 51% stake of Korea Exchange Bank for $1.2 billion) and telecommunications (e.g. Investor Group (United States) purchased a 40% stake of Hanaro Telecom for $0.5 billion).
- Excluding Luxembourg,[11] China was the largest FDI recipient in the world, with inflows of $53.5 billion. The number of cross-border M&As in China increased from 107 in 2002 to 214 in 2003,[12] contributing to the surge in FDI flows. Relocation of investment to and expansion of operations in China by TNCs remained strong. It is not clear how a revaluation of the yuan – if it were to take place – would affect FDI inflows. Much would depend on the extent of a revaluation, and the response of the Chinese economy and of TNCs to the resulting changes in import costs and export prices.
- Regional economic growth and an improved investment environment contributed to a 27% increase in FDI flows to *South-East Asia*, which comprises countries of the *Association of South-East Asian Nations (ASEAN)*,[13] from $15 billion in 2002 to $19 billion in 2003. The impact of SARS on FDI flows to the region was limited.[14] Flows to Brunei Darussalam,[15] Singapore, Thailand and Viet Nam rose thanks to improved economic conditions and better investment climates. The magnitude of disinvestment in Indonesia was considerably smaller than that of 1999-2001. The successful privatization of a number of State assets (e.g. Bank Danamon, Bank International Indonesia) generated $0.6 billion in FDI (equity flows) in 2003, mitigating an otherwise sizeable decline. Repayments of intra-company loans by foreign affiliates fell in the subregion.
- *South Asia*[16] received $6.1 billion in FDI, up from $4.5 billion in 2002. FDI to India,

Figure II.9. Asia and the Pacific: FDI inflows and their share in gross fixed capital formation, 1985-2003



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

Table II.3. Asia and the Pacific: frequency distribution of host economies, by range of FDI inflows, 1999-2003
(Number)

Range	1999	2000	2001	2002	2003
More than $5 billion	5	4	3	3	3
$2-4.9 billion	3	4	6	4	6
$1-1.9 billion	3	3	2	7	3
$0-0.9 billion	38	38	40	39	41
Less than $0 billion	8	8	6	4	4
Total	57	57	57	57	57

Source: UNCTAD, based on annex table B.1.

Table II.4. Asia and the Pacific: economy distribution of FDI inflows, by range, 2003

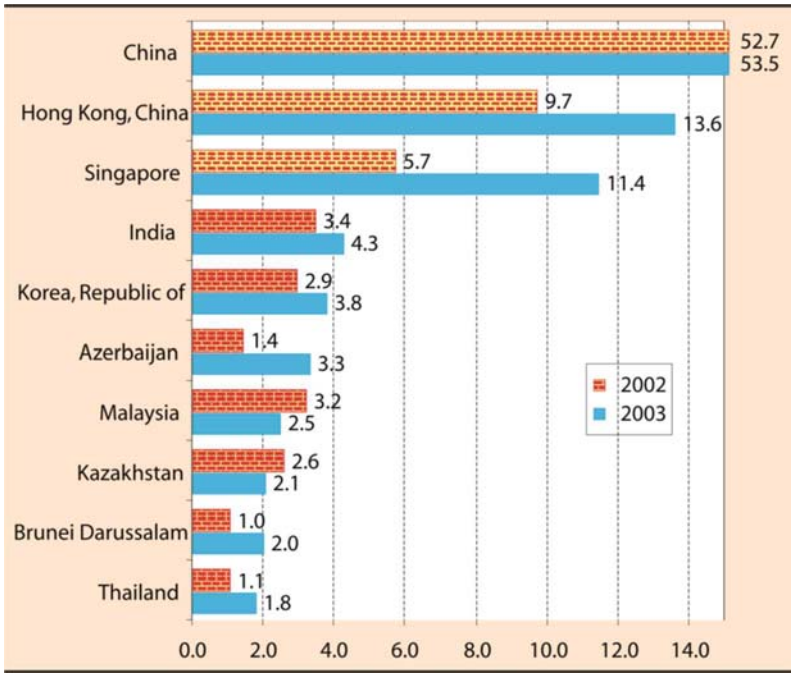
Range	Economy
More than $5 billion	China, Hong Kong (China) and Singapore
$2-4.9 billion	Azerbaijan, Brunei Darussalam, India, Kazakhstan, Republic of Korea and Malaysia
$1-1.9 billion	Pakistan, Thailand and Viet Nam
$0-0.9 billion	Afghanistan, Armenia, Bahrain, Bangladesh, Bhutan, Cambodia, Cyprus, Fiji, Georgia, Islamic Republic of Iran, Iraq, Jordan, Kiribati, Kuwait, Kyrgyzstan, Lao People's Democratic Republic, Lebanon, Macao (China), Maldives, Mongolia, Myanmar, Nepal, New Caledonia, occupied Palestinian territory, Oman, Papua New Guinea, Philippines, Qatar, Samoa, Saudi Arabia, Sri Lanka, Syrian Arab Republic, Taiwan Province of China, Tajikistan, Tonga, Turkey, Turkmenistan, Tuvalu, United Arab Emirates, Uzbekistan and Vanuatu
Less than $ 0 billion	Indonesia, Democratic People's Republic of Korea, Solomon Islands and Yemen

Source: UNCTAD, based on annex table B.1.

the dominant host country in this subregion, grew by 24%, reflecting its strong growth and continued liberalization. The services sector, in particular information and communication technology (ICT) industries, was the most dynamic for FDI inflows (see Part Two). Except for Afghanistan and Bhutan, flows to the other countries rose, and significantly so in Bangladesh, Nepal and Pakistan. In Sri Lanka privatization helped boost FDI flows.[17]

Figure II.10. Asia and the Pacific: top 10 recipients of FDI inflows, 2002, 2003 [a]

(Billions of dollars)



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

[a] Ranked on the basis of the magnitude of 2003 FDI inflows.

- *Central Asia*[18] also recorded an increase in FDI inflows, from $4.5 billion to $6.1 billion. Resource-rich countries such as Azerbaijan attracted more FDI than others, mostly in oil and gas. Georgia and Kyrgyzstan also received higher flows. Those to Kazakhstan declined by 20%, from $2.6 billion in 2002 to $2.1 billion in 2003.
- Additional investment in oil contributed to the upturn in FDI flows to *West Asia*,[19] from $3.6 billion in 2002 to $4.1 billion in 2003. The increase in flows to Bahrain, Jordan, Kuwait, Oman and Saudi Arabia accounted for much of the subregion's improved performance. However, regional tensions and uncertainty are likely to have held back a higher increase. And the subregion continues to face competition from locations in Africa and Central Asia.
- Flows to the *Pacific islands* doubled, from $0.1 billion in 2002 to $0.2 billion in 2003, with most countries benefiting from higher inflows. Papua New Guinea in particular, saw a sharp rise in flows from $21 million in 2002 to $101 million. The increase in M&As in this country, amounting to $82 million (up from $28 million in 2002), was the main explanation.

One common element stands out: countries with high economic growth, such as China, India and some ASEAN countries, generally attracted more FDI.

Unlike in Latin America in the 1990s, privatization has not been a major factor driving FDI in the Asia-Pacific region. Most FDI in Asia is in the form of greenfield investment. However, some countries – India, Indonesia, the Republic of Korea, Pakistan, Turkey – have increased their efforts to privatize State assets (including through FDI) in order to raise revenue and strengthen industrial development.

Intra-regional investment is expanding, in part because of the shift of production from higher to lower cost locations. FDI within and between North-East[20] and South-East Asian economies accounted for 49% of flows in these subregions in 2001-2002, up from 38% in 1999-2000. Regional integration arrangements also influenced investment within them and accelerated the process of knitting the subregions into more widespread production networks (*WIR03* p. 47, p. 51; Wee and Mirza 2004; Ernst 2004). With regard to outward FDI, China and India are becoming relatively important investors (chapter I), joining Malaysia, the Republic of Korea, Taiwan Province of China and Singapore.

b. Policies improved further

The policy environment in Asia and the Pacific continued to become more FDI friendly in 2003 and early 2004 (box II.6). A total of 26 economies introduced favourable national policy measures in 2003, compared to 23 in 2002.

The number of BITs and DTTs concluded by economies in Asia and the Pacific declined in 2003: 36 BITs and 23 DTTs were concluded, compared to 45 and 27, respectively, in 2002 (figure II.11). To mention a few, Viet Nam signed BITs with Japan and the Republic of Korea, and a DTT with Pakistan; India signed BITs with Armenia, Djibouti, Hungary and the Sudan; Hong Kong (China) signed DTTs with Belgium, Germany, Macao (China), Norway and Singapore; and China signed a DTT with Kazakhstan. Most of the economies in the region had already concluded BITs and DTTs with principal home countries in previous years, with the number of such treaties peaking in 1996 and 1997.

More countries are cooperating and promoting FDI jointly within regional or bilateral arrangements in Asia and the Pacific.[21] More regional FTAs or economic arrangements with investment components were concluded or launched (annex table A.II.1), with ASEAN leading in both regional and bilateral FTAs.

c. Services FDI on the rise

As in the world as a whole, the sectoral composition of FDI is changing in Asia as well. The share of the primary sector remained stable (at 5%) with oil and gas, in particular, attracting FDI. The share of manufacturing fell (from 57% in 2002 to 53% in 2003);[22] weak corporate earnings and demand for semiconductors persisted until mid-2003 and deterred investment in electronics and telecom equipment. While manufacturing attracted the bulk of FDI in some countries (e.g. China) in 2003, the share of services rose in FDI inflows into many other economies, a major proportion going to the newly industrializing economies[23] and to ASEAN as a region.

As a result, the share of services in Asia's total FDI stock increased from 43% in 1995 to 50% in 2002 (table II.5). For instance, the share of services in total FDI flows in ASEAN increased from 30% in 2002 to 48% in 2003 and in the Republic of Korea from 65% in 2002 to 72% in 2003. These economies are becoming increasingly service-oriented and are creating an efficient infrastructure for such services as finance, telecoms and commerce.[24] FDI in services has also grown in lower income countries (e.g. Bangladesh and Pakistan) because of higher investment in infrastructure and utilities. In India and the Philippines, it has grown in particular in IT-related services (chapter IV).

Within services, more than half of FDI goes to finance, transport, telecommunications and business services. Tourism is also an important industry in countries such as Cambodia (Chenda 2004), Thailand (Tantraporn 2004) and the Pacific islands. Competition for FDI in high-value-added services (e.g. regional headquarters, R&D) is becoming more intense among economies in North-East Asia (e.g. Hong Kong (China), the Republic of Korea) and South-East Asia (e.g. Malaysia, Singapore, Thailand).[25]

Cross-border M&A sales in services increased by half, up from $9.5 billion in 2002 to $14.3 billion in 2003, adding to the rise in services FDI in Asia. The lion's share of the increase was in North-East and South-East Asia, where M&A sales in finance grew by 1.4 times

Box II.6. Asia and the Pacific: examples of efforts to improve the investment climate, 2003-2004

- Cambodia shortened the processing time for investment proposals from 45 working days to 28 working days. It also amended the Law on Investment to increase transparency, predictability and the attractiveness of the country for FDI. It published an investment guide in 2003 to make investment opportunities and conditions better known (box II.7).
- China opened its finance and travel industries to foreign investment, and the country's Guizhou province opened 13 industries to FDI. It allowed, for the first time, the establishment of educational institutions jointly operated by foreign and domestic investors or institutions. It also cancelled a first batch of investment approval requirements for 789 items (box II.10). A Closer Economic Partnership Arrangement agreement was signed with Hong Kong (China) in 2003, which provides certain privileges to Hong Kong (China) firms investing in the mainland (box II.8). A similar agreement was also signed with Macao (China).
- Indonesia signed double taxation agreements with several countries and allowed FDI in more industries.
- Kazakhstan enacted a new law on investment on 8 January 2003. The law regulates FDI in the country and contains provisions for the protection of investment, as well as incentives and State support for investment.
- Malaysia further liberalized equity ownership and expatriate employment policies in manufacturing.[a]
- An IPR of Nepal was undertaken (UNCTAD 2003b), and an investment guide to promote the country's investment opportunities and conditions was published (box II.7).
- The Republic of Korea established a free economic zone (FEZ) Committee to coordinate policies relating to the design, development and operation of FEZs in the country. It also announced a strategy to attract TNCs' regional headquarters and a seven-year tax exemption to foreign businesses involved in high-tech services. It opened non-domestic legal services to foreigners.
- Pakistan introduced additional tax incentives for foreign investors and established the Pakistan Intellectual Property Rights Organization.
- Saudi Arabia opened up more industries to FDI, including electricity, gas transmission and distribution, education and pipeline services. Restrictions on FDI in some telecom industries such as Internet and e-mail service provision, and data and message transmission services, were removed.
- An IPR of Sri Lanka was undertaken with a view to improving its investment climate (UNCTAD 2004f).
- Viet Nam established a Foreign Investment Bureau to attract FDI. The Bureau, located in the Ministry of Planning and Investment, supervises foreign investment activities and reviews and improves the country's foreign investment policy. Viet Nam also revised the Law on Corporate Income Tax in July 2003, to create a fair and equal playing field for domestic and foreign enterprises.

Source: UNCTAD.

[a] Foreign equity holdings up to 100% are allowed for all new projects as well as investments in expansion/diversification projects by existing companies, irrespective of the level of exports, with the exception of industries contained in the Sensitive List. In addition, expatriate posts will be granted automatic approval.

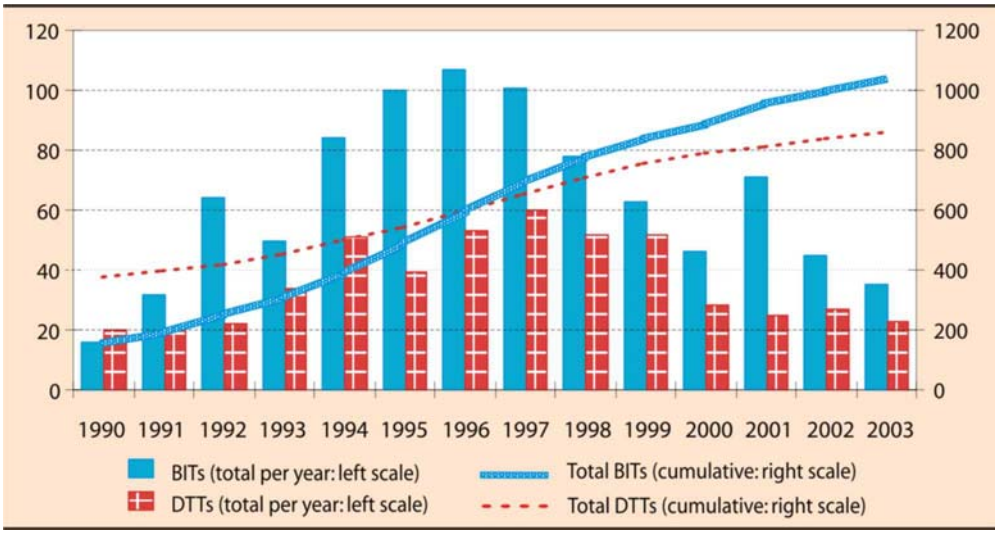
Box II.7. Cambodia and Nepal: investment guides highlight opportunities

Cambodia is perhaps the most open economy among the world's 50 LDCs, and a good deal more open than most of its neighbours. *An Investment Guide to Cambodia*, published in October 2003 by UNCTAD and ICC, includes a description of a number of steps the country has taken to improve its investment environment. These include revisions of its laws on investment and taxation, and legal reform more generally. Cambodia has been quite successful in attracting FDI in the garments industry (which dominates the country's exports) and the tourism industry (which benefits from the attraction of Angkor Wat). Other opportunities can be found in infrastructure development, hydropower and agro-processing.

Nepal is another country that has been moving towards creating a more hospitable environment for foreign investors. It has renewed its trade treaty with India, guaranteeing most Nepali manufactures duty-free access to the Indian market, and put in place a relatively liberal FDI regime by South Asian standards. The investment potential in a number of areas, as described in UNCTAD's *An Investment Guide to Nepal* (March 2003), is high. In hydropower, the generation of 44,000 MW is thought to be economically feasible, and in tourism the country has spectacular natural assets and attractive cultural ones. The range of climates from the sub-tropical to sub-arctic offers remarkable opportunities for niche agricultural products such as medicinal herbs.

Source: UNCTAD-ICC 2003a, 2003b.

Figure II.11. Asia and the Pacific: number of BITs and DTTs concluded, 1990-2003



Source: UNCTAD, BIT/DTT database (www.unctad.org/fdistatistics).

Box II.8. The Closer Economic Partnership Arrangement between China and Hong Kong (China)

The Closer Economic Partnership Arrangement between China and Hong Kong (China) was signed on 29 June 2003. Under it, Hong Kong (China) firms benefit from zero tariffs on a wide range of products exported to the mainland, subject to meeting the Hong Kong (China) rules-of-origin requirements. Eighteen service industries are being opened to Hong Kong (China) firms, starting 1 January 2004, with value-added telecom services having been opened on 1 October 2003. The Arrangement involves the progressive elimination of tariff and non-tariff barriers to trade in goods, liberalization of trade in services and the promotion of trade and investment between the two economies.

In the area of services, foreign service suppliers residing in Hong Kong (China) will enjoy preferential treatment under the Arrangement, provided they have been engaged in substantive business operations in Hong Kong (China) for a specific period of time and satisfy the following conditions: (i) have been incorporated in Hong Kong (China) for three to five years (depending on the industry); (ii) are liable to pay a profits tax; (iii) own or rent premises in Hong Kong (China) to engage in substantive operations; and (iv) employ at least 50% of staff resident in Hong Kong (China). The service industries cover accounting, advertising,[a] audiovisual, banking, organizing of conventions and exhibitions, construction and real estate, distribution (excluding tobacco), freight forwarding agency, insurance, legal, logistics, management consultancy, medical and dental, securities, storage and warehousing, telecommunications, tourism and transport.

While it is too early to assess how the Arrangement will affect the extent of flows of FDI in services to mainland China, its liberalization commitments are expected to lead to higher services FDI. In particular, the Arrangement could create a "first-mover advantage" for eligible Hong Kong (China) investors in sensitive service industries.[b] It could also result in a "channelling effect", whereby foreign firms may invest in the mainland via Hong Kong (China) in order to benefit from the privileges provided by the Arrangement. For instance, Standard Chartered bank plans to incorporate its business in Hong Kong (China), rather than operating a branch there, to qualify eventually for the benefits accorded by the Arrangement when it invests indirectly in the mainland.[c]

Source: UNCTAD.

[a] Star TV (controlled by Rupert Murdoch) was one of the first well-known TNCs to take advantage of this opportunity when it received permission in July 2004 to establish a wholly-owned affiliate in the mainland (*Financial Times*, 6 July 2004).

[b] The market liberalization commitments under the Agreement offer further benefits to Hong Kong (China) companies in terms of lower entry thresholds in a number of service industries such as management consulting, freight forwarding and banking.

[c] "Business Digest", *Far Eastern Economic Review*, 29 January 2004, p. 23.

Table II.5. Asia and the Pacific: distribution of FDI stock, by industry, selected Asian economies, 1995, 2002
(Per cent)

Economy	1995				2002			
	Primary	Manufacturing	Services	Unspecified	Primary	Manufacturing	Services	Unspecified
Armenia[a]	..	..	..	..	6.9	17.7	70.8	4.6
Bangladesh	9.1	69.9	5.3	15.7	..	..	..	..
China[b]	1.6[c]	58.5[c]	36.1[c]	3.8[c]	1.9	63.3	31.4	3.4
Hong Kong, China	-	8.3	91.7	-	-	2.8	93.0	4.3
India	7.9	83.4	8.7	-	..	..	..	..
Indonesia	18.2	64.5	17.2	-	..	..	..	..
Kazakhstan	62.9	20.9	3.3	12.9	68.1	7.4	24.5	-
Macao, China[d]	..	..	..	..	..	12.6	87.4	-
Malaysia[e]	4.5	52.7	33.5	9.3	24.0	38.0	38.0	-
Mongolia[f]	18.0	30.4	51.3	0.3	28.2	22.0	41.3	8.5
Pakistan[g]	2.1	24.5	73.4	-	6.1	22.2	71.7	-
Philippines	17.0	55.0	28.0	-	10.9	39.3	43.9	5.9
Republic of Korea	0.2	62.2	35.2	2.4	0.5	57.4	42.0	0.1
Singapore[h]	-	38.2	61.7	-	..	36.1	63.8	-
Sri Lanka[i]	-	56.8	43.2	-	..	41.0	59.0	-
Thailand	6.0	36.6	57.4	-0.9	2.4	37.7	56.8	3.1
Total above	**3.0**	**51.0**	**43.0**	**3.0**	**3.0**	**44.0**	**50.0**	**3.0**

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

[a] Based on cumulative flows from 1998.
[b] Based on cumulative approved FDI flows since 1979.
[c] Based on cumulative approved FDI flows during 1979-1997.
[d] Based on stock of 2001.
[e] Based on application of the proportion of gross FDI stock by sector for the period 1998-2002 to 2002.
[f] Based on cumulative value of foreign investment projects registered with the Foreign Investment and Foreign Trade Agency (FIFTA) since 1990.
[g] 2001 data are 1995 stock values plus cumulative flows during 1996-2001.
[h] Data for 1995 comprise equity investment (i.e. paid-up shares and reserves) only. Data for 2001 and 2002 incorporate net lending from foreign investors to their affiliates in Singapore. Data for 2002 are preliminary.
[i] Data refer to estimated foreign investments in projects approved by the BOI since 1978.

and those in business services, including ICT activities, by 3.7 times as compared to 2002.

Countries in the region are trying to attract FDI in services through integration or cooperation agreements. The ASEAN Framework Agreement on Services is an example (box II.9). In the context of the ASEAN Economic Community, the subregion has identified 11 priority industries for integration, of which 4 are in services (e-ASEAN, health care, air travel, tourism). This will involve the elimination of tariffs (for goods) and improvements in the modes of supply, including the immediate removal of non-tariff barriers. China, under its Protocol of Accession to the World Trade Organization (WTO), is committed to liberalizing its service industries in such areas as banking and finance, telecom, logistics and distribution, transportation, and retail and wholesale businesses; and it will undertake additional liberalization of services over the next few years (box II.10).

Box II.9. Liberalization of services in the ASEAN subregion: implications for FDI flows

The ASEAN countries agreed to work towards further liberalization of trade in services under the ASEAN Framework Agreement on Services, signed on 15 December 1995. The aim was substantially to eliminate restrictions on trade in services in the region and improve the efficiency and competitiveness of ASEAN service suppliers. The Agreement progressively improves market access and grants national treatment for service suppliers among ASEAN countries on a GATS-plus basis. Liberalization is carried out in three-year negotiation cycles, with each round resulting in commitments from member countries in agreed economic sectors/subsectors and modes of supply. ASEAN has concluded three packages of service commitments since 1 January 1996, covering air transport, business services, construction, financial services, maritime transport, telecommunications and tourism. The liberalization of FDI in services in ASEAN may further enhance the share of services FDI in the region.

Source: UNCTAD.

d. Promising prospects

FDI inflows to the Asia-Pacific region are set to rise. This optimism is largely based on bullish economic prospects for the region, as reflected, for example, in recent reports on the world economy (IMF 2004, World Bank 2004, Institute of International Finance 2004). The real GDP growth rate is estimated at 7.4% in 2004 (IMF 2004). Asian firms are confident about their performance in 2004,[26] which should have a positive effect on investment spending. Similarly, the improved profitability of Asian firms[27] as well as firms headquartered in major home countries such as Japan,[28] Europe and the United States should also stimulate more FDI to the region.[29]

China is set to remain the top recipient of FDI in manufacturing. The continued relocation of investment from high-cost economies, the opening up of its services sector and the expected increase in cross-border M&As in China could well push FDI inflows to yet another record high. Flows in 2004 to the Republic of Korea are also likely to increase, propelled by large cross-border M&As such as the $2.7 billion acquisition of Koram Bank by Citigroup (United States)[30] and the privatization of the Government's stakes in such assets as Hana Bank. As a result, the strong growth in FDI to North-East Asia as a whole is likely to continue and dominate flows to Asia. FDI flows to the ASEAN subregion are expected to maintain an upward trend, with more countries receiving

Box II.10. Liberalization of services in China: implications for FDI flows

China is opening its service industries to FDI in accordance with its schedule of commitments to the liberalization of services under its WTO accession agreement (box table II.10.1). It is removing restrictions on FDI in such industries as banking and finance, telecoms, logistics and distribution, transportation, and retail and wholesale trade. Thus, by 2008, service industries in China will be largely open to FDI. Aside from relaxing ownership control, China has also eased geographical restrictions and the scope of business operations.

So far, the lion's share of FDI flows to China has been in manufacturing, growing from 63% in 2002 to 74% in 2003. But with the opening up of service industries, their share is likely to rise.

Box table II.10.1. China: selected schedules for the liberalization of services and ownership control[a]

(Per cent)

Item	2001	2002	2003	2004	2005	2006	2007
Telecoms (value added services)	30	49	50[b]	c	c	c	c
Telecoms (voice and data services)	25	35	35	49	c	c	c
Telecoms (domestic and international)	-	-	-	25	25	35	49
Courier	49	Majority	Majority	Majority	100	..	..
Advertising	49	49	Majority	Majority[d]	100	..	..
Rental and leasing	-	Majority	Majority	100	..	..	..
Transportation of goods (railroad)	49	49	49	Majority	Majority	Majority	100
Freight forwarding agency	50	Majority	Majority	Majority[d]	100	..	..
Insurance (non-life)	-	51	100	..	..	..	..
Insurance brokerage for selected services	50	50	50	51	51	100	..
Domestic securities investment fund management	33	33	33	49	c	c	c
Storage and warehousing	49	Majority	Majority	100[d]	..	..	..
Testing and inspection	-	-	Majority	Majority	100	..	..
Wholesale and retail[b]	Minority	Minority	Majority	100[d]	..	..	..
Packaging services	-	Majority	Majority	100	..	..	..

Source: UNCTAD, based on China, Ministry of Commerce 2001.

a Per cent relate to maximum foreign equity ownership allowed on or before 11 December of the year shown.
b For Hong Kong (China) companies under CEPA, maximum ownership is allowed as from 1 October 2003.
c No further commitments were made to further relax foreign ownership for these years at the time of accession.
d For Hong Kong (China) companies under CEPA, 100% ownership is allowed as of 1 January 2004.

Source: UNCTAD.

greater flows than in 2003. The smooth elections of new Governments in a number of ASEAN countries in 2004, the regional integration process and strong economic growth should further encourage FDI.

Flows to South Asia are also set to increase, especially to India. The Government has announced the objective to raise FDI flows by two-to-three times.[31] The agreement among the South Asian countries to establish the South Asia Free Trade Area and the improved geo-political situation should strengthen the investment environment. Resource-seeking FDI will continue to increase in Central Asia, dominated by Azerbaijan and Kazakhstan. FDI flows to the Pacific islands can also be expected to rise thanks to an improved economic situation in that subregion and in Australia, Japan and New Zealand – the major investors in the Pacific island economies. Some of the Pacific island economies are introducing new measures to attract FDI.[32]

For West Asia, FDI prospects are modest, given the uncertainty affecting some countries there. However, some have the potential to attract significant FDI flows (e.g. box II.11 on FDI prospects in Turkey). Progress in rebuilding Iraq should have a direct impact on FDI flows. Overall, oil investment will continue to dominate the scene, with Saudi Arabia receiving a significant share of such investment.

By sector, FDI in manufacturing should increase in 2004 in response to a rise in world demand and growth of industrial activities (chapter I). In particular, an improvement in global demand for electronics,[33] automotive products and telecom equipment in some Asian countries, together with higher corporate profitability, should encourage TNCs to increase their capital spending. The services sector will most likely continue to account for the largest share of FDI inflows in the more developed Asian economies. FDI in tourism may be adversely affected if there is another outbreak of avian influenze (or "bird flu") and SARS, but in R&D, ICT and corporate services (such as business processing operations and call centres) it should grow in countries such as India, Malaysia, the Philippines and Singapore. The increase in cross-investment in regional budget airlines signals a resumption of FDI in tourism in 2005.[34] With

Box II.11. Promising FDI prospects for Turkey

Although Turkey has not attracted FDI commensurate with its potential (see annex table A.I.8), prospects are promising. The present Government has taken a number of measures to improve the FDI environment (Erdilek 2003). A new FDI law (Law 4875) was enacted in June 2003 to replace the old one (Law 6224), dating back to 1954. The new law replaces the old FDI approval and screening system with a notification and registration system, bans nationalization without fair compensation, guarantees national treatment to foreign investors, eases restrictions on FDI, eliminates the minimum capital limit, grants foreign investors full convertibility in their transfers of capital and earnings, allows them to own property without any restrictions and recognizes foreign investors' right to international arbitration. The creation of the Investment Advisory Council in March 2004, aimed at increasing Turkey's attractiveness for FDI, is another example of the importance accorded to foreign investment; the Prime Minister and several of his cabinet members participated in the meeting, in addition to representatives of 20 leading TNCs.

The Government has also instituted inflation accounting[a] (one of the long-standing demands of foreign affiliates in Turkey), simplified the commercial code, liberalized the law on work permits for expatriates and drafted a bill to establish an investment promotion agency. The Government's accelerated privatization programme, which is expected to culminate in the privatization of Türk Telekom in 2004, is also aimed at spurring inward FDI. Turkey's economic performance during the past two years, coinciding with the Government's pro-FDI policies, has been impressive. As the economic growth rate has risen,[b] inflation has fallen sharply, to its lowest level in a generation, along with nominal and real interest rates.

Source: Erdilek 2003.

[a] Inflation accounting has been in effect in Turkey since early 2004. It enables companies to restate their financial statements in terms of constant purchasing power units. This has been an important issue for foreign investors in Turkey, and will enable them to lower their taxes.

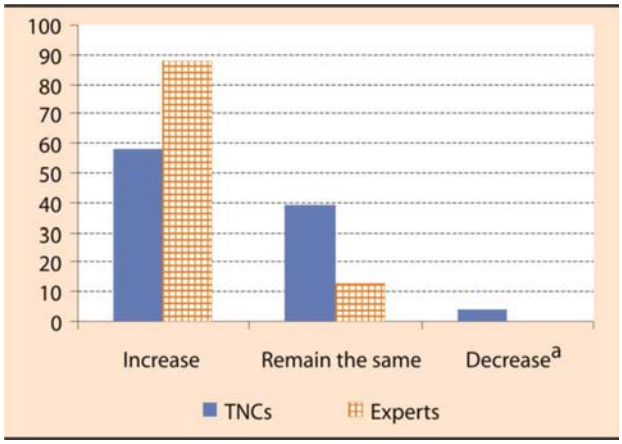
[b] According to IMF 2004, real GDP growth rates grew to 7.9% in 2002 and 5.8% in 2003 as compared with -7.5% in 2001.

further liberalization, privatization and more M&As, FDI in intermediate services such as telecoms, finance and power generation should also increase.

These expectations are supported by the findings of UNCTAD's 2004 surveys of top TNCs and international location experts: almost 60% of the TNCs (UNCTAD 2004c) and nearly 90% of the experts (UNCTAD 2004a) expect an improvement in FDI prospects over 2004-2005, with the worst-case scenario being unchanged prospects (figure II.12).[35] For West Asia, however, the outlook is less optimistic compared to the rest of the region, with 13% of the responding TNCs expecting a deterioration. Both TNCs and location experts ranked China top position as an FDI destination, followed by India and Thailand. In manufacturing, improved prospects are anticipated in motor vehicles, machinery and equipment and chemicals, according to experts (UNCTAD 2004a). In services, banking and insurance, business services and tourism are expected to take the lead in attracting FDI over the next two years. In terms of corporate functions, the relocation of production and logistical and support services is expected to be strong for Asia and the Pacific (UNCTAD 2004a).

IPAs will do their part to attract more FDI. In fact, competition for FDI will become more intense, including through a greater use of incentives and ongoing liberalization, as well as the use of targeting. UNCTAD's 2004 survey of IPAs reveals that some 83% of the respondents expect to intensify their investment promotion efforts by using targeting strategies, while 54% are ready to resort to additional incentives and 67% consider liberalizing their national investment regimes to attract FDI (figure II.13) (UNCTAD 2004b). Investor targeting and liberalization were more frequently cited instruments for attracting FDI than in any other region. IPAs regard China and India as leading regional sources of FDI for 2004-2005, complementing the established investors (France, Germany, Japan, United Kingdom, United States).

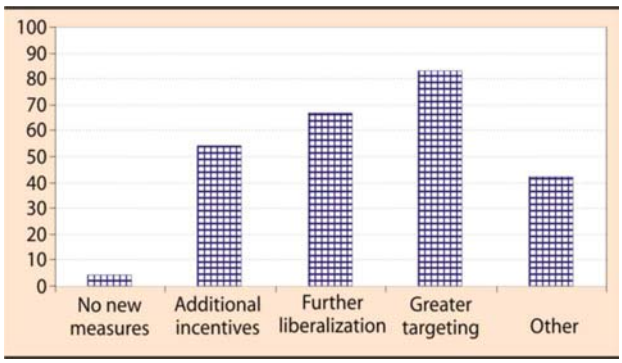
Figure II.12. Asia and the Pacific: prospects for FDI inflows, 2004-2005, as reported by TNCs and location experts
(Per cent of respondents)



Source: UNCTAD, www.unctad.org/fdiprospects.

[a] Locational experts do not expect decreases in FDI inflows.

Figure II.13. Asia and the Pacific: expected policy measures to attract FDI, 2004-2005, as reported by IPAs
(Per cent of respondents)



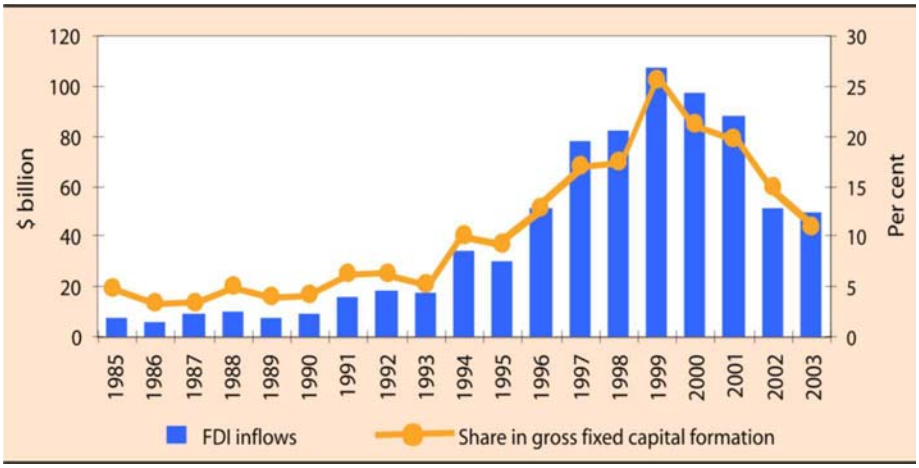
Source: UNCTAD, www.unctad.org/fdiprospects.

3. Latin America and the Caribbean: another disappointing year

a. A continuous decline

FDI flows to Latin America and the Caribbean (LAC) fell by 3% in 2003, to $50 billion – the lowest level since 1996.[36] This was the fourth consecutive year of decline, following a 53% drop over the period 1999-2003 (figure II.14; annex table B.1). Of the region's 40 countries, 19 saw declining inflows. FDI as a percentage of gross fixed capital formation dropped to 11%, from a high of 26% in 1999 (figure II.14). While there were wide variations among countries,[37] the three large economies Argentina, Brazil and Mexico saw the highest declines. The frequency distribution according to the range of FDI inflows between 1999 and 2003 has remained almost unchanged, with 9 countries receiving more than $1 billion and 31

Figure II.14. LAC: FDI inflows and their share in gross fixed capital formation, 1985-2003



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

countries less than $1 billion in 2003 (table II.6). Despite declines, Brazil and Mexico remained the most important recipients (table II.7). Total outward FDI rose significantly in 2003, but mainly from tax havens such as Cayman Islands and the British Virgin Islands.

Table II.6. LAC: frequency distribution of host economies, by range of FDI inflows, 1999-2003
(Number)

Range	1999	2000	2001	2002	2003
More than $30 billion	-	1	-	-	-
$20-29 billion	2	-	2	-	-
$10-19 billion	1	3	1	2	2
$5-9 billion	3	1	-	-	1
$1-4 billion	6	3	8	7	6
Less than $1 billion	28	32	29	31	31
Total	40	40	40	40	40

Source: UNCTAD, based on annex table B.1.

On the inward side, there was considerable variation within the region. Mexico and Brazil, where services are the most important sector, experienced the sharpest decline in inflows (figure II.15). Mexico, in particular, is faced with a competitive challenge from China, notably in manufacturing (box II.12). Apart from small island economies (e.g. two offshore centres – Bermuda, the Cayman Islands), other relatively small countries (e.g. Ecuador, Honduras, Nicaragua, Panama, Uruguay) stand out in recording an increase in FDI inflows. Chile and Venezuela recovered a large part of the declines experienced in 2002.

On the home country side, six countries accounted for 65% of the region's FDI inflows during the period 1995-2002 (figure II.16). The United States alone contributed one third, followed by Spain (16%), while the Netherlands, the United Kingdom, France and Canada accounted for most of the rest. During the privatization process, Spain was the major investor from the EU, but in 2001 and 2002, FDI from Spain fell drastically (figure II.16).

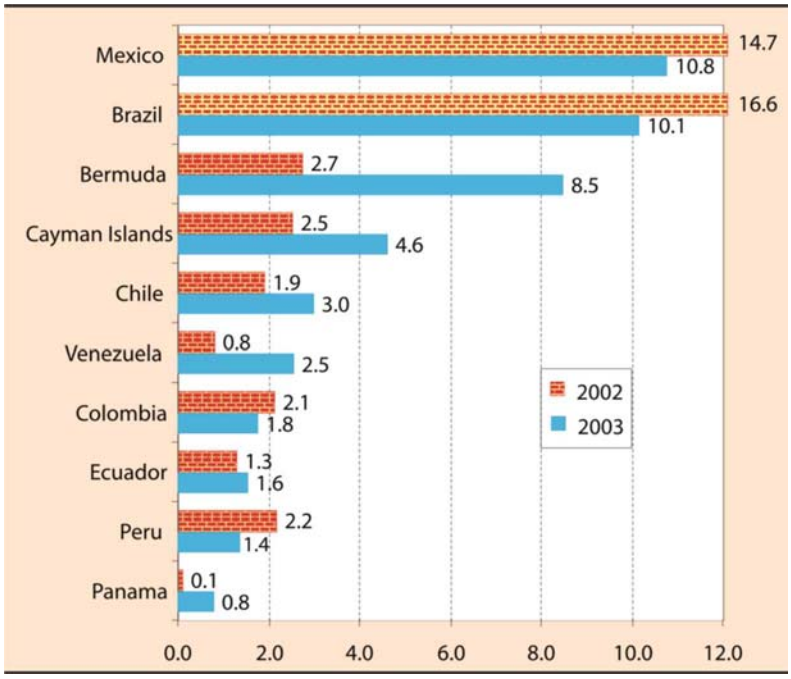
Various factors contributed to the continuing downturn, some of which were beyond the control of the host countries. TNCs from major home countries invested less because of deteriorating economic conditions there. The EU

Table II.7. LAC: economy distribution of FDI inflows, by range, 2003

Range	Economy
More than $10 billion	Brazil and Mexico
$5-9 billion	Bermuda
$1-4 billion	Cayman Islands, Chile, Colombia, Ecuador, Peru and Venezuela
Less than $1 billion	Anguilla, Antigua and Barbuda, Argentina, Aruba, Bahamas, Barbados, Belize, Bolivia, Costa Rica, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, Paraguay, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Virgin Islands (British)

Source: UNCTAD, based on annex table B.1.

Figure II.15. LAC: top 10 recipients of FDI inflows, 2002, 2003 [a]
(Billions of dollars)



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

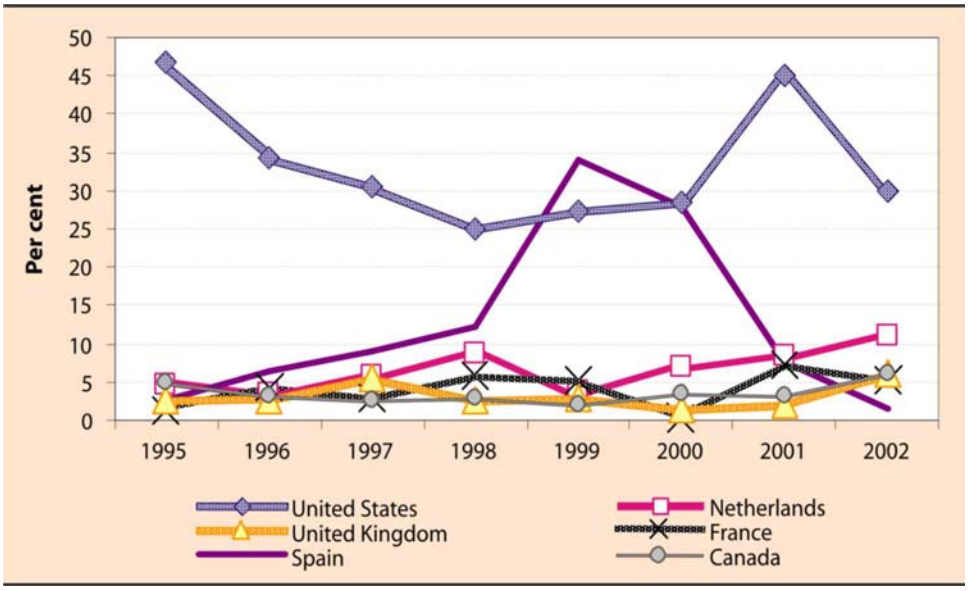
[a] Ranked on the basis of the magnitude of 2003 FDI inflows.

experienced disappointing economic growth rates during the period 2001-2003 (IMF 2004). Another factor was a steep drop in cross-border M&As in the region, both in number (from 581 in 2000 to 281 in 2003) and value, from a high of $64 billion in 1998 to $12 billion in 2003. Particularly affected was investment by big public utility TNCs. However, this alone does not explain why the region attracted less FDI than others, its share shrinking to only 29% of total FDI to all developing economies, from 46% in 1999 (UNCTAD 2004g).

The steep decline in FDI flows can also be attributed to some extent to "normalization" – a return to conditions preceding the privatization drive and the M&A-led FDI boom of the late 1990s. The steepest declines have taken place mainly in those countries that experienced by far the largest increases, such as Brazil and Mexico. The region's share of FDI flows to all developing economies had risen from an annual average of 30% in 1991-1996 to 43% in 1997-1999, largely because TNCs acquired State-owned enterprises through privatization programmes implemented in the region. With privatizations running out of steam – either because the programmes were nearing completion or because further privatizations met with public resistance – the region lost one of its major driving forces behind FDI (box II.13).

Yet the return to normality, too, offers at best a partial explanation. The weak growth performance of the region – an important determinant of FDI flows – also played a role. Growth in real GDP was below its long-term trend, the average annual GDP growth rate being only 0.7% for the period 2001-2003 (IMF 2004), compared with 6.6% for developing

Figure II.16. LAC: FDI inflows from major home countries as a percentage of world total, 1995-2002



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

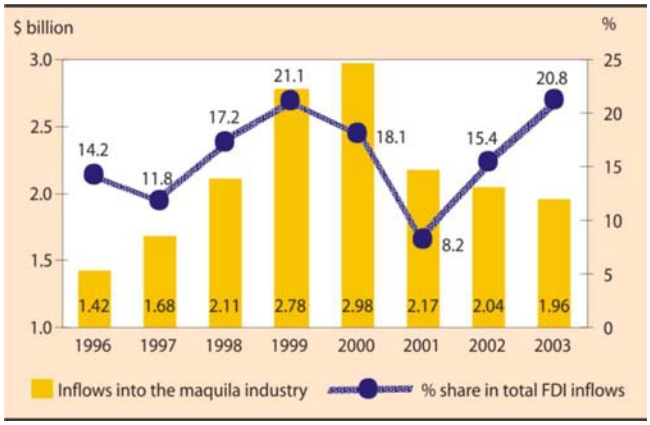
Note: Percentages are based on FDI inflows in LAC countries that account for some 86% of total inflows to the region in 2002.

Box II.12. Is the FDI relocation from Mexico's *maquila* industries ending?

Maquiladoras have traditionally accounted for a large share (47%) of Mexico's merchandise exports. Developments in the recent past have raised concerns about their international competitiveness.

Between December 2000 and April 2004, the number of such enterprises dropped from 3,703 to 2,820, with 220,000 job lost as a result.[a] Meanwhile, annual inflows in *maquiladoras* dropped by about one third, from their peak of $3 billion in 2000 to $2 billion in 2003, falling to about the same level they had reached in 1998 (box figure II.12.1).

Box figure II.12.1. FDI inflows into Mexico's *maquila* industry, 1996-2003



Source: UNCTAD, based on data from the Ministry of Economy of Mexico, http://www.economia.gob.mx/pics/p/p1175/03-dic.xls.

The relocation of FDI from the *maquila* industries has mainly been caused by competition from Asia. One third of all enterprises that have left are reported to have moved to China (Carrillo 2003). Other Asian countries accounted for another 14% of relocations. But some companies have also shifted their activities to Central American and Caribbean locations (about 10%). This may be in anticipation of the planned FTA between the United States and Central America and the ensuing erosion of Mexico's trade preferences vis-à-vis Central America. More than 100 enterprises that left the *maquila* industries returned to the United States (35) or remained in Mexico but shifted into the PITEX scheme (*Programa de Importación Temporal para Producir Artículos de Exportación*). Thus, competition from lower cost locations was not the only reason.

Relocations have mainly affected two industries: textiles and clothing, and electric and electronic materials and accessories. They account for 88% of the total employment decline mentioned above. By contrast, activities such as the assembly of transport equipment appear to have remained largely unaffected as the number of persons employed remained almost unchanged between December 2000 and April 2004.

However, Mexico's geographic proximity with the United States remains an advantage for Mexico, for example for those exporting products too big to ship cheaply from Asia, or for those for which just-in-time management is an important factor

While the economic slowdown in the United States has been the trigger for the decline in the *maquila* industry, successful restructuring was also hampered by internal factors. The appreciation of the Mexican peso may have contributed to job losses as it inflated costs for TNCs operating in Mexico (ECLAC 2003b, p.19). This may have been exacerbated by lower exchange rates of Asian currencies, notably of China. Another factor giving rise to concern by many *maquiladoras* relates to cost increases resulting from taxes and red tape: almost half of all *maquiladoras* incurred higher costs recently, while another quarter did not succeed in reducing costs, which affected their ability to remain competitive (Carrillo 2003).

The Government of Mexico has taken steps to help overcome the cost problems[b] by announcing measures to simplify bureaucratic procedures and eliminate certain taxes. The payroll tax will be phased out in 2004, and most *maquila* operations will be exempted from income tax (*Impuesto Sobre la Renta*). Representatives of the *maquila* industries welcomed this move and committed themselves "to recover the 50,000 jobs lost because of the implementation of the ISCAS" [b] (payroll tax) in 2002. Non-tax incentives announced by the Government include the commitment to decide within 15 working days a company's request for establishing *maquila* operations. Furthermore, SME *maquiladoras* were offered a special government certification, so far restricted to

/...

Box II.12. Is the FDI relocation from Mexico's *maquila* industries ending?(concluded)

larger operations, which would expedite imports through customs checkpoints.

Since the beginning of 2004, the trend of decreasing exports seems to have ended, with two-digit growth in February and March and employment at its highest since the end of 2001. This has occurred mainly in the automobile and electric and electronic materials and components industries.[c]

Source: UNCTAD.

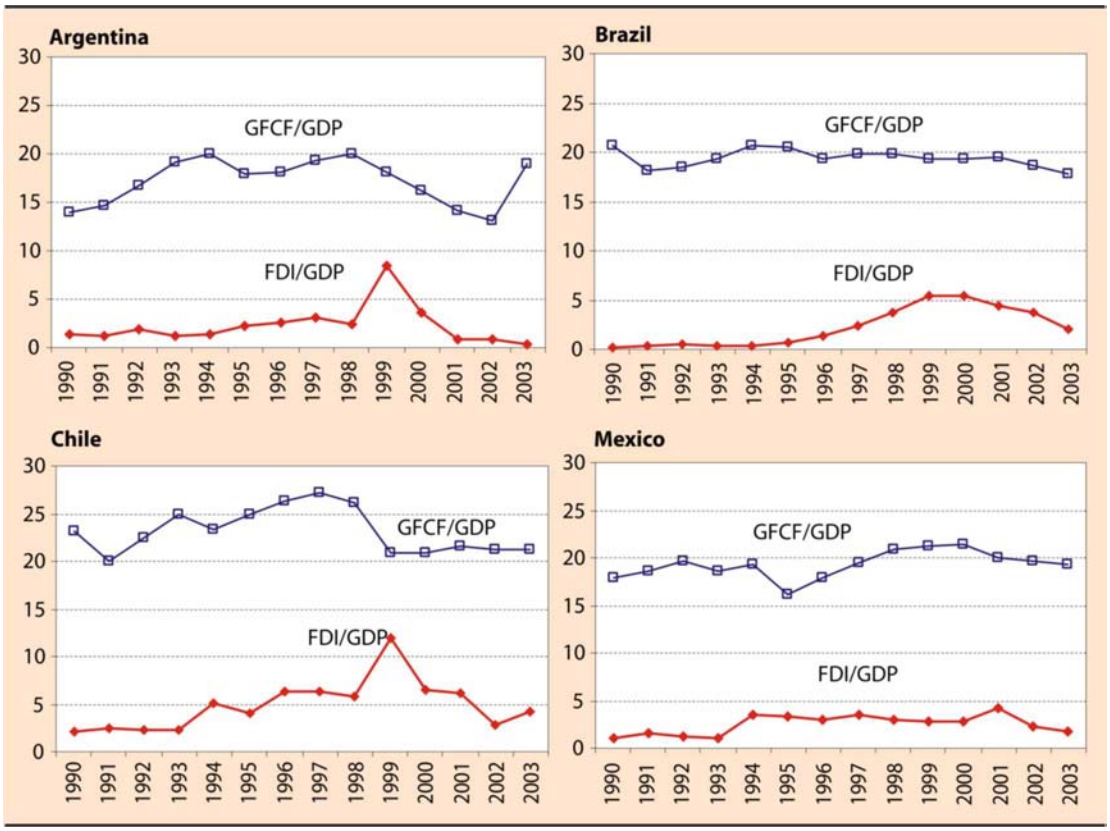
[a] Instituto Nacional de Estadística Geográfica e Informática (INEGI) (Mexico), http://www.inegi.gob.mx.
[b] *SourceMex*, 22 October 2003.
[c] Information obtained from INEGI.

Asia. This "lost half-decade"[38] was characterized by tight monetary and fiscal policies, which further contributed to the low economic and investment growth rates in Latin America. In contrast, Asian countries pursued macroeconomic policies that were supportive of growth. All this, in turn, was associated not only with declining FDI inflows, but also with lower domestic investment in various countries. Structural bottlenecks may have been one of the main reasons for both weak economic growth and low (foreign and domestic) investment.[39]

Foreign and local investors in the four largest Latin American economies (Argentina, Brazil, Chile, Mexico) reacted differently over time to economic indicators (figure II.17). In Argentina, both the economy and gross fixed capital formation began to contract already in the second half of 1998, but foreign investors had a delayed response to the rising economic tensions already perceived by local investors.[40] FDI inflows are now much below the level reached in the mid-1990s. In Chile, the fall in FDI in 2000 was more pronounced, caused partly by normalization after outstandingly high inflows in 1999. In Brazil and Mexico, foreign and local investments turned out to be relatively stable over the period 1990-2002.

Figure II.17. LAC: trends in FDI inflows and gross fixed capital formation in selected economies, 1990-2003

(Per cent of GDP)



Source: IMF 2003; UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

Box II.13. Why privatization is losing popularity in LAC

The recent backlash against privatization in some LAC countries seems to be due to two factors: governments were seen to have conceded too much to TNCs in the privatization of some enterprises; and the benefits of some privatization-related FDI in service industries fell short of expectations.

On the first point, several governments had granted favourable conditions to TNCs when they acquired State-owned assets in service industries (perhaps because they were still experimenting with regulatory issues or to send a political signal). In Argentina, for instance, privatized utilities were relieved of exchange-rate risk by having their charges denominated in dollars indexed to inflation in the United States. In Brazil, foreign investors in electricity generation received gas at subsidized prices under the Priority Programme of Thermoelectric Power of 2000; they later received gas for a guaranteed price from Bolivia, which removed exchange rate risks.

Following privatization of water supply in Bolivia's third largest city, Cochabamba, in early 2000, a consortium (Aguas del Tunari, in which Bechtel had a 27.5% stake) obtained a concession to manage it. User charges were increased to pay down debt and finance the investment required. The public protest that followed led to a reduction of the rate; eventually, the contract was cancelled. The consortium went to arbitration for $25 million in compensation.[a]

On the second point, there is a widespread perception that privatization has not yielded sufficient benefits for the community. In Argentina, for example, it is accepted that the privatization of telecoms has led to the expansion and better quality of services, but the charges paid by users were high, at least until the conversion from dollars to pesos of public utility tariffs and the price freeze decided in early 2002. In other services, however, benefits from privatization seem to be less clear. In gas and electricity, regulatory bodies alleged that private suppliers had failed to meet agreed standards.[b] Similarly, water concessions granted to Aguas Argentinas, a subsidiary of Suez (France), seemed to have worked well until the steep fall of the peso in early 2002. Suez then pulled out and went to arbitration after the authorities did not agree to higher charges to offset the devaluation. Negotiations continue.[c]

In 1999, the Government of the Dominican Republic decided to privatize electricity generators and distributors to remedy the chronic lack of reliable provision of electricity which increased business costs and hampered economic development. This resulted in considerable FDI inflows (starting with $0.6 billion in 1999). Unión Fenosa, a Spanish electricity company, purchased 50% of two electricity distributors, Edenorte and Edesur, of the State-owned Corporación Dominicana de Electricidad. However, the Government decided in September 2003 to repurchase these shares because of various difficulties.[d]

In April 2001, Jamaica succeeded in attracting FDI in the privatization of the electricity and energy firm Jamaica Public Service (JPS). The company was acquired by Mirant, an electricity company of the United States. It has not yet attained its ideal target according to survey results presented by the World Economic Forum (2003, p. 595), but consumers are now benefiting from investment in new generation capacity since 2001. Public consultations conducted by the Office of Utilities Regulation in early 2004 confirmed that reliability was no longer their major concern.[e]

Source: UNCTAD.

[a] The Cochabamba case continues to be debated between proponents and opponents of water privatization (see "Private passions", *The Economist*, 17 July 2003; and The Democracy Center 2003, "Bechtel vs. Bolivia", http://www.democracyctr.org/Bechtel).

[b] *Latin America Energy Report*, 11 July 2003.

[c] See, *The Economist*, 17 July 2003. An agreement was signed on 11 May 2004 to set the pace for further negotiations in exchange of $ 84 million investment in 2004-2005 (*Clarin*, 12 May 2004).

[d] According to survey results presented by the World Economic Forum (2003, p. 595), there were still incidences of electricity interruptions and voltage fluctuations. See also Economist Intelligence Unit, 22 September 2003; also Cámara Americana de Comercio del República Dominicana. "Ede-Norte, Ede-Sur, Antecadentes y Resultados de la Negociación", 20 October 2003.

[e] Office of Utilities Regulation, "Jamaica Public Service Company Limited tariff review for period 2004-2009", 25 June 2004.

b. Policy developments: continued liberalization

At the national level, the trend continued towards greater liberalization and investment facilitation. For example, Brazil simplified registration procedure by introducing an electronic registration system and initiated an Investment Policy Review (UNCTAD forthcoming e). Tax discounts for reinvested earnings were introduced in Mexico, and there are plans to reduce further corporate income taxes. In August 2003, Peru introduced a law seeking to promote decentralized investment to support regional development through cooperation between regional and local governments, private investors (domestic and foreign) and civil society.

At the bilateral level, LAC countries concluded 8 BITs and 8 DTTs in 2003, for a total of 421 BITs and 270 DTTs by the end of 2003 (figure II.18). The country with the largest number of BITs is Cuba (56), followed by Argentina (54) and Chile (49). Brazil and Mexico lead with the largest number of DTTs: 34 each.

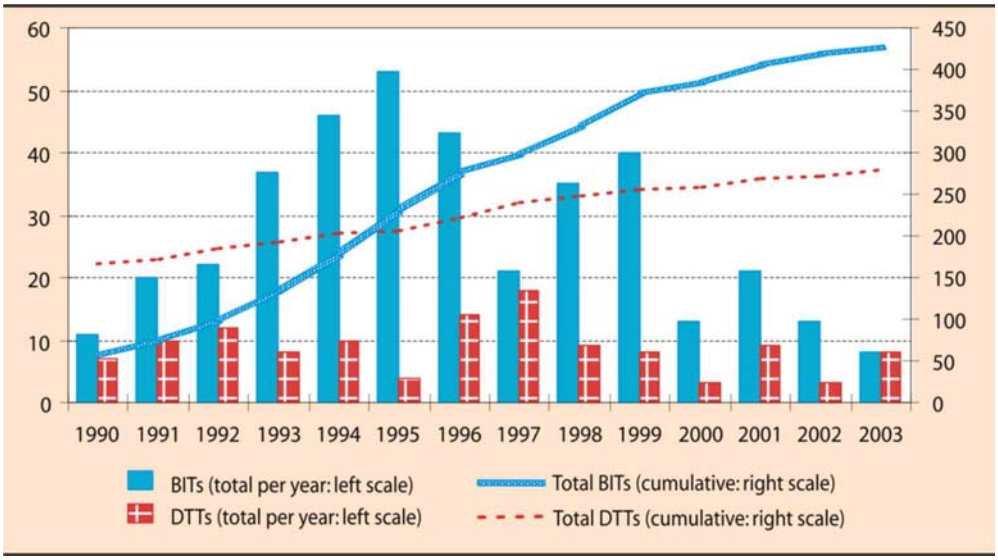
At both the bilateral and regional levels, FTAs now typically cover FDI issues, protecting investment and, increasingly, facilitating market access (annex table A.II.1). The EU and the United States are both engaged in FTA negotiations with various Latin American partners. Negotiations between the Southern Common Market (MERCOSUR) and the EU are also under way. Japan is a late-comer to FTAs; it gives priority to countries and regions with which it has important economic relationships, and where relatively high trade barriers pose obstacles to the expansion of Japanese firms. Japan has so far concluded an FTA with Mexico (April 2004), its largest trade partner in the region, but has not entered into formal negotiations with any other country in the region.

The region's efforts to attract and benefit from FDI are not limited to national, bilateral and regional arrangements; there is a growing interest in multilateral cooperation as well. An increasing number of countries are parties to various investment-related multilateral instruments. As of 1 July 2004, 30 countries had joined MIGA, while Antigua and Barbuda were in the process of fulfilling membership requirements. Also, 27 countries are now members of the International Centre for Settlement of Investment Disputes (ICSID), and 25 countries are parties to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

c. Sectoral patterns

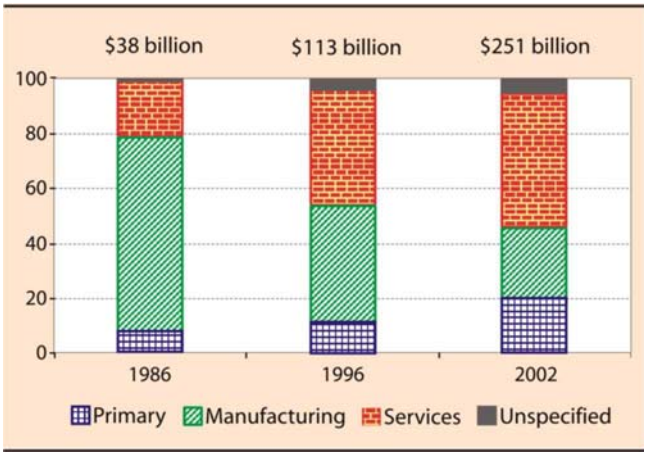
The region's sectoral distribution of FDI has shifted towards services at the expense of manufacturing (figure II.19). This is mainly the result of privatizations in the services sector. Resource-seeking FDI has traditionally played an important role in Andean Community countries

Figure II.18. LAC: number of BITs and DTTs concluded, 1990-2003



Source: UNCTAD, BIT/DTT database (www.unctad.org/fdistatistics).

Figure II.19. LAC: sectoral distribution of inward FDI stock, selected countries, 1986, 1996, 2002[a]
(Per cent shares in total)



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

Notes: Totals for 1986 include data for five countries only (Argentina, Bolivia, Brazil, Peru and Venezuela), accounting for 43% of inward stock of LAC. Totals for 1996 are based on data for six countries only (Argentina, Brazil, Colombia, Paraguay, Peru and Venezuela), accounting for 45% of inward stock of LAC. Totals for 2002 are based on data for eight countries only (Argentina, Brazil, Chile, Colombia, El Salvador, Paraguay, Peru, Venezuela), accounting for 56% of inward stock of LAC.

[a] Or latest year available, i.e. Brazil (2000), Chile (2001), Paraguay (2001).

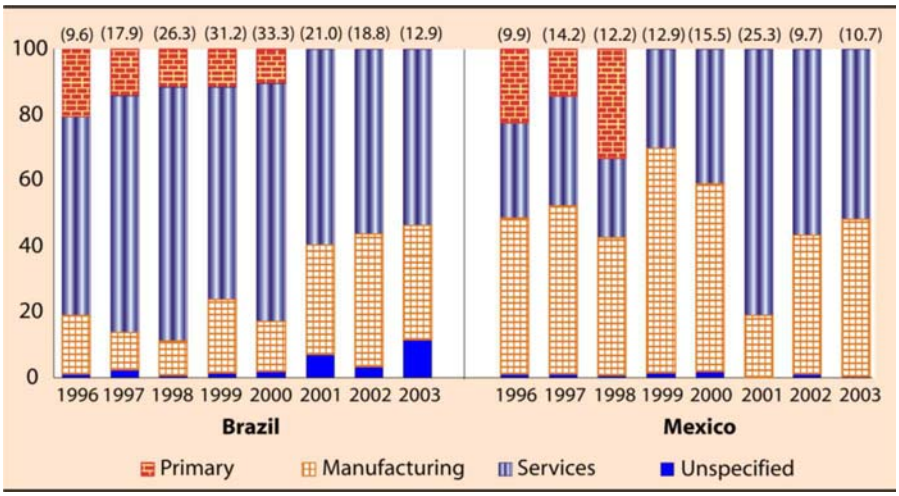
(Colombia, Ecuador, Venezuela).

In contrast, the primary sector in the two largest economies of Latin America, Brazil and Mexico, accounts for only a small share of total FDI inflows. Yet, the sectoral structure of FDI differs significantly between these two countries (figure II.20). Almost 70% of Brazil's total FDI inflows during 1996-2000 were absorbed by the services sector. The subsequent drop in FDI inflows in 2001-2003 was due to sharply reduced flows to telecommunications and finance. In Mexico, the manufacturing sector accounted for 54% of total FDI inflows during 1996-2000. However, unlike in Brazil, this sector's share fell in 2001, mainly because of exceptionally high FDI flows to financial services, but it recovered in 2002 and 2003.

The volatility and recent decline of FDI in the services sector of various LAC economies indicate that the normalization process applies to this sector as well. Particularly in South America, the privatization of service firms seems to have run its course. From 1990 to 1995, the country with the greatest participation of private capital in infrastructure projects was Argentina ($35 billion), ahead of Mexico ($26 billion). Between 1996 and 2003, Brazil dominated the region with $142 billion, ahead of Argentina ($38 billion), Mexico ($27 billion) and Chile ($19 billion).

Market-access-seeking FDI in services has been important in MERCOSUR and Chile, especially in telecom industries, with Telefonica (Spain) taking a lead and America Movil (Mexico) significantly expanding abroad (box II.14), and in electricity with the major involvement of Endesa (Spain) (box II.15). The two companies ranked among the largest TNCs, by consolidated sales, operating in Latin America in 2002.

Figure II.20. Brazil and Mexico: changes in the sectoral structure of FDI inflows,[a] 1996-2003
(Billion of dollars and per cent)



Source: UNCTAD, based on FDI/TNC database (www.unctad.org/fdistatistics) and Ministry of Economics of Mexico (www.economia.gob.mx).

[a] Total inflows in billions of dollars in brackets.

Box II.14. Two major players in the telecom industry

Recently, the telecom industry in LAC experienced growing competition between two major players: Telefónica of Spain and America Movil of Mexico. Both companies accelerated their acquisitions in the region, which was facilitated by a wave of divestments by United States telecom companies.

America Movil is the leading provider of wireless communication services in Mexico through its subsidiary Radiomovil Dipsa, which operates under the trademark "Telcel". Three-quarters of its revenues are generated in Mexico where the network covers approximately 31% of the country and 90% of the population. In 2002, America Movil acquired the shares of its foreign partners – Bell Canada International and SBC Communications – in the joint venture Telecom Americas Ltd., a company focusing since late 2000 on expanding in the South American wireless market. It has international telecom operations in Argentina, Brazil, Colombia, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Venezuela and the United States. It is the main competitor of Telefónica in LAC and, more precisely, Telefónica Móviles, its wireless arm.

Telefónica Móviles is focusing on Latin America for its growth and, in recent years, has strengthened its position in the region. By July 2004, Telefónica Móviles was present in 7 LAC countries, providing service to more than 34 million mobile customers. Once the acquisition of the Bell South operations in LAC is completed, the company will be present in 13 LAC countries with more that 40 million lines. Following this recent acquisition (for $5.9 billion) of the ten Bell South operators, Telefónica Móviles is now the leader in the mobile market in seven countries, and second in five countries (box table II.14.1). Telefónica is also present in Latin America in the wireline business, with operations in 14 countries, providing more than 21 million lines as of March 2004 (box figure II.14.1).

Box table II.14.1: Telefónica's market position for mobile phones, including acquisition of Bell South Mobile Assets[a]

Country	Rank	Market share (%)
Argentina	1	42
Brazil[a]	1	56
Chile	1	48
Colombia	2	32
Ecuador	2	35
El Salvador	2	25
Guatemala	3	22
Mexico	2	11
Nicaragua	1	69
Panama	1	53
Peru	1	72
Uruguay	2	30
Venezuela	1	45

Source: UNCTAD, based on Telefónica (www.telefonica.es/accionistaseinversores/).

[a] Acquisition announced 8 March 2004; however, not executed as of 1 July 1 2004.

Box figure II.14.1. Geographical presence and expansion of foreign affiliates of Telefónica in LAC, 2004

Source: UNCTAD, based on Telefónica's *annual reports* and its website (May 2004).

Source: UNCTAD.

Box II.15. Privatization in the electric power market: the case of Endesa

Endesa (Spain) generates, transports and markets electrical energy. It is the leading electricity utility in six LAC countries (box table II.15.1). The energy distributed in 2003 climbed to 49,500 Gwh. Service is provided to 10.5 million customers (50% of its worldwide business).

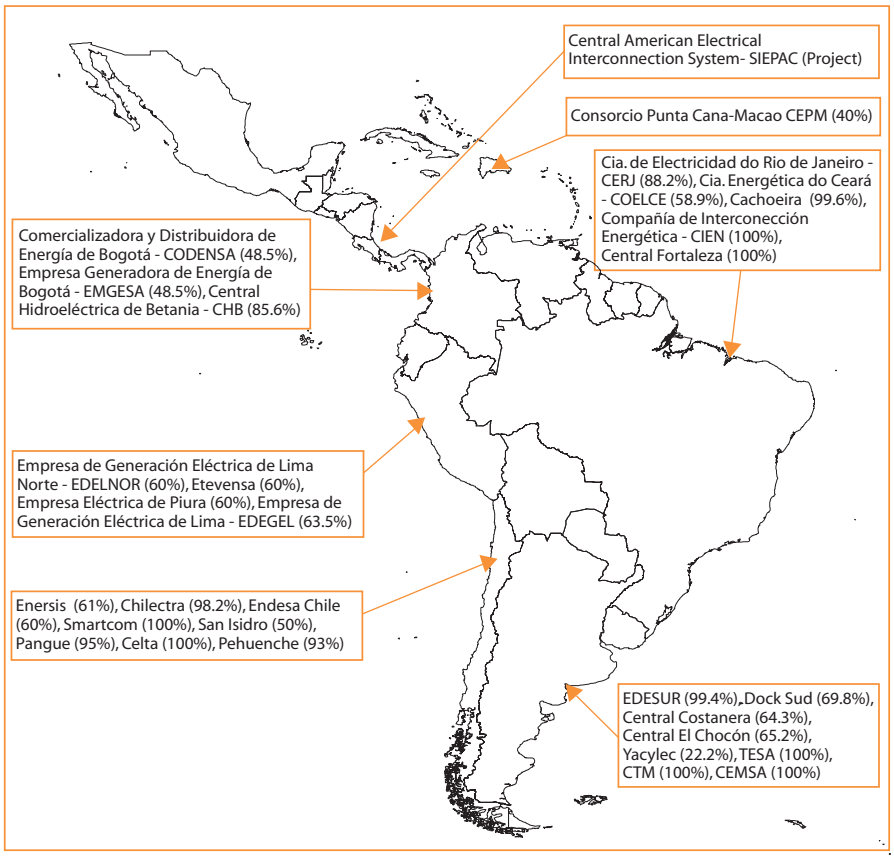
In the early 1990s, Endesa began expanding in Latin America in anticipation of the new competitive conditions in the European market. Business is conducted through its subsidiary Enersis, in which it holds a 60.6% interest. It is the largest operator in Argentina, Chile, Colombia and Peru (box figure II.15.1).

Box table II.15.1. Endesa's presence in LAC, 2004
(Per cent)

Country	Distribution of assets
Argentina	6
Brazil	19
Chile	40
Colombia	21
Dominican Republic	4
Peru	10

Source: UNCTAD, based on Endesa (www.endesa.com, May 2004).

Box figure II.15.1. Geographical presence and expansion of foreign affiliates of Endesa in LAC, 2004



Source: UNCTAD, based on Endesa's *Annual Report 2003* and its website, www.endesa.com (May 2004).

Source: UNCTAD.

d. Better prospects ahead

Prospects for FDI flows to LAC depend on a number of factors. FDI flows are forecast to rise, thus reversing the recent downward trend. FDI in the largest economies (Argentina, Brazil, Mexico) is expected to recover in 2004.

In the *short term*, prospects for FDI growth depend on the strength of the economic recovery; forecasts for LAC have improved significantly, approaching 4% in 2004 (IMF 2004). This should improve the profitability of foreign affiliates, ease liquidity constraints and offer more options for financing FDI. The *longer*

term FDI growth prospects, however, are uncertain. Structural problems that seem to have contributed to the region's diminishing attractiveness to investment remain. Furthermore, the normalization of FDI flows means that the region's share in overall flows to developing countries is unlikely to rise unless competitive weaknesses are overcome.

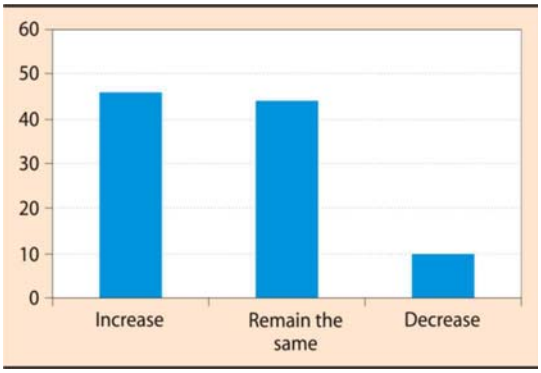
With privatization-related inflows likely to remain low (although such FDI could still be significant for some economies, e.g. Costa Rica, Ecuador), the region would need to attract new types of FDI. Moreover, governments will find it difficult to use the remaining potential for privatization as a stimulus to FDI. There is increasing scepticism towards privatization, especially after the financial crisis in Argentina. In addition, the region's ability to attract flows in relatively labour-intensive and technologically less demanding manufacturing industries has deteriorated due to the emergence of lower cost competitors, mainly in Asia. The "China challenge" is set to persist, even if the most affected countries respond by lowering taxes and easing bureaucratic procedures.

Policy makers can take heart, however, from the expectations of corporate executives. According to UNCTAD's survey of the largest TNCs, 46% of the respondents predict an increase in FDI inflows to the region for 2004-2005 (figure II.21). According to them, Brazil, Mexico, Argentina, Chile and Venezuela, in that order, will benefit most (UNCTAD 2004c).

The leading sources of FDI remain the United States and Spain ahead of Canada, Germany and the Netherlands, in that order, according to IPAs (UNCTAD 2004b). To attract more FDI, IPAs have been concentrating on investor targeting and other measures (figure II.22). LAC is the least likely of all regions to introduce more incentives or further liberalize national FDI regimes over the short term. In fact, just over one-tenth of the IPAs surveyed reported that they were planning to use additional incentives for FDI, a significantly lower figure than in other regions.

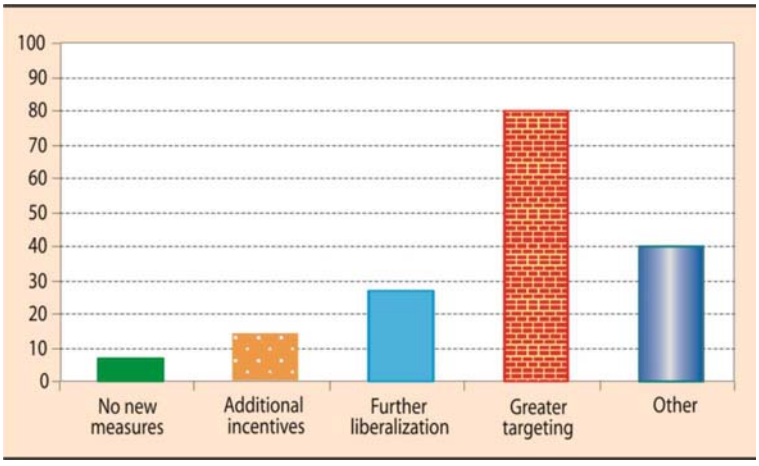
In the *longer term*, the region's prospects for inducing more and newer types of FDI depend on whether host countries succeed in tackling their structural weaknesses. But even then, the chances of attracting FDI differ across the region. Measured by UNCTAD's Inward FDI Potential Index, prospects look best for Chile (ranked 48th among 140 countries during 2000-2002), followed by Mexico (ranked 50th). Apart from Brazil, which moved up from 72nd to 68th place, all other LAC countries dropped in the rankings, with Panama, the Dominican Republic, Costa Rica, Venezuela, Argentina, Jamaica and Peru placed between 58 and 81. For Argentina, the recovery of FDI from its seriously depressed level is contingent not only on tackling structural factors, but also on resolving its debt problem.

Figure II.21. LAC: prospects for FDI inflows, 2004-2005, as reported by TNCs
(Per cent of respondents)



Source: UNCTAD, www.unctad.org/fdiprospects.

Figure II.22. LAC: expected policy measures to attract FDI, 2004-2005, as reported by IPAs
(Per cent of respondents)

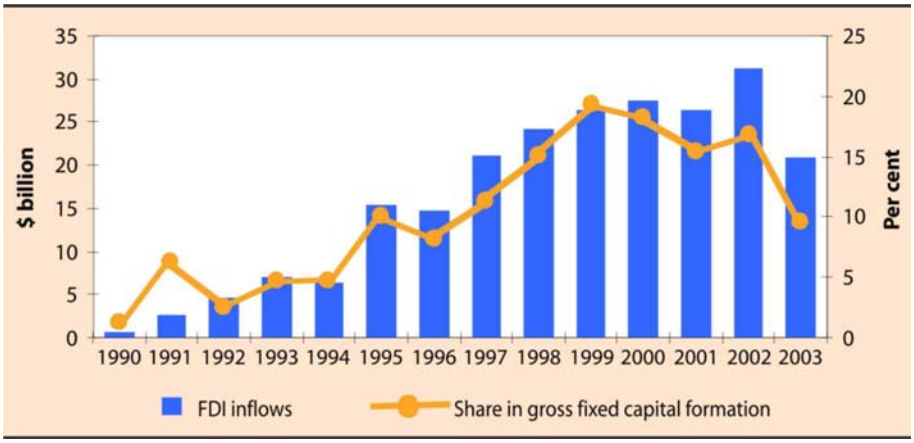


Source: UNCTAD, www.unctad.org/fdiprospects.

B. Central and Eastern Europe: awaiting the boom

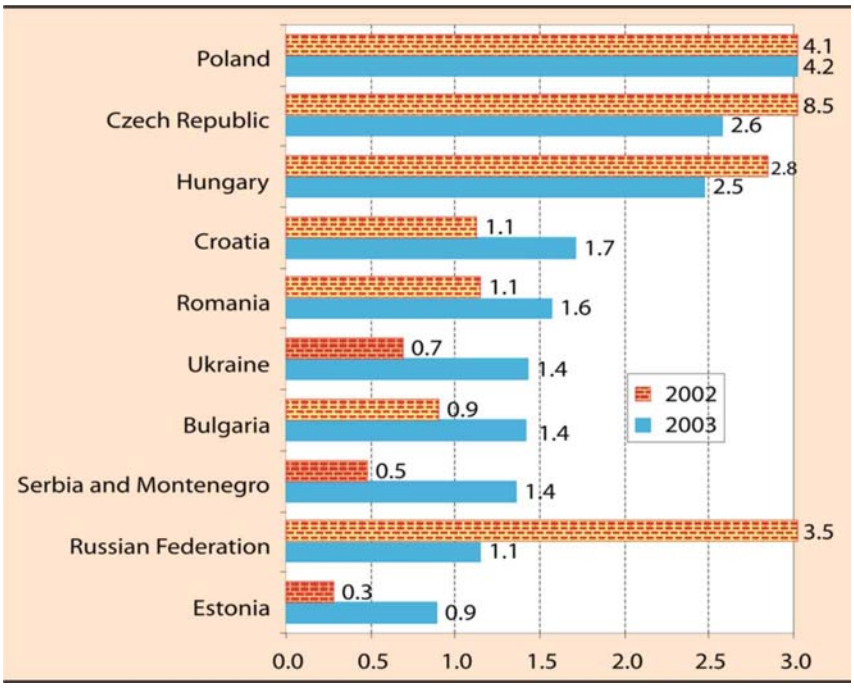
In contrast to earlier forecasts, FDI inflows into CEE declined from a record $31 billion in 2002 to a low of $21 billion in 2003 (figure II.23). This was almost entirely due to the end of privatization in the Czech Republic and Slovakia. Inward FDI in the rest of the region declined only marginally, from $19 billion to $18 billion. Overall, FDI inflows rose in ten countries and fell in nine, with Poland replacing the Czech Republic as the top recipient (figure II.24). In spite of the downturn, all but two countries remained in the same inflow-size range (table II.8). The share of inward FDI in gross fixed capital formation fell from 17% in 2002 to 10% in 2003 (figure II.23). No large-scale diversion of FDI from the older EU members to CEE countries occurred during 2003. In contrast, at $7 billion, FDI outflows from CEE reached a new record in 2003, up from $5 billion in 2002. Despite the decline in 2003, the medium-term prospects for growth of FDI in CEE are good.

Figure II.23. CEE: FDI inflows and their share in gross fixed capital formation, 1990-2003



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

Figure II.24. CEE: top 10 recipients of FDI inflows, 2002, 2003 [a]
(Billions of dollars)



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

[a] Ranked on the basis of the magnitude of 2003 FDI inflows.

Table II.8. CEE: frequency distribution of host countries, by range of FDI inflows, 1999-2003
(Number)

Range	1999	2000	2001	2002	2003
More than $5 billion	2	1	2	1	-
$1-4 billion	4	7	5	7	9
Less than $1 billion	13	11	12	11	10
Total	19	19	19	19	19

Source: UNCTAD, based on annex table B.1.

1. Inward FDI sharply down, outward FDI sharply up

a. Inward FDI: new EU members performed less well than other CEE countries

The decline in FDI inflows into CEE in 2003 was largely due to a fall in flows to the Czech Republic and Slovakia, two countries that had led the FDI surge in 2002 with large privatizations. The winding up of these privatizations contributed to the decline in FDI. Greenfield projects, spread over a longer period and generally smaller in size, could not immediately compensate for the fall in privatization-related FDI. This was despite the fact that both countries had been selected as locations for new automobile plants by TNCs (Toyota-PSA in the Czech Republic – *WIR02*, p. 69; PSA and Hyundai in Slovakia – box II.16). However, these projects will be fully operational only in 2005 or 2006, and a considerable proportion of the FDI associated with them is likely to materialize only at that time.

Outside the Czech Republic and Slovakia, the decline in FDI inflows was small, leading to the re-establishment of Poland, the Czech Republic and Hungary as the three top locations for inward FDI in the region (table II.9 and figure II.24).

The group of eight CEE countries that joined the EU in May 2004 – the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovenia, Slovakia – saw its FDI inflows shrink from $23 billion in 2002 to $11 billion in 2003. However, if the cycle of privatizations is set aside, FDI prospects for the new EU members from CEE are likely to improve rapidly in the near future (box II.17).

In the other 11 countries of the region – including Bulgaria and Romania (currently negotiating their entry into the EU) – FDI inflows rose from $8.6 billion in 2002 to $9.5 billion in 2003, representing an increase in their share of total FDI inflows from 28% in 2002 to 45% in 2003. In the South-Eastern European part of this group, a proportion of the high FDI can be explained by privatization deals, although these do not yet match the size of previous privatization deals in countries such as the Czech Republic, Hungary and Poland.

During the period 2001-2003, the Republic of Moldova, the former Yugoslav Republic of Macedonia and Serbia and Montenegro were the region's leaders in terms of the ratio of FDI to gross fixed capital formation (figure II.25). Most of these high ratios reflect small national economies. During 2002-2003, FDI inflows into the Russian Federation declined from $3 billion to $1 billion. But this should be temporary, as foreign investors can be expected to renew their interest in the natural resources of the Russian Federation.

Box II.16. Slovakia: a new hub for European automobile production

Thanks to FDI in large assembly projects, Slovakia is on its way to becoming a major European hub for automobile production. By 2006, when all factories currently under construction are scheduled to be operational, this country of 5 million people will have a capacity to produce 850,000 cars per year (Landler 2004). In a decade and a half, Slovakia will have been transformed from a country with no assembly capacity before 1991 into a key international player.

The backbone of the Slovak automobile industry today consists of three large assembly plants set up by TNCs that followed different strategies to enter the country. Germany's Volkswagen opted for a gradual entry. It took over a local plant – at that time mainly producing parts for Skoda Automobilová in the Czech Republic – in the capital city of Bratislava in 1991 and transformed it into a large assembly plant over time. Since 1998, Volkswagen Slovakia has been by far the largest firm and the largest exporter in the country. Its turnover was close to $5 billion in 2003 (Anderson 2004) and its exports

/...

Box II.16. Slovakia: a new hub for European automobile production (concluded)

exceeded $4.4 billion – 23% of the national total (AIA SR 2004). Currently, the labour-intensively manufactured off-road Touareg is its main product line.

French car-maker PSA Peugeot-Citroen and Hyundai of the Republic of Korea entered Slovakia through greenfield investments in small car production. PSA decided at the beginning of 2003 to build a factory in a town less than 100 kilometres from Volkswagen's Bratislava site. It is expected to start production in 2006. In early 2004, Hyundai chose Zilina, another town in western Slovakia, close to the other two plants, for another plant operation; this will reach full capacity in 2008. Slovakia's success in attracting automotive production is linked to five factors:

- The three main sites located in western Slovakia are close to Western Europe and in the middle of an emerging cross-border cluster of 13 car plants, 10 power train factories and hundreds of suppliers in a 500-km circle that encompasses the Czech Republic, Hungary, Poland, Slovakia and Slovenia (Wright 2004).
- Slovakia benefits, within that cluster, from good transportation links (a highway link to Western Europe is almost complete) and free movement of goods within the enlarged EU, which facilitates the cross-border supply of components.
- The country offers a combination of labour skills and competitive labour costs. The latter are particularly competitive due to the latecomer status of the country in attracting FDI. This has kept wages lower than in CEE countries that have been the traditional magnets for FDI (the Czech Republic, Hungary, Poland) and that, as a result, have seen their wages rising.
- Thanks mostly to Volkswagen's efforts – such as the construction of two industrial parks for suppliers – the supplier capacity of Slovakia is improving, making production more cost efficient. In 1997, the production value by Slovak automotive suppliers amounted to around $450 million. By 2003, it had increased by more than five times, to about $2.5 billion, more than 60% of which was sold to Volkswagen Slovakia in 2003 (AIA SR 2004).
- In the cases of PSA and Hyundai, the Government of Slovakia provided assistance within the limits of EU rules on State aid (up to 15% of the value of the projects): free land for the plants, construction financing, subsidies to train the labour force and tax breaks (Landler 2004). Direct payments to Hyundai were estimated to be around $170 million, while estimated public expenses related to the project amounted to $50 million (BBC Monitoring European 2004). PSA was expected to receive $114 million in government assistance (de Saint Seine 2003).

In addition to its contribution to export competitiveness, FDI in Slovakia's automobile industry is a major source of new investment and jobs. Over its 13-year presence in Slovakia, Volkswagen has invested around $1.3 billion in its Bratislava factory (Anderson 2004). PSA's and Hyundai's total investments, once fully operational, are expected to amount to $830 million and $1.5 billion, respectively (Wright 2004). In Bratislava, Volkswagen employs about 11,000 people, while its first-tier suppliers employ a workforce of more than 9,000 (Anderson 2004). Each of these TNCs plans to employ 3,000 persons, and thousands of additional jobs are likely to be created among suppliers.

To benefit fully from the opportunities presented by this emerging automobile industry, Slovak authorities have to deal with some of the challenges arising from its quick rise. One relates to labour skills and costs. To serve the assembly plants and their suppliers, training of many people with appropriate vocational skills is required. Also, as the three key plants are close to each other, general labour shortages may occur and wages rise. Authorities may also need to help firms that aim to become suppliers to the new plants, because the country's supplier industry is generally considered less developed than that of the Czech Republic or Poland (Mackintosh 2004). Even under an optimistic scenario of fast-increasing local supplies, Slovakia may need increasingly to import spare parts from neighbouring countries. Finally, the authorities of Slovakia will need to pay particular attention to completing the missing parts of the highway system linking the three plants to the Western European transportation networks.

Source: UNCTAD.

Table II.9. CEE: country distribution of FDI inflows, by range, 2003

Range	Economy
More than $1 billion	Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Russian Federation, Serbia and Montenegro and Ukraine
Less than $1 billion	Albania, Belarus, Bosnia and Herzegovina, Estonia, Latvia, Lithuania, Republic of Moldova, Slovakia, Slovenia and The former Yugoslav Republic of Macedonia

Source: UNCTAD, based on annex table B.1.

b. FDI outflows: robust increase

FDI outflows from CEE rose by 42% in 2003, from $5 to $7 billion. The Russian Federation remained the leading source, alone accounting for the bulk (59%) of the region's outflows. The traditional dominance of Russian firms is reflected in the list of the top 25 TNCs of CEE (annex table A.II.2), in which they remain much larger than TNCs from other CEE countries (box II.18). Non-Russian outward FDI rose faster than that from the Russian Federation: Hungary's outward FDI surged from $0.3 billion in 2002 to $1.6 billion in 2003.

The surge of outflows is reflected in the ratio of FDI outflows to FDI inflows. On average, the ratio more than doubled, from 16% in 2002 to 33% in 2003. In 2002, the Russian Federation was already a net capital exporting country, a position that became more pronounced in 2003. Slovenia became a net capital exporter in 2003, while the ratio reached 62% for Hungary in the same year.

The Russian Federation, with an outward FDI stock of $52 billion in 2003, was the world's 21st largest outward investor (annex table B.4). In terms of the number of new FDI projects started in 2003, the Russian Federation moved up to 17th place, ahead of such countries as Finland, Turkey and Denmark.[41] The other CEE

Box II.17. EU enlargement has not led to large-scale FDI diversion

The eight CEE countries that joined the EU on 1 May 2004 have so far not diverted significant FDI flows away from the 15 older members or, more generally, have not improved their FDI position significantly relative to the older members. Over most of the late 1990s and early 2000s, the combined inflows of the eight remained considerably below the inflows for older EU members such as France and Germany and, more recently, Ireland and Spain (box table II.17.1). Since mid-1995, FDI flows into the eight accounted for a fraction of the inflows of the EU – a mere 4% in 2003, declining from a high of 11% in 1995.

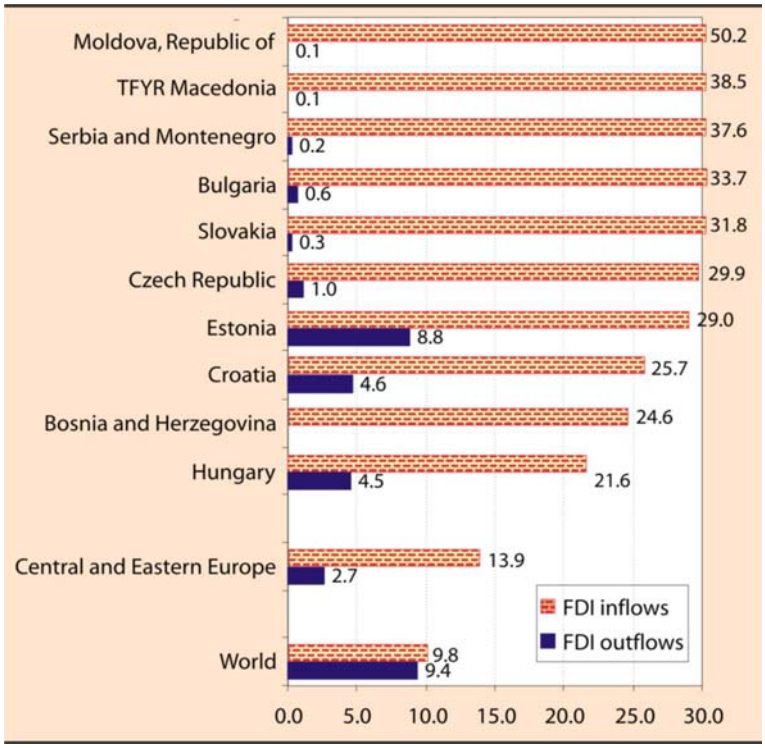
Box table II.17.1. FDI inflows into CEE countries acceding to the EU in 2004, compared with the EU-15, 1995-2003
(Billions of dollars)

Country/region	1995	1998	1999	2000	2001	2002	2003
CEE countries acceding to the EU	12.2	16.7	18.6	20.3	18.4	22.6	11.5
Of which:							
Czech Republic	2.6	3.7	6.3	5.0	5.6	8.5	2.6
Hungary	5.1	3.8	3.3	2.8	3.9	2.8	2.5
Poland	3.7	6.4	7.3	9.3	5.7	4.1	4.2
Slovakia	0.3	0.7	0.4	1.9	1.6	4.1	0.6
Memorandum:							
World	335.7	690.9	1 086.8	1 388.0	817.6	678.8	559.6
EU-15	114.6	249.9	479.4	671.4	357.4	374.0	295.2
Of which:							
France	23.7	31.0	46.5	43.3	50.5	48.9	47.0
Germany	12.0	24.6	56.1	198.3	21.1	36.0	12.9
Ireland	1.4	8.6	18.2	25.8	9.7	24.5	25.5
Spain	6.3	11.8	15.8	37.5	28.0	35.9	25.6
Share of FDI into CEE countries acceding to the EU in total inward FDI of EU-15 (%)	10.6	6.7	3.9	3.0	5.1	6.0	3.9

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

Source: UNCTAD.

Figure II.25. CEE: FDI flows as a percentage of gross fixed capital formation, top 10 countries, 2001-2003 [a]
(Per cent)



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

[a] Ranked on the basis of the magnitude of 2001-2003 FDI inflows as a percentage of gross fixed capital formation.

Box II.18. The 25 largest TNCs of CEE

In 2002, the 25 largest non-financial TNCs from CEE (annex table A.II.2) continued to expand both at home and abroad in terms of assets, sales and employment (box table II.18.1). The resilience of these top 25 firms contrasts with that of the firms on the top 100 list: the latter saw a marginal decline as a result of a global economic slowdown that year. Part of the explanation lies in the anticipation of EU enlargement by CEE TNCs, especially Russian and Croatian ones, as they aspired to gain a foothold in the 25-member EU. Another reason lies in the composition of the list, which is dominated by natural-resource-based firms (five on the list) and transportation companies (five).

The industry and country composition of the top 25 list in 2002 remained fairly stable compared to 2001. Three firms entered the list in 2002: Norilsk Nickel (Russian Federation), Finvest (Croatia) and Policolor (Romania). Latvian Shipping (Latvia), Lek (Slovenia) and Tiszai Vegyi Kombinát (Hungary) departed. Those departures increased the importance of natural-resource-based and Russian firms.

Russian TNCs continue to be larger and more transnationalized than the others – more than ten times in terms of foreign assets and foreign sales. And the transnationality index of the Russian firms is almost one and a half times higher than that of the other firms.

Source: UNCTAD.

Box table II.18.1. Snapshot of the top 25 non-financial TNCs from CEE, 2001, 2002
(Billions of dollars, number of employees and per cent)

Variable	2001	2002	Change in 2002 from 2001[a]
Assets			
Foreign	9.3	9.8	5.4
Total	33.8	51.3	52.1
Sales			
Foreign	13.1	17.0	29.4
Total	30.2	33.6	11.1
Employment			
Foreign	30 053	31 643	5.3
Total	335 236	451 258	34.6
Average TNI	30.3	31.5	1.2

Source: UNCTAD, based on annex table A.II.2.

[a] The change between 2001 and 2002 is expressed in percentage points.

countries were much smaller outward investors (in value terms, Hungary is 45th, Slovenia 53rd).

Outward FDI by Russian firms is motivated partly by a desire to gain a foothold in the enlarged EU, partly by a desire to control their value chains globally (e.g. Norilsk Nickel's investment into South Africa's Gold Fields, box II.19). As part of the latter's strategy, Russian companies continue to focus a large part of their outward FDI in other member countries of the Commonwealth of Independent States (CIS). In 2002-2003, four of the ten top destinations of outward FDI projects from the Russian Federation were other CIS member countries (table II.10).

In 2002-2003, the majority (Alrosa, Gazprom, Group Alliance, Itera Group, LUKoil, RusAl, UES, YUKOS) of the leading Russian outward investing firms (8 of the 15) – in terms of new projects set up abroad – were engaged in natural-resource-based activities. In the energy industry, in particular, Russian companies started to diversify their production base and access foreign markets by acquiring companies and establishing foreign affiliates. Gazprom began a large long-term pipeline joint venture linking the Russian Federation with Germany; and LUKoil initiated a $3 billion greenfield project in gas exploration in Kazakhstan.[42] Compared with these greenfield projects, the cross-border acquisitions of Russian firms tended to be smaller – in the order of $200-$300 million. For example, Norilsk Nickel signed the largest deal (box II.19), followed by LUKoil's acquisition of Beopetrol Beograd (of Serbia and Montenegro) and a partial acquisition of the Ukrainian Mobile Communications Enterprise by Mobile Telesystem. In 2004, the size of M&As by Russian firms rose.

Table II.10. The top 10 destinations of FDI projects from the Russian Federation, 2002-2003
(Per cent)

Country	Share
Ukraine (CIS)	13.9
Belarus (CIS)	4.8
China	4.3
Germany	4.3
Uzbekistan (CIS)	4.3
Kazakhstan (CIS)	3.9
Latvia	3.5
Romania	3.5
Egypt	3.0
Viet Nam	3.0
Top 10 destinations	48.5

Source: UNCTAD, FDI/TNC database (www.unctad.org/ fdistatistics) and OCO Consulting, LOCO*monitor* (for greenfield projects).

Besides natural-resource-based firms, the list of the top 15 Russian investors includes three automotive producers, one ICT company, one telecom operator, one insurance company and one food producer. The expansion of non-natural-resource-based companies abroad is a recent phenomenon. However, during the past few years, these companies have been active, opening production facilities, representative offices and sales units abroad to tap new markets and seize new business opportunities. For example, the ICT firm EPAM Systems aims to be a major competitor to the so-called "tier 1" offshore suppliers, especially companies in India that are traditionally strong in software development.

Slovenian and Hungarian TNCs, in contrast, seek to improve their intra-regional competitiveness by focusing their investment mostly on the lower income CEE or some developing countries. In the case of Hungary, oil and gas (an industry in which MOL is the national leader) accounted for 63% of outward FDI in 2003, followed by financial intermediation (22%) in which OTP is the national champion. MOL completed the integration of Slovnaft

Box II.19. Norilsk Nickel: the fourth largest Russian TNC

After Gazprom, LUKoil and RusAl (aluminium), Norilsk Nickel is the fourth largest Russian TNC. Its assets abroad were estimated at around $2 billion at the end of 2002 (Liuhto and Vahtra forthcoming). It is a world leader in the production of several strategic metals: palladium, platinum, nickel, cobalt and copper (*idem*). It also deals with the sales and marketing of platinum-group metals (iridium, osmium, palladium, platinum, rhodium, ruthenium), cobalt and gold. Norilsk has been expanding abroad through a series of investments into trading and mining companies such as a 51% stake in the United States-based Stillwater Mining in 2003, a 20% stake in Gold Fields Ltd. of South Africa, and the acquisition of the London-based metal trading company Norimet Ltd. in 2000. Norilsk Nickel is particularly active in Belgium, South Africa, Switzerland, the United Kingdom and the United States. As a result, the firm is today the fifth largest producer of platinum-group metals and the fourth largest gold mining company in the world.

Source: UNCTAD, based on Liuhto and Vahtra forthcoming.

(Slovakia) into the group, expanded its petrol-station network in Romania and acquired INA (Croatia). OTP completed the consolidation with its Slovakian affiliate and purchased DSK Bank in Bulgaria. In Slovenia, Lek, a firm that Novartis had acquired in 2002, became the leading outward investing firm in 2003; it had started production of generic drugs in Poland and Romania. Automotive supplier Prevent opened its 7th foreign production facility in Morocco and is planning to set up a plant in Shanghai, China. The value of outward FDI by other Slovene firms (e.g. domestic appliance producer Gorenje, retailer Mercator and engineering company Kolektor) is small.

In the future, other new EU members – such as the Czech Republic and Estonia – can be expected to report similar surges in FDI outflows.

2. Implications of EU membership for national policy

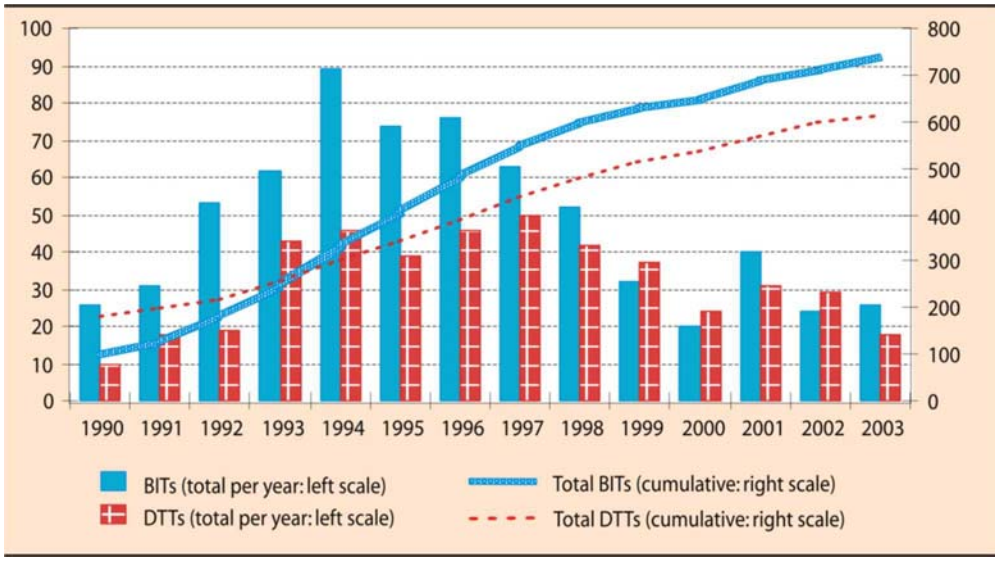
For the eight CEE countries that joined the EU in May 2004, full membership in the Union means that they needed to adopt the full body of EU law (the *acquis communautaire*). On the one hand, the *acquis communautaire* improves the business environment and the attractiveness of the accession countries. On the other hand, its application (e.g. concerning environmental protection or labour standards) may increase the cost of doing business.

In 2003, a number of CEE countries introduced policy measures aimed at liberalizing, promoting and protecting FDI. In the group of new EU member countries, for instance, the Czech Republic further liberalized its energy market and telecom industry, while Hungary adopted laws on the privatization of healthcare and on the gradual liberalization of the natural gas market in accordance with EU regulations (Natural Gas Act 2003). Other CEE countries, such as Serbia and Montenegro adopted various reform measures aimed at catching up with the rest of the region. For example, it permitted the free transfer of financial and other resources related to foreign investment, lifted previous limitations on the establishment of wholly owned foreign affiliates in the telecom and public information industries and lifted approval requirements for establishing foreign affiliates or for the acquisition of domestic companies (Foreign Direct Investment Law of 2003).

At the bilateral level, 26 BITs and 18 DTTs were signed in 2003. In the early 1990s, the number of DTTs in force was much higher than that of BITs. With the transition process picking up and various CEE countries gaining independence, the number of BITs and DTTs increased rapidly during the first half of the 1990s, with BITs growing faster than DTTs. The latter development reflected the growing importance attributed to inward FDI. With the transition process maturing, the number of new BITs and DTTs signed diminished (figure II.26). EU membership, however, made it necessary for old BITs to conform to EU regulations (box II.20).

A special policy issue arises out of the combination of relatively low wages, low corporate taxes and the use of subsidies – not so much for the new member countries as for the old EU members, especially those fearing a

Figure II.26. CEE: number of BITs and DTTs concluded, 1990-2003



Source: UNCTAD, BIT/DTT database (www.unctad.org/fdistatistics).

Box II.20. BITs between the United States and the new EU member States and candidate countries

A number of provisions of the BITs between some of the new EU member States and candidate countries[a] and the United States were amended to facilitate these countries' meeting their obligations, whether existing or future, and to take steps to address potential incompatibilities between their existing international agreements and their obligations of EU membership.

BITs between these countries and the United States contained commitments on protection and market access for the FDI of investors of the contracting parties. In particular, they contained the principles of national treatment and most-favoured-nation treatment (MFN) at the pre- and post-establishment phases. With respect to some specific matters and industries (e.g. subsidies, agriculture and audio-visual), the Commission believed that these obligations would be inconsistent with specific obligations deriving from the EC Treaty and EU regulation. In addition, concerns with respect to national and MFN treatment, the obligations on performance requirements in some industries (i.e. audio visual and agriculture) were believed to raise issues of compatibility with EU rules as well.

To address the issue of compatibility between EU legislation and these BITs, the new EU members and candidate countries to the EU, the European Commission and the United States signed a Memorandum of Understanding (MoU) in September 2003 (box table II.20.1). This MoU served as a guide for amending and clarifying provisions in the individual BITs.

The amendments excluded from the scope of these BITs national and MFN treatment obligations measures with respect to agriculture, audiovisual, transport, financial services, fisheries and energy, to the extent such measures are necessary to meet EU obligations. The Understanding also addressed the EU concern that its authority, in accordance with article 60 of the EC Treaty, to adopt measures limiting capital movements and payments to and from third countries, and its authority under article 59 of the EC Treaty, to enact safeguard measures to preserve the functioning of the economic and monetary union, not be infringed.

Among the various issues dealt with under the amendments are obligations related to national and MFN treatment. For example, the Additional Protocol between the United States and Poland states that, in certain industries, the EU member country may take a reservation against national and MFN treatment obligations of the BIT, provided that such reservation is necessary to meet the country's obligations under EU law, and subject to the exception that, notwithstanding any such new reservation, existing United States investments in the country shall remain protected under the national or MFN treatment obligations of the BIT for at least 10 years from the date of the relevant EU law which made the reservation necessary. The Additional Protocol also provides that the United States reserves the right to make or maintain limited exceptions to national treatment obligations to fisheries and subsidies, and to the MFN treatment obligation in fisheries.[b]

Box table II.20.1. Specific BITs of new EU members and candidate countries with the United States

Country	Date of signature [a]	Date of entry into force	Date of expiry [a]
Bulgaria	23 September 1992	2 June 1994	1 June 2004
Czech Republic	22 October 1991	19 December 1992	18 December 2002
Estonia	19 April 1994	16 February 1997	15 February 2007
Latvia	13 January 1995	26 December 1996	25 December 2006
Lithuania	14 January 1998	22 November 2001	21 November 2011
Poland	21 March 1990	6 August 1994	5 August 2004
Romania	28 May 1992	15 January 1994	14 January 2004
Slovakia	22 October 1991	19 December 1992	18 December 2002

Source: UNCTAD, BIT/DTT database (www.unctad.org/fdistatistics).

[a] BITs are tacitly renewed on the expiry date, but can be renounced at any time, with a one-year advanced notification after an initial period of ten years. As the BITs stood in their original version, before amendment, the acquired rights of established foreign investors remained valid for an unlimited period after the renunciation of the agreement. Following the amendments, the protection of acquired rights of established investors is limited in time, from ten to twenty years.

Source: UNCTAD.

[a] The countries concerned are Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania and Slovakia. The candidate countries are Bulgaria and Romania.

[b] The American Society of International Law, *International Law in Brief*, 7 April 2004 (http://www.asil.org/ilib/ilib0706.htm).

relocation of production facilities to the new EU members. As far as wages and related policies are concerned (table II.11), there have been long-standing differences between the more developed, higher wage, and the less developed, lower wage EU members. With the accession of ten new countries, discrepancies have further widened. In 2001, the average for the EU-15 was more than three times higher than that for the ten new member countries (table II.11). Even adjusted for labour productivity, new EU member countries offer major labour cost advantages.

As far as the fiscal regime is concerned, a wave of tax reductions at the beginning of 2004 was made by the majority of new EU member countries (table II.12). Not one of the eight CEE accession countries is in the top 11 in terms of corporate tax rates, while six are in the bottom eleven. A simple comparison of tax rates is of course not sufficient for assessing the relative tax burdens imposed on comparison. The profits to which the tax rates are applied ("the tax base") also needs to be taken into account.

Finally, under the EU Structural Funds, the eight new CEE members can expect (in the framework of the objectives defined by the EU regional policy) total transfers amounting to €21.5 billion over a three-year period (2004-2006) from the common budget of the EU.[43] These funds are intended mainly for such purposes as building basic infrastructure (including transportation), human resource development, competitiveness and enterprise development, rural development and improving environment. If used for the above purposes, they can enhance FDI attractiveness and improve the investment climate of CEE countries.[44]

This combination of factors – further combined with a favourable business climate, a highly skilled workforce and free access to the rest of the EU market – makes the eight accession countries attractive locations for FDI, both from other EU countries and from non-EU members. That applies especially to efficiency-seeking FDI. No wonder, then, that there are some concerns in the old EU members as regards a possible

Table II.11. Gross monthly average salary, selected economies, adjusted to productivity, 1998-2002
(Euros and per cent)

Country	Gross monthly average salary					Productivity[a]	Productivity/salary (EU-15=100%)
	1998	1999	2000	2001	2002	2000	2000
Average for the EU-15[b]	1 845	1 923	2 127	2 191	..	42.5	100
Of which:							
Greece	1 101	1 160	1 227	1 286	1 357	19.4	79
Portugal	..	..	1 052	1 112	..	10	48
Spain	..	1 297	1 326	1 372	1 425	26.1	98
New EU members from CEE	..	381	410	460	..	11.7	117
Of which:							
Czech Republic	..	343	379	430	510	10.9	144
Estonia	..	282	303	328	..	8.3	137
Hungary	307	314	348	408	489	11.1	160
Latvia	..	257	277	280	..	..	..
Lithuania	233	251	270	300	..	..	..
Poland	346	442	471	626	598	9.3	99
Slovakia	274	260	299	320	382	9.2	154
Slovenia	..	895	935	988	1 041	21.3	114
EU candidates	..	115	132	146	153	..	..
Of which:							
Bulgaria	101	111	120	127	132	..	..
Romania	..	120	144	165	174	..	..

Source: UNCTAD, based on http://europa.eu.int/comm/eurostat/; www.dree.org/elargissement (data in *italics*); and Stephan 2003, p. 10 (for productivity data).

[a] Value added per € 1,000 labour costs, national average.
[b] EUROSTAT estimate. Data for Austria, Ireland and Italy are not available.
[c] Average productivity is based on data for the Czech Republic, Estonia, Hungary, Poland, Slovakia and Slovenia only.

Table II.12. Corporate tax rates in selected economies, 2003 and 2004: the highest and the lowest
(Per cent)

Rank	Economy	1 January 2003	1 January 2004
	Eleven highest		
1	Japan	42	42
2	United States	40	40
3	Germany	39.6	38.3
4	Italy	38.3	37.3
5	Canada	36.6	36.1
6	Israel	36	36
7	India	36.8	35.9
8	Malta	35	35
8	Pakistan	35	35
8	Spain	35	35
8	Sri Lanka	35	35
	Eleven lowest		
1	Cyprus	10/15	10/15
2	Ireland	12.5	12.5
3	Estonia	0/26	0/26 [a]
4	Lithuania	15	15 [a]
5	Latvia	19	15 [a]
6	Hungary	18	16
7	Chile	16.5	17
8	Hong Kong (China)	16	17.5
9	Iceland	18	18
10	Slovakia	25	19
10	Poland	27	19

Source: UNCTAD, based on *KPMG's Corporate Tax Rates Survey - 2004* (http://www.kpmg.co.uk/pubs/taxrates_04.pdf).

Note: On 1 January 2004, the Czech Republic applied a corporate tax of 28%, and Slovenia 25%.

[a] Information collected directly by UNCTAD.

relocation of manufacturing and services activities to the new members[45] – and the expectation of an FDI boom in the new members (section II.B.4).

3. A shift towards services brings about structural change

Service-related FDI inflows into CEE have followed the trend of growth in services (in GDP, employment, FDI) worldwide and in the region itself. In the CEE region, services had been largely neglected under the centrally planned economic system. With EU enlargement, the adoption of the *acquis communautaire* and the integration of the market for services, pressures have increased to upgrade services to the level of the old EU members and to attract FDI into higher value-added services, including export-oriented services.

In the largest host countries of the region (the Czech Republic, Hungary, Poland, the Russian Federation), the industry composition of inward FDI is gradually shifting from manufacturing towards services, and within services, from network industries privatized in earlier years towards business services. In the Czech Republic, Hungary and Poland, services had already become dominant in FDI in the late 1990s. In the Russian Federation, the structural change is slower, with both the primary and secondary sectors retaining a higher share of FDI. These variations reflect the increasing differences in income levels between the first three countries on the one hand and the Russian Federation on the other.

In general, the countries of CEE outside the CIS are characterized by substantial FDI penetration in infrastructure services (e.g. banking, telecommunications, water, electricity). In all non-CIS countries except Slovenia, foreign banks control the majority of banking assets (table II.13). Quite uniquely, foreign banks have penetrated not only the business segment, but also retail markets (Kraft 2004). In telecommunications, both the dominant operators and their competitors are mostly foreign affiliates.

In business services and R&D, however, FDI plays a relatively limited role. In terms of the number of FDI projects in services in 2002 and 2003, the Russian Federation leads, followed by Hungary, Romania, Poland and Bulgaria (table II.14). In terms of the largest projects, the Czech Republic, Hungary and Poland are the most frequently mentioned locations (Mikerova 2004).

Table II.13. CEE: foreign affiliates dominate banking assets, 2001
(Per cent)

Country	Share	Country	Share
Estonia	99	Latvia	65
Czech Republic	90	Macedonia	51
Croatia	89	Romania	47
Hungary	89	Albania	46
Slovakia	86	Moldova	37
Lithuania	78	Belarus	26
Bulgaria	75	Slovenia	21
Bosnia and Herzegovina	73	Ukraine	11
Poland	69	Russian Federation	9

Source: UNCTAD, based on annex table A.III.4.

Table II.14. Largest CEE recipients of services FDI projects, 2002-2003
(Number of projects and per cent)

Country	Number of projects			Share
	Total	Greenfield FDI[a]	Cross-border M&As	(Per cent)
Russian Federation	126	81	45	15
Hungary	121	72	49	14
Poland	116	37	79	14
Czech Republic	95	31	64	11
Romania	77	57	20	9
Bulgaria	53	31	22	6
Slovakia	43	18	25	5
Serbia and Montenegro	31	21	10	4
Total	852	439	413	100

Source: UNCTAD, based on information provided by OCO Consulting and UNCTAD, cross-border M&A database.

[a] Based on projects monitored in five key services areas: financial services, telecommunications services, headquarters and distribution centres, R&D and shared services/call centres.

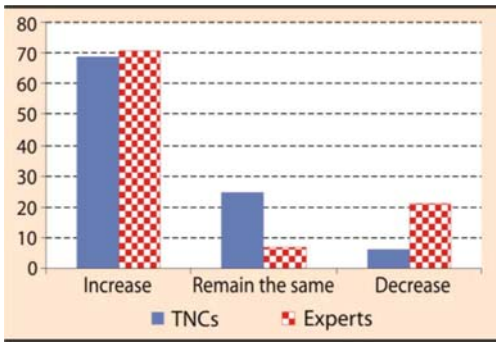
4. Prospects: again sunny

Robust growth is expected for FDI inflows into CEE, both in the new members of the EU and the rest of the region. Growth in CEE is predicted to remain robust, at 4.5% in 2004 (IMF 2004). Flows to EU accession countries are likely to experience a "second wind" of FDI from traditional investors seeking to reap the benefits from these countries' redefined location advantages. In the new members, this expectation is based on the wide range of new or expansion projects approved or committed over the past few years, which should lead to large FDI inflows in the near future. One illustration of this is the announced investment by Hyundai Motors in Slovakia (box II.16). Prospects for inward FDI will also depend on the success of these countries in positioning themselves as production and service platforms for TNCs originating outside Europe (the United States, Japan, the Republic of Korea, and, to a lesser extent, China and India).

Privatization in CEE is likely to pick up again in 2004, as new EU member countries seek to reduce further their public sector debts in line with EU requirements, which also augurs well for FDI. Over the longer term, many EU accession countries are well positioned to receive not only FDI, but also upgrade into higher value-added TNC activities. Better quality FDI should follow.

In UNCTAD's surveys of large TNCs and location experts (UNCTAD 2004a, 2004c), the CEE region attained the highest score, with more than two-thirds of the respondents of both TNCs and experts expecting FDI to increase during 2004-2005, fuelled by accession prospects (figure II.27). Poland and the Czech Republic were identified as the top FDI destinations. Romania, the Russian Federation and Hungary were also ranked high. Germany and the United States are expected to be the principal investors in the region. Location experts predict FDI inflows will rise in food and beverages and motor vehicles, while in services, prospects appear to be brightest in construction and real estate, retail and wholesale trade and transport (UNCTAD 2004a). Cross-border M&As and greenfield projects were viewed as equally important modes of entry by TNCs. Production still stands out as the corporate function most likely to be attracted to CEE, followed, at some distance, by logistics and supply services (UNCTAD 2004c).

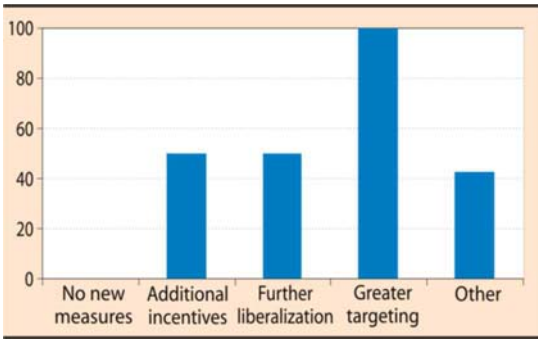
Figure II.27. CEE: prospects for FDI inflows, 2004-2005, as reported by TNCs and location experts
(Per cent of respondents)



Source: UNCTAD, www.unctad.org/fdiprospects.

As in the case of other regions, refined investor targeting, further FDI liberalization and additional incentives were mentioned as the principal instruments to attract FDI over the next year in UNCTAD's IPA survey (figure II.28). In fact, virtually all IPAs surveyed said they would use investor targeting to attract FDI into the region over the coming years, the highest proportion of all regions (UNCTAD 2004b). No IPA expected to remain passive by not introducing any new measures.

Figure II.28. CEE: expected policy measures to attract FDI, 2004-2005, as reported by IPAs
(Per cent of respondents)



Source: UNCTAD, www.unctad.org/fdiprospects.

C. Developed countries: the decline continues, but prospects are good

Mainly because of developments in the United States, FDI inflows into developed countries fell, but outflows increased in 2003. Policy measures at all levels improved the FDI climate, and a rebound in flows is expected in the short term.

1. Uneven trends

Developed-country FDI inflows declined by a quarter, to $367 billion – the lowest level in six years – whilst outflows increased by 4%, to $570 billion in 2003 (annex table B.1). Slow economic recovery, sluggishness in M&As and outflows of intra-company debt were mainly responsible for the continued decline. Outflows to developing countries increased, particularly in Asia, as TNCs sought locations with lower factor costs and high economic growth. FDI inflows were higher for 10 countries in the region and lower for 16. As a result of transshipped FDI, Luxembourg[46] was once again the largest FDI recipient worldwide, followed by China, France and the United States (figure II.29). The United States resumed its position as the top home country (figure II.29). FDI flows into the EU and Japan declined by 21% and 32%, respectively. In 2003, only two developed countries were ranked in the top ten in UNCTAD's Inward FDI Performance Index (down from three in 2002): Belgium-Luxembourg and Ireland, ranked first and fourth respectively (table I.5; annex table A.I.5).

Despite stronger performance in the world's stock market in 2003, cross-border M&A purchases and sales among developed countries were down in number and value for the third year in a row, to pre-1998 levels (annex tables B.7-B.8). At the regional level, North American and EU cross-border M&A sales declined by 16% and 37%, respectively. With regard to purchases, North American cross-border M&As grew by 8% while EU cross-border M&As fell by 44%. There were some large deals, including HSBC Holdings PLC (United Kingdom) acquiring Household International Inc. (United States), valued at $15 billion, the German company RWE AG acquiring American Water Works Co Inc. ($8 billion) and BP PLC-Russian Assets (Russian Federation/ United Kingdom parent) acquiring Alfa Renova-Russian Asset (Russian Federation) ($8 billion). Nevertheless, there were fewer cross-border M&A purchases and sales worth over $1 billion concluded by developed countries: purchases were down to 48 from 76 in 2002, and sales were down to 45 from 69 the previous year.

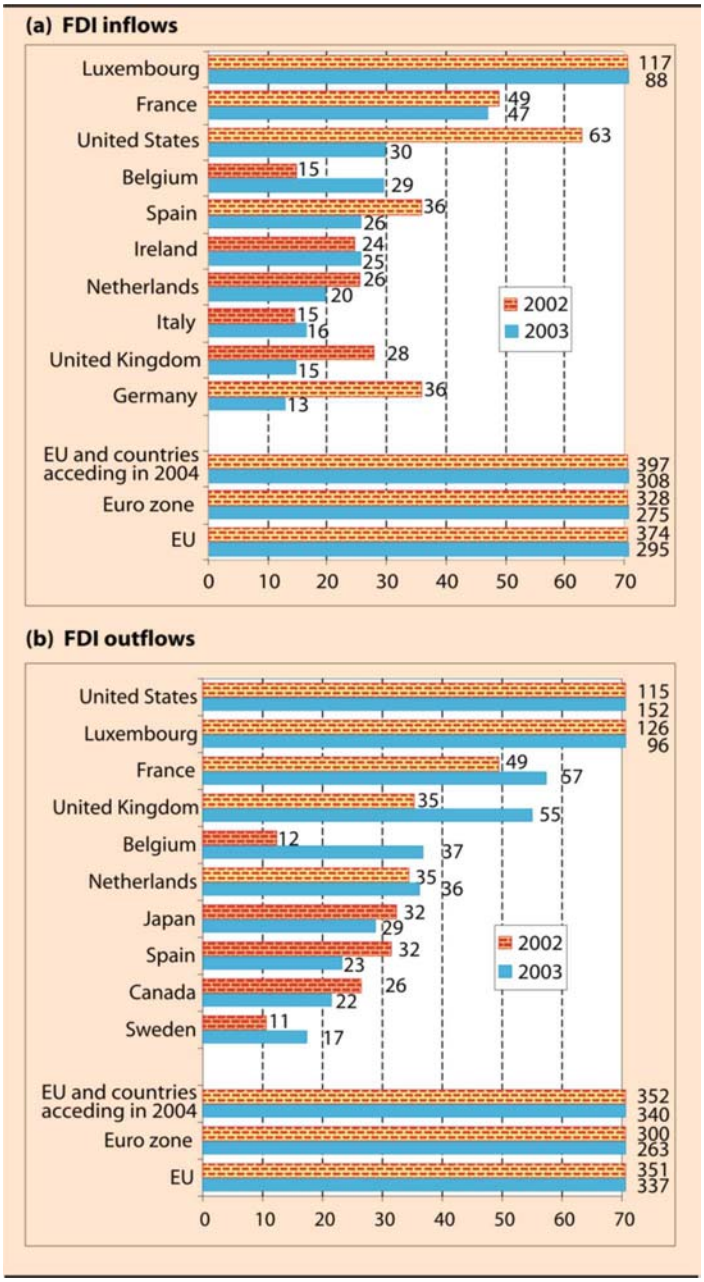
Inward investment into *North America* was down by 57%, largely on account of dropping inflows into the United States. FDI inflows into the United States declined (by 53%) for the third year in a row, to a low of $30 billion – its lowest value since 1992. There were large repayments of intra-company debt ($34 billion), as foreign affiliates in the United States reduced the debt they had accumulated with their parent firms abroad during the M&A boom of 1998-2001. With M&A activity running at much lower levels in 2003, new borrowing did not match repayments, resulting in substantial net outflows. Equity flows also declined (to $62 billion). Reinvested earnings rose because of improved profitability, but their level was low ($2 billion). FDI flows to Canada were at their lowest level since 1993, due primarily to divestments.

In recent years, the United States has increased its outward FDI while receiving much less inward FDI. This has meant that the balance-of-payments contribution of FDI has turned sharply negative. Thus, net FDI flows turned from a surplus of $171 billion in 2000 to a deficit of $122 billion in 2003 (figure II.30). The swing differs from previous such episodes in the past two decades in that it is the first time that both the FDI balance and the trade balance have moved negatively together. As a result, the combined impact of trade and FDI on the balance of payments in 2000-2003 went from minus $208 billion to minus $617 billion. The primary external financing for this growing deficit came from portfolio capital inflows, which surged (on a net basis) from $63 billion in 1999 to $437 billion in 2003. Most of these inflows were net foreign purchases of government debt securities.

FDI flows to the *EU* shrunk by over 21% in 2003, due primarily to sluggish economic growth, a fall in equity investment in general (and M&As in particular) and in intra-company loans. When the 16% depreciation of the dollar vis-à-vis the euro is factored in, the downward trend is even more pronounced. As noted above, Luxembourg's position as the top recipient (figure II.29) was due to transshipped investment (*WIR03*, p. 69). Only four EU countries registered

higher FDI inflows: Austria, Belgium, Italy and Ireland. Inflows into Austria rebounded strongly, in contrast to 2002 when they were low due to large divestments in the telecom industry. M&As and reinvested earnings were the main sources of the surge in FDI inflows. Belgium's FDI inflows doubled in 2003, with equity capital being the main source. FDI flows to Italy rose by 13% as a result of an increase in M&A activity, while in Ireland, they grew by 4% due to high equity inflows and reinvested earnings. However, in the case of both Italy and Ireland, these increases were more than offset by the depreciation of the dollar vis-à-vis the euro.

Figure II.29. Developed countries: FDI flows, top 10 countries, 2002, 2003 [a]
(Billions of dollars)



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

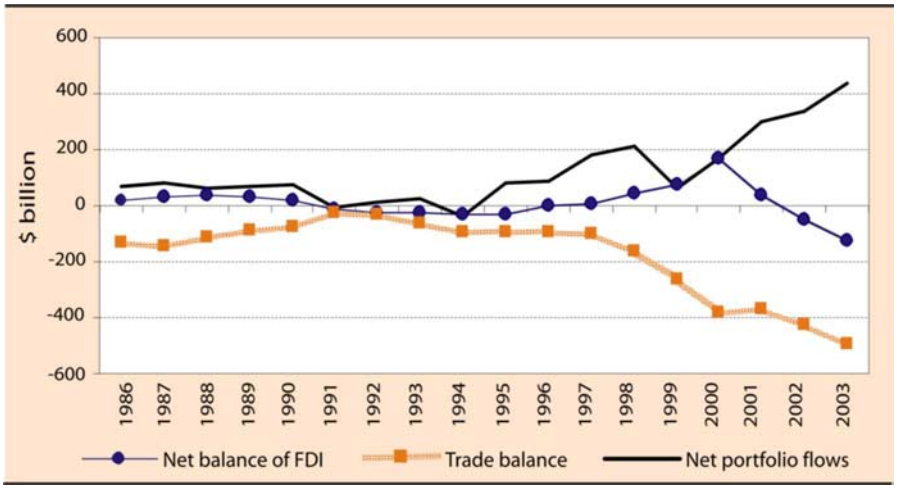
[a] Ranked on the basis of the magnitude of 2003 FDI flows.

Eleven EU countries registered lower inward FDI. In Sweden, inflows were at their lowest level since 1990, notably due to a major downturn in equity investment and intra-company loans. Group reorganizations (especially of the financial services Nordea Group) also had an impact. FDI flows to the United Kingdom were down by nearly half, mainly as a result of the continued downturn in cross-border M&As and a net repayment of loans to foreign parent companies. As a result, since 2000, FDI inflows to the United Kingdom have plummeted by $104 billion. In Germany, where inflows plunged by two-thirds, equity capital inflows remained stable, but were offset by large amounts of intra-company debt transactions. These were prompted by amendments to the German corporation tax act, which removed tax privileges on corporate borrowing by German shareholders. As a result, foreign parent companies reduced intra-company loans in favour of new equity investments. The decline since the peak year, 2000, amounts to $185 billion.

Inflows into "other Western Europe" rose by 140% in 2003. Switzerland's more than doubled, with both M&As and reinvested earnings rebounding strongly. In Japan, FDI inflows fell by one-third (having grown by half in 2002), with its share of global inflows remaining low, at only 1%. In recent years, inward investment has risen due to deregulation in the finance, telecom, retail and pharmaceutical industries, and to M&As in the auto and retail industries. But weak economic growth has held back significant improvements. Nevertheless, the country could achieve its target of doubling inward FDI stock by 2006 (box II.21).

For the first time since 1999, no developed country received more than $100 billion of FDI, with Luxembourg the only country to attract more than $50 billion (table II.15). For most of them, inflows were between $1 billion and $50 billion. Japan remained in the $1-$9 billion cohort (table II.16). In the 2001-2003 period, FDI inflows as a percentage of gross fixed capital formation continued the downward trend

Figure II.30. United States: balance of trade and net flows of FDI and portfolio investment, 1986-2003



Source: UNCTAD, based on IMF and OECD data.

Box II.21. Can Japan double its inward FDI stock by the end of 2006?

Prime Minister Junichiro Koizumi of Japan stated in January 2003 that Japan would seek to double the cumulative amount of inward FDI in five years.[a] To that end, concrete measures were proposed. The five priorities of this package (encompassing 74 specific measures) were: to disseminate information on FDI within Japan and abroad; to improve the business environment; to review administrative procedures; to improve the living standards and environment for TNC expatriates; and to develop local and national structures and systems (*WIR03*). Progress has been made with the successful implementation of the M&A code reform — of particular importance for improving the business environment, given that M&As are the main source of global FDI.

Despite the new measures, however, FDI inflows in 2003, on a balance-of-payments basis, amounted to $6.3 billion, down from $9.2 billion in 2002. This raises the question as to whether Prime Minister Koizumi's goal is achievable.

According to FDI stock data for the past five years, Japan was one of the top performers among developed countries. Between 1999 and 2003, a number of developed countries doubled their stock of inward investment: Ireland (168%), Austria (156%), Finland (153%), Portugal (122%), Switzerland (102%) and Japan (95%). However, growth in FDI stock started from a small base, and inflows for 2003 were lower than 2002. The stated goal of doubling inward FDI stock from $50 billion in 2001 to $100 billion in 2006 requires that Japan receive a minimum of $10 billion a year.[b] This represents a considerable challenge.

As the second largest economy in the world, Japan has a large potential market for FDI. It ranked 12th in UNCTAD's FDI Potential Index, but 127th in the FDI Performance Index for the 2001-2003 period (annex table A.I.5). High costs relating to personnel, land construction and company operations are some of the factors that have inhibited inward FDI. Furthermore, practices of various kinds – many informal – operate against inward FDI. In 2003, Japan's FDI inflows as a percentage of GDP at current prices were 0.1%, compared with 2.8% for the EU and 0.8% for the United States.

The main locational advantages of Japan for FDI are market size and advanced technological capabilities associated with created assets. The economy is rebounding from the economic stagnation of the 1990s, and growth prospects are relatively strong for the medium term. Japan is potentially a large market for efficiency-seeking and market-seeking FDI. The manufacturing sector is very efficient and globally competitive, as highlighted by the example of Nissan, and there is an emerging consensus that foreign firms can help revitalize poorly performing companies. Services FDI is growing, accounting for two-thirds of inward flows. Cross-border M&As have increased in this sector, including in traditionally protected industries such as retail trade[c] and financial services.[d] FDI in this sector now spans

/...

that began in 2001, falling to less than 10% (figure II.31). Excluding Luxembourg, Ireland ranked first place in this measure (figure II.32).

Unlike inflows, FDI outflows from developed countries rose by 4% in 2003 (annex table B.2). While outward investment from North America was up by 22%, from the EU it was down by 4%. Overall, outflows from 10 of 25 developed countries increased. The United States regained its position as the main investor country, followed by Luxembourg, France and the United Kingdom. United States outward flows rose by 32% on the 2002 figure, and its global share shot up to 25%, from 19% the previous year. They were mainly financed from reinvested earnings (from $75 billion to $119 billion), derived from

Box II.21. Can Japan double its inward FDI stock by the end of 2006? (concluded)

a wide range of industries – from telecoms to hotels and golf courses.[e]

Economic growth has increased, thus restoring prospects for market-seeking FDI. However, transaction costs are still high, and the exchange rate is volatile. A further potential limiting factor is the relative competitiveness of Japanese companies vis-à-vis foreign investing companies. Deregulation in retail, for instance, provides as many opportunities for Japanese companies as for foreign investors. In retail, neither Wal-Mart nor Carrefour are finding the Japanese market easy to exploit. Jusco, a local supermarket chain, is not only emulating Wal-Mart's market strategy, but improving on it.[f]

The wave of inward FDI in recent years was due to deregulation in the non-manufacturing sector, a rise in corporate failures, a decline in stock valuations, reductions in cross-shareholdings and the global M&A boom. In many ways, this represents the first wave of inward FDI into Japan. Given the importance of M&A activity in developed countries, reforms to facilitate such transactions are of particular relevance. Whilst reform of the M&A law is under way, the specific issue of tax deferral for stock swaps for foreign companies is only being evaluated and has not yet been revised. Since stock swaps account for a large share of global M&As, if this issue is not resolved, M&As with foreign companies will prove difficult. On a more positive note, local mayors and prefectural governors see FDI as a source of local economic regeneration and employment. The former perception of M&As (the main FDI entry mode into Japan) as job cutters has given way to one of job retention, as has been the case in Ripplewood's acquisition of Seagaia.[g]

In the final analysis, large-scale deregulation may still be necessary. Japan's FDI environment and attitude towards FDI has been improving. Whilst the concrete measures for the promotion of FDI in Japan should help, their full implementation will be necessary to achieve the goal of doubling the country's inward stock.

Source: UNCTAD.

a 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). Reiterated in the General Policy Speech by the Prime Minister to the 159th Session of the Diet, 19 January 2004 (http://www.kantei.go.jp/foreign/koizumispeech/2004/01/19sisei_e.html).

b In Japanese yen, this represents 6.6 trillion in 2001 and 13.2 trillion in 2006.

c For example, Tesco (United Kingdom) acquired C Two Network in 2003. Costco (United States) and Carrefour (France) had already entered the Japanese market through greenfield investments, and Wal-Mart (United States) entered the market through a partnership with Seiyu.

d Goldman Sachs made a major investment of $1.27 billion in Sumitomo Mitsui Financial Group in 2003. Merrill Lynch & Co also took a major stake in a UFJ Holdings' affiliate to write off bad debt. However, it should be noted that Merril Lynch's foray into the Japanese market through a partial acquisition of Yamaichi Securities in 1998 led to massive losses.

e Distressed assets were acquired, for example, by Ripplewood Holdings and the Goldman Sachs Group. See, "Foreign acquisitions in Japan focus more on healthier firms", *Wall Street Journal* (Eastern Edition), 5 July 2002, p. A.8; and "A global journal report: Goldman plans $1.27 billion bet on Tokyo", *Wall Street Journal* (Eastern Edition), 16 January 2003, p. C.1.

f "A global journal report Pacific aisles: Wal-Mart's foray into Japan spurs a retail upheaval. As giant confronts barriers, local competitors rush to emulate its methods. Balking at the '10 foot' rule", *Wall Street Journal* (Eastern edition), 19 September 2003, p. A.1.

g In some cases, M&As have conserved jobs in target companies that would have gone bankrupt without M&As, for example, Ripplewood's acquisition of the troubled Seagaia resort in Miyazaki prefecture. "American investors put Japan's resorts in play ", *New York Times*, 6 Jan 2004, p. W.1.

Table II.15. Developed countries: frequency distribution of host countries, by range of FDI inflows, 1999-2003
(Number)

Range	1999	2000	2001	2002	2003
More than $300 billion	-	1	-	-	-
$100-299 billion	2	2	1	1	-
$50-99 billion	3	3	4	1	1
$10-49 billion	8	8	6	11	10
$1-9 billion	8	8	11	6	10
Less than $0 billion	4	3	3	7	5
Total [a]	25	25	25	26	26

Source: UNCTAD, based on annex table B.1.

[a] After 2002, Belgium and Luxembourg are reported separately.

Table II.16. Developed countries: country distribution of FDI inflows, by range, 2003

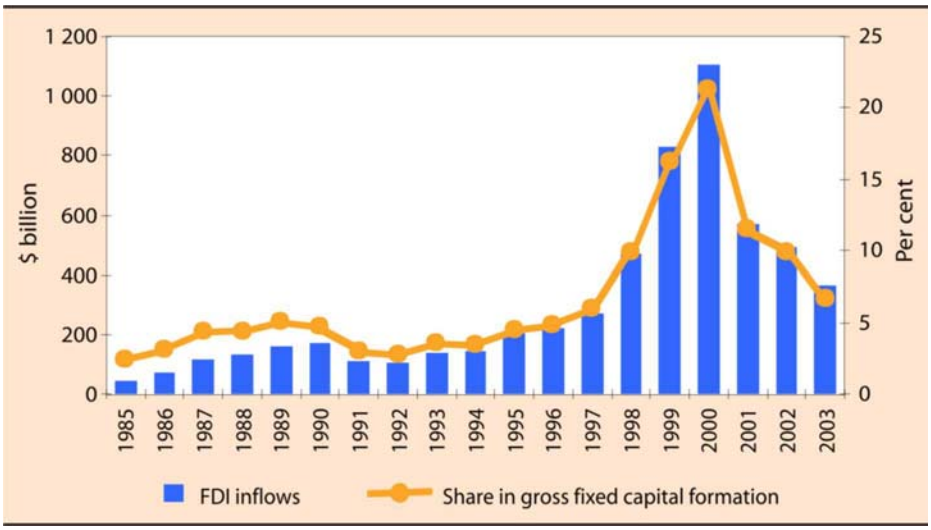
Range	Economy
More than $50 billion	Luxembourg
$10-49 billion	Belgium, France, Germany, Ireland, Italy, Netherlands, Spain, Switzerland, the United Kingdom and the United States
$1-9 billion	Australia, Austria, Canada, Denmark, Finland, Israel, Japan, New Zealand, Norway and Sweden
Less than $1 billion	Gibraltar, Greece, Iceland, Malta and Portugal

Source: UNCTAD, based on annex table B.1.

overall improvements in corporate profitability in foreign markets. Canadian outflows declined by 18%, despite more cross-border M&A purchases (annex table B.8). Overall, outflows from France and the United Kingdom rose by 16% and 57%, respectively. In these countries, this was largely due to increases in intra-company loans. Luxembourg's outward FDI flows fell by 24% paralleling a similar fall in inflows due to transshipped investment (*WIR03*, p. 69). Outflows from Germany slumped by 70%, due to reduced parent company loans as well as the weak performance of German enterprises. Denmark, Finland and Norway registered notable declines associated with large divestments, as the Nordea group, a financial services company whose shares are owned by these three countries and Sweden, came under the direct ownership of its Swedish parent firm.

The importance of the EU and the United States diminished as the preferred destinations for developed-country FDI, as developing countries became the main poles of attraction. There was a tendency to look for lower cost locations in the face of intensifying competition and pressures to cut operating costs. While FDI from the EU into the CEE accession countries fell sharply in 2003, there were some notable investments. For instance, Volkswagen substantially increased its production in Slovakia (see CEE section).

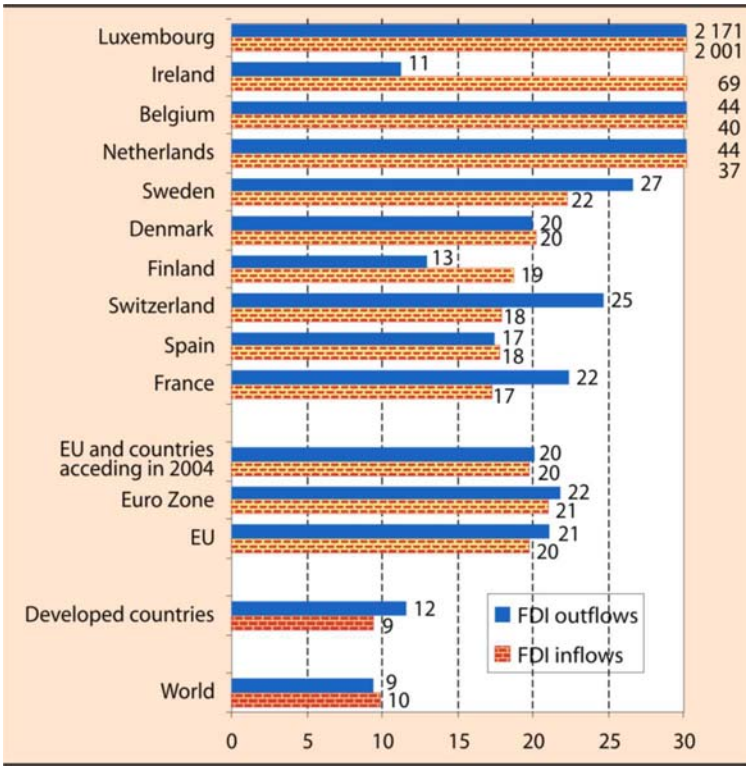
Figure II.31. Developed countries: FDI inflows and their share in gross fixed capital formation, 1985-2003



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

Figure II.32. Developed countries: FDI flows as a percentage of gross fixed capital formation, top 10 countries, 2001-2003 [a]

(Per cent)



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

[a] Ranked on the basis of the magnitude of 2001-2003 FDI inflows as a percentage of gross fixed capital formation.

Japan's outflows continued to fall (by 11%), having also dropped in 2002. They were mainly in the tertiary sector, with Europe being the main destination. However, the trend is towards increased investment in manufacturing in Asia and the United States. Notable examples included the $8.7 billion investment by Nissan in the United States, and the $1.1 billion Toshiba-Matsushita joint-venture investment in a LCD plant in Singapore (JETRO 2003). This contrasts with FDI outflows from the United States and Europe, which increasingly involve services.

2. Policy responses

At the national level, a number of countries adopted policies aimed at attracting and facilitating FDI (table II.17). The FDI process was streamlined and simplified in France, Japan, Germany and Portugal. In response to declining FDI inflows, France set up a strategic council to recommend measures that would make it more attractive to investors (box II.22). Japan, as mentioned above, has launched an initiative at the highest level of government to double inward FDI by 2006 (box II.21).

Countries also continued to conclude BITs and DTTs – albeit at a reduced rate – reaching 1,211 and 1,691, respectively (figure II.33). This reflects the fact that developed countries have already entered into many such treaties – particularly BITs – with their key investment partners. There is also a trend towards signing up to multiple FTAs covering also investment issues. For example, the United States has concluded and initiated a number of FTAs with countries or groups of countries (e.g. in Central America and Southern Africa) (annex table A.II.1). In ongoing, but slow negotiations for a Free Trade Area of the Americas (FTAA), it has been agreed that the differences in the levels of development and the size of the economies will be taken into account (box II.23). The EU is developing economic partnership agreements (EPAs) with members of the African, Caribbean and Pacific (ACP) group of countries which, like FTAs and regional trade agreements (RTAs), will also cover investment issues.

Table II.17. Examples of policy changes in developed countries, 2003-2004

Country	Law / regulation/ policy	Policy changes
Austria	Privatization programme	Privatization of the State holding company, Österreichische Industrieholding (ÖIAG), the steel group, Böhler-Uddeholm (25%), Voest Alpine steelworks (34.7%), Telekom Austria (47.2%), and the engineering and services group, VA Technologie (24% State-owned). The government strategy is for a core of Austrian shareholders (through syndicates of industrial partners, banks, insurance firms and pension funds) to hold a majority stake in the privatized companies, to guarantee that their headquarters remain in Austria.
Canada	Legislation to reform the financial services industry Foreign ownership rules in telecommunications	Allows foreign banks or interests to own up to 20% of an individual bank double the previous limit). Permitted ownership share in media companies raised from 20% to 33% by 2004.
France	Foreign investment policy Regulation on financial relationships with foreign firms	National Strategic Council for Attractiveness set up to enhance the appeal of France for investment and expertise. Eliminates prior declarations and authorizations, except for investments in sensitive industries such as national defence and health. Non-EU investment is now subject only to the administration declaration, regardless of the investment amount.
Germany	Foreign investment Modernization Act Tax Allowance Reduction Act Foreign investment policy	Eliminates tax disadvantages faced by foreign investment funds distributed in Germany. Avoids double taxation. Allows income tax paid abroad to be credited against German taxes due. The Invest in Germany corporation replaced the separate offices of the commissioner for FDI in Germany and the Industrial Investment Council as the one-stop shop for investors.
Ireland	2003 budget	Non-trading investment income (such as interest, royalties and rental income) is now taxed at 25%, to discourage brass-plate companies.
Japan	Foreign investment policy Foreign investment policy Trade Insurance Scheme	The Japan External Trade Organization (JETRO) opened the Invest Japan Business Support Center, a one-stop office that will provide foreign companies with complete information on conditions and procedures, and related consultation, regarding investment in Japan. Concrete measures put in place to increase inward FDI (box II.21). This scheme is run under the auspices of the Ministry of Economy, Trade and Industry. Japanese affiliates abroad (specifically Asia) can utilize government trade insurance from 2004.
Portugal	Contractual regime Procedures relating to FDI Regulations on shares of foreign capital in privatized companies	Establishment of a single contractual regime for large-scale investment projects, regardless of the business sector involved or the nationality of the investor. Simplified procedures relating to FDI. Certain regulations limiting the shares of foreign capital in privatized firms have been repealed.
Spain	Tax reform	The standard capital gains tax for companies has been cut from 18% to 15% for assets held for more than one year.
Sweden	Tax	Tax on capital gains on the sale of business-related shares on or after 1 July 2003 (the same should apply to Swedish economic cooperation, certain foundations and non-profit organizations) have been abolished.
Switzerland	New telecoms law	Aims to complete opening to investors of the last-mile telecoms network, which is fully owned by Swisscom.
United Kingdom	The Finance Act, 2003 The change took force for accounting periods starting on or after 1 January 2003.	Changes the basis of taxation for non-resident companies operating in the United Kingdom.
United States	The Safeguards Rule Ratification of the Madrid Protocol with the World Intellectual Property Organization (WIPO) in Geneva on the 2 August 2003.	On 23 May 2003, non-bank financial institutions must be in compliance with the Federal Trade Commission ("FTC") rule implementing the information security requirements of the Gramm Leach Bliley Act ("GLBA"). Provides trademark owners with the option to use the International Registration system to protect their trademarks in all of the 59 Madrid Protocol member countries with only one application, in one language and with one set of fees in a single currency.

Source: UNCTAD.

Box II.22. France adopts new measures to attract FDI and skills

In 2003, Prime Minister Jean-Pierre Raffarin outlined a number of new measures to attract FDI to France. Forty measures were drawn up with the relevant government departments.[a] The overall objective was to identify and analyze both the strengths and weaknesses of France as a host country for FDI compared with its competitors. This new policy is to be guided by the recommendations of a national Strategic Council for Attractiveness (Conseil stratégique pour l'attractivité de la France). Members include also chief executives from leading TNCs.

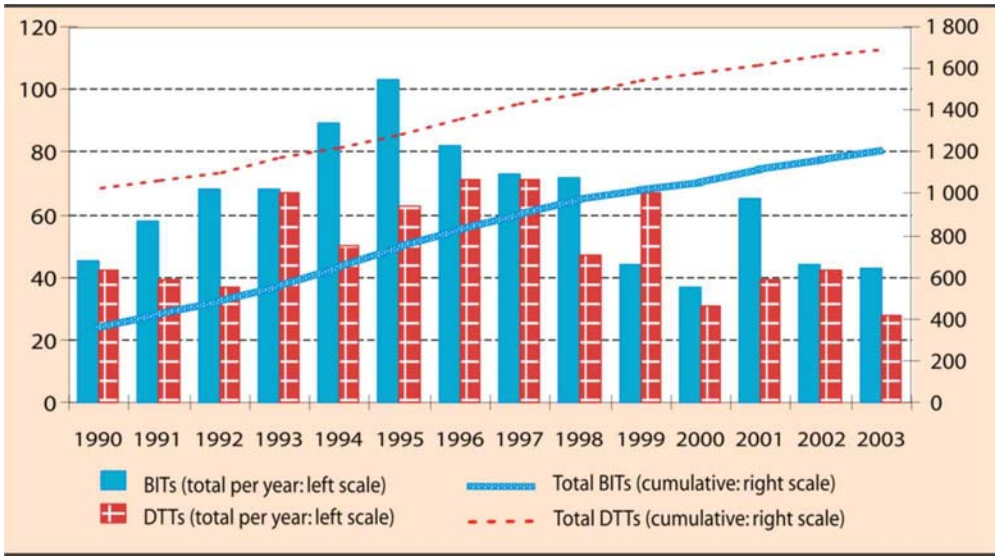
The measures seek to attract both skills and investment.[b] A programme is being launched in 2004 to attract the world's leading experts to growth sectors in France and to build teams centred around them. A number of measures aim to improve radically the conditions of entry and residence for expatriate managers and their families. With respect to attracting FDI, objectives include targeted improvements in the tax competitiveness of France, in particular relating to R&D and innovation. More effective support for the setting up of businesses will be provided, legal security for investors enhanced and laws simplified and modernized. Additional measures include initiatives to attract headquarters and decision-making functions of TNCs to France and to enhance its competitiveness as a European financial centre. This can be seen as an example of a developed country seeking to leverage the offshoring of services. Furthermore, a drive to promote France's image to investors internationally is to be launched in September 2004. This will involve an advertising campaign based on successful investments in France, and meetings with potential investors, specifically targeting the United States, the United Kingdom, Japan, Germany and China.

Source: UNCTAD.

a "France adopts new measures to enhance appeal", *AFII (Invest in France Agency) Press Release*, http://www.afii.fr/UK/Newsroom/PressReleases/?p=press_release_2003-12-11&l=en.

b "France adopts new measures to enhance appeal", *AFII Press Release*, 11 December 2003, http://www.afii.fr/France/Newsroom/PressReleases/press_release_2003-12-11_en.pdf.

Figure II.33. Developed countries: number of BITs and DTTs concluded, 1990-2003



Source: UNCTAD, BIT/DTT database (www.unctad. org/fdistatistics).

Box II.23. Free Trade Area of the Americas[a]

At the seventh FTAA Ministerial Meeting held in Miami on 20 November 2003, participating countries agreed that the FTAA will include measures in each negotiating discipline, and horizontal measures, as appropriate, that take into account the differences in the levels of development and the size of the economies, and that are capable of implementation. Special attention will be given to the needs, economic conditions (including transition costs and possible internal dislocations) and opportunities of smaller economies, to ensure their full participation in the FTAA process.

Ministers instructed the Trade Negotiations Committee to develop a common and balanced set of rights and obligations applicable to all countries. They agreed that the negotiations on the common set of rights and obligations will include, among other things, provisions on services and investment. The results of the negotiations must be WTO compliant.

During the first week of February 2004, the Trade Negotiations Committee met in Puebla, Mexico, to develop guidelines for the FTAA negotiating groups for developing a common and balanced set of rights and obligations to be applicable to all countries and to develop procedures for plurilateral negotiations among FTAA countries that wish to undertake additional liberalization and disciplines within the FTAA. The co-chairs have agreed that further progress is necessary before resumption of the next meeting of the Trade Negotiations Committee.

Source: UNCTAD.

[a] The third draft of the Agreement and additional information is available at http://www.ftaa-alca.org.

Negotiations for these EPAs are taking place under the overall umbrella of the Cotonou Agreement. Japan has developed an FTA strategy aimed at strengthening alliances in areas not covered by the WTO; achieving liberalization over and above levels attainable in the WTO; facilitating the development and expansion of markets on a bilateral or regional level; and increasing Japan's bargaining power in WTO negotiations.[47]

3. Services dominate

Services dominated the changing pattern of FDI in developed countries as a group, accounting for more than two-thirds of both inflows and outflows in the 2000-2002 period. FDI in the primary sector was still of importance (albeit declining) in countries such as Australia (18% in 2001), the Netherlands (19% in 2001) and Norway (28% in 2001). Manufacturing still accounted for a large share of total FDI stock in some countries, notably Canada (52% in 2002), Iceland (54% in 2002), Italy (40% in 2001) and Sweden (68% in 2001), with chemicals, automobiles and machinery being the largest industries.

Developed countries are the prime source as well as destination of FDI in services. Between 1996 and 2002, inward and outward stocks in services rose in 10 and 13 developed countries, respectively.[48] In absolute and relative terms, the United States accounted for the highest outward and inward FDI stocks in services (amounting to $1,050 billion and $826 billion, respectively, at the end of 2002, or 69% and 61% of the totals, respectively – annex tables A.I.20-A.I.23), led by finance, trade, business activities and transportation, storage and telecoms. Other countries with a large share of services in their inward stock are Denmark, Switzerland, Luxembourg and France (above 80%, annex table A.I.22); countries with the largest outward share in services are Denmark, France, Austria and the United States (ranging from 69% to 78%, annex table A.I.23).

While finance has remained the top service industry, its share in total FDI stock has declined. Trade has also declined in relative importance. In contrast, FDI stock in business services and the transport, storage and telecom industries has expanded. Further liberalization and ongoing privatization programmes in the services sector have shaped this pattern. Cross-border M&As are important market entry vehicles for FDI in services in developed countries, with more deals concluded in infrastructural industries than in business activities, partly reflecting privatization.

Finance has consistently been the main industry for M&A sales and purchases, apart from 2000, when telecoms held sway. Between 1996

and 2002, the share of finance in inward FDI stock decreased from 21% to 19% and in outward stock from 27% to 23%, affected largely by the decline in M&As. In 2003, however, cross-border M&A purchases and sales in finance grew strongly, by 38% and 18%, respectively, due largely to the resurgence of global stock markets and strong growth in the United States economy. There has been a relative decline in the share of finance in inward FDI stock for some countries, notably the United States, the United Kingdom, the Netherlands and France. By contrast, FDI stock in finance rose in several countries due to significant increases in inflows in that industry in 2002, accounting for 46% of total FDI flows. This is due to the success of the International Financial Services Centre in Dublin, set up in 1987 as a financial services cluster. Locational advantages (appropriate regulatory environment plus incentives) were the catalyst, and agglomeration economies have taken root. In Switzerland and Germany, the finance industry attracted more than 70% and 40% of FDI inflows in 2002, respectively. The largest finance industry deal in 2003 was HSBC Holdings PLC (United Kingdom) acquiring Household International Inc. of the United States (annex table A.I.1). In May 2004, the Royal Bank of Scotland Group, plc. acquired a United States bank, Charter One, for $10.5 billion.

Business activities increased their shares of total inward and outward FDI stocks in developed countries to 14% and 22%, respectively (annex tables A.I.18 and A.I.19). Many developed countries have experienced large increases in their FDI market share in this industry in recent years, notably Denmark, France and Germany, with over half of their inflows going to such activities in 2002. Denmark, Austria and the United States accounted for the major shares of outward investment flows in these activities, all above 40% in 2002. The share of this industry in total purchases and sales of cross-border M&As declined in 2003, to 3% and 8%, respectively. In contrast to the increasing share of FDI flows and stock in general, cross-border M&As are used as a mode of investment in capital-intensive service industries to a greater degree than in business activities. Thus their value is usually smaller. One of the largest M&As in this industry in 2003 was the acquisition of a German company, Viterra Energy Services, by a United Kingdom investor group for $996 million.

Inward and outward FDI stocks in the transport, storage and telecom industries grew strongly, and their shares rose to each 7% by 2002 (annex tables A.I.18 and A.I.19). Cross-border M&As were the driving force, particularly in capital-intensive telecoms as illustrated by the large deal that took place in 2000 when Vodafone acquired Mannesmann AG for $203 billion. In 2003, the share of transportation, storage and telecoms in cross-border M&A purchases was down to 7%, having peaked in 2001 with a 19% share, primarily due to the telecom boom: the telecoms share in cross-border M&As did not exceed 4%, compared to 18% in 2001.

Trade almost retained its share of inward and outward FDI stocks (11% and 7% respectively in 2002) (annex table A.I.18 and A.I.19). However, it continues to account for a sizeable share of inward FDI stock in some developed countries such as Iceland (17%), Austria (16%) and the United States (16%). M&A purchases and sales in trade fell in 2003. The retail industry has been characterized by a spurt of M&A activity by the main players. Some major deals in 2003 include the Canadian company Alimentation Couche-Tard Inc. acquiring the United States company Circle K Corp. ($812 million), and the United Kingdom company Tesco's acquisitions of C Two-Network Co. Ltd. of Japan ($264 million) and Kipa Kitle Pazarlama Ticaret of Turkey ($118 million).

TNCs are finding niche areas for FDI in services. For example, the Netherlands has become an important logistics centre in Europe for companies such as Coca-Cola, Fed-Ex, Texas Instruments. Switzerland (Dupont, Philip Morris, Hewlett-Packard) and the Netherlands (Nike, Unisys, Starbucks) took the lead in attracting regional headquarters. Sweden has become the leading European country for winter car-testing for a number of automobile firms, while the film industry in London (Nachum and Keeble 2000) has also proven an attractive niche area for services FDI.

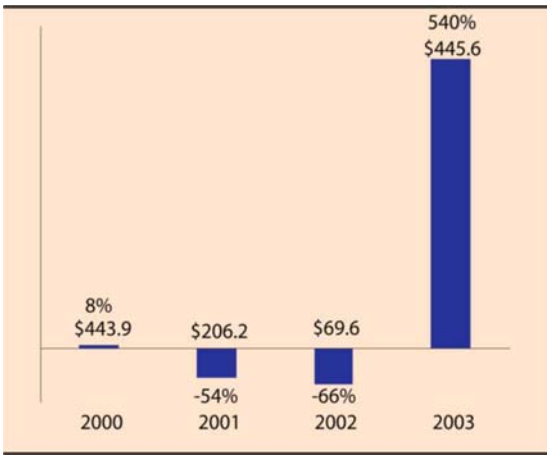
4. Prospects: FDI will pick up again, but not everywhere

The outlook for FDI in 2004 is positive for both inward and outward FDI. But much will depend on the pace of the global economic recovery. FDI is expected to rebound in most developed countries as economic growth gains momentum. Prospects will be influenced by

developments in cross-border M&As, developments in the euro-dollar exchange rate, as well as the results of economic reform programmes under way in major economies.

Economic variables are favourable. Real GDP in 2004 (3.5%) is expected to be higher than in 2003 (2.1%), and its growth is predicted to be broad-based, including countries (France, Germany, the Netherlands, Switzerland) that experienced low or negative economic growth rates in 2003 (IMF 2004). The United States will lead economic growth. If the United States dollar should decline further, its impact on FDI flows is not certain. The profitability of firms in major countries continues to improve.[49] The United States' *Fortune* 500 firms experienced a dramatic turnaround (figure II.34). Stock markets, too, improved. Worldwide M&As, including cross-border ones, are picking up.

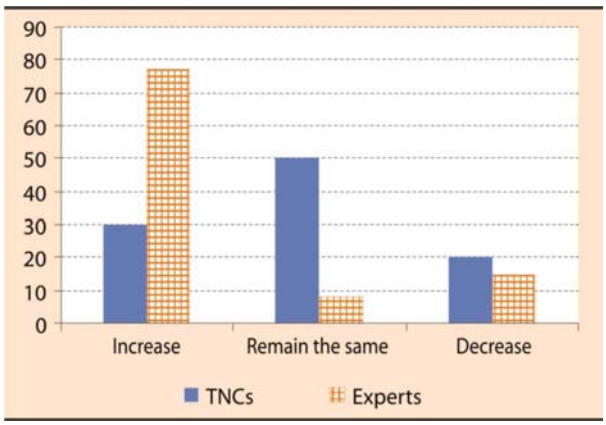
Figure II.34. Profits of the United States' *Fortune 500* firms, 2000-2003
(Values in billions of dollars and growth rates in per cent)



Source: *Fortune*, 5 April 2004, p. 97.

UNCTAD's survey of the top TNCs and international location experts yielded a mixed response as to FDI prospects in 2004-2005: almost 80% of experts but only 30% of TNCs predicted an increase (figure II.35). Greater optimism was expressed for North America and Japan than for Western Europe by TNCs. One-fifth of the TNCs surveyed predicted a deterioration in FDI in Western Europe (UNCTAD 2004c). Both TNCs and experts ranked the United States, followed by the United Kingdom and Canada, as the top FDI destinations among developed countries (UNCTAD 2004a, 2004c). Electrical and electronic products, motor vehicles, chemicals and machinery were viewed by experts as the most attractive industries in manufacturing. In services, transport and business services were seen to be the most attractive, followed by tourism, retail and wholesale trade and computer/ICT services.

Figure II.35. Developed countries: prospects for FDI inflows, 2004-2005, as reported by TNCs and location experts
(Per cent of respondents)



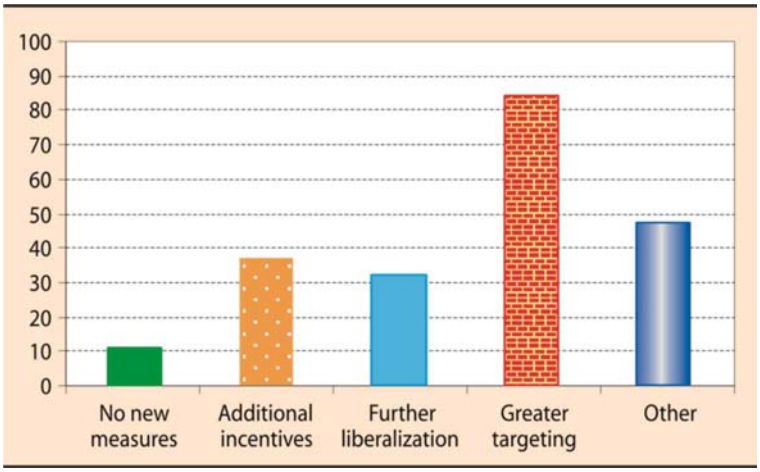
Source: UNCTAD, www.unctad.org/fdiprospects.

Location experts consider that the bulk of relocations will involve lower value-added corporate functions. Processing activities, followed by logistics and support functions, are the most frequently mentioned corporate functions likely to relocate abroad, in particular to developing countries. More respondents expected higher value-added functions such as R&D to relocate to developed countries than to developing countries (UNCTAD 2004a).

UNCTAD's IPA survey suggests that these institutions will make greater use of investor targeting – identified as the single most important measure to attract FDI in 2004. Further liberalization did not rank high. Some 10% of the responding IPAs – the highest share of all regions – did not envisage the introduction of any new measures (figure II.36). They view the United States, followed by Germany and the United Kingdom as being the top investors (UNCTAD 2004b).

Despite the overall positive prospects for economic growth in the region, FDI flows are likely to grow at a slow pace, unevenly across countries. Lower growth prospects for the Euro zone, compared with the United States and the United Kingdom, are likely to dampen FDI prospects there. For Japan, however, inflows are poised to increase, even if cross-border M&As continue to remain at a low level.

Figure II.36. Developed countries: expected policy measures to attract FDI, 2004-2005, as reported by IPAs
(Per cent of respondents)



Source: UNCTAD, www.unctad.org/fdiprospects.

Notes

1 Algeria, Angola, Benin, Botswana, Congo, Egypt, Ethiopia, Ghana, Mali, Morocco, Mozambique, Rwanda, Sierra Leone, South Africa, the Sudan, Tunisia, Uganda and the United Republic of Tanzania.

2 Niger and Zambia.

3 Burkina Faso, Cameroon, the Democratic Republic of the Congo, Côte d'Ivoire, Gabon, Gambia, Guinea, Kenya, the Libyan Arab Jamahiriya, Madagascar, Malawi, Namibia, Nigeria, Senegal, Togo and Zimbabwe.

4 AGOA encouraged the upgrading of automotive plants, with increased production and investment of over $20 million in South Africa. In Swaziland, investors from China and Taiwan Province of China invested over $30 million in denim fabric mills and other facilities. A new coffee-processing plant was built in Uganda to serve the United States market. A garments factory in Beira, Mozambique, attracted some FDI. In Mauritius, Chinese and Indian firms invested over $100 million in new spinning mills. The biggest winner was Lesotho, which became the largest African apparel exporter to the United States. Lesotho estimates that this has created 10,000 new jobs in the past year (*source:* www.agoa.info). Its exports to the United States grew from $129.5 million in 2001 to $267.7 million by the end of September 2003 (USITC, news.bbc.co.uk).

5 *Source*: http://allafrica.com/stories/200404010162.html.

6 *Source*: www.gov.bw/cgi-bin.

7 This is the first multilateral export credit and political risk agency in which its member countries directly assume financial liability for political risk-related foreign investment losses that could affect trade within their own countries.

8 Kitco Bullion Dealers (www.kitco.com).

9 Includes China, Hong Kong (China), Democratic People's Republic of Korea, the Republic of Korea, Macao (China), Mongolia and Taiwan Province of China.

10 FDI flows to China slowed down at the initial outbreak of SARS, but surged towards the end of the year, resulting in marginally higher flows than in the previous year.

11 Luxembourg received $88 billion of FDI flows in 2003, most of which was transshipped to other destinations.

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

13 Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.

14 The initial outbreak of SARS deterred FDI to some countries. But in the second part of the year, flows recovered, averting an overall decline.

15 An increase in investment in the oil industry and construction services contributed to the rise in FDI flows to Brunei Darussalam.

16 Comprises Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

17 Privatization proceeds of FDI increased from $5 million in 2002 to $30 million in 2003.

18 Comprises Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

19 Comprises Bahrain, Cyprus, the Islamic Republic of Iran, Iraq, Jordan, Kuwait, Lebanon, Oman, the occupied Palestinian territory, Qatar, Saudi Arabia, the Syrian Arab Republic, Turkey, the United Arab Emirates and Yemen.

20 Mainly China, Hong Kong (China), the Republic of Korea and Taiwan Province of China.

21 Such cooperation includes statistical harmonization. For instance, the ASEAN Working Group on Foreign Direct Investment Statistics was established to harmonize and improve the quality of data on FDI in the region so that progress in the ASEAN Investment Area arrangement can be effectively monitored and regional FDI measured.

22 Based on 12 economies (ASEAN countries (not including Cambodia), China, Hong Kong (China) and the Republic of Korea) for which data are available. These economies accounted for about 85% of the total FDI flows to Asia and the Pacific in 2002-2003.

[23] Comprises Hong Kong (China), the Republic of Korea, Singapore and Taiwan Province of China.

[24] The services sector accounted for more than 60% of the GDP of the newly industrializing economies during 2000-2002, as compared to 39% for the other developing Asian countries.

[25] Hong Kong (China), the Republic of Korea, Malaysia, Singapore (box IV.3) and Thailand have introduced policies for attracting regional headquarters and regional business hub activities.

[26] "Asian companies raise a record amount of funds", *Financial Times*, 22 March 2004.

[27] For example, profits of the top 1,000 companies in Asia for 2002/03 increased by 128% over the previous fiscal year (data obtained from the *Asian Week*). Profitability continues to improve in 2004: for 550 companies listed on the stock exchanges in the Republic of Korea during the first quarter of 2004 profits were twice as high as those in the corresponding period of 2003 (*Nihon Keizai Shimbun*, 19 May 2004). Improved profitability is also reflected in foreign affiliates operating in the region owned by 551 Japanese TNCs: profits rose by more than 40% in the two consecutive fiscal years 2002-2003 (*Nihon Keizai Shimbun*, 25 June 2004).

[28] See "Surging demand revitalises electronics", *Financial Times*, 28 April 2004; "Strong sales of digital gear buoy Japanese electronic makers", *The Wall Street Journal Europe*, 28 April 2004.

[29] See Thornton 2004; "America's largest corporations", *Fortune* 500, Vol. 149, No. 6, 5 April 2004; "Europe 500", *The Wall Street Journal Europe*, 24 June 2004.

[30] "Citigroup lands $2.7 bn Koram deal", *Financial Times*, 24 February 2004.

[31] "FDI push to continue, focus on core sector", *The Economic Times*, 29 May 2004 (http://economictimes.indiatimes.com/articleshow/706854.cms); "Economy can grow by over 8%: FM", *Outlook India.com*, 28 May 2004 (http://www.outlookindia.com/pti_news.asp?id=224767).

[32] For instance, Vanuatu is promoting specific investment opportunities in tourism, agriculture and fisheries. It also plans to put in place an investment marketing strategy and product profiling for specific investment opportunities.

[33] "Global semiconductor sales up 18.3% in 2003". Press release, Semiconductor Industry Association, February 2004 (http://www.sia-online.org/pre_release.cfm?ID=299).

[34] "Thais become new budget jetsetters", *CNN.com*, 12 February 2004 (http://www.cnn.com/2004/TRAVEL/02/12/biz.trav.thai.nofrills.rent/); "Low-cost airlines catalyst for change", *Business Times*, 7 June 2004 (http://www.business-times.asia1.com.sg/story/0,4567,118936,00.html); "Singapore's no-frill Tiger Airways hits turbulence over name", *Channel News Asia*, 2 March 2004 (http://www.channelnewsasia.com/stories/corporatenews/view/73504/1/.html).

[35] Other recent corporate surveys, too, indicate that companies are optimistic about increasing their investment in the region in the near future (Marugami et al. 2003; AT Kearney 2004).

[36] Figures from ECLAC (2004) differ due to different country coverage; specifically, ECLAC data exclude financial centres such as Bermuda and the Cayman Islands.

[37] For comprehensive data on FDI and activities of TNCs in individual LAC countries, see UNCTAD 2004g and www.unctad.org/fdistatistics.

[38] Quoted from ECLAC in *The Economist*, 26 April 2003, p. 43.

[39] Nunnenkamp (2003), comparing structural factors for 20 LAC countries and 8 Asian countries, found that Latin America lags significantly behind Asia in competitiveness. See also UNCTAD 2003e.

[40] Owing to the acquisition of YPF by Repsol (Spain), 1999 was an exceptional year, and although there was a significant drop in 2000, the level of FDI was still higher than in 1998.

[41] *Source:* OCO Consulting's LOCOMonitor database of greenfield FDI projects.

[42] Zarubezhneft, a company not on the list of the top 15, started a $1.3 billion oil refinery project in Viet Nam.

[43] The figure for the eight new CEE members is calculated on the basis of commitment appropriations under the Structural Funds for acceding countries, contained in the *Third Report on Economic and Social Cohesion* (European Commission 2004, p. 186).

[44] The EU Structural Funds are not specifically directed to FDI, but may have an indirect effect. However, a simulation study showed that increasing and redirecting the Structural Funds would have only a small effect – 1% of total FDI (Breuss et al. 2001).

[45] Concerns have been expressed in the press by various EU countries about relocation to new members. See, for example, Gunhild Lütge, "Ungarn lockt", *Die Zeit* (Hamburg), 22 April 2004 (http://www.zeit.de/2004/18/Siemens); "Im Sog des Ostens", *Tagesspiegel* (Berlin), 21 March 2004 (http://archiv.tagesspiegel.de/archiv/21.03.2004/1031764.asp); "Esso verlegt 200 Jobs nach Prag", *Hamburger Abendblatt* (Hamburg), 10 March 2004 (http://www.abendblatt.de/daten/2004/03/09/271295.html); "BASF kehrt im Herbst Wien den Rücken", *Der Standard* (Vienna), 1 April 2004 (http://derstandard.at/?id=1614047); "Avec l'élargissement, les délocalisations vers l'Est se multiplient", *Le Monde* (Paris), 28 March 2004 ; "Electrolux ferme une usine en Suède et relance le débat sur les délocalisations", *Le Monde*, 18 May 2004 (http://www.lemonde.fr/); and "Will bigger be better?", *Director* (London), 56(10) (May 2003), p. 49.

[46] About four-fifths of FDI flows are transshipped FDI, i.e. investment that is invested in other countries. For an explanation, see *WIR03*.

[47] "Japan's FTA strategy", Economic Affairs Bureau, Ministry of Foreign Affairs, Japan, October 2002, http://www.mofa.go.jp/policy/economy/fta/strategy0210.html.

[48] Countries that experienced a fall in the share of services in inward FDI stock were Australia, Canada, Italy, Luxembourg, Portugal, Sweden and Switzerland, while countries that experienced a fall in outward FDI stocks were Australia, Italy, Luxembourg and Portugal.

[49] For 551 Japanese firms whose profits are reported by region, domestic profits increased by 20% and foreign profits by 22% in fiscal year 2003 (*Nihon Keizai Shimbun*, 25 June 2004). Not surprisingly, Japanese FDI is expected to rise in 2004. Planned expenditures of FDI for 757 Japanese TNCs in 2004 are 12% higher than in 2003 (*Nihon Keizai Shimbun*, 17 May 2004). In particular, investment expenditures in China are expected to rise by more than 20%.

PART TWO

THE SHIFT OF FDI TOWARDS SERVICES

INTRODUCTION

In a world with fewer investment and trade restrictions, shrinking economic distance and more mobile resources, only activities that are competitive survive and grow. Thus, competitive production has become essential for development. In order to achieve and sustain growth, structural change, desired patterns of income distribution, education, health, environmental protection and, ultimately, development, countries need firms that are efficient and productive enough to compete in open markets. Conversely, a competitive position can be maintained only if it can rely on development that benefits the majority of the population.

In ensuring a competitive production sector, services play a vital role, for three main reasons:

- Services are the largest productive sector in most economies, and their competitive (that is, efficient) production is critical to the welfare of a society as a whole. The growth and efficiency of services promote competitiveness in the broad sense of the term.
- Many services are crucial inputs into products that compete in domestic and international markets. Cheap, reliable and modern infrastructure, as well as financial, technical and other services are consequently the backbone of a competitive economy. With the rising importance of the information- and knowledge-based economy, the share of services in most activities is growing, which accentuates the need for the efficient provision of key services.
- Advances in information and communication technologies (ICTs) facilitate trade in services as they make it unnecessary for providers and users to be close to one another. New technology is making it easier to digitize information and send it across the world at negligible cost; and it allows services to be split into components, each of which can be located in countries that can provide them most efficiently and cost effectively. As a result, IT-enabled services are now increasingly globalizing in the same way as manufactures have been for several decades.

From the perspective of the role of FDI and TNC activities in development, these factors imply new opportunities as well as risks.

On the positive side, TNCs in services can help improve the competitiveness of host economies. As in other sectors, they can provide capital, technology and managerial knowledge, enhance skills and restructure inefficient enterprises. They can also introduce new service products that previously were not supplied by domestic firms. There is potential for positive spillovers to the host economy, thereby stimulating improvements in competing service firms as well as for customers and suppliers. Where TNCs enter by acquiring State-owned utilities, they can improve the provision of basic services such as telecommunications, power and transportation, enhance the welfare of consumers and lower costs to industries using these services as inputs. Finally, service TNCs can open up new export opportunities by providing access to markets and skills not otherwise available.

In a knowledge-based economy, TNCs may have a larger impact in services than in manufacturing or resource-based industries. The role of services is closely linked to the knowledge content of the final product (goods or other services), and TNCs tend to have a competitive advantage in knowledge-intensive activities. Moreover, while in goods industries countries have a choice between imports and FDI as modes of international delivery, in many service industries, they may have to rely on FDI to get access to state-of-the-art knowledge and products.

FDI in services also entails potential costs, similar to those in manufacturing. For instance, FDI may crowd out local enterprises. In services that are natural monopolies, there is the risk of a possible abuse of monopoly power. In tourism, FDI inflows may have unwanted impacts on local communities and on the environment. FDI in certain kinds of simple exported services may relegate an economy to low-level tasks from which it may find it difficult

to upgrade. Reliance of foreign-service providers on expatriate personnel can hold back the development of local skills, while reliance on foreign subcontractors can undermine local service providers. Since many services are more deeply embedded in the social, cultural and political fabric of host societies than manufacturing, potential costs can also be more significant. Therefore, national policies need not only to facilitate the attraction of FDI in services, but also to minimize its possible negative consequences.

Notwithstanding the risks, countries are opening up to FDI in services. In response, FDI in this sector has expanded rapidly in recent years. In fact, a shift of FDI towards services has been under way for some time, but it has assumed new dimensions and patterns since the 1990s. However, its implications for development have not been fully explored.

The shift of FDI towards services and its changing mix manifest themselves in several ways:

- Services now account for the largest share of the inward FDI stock in many countries, and foreign-affiliate service providers play an important role in a growing number of services. Most service FDI has been domestic-market seeking, in such traditional services as finance, tourism and trading, or in industries that have only recently opened up to the private sector, such as electricity, water or telecommunications.
- The continuous process of liberalization and deregulation of key service industries has led to large inflows of FDI – with significant regional differences – into industries that were previously dominated by the State or by domestic private sector firms.
- A growing number of the world's largest TNCs are in service industries; even among the largest TNCs in manufacturing, services account for a rising proportion of value added.
- The ICT revolution has opened up export-oriented FDI in tradable services, even though the amounts involved are still relatively small and the destinations limited to a few countries. But as more service functions become directly tradable, international production systems involving services are being established.

Part Two of *WIR04* examines this shift. Chapter III takes stock of trends in FDI in services and examines the economic impacts. Chapter IV is devoted to one of the most interesting recent trends in the globalization of production with potential benefits for countries at all levels of development – the offshoring of corporate service functions. It assesses the current and future scope of the phenomenon, analyses the corporate strategies driving the process, considers the role of FDI in it and explores implications for host and home economies. Part Three then turns to the policy dimensions at the national and international levels.

CHAPTER III

THE GROWTH OF FDI IN SERVICES AND ITS IMPLICATIONS

Foreign direct investment is increasingly shifting towards services. Service industries that, until recently, were largely national, are becoming transnational. All countries are affected by the rise of services FDI and the broad-based growth of service TNCs. What does this mean for the development prospects of host countries? FDI in services, as in manufacturing, has the potential to enhance, directly and indirectly, the efficiency, productivity and supply capacity of host-country industries, thereby benefiting the economy as a whole. But it can also entail risks and costs against which the benefits need to be weighed carefully.

A. Changing patterns of FDI in services

How is the growth of services reshaping FDI patterns? First, the sectoral mix of FDI has shifted towards services, and the industry composition of services FDI is also changing, reflecting, in particular, a surge in flows into activities previously closed to FDI. Second, this has been accompanied by changes in the home and host country composition of FDI. Nevertheless, service industries and TNCs typically are less transnational than their manufacturing counterparts. This suggests that there is potential for services FDI to expand further – not counting non-equity forms of TNC participation (which are particularly important in this sector).

1. The growth of services FDI and its changing mix

The share of services (for definitions, see the annex to this chapter) in the national products of most countries has risen steadily during at least the past four decades, to reach 72% of GDP in developed, 52% in developing and 57% in the CEE countries in 2001 (UNCTAD 2003f). However, services accounted for a mere 20% of world exports in 2002 (IMF 2003).[1] Only one-tenth of world services output enters international trade, compared to over half of the production of goods (World Bank 2003a). This largely reflects the non-tradable[2] nature of many services: most services are non-storable and hence need to be produced when and where they are consumed. Non-tradability is overcome in some cases by the temporary movement of individual consumers or providers. But in most services, the *only* way of serving foreign markets is by setting up local operations through FDI or by using non-equity arrangements (such as licensing). This may change as more services and service components become tradable via computer-communication links (the focus of chapter IV) but, so far, these services account for only a small part of the services sector.

Services FDI has grown more rapidly than FDI in other sectors.[3] As a result, the composition of FDI has been shifting towards the services sector, initially in developed countries, followed by developing countries and economies in transition. This shift is in line with the growing importance of services in GDP on the one hand and the limited tradability of many services on the other. What is surprising is that these factors have only relatively recently been mirrored in FDI flows (box III.1) and that, even now, FDI and foreign affiliates' activities are less important in service industries of home and host economies than in goods industries – i.e. service industries are less transnationalized than goods industries. One major reason is that many service industries have until recently been relatively closed to foreign entry for various reasons (chapter V). Once the liberalization of FDI policies began around the mid-1980s and gathered momentum during the 1990s, services FDI surged.

The world's inward stock of services FDI quadrupled between 1990 and 2002, from an estimated $950 billion to over $4 trillion (based on 61 countries accounting for over four-fifths of the world's stock of FDI (annex table A.I.18), extrapolated to the world). Its share in the world's

total inward FDI stock rose to some 60% in 2002 (figure I.18), compared to less than half in 1990 and only one-quarter in the early 1970s (UNCTC 1989a, p. 8). On average, services accounted for about two-thirds of total FDI inflows (and 70% of outflows) over 2001-2002 (annex figure A.I.1) – an estimated $500 billion ($450 for outflows) per year (using the same methodology as for the estimation of stocks – annex table A.III.1, A.III.2).

Among individual economies, the share of services in total FDI varies considerably. For example, in the early 2000s, it ranged from 30% or less of the inward FDI stock in Bangladesh, Sweden and Venezuela to over 80% in Denmark, Luxembourg, Switzerland, Hong Kong (China) and Latvia; and from less than 40% of outward stock in Australia, Croatia and Sweden, to more than 70% in Austria, Colombia, Denmark and a number of other developed and CEE countries (annex tables A.I.22-A.I.23).

However, these figures present an imperfect picture of TNC activity in services. In some respects the role of services is inflated, because of FDI in holding companies (see below) and tax havens. In other respects it may be understated, due to non-equity forms of investment. In addition, problems of inadequate data collection and reporting, and the lack of a uniform classification of service industries among countries, are particularly acute.

The growth of services FDI stock has gone hand-in-hand with changes in the industry mix of such FDI. Until 1990, services FDI was concentrated in trade and finance, accounting for 25% and 40%, respectively, of total inward FDI stock in services (table III.1). These activities are still important, with trade accounting for 18% and finance for 29% in 2002. They are critical for the international expansion of industrial firms and, more generally, for economic development.

Since the 1990s, however, other services have seen more dynamic FDI growth. Notable among them are electricity, telecommunications, water supply and business services – the last of these a diverse group, ranging from real estate to professional services to IT-enabled corporate services. For example, between 1990 and 2002, the dollar value of total inward FDI stock in electric power generation and distribution jumped by 14 times, to 3% of the world services inward

Box III.1. International delivery modes in goods and services

Given the non-tradability of many services across borders, one would expect services to be delivered to foreign markets mainly via FDI, and goods mainly via trade. Data for the United States (the world's largest exporter and importer of services and the largest home and host country for services FDI), permit such a comparison. It contradicts this expectation: international transactions in goods rely on FDI much more than on trade, and much more so than international transactions in services.

Since at least the mid-1980s, sales of majority-owned foreign affiliates of United States TNCs were far more important for the international delivery of goods than United States exports (by a factor of around 2.5). At the same time, the ratio of affiliates' sales to exports (whether by the movement of consumers or producers or via cross-border delivery) in services was close to one between the mid-1980s and the mid-1990s; while it started growing thereafter, it still lagged behind that for goods (1.7 vs. 2.5) at the end of the 1990s. The pattern for inward services transactions is similar: imports and sales of foreign affiliates were largely similar in importance as modes of delivery in the 1980s and early 1990s, with the ratio increasing in favour of sales by affiliates only in the second half of the 1990s (Zimny and Mallampally 2002, p. 98).

More recently, in 2001, the ratio of foreign affiliates' sales to exports in services was still 1.8 for the United States, but exceeded 2 for Canada, Germany and Finland (annex table A.III.3); on the inward side, the ratio of foreign affiliates' sales was 2.5 for the United States (2001), and between 1 and 2 for most other countries for which data are available. According to United States data, the increase in the ratio of foreign affiliates' sales to imports and exports of services occurred not only for services in general but also for services that include many products that can be delivered via trade as well as FDI, including business, professional, telecommunications and financial services: the ratios increased from 1.6 in 1986 to 2.4 for outward transactions, and from 2 to 3.2 for inward transactions, following the pattern typical for tradable goods.

Source: UNCTAD.

FDI stock; that in telecommunications, storage and transport rose by nearly 16 times, to 11%; and that in business services by 9 times, to reach 26% of the stock[4] (annex table A.I.18). Rapid expansion also occurred in health services and education; from a low level, their stocks rose by 12 times and by 4 times, respectively (annex table A.I.18). Rapid growth in demand for these services and privatization and liberalization in many countries facilitated this surge.

2. Changing distribution among home and host countries

The shift towards services FDI has gone hand-in-hand with a changing distribution among home and host countries. Outward FDI has become more evenly spread among developed countries (by far, still the main source of such investment), and some developing countries have emerged as significant home countries, especially since 1990. On the inward side, developing countries as a group have seen their share increase noticeably.

a. Outward FDI

Some three decades ago, TNCs from developed countries held almost the entire *outward stock* of services FDI. The United States – already then one of the most service-oriented economies – alone accounted for two-thirds of the stock of the nine principal home countries. Since then, many other countries have emerged as outward investors, including some from the developing world (table III.2, annex table A.III.2). By the beginning of the 1990s, the United States' share had fallen to around one-quarter in terms of stock – a share it still held in 2002 (annex tables A.I.19 and A.1.21).

Table III.1. Distribution of FDI stock in services, by industry, 1990, 2002
(Per cent)

	1990			2002			
Sector/industry	Developed countries	Developing economies	World	Developed countries	Developing economies	Central and Eastern Europe	World
A. Inward FDI stock							
Total services	100	100	100	100	100	100	100
Electricity, gas and water	1	2	1	3	4	6	3
Construction	2	3	2	1	3	5	2
Trade	27	15	25	20	14	21	18
Hotels and restaurants	3	2	3	2	2	2	2
Transport, storage and communications	2	8	3	11	10	24	11
Finance	37	57	40	31	22	29	29
Business activities	15	5	13	23	40	10	26
Public administration and defence	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-
Health and social services	-	-	-	-	-	-	-
Community, social and personal service activities	2	-	2	2	1	1	2
Other services	10	8	9	2	4	2	2
Unspecified tertiary	2	1	2	6	2	-	5
B. Outward FDI stock							
Total services	100	100	100	100	100	100	100
Electricity, gas and water	1	-	1	2	-	2	2
Construction	2	2	2	1	2	2	1
Trade	17	16	17	10	12	17	10
Hotels and restaurants	1	-	1	2	2	-	2
Transport, storage and communications	5	4	5	11	7	19	11
Finance	48	62	48	35	22	39	34
Business activities	6	11	7	34	54	19	36
Public administration and defence	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-
Health and social services	-	-	-	-	-	-	-
Community, social and personal service activities	-	-	-	-	-	-	-
Other services	13	5	13	2	2	2	2
Unspecified tertiary	6	-	6	3	-	-	3

Source: UNCTAD, based on annex tables A.I.18 and A.I.19.

European Union TNCs traditionally have had a substantial FDI presence in banking, insurance, trading and air transport. The Single Market programme, announced in the second half of the 1980s and implemented in the early 1990s, provided impetus for the expansion of FDI in these and other services, notably in transport and telecommunications. The programme triggered an EU-wide restructuring of service industries, accelerating intra-EU services FDI (as well as inbound FDI, notably from the United States and Japan) (UNDESD 1993). In the second half of the 1990s, EU service TNCs, having acquired experience in cross-border M&As within Europe, expanded into the United States in pursuit of the more ambitious goal of establishing a global presence. The resulting FDI boom in services (largely through M&As – section B.2 below) was instrumental in strengthening the EU's role as a leading home region: its share in the world's outward FDI stock rose from 39% in 1980 to 49% in 2003.

Japan's emergence as one of the largest home countries in the 1980s and the 1990s was driven by services FDI. Major TNCs involved were the *sogo shosha* (general trading companies), banks, securities companies and, to a lesser extent, insurance firms. FDI in real estate,[5] transport and business services also expanded rapidly. Japan remains a major source of services FDI, although the stagnation of the Japanese economy during the 1990s slowed down its outward expansion.

Developing countries' outward FDI in services took off during the 1990s. Their share in the global outward FDI stock in services rose from 1% in 1990 to 10% in 2002 (table III.2).[6] FDI in trading services expanded rapidly in this period, both in absolute value (annex table A.I.18) and as a percentage (12%) of the global FDI stock in these services (table III.2). This suggests that a good part of services FDI expansion by manufacturing firms was of a trade

Table III.2. Distribution of FDI stock in services, by group of economies, 1990, 2002
(Per cent)

	1990			2002			
Sector/industry	Developed countries	Developing economies	World	Developed countries	Developing economies	Central and Eastern Europe	World
Inward FDI stock							
Total services	83	17	100	72	25	3	100
Electricity, gas and water	70	30	100	63	32	6	100
Construction	77	23	100	47	45	8	100
Trade	90	10	100	78	19	4	100
Hotels and restaurants	87	13	100	70	26	3	100
Transport, storage and communications	58	43	100	71	22	7	100
Finance	76	24	100	77	20	3	100
Business activities	93	7	100	61	38	1	100
Public administration and defence	..	..	..	99	1	-	100
Education	100	..	100	92	4	4	100
Health and social services	100	..	100	67	32	1	100
Community, social and personal service activities	100	..	100	91	8	2	100
Other services	85	15	100	61	36	3	100
Outward FDI stock							
Total services	99	1	100	90	10	-	100
Electricity, gas and water	100	..	100	100	0	-	100
Construction	99	1	100	80	20	-	100
Trade	99	1	100	88	12	-	100
Hotels and restaurants	100	-	100	90	10	-	100
Transport, storage and communications	99	1	100	93	7	-	100
Finance	98	2	100	93	7	-	100
Business activities	98	2	100	84	16	-	100
Public administration and defence	-	-	-	100	..	..	100
Education	100	..	100	100	..	..	100
Health and social services	100	..	100	100	-	-	100
Community, social and personal service activities	100	..	100	99	1	-	100
Other services	100	1	100	90	10	-	100

Source: UNCTAD, based on annex tables A.I.18 and A.I.19.

supporting nature. But TNC activity in other services also contributed to this expansion: FDI increased particularly in business activities, hotels and restaurants, financial services, and transport, storage and communications, both in absolute values and in relative terms (annex table A.I.18 and table III. 2). For instance, the share of developing countries in the global FDI stock in each of these services was at best 2% in 1990. By 2002, it had risen to 7% for transport, storage and communication as well as for financial services; to 10% for hotels and restaurants, and even to 16% for business activities. In the last case, this was partly due to the inclusion of management holdings in business services by a number of countries.

Overall, the largest outward stocks in services were held (in 2001) by TNCs from the United States, followed by the United Kingdom, Germany, France and Hong Kong (China).

b. Inward FDI

On the inward side, the geographic distribution of services FDI has always been more balanced. The United States has long been the largest recipient but its share in the global inward FDI stock in services has never exceeded 30%. The expansion of inward services FDI has taken place mainly in Western Europe and the United States. Japan is an insignificant host for such FDI (as it is for FDI in general), although recently flows to that sector have increased (annex table A.I.20). During the second half of the 1980s, developing countries joined in and, since the early 1990s, the economies of CEE. In 2002, developed countries accounted for over two-thirds of the inward FDI stock in services (table III.2). This share was 25% for developing economies and 3% for CEE – comparable to their shares in world FDI stock.

Developing countries as a group have attracted sizeable FDI in some services, sometimes as much as developed countries. In construction, for example, developing countries' share doubled, from 23% in 1990 to 45% in 2002 (table III.2). Other examples are trade, hotels, restaurants and business activities. (In the last case, the inclusion of management holding companies is again a factor influencing the magnitude.) Conversely, the share of developing countries halved in transport, storage and communications, despite a noticeable rise in TNC participation in their telecom industries. This is partly because of significant FDI in this industry among developed countries and CEE.

Overall, the largest inward FDI stocks in services were (in 2001) in the United States, followed by Hong Kong (China), the United Kingdom, China and France (annex table A.I.20).

3. Transnationalization is lower in the services sector and differs by industry and country

At the sectoral level, on the *outward* FDI side, data for a number of home countries show that shares of value added, employment and sales of foreign affiliates relative to total national value added, employment and sales are much higher in manufacturing than in services (table III.3). In other words, the services sector in home countries is less transnationalized than the manufacturing sector.

On the *inward* side, too, the degree of transnationalization of the services sector – that is, the importance of TNC activity relative to total host-country activity – is less than that in manufacturing. For example, in most countries, FDI inflows in 1992-2002 as a percentage of sectoral GDP were lower in services than in manufacturing, with some important exceptions (annex figure A.I.2). More significantly, foreign affiliates accounted for much lower shares of sales, value added and employment in the services sector, than in manufacturing in a number of host countries (figure III.1).

OECD data for 11 service categories covering between 5 and 18 member countries throw light on differences in the transnationalization of individual service industries in host developed countries. The pattern is quite consistent: transportation, telecommunications, real estate and hotels and restaurants (in that order) are, on average, the service industries in which inward FDI plays the smallest role in developed countries (OECD 2001, pp. 42-47). Business services, and especially computer and related services, are at the other end of the spectrum, while financial and trading services fall in between. In 10 out of 16 OECD member countries, for instance, the share of foreign affiliates in the total sales in computer services was 20% to 35%. In two of them, it was 10% to 15% and in four countries, below 10%.

Table III.3. Shares of value added, employment and sales of foreign affiliates of home-based TNCs in home-economy totals, by sector of parent firm, selected countries and years

(Per cent)

	Value added			Employment			Sales		
Economy	Manufacturing	Services	Year	Manufacturing	Services	Year	Manufacturing	Services	Year
Austria	..	..	..	28.7	11.8	2001	7.7	..	1998
Canada[a]	..	..	..	18.1	3.3	1999	..	..	..
Finland[a]	..	..	..	35.4	5.9	2002	42.5	..	1998
France[a]	..	..	..	..	..	..	16.1	7.8	1998
Germany	..	..	..	32.3	7.8	2001	..	..	..
Japan[b]	..	..	..	21.1	1.3	1999	9.6	7.8	1997
Portugal[a]	1.4	1.2	1999	0.6	2.6	2001	2.7	..	1999
Sweden[a]	..	..	..	69.4	13.7	2000	68.3	4.4	1997
United States[c]	21.2[a]	2.6[a]	2001	29.2	3.4	2001	..	..	..
Czech Republic	1.1	0.3	2000	0.4	0.2	2002	..	..	..
Macao, China	..	..	..	5.2	1.4	2001	..	..	..

Source: UNCTAD, based on FDI/TNC database (TNC data on value added and employment), the United Nations Statistical Office (total value added), ILO 2001a (total employment) and OECD 2001a (sales, all entries).

[a] Data refer to majority-owned foreign affiliates only.
[b] Data refer to foreign affiliates of non-financial TNCs only.
[c] Data refer to foreign affiliates of non-bank TNCs only.

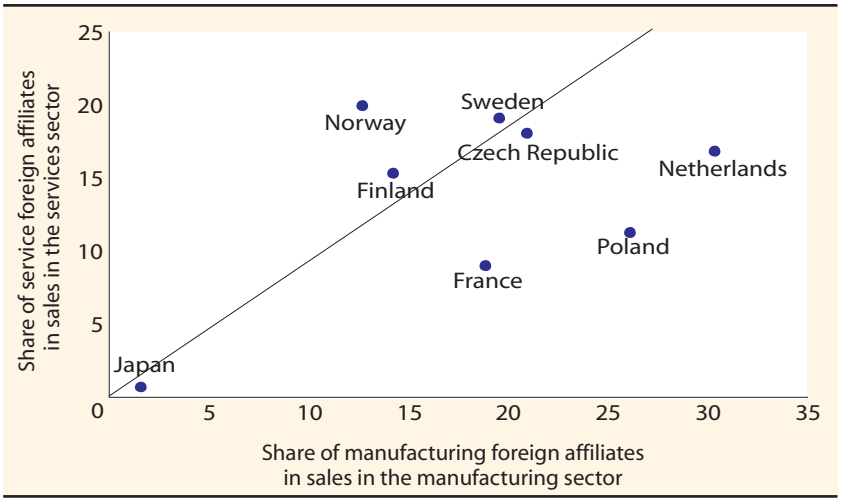
Judging from the shares of FDI flows as a percentage of GDP in selected industries in a number of developing and CEE countries, the pattern of transnationalization of individual service industries varies in these countries as well. They are frequently high in finance, electricity and, to a lesser extent, transport, storage and communications, whereas they tend to be low in construction and hotels and restaurants (annex figure A.III.1). This reflects, among other things, differences in the level of countries' openness to FDI, privatization programmes and the degree of reliance on non-equity forms of investment.

There are also considerable differences in the role of foreign affiliates in the same service industry among individual countries. In banking, for instance, in many countries in Africa, Latin America and CEE, transnational banks (TNBs) dominate, or play a much greater role than in developed countries (annex table A.III.4). In 29 economies, TNBs account for more than 70% of total banking assets (table III.4) and in a few of these – Botswana, Guinea Bissau, Lesotho, Tonga – all banks are foreign-owned. In some smaller economies, the TNB penetration ratio can be very high, even without large investments by TNBs, because of the small size of the host country's banking system. In general, this ratio is higher in developing and transition economies than in

Figure III.1. Share of foreign affiliates in the total services and manufacturing sales, value added and employment of selected host economies, various years

(Per cent)

a. Sales



Source: UNCTAD, based on FDI/TNC database (www.unctad.org/fdistatistics) and OECD 2001a.

Note: 1997 for Japan, the Netherlands, Norway,Sweden; 1998 for the Czech Republic, Finland, France, Poland.

developed countries, with the exception of New Zealand (99%) and the United Kingdom (46%). In many other developed countries, the foreign bank penetration ratio is 11% or less (annex table A.III.4).

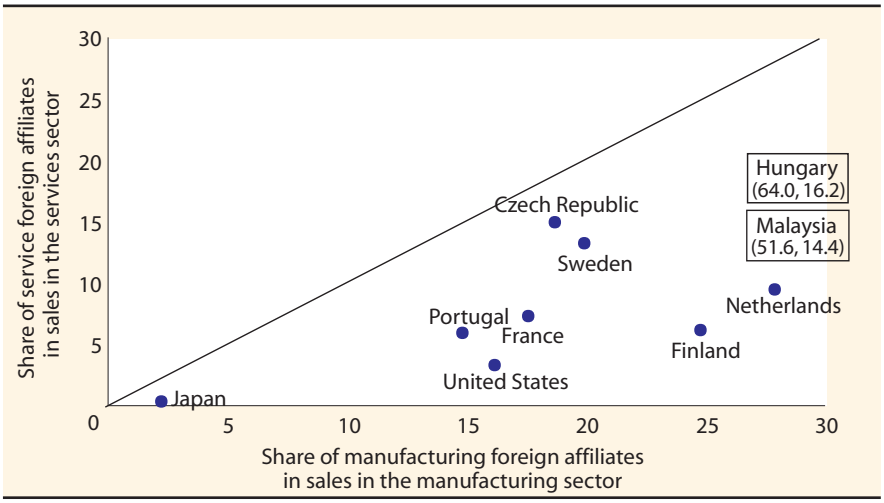
Similar disparities exist in the case of telecommunications, electricity and water, in which, after the wave of privatizations during the past decade or so, foreign companies are playing an important, if not dominant, role in a number of countries in Latin America and CEE. Hotels in a number of small countries, such as in some Caribbean countries, are mostly owned or operated by international hotel chains, while many other countries have failed to attract these chains. There is also a growing presence of international retail chains in large developing countries such as Brazil and Mexico. In business services, large international business consultancy, advertising or legal firms are present in many developing countries, but they tend to cater mainly to foreign investors, and the bulk of domestic enterprises are served by local service providers.

All told, however, the dominance of the global FDI stock in services does not translate into a corresponding importance of foreign service affiliates in host countries. One reason is that, while the services FDI stock is large, so is the services sector in most economies. Many services, such as education, media, health, government services and transportation, are predominantly domestic in nature, and therefore mainly provided by domestic companies or public undertakings. However, partial privatization in some of these, such as education and health services, has attracted FDI. In others, such as telecommunications, electricity, gas, water and

Figure III.1. Share of foreign affiliates in the total services and manufacturing sales, value added and employment of selected host economies, various years (concluded)

(Per cent)

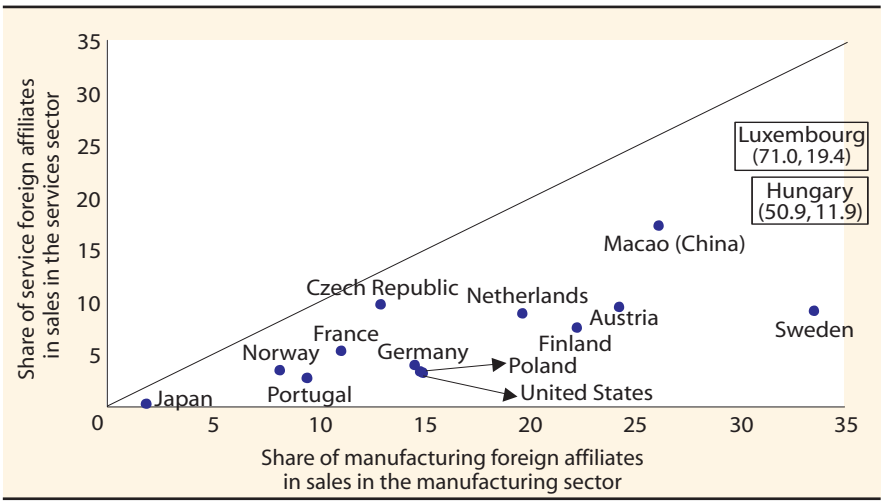
b. Value added



Source: UNCTAD, based on FDI/TNC database (www.unctad.org/fdistatistics) and OECD 2001a.

Note: 1995 for Malaysia; 1997 for the Netherlands and Sweden; 1998 for the Czech Republic and France; 1999 for Finland, Japan and Portugal; 2000 for Hungary and the United States.

c. Employment



Source: UNCTAD, based on FDI/TNC database (www.unctad.org/fdistatistics) and OECD 2001a.

Note: 1997 for the Netherlands and Norway; 1998 for the Czech Republic and France; 1999 for Japan; 2000 for Hungary, Luxembourg, Poland and the United States; 2001 for Austria, Finland, Germany, Macao (China), Portugal and Sweden.

business services, FDI growth has been impressive, but is relatively recent. Another reason is that a good deal of services FDI – notably that in holdings and financial affiliates (section B.1) – involves activities with little value added, employment, sales or investment expenditure on fixed capital.

Thus, the picture has changed over time, as FDI in services has grown rapidly due to changes in economic and policy-related factors that influence TNC activity in services. The relative importance of FDI in services is not (yet) as high as in manufacturing, although the gap is narrowing. Moreover, there is a significant TNC presence in some individual services, but it involves non-equity arrangements of various kinds, and not (much) FDI. Consequently, such activity is not captured in data on either FDI or the economic activities of foreign affiliates. To that extent, the transnationalization of the services sector is higher than what is reflected in the data on FDI in services.

4. Non-equity forms of investment are common in services

A striking difference between TNC activities in services and goods is that non-equity forms of TNC participation are important in a number of service industries. Such forms include franchising, management contracts, concessions, partnerships, turnkey, build-operate-and-transfer (BOT) and build-transfer-and-operate (BTO) projects. They are important, and sometimes dominant, in hotels, fast-food outlets, restaurants, car rentals, retailing, construction and various professional services. For example, a survey of 34 large international hotel chains in the 1990s showed that fully- or partially-owned foreign affiliates in 1990s accounted for only 36% of their overseas properties. The rest took the form of such non-equity arrangements as management contracts (37%) and franchising agreements (28%) (Contractor and Kundu 2000, p. 300). In fact, non-equity participation by TNCs appears to be gathering further momentum (box III.2).

Partnerships rather than equity links are used in business consultancy (which grew out of accounting services), engineering and legal services. Franchising is common in retail trade and car rentals. Concessions, giving rise to management contracts, are commonly used by some countries in infrastructure services such as electricity, transportation and water. Except for capital inflows, these forms of participation can have all the impacts characteristic of FDI.

The greater popularity of non-equity forms of TNC participation in service industries than in goods is due to a number of reasons. The competitive advantages of service firms consist of knowledge-based, intangible assets (soft technologies), rather than tangible ones (hard technologies) that are more important in manufacturing firms. Intangible assets, such as organizational and managerial expertise, can be separated from tangible and capital-intensive ones

Table III.4. Host economies with a penetration ratio[a] of foreign bank affiliates exceeding 70%, 2001

(Per cent)

				Developing economies					
Developed countries		CEE		Africa		Asia and the Pacific		Latin America and the Caribbean	
New Zealand	99.1	Estonia	98.9	Botswana	100.0	Tonga	100.0	Belize	94.6
		Czech Republic	90.0	Guinea-Bissau	100.0	Fiji	98.9	Aruba	92.3
		Croatia	89.3	Lesotho	100.0	Vanuatu	94.1	Grenada	88.7
		Hungary	88.8	Gambia	95.8	Singapore[b]	76.0	Mexico	82.7
		Slovakia	85.5	Benin	91.0	Bahrain	72.0		
		Lithuania	78.2	Guinea	90.0	Hong Kong, China[b]	72.0		
		Bulgaria	74.6	Côte d'Ivoire	84.2	Cambodia[c]	71.0		
		Bosnia and Herzegovina	73.0	Senegal	78.7				
				Niger	73.4				

Source: UNCTAD, based on annex table A.III.4.

[a] Ratio of assets of majority-owned foreign bank affiliates (including branches and representative offices) to total bank assets.

[b] Data from Committee on the Global Financial System (CGFS) 2004, p. 9.

[c] Data from the World Bank 1998 survey, www.worldbank.org/research/projects/bank_regulation.htm. Data relate to the late 1990s.

(such as real estate in the case of hotels or water distribution networks). More importantly, because the critical knowledge transferred by TNCs and the capabilities of local firms in a number of services are frequently codifiable (e.g. as in a management contract), they can be equally well protected and enhanced in non-equity-based arrangements as in equity-based operations. For example, in the hotel industry, contracts can be designed to ensure that incentives are compatible for all sides to an agreement, to protect the interests of both the investor owning the physical and capital-intensive parts of the business (the hotel) and of those holding the knowledge, managerial expertise and reputation. Such non-equity participation arrangements offer hoteliers a way to expand rapidly their networks and maintain brand dominance without having to commit capital; at the same time they protect the asset owners by defining the conditions under which managers can exit from their contract.

In other service industries, host countries' policies are decisive in determining the mode of entry and the forms of cross-border inter-firm cooperation. A case in point is air transportation, where, in spite of deregulation and liberalization, many FDI restrictions remain. As a result, the principal mode of TNC activity in the industry takes the form of cross-border alliances (sometimes accompanied by minority equity holdings) rather than FDI (box III.3).[7] In the case of accounting, host-country regulations as well as industry-specific practices have led to a reliance on networks and partnership involving local firms (box III.4). Partnerships are also a common feature of TNC activity in legal services (box III.5). Thus, industry characteristics as well as host-government policies influence the mode of TNC participation.

In the context of one particular policy measure, privatization, FDI has been the typical means of acquiring State-owned assets, especially of public utilities. But in some regions, notably West Asia and North Africa, about 60% of electricity investment has taken the form of concessions, including with foreign firms taking over the management of State-owned enterprises for a specified period.[8] Concessions are also common in water services.

Given the limited availability of systematic information on non-equity participation by TNCs in services, the full extent of such forms and the scope of TNC involvement are difficult to ascertain. However, if receipts of royalty fees – paid by host-country firms for the use of the assets and expertise obtained under contractual agreements of various types – are used as a proxy for non-equity based activity, they are growing fast. For example, royalty fees in the services sector received by German TNCs from abroad rose from $11 million in 1989 to $323 million in 2002. Japanese TNCs' royalty fees in services increased over 10-fold (to some $150 million) during the same period, and those of United States TNCs rose at a similar rate (table III.5).

B. Players and driving forces

FDI in services mirrors, to some extent, the global expansion of service TNCs, in the same way as FDI in goods production mirrors the global expansion of TNC goods producers. But a substantial proportion of services FDI also includes services production in host countries by TNCs in manufacturing, for local sale or export (in the same way as some goods FDI is undertaken by service TNCs).

However, the role of service TNCs is expanding: large TNCs have emerged in a number of service industries and from a number of home countries. Their expansion into host countries has often occurred through M&As. Firm-specific advantages and location advantages of countries drive this expansion. It is taking place in the context of growing markets for services, the rapid spread of information and communication technologies and increased competition. Market-seeking motivations and strategies dominate TNC activities in services, but integrated international production networks are also emerging as efficiency-seeking TNCs take advantage of the growing tradability of many service products.

1. Goods TNCs invest in services

A large – but declining – proportion of outward FDI in services is controlled by goods rather than service TNCs: at least 41% in the case of the United States in 1999 (a decline from 50% or more in the late 1980s (UNCTC 1989a)) and 10% in Germany in 2000 (table III.6). Comparable data are not available for other

Box III.2. Transnational hotels: non-equity participation on the rise?

Hotels with foreign names remain one of the most visible symbols of FDI in global tourism, especially in developing countries. But appearances can be misleading: there is increasingly less reason to assume that, just because a well-known chain runs a hotel, it also owns it. As in many other service industries, franchising, leasing and management contracts are becoming more popular forms of TNC participation while equity purchase and ownership are declining. The Intercontinental Hotels Group (IHG) (annex table A.III.5), for example (which claims to be the world's most global hotel company and the largest, with 3,500 hotels and 535,000 rooms), has slated for sale almost $1 billion worth of its total $6 billion portfolio since April 2003.[a] The move is part of a wider strategy to reduce its capital investment and increase the spread of its operations by management contracts and franchising.

Even TNCs that historically eschewed non-equity participation seem to be moving towards it. Shangri-La Hotels and Resorts, for example, which was the second largest global hotel TNC in terms of foreign assets, currently owns 90% of its 20,000-plus hotel rooms, one of the highest proportions of equity ownership among the top hotel TNCs (box table III.2.1). However, its annual reports indicate that the company's planned expansion into China and other parts of Asia will rely heavily on non-equity modes. Plans include management contracts for another 6,145 rooms, plus ownership of another 5,646 rooms, taking the total proportion of rooms owned down to 80% (and those managed, up to 20%) by 2007.

At the same time, hoteliers make every effort to ensure that quality and reputation are not compromised. One reason deterring the choice of non-equity participation seems to be the extent to which a hotelier's service is customized, as opposed to standardized. For example, even hoteliers with a general preference not to own the "hardware" will make an exception when the building in question is famous or a landmark. Similarly, hoteliers tend to retain ownership of their luxury or highest quality ranges. Reflecting such factors are the high ownership ratios of Asian TNCs hotel chains such as Orient-Express Hotels and Shangri-La. They are firms that target small numbers of high-end properties and clients.

In terms of country and regional patterns, different TNCs follow different strategies.[b] For example, IHG follows a predominantly franchising model in the United States, an ownership model in Europe, and a management model in Asia and the Pacific. Accor, by comparison, relies more on ownership modes of operation in the United States, and on franchising in Europe (including France). In Latin America, its most common mode of entry is via management contract.

Box table III.2.1. Selected leading hotel chains: modes of operation, 2003

Hotel group	Home economy	International rooms as per cent of total rooms	Mode of participation (Per cent of total rooms)		
			Full or partial equity	Management contract	Franchised, leased or other
Starwood Hotels & Resorts	United States	34	24[a]	41	35
Accor	France	74	21	17	62
Orient-Express Hotels Ltd.[b]	Bermuda[c]	100	92	..	..
Hilton Group plc	United Kingdom	80	17[d]	32[d]	50[d]
Shangri-La Hotels and Resorts	Hong Kong, China	97	90	10	-

Sources: UNCTAD based on annual company reports.

[a] Includes leased rooms.
[b] Figures based on reported revenues and earnings, not hotel rooms.
[c] Management decisions are made in the United Kingdom.
[d] Based on numbers of hotels, not rooms.

Source: UNCTAD, based on Contractor and Kundu 2000, World Travel and Tourism Council 2003; company annual reports.

[a] IHG divested itself in April 2003 from the United Kingdom brewing, pub and hotel group Six Continents (www.ihgplc.com/ accessed July 2004).
[b] Factors such as perceived risk do not appear to prompt non-equity modes, but there is evidence of a positive association with the level of GDP per capita (Contractor and Kundu 2000).

countries, but the proportion of foreign affiliates in services held by non-service parent firms was at least 20% in Japan in 2001, and, in the late 1980s, the stock of services FDI held by non-service parent firms was 20% in the United Kingdom (*WIR 1993*, p.78). This reflects the globalization of corporate service functions by TNCs in the manufacturing and the primary sectors rather than the global expansion of service TNCs. This is typical for trading and financial services (other than banking and insurance), where the role of TNCs from non-service industries is the greatest.

Goods TNCs often invest in trading, marketing or financial affiliates in support of their exports from their home bases or their local sales of goods produced in host countries (for example, affiliates of automobile manufacturers provide credit to buyers of cars; oil companies operate their own tankers and gas stations; and sales agencies of electrical goods companies market their parent firms' products).[9] In some manufacturing industries, such as pharmaceuticals and electronics, TNCs locate R&D affiliates wherever a cost-competitive, well trained workforce and agglomeration economies are available. Moreover, some large manufacturing TNCs have gradually shifted much of their activity to services. Prominent examples include IBM and GE which, judging from their range of activities, could now be classified as both manufacturing and service firms.[10] Some manufacturing TNCs have taken over service companies unrelated to their major activity in search of new areas of future growth. With the offshoring of corporate service functions by TNCs in all sectors (chapter IV), FDI in services by TNCs in the manufacturing (and primary) sectors is likely to continue to grow. That may not, however, have a significant impact on the flows and stocks of FDI, as most corporate services are human-capital intensive rather than physical-capital intensive, and therefore do not require significant investment expenditure at the outset.

A specific subset of services FDI results from the establishment of affiliates abroad that perform finance- and management-related services for goods-producing firms. As these affiliates often manage the financial assets of TNCs, they generate large FDI stocks but disproportionately small economic activity in host countries. A case in point is holding companies. Countries often classify them under management services, financial intermediation or business services. Investment in holding companies and some kinds of financial activities may distort the picture of FDI flows and stocks in these services and in the countries involved. Luxembourg, for example, attracts many holding companies that receive funds from parent firms to invest in affiliates in other countries; because of such transshipped FDI, Luxembourg was the world's largest home and host country in 2002 (*WIR03*, p. 69). Another example is Hong Kong (China), one of the world's largest host economies for services FDI (including in business services), owing to the large concentration of holding companies (reported under business services). The location of holding companies is often determined by tax considerations, although the situation may be changing (box III.6). Financial affiliates (including in the form of holdings) are often established in tax havens, again inflating inward and outward FDI figures, but with little employment or value added. For example, the small island of Bermuda had an inward FDI stock of $81 billion in 2003, almost equal to that of Denmark or Japan, and much larger than that of Malaysia (annex table B.3).

2. Service TNCs are expanding rapidly

a. The players

A United Nations study (UNCTC 1989a, p. 41) described TNCs in service industries as they were some 20 years ago, as follows:

> ... although TNCs are found in all major service industries, the propensity to engage in foreign production is fairly uneven. Typically, only a handful of mostly large firms have world-wide networks of affiliates and account for most of an industry's transnational activities. Normally, many small- and medium-sized domestic firms coexist with transnational firms. In many service industries the process of transnationalization is determined mainly by a limited number of large TNCs.

The study also found that almost all of the largest service TNCs were headquartered in developed countries (UNCTC 1989a, p. 45). The

Box III.3. Airlines: little FDI, many alliances

FDI is of little importance in airlines, compared to other services and to non-equity arrangements such as alliances: fewer than 25% of the world's 1,010 airlines are owned by foreign investors (including banks and other airlines) (box table III.3.1), compared with 17% three years ago. Many countries have statutory limits on foreign ownership levels in national carriers; and most international air services are governed by bilateral air service agreements between countries (often containing restrictions regarding national ownership and control). The proportion of airlines owned by foreign investors is similar in both developed and developing countries. At the regional level, Latin America and Western Europe had the highest proportion, while CEE and West Asia had the lowest. North America also had a low proportion, but this is changing: the number of airlines owned by foreigners has risen sharply in recent years, from 8 airlines with foreign ownership in 2001 to 29 by 2004.

The proportion of airlines owning shares in other foreign airlines is even smaller. Only 65 airlines out of a total of 1,010 have invested in foreign airlines. Again, there are no significant differences between developed and developing countries, although there are very few carriers in North American and in other developed countries in Asia and the Pacific that have holdings in foreign airlines.

Alliances have become an increasingly important vehicle through which airlines seek to benefit from closer ties with other airlines. Their number has risen markedly, from around 20 worldwide in the early 1990s to a total of 1,222 by 2001 (box table III.3.2). Alliances can be of any size in terms of participants, temporary or permanent, with different strategic objectives and involving different degrees of cooperation. In 2001, the most common arrangement involved code-sharing, frequent flyer programmes and cargo arrangements (box table III.3.2), and the least common, joint terminals and training.

Box table III.3.2. Alliances among airlines, 2001[a]
(Number, per cent)

Agreements containing provisions on	Number	Per cent of total agreements
Code-sharing	911	75
Frequent flyer programmes	114	9
Cargo	106	9
Marketing	78	6
Joint venture on destination	55	4
Pooling agreement	33	3
Joint-ground handling	32	3
Regional connection/franchise	31	3
Others	165	14
Total number of agreements	1 222	...

Source: WTO 2001, pp. 7-8.

[a] As agreements between two airlines may cover several areas of cooperation, and categories may overlap, the sum of percentage shares in the far right column exceeds 100.

Box table III.3.1. FDI by, and in, airlines, by region, 2004
(Number, per cent)

	Developing countries					Developed countries					
Item	Africa	Asia[a]	West Asia	Latin America	Sub-total	Western Europe	North America	Other developed countries	Sub-total	CEE	World
Number of operating airlines	91	143	53	135	422	223	149	60	432	156	1 010
Number of airlines owned by foreign investors/airlines	24	37	8	39	108	60	29	10	99	23	230
Percentage of airlines owned by foreign investors/airlines	26	26	15	29	26	27	19	17	23	15	23
Number of airlines owning stakes in foreign airlines	7	7	5	9	28	26	6	2	34	3	65
Percentage of airlines owning stakes in foreign airlines	8	5	9	7	7	12	4	3	8	2	6

Source: UNCTAD, based on information provided by the International Civil Aviation Organization.

[a] Excluding West Asia.

Source: UNCTAD, based on information provided by the International Civil Aviation Organization.

single most important home country was the United States. Not surprisingly, therefore, United States service TNCs were strongly represented in most service industries. They were also considerably more transnationalized (as measured by the number of their foreign affiliates) than West European firms and, especially, Japanese firms; the latter, however, had gained considerable ground, especially in banking and wholesale trading (UNCTC 1989a, p. 60).

Many of these general observations are still valid, especially those concerning the dominant role of the largest TNCs in individual industries. But many things have also changed, mirroring the expansion of service TNCs and changes in the pattern of services FDI.

Most importantly, a large group of new TNCs has emerged in service industries that are new for FDI – notably telecommunications (box III.7), electricity (box III.8), water (box III.9) and postal services (box III.10) – somewhat sidelining long-standing TNCs in traditional FDI industries such as banking or trading. Take telecommunications. Once consisting of uni-player domestic industries, it is now a multi-player global industry. Top players are present almost everywhere, dominating the provision of telecom services in many developing countries and economies in transition. Many of them are former State-owned monopolies from Europe: France Telecom, Deutsche Telekom, Telecom Italia and Spain's Telefonica are among the ten largest firms in the industry (box III.7). The largest, Vodafone (which ranked second on the list of the world's largest TNCs in 2002, annex table A.I.3) – originates from the United Kingdom. All these firms have expanded abroad through cross-border M&As, many involving privatizations. Vodafone apart, there are some 40 telecom TNCs with foreign sales of $100 million or more.

Electricity, too, is an industry with a substantial number of important international players. Some 30 TNCs have foreign sales of $100 million or more. France's Electricité de France and two German companies (RWE, E.On) lead the list (box III.8 and annex table A.III.8). The same cannot be said about the water industry where only a handful of companies dominate the market (box III.9).

The largest service TNCs are now more evenly distributed among home countries, especially when considering the size of their foreign assets, employment or sales (annex table A. III.5). United States TNCs still have a strong presence in many services, but they are less dominant than 15 years ago, and in some industries they no longer occupy leading positions. Even in advertising and media, believed to be strongholds of United States TNCs, European firms now lead. In insurance, too, European TNCs have taken over the lead from United States and Japanese firms (box III.11). In retail trade as well, the home-country composition of the largest TNCs has changed dramatically over the past 20 years of rapid transnationalization (box III.12). Whereas, in 1986, nine of the top ten retail TNCs were from the United States (UNCTC 1989a, pp. 191-192), in 2002 only one was from that country. In international trade, *sogo shosha* continue to play an important role for Japan, but it has declined dramatically (box III.13).

Changes in banking have involved Japanese firms in particular. In 1986, Japanese banks dominated the list of the world's largest banks (ranked by assets): five of them led the list, and as many as 12 featured among the top 20 (UNCTC 1989a, pp. 176-181). Today the picture is different. Although the second largest bank is still Japanese (Sumitomo Mitsui), only four banks from Japan figure among the top 20 (box III.14). This is in large part due to the restructuring and consolidation of the Japanese banking industry in response to widespread banking distress during the economic recession of the 1990s. It also reflects government efforts to reform and deregulate the Japanese banking system and to deal with the critical problem of non-performing loans.[11] The list of the world's top TNBs is now dominated by European banks: more than half are from four EU countries (box III.14).

The rise to prominence of European TNCs in many services has occurred in parallel with their increasing participation in cross-border M&As (discussed below). Growing competitive pressures on the one hand and improved competitive strengths on the other – partly due to operating in a unified European market – propelled the rapid international expansion of European firms during the 1990s.

Another big change is the rise of service TNCs from developing economies. Most of them originate from Hong Kong (China), many hail from Singapore and a few are from Mexico and

Box III.4. Accountants network, led by the Big Four

Mirroring the transnationalization of various industries that draw upon its services, the accountancy industry has become global as well. Today, it is a large and highly regulated industry dominated by four firms known as the "Big Four" (box table III.4.1). The Big Four have grown and expanded through the formation of networks and partnerships with local accounting firms under a brand name and through mergers. Concentration was driven by mergers among the "Big Eight" accounting firms during the 1980s and 1990s, and the dissolution of one of the top firms (Arthur Andersen) in 2002, following a major corporate governance scandal.

The Big Four are substantially larger than the other accounting firms, each with thousands of partners, tens of thousands of employees, offices around the world and annual revenues running into billions of dollars (box table III.4.1). They perform both accounting and management consulting services, although the trend is increasingly towards the separation of these activities. The combined revenues of the four amounted to some 33% of the global market for accounting services – estimated to be $142 billion in 2002 – and 84% of the total revenues of the 10 largest accounting firms in 2003.[a] There is a considerable revenue gap between the fourth and fifth largest firms (box table III.4.1).

Historically, accounting firms went abroad to service clients from their home countries. Today, the Big Four audit the bulk of publicly listed companies in developed countries: 78% in the United States, 80% in Japan, 80% in Italy, 90% in the Netherlands and an estimated 95%-98% in the United Kingdom (United States, General Accounting Office 2003). They have global operations, and are among the most transationalized business service enterprises, with a presence (between them) in all but 43 countries. The latter are mainly low-income (including 25 LDCs) and small Pacific and Caribbean island countries.[b]

Table III.4.1. The top ten accounting firms, ranked by total revenue, 2003
(Billions of dollars and number)

Name	Headquarters	Total revenue	Employees	Number of host countries
PricewaterhouseCoopers	New York	16.0	122 820	139
Deloitte Touche Tohmatsu	New York	15.1	119 770	144
Ernst & Young	New York	13.1	103 000	140
KPMG	Amsterdam	12.2	98 900	148
BDO	Brussels	2.6	23 230	99
Grant Thornton	Chicago	1.8	21 500	110
RSM	London	1.8	20 000	80
Moores Rowland [a]	High Point, NC	1.8	20 850	92
Horwath	New York	1.5	18 680	86
Baker Tilly	London	1.5	17 000	67

Source: UNCTAD, based on company annual reports and websites.
[a] Figures for total revenues and employees are for 2002.

The mode of expansion of accounting firms abroad relies largely on non-equity forms of investment. It has been determined to a great extent by the specific nature of the industry, including, in particular, its legal features, and by national regulatory constraints. In many parts of the world, regulatory authorities grant the right to practice government accountancy services only to national firms in which locally recognized professionals have 51% to 100% ownership and management control. More generally, international accounting firms wishing to expand network membership face various barriers, including as regards the regulation of trade and commercial presence, accounting standards and the recruitment of highly specialized professionals. Hence, these firms usually expand operations by adding members to a network of firms that are usually legally separate, locally owned and locally managed. They are typically operated as partnerships.[c]

The global expansion of the Big Four firms can present problems for local small and medium-sized accounting firms, which face considerable barriers (such as lack of capacity and capital limitations) when competing for the audits of large national and public companies. Some of them have responded by focusing on SMEs or by reorienting their services away from audit and attestation, and towards accounting and other business services.

Source: UNCTAD.
[a] Datamonitor (2004). Data include all revenues generated by accountants, auditors, tax advisers, bookkeepers and related services.
[b] Data from Big Four companies' web sites.
[c] Partnerships in this context include general partnerships, limited partnerships and limited liability partnerships. In some jurisdictions, the most common form chosen is the limited liability company.

South Africa (box table I.3.1). They are present in particular in the hotel industry (annex table A.III.5), logistics (annex table A.III.5) and telecommunications (annex table A.III.7). But with a few exceptions, their degree of transnationalization is much lower than that of TNCs from the Triad. Moreover, they typically operate within their home regions, and, on average, in a smaller number of countries than their counterparts from developed countries.

b. M&As take the lead in entry patterns

TNCs in all industries use cross-border M&As as a speedy and practical mode of entry into host countries, or as a tool for global or regional restructuring. However, in some services, the propensity of TNCs to enter new markets through M&As, rather than greenfield FDI, is particularly high. In banking, for example, it is less common for banks to build their affiliate networks in a host country from scratch. Rather, they take over existing networks wherever these are available, if permitted to do so. In infrastructure services such as basic telecommunications, electricity and water, M&As are frequent. Privatization programmes open to FDI, which peaked in many countries during the 1990s, added to the number of cross-border M&As.

During the 1990s, M&As became a widely used mode of TNC entry and expansion in virtually all industries. Indeed, they drove the FDI boom during the second half of the 1990s.[12] But it was in services that most M&As took place, helping to shift the FDI pattern towards services. From 36% of total global cross-border M&A sales during 1987-1990, their share worldwide rose consistently during the 1990s, to peak at 63% during 1996-2000; they remained at a similarly high level during the subsequent economic downturn (annex table A.III.13). The share of services in cross-border M&A sales was slightly higher in developing (64%) than in developed countries (57%) during the period 1987-2003 taken as a whole. A similarly high proportion was evident in CEE, which saw the fastest growth of services cross-border M&As in both value and proportionate share of total cross-border M&A sales. The picture is similar on the purchasing side, with the exception of CEE. The composition of the world's 100 largest cross-border M&As sales also shifted towards services (annex table III.14).

As regards individual services, the share of telecommunications, electricity, water and business services in cross-border M&A sales rose, while that of traditional industries – finance, trade, hotels, restaurants – fell between 1988-1990 and 2001-2003 (table III.7). But, notwithstanding these structural changes, the M&A boom of the second half of the 1990s affected almost all service industries (annex table A.III.15).

On average, more than three-quarters of global M&A transactions in the services sector took place among developed countries during 1987-2003 (annex table A.III.13). Intra-Western Europe transactions (the bulk of which comprise intra-EU transactions) and transatlantic transactions dominated the picture (table III.8). The latter were characterized by an increasing imbalance in favour of EU purchases in the United States. This reflects a change in the relative roles of EU and United States TNCs in cross-border M&As generally: traditionally, United States TNCs had been the champions of foreign takeovers; but since the second half of the 1990s and especially the M&A boom of the second half of the 1990s, European TNCs have become the dominant players. Services accounted for 36 and 64 deals among the top 100 cross-border M&As in 1987-1995 and 1996-2003, respectively. Western Europe's share in these deals rose from half to two-thirds between these two periods (as compared with 14% for United States firms in both periods) (annex table A.III.14). In terms of value, the share of Western Europe in the top deals increased from 52% to 82% over the same period.

The increasing use of M&As as a mode of entry by European TNCs goes back to the announcement and inception of the EU's Single Market programme. It triggered a wave of intra-EU cross-border M&As, particularly in services, which regained momentum during the global M&A boom of the late 1990s. At the same time, EU service TNCs began to expand into non-EU markets, notably the United States, but also other regions. The increasing role of European TNCs in cross-border M&As in services and in services FDI worldwide and their rise to prominence among the largest service TNCs suggest that their competitive strength has increased. This is at least partly due to growth as a result of domestic and

intra-EU cross-border mergers following deregulation in national markets and liberalization within the EU. It also suggests that increasing competition at home and within Europe drives EU service firms to seek markets abroad on a much larger and wider scale than ever before.

Developing countries' participation in cross-border M&As in services is also on the rise, still more as sellers than as buyers. During 1987-1994, developing countries' cross-border sales of service companies amounted to an average of $5 billion per year, rising to $53 billion per year during 1998-2000, and $34 billion in 2001-2003 (annex table A.III.16). Purchases rose by eight times their value, to an average of $26 billion per year during 2001-2003. This latter amount was almost half the total annual average of cross-border purchases by United States TNCs.

In conclusion, cross-border M&As have been instrumental in boosting services FDI in all groups of countries, and thus shifting the pattern of FDI towards services. Although global M&A sales in services fell by more than half during the downturn of 2001-2003 compared with the boom of 1998-2000, they were still at a much higher level than in any period before the boom for almost all groups of countries (annex table A.III.16). Finally, the growing participation of non-United States TNCs in M&As in general and

Box III.5. Legal partners

In less than a decade and a half, the United States outward FDI stock in legal services – the country whose firms dominate international legal services – had grown over 30 times, from a modest $27 million in 1988 to $918 million in 2002 (box table III.5.1). But these figures are a highly imperfect measure of the transnational activities of United States law firms: legal service TNCs typically organize their activities in the form of partnerships with host-country firms.

Of the 20 largest legal TNCs ranked by the number of lawyers employed in 2002, 12 were based in the United States, 7 in the United Kingdom and 1 in Australia (annex table A.III.6). Their total income ranged from close to half a billion to more than one billion dollars a year. They operate in a variety of legal areas, serving mostly large TNCs. The top ten operate in an average of 20 countries. For example, the largest of these, Baker & McKenzie, now has offices in 68 locations in 38 countries; it operates in anti-trust and trade, banking and finance, intellectual property, real estate, environment and tourism.

The legal business is skills-oriented and strongly host-country specific. Each country has its own legal code under which firms operate. Superimposed on these written legal codes are a country's values, culture and beliefs. Given the complexities of these features, law firms seldom set up greenfield affiliates, preferring to form partnerships or engage in cross-border M&As. Indeed, M&A activity in this profession has steadily risen in recent years, with most M&As carried out between European and North American firms. A few have also taken place in such countries as Poland, Thailand and the Republic of Korea. In 12 of the 71 M&As reported in 1988-2003, legal TNCs acquired non-legal firms (e.g. employment agencies, pre-packaged software, security brokers, dealers, floatation companies, business consulting services, advertising agencies, commercial arts and graphic designers, automotive services, investment advises). And with the rebound of global M&A activity, those by legal TNCs may pick up again.

Source: UNCTAD.

Box table III.5.1. United States outward FDI in legal services, 1988-2002
(Millions of dollars)

Year	Stock	Outflows
1988	27	6
1989	94	44
1990	138	44
1991	181	43
1992	242	60
1993	88	44
1994	75	65
1995	145	70
1996	214	69
1997	413	71
1998	504	85
1999	370	297
2000	559	241
2001	738	232
2002	918	232

Source: UNCTAD, based on data from United States, Department of Commerce.

Table III.5. Royalty receipts of TNCs in Austria, Germany, Japan and the United States, 1989-2002

(Millions of dollars)

Sector/industry	1989				1994				1999				2002			
	Austria [a]	Germany	Japan	United States	Austria	Germany	Japan [b]	United States	Austria	Germany	Japan [c]	United States	Austria [d]	Germany	Japan [d]	United States
All industries	27	916	1 309	12 800	57	1 077	3 919	33 957	78	1 471	5 499	35 638	83	1 754	6 884	..
Primary	-	-	-	8	-	-	-	27	1	-	1	2	-	-	1	..
Manufacturing	17	10	1 296	11 385	24	1 052	3 520	23 642	47	1 255	5 396	23 319	55	1 423	6 733	..
Services	10	11	14	993	33	12	399	10 240	30	203	102	10 379	28	323	150	..
Electricity, gas and water	-	-	..	7	0	-	..	7	-	-	..	3	-	-	..	..
Trade	7	5	4	216	7	9	369	1 127	17	1	75	3 451	15	305	54	..
Hotels and restaurants	-	-	..	6	1	-	..	41	1	-	..	-	-	-	..	..
Transport, storage and communications	-	-	..	7	-	-	..	687	1	-	..	758	3	-	77	..
Finance	2	-	..	268	4	-	..	25	5	-	..	109	3	-	..	..
Business activities	1	5	4	488	2	3	18	6 451	3	202	18	6 058	4	18	4	..
Other services	-	-	5	1	19	-	11	1 902	2	-	9	-	3	-	15	..

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

[a] 1991.
[b] 1995.
[c] 1998.
[d] 2001.

in services in particular has made the pattern of services FDI (and, consequently, overall FDI) more balanced among both home and host countries. Cross-border M&As, once almost the exclusive domain of United States TNCs, are now being undertaken by TNCs from other countries, including developing ones, and can be expected to remain an important mode of FDI entry in services.

c. Catching up with manufacturing TNCs?

Whether measured in terms of the share of foreign affiliates in total TNC assets, employment or sales, service TNCs are less transnationalized than TNCs in other sectors, judging from United States data (table III.9): whereas the foreign content of manufacturing TNCs overall was almost 40%, that of service TNCs was just above 20% in 2000. And although the foreign content has increased for both manufacturing and services, the gap between them has remained more or less the same.

An examination of the top TNCs confirms the difference in the degree of transnationalization of TNCs in the two sectors. In 2002, the average Transnationality Index[13] of the service TNCs on UNCTAD's list of the world's 100 largest TNCs was lower than that of the manufacturing and primary-sector firms on the same list. But, for these big firms, the gap has narrowed since 1995 (table III.10). This suggests that the larger service firms are transnationalizing faster than the smaller ones. In fact, in the case of developing countries, the largest services TNCs are now more transnationalized than their manufacturing counterparts, judging from the Transnationality Index of the top 50 TNCs from developing countries.

There do not seem to be large differences among service industries as regards the degree of transnationalization of the top TNCs. In every industry, there are companies with very large and very low Transnationality Index values. But values are generally lower for United States TNCs, which have a large domestic market at their disposal, than for European ones. Using the number of host countries as an indicator, Japanese transnational banks were much less transnational than their European counterparts in 2002: the most transnational, Tokyo-Mitsubishi, had 104 subsidiaries in 20 countries; by comparison, Deutsche Bank, the third largest bank in the

Table III.6. Foreign affiliates, by sector of foreign affiliates and parent firms, Germany, Japan and the United States, selected data, various years

Home country	Number of foreign affiliates By sector of:		Assets of foreign affiliates By sector of: ($ billion)		FDI outward stock By sector of: ($ billion)	
	Foreign affiliates	Parent firms	Foreign affiliates	Parent firms	Foreign affiliates	Parent firms
Germany, 2000						
All sectors	..	..	..	..	532	532
Primary	..	..	..	..	3	..
Manufacturing	..	..	..	..	168	208
Services	..	..	..	..	361	324 [a]
Japan, 2001						
All sectors	12 476	12 476	..	..	..	..
Primary	220	45	..	..	..	..
Manufacturing	6 522	7 866	..	..	..	..
Services	5 734	4 565	..	..	..	..
United States, 1999						
All sectors	23 121	23 121	4 632	4 632	1 133	1 133
Primary	907	477	218[b]	68	71	31
Manufacturing	8 335	14 387	1 126	2 143	328	690
Services	13 879	8 257	3 287[c]	2 421	734	412

Source: UNCTAD, based on Japan, Ministry of Economy, Trade and Industry (METI) 2004; Germany, Deutsche Bundesbank 2002; United States, Department of Commerce 2004a.

[a] Includes primary.
[b] Only mining.
[c] Includes agriculture, forestry, fisheries and hunting.

world, had 981 subsidiaries in 45 countries (annex table A.III.12).

3. Drivers and determinants

What drives the expansion of TNC activity in services?

The rise in the share of services in economic activity, the externalization of services to independent providers,[14] the growing service intensity of the production of goods, the deregulation of service markets and the liberalization of FDI policies have created opportunities for increased services FDI. At the same time, greater competitive pressures in service markets (especially in home developed countries) have pushed firms to seek markets abroad and strengthen their competitiveness. Within that context, the ownership-specific advantages of firms, location-specific advantages of countries and internalization advantages to firms from investing directly abroad combine to determine the extent and pattern of expansion, particularly by firms from service industries (UNCTC 1989a).

Ownership-specific advantages. FDI in services has traditionally been undertaken by service firms moving abroad to support trade or overseas manufacturing by their domestic manufacturing clients (or by the manufacturing

Box III.6. Tax havens – no longer tax heavens?

Tax havens are countries with typically zero income tax or low rates of tax, no foreign currency controls, strong bank and commercial secrecy laws and administrative practices, modern information and communications facilities to support financial services, a stable currency, and active self-promotion as offshore financial centres. Some tax havens offer zero or low taxes only to non-residents through forms such as international business corporations; others levy no income taxes at all but rely instead on licence fees.

While tax havens have existed for many years (Naylor 1987; Palan 1998, 2002), the rapid growth of the Internet in the 1990s facilitated their spread. According to one estimate, there are 59 such havens (Eden and Kudrle forthcoming). In 2001, the United States Senate Subcommittee on Governmental Affairs estimated that the size of offshore havens had grown from 30 jurisdictions with $200 billion in assets in 1983 to 60 jurisdictions with $5 trillion in mid-2001, $3 trillion of which were in bank accounts (Levin 2001). Oxfam (2000) estimated assets of $6 to $7 trillion in offshore centres, of which half were savings of wealthy individuals.

Why do countries become tax havens? Some small, poor economies lacking natural resources or other obvious attractions for FDI use tax-haven status to attract foreign banking and commercial activities. Historical ties with rich countries, that include preferential status for investments in the poorer partners, also encourage low tax rates since the host tax rate becomes the effective rate. Tight secrecy laws and an unwillingness to exchange information further support haven activities.

Firms set up "letterbox" companies in tax havens to collect patent royalties, licensing fees and interest on loans. As long as tax havens do not share information on banking activities with other countries, clients can keep their financial activities hidden from scrutiny. In fact, tax havens may not provide much of a tax advantage to TNCs in high tax locations. The advantage only occurs if the home country does not tax income earned in havens on an accrual (earned) basis, but either exempts such income from home-country tax or permits deferral of the tax until the income is repatriated. In spite of the reduced tax advantages, secrecy laws, high rates of return on capital due to minimal regulation and low lending rates continue to be powerful magnets.

The OECD is working with affected jurisdictions to improve transparency and information exchange (OECD 1998, 2000a, 2004b).

At the beginning of the twenty-first century, "tax heavens" relying on certain characteristics may be coming to an end. Consequently, a critical challenge for the tax havens, particularly the smaller island economies, is the development of other sources of long-term competitive advantage. For many of the smaller islands, tourism, and some agricultural exports are the only other competitive sectors in addition to the offshore sector. These countries face difficult choices in the years to come.

Source: Eden and Kudrle forthcoming.

firms themselves to support their own activities). Thus, banks, insurance companies and transporters set up offices in countries as a complement and support to primary and manufacturing FDI. This is still true today, especially for TNCs from developing countries.

However, service firms are increasingly investing overseas on their own account, as they seek to serve new clients and exploit (and sometimes augment) their own unique competitive advantages. Such advantages take several forms:

- In producer services such as banking, finance, business and professional services, firms are building global advantages based on their possession of, or privileged access to, proprietary information, tacit knowledge, skills, brand names and learning (including those derived from their foreign affiliates).
- In consumer services such as hotels, fast food, car rentals or retailing, firms are exploiting their home-based and/or local capabilities to organize activities, acquire knowledge about their customers, network with other agents and create strong brand names.
- In services such as stock broking, foreign exchange or securities dealing, business consultancy, commodity-broking, data processing, data provision, data transmission and information-gathering and processing, ownership advantages are often based on the possession of software and hardware skills and technologies.
- Some service firms' outward expansion is based on their need for economies of scale and scope, as well as access to global markets and supply capabilities. Examples include firms in insurance, trade, banking, professional business services and retailing.

Location-specific advantages. The location advantages that countries can offer services TNCs have also grown and diversified. In non-tradable services,[15] liberalization and market growth remain key to attracting FDI. In directly tradable services (chapter IV), the main location advantages are access to a good information and communication infrastructure, well-developed institutions and trained human resources available for employment at competitive cost. All these have been improving in a number of locations worldwide.

The recent liberalization of services FDI regimes has also done much to attract TNCs. One particularly important form of liberalization has been the privatization of State-owned utilities to foreign investors, notably in Latin America and the Caribbean and in CEE for attracting FDI in the telecoms, electricity and water industries. In some services (such as telecoms and computer services), adequate protection of intellectual property rights can influence the choice of a FDI location.

Internalization advantages. FDI means that firms with ownership advantages prefer internal expansion abroad rather than licensing or entering into other arrangements with local firms. They choose internalization for a number of reasons, especially when it is important to safeguard proprietary knowledge (e.g. banking and financial services, most information-intensive and professional services), ensure product quality (e.g. advertising, market research, some consumer services), minimize transaction costs associated with opportunism, protect property rights, avoid search and negotiation costs, tap synergies from geographical diversification (financial services), obtain inputs or develop new markets (trading companies) (Dunning 1993, pp. 52-54). In other services, non-equity links or minority joint ventures are preferred. In these cases, quality control, performance commitments and the minimization of transaction costs can be embodied in management contracts or franchising agreements (e.g. hotels, restaurants, car rentals). On the other hand, it is also important in some services to have specialized local knowledge or to customize products (engineering, architectural, technical services). Furthermore, cooperative ventures are a way of sharing financial risk in such industries as investment banking or insurance.

The balance between the forces making for internalization and externalization varies among industries and firms. And it is difficult to establish firmly that internalization advantages of TNCs in the relevant service industries have risen over time. However, many of the improvements in firms' ownership-specific advantages are based on proprietary knowledge on which profits might be maximized though internalization.

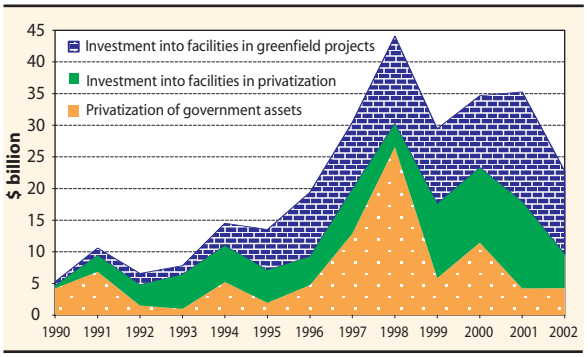
Box III.7. Telecoms: the emergence of a global industry

Over the past two decades, rapid growth and major restructuring have changed the global landscape of telecom services. Many countries liberalized their telecom industry and opened it to foreign investors. A dramatic increase in inward FDI stock worldwide took place: between 1990 and 2002, FDI in communications, transport and storage[a] rose 16 times, from an estimated $29 billion to an estimated $476 billion, the largest increase of all service industries (annex table A.I.18). In developing and transition economies as a whole, the rate of growth of inward FDI stock in this industry was less pronounced than for the world average, but still quite high: between 1990 and 2003, this stock rose 11 times, to $138 billion.

On the basis of World Bank estimates, FDI represents about 40% of the costs of private investment projects in telecoms in developing and transition economies (Sader 2000, p. 152). Overall, privatization was the dominant form of investment, accounting for around two-thirds of the $274 billion invested in telecoms between 1987 and 2002.[b] It was primarily driven by large sell-offs of State-owned fixed-wire networks, especially in Latin America; about half of these investments were used for the initial purchase of assets while the remainder represents additional investment into facilities. Investments in greenfield projects (box figure III.7.1) accounted for one-third of total investment in the industry, focusing on the expansion of cellular telephony. This was of particular importance in Asia and the Pacific where almost 60% of private investment over the period was spent on greenfield projects. Technological changes have shifted the modes of investor-entry in telecoms from privatization towards greenfield projects, as mobile telecommunications have increasingly become dominant (Dutta et al. 2004, p. 55).

A large part of the activity took place in Latin America and the Caribbean and, to a lesser extent, in the CEE countries that joined the European Union in 2004. In the developing world, Latin America and the Caribbean attracted almost 63% of private investment in telecoms, Asia and the Pacific 28% and Africa only 9%. Private investment in telecoms in developing countries and transition economies declined after 1998. Besides heightened concerns about currency risk (following the Asian financial crisis) and the completion of major privatisation programmes in Latin America and Central Europe, major turbulence in the telecom industry worldwide were the main culprits.

Box figure III.7.1. Private investment in the telecom industry in the developing countries and CEE, 1990-2002
(Billions of dollars)



Source: UNCTAD, based on World Bank (2004b)..

Large telecom companies – mainly from developed countries – that shared in the substantial investment that took place in the industry over the past decade experienced very rapid expansion: in 2002, there were eight telecom firms listed among the world's 100 largest TNCs (annex table A.I.3), compared to only two ten years ago. Such expansion resulted, in some cases, in instability stemming from overspending on new technologies and new licences. Some of these companies had to slow down their expansion abroad, or even withdraw from some markets, leaving the activities to new competitors from developing countries. This is reflected in the composition of the list of the 30 largest telecom TNCs: though still dominated by companies from Europe and the United States, it also includes four companies from developing countries – Singapore Telecommunications, América Móvil (Mexico), MTN Group (South Africa) and Telekom Malaysia (annex table A.III.7). Today, the top players are present everywhere, dominating the provision of services in many developing countries and economies in transition. On average, they are present in 15 host economies.

Source: UNCTAD.

[a] Statistics refer to the "communications, transport and storage category".
[b] Based on data from World Bank (2004b).

4. Most services FDI is still market-seeking – but this is changing

Traditional host-country market-oriented services (such as finance and retail trading) or new dynamic ones with a similar orientation (telecommunications, electricity, water) dominate services FDI in most countries. The share of local sales and exports of United States foreign affiliates in host countries bears this out. In 2001, for example, 84% of worldwide sales of services in host countries by foreign affiliates of United States TNCs were local sales, while the corresponding share for goods was 61% (Borga and Mann 2003, p. 71). Even more striking, local sales accounted for 93% of sales of services by United States affiliates of foreign companies and for an estimated 91% of sales of goods.

Because many services are not tradable and require face-to-face contact between providers and customers, TNCs in services have to rely largely on stand-alone affiliates that often are miniature versions of their parent companies. These affiliates need to operate as self-contained units that serve local markets, replicating the production organization of their parent firms (*WIR93*, p. 118). There are, of course, exceptions: FDI in tourism such as hotels has direct parallels with resource- or asset-seeking FDI with an export orientation rather than a local-market orientation.

But as the cross-border tradability of information-intensive services increases, the offshoring of services by both manufacturing and service TNCs can be expected to rise as well (chapter IV). The fact that TNCs in various industries locate one or more functional activities along the value chain of services in affiliates abroad, and integrate them with activities elsewhere within their production systems, indicates that services production is evolving in the direction of integrated international production networks.

This development is well known in manufacturing, where firms over the past few decades have increasingly pursued integrated production strategies across countries. This has involved locating the production of components, parts or final products in different affiliates to exploit the comparative advantages of different countries (such as the availability of natural resources, lower costs, better skills, access to large regional markets) (*WIR93*). In fact, TNCs have long practised "simple integration" strategies in the primary sector: FDI was undertaken to extract or cultivate natural resources and/or process primary commodities for sale through parent companies in the home countries of the TNCs involved and in other countries. Later on, such integrated strategies spread to such manufacturing industries as clothing, toys, semiconductors and other electronic products. In these strategies, foreign affiliates essentially "work" for parent companies, triggering intra-firm trade between parent firms and their affiliates.

"Complex integration" strategies rely additionally on foreign affiliates producing components – not necessarily for their parent firms, but for other affiliates that specialize in other components – thus giving rise to inter-affiliate trade.

Table III.7. Shares of selected industries in cross-border M&A sales in services, 1988-2003
(Per cent)

Industry of sale	1988-1990	1991-1994	1995-1997	1998-2000	2001-2003
Telecommunications	8.8	10.2	7.1	34.2	20.8
Electricity	0.2	3.3	14.2	6.0	9.4
Business services	9.6	8.8	9.3	12.3	11.3
Water	0.4	0.1	0.4	0.9	1.6
Sub-total	19.0	22.4	31.0	53.7	43.1
Finance	32.4	30.6	29.8	25.1	29.2
Trade	15.4	17.3	13.5	6.6	7.1
Hotels / restaurants	15.8	4.9	4.1	2.1	2.5
Sub-total	63.6	52.8	47.4	33.8	38.7
Other	17.4	24.8	21.6	12.5	18.2
Total	100.0	100.0	100.0	100.0	100.0

Source: UNCTAD, based on annex table A.III.13.

Box III.8. An electrifying rise

The privatization of public utilities in developed economies beginning in the 1980s was followed by their consolidation through M&As. This process has created a handful of large private (or joint public-private) utility firms with considerable strength.

When developing countries and economies in transition undertook privatization programmes in the electricity industry, utility firms based in developed economies took the opportunity to expand and invest in the newly privatized firms. In 2002, nine of the world's 100 largest non-financial TNCs (annex table A.I.3), ranked by foreign assets, were in the electricity industry – a remarkable ascendancy, considering that only 15 years ago there were hardly any TNCs in the industry. Many of the largest electricity TNCs, especially European ones, also have operations in other utilities, most notably in the gas industry.

Firms from developed economies dominated the list of the 25 largest TNCs in this field in 2002 (annex table A.III.8). Three European TNCs – E.On (Germany), RWE (Germany), Electricité de France (France) – were by far the largest. Thirteen of the largest TNCs were from Europe and nine from the United States. Only three were from developing economies: Korea Electric Power (Republic of Korea), CLP Holdings (Hong Kong (China)) and Hong Kong Electric Holding Limited (Hong Kong (China)). European TNCs had a greater international presence than their counterparts from the United States: the average number of host economies for them is 15.6, compared to 4.8 for the United States TNCs (annex table A.III.8).

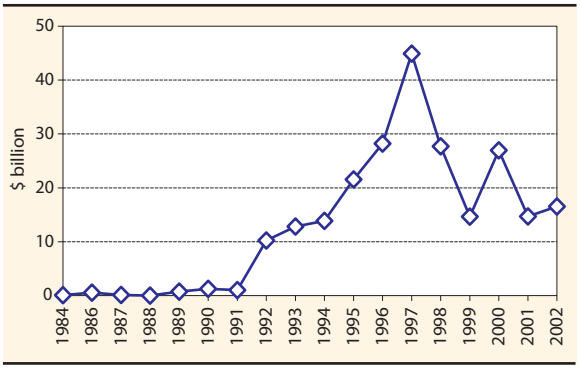
About 28% of private investment in electricity took the form of FDI in developing countries and CEE during 1990-2002 (based on Sader 2000, p. 9). However, a large part of the projects in electricity also involved non-equity flows in the forms of commercial lending on a project finance basis for concessions and BOT-type investments.

Private investment in electricity in developing countries and CEE rose at an average annual rate of 24% over this period, nearly double the rate for all infrastructure projects, with a peak in 1997 (box figure III.8.1). It totalled almost $200 billion over this period, with Latin America and the Caribbean accounting for the largest share, followed by East Asia and the Pacific. These two regions together accounted for nearly three-quarters of all private investment in the electricity industry in developing countries.[a] Within them, investment has been concentrated in a relatively small number of countries: 25 projects in 15 countries accounted for three-quarters of the total, with Brazil taking up the largest share (21%), followed by China (10%) and Argentina (7%). The fall of investment in recent years reflects the effects of the completion of major privatisation programmes, especially in a number of Latin American countries, as well as the 1997 Asian financial crisis which had a significant impact on the industry. Conditions in international capital markets for raising capital turned less favourable, companies became more aware of currency risks, confidence began to erode and companies in the industry experienced financial difficulties as stock prices fell.

Of the three segments that make up the electricity industry (generation, transmission, distribution), the power generation segment has been privatized the most (73%). The other two segments remain largely under State control, as they are mostly regarded as natural monopolies because of the characteristics of the infrastructure required to provide the service. From a survey of 52 developing countries, the World Bank estimates that privatization is either in progress or completed in 31% of them and planned in a further 18%. The rest is expected to remain State-owned (World Bank 2004a, p. 153).

Foreign investors continue to be guardedly interested in the electricity industry of developing countries. A survey of energy TNCs that invested in these countries found that, although they were not satisfied with their experiences in all cases, about half of the 48 respondents still had as much or even more interest in the electricity industry in developing countries than they had in 2000 (Lamech and Saeed 2003). The trend towards increased TNC participation in the electricity industry in developing countries may therefore continue.

Box figure III.8.1. Private investment in the electricity industry of developing economies and CEE, 1984-2002
(Billions of dollars)



Source: UNCTAD, based on World Bank (2004b).

Source: UNCTAD.

[a] Based on data from World Bank (2004b).

In practice, of course, the two types of integration can be (and have been) pursued simultaneously within a TNC, giving rise to international production networks and flows of goods, technology and capital among various units of a corporate system.[16] The shift towards such integrated strategies by manufacturing TNCs signified a shift towards an international intra-firm division of labour.

As in manufacturing, such an international intra-firm division of labour in services can take various forms:

- Breaking up service activities into components that are produced wherever it is most efficient to do so, in a manner similar to that followed by manufacturing TNCs for producing, say, labour-intensive components. For example, certain foreign affiliates perform back-office functions of various kinds for the parent firm (chapter IV). When foreign affiliates provide a service (component) to the parent company only, this represents simple integration; when the division of labour involves various foreign affiliates and possibly also the parent firm, it involves complex integration.
- Assigning one or more foreign affiliates a global (or regional) mandate each to provide a particular service product or function to all members (or all members within a region) of a TNC system. For example, an affiliate is designated to do all the accounting work for a TNC's regional headquarters or perform co-ordination functions for a TNC's activities in a particular region.
- Entrusting an activity to a few affiliates that work on it simultaneously. For example foreign affiliates are set up to undertake R&D on a centralized database throughout the world, with activities being undertaken simultaneously and/or shifted to the next affiliate at the end of the day. (This form is specific to services.)

However, even in the case of service functions that lend themselves to standardization and fragmentation, quality is more important than cost. In addition, there could be tacit elements in provider-customer relations that could make integrating even simpler tasks more complicated than in manufacturing. On the other hand, the logistical challenges facing integration are more formidable in manufacturing: establishing production facilities, accessing supplies and transporting output are more complex for many goods than for tradable services. In the latter, production in a foreign location can be quickly started and services easily transported, provided the necessary human resources and ICT infrastructure exist. Each firm, be it in services

Table III.8. The geographic composition of global cross-border M&A deals in services, 1987-2003
(Per cent of the global value)

Home and/or host region	1987-1990	1991-1994	1995-1997	1998-2000	2001-2003
A. Deals among developed countries	**83**	**75**	**69**	**82**	**74**
of which:					
Intra-Western Europe	22	29	26	43	32
Transatlantic	24	25	24	27	27
United States-United States[a]	16	6	6	3	3
Other [b]	22	15	12	8	12
B. Deals with participation of developing countries	**13**	**21**	**23**	**13**	**18**
Developing countries' sales to developed countries	8	9	12	8	8
Developing countries' purchases in developed countries	4	5	5	3	4
Deals among developing countries	1	7	7	2	6

Source: UNCTAD, based on annex table A.III.16.

Note: Transaction shares by subregion do not add up to to 100, because deals involving two or more buying firms from different countries are included in totals but not assigned to home and host countries.

[a] Purchases of United States firms by foreign affiliates located in the United States.
[b] Transactions involving developed countries other than those in the EU and the United States.

Box III.9. Water services: falling in developing countries and rising in developed ones?

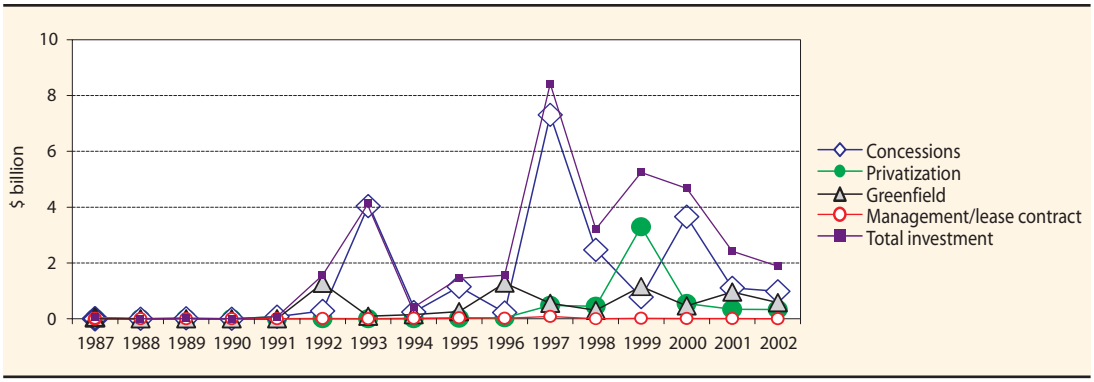
FDI in water services is low compared to that in other privatized or liberalized utilities, and it has different characteristics. Total private investment commitments in water and sewerage in developing countries was $35 billion in the period 1987-2002 (box figure III.9.1); on the basis of World Bank estimates, it is likely that less than 10% of this was FDI.[a] However, a great number of the new water and sewerage projects in developing countries are under the governance of TNCs through equity as well as non-equity forms (concessions, management and lease contracts or BOT-type investments, for example).

A small number of large TNCs dominate FDI in water services. Historically, the largest and most important ones were France's Suez Environnement and Veolia Environnement SA (formerly Vivendi). A new and significant major player has emerged since 2000 – Germany's RWE. Typically, TNCs active in water services are also involved in other businesses such as energy services and, historically, in the media.[b] In terms of water services alone, Thames/RWE has become the leading investor in recent years, accounting (by value) for more than half of total water service M&As (i.e. excluding other affiliated activities) over the past decade (box table III.9.1). About half of this stemmed from the initial merger of RWE AG and Thames Water Plc; the remainder involved subsequent investment in Chile, Poland, Spain and, in particular, the United States. Following Germany are France (15% of total water M&As), the United States (12%) and the United Kingdom (8%).[c]

Latin America and the Caribbean led private investment in water services in developing countries and transition economies between 1987 and 2002 (with 52% of the total amounts invested over that period), followed by South, East and South-East Asia (36%) and CEE (6%). Central Asia and sub-Saharan Africa had negligible amounts.

The most common mode of entry in water services has been through management contracts and concessions. As management contracts are the most restrictive form in terms of operator responsibility over physical assets, they typically result in barely any financial flows in terms of new or rehabilitation investments, representing only about 0.5% of the total value of private investment in the industry during 1987-2002 in the developing world (World Bank 2004b). Concessions, on the other hand, accounted for 64%, as investors buy the right to rehabilitate (or to build) and operate water services for a fixed period (usually 20-30 years), after which ownership reverts to local control. Greenfield projects accounted for another 20%; these involve mainly the construction of bulk water and wastewater treatment facilities. Privatizations accounted for the remaining 16%. Most of the concession and greenfield projects in the past decade have been awarded in Latin America and the Caribbean and South, East and South-East

Box figure III.9.1. Concessions dominate annual private investment in water and sewerage in developing countries and CEE, 1987-2002
(Billions of dollars)



Source: UNCTAD, based on World Bank (2004b).

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Box III.9. Water services: falling in developing countries and rising in developed ones? (concluded)

Box table III.9.1. The three largest TNCs in the water service industry, 1988-2003
(Millions of dollars)

Corporation	Home country	Value of water service M&As[a]	Percentage of total water service M&As
Thames /RWE AG	Germany	14 153	51
Suez Lyonnaise des Eaux SA	France	3 474	13
Veolia Environnement SA.	France	460	2

Source: UNCTAD cross-border M&A database.

[a] Cumulative total of cross-border M&As in water services (a sub-set of total M&As undertaken by the TNCs shown), during 1988-2003.

Asia. Of the management and lease projects, most have been in CEE (two-thirds of the total) and sub-Saharan Africa.

Private investment – and with it FDI – in developing countries in water services peaked in 1997 and then declined (box figure III.9.1); as with other infrastructure projects, exchange-rate risks and volatility played an important role. In developed countries, however, FDI in such services appears to be continuing. The annual value of cross-border M&As (the only available indicator of FDI in this case), which involved for the most part developed countries, peaked in 2000, and rose again in 2003. Further increases are expected: the fact that many EU countries still need to comply fully with current environmental European standards indeed offers new opportunities for FDI in those countries (e.g. Suez Group annual report 2003). To date, the United Kingdom has been the single largest recipient of FDI in water through M&As (48% of the total between 1988 and 2003), followed by the United States (43%).

Although the total value of private sector investment in the water industry to date has not been large compared to other formerly State-owned infrastructure industries, the broader questions it has raised have been profound, especially in developing countries. It is widely accepted that the investment needs of the industry go beyond the scope of government or other public organisations. But private investors may find it not profitable to serve remote or low-income areas or may set cost-recovery prices that are considered unacceptably high.

On the other hand, the commercial requirements of private investors need to be balanced against wider social needs. Access to water has been identified as a basic human right, enshrined in the United Nations Covenant on Economic, Social and Cultural Rights.[d] Foreign involvement has not always produced the improved scale and quality or lower costs that host countries expected, nor the profits that investors anticipated, and creating a regulatory framework that addresses the needs of all parties is not easy, as evidenced in early terminations of contracts or their re-negotiation. Hence, the challenge for governments and industry regulators is to find a framework that takes the needs of both sides into account. Successful strategies in some public-private partnerships have included tariff regulation and the use of subsidies to low-income areas (e.g. Chile) (UNDP 2003, pp. 111-121).

Source: UNCTAD, based on World Bank (2004b); annual company reports, Grusky (2003); UNCTAD database.

[a] Sader (2000) attributes the low proportion of foreign, rather than domestic, investment in part to the relatively high debt-to-equity ratios in water projects, combined with the preponderance of concessions. Note that the investment commitments are for the duration of a given agreement.

[b] For example, the Suez group has interests in electricity and gas, and, until recently, in television .

[c] UNCTAD cross-border M&As database.

[d] "Water is a limited natural resources and a public good fundamental for life and health. The human right to water is indispensable for leading a life in human dignity", Committee on ESCR, General Comment No. 15, E/C.12/2002/11 (26 November 2002).

or manufacturing, therefore needs to determine how best to configure its corporate network to become as competitive as possible. And best practices in this respect are likely to be imitated by other firms.

Data on intra-firm trade for the United States – the largest home and host country for services FDI (annex tables A.I.20, A.I.21) and the leader in the offshoring of services – suggest that integrated international production networks in services are indeed emerging. The share of intra-firm imports in total United States imports of "other private services"[17] rose from 30% in 1986 (Zimny and Mallampally 2002, p. 100) to 42% in 1997, then to 47% in 2002 (table III.11). It was particularly high in business, professional and technical services and in financial services; together these accounted for more than two-thirds of United States imports of "other private services" in 2001-2002. On the export side, the share of intra-firm trade remained relatively stable, at about one-third. It was high for business professional and technical services, but not for financial services.

Looking into the composition of intra-firm trade by destination within TNC systems can give a rough idea about the extent to which integration strategies have moved from simple to complex. In goods, there has been a long-term shift towards complex strategies: between the late 1970s and early 1990s, the share of affiliate-to-affiliate exports in *total intra-firm trade* of United States TNCs (comprising parent firms' exports to foreign affiliates, affiliates' exports to parent firms and affiliate-to-affiliate exports) rose from 30% to 44%, and in *total intra-firm exports of affiliates* (comprising the last two categories) from 37% to 60% (table III.12).[18] Trade with other affiliates was particularly intensive for United States affiliates in manufacturing located in developed countries, and especially those in the EU (e.g. Ford's network in Europe, one of the first to be set up). In services, the value of affiliate-to-affiliate exports in total intra-firm exports in services of United States TNCs was 34% in 1996 and increased marginally to 35% in 2001 (table III.12), still below the corresponding share for goods even compared to the early 1980s. The dominant – albeit declining – share of parent-to-affiliate trade in total intra-firm trade of services suggests that integrated international production in services remains largely simple integration.

These data need to be interpreted bearing in the mind the context and the proportions. Given that only a small proportion of services production is traded internationally, both intra-firm trade in services and the associated TNC strategies affect only a small part of the services economy. However, the picture is likely to change in the direction of more intra-firm trade as firms identify an increasing number of services that can be offshored by means of ICTs to take advantage of the availability of the necessary human resources, infrastructure, cost differences and other advantages of an international division of labour within the framework of corporate strategies – a matter examined in chapter IV.

C. Impact on host countries

Services account for the largest share of economic activity in most countries. Furthermore, the services content of manufacturing has been rising steadily. The efficiency and productivity of service industries are therefore important for the overall competitiveness of economies, i.e. their ability to raise living standards on a sustained basis. In particular, the availability, cost and quality of modern intermediate services – infrastructural, financial, professional, business – affect the competitiveness of products in all sectors, in both domestic and foreign markets. Furthermore, improved conditions for the provision of key consumer services, especially basic services such as health, education, water and sanitation, directly contribute to improving living standards as well as to building human resources. Increasing awareness of the role of services in building systemic competitiveness in their economies has prompted policy-makers in developing countries to pay greater attention to this sector, including by opening it up to FDI.

Services FDI spans such a wide range of activities that it is difficult to make a generalized assessment of its impact on host countries. The fact that developing countries are liberalizing their policies and regulations on FDI in services (chapter V) suggests that, on balance, they consider it potentially beneficial for achieving their development objectives; equally, the restrictions they maintain indicate that many service industries remain sensitive. Clearly, the economic impact of FDI in activities as diverse

as tourism, banking, media, telecommunication, transportation or retailing must differ. These differences call for varying policy responses. This section highlights some of the main impacts, while chapter V deals with the policy dimension.

Until recently, developing countries' more restrictive FDI policies towards services indicated that they considered FDI in their services sectors to be less desirable than in manufacturing, for a number of reasons. The main economic reason was that services FDI was not seen to provide advanced technologies, access to export markets or linkages to local enterprises – the most important benefits expected of manufacturing FDI. This perception has changed. TNCs in services are now seen to transfer new technology, if "technology" is defined broadly to include organizational, managerial, information processing and other skills and knowledge. They can provide vital inputs into the production of export-oriented primary and manufacturing industries (and, increasingly, export-oriented service industries), and can furnish valuable information on, and contacts with, international markets. With the growing tradability of services, TNCs can now also add directly to host-country exports by investing in services or service functions in which a host country has a comparative advantage (taken up in the next chapter). They can also provide backward linkages to local producers. More generally, FDI can add to the availability of competitive services, and thereby help domestic firms become internationally competitive in an increasingly globalized and knowledge-based world economy. Thus, the overall impact of services FDI on the industries concerned and the economy as a whole can be significant.

Services FDI has also been regarded by host countries as entailing more risks and social costs than manufacturing FDI. In some cases, such risks or costs arise from the nature of the service. For instance, some services are inherently monopolistic, and therefore susceptible to exploitation of market power by TNCs (as well as domestic firms), unless the government can set up and manage a complex regulatory system. Others, like the media, are of considerable social or cultural significance, and may arouse resentment if controlled by foreigners. Again others, such as retailing, may involve particular traditions, and their disruption by new practices introduced by TNCs may be regarded as socially undesirable, especially if this displaces small service providers. Yet others, such as air transport or finance, are often considered strategically important to a country, and the loss of national ownership would be regarded as harmful to long-term national interests.

Many of the perceived costs and benefits of services FDI are similar to those of FDI in manufacturing. Governments may worry, for instance, that foreign takeovers of local banks will "crowd out" local banks, or that foreign ownership of infrastructure services that are inherently monopolistic may lead to high prices. As with some manufacturing activities, service TNCs may cause environmental damage (say, in tourism), or they may employ locals in low-level, poorly-paid jobs and not upgrade them over time (say, in call centres). If services TNCs prefer to use expatriate managers or professionals, they may be regarded as holding back local skills development. And if they prefer to use foreign suppliers, they may be viewed as not contributing to local enterprise development.

With the rather scanty information available, it is difficult to assess how well-founded these expectations and fears are. The discussion that follows reviews the impact of services FDI on host countries in general terms, focusing on some key differences between

Table III.9. The degree of transnationalization of United States non-bank TNCs, by sector, 1986, 1992, 2000

(Share of foreign affiliates in total TNC activities)

Sector of	Assets			Sales			Employment		
parent firms	1986	1992	2000	1986	1992	2000	1986	1992	2000
Total	19.7	24.0	29.7	26.7	32.1	30.7	26.0	27.5	29.5
Primary	15.6	22.5	36.8	22.6	27.3	22.4	42.2	32.8	31.4
Manufacturing	27.7	33.1	38.6	33.1	39.8	37.9	29.9	33.1	36.6
Services	11.4	13.3	23.5	15.6	15.0	21.5	18.8	18.9	23.3

Source: UNCTAD, based on data from United States Department of Commerce.

Box III.10. Postal services go transnational

Technical innovations and liberalization in the 1990s have led to the reorganization of many large postal operators into more diversified and transnationalized entities. These efforts were spurred by increasing competition, largely from operators such as UPS, Deutsche Post World Net (DPWN, which owns DHL), FedEx and TPG (which owns TNT) (box table III.10.1). The stagnation in domestic demand in the mail and parcel delivery segments in some countries such as the United States and the Netherlands also played a role. Some of the leading operators have become quite transnationalized, with European operators at the forefront, particularly through M&As since the mid-1990s (box table III.10.2).

TPG and DPWN illustrate the transnational expansion of this industry. In the second half of the 1990s, TPG acquired several large foreign express and logistics companies such as TNT and GD Express Worldwide. TPG also diversified into niche markets such as direct mailing, international mail or international remailing. In 2000, it formed joint ventures with Consignia (the former British Post Office) and Singapore Post. As a result of its international acquisitions and joint-ventures, the share of foreign sales in

Box table III.10.1. The big four of the postal-courier industry, selected indicators, 1990, 2003

Indicator	DPWN (Germany)	TPG (Netherlands)	UPS (United States)	FEDEX (United States)
Employees 1990	313 177	63 000[a]	252 000	58 000
Employees 2003	341 572	163 028	357 000	190 918
Growth rate per annum, 1990-2003 (%)	0.7 [b]	9.0	2.7	9.6
Share of foreign employment 1990 (%)	-	<1	..	..
Share of foreign employment 2003 (%)	39	58	11	..
Turnover in 1990 ($ million)	7 734	2 351	13 600	5 183
Turnover in 2003 ($ million)	45 267	13 423	33 485	22 487
Growth rate per annum, 1990-2003 (%)	14.6	14.3	7.2	11.9
Share of foreign turnover 1990 (%)	<1	11[c]	..	..
Share of foreign turnover 2003 (%)	43	68	..	..
Share of mail service in turnover 1990 (%)	67	>90	..	..
Share of mail service in turnover 2003 (%)	28	33	..	..

Source: UNCTAD, based on Dörrenbächer 2003, p. 44, and information provided by firms and annual company reports.
[a] 1992.
[b] Growth rate is not directly comparable with that of other firms, due to the integration of the postal services of the new Länder, into those of DPWN, at the beginning of the 1990s.
[c] 1995.

Box table III.10.2. Selected large cross-border M&As by European postal operators, 1995-2003

Buyer	Country	Year	Acquisition share (%)	Acquired company	Country	No. employees of acquired company
DPWN	Germany	2001	51[a]	DHL	United States	55 000
TPG	Netherlands	1995	100	TNT Express Division	Australia	24 000
DPWN	Germany	2003	100	Airborne	United States	22 000
DPWN	Germany	1999	100	Danzas	Switzerland	16 000
TPG	Netherlands	1996	100	GD Express Worldwide	Netherlands/Sweden	14 000
DPWN	Germany	1998	50	Securicor Omega Express	United Kingdom	12 500
DPWN	Germany	1999	100	Nedlloyd European Transport & Distribution	Netherlands	11 500
La Poste	France	2001	85	German Partners of DPD	Germany	10 000
TPG	Netherlands	1996	100	TNT Logistic Division	Australia	9 000
DPWN	Germany	1999	100	Air Express International (AEI)	United States	7 500
DPWN	Germany	2001	51	ASG	Sweden	5 700
Consignia	United Kingdom	1999	100	German Parcel	Germany	4 500

Source: UNCTAD, based on Dörrenbächer 2003, and information provided by firms.
[a] The remaining 49% were acquired in 2002.

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services and manufacturing FDI and on effects specific to services.[19] The analysis focuses on the following areas of impact with special reference to developing countries: financial resources and balance of payments; services provision, competition and crowding out; technology; exports; and employment.

1. Financial resources and balance of payments

Initially, FDI in services injects financial resources into a host economy. The amounts involved can be quite substantial.[20] In developing countries, for instance, the stock of services FDI rose from an estimated $160 billion in 1990 to an estimated $1.1 trillion in 2002 (annex table A.I.18). Not much is known about the composition of this stock in terms of the shares of equity, intra-company debt and reinvested earnings, but there is no reason to expect that it differs greatly from that in manufacturing.

The same can be said about the financing of capital expenditures by foreign affiliates in services and in manufacturing from extra-corporate sources. FDI inflows generally comprise only part of the financing of foreign-affiliate operations in host countries. TNCs also raise funds from capital markets in host countries and from international capital markets; such funds are not included in data on FDI inflows. Does the source of these funds matter? When funds are raised in international capital markets, they are a net addition to FDI flows.[21] Where they are raised locally, however, and if they are substantial, domestic interest rates may rise, making capital more expensive for domestic enterprises. The significance of this risk is difficult to establish, especially in globalizing capital markets. In any case, the pattern of financing is likely to reflect the nature of the host economy (e.g. its risk, the nature of its banking system, the relationship with international financial markets), rather than whether the investment is in services or in manufacturing.

In some service industries, the financial aspects of the FDI package are especially important for developing countries. In particular, the capital requirements of infrastructure services are enormous, and they are growing apace. In electricity, for example, projections for 2001-2030 suggest that investment needs will be around $5 trillion in developing countries and $1 trillion in the transition economies (International Energy Agency 2003). In telecoms, they are estimated at $187 billion per year for the period 2005-2010 (Fay and Yepes 2003), while annual projections for water and sanitation in developing countries alone amount to $49

Box III.10. Postal services go transnational (concluded)

total sales rose from 11% to 68% between 1995 and 2003, and the share of foreign employment rose from almost nil in 1990 to 58% of total staff in 2003. Its international expansion strategy has focused on Europe, which in 2003 accounted for 77% of its foreign sales, while the United States, Australia and Asia accounted for the remaining share.

DPWN has pursued a three-pronged strategy. First it focused on rationalization, reducing its work force from 313,000 in 1990 to 263,000 in 1998. In the second phase, it diversified and globalized its business through a wave of M&As that brought its workforce back to the pre-rationalization level. Its foreign employment rose from nil in 1990 to almost 40% of its workforce in 2003. In the third phase, DPWN focused on integrating many of its new businesses into its global operations, to realize synergies. Its total turnover between 1990 and 2003 rose more than five times, to $45 billion. Like TPG, it expanded abroad through a wave of M&As starting in the late 1990s, a major acquisition being DHL. Its foreign turnover had reached 43% in 2003, as against less than 1% in 1990.

While these firms are consolidating, they face increasing competition from other large European operators such as Consignia of the United Kingdom and La Poste of France and from Asian companies, such as the postal operator of the Republic of Korea. The Ministry of Information and Communication of the Republic of Korea has explicitly declared its intention to expand abroad (Republic of Korea, Korea Post 2001). This will intensify global competition and bring about further structural changes in the industry.

Source: UNCTAD, based on Dörrenbächer 2003 and information provided by the firms and company websites.

billion in 2001-2015 (Camdessus 2003). Given the budget constraints facing most governments in these countries, FDI can contribute significantly to the financing of capacity expansion in such services.

China, for example, has progressively opened up to FDI in electricity generation, mainly because it lacked both the financial resources and manufacturing capacity to meet the demand for power generating equipment (Gabriele 2004, p. 13). Up to the mid-1990s, foreign financing provided about 10% of investment funds for the industry, of which over 80% came from foreign governments and multilateral lending institutions. By mid-1998, 24 plants funded by FDI were in operation and 12 others were under construction, most of them operated by United States companies (Gabriele 2004, p.13).

Similarly, in several Latin American countries, large-scale financing needs were one of the main reasons for privatization and FDI involvement in the electricity, telecoms and water industries. They were also the major factor behind the sale to foreign banks of domestic banks in some CEE countries where the private sector lacked the necessary funds for large-scale bank recapitalization after the transition to free markets (Kraft 2004). In a number of cases, fiscal pressures also lay behind bank privatizations and the partial or complete sale of domestic banks to foreign investors. These are also the reasons, in addition to the threat of bank failure, for privatizations and sales to foreign investors of distressed banks in some East Asian and Latin American countries following financial crises.

A number of developing host countries fear that FDI in services will negatively affect their balance-of-payments situation. A large proportion of services FDI is market-seeking, and hence does not contribute directly to foreign-exchange earnings; but it does lead to external payments (repatriated profits, interest and sometimes equipment imports). For example, profit remittances can be quite high (annex tables A.III.17 and A.III.18), amounting to 35% of the total income of services foreign affiliates of United States TNCs in 2002 and 53% of the total income of services foreign affiliates of Japanese TNCs in 2001; comparable figures for manufacturing foreign affiliates were 50% and 62%, respectively (annex table A.III.18). Such payments can quickly outweigh the initial capital inflows, and thus entail net foreign-exchange

Table III.10. The top TNCs, by sector: indicators of transnationality, 1995, 2002[a]

A) The world's top 100 non-financial TNCs

Sector	Number of companies		Foreign assets/ total assets		Foreign sales/ total sales		Foreign employment/total employment		TNI [b]	
			(Per cent)							
	1995	2002	1995	2002	1995	2002	1995	2002	1995	2002
Services	12	31	42.4	57.6	45.7	52.7	39.9	52.6	43.1	54.3
Manufacturing	68	56	47.8	54.5	59.7	62.9	53.9	56.5	54.3	57.9
Primary	15	10	49.6	64.6	55.7	60.4	44.9	60.0	49.5	61.7
Diversified	5	3	34.7	49.0	38.4	50.3	47.3	55.9	40.2	51.7

B) The top 50 non-financial TNCs from developing countries

Sector	Number of companies		Foreign assets/ total assets		Foreign sales/ total sales		Foreign employment/total employment		TNI [b]	
			(Per cent)							
	1995	2002	1995	2002	1995	2002	1995	2002	1995	2002
Services	8	16	31.7	49.3	25.0	53.0	35.2	46.6	29.8	49.6
Manufacturing	24	23	34.2	47.5	37.5	51.8	41.2	45.5	32.9	48.2
Primary	5	5	13.7	34.8	33.6	37.9	11.9	28.6	18.3	33.7
Diversified	13	6	22.8	65.6	40.0	63.4	48.5	63.9	39.4	64.3

Source: Based on annex table A.I.3, box table I.3.1 and *WIR*97, tables 1.7 and 1.8, pp. 29-33.

[a] The percentages shown are simple averages of the percentages for all of the TNCs in each sector.

[b] TNI, the abbreviation for "Transnationality 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.

losses. In times of crisis, moreover, TNCs can accelerate transfers abroad and so exacerbate crises.

While services FDI (like market-oriented manufacturing FDI) may involve a net outflow of foreign exchange, this is not necessarily a correct measure of its overall balance-of-payments impact. A full assessment needs a counterfactual: what would have happened to the balance of payments had that investment not taken place? For example, if a local firm had made the investment (assuming it had the financial and technological resources), it also would not have earned foreign exchange and may also have imported new equipment. While it would not have repatriated profits, it would not have provided the initial inflow of foreign capital either. And it may not be as efficient (at least initially) as the foreign investor. After all, TNCs exist because they have ownership advantages over domestic firms in technology, organizational and managerial skills and entrepreneurship. Where these advantages lead to more efficient and better quality services, FDI promotes the competitiveness of tradable activities that use these services. At the same time, however, foreign affiliates (in services as well as goods) may repatriate earnings or loans to shore up parent firms' balance sheets (observed in Asia and Latin America in 2002 – *WIR03)*. Further, since revenues of services foreign affiliates are in local currency, they are more sensitive to exchange-rate fluctuations, and parent firms may more easily withdraw funds if they expect a devaluation. Hence, evaluating the balance-of-payments impact of services FDI cannot be done simply by looking at direct foreign-exchange inflows and outflows.

Moreover, the full economic value of an investment goes well beyond its balance-of-payments effects. The welfare effects of better service provision on consumers have also to be considered, as well as its spillovers to other economic activities.

2. Services provision, competition and crowding out

How does FDI affect the provision of services in terms of supply, cost, quality and variety in host economies and what impact does this have on domestic firms? It is again difficult to generalize. In some industries – especially those involving expensive and risky projects – FDI can add significantly to the volume of services available in a host country. TNCs' financial strength and ability to implement and manage complex systems can enable them to increase supply capacities quickly in complex,

Table III.11. Trade in selected services and the share of intra-firm trade, United States, 1997-2002
(Billions of dollars and per cent)

Trade in selected services	1997	1998	1999	2000	2001	2002
Imports						
Other private services [a]	42	46	53	58	63	69
Intra-firm (%)	42	43	49	50	47	47
Financial services	6	8	9	12	11	9
Intra-firm (%)	46	54	63	61	63	60
Business, professional and technical services [b]	21	23	28	31	33	38
Intra-firm (%)	70	67	70	71	70	71
Exports						
Other private services [a]	83	91	104	107	116	123
Intra-firm (%)	33	29	32	33	34	35
Financial services	13	14	18	19	19	20
Intra-firm (%)	18	19	23	20	22	20
Business, professional and technical services [b]	44	46	54	55	62	65
Intra-firm (%)	51	50	49	54	54	56

Source: Based on Borga and Mann 2003, table E, p. 65.

[a] Includes, in addition to the two categories shown below in the table, education, insurance services, telecommunications and other services (film and television tape rentals and "other").

[b] Includes computer and information services, management and consulting services, operational leasing and other business, professional and technical services.

capital-intensive services such as telecommunications, power, water or transport – perhaps more quickly than any feasible alternative. For example, in Latin America, FDI in telecommunications in Argentina, Brazil, Chile and Mexico contributed to a doubling or more of main telephone lines in 1990-1999 (ECLAC 2000, p. 197) and to a number of other improvements in the conditions of service supply (box III.15).

However, experiences in infrastructure-related FDI have not all been positive. In Latin America, for instance, results have been uneven in electricity. In Brazil, privatization with both foreign and domestic participation did not reverse the declining investment trend in the electric power industry (ECLAC 2004). Before that, Chile suffered an energy crisis in 1998, in spite of an early start in electricity privatization with FDI participation. This was provoked by a drought, but revealed weaknesses in the regulatory and institutional frameworks and public bodies that dealt with enterprises in the industry (Gabriele 2004).

Indeed, much depends on government policy and, specifically, on the regulatory framework for private monopolies. In Argentina, the electricity industry was privatized during the 1990s, mostly involving foreign investors who negotiated tariffs fixed in dollars, and indexed according to United States inflation rates. The initial impact was beneficial. Supply capacity rose, the wholesale price of electricity fell and Argentina turned from being an energy importer in the 1980s to an energy exporter in the 1990s. By the end of the 1990s, however, prices began to rise as a result of the indexation mechanism and local price deflation. By 2004, the country was again facing energy shortages due to higher energy demand of the growing Argentinean economy and the problems that arose following the electricity price freeze (in nominal pesos) in 2002.

Box III.11. Insuring and reinsuring the world

The life insurance business dominates the insurance industry accounting for almost 60% of all insurance premiums in 2003 ($2.9 trillion) (Sigma 2004). However, the trend among the largest insurance TNCs is to diversify from life insurance into other financial services and from non-life insurance to life insurance.

Twenty years ago or so, the insurance groups heading the list of the largest insurance TNCs were life insurers (UNCTC 1989a, pp. 184-186). Today, their business has diversified and, as a result, insurance groups now compete more directly with banks and financial service firms. Deregulation, particularly in Europe, was a major factor behind this trend: it opened the door for banks to combine with insurance firms. Today, for example, Allianz has stakes in Deutsche Bank, Dresdner Bank, HVB Group and AGF; ING in the Netherlands is a typical example of a financial services group selling insurance and banking products under the same name. So far, bancassurance (broadly defined as the sale of insurance products by banks) has been most successful in France, Italy and Spain where more than half of all life insurance products are distributed through banks. In the United States, nearly five years after the Gramm-Leach-Bliley Act (which liberalized financial services), banks account for only 5% of life insurance sales (Deloitte Touche Tohmatsu 2004).

A parallel trend towards consolidation of activities has also taken place among non-life insurers. In the top ten, property/casualty companies such as Aviva, American International Group (AIG) and Prudential have expanded their activities into the life insurance business (annex table A.III.9).

Partly as a result of the greater varieties of services – including non-insurance services – that they provide and the resulting growth, European firms now dominate the list of the world's largest insurance TNCs. Some 20 years ago, nine out of the top ten companies, ranked by total income, originated from the United States and Japan (UNCTC 1989a, pp. 184-185). Today, nine companies from European countries dominate the list of the ten largest companies.[a] The two largest reinsurance groups, Munich Re and Swiss Re, also make it into the top ten (annex table A.III.9).

Source: UNCTAD.

[a] Ranking is by foreign insurance income. If only total income is considered, Nippon Life (Japan) would feature among the top ten.

In banking, foreign banks are often more efficient than domestic ones in the developing and transition economies. But it is not always clear how this translates itself into benefits and costs for a host economy. The range of potential impacts is wide (box III.16).[22] It differs across countries as regards, for instance, the impact on interest rate margins between deposit and lending rates, the cost of capital, fees for services and the variety of new products introduced.[23]

The impact of TNBs also varies when it comes to the provision of services to various market segments, SMEs in particular. For big banks geared mainly towards corporate lending, it can be relatively costly to undertake an evaluation of SME loans and to manage them, because of the small loan size typically involved. In fact, credit scoring techniques often used by TNBs for corporate lending may not be suited for use with SMEs in developing countries, partly because information on such borrowers is generally more difficult to obtain. Moreover, foreign banks are often more conservative and risk-averse than domestic banks, and lending to SMEs arguably involves higher risk than lending to large companies. Domestic banks – and especially smaller ones – may therefore be better suited to SME lending than foreign ones. With the high degree of market segmentation that often prevails in banking, TNBs can therefore choose not to extend credit to SMEs and concentrate, instead, on other market segments.[24]

Access to services for all sections of a market is a particularly important consideration with regard to utilities and other basic services. In the absence of appropriate government policies, privatizing State-owned enterprises with TNC involvement may lead to an inequitable distribution of services. Take the case of telecommunications: where policies have not specified the provision of services to poorer customers (e.g. through performance conditions or universal service funds[25]), foreign entry can lead to uneven access. In Peru, for example, improvements in telecom services were unevenly distributed: availability increased mainly in Lima, but less elsewhere. At the same time, the price of local telephone calls went up, as well as that of fixed charges, while long-distance charges decreased slowly (Torero and Pasco-Font, 2000).

Countries may fear that the entry of service TNCs crowds out domestic firms. Is this likely? And is it more likely in services than in manufacturing? Unfortunately "the jury is still out" on the extent of crowding out, owing to the lack of systematic evidence. In major areas of

Table III.12. The relative importance of intra-firm trade in services of United States non-bank TNCs, selected years

(Billions of dollars and per cent)

	1996		1999		2001	
Category	Value	Share	Value	Share	Value	Share
A. Intra-firm exports of services						
Parents to affiliates	5.6	27.6	22.2	45.0	24.7	36.1
Affiliates to parents	7.9	38.9	14.5	29.4	19.8	28.9
Affiliates to affiliates	6.8	33.5	12.6	25.6	24.0	35.0
Total intra-firm (1+2+3)	20.3	100.0	49.3	100.0	68.5	100.0
B. Affiliates' exports of services from host countries						
Total exports	21.9	100.0	50.0	100.0	74.5	100.0
Exports to other affiliates	6.8	31.1	12.6	25.2	24.0	32.2
Memorandum	1977		1983		1993	
Intra-firm exports of goods						
Share of affiliate-to-affiliate exports in total intra-firm exports of United States TNCs (%)	30		40		44	
Share of affiliate-to-affiliate exports in total host country exports of United States MOFAs[a] (%)	37		53		60	

Source: UNCTAD, based on Zimny and Mallampally 2002, Borga and Mann 2003, and United States, Department of Commerce, 2004c.

Note: The term "affiliate" refers to foreign affiliates only.

[a] Non-bank majority-owned foreign affiliates.

services FDI such as electricity, water or telecommunications, TNCs often enter via privatization. This is usually in response to a deliberate government policy to sell utilities to foreign investors and therefore cannot be considered as crowding out local providers. (There may, however, be the indirect effect of crowding out local suppliers of the previous State-owned company, if foreign affiliates switch to their own global suppliers.) Crowding out takes place in services in which both domestic and foreign companies exist and can enter freely. For instance, it can occur in the hotel industry, where the entry of large foreign chains can squeeze out small domestic hotels from segments like mass tourism; on the other hand, in most countries both foreign and domestic hotels coexist, catering to different sets of tourists. In retailing, TNCs with competitive advantages in terms of ways of doing business, pricing structures, information management, marketing and merchandising methods and, in some cases, firm-level economies of scale, greater financial resources and negotiating power with suppliers, may squeeze out local competition. But this may also have beneficial effects: the remaining local retailers could be forced to upgrade (Goldman 2000; Lo et al. 2001) and consolidate (Toktali and Boyaci 1998), leading to improved services.[26]

Box III.12. Consumer goods anyone? The rise and spread of retail TNCs

Trade is a service industry in which FDI is relatively high. Since the 1970s, the world's largest retail TNCs have grown significantly. In 1976, the total sales of the largest retail TNC (Sears Roebuck) were below $15 billion (UNCTC 1989a, p. 191); in 2002, they (for Wal-Mart Stores) amounted to $245 billion. Over the past three decades, the home-country composition of the largest transnational retailers has shifted dramatically, away from the United States and towards European countries. In 1986, 14 of the 20 largest retailers were based in the United States (UNCTC 1989a, p. 191); by 2002, that number had shrunk to 2 (annex table A.III.10). At the same time, the number of European retail TNCs on the list rose from 3 to 17. Food retailers or general merchandisers, rather than specialty providers, dominate the expansion of the retail industry (annex table A.III.10).

The degree of transnationality of the largest retail TNCs has risen dramatically. By 2002, leading players had extended their operations to 20-30 countries. In the near future, large retail TNCs may become as transnationalized as manufacturing TNCs. Nevertheless, despite their fast foreign expansion, most of the retail TNCs cannot yet be called fully global firms (Currah and Wrigley 2004), as they continue to derive an important part of their revenues from their home markets. Of the retailers listed, the share of foreign sales in total sales exceeded 50% in seven (IKEA,[a] Delhaize, Christian Dior, Ahold, Kingfisher, Pinault-Printemps-Redoute, Otto Versand). For Tesco, foreign markets represented 22% of sales, and for Wal-Mart 19%.

The expansion of retail TNCs follows a complex organizational geography. Different firms and activities are organized and coordinated on different spatial scales. With the notable exception of Africa, where smaller South Africa-based TNCs such as Shoprite and Pick'n Pay dominate (Weatherspoon and Reardon 2003), the largest retail TNCs of the world are extending their presence into Latin America, East Asia and CEE, i.e. countries outside the Triad. Within those regions, retail TNCs target the more attractive markets that have larger consumer bases. In Latin America, much of the inward FDI has been directed to Argentina, Brazil and Chile; in East and South East Asia to Malaysia, the Republic of Korea, Taiwan Province of China, Thailand and, increasingly, China; and in CEE to the Czech Republic, Hungary, Poland and, to a lesser extent, Slovakia.

On the demand side, the global spread of urbanization is resulting in new shopping habits in many developing and CEE countries. It is the most important determinant of the fast growth of the retail industry, and its TNCs in particular. On the supply side, it is the combined effect of saturated home markets and good financial positions that prompt large retailers from the developed countries to try to sustain their profitability through international expansion (Coe 2003). This leads to strong inter-firm competition in all markets. In addition, technological progress in many areas related to retailing facilitates international expansion and competition. Trade liberalization and the opening of markets to FDI are the most important policy developments that have accelerated the process.

Source: UNCTAD.

[a] According to Coe 2003, p. 7, IKEA's foreign sales accounted for 85% in 2001.

In banking, FDI has sometimes taken place through the privatization of troubled State-owned banks (e.g. in CEE) or following financial crises (e.g. in Mexico in 1995 and in East Asia after the financial crisis that began in 1997), with TNBs taking over distressed privately-owned banks. Both types of foreign entry have often occurred with government encouragement. There are not many clear-cut cases of domestic banks being driven out of business as a result of the entry of TNBs. One reason may be that TNBs often cater to a different segment of the market than domestic banks (Pomerleano and Vojta 2001; Clarke et al. 2000), although this is less likely to be the case where foreign bank penetration is high and where such banks have acquired large domestic banks active in retail markets.

The competitive impact of FDI entry on service supply conditions, as well as the likelihood of its crowding out domestic firms, depend considerably on initial country conditions, especially the level of economic and service-industry development, the market structure of the service industries and the regulatory framework in the host country. FDI can improve supply capacity and conditions. Where markets are oligopolistic or segmented, however, the entry or presence of TNCs may not necessarily result in benefits to customers unless the necessary policies and regulatory mechanisms are in place.

3. Technology, knowledge and skills

As in manufacturing, the most important potential contribution of services FDI to development is the transfer of technology. Service TNCs may bring both *hard* technology (e.g. equipment, industrial processes) and *soft* technology (e.g. knowledge, information, expertise, organizational skills, management, marketing, technical know-how).

Service industries differ greatly in their hard and soft technology mix. Industries such as air and rail transport, communications, broadcasting, electricity, gas and water are highly capital-intensive. United States data (for the mid-1980s) suggest that only a few services are in the lowest capital-intensity group (Quinn 1987, p. 124). Since the equipment used by service firms is generally not proprietary, it is also available to local service providers. In this sense, FDI is not essential for countries to access hard technologies.

Soft technologies are the main form of knowledge and skills transfer in services FDI. Taking average salaries as an indicator of skill levels, United States data suggest that the average skill levels of employees in parent firms in services are lower than those in manufacturing. The difference between the average skill levels of parent firm employees in the two sectors has increased over time (table III.13). However, foreign affiliates of service TNCs in developing countries were more skills-intensive than those of manufacturing TNCs, and that difference, too, rose somewhat during the period 1989-2000. In addition, compensation in service affiliates in developing countries was much closer to that of affiliates in developed countries (63%), while the comparable figure in manufacturing was lower (31% in 2000).

This points to a major difference between FDI in services and manufacturing, with implications for their respective potential for technology transfer: FDI in manufacturing is better able to take advantage of low labour costs in developing countries by splitting up the value chain and moving less skilled processes (remunerated at a lower level) to those countries

Table III.13. Average compensation of employees in United States parent firms and their affiliates, selected years

(Compensation per employee, thousands of dollars)

Item	1982		1989		2000	
	Services	Manufacturing	Services	Manufacturing	Services	Manufacturing
Parent firms [a]	24.2	29.8	30.5	39.3	42.2	58.4
Foreign affiliates[b]	18.8	16.9	27.8	25.8	34.6	29.1
In developed countries	19.1	20.6	28.8	34.0	39.7	43.5
In developing countries	15.0	8.7	15.8	9.6	25.0	13.4

Source: UNCTAD, based on data from United States Department of Commerce.

[a] United States non-bank parent firms with non-bank affiliates.
[b] Majority-owned non-bank foreign affiliates of United States non-bank parent firms.

Box III.13. FDI by *sogo shosha*: shifting from manufacturing to services

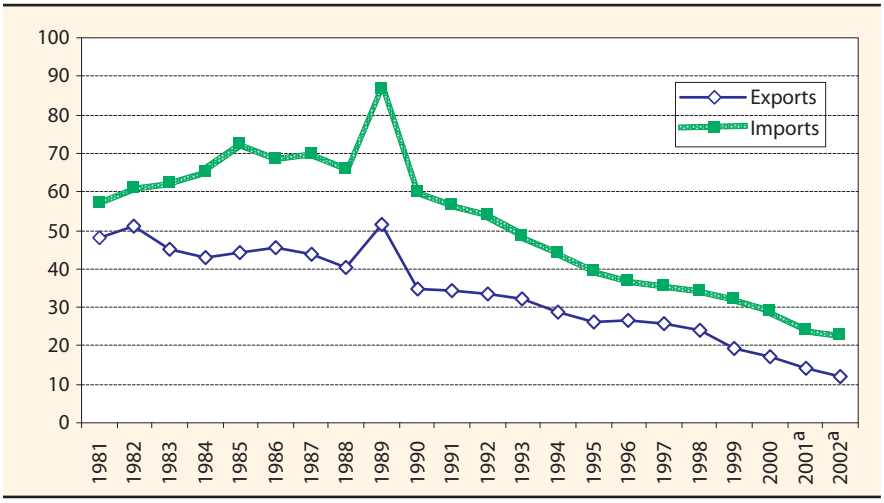
Sogo shosha – or "general trading companies"– have traditionally played a major role in Japan's domestic and international trade.[a] There are more than 11,000 trading companies in Japan, but only seven[b] (annex table A.III.11) are classified as *sogo shosha*. They have contributed significantly to the development of Japan's trade, particularly that of corporate groups (*keiretsu*), but also that of other Japanese firms, especially SMEs, which they have helped penetrate international markets and integrate into global production chains. Today, they have started playing a key role in business promotion, research and information, market development, group management, risk management, logistics, finance and large-scale project organization[c] (Japan Foreign Trade Council 2004).

At the same time, the share of Japan's imports and exports accounted for by the *sogo shosha* has declined gradually but significantly (box figure III.13.1). But their share in imports has consistently remained above their share in exports. This reflects the important role of these firms as suppliers of strategically important items, especially oil, gas, minerals and other primary products. On the export side, the decline is largely due to Japan's manufacturing TNCs establishing their own marketing and sales networks overseas. In addition, while the *keiretsu* continue to maintain a close relationship with the *sogo shosha*, the latter's business transactions outside these corporate groups are increasing.

Indeed, *sogo shosha* invest in many industries, but the industries in which they make new investments are changing. Prior to 1980, 46% of the nine *sogo shosha*'s foreign affiliates (1,338 firms) were in manufacturing (in particular textiles and chemicals), ahead of commerce (31%) (Yasumuro 1998). By host economy, they were concentrated in Asia (46%) and the developed countries (37%).

According to a survey conducted in November 2002, the five largest *sogo shosha* own more than 1,500 foreign affiliates, operating, as in the past, in almost all industries and business activities (Toyo Keizai 2003). The geographical concentration has not changed much (41% in Asia and 41% in developed countries). But manufacturing no longer constitutes the major part of their FDI portfolio: foreign affiliates in services account for 69% (of which half is in commerce).[d] In commerce, other than their traditional overseas offices that are located virtually all over the world,[e] an interesting trend is an increase in trade of foreign brands of automobiles in developed countries (where *sogo shosha* operate as dealers in brand-name products) and in wholesale and manufacturing in China,[f] as well as their rising participation in ICT activities. Among the *sogo shosha's* other service affiliates, the majority of them are either holding companies or they manage project investments. In addition to finance, insurance and transportation, they cover a wide range of

Box figure III.13.1. The share of the eight sogo shosha in Japan's external trade, 1981-2002
(Per cent)



Source: JETRO.
[a] Calculated based on the financial results of seven *sogo shosha*.

/...

than is (still) the case with FDI in services. Most services do not lend themselves, so far, to a similar separation of low- and high-skilled processes, and hence there tends to be greater employment of local staff in high-skilled (better remunerated) jobs. But this is changing for some information-intensive services in which functions can be separated to an increasing extent and located in foreign affiliates (chapter IV).

The skills involved in services affiliates generally have three main components: technical knowledge and know-how, marketing and organizational and managerial expertise. Some skills are linked to the use of sophisticated equipment, but most involve specialized education, professional training or experience. TNCs that have skill advantages can, under appropriate conditions, contribute to host-country capabilities.[27] Take some examples:

- Insurance requires specialized skills in risk management (i.e. the measurement, identification and minimization of risk). Foreign affiliates can transmit these skills to local employees, who can then disseminate them when they move.
- In banking, where risk-management techniques and technology have been changing due to competition and the use of ICTs, TNBs may transfer organizational, managerial and marketing expertise to affiliates. They may also transfer know-how regarding new or standardized products, created and tested in parent companies and other units within their global corporate systems, to their foreign affiliates, and perhaps also to banks in which they hold a minority interest. This is often an important aspect of their competitive advantage over competitors in foreign markets. It also enables local employees in their affiliates to acquire new skills and knowledge, and to pass them on should they move to a local competitor.[28] For example, foreign banks have transferred the latest banking skills and techniques to banks in Hong Kong (China) (Carse 2001). Imitation can also be important. For instance, following the entry of TNBs, Turkish banks began to adopt modern planning, budgeting and management information systems and electronic banking techniques (Denizer 2000).
- In the hotel industry, specialized skills concern the pre-operational phase (engineering, architecture, mechanical, interior design, choice of location and market segments) as well as the operational phase (preparation of rooms and food, laundry, other personal services). They also involve direct interaction between personnel and customers and the processing of information (e.g. computerized reservation systems, credit facilities, centralized billing, check-in and check-out, other front- and back-office operations). Foreign affiliates as well as franchisees are likely to have greater access to this soft technology.

Box III. 13. FDI by *sogo shosha*: shifting from manufacturing to services (concluded)

activities – from industrial park development to aircraft leasing and to database development.

In examining the 139 foreign affiliates established by the top five *sogo shosha* in 2000-2002, the shift from manufacturing to services becomes clear: 82% were in services (40% in commerce and 42% in other services). Most of the new FDI was directed to developed countries (51%); in developing countries, the focus remains on Asia (30%).

Source: UNCTAD, based on various publications and communications by Shigeki Tejima.

[a] Originally, the *shosha* were known as "trading companies" or "trading houses". As their activities expanded, some of them became "general trading companies". Most *sogo shosha* began from a base in a specific industry (e.g. metals or textiles) and gradually moved to a variety of activities (Roehl 1998, p. 202).

[b] There used to be nine, but one of them, Kanematsu, became "*senmon shosha*" (specialized trading company) in 1999. With the merger between Nissho Iwai and Nichmen in April 2003, they are now seven.

[c] They also coordinate Japanese ODA projects (www.euroact.co.jp/oda-japan/AboutODA/Key_Players/Sogo_Shosha).

[d] According to the 2003 annual reports of the five largest *sogo shosha*, out of 660 foreign affiliates listed as their *principal* subsidiaries and associated companies, 49% are in commerce and 28% in other services.

[e] The majority were established in the 1960s as wholly-owned affiliates. Among the 248 foreign affiliates established prior to 1980, 57% are in commerce and 14% in other services.

[f] Almost all affiliates in China were established in the 1990s.

The potential for technology and skills transfer does not mean that it occurs equally in all host countries. What determines the outcome?

Intensity of competition. This determines the incentive for foreign affiliates to use the best technologies available within their TNC systems.

Quality of education and training in host countries. This determines the ability of host countries to attract knowledge- and skill-intensive services. It also determines the capacity of employees to absorb the expertise and skills provided by formal training, contacts with experts, international communications, or the transfer of equipment and operating procedures.

Training and personnel policies of TNCs. These determine whether the skills needed by foreign affiliates are acquired by training host-country employees, competing for skilled labour in host-country markets or hiring expatriates (an expensive option and one that may be limited by host-country policy). The first involves the transfer of technology, while the second, depending upon the labour market, may represent an internal brain drain that could crowd out local firms.

Adapting to the local environment. This concerns the ability and willingness of foreign affiliates to create and utilize knowledge effectively in a host economy and transmit entrepreneurship and trust-based institutional mechanisms to their employees and to other firms with which they have dealings.

Labour market structure and mobility. Competition in host-country labour markets and efficient labour market institutions help foreign affiliates hire the best qualified employees. They also facilitate labour mobility, important for diffusing new skills.

Linkages between foreign affiliates and domestic service suppliers and buyers in host countries. These allow domestic firms to acquire soft technologies from foreign affiliates by contact with experts, information flows and observation.

Systematic evidence on the extent of transfer and dissemination of knowledge, expertise and skills by service TNCs is limited. But TNCs in services such as banking, insurance, professional services (management, engineering, accounting), and hotels and restaurants generally provide training to their employees at various levels (UNCTC 1989b, p. 22; *WIR95*, p. 185; *WIR94*, p. 229; Denizer 2000). In addition, transnational consultancy firms help upgrade indigenous management expertise in domestic firms (in the goods as well as services sectors) (*WIR95*, p. 185).

4. Export competitiveness

Direct cross-border exports by service TNCs, or goods TNCs investing in services, relatively limited until recently, have started growing as a result of IT-enabled trade in services (chapter IV). However, the indirect impact of services FDI on export competitiveness – i.e. on systemic competitiveness – can be significant. FDI in intermediate services can directly and indirectly help goods producers become more efficient. Such services range from trade-support, banking, insurance and business services to transport, electricity and telecommunications. For example, transnational trading corporations can help boost host-country exports through their foreign affiliates; these can be important intermediaries between host-country producers and markets abroad. Some – such as the Japanese *sogo shosha* – have played an important role by investing in export-oriented primary, manufacturing and service activities in host countries (box III. 13). FDI and international alliances in air transport can improve air-cargo services. And, as discussed above, TNCs have played an important role in expanding telecom services and enhancing the competitiveness of these services in a number of developing countries, thus facilitating trade.

TNC (equity and non-equity) involvement in tourism services catering to foreign travellers has improved the export competitiveness in the tourism industry of host countries. International tourism is an important foreign-exchange earner for four-fifths of developing countries, and the principal one for one-third of them (World Tourism Organization 2002). After petroleum, tourism is the primary source of foreign-exchange earnings in all 50 LDCs. It is particularly important for small island countries, notably in the Caribbean. Many, but not all, segments of tourism in developing countries need FDI to compete internationally. A large number of countries focus, in varying degrees, on attracting international hotel chains. In Botswana and the Caribbean, for example, nearly two-thirds of the hotels are foreign-owned, but in most, there is a mix of international and local hotels.

Box.III.14. The world's bankers

The financial services industry has traditionally accounted for the largest share of services FDI in all regions. In developing countries and CEE, its share in services FDI stock is still high, at 22% in 2002. In developing countries, the stock of FDI in financial services grew 1.5 times between 1990 and 2002, to $250 billion (annex table A.I.18). In CEE, it rose from virtually nothing to $37 billion over the same period. In banking alone, cross-border M&As, the principal mode of foreign entry into developing countries and CEE during the 1990s (CGFS 2004), amounted to nearly $80 billion for the period 1995-2003 (compared to $2 billion for 1987-1994).

Among the major players, there is a split between financial conglomerates offering a wide range of financial services and specialized financial service providers. Some banks have integrated various financial services under one umbrella, while others remain specialized and concentrate on specific business lines. For example, ING ranks high on the list of both the largest banks and the largest insurance providers.

Among foreign investors in banking, TNBs lead, although non-bank investors (such as investment funds) also sometimes take direct investment positions. Today, the 20 largest TNBs (annex table A.III.12) are dominated by banks from a small group of developed countries: more than half are from the EU (France, Germany, the Netherlands, the United Kingdom) and the remainder are from Japan, Switzerland and the United States. As noted in the text, the most dramatic change in the list of the largest TNBs in the past 20 years or so is the marked reduction in the number of Japanese banks.

About 60% of a large sample of TNBs are from developed countries, about a third from developing countries and 5% from CEE.[a] Of the TNBs' 10,102 foreign subsidiaries, 65% were located in developed countries, 30% in developing countries and 6% in CEE at end-2002. TNBs from developing countries and CEE are generally relatively small by international standards and less internationally active (with a physical presence in relatively few foreign banking markets). None of them are global players, and only a few (with the major exception of some South African TNBs in Africa) are strong regional players, while a mere handful are from LDCs (Bangladesh, Senegal, Togo).

The largest TNBs ranked by asset size are not necessarily the most transnationalized in terms of the geographic spread of their foreign subsidiaries. An indication of this is the differences in the ranking of the 20 largest TNBs (annex table A.III.12) by the number of host countries in which they maintain at least one subsidiary compared to their ranking by their total assets. Crédit Agricole, while highly global in operations, is much smaller than Sumitomo Mitsui Banking Corporation. The latter, though very large, is much less global. In fact, the largest Japanese TNBs have become less transnationalized, due to a significant scaling down of their foreign operations as a part of the restructuring of parent banks. Indeed, Fortis Bank, Banca Intesa and Standard Chartered Bank, for example, are not even among the 20 largest ranked by assets, but all have a higher global presence than do the much larger "big four" Japanese TNBs. These differences become more marked the larger the number of TNBs included in the ranking. TNBs from developing countries begin to enter the ranks of the most global TNBs before they enter the rankings in terms of size, as they are in general relatively small. But, as expected, the largest players are among those TNBs with a global reach. For example, HSBC and Citigroup, two commercial banking giants with clearly stated global ambitions, are at the same time among the very largest and most transnational players.

A significant proportion of TNBs' foreign subsidiaries are located within the region of the home country. For TNBs from Africa, as well as those from Latin America and the Caribbean and South, East and South-East Asia, 48% of their foreign subsidiaries are located in the region of their home country, compared to 37% for TNBs from the EU and 30% for those from CEE. These figures indicate the fairly strong intra-regional nature of TNBs in terms of physical presence, particularly in developing countries.

Source: UNCTAD.

[a] Based on almost 400 TNBs with majority-owned foreign affiliates (subsidiaries) involved in financial services (data from the Bankers Almanac database, October 2003). Central banks are excluded.

International chains are often prominent in the highest quality end of the market, and the presence of at least some can be critical to putting a country on the global tourist map. These chains can attract a critical mass of international tourists, while other tourists relying on less expensive, locally-owned hotels, might follow. The large chains also have access to international tour operators, another vital feature of the tourism network. Analysts of the life cycles of tourist destinations have noted that, while drifters or backpackers might "discover" destinations (such as Goa, Bali or Morocco in the 1970s), the real economic pay-off comes from attracting international hotel chains and being part of mainstream tour-operator programmes. The potential offered by tour operators based in tourism-generating countries is especially important for many developing countries that lack the resources needed for international marketing campaigns. Large tour operators influence many aspects of tourism demand in host countries, including image creation, access to consumers, volume and type of tourism.

5. Employment

FDI in services, as in manufacturing, creates employment in host countries. In the short term, employment effects vary according to whether a particular project is greenfield, a merger or an acquisition. In the special case of M&As, there may be a decline in employment as companies are restructured and rationalized. Indeed, most studies find that employment in privatized firms usually falls.[29] In Argentina, for example, increased profitability, efficiency and operational productivity in telecommunications came at the cost of a large cut in employment (Galiani et al. 2003). This was also true of Brazil (Anuatti-Netto et al. 2003) and Chile (Fischer et al. 2003). However, negative short-term employment effects are often reversed in the medium to long term as sales rise (Sheshinski and López-Calva 2003).

How large is employment generation from services FDI compared to that from manufacturing FDI? Perhaps contrary to expectations, given the larger human element traditionally associated with services, services FDI generally does not create as much employment per dollar invested as manufacturing FDI. According to data for Germany, Japan, Switzerland and the United States for the period 1999-2001, services accounted for a much larger proportion of FDI stock (50% to 60%) than the share in total employment of their respective TNCs' foreign service affiliates (about 40%, except for Japan where it was only 15%).

This suggests that, while employees in foreign service affiliates are, on average, better trained and better paid than those in manufacturing, the direct job-creating potential of these affiliates is lower than in manufacturing. It also reflects the stand-alone nature of most foreign affiliates in services and the (still) limited ability of TNCs to break up service products into components and to find the best location for their production. However, FDI in holding companies and in some kinds of financial affiliates (included in services FDI) generates little economic activity and, hence, little employment in host countries (section B.2). For example, in the case of United States outward FDI, on average $136,000 of FDI stock (excluding stock in banking) generated one job in 2001; the corresponding figure for stock in financial affiliates was $656,000 and for stock in holdings, $21 million. Of course, non-equity forms of TNC participation (which do not contribute to FDI flows or stock) contribute to employment generation, but foreign-affiliate employment data do not capture this.

The potential for job creation by services FDI is growing with the rise of export-oriented services. FDI in these services can be expected to generate more employment per dollar than FDI in location-bound services (chapter IV). Also, aside from the direct impact of services FDI on employment, indirect effects are important. In particular, the greater availability and better quality of producer or intermediate services as a result of FDI can stimulate production in downstream industries and add to employment in those industries. In host countries where supplier industries of international standards exist or can be developed, production and employment in upstream industries can also increase. These effects can be particularly significant in some services such as telecom services.[30]

6. An assessment

The net effects of services FDI on host countries are difficult to assess — but it is important to start with a clear view of the potential benefits. Technology in the provision of many services is changing rapidly, and services are playing an increasing role in boosting

competitiveness. They are becoming indispensable for most production activities, and they are constantly changing and improving. Manufacturing activities themselves have a steadily growing component of services (in R&D, design, logistics, marketing, servicing), many of which are subcontracted to sophisticated, specialized suppliers. Service providers in areas such as banking, media and transport can serve as valuable links to the outside world, providing information, contacts and skills. And, increasingly, many services can be exported directly, thanks to ICTs.

The entry of service firms from more advanced countries can thus improve the conditions of service provision to consumers and producers in host developing economies, including for producers of goods and services that are newcomers to international competition. Service TNCs can bring with them state-of-the-art techniques (soft technology) which, where properly transferred and deployed, can transform the provision of services in the relevant activities and raise skill levels in host economies. TNCs can also provide new services that local firms have not developed, or cannot develop without

Box III.15. FDI in telecommunications: effects on supply and costs in host economies

Evidence on the availability and performance of telecom services after large-scale foreign entry, covering 85 developing countries for the period 1985-1999, points, on balance, to an improved and more competitive provision of services owing to better firm performance (Fink et al. 2002). FDI has increased supply capacity in telecommunications in developing and transition economies and improved reliability, especially by providing mobile telephony. In countries with strong regulatory systems, FDI has led to improved telecom services and contributed to higher economic growth (Norton 1992; Roller and Waverman 2001).

In many countries in Latin America, FDI was deemed necessary for improving their telecom systems. In general, the process brought higher levels of investment, significant improvements in services, greater efficiency and productivity, more operators and more products. Over the decade 1992-2002, fixed-line penetration doubled in Latin America. In the case of mobile telephony (which took off in the early 1990s), the number of subscribers rose substantially, to reach that of fixed lines subscribers in 2003.

In Argentina, the number of fixed lines doubled from 3.8 million in 1989 to almost 8 million in 1999, and the number of public telephones rose from 1,300 booths to over 170,000. Productivity improved from almost 92 lines per worker to around 400 lines per worker (Gerchunoff et al. 2003). In Peru, investment was significant and services expanded and improved noticeably. There was an improvement in residential and public telephony penetration: the density of public phones climbed from 0.35 to 4.5 for every 1,000 residents between 1993 and 2003, and fixed lines from 3.2 to 6.9 per 100 residents between 1994 and March 2004.[a]

However, the picture is not one of unalloyed benefits. Competition problems emerged in several cases. In mobiles, bidding for licences resulted in oligopolistic competition; in fixed-line services, State monopolies were frequently turned into foreign-owned quasi-monopolies with long exclusivity periods. Prices sometimes rose because of reductions in subsidies.

When FDI took place without competition, or when competition was delayed, the incentive for investors to improve capacity (e.g. line construction) was reduced. In Argentina, Mexico and Venezuela, there was a sharp increase in telephone line construction immediately after privatization, only to fall later to below the regional average.[b] In these cases, while telecom enterprises were transformed from loss-making, subsidized entities into tax-paying firms, part of their profitability arose from monopoly positions and captive regulators. In Argentina, the privatization of Entel did not result in lower service prices (Abeles 2002), and in Brazil, greater efficiency was accompanied by higher prices (Anuatti-Neto et al. 2003).

Source: UNCTAD, based on Mortimore 2003.

[a] Organismo Supervisor de Inversión Privada en Telecommunicaciones, www.osiptel.gob.pe.

[b] The experience of Costa Rica and Uruguay demonstrate that a fair amount of modernization can be achieved without privatization and FDI, on condition that the Government can successfully acquire the capital and technology required.

the complex networks and skills to which TNCs have access. Some of these new services, as in logistics management or insurance risk management, can be important for enabling a country to compete in international markets.

FDI can also spur local service providers to become more competitive and, by demonstration effects and skill diffusion, help them improve efficiency. Where service provision calls for large investments, as in basic infrastructure, FDI can help bridge the investment gap in developing countries. Furthermore, the entry of flagship service TNCs can improve the investment image of a host country, helping it to attract other investors.

However, these benefits may only be realized if conditions in a host economy are appropriate. A number of services are inherently monopolistic, while others are prone to systemic risk and require strong supervision and governance structures. In addition, there are risks that are associated with social or cultural impacts, the crowding out of local firms or the deprivation of services to poorer groups. Thus, services FDI entails three kinds of risk:

- *Systemic risk* exists where the absence of effective regulation can expose a host economy to significant economic instability. For instance, in financial services, the entry of foreign financial institutions might undermine the ability of national authorities to exercise control over international capital movements into and out of their countries (Cornford 1993; Cornford and Brandon 1999; Montgomery 2003). Also, the risk of volatility in foreign-exchange flows may rise with the entry of international financial service providers. Furthermore, there is a possibility of contagion effects from foreign crises in the home market or third-country markets that are transmitted via the presence of foreign banks (CGFS 2004; Clarke et al. 2003; Hawkins and Mihaljek 2001; Peek and Rosengren 2000). On the other hand, if the alternative to TNB participation in a host economy is reliance on the international capital market or borrowing, the risk of volatility in capital flows and contagion may be even larger. The possibility of contagion through cross-border lending by foreign banks has been observed in several cases, but so far contagion through foreign-bank affiliates has been less well studied. As the Asian financial crisis demonstrated, the costs of instability can be high. The problem is not necessarily one of foreign banks as such — domestic banks can also intermediate international capital flows and, under certain conditions, contribute to domestic financial instability. But a large foreign presence may exacerbate volatility.[31]
- *Structural risk* can arise from services FDI in activities with large inherent monopolistic elements. Where the regulatory apparatus needed to manage privatization and regulate utilities is insufficient, State-owned monopolies may turn into private ones and impose high costs on an economy, even if they are run more efficiently. Some developing countries are short on the skills needed to negotiate appropriate deals and provide such a regulatory apparatus; as examples show, this can create hostility to further FDI in privatization (box II.13). In some cases, there may not be many service TNCs to choose from: the global water industry for example is dominated by three large corporate groups that are among the largest TNCs in the world (box III.9). The potential for structural risk calls for an institutional upgrading in the regulation of markets.
- *Contingent risks* can arise from services FDI in socially or culturally sensitive areas, causing unintended harm. Changes to consumption patterns by the entry of efficient retail TNCs is a case in point. For example, in Thailand, their entry has led to the disappearance of many local markets and street stalls and has affected traditional consumer habits (Hewison 1996; Robison and Goodman 1996). The takeover of media by foreign firms may be inherently unacceptable in some cases, especially where market concentration is high. There may be inequities in the distribution of essential services provided by foreign affiliates if left to market forces, unless governments ensure that remedial measures are taken. Foreign service providers may crowd out local providers if factor markets favour foreign firms in, for example, providing access to capital or skills. It is, therefore, important for host-country governments to be clear about what they seek and what they can expect from foreign affiliates in such industries.

Box III.16. The pluses and minuses of TNB participation

Positive impacts. The participation of TNBs may benefit the banking system of a host economy in various ways:

- TNBs may bring in additional capital and recapitalize, restructure and rehabilitate distressed domestic banks in the host economy.
- Through other direct means, they may strengthen the domestic banking system's health and resilience. They may be better capitalized than domestic banks, have better risk-management practices, allocate credit more efficiently or make available financial instruments for hedging risk. Not only can this directly strengthen the domestic banking system, it can also improve credit allocation and improve economic efficiency.
- They may directly introduce new banking products and technology.
- TNB entry can stimulate increased competition in a host-country's banking market, which may improve the efficiency of domestic banks and the quality and diversity of banking services, and perhaps lower prices.
- TNB entry can stimulate indirect effects (spillovers) on domestic banks in their operational methods, for example by causing domestic banks to improve their risk-management and credit allocation practices.
- TNB entry can prompt a strengthening of the market infrastructure (such as improved legal, accounting, disclosure or auditing standards). Their entry may also lead to improved regulation and supervision in countries where these are weak.
- To the extent that TNBs are well diversified, they may directly improve the stability of the banking system through their more internationally diversified portfolios.
- Due to greater diversification, TNBs may be less sensitive to local shocks, and as a result they may have more stable lending patterns; a domestic bank, on the other hand, might be forced to reduce credit in response to an economic shock.
- To the extent that financial support is forthcoming from parent banks (and perhaps in some cases – notably for branches – even indirectly via the regulators of the parent banks through lender-of-last-resort facilities), TNBs can more easily access funding from international financial markets, if needed, and can provide stability in a crisis.

Negative impacts. TNB participation can also weaken the domestic banking system or create problems for a host economy in various ways:

- TNB entry can affect the degree of concentration of the banking industry and market contestability.
- In countries with a weak regulatory framework and poorly prepared bank supervisors, the regulation of TNBs may be difficult.
- TNBs may target the largest and most creditworthy clients and crowd out domestic banks from the most creditworthy customer base.
- If domestic banks are unable to compete effectively with TNBs, they may respond by taking on high-risk business, which could undermine their health and that of the domestic banking system, particularly where bank supervision is weak.
- TNBs may ration credit to SMEs, making it difficult, in some cases, for the latter to obtain credit.
- TNBs may be less amenable to monetary policy via "moral suasion".
- TNBs may shift funds between markets, even in an abrupt manner, reflecting perceived risk-adjusted returns; this could cause relatively volatile credit patterns if risks and returns in different markets change quickly.
- Profit repatriation by TNBs may place pressure on the balance-of-payments of host countries.
- TNBs may reduce local operations or withdraw from a host-country market because the parent bank may "cut and run" during a crisis in a host country, rather than act as a source of stability.
- TNB entry may expose a host-country's banking system and a host economy to contagion from crises and wider economic and financial developments abroad.
- TNB entry might reduce the ability of national authorities to exercise control over international capital movements to and from the host country.

Source: UNCTAD, based on the literature cited in footnote 22 of this chapter.

Banking provides a good illustration of the diverse effects that must be taken into account when assessing the overall impact of FDI in services in a host country (box III.16). To identify and assess these various effects, and arrive at a policy response that maximizes the benefits from services FDI and minimizes the negative impacts, is not easy.

The challenge of balancing various effects and objectives also characterizes privatizations. What is the evidence of the impact of FDI in privatization? Privatized firms, regardless of their ownership, tend to become more efficient and profitable, increase investment spending and improve their financial health (Megginson and Netter 2001). Furthermore, evidence from economies in transition, distinguishing foreign from domestic privatizations, shows that foreign ownership was associated with greater post-privatization improvements than was domestic ownership.[32]

However, higher profitability is not synonymous with increased economic efficiency if firms operate in an uncompetitive environment, or if they can capture the regulators. Nor does it mean that social objectives are met. Utilities providing basic services such as electricity, water or telecoms are particularly sensitive in these respects, and the provision of these services to the poorer or more remote segments of a community requires special policies and contractual commitments (chapter V).

These difficult cases should not, however, distract from the fact that services FDI is becoming an important element of systemic competitiveness. The implications of this for the process and pace of development, even more than with other kinds of FDI, have to be considered carefully. The special nature of some services, particularly in basic utilities and socially or culturally sensitive areas, means that free markets cannot be left to work efficiently by themselves. Strong, independent and competent regulatory structures are vital if the potential economic benefits of FDI are to be realized. It is not easy for developing countries to build such structures. Regulatory agencies need specialized skills and information and the capacity to adapt continuously to rapidly evolving conditions of markets, technology and corporate strategies. They also need to be able to draw upon the experiences of regulators in other parts of the world and to experiment with them in their own contexts. Moreover, while an evaluation of the economic benefits of any kind of FDI has to be set against the value of maintaining diversity of institutions or belief systems, this dilemma is more marked in services FDI. This is because of the greater human element in services and because a number of services take the form of public goods: the "externalities" of services are thus likely to be more important than those of goods. Hence, much depends on policies at the national and international levels to maximize the positive effects of services FDI and minimize its negative ones – an issue taken up in chapters V and VI.

Notes

1 On a balance-of-payments basis, including sales between residents and non-residents (whether by cross-border sale or by temporary movement of buyers or providers). Balance-of-payments data on services trade compiled by the IMF cover the following: transportation, travel, communication services, construction services, insurance services, financial services, computer and information services, royalties and licence fees, other business services, personal, cultural and recreational services and government services (IMF 1993).

2 In this volume, the term "tradability" refers to the ability to supply services across borders, i.e. it is based on the traditional concept of cross-border trade of services from one country to another. For the purpose of the General Agreement on Trade in Services (GATS), however, "trade" includes not only cross-border trade, but also consumption abroad (by a service consumer moving to another member's territory to obtain a service), commercial presence (by a service supplier of one member establishing a presence in another territory to provide a service) and the presence of natural persons (by persons of one member entering temporarily the territory of another to supply a service). See WTO "The General Agreement in Services (GATS): objectives, coverage and disciplines", at http://www.wto.org/English.

3 The growing importance of FDI in services was noted in the mid-1980s by the United Nations Centre on Transnational Corporations (UNCTC) in a number of studies. For the first comprehensive analysis of FDI in services, see UNCTC 1989a. Two other studies focused specifically on conceptual and theoretical issues (Dunning 1989), and on impact and policy issues for developing countries (UNCTC 1989b). Other studies by UNCTC and UNCTAD followed; see http://unctc.unctad.org.

4 Aggregated FDI data on business services should be interpreted with caution, as their coverage in countries varies considerably. For example, real estate may

include not only services of real estate agencies but also fixed assets (buildings). Some economies include holding companies, which greatly inflate the value of FDI. A case in point is Hong Kong (China), which accounts for 27% of the world stock of inward FDI in business services, owing largely to the inclusion of holding companies.

5 Especially in the United States, where Japanese FDI stock jumped from $1 billion in 1985 to $15 billion in 1990.

6 The share of developing countries in world outward FDI stock in manufacturing during this period rose only from 1% to 4%.

7 But it is difficult to say whether the full liberalization of FDI in air transportation would result in much higher FDI. For example, in the hotel industry, many developing countries in the past had a strong preference for control of the physical assets in their territories. They thus preferred local ownership, sometimes in minority joint ventures with foreign investors, which led to the proliferation of non-equity arrangements. Nowadays, most countries have lifted restrictions and seek not only the presence but also the capital investment of international hotel chains. Although a more liberal investment climate gives companies a greater choice of modes of entry, the preferred mode continues to be non-equity arrangements in a number of industries. Thus, one would have to take a closer look at ownership-specific advantages of airlines before making a judgment about the impact of FDI liberalization on the modes of entry in this industry.

8 Based on data from World Bank 2004b.

9 Conversely, service TNCs can establish manufacturing affiliates abroad. This is especially the case with United States' wholesale trading TNCs: in 1999, 72% of the gross product of their majority-owned foreign affiliates was in manufacturing and only 13% in wholesale trade services. The same applies to the Japanese *sogo shosha* (box III.13).

10 According to data from their respective annual reports, roughly half of their sales were in services.

11 The restructuring resulted in a series of national M&As among the largest Japanese banks, leading to the creation of four major financial groups: Mizuho, Sumitomo Mitsui, UFJ and Tokyo-Mitsubishi. In July 2004, UFJ and Mitsubishi Tokyo Financial Group (MTFG) announced discussions on a possible merger.

12 Cross-border M&As occur in waves. They intensify during economic upturns and weaken during recessions. The M&A boom of the late 1980s ended with the recession of the early 1990s. In the second half of the 1990s, M&As rebounded, producing an M&A boom on an unprecedented scale. They then halved in value during the economic downturn of 2001-2003.

13 As discussed in chapter I, the Transnationality Index (TNI) of a company is a measure of the relative importance of foreign affiliate activity in a TNC's total activity. UNCTAD's TNI is a composite measure of the average of a TNC's foreign assets, employment and sales, relative to its total assets, employment and sales, respectively. But the Index can also be calculated for other variables, such as the number of foreign affiliates relative to total affiliates.

14 The reverse processes can also take place, i.e. service production can be internalized, by being undertaken in-house. However, the overall trend is in favour of externalization.

15 These cover six types of services (Dunning 1993, p. 46): (i) those the sales of which depend on the presence of people, goods or other services located in the country of use (hotels, restaurants, car hire, construction development, motion picture production, real estate, news agencies); (ii) transport facilities; (iii) most telecommunication and public utilities; (iv) warehousing, wholesaling and retailing services; (v) most public administration and social and community-related services; and (vi) services that require face-to-face contact between buyer and seller.

16 Past *WIRs* have documented the emergence of such networks in manufacturing industries; examples include Ford's network in Europe (*WIR93*), Toyota's network in Asia (*WIR96*,*WIR01*) and Honda's inter-regional network (*WIR96*).

17 This is the category that includes most tradable services; in 2002, it accounted for more than 40% of total outward and inward transactions in services.

18 Zimny and Mallampally 2002, p. 108.

19 For a full discussion of FDI impacts in general, see in particular *WIR99*, but also *WIR97* (for the impact of FDI on market structure and competition), *WIR01* (on linkages) and *WIR02* (on export competitiveness).

20 The financial needs of some infrastructure services can be high owing to the capital-intensity nature of the industry concerned (as in electricity or fixed-line telecommunications). In others, such as corporate or business services, capital investment needs are much smaller (see chapter IV).

21 These additional resources may be as large as the FDI inflows themselves – see *WIR99*, p. 160.

22 Ahumada and Marshall 2001; Akbar and McBride 2004; Aleem and Kasekende 2001; Barajas et al. 2000; Baudino et al. 2004; Beck 2000; Berger et al. 1999; Berger et al. 2000; Berger et al. 2001; Bonin and Abel 2000; Bonin et al. 2004; Brownbridge 1998; Brownbridge et al. 1998; Brownbridge et al. 1996; Caprio 1996; Caprio et al. 2001; Cardenas et al. 2003; Carse 2001; CGFS 2004; Chirwa and Mlachila 2004; Chua 2003; Claessens and Glaessner 1998; Claessens and Jansen 2000; Claessens and Laeven 2003; Claessens et al. 2001; Clarke et al. 2000; Clarke et al. 2002; Clarke et al. 2003, 2004; Coppel and Davies 2003; Cornford 1990, 1993; Cornford and Brandon 1999; Crystal et al. 2001; Dages et al. 2000; Daumont et al. 2004; de Carvalho 1998, 2000; de Freitas and Prates 2000; de Nicolo et al. 2003; de Paula 2002, 2003; de Paula and Alves 2003; Demirguç-Kunt and Huizinga 1999; Denizer 2000; Dobson and Jacquet 1998; Drakos 2003; ECLAC 2003b; Galac and Kraft 2000; Galindo et al. 2003; Gallego et al. 2002; Gelos and Roldos 2004; Goldberg 2003; Goldstein and Turner 1996; Hapitan 2001; Hasan and Marton 2003; Hausmann and Gavin 1996; Hawkins and Mihaljek 2001; Honohan 2000; IMF 2000, 2001; Jenkins 2000; Kim 2002; Kim and Lee 2004; Kiraly et al. 2000; Kireyev 2002; Kono and Schuknecht 2000; Kraft 2002; Kraft et al. 2002; Laeven 1999; Lensink and Hermes 2004; Levine 2001; Loong 2004; McKinsey Global Institute 2003; Majnoni et al. 2003; Manzano and Neri 2001; Martinez Peria and Mody 2004; Mathieson and Roldos 2001; Mero and Valentinyi 2003; Milo 2001; Mishkin 1997, 1999, 2001;

Montgomery 2003; Montreevat 2000; Murinde and Tefula 2003; Park 2003; Pastor et al. 2000; Peek and Rosengren 1997, 2000; Pomerleano and Vojta 2001; Stiglitz 1994; Studart 2000; Tamirisa et al. 2000; Tinghuan 2001; UNCTAD 1996a; Unite and Sullivan 2003; Uribe 2001; Vander Stichele 2003; Xiaochuan 2004; Yacaman 2001.

23 For a discussion of these issues, see, e.g. Bonin and Abel 2000; Clarke et al. 2000; Denizer 2000; Drakos 2003; ECLAC 2003b; Kiraly et al. 2000; Loong 2004, Kraft 2002; Majnoni et al. 2003b; Martinez Peria and Mody 2004; McKinsey Global Institute 2003.

24 For further discussion and evidence, see, e.g. Berger et al. 2001; Brownbridge 1998; CGFS 2004; Clarke et al. 2002, 2004; de Freitas and Prates 2000; Hawkins and Mihaljek 2001; IMF 2000; Kraft 2002; Laeven 1999; Pomerleano and Vojta 2001; Yacaman 2001.

25 A universal service fund supports investment in areas (or for the benefit of social groups) that are not commercially attractive. Such funds do not replace market forces, but supplement them to assure supply to targeted consumers.

26 In Mexico, for example, the three domestic hypermarket chains have repeatedly taken a number of steps in response to competition from Wal-Mart, which bought Cifra – the country's largest and strongest retailer – seven years ago. They overhauled their purchasing and pricing strategies, revamped their stores, introduced new products and invested in computer systems and distribution centres. They are also planning a joint purchasing company that could strengthen their negotiating power with suppliers (*International Herald Tribune*, 10-11 July 2004, p. 13).

27 See UNCTC 1989b, pp. 17-22, for a discussion of technology transfer in the insurance, banking and hotel industries.

28 In Turkey, for instance, staff quality increased following foreign bank entry, as they often send locally recruited staff to their training centres abroad and provide training of other kinds. More recently, both foreign and local banks have been competing actively for well-trained graduates (Denizer 2000).

29 For example, in CEE, where State-owned enterprises accounted for half or more of total employment prior to the beginning of transition, privatization involving cross-border investors (as well as domestic ones), and the restructuring that followed, led to large employment cuts in the enterprises acquired. A 1999 UNCTAD survey of the pre- and post-privatization performance of 23 major companies acquired by foreign investors in seven countries of CEE found that employment in them fell before as well as after privatization (Kalotay and Hunya 2000). Also, according to the ILO (ILO, 2001b), restructuring, which typically accompanies M&As in financial services, frequently resulted in the elimination of jobs and a shift from traditional full-time to part-time work.

30 It has been estimated that, in the case of mobile telecommunications, the cumulative value added and employment of first-rank suppliers were nearly four and five time higher, respectively, than those of telecom operators in France during the period 1991-2002 (Orange 2003). The downstream effects of investment in telecommunications – often a precondition for production activity in modern economies – are likely to be even larger.

31 Regulation can help to deal with this problem. For example, volatility can be discouraged through instruments such as those used in the 1990s by Chile and Colombia (and currently in Argentina), namely the requirement to keep a proportion of capital inflows as non-remunerated deposits in the Central bank for a certain period of time before capital is allowed to be repatriated.

32 According to Mihályi (2001), privatization in Hungary simply did not produce the expected results without the involvement of TNCs.

Annex to chapter III. What are services? Classifying invisibles

Value-adding activities in an economy result in the production of goods, services or a combination of the two. Services are usually perceived as intangible, invisible, perishable and requiring simultaneous production and consumption, while goods are tangible, visible and storable, and do not require direct interaction between producers and consumers. But a conceptual distinction between goods and services is not as straightforward as this characterization suggests. First, some services have elements of tangibility (e.g. a consultant's printed report), visibility (theatre) and storability (voice-mail). Second, most goods are intended to provide a service or function. Third, there are few "pure" goods or services: nearly all goods require non-factor services for their production, most services require physical assets and intermediate goods and, at the point of sale, most goods and services are jointly and simultaneously supplied – airline travel requires aircraft and other equipment, and cars need to be marketed and distributed.

These and other complications make it difficult to formulate a clear-cut definition of services. No commonly accepted definition exists. Analyses of services generally adopt a pragmatic approach by simply listing activities that they consider part of the services sector, acknowledging the fact that, as production becomes more complex, the boundaries between economic sectors become more and more blurred. Often, a residual approach is used – all activities not included in the primary and secondary sectors are classified as services. As a result, some activities (e.g. construction, repair, public utilities such as electricity, gas, water supply) are sometimes classified in the secondary sector and at other times in services.

Regardless of the definition or precise coverage of services, for analytical purposes, they can be classified in a number of ways. One broad classification is that of consumer (final) and producer (intermediate) services. Another is to group them into distribution services (transport, storage, retail, wholesale trade), producer services (banking, finance, insurance, real estate, engineering, architectural, accounting, legal), social services (education, health, welfare and religious services, postal services, governmental services) and personal services (domestic, repair, barber and beauty shops, hotels, restaurants, entertainment) (Browning and Singelmann 1975). Services can also be classified according to their factor- and knowledge-intensity: capital-intensive (such as electricity, telecommunications and transport), human-capital-intensive (e.g. call centres) or knowledge-intensive (insurance, professional business services).

For the purpose of the discussion in *WIR04*, services comprise all economic activities included under the "tertiary sector" in the United Nations International Standard Industrial Classification (ISIC) (Rev. 3.1) (United Nations, Statistics Division 2002).[a] The broad categories of services in this classification include electricity, gas and water supply; construction; wholesale and retail trade; hotels and restaurants; transport (e.g. railway, water, air, pipeline); storage and warehousing; post and telecommunications; financial institutions (banks and other institutions providing financial services); insurance; real estate; business services; machinery and equipment rental and leasing; public administration and defence; sanitary and social services; social and related community services (including education, research and scientific institutions, medical, professional and labour associations, radio and television broadcasting, entertainment services); and personal and household services (repairs, laundry, shopping services).

The United Nations Statistical Classifications Section is, however, embarking on its fourth revision of the ISIC, for use from 2007. Many of the proposed changes reflect technological developments, as well as the effects of deregulation, liberalization and privatization of activities that were formally held under State monopoly. For example, suggested changes that have implications for services include the creation of two separate categories for electricity and water (currently grouped together); a new information and communication category, with second-tier groupings for telecommunications, broadcasting and Internet providers (currently

grouped under a sub-set of "transport, storage and communications"); and two new business service categories.

The Central Product Classification (CPC), developed by the United Nations more recently, provides a greater level of disaggregation than the ISIC (United Nations, Statistics Divisions 1998). It focuses on products instead of activities and identifies more than 600 service products. It is used not only as the reference for the identification of services under the General Agreement on Trade in Services (GATS), but also to describe the services components in the balance of payments as recommended in the IMF's *Balance of Payments Manual* (IMF 1993). Major services categories in the CPC include transport services; communications services; construction services; insurance; financial services; computer and information services; merchandising and other related-services; miscellaneous business, professional and technical services; legal, accounting, management consulting and public relations; personal, cultural and recreational services; agricultural, mining and on-site processing services; and government services.

[a] This classification is used for the classification of GDP data under the United Nations System of National Accounts (SNA), which is followed by most national accounting systems.

CHAPTER IV

THE OFFSHORING OF CORPORATE SERVICE FUNCTIONS: THE NEXT GLOBAL SHIFT?

In July 2003, Infineon Technologies announced the establishment of three new centres, in Dublin (Ireland), Kista (Sweden) and Munich (Germany), to rationalize its customer logistics management that had, till then, been handled in 19 European locations.[1] The same year, British Telecom set up two call centres in India, in New Delhi and Bangalore, to deal with directory inquiries,[2] and DHL, one of the world's leading logistics companies, announced that it would locate a centre in the Czech Republic to manage IT services for its entire European operations. Most of DHL's IT activities in Switzerland and the United Kingdom would shift to Prague, creating 400 jobs to start with, and growing to 1,000 over two years. Together with DHL's regional centres in Malaysia and the United States, the European centre would blend into a seamless IT infrastructure supporting the company's global operations. Meanwhile, ACS (United States) announced that it was building a new 40,000 sq. ft. office complex in Accra, Ghana, to accommodate the growing demand for its data processing services that support clients in the communications, healthcare and insurance industries.[3] In 2004, the Bank of America announced that it would establish a wholly-owned affiliate in Hyderabad, India, to undertake back-office operations for its units in the United States. The affiliate would employ at least 1,000 people by mid-2005. The bank had previously outsourced software development to Indian companies such as Infosys Technologies in Bangalore and Tata Consultancy Services in Mumbai.[4]

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What started some two decades ago with the "offshoring" of IT services from the United States to India has gained momentum in recent years. Similar cases of offshoring are now reported almost daily in the media as services of all kinds are restructured and relocated. Offshoring of export-oriented services such as call centres, business processes, drawing, testing and even research and development (R&D), is gathering pace in response to the "tradability revolution" in services.

Some of the offshoring is done internally by moving services from a parent company to its foreign affiliates (sometimes referred to as "captive offshoring", involving FDI), while some is outsourced internationally to third-party services providers (table IV.1). Many services are restructured among the developed countries; others are shifted to low-cost locations. Of course, not all services are moving, but the process is in its infancy, and likely to gather pace. It may well mark the next stage in the evolution of the international division of labour. Indeed, economic geographers see it as the cutting edge of the "global shift" in productive activity (Dicken 2003).

The global shift in services offers large potential benefits for countries at both ends of the process: the receiving countries gain jobs, skills, access to foreign markets and other benefits while the sending ones improve their competitiveness and can move into higher value activities. So far, most offshoring has taken place among developed countries, which underscores that it is not primarily a "North-South" issue. In fact, with a 25% share, Ireland leads the global market for offshored IT and IT-enabled services. The increased tradability of services allows companies to reconfigure their production of services across borders, sometimes involving an international intra-firm division of labour to enhance their overall competitiveness. Hence, there are more factors than only cost differentials that determine where a service will be produced. Indeed, in many instances, companies are offshoring services as much to improve the quality of the service produced, as to consolidate activities in search of economies of scale and to access certain skills or markets – in short, to reap the benefits of the new international division of labour that is unfolding.

Although recent media attention may suggest otherwise, to date, the magnitude of offshoring to developed and developing countries

Table IV.1. Offshoring and outsourcing – some definitions

Location of production	Internalized or externalized production: Internalized	Internalized or externalized production: Externalized **("outsourcing")**
Home country	Production kept in-house at home	Production outsourced to third-party service provider at home
Foreign country (**"offshoring"**)	Production by foreign affiliate, e.g. - Infineon's centre in Dublin - DHL's IT centre in Prague - British Telecom's call centres in Bangalore and Hyderabad **"intra-firm (captive) offshoring"**	Production outsourced to third-party provider abroad, To **local company,** e.g. - Bank of America's outsourcing of software development to Infosys in India To **foreign affiliate of another TNC,** e.g. - A United States company outsourcing data processing services to ACS in Ghana

Source: UNCTAD.

is relatively small, albeit growing fast. Over time, as companies learn how to manage the international production of services, developing countries are likely to play a growing role as service exporters. As in previous periods of economic restructuring, new challenges will arise as companies adjust and reconfigure their operations.

This chapter looks at the technological, economic, institutional and organizational factors that are catalysing the growth of offshoring, traces the role of FDI in the process and explores the implications for host and home countries. While the bulk of offshoring has so far been undertaken among developed countries, the chapter pays special attention to the role of developing countries and economies in transition in this process.

A. The tradability revolution

1. The tradability of services

Offshoring reflects nothing less than a revolution in the tradability of services. Traditionally, most services have been "non-tradable" in that they require buyers and sellers to be in the same place at the same time. Unlike physical products, they could not be traded between parties located in different countries; a haircut, for instance, is impossible to deliver across a distance. Many services, however, do not require physical proximity, but have usually taken place face-to-face because of technical constraints, habits or customs. These services centre on the exchange, storage, processing and retrieval of information broadly defined.[5] They have been non-tradable because:

- Some types of information (such as music before the discovery of recording devices) could not be stored, and had to be produced and consumed instantaneously.
- Some information could be stored (such as words or data in books or other written form), but not transmitted rapidly and economically (and in bulk) across countries for processing.
- Some information was processed in-house by enterprises because "it had always been so"; for example, it was customary to do accounting, archiving or designing internally. Some information exchange between service providers and consumers traditionally involved face-to-face contact, such as patients meeting their doctors or clients meeting their lawyers or bankers for consultation.

New information and communication technologies (ICTs) are dramatically changing the tradability of the information-centred set of services, in several ways (Sauvant 1990; Zimny and Mallampally 2002).[6] For example, all kinds of information can be stored by digitization. And much cheaper and faster transportation allows the instantaneous exchange of digitized information and voice communication between people anywhere around the globe (provided the necessary infrastructure exists).[7] In addition, customs and traditions are being broken as people are induced to use electronic media to acquire services they had previously only accessed by direct contact. In the business sphere, services traditionally obtained in-house by firms are now being

externalized, and consultations between service providers and customers are starting to take place at a distance because face-to-face interaction is not always deemed necessary.

The use of ICT allows knowledge to be codified, standardized and digitized, which in turn allows the production of more services to be split up, or "fragmented", into smaller components that can be located elsewhere to take advantage of cost, quality, economies of scale or other factors. This makes it possible to produce certain services in one location and consume them (or use them in further production) in another – either simultaneously (e.g. information provided via call centres) or at a different time (e.g. data entry, software development). As a recent article puts it: "tasks that can be performed elsewhere are limited only by a manager's imagination".[8] Such fragmentation exceeds that in manufacturing.[9] New technologies do not just make services transportable; they also often simplify the tasks involved and so allow them to be relocated more easily.

The range of service products or functions affected by the fragmentation are huge. As a result, a wide range of services is already being exported, including by developing economies (box IV.1), whether relatively simple low-value data (e.g. numbers entered into a computer) or more sophisticated, high-value data (e.g. architectural designs, results of sophisticated financial analyses, R&D, X-rays, films, software programmes, advertising clips).[10] While some are service products of one industry, most are generic and cut across industries. They are needed and widely used by individuals, firms in all industries, governments and non-governmental organizations (NGOs) and all types of institutions. As with manufactures, it is possible to categorize traded services according to skill requirements. This exercise is useful for assessing the potential of countries as exporters (box IV.2), but it needs to be refined and further developed.

Thus, progress in ICT has solved the *technical* problem of non-transportability and, for many services, that of non-storability.

Tradability is not just a matter of technology, however. Even when services are technically divisible and transportable, trade may not take place for *economic* reasons (UNCTAD 1994, p. 3; UNCTAD and the World Bank 1994).[11] For some types of services, proximity to markets, interaction with customers, trust and confidence outweigh the possible benefits from the benefits of arm's length trade. But on the premise of comparative advantage, increased transportability does open the potential for considerable economic gains from specialization. With sharply reduced telecom costs and increased broadband width, cost differentials play out directly. Increased competition – itself a consequence of falling transport and communication costs and liberalization – forces enterprises to reduce costs, hive off functions that can be performed more efficiently by specialized agents, and focus harder on their core competencies. This leads both to outsourcing within countries and to offshoring to locations abroad. Governments, hospitals and other institutions can also gain from offshoring when under pressure to economize.

The tradability revolution is already visible in the balance-of-payments data of countries (van Welsum 2004; Borga and Mann 2003).[12] In terms of imports of services, the United States has reported the largest increases, its share of global imports rising from 11% in 1992 to 13% in 2002 (WTO 2004a).[13] In "other private services" imports, some of the fastest growth rates in the United States can be observed for "computer and data processing services" and "accounting, auditing and bookkeeping services", two categories that are closely associated with the offshoring of services (table IV.2). Meanwhile, the largest increases in the *export* market share of "other business services" and "computer and information services" are reported by the United States, India, Ireland, the United Kingdom, Sweden, Spain, China and Israel, in that order (van Welsum 2004).[14]

2. Limitations to offshoring

Not *all* services will relocate. Typical features of services with a high probability for offshoring include (Bardhan and Kroll 2003, p. 4):

- no face-to-face servicing requirement;
- high information content;
- the work process is telecommutable and Internet-enabled;
- high wage differentials with similar occupations in destination country;
- low set-up barriers; and
- low social networking requirements.

Box IV.1. Developing countries are exporting a bewildering array of services

The offshoring of services affects a wide range of service activities. The following are a few examples of services that are now exported across borders by various developing countries:

Audiovisual and cultural services include motion picture and video tape production and distribution; motion picture projection; radio and television; radio and television transmission; sound recording; recreational, cultural and sporting services; and news agency services. Developing-economy exporters include Argentina, Brazil, Hong Kong (China), India, Mexico and Venezuela.

Business services encompass various back-office processes, customer interaction and technical support. Examples include abstracting and indexing, data entry and processing, electronic publishing, legal transcription, litigation support, mailing list management, remote secretarial services, technical writing, telemarketing, telesupport and web-site design. India is by far the largest developing country exporter of such services, but more and more countries are entering the arena.

Computer and related services include the installation of computer hardware, software implementation, data processing, database services, maintenance and repair of office machinery and equipment such as computers, and other computer services. Ireland, India and Israel account for much of the exports of these services, but there are also many other exporters.

Higher education and training services benefit from new technologies that are making possible the inexpensive delivery of content in audio and visual formats (or on the Internet), leading to a surge in cross-border education in electronic format. Some developing countries are establishing a presence in this market.

Financial services cover insurance and insurance-related services, as well as banking and other financial services. Many developing-country exports of these take the form of joint ventures or affiliates of large financial service TNCs from developed countries. Foreign affiliates provide services not only to the parent company and the local market, but are also involved in exports to third parties, including to other developing country markets. Here too, India is a major player. In Latin America, reinsurance firms are collaborating with providers of financial services and insurance firms to offer a range of competitive new products.

Health services include medical, dental, nursing and paramedical services, hospital, social and other human health services; these are among the most rapidly growing industries in the world economy. Direct exports of related services include shipment of laboratory samples, diagnosis, second opinions and consultations via traditional postal channels as well as via electronic means. China offers on-line diagnostic services to patients in Taiwan Province of China and some South East-Asian countries. In India, radiologists interpret computer tomography scans for hospitals in the United States. Medical samples go for diagnosis to Mexico from Central America, and some medical facilities have their medical records or patient interviews digitally transcribed in Bangladesh, India, Pakistan, the Philippines and Zimbabwe.

Internet-related services include the supply of the Internet itself (telecommunication services), the supply of content, a mix of business services, audiovisual services and computer and related services. Latin American Internet companies have expanded to other countries in the region building on the common language base. Hong Kong (China), Lebanon and Singapore are exporters to their neighbours.

Various *professional services*, such as legal services, accounting, auditing, taxation, architectural and engineering services, represent some of the most sophisticated areas of services offshoring. This has been a difficult area for developing countries to break into because of high skill requirements and problems in establishing credibility in foreign markets. However, their exports are growing. Commonly offshored processes include bookkeeping for clients, tax co-sourcing solutions, document management, staffing and IT services. Architectural design and other services are also being exported. India, Singapore and several CEE countries are among the exporting countries in this category.

Animation production in India alone is expected to surge, from $600 million in 2001 to more than $1.5 billion in 2005. This is in response to the fast growing demand from animation studios to meet 2-D and 3-D requirements (Bajpai et al. 2004).

Source: UNCTAD, based on Nielson and Taglioni 2004.

Box IV.2. Skills categorization of traded services

As with manufactures, the categorization of traded services by skill levels highlights the kinds of attributes needed for countries to become competitive suppliers. Of course, these attributes determine service exports only when other necessary conditions such as the investment climate, infrastructure and regulatory framework are in place.

Low-skill services. These are services with the lowest entry barriers in terms of skills, scale and technology. They include data entry or call centres (although some call centres require higher skills, computer or technical support). They tend to need general – but not very high – levels of formal education, a working knowledge of the relevant language and/or basic computer skills. There are generally few economies of scale or agglomeration: a call centre may be viable with 30 operatives in a site where there are no similar centres or knowledge institutions. The level of development of other services or manufacturing is not necessarily important for competitiveness in such activities. For this reason, there are likely to be few positive spillovers in terms of supplier linkages or skills creation.

Medium-skill services. These are complex services that require more advanced skills, and may offer considerable scale economies and agglomeration effects. Examples include financial and accounting services, standardized programming work, routine data analysis and processing or back-office services such as ticketing and billing. Specialized training would generally be required (and so also the necessary training institutions). The building of competitive capabilities may also call for a large local market where the skills accumulate over time. Some services may require a minimum critical mass of different skills in one location to provide the whole package.

High-skill services. This is the most creative and skill-intensive end of offshored services, with the most stringent entry requirements. Examples include R&D (from all sectors), design services, architectural drawings, new software development, animation, medical testing or analysis and technology systems design. These require advanced skills at high levels of specialization, often with strong educational institutions. They involve agglomeration economies, with different skills, enterprises and institutions interacting with each other to share work, stimulate knowledge flows and allow specialized skills to be fully utilized. Needless to say, the location would have to be attractive enough to retain a large number of qualified personnel.

The line between the three types of services is not firm. The proposed categories are highly aggregated, and there is likely to be considerable skill variation within each of them. Since technologies change rapidly, activities may move up or down the ladder from one year to the next. Nevertheless, the categorization is useful in matching the growth of offshoring of services with the potential for countries to export and become competitive.

Source: UNCTAD.

Table IV.2. Growth in imports by the United States of selected services within the category of business, professional and technical services, 1992-2002

(Per cent and millions of dollars)

Type of service	Average annual growth rate	Value 2002
Computer and data processing services	31	1 057
Accounting, auditing and bookkeeping services	21	716
Management, consulting and PR services	17	1 188
Research, development and testing services	16	1 040
Training services	14	361
Memorandum items		
Total business, professional and technical services	*13*	*10 732*
Total other private services	*11*	*69 436*
Total private services	*7*	*205 234*

Source: UNCTAD, based on Borga and Mann 2003.

There are a number of services or service processes that do not meet these criteria. And there are other limits to offshoring. There are technological limitations: many service functions cannot be digitized and/or separated from related activities. Face-to-face interaction is still required at many points in the value chain of developing, marketing, delivering and maintaining a variety of services. Proximity to customers is often important to gain knowledge of markets. Some processes are hard to manage cross-nationally; for example, creative and innovative processes mostly require close interaction and are therefore difficult to separate and offshore.[15] In some cases, a local presence is critical to understand technical requirements such as health-care regulations or legal codes. In others, the information to be processed may be personal, idiosyncratic, sensitive or confidential, increasing the transaction costs involved and so limiting the desirability of offshoring. Some countries require particular services to be provided by companies established locally (in case of foreign companies, through FDI) (chapter V).[16]

Other legal factors that may limit the globalization of IT-enabled services relate to areas where the marketplace is global, but the legal jurisdiction is local. Professional qualifications are one such example. Whereas certain accounting activities can be offshored, the final stamp of approval may need to be given by a certified accountant in the home country. The lack of globally agreed privacy rules may similarly limit the globalization of IT-enabled services. In the United States and the European Union (EU), data-security issues have emerged as potential barriers to further offshoring. Legal restrictions in a few developed countries to the offshoring of services to protect jobs at home may also have a dampening effect on the trend (chapter V).

There are also limits to the supply of appropriately educated workers. For example, among companies interviewed concerning the location of shared service centres for the European market, the lack of language skills was perceived to be the main obstacle to offshoring (IBM and Oxford Intelligence 2004). Continued high levels of growth in offshoring to preferred locations are likely to affect both the availability and cost of appropriate skills. Even in large economies like India, shortages can lead to wage inflation and high levels of attrition, making the offshoring proposition less attractive. The greater the interest among companies and institutions to relocate services, the more efforts are needed by both host governments and the private sector to increase the supply of adequately trained labour. Shortages of skills in one location may also lead companies to consider other locations, thus opening the door for new entrants to become a base for exports of services.

Finally, based on their perceptions of risk, companies, even in the same country and industry, differ significantly in their assessment of the benefits from shifting the production of a service abroad. For example, in the financial industry in the United Kingdom, the Royal Bank of Scotland – in contrast to competitors such as Barclays and HSBC – took a decision not to shift certain services abroad (at least not for the time being).[17] Thus, any assessment of the potential for services offshoring requires a careful analysis of corporate strategies.

3. Is the globalization of IT-enabled services different from that of manufacturing?

As services become more open to efficiency-seeking FDI, information-intensive services can be fully subjected to the international division of labour and hence integrated international production (*WIR93*). *WIR02* analysed the emergence of integrated international production systems in manufacturing and their impact on the export competitiveness of developing countries. It noted that export growth was more rapid in technology-intensive activities where such systems had advanced the furthest. However, the spread of integrated production systems in manufacturing was uneven; there were cumulative agglomeration forces allowing first movers to pull ahead of later entrants. While the forces driving the fragmentation and globalization of goods and services production are similar, some notable differences exist (Bardhan and Kroll 2003; Mann 2003):

- The Internet and associated IT hardware and software have rapidly removed a basic barrier to trade in IT-enabled services. Moreover, it is structurally simpler to offshore services in terms of resources, space and equipment requirements. Thus, the fragmentation of services, where it is possible, proceeds faster than in manufacturing. The need for adjustment

policies in importing countries may therefore also be more important.

- The offshoring of tradable services potentially affects firms in all sectors, and may have wider implications than the fragmentation of manufacturing.
- The offshoring of services affects mainly white-collar workers whereas the relocation of manufacturing involved primarily blue-collar workers.[18] In manufacturing, considerable offshoring has taken place with relatively low skill demands on the workforce, compensating, as necessary, by importing skills through on-the-job training. The skill intensity of some services being offshored is adding to concerns in developed countries about the possible loss of white-collar jobs.
- Offshoring of services may be more footloose than that of manufacturing because of lower capital intensity and sunk costs as well as weaker links to local suppliers. Obviously, this applies more to lower skill than to higher skill services.

In sum, many of the forces that have driven the internationalization of manufacturing are increasingly at play for a growing number of service functions. However, as the offshoring phenomenon may unfold faster, and because it is likely to affect corporate strategies in all sectors, it is all the more important to study carefully its implications.

B. Future prospects for the offshoring of services

The offshoring of service functions is still at an early stage. The trend began with IT/software services in the 1980s[19] and accelerated in the 1990s as offshoring was used to cope with concerns related to the Y2K problem.[20] The early motivation was not just to lower costs but also to handle the surge in demand for such services, and to improve quality. In 2002, the market for offshore outsourcing of IT-enabled services (mostly business process outsourcing) was estimated at $1.3 billion – less than 1% of the global market for such outsourcing (Scholl et al. 2003). However, a more complete picture of offshoring of services needs to take into account captive production as well as international outsourcing of such services as software development and other IT services, which are not covered under IT-enabled services. The total market for *all* offshore service exports was estimated at $32 billion in 2001, most of which was supplied by Ireland, India, Canada and Israel, in that order (McKinsey & Co. 2003).

While assessments differ, virtually all observers expect offshoring of services to accelerate in the foreseeable future. Offshore outsourcing of business processes is expected to grow from $1.3 billion in 2002 to $24 billion in 2007, raising the international share of the total market from 1% to 14% in five years. Between 2001 and 2003, the planned adoption of offshore outsourcing of business processes among corporate decision-makers in the United States rose by a factor of six (Scholl et al. 2003). Even among the world's 1,000 largest companies, some 70% have still not offshored any business processes to lower cost countries.[21] In a 2004 survey of the top 500 European firms jointly undertaken by UNCTAD and Roland Berger Strategy Consultants (RBSC), only 39% had experience with offshoring of business services (UNCTAD and RBSC 2004). The responding companies had already offshored some 20,000 jobs, and 44% of all respondents said that they planned to offshore more in the next few years. Other studies confirm that more offshoring is in the making:

- The number of call centres in Scotland with offshore operations is expected to double in the next five years (Taylor and Bain 2003).
- In a study of mainly United States companies, 25% had offshored some services, and as many as 79% said they planned to offshore within two years (Bajpai et al. 2004).
- In Japan, 23% of the corporate members of the IT-related trade association were utilizing offshore services, especially in China. While some Japanese companies have set up call centres and back-office operations in Dalian, which has a large pool of Japanese speakers (Sasaki 2004), they still lag significantly behind their counterparts in the United States in terms of services offshoring.
- Foreign affiliates exporting services from India predicted in early 2003 that their employment would double over the subsequent 12 months (Dossani and Kenney

2004). (Some examples of expansion plans of leading TNCs in the ICT industry in India are presented in table IV.3.)

How big is the offshoring phenomenon likely to become? Its future scope and dimensions remain uncertain. It has a long way to go before it matures and settles down in pattern and location. An early assessment of the "outer limit" of the number of jobs for which long-distance provision is technically feasible *and* for which cost savings of up to 30-40% would be plausible, suggested that 1-5% of the total employment in the G-7 countries could be affected (World Bank 1995). A more recent analysis concluded that the *maximum* number of jobs potentially subject to offshoring from the United States was in the magnitude of 11% of jobs in all occupations, or 14 million jobs (Bardhan and Kroll 2003). Estimates on the likely actual impact are much lower. For example, one study has suggested that 3.4 million service jobs are likely to have shifted from the United States to low-income countries by 2015.[22] Another study concluded that 2 million offshored jobs could be created in the financial services industry alone, and that the total number of jobs affected for all industries could be in the area of 4 million.[23]

Even the financial and IT industries, which have spearheaded offshoring, are only at the beginning of the international restructuring process. In banking, for example, large opportunities remain for reorganizing operations at a regional or global (rather than national) level. The best prospects are to be found in the higher value, more strategic functions (IBM and Oxford Intelligence 2004). Further consolidation of operations that can be standardized and digitized in combination with economies of scale, lower labour costs and a focus on core activities offer attractive prospects for offshoring by companies from all sectors. If pioneering firms succeed in improving their competitiveness, competitors are likely to follow quickly. The unfolding of the process is difficult to forecast. There can be considerable inertia in organizational systems. Also, the technical changes involved in international restructuring can be expensive. Indeed, among European TNCs, increased offshoring is more likely to come from companies that already have experience in this field than from newcomers (UNCTAD and RBSC 2004).

However, to the extent that offshoring is shown to pay off – as various surveys of United States and European TNCs seem to suggest (see below) – it is likely to spread across industries and countries. Notwithstanding differences in corporate strategies, the standard benefits of an international division of labour and internationalization of production apply to most service activities. Similarly, while offshoring has so far been considered mainly by large corporations, sooner or later small companies are

Table IV.3. Plans of TNCs in the ICT industry for offshoring of services to India, based on information available at the end of 2003

Company	No. of employees	Employees in India	Plans for India office
Accenture	65 000	3 500	8 000 by August 2004
Adobe Systems	3 250	185	250 in 6 months
Cadence	5 000	315	Doubling in four years
Cap Gemini	56 500	800	2 000 by December 2004
Cisco	34 466	2 300	...
Covansys	4 556	2 000	2 800 in one year
CSC	92 000	1 200	4 800 by 2004
EDS	138 000	300	2 400 by 2005
i2	2 800	1 000	Actively recruiting
IBM Global Services	150 000	3 100	10 000 in 3 years
Intel	79 200	950	3 000 by 2005
Keane	5 819	623	2 000 by end 2003
Logica-CMG	24 000	350	1 000 by end 2004
Lucent	35 000	570	...
Microsoft	55 000	200	500 in three years
Oracle	40 000	3 159	6 000 in one year
Sapient	1 500	600	Will grow
Sun Microsystems	36 000	700	Will grow
Texas Instrument	34 400	900	1 500 by March 2006
Xansa	5 583	1 200	6 000 in a few years

Source: Roach 2004, pp. 90-92.

likely to follow the larger trailblazers; in fact, some smaller TNCs are already exploiting the opportunities from offshoring (see e.g. box IV.3).

Benefits of offshoring are not confined to the corporate sector; they can also be reaped by governments. For instance, tax authorities in high-cost countries can at present afford to check only a small number of tax declarations every year; by shifting some work to lower cost locations, they could raise the audit ratio significantly and improve their intake. Other government services could also raise the quality of their services while lowering their costs by offshoring some segments of their work. And still other official and private institutions could follow, as they seek to economize and become more efficient.

For some services, offshoring strategies compete with automation trends. When automation is preferred, jobs are likely to disappear in both developed and developing countries. Prominent examples include basic banking services that previously required face-to-face interaction, but are now often handled over the Internet. On the other hand, for many other types of services, human interaction offers flexibility that automation does not. For complex activities, a real time human interaction will remain crucial.

In sum, there are sound – some would say compelling – reasons for the offshoring of services to grow and spread. TNCs will play a vital role in this international restructuring of activities, directly by setting up captive offshore centres or affiliates serving third parties, and indirectly by subcontracting work to local service providers. The opportunities for all countries, not least developing and transition economies, to attract employment and income-creating work are significant, although at this stage, it is impossible to say exactly *how* significant. The forces driving offshoring are powerful and the resulting economic benefits are a classic illustration of gains from trade and specialization. Competitive pressures on companies are likely to spur further offshoring as managers are obliged to look for new ways to improve competitiveness. As companies learn how best to optimize service functions internationally, and as they monitor the moves of their competitors, the process is likely to gain momentum.

Box IV.3. Smaller TNCs are offshoring too

The bulk of offshoring of services has so far been undertaken by large firms – but smaller companies are also starting to exploit opportunities created by the increased tradability of services. Global Refund – a market-leading supplier of financial services to enable travellers to collect tax refunds – is a good example.

Global Refund employs 800 people worldwide, in some 35 countries. It has its origin in Sweden, but is legally registered in the Netherlands (mainly for tax purposes). Information technology has made it possible to locate various headquarter functions to different locations: the chief executive officer is based in Switzerland, marketing and finance functions are located in Sweden, IT and transaction processing functions are run from Austria, and certain business segments are managed from Singapore.

As of early 2004, Global Refund was in the process of consolidating back-office work into two "centres of excellence" in Europe. Once consolidated, tried and tested, the company may, as a second step, offshore these functions and establish a foreign affiliate in a lower cost location in either CEE or Asia.

The company has also chosen to offshore some services through outsourcing. In one business segment, all transaction processing work has been outsourced to a local service provider in Singapore; software development for the European market has been outsourced to a local company in Bulgaria; and software development to support the Asia-Pacific region is undertaken by a local company in India. There are also plans to establish a captive call centre in a low-cost location.

The company views the offshoring of services as a necessary process to increase competitiveness. By consolidating certain functions in centres of excellence, it has been able to reap economies of scale, avoid duplication of work, enhance worker skills, and thereby reduce costs as well as improve the quality of the services performed.

Source: UNCTAD, based on company interview.

However, realizing the full development and competitive potential of offshoring will not be easy. To date, a relatively small number of countries at different levels of development have attracted most of the service activities that have been offshored. This tendency to agglomerate is stronger the more sophisticated the service activity is, reflecting the need to access the necessary levels of skills and infrastructure quality. Spreading the benefits more broadly, not least in the developing world, means other countries will have to increase their attractiveness and capabilities. Not only will they have to offer favourable conditions for local and foreign service providers, they will also have to overcome the first- mover advantages of the pioneers. On the side of developed countries, there is growing realization of the competitive benefits of offshoring, but bridging the perception gaps and institutional and organizational inertia will take time. There is, moreover, growing concern about job losses and, underlying this, about the costs of adjusting to the emerging pattern of comparative advantage in services.

C. Outsourcing vs. captive business models

1. What determines how offshoring is undertaken?

As noted above, offshoring – shifting an activity abroad – can be done internally (captive offshoring) or through international subcontracting or outsourcing (table IV.1). Any offshoring decision requires a firm to choose to remove a service function previously undertaken in-house at home and entrust it to a provider – either its own foreign affiliate or a third party – located outside the home country. The potential for offshoring of services may partly be gauged by the progress in outsourcing of services at the national level (box IV.4). After all, once a company has outsourced an activity to an independent supplier in its home market, a logical next step may be to explore similar set-ups in other locations, and, for instance, consolidate in one place the production of individual service functions for the corporate network as a whole. Moreover, as domestic suppliers of outsourced services expand internationally, the scope for offshoring also increases.

If it is economical to offshore a service, the principal has to decide whether to produce the service in-house (by setting up an affiliate in the chosen location) or to buy it from an independent enterprise. A considerable proportion of all offshored services is produced by foreign affiliates. According to balance-of-payments data, intra-firm trade accounts for more than 71% of all imports of "business, professional and technical services" into the United States.[24] Moreover, during the period 1997-2002, the value of intra-firm imports of such services increased faster than unaffiliated imports (van Welsum 2004; Borga and Mann 2003). In Europe, 45% of the largest firms with offshoring experience had offshored services to their foreign affiliates or a joint venture set up abroad, whereas 48% of the companies had outsourced activities to third party service providers (UNCTAD and RBSC 2004).

As illustrated by Bank of America – mentioned in the introduction to this chapter – a company may choose to offshore two types of services to the same location (India) in different ways, outsourcing one (software development) to local providers while producing the other (back-office operations) in-house in a foreign

Box IV.4. Outsourcing at the national level

The outsourcing of business processes *within* a country has existed in some form for centuries. However, it really took off in the United States in the late 1980s, when companies started to focus harder on their core activities and to tap the technological potential of ICT (UNCTAD 2003g). Large companies increasingly outsourced ICT functions to external service providers, which also delivered and maintained various data-related services. As the capacity to store and transfer data at low cost rose, the scope of outsourced operations and the number of providers expanded. Today, companies in all sectors undertake a broad range of business processes outsourcing related to both front-office (customer interaction) and back-office services (data processing, finance, accounting, human resources, knowledge services). The global market for such outsourcing was estimated at $110 billion by end 2002, and is expected to grow to about $173 billion in 2007 (Scholl et al. 2003).

Source: UNCTAD.

affiliate. Similarly, ExxonMobil and GE set up affiliates in Hungary to provide back-office services, while K&H Bank outsourced similar activities to the Hungarian affiliate of the specialized service provider, EDS. A range of factors affects these decisions.

First, a company usually opts for keeping an activity in-house when strict *control of that activity* is considered crucial, when high transaction costs are involved (Buckley and Casson 1976) or when proprietary knowledge and information is sensitive, tacit, expensive to produce, complex or idiosyncratic, but easy to replicate (Dunning 1989). As in any economic activity, the more strategic the service function, and the closer it is to the core competence of a firm, the less likely it is to be outsourced.[25] For example, the financial services industry appears to rely almost exclusively on internalized models of offshoring (Joyce 2002).[26] Most offshored R&D operations in India are performed by foreign affiliates. Examples include Oracle's and Texas Instruments' design and development centres and GE's R&D laboratory in Bangalore.[27] Other TNCs such as Cisco, Hewlett-Packard, IBM, Lucent and Microsoft have also made investments in R&D centres in India (Kapur and Ramamurti 2001).

Second, the *level of internal interaction* associated with an activity matters. A commonly cited risk with outsourcing is associated with communication difficulties with the vendor (Bajpai et al. 2004). For services that are technically separable, but involve close interaction with other (service, manufacturing, R&D) activities of the firm to be efficient, an internalized solution is likely to be preferred. In contrast, back-office operations and customer interaction services that can be easily standardized and separated from other activities are more likely to be outsourced. Thus, a number of TNCs has outsourced routine, standardized software development to Indian companies, but internalized more complicated development work (Kumra and Sinha 2003).[28]

Third, the *availability of capable local firms* influences the choice.[29] The emergence of low-cost service providers in some developing countries is a recent phenomenon (Huang and Khanna 2003; Zaheer and Rajan 2003; Kumra and Sinha 2003).[30] For example, when TNCs started to transfer back-office functions to India, there were no local companies to which they could outsource. American Express in 1993, British Airways in 1996 and General Electric in 1998 set up their own affiliates for this reason (Dossani and Kenney 2004; Riera et al. 2002), whereas latecomers to offshoring in the airline industry chose to externalize similar activities in that country. Delta Air Lines outsourced some of its call-centre reservations to Spectramind, a Wipro subsidiary. Swiss International Airlines, Austrian Airlines and Sabena outsourced revenue and traffic accounting, cargo revenue accounting, passenger interline billing, navigation support and frequent flyer programme administration to AFS, a wholly-owned affiliate of Tata Consultancy Services, the largest Indian software company.[31] Consequently, for more "mature" services that have been offshored for some time (such as software development), it is easier for a company to find a third-party supplier than in an area that is emerging (e.g. financial analysis).

Different business models may be chosen, depending on a host-country's features. In the case of shared service centres for the European market, offshoring to India tends to involve mainly outsourcing, whereas offshoring to CEE countries is likely to have a higher element of internalized solutions (IBM and Oxford Intelligence 2004). Other host-country factors that could deter outsourcing include weak property rights protection, cultural mismatch between home and host countries and a poor track record of existing local vendors.

Fourth, *larger scale activities* are more likely to be kept in-house when offshored. Unless the volume of work is large, it can be difficult to generate the required economies of scale to reap savings. Being a small player may also make it more difficult to recruit the best talents. Outsourcing the activity to a better-known specialized service provider may be a solution. The higher the value added in the service function performed, the greater the incentive for the sourcing company to keep the activity in-house to reap the full return on investment.

2. A new breed of TNCs provides services globally

The expansion of international outsourcing has contributed to the emergence of a new breed of TNCs that supplies services of other companies, rather like contract manufacturers in manufacturing (Sturgeon 2002; *WIR02*, p. 139). Since outsourcing is the most advanced in the United States, most specialized

contract service providers also hail from there. Some have become global players by setting up foreign affiliates around the world, and are hence becoming key targets for investment promotion agencies seeking to attract FDI into export-oriented services. One of the main advantages of contract service provider TNCs is their established links to clients in the United States and Europe. By developing a portfolio of locational advantages through a global network of their own affiliates, they have great flexibility in offering tailored solutions to their clients.

In the call centre industry, the largest contract service providers include Convergys, ICT Group, Sitel and Sykes – all from the United States (table IV.4). These companies have been established for some time, but have only recently set up foreign affiliates in developing countries. Sykes, founded in 1977, set up its first contact centre in a developing country (the Philippines) only in 1997. Convergys, the world's leading call centre company, set up its first developing-economy affiliate in 2000, and then expanded rapidly – by 2003, it had export-oriented centres in Argentina, Brazil, India, Indonesia, Mexico, the Philippines, the Republic of Korea, Singapore, Sri Lanka, Taiwan Province of China and Thailand. Sitel's export-oriented contact centres are in Canada, Colombia, India, Jamaica, Mexico, Morocco, Panama and the Philippines. However, these centres account for less than 10% of the company's worldwide business, i.e. the great bulk of activities are in developed countries.[32]

While the main operations of these companies remain in industrialized countries, those in developing countries are growing more rapidly in employment terms. Convergys' Indian operations, started in 2000 in New Delhi, had expanded to employ 3,000 people by April 2003, and another centre was being developed in Bangalore for an additional 3,000 employees. Similarly, Sykes announced plans to expand its Indian activities by 1,200 people during 2003 (Dossani and Kenney 2004).

In business-process outsourcing and IT-related services, there are also a growing number of external service providers. Some of the top companies are IBM Global Services, EDS, Accenture and Hewlett-Packard. In India, IBM is the largest foreign IT service provider with some 15,000 employees, followed by Hewlett-Packard and Accenture, each employing 3,000 people. EDS expects to reach similar levels of employment at the end of 2004.[33]

The emergence of contract service provider TNCs makes it increasingly important for local suppliers in developing countries to expand abroad and establish a global foothold. TNC clients expect a presence or support in many countries, and often prefer to deal with one global contact of a single outsourcing company than entering into multiple contracts with a range of local suppliers around the world. Companies that have a global presence are better equipped to manage an outsourced function effectively and cost efficiently across geographic areas. Accordingly, some Indian companies established affiliates in the United States and Western Europe some time ago and are now starting to move into CEE (see also chapter I). For example, in April 2004, Infosys announced plans to invest $20 million in a business consulting subsidiary in the United States to match rivals and counter a possible political backlash against outsourcing;[34] Satyam plans to start a software-development centre in the Czech Republic, Hungary or Poland in 2004, initially employing at least 100 software engineers; Tata Consultancy Services in 2003 set up a software development centre in Budapest, with 160 engineers, to serve its European clients; and Progeon, the back-office services arm of Infosys, will open its first overseas call centre facility employing about 150 people in the Czech Republic later in 2004.[35, 36]

Table IV.4. Contract service provider TNCs offering call/contact centre services, 2003

Company name	Turnover ($ billion)	Number of employees	Year of establishment	Year of first offshore location in developing country
Convergys	2.3	55 000	1998	2000 (India)
ICT Group	0.3	11 000	1987	2002 (Philippines)
Sitel	0.8	26 000	1985	2001 (India)
Sykes	0.5	16 000	1977	1997 (Philippines)

Source: UNCTAD, based on information from company websites.

In sum, there is likely to be more consolidation, and the structure of the industry related to the offshoring of services will become clearer.[37] To the extent that customers require the ability to offer blended solutions (in which some work is done "onshore" and some offshore), it may become increasingly difficult for smaller service providers with limited international exposure to compete successfully for larger projects.

D. Search for competitiveness drives corporate offshoring

1. FDI related to the offshoring of services is still concentrated

Most offshored services to date are concentrated in a relatively small number of countries. Ireland, India, Canada and Israel (in that order) accounted for over 71% of the total market for offshored services in 2001, mostly in software development and other IT services (McKinsey & Co. 2003). But many other destinations are emerging as potential host countries. Due to rising labour costs in the most popular locations, competitive pressures and improving host-country environments, the geographic scope of locations for FDI in services is broadening. An assessment of the attractiveness of the 25 leading destinations for offshoring concluded that India topped the list by far, followed by China, Malaysia, the Czech Republic and Singapore (A.T. Kearney 2004). Brazil led in Latin America, South Africa was the leader in Africa, while Canada and New Zealand were the highest ranking developed countries.

Among large European TNCs, the pattern is similar. Almost one-third of all offshored services projects have gone to India; Western European countries (e.g. Ireland, Portugal, Spain, the United Kingdom) have attracted 29% of all projects, while CEE countries (e.g. Hungary, Poland, Romania) account for another 22%. Only 8% of offshored services are located in Latin America, and less than 4% in Africa (UNCTAD and RBSC 2004). As projects offshored to India tend to be the largest ones, the country's share of the total number of jobs created to date through offshoring by the top 500 European firms exceeds 50% of all jobs created.

FDI plays an important role in offshoring, although this is difficult to quantify owing to the lack of reliable data. In principle, FDI affects offshoring in two ways: through captive offshoring, and when specialized service providers set up foreign affiliates to serve foreign clients. While such investments can create many jobs, they typically do not generate large capital flows. Consequently, they do not account for large shares in the FDI statistics.[38] It may also be difficult to capture all the offshored service projects by the existing industrial classification. It is possible, however, to examine the *number* of TNC greenfield and expansion projects (rather than their value) in export-oriented services. The main categories of such projects, discussed below, are back-office services (shared service centres), front-office functions (call/contact centres), regional headquarters and IT services (including software development) (table IV.5).[39]

Table IV.5. Definitions of export-oriented FDI projects related to offshored services

Call/contact centre services	Shared service centres (back-office services)	IT services	Regional headquarters
Help desk	Claims processing	Software development	Headquarters
Technical support/advice	Accounts processing	Application testing	Coordination centre
After-sales	Transaction processing	Content development	
Employee enquiries	Query management processing	Engineering and design	
Claims enquiries	Customer administration processing	Product optimization	
Customer support/advice			
Market research	HR/payroll processing		
Answering services	Data processing		
Prospecting	IT outsourcing		
Information services	Logistics processing		
Customer relationship management	Quality assurance		
	Supplier invoices		

Source: UNCTAD and OCO Consulting.

While all these service functions can be fragmented and made into parts of integrated international production systems, the locational determinants as well as their potential differ.

Overall picture. The share of developing countries and CEE in FDI projects related to services offshoring is increasing, from 37% in 2002 to 51% in 2003. Their share in the number of jobs created reached 57% in 2003. The four categories of services discussed in this chapter make up a significant proportion of overall FDI activity. In 2002-2003, FDI projects in these services accounted for 12% of the total number of FDI projects, and as much as 20% of all jobs created by the same projects.

The data used here only capture greenfield and expansion projects, and do not include acquisitions. However, data suggest that greenfield projects still dominate. In India, FDI in IT and IT-enabled services in 1998-2002 comprised almost 90% greenfield investment, 10% joint ventures and less than 1% acquisitions (McKinsey & Co. 2003).[40] A study of European shared service centres found that about 46% of all centres had been established through greenfield investment, more than half involved expanding an existing facility, and only 3% were the result of an acquisition (IBM and Oxford Intelligence 2004). This may be changing, however, as the outsourcing industry matures. For example, in April 2004, IBM announced plans to acquire Daksh eServices, one of India's largest independent IT-enabled service companies, employing 6,000 people in India and the Philippines.[41] (Selected cross-border acquisitions of Indian firms are presented in table IV.6.) A European example of this possible trend is the €2 million purchase in May 2004 of the Hungarian call centre operator Marketlink by Transcom WorldWide, of Swedish origin but headquartered in Barcelona.[42] It is likely that further consolidation will follow as companies respond to the moves of competitors (*WIR00)*.

Shared service centres. Developing countries and CEE economies attracted 65% of all export-oriented FDI service projects in 2002-2003 (tables IV.7, IV.8), almost half going to India. In CEE, the key locations were Hungary,

Table IV.6. Selected acquisitions of Indian firms by foreign firms, 2003-2004

Foreign firm	Indian firm	Comment
Hughes Software Systems (US)	Tenet Technologies	Deal to increase HSS' presence in Japan, where Tenet Technologies has an established presence.
GE India Technology Centre (US)	Engineering Analysis Centre of Excellence	EACE was bought from Tata Consultancy Services to provide high-end engineering analysis, design and software development.
SPI Technologies (Philippines)	Kolam Information Services	SPI expects Kolam to contribute close to $3.5 million to its top line in the current financial year. The deal was for $4 million. Kolam's work spans editorial functions, from manuscript development to production of books/journals and other activities.
WebEx Communications (US)	CyberBazaar	The acquisition of CyberBazaar (estimated at $4 million in cash) will enable WebEx to provide multimedia web communication services for the Indian services sector.
Perot Systems Corporation (US)	Vision Healthsource	The deal was closed for $10 million. Vision Healthsource is a provider of billing, receivables and claims and business-process outsourcing solutions for healthcare service providers. Perot Systems Corporation describes itself as "a global provider of technology-based business solutions in selected industry sectors".
Cognizant Technology Solutions (US)	Ygyan Consulting	The purchase price is approximately $2 million. Ygyan Consulting is a Pune-based services provider.
IBM (US)	Daksh eServices	The deal will increase the scope of IBM's global network of 22 business transformation delivery centres by adding capabilities in India and the Philippines. Daksh eServices will also bring an experienced management team to IBM in India.

Source: The Hindu Business Line (http://www.thehindubusinessline.com/cgi-bin/bl.pl?mainclass=15&subclass=345).

the Czech Republic and Poland, especially for European companies; Chile and Costa Rica attracted some shared service centres for the Americas; and China and the ASEAN countries were relatively well represented in Asia. In developed countries, Ireland remained the leading location. Financial and IT companies generated most of the projects, with the contract service provider Accenture and Citibank as leading investors (annex table IV.2).[43] In terms of prospects for shared service centres, 20% of the *Fortune 500* companies have not yet set up any such centres but could do so in the future, as could smaller companies in order to save costs and improve competitiveness (IBM and Oxford Intelligence 2004). While India, China and the Philippines are likely to be the most attractive locations for global solutions, various studies mention countries in CEE and Latin America as candidates for regional shared service centres. In the case of pan-European shared service centres, Ireland is the preferred location, followed by Hungary, Poland and the Czech Republic (IBM and Oxford Intelligence 2004).

Call centres. More than half the 500 FDI projects in call centres recorded in 2002 and 2003 went to developed countries, notably Canada, Ireland and the United Kingdom.[44] This suggests that geographical and psychic distance to markets matters, as do linguistic, cultural and other affinities – and that costs are not the only determining factor. In Ireland, inward FDI has boosted employment in related industries. In 2003, two-thirds of all the people employed in the Irish call centre industry worked in foreign affiliates, mostly controlled from the United States (CM Insight et al. 2004). Irish call centres appear to focus on the high end of the market, providing telesales and marketing, customer service and technical and software support for various industries (ibid., p. 160). In the developing world, more than 80% of FDI in call centres went to Asia, with India (60 projects), China (30), Malaysia (16) and Singapore (16) as top recipients. A number of countries in Latin America and the Caribbean were also recipients, including Brazil, Chile, Costa Rica, Africa attracted only a few call centres, which went to Egypt, Morocco and South Africa. In CEE, 31 projects were registered, with Hungary being the market leader. Although developed countries hosted more projects, the growth of call centres was much higher in developing countries.

Half the call centre projects came from IT companies and business service providers, followed by telecom and electronics companies. The preferred locations for call centres in the near future include India, the Philippines, China, South Africa, Mauritius and the United Arab Emirates (UNCTAD interviews; CM Insight et al. 2004). However, due to language requirements, many other countries have good chances of attracting FDI in call centres.

Regional headquarters (RHQs) have a much longer history than the other categories of offshored services addressed in this section, and are not driven by labour cost differentials (see below). They are included in the analysis mainly because the services provided in them are export-oriented in nature, and because many countries increasingly seek to attract headquarters functions. Almost 40% of new FDI projects related to RHQs in 2002-2003 went to developing economies, with China, Hong Kong (China), Singapore and the United Arab Emirates (Dubai) as the leading destinations in the developing world. Brazil was the main location for Latin America, and Hungary and Romania for CEE. Among developed countries, the United States, the United Kingdom and Canada were the top locations. The IT industry was the source for almost one-quarter of all projects, followed by electronics and automotive industries. In terms of future prospects outside developed countries, the strongest candidates for new RHQs in Asia appear to be the United Arab Emirates, Singapore and China; in CEE, Hungary, the Czech Republic and the Russian Federation; in Latin America, Brazil; and in Africa, South Africa (UNCTAD interviews).

IT-related services. FDI projects in IT-related services were equally distributed between developing and developed locations. However, the number of IT service projects in developing countries more than doubled in 2003, while in developed countries it grew by only 6%. Top locations for offshored IT services in developed countries were the United Kingdom, Germany, the United States and Australia. Asia dominated among developing regions. Of the more than 300 export-oriented IT projects in developing countries, 37% went to India, 19% to China and 11% to Singapore. The Czech Republic attracted the most projects in CEE, Brazil in Latin America, and South Africa in Africa. Asked about the potential future locations for FDI projects

Table IV.7. Export-oriented FDI projects in call centres, shared service centres, IT services and regional headquarters, by destination, 2002-2003

(Number and per cent)

Region/economy	Call centres		SSCs		IT services		Regional HQs	
	No. of projects	Share of total	No. of projects	Share of total	No. of projects	Share of total	No. of projects	Share of Total
World	**513**	**100**	**139**	**100**	**632**	**100**	**565**	**100**
Developed countries	**279**	**54**	**48**	**35**	**293**	**46**	**339**	**60**
Western Europe	**174**	**34**	**38**	**27**	**208**	**33**	**200**	**35**
EU	**169**	**33**	**38**	**27**	**198**	**31**	**185**	**33**
Austria	2	-	-	-	-	-	2	-
Belgium	7	1	1	1	5	1	9	2
Denmark	5	1	1	1	6	1	15	3
Finland	2	-	-	-	2	-	1	-
France	13	3	2	1	16	3	11	2
Germany	20	4	1	1	34	5	22	4
Greece	1	-	-	-	-	-	1	-
Ireland	29	6	19	14	14	2	15	3
Italy	6	1	-	-	7	1	2	-
Luxembourg	1	-	1	1	-	-	1	-
Netherlands	13	3	3	2	16	3	20	4
Portugal	5	1	-	-	3	-	-	-
Spain	8	2	2	1	8	1	9	2
Sweden	14	3	1	1	14	2	13	2
United Kingdom	43	8	7	5	73	12	64	11
Other Western Europe	**5**	**1**	**-**	**-**	**10**	**2**	**15**	**3**
Norway	-	-	-	-	3	-	1	-
Switzerland	5	1	-	-	7	1	14	2
North America	71	14	5	4	40	6	105	19
Canada	56	11	3	2	14	2	25	4
United States	15	3	2	1	26	4	80	14
`Other developed economies	**34**	**7**	**5**	**4**	**45**	**7**	**34**	**6**
Australia	19	4	3	2	26	4	24	4
Israel	-	-	-	-	2	-	-	-
Japan	11	2	-	-	16	3	8	1
New Zealand	4	1	2	1	1	-	2	-
Developing economies	**203**	**40**	**72**	**52**	**315**	**50**	**209**	**37**
Africa	7	1	1	1	10	2	4	-
North Africa	4	1	-	-	-	-	-	-
Egypt	2	-	-	-	-	-	-	-
Morocco	2	-	-	-	-	-	-	-
Other Africa	3	1	1	1	10	2	4	-
Mauritius	-	-	-	-	1	-	-	-
Nigeria	-	-	-	-	1	-	-	-
South Africa	2	-	1	1	6	1	3	1
Senegal	1	-	-	-	1	-	-	-
Tanzania, United Rep. of	-	-	-	-	1	-	1	-
Uganda	-	-	-	-	-	-	-	-
Latin America & the Caribbean	**29**	**6**	**5**	**4**	**22**	**3**	**10**	**2**
South America	13	3	4	3	16	3	7	1
Argentina	2	-	-	-	1	-	-	-
Brazil	6	1	-	-	9	1	6	1
Chile	4	1	4	3	5	1	1	-
Uruguay	-	-	-	-	1	-	-	-
Venezuela	1	-	-	-	-	-	-	-
Other Latin America & Caribbean	**16**	**3**	**1**	**1**	**6**	**1**	**3**	**1**
Antigua & Barbados	2	-	-	-	-	-	-	-
Costa Rica	4	1	1	1	-	-	-	-
Dominican Republic	-	-	-	-	1	-	-	-
El Salvador	-	-	-	-	-	-	1	-

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Table IV.7. Export-oriented FDI projects in call centres, shared service centres, IT services and regional headquarters, by destination, 2002-2003 (concluded)
(Number and per cent)

Region/economy	Call centres		SSCs		IT services		Regional HQs	
	No. of projects	Share of total	No. of projects	Share of total	No. of projects	Share of total	No. of projects	Share of Total
Jamaica	1	-	-	-	-	-	-	-
Honduras	-	-	-	-	1	-	1	-
Mexico	5	1	-	-	2	-	-	-
Panama	2	-	-	-	1	-	1	-
Puerto Rico	2	-	-	-	1	-	-	-
Asia	**167**	**33**	**66**	**47**	**283**	**45**	**195**	**35**
West Asia	**17**	**3**	**1**	**1**	**17**	**3**	**36**	**6**
Bahrain	-	-	-	-	-	-	3	1
Jordan	1	-	-	-	1	-	-	-
Lebanon	-	-	-	-	2	-	-	-
Qatar	-	-	1	1	-	-	-	-
Oman	-	-	-	-	-	-	1	-
Saudi Arabia	1	-	-	-	-	-	-	-
Turkey	2	-	-	-	2	-	1	-
United Arab Emirates	13	3	-	-	12	2	31	5
Central Asia	**1**	**-**	**1**	**1**	**1**	**-**	**1**	**-**
Uzbekistan	1	-	1	1	-	-	-	-
Southern, East and South-East Asia	**149**	**29**	**64**	**46**	**265**	**42**	**158**	**28**
Bangladesh	1	-	-	-	-	-	1	-
China	30	6	4	3	60	9	38	7
Hong Kong, China	2	-	-	-	14	2	37	7
India	60	12	43	31	118	19	7	1
Korea, Rep. of	5	1	-	-	5	1	6	1
Malaysia	16	3	6	4	8	1	17	3
Pakistan	1	-	-	-	-	-	-	-
Philippines	12	2	1	1	9	1	4	1
Singapore	16	3	8	6	35	6	36	6
Taiwan Province of China	4	1	-	-	9	1	4	1
Thailand	2	-	2	1	7	1	8	1
Central and Eastern Europe	**31**	**6**	**19**	**14**	**24**	**4**	**17**	3
Belarus	-	-	-	-	1	-	-	-
Bulgaria	1	-	-	-	-	-	1	-
Czech Republic	9	2	6	4	5	1	-	-
Estonia	-	-	-	-	1	-	-	-
Hungary	11	2	7	5	4	1	4	1
Latvia	-	-	-	-	1	-	1	-
Lithuania	1	-	-	-	-	-	1	-
Poland	3	1	5	4	4	1	3	1
Romania	1	-	-	-	2	-	4	1
Russian Federation	1	-	1	1	4	1	2	-
Serbia and Montenegro	-	-	-	-	-	-	1	-
Slovakia	4	1	-	-	-	-	-	-
Unspecified	-	-	-	-	2	-	-	-

Source: UNCTAD, based on data from OCO Consulting.

Table IV.8. Export-oriented FDI projects in services, by industry, 2002-2003
(Number and per cent)

Industry	Call centres		SSCs		IT services		Regional HQs	
	No. of projects	Share of total	No. of projects	Share of total	No. of projects	Share of total	No. of projects	Share of Total
Business services	116	22	24	17	-	-	17	35
Chemicals	3	0.6	1	0.8	1	0.2	15	2.8
Electronics	42	8	6	4.4	4	0.6	57	10
Energy	14	3	5	3.6	-	-	15	2.8
Financial services	30	6	40	29	2	0.3	32	5.7
Food and drink	3	0.6	4	3	-	-	20	3.5
Hotels, tourism and leisure	3	0.6	2	1.5	-	-	19	3
Internet	12	2	1	0.8	-	-	8	1.5
IT and software	154	30	33	24	618	97.8	132	23
Life sciences	7	1.3	3	2	-	-	51	9
Light industry	2	0.4	2	1.5	-	-	20	3.5
Machinery and industrial goods	18	3.5	1	0.8	-	-	28	5
Metals/mining	5	1	1	0.8	-	-	10	1.7
Telecom equipment	20	4	3	2	4	0.6	15	2.8
Telecom services	30	6	-	-	3	0.5	25	4.4
Transport equipment	30	6	6	4.4	-	-	55	9.7
Other	24	5	6	4.4	-	-	47	8
Total	513	100	138	100	632	100	566	100

Source: UNCTAD, based on data from OCO Consulting.

related to IT services, companies interviewed by UNCTAD mentioned India, the Russian Federation, Bulgaria, Albania, the Philippines, China, Mexico, the Czech Republic and the United Arab Emirates, in that order.

To sum up for 2002-2003:

- While the stock of FDI projects related to the offshoring of services is larger in developed countries, the greatest dynamism is in developing economies. South and South-East Asia dominate FDI projects related to the offshoring of services in the developing and transition economies, accounting for 63% of all projects by number. The region's dominance is greatest in IT services, where it accounts for almost 80% of all FDI projects in the non-industrialized countries.
- A significant number of the recorded FDI projects went to developed countries, implying that low wages, *per se*, do not account wholly for the pattern of offshoring.
- The locational determinants of offshoring of different services vary (see below).
- By industry of origin, firms in IT and software dominate FDI projects in IT-related services. IT companies are among the most active also in the other three groups of FDI projects, but not dominant. Firms in business services and electronics account for most call centre projects. Financial service TNCs are significant in IT, and software firms in shared services. In regional headquarters projects, manufacturers of electronics, transport equipment and pharmaceuticals lead.

2. Cost reduction and improved quality are key drivers

Corporate strategies related to offshoring resemble those that have led companies to restructure their manufacturing operations. Technical changes that make for increased tradability, together with liberalization of investment and trade, induce companies to restructure (and fragment) their activities internationally in order to protect or advance their competitiveness. TNCs can gain scale advantages from consolidating service activities in one location and standardizing the services across the globe. Offshoring, besides allowing a company to lower its costs, can also help improve the quality of the services produced.

Cost reduction is one of the prime motivations for offshoring. Various studies confirm that a large majority of companies cite

lower costs as the prime reason for setting up an offshore shared service centre (UNCTAD and RBSC 2004; IBM and Oxford Intelligence 2004; Bajpai et al. 2004; CM Insight et al. 2004). Cost savings can be achieved partly by seeking out lower cost locations, and partly by consolidating operations and reducing the cost of infrastructure, training and management. Any major international bank that currently has, say, 50-60 data centres with infrastructure, maintenance and specialized skills, could consolidate operations into perhaps 5-10 such centres. This implies less expenditure on infrastructure and maintenance, as well as labour costs; it would also allow the development of centres of excellence. Such consolidation can entail considerable savings, especially (but not necessarily) if combined with lower labour costs. GECIS (United States) reportedly saves more than $300 million annually as a result of its offshored operations (box IV.6).[45] Similarly, it has been suggested that the banking industry in the United States saved up to $8 billion during 1999-2002 by offshoring services to India.[46] About 80% of major European TNCs with experience in offshoring report cost savings in the magnitude of 20-39%, and for another 10% of the companies the savings were even higher (UNCTAD and RBSC 2004). Cost savings allow companies to lower their prices or increase their profit margins – in short, to raise their competitiveness.

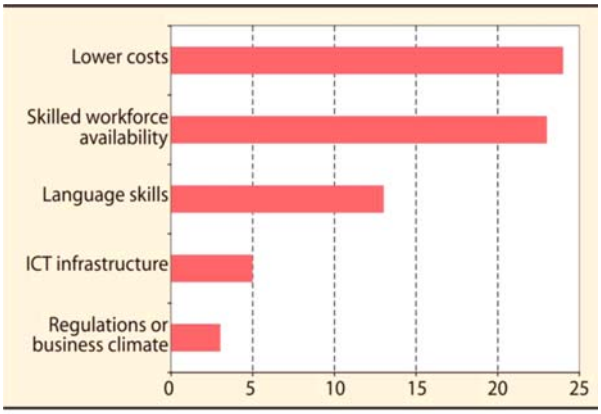
In call centres, labour costs account for 50-70% of total costs in developed countries. Moving to India, where wages are 80-90% lower than in the United Kingdom, for example, is an attractive proposition (Outsourcing Insight 2001, p.11). However, the actual savings are smaller, since labour costs constitute a smaller share of costs in a developing country, while costs of infrastructure, training and travelling tend to be higher. Taking all these factors into account, cost savings in India are in the range of 30-40%, or perhaps higher when compared with the United States.[47]

But cost reduction is only part of the story. As companies gain experience, they see other benefits in the form of *improved quality* of services. As some observers put it, some offshoring companies "Went for cost, stayed for quality" (Dossani and Kenney 2004). Quality improvements were cited by large European TNCs as the third most important benefit achieved from offshoring (after reduced labour and other costs), often exceeding expectations (UNCTAD and RBSC 2004). When the "back-office services" of the outsourcing firm become the "front-office services" of the service provider, the latter pays more attention to quality. Moreover, lower cost locations may offer better educated staff for the services than a developed country. For example, in India, the majority of call centre agents are university graduates while they tend to be school-leavers in industrialized countries (Taylor and Bain 2003). Lower costs also allow a company to carry more slack to meet peak loads than is possible in a high-cost country, enhancing the quality of the service. Moreover, by outsourcing standardized, routine work, companies can focus scarce resources on their core activities. Relocating some functions offshore may also be a way to cope with excess demand, as was done by IT services in coping with the Y2K problem in the run-up to the new millennium, mentioned earlier.

In terms of *locational determinants*, while cost reduction is also the leading factor, followed by availability of labour with the appropriate skills, an additional key consideration is the quality of the infrastructure, notably cost-effective and reliable telecommunications and power supply (Bajpai et al. 2004; UNCTAD and RBSC 2004; IBM and Oxford Intelligence 2004; Taylor and Bain 2003; Outsourcing Insight 2001). In addition, economic and political stability and the legal and regulatory framework are important. The weight of each factor varies according to the nature of the service. For FDI projects related to call centres, shared services and IT services, particular importance is attached to the *availability of skills* when selecting a location (figures IV.1 to IV.4). In general, a ready supply of people with good secondary or tertiary education and IT proficiency is important but not sufficient. Software development requires, in addition, specialized engineering skills, back-office work may need skills in human resources or accounting, and call centres need skills in customer interaction and marketing.[48]

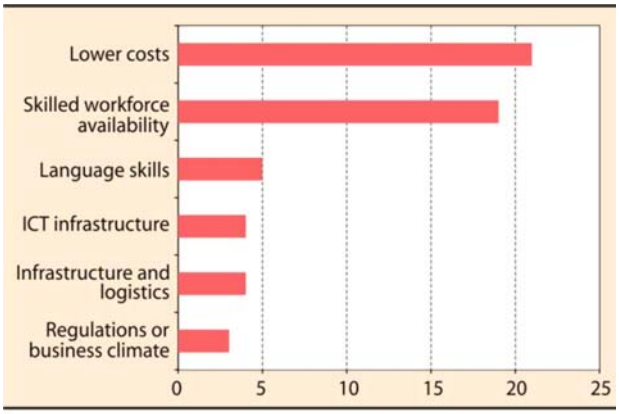
Language skills are, of course, critical for call centres, and linguistic traditions play a significant role in their location. Chile, Mexico and Morocco have attracted call centres serving Spanish-speaking clients in the United States and Europe. Mauritius, Morocco, Senegal and Tunisia host call centres for the French-speaking market.[49] German-speaking centres have been set up in the Czech Republic and Hungary. Japanese call centres have gone to China. Canada,

Figure IV.1. Low costs lead the location determinants of call centre-FDI projects in developing countries and economies in transition, 2002-2003
(Number of companies citing factor)



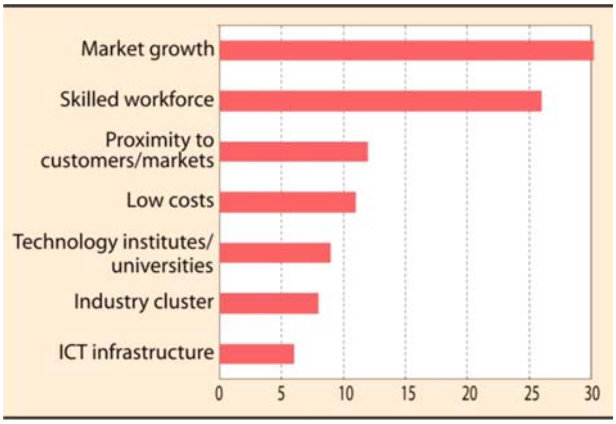
Source: UNCTAD, based on information from LOCOmonitor.

Figure IV.2. Low costs lead the location determinants of FDI projects in shared service centres in developing countries and economies in transition, 2002-2003
(Number of companies citing factor)



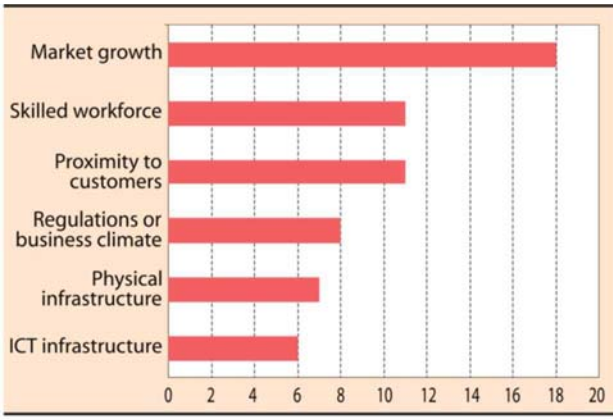
Source: UNCTAD, based on information from LOCOmonitor.

Figure IV.3. Market growth leads the location determinants of IT services FDI projects in developing countries and economies in transition, 2002-2003
(Number of companies citing factor)



Source: UNCTAD, based on information from LOCOmonitor.

Figure IV.4. Market growth leads the location determinants of regional headquarters FDI projects in developing countries and economies in transition, 2002-2003
(Number of companies citing factor)



Source: UNCTAD, based on information from LOCOmonitor.

Ghana, India, Ireland, the Philippines and South Africa host call centres serving English-speaking markets.[50]

For IT services, the presence of *universities and dynamic IT clusters* matters. Capabilities in these areas are difficult for developing countries to acquire: they take time to build and enjoy cumulative agglomeration economies. This explains why IT centres tend to cluster in only a few sites; moreover, once the first offshoring work has been attracted, there are potential learning benefits for first-movers that reinforce their initial advantages. The pattern persists at the subnational level; for instance, in India, most of the software work is performed in a few cities (Kumar 2001a; D'Costa 2003).

Attrition and *staff turnover* are also important issues. Where these are high, costs rise for recruiting and training staff, and high turnover can affect the quality of the service. Whereas call centres in India have shown considerably lower attrition rates than in the United States (Outsourcing Insight 2001), they are now slightly higher (30%) than in Ireland and the Netherlands

(20-25%) and well above those of the United Kingdom (15%), the Philippines (10%) and South Africa (7%) (CM Insight et al. 2004). Rising levels of attrition in current hotspots may open up opportunities for new locations.

Telecom infrastructure and *access* remain critical to attracting all types of IT and IT-enabled offshored services. Telecommunications need to be not only reliable and stable, but also competitive. This is especially true for smaller locations.[51] In the case of call centres, telecom costs can represent up to 40% of the total cost in "low-income" locations. Moreover, due to the specific quality requirements that apply to voice transmissions, access to *fibre-optic links* is important for countries that seek to attract call centre activities.

Another factor affecting location is the *time zone* of a host country relative to that of the home country. For some services, especially those that need to be provided during normal working hours, it is desirable to locate the service in the same time zone as the customers. In other cases, there are advantages to being in a completely different time zone, to offer 24-hour service. *Cultural affinity* may play a role in some offshored services, particularly in call centres. However, where this is lacking, it can be (at least partly) developed. Some call centres in India, for example, are training their staff in the accents, interests and traditions of United States customers.[52] The Indian company Akiko Callnet has more than 100 call centres in the country and has launched a chain of 53 training institutes to create a pool of staff with the requisite skills.[53]

As already noted, the motives for the setting up of regional headquarters differ from those of the other three categories of FDI projects, and cost considerations take lower priority in the list of determinants. Regional headquarters provide high-level services employing senior management and professionals, including a significant number of expatriates. To attract such projects, locations need to offer a good quality of life, convenient air connections and access to competent suppliers of business support services.[54] Key location determinants include proximity to customers (both external and networks of foreign affiliates located in the region), market growth opportunities, access to a skilled workforce, a supportive business and regulatory climate as well as a high-quality physical and ICT infrastructure (figure IV.4). Only a few developing economies currently meet all of these requirements. Those that do, such as the United Arab Emirates (Dubai), Hong Kong (China) and Singapore, have been successful. Given the considerable agglomeration benefits in the location of headquarters functions, it can be difficult for newcomers to emerge as attractive competitors.

Many policy-related factors also affect the location decisions of different offshored services. Some companies have been attracted to a location as a result of promotion by the host-country government (UNCTAD and RBSC 2004). In setting up shared service centres for the European market, about 25% of all projects involved interaction with development agencies at some stage in the process (IBM and Oxford Intelligence 2004). In the same study, the provision of grants and incentives also ranked among the most important factors affecting the location decision. Interestingly, many companies choose to offshore services to countries where they already have a presence. For large European firms, this has been the third most important factor for selecting a specific country in the CEE region and the fifth most important factor when offshoring to Asia (UNCTAD and RBSC 2004).[55] The same survey also showed that internal lobbying of headquarters by a foreign affiliate can affect the choice of location, indicating an important role of after-care by investment promotion agencies to attract further offshored service activities (chapter V).

Success in attracting offshore services has a cumulative dynamic of its own – success in one set of activities can lead to success in another. India may be attracting services of all kinds (with the exception of regional headquarters, which are more attracted to other locations) because it has developed a reputation for offering efficient and reliable services. "Bangalore" has become a brand name. Other factors may reinforce the reputation effect, such as policy learning (successful sites make new entry easier as they learn to meet offshoring needs), skill spillovers across activities, scale economies in infrastructure and institutional support. Offsetting these factors may be the costs of clustering: congestion, rising wages, staff turnover and other costs, and the risk of losing proprietary knowledge to competitors. This, in turn, may lead to dispersion, offering other locations an opportunity to attract FDI.

3. European TNCs offshore less than their United States rivals

As noted above, the practice of offshoring of services started in the United States. Even in 2004, companies from that country dominate the offshoring scene. For example, more than two-thirds of India's exports of software services are to the United States. The patterns are similar in the case of FDI projects (annex table IV.1). Firms from the United States dominate, with two-thirds of all IT service projects, 60% of all call centre projects and 55% of shared service projects.

In general, European companies have shown less inclination to offshore services. In the case of pan-European shared service centres, 65% have been set up by TNCs from the United States (IBM and Oxford Intelligence 2004). In fact, as noted above, even among the largest European TNCs, less than 40% have experience with services offshoring (UNCTAD and RBSC 2004). Moreover, more than half of them do not have any plans to pursue offshoring in the near future. However, interest in offshoring varies considerably by European country, with the United Kingdom following the most closely behind the United States.[56] In all four categories of export-oriented FDI projects analyzed above, the United Kingdom accounted for the largest share of projects originating in the EU (annex table IV.1).[57] These findings were confirmed in the survey conducted by UNCTAD and RBSC. It showed that, while more than half of responding TNCs based in the United Kingdom (and in the Benelux countries) had already offshored some services, the corresponding figure in German-, French-, Spanish- and Italian-speaking countries was much lower.[58]

Although United Kingdom companies have offshored some of their operations for several years, particularly to India, the trend accelerated in 2003 (table IV.9). Offshoring has mainly involved call centres, but also legal services and various back-office functions (billing for Thames Water; customer relations and passenger revenue accounting for British Airways). At the same time, some companies have deliberately decided not to offshore,[59] and a few have moved operations back in response to customer complaints. In the Netherlands, more

Table IV.9. Selected offshoring cases, United Kingdom, 2003-2004

Service	Company	Function	Country and number of jobs or value involved
Financial services (banking, insurance)	HSBC	Back-office processing jobs	4,000 by the end of 2003 in India, China and Malaysia. Another 3,500 were announced in June 2004.
	Norwich Union/ Aviva	Administrative insurance jobs; 350 in call centres, 2000 in back-office and administration	2,350 in India by end of 2004
	Lloyds TSB	Call centre jobs	1,500 jobs in India by end 2004
	Barclays	Back-office staff	500 to India
	Axa		700, some to India
	Abbey National	Back-and-front office work	400 jobs to Bangalore
Distribution services	Tesco	Business support centre	350 to India
Telecommunication services	BT	Call centre	2,200 by 2004 to India
Transport services	British Rail	National Rail inquiries	600 to India
Health services	NHS	Fast-track centres offering surgery to NHS patients. Foreign providers run mobile operating units. Netcare plans to bring over surgical teams from South Africa on rotation once every 11 weeks	Non-UK health care providers, including Netcare of South Africa, amounting to a total of £2 billion
	NHS	£896-mn IT contract to modernize NHS	Tata Consultancy Services (India) part of a consortium
Other government	Greater London Authority	Software for toll charging	A $10 million contract to Mastek

Source: UNCTAD, based on various newspaper articles in the United Kingdom.

than 200 firms have offshored IT work to India,[60] and it is estimated that 50,000 IT jobs will be created in India over the next ten years.[61]

Among large European companies that have experience with offshoring, most are satisfied with the associated outcome: 83% stated that projects were partly or entirely successful, while only 3% were of the opposite opinion (UNCTAD and RBSC 2004). In light of the considerable advantages reaped through offshoring, this raises questions related to the future competitiveness of companies that do not consider such opportunities. If companies that do offshore become more competitive, others – in developed as well as developing countries – may be compelled to jump onto the bandwagon.

E. Impact on host countries

FDI in export-oriented services offers a number of economic development benefits for host countries. Key benefits relate to increased export earnings and the impact on the labour force: job creation, higher wages and upgrading of skills. Jobs in IT-enabled or IT services are typically better paid than in, for example, assembly work or other manufacturing activities. Given the short time needed to implement an FDI project in such services, attracting offshored services can offer fast-track job creation, especially in locations where the skills needed already exist. Obviously, this also means that investment projects won may easily be lost; sunk costs are typically low for simple operations, and the risk of footloose behaviour is high – although this risk diminishes the more skill-intensive operations are.

FDI related to the offshoring of services may be desirable from a spillover perspective, especially if the exported services are also supplied to the domestic market. Positive spillovers in terms of raising the competitiveness of human resources and improvements in ICT infrastructure and business services that accompany significant services FDI benefit all sectors of the economy. Most of the associated skills are readily transferable to other parts of the economy: skills involving computers, sales, languages, finance, accounting and software development are in high demand locally and internationally. Moreover, negative spillovers in terms of environmental pollution and exploitation of natural resources are likely to be limited.

The scope for upgrading has improved as the nature of offshored services has evolved. Initially, most work tended to be in low-end IT-enabled services such as data entry and basic programming. These activities require only basic levels of computer literacy and limited interaction between customers and suppliers. Foreign companies that set up the first back-office functions in India in the mid-1990s are now offshoring more sophisticated tasks as well, such as software development and design, financial analysis, architectural services, tax preparation and medical analysis.[62] The upgrading of the skill and technology content of offshoring continues as capabilities in developing-country suppliers improve and firms in industrialized countries see the potential for and economic benefits of offshoring.

Meanwhile, since export-oriented services tend to be relatively skill-intensive and require advanced infrastructure, the scope for broader development benefits outside the most advanced regions of an economy may be limited. There are also indications that the scope for linkages between foreign affiliates and local firms is small, especially in the area of software development (Kumar 2001a). Moreover, an influx of export-oriented services FDI may attract the best skills to certain types of service activities that, unless continuously upgraded, may move on to another location as the competitive situation changes. Increased competition for skills may have adverse effects on other industries of the economy. The experience of India and some other destinations of offshored services is reviewed next.

1. India

The offshoring of software development and, later, back-office and call centre services, has driven India's rapidly expanding service exports. During the past decade, the value of exports of software and other services jumped from less than a $0.5 billion to $12 billion in 2003-2004, according to the National Association of Software and Service Companies (NASSCOM). In parallel, the export intensity of the Indian software and service industry rose from 58% to 78%, and the share of these services in total exports from India increased from 3% to 21% between 1996 and 2003 (RIS 2004). Whereas software exports still account for the lion's share of these exports, IT-enabled services have emerged as an increasingly important component, rising from $0.6 billion in 1999-2000

to the current level of $3.6 billion. Of India's software and service exports, 68% go to the United States and another 14% to the United Kingdom (Joseph and Parayil 2004).[63] In 2001, India's share of the global market for offshore IT and IT-enabled services was estimated at 25% – second only to Ireland – while for offshore IT-enabled services only the figure was as high as 67% (McKinsey & Co. 2003; Scholl et al. 2003). According to estimates by NASSCOM, the market for IT-enabled services will continue to grow fast and could be worth $17 billion by 2008.[64]

What has been the role of FDI in India's success as an offshore location?[65] In software development, TNCs have played a key initial role in the development of the Indian industry (see box IV.5 for the case of Nortel Networks of Canada). Some early entrants (such as Texas Instruments) led more TNCs to consider India as an attractive location for offshored services. However, FDI has not been a dominant feature. In 2002, foreign affiliates accounted for 20% of total export revenues in the software industry.[66] While foreign investors have created new software jobs in India, most of them entered the country when the domestic industry was already well developed (Kumar 2000). Today, leading Indian companies (Tata Consultancy Services, Infosys Technologies, Wipro Technologies, Satyam Computer) are on par with, or even ahead of, many of their foreign rivals in terms of profitability.[67] India has earned a strong reputation on account of high quality services. IT firms in India typically hold the necessary quality certifications.[68]

In contrast, TNCs have played a critical role in India's exports of back-office services (Patibandla and Petersen 2002; McKinsey & Co. 2003). The IT-enabled service industry in India began to evolve in the early years of the 1990s, when companies such as American Express, British Airways, GE and Swissair set up their own offshore operations in India. Today, a large number of foreign affiliates operate IT-enabled services in India (table IV.10). According to NASSCOM estimates, foreign affiliates in 2002-2003 accounted for 58% of exports of offshored business processes; their share is expected to increase in the next few years.[69] TNCs have provided capital, knowledge and expertise, new infrastructure, access to markets and fostered the formation of new companies (McKinsey & Co. 2003).

Among IT-enabled services, companies are offshoring to India customer care, finance, human resources, billing and payment services, administration and content development (table IV.11). There is increasing offshoring of upcoming service lines involving higher value-added activities such as engineering and design, knowledge processing and logistics. It has been estimated that the industry generates about 240,000 jobs. The customer-care segment accounts for about 39% of employment, and has recorded the highest growth rate in recent years.

The total number of foreign affiliates in IT-enabled services in India increased from 57 to 102 between 1997/98 and 2002/03. As a result, the share of foreign firms in the total number of firms in this industry rose from about 13% to 20%. These companies are concentrated in a few Indian states, notably Karnataka, Maharashtra, Delhi, Tamil Nadu and Andhra Pradesh (table IV.12). The export intensity is as high as 93% for foreign affiliates, whereas the corresponding share for local firms was about 70%.

There is a high regional concentration of export production. Even within states, one or two metropolitan centres account for the bulk of exports. Thus, Bangalore in Karnataka, Mumbai and Pune in Maharashtra, Noida and Gurgaon in the Delhi area, Hyderabad in Andhra Pradesh and Chennai in Tamil Nadu are the centres of software and service activities. In terms of growth, during the past five years foreign firms have been more dynamic than their local counterparts, but there is significant regional variation in the generation of export earnings and employment. Foreign affiliates in IT-enabled services in Delhi, for example, accounted for 24% of employment but only 14% of exports in 2002/03. Conversely, in Karnataka, their share of employment was 23% whereas their export share was 45%.

Employment in foreign affiliates has expanded faster than in local firms during the past five years. In software development, foreign firms now account for about 20% of total employment; in IT-enabled services the share is about 28% (RIS 2004). There is hardly any difference in the employment intensity of foreign and local firms, but highly skill- and design-intensive activities generate fewer jobs than less skill-intensive activities such as data entry. In software development, the average employment per $1 million of exports is in the order of 30 persons. For the IT-enabled service industry as

Box IV.5. Nortel Networks' offshoring to India

In 1989, Nortel (Canada) had itself set an ambitious target of increasing its turnover from $6 billion to $20 billion by 2000. To achieve this, it started expanding its R&D capabilities for which it required highly educated personnel. However, the company saw a serious constraint in terms of a shortage of locally available scientific and technical skills. Enrollment in science and technology had already peaked in North America and the college-age population was declining. This posed a challenge for a company that used to recruit the top 10% of science students from selected universities in North America. It therefore decided to look globally for technical talent. Thus, the starting point was not cost savings, but the need to access the best and brightest skills.

This was when Nortel set its sights on India – it saw the potential of India's nascent software industry. India also offered the rule of law, democratic institutions, judicial and banking systems as well as process protection. Consequently, in the early 1990s, Nortel decided to set up an offshore software development centre in the country. Another advantage was that the time difference with North America allowed the possibility of doing R&D 24 hours a day. Moreover, India was churning out thousands of English-speaking graduates with solid engineering and programming credentials. While many of them headed straight to North America and Europe for further study or to join TNCs, thousands more stayed back. Thus, Nortel found a pool of programming talent available for less than 30% of the cost of a North American engineer.

Some hurdles remained. Colleagues in North America were not convinced that the farming out of jobs to India was a good idea. Many managers worked hard to keep jobs at home to retain control. Some were dubious about the quality of Indian programmers. Still others were suspicious that their new Indian partners would share what they learned with Nortel's competitors.

In Mumbai (then Bombay) and Bangalore, Nortel identified a number of companies, each of which was awarded small R&D contracts. Among the jobs assigned was a project to convert software code from one computer language to another. Other assignments involved the development of tools for testing telecom software. From the outset, the goal was to engage the minds of Indian engineers and steadily ratchet up the sophistication of the work done on Nortel's behalf. Whereas the Indian programmers completed most of the projects successfully and Nortel began assigning more complicated jobs, some problems began to emerge. People in India were not familiar with working in an environment with proprietary software and advanced equipment, and required guidance. India's top software companies at the time were very good at handling chores involving the translation of software from one type of technology platform to another, but less adapt in finding imaginative approaches to creating applications or products. Moreover, India's companies were operating under severe restrictions: they could not raise money, list on stock exchanges or import computers for personal use without government permission. In addition, at the time, telecom and power networks were inefficient.

After 1991, the Government encouraged TNCs from the United States to set up operations in India, which put pressure on India-based firms to upgrade. In this phase, Nortel's influence was crucial; it encouraged Infosys and Wipro to develop groups of employees who worked exclusively on Nortel projects. The programmers were assigned their own offices and telephone exchanges, and Nortel spent millions on satellite links, switches and other telecom gear.

To outsiders, the offshored group assigned to handle Nortel projects looked very much as if they were part of Nortel's global workforce, and the R&D units became known as dedicated offshore software development centres. Infosys and Wipro would eventually set up many such centres on behalf of dozens of the world's largest TNCs.

The Indian firms learned quickly and gradually won the confidence of their Nortel colleagues in North America. Indian programmers began getting international experience, particularly during the initial stages of most projects, when they, along with managers, spent time in North America on customer sites to gain a detailed understanding of what was required. Most would then return to India to write the necessary programmes. Only a small part of this work involved leading-edge technology; when the North American firms moved from one generation of technology to the next, they would hand over responsibility for the older part to India and concentrate on the newest products.

Source: Bajpai et al. 2004.

Table IV.10. Leading foreign affiliates in India's IT-enabled service industry, 2003-2004

Company	Service lines	Number of employees
Accenture	Pharmaceutical and insurance back-office functions, HR and procurement management, IT support and customer relationship management	4 300
American Express	Financial accounting, data management, information analysis and control, administration, staffing, payroll services	4 000
AOL	Customer support, back-office operations	1 500-1 900
AXA Business Services	Claims processing, accounting, telemarketing, tax consulting, compliance, financial analysis	800
Convergys India	Call centre services	3 000+
Dell	Customer support services	3 000
EDS	Data entry, phone-based marketing, payroll, credit cards, loans and mortgages, medical and insurance claims	700
Ford Business Services Center	CAD, CAM, e-mail support services	500
GE Capital	Client services; remote IT help desk, software distribution; server services; remote service support, data centre; network services; remote network support; application services; software quality assurance; payment services	11 500
Healthscribe India	Medical transcription, data processing, hospital information services, customer support, billing, claims processing, account receivable	1 200-1 250
HP Global eBusiness Operations	Internal financial back-office for HP	1 500
HSBC Electronic Data Processing India	Account transactions, general accounting, credit/debit card services, cheque processing, benefits administration, recruiting and staffing, payroll services	4 500
JP Morgan Chase	Transaction processing	1 200
Sitel India Private Limited	Customer support services	1 000
Standard Chartered	Banking operations, global HR support, software development and maintenance, global treasury operations support, IT helpdesks	3 000

Source: UNCTAD, based on company interviews and press releases.

Table IV.11. Service lines in IT-enabled services in India, 2001-2004
(Number of employees and millions of dollar)

	2001-2002		2002-2003		2003-2004	
Service line	Employment	Revenue	Employment	Revenue	Employment	Revenue
Customer care	30 000	400	65 000	810	95 000	1 200
Finance	15 000	300	24 000	510	40 000	820
Human resources	1 500	30	2 100	45	3 500	70
Payment services	7 000	110	11 000	210	21 000	430
Administration	14 000	185	25 000	310	40 000	540
Content development	39 000	450	44 000	465	46 000	520
Total	106 000	1 475	171 100	2 350	245 500	3 580

Source: NASSCOM 2004.

whole, this figure is about 68 persons, and it is 88 for content development and 79 for customer care. Thus, employment generation in software is only about half of that in IT-enabled services.

The services offshored to India appear to be moving towards higher value-added levels. Although it has been argued that Indian firms, by and large, still operate at a relatively low end of the value chain (Arora et al. 2000; D'Costa 2003), some evidence suggests that they are moving up fast (Joseph and Abraham 2002; Kumar 2001b). Still, India is yet to make its presence felt in the growing area of embedded software. Significant opportunities for upgrading also exist in IT-enabled services. The earliest services offshored by a company tend to be relatively standardized and of limited strategic importance, but if the first attempts succeed, more sophisticated tasks tend to follow. For instance, in the processing of insurance claims, the first step is to enter simple information into a standard form. The next step is to take over some investigation and valuation of claims. Later,

Table IV.12. Export intensity of foreign and local firms in India's software industry, by state, 2002/03
(Per cent)

Location	Foreign	Local
Delhi	95	72
W.Bengal	98	85
Gujarat	0	74
Maharashtra	85	76
Andhra Pradesh	98	87
Karnataka	94	76
Tamil Nadu	89	77
Kerala	0	84
Others	80	70
Total	93	70

Source: RIS 2004, based on data compiled from the NASSCOM Directories.

accountants or engineers are allowed to identify "unusual" (fraudulent or exaggerated) claims (Dossani and Kenney 2004, p. 12). The experience of GE points in the same direction (box IV.6). Some Indian companies – such as Kale Consultants, a Mumbai-based company – have diversified from software development into IT-enabled services and deepened their relationships with foreign clients (Dossani and Kenney 2004, p. 33).

In seeking to leverage its position as a leading destination for offshored services, India is seeking to diversify its exports. Currently, two countries (the United States and the United Kingdom) account for 82% of the country's exports of software and IT-enabled services. But, India may be in the process of harnessing its growing trade relations with other economies in Asia, such as the ASEAN countries. To enhance the productivity, efficiency and competitiveness of domestic users, to realize the potential for linkages and spillovers and to promote economic growth, including at the regional level,[70] a stronger domestic market-orientation would help. Another related challenge is that the boom in the software and IT-enabled service industry may lead potentially to adverse effects on other parts of the economy that compete with the IT industry for skilled manpower (Desai 2000).

Box IV.6. Upgrading offshored service operations in India: the case of GECIS

GE Capital International Services (GECIS) started operations in India in 1997 by providing call centre customer support and back-office services, such as data entry and transaction processing to other GE companies. Since inception, the Indian operations have contributed to cost savings of 40-50% (or about $300 million annually) for GE. Employment in India has grown to more than 11,500 jobs, and annual revenues stand at about $1 billion. India is now hosting the global company headquarters of GECIS, which also has operations in China, Hungary and Mexico.

Gradually, GECIS India has generated internal pull from other GE companies by demonstrating cost and quality benefits, investing in infrastructure and implementing so-called "six-sigma processes" to deliver improved quality. GECIS India now provides services to nearly 300 processes from 30 internal GE businesses worldwide. For instance, 30% of all account closings for GE are done in India; the target is 100%.

In 2000, GECIS India started adding high-value products to its portfolio. At present, it offers, for example, IT helpdesk, risk management, actuarial services and loans and claim processing, making it one of India's largest providers of back-office services. Continued success has led to ambitious plans for the future: GECIS plans to set up three new contact centres in addition to the present facilities at Hyderabad and Delhi, at an estimated investment of $83 million. The company aims to become the largest provider of remote services by capturing a 10% market share of global remote services.

GE has also offshored R&D work to India; it has leveraged the scientific talent pool of the country in its John F. Welch Technology Center in Bangalore. Indian scientists and engineers are working on R&D in such areas as electronic and electrical systems technology, ceramics and metallurgy, catalysis and advanced chemistry, polymer science and new synthetic materials and power electronics. The centre, where two-thirds of the employees have advanced education degrees, has already filed for more than 17 patents.

Source: NASSCOM 2004.

2. Other Asian locations

Apart from India, offshored services are playing a growing role in several Asian economies. *The Philippines* is an attractive country for offshoring of business processes thanks partly to its cultural affinity to the United States and American-style English speakers. It also enjoys a reputation as a stable, fast-growing economy with rapid telecommunication and technological advances.[71] Although the labour pool is smaller than in India and costs are somewhat higher, it is, nevertheless, frequently regarded as the closest competitor to India. Its call centre industry in 2003 employed more than 27,000 people, a figure that is expected to double in 2004. Intel, Microsoft, Safeway and Kodak are among companies that have opened Filipino call centres, most of which are located in Manila. There has also been rapid growth in shared service centres, due to a highly skilled workforce in accounting, software writing, architectural services, telemarketing and graphic design. AIG, Caltex, Procter & Gamble and HSBC operate among the largest shared service or call centres in the country. Foreign companies have in this way created many new jobs for college graduates and boosted the country's exports of services.[72]

In *Malaysia*, third-party call and contact centres are growing at the rate of 100-200% since 2000. One of the country's strengths is the availability of workers speaking English, Malay, Mandarin, Cantonese, Hindi and Tamil (MIGA 2003). BMW, Citigroup, Dell, DHL, Ericsson, Hewlett Packard, HSBC, IBM and Royal Dutch Shell have all set up regional service hubs in Malaysia, while AIG and Motorola are among companies with software development centres in the country.[73] *Singapore* offers strong financial service skills and excellent infrastructure, but high salary and real estate costs. It also targets leading-edge offshore functions such as remote robotics management, healthcare and genetic diagnostics (A.T. Kearney 2004) and has become one of the key hubs for regional headquarters. Of the 7,000 foreign affiliates in Singapore, more than 4,000 have been assigned regional responsibilities.

China may well be the next major destination for the offshoring of services. The country is becoming a key product-development centre for GE, Intel, Microsoft, Philips and other electronics TNCs. Call centres for clients in Japan and the Republic of Korea are springing up in coastal cities. Many industries are clustered in certain areas, with high-tech centres in Beijing and Shenzhen, financial services in Shanghai and Hong Kong (China) as a global financial centre. A large pool of skilled people and low costs are China's key advantages, but language skills and cultural factors tend to tilt the scales in the opposite direction.

3. Latin America and the Caribbean

Brazil, *Chile*, *Costa Rica* and *Mexico* have attracted some service production with relatively low labour costs and proximity (important due to similar time zones) to the United States. Some 8% of all large European TNCs with offshoring experience have activities in this region (UNCTAD and RBSC 2004). AOL Time Warner, Unisys and Xerox are examples of companies that are taking advantage of high investments in telecoms and IT infrastructure and a large and relatively low-cost labour pool. Procter & Gamble's shared service centre in Costa Rica provides support to 28 countries (box IV.7). Chile has attracted FDI in shared services by, for example, BHP Billiton, Nestlé, Shell,[74] Sodexo and Unilever. Advanced telecommunications at competitive costs are important strengths for Chile. The data on FDI projects in export-oriented services showed that, for IT services, Mexico has attracted projects in software development and Brazil in advanced R&D production. A number of countries in the Caribbean have successfully attracted offshored services.[75]

4. Africa

In Africa, export-oriented FDI in services has mainly been in call centres. South Africa is the most prominent player, although countries such as Ghana, Mauritius, Morocco, Senegal and Tunisia have also received investments linked to offshore services. In 2003, there were more than 400 call centres in South Africa, employing close to 80,000 people. It is estimated that the number of work stations related to call centres and back-office services will increase by more than 200% until 2007. To date, FDI in the South African call centre industry has been quite limited (CM Insight et al. 2004), but EDS, Sykes and Merchants are among the largest call centre employers in the country.[76]

5. Central and Eastern Europe

Several CEE countries offer a well-educated, multilingual workforce, competitive labour and property costs, central location and good infrastructure. For a number of European companies, offshoring in the same time zone is a more attractive option than shifting activities further away. With EU enlargement, some of the new EU member countries also offer attractive locations for regional headquarters. According to one ranking, the *Czech Republic* offers the most attractive conditions for offshoring to CEE (A.T. Kearney 2004). Among the larger investments in the Czech Republic in 2003 were DHL's decision to set up a European IT centre, creating 500 jobs; Accenture's expansion of its service centre that could increase from 300 employees in 2003 to 1,500 in 2008; and the transfer of Philips' European accounting services from Dublin to Lódz, creating 400 jobs.[77] *Poland* was the second most attractive CEE location, followed by *Hungary* (A.T. Kearney 2004).[78] In IT services, countries such as the Russian Federation and Romania are emerging on the investors' list.

Box IV.7. Procter & Gamble's shared service operations for the Americas

Global Business Services is Procter & Gamble's (P&G's) worldwide shared services organization. It provides back-office support to nearly 98,000 employees in over 80 countries and comprises three centres: Manila (Philippines), Newcastle (United Kingdom) and San José (Costa Rica). In the process of selecting these three cities as locations for its Global Business Services centres, the company reviewed more than 120 cities worldwide. The key reasons for choosing Costa Rica were the pool of highly educated and skilled labour, the country's long-standing democratic tradition, an attractive cost structure and an investment-friendly approach to foreign investors.

The San José service center started operations in late 1999. By 2004, it was providing 28 different services to 63,000 P&G employees in 22 countries in North and South America. This includes serving 58 plants and 15,000 retirees. Services delivered from Costa Rica include employee services such as payroll, benefits, relocation, travel expense accounting and compensation; and accounting and financial services such as cost accounting, banking, treasury and affiliate accounting, purchasing, and IT support.

Some of the main activities undertaken by the Costa Rican centre include:

- Closing the books for 132 legal entities and managing 310 bank accounts in 35 different banks across 22 countries.
- Payroll and salary planning and compensation for 57,000 P&G employees.
- Annual processing of some 2.5 million invoices and managing accounts payables in the order of $24 billion.
- IT support to 5,000 sales representatives in the United States.

Global Business Services has created 1,300 high value-added service jobs in Costa Rica, thereby helping to mitigate the risk for brain-drain from the country. The local operation has also promoted the transfer of skills through intensive training programmes. The company has "raised the bar" on recruiting and educational standards, reviewing over 12,000 résumés and requiring applicants to demonstrate proficiency in English and international accounting standards.

The company has recently become involved in global negotiations with strategic partners concerning the outsourcing of some functions previously handled by P&G Global Business Services. The first strategic partnership implemented was with Hewlett Packard with regard to IT support services starting 1 August 2003. From 1 August 2004, Hewlett Packard will also handle the accounts payable services. In November 2003, a real estate company, Jones Lang LaSalle, took charge of the facilities services and, since 1 January 2004, IBM has provided employee services to P&G. These partnerships will allow the centre in Costa Rica to attract higher value added work more concentrated in its core business activities. P&G expects more and more sophisticated services to be handled by its Global Business Services centres in the future.

Source: Procter & Gamble.

F. Implications for home countries

What is the likely impact of services offshoring on home countries? In response to the expansion of offshoring of services, there have been vocal reactions in both the United States and Europe. Concerns have been expressed that the growth of white-collar jobs in export-oriented services in countries such as India, the Philippines and the Caribbean signals employment losses in developed countries and potential harm to their economies. Proponents, on the other hand, argue that the offshoring of services will be beneficial to developed countries. As one observer put it (Drezner 2004, p. 23): "believing that offshore outsourcing causes unemployment is the economic equivalent of believing that the sun revolves around the earth: intuitively compelling but clearly wrong".

It should be reiterated that this is not simply a North-South issue. As noted above, a significant share of offshoring takes place among developed countries. For example, Canada, Ireland and various Western European countries remain among the most attractive locations for shared service centres in Europe (IBM and Oxford Intelligence 2004), and more than half of all FDI projects related to call centres in 2002-2003 went to developed countries. Lower wages are thus not the only driver of services offshoring, and rich countries gain as well as lose jobs in a narrow sense.

Offshoring is essentially a manifestation of a shift in production in response to comparative advantage. It offers all the advantages – and costs – of such a shift. It is not a "zero sum game", in which one party (the countries receiving service work) gains at the expense of the other party. On the contrary, it offers three main benefits to developed countries.

- Offshoring, undertaken by companies to reduce costs and/or improve quality and delivery, enhances their competitiveness and, by extension, benefits the home country. Conversely, companies that refuse to offshore, risk losing competitiveness to those that undertake it.
- It enables the home (or importing) country to shift to more productive and higher value activities. Economic dynamism depends on adaptation to changing comparative advantages, and offshoring is no exception. As long as resources are mobile and workers move to new jobs, such changes are not just beneficial but also necessary for long-term prosperity. The impact is no different from that of technical change that makes some jobs redundant and creates others, generally at higher wage levels. And it is no different from the constant shifts in patterns of comparative advantage in manufactures that have driven trade growth in the past.[79]
- Exporting host countries use some of their export revenues on imports of advanced products exported by the industrialized countries.

At the same time, the current size of the offshoring phenomenon needs to be kept in perspective. First, whereas offshoring is likely to grow over time, most *outsourcing* remains predominantly a domestic affair; only a small proportion of all business-process outsourcing is international and, within that segment, much is outsourced among developed countries (Scholl et al. 2003). Second, there is no sign of offshoring leading to a decline of similar services in home countries. Recent estimates undertaken on behalf of the United Kingdom Department of Trade and Industry show that the number of call centres in that country is likely to increase over the next three years, and that associated employment will increase from below 500,000 in 2003 to 650,000 by 2007.[80] In the United States, employment in call centres is expected to grow from 3% in 2001 to 5% of the workforce by 2010 (Mosher and Gist 2002). Moreover, in both these economies, employment in those industries that are expected to be the most affected by offshoring is in fact showing the fastest growth. Indeed, the number of IT-related jobs in the United States is expected to grow by 43% by 2010 (Mann 2003) – an example of restructuring.[81] Moreover, the 3.4 million service jobs that are forecasted to be offshored from the United States until 2015 (or about 300,000 annually over the next 11 years) seem insignificant compared with the average normal turnover of some 4 million jobs every *month*.[82]

Jobs created in exporting locations through offshoring do not equal jobs lost in importing countries. As mentioned above, the offshoring of services is sometimes done to cope with excess demand and in response to a shortage of adequately trained people at home. Among large European TNCs, 79% of those with experience in offshoring identified several ways

in which home countries benefit, including through lower prices, improved competitiveness, increased skills and higher employment (UNCTAD and RBSC 2004).

Interesting parallels can be drawn with the relocation of jobs in ICT-related manufacturing, when assembly operations shifted to East Asia. Together with technical progress, the globalization of hardware production cut the prices of ICT products, increased investment in ICT hardware and contributed to higher productivity and growth. Many new jobs emerged in the United States to integrate ICT equipment into the workplace and such jobs grew twice as fast as overall employment (Mann 2003). The globalization of IT-based services is likely to be similar. In fact, it may diffuse higher productivity to activities and firms that did not share in the productivity revolution of the 1990s (e.g. healthcare and SMEs). Services are more pervasive in their effects, and their benefits are likely to be widespread. IT jobs are predicted to grow three times faster than total employment in the United States, and the "second wave" of productivity growth based on IT-services could even exceed that in the 1990s. Lower cost of inputs boosts economic activity, investment and, eventually, job creation. According to a recent study, the offshoring of IT services in this way helped create 90,000 net new jobs in the United States in 2003, and more than 300,000 net new jobs could be created by 2008 (ITAA and Global Insight 2004).

What about the "jobless recovery" in the United States? Employment in white-collar service activities has not increased since 2001, as compared with an average annual gain of 5.5% over the past six cycles (Roach 2004). Is offshoring to blame? Only to a very small extent. It may have affected some white-collar jobs but other factors are far more significant. Only 2.8% of all IT software and service jobs that disappeared in the United States between 2000 and 2003 were lost due to offshoring (ITAA and Global Insight 2004). Data from the Labor Department in the United States show that only 2.5% of all job losses during the first quarter of 2004 (or 4,600 out of a total of 182,000 redundancies) were the result of offshoring.[83] Technical change is a far more important cause of job losses. Bank tellers, answering services and secretaries are replaced by automated teller machines, voice-answering technologies and word-processing software. Further jobs will be lost as software is developed to undertake computer programming and financial analysis.

Thus, somewhat paradoxically, a considerable part of the gains from offshoring will be reaped by the importing countries, notably developed economies. This conclusion was confirmed in another recent study that found that most of the benefits from offshoring flow back to the United States (Agrawal et al. 2003; McKinsey Global Institute 2003). Benefits include lower prices to consumers, expanding markets for exports and higher corporate profits. This study concluded that the United States gains twice as much as India from offshoring. For every dollar spent on offshoring to India, it found that firms in the United States reaped $1.12-$1.14 in benefits.[84]

However, even if long-term benefits are substantial, there are short-term challenges to consider. All shifts in comparative advantage entail adjustments at the micro level. Some people do lose jobs, and there is likely to be a transition period in which they search for new employment opportunities. Countries with more flexible labour markets stand a better chance to adapt. People may have to acquire new skills or move to new locations to become employable. There are, in other words, real adjustment costs – the role of the Government is precisely to minimize or ameliorate such costs and make the transition smoother and more efficient. The institutional challenge for home countries is to ease the transition process for those directly affected by offshoring, upgrade skills and increase innovation. This does not require measures to force service jobs to stay at home, but rather more constructive policies that encourage education, training and R&D. Protectionist measures aimed at arresting the offshoring trend would likely destroy rather than save jobs in developed countries.

Countries need to prepare for such adjustment policies. The tradability revolution has fundamentally changed the environment for doing business and opened completely new opportunities for restructuring the production of corporate service functions across borders. This new international division of labour has the potential for producing considerable welfare gains for the world economy as a whole – possibly, in the longer-term, even more considerable than in the case of manufacturing activities.

Notes

1 See IDA Ireland, http://www.idaireland.com/news/showRelease.asp? storyid=205.

2 The centres, employing about 2,200 people, strengthened BT's competitiveness and improved customer services. "BT Retail announces extra investment in UK contact centres and confirms plans for two centres in India". Press release from BT, 7 March 2003, http://www.bt.com/index.jsp.

3 "ACS announces creation of new technology center in Ghana to support expanding local workforce", *www.prnewswire.com*, 29 May 2003.

4 "Bank of America sets up Indian outsourcing subsidiary", *IDG News Service*, 18 February 2004.

5 Information here includes voice, words, data, pictures and any combination of these.

6 For early treatment of increased trans-border data flows, see UNCTC 1983a, b; UNCTC 1984a, b; Robinson et al. 1989; Sauvant 1986a, b.

7 The cost of one megahertz of processing power fell from $7,600 in 1970 to 17 cents by 1999. The cost of sending 1 trillion bits of data plummeted from $150,000 in 1970 to 12 cents by 1999. The entire contents of the United States Library of Congress can now be transmitted across the United States for $40, and soon it may be storable on one computer chip. In 1930, the cost of a minute's telephone call from New York to London was $300 at today's prices; today it is a few cents (UNIDO 2002). It has also been estimated that the cost of an international 2Mbps fibre leased line in India dropped by up to 80% between 1997 and 2001 (McKinsey Global Institute 2003, exhibit 5).

8 "Outsourcing: the myths and facts", *Wall Street Journal Europe*, 1 March 2004.

9 On fragmentation of manufacturing, see Arndt and Kierzkowski, eds. 2001. The trends in manufacturing are carried much further in services because they offer greater scope for separating processes.

10 For example, once the "expert system" for answering questions is written, anyone anywhere with sufficient skills can navigate through the decision tree on the computer screen and act like an expert. Spreadsheet software with embedded equations and the ability to download data implies that anyone with the requisite skills can provide analysis for a financial enterprise. Computer programming, at one time akin to an art, has been modularized and decomposed into three stages: design, implementation in computer code and maintenance and repair (e.g. debugging). This is similar to accelerating the standardization of manufacturing processes in the traditional product cycle, allowing its diffusion to new locations.

11 Cultural factors may also inhibit trade. A case in point is the disparate growth of home-working via e-mail in different countries and institutions, illustrating how social and work traditions can hinder the externalization of services beyond a single company.

12 Data on trade in services, and especially intra-firm trade, suffer from serious shortcomings (Kirkegaard 2004).

13 During the same period, the shares of Germany and Japan, two countries in which the private sector has undertaken less offshoring, fell by 0.6 and 2.7 percentage points, respectively (WTO 2004a).

14 However, in the import statistics of the United States, India and Ireland do not feature among the top 10 source countries. The leading suppliers of "other private services" in 2002 were the United Kingdom, Bermuda, Canada, Germany and Japan (Borga and Mann 2003). According to data from the United States Department of Commerce, Bureau of Economic Analysis, total imports of (mode 1) services from India was only $80 million in 2002, as compared to the $6.4 billion reported by IndiaStat as total services exports (mode 1 and 3) to the United States and Canada (Kirkegaard 2004).

15 See, for example, "Companies finding some computer jobs best done in U.S.", *New York Times*, 28 April 2004.

16 This has long been true in insurance and banking. In the former case, it has been justified by consumer protection. The quality of an insurance policy can be determined only when damage occurs (e.g. to a car or to health), while the premium payment takes place at the time of purchasing a policy. In banking, it may be justified by the need for prudential supervision to guarantee the safety and stability of financial systems.

17 According to the company: "The best outcome for our staff, shareholders and customers is to continue to employ people in countries in which we operate, provided the fiscal and regulatory climate is supportive of business", *The Guardian*, 18 October 2003 (http://www.guardian.co.uk/business/story/0,3604,1065770,00.html).

18 For more on the educational profile of workers in IT-enabled services, see United States, Department of Commerce 2003b, 2004b; Kirkegaard 2003.

19 Early examples include offshoring of data entry to India and the Caribbean (UNCTC 1989c).

20 Y2K is short for "Year 2000". Many computers needed upgrading of their software programmes to cope with the change from year "99" to "00".

21 See Forrester Research, 8 December 2003 (www.forrester.com/ER/Press/Release/0,1769,867,00.html).

22 Forrester Research, cited in "Growth of offshoring may accelerate", *CNNMoney*, 17 May 2004.

23 Deloitte Research, "The cusp of a revolution: how offshoring will transform the financial services industry", www.deloitte.com/dtt/cda/doc/content/The-Cup-of-a-revolution-2003.pdf.

24 For "other private services" as a whole, the corresponding figure was 47%.

25 Managers unfamiliar with (outsourcing and) offshoring may also feel more comfortable with an in-house solution (Kobayashi-Hillary 2004).

26 Some large financial service TNCs have established subsidiaries in India, which export services. These include American Express, Citigroup, Fidelity, GE Capital, HSBC and JP Morgan (Dossani and Kenney 2004; "More 'Can I help you?' jobs migrate from U.S to India", *New York Times*, 11 May 2003).

27 "Is your job next?", *Business Week*, 3 February 2003.

28 "Protectionism hits the outsourcing industry", *IDG News Service*, 15 April 2003; "Opportunity on the line: the promise of business-process outsourcing is tempered by questions of security, technology, and culture", *Information Week*, 20 October 2003.

[29] It can be demonstrated theoretically that a disproportionate improvement of skills and investment technology in developing countries (compared with in developed countries) will bring about a shift in sourcing of services from developed to developing countries (Grossman and Helpman 2002).

[30] See also "Global designs for India's tech king", *Business Week*, 13 October 2003.

[31] "On runway, will take off: airlines BPO has contributed $30 million to the total earnings of WNS", *Indian Business Insight*, 31 August 2003.

[32] Sitel is also considering new offshore centres in China, South Africa and certain CEE and Central American countries (company interview, March 2004).

[33] "EDS opens offshore facility in India", *IT Management: Outsourcing* , 18 June 2003.

[34] See www.top-consultant.com.

[35] "India's outsourcing firms have a new target: Europe's expanding eastern rim", *Dow Jones Newswire*, 30 April 2004.

[36] Additional examples include Wipro, Birlasoft and HCL Technologies all with operations in the United Kingdom and the United States; Datamatics Technologies acquired CorPay Solutions (United States) for $9 million in 2003 and is planning to acquire more companies in the United States, Europe and Canada.

[37] In India, four trends towards industry-wide consolidation have been noted ("Outsourcing in India: growing up", *The Economist*, 22 May 2004). First, some foreign affiliates are thinking of selling some of their operations. Second, fast-growing Indian firms see acquisitions – inside and outside India – as a way to sustain growth. Third, some contract service provider TNCs, such as IBM and Accenture, are acquiring local service providers in the Indian market. Finally, there is consolidation among Indian companies.

[38] For example, in the case of India, average FDI into services offshoring totalled $300 million in 2001, or just over 10% of the country's total inflows of FDI that year (McKinsey & Co. 2003).

[39] The data used here are from LOCOmonitor, a database developed by OCO Consulting covering over 21,000 greenfield and expansion projects (but not cross-border M&As). While the database does not claim to be comprehensive, information on these FDI projects comes from over 6,000 sources including companies' press releases, government websites and the media.

[40] Examples of takeovers include Hinditron, acquired by TAIB Bank (Bahrain), and IIS Infotech, bought by FI Group (United Kingdom). Joint ventures have been established between British Aerospace and Hindustan Aeronautics; Bell South and Telecommunication Corporation of India; and British Telecom and Mahindra Group (Kumar 2000).

[41] "IBM buys Indian back-office service firm", *Reuters* (www.reuters.com), 7 April 2004.

[42] "Call centre firm eyes expansion with new owner", *Budapest Business Journal*, 3 May 2004.

[43] Some 95% of all shared service centres serving the European market have some type of financial service functions and 23% provide an IT service (IBM and Oxford Intelligence 2004).

[44] More than 60 companies (mainly from the United States) use Ireland as a base for their European call centres, employing 12,000 people.

[45] "US firms saved $8 bn via local outsourcing", *Business Standard*, 16 April 2003.

[46] Ibid.

[47] Data from NASSCOM suggest that the direct cost per employee in an Indian call centre are about $5.20 per billable hour as compared with $27.80 in the United States (Dossani and Kenney 2004).

[48] The Philippines Board of Investment, for example, actively uses the country's large pool of trained accountants in its marketing efforts. According to the Government, the country boasts a larger number of accountants than India (information provided by the Philippines Board of Investment). Companies such as Procter & Gamble and Caltex have selected the Philippines as a base for shared services related to finance and accounting.

[49] France Telecom, SNCF (the French Railway company) and Altitude Marketing are examples of companies that have set up call centres in Morocco (see Belghazi 2000). Atento, of Spanish Telefonica, has set up call centres with several hundred employees in Tangiers.

[50] Ireland and the Netherlands, at an early stage, successfully established themselves as leading locations for pan-European call centres, leveraging the availability of the many languages represented in their population, including foreign students. However, within certain language regions, such as Scandinavia, many companies have set up local operations.

[51] Low labour costs in India have made it viable for companies to import all their own telecom technology for the large call centres that have been established, while still operating at a far lower cost than in developed countries. For smaller countries, where the capital outlay for telecommunications would be proportionately higher (because the centres would be smaller) an insufficient telecoms infrastructure could have a prohibitive effect on potential investors (Cohen 2003).

[52] See, e.g. "Online extra: the good life in a Bombay call center", *Business Week*, 3 February 2003.

[53] "Call centres to be India's biggest job-maker", *Times News Network*, 18 December 2003.

[54] For example, Changi International Airport in Singapore, one of the largest air hubs in the Asia-Pacific region, handled more than 25 million passengers in 2003. In April 2004, it was linked to 152 cities in 51 countries, with more than 3,400 weekly flights (www.chiangi.airport.com.sg).

[55] See also IBM and Oxford Intelligence 2004.

[56] Some 7% of all pan-European shared service centres are part of TNCs from the United Kingdom (IBM and Oxford Intelligence 2004).

[57] In terms of outsourcing, the United Kingdom alone accounts for 35% of the European market ("Outsourcing embraced in Europe as well", CIO Information Network, *www.cioupdate.com*, 18 March 2004).

[58] A few cases of offshore services have received attention in Germany. For example, Siemens has located around 2,700 software and accountancy jobs in CEE, and has announced that it will offshore 10,000 of a total of 30,000 software development operations to low-wage countries; SAP has opened R&D centres (product development and customer support) in China and India. It has established a presence in India where it is

planning to employ nearly 2,000 people by the end of 2004 ("Siemens to move 10,000 jobs to India, China, Russia", Rediff.com India (www.rediff.com), 16 December 2003). The accountancy arm of Infineon plans to expand its services activities in China in the next five year from 800 to 3,300 employees ("Infineon baut Werk und Entwicklungszentren in China", Heise Zeitschriften Verlag (www.heise.de), 26 July 2003).

59 See footnote 17. Other examples are Northern Rock and Alliance & Leicester.

60 AND Publishers (electronic mapping), Philips, Atos Origin, Logica CMG, ABN AMRO, Reed Elsevier and the Dutch affiliate of EDS have all offshored services (article in Intermediair (www.intermediair.nl), November 2003).

61 Interview with Paul Tjia, GPI Consultancy, February 2004.

62 See "Down and out in white-collar America", *Fortune*, 23 June 2003, pp. 43-47; "Commentary: outsourcing jobs: is it bad?" *Business Week*, 25 August 2003.

63 The share of Asian countries is estimated at about 8%, of which the Japanese market accounts for almost three percentage points.

64 "A shadow called 'outsourcing'", *Indiabiz News and Research Services*, Volume 1, Issue 13, June 2003, p.3.

65 Detailed data on FDI in the software and IT-enabled services are not available. NASSCOM publishes a directory of firms with details of software and service firms related to ownership, sales, employment, export, location, etc. It also publishes a directory of firms in IT-enabled services. The directory of software firms includes all the major firms, accounting for about 90% of the total software exports. The coverage of the IT-enabled services directory is about 60% of total exports. The analysis of the role of the FDI in the software and IT-enabled services is mainly based on the firm level data compiled from the two directories mentioned above.

66 Based on information from NASSCOM directories.

67 The operations in the United States of the best Indian IT companies have shown productivity levels of 150% the United States average – comparable to the levels of large United States service companies such as Accenture and EDS (McKinsey & Co. 2003, p. 11).

68 Some 60 IT companies in India currently hold so-called CMM level 5 certification; this represents 72% of all IT companies with such certification in the world.

69 See NASSCOM-BPO Forum (http://bpo.nasscom.org/download/BPO_Captives_ GoodOmen_4_3rdParties.pdf).

70 As mentioned earlier, the software and IT-enabled service industry remains confined to a few cities, despite various state governments' initiatives to attract software investment to less developed regions.

71 See, for example, CM Insight 2004; Bajpai et al. 2004; A.T. Kearney 2004.

72 Information provided by the Board of Investment, March 2004.

73 A.T. Kearney 2004; MIGA 2003; "Why Malaysia", *Sigmax-E*, 2003 (http://www.sigmax-e.com/).

74 For example, Shell has decided to locate its regional customer service centre for Latin America in Santiago. The aim is further improvements in customer services and to reduce costs by centralizing and optimizing operations. The centre in Chile will provide back-office administration and front-office (call centre) functions to Argentina, Chile, Paraguay and Uruguay. The company estimates that the centre will receive around 75,000 calls per month relating to its fuel, lubricants, retail and asphalt businesses Invest@Chile (http://www.hightechchile.com/inversionistas/last_investors.htm).

75 For example, Sykes has set up a call centre in El Salvador employing some 500 people, and West Corp. employs 400 people in a call centre in Jamaica.

76 Information provided by Gauteng Economic Development Agency, South Africa, January 2004.

77 "Subcontracting and location decision in 2003", *Revue Régionale*, 9 February 2004.

78 Hungary has attracted shared services FDI by such companies as Alcoa, Avis, Diageo, ExxonMobil, GE and General Motors.

79 When Delta Airlines offshored services by setting up a 1,000-person call centre in India in 2003, the company saved $25 million and facilitated an addition of 1,200 reservation and sales positions in the United States (Drezner 2004, p. 27).

80 CM Insight 2004.

81 In the United Kingdom, according to data from the Office for National Statistics, employment in banking, insurance and other financial services – the industries most affected by offshoring – has increased steadily over the past decade. Real value added in the business services and finance industries of the United Kingdom has also increased and the balance of trade in computer and information services is positive and growing.

82 Data for the 12-month period ending June 2004 (http://bls.gov/news.release/pdf/jolts.pdf).

83 See http://www.bls.gov/news.release/pdf/reloc.pdf. Similar findings have been noted for Europe (Kirkegaard 2004).

84 An Indian study reached similar conclusions (NASSCOM and Evalueserve 2003).

PART THREE

NATIONAL AND INTERNATIONAL POLICY CHALLENGES

INTRODUCTION

Policies are critical to FDI of all kinds: the policy framework affects how much FDI takes place and in what forms. More importantly, it influences the development effects of FDI – how effectively resources flow to and are absorbed by host countries and how its potential costs are contained. The policy challenge is complex in that services range over a large field of activities, each with its own technologies, scope and needs.

Three types of policies affecting FDI can be distinguished: two are national (host and home country) and one is international (international investment agreements, or IIAs). The first two are the focus of chapter V. It addresses the extent to which companies have opened up to FDI in services, the challenge of regulating service activities open to FDI – especially in the context of privatization – and the role of investment promotion. In light of the recent developments, the chapter pays particular attention to the offshoring of services – as an area offering development opportunities for both home and host countries.

Chapter VI recognizes that national policy-making is increasingly affected by international rule-making. IIAs – which embody legal commitments undertaken by sovereign states that pursue their national interests – provide the framework within which all governments make policies, and the interaction between national and international policies becomes more important as IIAs proliferate at all levels.[1] Potential benefits of IIAs are that they can offer more universal, transparent and stable rules for investors. At the same time, the risk is that IIAs may constrain host governments from pursuing development-oriented policies.

Note

1 *WIR03* provided a detailed analysis of the interaction between national investment policies and IIAs.

CHAPTER V

NATIONAL POLICIES

A. Host-country policies on services are key to development gains

National policy-making in services affects the ability of a country to attract desired types of FDI and to extract benefits from it. Most FDI in services is market-seeking in nature, but as services become more tradable, the scope for efficiency-seeking FDI – and thus for associated policies – is expanding. A general challenge facing policy-makers is to strike the right balance between economic efficiency and other policy concerns. Whereas a case can often be made on efficiency grounds for liberalizing FDI in services, market failures as well as broader developmental objectives often justify restrictions or national regulations on the provision of various services. At the same time, in areas in which countries seek to promote a stronger presence of FDI, proactive measures may be necessary, for example, through privatization programmes or investment promotion. Given the intensity of the use of human resources in services production, skills development and education policies are key to attracting and leveraging inward FDI in this sector.

1. Countries are opening up to FDI in services

Mirroring the overall tendency among countries to liberalize the entry of foreign firms in the primary and manufacturing sectors, the liberalization of services has also come a long way. While FDI in services remains more restricted, both developed and developing countries have taken steps to open up their service industries. In fact, starting from a higher level of restrictiveness, developing countries may have liberalized their service industries at an even more rapid pace than developed countries over the past decade.

Whereas comprehensive data on restrictions to FDI in services do not exist, it is possible to draw some deductions from reservation lists in various international agreements that deal with investment. Non-conforming measures listed in such agreements – especially those with a negative list of reservations – provide one useful proxy of areas that host countries deem particularly sensitive or of strategic importance.[1] Beyond lists of non-conforming measures, some information can also be obtained from national sources. The subsequent discussion is based on studies that have drawn on both international and national sources.

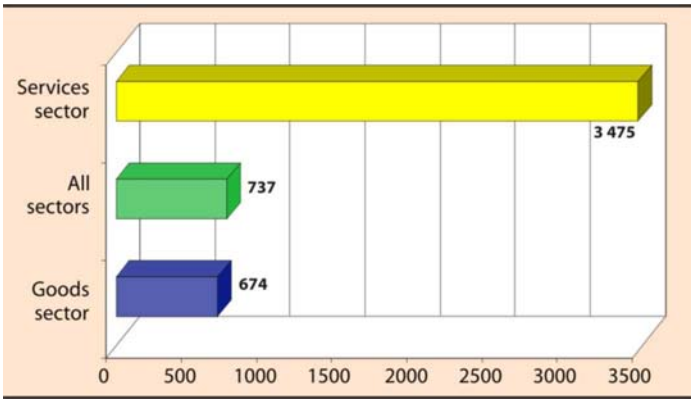
Based on the lists of a total of 4,886 non-conforming measures included in seven IIAs, 71% were related to investment in services, 15% to horizontal restrictions that apply to all sectors and 14% concerned investment in the primary and manufacturing sectors (figure V.1).[2] Within the services sector, four industries – transportation, banking and insurance, business services and communications – accounted for 85% of all non-conforming measures (figure V.2).[3] A study of restrictions in the OECD area concluded that most countries are today quite open to FDI in hotels and restaurants, construction and business services, whereas the level of restrictiveness rises considerably in the transportation, telecom and electricity industries (Golub 2003).[4]

In general, developed countries are more open than developing countries to FDI in services (OECD 2003, p. 23); however, there is great variation across industries and countries. A detailed analysis suggests a rather complex pattern. For example, even liberal and mature economies such as the United States, open to FDI in most activities, retain entry restrictions on services such as media and air transportation. Moreover, whereas low- and middle-income economies *on average* are more protected than high-income economies in distribution industries, Belgium, France, Italy and Switzerland were among the most restrictive in a sample of countries, while Singapore, South Africa and Uruguay were among the most liberal (Kalirajan 2000). In a study related to telecommunications, Argentina, Brazil and Chile were among the least restrictive countries, while Burkina Faso, Costa Rica, Ethiopia, Malta, the Syrian Arab Republic and Tunisia were the most restrictive (Warren

2000; McGuire 2002). Similarly, other research shows that the most open economies in maritime services included a mix of developed and developing countries, while countries as diverse as Brazil, Chile, India and the United States had the highest barriers to foreign service providers (McGuire et al. 2000).

Various measures are used to restrict FDI in services. Restrictions can be formal (e.g. legislations and decisions) or informal; specific (applying at the level of firms or industries at large) or general (e.g. economic needs test and national interest criteria). They may seek to influence the allocation of capital between countries, between foreign and domestic investment and between direct and portfolio investment. Some measures apply at the point of entry, stretching from mere notification requirements to outright prohibition of FDI; others target the operations of firms; while a third category is related to restrictions in the area of ownership and control. The nature of restrictions and the purpose for which they are introduced varies by industry. In distribution services, restrictions are often used to maintain health and safety standards and limit urban sprawl (Kalirajan 2000). Common examples include performance requirements, zoning regulations, operating hours and advertising restrictions. In professional services, they are mainly introduced to ensure standards and the quality level of services, as well as the integrity of service providers (Nguyen-Hong 2000). Examples include nationality and residence requirements, limitations on business forms accepted and lack of recognition of foreign qualifications. In telecom, licensing requirements, limits on foreign equity participation and price regulating are frequent.

Figure V.1. Reservations by sector in selected IIAs

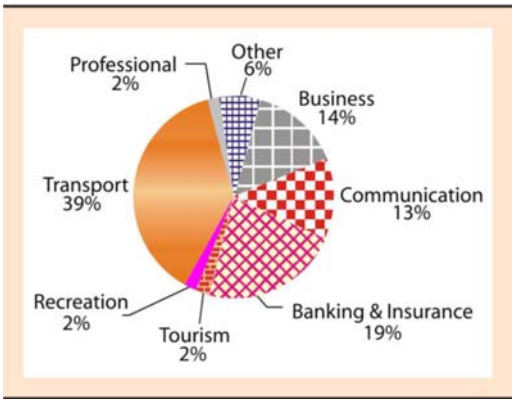


Source: UNCTAD.

A further liberalization of services involves potential advantages and disadvantages. Benefits can stem from increased competition, lower prices and better quality of services (McGuire 2002; OECD 2003 for a review). Moreover, a larger number of suppliers of services furthermore enhances consumer choice. Finally, allowing foreign companies to establish a presence in services that are key inputs to other productive activities may help improve the systemic competitiveness of an economy.

But there are several reasons why developing countries, on average, remain more restrictive on FDI in services than developed ones. It is partly due to the particular nature of services. Apart from the sensitivity of services with cultural, social, distributional or strategic significance, there are economic concerns. First, countries restrict FDI to avoid the risk of foreign investors killing off fledgling domestic enterprises (i.e. the infant-industry argument).[5] Second, entry by large service TNCs involves competition policy considerations, and many host countries may not feel ready to deal with the technical and legal issues involved. Industries that are characterized by a lack of competition are also likely to be subject to more regulations. Third, services FDI that involves the sale of public utilities to foreign firms raises complex issues related to privatization and the regulation of natural monopolies. Countries without the necessary regulatory framework may lose by rushing into liberalization, particularly when a reversal of the liberalization is hard to achieve or when liberalization has "systemic implications", as in the case of the financial industry. Fourth, some services may not appear to offer significant technical skill creation, linkages or other benefits (reflecting partly a lack

Figure V.2. Reservations on investment in services, by industry, selected IIAs



Source: UNCTAD.

of understanding of the indirect impact of services on productivity), and governments may wonder why they should promote entry by TNCs. Finally, since a number of services are closed to foreign investors, are monopolies and, in any event, need to be regulated, it is frequently difficult to predict as well as to assess the effects of an opening up to FDI (e.g. on prices); and getting the right regulation in place is a challenge.

These concerns are often valid, and there are trade-offs involved in liberalizing FDI entry. Where local enterprises are capable but are threatened by the TNCs' size, resources or links, a case can be made for gradual liberalization and for measures to ensure that local enterprises receive support and do not face anti-competitive practices. Governments need to tailor their policies to the specific conditions prevailing in their countries and in each activity. The complex pattern of liberalization to date in countries at varying levels of development indicates that "the more liberalization the better" is too simple a policy prescription. Rather, it is preferable to find an appropriate balance between possible efficiency gains from opening up and other broader development objectives: "In practice, liberalization is likely to be a step-by-step, industry-by-industry endeavour…. The selection of industries in the context of a programme of gradual liberalization requires that policy-makers be able to evaluate how particular industries will perform when their environment is liberalized…. Adaptation takes time, thus providing the basis for an argument for a gradual liberalization of services" (UNCTAD and World Bank 1994, p. 58). The need for appropriate regulation when liberalizing is well illustrated by the financial industry (box V.1).

The liberalization of services has contributed to the boom in FDI (chapter III). Much of the impetus for liberalization has come from developing and transition economies seeking to improve the efficiency of their services, reduce the financial burden of State-owned services by selling them to foreign investors, and boost exports by attracting FDI related to services offshoring. As many services are essential inputs for manufactures, and since many restrictions to trade in manufactures have been removed, the liberalization of services has also become more important. Unless countries offer internationally competitive service inputs locally, they may not be able to retain manufacturing activities that use these services. Moreover, international rules and pressures have reinforced the liberalization trend, but the appropriate scope, speed and nature of further liberalization continues to be debated.

In open and contestable markets, there is generally little reason to fear that greater competition will lead to a deterioration in the quality of services, but only so long as the competition and regulatory framework is strong and effective. In many services, conditions imposed on FDI can be seen as an integral part of such a framework. Services with built-in monopoly elements (power, water, telecoms) need strong legal and regulatory systems to ensure efficient pricing, investment and delivery. Policies may also need to reflect the possibly different effects from FDI depending on whether it takes the form of acquisitions or greenfield investment (Mattoo et al. 2001). Services that are widespread or raise particular governance or stability concerns (like finance) need appropriate regulatory systems to ensure that they conform to social interests. Similarly, the entry of FDI via privatization raises complex issues (discussed below). In services with implications for the labour market (e.g. employment conditions in call centres) or the environment (e.g. tourism), governments need to define socially acceptable norms of behaviour. There is also a crucial role for competition policies in ensuring the benefits of FDI in services (*WIR97)*. However, many of these policies are not specific to FDI, but apply generally to all forms of investment.

In view of the complex nature of services and the variation in national priorities and values (whether economic, social and environmental concerns, consumer interests or other development considerations), there is a need for policy space in regulating service industries to allow governments the flexibility necessary to implement their national objectives – an issue taken up in the next chapter.

2. Benefits from FDI in infrastructure-related services: the case of privatization

Basic infrastructure services are key to economic and social development. At the same time, they are capital-intensive, often characterized by natural monopoly and difficult to regulate. As indicated in chapter III, the opening up of various infrastructure services through privatization programmes triggered unprecedented increases in FDI, especially in

telecommunications and electricity. Given the pressing need for capital to meet the projected demand for infrastructure investment, coupled with low savings rates in many developing countries, as well as poorly developed local capital markets, FDI is likely to continue to play a major role in the financing of projects related to telecommunications, electricity, water, railroads and other utilities. In order to mobilize foreign investment into these highly capital-intensive industries, developing-country, governments will need to pay attention to how their policy, legal and regulatory frameworks affect investment risk and how barriers to

Box V.1. Prudential regulation of the entry of foreign banks

The extent to which countries have chosen to allow foreign banks to enter differs considerably (chapter III). Opening up to foreign banks entails benefits and risks, which implies the need for appropriate government regulation. This usually means not simply deregulation, but also the replacement of existing regulations with more market-friendly ones, and that focus on prudential objectives.

Due to the high incidence of market failure, notably imperfect and asymmetric information, regulation is essential in financial services (Stiglitz 1994). Imperfect information can lead to adverse selection and moral hazard, making it difficult for banks successfully to allocate financing to good investments. Weak regulation can exacerbate the problem, potentially leading to inadequate capital positions, fraudulent behaviour, excessive credit growth and risk-taking at individual banks. Any of these can undermine an institution's health, perhaps even the health of the banking system, and possibly induce wider financial instability.[a]

Even the most developed regulation and supervision cannot always prevent banking distress in the case of major economic shocks (Calomiris 1992). On the other hand, a well-designed framework (with supporting legal, accounting, disclosure and auditing infrastructure), including appropriate prudential regulations, well trained and experienced supervisors and proper enforcement, can discourage imprudent behaviour by weak banks without unduly constraining the operations of strong banks (Rojas-Suarez and Weisbrod 1996). It can also make a banking system more resilient to volatility and economic shocks and promote financial stability.[b]

The entry of foreign banks into developing countries and transition economies raises concerns that regulators in these countries may find it difficult to supervise properly foreign "large complex banking organizations" operating in their markets (Mathieson and Roldos 2001). There are worries that foreign banks ignore domestic borrowers, and be less prone to respond to domestic credit needs; that regulatory authorities are not able to exercise adequate control over these banks; and that domestic banks are unable to compete (Peek and Rosengren 2000).

On the other hand, the entry of foreign banks can contribute to the development of domestic regulation, to the extent that they abide by international regulatory standards (Mathieson and Roldos 2001). Foreign branches of a foreign bank are supervised on a consolidated basis by the parent bank's regulator. Thus, their presence in a country with weak regulatory structures may contribute indirectly to promoting harmonization of its regulatory standards with those in more developed markets. However, it does not absolve domestic authorities from responsibility for regulating and monitoring the activities of banks, whether they be banks with minority foreign stakes, joint ventures between domestic and foreign investors, or domestic banks that adopt more sophisticated financial instruments in a liberalized financial system.

Countries must decide to what extent regulation and supervision must be developed before undertaking financial liberalization – including opening up to FDI – or whether these measures can be adequately addressed in parallel. The issue of the appropriate sequencing, speed and breadth of financial liberalization – and indeed the *desirability* of external financial liberalization – remains controversial, and needs careful consideration by national authorities.

Source: UNCTAD.

[a] Poor regulation has been found to be one of the leading causes of banking crises in both developed and developing banking markets (Caprio and Klingebiel 1997). See also Goldstein and Turner 1996; Basel Committee on Banking Supervision 2004.

[b] In fact, the development of an adequate regulatory and supervisory framework can be seen as a necessary condition for both domestic and external financial liberalization (Goldstein and Turner 1996; Mishkin 1997).

international investment can be lowered in a development-enhancing way.

Involving foreign companies in infrastructure services can bring important benefits, especially in terms of inflows of capital, enhanced supply of services and increased efficiency. However, benefits are not automatic and various costs can arise (chapter III). Adequate policies are needed to address concerns related to market failures, the risk of crowding out local players and potential job losses. Some services such as the distribution of electricity and water, are particularly sensitive, since they have traditionally been run as public monopolies and may be of strategic importance – not only from an economic but also social, national security or cultural perspectives. FDI in services through privatization poses a special challenge in terms of regulation and governance. The outcome of such FDI is affected by the way in which privatizations are undertaken, the nature of competition in privatized industries and the quality of the national regulatory framework and institutions.

To the extent that governments do decide to open up services to foreign investors, a number of factors need to be considered (box V.2 provides a checklist; see also Odle 1993). Governments first need to establish clear objectives for involving FDI in privatization and determine whether those objectives could be achieved by domestic investors; they then need to prioritize these and other objectives not well served by FDI, and adapt the privatization method accordingly. Typical objectives include raising government revenue, expanding the supply of services and improving the efficiency of service provision. While certain objectives can be well served through sale to a specific "strategic" foreign buyer, others may be better met through initial public offerings in the domestic and foreign stock markets, sale to employees of the firm to be privatized or liquidation and subsequent sale of assets. For example, in addition to firm-specific objectives of privatization involving FDI (such as enhancing its competitiveness), governments might seek to achieve economy-wide objectives, such as macroeconomic stabilization (focusing on the revenue aspect) or capital market development, for which an initial public offering may be a stronger candidate.

The situation of the State as a seller of assets confers a special responsibility on policy-makers in negotiating individual privatization transactions. It is particularly important to strike a balance between budgetary and other considerations. Policy-makers also have to balance the need to allow the service producer to be profitable with the need to supply services at affordable prices to the poor and/or in sparsely populated areas. Budgetary considerations may prompt governments to negotiate the highest price possible and use the revenues for social purposes, neglecting the competitiveness aspect. Other considerations, such as employment preservation or regional policy concerns, may call for the negotiation of specific commitments by investors. Similarly, if governments focus too much on the sale price of a State-owned company to maximize revenues, neglecting the regulatory framework and institutions needed to maintain or improve the efficiency of natural-monopoly-type industries, privatization may have an adverse impact on the host country. Controversies surrounding the privatization of electricity and water are a case in point (Lamech and Saeed 2003; Ugaz and Waddams Price 2003).

Given the political and sensitive nature of large privatizations, it is also important to build an appropriate institutional environment that guarantees policy consistency, coherence and efficiency. A privatization programme involving FDI presents specific problems. TNCs are legally and financially powerful private institutions. Transactions and related contracts tend to be technical in nature and involve the imposition and monitoring of numerous post-privatization obligations. Most countries that have sought FDI in this context have opted for specialized privatization agencies. This can help provide a one-stop shop for investors, facilitate the recruitment of adequate expertise, limit the possibility of buyers capturing sellers and regulators, and maintain independence from governments and vested interests in State-owned enterprises. The agency should also be accountable to parliament and adequately audited.

From the perspective of optimizing the benefits from the sale of a State-owned enterprise, pricing of the assets is critical. A major risk for a host country is that, if an enterprise is sold at a price below its "correct" (social) price, there is a loss to the budget and the economy. And, under certain conditions – for example, when equity markets are underdeveloped or economic systems are in transition – it may be difficult to price assets correctly. The possibility of undervaluation

Box V.2. Check-list for privatizing services through FDI

Economic justification for privatizing services

- What is the underlying reason for privatization: is it symbolic (the retreat of the State), for raising funds for the budget, or for improving the cost, quality or availability of services? Only the last is a valid economic reason.
- Are the reasons for privatization clearly stated and are they realistic?
- Does the privatization authority have the information, skills and independence to negotiate effectively?
- What is the experience of other countries (at similar levels of development) in privatizing the same services? (The experience would have to be in the same services, as conditions and impacts would differ.)
- Is there only one bidder for the project or can several be attracted?
- Should the government target a strategic investor? If so, what effect will this have on the price and the bargaining power of the government?
- What conditions (performance requirements) should be set on the buyer? Given the difficulties sometimes associated with monitoring and enforcing performance requirements, should they be imposed at all? If so, what is the trade-off with the price offered?
- Has the government considered alternatives to privatization (such as management contracts or concessions)?
- Are subsidies involved? Are they justified? Are they affordable in terms of the budget? If not, can they be financed by aid or other means?
- What is the prevailing market structure before privatization? Is the industry potentially contestable and competitive?
- Are appropriate regulatory mechanisms, institutions and skills in place, if market mechanisms are insufficient to yield socially efficient prices and quality of product? If not, privatization may lead to a private monopoly with a "licence to print money".
- Do the regulatory mechanisms have provisions for subsequent expansion, upgrading and modernization?

Political feasibility of privatization

- Does privatization have broad political support?
- If there is significant opposition, is the motivation for the opponents primarily ideological, social, political or economic?
- Are there particular social sensitivities involved, for example, as regards water or the media?
- Should the government retain a "golden share" in the privatized company? If so, has the trade-off vis-à-vis economic efficiency been considered?

Form of privatization

- What form should the privatization take: asset sale, public share offering or partial sale to foreign interests?
- Which technique for selling to foreign interests is best (for example, auction, direct negotiations)?
- Should the asset be restructured before privatization to raise its price? To what extent?
- Should the privatization take place all at once or in tranches?
- Is the bidding process transparent and accountable?
- What role should foreign consultants and advisers play in the privatization process? How can their impartiality and competence be assured?

Regulatory considerations

- If the regulatory framework exists, is it consistent with the long-term contractual arrangements of the privatization?
- How are legitimate consumer interests (prices, availability, quality) taken into account?
- What is the appropriate scope of regulation in terms of prices, delivery, investment and technical efficiency?
- How will the regulatory authority be staffed and funded? What is its role in the government hierarchy or is it autonomous?
- How is the operational independence of the regulator ensured? What safeguards are in place to prevent it from being captured by large firms?
- Can competition be introduced into parts of the privatized service? If so, how?
- How is corporate governance enforced? Are minority shareholders protected? Are accounts audited in accordance with international norms?

Social issues

- How can the provision of services to remote and/or poor areas of the country best be ensured?
- Is there a social safety net for staff made redundant on efficiency grounds? Who finances and administers the safety net?
- Is there a case for seeking job protection guarantees? What would be the cost of such guarantees in terms of the price of sale or the cost of services to the consumer?
- Have environmental issues been taken into account? Who will finance safeguards, if needed?

Source: UNCTAD, based on Megginson forthcoming.

increases if the negotiating position of a host country vis-à-vis foreign investors is weak, or if a host country does not make potential investors compete through a bidding process. The economic and political setting can also influence pricing. Broadly speaking, a clear political commitment to strong rules of the game may result in higher prices.

The privatization process itself also affects the sales price. One approach is to get a large number of competitive bids from a variety of (domestic and foreign) firms and, if foreign firms are the only contenders, from well-reputed TNCs. Where the objective is to get a strategic partner with specific technological or other assets, there may be a need for a trade-off between the upfront price and other conditions.[6] An important institutional requirement in this context is the establishment of a competitive selection process. It is only by ensuring the participation of a maximum number of foreign investors in the bidding that a government will obtain a competitive price for its assets and secure the highest level of post-privatization commitment by the buyer. It is also important to make the rules and selection criteria clearly known in advance to potential bidders.

In some industries (such as electricity and water), the number of potential investors may be too small to secure a sufficient number of bidders. This puts governments in a weak bargaining position and lowers the chances of getting a good price. The situation is aggravated by greater perceptions of regulatory risks related to FDI in utilities in a number of countries, most significantly in Latin America (CMCG 2003). It may become necessary to find ways of encouraging an expansion of the pool of strategic investors, with special efforts to attract investors in these industries not only from Europe and the United States, but also from other developed and developing countries. One possibility might be to focus on local and regional TNCs that have appropriate technical or managerial cooperation agreements with qualified utilities or their affiliates.

The regulation of privatized services is another challenging task. While foreign investors are often attracted to assets that enjoy monopolistic or oligopolistic rents, it is in the interest of host countries to minimize those rents, for example by regulating the relevant industries. Difficult questions arising in this context relate to the degree to which a temporary monopoly can be tolerated in exchange for the modernization of technology and equipment, what techniques should be used to circumscribe monopolies, how to decide on an adequate time frame, the sequencing of regulation and privatization and the relationship between competition authorities and sectoral regulations.

A well-designed regulatory regime, aimed at ensuring the quality, scope and availability of a given service, contributes to improvements expected from FDI, just as it contributes to improvements under local (public or private) owners. A country's ability to enforce laws and contracts and honour commitments it has entered into are perceived by investors in infrastructure to be key elements of an attractive and stable investment environment (Lamech and Saeed 2003). The transparency of the decision-making process is an associated aspect. In Colombia, for example, regulatory decisions are made public on the Internet; this, in turn, reduces corruption and leaves the door open to other interested parties such as consumer associations (Jamasb 2002, p. 49).

In network industries, clear principles for tariff setting are important elements of regulatory policy. In a survey of power sector international equity investors, 65% of the respondents considered the tariff level as critical for the success or failure of their investments (ibid., pp. 9-10). Inadequate policies in this area can lead to unwanted consequences,[7] especially when policies are affected by political opportunism and corruption. Opposition to tariff adjustments is compounded in countries where basic services have been provided at unsustainably low tariffs. Successful tariff reforms have often been gradual, with proposed changes taking place according to a reasonable time scheduled. Household income surveys can also help to identify groups in a society that need special attention, as well as the levels of electricity consumption needed by such households and at affordable tariff levels.

The regulatory framework also needs to address the ability of investors to collect payment for the services they provide.[8] In some countries, service providers do not have the right to deny services to those who do not pay their electricity bills.[9] Transferring assets into the hands of foreign investors may create a stronger incentive to the provider to ensure payment, but it is not sufficient to improve discipline with payments. If FDI in utilities is to be sustainable, a solution that is acceptable to the Government, customers

and investors is needed concerning the tariff regime and enforcing the collection of payment. In this context, the situation of those who do not have the means to pay for basic services has to be addressed, for example, through social policies and special provisions related to universal access to services (box V.3).[10]

In the telecom industry, regulators also have to deal with the international dimension of services such as international agreements fixing

Box V.3. Policies to promote universal access to services in telecommunications

An important objective in any national telecom policy is to make services available to a greater proportion of the population. The problem of access is particularly acute in many developing countries, where large regions may have little or no basic telephone infrastructure. Similar situations arise also in other services, such as provision of electricity or Internet connections. The issue is important when private companies are responsible for the provision of the service, since the servicing of regions with low population densities, low purchasing power or difficult terrain tends to be unprofitable. Some of the policies that have been used by developing countries to address the question of universal provision of telecommunication services are discussed below.

Government-managed funds for universal service. Universal service funds can be used to subsidize a commercial provider's expansion into certain regions. The resources needed for such funds can be raised through taxes on the telecom industry (e.g. Ghana, Peru and the United States), from general tax funds (e.g. Chile and El Salvador), or from a one-time sale of resources, as occurs when a carrier is privatized (as in Guatemala) (Peha 1999). For example, Chile established a temporary fund in 1994 to extend access to rural and low-income regions through a series of auctions. Regulators selected a set of regions for universal service auctions in which operators had to bid for subsidies. Concessions are awarded to the company offering the largest reduction to the maximum allowable subsidy. State contributions are justified by the fact that the projects identified have positive social returns. As a result of this programme, about 80% of the rural population had gained access to public telephony by 2002 (Estache et al. 2002, p. 34).

It is important that universal service funds "augment market mechanisms" rather than replace them (ITU 2003). In this context, policy-makers and regulators have to make a series of choices. Should the financial resources come only from the government, or also from the private sector? If the private sector contributes, should all telecom/IT service providers contribute, or only some of them? Who should administer the fund? Should it be a separate agency, the national telecom regulatory authority or some other entity? How should universal service projects be identified and what services should be funded?

Rural cooperatives can be an important source of network development. In Poland, for example, the Government mobilized the reserves of local communities through cooperatives to raise funds for building rural networks. These cooperatives operate under the equivalent of a build-operate-transfer (BOT) agreement, that would ultimately return control to the monopoly undertaking, but providing for compensation. Nearly 60% of the new main lines in rural areas were developed according to this type of arrangement (Hudson 1997; Prössdorf 1997; Kubasik 1997; Petrazinni 1995).

"Franchising" by a monopoly undertaking is an option applied in wireless services when local entrepreneurs buy and operate mobile phones for a village. In Bangladesh, for example, a company sells airtime at wholesale rates to a non-profit organization that helps rural women entrepreneurs establish village pay phones and obtain financing from micro-credit banks to purchase cellular handsets. A pilot programme has shown that women net an average $2 a day or $700 a year from the village pay-phone operations – more than twice the country's average annual per capita income (World Bank Operation Evaluation Department 2002).

Funding consumers, not carriers. One problem of universal service provision, once a network is built, is income-related. Households can make their own decisions about spending priorities. Vouchers for telephone services – whether they are used for prepaid calling cards or home phones – provide greater consumer choice, and they eliminate the distortion from pricing local services below cost to make them affordable. The problem is to identify the poor and the cost of implementing targeting mechanisms.

Source: UNCTAD, based on Peha 1999, World Bank Operation Evaluation Department 2002 and World Bank 2001.

the prices of international calls or international cross-subsidies. The more international the operators become, the greater the need for cross-border cooperation between regulators. However, as far as international arrangements are concerned, regulators with regional mandates are rare, the EU being an important exception. In utilities, the establishment of independent regulatory agencies helps to secure benefits from privatization. If possible, a relatively independent status helps to minimize regulatory risk and makes implementation more predictable. The regulatory authority needs to have adequate financial and human resources to protect consumer interests. Independent agencies are also often better positioned to attract qualified professionals (Krishnaswamy and Stuggins 2003, p. 10).[11]

At the same time, as most developing countries suffer from a shortage of adequate human resources, expertise and financial resources, it may be difficult to establish and maintain such strong regulatory agencies to oversee the generation of services, regulate networks and award concessions and licenses. One way to address scarcities in qualified personnel and limited financial resources is to establish regulatory agencies that oversee several infrastructure industries such as electricity, gas, telecommunications and transportation. Such multi-utility regulators have been set up by, e.g. Botswana, Chile, Colombia and Mexico (Samarajiva et al. 2002; World Bank 2001). International organizations can play an important role by sponsoring cooperation, training and the exchange of experience among regulators (Jamasb 2002).

A difficult issue relates to the extent to which countries should require specific commitments from investors when privatizing services. One of the most important considerations in an FDI privatization is investors' continuing engagement in a country in terms of investment, employment, etc. Some governments have specified future investment levels and even mandated contractually certain investments at specific times (see e.g. Odle 1993).[12] Performance requirements (or obligations) may be needed to ensure the universal provision of services to remote areas or to the poor (box V.3). There is typically a trade-off between the amount of commitments attached and the sales price of the company to be privatized. In the case of network/infrastructure industries, commitments built into a regulatory framework may be preferable to negotiating specific performance requirements and including them in privatization covenants. Chile and Peru, for example, built detailed requirements into their electricity regulatory framework (Nestor and Mahboobi 2000).

A proper regulatory framework should be complemented by an appropriate policy to encourage competition. The only credible threat of potential competition to large TNC incumbents comes from other TNCs. In a developing-country context, foreign investors often achieve (or consolidate) a dominant position more quickly and more forcefully than in developed economies. As already noted, sometimes there are few TNCs with the expertise to compete globally. In other cases, such as the telecom market in Latin America, the development of regional hegemony in some markets may reduce the scope for competition in national markets (box II.14). In the electricity sector, for example, it has been suggested, as a rule of thumb, that no single entity should operate or control more than 20-25% of generation or distribution (Krishnaswamy and Stuggins 2003).

One way to further consumer welfare and the public interest in this context is a competitive restructuring of the relevant industry *before* privatization. In the telecom industry, undertaking privatization before introducing competition tends to affect adversely the number of mainlines created (Fink et al. 2002). The purpose of pre-privatization competitive restructuring is to introduce competition in the upstream/downstream segments through the break-up of vertically integrated firms. In the Chilean electricity industry, for example, the two main companies – Endesa and Chilectra – were broken up into seven generating and eight distribution companies, which were privatized separately (Nestor and Mahboobi 2000). In Bolivia, the Government broke up its main generation company into separate parts and sold them to different foreign investors (box V.4). Alternatively, competitive restructuring can be initiated through horizontal break-up along geographical and functional lines, as was done in Brazil with Telebras. There, the Government split the incumbent holding into three geographical markets/companies, one long-distance operator and eight cellular operators (ECLAC 2001).

The procedures for dispute settlement also have an impact on the regulatory framework

as they can help mitigate perceived levels of risks. In Bolivia, for example, a new authority was established specifically to resolve disputes between regulatory agencies and companies (Jamasb 2002, p. 46). Sometimes disputes concerning major contracts related to FDI in infrastructure services have been referred to litigation at the international level. In Argentina, in particular, a number of disputes between foreign investors and the Government have recently emerged. As of early 2004, 28 proceedings against Argentina were pending under the International Convention for Settlement of Investment Dispute (ICSID Convention). The vast majority of them were initiated in the months following the December 2001 devaluation of the Argentine peso. Most of the disputes concern public utilities and related services (water and sewer services, electricity generation and distribution, telecommunications) or the extractive sector (oil and gas concessions).

3. Promotion of FDI in services

a. Investment promotion agencies increasingly target services

Apart from opening up to FDI and inviting foreign investors to participate in the privatization of certain services, a growing number of countries actively promote FDI in services. Effective promotion can be essential to attract high quality investors. TNCs aiming at domestic markets or buying State-owned

Box V.4. FDI-related privatization and electricity reform in Bolivia

Bolivia pursued an innovative approach to privatization: the "capitalization" method. Its distinguishing feature is that the sale proceeds stayed within the privatized company to finance future investment and improve efficiency. Another feature of the approach was that the Government's 50% ownership of the shares in the privatized companies was transferred to a national pension fund.

Bolivian electricity reform involved the privatization of transmission and distribution, while public-private co-ownership through capitalization was chosen for the generation segment. To encourage competition, the generation capacity of the State utility, ENDE, was split into three separate companies and the assets were capitalized in 1995. Strategic foreign investors (Dominion Energy, Constellation Energy, GPU International – all based in the United States) invested approximately $1.6 billion. This capital was earmarked for modernization and further efficiency improvements of the industry. The management of the companies was transferred to the private investors. Another important element of the Bolivian strategy was the establishment of an independent but accountable regulator. This helped improve the coverage, quality and productivity of electricity. Moreover, allowing the electricity generating TNCs to compete kept the wholesale price of electricity down.

The Bolivian model of privatization appears to have generated a number of positive effects. Fiscal revenues from the power sector (sales and profit taxes) increased from $17 million in 1994 to approximately $42 million in 1997, and the servicing of ENDE's debt of approximately $61 million was transferred to the private companies. FDI in the electricity industry rose from $2.2 million in 1995 to a peak of $51.9 million in 1998. Subsequently, however, it fell to $1.4 million in 2001, following the completion of the capitalization process. Moreover, competition among the four post-reform generating companies caused the spot price of electricity to fall by 22% between 1996 and 2000, and consumers gained better access to the power companies through new consumer offices to resolve grievances. While the average consumption price has increased somewhat (ranging from $5.55-$6.67 per kWh in 1994 to $5.82-$7.88 in 2001) (www.superele.gov.bo), electricity coverage has improved: by 2001, urban electrification had reached 78% and rural electrification had grown from 11.8% in 1992 to 25.5 % (www.ine.gov.bo).

In order to promote rural electrification, the Bolivian Electricity Law encourages distribution utilities to expand coverage by allowing for the inclusion of the immediate 100 meters surrounding the lines to companies' concession areas. In addition, the proceeds from the award of concessions to distribution utilities are used for expanding the electrification of rural areas.

Source: UNCTAD, based on Jamasb 2002 and World Bank 2000, 2003b.

utilities may not need persuasion to enter, but they may lack information on economic and other conditions in the host country. Those aiming at export markets have more locations to choose from and are therefore particularly demanding. Effective FDI promotion requires a capacity to assess national strengths, global investment trends and the strategies of potential investors – and then match all three. They should be able to target activities, countries and investors and gear their promotion to these, rather than mount diffuse publicity campaigns.[13] Successful investment promotion involves not just selling the existing advantages of a country but also *creating* new advantages.[14]

What are investment promotion agencies (IPAs) targeting in the area of services? In a survey conducted by UNCTAD in January-April 2004, 61 national IPAs responded to this question. All respondents reported that they target FDI in some industry and/or activity, but prime attention was given to services that can help generate export revenues. The service *industries* that are most often targeted by IPAs are computer and related services, tourism, and hotels and restaurants. The least common service industries targeted are retail and wholesale trade, water and insurance (table V.1). However, there are notable regional differences. IPAs in developed countries and in CEE most often target FDI in computer services, but a few of them target FDI in tourism. Conversely, almost 80% of all IPAs in Africa and Latin America target tourism-related FDI. In Asia and the Pacific, greater importance is given to FDI in transport and water services than by IPAs elsewhere.

The increased tradability of services (chapter IV) makes it possible for companies in all sectors to relocate various service *functions* abroad. In order to assess the extent to which investment promotion activities reflect the new opportunities in this area, IPAs were asked whether they target certain corporate service functions. Indeed, IT and call centre services are the most sought-after service functions in all regions (table V.2). For example, more than half of all IPAs in Africa are already actively seeking FDI in these areas. In developed countries and CEE, R&D activities, call centres, shared service centres and regional headquarters functions are also targeted by at least 50% of the IPAs. In contrast, less than 20% of the IPAs in developing countries seek to attract FDI in R&D.

The general principles for promoting services FDI are similar to those in manufacturing.[15] However, some services are a relatively new to FDI promotion. IPAs have therefore to learn their particular characteristics, corporate strategies, intellectual property implications, value chain organization and market leaders, to be effective. Moreover, while it may be relatively easy to identify the target companies in service industries, targeting service functions that can be offshored by firms from all sectors

Table V.1. Service industries targeted by IPAs, 2004

(Per cent; number of responses)

Service industry	All countries	Developed countries	CEE	Developing countries	Africa	Latin America	Asia-Pacific
Computer and related services	72	100	80	65	58	62	82
Hotels and restaurants	57	13	50	67	63	77	64
Tourism	57	25	30	70	79	77	45
Transport	39	25	40	42	42	23	64
Energy	34	25	20	40	58	23	27
Health and social services	30	25	-	37	47	15	45
Other business services	28	38	60	19	11	15	36
Banking	26	25	20	28	42	8	27
Construction	26	-	10	35	42	31	27
Education	26	25	10	30	42	8	36
Real estate	20	13	30	19	26	15	9
Water	18	-	10	23	32	15	18
Wholesale trade	16	13	20	16	16	-	36
Insurance	15	13	-	19	26	8	18
Retail trade	13	-	10	16	16	8	27
Others	30	25	20	33	26	38	36
No. of responses	*61*	*8*	*10*	*43*	*19*	*13*	*11*

Source: UNCTAD survey of IPAs, conducted January-April 2004.

Table V.2. Services functions targeted by IPAs, 2004
(Percentage; number of responses)

Service function	All countries	Developed countries	CEE	Developing countries	Africa	Latin America	Asia-Pacific
IT services	75	100	80	70	63	77	73
Call centers	61	75	70	56	53	62	55
Shared services centers	43	63	60	35	26	38	45
Regional headquarters	38	63	50	30	21	38	36
R&D	33	75	60	19	26	8	18
Offshore banking	15	-	-	21	26	23	9
Others	21	25	30	19	26	8	18
No. of responses	*61*	*8*	*8*	*43*	*19*	*13*	*11*

Source: UNCTAD survey of IPAs conducted January-April 2004.

is a real challenge. UNCTAD's survey of IPAs showed that various tools are used to promote FDI in services. General promotion (e.g. missions, seminars, websites) and tax incentives are widely applied through the range of services. For export-oriented FDI related to tourism, call centres (see box V.5 for an example), computer-related services, health and social services, regional headquarters and R&D and different forms of free zone incentives (free trade zone, export processing zone, free economic zone) are used. A few IPAs also mentioned direct grants.

As with attracting FDI into other sectors, a generally favourable investment climate is important. This implies a welcoming regime for private investors, stable and transparent policies, competitive tax rates and low transaction costs (*WIR02*, Part III). Attracting export-oriented FDI generally requires a higher quality of relevant production factors. In services, locational determinants may be related to a more narrow range of factors than in manufacturing.[16] In particular, skill and infrastructure must meet the needs of TNCs and match those offered by competing locations. Countries seeking to attract high value services FDI such as R&D, architectural design, medical testing or regional headquarters functions have to match carefully their locational assets with the specific needs and strategies of investors. (Boxes V.6 and V.7 explain the strategies of Singapore and the Republic of Korea, respectively, in attracting headquarters and other high-value-added service functions.)

An important area of investment promotion that generally remains poorly developed is after-care services. This promotional activity may be particularly relevant in the context of the offshoring of services. As many as 40% of the largest European TNCs stated that factors beyond pure benchmarking affect their offshoring decisions, including internal lobbying by their own foreign affiliates (UNCTAD and RBSC 2004). Many foreign investors feel that IPAs focus on attracting new investors, but not enough on taking care of existing ones (IBM and Oxford Intelligence 2004).

Having discussed the need for an appropriate investment environment, the following sections focus on the role of incentives, export processing zones, infrastructure and skills development and, finally, the protection of data and intellectual property rights, in promoting locations for FDI in services.

b. The role of incentives

As part of their investment promotion efforts, many countries use various fiscal, financial and other incentives to attract foreign investors,[17] in manufacturing, and increasingly so in services. A recent analysis of WTO Trade Policy Reviews showed that both developed and developing countries apply a wide range of subsidies to either attract (or retain) the production of services or to influence the behaviour of companies in certain industries (WTO 2004b).[18]

Subsidies are used in the whole range of service industries, but are most common in tourism, transport and financial services. Many WTO members also provide subsidies in the telecom industry, often in the form of grants to fulfil universal service obligations. A significant number of members allow duty-free inputs and provide subsidies linked to special zones of

various kinds (table V.3). Tax incentives are more common than direct grants, but there are certain differences between countries at different levels of development: developed countries rely more on direct grants than on tax incentives, and they rarely allow duty-free inputs and free zone incentives.

Incentives in service industries are provided for various purposes. They are often granted to induce domestic or foreign investment into service industries that are important for boosting systemic competitiveness and economic growth, such as infrastructure or other strategic industries. For example, in Sri Lanka, income tax holidays for 5-10 years are offered for pioneering investments in energy, transportation and water services; the Thai Board of Investment grants import-duty exemptions on certain machinery and an 8-year tax holiday to industries

Box V.5. New Brunswick: an early mover in attracting call centres

The Canadian province of New Brunswick has attracted customer contact centres since the beginning of the 1990s. Aliant Inc., the regional telecom provider, was an early investor in fibre-optics and digital switching technologies. Aliant's early entrance was driven by the need to create network-based solutions for distributed centres. It succeeded in rapid implementation of an advanced province-wide telecom infrastructure. This infrastructure, together with the province's business investment strategy, a skilled labour force, the province's bilingualism, proximity to the United States, political stability and a favourable currency exchange rate, were identified as location assets by the local government.

The development strategy was, and remains, successful. By 2004, more than 100 contact centres had been established in New Brunswick, employing an estimated 18,000 workers, equivalent to 4.6% of the provincial labour force. Initially, the investors were mainly of Canadian origin, although companies from the United States were subsequently targeted. Fibre-optic backbone connections to major United States telecom networks made possible a seamless integration of New Brunswick operations for international companies.

During the 1990s, educational initiatives were sought to support the industry. Computer literacy became mandatory for high school graduates, and both public and private institutions began to offer contact centre and IT training programmes. This training has evolved to include technical assistance/helpdesk operations as well as business-to-business sales, applications development and sophisticated customer service courses. Diversification into other back-office functions such as accounts receivables, human resource management and accounts management has also occurred, and the workforce continues to be trained in the skills and technologies required to handle effectively skilled transactional work.

Career websites, electronic job fairs, toll-free numbers and electronic databases have been established to gather information on people with the skills and interests to work in the industry. There have also been efforts to draw on non-traditional labour pools, such as students, disabled persons and seniors, made possible in part by a targeted wage/training subsidy programme. Finally, so-called "virtual contact centres" – where people can work from smaller satellite operations or from home – have been tested and are operating in the province.

The provincial government continues to support the contact centre strategy as part of its "Prosperity Plan", while other partners have also become more visible. Partnerships with local economic development agencies, federal and municipal governments, chambers of commerce, industry organizations and educational facilities are now in place. An industry association shares best practices and addresses broader concerns such as quality standards, industry image and training to ensure a continued supply of qualified workers.

The customer contact centre industry remains a growing facet of the New Brunswick economy. From its early start in traditional telemarketing, the industry has grown to include web-based customer care (e-government) and advanced training technologies (e-learning) – the fastest growing subclusters of the province's knowledge industry. The industry now encompasses companies providing Internet solutions (e-business); software development; systems integration and support services; and consulting services, including knowledge-based services, engineering, environmental, architectural, ocean technologies and remote monitoring services.

Source: UNCTAD, based on information provided by Business New Brunswick.

Box V.6. Singapore: going for headquarters

The Economic Development Board (EDB) seeks to establish Singapore as a premier international hub for all types of headquarters (HQs) – big and small, from all industries and geographic regions. Its goal is to attract 500 world-class regional and international HQs by 2010 that will receive the prestigious EDB HQ award.

The HQ Programme started in 1986 with the launch of the Operational Headquarters Programme award to firms that provide management and other HQ-related services to foreign affiliates or related companies in other countries. The Programme has evolved over time to include the Business Headquarters Programme, Manufacturing Headquarters Programme and Global Headquarters Programme awards.

In January 2003, the HQ Programme was streamlined and enhanced. A new scheme, the Regional Headquarters award, was introduced for companies conducting exploratory forays into the Asia-Pacific using Singapore as a base. Companies under this scheme enjoy a preferential tax rate of 15% for a period of three years if they meet certain investment and operational commitments. In this case, the EDB leverages external partners, such as the accounting, legal and business associations based in Singapore, to take the lead in promoting the award.

In parallel, EDB announced that it would be stepping up its initiatives to promote companies in areas such as lifestyle, retail and hospitality, and international business-related organizations and foundations, to create an HQ "eco-system" of small, medium and large HQs from all over the world, collectively building depth and diversity into economic activity in Singapore. By end-2003, around 280 companies had been granted HQ status. EDB estimates that over 4,000 of the 7,000 TNCs in Singapore have some form of regional mandate.

In its budget for 2004, the Government announced enhancements to the Regional HQ Award. Effective from February 2004, the maximum number of years for the Award was increased from 3 to 5 years and it was opened up to all companies in Singapore.

HQs established under the Programme represent various industries, most of which concern electronics and precision engineering and various services (box table V.6.1). In terms of home countries, 38% of the HQs are controlled from North America, 33% from Europe and 29% from Asia, New Zealand or Australia. According to the EDB, the HQ Award has helped create 1,600 new high-skilled jobs and the value added is estimated at about $600 million. In 2003, TNCs attracted under the scheme included NEC, Seagate, Scandent Group and Tata Consultancy Services.

Box table V.6.1. Industry breakdown of the Singapore EDB cluster HQs, January 2004
(Per cent)

Industry	Share
Electronics and precision engineering	22
Services[a]	20
Chemicals	19
Infocomms and media	19
Logistics and transport	15
Biomedical sciences	5
Total	100

Source: EDB.

[a] The services cluster encompasses HQs from emerging areas such as professional services, retail and hospitality, as well as established areas such as education and environmental engineering services.

Source: UNCTAD, based on information provided by the EDB.

that include high-skill services; the Government of Morocco exempts offshore banks from various duties and taxes; and the Australian film production industry received government support in several ways, including grants for post-production and low-budget production funding.

Subsidies are sometimes used to promote the universal provision of services or regional development. In Bulgaria, Canada, Chile, El Salvador, Namibia, the United States and Venezuela, they are granted to infrastructure industries (e.g. transportation, energy, telecommunication). In Chile, the Fund for the Promotion and Development of Remote Areas aims at the development of various provinces in Chile's extreme north and south by providing assistance to SMEs investing there.[19]

Many countries use incentives to encourage production that generates export revenues (e.g. tourism, ship repair services, software development, call centres) (box V.8 presents the example of the Gambia). In

Mauritius, the Government, under its ICT scheme, offers a tax holiday until 2008 and a 15% corporate tax thereafter; companies investing in call centre and back-office services can opt for a uniform corporate tax rate of 5%. In addition, the Government provides for duty-free imports of specified equipment, accelerated depreciation for ICT equipment, electricity tariffs at competitive rates, a 50% reduction in personal income tax for foreign IT specialists and fast-track processing of work visas and residence permits for expatriates.[20] Similar schemes are found in many other locations. For instance, in Croatia an amount of approximately $2,100 is granted for each new employee recruited; Shanghai (China) and Singapore use tax incentives to attract regional headquarters; in Malaysia, the Multimedia Super Corridor's incentives seek to attract call centres and regional headquarters; and Ghana offers call centre companies a corporate tax holiday for ten years and a maximum rate of 8% corporate tax plus duty-free imports.

In order to increase the effectiveness of incentives offered to export-oriented FDI in services, the forms of financial assistance may have to be different from those used to attract investment in manufacturing. In the Czech Republic, for example, the IPA found that the

Box V.7. The Republic of Korea: a regional business services hub for North-East Asia?

The economic success of the Republic of Korea has traditionally been linked to manufacturing. To face growing competition from countries offering lower costs, the Government is searching for new sources of growth. On the one hand, it pursues technological upgrading (implying higher value added and knowledge-intensity) of current manufacturing industries. On the other, more attention is being given to service industries. One area in which the Government seeks to attract FDI is business services, as the country aims to become a regional business services hub for North-East Asia.

In 2002, it was decided to develop the Republic of Korea as a regional logistics centre and business hub for high-value-added services (headquarters functions, trade, finance, IT, design, R&D, leisure and tourism). The plan is to develop three free economic zones around the Incheon international airport and the Busan and Gwangyang ports. These zones will be provided with state-of-the-art infrastructure (bridges, highways, railroads, ports, utilities, communications, IT) and an advanced business environment. Benefits include:

- New *tax incentives*: income and corporate tax exemptions for the first three years and 50% reduction for the two subsequent years; a flat 17% income tax rate for CEOs and other employees of foreign companies; import-tariff exemptions on capital goods for three years; and acquisition, registration, property and aggregate land-tax exemptions for the first three years and 50% reduction for the two subsequent years.
- *Financial support*: exemption or reduction of public land fees; and preferential assistance in the construction of infrastructure.
- *Deregulation*: minimal application of land-use regulations governing factory construction and enlargement applicable to the Greater Seoul Area; lifting of restrictions on businesses reserved for SMEs; and streamlining of 34 different types of permission related to construction activities.
- More flexible *labour market regulations*: unpaid weekly and monthly leaves; exemption from obligatory employment of veterans, the disabled and the elderly; and permission for outsourcing of highly skilled and professional work.
- *Administrative support*: one-stop services for 30 administrative areas; Foreign Investment Ombudsman Office established; port-to-port service managers assigned to foreign investors.

The Government also aims at improving the living environment for foreigners. In the free economic zones, there will be more green areas and recreation facilities, guaranteed allotment of housing, use of English in government services, permission to pay in foreign currency up to a limit of $10,000 and establishment of world-class foreign schools, hospitals and pharmacies. The ratio of cable network foreign broadcasting retransmission channels will be expanded from the current 10% to 20%. The Government hopes that the business-friendly environment created in the zones will eventually spread to the rest of the country.

Source: UNCTAD, based on information from the Government of the Republic of Korea.

Table V.3. Subsidies used in different service industries
(Number of WTO members)

Industry	Tax incentives	Direct grants	Preferential credit & guarantees	Equity injections	Duty-free inputs & free zones	Other & unspecified measures	Number of WTO members (counting the EU as one)
Tourism	41(2)	12(4)	15(2)	2(-)	30(-)	11(1)	63(6)
Banking	13(2)	4(1)	6(1)	9(1)	10(-)	6(-)	33(4)
Maritime transport	10(4)	6(1)	3(1)	-	9(-)	6(3)	25(4)
Transport, general or unspecified	9(1)	8(4)	2(-)	-	5(-)	7(-)	24(4)
Telecoms	3(-)	10(3)	1(-)	-	5(-)	4(-)	18(3)
Other financial services	9(3)	1(1)	3(1)	2(-)	9(-)	-	17(2)
Software, ICT and information processing	9(2)	3(2)	1(-)	-	8(-)	2(-)	15(2)
Construction	11(1)	3(2)	2(-)	-	4(-)	-	15(2)
Air transport	7(-)	2(2)	1(-)	1(-)	4(-)	5(4)	14(4)
Rail transport	4(1)	6(1)	-	-	-	6(1)	13(3)
Energy	7(1)	2(1)	-	-	1(-)	7(1)	14(2)
Recreation, culture & sports	7(1)	4(3)	1(-)	-	5(1)	-	12(4)
Audiovisual services	5(1)	6(4)	-	-	3(-)	-	11(4)
Wholesale & retail trade, distribution	6(1)	1(1)	1(-)	-	6(-)	-	11(1)
Real estate	3(3)	1(1)	1(-)	-	1(-)	-	5(3)
Other & unspecified sectors	11(1)	4(2)	5(1)	1(1)	12(-)	6(-)	28(3)
No. of subsidy programmes	165(24)	74(33)	44(6)	15(2)	112(1)	60(10)	..

Source: UNCTAD, based on WTO 2004b.

Note: The table includes subsidy programmes that are envisaged. Figures inside parenthesis indicate the number of developed countries.

existing incentive scheme in 2000 was ill adapted to the needs of services investors. It had been designed principally for investment in manufacturing and, given the relatively high dependence of fixed capital investment in manufacturing, it was inappropriate for business-support services. As a consequence, and as part of a broader programme to attract such services and technology centres, a new scheme was initiated, which focused on human (rather than physical) capital. Investors who qualify can now receive a subsidy of up to 50% of eligible business expenses (i.e. wage or capital expenditures on tangible and intangible assets), along with a subsidy covering 35% of special training (i.e. skills that are not readily transferable from investors' projects) and 60% of general training (table V.4).

Box V.8. Investment subsidies in the Gambia

Under the Investment Promotion Act of Gambia, various tax incentives are available to encourage investment in priority industries and activities. These include tourism, transportation, energy, financial services, skills development, health services and IT services. Investment has to be undertaken by a company or partnership registered under Gambian law, and the investment must amount to at least $100,000.

In awarding investment incentives, an investment's contribution to the following objectives are considered:

- generation of foreign-exchange through exports or import substitution;
- use of local materials, suppliers and services;
- creation of employment opportunities;
- introduction of advanced technology, or upgrading of indigenous technology;
- contribution to locally or regionally balanced socioeconomic development.

Free zone incentives are available to services such as packaging, labelling, warehousing, transportation, energy, telecommunications, financial services, information technology and health services. To benefit from free zone incentives, an investment must generate employment and include the training of nationals. Moreover, a substantial portion of output (currently 70%) must be exported. The incentives provided to free zone investors take the form of tax and duty concessions or exemptions.

Source: WTO 2004b.

Table V.4. Specific conditions of the Czech incentives scheme for business-support services and technology centres, 2004

Condition	Type of project	
	Technology centres, headquarters, software development centres, expert solution centres	Call centres, high-tech repair centres, shared service centres
Minimum investment	CZK15 million (€0.5 million)	CZK30 million (€1 million)
Minimum number of new jobs	15	50
Amount recipient must finance with own resources	CZK7.5 million (€0.25 million)	CZK15 million (€0.5 million)
Linkage with production (relevant for technology centres only)	The technology centre's work should link up with production	
General conditions: minimum 50% of the earnings must be realized abroad; investment and jobs must be sustained for 5 years; project must be environmentally friendly.		

Source: UNCTAD, based on information from CzechInvest.

Few studies have been undertaken to analyse the impact of incentives on FDI in services. Studies of their use in manufacturing suggest that the effectiveness of incentive programmes depends on the market orientation of the foreign investor (*WIR03*). Whereas incentives tend to have little or no impact on the location decisions of firms oriented towards producing for the domestic market, they can influence those aiming at export-oriented investment. Technological developments have expanded the possibilities for attracting outward-oriented services FDI as illustrated by offshoring of services. Behavioural incentives, i.e. incentives that are linked to some kind of performance requirement, are more likely to affect both market-seeking and efficiency-seeking FDI. In general, the effectiveness of incentives depends on the ability of a host economy to provide matching human resources, technology and production inputs (*WIR03;* UNCTAD 2003h)

As in the case of manufacturing, there is risk of a "race to the top" in the use of incentives, especially for export-oriented FDI. The risk is accentuated by the footloose nature of many export-oriented services projects – if one country offers financial assistance, others may feel obliged to do the same. The experience of India shows that there can also be intense incentive-based competition within a country (Kumar 2001a). Excessive use of incentives is likely to be particularly difficult for developing countries to sustain, and resources that could have been used more productively may be diverted. The inherent "prisoner's dilemma" in incentive-based competition is a classic case for international cooperation. However, whereas the WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement) prohibits the use of export subsidies in the goods area, there are no similar restrictions at the multilateral level in services (box VI.4).

c. EPZs in developing countries see potential in services [21]

Export processing zones (EPZs) have traditionally been used to attract FDI in the export-oriented production of goods. Manufacturing activities carried out in EPZs were originally largely limited to garments and the assembly of electronic components. The services activities involved were mostly warehousing and trade facilitation. Information from EPZ authorities suggests that services are now gaining in importance. More than 90 of the 116 countries with EPZs covered by the ILO's database promote a range of service activities (annex table V.1), with India (table V.5) and Kenya (box V.9) being good examples.

The types of services located in EPZs have expanded rapidly, from commercial services and simple data entry to call centres, medical diagnoses, architectural, business, engineering and financial services. A regional breakdown of services shows that most EPZs with service industries are located in developing countries (table V.6). There are some EPZs in developed countries, but these tend to be of a different nature, resembling industrial and/or technology parks and customs warehouses.

In India, many of the offshored services have been attracted to various dedicated

Table V.5. Types of service activities attracted by an EPZ in India, 2004

Advertising & marketing	Leasing services
Architecture & interior design	Legal & licensing
Brokers/commission agents	Logistic services
Buying & sourcing agents services	Marketing/distribution agents &
Catering services	Media, entertainment & related
Clearing & forwarding	Medical & Healthcare
Communication	Miscellaneous
Computers, software & Internet	Photography
Consultancy	Plantation management
Content providers	Printing & packaging
Courier	Production & distribution
Education & training	Public relations
Energy/power	Real estate & construction
Environmental/pollution control	Recruitment & manpower
Events management services	Redundant & surplus stock marketing
Extraction & mining	Refining
Fabrication & designing	Repair & maintenance
Farming services	Research & development
Financial & banking	Safety & security
Fishery services	Shipping, air, cargo & railways
Hospitality	Tailoring
Immigration	Tours & travel
Import/export	Trade promotion
Industrial processes	Translation
Information directory	Transporters, packers, movers
Inspection & testing	Warehousing
Installation & de-installation	Waste management
Insurance	

Source: UNCTAD, based on www.indiatradezone.com.

technology parks for IT services that were set up by individual states. The first software technology parks were established in 1990 in Bangalore, Pune and Bhubaneshwar, and another four were set up in 1991. In some cases, the private sector engaged directly in the development of technology parks.[22] As of 2003, there were 39 such parks with about 7,000 units registered. In 2002/03, these parks accounted for 80% of all software exports from India. In addition to providing modern computers and communication technologies, they offer such incentives as approvals under a "single window clearance" mechanism; permission for 100% foreign ownership; five-year tax holiday with no value addition norms; duty free imports; and permission to subcontract software development activity (India, Department of Information Technology 2004).

Another example is Mauritius, which is seeking to position the country as a location for FDI in offshoring. To this end, it has initiated the "Cyber City" project to attract call centres, back-office services and programming especially to serve francophone Africa, France and parts of Canada. It aims to make Cyber City a state-of-the-art technology park with office buildings and a world-class telecom network. An important feature is its computing-on-demand facilities that can accommodate back-up centres for disaster recovery services, where the data can be stored and call centres can respond on demand.[23] The Government of Dubai adopted a similar strategy in the 1990s, creating an Internet City to become a hub for regional headquarters.[24] In Jamaica, the transformation of manufacturing free-zones into "teleports" has successfully attracted considerable offshored services (box V.10).

EPZs seeking to attract services generally advertise the availability of high-quality telecommunications, a stable power supply and well developed technology support infrastructure. In addition, they offer a range of incentives such as 100% exemption of import duties and general sales tax, full repatriation of earnings and preferential customs clearance. From the information published by zone authorities, the availability of a highly skilled workforce is considered an important determinant of investment in services. Many of them advertise an educated workforce and some offer joint training. Some even provide details on the actual level of education of workers, including details on the types of degrees obtained, number of graduates, and number of universities and training institutes in the vicinity and enrolment therein. Various zone authorities also emphasize the linguistic capabilities of their workforce. This emphasis on the availability of knowledge workers differs from what the more traditional assembly EPZs emphasize, such as the availability of low-wage, low- or semi-skilled workers.

Table V.6. Regional distribution of EPZs targeting services, 2004
(Number)

Region	No. of countries with EPZs for services
European Union	5
Other developed countries	1
Africa	20
Latin America and the Caribbean	26
Asia and the Pacific	26
Central and Eastern Europe	13
Total	91

Source: ILO, www.ilo.org/epz.

d. Infrastructure and skills development

As noted in chapter IV, adequate infrastructure and appropriate skills are important determinants in firms' decisions on where to invest in export-oriented service production. Of course, the appropriate infrastructure for services such as telecoms, power generation and distribution, financial services and distribution/ logistics services are essential, not only for creating an environment conducive to IT-enabled services, but for the conduct of business activities in general. From the perspective of attracting FDI, the importance of the type of infrastructure varies,[25] but for most types of IT-enabled services, the role of telecommunications deserves special attention.

Competitive telecom services are the backbone of the new services economy, and they are also a requirement for attracting IT-enabled services production for exports. No country can hope to succeed in this area without a high

Box V.9. Services sought by Kenya's EPZs

Kenya's EPZs target various export-oriented service ventures, such as back-office operations, software development and other IT services, printing services, transport and logistical services and audio-visual services related to sound recording, TV transmission and motion pictures. A number of professional and educational services are also promoted. The Kenya EPZ Authority has been targeting these export services since 1993, three years after the enactment of the EPZ Act. Companies in a range of industries have invested in the EPZs (box table V.9.1).

In order to attract investment in such services, EPZ exporters are offered a high quality zone infrastructure in the form of office buildings, serviced land and common services. They also enjoy attractive fiscal and regulatory incentives established under EPZ Act:

Fiscal incentives:

- 10-year corporate tax holiday and 25% income tax thereafter
- 10-year withholding tax holiday on dividends
- Duty and value-added tax (VAT) exemption on raw materials, machinery and other inputs
- Stamp duty exemption
- 100% investment deduction on capital expenditure within 20 years.

Procedural incentives:

- Rapid project approval and essentially one licence
- No minimum investment level and unrestricted investment by foreigners
- Access to offshore borrowing
- No exchange controls
- Autonomous control of investment proceeds
- Exemption from the Industrial Registration Act, Factories Act, Statistics Act, Trade Licensing Act, Imports, Exports and Essential Supplies Act
- Work permits for senior expatriate staff
- On-site customs documentation and inspection
- One-stop-shop service by the EPZ Authority for facilitation and aftercare.

Box table V.9.1. Selected companies engaged in EPZ export services, April 2004

Company	Service activity	Country of origin
Logistic container centre Ltd	Repair of containers	Denmark
Al-borj (Kenya) Ltd	Brokerage, training and after-sales services for garments	Pakistan
Hong Kong Garments Ltd	Brokerage services for garments	India
Shipmark Ltd	Brokerage and ship management, repair and operation of marine vessels	Denmark/United Kingdom
Film Studios Ltd	Film production services	Kenya
Bluesky Films Ltd	Film production services	Croatia/Kenya
Pontact Productions Ltd	Film production services	Kenya/Netherlands
Kencall Ltd	Call centre services	Kenya/United Kingdom
Tibbet & Britten Ltd	Warehousing	United Kingdom/ Kenya
Kenya Marine Contractors Ltd		United Kingdom/ Kenya / Denmark

Source: UNCTAD, based on information provided by Export Processing Zones Authority, Kenya.

quality and efficient telecom system, but once it is in place, many opportunities are created (box V.11). The transmission of voice-based data is particularly demanding in terms of bandwidth and instantaneous transfer. Ensuring competitive telecommunications and Internet access typically

Box V.10. Jamaica's teleports

Between 1998 and 2003, Jamaica successfully took advantage of the accelerating pace of offshoring from the United States. In so doing, it has become a leading Caribbean recipient of FDI in the fast-growing offshoring of services. An important factor in this process has been the conversion of the country's manufacturing EPZs into modern teleports: corporate parks wired with fibre-optics and satellite technology.

Currently, Government-owned and private EPZs house 15 communication-based companies providing 5,000 jobs. Office space built or reallocated to facilitate helpdesks, debt collection and travel reservations, along with software development and back-office processing primarily from the United States, grew by an average of 30% a year, from 89,000 sq.ft. in 1998 to 210,000 sq.ft. in 2003.

This rapid success is the result of a strategy that began in the late 1980s. In an attempt to develop Jamaica's service industries, the Government created the Jamaica Digiport in conjunction with telecom companies (Cable & Wireless and AT&T) to provide satellite-based telecommunications primarily for the fledgling data-processing industry. As the offshoring of services increased in sophistication, Jamaica's Investment Promotions Agency (www.investjamaica.com) developed a targeting programme based on:

- competitively priced EPZ space (originally created for the apparel industry);
- competitive telecommunications with fibre-optic capacity supported by satellite capability;
- an ample supply of highly literate English-speaking people;
- a human resource development programme to support the types of companies being targeted
- targeted tax and duty incentives; and
- proximity to the eastern part of the United States.

These locational advantages have attracted many companies, resulting in positive impacts for the Jamaican economy. Today, Jamaica has five main corporate zones: the Cazoumar, Garmex, Kingston and Montego Bay EPZs and the Portmore Informatics Park. IT office space in all zones is almost at full capacity. This has prompted the Government to create a "single entity" EPZ legislation to provide the same benefits to stand-alone and independently owned facilities. The legislation, coupled with high-capacity telecoms becoming accessible island-wide, has set the stage for more broad-based development, and is opening up possibilities for a new wave of wired zones.

Efforts to attract and upgrade offshored services involve various initiatives to ensure the needed human resources for the full gambit of IT-enabled industries. A number of government and private institutions are involved:

- HEART NTA is a government organization that focuses on the training and certification of students in customer service skills. It also partners with Cisco and Microsoft to provide training courses.
- The Caribbean Institute of Technology created in 1998 focuses on providing certification and diplomas in web-based software languages, software design and development and web design and programming. The curriculum and certification is also offered at eight satellite colleges on the island.
- The University of the West Indies, which provides degree courses in IT, has produced 1,741 graduates in computer programming since 2001, and the University of Technology and Northern Caribbean Universities also provide degree courses in IT.

Jamaica has recognized the need to ensure that the IT industry develops local capacity with the potential to export services. An incubator facility to support the development of technology-related companies was established by the University of Technology in 1999. The Technology Innovation Centre currently houses 32 IT-focused clients. Various technology funds are available to qualified clients, including a 140-million Jamaican dollar fund administered by the National Export-Import Bank and a Young Entrepreneurial Scheme administered by the Innovation Centre. The University of the West Indies has also established a science park and has funded Mona Infomatics, an IT company that currently provides services to Boeing and several other aerospace companies.

Source: UNCTAD, based on information provided by Jamaica Promotions Corporation.

requires liberalization and a regulatory framework that spurs competition among service providers. In mobile telephony, the bargaining position of governments vis-à-vis potential investors is better than in fixed-line services: through licensing/bidding for licences, governments can negotiate more competitive arrangements with foreign operators who typically undertake greenfield investment.

There are many examples showing the importance of competitive telecoms. In India, while the domestic telecom infrastructure is still weak in many parts of the country, the supply of lines in key locations has greatly improved. Various policy reforms since 1994 – when the National Telecom Policy took the first major steps to open up the industry to competition – have contributed to a rapid expansion of the telecom network. Except for the cellular mobile phone segment, there are no restrictions on the number of telecom operators. In international, long-distance and local services, unrestricted competition is now allowed, and fibre-optic links connect the country to major external markets. Private sector investment has helped bridge the resource gap to a considerable extent (India, Department of Telecommunications 2003).[26] In the Philippines, expansion of the multimedia infrastructure and reregulation of telecommunications have led to better services, more stable and reliable fibre-optic links as well as a 70% drop in the costs of bandwidth over the past four years. There are currently nine major players in the Filipino industry and there is full competition in all segments of the telecom services market.[27] Good and low-cost telecommunications suited to data and voice transmission have been an important factor in the location of shared service centres in Chile. The industry was privatized and liberalized in the 1980s, and the telephone network was digitalized in the 1990s.[28]

To attract offshored services, international connections are a vital element of the telecoms infrastructure. In the case of India, Mumbai and the southern states – which have been the most successful in attracting offshored services – had an early advantage of being in close proximity of the landings of two submarine fibre-optic cables.[29] Fibre-optics are generally cheaper and more efficient than satellite links. Whereas there is a range of cables between the main markets, many developing countries remain delinked from such international networks, which limits their ability to develop competitive bases for services exports. (Figure V.3 shows the global network of interregional submarine fibre-optic cables as of 2004). Whereas the United States, Europe and East and South-East Asia are well supplied in terms of cable capacity, only one major cable connects parts of Africa to the rest of the world – the SAT-3 cable. In sub-Saharan Africa, for example, Angola, Benin, Cameroon, Gabon, Ghana, Côte d'Ivoire, Mauritius, Nigeria, Senegal and South Africa are directly linked to this cable.

Skills development is another key policy area. The knowledge-intensity of services production places basic education and skills development at the centre of the policy challenge to attract FDI and to extend the benefits of IT-enabled services more broadly throughout the economy. The types of skills required differ by the kind of service. Most offshored services essentially process information of various kinds. Some of the skills needed are general in nature, whereas others are specific to the activity being undertaken. Host countries have to ensure that the skills base is adequate to the services being promoted.

India's software export performance is partly a reflection of its large pool of English-speaking and technically trained manpower, the

Box V.11. Digital networks in Ireland: a locational advantage

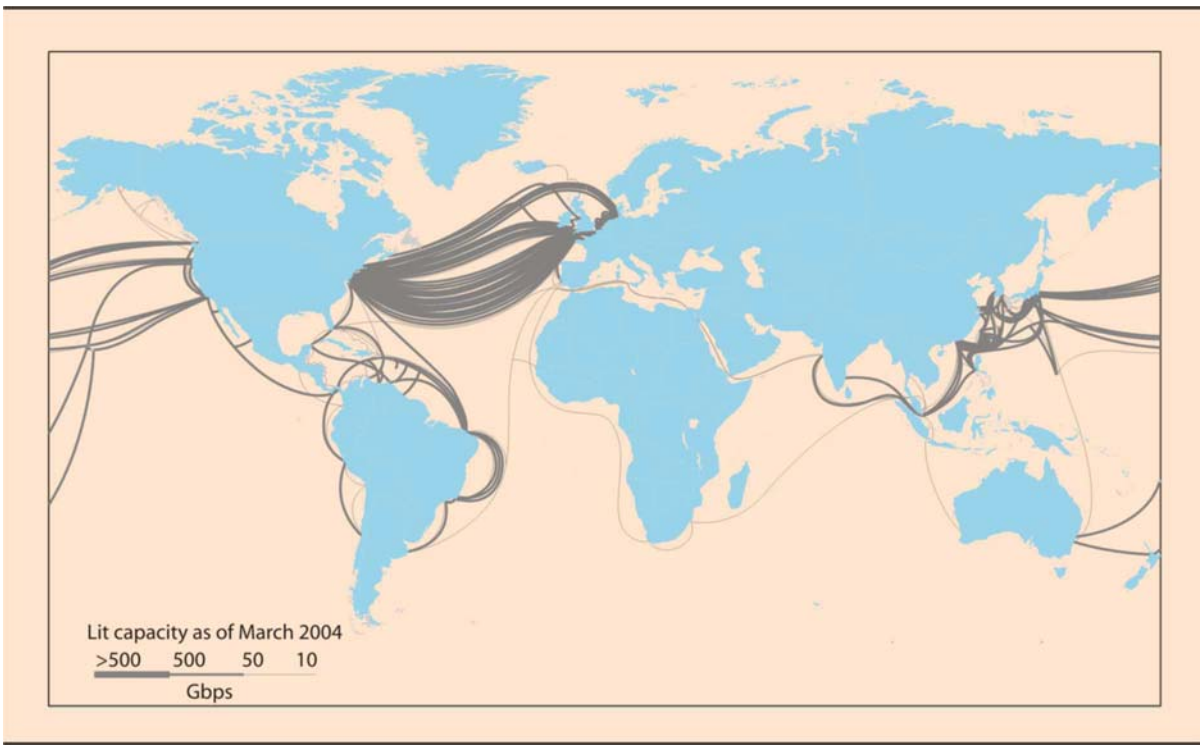
About two decades ago, the phone system was a weak link in Ireland's efforts to attract FDI. When the Industrial Development Agency sought to raise the issue directly with the Department of Posts and Telegraphs, the response was not encouraging. Shortly thereafter, however, a new State agency was established to run the service on a commercial basis, and an investment plan was announced to build a digital network. This allowed the Irish IPA to claim in its promotional efforts that, apart from France, Ireland had the most advanced digital-based telecom system in Europe. A new set of industries, for which first-class international telecommunications are a key factor, could now be targeted. These ranged from software development to call centres, customer support and data-related services. For Ireland, these new knowledge-based industries became a major source of job creation.

Source: MacSharry and White 2000.

result of decades of education and training (Kumar 2001a).[30] The concentration of export activity reflects the agglomeration of skilled manpower: most software companies are in Mumbai and Bangalore, where the software industry originally developed.[31] Delhi and its surroundings host a number of software firms, while Andhra Pradesh and Tamil Nadu are growing rapidly. These five states account for nearly half the diploma-granting technical institutions in India and two-thirds of all diplomas awarded by private training institutions (D'Costa 2003, p. 216). Some 850 private training institutions had been accredited by the Government as of January 2004 for IT diplomas at four different levels (India, Department of Information Technology 2004).[32] Currently, the annual turnover of engineering degree and diploma holders is estimated at 150,000 and 140,000 respectively. In addition, some 2.2 million arts and science graduates are added every year to the existing stock. Nonetheless, there are concerns that the quality and supply of middle-level manpower is insufficient.[33]

But less sophisticated services also need special skills. While call centres require customer support and telesales skills, a shared service centre typically needs staff with financial, data entry and processing skills. Language skills are equally important. Even developed countries such as Canada (box V.5), the United States, the United Kingdom and Sweden have launched university level programmes to improve the supply of management skills.[34] Among developing countries, the Industrial Vocational Training Board of Mauritius provides training to call centre and other services agents; and Hungary is developing specialized vocational training programmes for both shared services and customer services. To maintain the ready availability of a large pool of college/university graduates who are customer-oriented, fluent in English and familiar with western business practices, various efforts have been made in the Philippines. The Government has reaffirmed, through a Presidential instruction, the use of English as the medium of instruction. Moreover, in partnership with industry and large universities, it has conceptualized and implemented training and bridging programmes tailor-fitted to the needs of the contact centre industry. The private sector has also contributed by establishing call centre academies that offer short courses to prospective call centre agents.[35]

Figure V.3. Interregional submarine cable capacity, March 2004



Source: TeleGeography research, PriMetrica, Inc., www.primetrica.com.

e. Regulatory issues related to data protection and intellectual property

Services offshoring raises a number of regulatory issues, particularly with regard to data security and intellectual property protection. Some developed countries prohibit the exchange of data with countries that do not have adequate data protection legislation.[36] For example, European firms are restricted under the Data Protection Directive of 1995 as to what data can be transferred or stored in countries without equivalent rules and enforcement procedures.[37] The largest recipient country of offshored services, India, currently does not have such national regulations,[38] although the IT Act 2000 (Chapter 11 Article 72) deals with the penalty for breach of confidentiality and privacy, which could go a long way towards addressing some of the data protection issues.[39] At present, individual contracts between a main company and its Indian contractor are used to address data protection issues.[40] A weak regulatory framework in some developing countries may be a factor limiting the extent to which certain services are offshored from Europe or North America (chapter IV).

In a few cases, companies have decided to terminate contracts with providers of offshored services due to customer complaints or to misconduct on the part of the local service provider.[41] Various observers suggest that stricter regulations in developing countries (notably India) are necessary to avoid a backlash. In the financial industry, the need for data security measures may be particularly high to ensure consumer confidence. Indeed, some countries view concerns of this kind as an opportunity to compete successfully with lower cost locations. Singapore, for example, which is no longer perceived to be a low-cost location for export-oriented services, seeks to attract additional FDI in services on the basis of its regulatory framework. Its FTA with the United States sets high standards of protection and enforcement of intellectual property; the country has also signed a memorandum of understanding with the EU in this area (A.T. Kearney 2004).[42] Such commitments are followed up by an active Intellectual Property Office to formulate and implement laws related to intellectual property protection. Developed countries such as Canada and Ireland also emphasize strong regulatory frameworks.

4. Benefiting more from services FDI: upgrading and linkages

Policies to attract FDI in services need to be supported by various initiatives aimed at addressing possible concerns related to inward services FDI and at maximizing the benefits from the presence of foreign companies. Beyond the regulatory needs arising in the context of sequencing FDI liberalization and privatization (dealt with above), two additional issues deserve attention: how to promote closer interaction between local and foreign affiliates in the services sector; and how to facilitate the upgrading of existing investment into higher value-added activities.

The main rewards of FDI are realized in the longer term, when TNCs strike local roots, expand operations, improve local skills, establish linkages with local institutions and upgrade technology. Governments can induce market-seeking TNCs to deepen and extend their operations; they can also induce export-oriented ones to stay and upgrade when wages increase and cheaper competitors appear. This does not happen automatically. Policies are needed to improve local capabilities (skills, institutions, infrastructure), in line with changing technological and market realities.

The potential for linkages in the services sector differs by industry. Foreign affiliates in infrastructure services establish forward linkages with their clients and channel know-how and management expertise. Foreign affiliates that provide intermediate service inputs can transfer technology to their local customers in the same way as foreign affiliate producers of intermediate goods have done (Vangstrup 1999). While some service industries offer limited scope for fragmenting production into discrete stages and subcontracting out parts to domestic suppliers, some service industries (such as construction and retailing) present important potential for linkages with suppliers of physical inputs (*WIR01*, p. 139). The tourism industry also offers a considerable (but often not realized) potential for backward linkages, especially in the hotel industry, in which foreign affiliates can make sizeable purchases of foodstuffs, furniture and fittings (Dunning 1993).

In the production of services exports (e.g. call centres, back-office functions), foreign affiliates outsource some work to local

companies. However, evidence from India suggests that most export-oriented software companies operate as "export enclaves" with few linkages with the domestic economy (Kumar 2001a). Foreign affiliates in software development derive most of their income from exports to their parent companies. The enclave nature of their operation generates few knowledge spillovers for the domestic economy. Otherwise, in the area of R&D, foreign affiliates may engage in cooperative projects with local companies, universities or technology institutions. Such collaboration can be encouraged, for example, by the establishment of technology and science parks.

The promotion of backward linkages with foreign affiliates in the services sector is in principle no different from manufacturing. Government intervention can seek to bridge information market failures by disseminating information on the availability of local suppliers as well as on the specific procurement needs of foreign affiliates. But matchmaking initiatives are typically not effective without complementary efforts to raise the capabilities of domestic suppliers to the standards required by foreign affiliates. The provision of training, assistance in technology upgrading and financial support can help overcome this constraint. An extensive discussion on such policy initiatives can be found in *WIR01*.

For most services activities, upgrading is closely linked to ensuring an adequate supply of skills. Where requirements from industry are evolving fast, such as in offshored services, a case can be made for close interaction between the public and private sectors. In the Philippines, for example, the Government collaborates with industry associations and other stakeholders in developing training and certification programmes. Various projects are also being implemented to encourage and assist firms in acquiring internationally recognized third-party certification.[43] In Europe, a consortium of nine major ICT companies (including non-European firms such as Cisco Systems, IBM, Intel, Microsoft) and the European Information, Communications and Consumer Electronics Industry Technology Association is exploring ways of addressing skill shortages with the support of the European Commission. It has developed generic skill profiles for key ICT jobs and created a dedicated website (www.career-space.com).[44] Ireland has a similar initiative: the Government has established the Expert Group on Future Skills Needs to develop strategies on skills, manpower planning and training for business and education (www.skillsireland.ie). The Group includes representatives of industry, trade unions, training institutions, government departments and State agencies.

Some countries encourage private sector training with the provision of grants and tax incentives. In Jamaica, for example, employers are eligible for a reimbursable training grant, which is administered by the State agency responsible for vocational training. Companies may access training grants up to a maximum of 20,000 Jamaican dollars per employee.[45] The Government of Croatia offers incentives for vocational training or retraining of employees (of up to 50% of related costs). Skill levies are in wide use in many countries (e.g. Malaysia, Singapore, South Africa), while tax incentives to encourage training are offered in Chile, Hungary and Thailand (*WIR01*; UNCTAD 2003h).

B. Home countries: the challenge of adapting

Home countries use various policies that influence the ability of host countries to attract and benefit from FDI. Some home-country measures seek to facilitate – partly in the interest of the home countries themselves – FDI flows into developing countries. Many industrialized countries already have in place a wide range of policies and measures in this area, for example, to provide information, encourage technology transfer, offering incentives and mitigating risk. Meanwhile, other measures – such as certain trade policies – may limit the ability of other countries to attract FDI.[46]

In light of the development opportunities created by the increased tradability of services (chapter IV), this section focuses on responses of governments in developed countries to the growth of offshoring of services. During the past year, concerns regarding the potential loss of jobs in some countries through offshoring have triggered a range of reactions by policy-makers as well as trade unions. The chapter reviews reactions to date mainly in the United States and the United Kingdom, the two countries that have

so far been the most affected. It concludes by discussing the need for government intervention to ensure a win-win outcome as a result of services offshoring.

1. The reaction to offshoring in the United States

The offshoring of services has prompted intense debate in the United States on the issue of white-collar jobs lost through offshoring.[47] The "jobless recovery", which some observers link to offshoring, has further intensified the debate. That certain services are seen as the top end of the value-added ladder has added to uncertainties for developed-country workers once their jobs are offshored. The offshoring of government jobs has evoked particularly strong interest.[48] But concerns about offshoring go beyond job losses. One relates to the loss (or reduction) of control of States over sensitive issues. It has been argued that foreign service providers are outside the legal system of the United States and cannot be held accountable under the laws of that country. This is particularly sensitive if the work is associated with security and privacy issues. Another objection is that the actual savings for public institutions are not clear. Government agencies often outsource to a local service provider, who in turn offshores the activity.[49] Various steps have been taken at both federal and state levels that seek to limit the extent to which companies shift service production abroad.

At the federal level, the President signed a bill in January 2004 prohibiting private companies that win government contracts in the federal transport and treasury departments from moving the work offshore (*Financial Times*, 28 January 2004). This so-called Thomas–Voinovich Amendment is to date the only federal legislation to be adopted in this area. It provides that an "activity or function of an Executive agency … may not be performed by a contractor outside of the United States" unless the activity or function was previously performed by federal employees outside of the United States (Klinger and Sykes 2004).[50] Various other bills have been proposed with a view to limiting the transfer of data overseas, providing preferential treatment for business in the United States, obliging federal Government contractors to use domestic workers or to observe minimum domestic requirements and/or prohibiting federal contract work from being performed overseas (ibid., pp. 16-17). Initiatives have also been taken that make it more difficult for IT firms to get visas for foreign professionals to work in the United States.[51] This may in effect lead to even more offshoring.

At the state level, more than 100 bills have been introduced in at least 36 states to restrict offshoring of services (table V.7).[52] Most of the proposals aim at two aspects: prohibiting companies on state contracts from using foreign workers in the United States and prohibiting companies from moving jobs overseas.[53] Another type of legislation proposed by some states does not prohibit the movement of jobs overseas but seeks to introduce more transparency by requiring foreign call-centre employees to say where they are located. Yet other bills propose to regulate the extent to which financial, medical or other personal data are sent overseas by private sector call centres. As of May 2004, at least two related bills had become public law.[54] In Alabama, Senate Joint Resolution 63 was introduced in April 2004 to encourage state and local entities to use Alabama-based professional services. In Indiana, House Bill 1080, which was signed into law in March 2004, provides for price preferences between 1% and 5% for Indiana companies in the awarding of state contracts.

The eventual impact of this kind of legislation – if and when it is enacted – is unknown.[55] The economic impact may not be too important as the volume involved is small: it is estimated that government offshoring at both the state and federal levels accounts for less than 3% of software exports from India (Chandran 2002),[56] and forecasts suggest that the share of offshored technology spending by states could increase from 5% in 2003 to about 10% by 2006.[57] Rather, the significance of such legislation lies in its possible symbolic impact on liberalization and globalization by setting a precedence.

Trade unions in the United States have also expressed concern about services offshoring. The Communication Workers of America, for example, are lobbying Congress on this issue (Agrawal and Farrell 2003). The number of white-collar staff joining trade unions is increasing: WashTech, a Seattle-based union formed in 1998 to organize high-tech employees, saw its membership grew from 2,000 to 16,000 during the first 10 months of 2003.[58]

Table V.7. Summary list of United States states with proposed legislation restricting offshoring, 2004

State	Proposed legislation
Alabama	State contract restrictions on overseas work; call centre restrictions
Arizona	Ban on state contracts with foreign call centres, call centre and data transfer restrictions, ban on state contracts for foreign call centres
California	State contract ban, call centre, personal data and health-care information restrictions, outsourcing notification requirement
Colorado	State contract ban, data transfer restrictions, ineligibility for state contracts and development assistance if outsourcing causes job losses
Connecticut	State contract ban, call centre, personal data and health care information restrictions, development assistance restriction for outsourcing companies, ban on state contracts for call centres, in-state preference
Florida	In-state resident requirement for state contractors
Georgia	State contract ban and call centre restriction, including state contract ban on foreign call centres
Hawaii	Ban on state contracts with foreign call centres, call centre and data restrictions
Idaho	Employment preference for state residents
Illinois	State contract ban, in-state preferences
Indiana	State contract ban, in-state contract preference
Iowa	State contract ban
Kansas	State contract ban, call centre and data transfer restrictions
Kentucky	State contract ban
Louisiana	State contract ban, in-state contract preference
Maryland	State contract ban
Michigan	State contract ban
Minnesota	State contract ban, call centre restrictions, including state contract ban on foreign call centres
Mississippi	State contract ban, call centre restrictions
Missouri	State contract ban, data transfer and call centre restrictions, including state contract ban on foreign call centres, in-state preference
Nebraska	State contract ban
New Jersey	State contract ban, data transfer and call centre restrictions
New Mexico	State contract ban
New York	State contract ban, call centre restrictions, development assistance restricted for companies that outsource overseas
North Carolina	Call center restrictions, including state contract ban on foreign call centres
Pennsylvania	Legislative investigation of offshore outsourcing from state
South Carolina	Call centre restrictions, including state contract ban on foreign call centres
South Dakota	State contract ban
Tennessee	State contract ban, call centre restrictions
Vermont	State contract ban and ban on state contracts for foreign call centres
Virginia	State contract ban, in-state preference
Washington	State contract ban, call centre and data restrictions
West Virginia	Call centre restrictions, seven-year ban on state contracts and assistance to companies that outsource overseas and have 100-person job loss
Wisconsin	State contract ban, call centre restrictions

Source: Klinger and Sykes 2004.

2. The European response

a. The United Kingdom

In comparison with the United States, policy-makers in the EU generally have not reacted much to the offshoring of services, though some have initiated research. This may partly be because offshoring in Europe is still only about to take off. Trade unions have been more active, calling for protection and strikes, and sometimes they have entered into partnerships with outsourcing companies.

In general, the most intense debate in Europe occurred in the United Kingdom, which among the EU countries (as noted in chapter IV), has the highest number of cases of offshoring to date. However, the Government has not moved towards protectionism and, judging from statements by various ministers, there are no plans to do so. For example, Prime Minister Blair said in relation to offshoring that it is "the way the world is today";[59] the Trade and Industry Secretary said that "however strong the short-term case for protectionism appears to be, the long-term costs are far greater for consumers and jobs. We cannot preach liberalisation to the rest of the world and practise protectionism at home."[60] One of the most explicit remarks was made by the Minister for Energy, E-Commerce and Postal Services, Stephen Timms:

> "recourse to protectionism is not the right way forward. ... Closing our markets would also be inconsistent with our aim of helping developing countries out of poverty through trade. Indeed, it would be perverse to do so when countries such as India are growing through the sort of international trade that we in the United Kingdom have encouraged."[61]

While the Government has said that it does not intend to limit offshoring to protect jobs, there may be some consideration that have this effect. For example, the Office of Government Commerce has stressed that some government jobs would not be offshored for security reasons,[62] and incentives are being offered to attract call centres to certain parts of the country. In addition, there are calls for voluntary action such as that by the Employment Relations Minister, who said: "We cannot do anything to stop these companies, but they have to look at how these decisions affect their customer base".[63] The Government has also underlined the need for policies to help those affected by the offshoring of services.[64]

In general, trade unions in the United Kingdom do not appear to take a protectionist approach. The largest private sector union, AMICUS, has expressed concern about the impact of offshoring, but it does not propose protectionist measures due to the risk of beggar-thy-neighbour reactions and xenophobia.[65] UNIFI, Europe's largest specialist finance-industry trade union, with 158,000 members, regards offshoring as a growing issue and favours a three-pronged approach: early consultation to influence decisions; questioning of the case for offshoring; and avoidance of compulsory redundancies if a decision is taken to offshore. Where possible, UNIFI also engages in partnership framework agreements with employers (box V.12). It argues that the Government could contribute in three ways: funding local initiatives, emphasizing data protection issues and highlighting corporate social responsibility.

b. Other European responses

There does not seem to be strong sentiment against offshoring in other EU countries either. The main response from the Government of *Ireland*, for example, has been to promote the upgrading of existing services. The Government of the *Netherlands* is looking into the issue of offshoring, although its main focus is on relocation of manufacturing to CEE countries. In *Germany*, the Government has not announced any measures related to services offshoring, although, in an interview, the Chancellor called the transfer of jobs to lower cost locations "unpatriotic".[66] The IG Metall union at Siemens advocates the use of industrial and trade policy to control the information infrastructure, and a green card system for skilled workers.

At the EU level, The European Commission has taken note of services offshoring notably from the angle of data protection. The European Data Protection Directive (data on individuals) prohibits data on individual Europeans from leaving the EU unless it goes to countries with full data-protection laws. Some international agreements (e.g. between the EU and Chile, Mexico and Singapore, respectively) also deal with data-protection issues. The European Parliament has begun to examine the possible consequences and the need for a policy response. The Union Network International (UNI) coordinates the trade union response to offshoring at the European level.[67] A UNI-Europe offshore outsourcing charter is under development, but

Box V.12. Social dialogues in the finance industry

One of the ways in which banks and trade unions are addressing job redundancies resulting from offshoring is through social dialogue. Examples include the recent agreements concluded between one of the United Kingdom's main financial services trade union, UNIFI, and two transnational banks, Barclays and HSBC. The Barclays Group Globalization Human Resource Framework agreement seeks to avoid or contain compulsory redundancies as a result of offshoring. It provides for measures such as voluntary redundancy registers, job search and redeployment and funding for external training support. The Agreement with HSBC Bank plc on the Management of Change Arising from Global Resourcing covers such issues as the provision of information, a consultative framework, redeployment processes, terms for voluntary early retirement and voluntary redundancy, lifelong learning and outplacement.

Source: www.union-network.org/UNIFinance.nsf.

UNI Europe's position is that offshoring should be tolerated if certain conditions apply, notably those highlighted by AMICUS in the United Kingdom.

3. Reactions in other developed countries

In *Australia*, the offshoring of services to India has provoked responses by both trade unions and politicians. A decision by the telecom firm, Telstra, to outsource certain IT services to IBM Global Services, which subsequently placed some 450 jobs in India, sparked particular criticism. The Community and Public Sector Union, the Association of Professional Engineers, Scientists and Managers and the Australian Computer Society have been among the most vocal opponents of offshoring. Meanwhile, the Australian Labor Party's national conference has passed a resolution forbidding government departments and related entities from having any work done overseas if it could be done efficiently in Australia.[68] There has also been some concern in *Japan* over the increased direct competition from overseas IT workers through offshoring of services, but no measures have been taken in a protectionist direction (Sasaki 2004).

4. Meeting the challenge of adapting

As pointed out in chapter IV, there are reasons for developed countries to welcome offshoring, and it is in the interest of all parties concerned to consider how best developed countries can meet the challenge of adapting. As in manufacturing, a case can be made that international trade based on comparative advantage results in gains for all parties concerned. This does not mean this process will necessarily be smooth; there are bound to be short-term challenges for policy-makers, especially in terms of adjusting to the restructuring taking place in response to shifting comparative advantage. Given that the pace of change may be higher for services offshoring as compared to the relocation of manufacturing jobs, appropriate policy responses are particularly important.

White-collar workers in developed countries threatened with job losses could receive assistance (for example, for retraining and seeking new jobs), similar to the trade adjustment assistance provided to vulnerable manufacturing firms. Workers moving to new careers could be offered "wage insurance", covering part of the difference between their former and new wages. Such programmes would encourage workers to get back to work as soon as possible, without having to reject new careers that require learning or on-the-job training.[69] Public-private partnerships could play a role in skills development, for instance, through the use of fiscal incentives for employee training. Such a scheme would be similar to tax credits offered for investment in physical capital.

Adjustment to any change in employment patterns needs greater labour mobility and changes in skill profiles. Preventing adjustment because of its costs may be a short-sighted response, as it could handicap income and employment growth in the longer term. In principle, the challenge for developed countries is the same as that facing developing countries: given the footloose nature of some services, even countries that attract offshored services face the risk of activities relocating to even more competitive sites. However, industrialized countries generally have more resources and better institutions to make the adjustment and move up the technology and skills ladder.

The international community can also aid this process by enhancing the understanding of the implications of the current international restructuring in services. The ILO, for example, has launched a programme to this end (box V.13).

C. Conclusions

Services are globalizing rapidly. The impact of this process on development depends on policies in both host and home countries. This is as true for market-seeking (like infrastructure services) as it is for efficiency-seeking investment (like the offshoring of call centres, shared services, software development), although the challenges differ.

To benefit fully from the globalization of services, governments must start with a clear idea of what they expect from FDI in services. They must then regulate the industry or activity accordingly. There are no clear-cut or uniform policy recipes that apply to all industries, all countries and at all times: policies must reflect the nature of the service industry and conditions

Box V.13. ILO Action Programme on Financial Services Restructuring: promoting best practices

The ILO is developing an Action Programme to address worldwide financial services restructuring resulting from work relocation and offshoring. The Action Programme will initially cover four pairs of source destination countries: France-Mauritius, Spain-Argentina, Sweden-Estonia and United Kingdom-India. Its focus is to identify and promote appropriate strategies, to address the social consequences of restructuring and promote decent work throughout the global supply chain for financial services. The role that social dialogue plays in this regard will also be examined. The programme will assist ILO member States and the social partners in target countries, through processes of social dialogue, to:

- develop and implement decent-work based strategies to maximize the employment opportunities of offshore outsourcing and work relocation in destination countries; and
- devise and apply negotiated socially-sensitive solutions to mitigate the negative impact of offshoring and work relocation in source countries.

The programme includes a research component, the first results of which will be presented towards the end of 2005 in subregional and/or national seminars, and a capacity-building component to support processes of social dialogue during financial-sector enterprise restructuring.

Source: Information provided by the ILO, March 2004.

and priorities of each country. This is why there are large differences in the extent to which countries allow FDI in services and in the way they regulate them.

The regulation of (some) services is a complex and demanding task, and there are many best practice models in use in developed countries. It is important to diffuse knowledge about these models to developing countries. Donors and the international community should help governments design and implement the measures that best suit their needs. In addition, policy needs to take into account the emerging international rules of the game, which increasingly are becoming the parameters of national policy-making (an issue examined in chapter VI).

International competition for export-oriented FDI in services is particularly intense and growing, especially for FDI involving offshoring. However, the process, despite the amount of attention it has attracted, is still in its infancy. While there is much to be learnt in this area, it is clear that attracting offshoring FDI has two basic preconditions: infrastructure and skills. The infrastructure needs – apart, obviously, from modern ICTs – include power and data protection rules. The skill needs vary by the complexity of the offshored activity. Simple services need basic education and familiarity with the relevant language. Advanced services require different kinds of specialized skills; some call for a minimum critical mass of skills across different areas to provide an attractive cluster of service activities.

Governments also need to build an efficient regulatory structure in services for which market forces cannot ensure optimal social outcomes. “Lumpy” infrastructure services like power, telecoms and water are good examples. Finally, there is a need to promote and target foreign investors in desirable activities. As previous *WIRs* have argued, effective promotion is now an indispensable tool in the armoury of FDI policies, but it should not be undertaken at a scale that drains the government budget.

As far as offshoring is concerned, the evidence suggests that it will continue to grow. In fact, it is likely to accelerate as its benefits become more evident, technologies improve and more companies and countries join the early movers. The process involves countries at all levels of development. The bulk of offshoring to date has in fact taken place among developed countries. The economic benefits – the outcome of specialization based on comparative advantage – accrue to all who participate: exporting countries gain employment, foreign exchange and skills while importing countries become more competitive, have better and cheaper services and can move up the skill and technology ladder. This is an irreversible shift in the global division of labour, in a segment of productive activity that

has only recently been given the technological means to globalize in a similar way as manufacturing production. The full effects are difficult to forecast, but they are likely to be considerable.

This is not to deny that there are lags, frictions and costs involved in offshoring. On the side of developing countries, offshoring is concentrating in a few sites and is likely to carry on doing so until new aspirants improve their investment climate and create competitive capabilities. Successful exporters cannot stand still: they have to invest in new skills to move up the value chain as wages rise and cheaper competitors emerge. There is also a regional dimension: given the need for high quality infrastructure and skills, there is a risk that offshoring will stay in a few urban agglomerations with first-mover advantages. Finally, developing countries themselves will also offshore services to other locations, to take advantage of skills and markets.

In rich countries, adjustments will be needed to labour markets and education systems to create new, higher value jobs as the simpler ones move abroad. There will be transition costs that governments and enterprises will have to bear. The process is not new, of course – it has been happening in manufacturing for some time (box V.14). As in manufacturing, the competitive gains offered by offshoring should more than offset the loss of particular jobs and the adjustment costs. But targeted policies are needed to allow the process to continue smoothly and to ease the hardship for affected employees.

Should developing countries try and build competitiveness in trade in IT-enabled services? The answer is clearly yes. But the export of services as such is not the final goal. Such exports help the development process more broadly, creating not just jobs and foreign exchange but also supporting competitiveness in other activities. They help to upgrade the physical infrastructure. They create new skills, technical as well as managerial. They improve the international image of the exporting country and so can make it easier to sell other products abroad. They can help improve the financial system and the investment climate. And they can raise the efficiency of domestic services, spreading new ICT technologies and skills. If a country can provide these services broadly to its citizens and local producers, the gains in GDP growth and human development will far exceed the export revenues. These broad-based gains come as a result of cheaper services inputs to all forms of productive activity, as well as to the transformation of business activities that results when resources are freed up to be used in new business endeavours throughout the economy.

Realizing all these benefits and spreading them through out the economy is not automatic. Governments have to support competitiveness in services, by providing a conducive climate for private sector – local and foreign – activity and the necessary infrastructure, skills and institutions.

It is vital that developing countries be allowed to benefit from the globalization of IT-based services. The importing economies need to defuse growing fears of permanent job losses and make their populations aware of the competitive benefits of offshoring. They need to ease the transition costs and meet the retraining needs of displaced workers. It may be tempting to hold back offshoring to avoid adjustment costs. This would be short-sighted politically and economically. It would strengthen the critics of globalization who would argue that the rich countries only support globalization when they gain immediately. It would hold back the growth of poor countries and cost more in terms of other forms of aid. The challenge is to create a competitive environment that allows a win-win situation for all parties from FDI in services.

Box V.14. The debate on offshoring – a case of déjà vu?

It is not the first time that concerns have been voiced about foreign competition destroying the jobs and standard of living of workers in home countries. In fact, the current debate on the offshoring of services resembles earlier debates in developed countries. In the late 1960s and 1970s, for example, worries in the United States about job growth were combined with those about the widening trade deficit and the apparent decline in its competitiveness. This decline was exemplified by rising imports of cars and machinery – first from Europe and then from Japan – and the falling share of the United States in world exports of manufactured products. In the 1980s, the focus was the threat from Japanese companies to the semiconductor industry of the United States.

This led to protectionist calls. For example, a labour union official complained in 1978 that "…imports are flooding the country…American workers are losing their jobs…something has to be done…". Industries affected included textiles and clothing, the shoe industry, which "…has been all but destroyed" and "…Black and white TVs-the industry has been wiped out by imports…". Productivity growth was declining because "…technology is more readily applied to manufacturing…than it is to the production of services" (Finley 1978, pp. 129-130). Proposed solutions included the discouragement of outward FDI from the United States (as in the proposed Burke-Hartke bill), subsidies for domestic employment and "orderly marketing agreements". The last of these would "…set a base level for imports and … thereafter allows imports to vary according to the level of demand or sales. It allows imports to participate proportionately in the benefits of expanding markets but does not allow them to be disruptive in static or contracting markets" (Ruttenberg 1978, p. iv-17).

As it turned out, manufacturing prospered in the United States and employment levels remained high. The absolute number of manufacturing jobs fell only marginally, and much less than in countries like Germany and Japan. In the export arena, the share of the United States at the end of the 1990s was similar to that of the early 1970s, in spite of the growth of other countries' manufacturing capabilities. Real per capita output in the United States, despite the supposed loss of high-wage jobs, has remained steadily at 35% to 45% above the level of the EU. The United States managed to absorb competitive threats without losing ground to its main competitors in terms of per capita output. The wage system continues to reward high skills with a larger premium than in most other developed countries.

Adjustment to foreign competition took various forms. Some foreign firms expanded in the United States (e.g. in automobiles and semiconductors). In manufacturing, while employment in parent companies of United States TNCs fell by two million from 1977 to 1990, 75% of the decline was offset by the growth of foreign-owned manufacturing operations in the country. A further decline of 600,000 jobs in parent firms in the 1990s was almost entirely offset by the growth of foreign firms' operations in the United States. Exchange rate changes also helped the adjustment process by reversing some losses of competitiveness for the economy as a whole. The composition of production changed, usually from older, less complex or less sophisticated products to newer, more sophisticated ones. In semiconductors, the complaints of downstream industries that their competitiveness was being undermined by measures protecting semiconductor producers shortened the lives of restrictive measures or softened their application.

The recent growth in the offshoring of services has revived similar fears, even though imports are negligible relative to the total volume of business services. One possible reason for the strong reaction is that it coincides with the collapse of the information technology boom. Another is that most of the imports are coming from India, a developing country with low wage levels and a large educated population. A third is that these are by definition labour-intensive industries, in which the "relocation of jobs" is more obvious than in manufactures. Finally, offshoring affects white collar jobs rather than blue collar ones, and creates a more vocal opposition. It also raises the fear that it is affecting the higher level jobs that high wage countries are supposed to be moving into.

However, in economic terms the offshoring of services is no different from that of manufacturing. The main driver in both is technological change, making it possible to relocate processes or functions economically. The main permissive factor is the liberalization of trade

/…

Box V.14. The debate on offshoring – a case of déjà vu? (concluded)

and FDI, and the main determinant of location is the availability of competitive sites (in turn dependent on infrastructure, skills and a good investment climate).

In services, rapid falls in communication costs make it possible for poor countries to exploit latent competitive advantages. As these countries build new skills and capabilities, their comparative advantages also grow, and they encroach more on the former comparative advantages of developed countries, forcing them to adapt by innovating or by shifting the composition of their production. But this has been the case through the entire history of trade and production – and in economic development.

If the past experience of manufacturing is any guide, domestic producers of related service activities will adapt by shifting their specializations to higher skill segments of their industries. Just as the fears raised in previous periods of international restructuring proved exaggerated, the present ones are likely to be unfounded. The final outcome should again be a win-win situation for the parties involved.

Source: UNCTAD.

Notes

1 Under the negative list approach, the principle is that all industries are open unless a specific reservation is taken. Hence, reservations in this case indicate areas in which countries prefer to restrict or condition FDI access in some way. Under a positive list approach, the non-listing of specific industries suggests that there may be sensitivities. An important limitation of looking at selected IIAs is that it only produces information on restrictions maintained by countries that are parties to the relevant agreements. Another is that "mere counting" does not control for the nature of the non-conforming measures.

2 The basis for figures V.1-V.2 are reservations of non-conforming measures lodged in negative lists of seven IIAs or drafts thereof: the Andean Pact (1991); the Canada – Chile Free Trade Agreement (1996); the G3 Free Trade Agreement between Colombia, Mexico and Venezuela (1990); NAFTA (1992); the draft Multilateral Agreement on Investment negotiated at the OECD (negotiations were abandoned in 1998); the OECD's National Treatment Instrument (2000); and the United States – Chile Free Trade Agreement (2003).

3 The figures on transportation relate to modes other than aviation (i.e. concern maritime and land transportation – buses, trucks, rail services), the bulk of which (i.e. hard rights and services involved in the exercise of such rights) are specifically carved out from all of the agreements under review (as they are from the coverage of the GATS).

4 The indicator of restrictiveness applied in the study by Golub used data on GATS commitments, reservations under the OECD Code of Liberalisation, information from the United States Special Trade Representative (USTR) and several other sources.

5 For services that are crucial inputs to other industries, infant industry/national champion considerations may affect the competitiveness of other segments of the economy. If it implies keeping FDI out, the nurturing of the local providers is paid by the users of the services. Similarly, if the role of a national champion is given to a foreign investor without checks and balances, it is again the local economy that will pay the price of a virtual monopoly.

6 For example, the privatization of telecom companies to foreign strategic investors has generally been done by means of "controlled auctions", designed to achieve the highest possible price for the shares sold from among a limited number of pre-selected candidates that meet pre-established criteria.

7 In one country in Latin America, inadequate tariff and pricing policies applied in its privatization of electricity apparently contributed to a slowdown of the expansion of existing generation capacity and allowed monopolistic rents to be captured by distribution companies (Gabriele 2004).

8 A World Bank survey found that payment discipline among customers in Brazil and China was the most important factor in the success of investments in those countries. Conversely, non-payment by customers and weak enforcement of collection in the Dominican Republic, India and Pakistan had contributed to the dissatisfaction of investors (Lamech and Saeed 2003, pp. 10-11).

9 In the Russian Federation, for example, the Civil Code, until recently, did not allow utilities providers to disconnect supplies to physical persons for payment default. In respect of legal persons (e.g. industries, companies), disconnection for payment default was not possible without their consent (Krishnaswamy and Stuggins 2003, p. 8).

10 Hungary, Poland and Turkey have focused on improving their laws on electricity supply and theft with some measure of success (Krishnaswamy and Stuggins 2003, p. 9).

11 The GATS recognizes the importance of having an independent regulator. The Telecommunications Services Reference paper (which WTO members can adopt via additional commitments in their schedules) sets out definitions and principles of regulatory frameworks for basic telecommunication services,

including for independent regulators. It recommends that "[t]he regulatory body is separate from, and not accountable to, any supplier of basic telecommunications services. The decisions of and the procedures used by regulators shall be impartial with respect to all market participants" (Section 5).

12 Such commitments are widespread, although, in many countries (such as the former German Democratic Republic, Hungary, Poland), the enforcement of contractual commitments and penalties often proved to be ineffective.

13 See *WIR02*, chapter VIII, for a discussion on targeted investment promotion.

14 Singapore and Ireland show that, where an IPA is able to coordinate the strengthening of domestic capabilities in parallel with attracting FDI, it can transform the development prospects of the host country. Both these economies have targeted high-value services (as well as manufacturing) and ensured that new skills, state-of-the-art infrastructure, support institutions and policies have evolved in line with the needs of these activities.

15 See *WIR02*; Loewendahl 2001.

16 In business-process outsourcing, for instance, the physical infrastructure for transportation, the quality of local input suppliers or the availability of long-term investment capital does not matter as much as the availability of specialized skills and technology institutions, and IT infrastructure and reliable power supplies.

17 Investment incentives are intended to induce 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 (*WIR03*). Governments may offer enterprises measurable economic advantages in order to attract investment into certain industries or regions or to influence the character of an investment. Incentives may be granted unconditionally or conditionally (by linking them to performance requirements), and addressed to foreign companies, local companies or both.

18 The WTO review covers subsidies given to domestic and/or foreign firms. As subsidies directed only to domestic firms are likely to represent a minor share, it gives an indication of the use of FDI incentives in service industries. The definition of "subsidy" in Article 1 of the WTO Agreement on Subsidies and Countervailing Measures contains three basic elements: (i) a financial contribution (ii) by a Government or any public body within the territory of a WTO member (iii) which confers a benefit. All three of these elements must be satisfied in order for a subsidy to exist.

19 Other subsidies have been used to cope with various crises. Many countries extended financial support to their air carriers in the aftermath of the attacks on 11 September 2001; and a number of Asian economies supported their banking industries after the Asian financial crisis towards the end of the 1990s. But most of these subsidies have been provided only to domestic firms.

20 Information from the Board of Investment of Mauritius.

21 This section draws on information provided by the International Labour Organization (ILO) database on EPZs (www.ilo.org/epz), which links the websites of EPZ authorities in 116 countries. However, since there has been no attempt to verify the accuracy of the public information provided by these authorities, it should be viewed only as indicative.

22 For example, a Singapore consortium and the Tata Corporation established an IT park in Bangalore; Infosys, ICICI Financial Services & Hughes Software set up software parks in Karnataka; and Quark Infrastructure set up a technology park in the Punjab in collaboration with Punjab State Electronics Development and Production Corporation (Kumar 2000).

23 For example, in 2002, the Indian company, Infosys, established a disaster recovery centre in Mauritius. Complete with infrastructure, network connections, telecommunication facilities as well as back-up client data, this centre will be on standby to take over client projects from across the globe in case of an emergency. Serving as an alternative location in case of a disaster in other Infosys centre, it will have a capacity to accommodate 1,500 people (http://www.infy.com/media/disaster_recovery_Mauritius_28oct_02.pdf).

24 The Internet City is located in the Dubai Technology and Media Free Zone and provides a high bandwidth technology platform. Its services include web hosting e-mails, various internet services, a data centre and a content and security network. The Internet City offers tax privileges, full repatriation of capital and profits without currency restrictions, easy registration and licensing, stringent cyber regulation, 50-year land leases and protection of intellectual property in addition to facilities for financing, training, education and research.

25 For example, in the case of FDI in regional headquarters, excellent air connections and competitive real estate conditions are key requirements.

26 Recent initiatives include allowing private operators to offer Internet telephony, and opening up of the National Long Distance Service to private operators by abolishing the monopoly of the national telecom operator, VSNL. Moreover, the Indian policy on Internet services envisages no restriction on the number of service providers, operations can be on a national, regional or district basis, the services provider can decide whether to build or lease capacity from infrastructure owners (railways, energy utilities), foreign equity participation is capped at 49%, licences are issued for a period of 15 years (extendable by 5 years), no licence fee is charged for the first 5 years and telephony on Internet is permitted. At the end of 2002, 24 Internet service providers had been given clearance for the commissioning of 55 international gateways for Internet using satellite systems, while 4 providers had applied for the setting up of submarine cable landing stations for international gateways for the Internet (India, Department of Telecommunications 2003).

27 Communication from the Board of Investment of the Philippines, May 2004.

28 Recently, the Government permitted network unbundling, obliging telecom companies to allow competitors access to their infrastructure; this was a key step in the development of a competitive broadband market. In 2001, it awarded licences for wireless local loop services (that allow deployment in remote areas,

increased access to broadband services and high-speed data transmission).

29 The SEA-ME-WE3 docks with India in two places: Mumbai and Cochin; the SAFE cable has a landing in Cochin.

30 Ever since the early 1970s, the Government of India has taken steps to promote the development of skilled manpower needed in the software and service industry. Key elements have included careful and regular analysis of expected needs for engineers at the bachelor, masters and PhD levels, the establishment of new courses in computer science, computer applications, new polytechnic diplomas and mathematics and provision of training in software development (RIS 2004).

31 The strong position of Mumbai has also been associated with its role as a financial and commercial centre, the presence of a few large software firms, as well as considerable software development to cater for the in-house needs of major financial firms such as Citibank. Mumbai has also been able to tap other parts of India for talent (D'Costa 2003).

32 The levels are O – foundation course, A – advanced diploma, B – MCA level, and C – M.Tech level.

33 See www.mit.gov.in/studyteam.ppt.

34 Invest in Sweden Agency 2000.

35 Information provided by the Board of Investment of the Philippines, May 2004.

36 These issues emerged first in the 1980s in the context of trans-border data flows (see UNCTC 1983a,b; UNCTC 1984a,b; Robinson et al. 1989; Sauvant 1986a, 1986b).

37 Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the Protection of Individuals with Regard to the Processing of Personal Data and on the Free Movement of Such Data (*Official Journal L 281*, 23 November 1995, pp. 0031 - 0050).

38 See "Indian BPO firms constrained by lack of data protection", *Express Computer*, 26 April 2004 (http://www.expresscomputeronline.com/20040426/coverstory01.html)

39 The Act stipulates that any person who has secured access to any electronic record, book, register, correspondence, information, document or other material without the consent of the person concerned, and discloses such material to any other person, shall be punished with imprisonment for a term that may extend to two years, or with a fine that may extend to one lakh rupees, or with both. Yet to address the specific issues of concern with respect to business process outsourcing business, the IT Act is being reviewed at the national level (see http://www.ap-it.com/itact.pdf).

40 Most of the state governments of India have sought to address IT security and data protection issues. For example, the state of Andhra Pradesh is developing a data protection and consumer privacy act to assure the companies in IT-enabled services and their customers of the safety of their data, and to specify the nature of information protected under the law. It also plans to set up a regulatory authority for enforcing this act, and to specify the consequences of violation (for details see http://itfriend.mit.gov.in/stateit/andhrait.asp).

41 Well-known examples include Littlewoods (United Kingdom) as well as Dell and Lehman Brothers (United States), both of which repatriated service production from India. Moreover, in March 2004, the credit card company Capital One (United States) decided to cease its cooperation with the Indian call centre company, Wipro Spectramind ("Credit card chaos in India", *BBC News*, 25 March 2004).

42 Many recent FTAs, including the Chile–United States Agreement or various European agreements, contain strong provisions on the protection of intellectual property rights.

43 Information provided by the Board of Investment of the Philippines, May 2004.

44 The generic skills profiles cover the main job areas in which the ICT industry is experiencing skills shortages, and describe the jobs associated with them. The specific technology areas and tasks associated with each job are also outlined, as well as the skills required.

45 A call centre curriculum has been introduced in its training programmes, with modules entitled as follows: Orientation to the Occupation, Customer Service, Developing Telephone Skills, Selling Products & Services, Basic Computer Technology and Introduction to Database Management (of approximately 280 hours duration). Additional support modules include Language and Communication, Calculations and Computations and General Studies (Employability Skills) (approximately 100 hours) (Jamaica Promotions Corporation, www.investjamaica.com).

46 For a detailed review of such measures, see *WIR03*, part III, UNCTAD 2001b.

47 See, for example, Herbert Bob, "Outsourcing jobs is a threat to the United States economy", *International Herald Tribune*, 27 January 2004; "White House economist gets lesson in politics", *International Herald Tribune*, 26 February 2004; Paul Krugman, "Free trade and jobs", *International Herald Tribune*, 28-29 February 2004; Douglas A, Irwin, "Outsourcing is good for America", *Wall Street Journal*, 28 June 2004; Charles Schumer and Paul Craig Roberts, "Second thoughts on free trade", *New York Times*, 6 January 2004; "The great hollowing-out myth", *The Economist*, 19 February 2004.

48 Government work that has been offshored so far includes food stamps programmes, human resource functions, insurance programmes and some IT work, particularly software development, upgrading of existing systems and integrating systems with other state and federal electronic systems.

49 For example, the state of Georgia's department of human resources pays Citigroup $8 million a year to manage phone inquiries from its 438,000 stamp recipients. Citigroup in turn outsources the work to an Indian call centre run by an independent Indian company ("Job loss creates political stir", *The Atlanta Journal*, 15 October 2003).

50 See Consolidation Appropriations Act of 2004, P.L. 108-199, II8 Stat. 3 6 647 (e) (2004).

51 For instance, the number of H1-B visas (that give work permits for professionals for up to six years) was reduced from 195,000 in 2000 to 65,000 in 2003 (*Business Week*, 2003). Bills pending in Congress propose to reduce the number of L-1 visas by 50%; these visas allow companies to transfer their own

employees from overseas to the United States for up to seven years.

52 The New Jersey state authorities were the first to do so in September 2002, by proposing to prohibit the shift of state services work to cheap foreign locations. The bill was a reaction to a discovery that a local contractor hired by the state to manage the welfare and food stamp programme had moved its customer service operations to Mumbai.

53 See also "Unions and states aspire to block job outsourcing", *Wall Street Journal*, 3 June 2003.

54 See www.nfap.net, visited 11 June 2004.

55 In at least one case (in Indiana), a law proposal triggered the cancellation of an offshoring contract. The official explanation for this move was irregularities in the way in which the contract had been awarded (*Business Week*, 2003). In Utah, the company eFunds was planning to recall jobs at an Indian call centre taking calls for the Utah Department of Workforce Services, resulting in higher costs. The eFunds' Indian centre handles calls about the department's electronic Horizons welfare benefits cards (see www.callcentres.net/callcentres/Live/me.get?SITE.HOME).

56 See also "Protectionism hits the outsourcing industry", *IDG News Service*. www.idg.net, 15 April 2003.

57 "Calling New Jersey via New Delhi", *Business Week*, 29 September 2003.

58 "Job loss creates political stir", *The Atlanta Journal*, 15 October 2003.

59 *The Guardian*, 6 December 2003 (http://www.guardian.co.uk/guardian_jobs_and_money/story/0,3605,1100689,00.html).

60 See *The Guardian* (http://www.guardian.co.uk/business/story/0,3604,1087381,00.html).

61 Statement made in a Westminster Hall debate on call centres, 3 March 2004.

62 See *Financial Times*, 16 December 2003.

63 See *The Guardian* (http://www.guardian.co.uk/business/story/0,3604,1098529,00.html).

64 The Minister of State for Industry and the Regions has argued that "where jobs are lost, we must do everything that we can to help people to find new jobs, and new skills, if necessary, as quickly as possible. We shall call on the services of the reformed Jobcentre Plus, particularly its rapid response service, which focuses on redundancies where particularly intensive work is needed" (Debate in the House of Commons, (http://www.parliament.the-stationery-office.co.uk/pa/cm200304/cmhansrd/cm031210/halltext/31210h01.htm#31210h01_head0).

65 AMICUS argues that employers should adhere to five points: consultation, no redundancies, reinvestment of profits in worker skills, protecting careers and compliance with labour standards. It believes the Government should act by investing in skills or providing incentives for R&D (interview with AMICUS).

66 "Schröder condemns job offshoring as unpatriotic", *Financial Times*, 23 March 2004.

67 Gerhard Rohde "Jobs with no frontiers global mobility: a challenge to unions and researchers", *WSI Mitteilungen*, 10/2003.

68 "Australia: campaign to halt job flight gathers steam", *IPS/Kalinga Seneviratne*, 24 February 2004, www.ipsnews.net.

69 For a discussion of how this policy is implemented in the United States, see Kletzer and Litan 2001.

CHAPTER VI

NATIONAL AND INTERNATIONAL POLICIES: A COMPLEX AND DYNAMIC INTERACTION

Over the past decade, the number of international agreements covering FDI in services has increased substantially, both in number and geographical scope. They reflect the negotiating parties' interests, bargaining power, technical capabilities, levels of liberalization and specific economic, social and other circumstances. The result is a multilayered and multifaceted network of international rules, with obligations differing in scope and content. Within the context of a broad liberalization trend, these agreements increasingly set the parameters for national policies on services through interaction between national and international policies on FDI in services. This interaction can either be led by autonomous liberalization or driven by IIAs. This complex and dynamic interaction poses challenges for development: while IIAs and autonomous liberalization create an enabling framework for FDI, the former also limit national policy space. This raises questions of how best to achieve development goals and how to strengthen the development dimension of IIAs.

At the bilateral level, the number of BITs covering FDI in services reached 2,265 by the end of 2003, and involved 175 countries. Other agreements covering services FDI include FTAs, RTAs and various types of economic partnership agreements. Services IIAs[1] can be found in all geographical regions, and there are also some inter-regional ones (e.g. the OECD Liberalisation Codes) as well as one at the multilateral level (i.e. the 1994 General Agreement on Trade in Services (GATS)). Reasons of why they are concluded are the desire to attract FDI to advance development (box VI.1), to protect FDI (i.e. to assure foreign investors that their investments, and the environment in which they invest, are reasonably secure) and, increasingly, to facilitate market access and the operations of foreign affiliates.

A. The growing multifaceted network of services IIAs

The discussion here uses a broad definition of international investment agreements (IIAs) as "agreements at the bilateral, regional and multilateral levels that address investment issues" (*WIR03*, p. 88*)* with the qualification that the IIAs under review cover, in varying degrees, FDI in services ("service IIAs"). While some of the IIAs deal only with investment (e.g. BITs), others cover a broader range of issues, investment being one of them. Most recent FTAs fall into the second category.

1. The evolving nature of approaches covering FDI in services

Three approaches for IIAs' coverage of FDI in services can be distinguished.[2]

- The *investment-based approach*, whereby FDI is exclusively covered by the disciplines of the investment chapter of an agreement (e.g. the 1992 North American Free Trade Agreement (NAFTA)[3]) or where an agreement deals exclusively with investment (e.g. BITs). In both cases, the agreement or the specific chapter covers services and non-services investments without differentiating between them.[4] (As seen earlier, most FDI is in the services sector.)
- The *services-based approach*, whereby services FDI is exclusively covered by the disciplines of the services chapter of an agreement or by an agreement as a whole (if the latter deals exclusively with trade in

services) and which covers commercial presence as one of the four modes of trading services. Besides the GATS (box VI.2), the 1998 Andean Community Decision 439 and the 1995 ASEAN Framework Agreement on Services are examples of this approach.

- The *mixed approach*, whereby services FDI is covered by both the investment and services chapters of an agreement. An example is the 2002 Japan–Singapore Agreement. Under this approach, in certain cases, a special provision in the investment chapter may rule out the applicability of a particular investment discipline, or more general investment disciplines, to services FDI (see below).

To some extent, these three approaches can be viewed as reflecting the evolution over time of IIAs in relation to services. Thus, the first and earliest approach, the investment-based approach, does not make a distinction between services and non-services investments. This approach is quantitatively dominant, all the more so as BITs – while otherwise following different approaches (box VI.3) – continue to be concluded in large numbers. It can be explained, first, by the absence of any express desire by policy-makers to treat investment in services as conceptually different from investment in other sectors and, second, by the wide coverage of the definition and scope of provisions of such agreements. The second approach reflects the manner in which international

Box VI.1. What difference do services IIAs make?

What is the impact of services IIAs in terms of attracting investment in services and benefiting from it? IIAs can have an impact on FDI flows by influencing one of the principal determinants of FDI – the regulatory framework. These agreements tend to make the regulatory framework more enabling, opening space for the decisive economic determinants to assert themselves. IIAs achieve this by:

- reducing obstacles to FDI through the removal of restrictions on admission, establishment and on the operations of foreign affiliates;
- improving standards of treatment of foreign investors (e.g. by granting them non-discriminatory treatment vis-à-vis domestic or other foreign investors);
- protecting foreign investors through provisions on compensation in the event of nationalization or expropriation, by stipulating procedures for dispute settlement as well as guaranteeing the transfer of funds; and
- providing for a transparent, stable and predictable regulatory framework.

To the extent that the enabling framework is enhanced (be it because of autonomous or of IIA-driven regulatory action) *and* the economic determinants are attractive to investors, FDI is likely to flow to this sector. By the same token, when the economic determinants are not favorable, substantial investment flows are not likely to materialize. Indeed, as discussed in chapter III, a good part of the growth of services FDI during the past decade or so has been due to an improved enabling regulatory environment. Most of the improvements have been the result of autonomous decisions, rather than the result of services IIAs (but these decisions tend to become more credible in the eyes of investors through commitments in IIAs).

In contrast to FDI in goods for which RTAs expand the market by facilitating trade among the participating members of the region and hence encourage FDI, market size plays less of a role in the case of services, as most of them are less tradable. By the same token, FDI in services may be less subject to regional strategies of rationalization whereby goods firms consolidate production into one or a few foreign affiliates to service the regional area as a whole, thus reducing FDI.[a] Services FDI (like goods FDI) may, however, benefit if a RTA stimulates economic growth.

Thus, it is difficult to ascertain to what extent services IIAs contribute to increased FDI flows in services.[b]

And what about the benefits and costs? As discussed in chapter III, services FDI can involve a range of benefits and costs. In most cases, these can be enhanced or mitigated, as the case may be, through appropriate government policies. The issue then becomes whether IIAs enhance or restrict the ability of governments to pursue development-oriented policies – an issue taken up in some detail in *WIR03* (chapters III to VI). From a services-specific perspective, it is discussed further below in this chapter.

Source: UNCTAD.

[a] This situation may, however, change with the increasing tradability of services (see chapter IV).
[b] For a further discussion, see *WIR03*, chapter III.

Box VI.2. The GATS and FDI in services

The GATS is unique in that it establishes the only set of multilateral rules for services FDI in the context of international services transactions in general. All 147 members of the WTO are bound by the rules of the GATS insofar as they apply specifically to that country. The Agreement covers four modes of services supply, one of which is the supply of services through "commercial presence", defined as "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" (Article XXVIII, lit. d).[a] "Commercial presence" is therefore akin to FDI. (The other modes of supply are cross-border supply, consumption abroad and the presence of natural persons.)

The definition of commercial presence in the GATS is narrower than the asset-based approach commonly found in IIAs entered into by both developed and developing countries (UNCTAD 1999b). Also, unlike other services IIAs, the GATS does not contain those disciplines on investment protection that typically constitute central tenets of other IIA regimes (e.g. the GATS does not contain rules that assure foreign investors compensation in the case of expropriation or set the minimum standard of treatment).[b] Nor does it explicitly prohibit performance requirements[c] or provide for investor–State dispute settlement.

Two key GATS obligations are found in Articles XVI (market access) and XVII (national treatment). They apply only to those service industries ("sectors" in WTO parlance) and modes of supply in respect of which a WTO member has made "specific commitments" in its schedule. When making a commitment, a member may set out limitations, conditions and qualifications on market access and national treatment with respect to listed industries and modes of supply. Such conditions may include the ability to place restrictions on foreign equity participation, to require joint ventures (or other specific types of legal entity), to require the payment of taxes on the remittances of foreign affiliates, to be able to grant subsidies to domestic service suppliers in specific industries, to limit the use of land by foreign affiliates, to place geographical restrictions on the supply of certain services by foreign affiliates, or to limit the total number of (natural) persons employed in a particular service industry. Accordingly, the impact of the GATS is to a large extent dependent upon the content of members' commitments and any limitations attached to them.

In pursuance of the objective of the GATS, the Agreement provides for the periodic negotiation of specific commitments through successive rounds of negotiations. The first of these rounds was mandated by the Agreement and subsequently incorporated into the negotiations launched by the 2001 WTO Doha Ministerial Meeting. The process of requests and offers of commitments was underway in mid – 2004. By 9 July 2004, 44 offers (counting the European Communities (15) as one) have been received by the WTO Secretariat.[d]

Source: UNCTAD.

[a] Note that GATS Article XXVIII also sets out equity thresholds, establishing when juridical persons are "owned" by persons of a member. Specifically, lit. (n) states: "a juridical person is: (i) 'owned' by persons of a Member if more than 50 per cent of the equity interest in it is beneficially owned by persons of that Member; (ii) 'controlled' by persons of a Member if such persons have the power to name a majority of its directors or otherwise to legally direct its actions; (iii) 'affiliated' with another person when it controls, or is controlled by, that other person; or when it and the other person are both controlled by the same person".

[b] Note, however, that the GATS contains certain disciplines related to investment protection, for example, rules on payments and transfers (i.e. Article XI), rules on the "reasonable, objective and impartial" administration of measures of general application in committed sectors (i.e. Article VI, para.1) or provisions addressing certain cross-border movements of capital (i.e. those set out in footnote 8 to Article XVI).

[c] This does not exclude, that members commit themselves in this respect in their schedules. At the same time, Article XIX, para. 2 allows performance requirements attached as conditions to market access and national treatment commitments.

[d] "Trade talks on services 'may last years'", *Financial Times*, 6 July 2004. For the initial offers, to the extent that they are publicly available, see http://www.wto.org.

transactions in services (including commercial presence) were addressed in the context of the GATS negotiations in the Uruguay Round.

The third approach blends the other two approaches by addressing investment, typically in a separate chapter, while simultaneously enshrining special rules for services FDI (in the context of international service transactions in general) in another chapter. These agreements also increasingly cover a host of other issues, including some that have implications for investment (e.g. competition). A growing number of recent FTAs and RTAs adopt this approach.

Box VI.3. Approaches to BITs and FDI in services

In BITs, services FDI is subject to the same rules as all other types of investment.[a] However, not all BITs are identical, although they have much in common (UNCTAD 1998). There appear to be three main approaches: the first could be called the broad, Western Hemisphere approach, promoted most actively by the United States and Canada; the second is the more narrow European approach, mostly followed by European countries;[b] and the third is the South-South approach (which is close to the European approach).[c]

The Western Hemisphere approach extends *national treatment and MFN obligations* to the pre-establishment phase of investment (while accommodating country-specific exceptions to these obligations), while the other approaches tend to cover only the post-establishment phase. Similarly, the Western Hemisphere approach tends to contain a specific article on prohibited *performance requirements*, while the other approaches may deal implicitly with such requirements, e.g. in so far as they might violate the national treatment or MFN obligations.[d] One distinguishing feature of the 2004 United States and Canadian[e] model BITs is that they contain provisions not to lower *environmental and labour* standards to attract investment. Further, with respect to *transparency*, the United States and Canadian model BITs include so-called *a priori* comment and publication procedures, whereas the few European treaties containing transparency requirements limit their applicability to the stage after the adoption of laws and regulations. Some of the distinctive features of the South-South approach involve that they put more emphasis on exceptions (e.g. for balance-of-payments or prudential measures) and the so-called fork-in-the-road clause, i.e. investors must choose between the litigation of their claims in a host country's domestic courts or international arbitration: once made, the choice is final.

Learning from investor-State litigation under NAFTA, the most recent United States and Canadian model BITs clarify the meaning of the articles on *minimum standard of treatment* (including fair and equitable treatment and full protection and security) and *expropriation*.[f] So far, this has not been done in European and developing-country BITs, perhaps in part because European and developing countries either have not yet been extensively involved in high profile investor-State litigation, or because awareness about the implications of such cases is only just beginning to emerge.

Source: UNCTAD.

a However, the 2004 United States model BIT, for example, contains specific obligations for certain service industries (i.e. financial services). See the Treaty between the Government of the United States of America and the Government of [Country] Concerning the Encouragement and Reciprocal Protection of Investment, 2004; http://www.state.gov/documents/organization/29030.doc.

b Since the European Commission does not have a mandate to negotiate investment issues on behalf of the members of the Union, European countries continue to conclude separate BITs, which, nevertheless, possess the same basic features.

c Given the great number of developing countries, it is, of course, difficult to speak about a developing-country approach, especially as far as a number of Latin American countries are concerned. The matter is further complicated by most developing countries having BITs with either North American or European countries.

d Rules on performance requirements are, however, set out in the 1994 WTO Agreement on Trade-Related Investment Measures (TRIMs).

e See the 2004 Canadian model BIT, Agreement between Canada and ___ for the Promotion and Protection of Investments, 2004; http://www.dfait-maeci.gc.ca/tna-nac/documents/2004-FIPA-model-en.pdf.

f The relevant rules can be found in Articles 5 and 6 and Annexes A and B of the United States model BIT. More specifically, Annex A emphasizes the parties' shared understanding of customary international law for minimum standard of treatment and expropriation, while Article 5 and Annex B spell out in more detail the meaning of customary international law for "fair and equitable treatment", "full protection of security" and "expropriation".

This mixed approach raises the question of the relationship between the two chapters in an agreement – an issue discussed below.

Naturally, such a categorization must be treated with caution since it looks only at a particular agreement in isolation from other agreements, which together form the legal regime for investment, both in services and non-services, between two or more countries. For example, a services-based approach in a RTA may be complemented by a BIT that also covers services FDI; taken together, they constitute a mixed approach of a different nature. To take another example, this time from the Andean Community, the 1991 Decision 291[5] deals with investment in general, thereby also covering services FDI; it is complemented by Decision 439 which takes a services-based approach (i.e. covers only services FDI). A similar situation arises in the context of ASEAN. Here, the ASEAN Framework Agreement on Services is complemented by the 1998 (as amended in 2001) Framework Agreement on the ASEAN Investment Area (AIA). While the AIA in its original form did not cover services FDI, in its current form it covers FDI in services incidental to manufacturing, agriculture, fishery, forestry, mining and quarrying.[6] In parallel, the 1987 (as amended in 1996) ASEAN Agreement for the Promotion and Protection of Investments[7] applies to services FDI. Together, these agreements, too, constitute a mixed approach. Thus, ultimately, it is necessary to look not only at individual agreements, but also at the overall legal regime established between countries.

2. Salient features

A number of issues arise in light of the three approaches identified above. The treatment of these issues – many of which also apply to goods FDI but are particularly relevant to services FDI – differs across agreements. However, certain tentative general observations can be made.

Structure and organization

As regards structure and organization, agreements following the investment-based approach raise few problems, given that services and non-services investments are not differentiated for the purposes of the investment provisions of the agreements. Agreements adopting a services-based approach allow addressing the specificities of services FDI. However, this approach requires a determination of whether an investment is a services or a non-services investment, which is sometimes difficult, even for statistical agencies.[8] Agreements adopting a mixed approach, too, need to determine whether an investment is a services investment or not, and what that means in each case. This can give rise to inconsistencies – an issue discussed below.

Definition of investment

Traditionally, IIAs either contain broad, asset-based or narrow, enterprise-based definitions of investment, with the large majority (especially BITs and FTAs) adopting the former (UNCTAD 1998).[10] IIAs taking the services-based approach (i.e. the ones that cover services investment as "Mode 3/commercial presence" in services trade) are more likely to adopt narrower, enterprise-based definitions than IIAs that do not contain a services chapter. The GATS and the Andean Community Decision 439[11] are examples. In addition, some agreements using the mixed approach, for example the 2002 EFTA –Singapore FTA and the Japan–Singapore Agreement, adopt both a narrower, enterprise-based definition of investment in their services chapter[12] and a broader, asset-based definition in their investment chapter.[13] The implication is that, in spite of the services chapter's narrower definition of what an investment is, the investment may actually benefit from the broader definition of the investment chapter (e.g. when it comes to the protection of intellectual property rights often covered by the asset-based definition), unless there are specific provisions that provide for a different approach. While this may have far-reaching implications for the scope and breath of an IIA as well as for the obligations countries accept thereunder, it has, thus far, received comparatively little attention from policy-makers, particularly in developing countries.

Linked to the definition and scope of investment covered by an IIA is the question of who should benefit from its provisions. Most of the services IIAs contain special clauses regarding the beneficiaries under the respective agreements, frequently entitled "Denial of Benefits".[14] These clauses identify those investors and investments that are not eligible for the benefits provided by the respective agreement. Generally, these are enterprises in the

territory of a party but owned or controlled by investors of a *non*-party.[15] Frequently, these clauses, which identify non-eligible investors through a so-called "substantial business operations test", state that benefits can be denied to an enterprise that is owned and controlled by persons of a non-party, if the enterprise has no substantial business activities in the territory of the party under whose laws it is constituted.[16] The 2003 Mainland–Hong Kong Closer Economic Partnership Arrangement,[17] for example, sets out in detail the criteria for determining whether or not an enterprise has substantive business operations (box II.7). The GATS, too, refers to substantive business operations, but without defining them. While one of these references is in the Article containing definitions for the purpose of the GATS (Article XXVIII, lit. m (i)),[18] the other one refers to economic integration (Article V, para. 6). This provision entitles those service suppliers of WTO members that are established in an economic integration agreement area to the benefits of that agreement if they engage in substantive business operations in one of the parties to that agreement.[19] Thus, it refers to the extension of benefits to third-party companies conducting "substantive business operations" in the context of a very specific set of circumstances (i.e. derogations from GATS disciplines permitted as a result of entering into economic integration agreements).[20]

Investment liberalization

The principal issue here is whether an agreement covers both pre- and post-entry investment, or post-entry investment only. Certain recent FTAs contain the right of establishment (i.e. cover pre-entry investment), while most BITs, except for recent ones signed by some countries in the Western Hemisphere, apply to post-entry investment only (UNCTAD 1999b). Where the right to establishment is granted (in some BITs and a number of FTAs), this is typically done by extending national treatment commitments at the pre-entry stage. At the regional level, NAFTA takes this approach. While the approach is different in the GATS, the agreement also allows members to grant pre-establishment rights in the context of the commitments they undertake. (Note also the definition of commercial presence under the GATS, which includes the words "establishment" and "acquisition".) Overall, where countries grant pre-establishment rights, they tend to complement them with a high number of conditions or limitations.

There are instances in regional groupings, including those comprising developing countries, in which parties agree, in principle, to negotiate future liberalization of services to a degree that goes beyond what has been agreed in the GATS.[21] The ASEAN Framework Agreement on Services is an example (box II.8).

Investment protection

Most agreements taking the investment-based approach contain core protection disciplines, including national treatment, MFN and fair and equitable treatment. In some agreements, these may be linked to the observance of the international minimum standard of treatment. Equally, agreements normally cover compensation for loss and expropriation, and provide for the free transfer of funds. Agreements taking the services-based approach tend to be less far-reaching as regards investment protection. For example, the GATS does not contain a set of investment protection rules, though it has, for example, a general MFN obligation (subject to exemptions), rules on transfers and payments (Article XI), and other capital transactions (footnote 8 to Article XVI[22]), as well as national treatment (the latter subject to limitations) (Sauvé and Wilkie 2000). Agreements not containing strong rules on protection may, however, be complemented by agreements focusing on protection, for example, BITs. On the other hand, agreements taking a mixed approach are likely to contain all the main investor-protection standards and guarantees typically covered in investment-based IIAs. For example, the New Zealand–Singapore and the Japan–Singapore agreements contain the usual liberalization rules in the services trade chapters[23] and the usual investment protection rules in the investment chapter, both of which apply to services FDI.

Performance requirements

The GATS does not explicitly prohibit performance requirements, and the TRIMs Agreement does not apply to services.[24] However, since the middle of the 1990s, a number of services IIAs explicitly prohibit the use of certain performance requirements geared towards services (table VI.1), including requirements pertaining to exports, local content, employment,

the supply of a specific region of the world market exclusively from a given territory, the location of regional headquarters and R&D. Such provisions are generally found in IIAs concluded by countries in the Western Hemisphere, starting with NAFTA. Some agreements only prohibit the use of mandatory requirements, while allowing requirements linked to the granting of incentives (box VI.4).[25] Sometimes, services IIAs allow countries to retain their ability to use otherwise prohibited performance requirements by entering into reservations.[26] However, even in the absence of specific disciplines, national treatment rules and other disciplines (such as those on transparency or MFN treatment) may apply to services-related performance requirements. Thus, if a party wishes to continue applying performance requirements to foreign affiliates only, it would need to make a specific reservation in its national treatment commitment as well as in relevant annexes dealing with MFN exemptions.[27]

In some countries, a specific requirement, arising out of the particular nature of some services, is the local presence requirement. This is a kind of duty of establishment which requires a firm to place the business itself within a locally registered and licensed corporate entity. This can be the case, for example, with respect to financial services, where, the need for prudential supervision is difficult to achieve without the

Box VI.4. The GATS and subsidies

Insofar as subsidies affect trade in services, they are measures covered by the general obligations of the GATS, such as MFN and the individual countries' specific commitments, including national treatment. In addition, Article XV of the GATS specifically deals with subsidies. This provision notes that, "…in certain circumstances, subsidies may have distortive effects on trade in services." Negotiations have begun (but with little progress) with the aim of developing "…the necessary multilateral disciplines to avoid such trade-distortive effects." Furthermore, "[s]uch negotiations shall recognize the role of subsidies in relation to the development programmes of developing countries and take into account the needs of Members, particularly developing country Members, for flexibility in this area" (Article XV, para. 1).

The GATS thus permits subsidies as such, including subsidies contingent upon the export of services and other investment incentives. However, the MFN obligation applies to subsidies because they are covered by the definition of "measure". In scheduled industries, national treatment commitments also apply, unless they specifically exclude subsidies. In the service industries for which commitments have been made, and subject to any conditions or qualifications set out in its schedule, a WTO member must administer its subsidy schemes in a manner that accords the services and service suppliers of other members treatment no less favourable than that accorded to its own like services and service suppliers.

However, the fact that a subsidy pertains to a service industry does not necessarily mean that other WTO agreements, and in particular the Agreement on Subsidies and Countervailing Measures (SCM) (WTO 1994d) and the Agreement on Agriculture (WTO 1994a),[a] do not apply. For example, the provision by a government of certain subsidized services to producers of goods can also be relevant under the SCM Agreement.

Source: WIR02, p. 210.

[a] Annex 2, para. 2 of the Agreement on Agriculture refers to "… expenditures (or revenues foregone) in relation to programmes which provide services or benefits to agriculture or the rural community…". Such programmes "…shall not involve direct payments to producers or processors…". They shall include but not be restricted to: research, pest and disease control, training services, extension and advisory services, inspection services, marketing and promotion services, infrastructural services (including electricity reticulation, roads, market and port facilities, water supply facilities, dams and drainage schemes and infrastructural works associated with environmental programmes). These subsidies fall under the so-called "green box", with the additional requirement (set out in para. 1) that they have "…no, or at most minimal, trade-distorting effects…". While the GATS and the Agreement on Agriculture address different situations, there might be subsidy regimes that can fall under both Agreements (because one and the same subsidy might affect both, trade in services and trade in agricultural products). In such a case, the subsidy – or a specific aspect of a subsidy regime – that is allowed under one Agreement, could still be found to be in violation of the other.

Table VI.1. Examples of services IIAs prohibiting various types of performance requirements pertaining to services, 2004[a]

Instrument / Performance Requirement	Locate headquarters for a specific region of the world martket	Export a given level or percentage of services	Employment requirement performance	Supply services provided to a specific region of the world market exclusively from a given territory	Act as the exclusive supplier of services provided	R&D	Purchase or use services provided in its territory, or to purchase services from natural or legal persons in its territory	Labour certification, academic certifications or other procedures of similar effect
NAFTA, 1992		X			X		X	
GATS, 1994[b]								
Croatia–United States BIT, 1996[c]		X		X		X	X	X
Canada–Chile FTA, 1996		X			X		X	
El Salvador–Peru BIT, 1996		X		X			X	X
Canada–Romania BIT, 1996 [d]							X	
Mexico–Nicaragua FTA, 1997		X			X		X	
Jordan–United States BIT, 1997		X		X		X	X	X
Chile–Mexico FTA, 1999		X			X		X	
Jordan–United States FTA, 2000[e]								
EU–Mexico FTA, 2000								
Japan–Republic of Korea BIT, 2001	X	X	X	X		X	X	
CARICOM Agreement, 2001								
Japan–Singapore Economic Partnership Agreement, 2002	X	X		X		X	X	
EFTA--Singapore FTA, 2002								
Chile–United States FTA, 2003		X						
Chile–Republic of Korea, FTA, 2003		X					X	
Chile–EU Association Agreement, 2003								
CAFTA, 2003[f]		X		X			X	
Australia–United States FTA, 2004		X		X			X	

Source: UNCTAD.

[a] Apart from the four performance requirements 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 included other specific prohibitions in agreements. This table is an example of some of the services IIAs that contain express provisions prohibiting certain types of performance requirements that could be considered in relation to services. Note also, that the list of performance requirements given in this table is not exhaustive. Rather, some of the listed agreements contain prohibitions additional to the ones mentioned in this table.

[b] Depending upon a member's commitments, the GATS market access provision (Article XVI, para. 2, lit. e) may rule out joint venture requirements or requirement for other specific types of legal entity. Similarly, even in the absence of specific disciplines, national treatment rules (again depending upon a member's commitment) and other disciplines (such as those on transparency or MFN treatment) may apply to services-related performance requirements.

[c] Most of the recent BITs signed by the United States contain clauses prohibiting similar measures as in the Croatia–United States BIT. Other examples are the BITs with Azerbaijan (1997), Bolivia (1998), Lithuania (1998) and Mozambique (1998).

[d] Most of the recent BITs signed by Canada contain clauses prohibiting similar measures as in the Canada–Romania BIT. Other examples are the BITs with Ecuador (1996), Panama (1996), Egypt (1996), Croatia (1997), Lebanon (1997), Thailand (1997), Armenia (1997), Uruguay (1997) and Costa Rica (1998).

[e] Note that Jordan has scheduled a national treatment reservation under Mode 3 for architectural services, engineering services and urban planning and landscape architectural services that specifies that "[f]oreign firms are required to train and upgrade the technical and management skills of local employees".

[f] Central American Free Trade Agreement.

physical presence of the related assets of the businesses in the markets they serve. A further reason concerns the regulatory authorities' ability to recover assets of suppliers, should the need to do so arise.[28] Finally, local presence requirements may be introduced to ensure more developmental benefits for the host country, for example, in terms of creating new jobs. A number of Canadian and United States FTAs, in their services chapters, prohibit signatories from requiring a service provider of the party to establish or maintain a representative office or any form of enterprise in the territory of the other party as a condition of providing services in the territory of that latter party.[29]

Dispute settlement procedures

There are differences in the types of dispute settlement systems applying to services FDI. While a number of IIAs, in particular BITs and most recent FTAs, contain mechanisms for investor-State dispute settlement, such a mechanism is generally not found in those IIAs – or chapters within them – that take a services-based approach.

To the extent that services FDI is covered by the investment chapter, it may well be subject to investor-State dispute settlement if the obligations of the investment chapter are subject to such a mechanism. This may be the case for investment-based agreements as well as mixed agreements. The 2003 Chile–United States FTA and the 2003 Singapore–United States FTA (both investment-based agreements) have investor-State dispute settlement systems that apply to services FDI (as part of the investment chapter).[30] In the case of the 2003 Australia–Singapore FTA[31] (a mixed agreement), investor-State dispute settlement applies to the investment chapter (covering services FDI), but not to the services chapter (also covering services FDI). Thus, to the extent that services FDI is covered as "Mode 3/commercial presence" in the chapter on trade in services, it may be subject only to the State-State dispute settlement process (or arbitration procedures), as this is the typical dispute settlement mechanism for most such chapters. Slightly different, but related, the GATS, as part of the WTO, contains a mechanism for State–State dispute settlement only.[32] The same applies to the 2000 Jordan–United States FTA and the ASEAN Framework Agreement on Services.[33] Thus, as with many other issues, where, or in which chapter, services FDI is covered can determine the type of dispute settlement mechanism applying to it.

Another interesting feature is that some agreements require specific expertise for dispute settlement (panels or other arbitral) tribunals as they deal with industry-specific issues. Financial services are a case in point. Paragraph 4 of the GATS Annex on Financial Services stipulates that "[p]anels for disputes on prudential issues and other financial mattes shall have the necessary expertise relevant to the specific financial service under dispute."[34]

Approaches to negotiating commitments

Services IIAs can differ in the method negotiating parties use to arrive at their individual commitments for services FDI. Under the negative list approach, countries agree on a series of general obligations, and then individually list all of those areas in which non-conforming measures are maintained. For example, NAFTA (in its investment chapter, which also covers services FDI) and a number of agreements involving countries of the Western Hemisphere as well as BITs take this approach. In contrast, under the positive list approach, certain obligations apply only to the industries (along with relevant limitations) listed by each country. For example, the GATS, the 1997 MERCOSUR Protocol of Montevideo and the ASEAN Framework Agreement on Services take this approach.[35] While, in theory, both approaches can arrive at the same results, and both grant flexibility, there are important differences between them. For example, in terms of the negotiating process, the negative list approach can be administratively burdensome, particularly for developing countries with limited resources. In terms of outcomes, the negative list approach can result in a situation in which future measures may, due to lack of foresight, be inadvertently bound. This could also happen in industries in which, at a later date, governments may need to take development-oriented measures. Given that in many countries certain service industries are yet to be developed and the regulatory framework for the services sector is still evolving, this may, in certain cases, forestall policy flexibility.[36]

Provisions covering specific service industries

Services IIAs can contain rules for specific service industries. In the WTO, for example, separate texts have been negotiated since the adoption of the GATS on telecommunications, financial services and accountancy services (box VI.5). However, since the completion of negotiations on these three issues, no new texts have been agreed upon.[37] While discussions on industry-specific commitments continue, proposals on horizontal approaches cutting across industries have gained prominence in negotiations on domestic regulation (for the European Communities, see WTO Working Party on Domestic Regulation 2003) to allow for a wider and more coherent development of benchmarks.[38] NAFTA contains a separate chapter for financial services that also covers FDI, and so do some bilateral United States FTAs.[39] Some EU agreements incorporate provisions to allow establishment in maritime transport.[40] Another industry becoming increasingly prominent is energy-related services. At the same time, agreements tend to exclude (in whole or in part) certain industries from their coverage. Much of air transport, which is governed by long-standing bilateral agreements pre-dating the GATS by many years, is a case in point.[41]

Follow-up procedures

Frequently, the conclusion of services IIAs results in the establishment of "ground rules" with several aspects left for further development. In the GATS, this is the case with respect to areas such as domestic regulation, subsidies, government procurement and safeguards, as well as the negotiation of specific commitments. The same applies to services IIAs modelled on the GATS,[43] and also to some United States FTAs.[43] Also, the ASEAN Framework Agreement on Services contains a commitment towards further liberalization, which is carried out in three-year negotiation cycles (box II.8). Some services IIAs establish commissions or other bodies charged with monitoring the implementation and functioning of the agreements.[44] They provide a platform to review their implementation and to recommend action if needed. In the case of the GATS, an "assessment of trade in services" is mandated,[45] and negotiations would need to be adjusted in light of the results thereof.[46] Along similar lines, there can be a monitoring of negotiations and the progress undertaken therein. Again, WTO services negotiations serve as an example.[47]

* * *

As observed in chapter V, FDI liberalization in the secondary and primary sectors has advanced considerably. The services sector continues to be characterized by a range of restrictions related to FDI. Services IIAs, in

Box VI.5. Individual service industries in the WTO

WTO texts applying to services have different characteristics and serve various policy purposes. In some instances, such rules elaborate on the obligations of the GATS according to the specificities of individual service industries; this is notably the case of the GATS Annexes on Financial Services and on Telecommunications, whose provisions apply irrespective of any specific commitments. In other cases, for example in telecom services, sectoral disciplines also address matters such as competition-related aspects of trade in services. Such rules can be found in the Reference Paper for Telecommunications, which features a number of pro-competitive regulatory disciplines for voluntary adoption by WTO members through Article XVIII (Additional Commitments). In the case of financial services, sectoral rules address the need to undertake measures for prudential reasons. Some, such as the Understanding on Financial Services, provide a voluntary model for scheduling commitments aimed at a higher overall level of liberalization. In the accountancy sector, provisions negotiated under Article VI, para. 4 (Domestic Regulation) spell out disciplines relating to licensing, qualifications and professional standards. Such disciplines, which, under certain conditions, are scheduled to enter into force at the end of the current round of negotiations, would apply only to those countries that undertake commitments in accountancy services.

Source: UNCTAD, based on various WTO documents.

and by themselves, often reflect only the status quo of liberalization at the national level. However, a number of them can lead to changes in national policies, for example, when they prohibit services-specific performance requirements. Moreover, a few can accommodate further liberalization, by establishing the ground rules for future negotiations. This can go hand-in-hand with efforts to negotiate industry-specific rules, making the international framework for services FDI (and other international services transactions) increasingly complex.

B. Complexities and challenges

The adoption of multilateral rules on services FDI has not halted – or diminished the momentum – for regional or bilateral treaty making. Rather, subsequent to the negotiation of the GATS, services provisions appear increasingly in IIAs across all regions.

This multilayered and multifaceted reality raises a number of policy challenges. While agreements may generally be consistent with or complement each other, there may also be cases of overlap, inconsistencies and gaps that, potentially, give rise to conflicts. Furthermore, in some cases, the complexity and, at times, ambiguity of the rules applicable to services FDI might compromise the clarity of the system, making it difficult to navigate through the resulting web of rules. This is particularly true for countries with insufficient human and institutional capacity to formulate and implement services IIAs.

A specific example of difficulties arising from complexity and ambiguity relates to the scheduling of commitments and reservations. Frequently, negotiations cannot produce the necessary clarity, certainty and comparability in term of commitments; this leaves lacunae that, eventually, may be filled through dispute settlement. A recent example of this is the 2004 WTO case *Mexico–Telecommunications* with respect to telecom services (WTO Dispute Settlement Body 2004). Amongst other issues, this case dealt with the exact meaning of Mexico's entries in its schedule of commitments (particularly, as to what extent Mexico was bound by the Reference Paper). This underlines the importance of scheduling carefully the commitments that are being made. But this may be a challenge in light of the emergence of *new* services – an issue of particular relevance in the context of this *WIR*.

The complex network of IIAs also raises questions concerning the coexistence of multilateral, regional and bilateral services IIAs, as well as the challenges resulting therefrom (*WIR03*, pp. 93-97). There is, indeed, a need to ensure that rules are consistent with each other and that they complement each other in a mutually supportive way. This is a problem not only of consistency between different international treaty obligations accepted by contracting parties, but also one of consistency in national legal and policy changes made in the process of implementing international obligations.

To avoid the adoption of inconsistent international obligations, a number of services IIAs mirror the provisions of the GATS,[48] incorporating – by reference – existing or future GATS obligations or, more broadly, affirm their complementarity with the GATS regime.[49] However, negotiating outcomes can result in inconsistent obligations, possibly leading to a conflict between them. In such a case, conflicts have to be dealt with in accordance with general rules of international treaty interpretation.[50] When the parties wish to ensure that certain inconsistent obligations remain in force or determine which provisions, in the case of conflict, should prevail, they can expressly provide for this in a conflict-clause provision of the treaty.[51]

Inconsistencies can arise, for example, when bilateral or regional agreements covering services investment contain rules granting more favourable treatment to their constituent members as opposed to their external investment partners, thereby deviating from the WTO MFN principle. The GATS (like the GATT) contains a provision permitting economic integration agreements (Article V), provided they meet a series of conditions: for example, that they have substantial sectoral coverage (meaning, among other things, that no mode of supply is excluded *a priori*), and that they provide for the absence or elimination of substantially all discrimination through the elimination of existing discriminatory measures and/or the prohibition of new or more

discriminatory measures. To a certain extent, however, the meaning of this clause is ambiguous.[52] According to this provision, the requirement to eliminate "substantially" all discrimination (specified in paragraph 1(b)(i) and 1(b)(ii)) depends on the substantial sectoral coverage of a services agreement; this, in turn, depends on the number of industries, the volume of trade affected and the modes of supply. For developing countries, paragraphs 3 (a) and (b) of Article V provide additional flexibility with respect to these compatibility requirements.[53]

In addition to Article V on economic integration agreements, the GATS allows WTO members to list exemptions to the MFN obligation contained in Article II. Listing MFN exemptions was possible only at the conclusion of negotiations during the Uruguay Round or, for those members that joined later, at the time of accession to the WTO.[54] The Annex on Article II specifies, however, that exemptions should, in principle, not exceed a period of ten years.[55] In fact, as of 2001, the list of exemptions from the GATS MFN obligation contained 232 exemptions relating to other IIAs, of which 13 (or 3.1%) pertain to BITs (OECD 2001b).[56] Besides BITs and investment guarantee agreements, MFN exemptions also cover other measures and policy goals (e.g. health or audiovisual services).

Besides the GATS, virtually all other services IIAs contain MFN obligations. MFN clauses can differ, including in their scope of coverage or in the number of beneficiaries of MFN rights. While the GATS grants MFN rights to all other WTO members, subject to MFN exemptions, under a bilateral IIA only the countries party to the agreement enjoy this right. Note, however, that there may be questions as to which investors are considered investors of a party. Ultimately, the question of MFN consistency is dependent on the type of measure as well as on the breadth of coverage of an MFN clause against which a measure is scrutinized.[57]

In addition to potential conflicts between IIAs arising from the MFN obligation, there can be other inconsistencies between IIAs. It may well be that a country is party to an IIA adopting a positive list approach for services FDI, and is also party to an IIA adopting a negative list approach for services FDI. While it can be assumed that parties intend to negotiate their international commitments for services FDI in a manner consistent with each other, inconsistencies may still arise. Some IIAs address this by including specific provisions regulating the relationship between the IIA and other international agreements.[58]

Apart from the issue of inconsistency *between* IIAs, inconsistencies can also arise *within* agreements, especially in those taking a mixed approach. To guard against such potential problems, the Australia–United States FTA, for example, explicitly states (Article 11, para.2): "in the event of any inconsistency between this Chapter [the investment chapter] and another Chapter, the other Chapter shall prevail to the extent of the inconsistency".[59] Another alternative is to identify specific provisions of the investment chapter that do not apply to FDI in services.[60]

In addition to inconsistencies, the multilayered network of services IIAs may also entail a specific type of externality: certain obligations provided for in bilateral or regional agreements may have effects that go beyond the parties to such agreements. For example, any benefits from an obligation (included in a BIT or a FTA) to publish laws and regulations relating to services FDI are automatically enjoyed by all other interested parties, since the States bound by the transparency requirement in the BIT or a FTA will not typically be able (or willing) to limit the beneficial effects of such an obligation to the other contracting partie(s). Similarly, an obligation setting forth certain general regulatory standards (whether procedural or substantive in nature) may have spillover effects that go beyond the bilateral or regional agreements through which they are undertaken. For example, the requirement that domestic regulations affecting trade in services (including services FDI) be administered in a reasonable, objective and impartial manner (as included, for example, in Article 28 of the EFTA–Singapore FTA, or in GATS Article VI, para. 4) can benefit all countries,[61] even if they are not parties to the relevant agreements.[62]

Another example is that some IIAs incorporate obligations whose benefits are not limited to (investors of) the parties to the agreements, but rather extend to investment independently of its origin. In NAFTA-type agreements, the prohibition of certain performance requirements applies to all foreign affiliates in the territories of the parties, irrespective of the nationality of their parent firms.

C. National and international policies: a complex and dynamic interaction

The interaction between services IIAs and national regulations for services is dynamic and complex. This is because rules for FDI in services are constantly evolving, both at the international and national levels. Unlike the liberalization of conditions for FDI in the manufacturing and primary sectors that has already progressed significantly, liberalization in the area of services has only relatively recently begun to play an important policy role (chapter V). In developed countries, services regimes are undergoing significant changes. In particular, such changes result in a further opening of service industries and increased private participation in the provision of what were previously treated as public services (box VI.6). In developing countries, this process is generally less advanced. Many of the rules and regulations for services are not yet fully established, with regulators experimenting, adopting different methods, and ultimately seeking the regulatory approach that best suits the developmental needs of their countries. At the same time, new international disciplines on services are being adopted that serve as parameters for domestic regulatory action. The result of these national and international policy trends is a complex interaction, whereby some of the issues address regulation and go beyond the question of discrimination between foreign and domestic service providers.

Two forms of interaction between services IIAs and national policies are particularly noteworthy. One form is an autonomous–liberalization led interaction, whereby the degree of FDI liberalization and protection in an IIA is determined mainly by the scope and extent of the countries' national policies on services as they appear at the time of negotiations. Thus, the actual level of liberalization inscribed in an IIA reflects either the level of openness already existing in national laws and policies at the time of negotiation, or a level that is below the national regulatory status quo. The results of the services negotiations during the Uruguay Round are an example. During these negotiations, many countries made commitments (frequently qualified through limitations) that were less open than the level of services liberalization that actually existed at that time in their national policies.[63] Other commitments reflected the status quo, such as some of those made during the extended negotiations on financial services and telecoms. But, of course, even such a cautious approach of making commitments at or below the actual level of openness locks in the existing (or part of the existing) national autonomous liberalization. The large majority of services IIAs are of this nature.

Box VI. 6. IIAs and public services

IIAs appear to recognize the need to accommodate the particularities of "public" services (sometimes also referred to as "essential" services). The reason is that many of these services raise special issues of market failure and equitable provision and some are deeply embedded in a country's social, cultural and political fabric. Several services are in the general interest of the public and, indeed, essential for human life (e.g. health and provision of water). Thus, governments face the challenge of ensuring that these services are adequately provided, including to the poor and marginalized members of society. In certain cases, this challenge may even be accompanied by a government's obligation to ensure the progressive realization of certain human rights (UNHCHR 2002, 2003). In their public services policies, governments frequently pursue a number of objectives, e.g. to improve the accessibility and affordability of a given service and to increase the efficiency with which it is supplied, while limiting the expenses to the government and taxpayers. At the same time, however, there is no widely accepted definition of public services. Rather, countries and societies differ in their perception about what are public services.

Some services IIAs seek specifically to accommodate the particularities of public services by explicitly carving out some of them from their scope of application.

The GATS, for example, adopts the notion of "services supplied in the exercise of governmental authority", excluding these from its scope of application.[a] Under GATS Article I, para. 3(c), such services are defined as services

/...

Box VI. 6. IIAs and public services (concluded)

that are neither supplied on a commercial basis, nor in competition with other services.[b] Thus, while there might be important overlaps, the notion of "services supplied in the exercise of governmental authority" might differ from what some understand as "public services". Given this ambiguity,[c] a number of WTO members have added limitations, either of a horizontal or of an industry-specific nature, to their services commitments, possibly with a view to retaining policy space for those services that they want to reserve for public or quasi-public management.[d] They have chosen to do so, despite the fact that the text of the Agreement does not refer to privatization, nor does it explicitly prevent governments from supplying services to the poor or marginalized or from requiring this of a private operator. It should be noted that there has been no WTO dispute settlement case relating to Article I, para. 3 (c), nor has any member suggested amendment or other modification of that provision.[e]

NAFTA, like many other IIAs, also addresses issues related to public services in its investment chapter.[f] More specifically, Article 1101, para. 4 refers to functions and services such as "…law enforcement, correctional services, income security or insurance, social security or insurance, social welfare, public education, public training, health and child care". Thus, unlike the GATS, NAFTA more specifically lists certain service industries. At the same time, NAFTA stops short of the GATS insofar as it does not exclude these services from its scope of application. Rather, the relevant provision in NAFTA states that "[n]othing in this Chapter shall be construed to prevent a Party from providing a service or performing a function such … as in a manner that is not inconsistent with this Chapter". The NAFTA parties can enter country-specific carve-outs and reservations. The Canadian reservation in the social services sector, which also covers future measures, is an example.[g]

Thus, IIAs differ in their approaches towards public services. Countries need to be careful when negotiating obligations relating to public services, so that their own policy objectives are served best.

Source: UNCTAD.

[a] The MERCOSUR Protocol of Montevideo, the CARICOM Agreement, the EFTA–Singapore FTA, the Japan–Singapore Agreement and, to some extent, the Andean Community Decision 439 match the language of the GATS.

[b] The GATS does not further define these terms. At the same time, the academic and policy debate has seen considerable discussion about the possible meaning of Article I, para. 3 (c) (e.g. Krajewski 2003).

[c] For a discussion of these ambiguities as they may arise in the health sector, and the challenges they bring about, see Mashayekhi, Julsaint and Tuerk (forthcoming).

[d] Liechtenstein, Norway, Sweden and Switzerland, for example, exclude the "public works function" from their sanitation services commitments. Similarly, the European Communities, in its schedule, reserves the right to make "services *considered* public utilities" subject to exclusive rights (emphasis added). Also, the European Communities' schedule states that "the supply of a service, or its subsidization, within the public sector is not in breach of this commitment". Similarly, in its 2003 initial offer, the European Communities states that "[t]his offer cannot be construed as offering in any way the privatisation of public undertakings nor as preventing the Community and its Member States from regulating public services in order to meet national policy objectives" (TN/S/O/EEC). Similarly, Brazil makes clear that its "…offer cannot be construed as offering in any way the privatisation of public undertakings nor as preventing Brazil from regulating public and private services in order to meet national policy objectives" (TN/S/O/BRA). Also, the United States states in its initial offer that,"[c]onsistent with GATS Article I.3(b) and (c), this offer applies only to services open to private sector participants, unless otherwise indicated, in the attached draft schedules, and does not include the right to acquire or invest in government monopolies supplying services included within any of the sectors or sub-sectors covered by this offer" (TN/S/O/USA).

[e] Note, however, that several other stakeholders have made requests to that effect. See, for example, various motions passed in the United Kingdom by several trade unions, members of Parliament and local authorities http://www.wdm.org.uk/presrel/current/ukgatspublic.htm.

[f] The 1996 Canada–Chile FTA matches the language of NAFTA.

[g] More specifically, Canada's Annex II reservation (for national treatment, MFN, local presence of senior management and boards of directors, that apply to both cross border services and investment) in the social services industry reads: "Canada reserves the right to adopt or maintain any measure with respect to the provision of public law enforcement and correctional services, and the following services to the extent that they are social services established or maintained for a public purpose: income security or insurance, social security or insurance, social welfare, public education, public training, health, and child care."

A second form is an IIA-driven interaction. In such a case, it is the IIA that prompts FDI liberalization and domestic reforms in the services area. Sometimes this is the result of built-in commitments to engage in future rounds of negotiations in which one (if not the only) principal objective is market opening. The GATS provides an example,[64] as do agreements patterned on it (e.g. the EFTA–Singapore FTA, Article 27, para. 5). Time-bound reservations in IIAs can also drive this interaction: once they expire, domestic regulations need to be adapted. Similarly, pre-commitments under the GATS are examples of the time-bound nature of limitations inscribed in commitments.[65] The special case of WTO accession agreements can involve commitments to take certain liberalizing steps at a future date. The GATS commitments of China and Taiwan Province of China are examples.

IIA-driven interaction between international and national policies for services FDI can also manifest itself in other areas of policy for services FDI, for example, with regard to transparency. Recent services IIAs tend to contain obligations to publish and make available certain laws and regulations pertaining to FDI (e.g. Article III, para. 1 of the GATS[66] or Article 192 of the 2002 Chile–EU Association Agreement), as well as obligations to notify the other party (parties) or relevant international bodies of certain new laws and regulations (e.g. Article III, para. 3 of the GATS[67] or Article L-03 of the Canada–Chile FTA). IIAs can also include obligations requiring independent review of administrative decisions affecting individual investors through judicial, arbitral or administrative tribunals or procedures (e.g. Article VI, para. 2 of the GATS or Article 64, para. 2 of the Japan–Singapore Agreement). In addition, some of the more recent IIAs contain also so-called "a-priori" comment or consultation processes (e.g. Article 19.3, para. 2 of the Singapore–United States FTA).[68]

In some of these scenarios, IIAs may require policy changes at the national level, thus constituting an example of IIA-driven interaction between national and international services policies. However, in other situations such interaction is sought, especially when a government wants to use its membership in an IIA, and the policy changes this requires, as a means of overcoming domestic resistance to reform, and to make it difficult for subsequent governments to reverse such commitments.[69]

Overall, however, the two types of interaction, whether driven by IIAs or led by autonomous liberalization, cannot always be clearly distinguished for individual agreements. In fact, there may be a situation in which a certain set of transactions is not constrained, and the issue becomes to maintain openness; this may be the case for offshoring. In the end, the specific impact of interaction is usually country-specific and context-specific.

D. Conclusion: striking a development-oriented balance

IIAs covering services FDI are proliferating at the bilateral, regional and multilateral levels. The resulting network of international rules on FDI in services is multi-faceted, multilayered and constantly evolving, with obligations differing in geographical scope and substantive coverage. These rules are increasingly setting the parameters for national policies in the services sector.

Services IIAs differ in their approach towards covering services FDI (investment-based, services-based or mixed) and in their substantive provisions. Several services IIAs contain follow-up procedures and separate chapters for certain service industries. While these issues in themselves pose challenges for policy-makers dealing with services, additional challenges arise from the multilayered network of rules, including the need to ensure that rules are consistent with, or complementary to, each other in order to avoid conflicts.

Services IIAs can offer a series of potential benefits. They can provide a stable, predictable and transparent enabling framework for attracting investment and benefiting from it. At the same time, the optimal realization of these potential benefits remains a challenge. Specifically, the challenge is to strike a balance between using IIAs for attracting FDI and benefiting from it on one hand, and preserving the flexibility needed for the pursuit of national development strategies in the services sector on the other.

This challenge is particularly crucial for developing countries for a number of reasons. First, in many of these countries, the services sector is at an early stage of development and rapidly evolving. Second, certain service industries are particularly sensitive, as they are deeply embedded in a country's social, cultural and political fabric. Third, some developing countries do not yet have optimal regulatory systems in place, and policy-makers are experimenting with liberalization and regulation, with a view to building a more competitive services sector through FDI and other means. In the case of the GATS, this challenge is reflected in Article XIX, which sets out the mandate for the negotiation of specific commitments and – in that context – specifically provides that "[t]here shall be appropriate flexibility for individual developing country Members for opening fewer sectors, liberalizing fewer types of transactions [and] progressively extending market access in line with their development situation…".[70] For LDCs, such flexibility is also affirmed in GATS Article IV, para. 3, which states that "[p]articular account shall be taken of the serious difficulty of the least-developed countries in accepting negotiated specific commitments in view of their special economic situation and their development, trade and financial needs."[71]

In light of the above, it is important that services IIAs retain a degree of flexibility that allows countries to face the specific challenges arising at the interface of the liberalization and regulation of services. IIAs should also accommodate developing countries' efforts to achieve their development-oriented policy objectives. In this context, it is also important to leave room for the sort of trial-and-error process regulators may need in order to identify the policy options best suited to their countries' levels of development. The importance of national policy space has been affirmed in the Sao Pãulo Consensus, as adopted at the UNCTAD XI Conference.[72]

In that context, economic needs tests come into play. For example, when attached to Mode 3 commitments, they could be viewed as a policy tool to achieve an appropriate level of supply, regardless of the origin of the service supplier (OECD 2000b, p. 8). In the context of the GATS, individual countries have used economic needs tests in connection with certain service industries. There, they are found in commitments in distribution, telecoms, rental services, transport, financial services, courier, medical, dental, environmental, testing and analysis, social and education services (OECD 2000b, p. 7). (However, the absence of agreed criteria for an economic needs test also raises challenges as regards transparency and objectivity.) Similarly, it has been suggested that emergency safeguard mechanisms can provide an additional policy tool. They can give countries the necessary flexibility to respond to unanticipated events devastating to host economies, an issue whose relevance was highlighted by the Asian and Argentinean crises. Such mechanisms can put countries in a comfort zone when locking in international commitments under IIAs.[73]

IIAs can allow governments to liberalize at a pace and sequence appropriate to their development strategies and to the rapid development of the services economy. Flexibility can be built into an IIA by various means (*WIR03*, chapter V). In particular, the objectives, structure, content and implementation processes of an agreement can be designed in a way that ensures a proper balance between the right to regulate in the interest of development on the one hand, and the progressive liberalization and protection of FDI in the services sector on the other (see also *WIR03*, chapter VI).

The overriding challenge for countries is to find such a development-oriented balance when formulating international policies for services FDI. In the final analysis, the merits of services IIAs from a developing-country perspective must be judged by their ability to create an enabling environment for competitive service industries that help developing countries to integrate in a beneficial manner into the international economic system, with a view towards advancing their development. For this reason, GATS Article IV calls for increasing the participation of developing countries in trade in services, including through "…the liberalization of market access in sectors and modes of supply of export interest to them." The development dimension has to be an integral part of international agreements covering services – in support of national policies to attract services FDI and to benefit more from it.

* * *

In conclusion, to benefit from an increasingly globalized and interdependent world economy, countries need to strengthen their capabilities for the supply of competitive services. If conditions are right, FDI can help to achieve this. Its most important contribution is in bringing the capital, skills and technology countries need to set up competitive service industries. This applies not only to the new IT-enabled services, but also to traditional services such as infrastructure and tourism. Moreover, as services become more tradable, FDI can help link developing countries to global value chains in services. Such chains comprise international service production networks that are increasingly important to access international markets. At the same time, caution is necessary when attracting FDI in services. For instance, some services (especially basic utilities and infrastructure) may be natural monopolies and hence susceptible to abuses of market power (whether firms are domestic or foreign). Others are of considerable social and cultural significance; the whole fabric of a society can be affected by the involvement of FDI in those industries. Hence, countries need to strike a balance between economic efficiency and broader developmental objectives.

This is why it matters to have the right mix of policies. In light of the shift towards FDI in services, developing countries face a double challenge: to create the necessary conditions – domestic and international – to attract services FDI and, at the same time, to minimize its potential negative effects. In each case, the key is to pursue the right policies within a broader development strategy. Basic to them is the upgrading of the human resources and physical infrastructure (especially in information and communication technology) required by most modern services. An internationally competitive services sector is, in today's world economy, essential for development.

Notes

1 Unless otherwise indicated, all agreements mentioned in this chapter can be found in UNCTAD 1996b, 2000b, 2001c, 2002c, forthcoming f, and, together with BITs, also at http://www.unctad.org/iia. Intra-European Union agreements are not considered here, given the *sui generis* nature of the European integration process.

2 For a discussion of similar issues, in the context of identifying the implications that possible negotiations on a multilateral investment framework in the WTO would have for the GATS, see Roy 2003.

3 Note that NAFTA, while signed in 1992, entered into force in 1994.

4 Such agreements may also contain a chapter on cross-border trade in services, but by virtue of an express provision, this chapter does not cover the "commercial presence" mode (e.g. NAFTA).

5 Andean Community, Decision 291, Regime for the Common Treatment of Foreign Capital and Trademarks, Patents, Licensing Agreements and Royalties, 1991, http://www.sice.oas.org/Trade/Junac/decisiones/dec291e.asp; it does not, however, contain many of the typical investment obligations.

6 In addition, Article 2 provides that the AIA "…shall further cover direct investments in such other sectors and services incidental to such sectors as may be agreed upon by all Member States."

7 Agreement for the Promotion and Protection of Investments, http://www.aseansec.org/6464.htm and http://www.aseansec.org/6465.htm.

8 This is also evident in the GATS, e.g., in the context of "services related to manufacturing consulting" or "services incidental to manufacturing".

10 Also, there are differences about whether an investment definition covers both pre- and post-establishment, and relates to both existing and *de novo* investment (UNCTAD 1998 and 1999b).

11 Article 2 of the Andean Community Decision 439 reads "*Commercial presence*: Any kind of business or professional establishment in the territory of a Member Country for the purpose of providing a service through, for example: The establishment, acquisition or maintenance of a juridical person; or The creation or maintenance of a branch or a representative office" (emphasis in the original).

12 The relevant provisions in Article 22 (d) of the EFTA–Singapore FTA and Article 58, para. 6 (d) of the Japan–Singapore Agreement (similar in language) read: "'Commercial presence' means 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 Party for the purpose of supplying a service". Note that the 2000 EFTA–Mexico FTA is different in that its Article 20 defines "commercial presence" as follows: "(i) as regards nationals, the right to set up and manage undertakings, which they effectively control. This shall not extend to seeking or taking employment in the labour market or confer a right of access to the labour market of another Party; (ii) as regards juridical persons, the right to take up and pursue the economic activities covered by the Section by means of the setting up and management

of subsidiaries, branches or any other form of secondary establishment" (footnotes omitted).

13 See, for example, Article 37 (b) of the EFTA–Singapore FTA and Article 72 (a) of the Japan–Singapore Agreement.

14 Alternatively, they are included in the "Definitions" section. While addressing the same issue, these clauses vary in their nature (discretionary or mandatory) and in the criteria they establish for an investment to enjoy the benefits of an agreement. Although the discussion below focuses on cases relating to (non-) substantial business operations, benefits can also be denied for other reasons, e.g. by virtue of the country in which a parent firm is established (for example, because the host country has no diplomatic relations with it).

15 Some IIAs also allow parties to deny benefits not only to non-party enterprises in the territory of a party, but also to that party's enterprises in the territory of the other party, if they do not have substantive business operations in the other party. Examples include Article 10.11, para. 2 of the 2003 Chile–United States FTA and Article 11.12, para. 2 of the Australia–United States FTA. In the absence of such a clause there is a possibility for investors' round-tripping to benefit from an IIA, even if they have no substantive business operations in the other party. This issue was – in part – addressed in the recent 2004 *Tokios Tokelés v. Ukraine* arbitral decision (ICSID 2003).

16 See, for example, Article 1113.2 of the NAFTA. An interesting example is provided by the New Zealand–Singapore Agreement, which requires an enterprise to engage in substantive business operations in the territory of *one or both parties* (Article 25). The textual interpretation of this provision leads to the conclusion that, for example, a non-party enterprise formally established in Singapore but not engaged in substantive business operations there, would still enjoy benefits afforded by the Agreement if it engages in substantive business operations in New Zealand. It appears that this formulation leaves room for a circumvention of the denial-of-benefits clause.

17 Mainland and Hong Kong Closer Economic Partnership Arrangement, 2003, http://www.tid.gov.hk/english/cepa/fulltext.html.

18 GATS Article XXVIII, lit. m reads: " 'juridical person of another Member' means a juridical person which is either: (i) constituted or otherwise organized under the law of that other Member, and is engaged in substantive business operations in the territory of that Member or any other Member; or (ii) in the case of the supply of a service through commercial presence, owned or controlled by: 1. natural persons of that Member; or 2. juridical persons of that other Member identified under subparagraph (i)."

19 More specifically, para. 6 of Article V reads: "[a] service supplier of any other Member that is a juridical person constituted under the laws of a party to an agreement referred to in paragraph 1 shall be entitled to treatment granted under such agreement, provided that it engages in substantive business operations in the territory of the parties to such agreement."

20 For agreements involving only developing countries, para. 3 (b) of Article V grants some flexibility, allowing more favourable treatment to be provided to juridical persons owned and controlled by natural persons of the parties. Para. 3 (a) of this Article also provides some flexibility for economic integration agreements involving a developing country, when it comes to meeting the conditions of para. 1. There are, however, questions whether such agreements would at all need to meet the Article V, para. 1, criteria or whether additional flexibility would be granted by the enabling clause (GATT 1979).

21 Note that regional agreements typically involve trade-offs across a number of issues.

22 There is, however, some concern raised in the Committee on Trade in Financial Services as regards the possible consequences of further liberalization in Modes 1 and 2, combined with footnote 8 to Article XVI, in particular, whether this could lead to capital account liberalization.

23 In the Japan–Singapore Agreement, for example, the market access provision (Article 59) is phrased similar to the one in the GATS (Article XVI). The same applies to the Agreement's national treatment provision. Depending upon the scope of the commitments of the countries, the Agreement could be viewed as granting a right to establishment.

24 Note, however, that, depending upon a member's commitments, the GATS market access provision (Article XVI, para. 2 lit. e) may rule out joint-venture requirements or requirements for other specific types of legal entities. Note also that the TRIMs Agreement may apply to measures regulating services FDI, for example, when performance requirements applied to services investors affect trade in goods. Requirements for a service provider to source locally the material (goods) needed for the provision of services may serve as an example (e.g. food in the tourism industry, or telecom material for telecom providers).

25 For example, this approach has been followed in many of the BITs entered into by the United States and Canada.

26 See, for example, Articles 1106 and 1108 of the NAFTA. Article 1106 sets out NAFTA's rules on performance requirements with an exhaustive list of prohibited performance requirements (e.g. export requirements, local content requirements, technology transfer requirements, exclusive services supplier requirements) (para. 1); it clarifies that certain performance requirements are not only prohibited from being mandatory, but also from being linked to the granting of an incentive (para. 2); and it sets out certain exceptions (including environmental exceptions) to these prohibitions (para. 6). Article 1108, in turn, addresses reservations (for non-conforming measures) and exceptions to four of NAFTA's core investment obligations (i.e. national treatment, MFN treatment, rules relative to performance requirements and senior management and boards of directors). Amongst others, Article 1108 sets out in which Schedules/Annexes to list non-conforming measures. It also states that certain obligations (including performance requirements) shall not apply to existing non-conforming measures maintained by a local government (without the need to list them in a schedule). Note that Annex II NAFTA reservations are broad, including with respect to future measures.

[27] This was done by several WTO members under the GATS, e.g. with respect to employment requirements, export requirements, local content, technology or training requirements (Ortega 2004).

[28] As an alternative to local establishment, a country may allow foreign suppliers of services to operate in its markets as long as they provide a suitably large deposit to cover their potential liabilities with an institution within the host country, as determined by the host-country government or a regulatory authority.

[29] See, for example, Article 1205 of NAFTA and Article H-05 of the 1996 Canada–Chile FTA. As noted above, the Canadian and United States FTAs tend to adopt an investment-based approach and, in their services chapters, to exclude the "commercial presence" mode from their coverage. Nevertheless, even if the said prohibition were to be included in a chapter that does not cover services FDI, it would be relevant for services FDI by its very nature, as it has the potential to affect services FDI.

[30] Both agreements explicitly state that specific provisions of the services chapter (i.e. market access, domestic regulation, transparency) also apply to services FDI as it is covered by the investment chapter, but – as set out in a footnote to the relevant provision – these obligations are not subject to investor–State dispute settlement (Article 8.2, para. 2 in the case of the Singapore–United States FTA and Article 11.1, para. 3 in the case of the Chile–United States FTA).

[31] Australia–United States Free Trade Agreement, http://www.dfat.gov.au/trade/negotiations/us_fta/final-text/index.html.

[32] This mechanism is set out in the Understanding on Rules and Procedures Governing the Settlement of Disputes, Annex 2 to the Marrakesh Agreement Establishing the World Trade Organization (WTO 1994b).

[33] Note that also the Framework Agreement on the ASEAN Investment Area (AIA) (while, as mentioned above, not applying to services FDI apart from certain industries) only provides for State–State dispute settlement procedures, despite the fact that it does not take a services-based approach. Article 17 of the Agreement provides additionally that a special dispute settlement mechanism may be established for the purpose of this Agreement.

[34] Other examples (with respect to financial services) include Article 6 of the Australia–Singapore FTA and Article 25 of the European Union–Mexico Decision No 2/2001 of the EU–Mexico Joint Council of 27 February 2001, Implementing Articles 6, 9, 12(2)(b) and 50 of the Economic Partnership, Political Coordination and Cooperation Agreement between the European Community and Its Member States, of the One Part, and the United Mexican States, of the Other Part (hereinafter EU–Mexico Agreement).

[35] Note that, strictly speaking, the GATS adopts a "hybrid approach". The negative list features of the GATS can be found in members' right to enter MFN exemptions, and their right to qualify their (positive list) specific commitments with conditions and limitations.

[36] In this context, it is interesting to note that some NAFTA reservations (e.g. Annex II) carve out future measures.

[37] In light of the 2004 WTO case *Mexico–Telecommunications* (WTO Dispute Settlement Body 2004), some countries might become more cautious about developing industry-specific texts.

[38] This raises the question of whether certain specific industries would benefit from specific benchmarks.

[39] See Chile–United States FTA (chapter 12 on financial services) and Singapore–United States FTA (chapter 10 on financial services).

[40] See, for example, Article 10 of the EU–Mexico Agreement. Article 10, para. 4 in Chapter II states that "[e]ach Party shall permit to service suppliers of the other Party to have a commercial presence in its territory under conditions of establishment and operation no less favourable than those accorded to its own service suppliers or those of any third country, whichever are the better, and this in conformity with the legislation and regulations applicable in each Party."

[41] In the case of the GATS, certain services related to air transport, as defined in the Annex on Air Transport Services, are excluded from the Agreement. Paragraph 2 of the Annex states that the GATS Agreement "…shall not apply to measures affecting: (a) traffic rights, however granted; or (b) services directly related to the exercise of traffic rights, except as provided in paragraph 3 of this Annex." Paragraph 3 states that "[t]he Agreement shall apply to measures affecting: (a) aircraft repair and maintenance services; (b) the selling and marketing of air transport services; (c) computer reservation system (CSR) services."

[42] For example, the ASEAN Framework Agreement on Services, the 2001 CARICOM Agreement (Revised Treaty of Chaguaramas Establishing the Caribbean Community Including the CARICOM Single Market and Economy) and the 1996 Euro-Mediterranean Agreement establishing an association between the European Communities and Morocco.

[43] With respect to domestic regulation, for example, the services chapter of the United States–Singapore FTA contains language similar to the GATS (Article 8.8, para. 2): "With a view to ensuring that measures relating to qualification requirements and procedures, technical standards and licensing requirements do not constitute unnecessary barriers to trade in services, each Party shall endeavor to ensure, as appropriate for individual sectors, that such measures are: (a) based on objective and transparent criteria, such as competence and the ability to supply the service; (b) not more burdensome than necessary to ensure the quality of the service; and (c) in the case of licensing procedures, not in themselves a restriction on the supply of the service."

[44] An example of such a follow-up mechanism is NAFTA. In July 2001, the trade ministers from the three NAFTA countries, sitting as the "NAFTA Free Trade Commission", issued a statement on the "interpretation" of provisions, including the minimum standard of treatment, as contained in NAFTA Chapter 11. More specifically, the interpretative statement clarifies in para. 1 of Section B that "[a]rticle 1105(1) prescribes the customary international law minimum standard of treatment of aliens as the minimum standard of treatment to be afforded to investments of investors of another Party". It also states in para. 2 that "[t]he

concepts of 'fair and equitable treatment' and 'full protection and security' do not require treatment in addition to or beyond that which is required by the customary international law minimum standard of treatment of aliens." See NAFTA Free Trade Commission, "Notes of Interpretation of Certain Chapter 11 Provisions", 31 July 2001; http://www.dfait-maeci.gc.ca/tna-nac/NAFTA-Interpr-en.asp. Based on the experience gained with the application of the minimum standard of treatment provision, some more recent IIAs specifically contain language similar to the interpretative statement. Article 10.4 of the Chile–United States FTA is an example. Indeed, this may reflect a learning process in the formulation of IIAs.

45 More specifically, GATS Article XIX, para. 3, states that: "[f]or each round, negotiating guidelines and procedures shall be established. For the purposes of establishing such guidelines, the Council for Trade in Services shall carry out an assessment of trade in services in overall terms and on a sectoral basis with reference to the objectives of this Agreement, including those set out in paragraph 1 of Article IV [on increasing participation of developing countries]." Such an assessment could also include questions related to the impact the GATS has had, so far, on attracting investment flows. In fact, in a 2001 communication (WTO Council for Trade in Services 2001a) a series of developing countries raised specific questions to be addressed in the assessment exercise. These included the question of whether developing countries have experienced investments in new sectors or whether investments flow only to sectors that have already been developed.

46 See para. 14 of the GATS Negotiating Guidelines (WTO Council for Trade in Services 2001b), which states, amongst others, that the assessment "…shall be an ongoing activity of the Council and negotiations shall be adjusted in the light of the results of the assessment. In accordance with Article XXV of the GATS, technical assistance shall be provided to developing country Members, on request, in order to carry out national/regional assessments."

47 In para. 15, the Negotiating Guidelines mandate the Council for Trade in Services (in Special Session), when reviewing progress in negotiations, to consider the extent to which Article IV (on increasing participation of developing countries in trade in services) is being implemented and to suggest ways and means of promoting the goals established therein.

48 The ASEAN Framework Agreement on Services, the CARICOM Agreement and several European Agreements (e.g. the 1997 Euro-Mediterranean Association Agreement establishing the association between the European Union and Jordan) are cases in point.

49 Recital 7 in the Preamble of the ASEAN Framework Agreement on Services reads: "REITERATING their commitments to the rules and principles of the General Agreement on Trade in Services (hereinafter referred to as "GATS") and noting that Article V of GATS permits the liberalising of trade in services between or among the parties to an economic integration agreement". The Singapore–United States FTA states, in para. 3 of Article 8.8 in the services chapter, that: "[i]f the results of the negotiations related to Article VI, para. 4 of GATS (or the results of any similar negotiations undertaken in other multilateral fora in which both Parties participate) enter into effect, this Article shall be amended, as appropriate, after consultations between the Parties, to bring those results into effect under this Agreement."

50 At least two principles should be mentioned in this regard: (1) the principle according to which, with respect to successive treaties relating to the same subject-matter, the earlier treaty applies only to the extent that its provisions are compatible with those of the later treaty (*lex posterior derogate legi priori*, see Article 30 Vienna Convention on the Law of Treaties (United Nations 1969); (2) the principle according to which the more specific norm prevails over the more general norm (*lex specialis*).

51 While such a provision may not be contained in the services chapter, it may be, nevertheless, relevant for services FDI. Article 4 of the EFTA–Singapore Agreement, for example, specifically, states that "[t]he provisions of this Agreement shall be without prejudice to the rights and obligations of the Parties under the Marrakesh Agreement Establishing 'the World Trade Organization' and the other agreements negotiated thereunder (hereinafter referred to as "the WTO Agreement") to which they are a party and any other international agreement to which they are a party." A slightly different approach is taken by the Japan–Singapore Agreement. Its Article 6, "Relation to Other Agreements", provides in para.1 that "[i]n the event of any inconsistency between this Agreement and any other agreement to which both Parties are parties, the Parties shall immediately consult with each other with a view to finding a mutually satisfactory solution, taking into consideration general principles of international law".

52 It would appear that BITs are not considered economic integration agreements. But it appears that agreements covering all modes (in one chapter or more) need to be notified. On the broader problematique of the clause relating to regional economic integration organizations (REIO clause), see UNCTAD forthcoming g.

53 Article V, para. 3(a) states: "[w]here developing countries are parties to an agreement of the type referred to in paragraph 1, flexibility shall be provided for regarding the conditions set out in paragraph 1, particularly with reference to subparagraph (b) thereof, in accordance with the level of development of the countries concerned, both overall and in individual sectors and subsectors." Para. 3(b) of the same provision then states: "[n]otwithstanding paragraph 6, in the case of an agreement of the type referred to in paragraph 1 involving only developing countries, more favourable treatment may be granted to juridical persons owned or controlled by natural persons of the parties to such an agreement."

54 Some MFN exemptions might still be taken with regard to certain maritime transport services, before the end of the current negotiations.

55 Para. 6 of the GATS Negotiating Guidelines provides, however, that: "MFN Exemptions shall be subject to negotiation according to paragraph 6 of the Annex on Article II (MFN) Exemptions. In such negotiations,

appropriate flexibility shall be accorded to individual developing-country Members."

56 Canada or Poland, for example, are countries that have taken MFN exemptions in the GATS regarding BITs.

57 For example, it may be open to discussion whether an investor from country A that has no BIT with country B should be able to benefit from protection under a BIT between country B and country C, where the investor from A establishes a legal presence through an affiliate in C set up specifically to benefit from that BIT, but undertakes no business operations in C.

58 Note that, in some cases, such clauses also address the relationship of the IIA with WTO Agreements. For example, Article 4 of the EFTA–Singapore FTA states: "[t]he provisions of this Agreement shall be without prejudice to the rights and obligations of the Parties under the Marrakesh Agreement Establishing the World Trade Organization and the other agreements negotiated thereunder (hereinafter referred to as 'the WTO Agreement') to which they are a party and any other international agreement to which they are a party." Some agreements also contain clauses regulating the relationship between themselves and other non-trade-related agreements, for example environmental and conservation agreements. Article A-04 of the Canada–Chile FTA is an example.

59 The same Agreement also addresses this issue in Article 11.2, para. 3, which states that "[t]his Chapter [the services chapter] does not apply to measures adopted or maintained by a Party to the extent that they are covered by Chapter Thirteen (Financial Services)."

60 An example is the EFTA–Singapore FTA, in which Article 38, para. 2 in the investment chapter states: "Article 40 (1) [national treatment, MFN] shall not apply to measures affecting trade in services whether or not a sector concerned is scheduled in Chapter III [dealing with "services"]." Article 38, para. 2 sets out which of the national treatment and MFN obligations (those of the services or those of the investment chapter) apply to measures affecting services (including FDI in services) as well as investors and investments in the services area. While several reasons may explain the need to do so, they all relate to the objective to avoid overlap and inconsistencies between chapters in the Agreement. This is particularly important in the case of the national treatment obligation, which differs between the investment and the services chapters, for example in content ("like services" as opposed to investment in "like circumstances") and in approach to making commitments (positive or negative lists). In fact, in light of the latter, having the investment chapter's national treatment obligation apply to services investment would nullify the positive list approach adopted in the services chapter.

61 These parties will, however, not be able to claim a violation of such obligations.

62 This may be true even for an obligation to institute judicial, arbitral or administrative tribunals or procedures, thus providing for prompt review and appropriate remedies for administrative decisions affecting, *inter alia*, services FDI.

63 A similar phenomenon exists in traditional trade negotiations where bound tariffs are frequently higher than actual tariffs.

64 A perusal of a number of initial requests submitted by some WTO members in the current round of negotiations reveals that several of the conditions and limitations attached to members' previous commitments (either on a horizontal or on a Mode-3-specific basis) are requested to be liberalized further.

65 By entering into pre-commitments, countries commit themselves today to implement market access and/or national treatment commitments by a pre-determined date in the future.

66 GATS Article III, para. 1 reads in part: "[e]ach Member shall publish promptly and, except in emergency situations, at the latest by the time of their entry into force, all relevant measures of general application which pertain to or affect the operation of this Agreement."

67 GATS Article III, para. 3 reads: "[e]ach Member shall promptly and at least annually inform the Council for Trade in Services of the introduction of any new, or any changes to existing, laws, regulations or administrative guidelines which significantly affect trade in services covered by its specific commitments under this Agreement."

68 On transparency, see UNCTAD 2004h.

69 Note, however, that some IIAs, for example the GATS, contain provisions allowing for the modification of commitments (e.g. GATS Article XXI). It is interesting to note that the European Communities has utilized Article XXI in the context of its enlargement process.

70 Para. 2 of this provision continues, stating that developing countries, when making access to their markets available to foreign services suppliers, may attach to such access conditions aimed at achieving the objectives referred to in Article IV.

71 Note, that this point is reiterated in the LDC modalities (WTO Council for Trade in Services 2003).

72 More specifically, para. 8 of the São Paulo Consensus states: "The increasing interdependence of national economies in a globalizing word and the emergence of rule-based regimes for international economic relations have meant that the space for national economic policy, i.e. the scope for domestic polices, especially in the areas of trade, investment and industrial development, is now often framed by international disciplines, commitments and global market considerations. It is for each Government to evaluate the trade-off between the benefits of accepting international rules and commitments and the constraints posed by the loss of policy space. It is particularly important for developing countries, bearing in mind development goals and objectives, that all countries take into account the need for appropriate balance between national policy space and international disciplines and commitments" (UNCTAD 2004i).

73 For a discussion of safeguards, see *WIR03*, box V.3.

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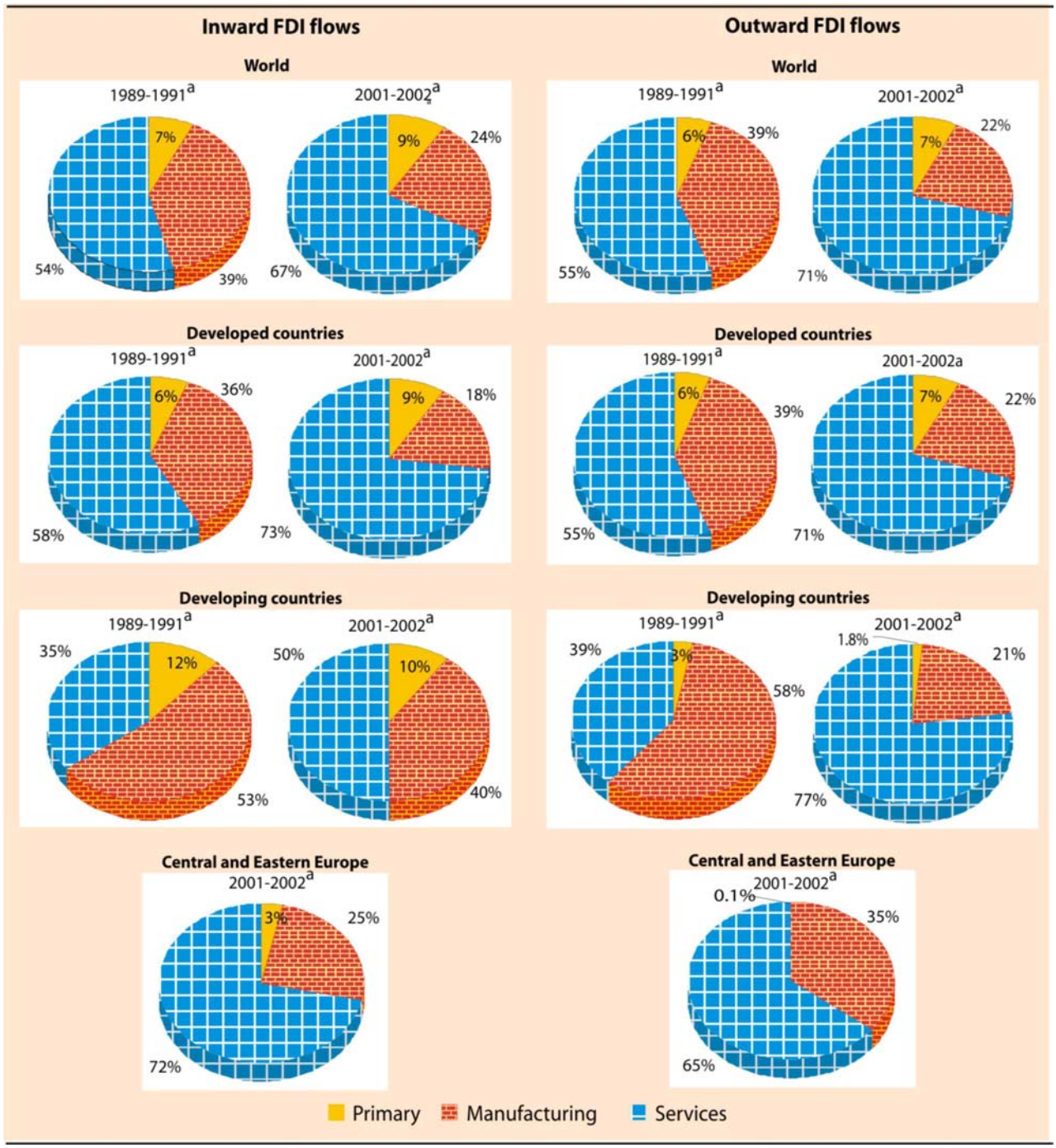
ANNEXES

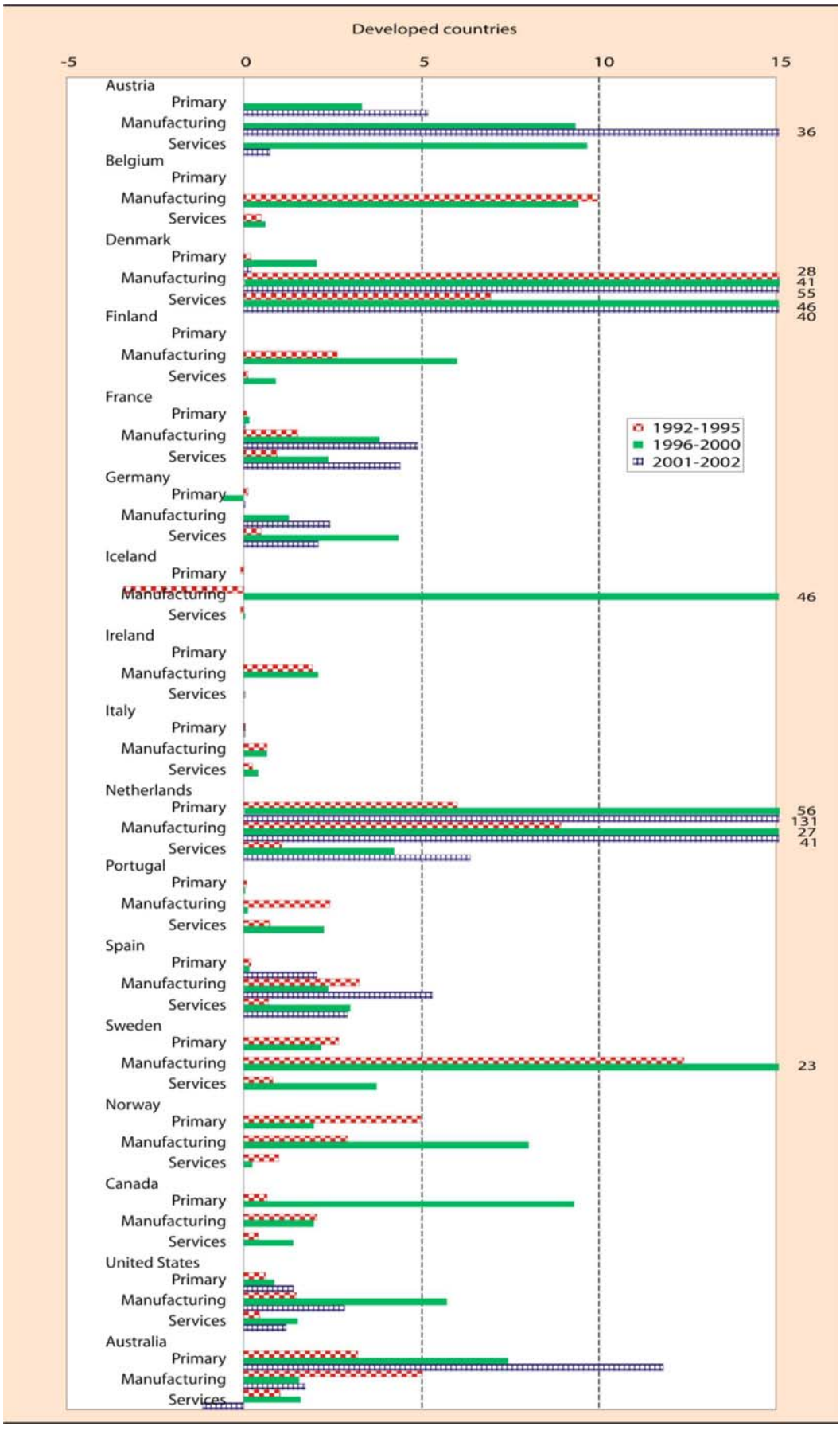
Annex figure A.I.1. FDI flows, by sector, 1989-1991 and 2001-2002



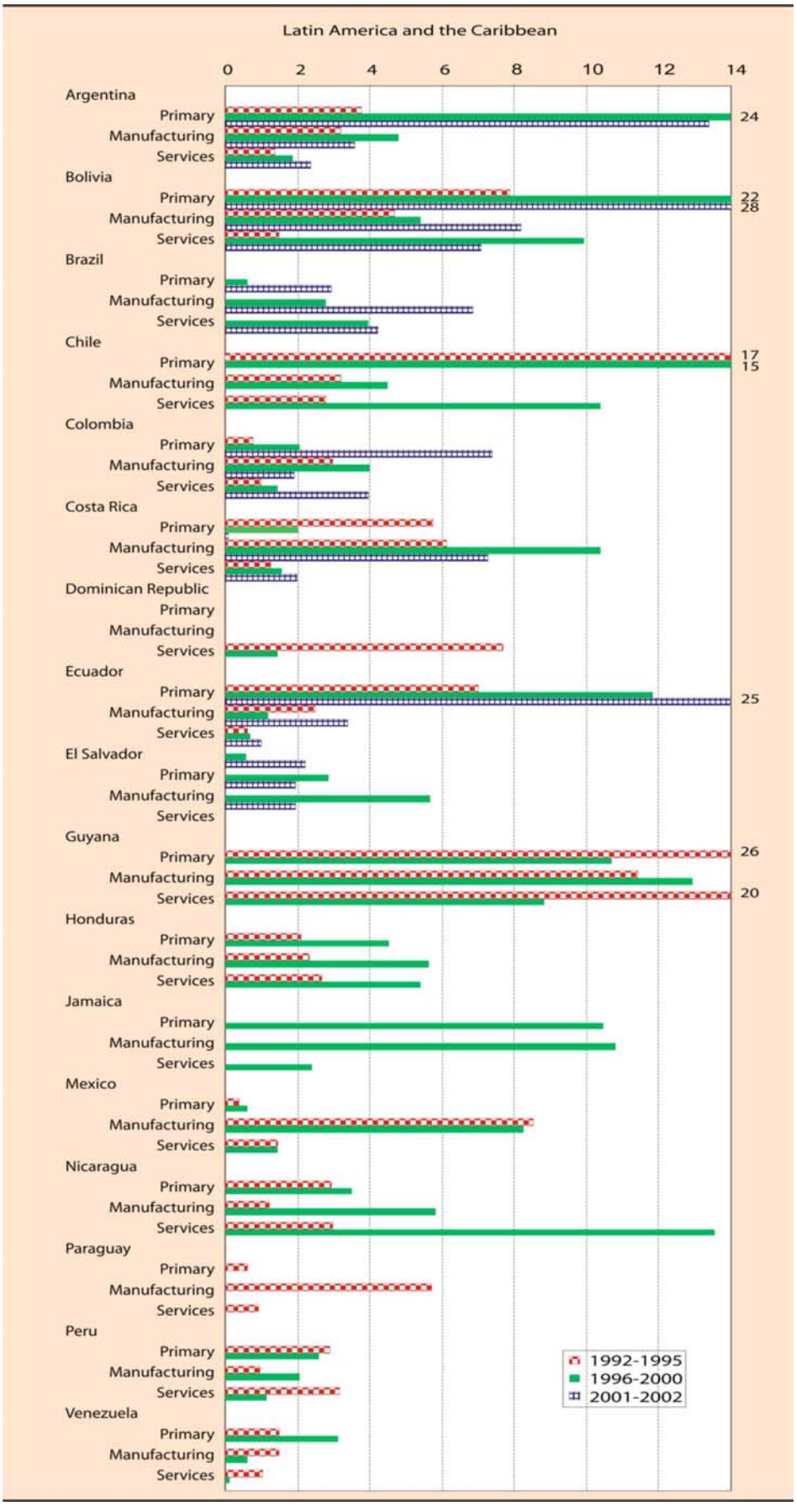
Source: UNCTAD.

[a] Or the latest three year period average available.

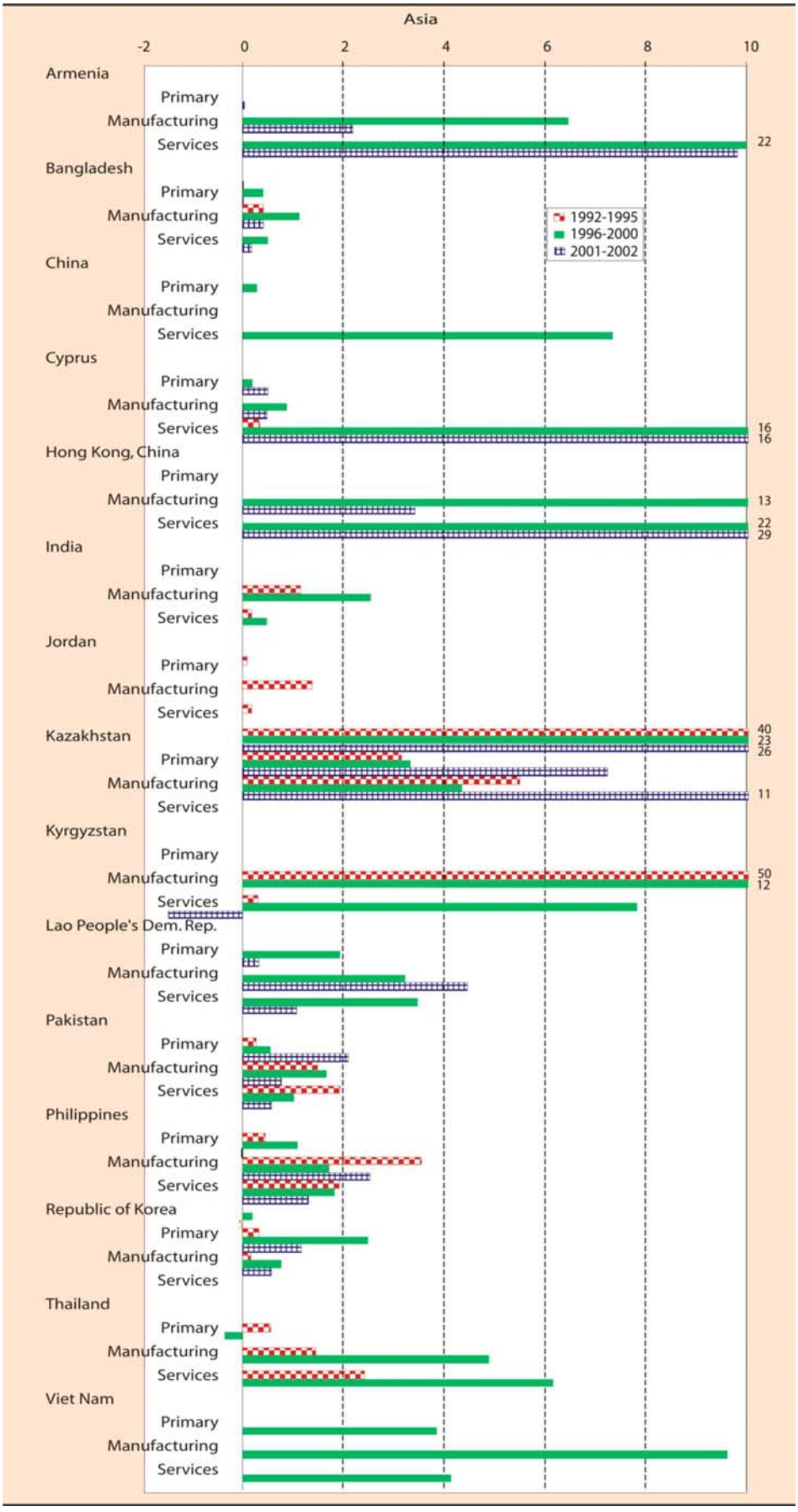
Annex figure A.I.2. FDI inflows as a percentage of GDP in selected developed, developing and CEE economies, by sector, 1992-2002



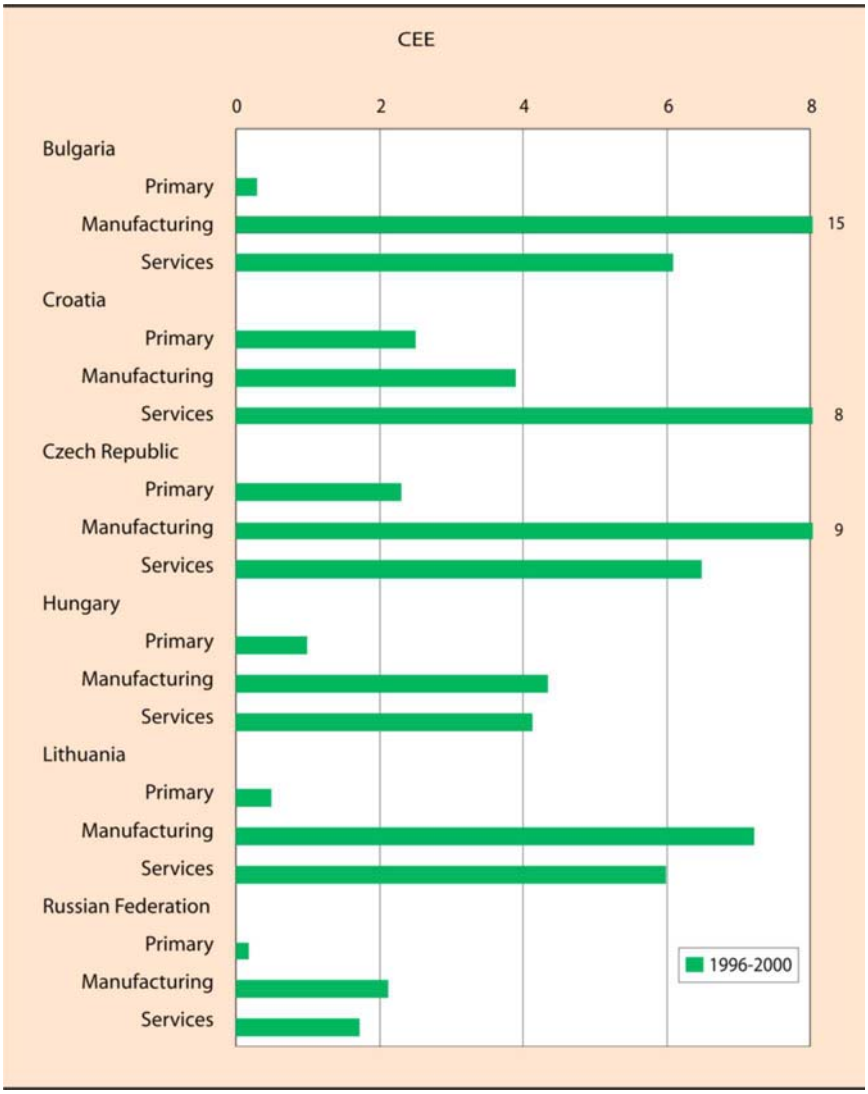
Annex figure A.I.2. FDI inflows as a percentage of GDP in selected developed, developing and CEE economies, by sector, 1992-2002 (continued)



Annex figure A.I.2. FDI inflows as a percentage of GDP in selected developed, developing and CEE economies, by sector, 1992-2002 (continued)



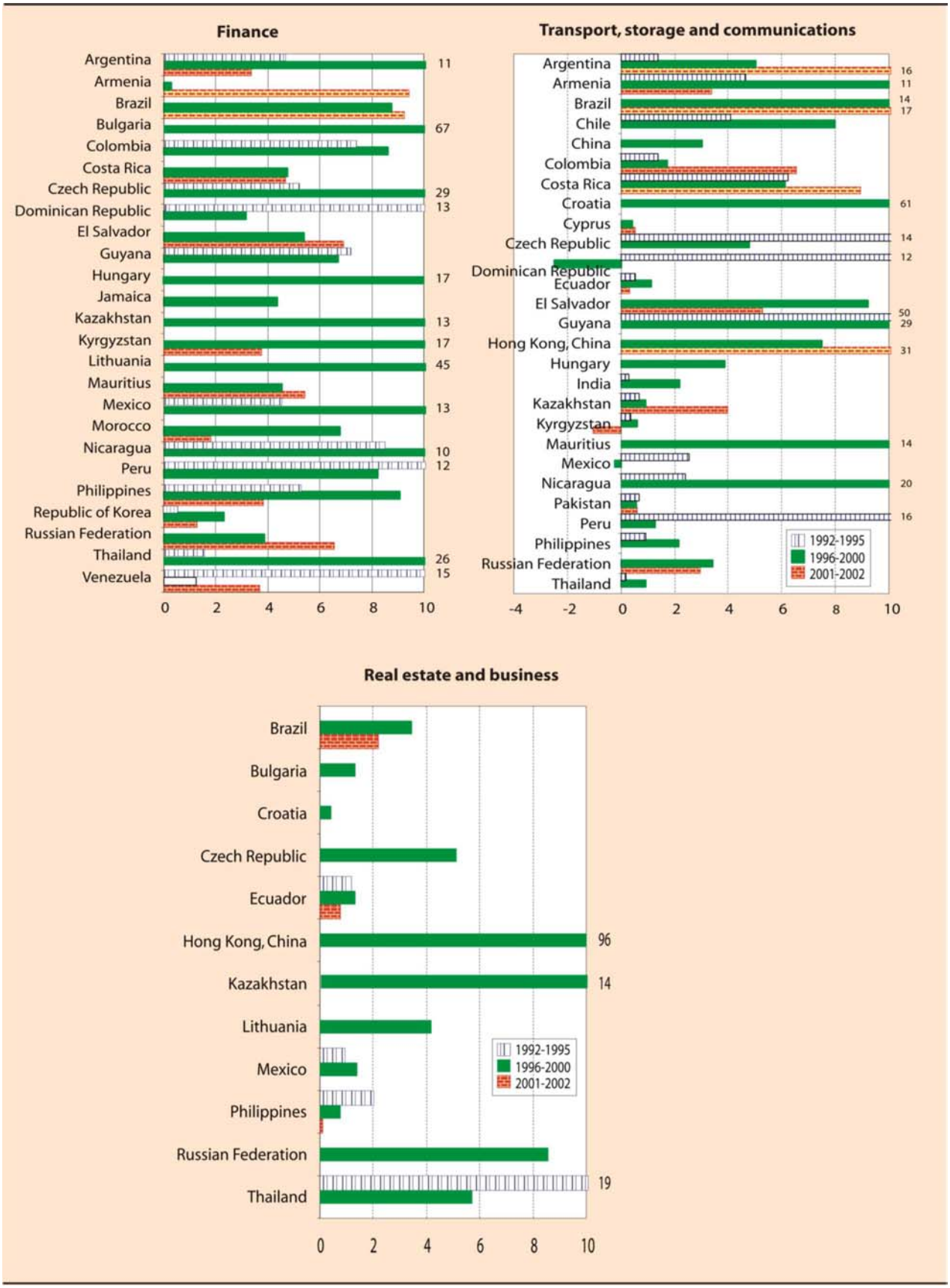
Annex figure A.I.2. FDI inflows as a percentage of GDP in selected developed, developing and CEE economies, by sector, 1992-2002 (continued)



Source: UNCTAD, FDI/TNC database for FDI and IMF for GDP data.

Annex figure A.III.1. Services FDI inflows as a percentage of GDP in selected host developing and CEE economies, by individual service industry, 1992-2002

Annex figure A.III.1. Services FDI inflows as a percentage of GDP in selected host developing and CEE economies, by individual service industry, 1992-2002



Source: UNCTAD, based on FDI/TNC database (www.unctad.org/fdistatistics) for FDI and UN Statistical Office for GDP data.

Annex table A.I.1. Cross-border M&A deals with values of over $1 billion completed in 2003

Rank	Value ($ billion)	Acquired company	Host economy	Industry of the acquired company	Acquiring company	Home economy	Industry of the acquiring company
1	15.3	Household International Inc	United States	Personal credit institutions	HSBC Holdings PLC{HSBC}	United Kingdom	Banks, non-US chartered
2	7.7	American Water Works Co Inc	United States	Water supply	RWE AG	Germany	Electrical and other services combined
3	7.6	Alfa,Renova-Russian Assets	Russian Federation	Crude petroleum and natural gas	BP PLC-Russian Assets	Russian Federation	Crude petroleum and natural gas
4	6.9	Hughes Electronics Corp	United States	Communications services, nec	News Corp Ltd	Australia	Newspapers: publishing, or publishing & printing
5	5.5	P&O Princess Cruises PLC	United Kingdom	Deep sea transportation of passengers, exc. ferry	Carnival Corp	United States	Deep sea transportation of passengers, exc. ferry
6	5.3	Pechiney SA	France	Primary production of aluminum	Alcan Inc	Canada	Aluminum foundries
7	4.5	Wella AG	Germany	Perfumes, cosmetics, and other toilet preparation	Procter & Gamble Co	United States	Soap & other detergents, except specialty cleaners
8	4.4	Seat Pagine Gialle-Directories	Italy	Books: publishing, or publishing & printing	Silver SpA	United Kingdom	Investors, nec
9	4.2	Pfizer Inc-Adams	United States	Candy and other confectionery products	Cadbury Schweppes PLC	United Kingdom	Candy and other confectionery products
10	4.2	Scottish & Newcastle-Ret Bus	United Kingdom	Malt beverages	Spirit Amber Bidco Ltd	United States	Drinking places (alcoholic beverages)
11	3.8	National Bank of New Zealand	New Zealand	Banks, non-US chartered	ANZ Banking Group(NZ)Ltd	New Zealand	Banks, non-US chartered
12	3.7	Panamerican Beverages Inc	United States	Bottled & canned soft drinks & carbonated water	Coca-Cola FEMSA SA CV	Mexico	Bottled & canned soft drinks & carbonated waters
13	3.3	Centerpulse AG	Switzerland	Surgical and medical instruments and apparatus	Zimmer Holdings Inc	United States	Surgical and medical instruments and apparatus
14	2.6	Ente Tabacchi Italiani SPA	Italy	Chewing and smoking tobacco and snuff	British American Tobacco PLC	United Kingdom	Cigarettes
15	2.4	Nestlé Ice Cream Co LLC	United States	Ice cream and frozen desserts	Dreyers Grand Ice Cream Inc	United States	Ice cream and frozen desserts
16	2.3	Deutsche Telekom-Cable TV Cos	Germany	Cable and other pay television services	Investor Group	United Kingdom	Investors, nec
17	2.3	CEGETEL	France	Radiotelephone communications	Vodafone AG(Vodafone)	Germany	Telephone communications, except radiotelephone
18	2.2	Japan Telecom Co Ltd	Japan	Telephone communications, except radiotelephone	Ripplewood Holdings LLC	United States	Investors, nec
19	2.1	GE Edison Life Insurance Co	Japan	Life insurance	AIG	United States	Fire, marine, and casualty insurance
20	2.1	Seat Pagine Gialle SpA	Italy	Commercial printing	Silver SpA	United Kingdom	Investors, nec
21	2.1	MIM Holdings Ltd	Australia	Bituminous coal and lignite surface mining	Xstrata PLC	Switzerland	Primary production of aluminum
22	2.0	DBS Diamond Holdings Ltd	Hong Kong, China	Investors, nec	DBS Bank	Singapore	Banks, non-US chartered
23	1.9	Roche Holding AG-Vitamins	Switzerland	Medicinal chemicals and botanical products	DSM NV	Netherlands	Chemicals and chemical preparations, nec
24	1.9	Instrumentarium Oyj	Finland	Electromedical and electrotherapeutic apparatus	General Electric Co{GE}	United States	Power, distribution, and specialty transformers
25	1.8	Petroleum Geo-Services A/S	Norway	Oil and gas field exploration services	Creditor	United States	Personal credit institutions
26	1.8	Egyptian LNG	Egypt	Natural gas liquids	PETRONAS	Malaysia	Crude petroleum and natural gas
27	1.7	MTU Aero Engines GmbH	Germany	Aircraft engines and engine parts	Kohlberg Kravis Roberts & Co	United States	Investors, nec
28	1.6	Wella AG	Germany	Perfumes, cosmetics, and other toilet preparations	Procter & Gamble Co	United States	Soap & other detergents, except specialty cleaners
29	1.6	Cablecom Holding AG(NTL Inc)	Switzerland	Cable and other pay television services	Creditors	United States	Investors, nec
30	1.6	Regie des Tabacs	Morocco	Chewing and smoking tobacco and snuff	Altadis SA	Spain	Cigarettes
31	1.5	Deutsche Bank-Securities Div	Germany	Investment advice	State Street Corp,Boston,MA	United States	Offices of bank holding companies
32	1.4	First National Bank	United Kingdom	Banks, non-US chartered	GE Consumer Finance	United States	Personal credit institutions
33	1.4	Azeri,Chirag,Gunashli	Azerbaijan	Crude petroleum and natural gas	INPEX Corp	Japan	Crude petroleum and natural gas
34	1.4	Banyu Pharmaceutical Co Ltd	Japan	Medicinal chemicals and botanical products	MSD (Japan) Co	Japan	Drugs, proprietary drugs, and druggists' sundries
35	1.4	Unicom New World (BVI) Ltd	Hong Kong, China	Telephone communications, except radiotelephone	China Unicom Ltd	Hong Kong, China	Telephone communications, except radiotelephone

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Annex table A.I.I. Cross-border M&A deals with values of over $1 billion completed in 2003 (concluded)

Rank	Value ($ billion)	Acquired company	Host economy	Industry of the acquired company	Acquiring company	Home economy	Industry of the acquiring company
36	1.4	UGC Europe Inc	Netherlands	Cable and other pay television services	UnitedGlobalCom Inc	United States	Cable and other pay television services
37	1.3	Getraenke Beteiligungs AG	Austria	Malt beverages	Heineken NV	Netherlands	Malt beverages
38	1.3	Wallace Computer Services Inc	United States	Manifold business forms	Moore Corp Ltd	Canada	Manifold business forms
39	1.3	Banco Zaragozano SA	Spain	Banks, non-US chartered	Barclays Bank PLC (Madrid)	Spain	Banks, non-US chartered
40	1.2	Deutsche Bank-Real Estate(51)	Germany	Operators of nonresidential buildings	Blackstone Group LP	United States	Investors, nec
41	1.2	BertelsmannSpringer Science	Germany	Books: publishing, or publishing & printing	Investor Group	United Kingdom	Investors, nec
42	1.2	Gecina-Residential Real Estate	France	Real estate agents and managers	Westbrook Partners LLC	United States	Real estate investment trusts
43	1.2	Korea Exchange Bank	Republic of Korea	Banks, non-US chartered	Lone Star Fund	United States	Real estate investment trusts
44	1.2	BRL Hardy Ltd	Australia	Wines, brandy, and brandy spirits	Constellation Brands Inc	United States	Wines, brandy, and brandy spirits
45	1.1	GM Defense	Canada	Motor vehicles and passenger car bodies	General Dynamics Corp	United States	Aircraft
46	1.1	American Eagle Tankers Inc	Singapore	Deep sea foreign transportation of freight	Malaysia Intl Shipping Corp	Malaysia	Deep sea foreign transportation of freight
47	1.1	Fortum Petroleum AS	Norway	Crude petroleum and natural gas	ENI SpA	Italy	Crude petroleum and natural gas
48	1.1	DuPont Canada Inc	Canada	Plastics materials and synthetic resins	El du Pont de Nemours and Co	United States	Industrial inorganic chemicals, nec
49	1.1	Airborne-Ground Operations	United States	Arrangement of transportation of freight and cargo	DHL Worldwide Express Inc	United States	Air courier services
50	1.1	Warner Music Group-DVD & CD	United States	Phonograph records,prerecorded audio tape & disks	Cinram International Inc	Canada	Phonograph records,prerecorded audio tapes & disks
51	1.0	Chubb PLC	United Kingdom	Security systems services	United Technologies Corp	United States	Aircraft engines and engine parts
52	1.0	Jostens Inc	United States	Jewellery, precious metal	Credit Suisse First Boston	United States	Investors, nec
53	1.0	Preussag Energie-German Assets	Germany	Crude petroleum and natural gas	Gaz de France	France	Natural gas transmission
54	1.0	Dongfeng Motor Corp	China	Motor vehicles and passenger car bodies	Nissan Motor Co Ltd	Japan	Motor vehicles and passenger car bodies
55	1.0	Perez Companc SA	Argentina	Crude petroleum and natural gas	Petrobras	Brazil	Crude petroleum and natural gas
56	1.0	Asia Global Crossing Ltd	Bermuda	Telephone communications, except radiotelephone	Asia Netcom Corp Ltd	Hong Kong, China	Telephone communications, except radiotelephone

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

Note: M&A deals within the same economy, but where the ulitmate parent economy is different, are still considered cross-border M&As.

Annex table A.I.2. 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		**45 077** [b]	**102 560** [b]
Western Europe		**36 133**	**75 664**
European Union		**30 709** [b]	**64 464** [b]
Austria	2002	955	2 633 [c]
Belgium	1997	988 [d]	1 504 [d]
Luxembourg	2001	16	764
Denmark	1998	9 356	2 305 [e]
Finland	2001	900 [f]	2 030 [c, e]
France	2002	1 267	10 713
Germany	2002	6 069	9 268 [g]
Greece	2003	170	750
Ireland	2001	39 [h]	1 225 [i]
Italy	1999	1 017 [j]	1 843 [j]
Netherlands [k]	1998	1 608	3 132 [c]
Portugal	2002	600 [l]	3 000
Spain	1998	857 [m]	7 465
Sweden [n]	2002	4 260	4 656 [c]
United Kingdom [o]	2003	2 607	13 176
Other Western Europe		**5 424** [b]	**11 200** [b]
Gibraltar	2003	..	129
Iceland	2000	18	55
Malta	2003	..	137
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		**4 270** [b]	**7 459** [b]
Australia	2001	682	2 352
Israel	2003	..	131
Japan	2001	3 371 [s]	3 870 [t]
New Zealand	1998	217	1 106
Developing economies		**14 192** [b]	**580 638** [b]
Africa		**1 163** [b]	**6 849** [b]
Algeria	2003	..	45
Angola	2003	1	59
Benin	2003	..	19
Botswana	2003	..	6
Burkina Faso	2003	1	20
Burundi	2003	..	3
Cameroon	2003	..	90
Central African Republic	2003	..	8
Chad	2003	..	9
Comoros	2003	5	2
Congo	2003	..	44
Côte d'Ivoire	2003	..	212
Democratic Republic of the Congo	2003	1	1
Djibouti	2003	1 [u]	6
Egypt	1999	..	99
Equatorial Guinea	2003	..	7
Ethiopia	2003	4 [u]	21
Gabon	2003	..	53
Gambia	2003	..	13
Ghana	2003	..	76
Guinea	2003	..	27
Guinea-Bissau	2003	..	3
Kenya	2003	..	170
Lesotho	2003	..	1
Liberia	2003	..	18
Madagascar	2003	..	47
Malawi	2003	..	15
Mali	2003	1	19
Mauritania	2003	2 [u]	4
Mauritius	2003	16	75
Morocco	2003	3	288
Mozambique	2003	5 [u]	51
Namibia	2003	..	6
Niger	2003	2	8
Nigeria	2003	2	116
Rwanda	2003	..	3
Senegal	2003	5	65
Seychelles	1998	-	30
Sierra Leone	2003	1 [u]	7
Somalia	2003	1 [u]	..
South Africa	1998	941	2 044
Sudan	2003	2 [u]	5
Swaziland	2002	12	61
Togo	2003	3	14
Tunisia	2003	142 [v]	2 616
United Republic of Tanzania	2003	2	59
Uganda	2001	..	255
Zambia	2003	2 [x]	13
Zimbabwe	1998	8	36
Latin America and the Caribbean		**2 475** [b]	**46 117** [b]
Antigua and Barbuda	2003	..	13
Argentina	2003	..	1 263
Aruba	2003	..	33
Bahamas	2003	..	145
Barbados	2003	..	126
Belize	2003	..	12
Bermuda	2003	..	332
Bolivia	1996	..	257
Brazil	1998	1 225	8 050
British Virgin Islands	2002	..	129
Cayman Islands	2003	..	392
Chile	1998	478 [y]	3 173 [z]
Colombia	1995	302	2 220
Costa Rica	2003	..	307
Dominica	2003	..	8
Dominican Republic	2003	..	137
Ecuador	2003	..	199
El Salvador	2003	..	304
Grenada	2003	..	11
Guatemala	1985	..	287
Guyana	2002	4 [f]	56
Haiti	2003	1	12
Honduras	2003	..	59
Jamaica	1998	..	177

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Annex table A.I.2. 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]
Mexico	2002	..	25 708
Netherlands Antilles	2003	201	150
Nicaragua	2003	1	47
Panama	2003	211	412
Paraguay	1995	..	109
Peru	1997	10 [aa]	1 183 [ab]
St. Kitts and Nevis	2003	8	8
Saint Lucia	2003	1	21
Saint Vincent and the Grenadines	2003	2	10
Suriname	2003	..	12
Trinidad & Tobago	1999	..	65 [ac]
Uruguay	2002	..	164 [ad]
Venezuela	2003	31	526
Asia		**10 535** [b]	**527 119** [b]
South, East and South-East Asia		**9 614** [b]	**505 763** [b]
Afghanistan	2003	..	2
Bangladesh	2003	4	25
Bhutan	1997	..	2
Brunei Darussalam	2003	1	23
Cambodia	1997	..	598 [ae]
China	2002	350 [af]	424 196 [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 Republic	1997	..	669 [ak]
Macao, China	2002	34	715
Malaysia	1999	..	15 567 [al]
Maldives	2003	1	2
Mongolia	1998	..	1 400
Myanmar	2003	..	8
Nepal	2003	1 [u]	11
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		**919** [b]	**13 639** [b]
Bahrain	2003	18	86
Cyprus	2002	..	3 185
Iran, Islamic Republic of	2003	36	60
Jordan	2003	11	34
Kuwait	2003	24	50
Lebanon	2003	22	91
Oman	1995	92 [at]	351 [at]
Qatar	2003	5	30
Saudi Arabia	1989	..	1 461
Syrian Arab Republic	2003	1	13
Turkey	2003	682	7 435
United Arab Emirates	2003	22	839
Yemen	2002	6 [u]	4
Central Asia		**2**	**7 717** [b]
Armenia	1999	..	1 604 [au]
Azerbaijan	2003	..	27
Georgia	1998	..	190 [av]
Kazakhstan	1999	..	1 865 [aw]
Kyrgzstan	1998	..	4 004 [ax]
Uzbekistan	2003	2	27
The Pacific		**19** [b]	**553** [b]
Fiji	2002	2	151 [x]
Kiribati	2003	..	1
New Caledonia	2003	..	3
Papua New Guinea	1998	..	345 [ay]
Samoa	2003	4	12
Solomon Islands	2003	7 [u]	18
Tonga	2003	..	5
Vanuatu	2003	6	18
Central and Eastern Europe		**2 313** [b]	**243 750** [b]
Albania	1995	..	2 422 [az]
Belarus	1994	..	393
Bosnia & Herzegovina	2003	7	39
Bulgaria	2000	26 [h]	7 153 [ba]
Croatia	1997	70	353
Czech Republic	1999	660 [x]	71 385 [bb]
Estonia	2003	351	2 858
Hungary	2000	..	26 645 [bc]
Latvia	2003	10	401
Lithuania	2003	150	2 652
Poland	2001	58 [h]	14 469 [bd]
Republic of Moldova	2002	951	2 670
Romania	2002	20 [h]	89 911 [be]
Russian Federation	1994	..	7 793
Serbia and Montenegro	2003	10	61
Slovakia	1997	..	5 560 [bf]
Slovenia	2000	..	1 617 [bg]
TFYR Macedonia	2002	..	6
Ukraine	1999	..	7 362
World		**61 582**	**926 948**

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 WIR (see section on definitions and sources in 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, Islamic Republic of 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, Nicaragua, Niger, Nigeria, Panama, Qatar, Rwanda, Samoa, Senegal, Sierra Leone, Solomon Islands, Somalia, St. Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, Sudan, Suriname, Syrian Arab Republic, 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 corporations, as of October 1993; data for foreign affiliates refer to majority-owned foreign affiliates and are taken from OECD.
[l] 2001.
[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 2,557 non-bank parent companies in 1999 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 438 bank affiliates in 1997 and 9,368 non-bank affiliates in 2000 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 2003 (*Tokyo: Toyokeizai Shinposha, 2003).
[t] Number of foreign affiliates in late 2002. *Source*: Toyokeizai, Gaishikei Kigyo Soran 2003 (Tokyo: Toyokeizai Shimposha, 2003).
[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 cumulative number of companies that invested abroad was 6,960.
[ag] Data refer to the cumlative number of approved FDI projects.
[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] *Source*: Hungary Statistics Office.
[bd] Cumulative number of companies with foreign capital share which participated in the statistical survey.
[be] Data refer to the cumulative number of companies with FDI as at end-December 2002.
[bf] Includes joint ventures with local firms.
[bg] *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 earlier data are updated.

Annex table A.I.3. The world's top 100 non-financial TNCs, ranked by foreign assets, 2002 [a]

(Millions of dollars and number of employees)

Ranking in 2002: Foreign assets	Ranking in 2002: TNI [b]	Ranking in 2001: Foreign assets	Ranking in 2001: TNI [b]	Corporation	Home economy	Industry [c]	Assets: Foreign	Assets: Total	Sales: Foreign [d]	Sales: Total	Employment: Foreign	Employment: Total	TNI [b] (Per cent)
1	84	2	83	General Electric	United States	Electrical & electronic equipment	229 001	575 244	45 403	131 698	150 000	315 000	40.6
2	12	1	13	Vodafone Group Plc[e]	United Kingdom	Telecommunications	207 622 [f]	232 870	33 631	42 312	56 667	66 667	84.5
3	67	7	85	Ford Motor Company	United States	Motor vehicles	165 024 [f]	295 222	54 472	163 420	188 453	350 321	47.7
4	16	3	15	British Petroleum Company Plc	United Kingdom	Petroleum expl./ref./distr.	126 109	159 125	145 982	180 186	97 400	116 300	81.3
5	95	8	87	General Motors	United States	Motor vehicles	107 926 [f]	370 782	48 071	186 763	101 000	350 000	27.9
6	45	9	48	Royal Dutch/Shell Group[g]	United Kingdom/ Netherlands	Petroleum expl./ref./distr.	94 402 [f]	145 392	114 294	179 431	65 000	111 000	62.4
7	73	12	47	Toyota Motor Corporation	Japan	Motor vehicles	79 433 [f]	167 270	72 820	127 113	85 057	264 096	45.7
8	22	10	21	Total Fina Elf	France	Petroleum expl./ref./distr.	79 032 [f]	89 450	77 461	96 993	68 554	121 469	74.9
9	65	-	-	France Telecom	France	Telecommunications	73 454 [h]	111 735	18 187	44 107	102 016	243 573	49.6
10	41	6	39	ExxonMobil Corporation	United States	Petroleum expl./ref./distr.	60 802	94 940	141 274	200 949	56 000 [l]	92 000	65.1
11	53	15	51	Volkswagen Group	Germany	Motor vehicles	57 133 [f]	114 156	59 662	82 244	157 887	324 892	57.1
12	86	20	86	E.On	Germany	Electricity, gas and water	52 294 [f]	118 526	13 104	35 054	42 063	107 856	40.2
13	78	22	81	RWE Group	Germany	Electricity, gas and water	50 699	105 116	17 622	44 110	55 563	131 765	43.4
14	40	4	36	Vivendi Universal	France	Media	49 667 [f]	72 682	30 041	55 004	45 772	61 815	65.7
15	50	16	57	ChevronTexaco Corp.	United States	Petroleum expl./ref./distr.	48 489	77 359	55 087	98 691	37 038	66 038	58.2
16	29	17	38	Hutchison Whampoa Limited	Hong Kong, China	Diversified	48 014	63 284	8 088	14 247	124 942	154 813	71.1
17	46	-	-	Siemens AG	Germany	Electrical & electronic equipment	47 511 [f]	76 474	50 724	77 244	251 340	426 000	62.3
18	94	30	91	Electricité de France	France	Electricity, gas and water	47 385	151 835	12 552	45 743	50 437	171 995	29.3
19	66	13	63	Fiat Spa	Italy	Motor vehicles	46 150	96 990	24 560	52 638	98 703	186 492	49.1
20	31	19	44	Honda Motor Co Ltd	Japan	Motor vehicles	43 641 [f]	63 755	49 167	65 366	42 885	63 310	70.5
21	9	18	11	News Corporation	Australia	Media	40 331	45 214	16 028	17 421	31 220 [j]	35 000	90.1
22	6	39	5	Roche Group	Switzerland	Pharmaceuticals	40 152	46 160	18 829 [l]	19 173	61 090	69 659	91.0
23	19	11	18	Suez	France	Electricity, gas and water	38 739	44 805	34 165	43 596	138 200	198 750	78.1
24	58	27	60	BMW AG	Germany	Motor vehicles	37 604	58 192	30 211	39 995	20 120	96 263	53.7
25	64	26	75	Eni Group	Italy	Petroleum expl./ref./distr.	36 991 [f]	68 987	22 820	45 329	36 973	80 655	49.9
26	48	21	20	Nestlé SA[g]	Switzerland	Food & beverages	36 145 [f]	63 007	34 870	57 508	150 232	254 199	59.0
27	98	35	97	DaimlerChrysler Ag[l]	Germany/United States	Motor vehicles	35 778 [f]	196 375	46 137	141 491	72 560	365 571	23.6
28	63	14	52	Telefonica SA	Spain	Telecommunications	35 720	71 327	11 286	26 874	88 401	152 845	50.0
29	62	23	65	IBM	United States	Electrical & electronic equipment	34 951 [f]	96 484	48 427	81 186	178 602 [i]	315 889	50.8
30	92	-	-	ConocoPhillips	United States	Petroleum expl./ref./distr.	32 094 [f]	76 836	10 074	56 748	23 934 [j]	57 300	33.8
31	99	34	95	Wal-Mart Stores	United States	Retail	30 709	94 685	40 794	244 524	300 000	1 400 000	23.5
32	52	32	53	Sony Corporation	Japan	Electrical & electronic equipment	29 821 [f]	69 476	42 858	61 284	94 000	161 100	57.1
33	44	29	45	Carrefour SA	France	Retail	28 594 [f]	40 804	31 809	65 011	271 031 [j]	386 762	63.0
34	70	60	61	Hewlett-Packard	United States	Electrical & electronic equipment	28 247 [f]	70 710	33 286	56 588	56 326 [j]	141 000	46.2
35	5	24	3	ABB	Switzerland	Machinery and equipment	28 155 [l]	29 533	17 144 [i]	18 295	131 321 [i]	139 051	94.5
36	42	25	35	Unilever[g]	United Kingdom/ Netherlands	Diversified	27 937 [f]	46 752	27 614	46 122	193 000	258 000	64.8
37	10	28	7	Philips Electronics	Netherlands	Electrical & electronic equipment	27 880	33 849	28 673	30 099	140 827	170 087	86.8
38	34	-	-	Novartis	Switzerland	Pharmaceuticals	25 874 [f]	45 588	20 588	20 906	40 282	72 877	70.2
39	39	33	40	Aventis SA	France	Pharmaceuticals	23 753 [f]	32 574	14 767	19 506	37 802 [g]	78 099	65.7
40	101	-	-	AOL Time Warner Inc	United States	Media	23 476 [h]	115 450	8 329	40 961	18 555	91 250	20.3

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Annex table A.I.3. The world's top 100 non-financial TNCs, ranked by foreign assets, 2002 [a] (continued)

(Millions of dollars and number of employees)

Ranking in 2002: Foreign assets	Ranking in 2002: TNI [b]	Ranking in 2001: Foreign assets	Ranking in 2001: TNI [b]	Corporation	Home economy	Industry [c]	Assets: Foreign	Assets: Total	Sales: Foreign [d]	Sales: Total	Employment: Foreign	Employment: Total	TNI [b] (Per cent)
41	72	31	69	Repsol YPF SA	Spain	Petroleum expl./ref./distr.	23 121	39 902	11 303	34 516	14 072	30 110	45.8
42	32	38	24	AES Corporation	United States	Electricity, gas and water	22 784 [f]	33 776	6 542	8 632	24 284 [j]	36 000	70.2
43	90	41	96	Deutsche Post World Net	Germany	Transport and storage	22 782 [h]	170 503	21 820	37 131	108 609	327 676	35.1
44	57	40	54	BASF AG	Germany	Chemicals	22 694	36 781	17 878	30 473	39 078	89 398	54.7
45	83	-	-	Endesa	Spain	Electricity, gas and water	22 460	50 503	5 528	16 305	12 334	26 354	41.7
46	30	66	25	Anglo American[g]	United Kingdom	Mining & quarrying	22 450	33 581	12 821	20 497	147 000	177 000	70.8
47	33	45	27	Compagnie De Saint-Gobain SA	France	Construction materials	22 361	31 604	19 708	28 636	122 373	172 357	70.2
48	93	49	90	Philip Morris Companies Inc	United States	Diversified	21 513 [f]	87 540	35 683	80 408	40 795 [j]	166 000	31.2
49	68	52	68	Pfizer Inc	United States	Pharmaceuticals	21 161 [f]	46 356	11 611	32 373	72 000 [i]	120 000	47.2
50	85	72	94	Mitsui & Co Ltd	Japan	Wholesale trade	21 020 [f]	54 286	46 979	108 541	14 611 [j]	37 734	40.2
51	21	44	33	Royal Ahold NV[g]	Netherlands	Retail	20 598	25 933	46 343	59 293	236 698	341 909	75.6
52	59	58	73	Procter & Gamble	United States	Diversified	20 282	43 706	21 524	43 377	61 200 [i]	98 000	52.8
53	97	77	98	Hitachi Ltd	Japan	Electrical & electronic equipment	20 189 [h]	84 489	15 589	67 172	83 478 [i]	339 572	23.9
54	36	43	29	GlaxoSmithKline Plc	United Kingdom	Pharmaceuticals	19 992 [f]	35 821	29 320	31 899	58 471 [g]	104 499	67.9
55	56	51	59	Pinault-Printemps Redoute SA	France	Retail	19 240 [f]	31 474	13 936	25 894	53 871	108 423	54.9
56	104	5	82	Deutsche Telekom AG	Germany	Telecommunications	19 172 [h]	120 589	309	24 397	78 146	255 969	15.9
57	24	47	10	Diageo Plc	United Kingdom	Beverages	18 526 [f]	26 729	12 637	14 971	26 999 [j]	38 955	74.3
58	2	55	2	Thomson Corporation	Canada	Media	18 125	18 542	7 735	7 915	41 300 [i]	42 000	97.9
59	75	42	58	Bayer AG	Germany	Pharmaceuticals/chemicals	17 957	43 706	14 923	28 021	52 000	122 600	45.6
60	69	67	74	Matsushita Electric Industrial Co., Ltd.	Japan	Electrical & electronic equipment	17 941 [f]	65 028	32 373	60 694	166 873	288 324	46.3
61	3	71	4	Holcim AG	Switzerland	Construction materials	17 499	18 364	7 875	8 391	49 765	51 115	95.5
62	25	65	22	Volvo Group	Sweden	Motor vehicles	17 441	27 367	17 982 [m]	19 234	45 740	71 160	73.8
63	87	70	76	Renault SA	France	Motor vehicles	17 441 [f]	55 799	21 206	34 370	35 351 [i]	132 351	39.9
64	61	73	66	Dow Chemical Company[i]	United States	Chemicals	17 386	39 562	16 350	27 609	24 725	49 959	50.9
65	27	59	32	Coca-Cola Company[n]	United States	Beverages	17 379 [f]	24 501	13 089	19 353	45 100	56 000	73.0
66	100	64	88	Mitsubishi Corporation	Japan	Wholesale trade	17 285	67 213	15 613	109 296	12 182 [j]	47 370	21.9
67	102	-	-	Telecom Italia	Italy	Telecommunications	17 251 [h]	84 946	6 693	32 957	21 653 [k]	106 620	20.3
68	80	50	28	National Grid Transco	United Kingdom	Energy	16 541	35 574	6 169	13 473	9 975	27 308	42.9
69	26	94	41	Lvmh Moët-Hennessy Louis Vuitton SA	France	Luxury goods	16 409 [f]	22 451	9 965	12 006	33 996	53 812	73.1
70	47	68	37	Singtel Ltd.	Singapore	Telecommunications	15 775 [f]	19 071	3 247	5 801	9 877	21 716	61.4
71	38	92	34	British American Tobacco Group	United Kingdom	Tobacco	15 592 [f]	26 129	25 041 [m]	37 117	60 107	85 819	65.7
72	15	78	14	Astrazeneca Plc	United Kingdom	Pharmaceuticals	14 796 [f]	21 576	16 969	17 841	46 800	57 500	81.7
73	28	82	23	Nokia	Finland	Machinery and equipment	14 528 [f]	24 454	28 058	28 392	30 099	52 714	71.8
74	105	95	100	Verizon Communications	United States	Telecommunications	14 239 [f]	167 468	3 269	67 625	19 513	229 497	7.3
75	43	80	43	Bertelsmann	Germany	Media	14 108 [i]	23 260	11 938	17 321	48 920	80 632	63.4
76	51	79	49	McDonald's Corporation	United States	Restaurant	13 771	23 971	8 951	15 406	237 269 [j]	413 000	57.7
77	23	46	26	BHP Billiton Group	Australia	Mining & quarrying	13 753 [f]	20 578	15 731	17 506	23 259 [j]	34 801	74.5
78	14	56	12	Nortel Networks	Canada	Machinery and equipment	13 398	15 971	9 885	10 560	26 820	36 960	83.4
79	37	75	17	Stora Enso OY[j]	Finland	Paper	13 127	19 094	8 165	12 091	29 177	43 853	67.6
80	81	69	78	Du Pont (E.I.) De Nemours	United States	Chemicals	13 040 [f]	34 621	12 584 [p]	24 006	29 755 [j]	79 000	42.6

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Annex table A.I.3. The world's top 100 non-financial TNCs, ranked by foreign assets, 2002 [a] (concluded)

(Millions of dollars and number of employees)

Ranking in 2002: Foreign assets	Ranking in 2002: TNI [b]	Ranking in 2001: Foreign assets	Ranking in 2001: TNI [b]	Corporation	Home economy	Industry [c]	Assets: Foreign	Assets: Total	Sales: Foreign [d]	Sales: Total	Employment: Foreign	Employment: Total	TNI [b] (Per cent)
81	60	76	67	Scottish Power	United Kingdom	Electric utilities	12 971	19 903	3 992	7 559	6 268	15 490	52.8
82	1	61	1	NTL Inc	United States	Telecommunications	12 862 [f]	13 041	3 265	3 265	14 922 [j]	15 130	99.1
83	91	88	84	Johnson & Johnson	United States	Pharmaceuticals	12 814 [f]	40 556	13 843	36 298	34 218 [j]	108 300	33.8
84	76	74	71	Thyssenkrupp AG	Germany	Metal and metal products	12 783 [f]	30 574	15 485	33 740	88 404	191 254	44.6
85	49	57	42	Alcatel	France	Machinery and equipment	12 688	27 130	9 963	15 652	50 559	75 940	59.0
86	103	-	-	Duke Energy Corporation	United States	Electricity, gas and water	12 247	49 113	2 181	15 663	4 400	22 000	19.6
87	35	81	30	Cemex S.A.	Mexico	Construction materials	12 193 [f]	16 044	4 366	7 036	17 568	26 752	67.9
88	82	-	-	Canadian National Railway Company	Canada	Transportation	12 050	21 738	2 384	6 110	6 879	22 114	41.9
89	71	-	-	Metro AG	Germany	Retail	11 821 [f]	24 030	22 546	48 738	84 825	196 462	46.2
90	17	83	19	Reed Elseviero	United Kingdom/Netherlands	Publishing and printing	11 727	14 042	5 743	7 549	27 300	36 100	78.4
91	18	-	-	Alcan Inc.	Canada	Metal and metal products	11 678 [f]	17 538	11 541	12 540	38 000	50 000	78.2
92	96	90	92	Merck & Co	United States	Pharmaceuticals	11 388 [f]	47 561	8 300	51 800	28 600	77 300	25.7
93	88	-	-	Samsung Electronics Co., Ltd.	Republic of Korea	Electrical & electronic equipment	11 388	51 964	28 298	47 655	28 300 [i]	82 400	38.5
94	20	86	16	Danone Groupe SA	France	Food & beverages	11 313	16 238	9 486	12 822	79 945	92 209	76.8
95	77	96	79	Alcoa	United States	Metal and metal products	11 109 [f]	29 810	7 379	20 263	73 500	127 000	43.9
96	79	93	80	Abbott Laboratories	United States	Pharmaceuticals	11 073	24 259	6 687	17 685	33 000 [i]	71 819	43.1
97	8	-	-	Publicis Goupe SA	France	Business services	11 021 [f]	11 508	2 407	2 768	31 871	35 681	90.7
98	7	-	-	Interbrew SA[q]	Belgium	Beverages	10 665 [f]	11 684	6 000	6 614	31 682 [i]	35 044	90.8
99	4	-	-	CRH Plc	Ireland	Lumber and other building materials dealers	10 596 [f]	11 066	9 535	10 210	47 335	49 889	94.7
100	74	53	62	Motorola Inc	United States	Machinery and equipment	10 433 [f]	31 152	18 169	37 621	53 350	97 000	45.6

Source: UNCTAD/Erasmus University database.

[a] All data are based on the companies' annual reports unless otherwise stated.
[b] TNI, or "Transnationality 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] Foreign sales are based on the origin of the sales unless otherwise stated.
[e] Data for outside Northern Europe.
[f] 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.
[g] Data for outside Europe.
[h] Foreign assets data are calculated by applying the share of both foreign sales in total sales and foreign employment in total employment to total assets.
[i] Data were obtained from the company as a response to an UNCTAD survey.
[j] Foreign employment data are calculated by applying the share of both foreign assets in total assets and foreign sales in total sales to total employment.
[k] Foreign employment data are calculated by applying the share of foreign assets in total asets to total employment.
[l] Data for outside Germany and the United States.
[m] In a number of cases companies reported only partial region-specified sales. In these cases, the ratio of the partial foreign sales to the partial (total) sales was applied to total sales to calculate the total foreign sales. In all cases, the resulting figures have been sent for confirmation to the companies.
[n] Data for outside North America.
[o] Data for outside the Netherlands and the United Kingdom.
[p] Foreign sales are based on customer location.
[q] Data for outside Western Europe.

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.4. The world's 100 largest non-financial TNCs by country of origin and industry: number of host countries, Network Spread Index (NSI) and Internationalization Index (II), 2002

Company	Country of ownership	Industry	No. of host countries	NSI[a]	II[b]
Deutsche Post World Net	Germany	Transport and storage	97	49.74	84.34
Ford Motor Company	United States	Motor vehicles	96	49.23	83.46
Nestlé Sa	Switzerland	Food & beverages	92	47.18	93.67
Siemens AG	Germany	Electrical & electronic equipment	78	40.00	66.08
BASF AG	Germany	Chemicals	74	37.95	75.00
Royal Dutch/Shell Group	United Kingdom/Netherlands	Petroleum expl./ref./distr.	72	36.92	78.93
Astrazeneca Plc	United Kingdom	Pharmaceuticals	70	35.90	79.59
Unilever	Netherlands/United Kingdom	Diversified	64	32.82	73.52
Total Fina Elf	France	Petroleum expl./ref./distr.	62	31.79	68.17
Bayer AG	Germany	Pharmaceuticals/chemicals	61	31.28	73.55
ABB	Switzerland	Machinery and equipment	59	30.26	93.18
IBM	United States	Electrical & electronic equipment	58	29.74	91.25
Aventis SA	France	Pharmaceuticals	54	27.69	86.96
Philip Morris Companies Inc	United States	Diversified	54	27.69	82.30
Novartis	Switzerland	Pharmaceuticals	52	26.67	88.58
Pinault-Printemps Redoute SA	France	Retail	52	26.67	60.04
Abbott Laboratories	United States	Pharmaceuticals	50	25.64	83.17
Procter & Gamble	United States	Diversified	50	25.64	80.48
Publicis Goupe SA	France	Business services	50	25.64	83.26
British Petroleum Company Plc	United Kingdom	Petroleum expl./ref./distr.	49	25.13	64.46
Nokia	Finland	Machinery and equipment	49	25.13	94.00
DaimlerChrysler Ag	Germany/United States	Motor vehicles	48	24.62	55.15
ExxonMobil Corporation	United States	Petroleum expl./ref./distr.	48	24.62	72.17
Roche Group	Switzerland	Pharmaceuticals	48	24.62	87.56
GlaxoSmithKline Plc	United Kingdom	Pharmaceuticals	46	23.59	69.26
Johnson & Johnson	United States	Pharmaceuticals	46	23.59	69.82
Lvmh Moët-Hennessy Louis Vuitton SA	France	Luxury goods	46	23.59	73.71
British American Tobacco Group	United Kingdom	Tobacco	45	23.08	58.51
Hewlett-Packard	United States	Electrical & electronic equipment	45	23.08	77.54
Philips Electronics	Netherlands	Electrical & electronic equipment	45	23.08	66.31
Alcatel	France	Machinery and equipment	44	22.56	79.72
Compagnie De Saint-Gobain SA	France	Construction materials	44	22.56	76.76
General Motors	United States	Motor vehicles	43	22.05	58.56
Pfizer Inc	United States	Pharmaceuticals	43	22.05	84.83
France Telecom	France	Telecommunications	42	21.54	58.37
Mitsui & Co Ltd	Japan	Wholesale trade	42	21.54	53.26
Volvo Group	Sweden	Motor vehicles	42	21.54	70.00
General Electric	United States	Electrical & electronic equipment	41	21.03	69.95
Hitachi Ltd	Japan	Electrical & electronic equipment	40	20.51	46.10
Sony Corporation	Japan	Electrical & electronic equipment	40	20.51	78.48
Thyssenkrupp AG	Germany	Metal and metal products	40	20.51	56.50
Stora Enso OYJ	Finland	Paper	39	20.00	79.93
Matsushita Electric Industrial Co. Ltd.	Japan	Electrical & electronic equipment	38	19.49	62.69
Danone Groupe SA	France	Food & beverages	35	17.95	84.09
Eni Group	Italy	Petroleum expl./ref./distr.	35	17.95	70.31
Bertelsmann	Germany	Media	34	17.44	54.18
Coca-Cola Company	United States	Beverages	33	16.92	69.05
Dow Chemical Company	United States	Chemicals	32	16.41	78.97
Du Pont (E.I.) de Nemours	United States	Chemicals	32	16.41	69.33
Motorola Inc	United States	Machinery and equipment	32	16.41	68.81
Holcim AG	Switzerland	Construction materials	30	15.38	81.68
Mitsubishi Corporation	Japan	Wholesale trade	30	15.38	49.50
RWE Group	Germany	Electricity, gas and water	29	14.87	60.98
Alcan Inc.	Canada	Metal and metal products	28	14.36	83.65
Diageo Plc	United Kingdom	Beverages	28	14.36	32.04
Honda Motor Co Ltd	Japan	Motor vehicles	28	14.36	76.00
Suez	France	Electricity, gas and water	28	14.36	63.30
Volkswagen Group	Germany	Motor vehicles	27	13.85	69.57

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Annex table A.I.4. The world's 100 largest non-financial TNCs by country of origin and industry: number of host countries, Network Spread Index (NSI) and Internationalization Index (II), 2002 (concluded)

Company	Country of ownership	Industry	No. of host countries	NSI[a]	II[b]
Anglo American	United Kingdom	Mining & quarrying	26	13.33	22.99
ChevronTexaco Corp.	United States	Petroleum expl./ref./distr.	26	13.33	45.41
Merck & Co	United States	Pharmaceuticals	26	13.33	83.64
Metro AG	Germany	Retail	26	13.33	32.16
Alcoa	United States	Metal and metal products	25	12.82	50.50
BHP Billiton Group	Australia	Mining & quarrying	25	12.82	61.46
Fiat Spa	Italy	Motor vehicles	25	12.82	77.62
Nortel Networks	Canada	Machinery and equipment	25	12.82	91.43
Toyota Motor Corporation	Japan	Motor vehicles	25	12.82	31.72
AOL Time Warner Inc	United States	Media	24	12.31	54.31
Deutsche Telekom AG	Germany	Telecommunications	24	12.31	54.55
Renault SA	France	Motor vehicles	24	12.31	64.80
Samsung Electronics Co., Ltd.	Republic of Korea	Electrical & electronic equipment	24	12.31	79.31
ConocoPhillips	United States	Petroleum expl./ref./distr.	22	11.28	52.50
E.On	Germany	Electricity, gas and water	22	11.28	58.02
News Corporation	Australia	Media	20	10.26	94.47
Telefonica SA	Spain	Telecommunications	20	10.26	62.96
Vodafone Group Plc	United Kingdom	Telecommunications	20	10.26	40.74
BMW AG	Germany	Motor vehicles	19	9.74	75.83
Repsol YPF SA	Spain	Petroleum expl./ref./distr.	19	9.74	56.70
Thomson Corporation	Canada	Media	19	9.74	95.03
Carrefour SA	France	Retail	18	9.23	42.68
Vivendi Universal	France	Media	17	8.72	44.14
CRH Plc	Ireland	Lumber and other building materials dealers	16	8.21	90.63
Electricité de France	France	Electricity, gas and water	16	8.21	73.31
Interbrew SA	Belgium	Beverages	16	8.21	86.41
Telecom Italia	Italy	Telecommunications	16	8.21	38.89
AES Corporation	United States	Electricity, gas and water	14	7.18	40.32
McDonald's Corporation	United States	Retail	14	7.18	45.45
Reed Elsevier	United Kingdom/Netherlands	Publishing and printing	13	6.67	28.38
Verizon Communications	United States	Telecommunications	13	6.67	6.58
Cemex S.A.	Mexico	Construction materials	11	5.64	74.47
Endesa	Spain	Electricity, gas and water	11	5.64	29.22
Royal Ahold NV	Netherlands	Retail	10	5.13	47.64
Wal-Mart Stores	United States	Retail	9	4.62	79.27
Duke Energy Corporation	United States	Electricity, gas and water	6	3.08	43.02
National Grid Transco	United Kingdom	Energy	5	2.56	19.46
NTL Inc	United States	Telecommunications	4	2.05	97.18
Hutchison Whampoa Limited	Hong Kong, China	Diversified	3	1.54	36.84
Scottish Power	United Kingdom	Electric utilities	3	1.54	21.60
Canadian National Railway Company	Canada	Transportation	2	1.03	48.15
Average			**35**	**17.93**	**65.46**

Source: UNCTAD.

[a] NSI = Number of host economies / number of potential host economies. The latter is taken to be the number of economies which were in receipt of stock of inward FDI in 2002, 195 (WIR03). On the development of this index, see Ietto-Gillies 1998 and *WIR98*, box II.2.

[b] II = number of foreign affiliates / number of all affiliates *100.

Note: Singtel Ltd. has been excluded from the analysis, because it is mainly state owned.

Annex table A.I.5. Inward FDI Performance Index rankings, 1988-2003[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	2000-2002	2001-2003
Albania	..	..	45	15	22	32	36	48	68	92	84	65	52	44
Algeria	102	99	114	118	130	130	125	120	112	112	109	102	94	91
Angola	106	34	31	7	12	8	17	18	9	2	2	3	5	5
Argentina	39	43	44	48	54	56	53	47	62	43	42	47	85	118
Armenia	..	..	70	79	114	99	95	63	21	17	18	31	30	30
Australia	15	24	39	44	50	46	51	58	87	97	89	90	71	79
Austria	76	80	83	84	79	86	74	88	82	91	78	73	75	78
Azerbaijan	..	..	..	..	107	24	4	1	1	1	10	35	13	3
Bahamas	66	101	133	98	94	60	54	33	39	48	53	64	54	56
Bahrain	23	4	3	4	10	45	1	2	2	37	43	54	72	51
Bangladesh	104	108	126	126	129	127	131	131	131	124	120	127	128	133
Belarus	..	..	125	117	113	121	113	92	92	74	90	92	104	99
Belgium and Luxembourg	8	6	9	10	14	22	25	27	22	3	1	1	1	1
Benin	16	5	7	18	44	106	99	111	109	105	94	87	88	92
Bolivia	29	28	35	37	34	26	22	10	7	8	12	11	9	11
Botswana	24	47	71	136	139	138	89	76	81	94	103	115	65	57
Brazil	77	90	95	95	104	103	91	81	65	52	45	37	37	46
Brunei Darussalam	103	106	117	108	115	17	7	4	3	4	7	7	4	2
Bulgaria	..	..	104	91	89	95	87	61	44	32	28	27	25	21
Burkina Faso	93	98	121	114	103	101	101	116	128	129	125	123	124	131
Cameroon	114	117	136	122	124	128	129	127	124	119	122	122	106	93
Canada	38	55	65	73	69	69	65	75	67	63	32	34	32	70
Chile	10	16	30	32	23	21	18	17	16	16	20	18	34	34
China	46	50	43	19	9	11	15	20	31	42	51	56	50	37
Colombia	42	45	52	50	48	65	55	39	38	60	81	78	69	64
Congo	84	65	73	12	13	5	34	32	63	14	15	17	41	22
Congo, Democratic Republic of	111	110	127	119	131	133	134	136	134	132	116	114	98	74
Costa Rica	18	21	23	28	30	37	33	41	40	49	64	72	67	48
Côte d'Ivoire	79	87	85	70	66	53	57	50	57	66	79	81	82	66
Croatia	..	..	110	80	84	90	69	64	49	40	31	24	26	19
Cyprus	27	33	42	52	63	79	92	52	55	30	27	21	20	24
Czech Republic	..	..	41	31	32	28	31	40	37	22	16	12	10	13
Denmark	55	52	63	65	45	42	58	83	73	31	11	10	11	40
Dominican Republic	26	32	38	38	41	40	56	57	61	36	34	33	36	38
Ecuador	32	40	50	36	28	34	38	49	54	55	52	38	31	28
Egypt	14	30	58	46	42	50	73	99	103	106	102	110	113	123
El Salvador	89	85	101	97	117	114	128	125	36	45	48	86	91	88
Estonia	..	..	15	16	18	14	20	21	15	18	19	22	21	10
Ethiopia	99	97	112	121	120	116	119	68	56	62	83	104	102	111

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Annex table A.I.5. Inward FDI Performance Index rankings, 1988-2003[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	2000-2002	2001-2003
Finland	65	88	102	96	72	75	81	93	97	78	55	46	33	43
France	45	49	53	56	64	67	71	78	85	77	72	66	58	50
Gabon	36	114	67	133	137	139	140	140	140	139	137	139	117	95
Gambia	9	7	14	23	26	30	27	24	28	20	17	13	14	7
Georgia	..	..	..	..	119	117	82	34	25	27	39	61	45	27
Germany	87	84	113	123	123	113	116	115	115	96	49	40	40	102
Ghana	90	86	98	68	36	39	42	79	102	85	86	76	95	94
Greece	37	48	56	61	68	82	90	102	117	121	119	113	118	127
Guatemala	22	57	64	63	75	94	107	113	90	90	92	98	99	100
Guinea	60	60	69	77	109	125	124	122	119	111	111	116	125	125
Guyana	59	36	1	1	1	1	2	5	8	23	21	19	18	26
Haiti	82	82	105	110	136	135	135	132	135	123	121	124	129	134
Honduras	33	37	47	45	60	59	61	56	70	67	60	55	61	59
Hong Kong, China	3	15	18	14	8	13	14	15	14	12	3	2	2	9
Hungary	63	26	17	8	15	7	9	7	10	15	23	26	27	33
Iceland	85	81	107	125	134	132	118	97	86	93	98	95	87	89
India	98	103	118	113	112	108	104	103	111	116	118	121	121	114
Indonesia	56	56	59	59	65	58	50	54	77	118	138	138	139	139
Iran, Islamic Republic of	112	116	130	127	132	124	132	133	137	136	134	132	135	136
Ireland	51	35	28	26	35	48	40	42	23	9	4	5	3	4
Israel	80	89	97	90	90	77	70	70	80	80	69	63	66	60
Italy	64	79	93	99	106	110	120	124	130	125	117	108	100	98
Jamaica	25	12	8	13	19	36	37	45	43	35	29	23	22	20
Japan	105	105	119	124	128	129	133	134	136	134	129	130	131	132
Jordan	75	92	81	130	127	134	127	65	52	53	38	53	57	84
Kazakhstan	..	..	91	25	29	16	19	16	24	25	24	15	12	8
Kenya	74	68	94	111	126	120	126	128	132	130	124	125	126	129
Korea, Republic of	81	83	99	105	116	118	121	121	113	102	95	97	107	120
Kuwait	101	107	116	115	125	126	112	118	123	133	130	133	136	137
Kyrgyzstan	..	..	..	66	31	20	24	25	33	34	65	106	132	115
Latvia	..	..	22	27	16	18	13	12	13	24	33	49	47	41
Lebanon	94	95	106	109	111	115	114	105	106	103	99	96	96	90
Libyan Arab Jamahiriya	69	74	89	103	122	136	136	137	138	138	135	135	137	116
Lithuania	..	..	78	67	80	80	68	51	29	28	35	57	46	55
Madagascar	73	66	74	82	100	111	123	129	127	115	101	94	101	105
Malawi	43	102	135	135	95	88	88	110	116	99	93	85	110	109
Malaysia	4	3	4	3	5	6	10	13	19	33	50	71	70	75
Mali	86	93	134	131	133	51	44	46	96	109	108	84	63	52

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Annex table A.I.5. Inward FDI Performance Index rankings, 1988-2003[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	2000-2002	2001-2003
Malta	21	17	33	30	21	19	11	22	17	10	5	6	44	81
Mexico	35	42	54	58	39	38	30	37	50	64	73	67	64	61
Moldova, Republic of	..	..	13	22	38	33	43	38	46	47	30	20	15	25
Mongolia	..	76	90	81	82	81	79	82	78	73	62	45	28	15
Morocco	62	59	61	47	46	63	75	69	79	76	100	58	62	32
Mozambique	88	72	68	57	52	54	52	62	42	26	26	25	35	23
Myanmar	28	25	26	41	61	52	32	19	20	38	67	83	84	85
Namibia	78	29	16	20	27	29	28	35	59	87	74	32	19	18
Nepal	97	100	111	112	118	122	122	123	126	128	132	131	134	130
Netherlands	13	14	25	39	43	41	35	36	26	19	9	8	7	16
New Zealand	6	10	10	11	11	12	21	26	48	68	61	50	53	65
Nicaragua	96	44	36	29	33	35	26	14	11	11	13	14	17	17
Niger	57	63	46	69	78	123	110	109	129	127	131	120	119	107
Nigeria	7	8	24	17	7	10	16	28	35	59	80	82	79	69
Norway	50	64	128	129	77	61	60	60	66	57	58	69	93	108
Oman	34	41	57	60	73	97	115	126	121	120	127	129	130	126
Pakistan	72	69	75	76	83	85	77	91	104	108	114	117	116	97
Panama	116	31	32	34	24	25	23	11	6	13	22	41	68	45
Papua New Guinea	2	2	6	24	25	9	5	8	18	46	46	43	86	80
Paraguay	58	51	48	53	55	70	67	71	64	70	85	103	108	106
Peru	91	96	131	74	20	15	12	23	34	58	77	79	77	63
Philippines	30	46	51	42	37	43	48	66	72	79	82	89	90	96
Poland	100	94	82	62	49	44	39	44	47	50	47	48	56	68
Portugal	12	11	21	33	47	71	78	84	74	83	66	51	43	71
Qatar	110	91	87	75	67	68	45	43	41	71	96	99	81	67
Romania	..	..	109	104	85	84	83	67	51	51	63	74	73	62
Russian Federation	..	..	108	107	110	109	106	101	107	104	104	107	111	119
Rwanda	61	77	100	102	108	119	130	130	133	131	128	128	127	128
Saudi Arabia	83	73	77	93	99	131	138	135	99	101	126	136	138	138
Senegal	67	75	86	116	91	91	94	77	83	69	91	91	105	103
Sierra Leone	48	23	49	132	138	137	105	100	110	126	133	119	123	122
Singapore	1	1	2	5	4	2	3	3	5	5	6	4	6	6
Slovakia	..	..	72	64	57	64	63	85	76	81	41	28	8	12
Slovenia	..	..	84	71	76	89	96	94	101	107	112	109	59	53
South Africa	108	109	122	120	121	107	103	90	100	98	113	80	78	77
Spain	19	22	27	35	40	57	72	95	95	84	59	42	29	36
Sri Lanka	68	70	66	55	53	72	86	80	89	89	106	111	112	104
Sudan	109	113	132	128	102	102	108	117	91	72	68	60	48	29
Suriname	117	118	11	137	140	140	137	138	88	135	140	140	140	140

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Annex table A.I.5. Inward FDI Performance Index rankings, 1988-2003[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	2000-2002	2001-2003
Sweden	52	39	60	51	51	23	29	29	32	7	8	9	23	42
Switzerland	31	38	55	92	96	96	84	86	69	56	36	36	39	49
Syrian Arab Republic	53	67	88	88	70	74	85	112	122	113	105	105	114	121
Taiwan Province of China	49	58	76	86	98	100	100	106	120	117	110	101	103	117
Tajikistan	..	..	92	83	81	55	62	73	84	86	87	93	83	82
TFYR Macedonia	..	..	..	..	105	112	117	119	94	88	70	29	24	31
Thailand	17	19	29	40	58	73	76	74	53	44	44	59	80	87
Togo	44	61	96	134	135	78	66	89	105	100	88	68	49	54
Trinidad and Tobago	20	13	19	9	6	4	8	6	4	6	14	16	16	14
Tunisia	54	53	34	21	17	31	47	72	71	75	71	75	60	58
Turkey	70	71	79	89	101	104	109	114	125	122	123	112	109	110
Uganda	107	111	129	78	56	47	46	53	60	61	56	52	42	35
Ukraine	..	..	62	72	86	98	97	96	98	95	97	88	89	73
United Arab Emirates	92	112	124	85	93	92	102	107	118	137	136	134	120	101
United Kingdom	11	18	37	49	62	66	64	59	45	41	25	30	38	83
United Republic of Tanzania	95	104	115	106	88	62	49	55	75	54	57	39	55	47
United States	41	62	80	87	92	93	93	98	93	82	75	77	92	112
Uruguay	71	78	103	94	87	87	98	104	114	114	107	100	97	86
Uzbekistan	..	..	120	101	74	105	111	108	108	110	115	118	122	113
Venezuela	40	27	40	43	71	76	59	31	27	39	54	70	74	72
Viet Nam	47	20	12	6	3	3	6	9	12	21	37	44	51	39
Yemen	115	54	5	2	2	27	139	139	139	140	139	137	115	124
Zambia	5	9	20	54	59	49	41	30	30	29	40	62	76	76
Zimbabwe	113	115	123	100	97	83	80	87	58	65	76	126	133	135

Source: UNCTAD.

Note: Covering 140 economies.

[a] Three-year moving averages.

Annex table A.I.6. Raw data and scores for the variables included in the UNCTAD Inward FDI Potential index, 2000-2002

Economy	Real GDP growth		GDP per capita		Total exports		Telephone mainlines		Mobile phones		Energy use		R&D expenditures		Students at the tertiary level		Country risk		Exports of natural resources		Imports of parts/ accessories of electronics and automobiles		Exports in services		Inward FDI stock	
	Average 1992-2002						Average 2000-2002								2000		As of December 2002				Average 2000-2002					
	(%)	Score 0-1	(Dollars)	Score 0-1	(As a % of GDP)	Score 0-1	(per 1000 inhabi-tants)	Score 0-1	(per 1000 inhabi-tants)	Score 0-1	Per capita	Score 0-1	(As a % of GDP)	Score 0-1	(As a % of total population)	Score 0-1	Compo-site 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
Albania	7.7	0.905	1329.6	0.032	19.5	0.105	61.6	0.082	137.7	0.146	540.6	0.015	..	..	1.31	0.201	67.3	0.556	0.00	0.000	0.01	0.000	0.034	0.002	0.011	0.004
Algeria	2.7	0.534	1775.4	0.044	37.9	0.206	60.0	0.080	6.3	0.006	956.1	0.031	..	..	1.52	0.233	63.8	0.492	3.04	0.342	0.02	0.001	0.041	0.002	0.069	0.007
Angola	5.1	0.716	696.4	0.016	77.1	0.421	5.8	0.007	5.9	0.006	656.9	0.020	..	..	0.06	0.005	53.8	0.308	1.01	0.113	..	..	0.015	0.001	0.148	0.011
Argentina	1.3	0.432	5847.6	0.150	16.7	0.090	221.0	0.295	179.6	0.190	1663.3	0.058	0.4	0.067	4.38	0.681	48.0	0.202	0.76	0.086	0.32	0.018	0.261	0.014	1.134	0.061
Armenia	5.4	0.733	562.8	0.012	26.5	0.143	141.0	0.188	10.1	0.010	687.4	0.021	0.2	0.030	1.95	0.301	60.3	0.428	0.01	0.001	0.00	0.000	0.011	0.000	0.009	0.004
Australia	3.9	0.628	19922.5	0.516	21.2	0.114	539.9	0.721	553.6	0.587	5782.4	0.216	1.5	0.241	4.47	0.696	82.5	0.835	3.67	0.412	0.86	0.049	1.123	0.060	1.725	0.091
Austria	2.2	0.502	24056.8	0.624	51.7	0.282	490.6	0.655	781.0	0.828	3675.1	0.135	1.9	0.299	3.22	0.500	86.8	0.914	0.40	0.044	1.03	0.058	2.159	0.115	0.539	0.031
Azerbaijan	1.2	0.425	703.2	0.016	41.8	0.227	108.0	0.144	83.9	0.089	1493.3	0.052	0.4	0.057	2.11	0.326	67.3	0.556	0.26	0.030	0.01	0.000	0.020	0.001	0.066	0.007
Bahamas	2.8	0.546	15927.2	0.412	53.4	0.291	394.1	0.526	230.3	0.244	..	..	..	..	2.20	0.340	76.0	0.716	0.01	0.002	0.01	0.000	0.127	0.007	0.026	0.005
Bahrain	3.9	0.627	12071.7	0.312	82.7	0.452	266.6	0.356	456.6	0.484	9298.4	0.350	..	..	1.86	0.286	81.0	0.807	0.71	0.080	0.02	0.001	0.061	0.003	0.091	0.008
Bangladesh	5.0	0.708	335.8	0.006	15.0	0.080	4.4	0.006	4.7	0.005	144.5	0.000	..	..	0.68	0.102	61.3	0.446	0.00	0.000	0.01	0.000	0.051	0.003	0.016	0.004
Belarus	2.0	0.485	1298.0	0.031	69.9	0.382	287.5	0.384	21.8	0.023	2420.6	0.087	..	..	4.28	0.666	61.5	0.450	0.22	0.024	0.03	0.002	0.066	0.003	0.022	0.005
Belgium and Luxembourg	2.5	0.522	27268.3	0.708	98.8	0.541	641.6	0.856	793.9	0.842	7077.9	0.265	2.0	0.311	3.42	0.531	87.7	0.929	1.99	0.224	2.33	0.132	3.384	0.180	3.006	0.157
Benin	5.1	0.712	383.8	0.007	20.6	0.111	8.8	0.011	20.0	0.021	316.1	0.007	..	..	0.32	0.045	..	..	0.00	0.000	0.00	0.000	0.009	0.000	0.009	0.004
Bolivia	3.5	0.598	945.0	0.022	19.9	0.107	64.4	0.086	90.0	0.095	551.6	0.016	0.3	0.048	3.35	0.520	65.8	0.528	0.08	0.009	0.01	0.001	0.015	0.001	0.088	0.008
Botswana	5.4	0.735	3352.2	0.085	54.3	0.296	84.9	0.113	183.7	0.194	..	..	..	..	0.47	0.069	79.3	0.776	0.05	0.005	0.01	0.000	0.025	0.001	0.026	0.005
Brazil	2.7	0.539	3039.5	0.077	13.1	0.070	207.7	0.277	168.2	0.178	1076.7	0.036	1.1	0.165	1.63	0.251	62.3	0.464	1.02	0.115	0.99	0.056	0.613	0.033	3.277	0.170
Brunei Darussalam	1.5	0.448	12697.6	0.328	..	..	252.2	0.337	343.4	0.364	..	..	..	..	1.21	0.185	88.3	0.941	0.32	0.036	0.00	0.000	..	..	0.069	0.007
Bulgaria	0.3	0.361	1768.9	0.044	54.9	0.299	360.2	0.481	204.9	0.217	2316.4	0.083	0.5	0.086	3.00	0.466	70.8	0.620	0.15	0.017	0.02	0.001	0.155	0.008	0.052	0.006
Burkina Faso	4.1	0.642	208.5	0.003	10.7	0.056	5.0	0.006	4.5	0.004	..	..	0.2	0.029	0.08	0.008	58.3	0.391	0.00	0.000	0.00	0.000	0.002	0.000	0.002	0.004
Cameroon	3.6	0.605	581.7	0.013	29.9	0.162	6.7	0.009	24.2	0.025	416.8	0.010	..	..	0.45	0.066	62.0	0.459	0.14	0.016	0.01	0.000	0.023	0.001	0.020	0.005
Canada	3.6	0.602	22967.9	0.596	44.0	0.240	650.0	0.868	336.6	0.357	8051.6	0.303	1.9	0.304	3.89	0.605	84.8	0.877	6.52	0.733	6.02	0.340	2.473	0.132	3.196	0.166
Chile	5.0	0.708	4513.3	0.115	33.5	0.182	224.4	0.299	331.4	0.351	1605.4	0.056	0.6	0.086	2.97	0.461	76.8	0.730	1.10	0.124	0.11	0.006	0.262	0.014	0.685	0.038
China	9.0	1.000	901.7	0.021	27.1	0.147	138.7	0.185	112.3	0.119	897.5	0.029	1.0	0.164	0.95	0.144	75.0	0.697	1.83	0.206	5.21	0.294	2.232	0.119	5.987	0.308
Colombia	1.9	0.478	1923.2	0.048	20.6	0.111	173.9	0.232	78.6	0.083	678.0	0.020	0.2	0.026	2.21	0.341	60.8	0.437	0.69	0.077	0.08	0.005	0.131	0.007	0.239	0.016
Congo	1.9	0.479	986.3	0.023	79.1	0.432	7.1	0.009	46.4	0.049	245.8	0.004	..	..	0.46	0.067	60.8	0.437	0.35	0.040	..	..	0.010	0.000	0.031	0.005
Congo, Dem. Rep. of	-3.4	0.091	99.7	0.000	12.7	0.067	0.2	0.000	4.6	0.004	299.8	0.006	..	..	0.12	0.014	47.3	0.189	0.03	0.003	..	..	..	..	0.009	0.004
Costa Rica	4.6	0.676	3984.7	0.101	44.2	0.240	234.6	0.313	79.2	0.084	859.4	0.027	0.2	0.030	1.53	0.235	73.5	0.670	0.01	0.001	0.07	0.004	0.124	0.007	0.086	0.008
Côte d'Ivoire	3.0	0.561	673.4	0.015	40.5	0.221	18.7	0.025	46.3	0.049	420.7	0.011	..	..	0.68	0.101	51.8	0.272	0.09	0.010	0.00	0.000	0.035	0.002	0.052	0.006
Croatia	3.6	0.601	4418.7	0.113	46.3	0.252	403.1	0.538	389.1	0.412	1770.8	0.062	1.0	0.154	2.33	0.360	72.3	0.648	0.08	0.009	0.04	0.002	0.313	0.017	0.074	0.007
Cyprus	4.0	0.631	11844.0	0.306	48.8	0.266	655.6	0.875	454.0	0.481	3160.4	0.115	0.3	0.039	1.52	0.233	80.5	0.798	0.01	0.001	0.03	0.002	0.212	0.011	0.068	0.007
Czech Republic	1.9	0.477	5921.1	0.152	64.5	0.352	372.3	0.497	650.4	0.690	3899.4	0.144	1.3	0.208	2.54	0.393	76.3	0.721	0.25	0.028	0.60	0.034	0.451	0.024	0.438	0.026
Denmark	2.7	0.536	30897.7	0.802	44.4	0.242	708.4	0.946	734.6	0.779	3693.4	0.136	2.1	0.339	3.62	0.563	87.8	0.932	0.54	0.060	0.46	0.026	1.656	0.088	1.026	0.056
Dominican Republic	6.2	0.797	2432.2	0.061	41.1	0.224	108.4	0.144	145.2	0.154	920.5	0.030	..	..	2.22	0.344	67.3	0.556	0.01	0.001	0.03	0.002	0.203	0.011	0.094	0.008
Ecuador	1.8	0.468	1442.1	0.035	33.1	0.180	103.6	0.138	75.1	0.079	653.4	0.019	0.1	0.013	2.01	0.311	60.8	0.437	0.30	0.034	0.03	0.002	0.059	0.003	0.127	0.010
Egypt	4.7	0.687	1365.7	0.033	16.6	0.089	100.1	0.133	43.8	0.046	722.2	0.022	0.2	0.029	3.71	0.576	67.5	0.560	0.32	0.036	0.12	0.007	0.604	0.032	0.304	0.019
El Salvador	3.7	0.612	2143.1	0.053	26.6	0.144	101.5	0.135	130.1	0.137	658.4	0.020	0.0	0.000	1.89	0.291	71.8	0.639	0.01	0.002	0.02	0.001	0.057	0.003	0.033	0.005
Estonia	3.8	0.619	4159.7	0.106	89.4	0.489	356.0	0.475	497.5	0.527	3369.0	0.123	0.7	0.104	4.14	0.644	74.8	0.694	0.05	0.005	0.09	0.005	0.102	0.005	0.050	0.006
Ethiopia	5.6	0.752	96.2	0.000	16.2	0.087	4.4	0.006	0.5	0.000	291.0	0.006	..	..	0.14	0.017	57.0	0.367	0.00	0.000	0.01	0.000	0.033	0.002	0.015	0.004

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Annex table A.I.6. Raw data and scores for the variables included in the UNCTAD Inward FDI Potential index, 2000-2002 (continued)

Economy	Real GDP growth Average 1992-2002 (%)	Score 0-1	GDP per capita Average 2000-2002 (Dollars)	Score 0-1	Total exports (As a % of GDP)	Score 0-1	Telephone mainlines (per 1000 inhabi-tants)	Score 0-1	Mobile phones (per 1000 inhabi-tants)	Score 0-1	Energy use Per capita	Score 0-1	R&D expenditures (As a % of GDP)	Score 0-1	Students at the tertiary level 2000 (As a % of total population)	Score 0-1	Country risk As of December 2002 Compo-site risk rating	Score 0-1	Exports of natural resources Average 2000-2002 (As a % of world total)	Score 0-1	Imports of parts/ accessories of electronics and automobiles Average 2000-2002 (As a % of world total)	Score 0-1	Exports in services Average 2000-2002 (As a % of world total)	Score 0-1	Inward FDI stock Average 2000-2002 (As a % of world total)	Score 0-1
Finland	3.8	0.621	24028.7	0.623	40.4	0.220	538.0	0.718	797.2	0.845	6451.3	0.241	3.4	0.534	5.23	0.815	89.0	0.954	0.40	0.045	0.52	0.029	0.399	0.021	0.414	0.025
France	2.2	0.501	22684.6	0.588	27.9	0.151	573.2	0.765	581.9	0.617	4402.3	0.163	2.2	0.347	3.44	0.534	81.3	0.813	1.93	0.218	3.89	0.220	5.353	0.285	4.774	0.247
Gabon	2.6	0.527	3762.4	0.095	67.7	0.370	28.7	0.038	172.5	0.182	1319.5	0.045	..	..	0.64	0.096	66.3	0.538	0.31	0.035	0.00	0.000	0.019	0.001	- 0.023	0.002
Gambia	3.6	0.603	299.6	0.005	52.0	0.284	26.6	0.035	39.5	0.041	..	..	..	..	0.09	0.010	66.3	0.538	0.00	0.000	0.00	0.000	0.008	0.000	0.004	0.004
Georgia	2.1	0.495	608.9	0.013	25.5	0.138	115.7	0.154	67.1	0.071	568.6	0.016	0.3	0.051	2.83	0.439	..	..	0.02	0.002	0.00	0.000	0.019	0.001	0.008	0.004
Germany	1.5	0.449	23162.8	0.601	35.1	0.190	631.8	0.843	665.2	0.705	4201.1	0.155	2.5	0.394	2.54	0.393	82.8	0.840	3.15	0.354	6.49	0.367	6.117	0.326	6.714	0.345
Ghana	4.3	0.651	275.0	0.005	45.7	0.249	12.0	0.016	12.1	0.012	405.2	0.010	..	..	0.32	0.045	59.8	0.418	0.04	0.004	0.01	0.000	0.034	0.002	0.023	0.005
Greece	3.0	0.559	11364.8	0.293	22.8	0.123	518.7	0.692	719.5	0.763	2623.7	0.095	0.7	0.106	4.49	0.699	74.5	0.688	0.30	0.033	0.28	0.016	1.271	0.068	0.184	0.013
Guatemala	3.9	0.623	1804.3	0.044	18.4	0.099	64.9	0.086	101.6	0.107	626.5	0.018	..	..	0.80	0.121	67.0	0.550	0.02	0.003	0.04	0.002	0.064	0.003	0.058	0.007
Guinea	4.3	0.657	375.6	0.007	27.3	0.148	3.3	0.004	8.3	0.008	..	..	..	..	0.11	0.013	63.0	0.477	0.04	0.005	0.00	0.000	0.006	0.000	0.004	0.004
Guyana	3.6	0.605	926.6	0.022	94.5	0.517	87.6	0.117	77.4	0.082	..	..	..	..	1.07	0.163	61.5	0.450	0.01	0.001	0.00	0.000	0.010	0.000	0.012	0.004
Haiti	0.2	0.354	439.8	0.009	11.8	0.062	11.4	0.015	11.6	0.012	260.9	0.004	..	..	0.10	0.011	51.5	0.266	0.00	0.000	..	..	0.012	0.001	0.003	0.004
Honduras	2.8	0.547	958.6	0.022	39.0	0.212	47.7	0.063	36.6	0.038	473.5	0.013	..	..	1.40	0.214	63.5	0.486	0.01	0.001	0.00	0.000	0.032	0.002	0.025	0.005
Hong Kong, China	3.3	0.584	23473.9	0.609	147.1	0.806	577.8	0.771	872.9	0.926	2473.5	0.089	0.4	0.069	1.85	0.285	84.3	0.868	0.07	0.007	5.44	0.308	2.746	0.146	6.552	0.337
Hungary	3.4	0.587	5527.8	0.141	71.2	0.389	372.0	0.497	493.9	0.523	2494.2	0.090	0.9	0.137	3.29	0.511	78.0	0.752	0.16	0.018	0.92	0.052	0.460	0.024	0.351	0.021
Iceland	3.7	0.612	29254.5	0.759	38.2	0.208	666.5	0.890	845.1	0.896	11540.9	0.436	2.9	0.463	3.62	0.563	79.5	0.780	0.06	0.007	0.01	0.001	0.071	0.004	0.010	0.004
India	6.0	0.778	473.6	0.010	14.3	0.076	36.4	0.048	7.3	0.007	510.9	0.014	..	..	0.94	0.143	66.3	0.538	0.56	0.063	0.35	0.020	1.186	0.063	0.337	0.021
Indonesia	2.5	0.523	720.2	0.016	41.0	0.223	34.5	0.046	34.7	0.036	708.6	0.022	..	..	1.42	0.218	58.3	0.391	2.48	0.279	0.28	0.016	0.350	0.019	0.882	0.048
Iran, Islamic Rep. of	3.6	0.602	1554.1	0.038	24.7	0.133	168.1	0.224	27.0	0.028	1863.1	0.066	..	..	1.08	0.165	63.3	0.483	3.26	0.366	..	..	0.089	0.005	0.039	0.006
Ireland	8.7	0.974	27781.6	0.721	96.1	0.526	490.2	0.654	728.9	0.773	3780.7	0.139	1.2	0.181	4.47	0.695	88.8	0.950	0.12	0.013	1.70	0.096	1.479	0.079	2.108	0.111
Israel	4.1	0.639	17425.2	0.451	38.7	0.210	469.2	0.626	854.3	0.906	3166.8	0.116	4.9	0.778	4.36	0.678	65.3	0.519	0.07	0.008	0.27	0.015	0.810	0.043	0.371	0.022
Italy	1.8	0.473	19400.4	0.503	27.9	0.151	475.3	0.635	853.1	0.904	2971.6	0.108	1.1	0.168	3.16	0.491	79.3	0.776	1.13	0.127	2.04	0.115	3.763	0.201	1.746	0.092
Jamaica	0.5	0.378	3066.8	0.077	40.4	0.220	186.8	0.249	307.1	0.325	1504.8	0.052	..	..	1.65	0.253	69.8	0.602	0.10	0.012	0.01	0.001	0.127	0.007	0.059	0.007
Japan	1.2	0.427	33772.3	0.877	10.8	0.057	573.4	0.765	583.5	0.619	4100.7	0.151	3.0	0.479	3.13	0.486	85.3	0.886	1.04	0.117	3.97	0.224	4.302	0.229	0.805	0.045
Jordan	3.8	0.619	1752.4	0.043	43.6	0.237	125.8	0.168	157.7	0.167	1035.4	0.034	6.3	1.000	2.19	0.339	70.5	0.615	0.04	0.005	0.06	0.003	0.100	0.005	0.035	0.005
Kazakhstan	0.4	0.365	1333.9	0.032	50.8	0.277	121.3	0.162	37.5	0.039	2527.5	0.091	0.3	0.045	2.75	0.426	71.8	0.639	0.90	0.101	0.02	0.001	0.087	0.005	0.188	0.013
Kenya	2.0	0.488	363.6	0.007	26.0	0.140	10.4	0.014	21.6	0.022	507.8	0.014	..	..	0.33	0.047	57.5	0.376	0.04	0.005	0.01	0.000	0.067	0.003	0.016	0.004
Korea, Republic of	5.3	0.731	9669.9	0.249	42.4	0.230	483.7	0.646	627.8	0.665	4005.3	0.148	2.8	0.444	6.41	1.000	79.8	0.785	1.41	0.159	1.86	0.105	1.892	0.101	0.611	0.035
Kuwait	3.1	0.567	17609.0	0.456	54.1	0.295	208.3	0.278	374.1	0.396	8312.8	0.313	0.2	0.030	1.78	0.275	81.0	0.807	2.32	0.261	..	..	0.117	0.006	0.007	0.004
Kyrgyzstan	0.7	0.389	300.6	0.005	39.3	0.214	77.5	0.103	5.9	0.006	484.4	0.013	0.2	0.029	4.05	0.631	..	..	0.01	0.001	0.00	0.000	0.005	0.000	0.007	0.004
Latvia	3.5	0.592	3220.9	0.081	45.2	0.246	303.7	0.405	279.6	0.296	1649.3	0.058	0.4	0.062	4.36	0.679	76.5	0.725	0.02	0.002	0.03	0.001	0.079	0.004	0.036	0.005
Lebanon	3.4	0.592	4733.4	0.121	13.7	0.073	187.0	0.249	227.3	0.241	1229.5	0.042	..	..	4.08	0.635	55.5	0.339	0.01	0.001	0.03	0.001	..	..	0.021	0.005
Libyan Arab Jamahiriya	1.1	0.420	5080.7	0.130	37.3	0.203	113.1	0.151	9.6	0.010	2893.0	0.105	..	..	5.12	0.798	70.0	0.606	1.80	0.202	..	..	0.004	0.000	- 0.070	0.000
Lithuania	2.2	0.500	3351.3	0.085	49.9	0.272	301.6	0.402	297.9	0.316	2192.1	0.078	0.6	0.099	3.70	0.576	74.0	0.679	0.14	0.016	0.03	0.002	0.079	0.004	0.045	0.006
Madagascar	2.5	0.524	261.0	0.004	25.0	0.135	3.7	0.005	8.0	0.008	..	..	0.1	0.020	0.20	0.026	58.8	0.400	0.00	0.000	..	..	0.009	0.000	0.006	0.004
Malawi	3.5	0.598	153.7	0.001	26.0	0.140	5.5	0.007	6.1	0.006	..	..	..	..	0.03	0.000	53.5	0.303	0.00	0.000	0.00	0.000	0.002	0.000	0.005	0.004
Malaysia	5.3	0.727	4021.7	0.102	118.4	0.648	195.5	0.261	303.3	0.321	2057.4	0.073	0.4	0.062	2.47	0.382	77.5	0.743	1.35	0.152	3.96	0.223	0.919	0.049	0.817	0.045
Mali	4.5	0.670	241.2	0.004	30.4	0.165	4.7	0.006	3.4	0.003	..	..	..	..	0.17	0.023	58.3	0.391	0.00	0.000	0.00	0.000	0.006	0.000	0.007	0.004
Malta	4.1	0.642	9406.4	0.242	92.7	0.507	525.6	0.702	534.4	0.566	1998.2	0.071	..	..	1.91	0.295	79.8	0.785	0.00	0.000	0.01	0.001	0.071	0.004	0.045	0.006
Mexico	3.2	0.572	6115.5	0.157	28.6	0.155	136.2	0.182	204.6	0.216	1540.6	0.053	0.4	0.067	2.07	0.320	70.8	0.620	2.30	0.258	4.28	0.242	0.845	0.045	1.972	0.104

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Annex table A.I.6. Raw data and scores for the variables included in the UNCTAD Inward FDI Potential index, 2000-2002 (continued)

Economy	Real GDP growth		GDP per capita		Total exports		Telephone mainlines		Mobile phones		Energy use		R&D expenditures		Students at the tertiary level		Country risk		Exports of natural resources		Imports of parts/ accessories of electronics and automobiles		Exports in services		Inward FDI stock	
	Average 1992-2002		Average 2000-2002												2000		As of December 2002		Average 2000-2002							
	(%)	Score 0-1	(Dollars)	Score 0-1	(As a % of GDP)	Score 0-1	(per 1000 inhabi-tants)	Score 0-1	(per 1000 inhabi-tants)	Score 0-1	Per capita	Score 0-1	(As a % of GDP)	Score 0-1	(As a % of total population)	Score 0-1	Compo-site 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
Moldova, Republic of	-4.0	0.045	341.5	0.006	51.0	0.278	146.5	0.195	53.3	0.056	..	..	0.6	0.097	2.35	0.363	64.0	0.495	0.00	0.000	0.00	0.000	0.012	0.001	0.009	0.004
Mongolia	2.9	0.550	422.7	0.009	60.7	0.331	51.3	0.068	78.4	0.083	..	..	..	..	3.19	0.495	64.0	0.495	0.03	0.003	0.00	0.000	0.008	0.000	0.004	0.004
Morocco	3.0	0.557	1135.1	0.027	29.1	0.158	42.8	0.057	151.4	0.160	367.8	0.009	..	..	1.09	0.167	72.8	0.657	0.13	0.015	0.05	0.003	0.246	0.013	0.122	0.010
Mozambique	8.1	0.932	192.3	0.003	12.4	0.066	4.9	0.006	8.5	0.009	411.9	0.010	..	..	0.05	0.003	61.3	0.446	0.04	0.004	0.00	0.000	0.019	0.001	0.020	0.005
Myanmar	8.0	0.923	..	..	0.4	0.000	6.3	0.008	0.6	0.000	260.1	0.004	..	..	1.21	0.185	62.3	0.464	0.02	0.002	..	..	0.029	0.001	0.049	0.006
Namibia	3.5	0.595	1740.4	0.043	44.9	0.244	63.6	0.085	60.3	0.063	561.3	0.016	..	..	0.56	0.084	76.5	0.725	0.02	0.002	0.01	0.001	0.023	0.001	0.015	0.004
Nepal	4.6	0.677	232.5	0.004	21.1	0.113	13.1	0.017	0.7	0.000	351.8	0.008	..	..	0.43	0.063	..	..	0.00	0.000	0.00	0.000	0.030	0.001	0.002	0.004
Netherlands	3.1	0.563	24442.8	0.634	65.1	0.355	619.1	0.827	728.1	0.772	4735.7	0.176	1.9	0.307	3.19	0.496	83.5	0.853	2.59	0.291	3.08	0.174	3.297	0.176	4.254	0.220
New Zealand	3.3	0.579	14027.9	0.363	35.4	0.192	470.1	0.627	543.0	0.576	4633.2	0.172	1.0	0.162	4.45	0.693	80.8	0.804	0.12	0.014	0.13	0.008	0.303	0.016	0.374	0.023
Nicaragua	5.2	0.717	475.7	0.010	36.5	0.198	31.5	0.042	28.4	0.030	539.0	0.015	0.1	0.022	1.21	0.185	53.8	0.308	0.00	0.000	0.01	0.000	0.020	0.001	0.023	0.005
Niger	3.3	0.584	168.8	0.002	17.1	0.092	1.9	0.002	0.6	0.000	..	..	..	..	0.12	0.015	57.5	0.376	0.01	0.001	0.00	0.000	0.003	0.000	0.006	0.004
Nigeria	2.4	0.512	380.7	0.007	58.0	0.317	4.9	0.006	5.7	0.006	719.4	0.022	..	..	0.40	0.057	51.0	0.257	3.78	0.426	0.00	0.000	0.066	0.003	0.322	0.020
Norway	3.5	0.599	38498.8	1.000	45.4	0.247	733.4	0.979	807.5	0.856	5885.8	0.220	1.6	0.258	4.25	0.662	91.3	0.996	5.68	0.639	0.34	0.019	1.174	0.062	0.483	0.028
Oman	3.8	0.619	7643.2	0.197	55.6	0.304	86.4	0.115	120.0	0.127	3740.5	0.138	..	..	0.76	0.114	79.8	0.785	1.25	0.141	0.09	0.005	0.025	0.001	0.038	0.006
Pakistan	3.3	0.580	418.1	0.008	16.8	0.090	23.3	0.031	5.6	0.005	459.9	0.012	..	..	0.18	0.023	58.5	0.394	0.03	0.003	0.07	0.004	0.092	0.005	0.095	0.008
Panama	3.8	0.617	3732.0	0.095	73.2	0.400	134.3	0.179	166.0	0.176	969.4	0.032	0.4	0.069	3.18	0.493	71.0	0.624	0.01	0.001	0.02	0.001	0.128	0.007	0.107	0.009
Papua New Guinea	1.2	0.430	619.9	0.014	73.1	0.399	12.0	0.016	2.1	0.002	..	..	..	..	0.21	0.029	63.0	0.477	0.27	0.030	0.00	0.000	0.017	0.001	0.031	0.005
Paraguay	1.5	0.452	1196.0	0.029	24.1	0.130	50.0	0.066	213.9	0.226	748.8	0.023	..	..	1.51	0.232	56.5	0.358	0.00	0.000	0.02	0.001	0.037	0.002	0.017	0.004
Peru	4.0	0.630	2096.3	0.052	16.0	0.086	70.1	0.093	65.0	0.068	479.4	0.013	0.1	0.016	2.96	0.459	68.8	0.583	0.37	0.042	0.04	0.002	0.100	0.005	0.170	0.012
Philippines	3.9	0.621	971.7	0.023	51.2	0.279	41.4	0.055	143.7	0.152	544.7	0.015	..	..	3.20	0.497	71.0	0.624	0.14	0.015	2.25	0.127	0.219	0.012	0.156	0.012
Poland	4.8	0.691	4631.1	0.118	28.8	0.156	289.2	0.386	265.4	0.281	2364.6	0.085	0.7	0.107	4.58	0.713	76.3	0.721	0.48	0.054	0.53	0.030	0.652	0.035	0.605	0.034
Portugal	3.1	0.566	11211.5	0.289	31.0	0.168	425.2	0.568	754.0	0.799	2425.4	0.087	0.8	0.126	3.93	0.610	78.3	0.758	0.14	0.015	0.51	0.029	0.586	0.031	0.529	0.031
Qatar	7.8	0.914	29037.5	0.754	36.1	0.196	277.2	0.370	311.0	0.329	26270.6	1.000	..	..	1.30	0.199	79.3	0.776	1.17	0.132	0.04	0.002	..	..	0.035	0.005
Romania	0.6	0.386	1826.7	0.045	34.0	0.184	184.0	0.245	173.0	0.183	1628.1	0.057	0.4	0.059	2.39	0.369	69.5	0.596	0.21	0.024	0.12	0.007	0.132	0.007	0.115	0.009
Russian Federation	-0.6	0.297	2112.5	0.053	38.4	0.209	229.1	0.306	65.0	0.068	4210.8	0.156	1.1	0.174	4.92	0.766	70.0	0.606	8.74	0.982	0.15	0.008	0.720	0.038	0.310	0.019
Rwanda	4.3	0.651	220.8	0.003	7.7	0.040	2.6	0.003	8.9	0.009	..	..	..	..	0.17	0.021	..	..	0.00	0.000	0.00	0.000	0.004	0.000	0.004	0.004
Saudi Arabia	1.9	0.476	8943.2	0.230	41.2	0.224	142.0	0.189	131.4	0.139	4911.8	0.182	..	..	1.93	0.298	72.5	0.651	8.89	1.000	0.28	0.016	0.323	0.017	0.389	0.023
Senegal	4.5	0.672	486.6	0.010	29.5	0.160	22.7	0.030	37.3	0.039	322.6	0.007	0.0	0.000	0.33	0.046	65.5	0.523	0.02	0.003	0.00	0.000	0.028	0.001	0.013	0.004
Sierra Leone	-2.9	0.124	157.2	0.002	16.8	0.090	4.5	0.006	7.1	0.007	..	..	..	..	0.18	0.024	52.3	0.281	0.00	0.000	0.00	0.000	0.007	0.000	0.000	0.004
Singapore	6.1	0.786	21397.5	0.555	182.4	1.000	472.9	0.631	734.5	0.779	6284.6	0.235	2.0	0.315	2.73	0.423	90.0	0.972	1.72	0.193	3.74	0.211	1.712	0.091	1.771	0.094
Slovakia	3.9	0.622	3972.1	0.101	73.0	0.399	290.6	0.388	382.8	0.406	3312.6	0.121	0.6	0.096	2.67	0.414	75.8	0.712	0.18	0.020	0.31	0.017	0.145	0.008	0.106	0.009
Slovenia	4.2	0.644	9889.4	0.255	59.1	0.322	434.2	0.580	727.7	0.771	3322.5	0.122	1.6	0.248	4.61	0.717	80.3	0.794	0.07	0.007	0.13	0.007	0.132	0.007	0.056	0.006
South Africa	2.7	0.534	2655.9	0.067	30.8	0.167	110.2	0.147	245.6	0.260	2475.3	0.089	..	..	1.60	0.245	68.8	0.583	0.74	0.083	0.08	0.005	0.300	0.016	0.747	0.042
Spain	3.2	0.574	15013.4	0.388	29.5	0.160	455.4	0.608	720.8	0.764	3047.5	0.111	1.0	0.149	4.63	0.720	80.8	0.804	0.87	0.098	3.21	0.181	3.763	0.201	2.650	0.138
Sri Lanka	4.6	0.677	847.6	0.020	37.0	0.201	44.1	0.059	36.0	0.038	425.3	0.011	0.2	0.028	0.36	0.051	63.3	0.483	0.01	0.001	0.01	0.001	0.075	0.004	0.038	0.005
Sudan	5.5	0.745	389.9	0.008	14.9	0.080	15.8	0.021	3.3	0.003	470.5	0.012	..	..	0.71	0.106	54.3	0.317	0.17	0.019	0.02	0.001	0.002	0.000	0.030	0.005
Suriname	1.6	0.455	2001.7	0.050	55.9	0.305	171.0	0.228	172.5	0.182	..	..	..	..	0.73	0.109	61.8	0.455	0.05	0.006	0.00	0.000	0.005	0.000	- 0.011	0.003
Sweden	2.9	0.554	25640.5	0.665	46.2	0.252	749.1	1.000	804.0	0.852	5596.4	0.209	4.6	0.729	4.02	0.625	84.5	0.872	0.62	0.070	1.31	0.074	1.367	0.073	1.491	0.079
Switzerland	1.3	0.432	35070.9	0.911	43.2	0.235	737.9	0.985	720.3	0.764	3767.1	0.139	2.6	0.416	2.21	0.342	91.5	1.000	0.57	0.064	0.47	0.027	1.831	0.098	1.478	0.079
Syrian Arab Republic	3.8	0.616	1187.6	0.028	37.4	0.203	112.0	0.149	12.5	0.013	973.9	0.032	0.2	0.028	0.61	0.091	69.8	0.602	0.57	0.064	0.01	0.000	0.110	0.006	0.027	0.005

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Annex table A.I.6. Raw data and scores for the variables included in the UNCTAD Inward FDI Potential index, 2000-2002 (concluded)

Economy	Real GDP growth		GDP per capita		Total exports		Telephone mainlines		Mobile phones		Energy use		R&D expenditures		Students at the tertiary level		Country risk		Exports of natural resources		Imports of parts/ accessories of electronics and automobiles		Exports in services		Inward FDI stock	
	Average 1992-2002		Average 2000-2002												2000		As of December 2002		Average 2000-2002							
	(%)	Score 0-1	(Dollars)	Score 0-1	(As a % of GDP)	Score 0-1	(per 1000 inhabi-tants)	Score 0-1	(per 1000 inhabi-tants)	Score 0-1	Per capita	Score 0-1	(As a % of GDP)	Score 0-1	(As a % of total population)	Score 0-1	Compo-site 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
Taiwan Province of China	5.2	0.720	12911.7	0.334	53.0	0.289	574.3	0.767	943.1	1.000	4 052.0	0.150	2.2	0.342	4.90	0.763	82.0	0.826	0.51	0.057	1.11	0.063	1.309	0.070	0.470	0.027
Tajikistan	-3.1	0.113	176.8	0.002	70.0	0.382	36.5	0.048	0.8	0.000	500.1	0.014	..	..	1.27	0.194	..	..	0.07	0.007	0.00	0.000	0.004	0.000	0.002	0.004
TFYR Macedonia	0.9	0.402	1751.8	0.043	41.0	0.223	261.8	0.349	114.5	0.121	..	..	..	..	1.99	0.307	..	..	0.02	0.002	0.00	0.000	0.017	0.001	0.011	0.004
Thailand	2.6	0.527	1910.2	0.047	65.9	0.360	98.7	0.132	144.7	0.153	1195.7	0.040	0.1	0.015	3.41	0.530	76.3	0.721	0.39	0.044	1.45	0.082	0.910	0.048	0.421	0.025
Togo	2.9	0.551	282.2	0.005	35.2	0.191	10.0	0.013	21.9	0.023	322.0	0.007	..	..	0.34	0.048	59.3	0.409	0.01	0.001	0.00	0.000	0.004	0.000	0.007	0.004
Trinidad and Tobago	4.2	0.647	6796.3	0.174	53.5	0.292	244.8	0.327	200.0	0.212	6525.9	0.244	0.1	0.020	0.67	0.099	73.3	0.666	0.38	0.043	0.01	0.001	0.047	0.002	0.118	0.010
Tunisia	4.7	0.680	2107.4	0.052	45.4	0.247	108.9	0.145	34.7	0.036	830.6	0.026	0.5	0.070	2.16	0.334	72.0	0.642	0.10	0.012	0.05	0.003	0.180	0.010	0.187	0.013
Turkey	2.8	0.545	2614.4	0.066	30.9	0.168	282.7	0.377	296.6	0.314	1092.5	0.036	0.6	0.100	2.41	0.373	59.8	0.418	0.18	0.020	0.43	0.025	1.106	0.059	0.278	0.018
Uganda	7.0	0.849	243.9	0.004	11.4	0.061	2.4	0.003	11.9	0.012	..	..	0.8	0.118	0.29	0.041	62.5	0.468	0.01	0.001	0.00	0.000	0.014	0.001	0.018	0.005
Ukraine	-4.6	0.000	752.4	0.017	58.1	0.317	211.6	0.282	48.1	0.050	2836.9	0.103	0.9	0.148	3.11	0.483	67.5	0.560	0.42	0.047	0.06	0.003	0.269	0.014	0.070	0.007
United Arab Emirates	4.8	0.689	26348.0	0.684	64.6	0.353	333.5	0.445	599.4	0.635	10640.4	0.402	..	..	0.89	0.135	81.8	0.822	2.14	0.241	0.16	0.009	..	..	0.032	0.005
United Kingdom	2.9	0.555	24727.0	0.641	28.1	0.152	591.2	0.789	779.4	0.826	3951.3	0.146	1.9	0.296	3.51	0.546	82.0	0.826	4.11	0.462	6.06	0.342	7.637	0.407	8.171	0.419
United Republic of Tanzania	4.0	0.632	257.7	0.004	15.7	0.084	4.8	0.006	12.6	0.013	397.4	0.010	..	..	0.07	0.005	58.0	0.385	0.01	0.001	0.01	0.000	0.040	0.002	0.031	0.005
United States	3.5	0.594	35388.0	0.919	10.4	0.055	660.3	0.881	442.6	0.469	8075.0	0.304	2.8	0.434	4.88	0.761	77.5	0.743	3.76	0.423	17.70	1.000	18.760	1.000	19.578	1.000
Uruguay	1.2	0.425	5129.7	0.131	19.5	0.105	280.3	0.374	156.8	0.166	905.0	0.029	0.2	0.036	2.92	0.453	61.5	0.450	0.01	0.001	0.03	0.002	0.068	0.004	0.029	0.005
Uzbekistan	2.3	0.509	461.2	0.010	30.7	0.166	66.7	0.089	4.9	0.005	2045.1	0.073	..	..	3.05	0.473	..	..	0.08	0.009	..	..	..	..	0.012	0.004
Venezuela	0.4	0.371	4647.7	0.119	26.5	0.143	109.0	0.145	247.9	0.262	2298.0	0.082	0.4	0.060	2.82	0.437	53.8	0.308	3.26	0.366	0.09	0.005	0.076	0.004	0.447	0.026
Viet Nam	6.7	0.830	417.1	0.008	55.6	0.304	39.3	0.052	16.2	0.017	473.4	0.013	..	..	0.94	0.142	70.3	0.611	0.52	0.059	0.01	0.000	0.178	0.009	0.240	0.016
Yemen	5.9	0.775	502.5	0.011	40.4	0.220	23.0	0.031	10.3	0.010	201.8	0.002	..	..	0.97	0.148	66.0	0.532	0.55	0.062	0.00	0.000	0.014	0.001	0.020	0.005
Zambia	1.5	0.449	330.4	0.006	28.7	0.155	8.1	0.011	11.4	0.012	633.3	0.019	..	..	0.27	0.037	48.0	0.202	0.08	0.009	0.01	0.000	0.007	0.000	0.033	0.005
Zimbabwe	1.2	0.426	636.8	0.014	25.1	0.136	22.9	0.030	28.7	0.030	813.1	0.026	..	..	0.42	0.061	37.0	0.000	0.04	0.005	0.00	0.000	0.032	0.002	0.017	0.004

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, 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).

Note: For data for energy use, refer to the period average 1999-2001.

Annex table A.I.7. Inward FDI Potential Index rankings, 1988-2002[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	2000-2002
Albania	..	..	125	122	120	125	119	131	121	108	104	90	76
Algeria	54	61	79	87	93	97	75	87	88	88	82	79	75
Angola	72	76	97	118	119	102	103	119	109	115	103	102	86
Argentina	60	58	56	49	48	49	53	46	42	47	48	52	77
Armenia	..	..	124	133	122	118	127	127	122	122	125	110	99
Australia	14	14	13	9	11	12	7	10	15	14	19	21	22
Austria	19	19	20	19	19	18	21	22	22	23	23	23	24
Azerbaijan	..	..	..	..	135	132	132	125	127	123	108	99	96
Bahamas	28	30	32	31	33	35	36	36	38	38	38	38	40
Bahrain	26	28	30	29	29	30	33	31	30	27	33	31	29
Bangladesh	108	105	112	105	111	117	112	112	113	112	110	121	117
Belarus	..	..	28	32	31	72	78	72	73	72	71	66	56
Belgium and Luxembourg	10	10	9	11	9	10	9	9	8	9	9	6	6
Benin	112	113	131	134	136	135	134	132	135	135	134	133	132
Bolivia	84	79	91	95	91	90	91	83	81	78	78	83	85
Botswana	32	32	50	48	47	46	54	49	58	55	58	60	55
Brazil	47	48	69	70	72	74	71	75	76	77	70	73	68
Brunei Darussalam	31	31	24	23	22	27	32	27	27	29	30	27	35
Bulgaria	..	..	42	56	63	48	65	76	59	65	69	65	64
Burkina Faso	96	98	114	114	118	122	120	124	120	113	122	128	130
Cameroon	81	99	119	124	132	130	128	126	119	117	123	114	116
Canada	2	2	2	2	2	2	2	2	4	5	5	5	5
Chile	41	41	49	43	42	41	40	40	46	48	46	47	48
China	45	43	55	61	60	57	47	41	43	41	43	44	39
Colombia	59	56	71	72	79	86	84	101	90	90	88	101	101
Congo	75	87	111	116	108	105	99	123	108	109	105	100	95
Congo, Dem. Rep. of	101	111	129	135	139	138	139	139	137	137	139	139	140
Costa Rica	51	47	58	57	57	63	62	60	66	64	66	70	69
Côte d'Ivoire	98	95	106	110	115	112	105	106	101	99	111	111	123
Croatia	..	..	..	117	109	85	96	93	65	68	60	53	51
Cyprus	33	33	37	35	38	36	38	38	40	40	41	45	43
Czech Republic	..	..	61	54	50	39	44	43	44	42	42	42	42
Denmark	16	16	14	15	16	16	17	16	16	16	15	18	19
Dominican Republic	67	68	73	67	69	68	63	62	62	59	56	62	62
Ecuador	69	71	82	86	87	96	94	90	97	105	106	104	107
Egypt	68	65	88	83	80	83	90	88	64	69	72	71	70
El Salvador	82	77	86	76	74	51	87	79	80	80	79	80	91
Estonia	..	..	76	89	83	67	66	59	49	43	40	40	38
Ethiopia	113	115	135	130	129	126	124	115	130	130	121	125	122
Finland	8	9	11	14	15	15	15	15	13	10	10	12	13
France	6	7	5	6	6	7	10	8	10	11	12	15	14
Gabon	61	63	80	77	84	79	72	69	72	75	83	76	80
Gambia	63	66	84	75	95	98	86	80	87	84	93	94	97
Georgia	..	..	..	..	130	136	138	138	139	138	136	131	121
Germany	7	6	4	3	3	3	5	5	6	6	6	7	9
Ghana	93	89	104	103	105	110	111	110	110	114	116	112	111
Greece	34	34	34	37	39	38	39	37	37	35	37	37	36
Guatemala	106	100	110	111	110	109	101	94	99	97	92	97	102
Guinea	91	91	108	109	112	115	113	113	105	106	112	108	109
Guyana	104	101	93	88	71	66	60	56	57	58	59	63	65
Haiti	115	116	130	132	134	133	135	134	133	133	135	135	137
Honduras	86	82	96	97	100	100	102	97	94	86	91	98	103
Hong Kong, China	17	17	18	16	13	13	13	13	14	12	11	11	12
Hungary	46	49	63	64	66	60	61	53	48	45	45	43	41
Iceland	15	15	17	18	18	19	20	20	19	19	17	16	15
India	74	72	99	94	97	93	92	98	96	94	97	91	89
Indonesia	43	44	57	55	55	64	42	61	79	70	75	81	82
Iran, Islamic Rep. of	52	46	53	50	51	59	43	57	61	71	67	59	61
Ireland	24	24	29	28	28	22	22	21	18	15	14	10	7
Israel	27	26	31	30	30	26	29	26	25	24	24	24	23
Italy	18	18	19	20	20	23	24	23	23	25	26	26	26
Jamaica	62	62	74	73	68	69	70	70	70	74	77	75	79
Japan	13	12	12	10	8	8	11	7	12	13	13	14	16
Jordan	65	69	67	68	67	65	37	35	36	37	39	41	45
Kazakhstan	..	..	54	78	86	94	98	99	98	98	94	84	78
Kenya	87	90	105	107	104	101	104	114	115	124	124	127	131
Korea, Republic of	20	20	26	25	21	17	19	18	21	18	21	20	18
Kuwait	48	51	43	39	32	32	30	32	34	36	32	32	28
Kyrgyzstan	..	..	..	127	133	134	136	135	132	126	117	118	118
Latvia	..	..	46	66	90	88	97	91	71	66	64	56	49
Lebanon	83	75	59	52	54	75	81	64	52	50	49	57	60

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Annex table A.I.7. Inward FDI Potential Index rankings, 1988-2002[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	2000-2002
Libyan Arab Jamahiriya	56	50	48	46	43	50	46	68	41	46	47	39	46
Lithuania	..	..	70	90	94	92	93	81	63	62	62	61	52
Madagascar	102	103	123	120	126	127	125	122	116	120	119	116	125
Malawi	89	92	107	113	117	111	107	104	107	104	113	122	127
Malaysia	37	36	40	38	36	31	34	33	32	32	31	33	32
Mali	107	107	120	101	102	108	115	109	103	100	107	117	113
Malta	35	39	38	36	35	33	31	30	35	34	35	35	34
Mexico	44	45	44	41	44	54	49	51	53	52	50	49	50
Moldova, Republic of	..	..	33	33	37	43	100	102	111	128	131	113	110
Mongolia	53	57	90	91	89	84	73	73	69	61	63	68	63
Morocco	73	74	81	80	77	91	89	96	91	89	98	96	93
Mozambique	114	110	128	128	127	129	129	133	125	125	126	119	108
Myanmar	118	118	126	126	128	120	118	108	106	101	99	77	74
Namibia	88	83	89	82	75	76	68	67	75	76	80	82	84
Nepal	110	108	127	129	131	131	130	129	134	134	132	132	133
Netherlands	9	8	8	7	10	11	8	11	9	7	7	8	11
New Zealand	23	25	25	26	25	25	26	28	29	28	28	30	30
Nicaragua	97	97	115	123	121	121	122	120	129	118	114	109	115
Niger	109	109	121	121	125	128	126	128	128	121	115	126	126
Nigeria	70	60	77	84	88	99	80	89	93	93	86	87	98
Norway	4	4	6	5	5	5	3	4	3	4	2	2	2
Oman	36	38	45	47	49	52	50	48	55	56	55	50	53
Pakistan	94	88	109	106	103	113	110	116	126	129	129	129	128
Panama	55	55	68	58	52	44	51	42	47	49	51	51	58
Papua New Guinea	78	80	92	69	62	56	55	63	78	83	85	103	105
Paraguay	71	67	75	74	78	82	82	84	95	92	95	107	114
Peru	79	85	95	99	96	95	85	86	82	81	76	78	81
Philippines	77	78	78	71	73	71	57	52	54	53	57	55	57
Poland	50	52	62	59	59	58	59	54	45	44	44	46	44
Portugal	39	35	36	34	34	34	35	34	33	33	34	34	37
Qatar	22	22	16	17	17	20	25	19	20	21	18	13	8
Romania	..	..	85	92	98	89	95	103	102	103	100	95	83
Russian Federation	..	..	35	40	40	37	27	39	39	39	36	36	33
Rwanda	117	117	133	137	140	140	140	140	140	139	138	138	135
Saudi Arabia	30	29	22	21	26	29	14	29	28	30	27	28	31
Senegal	95	96	116	119	124	123	123	121	118	119	118	115	119
Sierra Leone	105	112	132	131	137	137	133	137	138	140	140	140	139
Singapore	12	13	15	13	7	4	4	3	2	2	3	3	4
Slovakia	..	..	52	51	64	47	56	55	51	54	52	48	47
Slovenia	..	..	117	112	53	40	48	45	31	31	29	29	27
South Africa	49	53	60	62	58	61	58	58	68	63	68	69	66
Spain	25	23	21	22	27	28	28	25	26	26	25	25	25
Sri Lanka	100	93	113	115	106	104	108	100	100	110	109	120	112
Sudan	116	114	134	136	138	139	137	136	131	132	127	124	120
Suriname	42	42	64	65	61	53	52	47	74	87	84	86	92
Sweden	5	5	7	8	12	9	12	12	7	8	8	9	10
Switzerland	11	11	10	12	14	14	18	17	17	17	16	17	20
Syrian Arab Republic	76	73	87	81	76	73	69	71	83	85	90	93	100
Taiwan Province of China	21	21	27	24	23	21	23	24	24	22	22	22	21
Tajikistan	..	..	94	104	113	114	131	130	136	136	137	137	136
TFYR Macedonia	..	..	..	..	114	106	114	111	112	107	102	105	106
Thailand	40	40	51	45	46	42	45	50	50	51	53	54	54
Togo	92	94	118	125	123	124	117	95	114	116	120	123	124
Trinidad and Tobago	58	64	72	79	82	80	74	66	67	67	65	64	59
Tunisia	66	70	83	85	81	78	76	74	77	73	74	74	71
Turkey	64	59	65	60	70	77	77	78	85	82	81	89	72
Uganda	103	104	122	108	116	107	106	105	104	102	101	106	104
Ukraine	..	..	39	53	56	55	83	85	92	96	96	92	94
United Arab Emirates	29	27	23	27	24	24	16	14	11	20	20	19	17
United Kingdom	3	3	3	4	4	6	6	6	5	3	4	4	3
United Republic of Tanzania	90	86	98	98	101	116	116	118	123	131	128	130	129
United States	1	1	1	1	1	1	1	1	1	1	1	1	1
Uruguay	57	54	66	63	65	70	67	65	60	60	61	67	90
Uzbekistan	..	..	47	44	41	62	88	77	89	91	87	88	88
Venezuela	38	37	41	42	45	45	41	44	56	57	54	58	73
Viet Nam	80	81	101	93	92	87	64	82	86	79	73	72	67
Yemen	111	106	100	96	85	81	79	92	84	95	89	85	87
Zambia	99	102	102	102	107	119	121	117	124	127	130	134	134
Zimbabwe	85	84	103	100	99	103	109	107	117	111	133	136	138

Source: UNCTAD.

Note: Covering 140 economies and based on 12 economic and policy variables.

[a] Three-year moving averages.

Annex table A.I.8. Outward FDI Performance Index rankings, 1988-2003[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	2000-2002	2001-2003
Albania	..	..	14	12	29	40	53	49	62	67	74	76	81	85
Algeria	74	60	67	70	85	89	98	101	106	96	94	90	82	81
Angola	75	75	81	82	102	101	116	109	108	115	117	116	115	115
Argentina	63	61	43	45	47	42	44	30	35	39	50	59	85	83
Armenia	..	..	..	..	..	..	1	..	42	49	49	48	50	57
Australia	20	28	26	22	26	32	30	22	25	43	58	37	25	16
Austria	24	23	22	29	37	38	39	33	33	29	21	24	22	21
Azerbaijan	..	..	..	..	..	..	2	..	13	10	19	19	18	5
Bahamas	95	89	98	105	95	97	112	105	105	108	106	111	112	113
Bahrain	25	24	20	20	11	18	16	16	15	21	28	27	27	8
Bangladesh	85	86	89	96	99	96	102	100	104	111	112	100	103	102
Belarus	..	..	..	..	..	..	3	99	101	109	108	107	127	126
Belgium and Luxembourg	10	8	4	4	8	9	19	9	10	1	1	1	1	1
Benin	..	..	..	..	..	82	58	50	54	52	51	49	72	82
Bolivia	66	65	70	72	76	81	92	92	97	102	98	95	97	92
Botswana	49	46	44	48	51	41	56	58	90	89	92	21	19	19
Brazil	44	42	51	58	66	59	79	74	71	61	54	78	70	91
Brunei Darussalam	..	64	73	34	21	33	41	45	52	58	67	63	75	69
Bulgaria	..	..	85	90	94	112	123	118	123	93	88	82	77	74
Burkina Faso	79	77	96	76	59	61	75	95	80	79	80	86	101	97
Cameroon	38	41	46	50	54	70	82	73	81	95	99	94	95	94
Canada	21	20	24	23	23	14	21	13	12	15	14	14	14	13
Chile	61	47	36	26	18	19	26	20	23	19	17	16	17	25
China	36	39	35	30	35	39	60	60	61	64	69	60	59	58
Colombia	51	57	57	59	56	53	62	43	43	50	52	66	49	45
Congo	58	58	62	68	77	106	118	97	121	125	124	73	67	73
Costa Rica	54	55	66	71	75	77	87	84	92	99	95	91	76	67
Côte d'Ivoire	41	33	25	15	22	30	51	54	60	55	60	68	105	104
Croatia	..	..	..	56	64	73	78	53	50	53	62	58	36	34
Cyprus	59	48	49	49	57	54	59	48	47	38	29	23	20	18
Czech Republic	..	..	63	53	52	55	66	65	69	75	72	65	62	59
Denmark	17	15	15	13	12	12	22	15	20	11	8	5	7	12
Dominican Republic	..	..	101	67	69	63	74	75	91	106	76	88	89	121
Ecuador	83	85	71	78	61	51	64	38	59	60	126	114	114	114
Egypt	60	53	65	64	71	72	84	68	78	82	90	93	96	100
El Salvador	89	90	93	102	104	103	94	98	103	72	73	75	123	119
Estonia	..	..	59	60	68	67	54	23	28	26	36	22	23	22
Ethiopia	..	..	..	..	..	..	4	7	11	20	35	77	54	46
Finland	12	14	37	55	14	10	17	12	6	8	6	8	4	23

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Annex table A.I.8. Outward FDI Performance Index rankings, 1988-2003[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	2000-2002	2001-2003
France	14	12	9	10	10	17	23	17	18	12	9	10	10	10
Gabon	33	37	41	47	49	47	61	61	120	85	71	61	64	99
Gambia	22	22	19	19	20	16	25	18	26	30	32	36	34	27
Georgia	..	..	..	..	..	..	5	..	1	100	109	105	94	79
Germany	18	18	16	18	32	22	24	14	16	16	16	18	26	44
Ghana	..	..	..	..	..	..	20	19	32	47	44	39	39	39
Greece	78	91	78	97	89	91	104	82	76	63	42	40	40	51
Guatemala	81	80	87	95	98	111	119	115	94	105	96	98	93	101
Guinea	..	..	..	..	..	..	101	94	98	90	86	85	86	84
Guyana	..	..	..	..	101	62	120	116	122	126	123	119	79	103
Haiti	94	98	107	110	112	113	121	89	96	110	107	109	107	108
Honduras	80	79	82	93	96	94	107	103	110	116	116	117	116	116
Hong Kong, China	5	5	2	1	1	1	8	2	3	3	2	2	2	6
Hungary	..	52	69	73	74	68	77	51	48	45	41	42	42	35
Iceland	52	38	45	51	53	49	43	36	37	32	20	17	15	17
India	82	84	86	94	91	87	90	86	95	107	91	71	63	61
Indonesia	71	73	48	46	28	27	35	55	70	88	85	81	80	80
Iran, Islamic Republic of	..	67	84	99	103	109	93	78	88	62	55	34	32	26
Ireland	13	13	34	42	39	29	33	26	19	14	13	13	16	20
Israel	34	30	27	24	31	31	38	37	38	36	25	29	28	36
Italy	29	27	32	36	40	36	40	34	36	41	40	33	30	29
Jamaica	23	21	18	16	19	20	28	28	31	31	33	35	37	37
Japan	16	17	21	37	48	46	48	39	46	51	48	46	41	41
Jordan	92	88	104	109	113	115	126	122	125	97	93	84	71	72
Kazakhstan	..	..	..	..	100	98	110	104	102	104	100	122	45	54
Kenya	72	78	92	83	86	71	89	87	116	114	115	113	102	95
Korea, Republic of	32	34	40	41	42	37	37	32	34	33	34	44	44	47
Kuwait	15	19	13	5	41	117	127	121	128	128	128	80	121	128
Kyrgyzstan	..	..	..	..	..	..	6	..	27	37	45	55	55	56
Latvia	..	..	47	108	115	116	128	123	55	54	53	67	73	63
Lebanon	90	95	103	44	58	60	113	72	86	91	59	51	46	48
Libyan Arab Jamahiriya	35	35	53	111	114	114	68	47	44	42	47	53	56	52
Lithuania	..	..	..	..	..	86	105	66	75	77	89	87	83	71
Madagascar	91	70	77	91	79	80	96	114	117	122	101	101	108	111
Malawi	..	..	..	..	..	..	73	76	73	74	65	64	66	65
Malaysia	28	31	42	28	13	8	14	11	17	22	24	30	29	32
Mali	84	92	80	87	84	99	86	69	53	35	37	43	51	49
Malta	..	..	..	74	70	65	70	59	56	46	43	41	52	53
Mexico	56	54	55	65	60	75	76	71	65	57	61	54	58	55

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Annex table A.I.8. Outward FDI Performance Index rankings, 1988-2003[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	2000-2002	2001-2003
Moldova, Republic of	..	..	..	..	6	28	52	102	119	121	122	102	106	105
Morocco	43	50	58	62	67	74	80	81	87	92	81	70	68	75
Mozambique	88	76	91	89	109	..	97	107	109	113	113	110	113	112
Namibia	55	44	60	57	93	105	124	120	126	124	110	124	124	124
Netherlands	3	2	3	3	3	3	11	4	5	4	3	3	3	4
New Zealand	11	7	17	21	15	13	122	124	127	34	22	47	57	125
Nicaragua	..	..	..	84	92	92	125	119	107	71	66	69	69	68
Niger	46	56	29	27	30	52	49	41	45	56	70	123	120	120
Nigeria	7	4	7	11	24	25	55	63	67	65	63	62	65	66
Norway	19	16	23	32	36	15	18	10	14	17	18	20	21	33
Oman	73	72	88	101	87	78	88	90	113	117	121	112	118	118
Pakistan	53	69	99	106	106	100	106	113	115	123	104	99	92	88
Panama	1	1	1	2	4	7	9	1	2	2	10	15	9	2
Papua New Guinea	37	32	10	8	9	24	34	35	41	48	57	31	35	31
Paraguay	64	74	94	107	55	56	67	77	83	87	84	83	87	86
Peru	47	51	64	100	107	102	115	83	82	73	79	74	88	78
Philippines	62	59	56	43	44	43	63	64	66	81	102	125	122	96
Poland	65	71	79	85	83	83	91	91	79	84	83	120	98	76
Portugal	40	36	33	39	46	45	42	29	22	18	15	12	13	15
Qatar	..	..	..	..	..	44	50	56	63	69	64	56	53	50
Romania	57	63	72	81	90	93	109	112	118	118	120	121	119	89
Russian Federation	..	..	..	75	72	66	69	46	49	44	39	38	38	38
Rwanda	69	83	97	103	108	108	100	79	89	94	97	92	91	87
Saudi Arabia	26	93	105	86	63	69	71	67	74	86	87	97	99	107
Senegal	50	96	54	52	43	64	72	111	77	78	78	118	61	60
Sierra Leone	86	68	68	66	80	90	111	106	112	119	118	115	117	117
Singapore	9	9	5	7	2	2	10	3	4	7	12	6	5	3
Slovakia	..	..	61	63	65	58	65	57	51	127	127	128	78	77
Slovenia	..	..	100	98	111	110	117	80	84	80	68	52	48	42
South Africa	48	49	30	33	33	26	32	24	30	28	38	127	128	127
Spain	30	25	28	35	38	34	36	25	21	13	11	11	12	11
Sri Lanka	68	62	74	69	73	76	85	85	85	83	82	89	100	93
Sweden	2	3	6	14	17	6	15	8	9	9	7	9	8	7
Switzerland	4	6	8	6	5	4	12	5	7	6	5	4	6	9
Taiwan Province of China	6	10	12	17	25	23	29	21	24	25	27	25	24	24
TFYR Macedonia	..	..	..	..	..	..	7	108	111	112	119	104	111	106
Thailand	45	45	50	54	50	48	45	42	57	59	77	72	84	62
Togo	42	40	38	38	45	50	47	44	40	27	30	45	125	123

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Annex table A.I.8. Outward FDI Performance Index rankings, 1988-2003[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	2000-2002	2001-2003
Trinidad and Tobago	77	87	83	88	88	88	99	117	124	23	23	26	43	28
Tunisia	70	66	75	79	78	84	95	93	100	103	103	103	110	109
Turkey	87	81	76	80	81	79	83	70	72	68	56	57	60	64
Uganda	93	97	106	40	16	11	27	31	64	76	125	126	126	122
Ukraine	..	..	..	..	82	85	103	88	99	98	111	96	104	98
United Arab Emirates	67	94	102	77	110	107	81	62	68	70	31	32	31	40
United Kingdom	8	11	11	9	7	5	13	6	8	5	4	7	11	14
United Republic of Tanzania	..	..	95	104	105	104	114	110	114	120	114	108	109	110
United States	27	26	31	25	27	21	31	27	29	24	26	28	33	30
Uruguay	76	82	90	92	97	95	108	96	93	101	105	106	74	70
Venezuela	31	29	39	31	34	35	46	40	39	40	46	50	47	43
Zimbabwe	39	43	52	61	62	57	57	52	58	66	75	79	90	90

Source: UNCTAD.

Note: Calculations were made based on outward flows.

[a] Three-year moving averages.

Annex table A.I.9. Outward FDI Performance Index of the top 20 economies, based on stock , 1988-2003[a]

Rank	Economy	1988-1990	1993-1995	1999-2001	2000-2002	2001-2003
1	Hong Kong, China	1.859	4.717	11.699	11.210	10.750
2	Switzerland	3.671	4.464	4.929	5.132	5.142
3	Singapore	2.590	3.656	3.864	4.019	4.479
4	Belgium and Luxembourg	2.378	2.854	3.604	3.648	4.029
5	Netherlands	4.469	4.149	4.283	4.151	3.847
6	United Kingdom	2.936	2.731	3.046	2.993	2.883
7	Panama	8.919	6.272	2.340	2.407	2.845
8	Sweden	2.509	2.867	2.670	2.756	2.836
9	Finland	0.892	1.204	2.012	2.226	2.107
10	Denmark	0.620	1.330	1.988	2.141	1.948
11	France	0.959	1.353	1.699	1.868	1.823
12	Canada	1.824	1.918	1.767	1.727	1.697
13	Spain	0.369	0.589	1.405	1.559	1.404
14	Ireland	3.376	2.276	1.861	1.669	1.384
15	Malaysia	0.725	1.081	1.341	1.339	1.364
16	Germany	1.086	1.036	1.326	1.433	1.361
17	Bahrain	2.270	1.851	1.306	1.195	1.299
18	Bahamas	2.659	3.652	1.625	1.378	1.298
19	Portugal	0.166	0.287	0.827	1.058	1.172
20	Australia	1.243	1.417	1.321	1.226	1.123

Source: UNCTAD.

Notes: Economies are ranked in descending order of their performance index in 2001-2003. Figures were calculated based on outward stock.

[a] Three-year moving averages.

A.I.10. South Africa: outward FDI stock, by geographical destination, 1990-2002

(Millions of rand)

Region/economy	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
World	38 463	44 171	54 329	61 020	67 698	84 991	114 013	113 170	157 385	203 036	244 653	231 416	202 826
Unspecified	6	3	3	3	5	2	8	9	..	3	65	..	30
Developed countries	36 533	42 328	51 446	57 862	63 978	80 858	109 022	106 081	146 446	191 790	230 652	211 752	182 652
Western Europe [a]	35 740	41 582	50 882	56 680	59 149	75 621	103 085	99 170	138 842	176 621	208 937	193 323	152 348
Unspecified Western Europe	35 740	41 582	50 882	56 680	59 149	75 621	103 085	99 170	138 842	176 621	24 626	1 968	1 576
European Union	..	..	..	..	..	..	..	..	..	..	135 594	190 364	150 419
Austria	..	..	..	..	..	..	..	..	..	..	..	17 598	27 039
Belgium												15 716	18 141
France	..	..	..	..	..	..	..	..	..	..	..	577	588
Germany	..	..	..	..	..	..	..	..	..	..	..	7 735	5 866
Ireland	..	..	..	..	..	..	..	..	..	..	..	4 359	341
Luxembourg	..	..	..	..	..	..	..	..	..	..	58 308	61 103	46 809
Netherlands	8 667	6 178	..	..	..	..	..	..	..	..	..	8 667	6 178
United Kingdom	..	..	..	..	..	..	..	..	..	..	77 286	74 609	45 457
Other Western Europe	..	..	..	..	..	..	..	..	..	..	48 717	991	353
Switzerland	..	..	..	..	..	..	..	..	..	..	48 717	991	353
North America	754	708	554	1 129	4 733	5 162	5 338	5 507	6 466	10 937	16 474	14 242	22 927
Canada	..	..	..	..	..	..	..	..	..	..	..	141	64
United States	..	..	..	..	..	..	..	..	..	..	11 215	14 101	22 863
Unspecified America [b]	754	708	554	1 129	4 733	5 162	5 338	5 507	6 466	10 937	5 259	..	..
Other developed countries	39	38	10	53	96	75	599	1 404	1 138	4 232	5 241	4 187	7 377
Australia	..	..	..	..	..	..	..	..	..	..	..	3 853	6 997
Japan	..	..	..	..	..	..	..	..	..	..	..	331	377
Unspecified Pacific [c]	39	38	10	53	96	75	599	1 404	1 138	4 232	5 241	3	3
Developing countries	1 924	1 840	2 880	3 155	3 715	4 131	4 983	7 080	10 939	11 243	13 936	19 664	20 144
Africa	1 853	1 754	2 638	2 832	3 217	3 833	4 482	6 147	9 386	9 971	12 265	14 031	14 234
Botswana	..	..	..	..	..	..	..	..	..	..	..	408	290
Lesotho	..	..	..	..	..	..	..	..	..	..	..	177	168
Mauritius	..	..	..	..	..	..	..	..	..	..	..	6 628	3 729
Mozambique	..	..	..	..	..	..	..	..	..	..	..	4 117	6 896
Namibia	..	..	..	..	..	..	..	..	..	..	..	806	839
Swaziland	..	..	..	..	..	..	..	..	..	..	..	156	272
Zambia	..	..	..	..	..	..	..	..	..	..	..	89	146
Zimbabwe	..	..	..	..	..	..	..	..	..	..	..	587	603
Unspecified Africa	1 853	1 754	2 638	2 832	3 217	3 833	4 482	6 147	9 386	9 971	12 265	1 063	1 291
Latin America and the Caribbean	..	..	..	..	..	..	..	..	..	..	..	2 266	1 843
Bermuda	..	..	..	..	..	..	..	..	..	..	..	30	30
Unspecified Latin America and the Caribbean	..	..	..	..	..	..	..	..	..	..	..	2 236	1 813
Asia	71	86	242	323	498	298	501	933	1 553	1 272	1 671	3 367	4 067
Hong Kong, China	..	..	..	..	..	..	..	..	..	..	..	2 795	3 578
Singapore	..	..	..	..	..	..	..	..	..	..	..	182	191
Unspecified Asia [d]	71	86	242	323	498	298	501	933	1 553	1 272	1 671	390	298

Source: South African Reserve Bank, *Quarterly Bulletin*, various issues.

[a] Includes Central and Eastern Europe.
[b] Includes Latin American and Caribbean economies.
[c] Includes Australia, New Zealand and Pacific economies.
[d] Prior to 2001, data include Japan.

Annex table A.I.11. South Africa: some large investments in Africa by South African companies, 2000-2003

Year	Target (acquired) company	Host country	Source (acquiring) company	Transaction value ($ mil.)	Industry
2002	Grand Inga Falls hydroelectric project	Democratic Republic of Congo	Eskom Holdings	1 200	Utilities
2001	Pande & Temane-gasfields	Mozambique	Sasol Oil	581	Natural resources
2001	Skorpion zinc project	Namibia	AngloGold	454	Natural resources
1998	MTN Nigeria	Nigeria	MTN	285	Non-cyclical services
2003	Ashanti	Ghana	AngloGold	274	Natural resources
2002	Vodacom Mozambique	Mozambique	Vodacom	260	Non-cyclical services
2001	Mozal II	Mozambique	Industrial Development Corporation	160	Basic industries
2000	Vodacom Tanzania	United Republic of Tanzania	Vodacom	142	Non-cyclical services
2002	Kamoto copper mine	Democratic Republic of Congo	Kumba Resources	120	Basic industries
2001	Vodacom Congo	Democratic Republic of Congo	Vodacom	94	Non-cyclical services
2000	Ashanti Goldfields Geita project	United Republic of Tanzania	AngloGold	83	Natural resources
2002	Caminhos de Ferro de Mocambique	Mozambique	Ressano Garcia Railway Company	78	Cyclical services
2003	Zimbabwe Platinum Mines	Zimbabwe	Impala Platinum	85	Natural resources
2003	Hartley Platinum Mines	Zimbabwe	Impala Platinum	80	Natural resources
2003	Business and tourism complex	Angola	Sun International SA	60	Cyclical services
2003	Kolwezi Tailings project	Democratic Republic of Congo	Industrial Development Corporation	33	Basic industries
2003	Commercial Bank of Namibia	Namibia	Nedbank	33	Financial services
2003	Banco Standard Totta de Mozambique	Mozambique	Stanbic Africa	22	Financial services
2003	Investec Bank (Botswana)	Botswana	Stanbic Africa	21	Financial services
2003	Zimbabwe Platinum Mines	Zimbabwe	Impala Platinum	19	Natural resources
2003	Escravos gas to liquid plant	Nigeria	Sasol	..	Natural resources

Source: UNCTAD, based on information from the BusinessMap Foundation.

Annex table A.I.12. China's approved FDI outflows, top 30 destinations, 1979-2002

(Millions of dollars)

Rank[a]	Economy	1999		2000		2001		2002		1979-2002	
		Number of projects[b]	Value	Number of projects[b]	Value	Number of projects[b]	Value	Number of projects[b]	Value	Cumulative number of projects[b]	Cumulative investment value
	Total	220	590.6	243	551.0	232	707.5	350	982.7	6 960	9 340.0
1	Hong Kong, China	24	24.5	15	17.5	26	200.7	40	355.6	2 025	4 074.3
2	United States	21	81.1	15	23.1	19	53.7	41	151.5	703	834.5
3	Canada	1	0.1	8	31.7	4	3.5	4	1.2	144	436.0
4	Australia	3	1.7	13	10.2	6	10.1	15	48.6	215	431.0
5	Thailand	3	2.0	6	3.3	9	121.3	5	3.9	234	214.7
6	Russian Federation	12	3.8	14	13.9	12	12.4	27	35.5	482	206.6
7	Peru	1	75.7	1	0.001	2	3.1	..	..	20	201.2
8	Macao, China	3	0.2	4	0.5	6	2.4	2	2.0	229	183.7
9	Mexico	2	97.0	1	19.8	1	0.2	1	2.0	45	167.4
10	Zambia	4	6.7	3	11.6	3	4.3	1	0.3	18	134.4
11	Cambodia	13	32.8	7	17.2	7	34.9	3	5.1	61	125.0
12	Brazil	1	0.5	3	21.1	4	31.8	8	9.3	67	119.7
13	South Africa	14	12.8	17	31.5	2	12.4	3	1.7	98	119.3
14	Republic of Korea	1	0.1	5	4.2	2	0.8	7	83.4	62	107.8
15	Viet Nam	2	6.6	17	17.6	12	26.8	20	27.2	73	85.0
16	Japan	1	0.5	2	0.3	6	1.7	11	18.2	236	82.1
17	Singapore	6	2.9	6	1.0	3	0.4	6	2.1	172	71.7
18	Myanmar	1	6.6	7	32.9	3	1.8	5	15.8	38	66.1
19	Indonesia	0	18.9	1	8.0	2	0.6	6	3.7	59	65.0
20	Mali	1	1.2	1	28.7	..	..	..	..	5	58.1
21	Mongolia	15	40.3	12	5.4	7	4.5	7	3.4	69	56.6
22	Germany	1	0.3	1	1.6	3	3.5	6	2.8	150	51.5
23	New Zealand	..	..	..	..	2	0.9	2	0.9	26	48.7
24	Egypt	5	3.8	3	9.7	2	1.4	3	16.3	27	48.5
25	Oman	..	..	..	..	..	..	1	17.5	70	47.2
26	Papua New Guinea	..	..	1	0.9	..	..	..	..	20	44.7
27	Nigeria	2	1.6	1	2.6	8	6.4	9	11.4	49	44.3
28	Tanzania, United Rep. of	3	16.3	1	1.0	..	..	2	0.4	19	41.3
29	Kazakhstan	7	17.2	5	7.7	1	0.3	3	26.9	51	39.6
30	Lao PDR	1	2.0	2	24.4	1	1.2	2	61	18	36.6

Source: China, Ministry of Commerce, various years.

[a] Ranked by cumulative investment value.

[b] The number of projects refers to approved investment projects involving Chinese enterprises.

Annex table A.I.13. Geographical distribution of approved Indian outward FDI, fiscal years 1996-2003

(Millions of dollars; percentage)

Economy	Fiscal year 1996-2000	2000/01	2001/02	2002/03	2003/04[a]	Total FY 1996-2003	Share
United States	378.5	734.2	428.1	185.3	138.7	1 864.8	18.8
Russian Federation	3.3	3.5	1 741.9	0.1	..	1 748.8	17.6
Mauritius	221.6	242.3	154.5	133.3	160.9	912.6	9.2
Sudan	..	..	..	750.0	162.0	912.0	9.2
British Virgin Islands	752.1	18.0	6.4	3.3	2.2	782.0	7.9
United Kingdom	269.8	55.3	85.5	34.5	98.1	543.2	5.5
Hong Kong, China	391.4	37.6	16.1	14.8	13.1	473.1	4.8
Bermuda	156.9	0.7	75.0	28.9	14.7	276.3	2.8
Viet Nam	0.4	0.1	228.2	0.1	0.0	228.9	2.3
Singapore	88.5	39.4	25.0	46.8	13.5	213.2	2.1
Oman	139.8	64.9	0.2	0.4	1.5	206.7	2.1
Netherlands	49.1	65.7	43.1	15.9	29.9	203.7	2.1
United Arab Emirates	87.2	11.3	11.8	12.6	29.5	152.3	1.5
Australia	2.6	2.5	1.9	95.0	41.3	143.3	1.4
Iran, Islamic Republic of	59.1	..	..	43.6	0.1	102.9	1.0
China	17.1	7.9	13.3	29.6	19.8	87.7	0.9
Kazakhstan	3.2	..	1.3	0.1	75.0	79.5	0.8
Nepal	45.5	10.9	10.6	5.7	5.1	77.8	0.8
Austria	26.3	0.5	50.9	..	..	77.6	0.8
Sri Lanka	51.8	8.4	1.4	6.6	6.0	74.2	0.7
Malta	..	..	21.7	24.4	21.0	67.0	0.7
Ireland	31.8	0.2	11.4	0.0	43.5	0.4	
Italy	11.7	30.5	0.0	0.1	0.0	42.3	0.4
Malaysia	33.0	4.8	1.4	0.8	1.4	41.5	0.4
Thailand	22.1	0.4	2.6	7.7	7.3	40.2	0.4
Indonesia	7.8	..	12.4	0.1	19.3	39.6	0.4
Morocco	32.5	..	..	..	..	32.5	0.3
Libyan Arab Jamahiriya	..	..	30.0	..	..	30.0	0.3
Others	255.7	42.9	52.4	32.5	45.7	428.5	4.3
All countries	3 138.9	1 382.2	3 027.0	1 472.2	906.1	9 925.6	100.0
Memorandum:							
Developed countries	809.0	913.3	651.5	367.6	346.2	3 086.9	31.1
Developing countries	2 329.9	468.8	2 375.5	1 104.6	560.0	6 838.7	68.9

Source: UNCTAD, based on data from India, Ministry of Finance.

[a] Covers April-December 2003.

Note: Data consists of equity, loans and guarantees.

Annex table A.I.14. Industry distribution of approved Indian outward FDI, fiscal years 1999-2003
(Millions of dollars and per cent)

	Industry										
	Manufacturing		Financial services		Non-financial services		Trading		Others		Total
Fiscal year[a]	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	
1999/00	535.8	30.9	4.3	0.2	1 130.7	65.3	58.3	3.4	2.3	0.1	1 731.5
2000/01	370.7	26.8	16.6	1.2	876.5	63.4	89.2	6.5	29.1	2.1	1 382.2
2001/02	2 210.9	73.0	48.6	1.6	565.5	18.7	139.2	4.6	62.3	2.1	3 027.0
2002/03	1 056.7	71.8	1.8	0.1	280.2	19.0	69.9	4.7	63.7	4.3	1 472.2
2003/04[b]	504.5	55.7	35.1	3.9	223.3	24.6	37.0	4.1	106.3	11.7	906.3
Total											
1999/03	4 678.7	54.9	106.4	1.2	3 076.2	36.1	393.5	4.6	263.7	3.1	8 519.2

Source: UNCTAD, based on data from India, Ministry of Finance.

[a] Fiscal year covers April of current year to March of following year.
[b] Covers April-December 2003.

Note: Data include equity, loans and guarantees.

Annex table A.I.15. Top 15 IT software and service exporters from India, fiscal year 2002-2003
(Millions of dollars)

Rank	Company	Export value	Selected locations of affiliates
1	Tata Consultancy Services	963.0	Belgium, China, Germany, Japan, Netherland, Singapore
2	Infosys Technologies Ltd	750.7	Australia, Canada, China, Singapore, United States
3	Wipro Technologies	590.5	Japan, Sweden, United Kingdom, United States
4	Satyam Computer Services Ltd	424.4	Germany, United Kingdom
5	HCL Technologies Ltd	324.3	Bermuda, Ireland, Netherlands, United States
6	Patni Computer Systems Ltd	193.6	United Kingdom, United States
7	Mahindra British Telecom Ltd	134.5	United States
8	iFlex Solutions	125.7	United States
9	HCL Perot Systems Ltd	95.1	..
10	NIIT Ltd	90.3	Germany, Switzerland, United States
11	Polaris Software	77.8	Germany, United States
12	Birlasoft Ltd	73.4	United Kingdom, United States
13	Mphasis BFL Ltd	71.1	China
14	Pentafoft Technologies Ltd	62.8	Indonesia, United States
15	Hexaware Technologies Ltd	54.6	Germany, Singapore, United Kingdom, United States

Source: UNCTAD, based on National Association of Software and Service Companies, India and various media sources.

Note: Companies such as Cognizant Technology Solutions, Syntel and others that are registered in the United States but offer India-based services delivery, are not included in the ranking.

Annex table A.I.16. Outward FDI stock of Brazil, by sector and industry, 2002
(Millions of dollars)

Sector/industry	Value
Total	**43 396.7**
Primary	**119.3**
Agriculture, hunting, forestry and fishing	37.3
Mining, quarrying and petroleum	82.0
Manufacturing	**1 732.1**
Food, beverages and tobacco	145.8
Textiles, clothing and leather	28.0
Wood and wood products	33.2
Publishing, printing and reproduction of record	-
Coke, petroleum products and nuclear fuel	227.9
Chemicals and chemical products	15.9
Rubber and plastic products	548.0
Non-metallic mineral products	269.8
Metal and metal products	150.7
Machinery and equipment	179.6
Electrical and electronic equipment	22.2
Precision instruments	-
Motor vehicles and other transport equipment	111.0
Other manufacturing	-
Recycling	-
Services	**41 545.3**
Electricity, gas and water	129.3
Construction	1 504.2
Trade	1 845.5
Hotels and restaurants	7.5
Transport, storage and communications	254.3
Finance	23 596.7
Business activities	14 129.3
Public administration and defence	-
Education	1.0
Health and social services	0.1
Community, social and personal service activiti	77.4
Other services	-

Source: Data from Central Bank of Brazil.

Annex table A.I.17. Principal location targets of Brazilian firms planning to invest abroad, 2001
(Percentage)

Economy	Share
Europe	21.6
United States	20.4
Mexico	10.0
MERCOSUR	9.3
Chile	6.2
Venezuela	3.7
Equador	2.5
China	2.0
Bolivia	2.0
Colombia	2.0
India	2.0
Panama	2.0

Source: Brazil, Development Bank (BNDES), 2002.

Annex table A.I.18. Estimated world inward FDI stock, by sector and industry, 1990, 2002

(Millions of dollars)

Sector/industry	1990			2002			
	Developed countries	Developing economies	World	Developed countries	Developing economies	Central and Eastern Europe	World
Primary	159 432	23 068	182 500	297 165	144 800	6 936	448 901
Agriculture, hunting, forestry and fishing	3 647	3 951	7 598	7 578	18 979	907	27 464
Mining, quarrying and petroleum	155 786	16 774	172 560	289 587	125 821	6 029	421 437
Unspecified primary	-	2 343	2 343	-	-	-	-
Manufacturing	650 974	155 941	806 915	1 601 944	750 221	90 398	2 442 563
Food, beverages and tobacco	73 142	10 108	83 249	143 825	29 235	18 978	192 038
Textiles, clothing and leather	24 371	5 426	29 797	41 286	9 087	1 965	52 338
Wood and wood products	20 943	4 811	25 755	53 137	16 729	8 187	78 054
Publishing, printing and reproduction of recorded media	15 829	499	16 328	70 721	273	510	71 504
Coke, petroleum products and nuclear fuel	56 307	3 450	59 757	33 177	10 116	901	44 194
Chemicals and chemical products	126 362	49 146	175 508	338 468	70 874	8 848	418 189
Rubber and plastic products	13 384	2 659	16 044	26 207	4 632	3 185	34 024
Non-metallic mineral products	17 540	3 038	20 578	49 044	6 544	8 556	64 144
Metal and metal products	51 947	16 537	68 483	119 653	26 426	4 304	150 382
Machinery and equipment	48 984	9 803	58 788	98 378	24 492	4 441	127 311
Electrical and electronic equipment	74 747	18 981	93 729	216 554	62 093	9 290	287 937
Precision instruments	12 391	524	12 915	25 151	2 441	287	27 879
Motor vehicles and other transport equipment	49 242	8 907	58 149	214 499	21 315	15 927	251 741
Other manufacturing	19 377	2 852	22 229	52 896	10 615	614	64 125
Unspecified secondary	46 408	19 199	65 606	118 947	455 350	4 405	578 703
Services	784 758	163 348	948 106	3 130 002	1 098 544	134 824	4 363 371
Electricity, gas and water	7 021	3 051	10 072	89 921	45 463	8 467	143 851
Construction	17 452	5 157	22 609	35 577	33 632	6 227	75 436
Trade	209 168	24 159	233 327	617 058	148 293	28 373	793 724
Hotels and restaurants	22 188	3 193	25 382	53 031	19 825	2 478	75 334
Transport, storage and communications	16 677	12 313	28 990	338 152	105 716	32 214	476 082
Finance	289 508	92 945	382 453	963 542	246 299	39 133	1 248 975
Business activities	117 459	8 298	125 756	703 053	434 109[a]	13 514	1 150 676[a]
Public administration and defence	-	-	-	6 524	88	5	6 617
Education	99	-	99	370	16	15	400
Health and social services	1 044	-	1 044	8 364	4 067	123	12 553
Community, social and personal service activities	14 026	3	14 029	62 926	5 427	1 130	69 483
Other services	75 681	13 074	88 755	63 652	38 235	3 144	105 032
Unspecified tertiary	14 435	1 156	15 591	187 832	17 375	-	205 207
Private buying and selling of property	-	-	-	1 218	-	665	1 884
Unspecified	9 187	3 595	12 782	37 365	69 174	8 296	114 835

Source: UNCTAD.

[a] A considerable share of investment in this industry is in Hong Kong (China), accounting for 40% of developing economies and 15% of the world total. Hong Kong (China) data include investment holding companies.

Notes: Data should be interpreted with caution. The world total was extrapolated on the basis of data covering 48 countries in 1990 and 61 countries in 2002, or latest year available. They account for over four-fifths of world inward FDI stock in 1990 and 2002. Only countries for which data for the three main sectors were available, were included. The distribution share of each industry of these countries was applied to estimate the world total in each sector and industry. As a result, the sum of the sectors for the individual economy groups is different from the totals shown in annex table B.3. Approval data were used for Mongolia in 1992 and Sri Lanka in 1990. However in the case of Cambodia, China, Indonesia, Lao People's Democratic Republic, Mongolia (2002), Myanmar, Nepal, Taiwan Province of China and Viet Nam, the actual data was estimated by applying the implementation ratio of realized FDI to approved FDI to the latter (33% in 1994 for Cambodia, 54% in 2002 for China, 30% in 1997 for Indonesia, 10% in 1990 and 7% in 1999 for Lao People's Democratic Republic, 44% in 2002 for Mongolia, 39% in 1990 and 45% in 2002 for Myanmar, 41% in 1990 and 47% in 1999 for Nepal, 74% in 1990 and 63% in 2002 for Taiwan Province of China and 15% in 1990 for Viet Nam). The world total in 1990 includes the countries of Central and Eastern Europe, although data by sector and industry are not available for that region.

Annex table A.I.19. Estimated world outward FDI stock, by sector and industry, 1990, 2002

(Millions of dollars)

Sector/industry	1990			2002			
	Developed countries	Developing economies	World	Developed countries	Developing economies	Central and Eastern Europe	World
Primary	156 913	862	157 775	259 782	3 450	79	263 311
Agriculture, hunting, forestry and fishing	5 096	283	5 379	4 878	627	13	5 518
Mining, quarrying and petroleum	151 817	579	152 396	254 904	2 823	66	257 793
Manufacturing	770 491	6 075	776 566	1 922 143	83 311	1 470	2 006 925
Food, beverages and tobacco	73 666	418	74 084	223 585	1 467	176	225 228
Textiles, clothing and leather	19 009	186	19 195	96 976	1 541	46	98 563
Wood and wood products	20 926	80	21 006	69 459	915	39	70 413
Publishing, printing and reproduction of recorded media	2 200	-	2 200	11 078	-	8	11 086
Coke, petroleum products and nuclear fuel	39 215	-	39 215	24 447	302	11	24 760
Chemicals and chemical products	146 262	758	147 020	416 750	2 563	423	419 736
Rubber and plastic products	14 155	100	14 255	21 859	1 139	6	23 004
Non-metallic mineral products	12 826	182	13 008	16 000	712	57	16 769
Metal and metal products	65 106	84	65 190	206 351	1 606	93	208 050
Machinery and equipment	40 723	22	40 744	82 342	324	114	82 780
Electrical and electronic equipment	94 933	1 012	95 945	187 608	8 735	32	196 375
Precision instruments	13 164	-	13 164	21 627	218	14	21 859
Motor vehicles and other transport equipment	58 620	10	58 630	316 623	909	174	317 706
Other manufacturing	34 828	10	34 838	25 474	261	42	25 778
Unspecified secondary	134 859	3 213	138 072	201 966	62 619	234	264 818
Services	809 037	11 286	820 323	4 267 506	491 076	4 089	4 762 672
Electricity, gas and water	9 396	-	9 396	92 085	170	97	92 351
Construction	17 594	177	17 770	30 429	7 735	87	38 250
Trade	135 637	1 826	137 463	420 738	59 370	688	480 796
Hotels and restaurants	6 902	-	6 902	77 683	8 429	-	86 112
Transport, storage and communications	38 587	498	39 085	465 500	33 573	755	499 829
Finance	387 646	6 988	394 633	1 496 998	106 701	1 587	1 605 286
Business activities	52 029	1 275	53 304	1 434 435	264 680	791	1 699 906
Public administration and defence	-	-	-	3 791	-	-	3 791
Education	419	-	419	6 063	1	-	6 065
Health and social services	834	-	834	574	-	1	575
Community, social and personal service activities	3 019	-	3 019	14 653	122	6	14 781
Other services	108 252	523	108 775	89 558	10 295	79	99 933
Unspecified tertiary	48 722	-	48 722	134 999	-	-	134 999
Private buying and selling of property	-	-	-	2 405	-	-	2 405
Unspecified	3 314	238	3 552	123 153	51 049	66	174 269

Source: UNCTAD.

Notes: Data should be interpreted with caution. The world total was extrapolated on the basis of data covering 23 countries in 1990 and 35 countries in 2002, or latest year available. They account for around four-fifths of world outward FDI stock in 1990 and in 2002. The distribution share of each industry of these countries was applied to estimate the world total in each sector and industry. As a result, the sum of the sectors for the individual economy groups is different from the totals shown in annex table B.4. Approval data were used for Taiwan Province of China. For 1990, the world total includes the countries of Central and Eastern Europe although data by sector and industry were not available for that region. Moreover, as major home developing economies were not covered due to lack of data, the respective shares for developing economies were underestimated in that year.

Annex table A.I.20. Inward FDI in services,[a] 1990-2002

(Millions of dollars)

Economy	Flows					Stock				
	Average 1990-1994	Average 1995-1999	Average 2000-2002	2001	2002	1990	1995	2000	2001	2002
Developed countries										
Australia	1 560	3 627	3 154 [b]	- 3 115	..	..	49 067	55 982	47 816	..
Austria	..	2 611	4 548	4 869	310	4 162	11 423	21 852	25 359	..
Belgium	..	4 267	..	..	..	..	..	..	..	..
Canada	1 827	5 306	2 744	1 606	3 038	37 152	41 833	62 692	69 457	69 808
Denmark	956	5 078	14 584	9 552	5 054	..	..	58 635	58 696	..
Finland	303	2 519	6 086	3 956	7 188	..	3 294	12 997	13 616	..
France	8 244	20 512	35 398	42 338	36 749	48 448	129 098	198 884	231 761	..
Germany	5 016	20 340	91 495	27 792	42 433	51 654	92 044	183 791	176 093	..
Iceland	2	36	81	158	59	44	46	171	327	371
Ireland	11	3 483	9 820	4 650	11 235	..	..	..	..	..
Israel[c]	43	..	..	..	..	..	..	..	..	..
Italy	2 193	3 128	7 668 [b]	8 279	..	35 745	37 107	62 565	59 473	..
Japan[c]	2 005	6 073	18 442 [b]	15 222	..	..	..	..	..	..
Luxembourg	..	..	..	..	..	..	15 926	18 643	..	..
Netherlands	4 167	13 527	37 604 [b]	32 461	..	35 188	61 866	158 693	181 414	..
Norway	61	1 661	2 738	1 364	494	4 181	7 454	14 522	15 591	19 223
Portugal	569	1 463	3 101	5 045	1 803	..	11 230	13 392	..	..
Spain	4 195	5 446	23 014 [b]	12 656	..	..	..	..	..	..
Sweden	1 186	4 850	6 721	3 888	8 403	..	10 063	28 107	27 842	..
Switzerland	1 250	4 524	8 346	9 878	5 604	..	48 889	71 456	73 653	107 123
United Kingdom	8 549	32 410	51 477	30 176	26 853	83 766	93 164	295 480	309 135	361 591
United States	23 867	73 901	108 175	100 085	25 532	196 113	281 007	734 134	822 337	826 447
Developing economies										
Argentina	1 618	3 272	1 658	1 260	- 1 036	..	11 451	22 989	24 524	8 095
Armenia	..	127	88	65	94	..	..	360	425	519
Bangladesh	..	81	165	54	189	..	19	674	728	..
Bolivia	21	377	355	302	434	124	..	..	..	..
Brazil	..	14 786	15 757	12 547	10 585	9 322	12 864	65 888	..	..
Brunei Darussalam	..	3	199	6	586	..	..	..	..	..
Cambodia	425 [c]	508 [c]	95 [c]	65 [c]	86 [c]	..	..	627	659	648
Chile	329	3 330	2 221	3 063	1 176	..	..	..	24 379	..
China	..	15 760	12 805	13 210	13 014	..	..	..	242 334 [c]	259 689 [c]
Colombia	707	1 837	1 299	1 224	915	..	..	6 435	8 417	8 925
Costa Rica	55	131	163	215	163	..	..	..	..	..
Cyprus	8	420	726 [b]	572	..	..	..	..	..	..
Dominican Republic	..	570	901	976	899	..	..	..	..	..
Ecuador	14	112	101	132	141	..	..	..	..	..
Egypt	..	..	..	..	..	..	6 479	..	..	..
El Salvador	..	562	145	159	143	..	..	..	1 628	1 771
Ethiopia	7	41	10 [d]	..	..	..	..	..	..	..
Fiji	..	13	7	5	0.2	..	..	..	..	..
Guyana	24	20	..	..	..	..	..	..	..	..
Honduras	22	55	109	123	121	..	..	..	..	..
Hong Kong, China	..	16 540	30 647	24 101	7 757	..	65 093	418 998	387 631	312 580
India	52	725	..	..	..	..	..	..	..	..
Indonesia	..	- 726	- 699	- 1 098	- 61	..	6 415	..	..	..
Iran, Islamic Rep. of[c]	185	173	..	..	..	..	..	..	..	..
Jamaica	..	128	..	..	..	..	..	..	..	..
Jordan	6	..	..	..	..	..	..	..	..	..
Kazakhstan	119	328	652	671	897	..	96	..	2 888	3 759
Kenya[c]	28	8	..	..	..	..	..	..	..	..
Kyrgyzstan	..	30	- 3	- 6	- 1	..	..	..	..	..
Lao People's Dem. Rep.	..	25	10	6	16	..	..	..	..	..
Macao, China	..	..	123 [e]	123	..	..	..	..	2 497	..
Malaysia	..	115	12 [b]	13	..	1 997	4 893	..	..	..
Mauritius	16	22	103	21	12	..	..	..	..	..

/...

Annex table A.I.20. Inward FDI in services,[a] 1990-2002 (concluded)

(Millions of dollars)

Economy	Flows					Stock				
	Average 1990-1994	Average 1995-1999	Average 2000-2002	2001	2002	1990	1995	2000	2001	2002
Mexico	4 344	3 565	10 785	20 498	5 508	..	..	..	..	..
Mongolia[c]	4	18	56	38	102	1	39	141	179	281
Morocco	..	487	1 103	2 661	271	..	..	..	..	..
Myanmar	..	26	50	48	40	168 [c]	1 032 [c]	2 599 [c]	2 599 [c]	2 599 [c]
Namibia	..	..	..	..	..	361	..	..	..	..
Nepal[c]	14	19	..	..	..	12	60	..	..	..
Nicaragua	21	126	207 [d]	..	..	..	..	..	..	..
Nigeria	..	437	..	..	..	297	..	..	..	..
Oman	11	50	..	..	..	..	..	..	..	..
Pakistan	271	304	227	99	411	1 277	3 989	..	..	..
Papua New Guinea	366 [c]	234 [c]	..	..	..	55	52	..	..	..
Paraguay	19	131	53 [b]	34	..	..	400	863	715	..
Peru	649	647	806	529	534	369	3 233	7 528	8 057	8 591
Philippines[f]	110	710	607	529	315	768	1 701	5 791	6 309	6 624
Republic of Korea	289	1 708	2 232	1 568	1 903	1 961	3 847	14 879	16 447	18 350
Singapore	..	9 067	5 716	6 004	4 426	17 824 [g]	40 515 [g]	71 393 [g]	..	..
Solomon Islands[c]	13	42	..	..	..	..	..	..	..	..
Sri Lanka	..	306 [c]	81 [c]	40 [c]	85 [c]	..	901 [c]	1 017	959	2 643 [c]
Taiwan Province of China[c]	662	1 565	3 176	3 119	1 828	3 607	7 001	18 499	21 619	23 446
Thailand	1 220	3 004	830	983	154	3 923	10 235	18 725	19 308	19 941
Trinidad and Tobago	3	16	..	..	..	..	..	..	..	..
Tunisia	10	31	38	70	14	..	..	..	..	..
Turkey	..	..	1 601 [b]	2 439	..	..	..	..	8 870	..
United Rep. of Tanzania	..	68	..	..	..	..	..	..	..	..
Vanuatu	..	8	9	8	6	..	..	..	..	..
Venezuela	452	500	366	118	377	630	2 252	4 854	4 972	5 349
Viet Nam	..	561	291	384	111	369 [c]	8 456 [c]	..	..	..
Zambia	60	42	..	..	..	..	..	..	..	..
Zimbabwe[c]	65	80	..	..	..	..	..	..	..	..
Central and Eastern Europe										
Bulgaria	..	326	672	522	766	..	..	3 062	..	..
Croatia	..	..	..	..	..	..	1 019	1 598	1 356	2 258
Czech Republic	..	10	266 [b]	402	..	..	..	..	..	..
Estonia	..	289	748 [d]	..	..	..	..	..	..	..
Hungary	326	1 962	4 743	3 923	7 456	..	..	12 952	16 402	24 375
Latvia	91	216	334	453	230	..	..	2 015	2 470	3 391
Lithuania	..	1 444	1 033 [d]	..	..	..	..	11 383	12 026	15 811
Poland	..	..	..	..	..	..	..	1 675	1 810	..
Russian Federation	..	425	322 [d]	..	..	..	..	1 627	..	..
Slovakia	..	2 699	7 220 [d]	..	..	..	..	20 720	31 143	..
Slovenia	..	1 361	2 045	1 996	1 725	..	..	7 457	8 501	9 452
TFYR of Macedonia	..	..	..	..	..	..	..	1 710	..	..

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

[a] Includes industries classified under ISIC codes 40,45,50,51,52,55,60,61,62,63,64,65,66,67,70,71,72,73,74,75,80,85,91,92 and 93.
[b] 2000-2001 average.
[c] Approval data.
[d] 2000 only.
[e] 2001 only.
[f] Data refer only to equity.
[g] Data for 1990-1996 refer only to equity, while data for 1997-2000 refer to total direct investment.

Annex table A.I.21. Outward FDI in services,[a] 1990-2002

(Millions of dollars)

Economy	Flows					Stock				
	Average 1990-1994	Average 1995-1999	Average 2000-2002	2001	2002	1990	1995	2000	2001	2002
Developed countries										
Australia	1 363	1 302	3 996 [b]	5 112	..	..	18 780	29 076	29 696	..
Austria	..	1 556	4 127	2 279	4 738	1 645	8 184	18 686	20 959	..
Belgium	..	2 483	..	..	..	..	..	..	..	..
Canada	1 781	7 558	15 120	20 420	17 341	44 048	63 682	126 306	144 920	166 493
Denmark	694	4 694	12 332	11 030	4 205	..	..	50 805	54 700	..
Finland	398	2 462	3 872	885	876	..	1 457	13 844	14 102	..
France	10 360	36 976	90 344	74 090	44 382	52 032	262 999	325 987	371 581	..
Germany	9 438	32 562	31 841	40 373	18 538	67 541	151 186	333 855	422 931	..
Iceland	7	34	228	221	147	14	64	407	505	671
Ireland	..	..	980 [c]	235	1 725	..	..	..	..	..
Israel	95	..	..	..	..	..	..	..	..	..
Italy	4 319	4 572	6 685 [b]	7 904	..	37 062	62 914	95 279	91 416	..
Japan[d]	35 884	27 554	27 049 [b]	17 336	..	..	..	..	..	..
Luxembourg	..	..	..	..	..	..	1 365	..	..	..
Netherlands	7 124	21 802	40 206 [b]	32 395	..	48 090	84 985	173 295	185 687	..
Norway	533	1 696	1 165	- 3 669	1 700	3 402	7 992	14 421	..	..
Portugal	192	1 195	3 636	7 411	3 138	..	..	10 894	..	..
Spain	2 634	10 146	34 983 [b]	19 988	..	..	..	..	..	..
Sweden	2 628	3 548	11 371	1 793	10 415	..	23 129	46 356	46 871	..
Switzerland	2 906	11 979	13 958	11 488	- 238	27 073	71 130	156 748	176 601	197 391
United Kingdom	10 285	46 844	88 580	25 492	36 974	96 053	122 170	573 435	496 109	575 822
United States	30 868	84 194	79 226	60 006	81 426	212 283	392 540	902 952	941 738	1 049 943
Developing economies										
Brazil	..	..	..	..	..	..	..	..	38 742	41 545
Colombia	59	465	158	- 131	80	301	690	3 340	..	..
Cyprus	8	80	163 [b]	196	..	..	..	..	..	..
Hong Kong, China	..	14 382	25 745	12 623	11 194	..	..	333 483	303 838	254 514
Kazakhstan	..	3	9	25	- 1	..	0.3	..	38	36
Macao, China	..	..	17 [e]	17	..	..	..	..	106	..
Mauritius	25	3	6 [b]	2	..	..	..	..	..	..
Nigeria	..	3	..	..	..	..	..	..	..	..
Republic of Korea	419	1 379	1 339	653	815	633	3 337	11 442	12 095	12 910
Singapore	..	..	..	..	..	6 275	25 881	38 396	..	..
Taiwan Province of China[d]	745	1 736	2 989	2 377	2 497	1 101	4 971	16 968	19 345	21 842
Thailand	131	363	- 6	64	17	246	1 474	1 615	1 645	1 702
Turkey	..	..	419 [b]	323	..	..	..	..	..	..
Central and Eastern Europe										
Bulgaria	..	10	4 [f]	..	..	..	..	36	..	..
Croatia	..	..	..	..	..	..	..	150	..	..
Czech Republic	..	58	130	134	235	..	..	637	1 019	1 208
Estonia	1	46	115	166	137	..	..	216	362	591
Hungary	..	84	168 [f]	..	..	..	..	993	1 227	1 525
Poland	..	25	4 [f]	..	..	..	..	878	..	..
Russian Federation	..	..	..	..	..	..	..	381	..	..
Slovakia	..	..	..	..	..	..	..	195	..	..
Slovenia	..	..	..	..	..	..	257	321	424	649
TFYR of Macedonia	..	..	0.5 [b]	1	..	..	..	..	..	..

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

[a] Includes industries classified under ISIC codes 40,45,50,51,52,55,60,61,62,63,64,65,66,67,70,71,72,73,74,75,80,85,91,92 and 93.
[b] 2000-2001 average.
[c] 2001-2002 average.
[d] Approval data.
[e] 2001 only.
[f] 2000 only.

Annex table A.I.22. Share of services in total inward FDI,[a] 1990-2002

(Percentage)

Economy	Flows					Stock				
	Average 1990-1994	Average 1995-1999	Average 2000-2002	2001	2002	1990	1995	2000	2001	2002
Developed countries										
Australia	31.1	52.3	36.2 [b]	- 70.7	..	..	47.1	51.2	44.9	..
Austria	..	77.1	84.0	82.8	20.4	42.1	65.2	71.8	73.9	..
Belgium	..	77.7	..	..	..	..	..	..	..	..
Canada	32.5	34.0	7.1	5.6	14.7	32.9	34.0	30.6	33.2	31.6
Denmark	46.6	78.9	87.1	83.2	84.9	..	..	91.1	89.2	..
Finland	31.9	59.9	89.5	106.0	91.7	..	38.9	53.5	56.6	..
France	69.5	73.0	70.8	76.7	71.4	55.8	67.4	76.6	80.2	..
Germany	191.4	91.2	107.2	129.5	126.5	46.4	55.5	67.7	66.4	..
Iceland	31.3	41.5	52.7	91.6	49.6	30.1	35.9	34.8	48.4	46.3
Ireland	3.4	60.9	50.7	48.2	46.1	..	..	..	..	..
Israel[c]	20.7	..	..	..	..	..	..	..	..	..
Italy	61.6	64.3	57.0 [b]	58.4	..	61.6	58.5	57.0	57.0	..
Japanc[c]	53.3	63.4	78.6 [b]	84.9	..	..	..	..	..	..
Luxembourg	..	..	..	..	..	..	86.1	80.5	..	..
Netherlands	57.8	57.1	67.7 [b]	59.5	..	52.5	55.2	65.6	65.0	..
Norway	5.0	40.0	85.6	67.9	72.8	33.7	39.6	48.0	47.9	45.1
Portugal	45.4	81.3	65.6	85.6	97.8	..	62.7	47.6	..	..
Spain	40.9	66.4	85.5 [b]	69.7	..	..	..	..	..	..
Sweden	32.1	21.7	43.7	33.0	75.8	..	33.0	29.9	30.3	..
Switzerland	76.2	69.4	74.2	111.5	99.2	..	85.7	82.3	83.0	85.6
United Kingdom	50.4	67.5	77.5	57.3	96.7	41.1	46.6	67.4	61.0	63.6
United States	64.1	52.5	66.5	69.5	85.0	49.7	52.5	58.4	60.7	61.3
Developing economies										
Argentina	44.7	30.9	37.2	58.2	- 133.8	..	40.9	33.9	35.6	23.3
Armenia	..	68.4	73.2	74.3	62.8	..	..	72.6	72.8	70.8
Bangladesh	..	28.5	45.7	58.0	68.5	..	5.3	27.7	28.9	..
Bolivia	18.1	51.6	39.4	36.3	41.5	15.4	..	..	..	..
Brazil	..	69.5	64.6	59.6	56.4	25.0	30.9	64.0	..	..
Brunei Darussalam	..	0.4	28.3	1.2	56.6	..	..	..	..	..
Cambodia	84.2 [c]	57.6 [c]	59.2 [c]	44.7 [c]	55.6 [c]	..	..	39.7	38.1	36.4
Chile	21.8	59.1	60.4	64.7	35.4	..	..	..	51.9	..
China	..	36.1	27.4	28.2	24.7	..	..	..	32.5 [c]	31.4 [c]
Colombia	48.9	65.7	57.1	49.2	44.8	..	..	59.1	55.9	50.6
Costa Rica	24.9	27.3	32.1	47.4	24.6	..	..	..	..	..
Cyprus	13.1	87.5	99.6 [b]	87.8	..	..	..	..	..	..
Dominican Republic	..	96.0	90.3	90.5	93.6	..	..	..	..	..
Ecuador	4.7	17.5	9.1	9.9	11.1	..	..	..	..	..
Egypt	..	..	..	..	..	..	48.5	..	..	..
El Salvador	..	85.2	68.8	63.4	68.6	..	..	..	73.3	72.8
Ethiopia	97.3	25.5	7.7 [d]	..	..	..	..	..	..	..
Fiji	..	39.5	51.3	65.6	47.2	..	..	..	..	..
Guyana	22.7	31.7	..	..	..	..	..	..	..	..
Honduras	46.6	44.4	50.1	63.5	69.2	..	..	..	..	..
Hong Kong, China	..	84.1	96.4	101.4	80.1	..	91.7	92.0	92.4	93.0
India	10.5	28.3	..	..	..	..	..	..	..	..
Indonesia	..	28.5	22.4	33.5	4.0	..	17.2	..	..	..
Iran, Islamic Rep. of[c]	89.2	16.8	..	..	..	..	..	..	..	..
Jamaica	..	28.7	..	..	..	..	..	..	..	..
Jordan	41.7	..	..	..	..	..	..	..	..	..
Kazakhstan	12.3	27.1	29.3	23.8	35.0	..	3.3	..	22.4	24.5
Kenya[c]	47.6	11.2	..	..	..	..	..	..	..	..
Kyrgyzstan	..	40.0	- 106.8	- 116.0	- 14.6	..	..	..	..	..
Lao People's Dem. Rep.	..	48.9	34.6	24.0	62.7	..	..	..	..	..
Macao, China	..	..	93.1 [e]	93.1	..	..	..	..	87.4	..
Malaysia	..	3.0	0.6 [b]	2.4	..	35.4	33.5	..	..	..
Mauritius	73.9	64.4	91.5	64.4	43.7	..	..	..	..	..

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Annex table A.I.22. Share of services in total inward FDI,[a] 1990-2002 (concluded)

(Percentage)

Economy	Flows					Stock				
	Average 1990-1994	Average 1995-1999	Average 2000-2002	2001	2002	1990	1995	2000	2001	2002
Mexico	28.9	30.3	64.1	80.9	56.8	..	..	..	..	..
Mongolia[c]	54.7	36.0	43.4	30.1	59.1	100.0	51.4	37.0	35.3	41.3
Morocco	..	53.6	86.5	92.6	56.5	..	..	..	..	..
Myanmar	..	8.7	28.3	24.8	31.1	23.0 [c]	31.9 [c]	35.1 [c]	35.1 [c]	34.7 [c]
Namibia	..	..	..	..	..	17.7	..	..	..	..
Nepal[c]	52.7	68.3	..	..	..	44.2	48.2	..	..	..
Nicaragua	50.3	76.2	78.1 [d]	..	..	..	..	..	..	..
Nigeria	..	29.5	..	..	..	25.6	..	..	..	..
Oman	3.3	14.6	..	..	..	..	..	..	..	..
Pakistan	64.6	69.1	56.6	72.8	51.5	67.5	73.4	..	..	..
Papua New Guinea	26.3 [c]	22.0 [c]	..	..	..	3.4	3.1	..	..	..
Paraguay	21.0	70.2	56.0 [b]	45.1	..	..	62.3	71.3	69.2	..
Peru	82.1	64.4	86.4	76.0	79.8	28.3	63.9	69.0	69.4	70.0
Philippines[f]	25.0	57.8	49.3	61.6	22.0	23.5	28.0	45.2	46.2	43.9
Republic of Korea	38.3	41.9	44.2	42.9	64.8	37.8	35.2	34.9	34.7	42.0
Singapore	..	70.7	58.1	54.8	72.6	58.5 [g]	61.7 [g]	63.3 [g]	..	..
Solomon Islands[c]	5.4	29.8	..	..	..	..	..	..	..	..
Sri Lanka	..	75.4 [c]	48.1 [c]	42.6 [c]	50.9 [c]	..	43.2 [c]	63.7	63.2	59.0 [c]
Taiwan Province of China[c]	39.4	44.4	59.5	60.8	55.9	27.2	31.4	41.5	43.5	44.3
Thailand	61.8	68.6	30.3	25.7	15.7	47.6	57.9	62.2	58.0	56.8
Trinidad and Tobago	1.1	2.7	..	..	..	..	..	..	..	..
Tunisia	2.4	7.6	5.8	14.5	2.0	..	..	..	..	..
Turkey	..	..	75.4 [b]	74.7	..	..	..	..	50.6	..
United Rep. of Tanzania	..	13.2	..	..	..	..	..	..	..	..
Vanuatu	..	46.6	90.5	85.9	87.0	..	..	..	..	..
Venezuela	53.7	12.9	11.8	3.4	27.6	16.3	27.3	17.2	15.7	16.2
Viet Nam	..	37.8	23.0	29.6	9.2	20.6 [c]	45.8 [c]	..	..	..
Zambia	25.2	21.5	..	..	..	..	..	..	..	..
Zimbabwe[c]	21.4	33.9	..	..	..	..	..	..	..	..
Central and Eastern Europe										
Bulgaria	..	48.0	74.1	64.2	84.7	..	..	..	..	..
Croatia	..	84.7	..	..	..	..	..	59.0	..	..
Czech Republic	42.8	64.0	74.5 [b]	69.5	87.9	..	..	59.8	60.5	63.0
Estonia	41.8	72.1	82.0 [d]	84.0	79.6	..	..	76.2	78.2	80.2
Hungary	..	72.3	62.8	..	..	..	..	58.1	53.3	50.9
Latvia	..	..	..	..	..	..	..	80.4	77.2	..
Lithuania	..	72.1	85.0 [d]	..	..	..	..	69.7	..	..
Poland	..	46.8	77.3	..	..	..	..	60.5	54.8	..
Russian Federation	..	35.7	49.4 [d]	50.2	43.1	..	..	46.2	46.8	46.4
Slovakia	..	..	.. [d]	..	..	..	..	45.8	..	..
Slovenia	..	..	..	..	..	..	57.8	56.9	52.1	55.0
TFYR Macedonia	..	17.1	85.9	90.7	..	..	..	..	..	..

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

a Includes industries classified under ISIC codes 40,45,50,51,52,55,60,61,62,63,64,65,66,67,70,71,72,73,74,75,80,85,91,92 and 93.
b 2000-2001 average.
c Approval data.
d 2000 only.
e 2001 only.
f Data refer only to equity.
g Data for 1990-1996 refer only to equity while data for 1997-2000 refer to total direct investment.

Annex table A.I.23. Share of services in total outward FDI,[a] 1990-2002

(Percentage)

Economy	Flows					Stock				
	Average 1990-1994	Average 1995-1999	Average 2000-2002	2001	2002	1990	1995	2000	2001	2002
Developed countries										
Australia	40.7	33.5	65.7 [b]	44.0	..	..	35.4	34.9	32.5	..
Austria	..	58.1	85.2	72.6	83.9	38.5	69.9	75.3	73.5	..
Belgium	..	61.6	..	..	..	..	..	..	..	..
Canada	30.0	38.1	40.5	55.7	60.2	51.9	53.9	53.7	59.2	60.9
Denmark	49.6	75.2	86.3	85.1	86.9	..	..	79.3	78.4	..
Finland	24.1	34.5	28.9	10.6	11.3	..	9.7	26.6	27.0	..
France	57.9	69.3	81.4	79.7	71.0	47.2	67.6	73.2	75.9	..
Germany	46.2	49.5	83.2	124.2	68.6	44.6	56.3	61.6	68.7	..
Iceland	48.6	50.8	75.4	64.3	84.6	19.0	35.4	61.4	59.9	62.5
Ireland	..	..	26.4 [c]	5.8	55.9	..	..	..	..	..
Israel	14.5	..	..	..	..	..	..	..	..	..
Italy	68.7	55.0	43.0 [b]	37.4	..	66.1	64.8	59.5	56.3	..
Japan[d]	68.3	52.5	65.7 [b]	53.3	..	..	..	..	..	..
Luxembourg	..	..	..	..	..	..	29.0	..	..	..
Netherlands	53.3	63.7	69.2 [b]	72.8	..	46.9	50.9	58.0	58.1	..
Norway	25.4	38.1	33.3	277.4	40.5	31.3	35.5	42.8	..	..
Portugal	67.8	57.4	58.9	98.0	95.4	..	..	61.3	..	..
Spain	84.0	66.0	88.4 [b]	78.5	..	..	..	..	..	..
Sweden	43.4	23.6	58.8	27.2	95.8	..	32.2	38.5	39.2	..
Switzerland	37.7	61.0	59.4	63.0	- 3.1	41.0	49.9	67.2	69.7	66.8
United Kingdom	46.6	50.5	81.2	43.3	105.1	41.9	40.1	63.9	57.0	62.5
United States	60.1	68.7	65.0	57.8	68.0	49.3	56.2	68.6	68.1	69.0
Developing economies										
Brazil	..	..	..	..	..	..	..	..	91.0	95.7
Colombia	54.9	94.6	68.7	148.3	52.7	74.9	67.2	87.3	..	..
Cyprus	13.1	95.4	84.4 [b]	89.0	..	..	..	..	..	..
Hong Kong, China	..	79.1	87.6	111.3	64.1	..	..	85.9	86.2	82.3
Kazakhstan	..	95.3	6.1	92.1	- 0.2	..	100.0	..	89.1	7.7
Macao, China	..	..	102.3 [e]	102.3	..	..	..	..	77.5	..
Mauritius	85.8	40.3	104.5 [b]	79.4	..	..	..	..	..	..
Nigeria	..	0.9	..	..	..	..	..	..	..	..
Republic of Korea	35.1	45.7	51.7	29.9	39.1	27.5	32.6	42.6	41.7	41.5
Singapore	..	..	..	..	..	80.4	73.8	72.3	..	..
Taiwan Province of China[d]	50.5	66.9	69.8	54.1	74.1	35.8	48.5	62.9	61.7	62.9
Thailand	55.6	67.9	- 15.2	71.4	30.8	59.0	64.8	62.6	63.0	62.4
Turkey	..	..	62.0 [b]	67.3	..	..	..	..	..	..
Central and Eastern Europe										
Bulgaria	..	57.3	129.0 [f]	..	..	..	..	41.4	..	..
Croatia	..	..	..	..	..	..	..	37.2	..	..
Czech Republic	..	64.5	93.9	80.9	114.0	..	..	86.3	89.7	82.0
Estonia	22.2	85.1	87.6	82.0	103.8	..	..	83.2	82.0	87.5
Hungary	..	32.8	30.2 [f]	..	..	..	..	80.4	83.0	76.3
Poland	..	57.8	25.9 [f]	..	..	..	..	86.2	..	..
Russian Federation	..	..	..	..	..	..	..	99.7	..	..
Slovakia	..	..	..	..	..	..	..	60.4	..	..
Slovenia	..	..	..	..	..	..	52.4	40.4	42.3	43.7
TFYR Macedonia	..	..	344.8 [b]	97.6	..	..	..	..	..	..

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

[a] Includes industries classified under ISIC codes 40,45,50,51,52,55,60,61,62,63,64,65,66,67,70,71,72,73,74,75,80,85,91,92 and 93.
[b] 2000-2001 average.
[c] 2001-2002 average.
[d] Approval data.
[e] 2001 only.
[f] 2000 only.

Annex table A.I.24. Network Spread Index (NSI) and Internationalization Index (II) of the world's 100 largest non-financial TNCs, by home economy, 2002
(Averages)

Home economy	Number of TNCs in the economy	Number of host economies	NSI	II
United States	27	35	17.74	66.41
France	14	38	19.49	68.52
Germany	13	45	22.84	62.76
United Kingdom	12	37	18.85	49.12
Japan	7	35	17.80	56.82
Netherlands	5	41	20.92	58.96
Switzerland	5	56	28.82	88.93
Canada	4	19	9.49	79.57
Italy	3	25	12.99	62.27
Spain	3	17	8.55	49.63
Australia	2	23	11.54	77.97
Finland	2	44	22.57	86.97
Belgium	1	16	8.21	86.41
Hong Kong, China	1	3	1.54	36.84
Ireland	1	16	8.21	90.63
Mexico	1	11	5.64	74.47
Republic of Korea	1	24	12.31	79.31
Sweden	1	42	21.54	70.00
Average	6	35	17.93	65.46

Source: UNCTAD.

Note: NSI and II as for annex table A.I.4. The total number of TNCs is 104, because there are 5 TNCs with double nationality. These are counted in two countries each. They are: Daimler Chrysler (Germany/United States), Royal Dutch/Shell Group, Reed Elsevier and Unilever (United Kingdom/Netherlands) and Rio Tinto (United Kingdom/Australia). Singtel Ltd. has been excluded from the analysis.

Annex table I.25. Network Spread Index (NSI) and Internationalization Index (II) of the world's 100 largest non-financial TNCs, by industry, 2002
(Averages)

Home economy	Number of TNCs in industry	Number of host economies	NSI	II
Chemicals and pharmaceuticals	13	49	25.01	79.25
Retail, trading and services	10	30	15.23	56.70
Automotive	10	38	19.33	66.27
Electronics and electronic equipment	9	45	23.30	70.86
Utility	9	15	7.64	45.47
Petroleum expl./ref./distr.	8	42	21.35	63.58
Telecommunications	7	20	10.18	51.32
Food, beverages and tobacco	6	42	21.28	70.63
Metals and mining	5	29	14.77	55.02
Construction and building materials	4	25	12.95	80.88
Diversified	4	43	21.92	68.29
Machinery and equipment	5	42	21.44	85.43
Media	5	23	11.69	68.42
Paper, publishing and printing	2	26	13.33	54.15
Transportation	2	50	25.38	66.24
Average	7	35	17.93	65.46

Source: UNCTAD.

Note: NSI and II as in annex table A.I.4.

Annex table A.I.26. The world's largest non-financial TNCs: percentage share of foreign affiliates in each region, by home economy, 2002

Home economy \ Region	Number of TNCs in the economy	European Union	Other Western Europe	North America	Other developed countries	North Africa	Other Africa	South America	Latin America and the Caribbean	West Asia	Central Asia	South, East and South-East Asia	The Pacific	Central and Eastern Europe	**Total**
United States	27	52.61	4.41	7.39	5.19	1.02	1.99	6.34	5.95	1.73	0.14	9.00	0.22	4.00	100
France	14	61.08	3.88	10.04	3.00	1.00	1.91	4.35	1.32	0.88	-	7.97	0.26	4.32	100
Germany	13	58.56	4.55	10.97	2.90	0.38	1.50	3.40	2.53	1.36	0.15	5.54	-	8.16	100
United Kingdom	12	45.77	2.93	26.32	3.87	0.62	4.25	2.91	2.31	1.79	0.06	5.18	0.14	3.85	100
Japan	7	35.39	1.50	25.98	2.85	0.10	1.19	5.56	3.66	1.11	-	19.79	-	2.85	100
Netherlands	5	36.83	2.17	34.75	5.17	0.90	2.43	5.33	2.07	1.05	-	4.94	0.13	4.24	100
Switzerland	5	51.06	1.11	9.67	3.71	1.00	2.48	5.58	7.61	1.69	0.37	8.18	0.23	7.30	100
Canada	4	43.01	5.27	35.44	1.71	-	0.29	3.26	3.86	0.68	0.29	4.11	-	2.11	100
Italy	3	66.66	5.24	6.56	0.62	-	0.80	10.11	4.15	0.81	0.16	1.58	0.16	3.15	100
Spain	3	40.37	0.85	15.21	-	1.46	-	32.43	9.69	-	-	-	-	-	100
Australia	2	59.09	1.29	22.42	2.32	-	4.86	1.83	0.89	-	-	5.74	1.59	-	100
Finland	2	51.00	4.40	4.99	1.52	0.53	0.53	4.40	1.74	2.36	-	15.63	-	12.95	100
Belgium	1	77.53	-	11.24	-	-	1.12	-	-	-	-	2.25	-	7.87	100
Hong Kong, China	1	71.43	-	14.29	-	-	-	-	14.29	-	-	0.00	-	0.00	100
Ireland	1	67.14	7.71	22.11	-	-	-	0.41	-	-	-	0.00	-	2.64	100
Mexico	1	31.43	2.86	42.86	-	2.86	-	5.71	11.43	-	-	2.86	-	-	100
Rep. of Korea	1	34.78	-	17.39	2.17	-	-	2.17	4.35	-	-	30.43	-	8.70	100
Sweden	1	59.52	2.86	14.29	0.48	0.48	1.90	6.67	4.76	0.95	-	1.43	-	6.67	100
Average	6	51.96	3.51	15.09	3.28	0.70	1.89	5.58	4.03	1.26	0.10	7.82	0.16	4.60	100

Source: UNCTAD.

Annex table A.I.27. The world's 100 largest non-financial TNCs: percentage share of foreign affiliates in each region, by industry, 2002

Industry \ Region	Number of TNCs in the industry	European Union	Other Western Europe	North America	Other developed countries	North Africa	Other Africa	South America	Latin America and the Caribbean	West Asia	Central Asia	South, East and South-East Asia	The Pacific	Central and Eastern Europe	**Total**
Chemicals and pharmaceuticals	13	46.64	4.10	7.40	4.89	0.90	2.94	6.76	4.73	2.46	0.04	15.12	0.22	3.80	100
Retail, trading and services	12	50.32	6.26	17.27	3.42	0.31	1.75	3.47	4.29	0.97	0.02	7.34	0.19	4.39	100
Automotive	10	57.77	4.23	11.13	3.32	1.27	2.39	6.00	2.03	2.32	0.13	3.58	0.04	5.78	100
Electronics and electronic equipment	9	46.17	1.89	12.57	4.02	0.55	0.44	3.67	3.38	0.89	0.02	20.95	-	5.44	100
Utility	9	49.93	0.50	30.94	0.09	0.12	1.01	7.53	4.34	0.50	-	2.11	0.06	2.87	100
Petroleum expl./ref./distr.	8	55.55	2.37	17.08	2.81	0.96	2.54	7.09	3.41	1.45	0.33	3.85	0.46	2.09	100
Telecommunications	7	60.72	2.51	6.90	3.41	0.40	0.60	10.05	6.43	0.49	-	3.67	0.11	4.69	100
Food, beverages and tobacco	6	56.05	2.94	8.72	3.32	1.42	2.57	5.97	3.68	0.82	0.20	6.19	0.28	7.85	100
Metals and mining	5	51.85	5.52	14.47	3.77	0.34	6.06	3.65	2.40	0.43	0.23	5.10	0.63	5.54	100
Construction and building materials	4	54.76	3.19	19.98	0.31	0.99	0.59	5.30	6.83	0.51	0.23	1.80	-	5.52	100
Diversified	4	51.95	6.43	7.32	5.44	0.94	2.49	5.51	6.92	1.74	0.14	5.36	0.16	5.62	100
Machinery and equipment	4	39.52	4.83	8.81	4.39	0.89	0.56	6.53	4.58	2.42	-	21.12	-	6.37	100
Media	4	73.51	1.36	17.39	2.81	0.70	0.42	1.10	0.37	-	-	1.77	-	0.59	100
Paper, publishing and printing	2	48.01	2.46	31.56	5.21	-	-	1.87	0.68	0.23	-	2.39	-	7.63	100
Transportation	2	25.74	2.93	50.39	1.31	0.17	2.28	1.96	7.10	1.79	0.65	1.31	-	4.40	100
Average	7	51.96	3.51	15.09	3.28	0.70	1.89	5.58	4.03	1.26	0.10	7.82	0.16	4.60	100

Source: UNCTAD.

Annex table A.I.28. Regional composition of directors on the boards of 42 of the largest 100 TNCs, grouped by home region/economy, 2003

Region/economy	Number of TNCs	Number of directors	Foreign board members by nationality																	
			Total		European Union		United States		Japan		Asia[a]		Latin America and the Caribbean		Africa		Central and Eastern Europe		Other[b]	
			Count	*Per cent*	*Count*	*Per cent*	*Count*	*Per cent*	*Count*	*Per cent*	*Count*	*Per cent*	*Count*	*Per cent*	*Count*	*Per cent*	*Count*	*Per cent*	*Count*	*Per cent*
Total European Union	22	291	97	33	44	15	32	11	3	1	3	1	7	2	2	1	1	-	5	2
Belgium	1	12	6	50	4	33	2	17	..	..	..	..	..	..	..	..	..	..	..	..
Netherlands	2	22	9	41	7	32	1	5	..	..	..	..	..	..	..	..	..	..	1	5
Spain	2	33	4	12	2	6	..	..	..	..	..	..	2	6	..	..	..	..	..	..
France	4	58	20	34	8	14	6	10	3	5	..	..	1	2	..	..	..	..	2	3
Germany	6	64	5	8	2	3	1	2	..	..	1	2	..	..	..	..	1	2	..	..
United Kingdom	7	102	53	52	21	21	22	22	..	..	2	2	4	4	2	2	..	..	2	2
Switzerland	4	38	18	47	14	37	2	5	1	3	..	..	1	3	..	..	..	..	..	..
United States	6	67	12	18	5	7	..	..	..	..	..	..	5	7	..	..	..	..	2	3
Canada	1	15	6	40	6	40	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Japan	8	123	3	2	1	1	1	1	..	..	..	..	1	1	..	..	..	..	..	..
Hong Kong, China	1	14	11	79	8	57	..	..	..	..	..	..	..	..	..	..	..	..	3	21
Total	42	548	147	27	72	13	41	7	4	1	3	1	14	3	2	-	1	-	10	2

Source: UNCTAD.

a includes West Asia.

b Australia, Canada, New Zealand and Switzerland.

Annex table A.II.1. Selected bilateral, regional and inter-regional agreements containing FDI provisions concluded or under negotiation, 2003-2004 [a]

Year	Title	Setting	Level	Status
Developing countries				
Africa				
2003	ECOWAS Energy Protocol	Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo	Regional	Signed
2004	CEMAC-European Union Economic Partnership Agreement	CEMAC (Central African Economic and Monetary Community - Cameroon, Gabon, Chad, Equatorial Guinea, Central African Republic, Congo)-European Community	Inter-regional	Under negotiation
2004	Economic Partnership Agreement between ECOWAS and the European Union	ECOWAS (Economic Community of West African States-Benin, Burkina Faso, Côte d'Ivoire, Gambia, Ghana, Guinea, Liberia, Mali, Niger, Senegal, Sierra Leone and Togo)-European Community	Inter-regional	Under negotiation
2004	Egypt-Singapore Free Trade Agreement	Egypt-Singapore	Bilateral	Under negotiation
2004	Economic Partnership between ESA and the European Union	ESA (Eastern and Southern Africa - Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, United Republic of Tanzania, Uganda, Zambia, Zimbabwe)-European Community	Inter-regional	Under negotiation
2004	Free Trade Agreement between SACU and the United States	SACU (Southern African Customs Union - Botswana, Lesotho, Namibia, South Africa, Swaziland)-United States	Bilateral	Under negotiation
2004	SADC-European Union Economic Partnership Agreement	SADC (Southern African Development Community-Angola, Botswana, Democratic Republic of the Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, United Republic of Tanzania, Zambia, Zimbabwe)-European Community	Inter-regional	Under negotiation
Asia and the Pacific				
2003	Framework for Comprehensive Economic Partnership Between the Association of Southeast Asian Nations and Japan	ASEAN - Japan	Bilateral	Signed
2003	Chile-Republic of Korea Free Trade Agreement	Chile – Republic of Korea	Bilateral	Signed
2003	Mainland China and Hong Kong Closer Economic Partnership Arrangement	China-Hong Kong (China)	Bilateral	Signed
2003	Mainland and Macao (China) Closer Economic Partnership Arrangement	China-Macao (China)	Bilateral	Signed
2003	Framework Agreement on Comprehensive Economic Cooperation Between the Republic of India and the Association of South East Asian Nations	India-ASEAN	Bilateral	Signed
2003	Framework Agreement for Establishing Free Trade Area Between the Republic of India and the Kingdom of Thailand	India-Thailand	Bilateral	Signed
2003	Singapore-Australia Free Trade Agreement	Singapore-Australia	Bilateral	Signed
2004	Bahrain-United States Free Trade Agreement	Bahrain-United States	Bilateral	Signed
2004 Signed	Framework Agreement on the BIMST-EC Free Trade Area [b]	Bhutan, India, Myanmar, Nepal, Sri Lanka, Thailand		Regional
2004	Singapore-Jordan Free Trade Agreement	Singapore-Jordan	Bilateral	Signed
2004	Framework Agreement on South Asian Free Trade Area	SAARC (South Asian Association for Regional Cooperation-Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka)	Regional	Signed
2004	ASEAN-Republic of Korea	ASEAN-Republic of Korea	Bilateral	Under consultation

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Annex table A.II.1. Selected bilateral, regional and inter-regional agreements containing FDI provisions concluded or under negotiation, 2003-2004 [a] (continued)

Year	*Title*	*Setting*	*Level*	*Status*
2004	ASEAN - Closer Economic Relations (CER) countries	ASEAN-Australia-New Zealand	Inter-regional	Under negotiation
2004	Bahrain-Singapore Free Trade Agreement	Bahrain-Singapore	Bilateral	Under negotiation
2004	India-Singapore Comprehensive Economic Cooperation Agreement	India-Singapore	Bilateral	Under negotiation
2004	Free Trade Agreement between India and the Gulf Cooperation Council countries (GCC)	India- GCC (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates)	Bilateral	Under negotiation
2004	Comprehensive Economic Cooperation Agreement between India and China	India-China	Bilateral	Under discussion
2004	Comprehensive Economic Cooperation Agreement between India and Mauritius	India-Mauritius	Bilateral	Under discussion
2004	Republic of Korea-Singapore Free Trade Agreement	Republic of Korea-Singapore	Bilateral	Under negotiation
2004	SAARC agreement on the promotion and protection of investment	SAARC member States	Regional	Under negotiation
2004	Sri Lanka-Singapore Comprehensive Economic Partnership Agreement	Sri Lanka-Singapore	Bilateral	Under negotiation
2004	Thailand-United States Free Trade Agreement	Thailand-United States	Bilateral	Under negotiation
Latin America and the Caribbean				
2003	Free Trade Agreement Between the Government of the Republic of Uruguay and the Government of the United Statesof Mexico	Uruguay-Mexico	Bilateral	Signed
2004	Central American Free Trade Agreement	Central America (Costa Rica, El Salvador, Honduras, Guatemala, plus Dominican Republic)-United States	Bilateral	Signed
2004	Agreement Between the Caribbean Community (CARICOM), Acting on Behalf of the Governments of Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines, Suriname and Trinidad and Tobago and the Government of the Republic of Costa Rica	CARICOM-Costa Rica	Bilateral	Signed
2004	Free Trade Agreement between Andean Community – Mercosur	Mercosur (Argentina, Brazil, Paraguay, Uruguay)- Andean countries (Bolivia, Colombia, Ecuador and Peru)	Inter-regional	Signed
2004	Free Trade Agreement of the Americas	All countries of the Western Hemisphere, except Cuba	Regional	Under negotiation
2004	Andean countries-United States Free Trade Agreement	Andean countries-United States	Bilateral	Under negotiation
2004	Brazil-Russian Federation	Brazil-Russian Federation	Bilateral	Under negotiation
2004	CARICOM-EFTA	CARICOM- EFTA (Iceland, Liechtenstein, Norway, Switzerland)	Inter-regional	Under negotiation
2004	CARICOM-European Union Agreement	CARICOM-European Community	Inter-regional	Under negotiation
2004	Costa Rica-Panama Free Trade Agreement	Costa Rica-Panama	Bilateral	Under negotiation
2004	Mexico – Singapore Free Trade Agreement	Mexico – Singapore	Bilateral	Under negotiation
2004	Peru-Thailand Free Trade Agreement	Peru-Thailand	Bilateral	Under negotiation
Developed countries				
2003	Australia-China Trade and Economic Framework Agreement	Australia-China	Bilateral	Signed
2003	Association Agreement Between the European Union and the Syrian Arab Republic	European Community - Syrian Arab Republic	Bilateral	Concluded
2003	Free Trade Agreement between the Government of the United States of America and the Government of the Republic of Chile	United States-Chile	Bilateral	Signed
2003	Agreement between the Government of the United States of America and the Government of Pakistan Concerning the Development of Trade and Investment Relations	United States-Pakistan	Bilateral	Signed

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Annex table A.II.1. Selected bilateral, regional and inter-regional agreements containing FDI provisions concluded or under negotiation, 2003-2004 [a] (concluded)

Year	Title	Setting	Level	Status
2003	Agreement between the Government of the United States of America and the Government of the Kingdom of Saudi Arabia Concerning the Development of Trade and Investment Relations	United States-Saudi Arabia	Bilateral	Signed
2003	United States - Singapore Free Trade Agreement	United States-Singapore	Bilateral	Signed
2003	Political Dialogue and Cooperation Agreement Between the European Community and Its Member States of the One Part, and the Andean Community and Its Member Countries (Bolivia, Colombia, Ecuador, Peru And Venezuela), of the Other Part	European Community-Andean countries	Inter-regional	Concluded
2004	Australia-Thailand Free Trade Agreement	Australia-Thailand	Bilateral	Signed
2004	Agreement between the Government of the United States of America and the Government of the State of Qatar Concerning the Development of Trade and Investment Relations	United States- Qatar	Bilateral	Signed
2004	Agreement between the Government of the United States of America and the Government of the United Arab Emirates Concerning the Development of Trade and Investment Relations	United States- United Arab Emirates	Bilateral	Signed
2004	United States - Australia Free Trade Agreement	United States-Australia	Bilateral	Signed
2004	Agreement between the United States and Central Asian Countries Concerning Regional Trade and Investment Framework	United States-Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan	Bilateral	Signed
2004	Agreement between the Government of the United States of America and the Government of the State of Kuwait Concerning the Development of Trade and Investment Relations	United States-Kuwait	Bilateral	Signed
2004	Malaysia-United States Trade and Investment Framework Agreement	United States-Malaysia	Bilateral	Signed
2004	United States-Morocco Free Trade Agreement	United States-Morocco	Bilateral	Signed
2004	Agreement between the Government of the United States of America and the Government of the Republic of Yemen Concerning the Development of Trade and Investment Relations	United States-Yemen	Bilateral	Signed
2004	Japan-Chile Free Trade Agreement	Japan-Chile	Bilateral	Under consideration
2004	Japan-Philippines Economic Partnership Agreement	Japan-Philippines	Bilateral	Under consideration
2004	Japan-Thailand Economic Partnership Agreement	Japan-Thailand	Bilateral	Under consultation
2004	Canada-Andean countries Free Trade Agreement	Canada-Andean countries	Bilateral	Under discussion
2004	Canada-CARICOM Free Trade Agreement	Canada-CARICOM	Bilateral	Under consideration
2004	Canada-Central America Free Trade Agreement	Canada-Central America (Costa Rica, El Salvador, Guatemala, Honduras)	Bilateral	Under negotiation
2004	Agreement between Canada-Dominican Republic	Canada-Dominican Republic	Bilateral	Under consideration
2004	Canada-European Free Trade Association (EFTA) Free Trade Agreement	Canada-EFTA	Bilateral	Under negotiation
2004	Canada-Singapore Free Trade Agreement	Canada-Singapore	Bilateral	Under negotiation
2004	EFTA and SACU Free Trade Agreement	EFTA-SACU	Bilateral	Under negotiation
2004	European Union–MERCOSUR	European Community-Mercosur	Inter-regional	Under negotiation
2004	Japan- Republic of Korea Free Trade Agreement	Japan- Korea	Bilateral	Under negotiation
2004	Pacific Three Free Trade Agreement	New Zealand-Chile-Singapore	Pluraliteral	Under negotiation
2004	United States-Uruguay Free Trade Agreement	United States-Uruguay	Bilateral	Under negotiation

Source: UNCTAD.

[a] Excluding BITs and DTTs.

[b] BIMST-EC comprises Bangladesh, India, Myanmar, Sri Lanka and Thailand. Bhutan and Nepal joined in February 2004. In the same month, the members of the association, except Bangladesh, signed the Framework Agreement.

Note: Every instrument is mentioned only once. The listing is made on the basis of the first regional/country partner name mentioned in the official or current (in the case of "under negotiation") title of the agreements. For example, in the agreement between the United States and Pakistan, the United States is mentioned first. Thus, this agreement is listed under "Developed countries", and not under Asia and the Pacific.

Annex table A.II.2. The top 25 non-financial TNCs from Central and Eastern Europe,[a] ranked by foreign assets, 2002

(Millions of dollars and number of employees)

Ranking by Foreign assets	TNI [b]	Corporation	Home country	Industry	Assets		Sales		Employment		TNI [b]
					Foreign	Total	Foreign	Total	Foreign	Total	(%)
1	11	Lukoil JSC	Russian Federation	Petroleum and natural gas	5 354.0	22 001.0	10 705.0 [d]	15 334.0	13 000 [c]	180 000	33.8
2	4	Novoship Co.	Russian Federation	Transportation	962.9	1 093.9	270.7	351.1	85	6 291	55.5
3	3	Pliva d.d.	Croatia	Pharmaceuticals	689.1	1 382.0	668.1	815.5	3 213	7 326	58.5
4	13	Norilsk Nickel, OJSC MMC	Russian Federation	Mining	502.0	9 739.0	2 360.0 [d]	3 094.0	34	96 410	27.2
5	1	Primorsk Shipping Corporation	Russian Federation	Transportation	331.8	384.2	96.0	123.9	1 305	2 611	71.3
6	7	Gorenje Gospodinjski Aparati	Slovenia	Domestic appliances	312.8	632.8	531.6	755.6	731	8 772	42.7
7	24	Hrvatska Elektroprivreda d.d. [c]	Croatia	Energy	272.0	2 357.0	8.0	775.0	-	15 071	6.3
8	20	Mercator d.d., Poslovni sistem	Slovenia	Retail trade	224.6	1 040.0	139.1	1 331.0	1 893	14 331	15.1
9	8	Krka Group	Slovenia	Pharmaceuticals	180.7	577.9	282.6	367.7	817	4 332	42.3
10	18	Far Eastern Shipping Co. [c]	Russian Federation	Transportation	123.0	377.0	101.0	318.0	233	5 608	22.8
11	22	Petrol Group	Slovenia	Petroleum and natural gas	108.5	623.5	67.0	1 154.6	25	1 632	8.2
12	16	Richter Gedeon Ltd.	Hungary	Pharmaceuticals	105.6	742.7	70.3	388.1	1 996	5 124	23.8
13	9	Malév Hungarian Airlines	Hungary	Transportation	105.0	280.0	291.0	392.0	28	2 851	37.6
14	12	Podravka Group	Croatia	Food and beverages/ pharmaceuticals	102.4	485.8	171.6	384.4	1 191	7 488	27.2
15	21	MOL Hungarian Oil and Gas Plc. [c]	Hungary	Petroleum and natural gas	95.9	3 243.2	819.2	3 850.0	776	15 218	9.8
16	6	BLRT Grupp AS	Estonia	Shipbuilding	66.2	116.0	53.7	111.3	1 778	3 642	51.4
17	2	Zalakerámia Rt. [c]	Hungary	Clay product and refractory	65.0	120.0	39.0	64.0	1 889	2 921	59.9
18	17	Intereuropa d.d.	Slovenia	Trade	45.0	216.0	36.0	182.0	701	2 422	23.2
19	23	Merkur d.d.	Slovenia	Trade	43.3	500.5	55.1	517.8	143	2 988	8.0
20	25	Petrom S.A., SNP	Romania	Petroleum and natural gas	31.5	4 558.0	4.9	2 318.0	12	60 459	0.3
21	10	Budimex Capital Group [c]	Poland	Construction	23.8	372.6	50.4	610.0	1 076	1 189	35.0
22	15	Croatia Airlines	Croatia	Transportation	23.4	316.1	101.7	164.5	59	992	25.1
23	14	Finvest Corp d.d.	Croatia	Forestry	22.2	71.9	6.6	31.3	..	547	26.1
24	19	Iskraemeco d.d.	Slovenia	Electrical machinery	20.7	85.2	33.1	100.2	201	2 100	22.3
25	5	Policolor S.A.	Romania	Chemicals	17.2	31.0	25.5	47.1	457	933	52.9
Averages					393.1	2 053.9	679.5	1 343.2	1 376	18 050	31.5
Change from 2001 (in %)					5.4	52.1	29.4	11.1	9.9	34.6	1.2

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] 2001 data.

[d] Including export sales by the parent firm.

Annex table A.III.1. Estimated world inward FDI, average annual flows, by sector and industry, 1989-1991 and 2001-2002

(Millions of dollars)

Sector/industry	1989-1991			2001-2002			
	Developed countries	Developing economies	World	Developed countries	Developing economies	Central and Eastern Europe	World
Primary	8 805	3 689	12 494	46 218	19 290	923	66 431
Agriculture, hunting, forestry and fishing	- 23	634	612	81	1 694	110	1 885
Mining, quarrying and petroleum	8 788	3 054	11 842	46 091	17 596	813	64 499
Unspecified primary	40	-	40	47	-	-	47
Manufacturing	51 033	17 045	68 078	90 156	76 578	6 965	173 699
Food, beverages and tobacco	6 291	2 529	8 820	7 969	3 222	1 825	13 016
Textiles, clothing and leather	2 354	283	2 637	88	442	122	652
Wood and wood products	2 602	262	2 864	3 001	178	546	3 726
Publishing, printing and reproduction of recorded media	945	-	945	1 589	117	1	1 707
Coke, petroleum products and nuclear fuel	- 1 104	246	- 858	377	677	137	1 191
Chemicals and chemical products	12 716	2 280	14 996	11 466	3 902	554	15 922
Rubber and plastic products	1 319	35	1 355	346	291	421	1 058
Non-metallic mineral products	1 309	249	1 559	2 895	294	102	3 290
Metal and metal products	4 548	1 391	5 939	4 872	1 636	470	6 978
Machinery and equipment	5 181	3 202	8 383	13 349	4 451	696	18 495
Electrical and electronic equipment	4 317	876	5 194	10 090	3 762	446	14 298
Precision instruments	909	1	910	2 971	126	37	3 134
Motor vehicles and other transport equipment	4 829	321	5 150	7 577	2 363	665	10 605
Other manufacturing	3 861	1 057	4 918	12 668	1 820	940	15 428
Recycling	-	-	-	-	22	1	22
Unspecified secondary	956	4 311	5 267	10 899	53 277	2	64 177
Services	83 157	11 232	94 389	371 190	97 139	19 905	488 235
Electricity, gas and water	844	1 288	2 132	15 120	6 261	721	22 102
Construction	446	554	1 000	3 248	2 108	421	5 776
Trade	16 557	2 467	19 025	42 375	14 322	3 614	60 311
Hotels and restaurants	3 903	957	4 860	1 398	900	167	2 465
Transport, storage and communications	1 190	1 349	2 540	51 514	15 408	7 708	74 630
Finance	34 201	2 252	36 453	81 354	22 204	5 191	108 749
Business activities	11 602	1 272	12 874	109 888	24 581	1 732	136 201
Public administration and defence	2 516	-	2 517	3 334	7	-	3 341
Education	8	5	12	- 8	31	6	29
Health and social services	74	24	98	108	166	-	274
Community, social and personal service activities	2 468	4	2 472	14 793	3 948	37	18 777
Other services	8 461	727	9 187	42 586	4 613	307	47 506
Unspecified tertiary	887	332	1 219	5 480	2 591	-	8 071
Private buying and selling of property	124	-	124	308	-	-	308
Unspecified	7 571	4 031	11 602	12 941	4 674	1 875	19 490

Source: UNCTAD.

Note: Data should be interpreted with caution. The world total was extrapolated on the basis of data covering 63 countries in the period 1989-1991 and 84 countries in the period 2001-2002 (or latest three-year/two-year period available), accounting respectively for 89% and 81% of world inward FDI flows. Only those economies for which data for the three main sectors were available, were included. The distribution share of each industry of these economies is applied to estimate the world total in each sector and industry. As a result, the sum of the sectors for the individual economy groups is different from the totals shown in annex table B.1. Approval data were used for Israel in 1994 and Myanmar in 1990-1992. However in some countries, the actual data was estimated by applying the implementation ratio of realized FDI to approved FDI to the latter (9% in 1994-1995 and 98% in 2001-2002 for Cambodia, 47% in 1989-1991 for China, 15% in 1989-1991 for Indonesia, 17% in 1993-1995 for the Islamic Republic of Iran, 21% in 1989-1991 and 31% in 2000-2001 for Japan, 7% in 1992-1994 for Kenya, 1% in 1989-1991 for Lao People's Democratic Republic, 40% in 2001-2002 for Mongolia, 30% in 1989-1991 and 56% in 1997-1998 for Nepal, 20% in 1993-1995 and 13% in 1997-1998 for Papua New Guinea, 1% in 1994-1995 and 3% in 1996 for the Solomon Islands, 47% in 1995 for Sri Lanka, 65% in 1989-1991 and 66% in 2001-2002 for Taiwan Province of China, 40% in 1989-1991 for Turkey, 20% in 1989-1991 for Viet Nam and 23% in 1993-1995 for Zimbabwe). The world total in 1989-1991 includes the countries of Central and Eastern Europe, although data by sector and industry are not available for that region.

Annex table A.III.2. Estimated world outward FDI, average annual flows, by sector and industry, 1989-1991 and 2001-2002

(Millions of dollars)

Sector/industry	1989-1991			2001-2002			
	Developed countries	Developing economies	World	Developed countries	Developing economies	Central and Eastern Europe	World
Primary	11 623	79	11 702	45 644	447	1	46 091
Agriculture, hunting, forestry and fishing	683	42	725	298	- 0	- 3	295
Mining, quarrying and petroleum	10 789	37	10 826	45 174	447	4	45 625
Unspecified primary	151	-	151	171	-	-	171
Manufacturing	81 349	1 497	82 846	137 240	5 269	332	142 840
Food, beverages and tobacco	13 979	136	14 115	23 274	63	22	23 359
Textiles, clothing and leather	1 979	61	2 040	- 1 054	69	2	- 983
Wood and wood products	5 356	40	5 396	7 748	12	6	7 766
Publishing, printing and reproduction of recorded media	156	-	156	1 446	-	-	1 446
Coke, petroleum products and nuclear fuel	122	-	122	120	-	212	332
Chemicals and chemical products	12 945	212	13 157	17 480	166	68	17 714
Rubber and plastic products	588	35	623	1 548	17	5	1 570
Non-metallic mineral products	1 194	70	1 264	773	3	-	776
Metal and metal products	6 214	168	6 381	17 706	27	2	17 735
Machinery and equipment	7 310	7	7 317	7 876	6	6	7 887
Electrical and electronic equipment	9 997	305	10 302	12 573	1 231	- 12	13 792
Precision instruments	655	-	655	1 469	37	-	1 505
Motor vehicles and other transport equipment	5 498	-	5 498	23 544	70	-	23 614
Other manufacturing	8 430	5	8 435	- 2 296	8	3	- 2 285
Unspecified secondary	6 926	460	7 386	25 032	3 562	18	28 612
Services	116 955	1 019	117 974	432 214	19 486	603	452 303
Electricity, gas and water	1 021	-	1 021	8 639	103	10	8 753
Construction	2 396	31	2 426	3 178	- 50	7	3 135
Trade	18 922	270	19 192	54 009	4 272	164	58 445
Hotels and restaurants	413	4	417	8 030	- 61	22	7 991
Transport, storage and communications	7 445	33	7 478	61 924	- 946	63	61 041
Finance	48 466	446	48 912	154 730	2 282	246	157 258
Business activities	24 472	19	24 490	124 460	12 776	67	137 303
Public administration and defence	-	-	-	762	-	-	762
Education	20	-	20	18	-	-	18
Health and social services	- 124	-	- 124	81	-	-	81
Community, social and personal service activities	568	-	568	305	3	1	308
Other services	8 856	217	9 073	10 056	1 109	23	11 187
Unspecified tertiary	4 501	-	4 501	6 021	-	-	6 021
Private buying and selling of property	25	-	25	130	-	-	130
Unspecified	10 070	90	10 160	15 174	2 415	41	17 630

Source: UNCTAD.

Note: Data should be interpreted with caution. The world total was extrapolated on the basis of data covering 25 countries in the period 1989-1991 and 37 countries in the period 2001-2002 (or latest three-year/two-year period available), accounting respectively for 94% and 78% of world outward FDI flows. The distribution share of each industry of these countries was applied to estimate the world total in each sector and industry. As a result, the sum of the sectors for the individual economy groups is different from the totals shown in annex table B.2. Approval data was used for Taiwan Province of China. However in the case of Japan, the actual data was estimated by applying the implementation ratio of realized FDI to approved FDI to the latter (65% in 1989-1991 and 85% in 2000-2001). The world total in 1989-1991 includes the countries of Central and Eastern Europe, although data by sector and industry are not available for that region.

Annex table A.III.3. Comparison of values of services delivered by foreign affiliates and by trade in selected countries, various years

(Billions of dollars and percentage)

Country	Year	Services delivered by foreign affiliates of home-based TNCs [a] (S)	Exports of services(X)	S/X (%)	Country	Year	Services delivered by affiliates of foreign-based TNCs [b] (S)	Imports of services(M)	S/M (%)
Austria	2000	2.0 [c]	31.0	6.5	Austria	2001	38.3 [c]	31.5	121.6
Canada	1999	77.1 [c]	34.8	221.5	China	2002	12.8	44.2	29.0
Finland	2002	13.9 [c]	6.0	231.7	Czech Republic	1999	10.8	5.8	186.0
Japan	1999	110.6	60.3	183.4	Finland	2001	9.0	8.0	112.5
Germany	2001	227.2	83.2	273.1	Japan	1999	10.1	114.2	8.8
Portugal	2001	5.6 [c]	8.7	64.4	Germany	2001	122.3	137.2	89.1
United States	2001	456.1	259.4	175.8	Hungary	2000	0.01	4.4	0.2
					Portugal	2001	6.8 [c]	6.0	113.3
					Sweden	2001	42.3	22.9	184.7
					United States	2001	474.0	192.7	246.1

Source: UNCTAD, based on data on sales by affiliates from UNCTAD FDI/TNC database (www.unctad.org/fdistatistics) and data on services trade from WTO.

[a] Except for the United States, the data refer to sales by service foreign affiliates of home-based TNCs less those by trading foreign affiliates, as sales of the latter are mainly of goods. For the United States the data refer to sales of services by all foreign affiliates of United States TNCs.

[b] Except for China and the United States, the data refer to sales by service affiliates of foreign-based TNCs less those by trade affiliates, as sales of the latter are mainly of goods. For China the data refer to sales by all service affiliates. For the United States the data refer to sales of services by all affiliates of foreign-based TNCs in the United States.

[c] Majority-owned foreign affiliates only.

Annex table A.III.4. Penetration ratios[a] of majority-owned foreign bank affiliates in banking,[b] by host economy, 2001

(Per cent)

Developed countries		CEE		Developing economies: Africa		Developing economies: Asia and the Pacific		Developing economies: Latin America and the Caribbean	
New Zealand	99.1	Estonia	98.9	Botswana	100.0	Tonga	100.0	Belize	94.6
United Kingdom	46.0	Czech Republic	90.0	Guinea-Bissau	100.0	Fiji	98.9	Aruba	92.3
United States[c]	20.2	Croatia	89.3	Lesotho	100.0	Vanuatu	94.1	Grenada	88.7
Norway	19.2	Hungary	88.8	Gambia	95.8	Singapore[g]	76.0	Mexico	82.7
Portugal	17.7	Slovakia	85.5	Benin	91.0	Bahrain	72.0	Panama	59.3
Australia	17.0	Lithuania	78.2	Guinea	90.0	Hong Kong, China[g]	72.0	Chile	46.8
Greece	10.8	Bulgaria	74.6	Côte d'Ivoire	84.2	Cambodia[f]	71.0	Jamaica[f]	44.0
Switzerland	10.7	Bosnia and Herzegovina	73.0	Senegal	78.7	Jordan	64.3	Uruguay	43.3
Spain	8.5	Poland	68.7	Niger	73.4	Armenia	59.0	Venezuela	43.2
Japan[d]	6.7	Latvia	65.2	Madagascar	67.8	Nepal[f]	35.0	Peru	42.5
Finland	6.2	Macedonia	51.1	Mali	67.0	Korea, Republic of	29.5	Bolivia	36.3
Italy	5.7	Romania	47.3	Zambia[f]	64.0	United Arab Emirates	27.0	Argentina	31.8
Canada	4.8	Albania	46.0	Seychelles	60.2	Saudi Arabia	20.7	Brazil	29.8
Germany	4.3	Moldova, Republic of	36.7	Ghana	53.5	Pakistan	20.1	Costa Rica	23.3
Netherlands	2.2	Belarus	26.0	Kenya	39.3	Malaysia	19.0	Columbia	21.5
Sweden[f]	1.8	Slovenia	20.6	Zimbabwe	28.0	Kazakhstan	17.9	Hondura	18.5
Denmark	-	Ukraine	10.5	Mauritius	24.5	Lebanon	15.9	ElSalvador	12.3
Iceland	-	Russian Federation	8.8	Morocco	20.8	Philippines	15.0	Guatemala	9.0
				Tunisia	15.7	Oman	11.9	Ecuador	7.0
				Egypt	13.3	India[e]	7.3	Trinidad and Tobago	2.4
				Malawi[f]	8.3	Indonesia[f]	7.0		
				South Africa	7.7	Thailand	6.8		
				Sudan	4.0	Bangladesh[f]	6.4		
				Algeria	3.9	Turkey	3.5		
				Burundi[f]	-	China[g]	2.0		
				Nigeria[f]	-	Kuwait	-		
				Rwanda	-				

Source: UNCTAD, based on World Bank database on bank regulation and supervision (2002 and 1998 surveys) (www.worldbank.org/research/projects/bank_regulation.htm), United States Federal Reserve (www.federalreserve.gov/releases/iba) and Committee on the Global Financial System (CGFS) (2004).

[a] Ratios of assets of majority-owned foreign bank affiliates to total bank assets.
[b] All banking affiliates with more than 50% foreign ownership, including branches and representative offices.
[c] Data from United States Federal Reserve.
[d] 31 March 2002 (commercial banks only).
[e] 31 March 2002.
[f] Data from the World Bank 1998 survey – data relate to 1998 or 1999 (not specified in the database).
[g] Data from CGFS (2004), p. 9.

Annex table A.III.5. The world's selected 15 largest services TNCs in eight industries, 2003

(Millions of dollars and number of employees)

TNC	Home economy	Assets		Sales		Employment		TNI [a] (Per cent)	Affiliates		
		Foreign	Total	Foreign	Total	Foreign	Total		Total	Number of foreign affiliates	Number of host countries
Advertising											
Publicis Groupe SA	France	11 021 [b]	13 346	4 362	4 859	31 871	35 166	87.7	408	341	50
WPP Group Plc	United Kingdom	6 492	19 103	6 160	7 332	43 634	54 324	66.1	822	499	48
Havas	France	4 411 [c]	5 300	1 722	2 069	13 284 [d]	15 961	83.2	319	254	36
Interpublic Group Companies Inc	United States	2 129	11 890	2 579	5 863	13 431 [e]	43 400	30.9	569	432	59
Jcdecaux SA	France	2 038 [c]	3 747	1 056 [b]	1 942	3 760 [d]	6 915	54.4	65	57	21
Dentsu Inc	Japan	1 562	9 715	858	2 418	3 513 [e]	13 623	25.8	63	35	12
Grey Global Group Inc[f]	United States	1 472	2 490	722	1 307	6 001 [e]	10 500	57.2	269	246	37
SR Teleperformance	France	747 [h]	997	773 [b]	1 119	26 288	32 522	75.0	87	34	20
Ipsos	France	364 [h]	718	114	717	3 571	4 181	50.7	71	57	20
Monster Worldwide Inc	United States	338 [b]	1 122	161	680	1 158 [e]	4 300	26.9	88	77	28
Omnicom Group Inc[f]	United States	288	14 355	3 901	8 621	13 820 [e]	58 500	23.6	313	171	26
Aegis Group PLC	United Kingdom	129	3 316	45 [h]	1 159	333 [i]	8 538	3.9	159	123	31
Publigroup	Switzerland	121 [c]	650	264 [b]	1 413	519 [d]	2 779	18.7	76	48	18
Incepta Group PLC	United Kingdom	89	614	191	395	674 [e]	2 148	31.4	77	21	10
Taylor Nelson Sofres PLC	United Kingdom	43 [b]	1 186	431 [b]	1 314	2 031 [e]	11 150	18.2	116	75	24
Construction											
Bouygues	France	11 216 [c]	25 097 [b]	2 589	5 793	16 536 [d]	37 000	44.7	638	265	55
Vinci (Ex SGE)	France	9 158 [c]	27 515	7 593	22 813	42 397 [d]	127 380	33.3	540	201	24
Skanska AB	Sweden	6 442	9 057	15 177	18 036	54 091 [e]	69 669	77.6	542	316	35
Hochtief	Germany	4 372	8 935	10 745	13 250	22 129 [e]	34 039	65.0	128	104	25
Grupo Ferrovial	Spain	3 358 [c]	11 763	1 510	5 289	8 124 [d]	28 454	28.6	210	128	9
NCC AB	Sweden	2 145	4 167	3 543	6 286	12 983 [e]	24 076	53.9	206	114	17
Kajima Corporation	Japan	1 945	16 406	1 506	15 861	1 855 [e]	17 376	10.7	84	63	10
Bilfinger Berger	Germany	1 710 [c]	2 880	3 593	6 052	29 957 [d]	50 460	59.4	243	101	29
Keppel Corporation Limited	Singapore	1 360	5 926	875	3 409	8 722 [b]	20 402	30.5	242	52	10
Fluor Corp.	United States	1 219 [b]	3 449	3 444	8 803	10 802 [e]	29 011	37.2	89	45	17
Eiffage	France	941 [c]	6 299	1 073 [b]	7 186	6 884 [d]	46 101 [b]	14.9	498	59	17
BAM Groep NV	Netherlands	807 [c]	4 054	748 [b]	3 755 [b]	6 093 [d]	30 588 [b]	19.9	155	12	2
Nishimatsu Construction Company Limited	Japan	797	5 444	635	3 897	723 [e]	4 672	15.5	7	3	3
Volker Wessels Stevin	Netherlands	529 [b]	2 171	698 [b]	3 196	3 628 [e]	15 700 [b]	23.1	366	68	10
Amec PLC	United Kingdom	199 [b]	2 888	4 247	7 673	14 285 [e]	45 901	31.1	335	181	24
Hotel											
IAccor	France	9 131 [c]	13 781	5 646	8 521	104 704 [d]	158 023	66.3	360	190	33
Intercontinental Hotels Group PLC	United Kingdom	5 283	9 429	2 420	3 843	17 738 [e]	29 809	59.5	339	251	42
Shangri-La Asia Limited	Hong Kong, China	4 013	4 742	432	540	13 000	16 300	81.5	..	..	..

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Annex table A.III.5. The world's selected 15 largest services TNCs in eight industries, 2003 (continued)

(Millions of dollars and number of employees)

TNC	Home economy	Assets		Sales		Employment		TNI [a] (Per cent)	Affiliates		
		Foreign	Total	Foreign	Total	Foreign	Total		Total	Number of foreign affiliates	Number of host countries
City Developments Limited	Singapore	2 955 [b]	6 490 [b]	806 [b]	1 278 [b]	11 001 [b]	13 940 [b]	62.5	57	6	2
Millennium & Copthorne Hotels PLC	United Kingdom	2 940	4 139	812	934	9 739 [e]	12 328	79.0	44	9	5
Hilton Group	United Kingdom	2 179	9 422	2 683	15 947	9 825 [e]	49 187	20.0	298	117	39
Starwood Hotels and Resorts	United States	2 083	11 894	994	3 779	24 099 [e]	110 000	21.9	62	9	7
Fairmont Hotels Resorts Inc	Canada	1 726 [b]	2 503	326 [b]	691	..	..	58.1	26	11	6
Orient Express Hotels Limited	Bermuda[j]	722	1 174	229	329	5 150	5 300	76.1	4	1	1
Hong Kong & Shanghai Hotel	Hong Kong, China	650 [b]	2 404 [b]	135 [b]	332 [b]	3 653 [b]	5 953 [b]	43.0	9	1	1
Raffles Holdings[f]	Singapore	604	1 455	192	247	1 936 [e]	3 248	59.6	28	15	5
Jurys Doyle Hotel Group PLC	Ireland	555 [b]	835	161 [b]	286	2 346 [e]	3 822 [b]	61.4	8	1	1
Four Seasons Hotels Inc	Canada	508 [b]	947	92 [k]	123	27 409	28 640	74.7	30	25	8
Queens Moat House PLC	United Kingdom	472 [b]	1 351 [b]	230 [b]	522 [b]	2 449 [e]	6 200 [b]	39.5	81	50	5
Marriott International Inc	United States	395 [b]	8 296	563 [b]	1 487	27 279 [e]	128 000 [b]	21.3	161	79	28
Logistics[l]											
Deutsche Post World Net	Germany	29 184	193 732	21 806	45 267	108 609 [b]	341 572	31.7	363	307	99
TPG NV	Netherlands	7 578	9 698	10 156	13 423	125 372 [e]	163 028	76.9	241	167	29
Neptune Orient Lines Ltd.	Singapore	4 580 [b]	4 064	4 501 [b]	5 386	11 187 [b]	12 218 [b]	95.9	98	57	14
United Parcel Service Inc	United States	3 567	28 909	6 517	33 485	56 765 [e]	357 000	15.9	163	97	34
Fedex Corp.	United States	1 536	15 385	5 210	22 487	31 647 [e]	190 918	16.6	91	59	32
Orient Overseas International Ltd	Hong Kong, China	1 148 [b]	2 189 [b]	1 012 [b]	2 458 [b]	4 039 [b]	4743 [b]	59.6	13	13	4
DSV	Denmark	1 012 [c]	1 357 [b]	2 227 [b]	2 987 [b]	6 896 [d]	9 249 [b]	74.6	60	47	9
CNF Inc	United States	773 [c]	2 750	1 434	5 104	7 304 [d]	26 000	28.1	39	21	12
Geodis	France	568 [h]	2 158	1 278	4 020	4 700	22 519	26.3	216	59	20
Nippon Express Company Limited	Japan	568 [b]	10 026	2 111	13 951	4 167 [e]	40 081	10.4	61	30	20
Expediators International Of Washington	United States	502	1 036	2 105	2 625	5 533 [e]	8 600	64.3	68	66	44
UTI Worldwide Inc	British Virgin islands	432	626	261	405	6 730 [e]	10 079	66.8	1	1	1
Kintetsu World Express	Japan	396	794	893	1 663	3 063 [e]	5 915	51.8	33	25	13
EGL Inc	United States	386	941	1 086	2 172	4 099 [e]	9 000	45.5	23	17	9
Norbert Dentressangle	France	308 [c]	950 [b]	498	1 537	..	..	32.4	99	29	10
Media[m]											
Vivendi Universal	France	49 667 [b]	69 080	17 617	32 053	45 772	49 617	73.0	287	119	16
News Corporation Limited	Australia	35 360	45 651	18 377	20 157	31 220	36 900	84.4	93	86	15
Time Warner Inc[n]	United States	22 907 [c]	121 783	7 442	39 565	15 048 [d]	80 000	18.8	374	181	25
Thomson Corporation	Canada	18 421	18 680	7 945	8 136	38 269 [e]	39 000	98.1	316	305	19
Lagardere Groupe	France	15 437 [c]	22 587	10 707	15 666	29 394 [d]	43 009	68.3	423	171	24
Bertelsmann	Germany	14 108 [b]	21 001	11 938 [b]	17 321 [b]	46 157	73 221	66.4	415	273	32
REED ELSEVIER	United Kingdom	9 277	14 459	3 765	8 795	27 300 [b]	35 000	61.7	360	134	20
VNU NV	Netherlands	9 117 [b]	11 607	4 197 [b]	4 883	31 753 [e]	38 605	82.3	185	126	50

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Annex table A.III.5. The world's selected 15 largest services TNCs in eight industries, 2003 (continued)

(Millions of dollars and number of employees)

TNC	Home economy	Assets		Sales		Employment		TNI [a] (Per cent)	Affiliates		
		Foreign	Total	Foreign	Total	Foreign	Total		Total	Number of foreign affiliates	Number of host countries
Pearson Plc	United Kingdom	7 252	11 350	6 010	7 229	25 610 [b]	30 868	76.7	245	82	19
Quebecor Inc	Canada	5 843 [b]	11 582	5 965	8 659	29 373 [e]	49 225	59.7	103	69	10
Unitedglobalcom Inc	United States	5 153 [b]	5 931 [b]	1 320 [b]	1 515 [b]	8 875 [e]	10 200 [b]	87.0	96	87	12
Wolters Kluwer NV	Netherlands	3 077 [c]	6 305	2 096 [b]	4 295	9 536 [d]	19 540	48.8	204	162	20
Walt Disney Company	United States	2 811	49 988	4 937	27 061	13 366 [e]	112 000	11.9	189	61	18
Viacom Inc	United States	2 718	89 754	4 029	24 606	11 703 [e]	120 630	9.7	204	92	15
Gannett	United States	2 600 [b]	14 706	983	6 711	8 567 [e]	53 000	16.2	261	181	1
Restaurants[o]											
McDonald's Corporation	United States	16 976	25 525	11 101	17 141	237 269 [b]	418 000	62.7	69	30	13
Sodexho Alliance SA	France	7 498 [c]	8 812	10 927	12 843	262 389 [d]	308 385	85.1	255	193	46
Compass Group PLC	United Kingdom	3 718	14 113	13 667	18 646	205 551 [e]	412 574	49.8	379	184	26
Yum! Brands Inc	United States	1 880	5 442	2 725	8 380	88 860 [e]	265 000	33.5	78	17	7
Elior	France	830 [c]	2 214 [b]	1 144 [b]	3 051	17 779 [d]	47 416	37.5	127	42	8
Starbucks Corporation	United States	603	2 730	209 [b]	4 100	10 059 [e]	74 000	13.6	135	129	13
Wendy's International Inc	United States	589	3 132	952	3 149	12 994 [e]	53 000	24.5	12	5	3
Quick Restaurant	Belgium	302 [b]	..	216 [b]	332 [b]	..	..	65.1	15	7	3
Tele Pizza, SA	Spain	193 [c]	280 [b]	237 [b]	343 [b]	9 924 [d]	14 363 [b]	69.1	10	3	3
Whitbread PLC	United Kingdom	133	5 537	139	3 188	1 775 [e]	52 437	3.4	54	3	2
Mövenpick Holding AG[f]	Switzerland	108 [b]	436 [b]	..	109	3 421 [e]	13 812 [b]	24.8	29	10	5
CI Traders Limited	United Kingdom	54 [b]	401 [b]	86 [b]	454 [b]	560 [e]	3 458 [b]	16.2	51	1	1
Worldwide Restaurants Concepts Inc	United States	22 [b]	150	144 [b]	294	4 950	8 450	40.8	11	..	..
Papa Johns International Inc	United States	3 [b]	347	32	917	315 [e]	14 610	2.2	..	..	..
Inno-Pacific Holdings Limited	Singapore	2	11	3	5	26 [e]	58	44.3	3	2	1
Tourism[p]											
Carnival Corporation	United States	8 039 [c]	24 491	2 205	6 718	21 663 [d]	66 000	32.8	34	18	10
TUI	Germany	4 113 [b]	16 106	13 541	24 170	26 205 [e]	64 257	40.8	329	272	27
Thomas Cook AG	Germany	3 940	5 350	4 362	8 011	20 493	25 978	69.0	90	75	17
Intrawest Corp.	Canada	1 629	2 516	612	1 081	13 289 [e]	21 900	60.7	22	12	1
Exel PLC	United Kingdom	1 313	3 898	5 920	8 904	37 061 [e]	74 000	50.1	345	155	35
Kuoni Reisen	Switzerland	1 110	1 487	1 801	2 447	5 879 [e]	7 931	74.1	63	55	19
China Travel International	Hong Kong, China	493	1 445	265	424	3 229 [e]	6 694	48.2	2	..	..
JTB Corp.	Japan	453	4 947	729	9 648	..	..	8.4	89	35	12
First Choice Holidays PLC	United Kingdom	308 [c]	817	525	1 391	5 203 [d]	13 796	37.7	162	55	15
Flight Centres International	Australia	293	796	218	626	1 860 [e]	5 188	35.9	12	7	6
Sabre Holdings Corp.[f]	United States	258 [b]	2 956	808 [b]	2 001	1 522 [e]	6 200	24.6	8	4	4
H.I.S.	Japan	107	544	264	1 831	653 [e]	3 841	17.0	16	6	3
Mytravel Group PLC	United Kingdom	65	2 553	2 412	6 972	4 265 [e]	22 961	18.6	128	41	11

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Annex table A.III.5. The world's selected 15 largest services TNCs in eight industries, 2003 (concluded)

(Millions of dollars and number of employees)

TNC	Home economy	Assets		Sales		Employment		TNI [a] (Per cent)	Affiliates		
		Foreign	Total	Foreign	Total	Foreign	Total		Total	Number of foreign affiliates	Number of host countries
Morning Star Resources Limited	Hong Kong, China	60	82	10	57	199 [e]	433	45.9	..	..	..
Kinki Nippon Tourist Company Ltd.	Japan	36	1 460	75	889	522 [e]	9 520	5.5	18	1	4
Wholesale											
Marubeni Corporation	Japan	20 620	40 788	35 360	69 943	12 593	24 909	50.6	263	131	38
Mitsubishi Corporation	Japan	12 323	80 446	20 570	134 275	7 257	47 370	15.3	309	158	31
Mitsui & Co Ltd	Japan	11 735	64 391	30 102	108 658	3 300	37 734	18.2	368	209	42
Itochu Corporation	Japan	8 340	43 023	17 634	84 199	878	4 355	20.2	374	195	41
Nissho Iwai - Nichimen Holding Corp.[fq]	Japan	6 057	29 502	10 647	51 860	4 475	21 800	20.5	80	43	19
Celesio AG	Germany	5 642 [c]	6 947	16 992	20 924	20 282 [d]	24 975	81.2	384	378	12
Buhrmann NV	Netherlands	4 451	4 644	8 218	9 089	16 606 [e]	17 832	93.1	151	97	19
Hagemeyer NV	Netherlands	3 128	3 288	6 787	7 153	17 048 [e]	17 944	95.0	127	105	16
Tech Data Corp.	United States	2 809	4 168	9 567	17 406	5 139 [e]	8 400	61.2	17	15	10
Wolseley PLC	United Kingdom	2 347 [c]	3 015	4 012	5 153	30 600 [d]	39 299	77.9	346	129	17
Rexel	France	2 245 [c]	4 584 [b]	3 680 [b]	7 515 [b]	10 436 [d]	21 311 [b]	49.0	111	90	24
Avnet Inc	United States	1 999 [c]	4 500	4 020	9 048	4 487 [d]	10 100	44.4	87	82	27
Softbank Corporation	Japan	1 817	7 873	179	3 161	713 [e]	4 966	14.4	61	11	2
Sumitomo Corporation	Japan	..	48 058	..	81 376	..	31 589	..	376	192	37
Tomen Corporation	Japan	..	7 374	..	14 192	..	5 871	..	119	63	24

Sources: UNCTAD/Erasmus University database on largest TNCs; *Thomson ONE Banker* (http://banker.analytics.thomsonib.com/); *Who Owns Whom, 2003* (London, Dun and Bradstreet, 2003).

Note: TNCs in this table are selected according to the following criteria: first, large TNCs are selected by the volume of foreign assets, then by foreign employment and finally by the number of foreign affiliates. They are ranked according to the volume of foreign assets, then foreign employment and finally the number of foreign affiliates.

[a] "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. For the TNCs for which all of these ratios are not available, one or two ratios are used to calculate TNI.

[b] Data refer to 2002.

[c] Estimated by applying the share of foreign sales in total assets to total assets.

[d] Estimated by applying the share of foreign sales in total sales to total employment.

[e] Estimated by applying the average of the share of foreign assets in total assets and the share of foreign sales in total sales to total employment.

[f] Holding company.

[g] Estimated by applying the average of the share of foreign sales in total sales and the share of foreign employment in total employment to total assets.

[h] Estimated by applying the share of foreign assets in total assets to total sales.

[i] Estimated by applying the share of foreign assets in total assets to total employment.

[j] Management decision is undertaken in United Kingdom.

[k] Estimated by applying the average of the share of foreign assets in total assets and the share of foreign employment in total employment to total sales.

[l] Includes postal and courier services, trucking without storage and freight forwarding.

[m] Includes radio, TV, printing and pulishing.

[n] On 16 October 2003, AOL Time Warner Inc. changed its name to Time Warner Inc.

[o] Includes eating and drinking places, catering services.

[p] Includes travel and transportation agencies, tour operators, retal cars,passenger ticket offices.

[q] On 1 April 2003, Nichimen and Nissho Iwai Corporation were merged to establish a parent holding company, Nissho Iwai - Nichimen Holdings Corporation.

Annex table A.III.6. The 20 largest legal TNCs, ranked by number of lawyers, 2002
(Millions of dollars and number)

Rank	Name	Home country	No. of partners	No. of lawyers	Growth in no. of lawyers, 1993-2002 (Per cent)	No. of countries	No. of locations	Fee income, latest year (Million dollars)
1	Baker & McKenzie	United States	621	3 141	61	38	68	1 134
2	Clifford Chance/Punder/Rogers & Wells	United Kingdom	580	2 600	125	24	33	1 520
3	Skadden Arps Slate Meagher & Flom	United States	314	1 366	35	14	22	1 310
4	Freshfields	United Kingdom	277	1 327	103	20	28	1 200
5	Jones Day Reavis & Pogue	United States	416	1 319	24	13	29	908
6	Allen & Overy	United Kingdom	265	1 285	128	20	25	1 155
7	Eversheds	United Kingdom	386	1 062	51	12	21	425
8	Linklaters	United Kingdom	229	1 036	51	22	30	..
9	White & Case	United States	218	1 017	127	28	39	675
10	Latham & Watkins	United States	322	984	79	10	21	1 032
11	Morgan Lewis & Bockius	United States	313	964	62	7	17	558
12	Mallesons Stephen Jaques	Australia	192	922	-	4	..	..
13	Sidley & Austin	United States	412	886	23	8	..	831
14	Holland & Knight	United States	533	859	-	6	34	532
15	Shearman & Sterling	United States	178	849	41	10	18	700
16	McDermott Will & Emery	United States	480	849	81	3	8	628
17	Akin Gump Strauss Hauer & Feld	United States	298	836	-	8	17	575
18	Mayer Brown & Platt	United States	317	827	44	9	16	705
19	CMS Cameron McKenna	United Kingdom	185	822	-	37	..	..
20	Lovells Boesebeck Droste	United Kingdom	227	801	21	23	26	..

Source: UNCTAD, based on *International Financial Law Review*, January 2000 (www.iflr.com); and company websites.

Annex table A.III.7. The 30 largest telecom TNCs in the world, ranked by the number of host economies, 2002

(Billions of dollars and numbers of employees)

Rank	Corporation	Home economy	Assets		Sales		Employment		TNI[a] (Per cent)	Number of affiliates		Number of host counries
			Foreign	Total	Foreign	Total	Foreign	Total		Total affiliates	Foreign affiliates	
1	France Telecom	France	73	112	20	49	102 016	243 573	50	220	129	42
2	Telecom Italia	Italy	..	85	6	30	20 334	106 620	20	343	192	41
3	Deutsche Telekom	Germany	37	121	17	51	78 146	255 969	32	163	86	28
4	AT & T Corp.	United States	..	55	2	38	..	71 000	4	142	51	28
5	Cable & Wireless PLC	United Kingdom	4	26	5	8	..	35 561	37	130	47	27
6	Teliasonera AB	Sweden	18	24	1	7	16 504	29 173	75	154	93	26
7	BT Group PLC	United Kingdom	2	43	2	29	9 000	107 400	8	237	84	26
8	Tele2 AB	Sweden	5	6	4	5	..	3 274	77	..	..	23
9	Telefónica SA	Spain	36	71	11	27	88 401	152 845	50	222	146	19
10	Nippon Telegraph and Telephone Corp.	Japan	..	158	..	99	..	213 062	..	353	72	19
11	Vodafone Group PLC	United Kingdom	207	233	34	42	56 667	66 667	85	196	65	19
12	Kddi Corp.	Japan	..	24	..	21	..	13 575	..	60	28	19
13	Colt Telecom Group PLC	United Kingdom	2	4	1	2	..	5 005	57	33	17	13
14	SBC Communications Inc	United States	..	95	..	43	..	175 980	..	218	16	12
15	Datatec Limited	South Africa	..	1	2	2	..	3 023	96	30	26	12
16	Verizon Communications Inc	United States	14	167	3	67	19 513	229 497	7	218	13	11
17	TDC A/S	Denmark	..	13	4	7	..	22 263	55	63	28	10
18	Bellsouth Corp.	United States	3	49	2	22	..	77 000	8	67	12	10
19	Royal KPN	Netherlands	..	26	3	12	..	38 118	24	129	39	9
20	Level 3 Communications Inc	United States	1	9	1	3	..	6 275	16	49	17	9
21	Cellstar Corp.	United States	..	..	2	2	..	1 100	75	17	11	9
22	Swisscom R	Switzerland	2	12	3	11	..	20 470	23	40	19	8
23	Iberdrola	Spain	4	24	1	10	..	14 285	12	69	12	6
24	Singapore Telecommunications Ltd.	Singapore	16	19	3	6	9 877	21 716	62	43	8	6
25	América Móvil	Mexico	2	11	2	6	6 629	14 572	31	9	8	6
26	MTN Group Limited	South Africa	1	4	1	2	..	4 192	36	12	6	6
27	NTL Inc	United States	13	13	3	3	15 130	14 922	100	160	155	5
28	Telstra Corporation	Australia	3	21	1	11	..	40 427	12	27	8	4
29	Telekom Malaysia Berhad	Malaysia	..	9	..	3	..	33 726	..	69	5	4
30	BCE Inc	Canada	1	39	1	20	..	66 266	3	90	14	3

Source: UNCTAD, based on UNCTAD/Erasmus University database on largest TNCs; *Thomson ONE Banker* (http://banker.analytics.thomsonib.com); *Who Owns Whom, 2003* (London: Dun and Bradstreet).

[a] The "Transnationlity 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. For the TNCs for which these three ratios are not available, one or two ratios are used to calculate the Index.

Annex table A.III.8. The world's largest electricity TNCs, ranked by foreign assets, 2002

(Millions of dollars and number of employees)

Rank	Corporation	Home economy	Assets		Sales		Employment		TNI[a] (Per cent)	Number of affiliates		Number of host counries
			Foreign	Total	Foreign	Total	Foreign	Total		Total affiliates	Foreign affiliates	
1	E.On	Germany	52 294	118 526	13 104	35 054	42 063	107 856	40.2	663	385	23
2	RWE	Germany	50 699	105 116	17 622	44 110	55 563	131 765	43.4	709	400	31
3	Electricité de France	France	47 385	151 835	12 552	45 743	50 437	171 995	29.3	247	185	20
4	Suez	France	38 739	44 805	34 165	43 596	138 200	198 750	78.1	494	277	26
5	Korea Electric Power	Republic of Korea	..	32 808	6 542	8 632	..	36 000	75.8	12	2	2
6	AES Corp.	United States	22 784	33 776	6 542	8 632	24 284	36 000	70.2	60	25	14
7	Endesa	Spain	22 460	50 503	5 528	16 305	12 334	26 354	41.7	149	43	10
8	Areva	France	..	30 812	5 271	8 673	..	50 147	60.8	202	81	29
9	National Grid Transco	United Kingdom	16 541	35 574	6 169	13 473	9 975	27 308	42.9	235	39	5
10	Scottish Power PLC	United Kingdom	12 971	19 903	3 992	7 559	6 291[b]	13 825	54.5[b]	110	27	2
11	Duke Energy Corp.	United States	12 247	49 113	2 181	15 663	4 400	22 000	19.6	86	37	6
12	Fortum Corp.	Finland	..	18 847	7 464	11 698	..	13 670	63.8	95	78	12
13	Edison International Inc	United States	7 864	33 284	1 157	11 488	..	15 038	16.8	201	61	7
14	Union Fenosa SA	Spain	..	15 695	2 048	6 119	..	23 925	33.5	121	65	24
15	Public Service Enterprise Group Inc	United States	4 186	25 414	526	8 390	..	12 911	11.4	19	2	2
16	Electricidad De Portugal	Portugal	..	18 446	1 243	6 702	..	18 455	18.5	69	10	3
17	Cinergy Corp.	United States	3 216	19 398	1 300	6 436	..	7 000	18.4	36	10	4
18	Dominion Resources	United States	3 172	31 112	860	10 034	..	14 600	9.4	42	4	2
19	TXU corp.	United States	3 172	30 794	860	11 571	..	11 855	8.9	62	12	4
20	CLP Holdings	Hong Kong, China	1 905	7 793	130	3 350	37	4 303	9.7	10	3	1
21	CMS Energy Corp.	United States	1 857	17 634	637	11 558	..	6 002	8.0	45	7	3
22	Motor-Columbus	Switzerland	1 751	3 671	2 050	2 677	5 175	7 879	63.3	49	18	11
23	Centerpoint Energy Inc	United States	1 456	13 712	260	8 687	..	10 477	6.8	25	1	1
24	Hong Kong Electric Holdings Ltd.	Hong Kong, China	1 023	7 261	3	1 522	..	2 204	7.1	10	3	2
25	EG Laufenburg	Switzerland	..	1 020	1 690	1 897	..	232	89.1	6	2	2

Source: UNCTAD, based on UNCTAD/Erasmus University database on the largest TNCs; *Thomson ONE Banker* (http://banker.analytics.thomsonib.com); *Who Owns Whom, 2003* (London, Dun and Bradstreet, 2003); company websites.

[a] The "Transnationlity 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. For the TNCs for which these three ratios are not available, one or two ratios are used to calculate the Index.

[b] As of 31 March 2003.

Annex table A.III.9. The world's 10 largest insurance and reinsurance TNCs, ranked by foreign income, 2003

(Millions of dollars and number of employees)

Corporation	Business[a]	Home country	Total assets	Insurance income		Employment		TNI[b] (Per cent)	Number of host countries
				Foreign	Total	Foreign	Total		
Allianz	I	Germany	1 168 000	74 550	106 200	90 350	173 750	61.1	60
AXA	I	France	967 000	69 700	89 390	85 490	117 113	75.5	50
Zürich Financial Services	I	Switzerland	317 900	44 520	48 920	..	62 000	91.0	50
ING[c]	I	Netherlands	972 500	..[d]	66 420	80 000	115 200	69.4	48
Generali	I	Italy	287 100	37 890	61 920	..	58 000	61.2	42
AIG	I	United States	678 350	31 980	92 700	..	86 000	34.5	95
Munich Re	R	Germany	261 400	27 640	50 436	11 060	41 430	40.7	30
Aviva	I	United Kingdom	370 650	26 640	53 280	..	56 000	50.0	27
Swiss Re	R	Switzerland	130 540	24 826	25 646	..	7 949	96.8	30
Prudential[e]	I	United Kingdom	287 250	12 975	24 480	9 540	21 000	49.2	18

Source: UNCTAD, based on company websites.

[a] I = Insurance; R = Reinsurance.

[b] The "Transnationlity Index" (TNI) in this table is calculated as the average of the following two ratios: foreign insurance income to total insurance income and foreign employment to total employment. For the TNCs for which these two ratios are not available, only one ratio is used.

[c] Employment figures refer to global activities.

[d] Figure is not available, but the estimated amount is in the order of $44 billion.

[e] Foreign income and foreign employment cover non-European business only.

Annex table A.III.10. The world's 20 largest retail TNCs, ranked by foreign sales, 2002

(Millions of dollars)

Rank	Corporation	Home country	Industry segments	Sales		Assets		Number of host countries
				Foreign	Total	Foreign	Total	
1	Royal Ahold NV	Netherlands	Cash & carry, convenience, discount, drugstore, specialty, hypermarket, supermarket	53 356	66 339	20 858 [a]	23 736	26
2	Wal-Mart Stores	United States	Discount, hypermarket, supermarket, superstore, warehouse	47 572	244 524	30 709 [b]	94 685	9
3	Carrefour SA	France	Cash & carry, convenience, discount, hypermarket, supermarket	35 589	72 737	28 594 [a]	40 105	31
4	Metro Group	Germany	Cash & carry, department, "do-it-yourself", hypermarket, specialty, superstore	25 225	54 531	11 699 [a]	22 511	27
5	Delhaize Group	Belgium	Supermarkets	18 275	21 895	9 920 [a]	10 645	7
6	Pinault-Printemps-Redoute	France	Department, mail order, specialty	16 692	28 972	19 240 [a]	29 484	15
7	Tengelmann Group	Germany	Cash & carry, discount, "do-it-yourself", drugstore, hypermarket, specialty, supermarket, superstore	13 671	28 226	.. [c]	5 227	15
8	Aldi	Germany	Discount	12 811	33 837	..	..	11
9	Ito-Yokado Co. Ltd	Japan	Convenience, department, discount, food service, hypermarket, specialty, supermarket, superstore	11 915	25 258	3 099 [d]	20 977	12
10	Christian Dior	France	Specialty	11 276	13 936	11 909 [a]	26 320	48
11	IKEA	Sweden	Specialty	11 037	..	..	..	32
12	Auchan	France	Department, "do-it-yourself", hypermarket, specialty, supermarket	10 390	26 071		18 489	19
13	Kingfisher Plc	United Kingdom	Home improvement	9 207	13 695	7 130 [b]	9 992	8
14	Intermarché	France	Cash & carry, convenience, discount, "do-it-yourself", food service, specialty, supermarket, superstore	9 156	31 688	..	..	7
15	Otto Versand	Germany	Mail order	8 682	16 463	.. [d]	5 674	18
16	Rewe	Germany	Cash & carry, discount, "do-it-yourself", drugstore, hypermarket, specialty, supermarket, superstore	8 113	35 405	..	..	10
17	Tesco Plc	United Kingdom	Convenience, hypermarket, supermarket, superstore, specialty	7 438	33 503	4 491 [d]	19 110	10
18	Lidl & Schwarz	Germany	Cash & carry, discount, hypermarket, superstore	6 711	21 728	..	..	19
19	Rallye	France	Cash & carry, convenience, department, discount, food service, hypermarket, speciality, supermarket, warehouse	5 886	25 062	.. [a]	17 728	15
20	Sears, Roebuck and Co.	United States	Department, mail oder, speciality, e-commerce	4 189	41 366	3 481 [a]	50 409	2

Source: UNCTAD, based on Coe 2003, p. 12, annual reports, *Thomson ONE Banker* (http://banker.analytics.thomsonib.com/), and *2004 Global Powers of Retailing* (http://www.stores.org).

[a] As of December 2002.
[b] As of January 2003.
[c] As of April 2002.
[d] As of February 2003.

Annex table A.III.11. Trading for Japan: the seven *sogo shosha*, ranked by foreign sales, 2003
(Millions of dollars and number of employees)

Rank	Corporation	Assets		Sales		Employment		TNI [b]	Exports from	Number of affiliates		Number of
		Foreign	Total	Foreign [a]	Total	Foreign	Total	(Per cent)	parent firms	Total affiliates	Foreign affiliates	host countries
1	Marubeni Corporation	20 620[c]	40 788	35 360	69 943	12 593[c]	24 909	50.6	10 516	263	131	38
2	Mitsui & Co Ltd	11 735[d]	64 391	30 102	108 658	3 300	37 734	18.2	..	368	209	42
3	Mitsubishi Corporation	12 323[c]	80 446	20 570	134 275	7 257[c]	47 370	15.3	18 008	309	158	31
4	Itochu Corporation	8 340	43 023	17 634	84 199	878[e]	4 355	20.2	7 899	374	195	41
5	Nissho Iwai - Nichimen Holding [f]	6 057[c]	29 502	10 647	51 860	4 475[c]	21 800	20.5	7 731	80	43	19
6	Sumitomo Corporation	..	48 058	..	81 376	..	31 589	..	..	376	192	37
7	Tomen Corporation	..	7 374	..	14 192	..	5 871	..	2 451	119	63	24

Source: *UNCTAD,* based on companies' annual reports and *Who Owns Whom* (London: Dun and Bradstreet, 2003).

[a] Defined as the sum of: (1) exports from parent firms, (2) exports from foreign affiliates less those to Japan, (3) exports between foreign affiliates, and (4) domestic sales of foreign affiliates.

[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. For the TNCs for which all of these ratios are not available, one or two ratios are used to calculate TNI.

c Estimated by applying the share of foreign sales in total sales to total assets.

d Estimated by applying the average of the share of foreign sales in total sales and the share of foreign employment in total employment to total assets.

e Estimated by applying the average of the share of foreign assets in total assets and the share of foreign sales in total sales to total employment.

f On 1 April 2003, Nichimen and Nissho Iwai Corporation formed a holding company, Nissho Iwai-Nichimen Holdings Corporation. On 1 April 2004, the company was renamed Sojitz Corporation.

Annex table A.III.12. The world's 20 largest TNBs, ranked by number of host countries, 2002
(Millions of dollars and number)

Rank by number of host countries	Rank by total assets	Corporation	Home economy	Total assets	Employees	Subsidiaries[a]		Number of host countries
						Total	Foreign	
1	1	Citigroup	United States	1 097 190	250 000	1 237	662	73
2	13	JP Morgan Chase Bank	United States	622 388	72 000	1 095	584	52
3	5	HSBC Bank plc	United Kingdom	758 605	192 000	1 411	1 028	51
4	3	Deutsche Bank	Germany	795 839	94 782	1 276	981	45
5	17	Crédit Agricole SA	France	530 715	93 244	338	157	45
6	11	Barclays Bank plc	United Kingdom	637 125	77 200	627	192	42
7	18	Société Générale	France	526 042	39 102	380	257	40
8	8	Credit Suisse	Switzerland	691 152	79 699	244	196	36
9	6	BNP Paribas SA	France	745 429	45 870	208	142	34
10	19	ING Bank NV	Netherlands	500 694	9 000	269	191	34
11	15	ABN AMRO Bank NV	Netherlands	583 501	106 438	154	137	32
12	4	UBS	Switzerland	769 489	68 395	168	145	31
13	16	Bank of America NA	United States	565 382	133 500	1 003	171	31
14	10	The Royal Bank of Scotland plc	United Kingdom	663 232	23 382	891	313	25
15	9	The Bank of Tokyo-Mitsubishi Ltd.[c]	Japan	668 723[b]	37 125	129	104	20
16	7	Bayerische Hypo-und Vereinsbank AG	Germany	725 320	65 926	97	77	19
17	20	Commerzbank AG	Germany	442 999	36 566	99	52	18
18	12	UFJ Bank Ltd.[c]	Japan	625 306[b]	17 565	61	39	14
19	2	Sumitomo Mitsui Banking Corporation[c]	Japan	860 315[b]	22 348	36	26	12
20	14	Mizuho Bank Ltd.[c]	Japan	584 665[b]	16 090	74	52	12

Source: UNCTAD, based on Bankers Almanac database and individual bank internet websites.

[a] Includes all TNB subsidiaries.
[b] Data refer to March 2003.
[c] This bank is part of a much larger financial group.

Annex table A.III.13. Cross-border M&A sales and purchases in the services sector and their share in totals, by group of economies, 1987-2003

(Mllions of dollars and per cent)

Sector	1987-1990	1991-1995	1996-2000	2001-2003	1987-2003
(a) Sales					
All sectors					
Total world	481 096	556 761	2 973 379	1 260 736	5 271 973
Developed countries	455 080	484 599	2 598 441	1 044 371	4 582 490
Developing countries	25 705	59 772	330 034	172 475	587 985
Central and Eastern Europe	312	12 260	42 078	43 889	98 539
Services					
Total world	178 068	257 233	1 873 014	747 690	3 056 004
Developed countries	162 135	214 845	1 618 255	620 388	2 615 623
Developing countries	15 873	36 753	221 600	102 677	376 903
Central and Eastern Europe	61	5 634	30 580	24 625	60 901
Share of services					
Total world	37.0	46.2	63.0	59.3	58.0
Developed countries	35.6	44.3	62.3	59.4	57.1
Developing countries	61.7	61.5	67.1	59.5	64.1
Central and Eastern Europe	19.6	46.0	72.7	56.1	61.8
(b) Purchases					
All sectors					
Total world	481 096	556 761	2 973 379	1 260 736	5 271 972
Developed countries	463 800	508 122	2 763 372	1 130 553	4 865 847
Developing countries	16 308	48 038	198 474	114 538	377 359
Central and Eastern Europe	14	537	5 030	13 780	19 361
Services					
Total world	172 684	251 321	1 869 157	811 199	3 104 360
Developed countries	162 789	220 544	1 735 165	737 783	2 856 280
Developing countries	9 847	30 598	125 369	67 757	233 570
Central and Eastern Europe	6	179	2 365	3 795	6 345
Share of services					
Total world	36	45	63	64	59
Developed countries	35	43	63	65	59
Developing countries	60	64	63	59	62
Central and Eastern Europe	44	33	47	27	33

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

Note: Figures for the groups of economies may not add up to the world total due to inclusion of deals involving sales to, or puchases from, more than two countries in the world total.

Annex table A.III.14. The top 100 M&A deals, by home and host country or region, 1987-2003
(Number of deals, millions of dollars and per cent)

Home economy	Host economy	1987 - 1995						1996 - 2003					
		Number of deals		Value		Share in value		Number of deals		Value		Share in value	
		Total	Services	Total	Services	Total	Services	Total	Services	Total	Services	Total	Services
Western Europe	Western Europe	28	7	73 191	16 042	25	17	32	22	587 455	473 222	43	50
Western Europe	United States	36	11	111 983	33 712	38	35	28	18	431 160	249 932	31	26
Western Europe	Other developed countries	3	..	10 833	..	4	..	5	3	68 286	53 058	5	6
Other developed countries	Western Europe	4	3	8 134	5 498	3	6	4	..	30 430	..	2	..
Other developed countries	United States	9	5	35 260	20 321	12	21	6	4	45 107	28 783	3	3
United States	Western Europe	6	1	18 786	1 631	7	2	10	8	82 099	68 749	6	7
United States	Other developed countries	5	4	10 218	7 609	4	8	2	1	13 987	6 565	1	1
Developed countries	Developing countries	5	5	11 165	11 165	4	12	5[a]	3	57 463	36 185	4	4
Developing countries	Developed countries	2	..	3 444	..	1	..	5	4	44 954	34 219	3	4
Other		2	..	7 742	..	3	..	3	1	19 584	5 680	1	1
Grand total		100	36	290 757	95 978	100	100	100	64	1380 526	956 393	100	100

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

[a] Three of the purchases were from Bermuda.

Note: Including purchases of local companies by foreign affiliates of foreign TNCs.

Annex table A.III.15. Cross-border M&A sales in services, by industry, 1988-2003

(Millions of dollars)

Sector/industry	1988-1990	1991-1994	1995-1997	1998-2000	2001-2003
Services	156 748	163 600	398 608	1568 038	747 690
Electric, gas, and water distribution	1 753	7 212	63 135	119 803	98 528
Electricity and related services	300	5 319	56 558	93 840	70 626
Water supply and services	617	217	1 705	13 541	12 117
Gas production and/or distribution	835	1 676	4 756	11 076	15 785
Combination utilities, nec	-	-	115	1 346	-
Construction firms	1 641	2 099	6 750	9 809	4 721
Hotels, casinos, restaurants and drinking places	24 826	7 971	16 232	32 346	18 532
Hotels and casinos	17 408	6 447	10 108	18 051	12 841
Restaurants and drinking places	7 418	1 524	6 124	14 295	5 691
Trade	24 067	28 373	53 627	103 418	53 201
Wholesale trade-durable goods	4 986	9 560	16 569	15 368	14 816
Wholesale trade-nondurable goods	2 961	9 324	7 635	24 509	9 866
Retail trade-general merchandise and apparel	12 011	1 395	9 140	2 456	2 772
Retail trade-home furnishings	223	1 972	320	2 857	1 308
Retail trade-food stores	990	3 481	6 757	24 916	9 420
Miscellaneous retail trade	2 562	1 839	9 178	30 627	13 440
Repair services	333	803	4 028	2 685	1 579
Transport, storage and communications	20 220	26 892	43 484	584 841	187 038
Air transportation and shipping	1 022	2 859	3 156	17 933	6 384
Transportation and shipping (except air)	5 474	7 361	12 168	31 189	25 366
Telecommunications	13 723	16 671	28 160	535 719	155 289
Finance	50 809	50 103	118 588	393 807	218 698
Credit institutions	2 197	2 489	4 737	22 291	33 458
Savings and loans, mutual savings banks	1 117	1 209	1 352	942	1 370
Commercial banks, bank holding companies	12 912	9 078	36 266	101 713	73 275
Holding companies, except banks	1 446	1 255	6 632	15 714	4 040
Investment & commodity firms,dealers,exchanges	10 857	12 209	35 160	111 307	47 379
Other financial	350	266	169	229	464
Insurance	21 931	23 599	34 271	141 612	58 711
Business activities	20 104	20 978	49 350	232 661	125 132
Prepackaged software	1 309	2 756	4 381	32 931	9 399
Real estate; mortgage bankers and brokers	4 984	6 590	12 491	39 048	40 640
Business services	11 358	11 283	30 309	149 265	70 608
Advertising services	2 452	349	2 169	11 416	4 485
Public administration	-	-	715	2 172	459
Educational services	12	471	183	327	522
Health and social services	1 014	3 044	4 678	2 116	3 772
Health services	1 014	3 044	4 637	1 892	3 451
Social services	-	-	41	224	321
Community, social and personal service activities	12 205	15 751	38 260	86 555	36 942
Amusement and recreation services	2 392	994	2 446	3 486	1 210
Motion picture production and distribution	8 813	10 076	7 875	47 949	2 228
Radio and television broadcasting stations	483	2 972	20 277	28 924	31 453
Personal services	107	69	4 302	859	653
Sanitary services	410	1 640	3 360	5 336	1 397
Miscellaneous services	99	707	3 607	184	145

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

Note: The data cover only deals involving the acquisition of an equity stake of more than 10%.

Annex table A.III.16. Cross-border M&A sales/purchases in services, by region, 1987-2003

(Average annual value in millions of dollars)

Seller/Purchaser	United States	European Union	Other Western Europe	Other developed countries	Developing countries	Central and Eastern Europe	Total world[a]
1987-1990							
United States	7 111	7 612	714	4 836	966	-	21 247
European Union	1 662	8 703	438	3 036	550	-	14 392
Other Western Europe	657	459	-	88	2	-	1 205
Other developed countries	819	407	8	479	132	1	1 845
Developing countries	871	2 420	4	451	222	-	3 968
Central and Eastern Europe	-	31	-	-	-	-	31
Total world[a]	11 939	20 023	1 172	9 369	2 002	2	44 517
1991-1994							
United States	2 377	5 907	59	3 480	815	-	12 638
European Union	4 292	11 022	289	1 251	866	10	17 730
Other Western Europe	44	595	2	47	35	-	724
Other developed countries	482	363	1	364	217	-	1 426
Developing countries	1 639	1 385	67	623	2 854	1	6 570
Central and Eastern Europe	68	191	6	32	62	25	388
Total world[a]	9 383	19 826	424	6 160	5 066	36	40 900
1995-1997							
United States	8 093	17 528	2 204	7 814	1 201	-	36 840
European Union	12 256	29 264	4 226	691	4 321	3	50 761
Other Western Europe	195	1 448	250	7	349	-	2 249
Other developed countries	3 654	1 416	23	2 166	620	-	7 878
Developing countries	7 705	6 490	204	983	8 869	-	24 261
Central and Eastern Europe	491	1 711	29	7	714	20	3 001
Total world[a]	36 047	59 273	6 958	13 834	16 695	22	132 869
1998-2000							
United States	17 441	87 852	7 899	13 966	8 080	19	135 257
European Union	38 899	205 618	15 318	4 826	4 207	71	270 685
Other Western Europe	1 448	6 098	117	302	777	-	8 742
Other developed countries	8 148	10 482	51	2 877	1 185	-	22 743
Developing countries	11 378	29 846	775	1 778	9 091	33	53 097
Central and Eastern Europe	414	7 411	161	28	36	504	8 553
Total world[a]	86 097	358 428	24 372	26 654	24 561	627	522 679
2001-2003							
United States	6 673	45 360	1 030	14 402	5 992	-	73 458
European Union	19 364	74 106	1 736	5 113	1 899	52	102 270
Other Western Europe	1 169	4 848	414	4	811	33	7 280
Other developed countries	4 664	2 754	47	2 732	1 697	-	11 894
Developing countries	8 303	8 922	578	2 439	13 789	12	34 226
Central and Eastern Europe	415	6 056	626	7	18	1 086	8 208
Total world[a]	45 252	144 801	4 478	27 428	25 904	1 184	249 230

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

Note: The data cover deals involving the acquisition of an equity stake of more than 10% only. For sales/purchases made by the United States with itself, the ultimate seller/acquiror is a country other than the United States.

[a] Totals include sales/purchases involving more than two economies.

Annex table A.III.17. Profit remittances to parent firms[a] by Japanese and United States foreign affiliates, by sector, 1994-2002

(Millions of dollars)

Country/industry of foreign affiliates	1994	1995	1996	1997	1998	1999	2000	2001	2002
Japan									
All industries	..	2 870	..	..	3 333	..	..	3 559	..
Mining	..	24	..	..	179	..	..	51	..
Manufacturing	..	2 072	..	..	1 764	..	..	2 167	..
Services	..	774	..	..	1 390	..	..	1 341	..
Construction	..	24	..	..	14	..	..	14	..
Information, telecommunications, transport	..	..	..	..	..	..	..	52	..
Trade	..	682	..	..	1 062	..	..	1 151	..
Services	..	19	..	..	183	..	..	69	..
Other services	..	49	..	..	130	..	..	54	..
United States									
All industries	44 899	40 113	46 361	55 816	58 154	65 640	56 674	51 214	47 830
Mining	7 684	8 712	6 649	8 315	6 715	6 745	5 234	4 833	3 581
Manufacturing	14 179	11 893	16 709	19 878	19 593	21 304	14 967	13 667	15 677
Services	23 037	19 511	23 004	27 625	31 847	37 593	36 473	32 716	28 575
Utilities	..	..	..	..	..	608	479	226	298
Wholesale trade	4 853	4 371	5 166	7 790	4 972	6 102	4 758	5 552	5 514
Information	..	..	..	..	..	1 488	1 412	1 357	1 412
Depository institutions	3 020	3 111	2 445	3 772	4 183	5 834	3 700	3 977	3 970
Finance (except depository institutions) and insurance	11 600	9 064	11 507	10 970	16 448	5 474	6 291	5 034	3 929
Professional scientific and technical services	2 160	1 553	1 447	3 085	4 204	1 949	1 695	1 568	968
Other industries	1 404	1 412	2 439	2 008	2 040	16 138	18 138	15 002	12 484

Source: UNCTAD, based on data from United States, Department of Commerce and Japan, Ministry of Industry, Economy and Trade.

[a] Dividends paid to parent firms.

Annex table A.III.18. Profit remittances[a] as a percentage of total income of foreign affiliates of Japanese and United States TNCs, by sector, 1994-2002

(Per cent)

Country/industry of foreign affiliates	1994	1995	1996	1997	1998	1999	2000	2001	2002
Japan									
All industries	..	32	..	..	46	..	..	52	..
Mining	..	3	..	..	67	..	..	6	..
Manufacturing	..	36	..	..	56	..	..	62	..
Services	..	42	..	..	36	..	..	53	..
Construction	..	-8	..	..	-2	..	..	18	..
Information, telecommunications, transport	..	..	..	..	..	..	..	-2	..
Trade	..	41	..	..	29	..	..	30	..
Services	..	7	..	..	46	..	..	9	..
Other services	..	21	..	..	28	..	..	22	..
United States									
All industries	65	46	50	53	64	57	42	48	39
Mining	112	96	55	67	93	80	40	48	35
Manufacturing	55	35	49	52	66	60	35	42	50
Services	63	44	49	51	59	55	46	51	35
Utilities						41	30	14	19
Wholesale trade	58	48	57	86	55	49	34	43	42
Information						198	-147	-39	596
Depository institutions	78	96	73	115	570	603	169	149	175
Finance (except depository institutions) and insurance	60	37	40	34	47	42	41	60	28
Professional scientific and technical services	76	38	40	51	69	65	48	75	33
Other industries	84	49	110	59	64	42	43	37	26

Source: UNCTAD, based on data from United States, Department of Commerce and Japan, Ministry of Industry, Economy and Trade.

[a] Dividends paid to parent firms.

Annex table A.IV.1. Sources of export-oriented FDI projects in services in 2002-2003
(Number and per cent)

RHQ / Region/economy	Call centres		SSC		IT services			
	No. of projects	Share of total	No. of projects	Share of total	No. of projects	Share of total	No. of projects	Share of total
World	**513**	**100**	**138**	**100**	**632**	**100**	**566**	**100**
Developed countries	**468**	**91**	**128**	**93**	**562**	**89**	**523**	**92**
Western Europe	**141**	**27**	**46**	**33**	**105**	**17**	**208**	**37**
EU	**127**	**25**	**43**	**31**	**99**	**16**	**188**	**33**
Austria	-	-	-	-	1	-	3	1
Belgium	3	-	1	1	-	-	5	1
Denmark	3	-	1	1	1	-	4	1
Finland	2	-	-	-	4	1	4	1
France	16	3	-	-	11	2	24	4
Germany	27	5	9	7	11	2	54	10
Greece	-	-	-	-		-	1	-
Iceland	-	-	-	-	1	1	2	-
Ireland	4	-	1	1	5	-	2	-
Italy	3	-	-	-	2	-	6	1
Luxembourg	5	-	-	-	-	-	-	-
Netherlands	9	-	8	6	2	-	11	2
Portugal	1	-	-	-	-	-	1	-
Spain	4	-	-	-	3	-	4	1
Sweden	12	2	-	-	11	2	12	2
United Kingdom	38	7	23	17	47	7	55	10
Other Western Europe	**14**	**3**	**3**	**2**	**6**	**1**	**20**	**4**
North America	**309**	**60**	**76**	**55**	**428**	**68**	**253**	**45**
Canada	2	-	-	-	14	2	15	3
United States	307	60	76	55	414	66	238	42
Other developed economies	**18**	**4**	**6**	**4**	**29**	**5**	**62**	**11**
Australia	4	-	2	1	6	1	11	2
Israel	-	-	-	-	3	-	3	-
Japan	14	3	4	3	19	3	47	8
New Zealand	-	-	-		1	-	1	-
Developing economies	**43**	**9**	**10**	**7**	**65**	**10**	**41**	**8**
Africa	**2**	**-**	**-**	**-**	**8**	**1**	**3**	-
Latin America and the Caribbean	**8**	**-**	**4**	**3**	**7**	**1**	**5**	**-**
Asia and the Pacific	**33**	**6**	**6**	**4**	**50**	**8**	**33**	**6**
Central and Eastern Europe	**2**	**-**	**-**	**-**	**5**	**1**	**2**	**-**

Source: UNCTAD, based on data from OCO Consulting

Annex table A.IV.2. Top investors in export-oriented FDI projects in services, by number of projects, 2002-2003

Company name	Economy of origin	Industry	Jobs created[a]
Call centres			
ICT Group	United States	Business services	30/70
Net Screen	United States	IT and software	..
Hewlett Packard	United States	IT and software	..
IBM	United States	IT and software	1 130
Dell Computer	United States	Electronics	1 670
Siemens	Germany	Telecom equipment	..
Transcom Worldwide	Luxembourg	Business services	558
EADS	France	Aerospace	..
ExxonMobil	United States	Energy	350
General Electric	United States	Heavy industry	1 200
Shared service centres			
Accenture	Bermuda	IT and software	2 050
American Express	United States	Financial services	350
Conseco	United States	Business services	6 800
General Electric	United States	Heavy industry	2 800
HSBC	United Kingdom	Financial services	8 100
Philips	Netherlands	Electronics	1 050
Logica CMG	United Kingdom	IT and software	1 940
ING Groep	Netherlands	Financial services	650
ExxonMobil	United States	Energy	850
Aviva	United Kingdom	Financial services	3 300
IT services			
IBM	United States	IT and software	2280
Microsoft	United States	IT and software	510
Oracle	United States	IT and software	5 362
Hewlett Packard	United States	IT and software	360
NetScreen	United States	IT and software	..
Tata Group	India	IT and software	600
Honeywell	United States	IT and software	1 495
I-flex Solutions	India	IT and software	100
Intel	United States	IT and software	2 535
Motorola	United States	IT and software	470
Regional HQs			
Siemens	Germany	Telecom services	300
Ford	United States	Automotive OEM	..
General Electric	United States	IT and software	..
Hyundai	Korea, Republic of	Automotive OEM	700
Toyota	Japan	Automotive OEM	135
Deutsche Post	Germany	Logistics and distribution	600
IBM	United States	IT and software	1 000
Microsoft	United States	IT and software	215
EADS	France	Aerospace	..
Hitachi	Japan	Electronics	..

Source: UNCTAD, based on data from OCO Consulting.

[a] Information on jobs created is not captured for each project.

Annex table A.V.1. Service activities in EPZs

Economy	No. of EPZs	Other types of zones	Main activity/industry
Developed economies			
Greece	3		Tourism, packaging
Ireland	National Technical Park Shannon FZ		Aircraft maintenance, repair, overhaul, R&D, software, international financial services, call centres, distribution
Japan	2		IT international and financial centre division, planning and development, tourism
Malta	10		Warehousing, packaging, IT services, financial services
Portugal	4		Commercial services, warehousing
Spain	Cadiz free zone, Barcelona free zone, Vigo free zone	Stand-alone plants	Trade
Turkey	20		Trade, storage, assembly-disassembly, maintenance-repair, rentals, banking, insurance, engineering, consultancy,transportation and representation
Developing economies			
Africa			
North Africa			
Egypt	7	19 industrial parks	Warehousing, media production
Morocco	2		Call centres, software development
Sudan	3	Duty free shop	Commercial activities
Tunisia	2		Call centres, tourism
Other Africa			
Cape Verde	2		Tourism, data processing and telecommunication, banking, storage
Cameroon	1	Stand -alone plants	Distributing finished products
Gabon	1		Storage, distributing finished products, designing
Ghana	4		Production of goods and services, packaging
Kenya	6	11 industrial parks	Financial, marketing, technology and management services
Madagascar		Industrial free zone	Call centres, tourism
Maldives		Duty free areas and exclusive economic zone	Tourism, fisheries
Mali	3		Tourism
Mauritius	Whole island		Call centres, tourism, financial and business services, insurance, consultancy, aircraft financing and leasing
Namibia	11		Warehousing
Nigeria	5		Offshore banking, insurance and re-insurance, international stock, commodities and mercantile exchanges, commercial industrial research, international tourist resort development and operations
Senegal		1 Industrial free zone	Call centres, fisheries
Seychelles	1		Tourism
South Africa	6		Call centres, catering
Tanzania, United Rep. of	1		Repackaging, relabelling and trading, consultancy, information, brokerage and repair services
Togo	1		Offshore banking, data processing

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Annex table A.V.1. Service activities in EPZs (continued)

Economy	No. of EPZs	Other types of zones	Main activity/industry
Asia and the Pacific			
West Asia			
Bahrain	1		Financial and insurance, packing
Cyprus	1	Onshore, offshore	Tourism, trade, warehouse
Iran, Islamic Rep. Of	4		Commerce, financial, consultative, marketing, legal, advertising, engineering
Jordan	11		Trade, tourism
Kuwait	1		Banking and financial, consulting, assembly, packing, auditing, legal and/or engineering
Oman	2		Commercial centres, exhibition centres and stores, transportation
Saudi Arabia		8 Saudi ports of authority	Warehousing
Syrian Arab Republic	6		Packaging, warehouse, banking services, insurance, duty-free shops
United Arab Emirates	16		Design, development, e-commerce, telecommunication and media, banking, financial, insurance, educational, call centres, marketing operations, logistics, warehousing, trade, data software
Yemen	1		Banking, financial, insurance, warehousing
South, East and South-East Asia			
China	15	5 special economic zones, 15 coastal zones, 32 economic-technological development zones, 53 national hi-tech industrial development zones	Market intelligence and human resources, hi-tech development, consulting and information, data entry
Hong Kong, China		Industrial estates, cyberport science park	Financial, R&D, telecommunications, warehousing professional design
India	5		IT services, chip design, call centres, business back-office, software, trade, financial and insurance services, tourism and travel, warehouse, others
Indonesia		Bonded zone	Construction designing, engineering activity, sorting, preliminary and final inspection and packing
Macao, China		Port franc	Warehousing
Malaysia	14	200 industrial parks	Telecom network, shopping centres, hospitals, educational institutions, recreational facilities, R&D, financial services
Pakistan	22		Financial business, trade, transport, software services, web development, graphics and multimedia, IT services
Philippines	34	9 info-tech parks and buildings	Software writers, architects, telemarketers, graphic design, call centres, data entry
Republic of Korea	2 free economic and trade zones		Professional design, R&D centres
Singapore	5	35 industrial parks	Education and training, telecom services, financial services, media industries, R&D, refining and petrochemicals (plants and construction), wholesale and retail trade, hotels and restaurants, transport
Taiwan Province of China	8	Scientific and industrial park	Warehouses, trans-shipments, repair services, logistics centres
Thailand		Zone-like industrial estates	Warehousing, packaging, commercial services
Viet Nam	10	173	Call centres, consulting and information, hospital, insurance, data processing

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Annex table A.V.1. Service activities in EPZs (continued)

Economy	No. of EPZs	Other types of zones	Main activity/industry
The Pacific			
Fiji	1		Telemarketing, computer aided designs, enhancement of architectural, engineering blue prints, health insurance, others
Latin America and the Caribbean			
South America			
Argentina	4	Industrial parks	Packaging, commercial services
Brazil	1		R&D
Chile	2		Telecommunications, audiovisual, construction and engineering, tourism, bank, security and related services
Peru	1		Tourism, information, commercial services
Uruguay	9		Tourism, storage, logistics and distribution, software development, call centres, consulting, banking
Venezuela	3		Trade, packaging, customs agency
Other Latin America and the Caribbean			
Antigua and Barbuda	Free trade plus process zone		Data processing, trade call centres, financial services
Bahamas	3		Financial and security services, insurance
Barbados	Bonded		Software development, medical records processing, publishing, banking, telemarketing/call centres, health insurance, computer-aided design
Belize	1	Santa Elena Corozal district	Processing, packaging, warehousing, distribution of goods and services, data processing, business-support services, tourism
Costa Rica	12		Call centres, software and IT support, bookkeeping operations, tourism, logistic and distribution centre, financial services
Cuba	4		Tourism
Netherlands Antilles	3		Trading, distribution, warehousing, call centres
Dominican Republic	53		Banking, insurance, call centres, packaging, tourism
El Salvador	17		Financial and insurance services, tourism and travel, leasing, multimedia, courier
Guatemala	20		Commercial services
Honduras	28		Call centres, financial and security services
Jamaica	5		Warehousing and storing,redistribution, data processing, refining, assembling, packaging
Mexico	Maquiladoras		IT and engineering outsourcing, call centres, professional design
Nicaragua	2		Call centres, trade, telecommunications
Panama	1		Storing, assembling, repackaging and reexporting products, financial and insurance services, tourism
Puerto Rico	4	Industrial parks	Warehousing, packaging, financial and insurance services
Saint Kitts and Nevis		4 industrial parks	Packaging, tourism, financial services, customer service call centres, telemarketing, database conversion, health-care claims processing, software development, magazine subscriptions, data entry
Trinidad and Tobago	17 designated free zone areas	Single entity zones	Data processing, trade, call centres, software development, networking systems, database management, multimedia, telemarketing / teleservicing, financial services

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Annex table A.V.1. Service activities in EPZs (concluded)

Economy	No. of EPZs	Other types of zones	Main activity/industry
Central and Eastern Europe			
Albania	4	Industrial parks	Services, trade
Bulgaria	6		IT workshops
Bosnia	8		--
Croatia	8		Wholesale trade and trade commission, offering of services, banking business and other financial dealings, insurance and reinsurance regarding people and properties
Czech Republic	11		IT services, call centres
Hungary	1	Offshore	Warehousing, IT services, call centres
Lithuania	3		Warehousing, lobbying and representation, land and utilities management, constructionmanagement, financial services, consultating, facilities management
Poland	14		Storing and cargo handling, transport and forwarding services, IT services, trade, tourism, call centres
Romania	7		Stock exchange operations, commercial-financial operations, domestic or international transport, brokerage, agency and shipping
Russian Federation	Nakhodka FEZ		Software services, R&D centres
Slovenia	2		Wholesale trade, banking and other financial services, insurance and reinsurance
Ukraine	11		Tourism
Yugoslavia	12		Warehousing

Source: ILO, www.ilo.org/epz.

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% or more of the ordinary shares or voting power for an incorporated enterprise, or its equivalent for an unincorporated enterprise, is normally considered as the threshold for the control of assets.[1] A foreign affiliate is an incorporated or unincorporated enterprise in which an investor, who is a resident in another economy, owns a stake that permits a lasting interest in the management of that enterprise (an equity stake of 10% for an incorporated enterprise, or its equivalent for an unincorporated enterprise). In *WIR*, subsidiary enterprises, associate enterprises and branches – defined below – are all referred to as foreign affiliates or affiliates.

- A subsidiary 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%, 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 *WIR* 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 investment, 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, copyright, patents, processes, techniques, designs, manufacturing rights, franchises, etc., and (ii) the use, through licensing agreements, of produced originals or prototypes, such as manuscripts and films."[3]

B. Availability, limitations and estimates of FDI data presented in *WIR*

FDI data have a number of limitations. This section therefore spells out how UNCTAD collects and reports such data. These limitations need to be kept in mind also when dealing with the size of TNC activities and their impact (box 1).

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 (outward FDI) or net increases in liabilities (inward FDI) 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 purposes. Hence, FDI flows with a negative sign in *WIR* 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 reported data on FDI flows. These data are further complemented by data obtained from: (i) other international organizations 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 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 were not available for the entire period of 1980-2003 covered in the *World Investment Report 2004 (WIR04)*, data from the IMF were obtained using the IMF's CD-ROM on International Financial Statistics and Balance of Payments, June 2004. If the data were not available from the above IMF data source, data from the IMF's *Country Report*, under Article IV of the IMF's Articles of Agreements, were used.

For those economies for which data were not available from national official sources and the IMF, or for those for which data were not available for the entire period of 1980-2003, data from the World Bank's *World Development Indicators 2004* CD-ROM were used. This report covers data up to 2003 and reports data on net FDI flows (FDI inflows less FDI outflows) and inward FDI flows only. Consequently, data on FDI outflows, which are reported as World Bank data, are estimated by subtracting inward FDI flows from net FDI flows.

Data from the EBRD were 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 online databank, were used as a proxy for FDI inflows. As these OECD data are based on FDI outflows to developing

Box 1. What do changes in FDI mean?

Trends in FDI often differ greatly from indicators of economic performance such as fixed investment flows or stocks, sales and employment in parent firms and/or their foreign affiliates. Nonetheless, FDI is a commonly used indicator of economic activity in TNCs primarily because it is the most widely available indicator published in a timely fashion. Thus, changes in flows or stocks of FDI are often interpreted to signal changes in real economic activity of TNCs, even when there may be no major changes, or *vice versa*.

The major reason for differences in trends in FDI and trends in the indicators of economic activity, such as those indicated above, is conceptual. When examining investment trends, the net stock of fixed assets (cumulative fixed investment less depreciation) is used as one of the most common measures of capital. On the other hand, FDI flows are a source, not a use, of corporate finance, which makes them different from fixed investment flows conceptually. FDI flows are the sum of equity, reinvested earnings and loans remitted from the parent firm and related firms abroad to an affiliate in which it controls an ownership share above a certain threshold (i.e. 10%). Using the corporate balance sheet that shows total liabilities (equity + loans) equals total assets, FDI stock can then be related to more common measures of capital such as fixed asset stocks as follows:[a]

FDI stock = FDI equity + FDI reinvested earnings + FDI loans = fixed assets

+ non-fixed assets – (non-FDI equity + non-FDI loans)

In short, an increase in FDI stock (positive net FDI flows) can be used to finance purchases of fixed assets, non-fixed assets (of which the majority are usually financial assets), or a reduction in non-FDI liabilities (equity and/or loans). Thus, to the extent that FDI is used to purchase non-fixed assets or finance reductions in non-FDI liabilities, trends in FDI stock can easily diverge from trends in the accumulation of fixed capital. Moreover, trends in fixed assets may also differ from trends in other measures of real activity, which makes it very important to use the indicator that best describes the activity of concern in a given case.

For example, in both Japan and the United States, FDI flows have increased much more rapidly than fixed investment flows of foreign-owned affiliates, but the reverse is true in China. In China, fixed investment flows of affiliates have always been smaller than FDI flows, but this has not been the case for several years in Japan and the United States when FDI flows were relatively small. In contrast, FDI stocks have increased much more rapidly than measures of real activity, such as fixed asset stocks, sales and employment in China and the United States, but this has not necessarily been the case in Japan where FDI stock, fixed asset stock and employment have all increased rapidly, but sales have grown much more slowly. Finally, in the United States, the rapid growth of FDI stock has been accompanied by much more rapid growth in total assets than in fixed assets, indicating that large portions of the rapid growth in FDI were used to finance the purchase of non-fixed assets. Thus, even these three examples show a great variety of experience, and underline the importance of choosing the indicator that most closely reflects the activity of concern when analyzing TNC activities.

Source: UNCTAD, based on communications by Eric D. Ramstetter.

[a] This discussion ignores valuation changes and the like, which affect more sophisticated measures of FDI stock. However, this is another potential source of differences in trends of FDI stock and other indicators.

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: annualizing the data, if they are only partially available (monthly or quarterly) from either the IMF or national official sources; and using data on cross-border mergers and acquisitions (M&As) and their growth rates.

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 1980-2003, or part of it, are listed below.

Period	Economy
1980-2003	Brazil, Bolivia, Canada, Chile, Finland, Japan, Mexico, Peru, Republic of Korea, South Africa, Taiwan Province of China, Tunisia, Turkey, United States and Venezuela
1980-1993 and 1995-2003	Congo
1982-2003	Sweden
1983-2003	China
1985-2003	Austria, Burundi, Denmark, Papua New Guinea, Senegal and United Kingdom
1986-2003	Ecuador, France, Hungary, Ireland, Norway, Swaziland and Switzerland
1987-2003	Germany and the Netherlands
1988-2003	Iceland, Lesotho and Mauritius
1988-1991 and 1994-2003	Slovenia
1989-2003	Armenia and Myanmar
1990-2003	Algeria, Angola, Anguilla, Antigua and Barbuda, Aruba; Bahamas, Bahrain, Benin, Botswana, Bulgaria, Colombia, Costa Rica, Côte d'Ivoire, Czech Republic, Dominica, Dominican Republic, Egypt, Ghana, Greece, Grenada, Guatemala, Haiti, Honduras, Indonesia, Israel, Italy, Kenya, Kuwait, Malaysia, Malta, Montserrat, Morocco, Mozambique, Namibia, Oman, Philippines, Portugal, Romania, Rwanda, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Seychelles, Singapore, Slovakia, Sri Lanka, Togo, Trinidad and Tobago and United Republic of Tanzania
1990-1991 and 1994-2003	Zambia
1991-2003	Djibouti, India, Nicaragua and Uganda
1991-2001 and 2003	Cyprus
1992-2003	Argentina, Belarus, Burkina Faso, Cambodia, Estonia, Guyana, Kazakhstan, Latvia, Lithuania, Mongolia, Níger, Republic of Moldova, Serbia and Montenegro and Spain
1992-1993 and 1996-2003	Russian Federation
1992-1993 and 1999-2003	Ukraine
1993-2003	Croatia, Mali and Uruguay
1994-2003	Cape Verde and the TFYR Macedonia
1995-2003	Central African Republic, Chad, Equatorial Guinea, Gabon and Yemen
1996-2003	Bosnia and Herzegovina
1997-2003	Guinea-Bissau
1998-2003	El Salvador, Hong Kong (China) and Solomon Islands
1999-2003	Comoros
2000-2003	Jordan, the Netherlands Antilles
2002-2003	Belgium, Luxembourg and Poland

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Period	Economy
1980-2002	Barbados
1980-1985 and 1990-2002	Paraguay
1984-2002	Belize
1985-2002	Pakistan
1989-2002	Australia
1990-2002	Fiji, Gambia, Jamaica, Madagascar, Nigeria and Zimbabwe
1994-2002	Albania
1995-2002	Kyrgyzstan
2001-2002	Macao (China)
2002	Vanuatu
1990-2001	Suriname
1992-2001	Ethiopia
1996-2001	Sudan
1999-2001	Belgium and Luxembourg
2000-2001	Libyan Arab Jamahiriya
2001	Tajikistan
1994-1999	Azerbaijan
1980-1994	Thailand
1990-1994	Viet Nam
1990-1993	Malawi

Those economies for which national official sources provided either preliminary or estimated data are listed below.

Period	Economy
2003	Djibouti and Switzerland

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 1980-2003, or part of it, are listed below.

Period	Economy
1980-2003	New Zealand and Panama
1980-1988 and 2003	Australia
1984-1985, 1989 and 2002-2003	Sudan
1990-2003	Algeria, Côte d'Ivoire, Egypt, Israel, Malta, Morocco and Portugal
1997-2003	Georgia
2000-2003	Azerbaijan and Tajikistan
1980-2002	Saudi Arabia
1980-1989 and 2002	Suriname
1980-1990 and 2002	Cyprus
1980-1981, 1983, 1985, 1987 and 1994-2002	Malawi
1983-1984 and 1986-2002	Bangladesh
1986-2002	Maldives
1998-2002	São Tomé and Principe
1980-2001	Poland
1982-2001	Vanuatu
1984-1993 and 2000-2001	Tonga
1986-2001	Guinea
1995-2001	The occupied Palestinian territory
1994-2000	Islamic Republic of Iran
1996-2000	Eritrea and Nepal
1980-1999	Jordan, Libyan Arab Jamahiriya and the Netherlands Antilles
1980 and 1982-1999	Bahrain

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Period	Economy
1980-1998	Belgium and Luxembourg
1980-1995 and 1998	Mauritania
1994-1998	Ukraine
1980-1997	Solomon Islands
1980-1993 and 1995-1997	El Salvador
1996-1997	Turkmenistan
1980-1995	Cameroon and Sierra Leone
1987-1995	Comoros
1994-1995	Russian Federation
1980-1994	Central African Republic and Gabon
1980-1987 and 1990-1994	Yemen
1983 and 1985-1994	Kiribati
1984-1989 and 1991-1994	Chad
1986-1994	Paraguay
1988-1994	Lao People's Democratic Republic
1989-1994	Equatorial Guinea
1993-1994	Kyrgyzstan
1994	New Caledonia
1986-1993	Cape Verde
1990-1993	Brunei Darussalam
1992-1993	Albania and Slovenia
1980-1992	Mali
1980-1991	Argentina, Niger and Spain
1980-1989	Antigua and Barbuda, Bahamas, Botswana, Burkina Faso, Colombia, Costa Rica, Dominican Republic, Fiji, Ghana, Greece, Guatemala, Haiti, Honduras, Italy, Jamaica, Kenya, Malaysia, Nigeria, Oman, Philippines, Rwanda, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Seychelles, Singapore, Sri Lanka, Togo, Trinidad and Tobago, Zambia and Zimbabwe
1980-1984 and 1988-1989	Benin
1981-1989	Indonesia
1981 and 1987-1989	Gambia
1982-1989	Dominica and Grenada
1985-1989	Angola
1986-1989	Montserrat, Mozambique and Paraguay
1989	Madagascar and Nicaragua
1980-1981, 1986-1988	Uruguay
1980-1987	Iceland, Lesotho and Mauritius
1982-1987	Liberia
1980-1986	Germany and the Netherlands
1980-1985	Ecuador, France, Ireland, Guyana, Norway and Swaziland
1982-1985	Somalia
1983-1985	Switzerland
1980-1984	Austria, Pakistan, Papua New Guinea, Senegal and United Kingdom
1981-1984	Denmark
1980-1981	Sweden
1980 and 1982	China

Those economies for which the IMF's *Country Report* data were used for the period 1980-2003, or part of it, are listed below.

Period	Economy	*Country Report*
1999-2003	Liberia	March 2004, No. 04/84
2002-2003	Cameroon	December 2003, No. 03/401
2001-2003	Democratic Republic of Congo	April 2004, No. 04/97
	Eritrea	June 2003, No. 03/165
	Sierra Leone	March 2004, No. 04/49
2000-2003	Mauritania	October 2003, No. 03/314
2003	Barbados	May 2004, No. 04/154
1988	Comoros	March 2004, No. 04/77

Those economies for which World Bank data were used for the period 1980-2003, or part of it, are listed below.

Period	Economy
1992-1994, 1998-1999 and 2001	Samoa
1995-2001	Lebanon
1996-2001	Cameroon
1995-1999	Tonga
1993-1997	Somalia
1997	Kiribati
1992-1995	Nepal
1992-1993	Zambia
1993	Guinea-Bissau
1989-1991	Ethiopia
1990	Chad
1989	Czech Republic
1988	Djibouti
1982	Guinea
1981	China
1980-1981	Hungary
1980	Indonesia

Those economies for which data from the ASEAN Secretariat were used for the period 1995 to 2003, or part of it, are listed below. The data are on a balance-of-payments basis.

Period	Economy
1995-2003	Brunei Darussalam, Thailand and Viet Nam
1995-2002	Lao People's Democratic Republic

Those economies for which data from EBRD's *Transition Report 2003* were used for the period 1980-2003, or part of it, are listed below.

Period	Economy
1992-2003	Uzbekistan
1993-1995 and 1998-2003	Turkmenistan
1992-2000	Tajikistan
1993-1996	Georgia
1994	Bosnia and Herzegovina
1991-1993	TFYR Macedonia
1993	Azerbaijan
1992	Croatia

For those economies in which FDI inflows data were unavailable from the above-mentioned sources, UNCTAD's estimates were made 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
2002-2003	Equatorial Guinea
2003	Bolivia
1994-1999	TFYR Macedonia

(b) IMF

Year	Economy
1993-1999	Syrian Arab Republic
1988	São Tomé and Principe
1982-1985	Uruguay
1980-1983	Chad
1983	Nicaragua

Annualized data

Estimates were applied by annualizing 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
2003	Third quarter	Pakistan and Paraguay
	Second quarter	Nepal
2001	August	Ethiopia

(b) IMF

Year	Latest quarter/month	Economy
2003	Third quarter	Bangladesh and Suriname
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 were 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 only until 2002 at the time of the compilation of inflow data.

Period	Economy
1980-2002	Bermuda, Cayman Islands, Democratic Republic of Congo, Gibraltar and United Arab Emirates
1980-1981, 1986-1992 and 1998-2002	Somalia
1980, 1982-1989 and 1998-2002	British Virgin Islands
1980-1981 and 1988-1998	Liberia
1980, 1983, 1985-1986, 1988-1993, 1995-1996 and 1998-2002	New Caledonia
1980-1993 and 2001-2002	Islamic Republic of Iran
1980-1991 and 2001-2002	Nepal
1980 and 1982-2002	Cuba
1980 and 1983-2002	Qatar
1980-1983, 1987, 1991-1994 and 1996-2002	Afghanistan
1980-1995 and 1997-2002	Iraq
1994, 1996, 1998-1999 and 2001-2002	Tuvalu
1983-1988, 1990-1991, 1995-1997, 2000 and 2002	Samoa
1982-1983 and 1985-2000	Macao (China)
1990-1991, 1995-1997 and 2000	Bhutan
1987-2002	Democratic People's Republic of Korea
1996-2000	Sierra Leone
1996-1997 and 1999	Mauritania
1982 and 1996-1997	Comoros
1987, 1989, 1993 and 1995-1997	São Tomé and Principe
1984-1992 and 1994-1996	Guinea-Bissau

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Period	Economy
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
1980-1981 and 1983-1992	Syrian Arab Republic
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
1981, 1985-1988 and 1990	Nicaragua
1980-1989	Kuwait and 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
1980, 1983-1984 and 1986-1987	Myanmar
1985-1987	Benin
1980 and 1982-1986	Gambia
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 and Burundi
1980-1981	Vanuatu
1981	Bahrain, Belize and Dominica
1980	Cambodia and Grenada

Estimates of UNCTAD

Estimates of UNCTAD based on national and secondary information sources were applied to the following economies and periods where FDI inflows data were not available:

Period	Economy	Methodology
1980-1982, 1989 and 2003	Samoa	
1981-1982, 1984, 1987, 1997 and 2003	New Caledonia	
1981-1982 and 2003	Qatar	
1982 and 2003	Syrian Arab Republic	
1995-1996 and 1998-2003	Kiribati	
1995, 1997, 2000 and 2003	Tuvalu	
1995 and 2003	Afghanistan	
1998-1999 and 2001-2003	Bhutan	
2002-2003	Ethiopia, Lebanon, Libyan Arab Jamahiriya and Tonga	Estimated by projecting investment trend.
2003	Albania, Belize, Fiji, Gambia, Jamaica, Lao People's Democratic Republic, Macao (China), Madagascar, Malawi, Maldives, Nigeria, São Tomé and Principe, Somalia, Vanuatu and Zimbabwe	

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Period	Economy	Methodology
1996	Iraq	
1981 and 1989	Brunei Darussalam	
1980, 1983-1984 and 1987	Viet Nam	
1986	Namibia	
1980, 1982 and 1984	Nicaragua	
1980	Denmark and Equatorial Guinea	Estimated by monitoring investment situation using secondary sources and investment reported by major investor economies.
2003	Bermuda, British Virgin Islands, Cayman Islands, Cuba, Gibraltar, Islamic Republic of Iran, Saudi Arabia and United Arab Emirates	
1980-1997	Hong Kong (China)	Investments reported by major investor economies were used.

b. FDI outflows

Those economies for which national official sources' data were used for the period, 1980-2003, or part of it, are listed below.

Period	Economy
1980-2003	Brazil, Canada, Chile, Finland, Japan, Malaysia, Republic of Korea, South Africa, Taiwan Province of China, United Kingdom and United States
1981-2003	Tunisia
1982-2003	Sweden
1984-2003	Turkey
1985-2003	Austria and Denmark
1986-2003	France, Norway, Swaziland and Switzerland
1986-1989 and 1991-2003	Poland
1987-2003	Germany and the Netherlands
1988-2003	Iceland and Mauritius
1988-1992 and 2002-2003	Papua New Guinea
1989-2003	Australia
1990-2003	Bahrain, Botswana, Burundi, Colombia, Costa Rica, Egypt, Ireland, Israel, Italy, Kenya, Kuwait, Morocco, Namibia, Philippines, Portugal, Romania, Seychelles, Singapore and Venezuela
1991 and 1993-2003	Hungary
1992-2003	Argentina, Aruba, Estonia, Latvia and Slovakia
1992-1998 and 2001-2003	Mexico
1993-2003	Croatia, Czech Republic, India, Malta and Russian Federation
1994-2003	Kazakhstan, Republic of Moldova, Slovenia, Spain and Ukraine
1995-2003	Bulgaria, Central African Republic, Chad, Congo, Equatorial Guinea, Gabon, Lithuania and Peru
1997-2003	Belarus, TFYR Macedonia and Uruguay
1998-2003	Algeria, Cambodia, El Salvador, Greece and Hong Kong (China)
1999-2003	Trinidad and Tobago
2000-2003	Jordan and the Netherlands Antilles
2002-2003	Belgium, Lesotho and Luxembourg
2003	China
1980-2002	Barbados and Thailand
1983-2002	Zimbabwe
1984-2002	Belize
1989-2002	Nigeria
1990-2002	Bahamas, Côte d'Ivoire, Fiji, Gambia, Jamaica, Senegal and Togo
1990-1996 and 2000-2002	Bangladesh

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Period	Economy
1992-2002	Niger
1993-2002	Burkina Faso and Mali
1994-1999 and 2002	Cape Verde
1995-2002	Paraguay
1996-1999 and 2001-2002	Benin
1999-2002	Ecuador
2000-2002	Guinea-Bissau
2001-2002	Macao (China) and Madagascar
2002	Serbia and Montenegro
1985-2001	Pakistan
1990-2001	Indonesia and Sri Lanka
1992-2001	Albania
1994-2001	Libyan Arab Jamahiriya
1999-2001	Belgium and Luxembourg
2000	Brunei Darussalam
1980-1999	Bolivia
1998-1999	Azerbaijan
1999	Armenia
1992 and 1995-1997	Bosnia and Herzegovina
1990-1991	Haiti

Those economies for which national official sources provided either preliminary or estimated data are listed below.

Period	Economy
2003	Switzerland
2002	Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Madagascar, Mali, Niger, Senegal 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 1980-2003, or part of it, are listed below.

Period	Economy
1980-2003	New Zealand
1980-1988 and 2000-2003	Australia
1984 and 2002-2003	Pakistan
1985 and 1987-2003	Cyprus
1999-2003	Georgia
2000 and 2002-2003	Azerbaijan
2003	Thailand
1982-2002	China
1985-1989 and 2002	Sri Lanka
2000-2002	Bolivia
1988-1993 and 2000-2001	Cape Verde
1995-2001	The occupied Palestinian territory
1998-2001	Kyrgyzstan
1981-1984, 1995 and 2000	Benin
1980-1999	The Netherlands Antilles
1980-1996 and 1999	Jordan
1997-1999	Bangladesh
1980-1998	Belgium and Luxembourg
1998	Armenia
1993-1996	Dominican Republic
1996	El Salvador and Guinea

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Period	Economy
1980-1995	Cameroon
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
1980-1982 and 1987-1993	Libyan Arab Jamahiriya
1990-1993	Tonga
1992-1993	Slovenia
1992	Humgary
1980-1991	Algeria and Niger
1989-1991	Equatorial Guinea
1990	Comoros
1980-1989	Colombia, Costa Rica, Egypt, Fiji, Israel, Italy, Kenya, Kuwait, Portugal, Senegal, Seychelles and Singapore
1982 and 1984-1989	Venezuela
1989	Bahamas and Burundi
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, Norway, Poland and Swaziland
1980-1981 and 1983-1985	Botswana
1983-1985	Switzerland
1980-1984	Austria
1981-1984	Denmark
1980-1983	Argentina
1980-1981	Sweden

Where data were unavailable from the above-mentioned sources, estimates were applied by annualizing quarterly data obtained from either national official sources or the IMF for the economies and years listed below.

(c) National official sources

Year	Latest quarter/month	Economy
2003	Third quarter	Ecuador and Paraguay

(d) IMF

Year	Latest quarter	Economy
2003	Third quarter	Bangladesh

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

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Period	Economy
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
1991-1992	Trinidad and Tobago
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
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 UNCTAD's estimates.

Proxy

Inflows of FDI to large recipient economies were used as a proxy. Those economies for which this methodology was used for the period 1980-2003, 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 United States
Anguilla	1997-2000	United States
Antigua and Barbuda	1992-1996 and 1998	Belgium and Luxembourg and 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, the Netherlands, United States and Venezuela
Bahamas	1980-1985	United States
	1986-1988	Belgium and Luxembourg, France and United States
Bahrain	1982	United States
	1985-1989	Belgium and Luxembourg, France and United States
Bermuda	1980-1984	Brazil, Colombia, United States and Venezuela
	1985-1999	Belgium and Luxembourg, Brazil, Colombia, France, United States and Venezuela
	2000-2001	Belgium and Luxembourg, France and United States
Bosnia and Herzegovina	1993-1994	United States
British Virgin Islands	1993-2001	United States
Burkina Faso	1987-1990	Belgium and Luxembourg and France
Cameroon	1996-1999	Belgium and Luxembourg, France and United States
Cayman Island	1980-1987	Belgium and Luxembourg, Brazil, Chile, Colombia and Venezuela

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Economy	Period	Proxy countries/region
	1988-2000	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 1997-2001	United States
Ecuador	1980-1983	Brazil, Colombia, Peru and United States
	1984-1998	Belgium and Luxembourg, Brazil, Colombia, Peru and United States
Equatorial Guinea	1993	Belgium and Luxembourg, France and United States
Greece	1987-1994	Belgium and Luxembourg, Denmark, France, Germany, the Netherlands, Spain and United States
	1995-1997	Belgium and Luxembourg, Denmark, France, Germany, Italy, the Netherlands, Portugal, Spain and United States
Guatemala	1995-2001	Colombia, Honduras and United States
Guinea	1997-1999	Belgium and Luxembourg, France and United States
Guyana	1992-1993, 1996 and 1999-2000	United States
Haiti	1993 and 1995-2000	United States
Hong Kong (China)	1980-1997	China, European Union and United States
India	1980-1992	European Union and United States
Indonesia	1980-1989	European Union and 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 United States
Ireland	1987-1989	Belgium and Luxembourg, France, Germany, the Netherlands, United Kingdom and United States
Jordan	1997-1998	United States
Lao People's Democratic Republic	2000-2001	Thailand
Lebanon	1982-2000	Belgium and Luxembourg, France and United States
	2000-2001	France
Liberia	1980-2001	Belgium and Luxembourg, France and United States
Madagascar	1986-1996	Belgium and Luxembourg and France
	1997-2000	Belgium and Luxembourg, France and United States
Mali	1986-1992	Belgium and Luxembourg and France
Mexico	1980-1991 and 1990-2000	Belgium and Luxembourg, Colombia, Ecuador, France, United States and Venezuela
Nicaragua	1996-2001	Belgium and Luxembourg, Costa Rica, El Salvador and United States
Nigeria	1980-1982 and 1986-1988	Belgium and Luxembourg, Brazil and United States
Oman	1985-1986 and 1988-2000	Belgium and Luxembourg and United States
Panama	1980-2001	Bolivia, Brazil, Chile, Colombia, Peru, United States and Venezuela
Philippines	1980-1989	European Union and United States
Qatar	2000-2001	France and United States
Rwanda	1985-1998	Belgium and Luxembourg
Saudi Arabia	1980-2001	Belgium and Luxembourg, France, Morocco and 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, the Netherlands and United States
United Republic of Tanzania		2000 United States

Cross-border M&As

Data on cross-border M&As and their growth rates were used to estimate FDI outflows for the following economies:

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
1982, 1984 and 2003	Togo	
1983-1985 and 2003	Nigeria	
1985-1986, 1988-1989, 1992-1998 and 2000-2003	Honduras	
1986-1987, 1997 and 1999-2003	Sierra Leone	
1986-1987, 1990-1991 and 2001-2003	Uganda	
1991-1992 and 2003	Burkina Faso	
1992-1994 and 2001-2003	Saint Lucia	
1992, 1994 and 2001-2003	Haiti	
1993-1994 and 2002-2003	Guatemala	
1994-1995, 1997-1998 and 2001-2003	Guyana	Estimated by projecting investment trend.
1994-1997, 1999 and 2001-2003	United Republic of Tanzania	
1994-1996 and 2001-2003	Grenada	
1997-1999 and 2001-2003	Brunei Darussalam	
1997 and 1999-2002	Ghana	
1998 and 2000-2003	Angola	
1999-2003	Malawi	
1999 and 2002-2003	Qatar	
2000-2003	Guinea	
2001-2003	Ethiopia, Mozambique and Saint Kitts and Nevis	
2002-2003	Albania and Kyrgyzstan	
2003	Benin, Bolivia, Cape Verde, Côte d'Ivoire, Fiji, Gambia, Guinea-Bissau, Jamaica Madagascar, Mali, Niger, Senegal, Sri Lanka and Zimbabwe	
2000-2002	Armenia	
2001	Azerbaijan	
1993-1994, 1996-1997 and 1999	Papua New Guinea	
1997	El Salvador	
1989-1992, 1995-1996	Uruguay	
1995-1996	Trinidad and Tobago	Estimated by projecting investment trend.
1994	Gabon	
1985-1989 and 1992	Paraguay	
1984 and 1990	Chad	
1990	Poland	
1980-1989	Morocco	
1989	Saint Vincent and the Grenadines	
1982 and 1986-1989	Botswana	
1986	Cyprus	

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Period	Economy	Methodology
1985	Bangladesh	
1983	Venezuela	
1980-1981	Central African Republic	
1980	Denmark	Estimated by calculating the difference in stock.
1996-1998	Malawi	
1981-1994	Peru	
1992	Czech Republic	
1983-1986 and 2002-2003	Libyan Arab Jamahiriya	
1987 and 2001-2003	Oman	
1992-1994, 1996-1997 and 2002-2003	Lao People's Democratic Republic	
1999-2003	Rwanda	
2000-2003	Cameroon	Estimated by monitoring investment situation using secondary sources and investments reported by major investment recipients.
2001-2003	Anguilla, Antigua and Barbuda and Cayman Islands	
2002-2003	Bermuda, British Virgin Islands, Indonesia, Islamic Republic of Iran, Lebanon, Liberia, Nicaragua, Panama and Saudi Arabia	
2003	Barbados, Belize, Macao (China) and United Arab Emirates	
1999 and 2002	Dominican Republic	

c. Notes on FDI flows

Up to 2001, the Belgium National Bank 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. Therefore, data for 2002 onwards are not comparable to the combined flows as reported in previous years because of different methodologies.

In the case of Egypt, inflow data do not include investment in the petroleum sector and free zones.

In the case of Lesotho, the Lesotho Highland Water Project, is excluded from its FDI as it is not considered as foreign investment.

In this year's Report, data from the Republic of Korea's Ministry of Commerce, Industry and Energy (MOCIE) were used for FDI inflows in that country for the entire period 1980-2003, instead of those from the Bank of Korea. The MOCIE's data series include equity, long-term loans, investment in technology and capital goods and conversion of convertible bonds.

The United States data on FDI used in this Report do not include current cost adjustments, in other words they are on a historical-cost basis.

Data for Malaysia and Singapore are based on surveys of companies.

2. FDI stock

Annex tables B.3 and B.4, as well as some tables in the text, present data on FDI stock 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 and/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 stock. They are further complemented by the data obtained from the IMF.

As for economies for which data were not available from national official sources, or for those for which data were not available for the entire period of 1980-2003, data on International Investment Position assets and liabilities from the IMF's CD-ROMs on *International Financial Statistics* and *Balance of Payments*, June 2004, were used instead.

For a large number of economies (as indicated in the footnotes to annex tables B.3 and B.4), FDI stocks were estimated by either adding up FDI flows over a period of time, or adding or subtracting flows to an FDI stock that had been obtained for a particular year from national official sources, or the IMF data series on assets and liabilities of direct investment.

Data for the Republic of Korea were obtained from the Ministry of Commerce, Industry and Energy. Inward stock refers to implemented FDI accumulated since 1962, whereas outward stock refers to actual investment outflows less withdrawals, accumulated since 1968.

Inward FDI for Egypt does not include investment in petroleum and free zones.

In the case of the Hong Kong (China), stock data are based on market value.

In the case of Belgium and Luxembourg, stock data for 2003 are estimated by adding the 2003 flows of Belgium and of Luxembourg to the 2002 stock.

Those economies for which national official sources' data were used for the period 1980-2003, or part of it, are listed below.

Country/economy	Inward stock	Outward stock
Australia	1980-1985 and 1989-2003	1980-2003
Austria	1990-2003	1990-2003
Argentina	1980-1989 and 1991-2002	None
Azerbaijan	1995-2002	None
Bahrain	1990-2003	1990-2003
Bangladesh	1995-2001	None
Barbados	1980-2002	1980-2002
Belgium and Luxembourg	1980	1980
Bolivia	1980-1999	1986-1999
Bosnia and Herzegovina	1998	None
Botswana	1990-2003	1990-2003
Brazil	1980-1992 and 1995-2003	2001-2003
Cambodia	1994-2003	None
Canada	1980-2003	1980-2003
Chile	1980-2002	1980-1992 and 1996-2002
China	1997 and 2000-2002	1981-1989
Colombia	1980-2003	1980-2003
Costa Rica	1980-1990	None
Croatia	1996-1997	1992-1997
Czech Republic	1992-2002	1992-2002
Denmark	1980-2002	1980-2002
Dominican Republic	1980-1990	None
Ecuador	1980-1990 and 1993-2002	None
El Salvador	1980-1990, 1993-1995 and 1998-2003	1998-2003
Estonia	1996-2003	1996-2003
Fiji	1980-1989	None
Finland	1980-2003	1980-2003
France	1989-2002	1989-2002
Gambia	1990-2001	1990-2001
Georgia	1995-1998	None
Germany	1980-2002	1980-2002
Greece	1980-1989 and 1999-2003	1999-2003
Guatemala	1990-2002	None
Hong Kong (China)	1997-2003	1997-2003
Hungary	1990-2003	1990-2003
Iceland	1988-2003	1988-2003
India	1997-2003	1997-2003
Indonesia	1980-1999	1993-1999
Ireland	1999-2002	1999-2002
Israel	1990-2003	1990-2003
Italy	1980-2003	1990-2003
Japan	1990-2003	1990-2003
Kazakhstan	1993-2003	1995-2003

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Country/economy	Inward stock	Outward stock
Republic of Korea	1980-2002	1980-2002
Kuwait	None	1990-2003
Latvia	1991-2003	1991-2003
Lithuania	1991-2003	1994-2003
Macao (China)	2001-2002	2001-2002
Malawi	None	1996-1998
Malaysia	None	1980-2002
Malta	1994-2001	1994-2001
Mexico	1990-2001	2001-2002
Republic of Moldova	1992-2003	1994-2003
Myanmar	1990-2003	None
Namibia	1990-2002	1990-2003
Nepal	2001	None
The Netherlands	1980-2002	1980-2002
New Zealand	1980-1988	None
Norway	1987-2002	1988-2000
Pakistan	1980-2001	1980-2001
Papua New Guinea	1980-1997	1980-1989
Paraguay	1995-2002	1995-2002
Peru	1980-2003	1980-2003
Philippines	1980-2002	1980-1988 and 1990-2002
Poland	1990-2000	1990-2000
Portugal	1990-2003	1990-2003
Romania	1990-2003	1990-2003
Russian Federation	1993-1999	1992-1999
Singapore	1980-2003	1990-2003
Slovakia	1990-2003	1991-2003
Slovenia	1993-2002	1990-2002
South Africa	1980-2002	1980-2002
Spain	1980-1991 and 1993-2003	1990-2003
Sri Lanka	1980-1988	None
Swaziland	1986-2003	1986-2003
Sweden	1986-2003	1986-2003
Switzerland	1980-2003	1980-1983 and 1986-2003
Taiwan Province of China	1980-1988	1980-1988
Thailand	1980-2002	1980-2002
Trinidad and Tobago	1980-1990	None
Tunisia	1980-2003	1980-2003
Turkey	2000-2002	2000-2002
Ukraine	1991-2002	1993-2002
United Kingdom	1980-2003	1980-2003
United States	1980-2003	1980-2003
Uruguay	1996-2002	1996-1999
Venezuela	1980-2002	1980-1982 and 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
2003	Austria, Canada, Iceland, Portugal, Sweden and Switzerland	Austria, Canada, Iceland, Sweden and Switzerland
2002-2003	None	Portugal
1990-2002	Yemen	None
1990-1993	Israel	None

Those economies for which IMF data were used for the period 1980-2003, or part of it, are listed below.

Country/economy	Inward stock	Outward stock
Australia	1986-1988	None
Austria	1980-1989	1980-1989
Argentina	None	1991-2002
Armenia	1997-2002	None
Azerbaijan	2003	2003
Bahrain	1989	1989
Belarus	1996-2003	1997-2003
Belgium and Luxembourg	1981-2002	1981-2002
Bolivia	2000-2002	2000-2002
Bulgaria	1998-2001	1998-2001
Cambodia	None	1998-2002
Costa Rica	None	1996-2002
Croatia	1998-2003	1998-2003
Cyprus	2002	2002
Dominican Republic	1996-1997	None
El Salvador	1996-1997	1996-1997
France	None	1987-1988
Greece	1998	None
Italy	None	1980-1989
Japan	1980-1989	1980-1989
Kyrgyzstan	1993-2002	1998-2002
Malaysia	1980-1994	None
New Zealand	1989-2003	1992-2003
Norway	None	1980-1987
Panama	1995-2002	None
Poland	2001-2002	2001-2002
Portugal	1992	None
Russian Federation	2000-2002	2000-2002
Spain	None	1980-1989
Swaziland	1981-1985	1981-1985
Sweden	1982-1985	1982-1985
Switzerland	None	1984-1985
Venezuela	None	1983-1989

C. Data revisions and updates

All FDI data and estimates in *WIR* are continuously revised. Because of ongoing revisions, FDI data reported in *WIR* 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 the 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 were made to national official sources of virtually all economies for verification and confirmation of the latest data revisions and accuracy. In addition, websites of certain national official sources were consulted. This verification process continued until end June 2004. 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 of these methods. For the economies which are not mentioned below, the UNCTAD secretariat could not have the data verified or confirmed by their respective governments.

Official verification

Algeria, Angola, Aruba, Australia, Austria, ASEAN Secretariat, Bahamas, Bahrain, Barbados, Banque Centrale de l'Afrique de l'Ouest, Banque des Etats de l'Afrique Centrale, Belarus, Belgium, Belize, Botswana, Brazil, Burundi, Cambodia, Canada, Colombia, Comoros, Denmark, Djibouti, Egypt, El Salvador, Estonia, Fiji, France, Gabon, Gambia, Germany, Greece, Guatemala, Guyana, Haiti, Hungary, Iceland, Indonesia, Ireland, Israel, Italy, Jamaica, Japan, Jordan, Kazakhstan, Kenya, Kuwait, Latvia, Lesotho, Lithuania, Luxembourg, Macao (China), Madagascar, Malaysia, Malta, Mauritius, Mexico, Myanmar, Namibia, Nicaragua, Norway, Oman, Papua New Guinea, Peru, Philippines, Portugal, Republic of Korea, Republic of Moldova, Romania, Rwanda, Seychelles, Singapore, Slovakia, South Africa, Swaziland, Sweden, Switzerland, Trinidad and Tobago, Tunisia, Turkey, United Kingdom, United Republic of Tanzania and Zambia

Web sites

Albania, Argentina, Armenia, Aruba, Australia, Austria, Azerbaijan, Bahamas, Barbados, Bahrain, Bangladesh, Belarus, Belgium, Belize, Bolivia, Brazil, Bosnia and Herzegovina, Bulgaria, Canada, Cape Verde, China, Chile, Colombia, Costa Rica, Croatia, Cyprus, Czech Republic, Denmark, Dominican Republic, Eastern Caribbean Central Bank, Ecuador, Egypt, El Salvador, Estonia, Fiji, Finland, France, Germany, Ghana, Greece, Guatemala, Haiti, Honduras, Hong Kong (China), Hungary, Iceland, India, Ireland, Israel, Italy, Jamaica, Japan, Kazakhstan, Kenya, Kuwait, Latvia, Lithuania, Luxembourg, Macao (China), Malta, Mauritius, Mexico, Mongolia, Morocco, Mozambique, Namibia, Nepal, the Netherlands, the Netherlands Antilles, New Zealand, Norway, Nicaragua, the occupied Palestinian territory, Oman, Pakistan, Paraguay, Peru, Philippines, Poland, Portugal, Republic of Korea, Republic of Moldova, Romania, Russian Federation, Rwanda, Serbia and Montenegro, Seychelles, Slovakia, Slovenia, Solomon Islands, South Africa, Spain, Sudan, Swaziland, Sweden, Switzerland, Tajikistan, Taiwan Province of China, TFYR Macedonia, Trinidad and Tobago, Thailand, Tunisia, Turkey, Uganda, Ukraine, Uruguay, United Kingdom, United Republic of Tanzania, 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). All of these data are in current prices.

The data on GDP were obtained from the UNCTAD secretariat, the IMF's CD-ROM on International Financial Statistics, June 2004 and the IMF's *World Economic Outlook*, April 2004. For some economies, such as Taiwan Province of China, data are complemented by official sources.

The data on gross fixed capital formation were obtained from the IMF's CD-ROM on *International Financial Statistics*, June 2004. For some economies, for which data are not available for the period 1980-2003, or part of it, data are complemented by data on gross capital formation. These data are further complemented by data obtained from: (i) national official sources; and (ii) World Bank data on gross fixed capital formation or gross capital formation, obtained from *World Development Indicators 2004 CD-ROM*.

For annex table B.5, figures exceeding 100% may result from the fact that, for some economies, the reported data on gross fixed capital formation do not necessarily reflect the value of capital formation accurately, 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 the 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, and 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, and 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 of other than 10% is still used. In the United Kingdom, for example, a stake of 20% or more was the threshold used until 1997.

2 This general definition of FDI is based on OECD, *Detailed Benchmark Definition of Foreign Direct Investment*, third edition (OECD 1996) and International Monetary Fund, *Balance of Payments Manual*, fifth edition (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, United Kingdom and United States.

Annex table B.1. FDI inflows, by host region and economy, 1992-2003
(Millions of dollars)

Host region/economy	1992-1997 (Annual average)	1998	1999	2000	2001	2002	2003
World	**310 879**	**690 905**	**1 086 750**	**1 387 953**	**817 574**	**678 751**	**559 576**
Developed countries	**180 750**	**472 545**	**828 352**	**1 107 987**	**571 483**	**489 907**	**366 573**
Western Europe	**100 796**	**263 016**	**500 045**	**697 436**	**368 828**	**380 245**	**310 234**
European Union	**95 845**	**249 931**	**479 372**	**671 417**	**357 441**	**374 000**	**295 154**
Austria	2 276	4 533	2 975	8 840	5 919	952	6 855
Belgium and Luxembourg	11 217	22 691	119 693	88 739	88 203	..	..
Belgium	..	..	..	..	..	14 759	29 484
Luxembourg	..	..	..	..	..	116 984	87 557
Denmark	2 582	7 730	16 700	33 818	11 525	6 637	2 608
Finland	1 190	2 040	4 581	8 015	3 732	7 920	2 765
France	19 779	30 984	46 545	43 250	50 476	48 906	46 981
Germany	6 042	24 593	56 077	198 276	21 138	36 014	12 866
Greece	1 033	85	571	1 089	1 560	51	47
Ireland	1 694	8 579	18 218	25 843	9 659	24 486	25 497
Italy	3 523	2 635	6 911	13 375	14 871	14 545	16 421
Netherlands	9 978	36 964	41 205	63 854	51 927	25 571	19 674
Portugal	1 554	3 144	1 234	6 787	5 892	1 844	962
Spain	8 615	11 797	15 758	37 523	28 005	35 908	25 625
Sweden	6 835	19 835	60 926	23 242	11 910	11 647	3 296
United Kingdom	19 527	74 321	87 979	118 764	52 623	27 776	14 515
Other Western Europe	**4 950**	**13 086**	**20 673**	**26 019**	**11 387**	**6 245**	**15 080**
Gibraltar	39[a]	- 162[a]	17[a]	138[a]	12[a]	27[a]	20[a]
Iceland	35	146	69	175	176	126	147
Malta	126	267	822	622	281	- 428	380
Norway	2 145	3 893	8 046	5 829	2 062	872	2 372
Switzerland	2 605	8 941	11 719	19 255	8 856	5 648	12 161
North America	**68 280**	**197 243**	**308 119**	**380 798**	**186 948**	**83 900**	**36 352**
Canada	8 012	22 809	24 743	66 791	27 487	21 030	6 580
United States	60 268	174 434	283 376	314 007	159 461	62 870	29 772
Other developed countries	**11 675**	**12 286**	**20 188**	**29 752**	**15 707**	**25 761**	**19 986**
Australia	6 797	6 015	2 924	13 071	4 006	13 978	7 900
Israel	1 069	1 887	3 111	5 011	3 549	1 721	3 745
Japan	1 225	3 192	12 741	8 323	6 241	9 239	6 324
New Zealand	2 583	1 191	1 412	3 347	1 911	823	2 017
Developing economies	**118 596**	**194 055**	**231 880**	**252 459**	**219 721**	**157 612**	**172 033**
Africa	**5 936**	**9 114**	**11 590**	**8 728**	**19 616**	**11 780**	**15 033**
North Africa	**1 926**	**2 904**	**3 032**	**2 918**	**5 490**	**3 631**	**5 784**
Algeria	93	501	507	438	1 196	1 065	634
Egypt	820	1 076	1 065	1 235	510	647	237

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Annex table B.1. FDI inflows, by host region and economy, 1992-2003 (continued)
(Millions of dollars)

Host region/economy	1992-1997 (Annual average)	1998	1999	2000	2001	2002	2003
Libyan Arab Jamahiriya	- 31	- 128	- 128	- 142	- 101	- 96[a]	700[a]
Morocco	551	417	850	215	2 825	481	2 279
Sudan	35	371	371	392	574	713	1 349
Tunisia	457	668	368	779	486	821	584
Other Africa	**4 010**	**6 209**	**8 558**	**5 810**	**14 126**	**8 149**	**9 250**
Angola	304	1 114	2 471	879	2 146	1 643	1 415
Benin	21	33	38	56	41	41	51
Botswana	- 10	96	37	57	31	405	86
Burkina Faso	10	4	8	23	8	9	11
Burundi	-	2	-	12	-	-	-
Cameroon	19	50	40	31	75	176	215
Cape Verde	12	9	53	34	9	12	14
Central African Republic	-	8	4	1	5	6	4
Chad	27	22	25	116	453	1 030	837
Comoros	-	-	-	-	1	-	1
Congo	94	34	491	168	76	152	386
Congo, Democratic Republic of	- 6	61[a]	11[a]	23[a]	82	117	158
Côte d'Ivoire	210	380	324	235	273	230	389
Djibouti	2	3	4	3	3	4	11
Equatorial Guinea	67	306	238	109	931	323	1 431
Eritrea	39[b]	149	83	28	12	20	22
Ethiopia	58	261	70	135	20	75[a]	60[a]
Gabon	- 201	104	- 205	- 43	- 88	251	53
Gambia	14	24	49	44	35	43	60
Ghana	115	56	267	115	89	59	137
Guinea	11	18	63	10	2	30[a]	8[a]
Guinea-Bissau	4	4	9	1	1	1	2
Kenya	18	11	14	111	5	28	82
Lesotho	25	27	33	31	28	27	42
Liberia	7	190[a]	27	21	8	3	-
Madagascar	13	16	58	69	84	8	50[a]
Malawi	10	12	59	26	19	6	23[a]
Mali	37	9	1	78	104	102	129
Mauritania	6	-	1[a]	40	92	118	214
Mauritius	27	12	49	277	32	33	70
Mozambique	46	235	382	139	255	155	337
Namibia	106	77	20	186	365	181	84
Niger	13	- 1	-	9	26	8	31
Nigeria	1 402	1 051	1 005	930	1 104	1 281	1 200[a]
Rwanda	3	7	2	8	4	7	5
São Tomé and Principe	-[c]	4	3	4	3	3	10[a]
Senegal	51	60	142	62	39	54	78
Seychelles	30	55	60	56	65	48	58
Sierra Leone	2	- 10[a]	6[a]	5[a]	2	4	8
Somalia	1	-[a]	- 1[a]	-[a]	-[a]	-[a]	1[a]
South Africa	1 045	561	1 502	888	6 789	757	762
Swaziland	45	109	100	91	51	47	44
Togo	10	19	29	41	71	53	20
Uganda	95	210	222	275	229	249	283
United Republic of Tanzania	90	172	542	282	467	240	248
Zambia	93	198	163	122	72	82	100
Zimbabwe	72	444	59	23	4	26	20[a]

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Annex table B.1. FDI inflows, by host region and economy, 1992-2003 (continued)
(Millions of dollars)

Host region/economy	1992-1997 (Annual average)	1998	1999	2000	2001	2002	2003
Latin America and the Caribbean	**38 167**	**82 491**	**107 406**	**97 537**	**88 139**	**51 358**	**49 722**
South America	**22 136**	**52 715**	**69 677**	**57 852**	**38 771**	**26 788**	**21 268**
Argentina	5 430	7 291	23 988	10 418	2 166	785	478
Bolivia	339	1 023	1 010	822	832	1 044	160
Brazil	6 615	28 856	28 578	32 779	22 457	16 590	10 144
Chile	2 932	4 628	8 761	4 860	4 200	1 888	2 982
Colombia	2 129	2 829	1 508	2 395	2 525	2 115	1 762
Ecuador	486	870	648	720	1 330	1 275	1 555
Guyana	90	47	48	67	56	44	26
Paraguay	133	342	95	104	85	11	82
Peru	2 023	1 644	1 940	810	1 144	2 156	1 377
Suriname	- 20	38	- 24	- 97	- 27	- 74	- 92
Uruguay	115	164	235	273	320	175	263
Venezuela	1 864	4 985	2 890	4 701	3 683	779	2 531
Other Latin America and the Caribbean	**16 031**	**29 776**	**37 729**	**39 684**	**49 367**	**24 570**	**28 454**
Anguilla	18	28	38	38	33	37	28
Antigua and Barbuda	22	23	31	28	44	48	57
Aruba	28	84	- 425	117	- 261	289	165
Bahamas	76	147	149	250	101	200	145
Barbados	13	16	17	19	19	17	121
Belize	17	19	60	30	60	25	40[a]
Bermuda	2 426	5 399[a]	9 470[a]	10 627[a]	13 346[a]	2 711[a]	8 500[a]
Cayman Islands	898	4 354[a]	6 569[a]	6 922[a]	4 356[a]	2 509[a]	4 600[a]
Costa Rica	324	612	620	409	454	662	587
Cuba	8	15[a]	9[a]	- 10[a]	4[a]	3[a]	3[a]
Dominica	25	7	18	11	12	14	17
Dominican Republic	251	700	1 338	953	1 079	917	310
El Salvador	21	1 104	216	173	279	208	157
Grenada	22	49	42	37	59	58	59
Guatemala	90	673	155	230	456	110	104
Haiti	-	11	30	13	4	6	8
Honduras	72	99	237	282	193	176	198
Jamaica	166	369	524	469	614	479	520[a]
Mexico	9 619	12 332	13 206	16 586	26 776	14 745	10 783
Montserrat	4	3	8	3	1	2	2
Netherlands Antilles	- 38	- 53	- 22	- 63	- 5	8	- 81
Nicaragua	78	195	300	267	150	204	201
Panama	442	1 296	652	603	405	78	792
Saint Kitts and Nevis	20	32	58	96	88	82	53
Saint Lucia	34	83	83	55	22	31	32
Saint Vincent and the Grenadines	43	89	56	29	21	32	38
Trinidad and Tobago	454	730	643	680	835	791	616
Virgin Islands (British)	899[a]	1 362[a]	3 648	830	222	132	400
Asia and the Pacific	**74 494**	**102 449**	**112 884**	**146 195**	**111 966**	**94 474**	**107 278**
Asia	**74 090**	**102 209**	**112 588**	**146 067**	**111 854**	**94 383**	**107 120**
West Asia	**2 929**	**7 060**	**961**	**1 494**	**6 099**	**3 554**	**4 132**

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Annex table B.1. FDI inflows, by host region and economy, 1992-2003 (continued)
(Millions of dollars)

Host region/economy	1992-1997 (Annual average)	1998	1999	2000	2001	2002	2003
Bahrain	602	180	454	364	81	217	517
Cyprus	150	264	685	804	652	614	830
Iran, Islamic Republic of	52	24	35	39	55[a]	276[a]	120[a]
Iraq	2	7[a]	- 7[a]	- 3[a]	- 6[a]	- 2[a]	..
Jordan	67	310	158	787	100	56	379
Kuwait	70	59	72	16	- 147	7	67
Lebanon	52	200	250	298	249	257[a]	358[a]
Oman	79	101	39	16	83	23	138
Occupied Palestinian Territory	154[d]	218	189	62	20	..	..
Qatar	182	347[a]	113[a]	252[a]	296[a]	631[a]	400[a]
Saudi Arabia	280	4 289	- 780	- 1 884	20	- 615	208[a]
Syrian Arab Republic	108	82	263	270	110	115	150[a]
Turkey	750	940	783	982	3 266	1 038	575
United Arab Emirates	254	258[a]	- 985[a]	- 515[a]	1 184[a]	834[a]	480[a]
Yemen	203	- 219	- 308	6	136	102	- 89
Central Asia	**1 551**	**3 013**	**2 511**	**1 890**	**3 527**	**4 503**	**6 073**
Armenia	18	237	135	124	88	150	155
Azerbaijan	419[c]	1 023	510	130	227	1 392	3 285
Georgia	62[c]	265	82	131	110	165	338
Kazakhstan	909	1 151	1 472	1 283	2 835	2 590	2 068
Kyrgyzstan	55[c]	109	44	- 2	5	5	25[a]
Tajikistan	13	25[a]	21[a]	24[a]	9	36	32
Turkmenistan	126[c]	62[a]	125[a]	126[a]	170[a]	100[a]	100[a]
Uzbekistan	61	140[a]	121[a]	75[a]	83[a]	65[a]	70[a]
South, East and South-East Asia	**69 609**	**92 136**	**109 115**	**142 683**	**102 228**	**86 326**	**96 915**
Afghanistan	-	-[a]	6[a]	-[a]	1[a]	1[a]	1[a]
Bangladesh	31	190	180	280	79	52	121
Bhutan	-[d]	-[a]	-[a]	-[a]	-[a]	-[a]	-[a]
Brunei Darussalam	327	573	748	549	526	1 035	2 009
Cambodia	128	243	230	149	149	145	87
China	32 799	45 463	40 319	40 715	46 878	52 743	53 505[a]
Hong Kong, China	7 781	14 766	24 580	61 939	23 775	9 682	13 561
India	1 676	2 633	2 168	2 319	3 403	3 449	4 269
Indonesia	3 518	- 241	- 1 866	- 4 550	- 2 977	145	- 597
Korea, Democratic People's Republic of	53	31[a]	- 15[a]	5[a]	- 4[a]	- 15[a]	- 5[a]
Korea, Republic of	1 298	5 039	9 436	8 572	3 683	2 941	3 752
Lao People's Democratic Republic	67	45	52	34	24	25	19[a]
Macao, China	- 2	- 18[a]	9[a]	- 1[a]	160	382	350[a]
Malaysia	5 816	2 714	3 895	3 788	554	3 203	2 474
Maldives	8	12	12	13	12	12	12[a]
Mongolia	11	19	30	54	43	78	132
Myanmar	359	684[e]	304[e]	208[e]	192[e]	191[e]	128[e]
Nepal	11	12	4	-	21[a]	2[a]	30
Pakistan	577	507	530	305	385	823	1 405
Philippines	1 343	2 212	1 725	1 345	982	1 792	319
Singapore	8 295	7 690	16 067	17 217	15 038	5 730	11 409
Sri Lanka	186	150	201	175	82	197	229
Taiwan Province of China	1 474	222	2 926	4 928	4 109	1 445	453
Thailand	2 269	7 491	6 091	3 350	3 813	1 068	1 802
Viet Nam	1 586	1 700	1 484	1 289	1 300	1 200	1 450

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Annex table B.1. FDI inflows, by host region and economy, 1992-2003 (concluded)

(Millions of dollars)

Host region/economy	1992-1997 (Annual average)	1998	1999	2000	2001	2002	2003
The Pacific	**404**	**240**	**297**	**128**	**113**	**91**	**158**
Fiji	44	103	- 4	- 16	42	26	20[a]
Kiribati	-	1[a]	1[a]	1[a]	1[a]	1[a]	1[a]
New Caledonia	7	-[a]	4[a]	22[a]	- 1[a]	2[a]	8[a]
Papua New Guinea	301	110	296	96	63	21	101
Samoa	6	3	2	- 2[a]	1	-[a]	-[a]
Solomon Islands	14	2	- 19	1	- 12	- 1	- 2
Tonga	2	2	2	5	1	2[a]	3[a]
Tuvalu	-[h]	-[a]	-[a]	1[a]	1[a]	26[a]	9[a]
Vanuatu	29	20	13	20	18	15	19[a]
Central and Eastern Europe	**11 533**	**24 305**	**26 518**	**27 508**	**26 371**	**31 232**	**20 970**
Albania	56	45	41	143	207	135	180
Belarus	84	203	444	119	96	247	171
Bosnia and Herzegovina	-[h]	56	154	147	130	265	381
Bulgaria	149	537	819	1 002	813	905	1 419
Croatia	235	932	1 467	1 089	1 561	1 124	1 713
Czech Republic	1 304	3 700	6 310	4 984	5 639	8 483	2 583
Estonia	180	581	305	387	542	284	891
Hungary	2 924	3 828	3 312	2 764	3 936	2 845	2 470
Latvia	229	357	347	411	163	384	360
Lithuania	108	926	486	379	446	732	179
Moldova, Republic of	35	76	38	134	146	117	58
Poland	2 889	6 365	7 270	9 341	5 713	4 131	4 225
Romania	402	2 031	1 041	1 037	1 157	1 144	1 566
Russian Federation	2 018	2 761	3 309	2 714	2 469	3 461	1 144
Serbia and Montenegro	178	113	112	25	165	475	1 360
Slovakia	235	707	428	1 925	1 584	4 123	571
Slovenia	166	218	106	137	369	1 606	181
TFYR Macedonia	12	128	33	175	442	78	95
Ukraine	328	743	496	595	792	693	1 424
Memorandum							
Least developed countries [g]	1 930	4 541	5 675	3 802	6 454	5 763	7 356
Oil-exporting countries [h]	9 659	13 852	5 453	2 170	8 212	8 636	10 937
All developing economies, excluding China	85 798	148 592	191 562	211 744	172 843	104 869	118 528

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

[a] Estimates. For details, see "Definitions and Sources" in annex B.
[b] Annual average from 1996 to 1997.
[c] Annual average from 1993 to 1997.
[d] Annual average from 1995 to 1997.
[e] Data are on a fiscal year basis.
[f] Annual average from 1994 to 1997.
[g] 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. Timor-Leste is not included due to unavailability of data.
[h] Oil-exporting countries include: Algeria, Angola, Bahrain, Brunei Darussalam, Congo, Gabon, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates, Venezuela and Yemen.

Annex table B.2. FDI outflows, by home region and economy, 1992-2003

(Millions of dollars)

Home region/economy	1992-1997 (Annual average)	1998	1999	2000	2001	2002	2003
World	**328 248**	**687 240**	**1 092 279**	**1 186 838**	**721 501**	**596 487**	**612 201**
Developed countries	**275 716**	**631 478**	**1 014 331**	**1 083 885**	**658 094**	**547 603**	**569 577**
Western Europe	**161 720**	**436 521**	**763 868**	**859 432**	**447 033**	**364 507**	**350 281**
European Union	**146 882**	**415 362**	**724 312**	**806 151**	**429 159**	**351 181**	**336 994**
Austria	1 533	2 745	3 301	5 740	3 137	5 252	7 083
Belgium and Luxembourg	7 427	28 845	122 304	86 362	100 646	..	..
Belgium	..	..	..	..	..	12 355	36 646
Luxembourg	..	..	..	..	..	126 116	95 991
Denmark	2 928	4 477	16 943	26 558	13 374	5 686	1 158
Finland	2 554	18 647	6 605	22 572	8 362	7 622	- 7 370
France	26 045	48 611	126 856	177 449	86 767	49 434	57 279
Germany	31 051	88 823	108 692	56 557	36 855	8 622	2 560
Greece	35	262	539	2 102	616	655	586
Ireland	573	3 906	6 111	4 640	4 069	3 099	1 911
Italy	7 142	12 407	6 722	12 316	21 472	17 123	9 121
Netherlands	19 518	36 669	57 610	75 635	47 968	34 554	36 092
Portugal	753	3 847	3 168	7 512	7 564	3 289	95
Spain	5 235	18 936	42 084	54 675	33 093	31 512	23 373
Sweden	6 226	24 370	21 928	40 662	6 380	10 683	17 375
United Kingdom	35 861	122 816	201 451	233 371	58 855	35 180	55 093
Other Western Europe	**14 838**	**21 159**	**39 555**	**53 282**	**17 874**	**13 326**	**13 288**
Iceland	30	71	121	390	344	215	168
Malta	6[a]	15	45	26	24	- 4	24
Norway	2 853	2 306	6 113	8 193	- 734	5 537	2 176
Switzerland	11 949	18 767	33 276	44 673	18 240	7 578	10 919
North America	**88 605**	**165 362**	**226 638**	**187 301**	**160 986**	**141 749**	**173 426**
Canada	11 036	34 358	17 247	44 675	36 113	26 409	21 542
United States	77 569	131 004	209 391	142 626	124 873	115 340	151 884
Other developed countries	**25 391**	**29 595**	**23 825**	**37 151**	**50 075**	**41 348**	**45 869**
Australia	4 477	3 352	- 688	829	12 228	7 576	15 108
Israel	636	1 163	967	3 465	630	1 115	1 774
Japan	20 232	24 152	22 743	31 558	38 333	32 281	28 800
New Zealand	46	928	803	1 300	- 1 116	376	188
Developing economies	**51 351**	**53 438**	**75 488**	**98 929**	**59 861**	**44 009**	**35 591**
Africa	**2 228**	**1 982**	**2 564**	**1 319**	**- 2 535**	**115**	**1 288**
North Africa	**54**	**367**	**313**	**227**	**202**	**266**	**148**
Algeria	7	1	47	18	9	100	14
Egypt	49	46	38	51	12	28	21
Libyan Arab Jamahiriya	- 29	299	208	98	84	110[b]	100[b]
Morocco	21	20	18	58	97	28	12
Tunisia	5	2	3	2	-	-	1
Other Africa	**2 174**	**1 614**	**2 252**	**1 092**	**- 2 738**	**- 152**	**1 140**
Angola	_	_[b]	_[b]	_[b]	_[b]	_[b]	_ [b]

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Annex table B.2. FDI outflows, by home region and economy, 1992-2003 (continued)

(Millions of dollars)

Home region/economy	1992-1997 (Annual average)	1998	1999	2000	2001	2002	2003
Benin	8[c]	2	23	8	2	-	3 [b]
Botswana	12	4	1	2	381	43	40
Burkina Faso	2	5	5	-	-	1	- [b]
Burundi	-	-	-	-	-	-	-
Cameroon	13	_[b]	3[b]	4[b]	3[b]	3[b]	3 [b]
Cape Verde	-	-	-	1	-	-	- [b]
Central African Republic	4	-	-	-	-	1	-
Chad	4	-	- 2	-	-	-	-
Congo	-	- 9	2	4	6	7	-
Côte d'Ivoire	76	36	57	-	2	2	2 [b]
Equatorial Guinea	_[c]	-	2	- 4	4	-	-
Ethiopia	228[d]	254[b]	- 46[b]	- 1[b]	69[b]	7[b]	25 [b]
Gabon	14	- 15	12	26	4	-	-
Gambia	5	6	4	5	5	5	7 [b]
Ghana	100[e]	30[b]	77[b]	52[b]	53[b]	61[b]	55 [b]
Guinea	_[e]	_[b]	3[b]	2[b]	2[b]	2[b]	2 [b]
Guinea-Bissau	..	..	..	-	-	-	- [b]
Kenya	2	-	-	-	-	7	2
Lesotho	..	..	..	..	..	-	-
Liberia	98	- 731[b]	310[b]	608[b]	- 167[b]	- 50[b]	130 [b]
Madagascar	-	1[b]	_[b]	1[b]	-	-	- [b]
Malawi	1[e]	6[b]	3[b]	3[b]	4[b]	3[b]	3 [b]
Mali	2	27	50	4	17	19	13 [b]
Mauritius	15	14	6	13	3	9	41
Mozambique	_[e]	_[b]	_[b]	_[b]	_[b]	_[b]	- [b]
Namibia	- 4	- 1	-	3	- 13	- 5	- 6
Niger	13	10	-	-	- 4	-	- 1 [b]
Nigeria	174	107	92	85	94	101	93 [b]
Rwanda	-	_[b]	_[b]	_[b]	_[b]	_[b]	- [b]
Senegal	11	10	6	-	- 7	39	11 [b]
Seychelles	9	3	9	7	9	9	8
Sierra Leone	-	_[b]	_[b]	_[b]	_[b]	_[b]	- [b]
South Africa	1 561	1 779	1 580	271	- 3 180	- 399	720
Swaziland	13	23	12	17	- 18	- 9	-
Togo	7	22	41	-	- 7	-	- 2 [b]
Uganda	47	20[b]	- 8[b]	- 28[b]	- 5[b]	- 14[b]	- 15 [b]
United Republic of Tanzania	-	_[b]	_[b]	1[b]	_[b]	_[b]	- [b]
Zimbabwe	19	9	9	8	4	3	5 [b]
Latin America and the Caribbean	**9 509**	**19 865**	**31 279**	**13 738**	**11 971**	**6 009**	**10 666**
South America	**3 767**	**8 497**	**7 097**	**8 026**	**- 178**	**4 080**	**4 559**
Argentina	1 606	2 325	1 730	901	161	- 627	774
Bolivia	2	3	3	3	3	3	3 [b]
Brazil	510	2 854	1 690	2 282	- 2 258	2 482	249
Chile	848	1 483	2 558	3 987	1 610	294	1 395
Colombia	285	796	116	325	16	857	926
Ecuador	68	- 84[b]	-	-	-	-	-
Guyana	-	_[b]	- 2[b]	2[b]	_[b]	_[b]	- [b]
Paraguay	9	6	6	6	6	- 2	5
Peru	11	62	128	-	74	-	60
Uruguay	3	9	- 3	-	6	54	3
Venezuela	426	1 043	872	521	204	1 020	1 143
Other Latin America and the Caribbean	**5 743**	**11 368**	**24 182**	**5 712**	**12 149**	**1 929**	**6 107**
Anguilla	1[d]	1[b]	1[b]	1[b]	1[b]	1[b]	1 [b]
Antigua and Barbuda	-	- 1[b]	_[b]	1[b]	_[b]	_[b]	- [b]

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Annex table B.2. FDI outflows, by home region and economy, 1992-2003 (continued)

(Millions of dollars)

Home region/economy	1992-1997 (Annual average)	1998	1999	2000	2001	2002	2003
Aruba	1	1	4	13	- 15	3	12
Bahamas	-	1	-	-	-	-	- [b]
Barbados	2	1	1	1	1	-	- [b]
Belize	3	6	-	6	-	-	2 [b]
Bermuda	875	2 980[b]	18 137[b]	2 426[b]	- 5 407[b]	- 1 823[b]	- 1 601 [b]
Cayman Islands	1 174	4 452[b]	2 187[b]	1 795[b]	2 811[b]	967[b]	1 858 [b]
Costa Rica	5	5	5	9	9	34	47
Dominican Republic	9	2[b]	6[b]	61[b]	- 33[b]	-[b]	..
El Salvador	-	1	54	- 5	- 10	- 26	19
Grenada	-	-	-[b]	-[b]	-[b]	-[b]	- [b]
Guatemala	- 2	8[b]	- 3[b]	16[b]	1[b]	5[b]	7 [b]
Haiti	- 2	1[b]	- 1[b]	1[b]	-[b]	-[b]	- [b]
Honduras	-	-[b]	-[b]	-[b]	-[b]	-[b]	- [b]
Jamaica	63	82	95	74	89	74	79 [b]
Mexico	413	1 363	1 475[b]	984[b]	4 404	930	1 390
Netherlands Antilles	-	- 2	- 1	- 2	-	1	-
Nicaragua	- 3[e]	7[b]	3[b]	4[b]	5[b]	4[b]	4 [b]
Panama	908	3 289[b]	356[b]	- 839[b]	1 902[b]	1 861[b]	975 [b]
Saint Kitts and Nevis	-	-[b]	-[b]	-[b]	-[b]	-[b]	- [b]
Saint Lucia	-	-[b]	-[b]	-[b]	-[b]	-[b]	- [b]
Trinidad and Tobago	- 2	1[b]	364	25	58	106	225
Virgin Islands (British)	2 757[a]	- 830[b]	1 500[b]	1 141[b]	8 333[b]	- 209[b]	3 088 [b]
Asia and the Pacific	**39 613**	**31 591**	**41 645**	**83 872**	**50 425**	**37 885**	**23 637**
Asia	**39 554**	**31 647**	**41 668**	**83 805**	**50 309**	**37 884**	**23 608**
West Asia	**543**	**- 1 020**	**2 093**	**3 757**	**5 096**	**2 460**	**- 701**
Bahrain	104	181	163	10	216	190	741
Cyprus	24	69	146	202	218	299	345
Iran, Islamic Republic of	19	10[b]	738[b]	348[b]	2 812[b]	1 299[b]	1 486 [b]
Jordan	- 25	2[b]	5	5	9	25	3
Kuwait	16	- 1 867	23	- 303	365	- 155	- 4 989
Lebanon	11	- 1[b]	5[b]	125[b]	92[b]	74[b]	97 [b]
Oman	3	- 5[b]	3[b]	- 2[b]	- 1[b]	-[b]	- 1 [b]
Occupied Palestinian Territory	142[c]	160	169	213	380	..	..
Qatar	30[c]	20[b]	30[b]	41[b]	112[b]	61[b]	71 [b]
Saudi Arabia	153	74[b]	50[b]	155[b]	- 44[b]	50[b]	54 [b]
Turkey	100	367	645	870	497	175	499
United Arab Emirates	51	- 30[b]	115[b]	2 094[b]	441[b]	442[b]	992 [b]
Central Asia	**-**	**179**	**360**	**17**	**149**	**772**	**822**
Armenia	..	12	13	8[b]	11[b]	11[b]	-
Azerbaijan	..	137	336	-	158[b]	326	933
Georgia	..	..	1	-	-	4	4
Kazakhstan	-[f]	8	4	4	- 26	426	- 120
Kyrgyzstan	..	23	6	5	6	6[b]	5 [b]
South, East and South-East Asia	**39 010**	**32 487**	**39 216**	**80 031**	**45 063**	**34 652**	**23 487**
Bangladesh	3	3	-	2	21	4	8
Brunei Darussalam	30[a]	10[b]	20[b]	- 3	9[b]	8[b]	5 [b]
Cambodia	..	20	9	7	7	6	10
China	2 846	2 634	1 775	916	6 884	2 518	1 800 [b]
Hong Kong, China	20 557	16 985	19 358	59 375	11 345	17 463	3 769
India	96	47	80	509	1 397	1 107	913
Indonesia	1 096	44	72	150	125	116[b]	130 [b]

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Annex table B.2. FDI outflows, by home region and economy, 1992-2003 (concluded)

(Millions of dollars)

Home region/economy	1992-1997 (Annual average)	1998	1999	2000	2001	2002	2003
Korea, Republic of	2 939	4 740	4 198	4 999	2 420	2 617	3 429
Lao People's Democratic Republic	-	-[b]	-[b]	168[b]	3[b]	57[b]	76 [b]
Macao, China	..	..	..	..	11	62	24 [b]
Malaysia	2 073	863	1 422	2 026	267	1 904	1 370
Maldives	-[g]	..	..	..	..	..	..
Pakistan	- 5	5	1	11	31	28	19
Philippines	199	160	- 29	- 108	- 160	59	158
Singapore	5 419	2 996	7 517	5 298	17 063	3 699	5 536 [b]
Sri Lanka	6	13	24	2	-	11	4 [b]
Taiwan Province of China	3 215	3 836	4 420	6 701	5 480	4 886	5 679
Thailand	546	132	349	- 22	162	106	557
The Pacific	**59**	**- 56**	**- 24**	**67**	**116**	**-**	**29**
Fiji	- 16	- 56	- 58	69	7	-	25 [b]
Papua New Guinea	75	-[b]	35[b]	- 2[b]	109[b]	-	3
Central and Eastern Europe	**1 182**	**2 324**	**2 460**	**4 024**	**3 546**	**4 876**	**7 034**
Albania	11	1	7	6	-	4[b]	3 [b]
Belarus	2[d]	2	-	-	-	- 206	2
Bosnia and Herzegovina	6	..	..	..	..	..	..
Bulgaria	- 9	-	17	3	10	28	22
Croatia	48[a]	98	47	4	155	533	62
Czech Republic	74	125	90	43	165	206	232
Estonia	32	6	83	63	200	132	148
Hungary	96	319	250	620	368	275	1 581
Latvia	- 21	54	17	10	12	8	32
Lithuania	9[c]	4	9	4	7	18	37
Moldova, Republic of	5[f]	-	-	-	-	-	-
Poland	33	316	31	17	- 90	230	386
Romania	-	- 9	16	- 11	- 17	16	56
Russian Federation	1 027[a]	1 270	2 208	3 177	2 533	3 533	4 133
Serbia and Montenegro	..	..	..	..	..	5	..
Slovakia	39	147	- 371	21	35	5	22
Slovenia	2	- 5	48	66	144	93	304
TFYR Macedonia	-[e]	1	1	-	-	-	- [b]
Ukraine	14[f]	- 4	7	1	23	- 5	13
Memorandum							
Least developed countries [h]	238	- 342	400	780	- 53	83	273
Oil-exporting countries [i]	2 068	- 135	2 810	3 265	4 493	3 455	64
All developing economies, excluding China	48 505	50 804	73 713	98 013	52 977	41 490	33 791

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

[a] Annual average from 1993 to 1997.
[b] Estimates. For details, see "Definitions and Sources" in annex B.
[c] Annual average from 1995 to 1997.
[d] 1997.
[e] Annual average from 1996 to 1997.
[f] Annual average from 1994 to 1997.
[g] Annual average from 1994 to 1996.
[h] 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. Timor-Leste is not included due to unavailability of data.
[i] Oil-exporting countries include: Algeria, Angola, Bahrain, Brunei Darussalam, Congo, Gabon, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates, Venezuela and Yemen.

Annex table B.3. FDI inward stock, by host region and economy, 1980, 1985, 1990, 1995, 2000, 2002, 2003[a]

(Millions of dollars)

Host region/economy	1980	1985	1990	1995	2000	2002	2003[a]
World	**692 714**	**972 205**	**1 950 303**	**2 992 068**	**6 089 884**	**7 371 554[b]**	**8 245 074[b]**
Developed countries	**390 740**	**569 696**	**1 399 509**	**2 035 799**	**4 011 686**	**5 049 786[b]**	**5 701 633[b]**
Western Europe	**231 544**	**285 006**	**795 808**	**1 213 003**	**2 378 173**	**3 070 966[b]**	**3 538 135[b]**
European Union	**216 296**	**267 073**	**748 298**	**1 136 017**	**2 257 701**	**2 899 795[b]**	**3 335 454[b]**
Austria	3 163	3 762	9 884	17 532	30 431	43 508	60 100[c]
Belgium and Luxembourg	7 306	18 447	58 388	112 960	195 219	..	..
Belgium	..	..	..	..	..	..	..
Luxembourg	..	..	..	18 504[d]	23 492[d]	..	..
Denmark	4 193	3 613	9 192	23 801	66 701	73 587	76 195[e]
Finland	540	1 339	5 132	8 465	24 272	34 007	46 400
France	25 927[f]	36 701[f]	86 845	191 434	259 775	386 540	433 521[e]
Germany	36 630	36 926	119 618	192 898	470 933	531 738	544 604[e]
Greece	4 524	8 309	5 667[g]	10 957[g]	12 499	15 560[c]	17 000[c]
Ireland	31 281[h]	32 181[h]	33 826[h]	40 024[h]	136 921	167 945	193 442[e]
Italy	8 892	18 976	57 985	63 456	113 047	126 481	173 630
Netherlands	19 167	24 921	68 731	116 049	241 328	316 475	336 149[e]
Portugal	3 665[i]	4 599[i]	10 571	18 381	29 040	43 197	53 525[c]
Spain	5 141	8 939	65 916	109 200	144 934	236 267	230 332
Sweden	2 852[j]	4 333	12 636	31 089	93 970	117 960	143 230[c]
United Kingdom	63 014	64 028	203 905	199 772	438 631	568 260	672 015
Other Western Europe	**15 248**	**17 933**	**47 511**	**76 986**	**120 471**	**171 171**	**202 681**
Gibraltar[k]	33	98	263	432	529	568	588
Iceland	..[l,m]	71[l]	147	129	499	779	872[c]
Malta	156[n]	286[n]	465[n]	562	2 374	2 110[o]	2 490[o]
Norway	6 584[p]	7 419[p]	12 391	18 800	30 265	42 637	45 010[e]
Switzerland	8 506	10 058	34 245	57 063	86 804	125 076	153 721
North America	**137 209**	**249 272**	**507 793**	**658 843**	**1 427 069**	**1 726 340**	**1 829 734**
Canada	54 163	64 657	112 882	123 290	212 815	221 169	275 779[c]
United States	83 046	184 615	394 911	535 553	1 214 254	1 505 171	1 553 955
Other developed countries	**21 988**	**35 417**	**95 908**	**163 954**	**206 445**	**252 479**	**333 764**
Australia[q]	13 173	25 049	73 644	95 878	108 687	121 915	174 240
Israel	3 181[i]	3 586[i]	4 476	5 844[c]	24 319[c]	24 807[c]	31 827[c]
Japan	3 270	4 740	9 850	36 658	50 322	78 140	89 729
New Zealand	2 363	2 043	7 938	25 574	23 116	27 616	37 968
Developing economies	**301 974**	**402 460**	**547 965**	**916 697**	**1 939 926**	**2 093 569**	**2 280 171**
Africa	**32 045**	**33 811**	**50 854**	**77 334**	**140 886**	**149 919**	**167 111**
North Africa	**4 322**	**8 242**	**16 915**	**26 338**	**37 438**	**47 767**	**55 473**
Algeria[k]	1 320	1 281	1 355	1 465	3 441	5 702	6 336
Egypt[k]	2 260	5 703	11 043	14 690	19 589	20 746	20 983
Libyan Arab Jamahiriya[k]	..[m]	..[m]	..[m]	..[m]	..[m]	..[m]	..[m]
Morocco[k]	189	440	917	3 032	6 023	9 329	11 608
Sudan[k]	28	76	54	164	1 396	2 684	4 033
Tunisia	3 341	4 917	7 615	10 967	11 545	14 061	16 567

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Annex table B.3. FDI inward stock, by host region and economy, 1980, 1985, 1990, 1995, 2000, 2002, 2003[a] (continued)

(Millions of dollars)

Host region/economy	1980	1985	1990	1995	2000	2002	2003[a]
Other Africa	**27 724**	**25 569**	**33 939**	**50 996**	**103 449**	**102 152**	**111 638**
Angola [k]	63	677	1 027	2 923	7 979	11 768	13 182
Benin [k]	32	34	159	381	535	617	668
Botswana	698[i]	947[i]	1 309	1 126	1 821	854	1 080
Burkina Faso [k]	18	24	39	74	135	152	163
Burundi [k]	7	24	30	34	48	48	48
Cameroon [k]	330	1 125	1 044	1 062	1 263	1 515	1 730
Cape Verde [r]	..	..	4	38	174	195	209
Central African Republic [k]	50	77	95	80	104	116	119
Chad [k]	121	184	249	331	576	2 059	2 895
Comoros [s]	2	2	17	19	21	22	23
Congo [k]	315	485	575	1 024	1 865	2 093	2 480
Congo, Democratic Republic of [k]	709	620	546	541	617	816	974
Côte d'Ivoire [k]	530	699	975	1 567	3 191	3 694	4 083
Djibouti [t]	4	4	6	17	34	40	52
Equatorial Guinea [u]	..	6	25	177	1 123	2 377	3 808
Eritrea [v]	..	..	..	..	301	333	355
Ethiopia [k]	110	114	124	165	941	1 036	1 096
Gabon [k]	512	833	1 208	745	..[m]	..[m]	20
Gambia	127[i]	127[i]	157	185	216	264[o]	324[o]
Ghana [k]	229	272	315	822	1 462	1 610	1 746
Guinea [t]	1	2	69	131	263	295	303
Guinea-Bissau [w]	-	4	8	20	46	48	50
Kenya [k]	386	476	668	732	931	964	1 046
Lesotho [x]	5	25	83	179	330	385	427
Liberia [k]	868	1 260	2 454	2 419	2 739	2 750	2 750
Madagascar [k]	40	51	107	172	340	432	482
Malawi [k]	113	151	198	201	328	353	376
Mali [y]	16	37	42	154	356	562	692
Mauritania [k]	..[m]	39	57	92	139	348	562
Mauritius [k]	26	43	169	256	687	751	822
Mozambique [k]	15	17	42	201	1 094	1 505	1 842
Namibia	1 994[i]	2 010[i]	2 047	1 708	1 230	1 092	1 176[e]
Niger [k]	190	206	286	362	389	423	454
Nigeria [k]	2 405	4 417	8 072	14 065	20 184	22 570	23 770
Rwanda [k]	54	133	213	231	252	263	268
São Tomé and Principe [r]	..	..	-	-	11	18	28
Senegal [k]	150	188	258	374	821	913	992
Seychelles [k]	54	105	204	321	577	690	748
Sierra Leone [k]	79	68	..[m]	..[m]	19	25	33
Somalia [k]	34	10	..[m]	2	4	4	5
South Africa	16 519	9 024	9 221	15 016	43 462	29 611	30 373[e]
Swaziland	150[z]	104	336	535	537	579	719
Togo [k]	176	210	268	301	424	548	567
Uganda [k]	10	8	5	276	1 281	1 759	2 042
United Republic of Tanzania [k]	47	91	93	325	1 627	2 335	2 583
Zambia [y]	355	450	1 012	1 281	2 088	2 241	2 341
Zimbabwe [k]	186	187	124	342	1 085	1 114	1 134
Latin America and the Caribbean	**50 412**	**80 113**	**116 866**	**200 081**	**512 455**	**581 939**	**647 678**
South America	**29 345**	**42 207**	**66 617**	**111 253**	**280 656**	**259 516**	**296 801**
Argentina	5 344	6 563	8 778[aa]	27 991	67 601	34 622	35 100[e]
Bolivia	420	592	1 026	1 564	5 188	6 570	6 730[e]
Brazil	17 480	25 664	37 143	41 696	103 015	100 847	128 425[b]
Chile	886	2 321	10 067	15 547	45 418	43 861	46 843[e]

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Annex table B.3. FDI inward stock, by host region and economy, 1980, 1985, 1990, 1995, 2000, 2002, 2003[a] (continued)

(Millions of dollars)

Host region/economy	1980	1985	1990	1995	2000	2002	2003[a]
Colombia	1 061	2 231	3 500	6 407	10 895	17 626	19 063[ac]
Ecuador	719	982	1 626	3 619	7 081	9 686	11 240[e]
Guyana [k]	25	39	42	452	759	859	885
Paraguay	212[ad]	301[ad]	399[ad]	705	1 325	804	886[e]
Peru	898	1 152	1 330	5 510	11 062	12 460	12 745
Suriname [k]	..[m]	52	..[m]	..[m]	..[m]	..[m]	..[m]
Uruguay	727[ae]	763[ae]	976[ae]	1 432[ae]	2 088	1 291	1 554[e]
Venezuela	1 604	1 548	2 260	6 975	26 944	31 710	34 241[e]
Other Latin America and the Caribbean	**21 067**	**37 906**	**50 250**	**88 828**	**231 799**	**322 423**	**350 877**
Anguilla [af]	..	..	11	68	226	295	324
Antigua and Barbuda [x]	23	94	292	438	561	653	710
Aruba [ag]	..	..	132	204	259	287	452
Bahamas [k]	547	543	586	742	1 587	1 888	2 033
Barbados	104	125	171	227	308	344	465[e]
Belize [k]	12	20	89	175	312	397	437
Bermuda [k]	5 131	8 053	13 849	23 997	56 393	72 449	80 949
Cayman Islands [ah]	222	1 479	1 749	2 745	24 973	31 838	36 438
Costa Rica	672	957	1 447	2 733[ai]	5 206[ai]	6 322[ai]	6 909[ai]
Cuba [k]	-	-	2	40	74	81	84
Dominica [x]	-	11	71	197	271	297	314
Dominican Republic	239	265	572	1 707[ai]	5 214[ai]	7 210[ai]	7 520[ai]
El Salvador	154	181	212	293	1 973	2 460	2 617
Grenada [x]	1	13	70	168	346	462	522
Guatemala	701[aj]	1 050[aj]	1 734	2 202	3 420	4 155	4 259
Haiti [k]	79	112	149	153	215	226	233
Honduras [k]	92	172	383	652	1 488	1 857	2 055
Jamaica [k]	564	522	790	1 568	3 317	4 410	4 930
Mexico	8 105[aj]	18 797[aj]	22 424	41 130	97 170	155 121[o]	165 904[o]
Montserrat [ak]	..	..	40	68	84	87	89
Netherlands Antilles [k]	770	257	408	364	78	81	-
Nicaragua [k]	116	120	126	365	1 397	1 751	1 952
Panama	2 461[al]	3 142[al]	2 198[al]	3 245	6 744	7 314	8 105[e]
Saint Kitts and Nevis [am]	1	32	160	244	484	654	707
Saint Lucia [an]	94	197	319	517	804	858	890
Saint Vincent and the Grenadines [s]	1	9	48	179	489	542	580
Trinidad and Tobago	976	1 719	2 093	3 634[ai]	7 042[ai]	8 667[ai]	9 283[ai]
Virgin Islands (British) [an]	1	39	126	776	11 363	11 717	12 117
Asia and the Pacific	**219 516**	**288 536**	**380 244**	**639 282**	**1 286 585**	**1 361 711**	**1 465 382**
Asia	**218 320**	**287 330**	**378 002**	**636 465**	**1 283 082**	**1 358 005**	**1 461 518**
West Asia	**7 281**	**37 370**	**40 920**	**51 457**	**70 418**	**73 940**	**78 072**
Bahrain	61[f]	399[f]	552	2 403	5 906	6 203	6 720
Cyprus	173[ao]	502[ao]	859[ao]	1 293[ao]	3 591[ao]	4 856[o]	5 686[o]
Iran, Islamic Republic of [k]	2 962	2 780	2 039	2 297	2 474	2 805	2 925
Iraq [k]	..[m]	..[m]	..[m]	..[m]	..[m]	..[m]	..[m]
Jordan [ap]	155	493	615	627	2 258	2 414	2 793
Kuwait [k]	30	33	37	94	608	468	535
Lebanon [y]	20	34	53	138	1 116	1 623	1 981
Oman [k]	483	1 201	1 723	2 210	2 490	2 597	2 735
Occupied Palestinian Territory [aq]	..	..	..	..	809	829	829
Qatar [k]	83	93	71	451	1 920	2 847	3 247
Saudi Arabia [k]	..[m]	21 828	22 500	22 423	25 963	25 368	25 576
Syrian Arab Republic [k]	-	37	374	915	1 699	1 924	2 074

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Annex table B.3. FDI inward stock, by host region and economy, 1980, 1985, 1990, 1995, 2000, 2002, 2003[a] (continued)

(Millions of dollars)

Host region/economy	1980	1985	1990	1995	2000	2002	2003[a]
Turkey	8 845[ar]	9 253[ar]	11 194[ar]	14 977[ar]	19 209	17 621	18 196[e]
United Arab Emirates [k]	409	482	751	1 770	1 061	3 080	3 560
Yemen	195[i]	283[i]	180	1 882	1 336	1 336	1 247[e]
Central Asia	**..**	**..**	**..**	**3 997**	**16 977**	**24 930**	**31 037**
Armenia	..	..	..	34[as]	513	684	840[e]
Azerbaijan	..	..	..	330[at]	3 735	5 354	8 639
Georgia	..	..	..	32	423[au]	698[au]	1 036[au]
Kazakhstan	..	..	..	2 895	10 078	15 464	17 567
Kyrgyzstan	..	..	..	144	439	476	501[e]
Tajikistan [av]	..	..	..	40	146	192	223
Turkmenistan [aw]	..	..	..	415	944	1 214	1 314
Uzbekistan [av]	..	..	..	106	699	847	917
South, East and South-East Asia	**211 039**	**249 960**	**337 082**	**581 012**	**1 195 687**	**1 259 136**	**1 352 409**
Afghanistan [k]	11	11	12	12	17	19	19
Bangladesh	308[al]	313[al]	324[al]	356	2 429	2 574[o]	2 695[o]
Bhutan [af]	..	..	2	2	3	4	4
Brunei Darussalam [k]	19	28	23	631	3 856	5 418	7 427
Cambodia	38[ax]	38[ax]	38[ax]	356	1 549	1 843	1 930
China	1 077[as]	6 063[as]	20 694[as]	134 869[as]	348 346	447 966	501 471[e]
Hong Kong, China	177 755[ay]	183 219[ay]	201 652[ay]	227 532[ay]	455 469	366 278	375 048
India	452[az]	747[az]	1 657[az]	5 641[az]	17 517	25 408	30 827
Indonesia	10 274	24 971	38 883	50 601	60 638[ba]	57 806[ba]	57 209[ba]
Korea, Democratic People's Republic of [r]	..	..	572	716	1 046	1 027	1 022
Korea, Republic of	1 327	2 160	5 186	9 451	37 120	43 713	47 465[e]
Lao People's Democratic Republic [k]	2	1	13	205	550	599	618
Macao, China	2 800[ao]	2 809[ao]	2 809[ao]	2 802[ao]	2 801[ao]	3 390	3 740[e]
Malaysia	5 169	7 388	10 318	28 731[bb]	52 747[bb]	56 505[bb]	58 979[b]
Maldives [t]	5	3	25	61	119	142	154
Mongolia [ak]	..	..	-	38	182	302	434
Myanmar [q]	1[i]	1[i]	281	1 210	3 865	4 248	4 376
Nepal	1[bc]	2[bc]	12[bc]	39[bc]	97[bc]	118[o]	148[o]
Pakistan	691	1 079	1 928	5 552	6 912	6 359[o]	7 764[o]
Philippines	1 281	2 601	3 268	6 086	12 810	11 148[c]	11 467[e]
Singapore	6 203	13 016	30 468	65 644	112 571	135 890[c]	147 299
Sri Lanka	231	517	681[bd]	1 297[bd]	2 389[bd]	2 668[bd]	2 897[d]
Taiwan Province of China	2 405	2 930	9 735[bd]	15 736[bd]	27 924[bd]	33 478[bd]	33 931[d]
Thailand	981	1 999	8 242	17 684	30 106	35 108	36 910[e]
Viet Nam [k]	9	64	260	5 760	14 624	17 124	18 574
The Pacific	**1 196**	**1 207**	**2 243**	**2 816**	**3 502**	**3 706**	**3 864**
Fiji	358	393	394[be]	627[be]	754[be]	821[be]	841[e]
Kiribati [bf]	..	- 1	-	1	5	6	6
New Caledonia [ap]	28	35	76	110	146	146	154
Papua New Guinea	748	683	1 582	1 667	2 007[bg]	2 090[bg]	2 192[g]
Samoa [k]	1	2	9	29	53	54	54
Solomon Islands [y]	28	32	70	126	150	137	135
Tonga [x]	-	-	1	8	21	25	27
Tuvalu [bh]	..	..	..	-	1	27	36
Vanuatu [y]	33	62	110	249	366	399	418
Central and Eastern Europe	**..**	**49**	**2 828**	**39 573**	**138 271**	**228 199**	**263 270**
Albania [av]	..	..	..	201	568	910	1 091

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Annex table B.3. FDI inward stock, by host region and economy, 1980, 1985, 1990, 1995, 2000, 2002, 2003[a] (concluded)

(Millions of dollars)

Host region/economy	1980	1985	1990	1995	2000	2002	2003[a]
Belarus	..	..	..	50[bi]	1 306	1 646	1 897
Bosnia and Herzegovina	..	..	..	20[ay]	376[au]	772[au]	1 153[au]
Bulgaria	..	..	112[ay]	445[ay]	2 257	3 662[o]	5 082[o]
Croatia	..	..	..	478[bj]	3 560	6 711	11 351
Czech Republic	..	..	1 363[bk]	7 350	21 644	38 450	41 033[e]
Estonia	..	..	..	688[bj]	2 645	4 226	6 511
Hungary	..	49[i]	569	11 304	22 870	35 890	42 915
Latvia	..	..	..	615	2 084	2 751	3 320
Lithuania	..	..	..	352	2 334	3 981	4 960
Moldova, Republic of	..	..	..	94	459	727	789
Poland	..	..	109	7 843	34 227	47 900	52 125[e]
Romania	..	..	-	821	6 480	8 873	12 693
Russian Federation	..	..	..	5 465	25 226	51 374	52 518[e]
Serbia and Montenegro [av]	..	..	..	329	1 319	1 959	3 319
Slovakia	..	..	81	810	3 738	7 800	10 248
Slovenia	..	..	594[bl]	1 763	2 894	4 109	4 290[e]
TFYR Macedonia [bh]	..	..	..	33	410	929	1 024
Ukraine	..	..	..	910	3 875	5 529	6 953[e]
Memorandum							
Least developed countries [bj]	4 119	5 778	8 949	16 518	37 503	49 465	56 821
Oil-exporting countries [bk]	12 759	58 870	79 627	112 505	170 630	187 544	198 481
All developing economies, excluding China	300 897	396 397	527 271	781 828	1 591 580	1 645 603	1 778 700

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

a Estimates. For details, see "Definitions and Sources" in annex B. For the countries for which the stock data are estimated by either accumulating FDI flows or adding or subtracting flows to FDI stock in a particular year, notes are given below.

b Data on Belgium and on Luxembourg are included. Stock data for 2002 ($ 238,270 million) as reported by the International Moneraty Fund (IMF) *Balance of Payment CD-ROM*, June 2004, for the Belgium and Luxembourg Monetary Union were used. Stock data for 2003 ($ 335,311 million) are estimated by adding the 2003 flows of Belgium and of Luxembourg to the 2002 stock reported by the IMF for the Union .

c Preliminary data.

d Data as reported to UNCTAD by the Central Service for Statistics and Economic Studies (STATEC). For details, see "Definitions and Sources" in annex B. Data are available from 1995 to 2001 only.

e Stock data after 2002 are estimated by adding flows.

f Stock data prior to 1989 are estimated by subtracting flows.

g Stock data from 1990 to 1997 are estimated by subtracting flows from the stock of 1998.

h Stock data prior to 1999 are estimated by subtracting flows.

i Stock data prior to 1990 are estimated by subtracting flows.

j Stock data prior to 1982 are estimated by subtracting flows.

k Stock data are estimated by accumulating flows since 1970.

l Stock data prior to 1988 are estimated by subtracting flows.

m Negative stock value. However, this value is included in the regional and global total.

n Stock data prior to 1994 are estimated by accumulating flows since 1970.

o Stock data are estimated by adding flows to the stock of 2001.

p Stock data prior to 1987 are estimated by subtracting flows.

q Data on a fiscal year basis.

r Stock data are estimated by accumulating flows since 1987.

s Stock data are estimated by accumulating flows since 1978.

t Stock data are estimated by accumulating flows since 1973.

u Stock data are estimated by accumulating flows since 1982.

v Stock data are estimated by accumulating flows since 1997.

w Stock data are estimated by accumulating flows since 1975.

x Stock data are estimated by accumulating flows since 1977.

y Stock data are estimated by accumulating flows since 1971.

z Stock data prior to 1981 are estimated by subtracting flows.

aa Stock data for 1990 is estimated by subtracting flows from the stock of 1991.

ab Data as of September 2003.

ac Data as of June 2003.

[ad] Stock data prior to 1995 are estimated by accumulating flows since 1970.
[ae] Stock data prior to 1996 are estimated by accumulating flows since 1970.
[af] Stock data are estimated by accumulating flows since 1990.
[ag] Stock data are estimated by accumulating flows since 1989.
[ah] Stock data are estimated by accumulating flows since 1974.
[ai] Stock data after 1990 are estimated by adding flows.
[aj] Stock data prior to 1990 are estimated by accumulating flows since 1970.
[ak] Stock data are estimated by accumulating flows since 1986.
[al] Stock data prior to 1995 are estimated by subtracting flows.
[am] Stock data are estimated by accumulating flows since 1980.
[an] Stock data are estimated by accumulating flows since 1976.
[ao] Stock data prior to 2001 are estimated by subtracting flows.
[ap] Stock data are estimated by accumulating flows since 1972.
[aq] Stock data are estimated by accumulating flows since 1996.
[ar] Stock data prior to 2000 are estimated by subtracting flows.
[as] Stock data prior to 1997 are estimated by subtracting flows.
[at] Stock data up to 1998 are estimated by accumulating flows since 1994.
[au] Stock data after 1998 are estimated by adding flows.
[av] Stock data are estimated by accumulating flows since 1992.
[aw] Stock data are estimated by accumulating flows since 1993.
[ax] Stock data prior to 1994 are estimated by subtracting flows.
[ay] Stock data prior to 1998 are estimated by subtracting flows.
[az] Stock data prior to 1997 are estimated by accumulating flows since 1970.
[ba] Stock data after 1999 are estimated by adding flows.
[bb] Stock data after 1994 are estimated by adding flows.
[bc] Stock data prior to 2001 are estimated by accumulating flows since 1972.
[bd] Stock data after 1988 are estimated by adding flows.
[be] Stock data after 1989 are estimated by adding flows.
[bf] Stock data are estimated by accumulating flows since 1983.
[bg] Stock data after 1997 are estimated by adding flows.
[bh] Stock data are estimated by accumulating flows since 1994.
[bi] Stock data up to 1995 are estimated by accumulating flows since 1992.
[bj] Stock data prior to 1996 are estimated by subtracting flows.
[bk] Stock data prior to 1992 are estimated by subtracting flows.
[bl] Stock data prior to 1993 are estimated by subtracting flows.
[bm] 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. Timor-Leste is not included due to unavailability of data.
[bo] Oil-exporting countries include: Algeria, Angola, Bahrain, Brunei Darussalam, Congo, Gabon, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates, Venezuela and Yemen.

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, 2002, 2003[a]

(Millions of dollars)

Home region/economy	1980	1985	1990	1995	2000	2002	2003[a]
World	**559 629**	**738 809**	**1 758 216**	**2 897 574**	**5 983 342**	**7 209 582[b]**	**8 196 863**
Developed countries	**499 390**	**664 856**	**1 629 040**	**2 582 789**	**5 163 815**	**6 355 130[b]**	**7 272 319**
Western Europe	**237 694**	**330 592**	**874 148**	**1 463 253**	**3 238 830**	**3 831 361[b]**	**4 421 992**
European Union	**215 582**	**304 346**	**797 102**	**1 298 043**	**2 970 938**	**3 496 148[b]**	**4 035 610**
Austria	530	1 343	4 273	11 702	24 820	42 485	59 100[c]
Belgium and Luxembourg	6 037	9 551	40 636	80 690	179 773	..	..
Belgium	..	..	..	..	..	..	..
Luxembourg	..	..	..	4 703[d]	7 927[d]	..	..
Denmark	2 065	1 801	7 342	24 703	66 217	75 913	77 071[e]
Finland	737	1 829	11 227	14 993	52 109	63 923	68 702
France	24 281[f]	37 753[f]	110 125	204 431	445 091	586 119	643 398
Germany	43 127	59 909	148 456	258 142	483 942	619 939	622 499[e]
Greece	2 923[g]	2 923[g]	2 948[g]	3 004[g]	5 861	9 000[c]	10 000[c]
Ireland	..	8 619[g]	11 355[g]	13 240[g]	32 253	31 616	33 527[e]
Italy	7 319	16 600	57 261	97 042	180 275	194 498	238 877
Netherlands	42 116	47 898	106 899	172 672	302 448	348 312	384 404[e]
Portugal	512[h]	583[h]	900	3 173	17 170	31 872[c]	38 541[c]
Spain	1 931	4 455	15 652	36 243	159 904	225 201	207 530
Sweden	3 572[i]	10 768	50 720	73 143	123 230	144 363	189 278[c]
United Kingdom	80 434	100 313	229 307	304 865	897 845	921 446	1 128 584
Other Western Europe	**22 112**	**26 245**	**77 046**	**165 210**	**267 892**	**335 213**	**386 382**
Iceland	59[j]	59[j]	75	179	663	1 113	1 374[c]
Malta	..	..	..	32	203	246[k]	270[k]
Norway	561	1 093	10 884	22 519	33 655	38 458[l]	40 635[l]
Switzerland	21 491	25 093	66 087	142 479	233 370	295 396	344 104[c]
North America	**239 158**	**281 512**	**515 358**	**817 224**	**1 531 181**	**2 112 328**	**2 376 868**
Canada	23 783	43 143	84 837	118 209	237 750	272 333	307 855[c]
United States	215 375	238 369	430 521	699 015	1 293 431	1 839 995	2 069 013
Other developed countries	**22 538**	**52 753**	**239 534**	**302 312**	**393 804**	**411 440**	**473 459**
Australia [m]	2 260	6 653	30 507	52 768	98 781	89 673	117 091[e]
Israel	140[h]	622[h]	1 188	3 462	9 353	10 622	12 131
Japan	19 610	43 970	201 441	238 452	278 442	304 237	335 500
New Zealand	529[n]	1 508[n]	6 398[n]	7 630	7 229	6 909	8 737
Developing economies	**60 239**	**73 952**	**128 561**	**308 624**	**793 297**	**796 503**	**858 681**
Africa	**6 871**	**10 960**	**20 940**	**32 873**	**45 558**	**38 138**	**39 459**
North Africa	**460**	**872**	**1 473**	**1 528**	**2 998**	**3 470**	**3 623**
Algeria [o]	98	156	183	266	343	452	466
Egypt [p]	39	91	163	350	655	695	716
Libyan Arab Jamahiriya [q]	162	287	623	278	1 230	1 424	1 524
Morocco [p]	155	333	489	603	736	862	874
Tunisia	6	6	15	30	33	37	44
Other Africa	**6 412**	**10 088**	**19 467**	**31 345**	**42 560**	**34 668**	**35 836**
Benin [r]	-	2	2	2	60	62	66
Botswana	438[h]	439[h]	447	650	517	1 260	1 304

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Annex table B.4. FDI outward stock, by home region and economy, 1980, 1985, 1990, 1995, 2000, 2002, 2003[a] (continued)

(Millions of dollars)

Home region/economy	1980	1985	1990	1995	2000	2002	2003[a]
Burkina Faso [s]	3	3	4	13	24	26	27
Burundi [t]	..	..	-	1	2	2	2
Cameroon [u]	23	53	150	227	255	261	264
Cape Verde [v]	..	..	1	5	7	7	8
Central African Republic [w]	-	1	17	40	42	44	44
Chad [x]	1	1	48	81	81	81	81
Comoros [y]	..	..	1	2	2	2	2
Côte d'Ivoire [y]	..	..	31	517	677	682	683
Equatorial Guinea [t]	..	..	-	-	..[z]	3	3
Ethiopia [aa]	..	..	..	..	435	511	536
Gabon [s]	78	103	164	254	284	287	287
Gambia	..	..	22	36	44	46[k]	53[k]
Ghana [ab]	..	..	..	..	359	472	528
Guinea [ab]	..	..	..	..	8	12	14
Kenya [w]	18	60	99	116	113	121	123
Lesotho [v]	..	..	-	-	-	-	1
Liberia [ac]	48	361	453	1 113	1 524	1 307	1 437[l]
Madagascar [ad]	..	..	1	5	4	4	4
Malawi	..	..	..	..	15[ae]	22[ae]	25[ae]
Mali [w]	22	22	22	23	112	148	161
Mauritania [ad]	..	..	3	3	3	3	3
Mauritius [af]	..	-	2	94	133	145	186
Mozambique [ag]	..	..	..	-	1	1	1
Namibia	..	..	80	15	45	19	31
Niger [s]	2	8	54	109	145	141	140
Nigeria [x]	9	..[z]	2 586	3 975	4 358	4 553	4 646
Rwanda [y]	..	..	-	..[z]	3	5	5
Senegal [q]	7	43	49	96	116	148	159
Seychelles [ah]	14	44	61	94	136	154	162
South Africa	5 722	8 963	15 027	23 305	32 333	23 475	24 195[e]
Swaziland	19[ai]	9	38	135	95	54	57
Togo [aj]	10	10	16	44	125	118	116
Uganda [ak]	..	..	..	255	265	246	230
Zimbabwe [al]	..	10	88	137	241	249	253
Latin America and the Caribbean	**46 915**	**50 914**	**58 754**	**86 263**	**155 477**	**173 987**	**183 843**
South America	**45 028**	**46 299**	**50 410**	**63 564**	**94 199**	**99 083**	**102 744**
Argentina	5 997[am]	5 944[am]	6 106[am]	10 696	21 118	20 529	21 303[e]
Bolivia	1[an]	1[an]	9	18	29	34	37[e]
Brazil	38 545[ao]	39 439[ao]	41 044[ao]	44 474[ao]	51 946[ao]	54 423	54 646[ap]
Chile	42	102	178	2 425[aq]	11 154	12 389	13 784[e]
Colombia	136	301	402	1 027	2 989	3 553	3 520[ar]
Ecuador [as]	..	..	..	73	270	270	270
Guyana [at]	..	..	..	2	-	-	1
Paraguay	113[au]	128[au]	137[au]	179	214	145	150[e]
Peru	3	38	112	567	505	666	814
Uruguay	169[av]	181[av]	183[av]	186[av]	208[aw]	268[aw]	271[w]
Venezuela	23	165	2 239	3 918	5 766	6 807	7 950[e]
Other Latin America and the Caribbean	**1 887**	**4 614**	**8 344**	**22 699**	**61 279**	**74 905**	**81 099**
Aruba [at]	..	..	..	10	28	15	27
Bahamas [ac]	285	154	614	1 286	1 385	1 385[l]	1 385[l]
Barbados	6	13	23	33	41	42	43[e]
Belize [ax]	..	11	20	28	50	50	52
Bermuda [ac]	727	1 691	1 550	2 626	14 942	7 712[l]	6 110[l]

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Annex table B.4. FDI outward stock, by home region and economy, 1980, 1985, 1990, 1995, 2000, 2002, 2003[a] (continued)

(Millions of dollars)

Home region/economy	1980	1985	1990	1995	2000	2002	2003[a]
Cayman Islands [ay]	5	85	694	1 984	16 247	20 026	21 884
Costa Rica	7[az]	27[az]	44[az]	66[az]	86	126	173[e]
Dominica [aa]	..	..	..	..	-	-	-
Dominican Republic [at]	..	..	..	38	122	89	89
El Salvador	..	..	54[av]	53[av]	74	39	146
Grenada [y]	..	..	-	-	1	1	1
Guatemala [ab]	..	..	..	..	31	36	43
Haiti [as]	..	..	..	1	4	4	5
Jamaica [o]	5	5	42	308	709	872	951
Mexico	31[ao]	399[ao]	1 070[ao]	2 572[ao]	7 540[ao]	12 425	13 815[e]
Netherlands Antilles [ah]	9	10	21	24	11	12	12
Nicaragua [at]	..	..	..	-	8	17	21
Panama [ac]	811	2 204	4 188	4 939	4 004	7 767[l]	8 742[l]
Saint Kitts and Nevis [y]	..	..	-	-	-	-	-
Saint Lucia [y]	..	..	-	1	1	-	-
Saint Vincent and the Grenadines [ba]	..	..	1	1	1	1	1
Trinidad and Tobago [al]	..	15	22	24	397	562	787
Virgin Island (British) [at]	..	..	..	8 704	15 598	23 722	26 810
Asia and the Pacific	**6 453**	**12 079**	**48 868**	**189 489**	**592 262**	**584 378**	**635 379**
Asia	**6 440**	**12 041**	**48 783**	**189 064**	**591 821**	**583 820**	**634 792**
West Asia	**1 925**	**2 753**	**7 741**	**7 251**	**13 504**	**21 386**	**25 641**
Bahrain	600[bb]	599[bb]	719	1 044	1 752	2 158	2 899
Cyprus	..	133[bc]	141[bc]	216[bc]	715[bc]	1 232	1 577[e]
Iran, Islamic Republic of [ak]	..	..	..	..[z]	1 207	5 318	6 804
Jordan [q]	35	38	28	..[z]	..[z]	..[z]	..[z]
Kuwait	1 046[h]	1 408[h]	3 662	2 804	1 427	1 635	1 603
Lebanon [bd]	..	42	49	94	248	414	510
Oman [af]	..	2	7	23	23	22	21
Qatar [as]	..	..	..	30	181	353	424
Saudi Arabia [be]	239	508	1 873	1 621	2 120	2 126	2 180
Turkey	..	..	1 157[bf]	1 425[bf]	3 668	5 047	5 546[e]
United Arab Emirates [ac]	5	19	99	98	2 253	3 136[l]	4 129[l]
Yemen [bd]	..	4	5	5	5	5	5
Central Asia	**..**	**..**	**..**	**-**	**555**	**1 468**	**1 663**
Armenia [bg]	..	..	..	..	33	55	54
Azerbaijan	..	..	..	..	474[bh]	957[bh]	1 260
Kazakhstan	..	..	..	-	16	417	305
Kyrgyzstan	..	..	..	..	33	39	45[e]
South, East and South-East Asia	**4 515**	**9 288**	**41 042**	**181 812**	**577 763**	**560 966**	**607 488**
Bangladesh [ad]	..	..	6	9	29	54	62
Brunei Darussalam [ag]	..	..	..	71	148	165	169
Cambodia	..	..	..	139[bi]	193	229	238[e]
China	..	131	2 489[bj]	15 802[bj]	25 804[bj]	35 206[bj]	37 006[bj]
Hong Kong, China	148[bk]	2 344[bk]	11 920[bk]	78 833[bk]	388 380	309 430	336 098
India	4[bl]	19[bl]	50[bl]	264[bl]	1 859	4 006	5 054
Indonesia	..	55[bm]	77[bm]	1 295	2 339[aw]	2 580[aw]	2 710[w]
Korea, Republic of	127	461	2 301	10 231	26 833	31 102	34 531[e]
Lao People's Democratic Republic [ag]	..	..	..	1	169	229	305
Macao, China	..	..	..	..	..	465	489[e]
Malaysia	197	1 374	2 671	11 042	21 276	28 316	29 686[e]

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Annex table B.4. FDI outward stock, by home region and economy, 1980, 1985, 1990, 1995, 2000, 2002, 2003[a] (concluded)

(Millions of dollars)

Home region/economy	1980	1985	1990	1995	2000	2002	2003[a]
Maldives [y]	..	..	..	-	-	-	-
Mongolia [as]	..	..	..	..	-	-	-
Myanmar [bn]	..	..	..	-	-	-	-
Pakistan	40	127	250	403	521	616[k]	635[k]
Philippines	171	171	155	1 220	1 597	815	973
Singapore	3 718[h]	4 387[h]	7 808	35 050	56 766	85 374	90 910
Sri Lanka [af]	..	1	8	35	86	97	102
Taiwan Province of China	97	204	12 888[bo]	25 144[bo]	49 187[bo]	59 553[bo]	65 232[bo]
Thailand	13	14	418	2 274	2 575	2 729[i]	3 287
The Pacific	**13**	**37**	**85**	**426**	**440**	**558**	**586**
Fiji [ay]	2	15	70	43	..[z]	..[z]	..[z]
Kiribati [bn]	..	..	..	-	-	-	-
Papua New Guinea	10	22	15[bj]	383[bj]	519[bj]	629[bj]	632[bj]
Solomon Islands [y]	..	..	-	-	-	-	-
Tonga [ad]	..	..	-	-	-	-	-
Central and Eastern Europe	**..**	**..**	**616**	**6 161**	**26 230**	**57 949**	**65 863**
Albania [ak]	..	..	..	48	82	86	90
Belarus	..	..	..	..	6	4	6
Bosnia and Herzegovina [at]	..	..	..	13	40	40	40
Bulgaria	..	..	..	105[bi]	87	125[k]	147[k]
Croatia	..	..	..	703	875	1 818	2 295
Czech Republic	..	..	..	346	738	1 496	1 727[e]
Estonia	..	..	..	69[az]	259	676	1 021
Hungary	..	..	197	278	1 280	2 162	3 921[e]
Latvia	..	..	..	231	241	67	105
Lithuania	..	..	..	1	29	60	120
Moldova, Republic of	..	..	..	18	23	23	23
Poland	..	..	95	539	1 025	1 453	1 839[e]
Romania	..	..	66	121	142	155	211
Russian Federation	..	..	..	3 015	20 141	47 676	51 809[e]
Slovakia	..	..	..	87	325	479	562
Slovenia	..	..	258	490	768	1 486	1 790[e]
TFYR Macedonia [ab]	..	..	..	..	-	1	1
Ukraine	..	..	..	97	170	144	157[e]
Memorandum							
Least developed countries [bp]	92	456	704	1 980	3 415	3 459	3 732
Oil-exporting countries [bq]	2 260	3 276	12 260	15 663	23 832	31 583	36 605
All developing economies, excluding China	60 239	73 821	126 073	292 823	767 493	761 297	821 675

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

[a] Estimates. For details, see "Definitions and Sources" in annex B. For the countries for which the stock data are estimated by either accumulating FDI flows or adding or subtracting flows to FDI stock in a particular year, notes are given below.

[b] Data on Belgium and on Luxembourg are included. Stock data for 2002 ($ 201,461 million) as reported by the International Moneraty Fund (IMF) *Balance of Payment CD-ROM*, June 2004, for the Belgium and Luxembourg Monetary Union were used. Stock data for 2003 ($ 334,099 million) are estimated by adding the 2003 flows of Belgium and of Luxembourg to the 2002 stock reported by the IMF for the Union .

[c] Preliminary data.

[d] Data as reported to UNCTAD by the Central Service for Statistics and Economic Studies (STATEC). For details, see "Definitions and Sources" in annex B. Data are available from 1995 to 2001 only.

[e] Stock data after 2002 are estimated by adding flows.

[f] Stock data prior to 1987 are estimated by subtracting flows.

[g] Stock data prior to 1999 are estimated by subtracting flows.

[h] Stock data prior to 1990 are estimated by subtracting flows.

i Stock data prior to 1982 are estimated by subtracting flows.
j Stock data prior to 1988 are estimated by subtracting flows.
k Stock data after 2001 are estimated by adding flows.
l Stock data after 2000 are estimated by adding flows.
m Data on a fiscal year basis.
n Stock data prior to 1992 are estimated by subtracting flows.
o Stock data are estimated by accumulating flows since 1970.
p Stock data are estimated by accumulating flows since 1977.
q Stock data are estimated by accumulating flows since 1972.
r Stock data are estimated by accumulating flows since 1979.
s Stock data are estimated by accumulating flows since 1974.
t Stock data are estimated by accumulating flows since 1989.
u Stock data are estimated by accumulating flows since 1973.
v Stock data are estimated by accumulating flows since 1988.
w Stock data are estimated by accumulating flows since 1975.
x Stock data are estimated by accumulating flows since 1978.
y Stock data are estimated by accumulating flows since 1990.
z Negative stock value. However, this value is included in the regional and global total.
aa Stock data are estimated by accumulating flows since 1997.
ab Stock data are estimated by accumulating flows since 1996.
ac Stock data are estimated by using the inward stock of the United States from 1980 to 2000 as a proxy.
ad Stock data are estimated by accumulating flows since 1986.
ae Stock data after 1998 are estimated by adding flows.
af Stock data are estimated by accumulating flows since 1985.
ag Stock data are estimated by accumulating flows since 1991.
ah Stock data are estimated by accumulating flows since 1976.
ai Stock data prior to 1981 are estimated by subtracting flows.
aj Stock data are estimated by accumulating flows since 1971.
ak Stock data are estimated by accumulating flows since 1992.
al Stock data are estimated by accumulating flows since 1983.
am Stock data prior to 1991 are estimated by subtracting flows.
an Stock data from 1980 to 1985 are estimated by accumulating flows since 1980.
ao Stock data prior to 2001 are estimated by subtracting flows.
ap Data as of September 2003.
aq Stock data from 1993 to 1995 are estimated by subtracting flows from 1996 stock.
ar Data as of June 2003.
as Stock data are estimated by accumulating flows since 1995.
at Stock data are estimated by accumulating flows since 1993.
au Stock data prior to 1995 are estimated by subtracting flows.
av Stock data prior to 1996 are estimated by subtracting flows.
aw Stock data after 1999 are estimated by adding flows.
ax Stock data are estimated by accumulating flows since 1984.
ay Stock data are estimated by accumulating flows since 1980.
az Stock data prior to 1996 are estimated by adding flows since 1978.
ba Stock data are estimated by accumulating flows since 1987.
bb Stock data prior to 1989 are estimated by subtracting flows.
bc Stock data prior to 2002 are estimated by subtracting flows.
bd Stock data are estimated by accumulating flows since 1982.
be 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 1997 as a proxy. Stock data after 1997 are estimated by adding flows.
bf Stock data prior to 2000 are estimated by subtracting flows.
bg Stock data are estimated by accumulating flows since 1998.
bh Stock data prior to 2003 are estimated by subtracting flows.
bi Stock data prior to 1998 are estimated by subtracting flows.
bj Stock data after 1989 are estimated by adding flows.
bk Stock data prior to 1997 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.
bl Stock data prior to 1997 are estimated by subtracting flows.
bm Stock data are estimated by using the inward stock of Germany and the United States from 1984 to 1992 as a proxy.
bn Stock data are estimated by accumulating flows since 1994.
bo Stock data after 1988 are estimated by adding flows.
bp 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. Timor-Leste is not included due to unavailability of data.
bq Oil-exporting countries include: Algeria, Angola, Bahrain, Brunei Darussalam, Congo, Gabon, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates, Venezuela and Yemen.

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, 1992-2003

(Per cent)

Region/economy	1992-1997 (Annual average)	1998	1999	2000	2001	2002	2003
World							
inward	**5.2**	**10.6**	**16.0**	**19.8**	**12.0**	**10.1**	**7.5**
outward	***5.5***	***10.7***	***16.1***	***17.1***	***10.8***	***9.0***	***8.4***
Developed countries							
inward	**4.2**	**9.9**	**16.2**	**21.3**	**11.5**	**10.0**	**6.7**
outward	***6.4***	***13.2***	***19.9***	***20.8***	***13.2***	***11.1***	***10.3***
Western Europe							
inward	**6.0**	**14.8**	**27.4**	**40.8**	**21.9**	**21.5**	**14.8**
outward	***9.6***	***24.6***	***41.9***	***50.2***	***26.5***	***20.6***	***16.7***
European Union							
inward	**6.0**	**14.8**	**27.7**	**41.3**	**22.3**	**22.3**	**14.7**
outward	***9.2***	***24.7***	***41.8***	***49.6***	***26.8***	***20.9***	***16.8***
Austria							
inward	4.7	9.1	6.0	19.3	13.4	2.1	12.0
outward	*3.3*	*5.5*	*6.7*	*12.5*	*7.1*	*11.6*	*12.4*
Belgium and Luxembourg							
inward	21.3	40.6	208.9	168.8	169.6	..	..
outward	*13.9*	*51.6*	*213.5*	*164.3*	*193.5*	..	..
Belgium							
inward	..	..	..	..	..	30.4	50.1
outward	..	..	..	..	..	*25.4*	*62.3*
Luxembourg							
inward	..	..	..	..	..	2462.7	1539.1
outward	..	..	..	..	..	*2655.0*	*1687.3*
Denmark							
inward	8.8	21.7	48.8	106.7	35.6	18.7	6.2
outward	*9.8*	*12.6*	*49.5*	*83.8*	*41.4*	*16.0*	*2.8*
Finland							
inward	6.3	8.5	18.3	33.8	15.0	31.7	9.5
outward	*13.7*	*77.3*	*26.4*	*95.1*	*33.7*	*30.5*	*-25.3*
France							
inward	7.3	11.6	16.8	16.4	19.0	17.6	13.9
outward	*9.7*	*18.2*	*45.7*	*67.1*	*32.7*	*17.7*	*17.0*
Germany							
inward	1.2	5.4	12.3	48.9	5.6	9.8	3.0
outward	*6.3*	*19.4*	*23.9*	*14.0*	*9.8*	*2.3*	*0.6*
Greece							
inward	4.9	0.3	2.1	4.2	5.6	0.2	0.1
outward	*0.2*	*1.0*	*2.0*	*8.2*	*2.2*	*2.1*	*1.3*
Ireland							
inward	14.8	45.4	79.7	112.5	40.0	90.8	74.7
outward	*4.8*	*20.7*	*26.7*	*20.2*	*16.9*	*11.5*	*5.6*
Italy							
inward	1.7	1.2	3.1	6.3	6.9	6.2	5.8
outward	*3.5*	*5.6*	*3.0*	*5.8*	*10.0*	*7.3*	*3.2*
Netherlands							
inward	14.0	48.9	45.9	77.9	62.4	29.5	19.2
outward	*27.4*	*48.5*	*64.2*	*92.3*	*57.6*	*39.8*	*35.1*
Portugal							
inward	6.7	11.3	3.8	21.9	19.1	5.9	2.9
outward	*3.1*	*13.9*	*9.7*	*24.2*	*24.5*	*10.5*	*0.3*
Spain							
inward	7.6	8.8	10.8	26.4	18.9	21.8	12.0
outward	*4.5*	*14.1*	*29.0*	*38.4*	*22.3*	*19.1*	*10.9*

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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, 1992-2003 (continued)

(Per cent)

Region/economy	1992-1997 (Annual average)	1998	1999	2000	2001	2002	2003
Sweden							
inward	19.2	48.6	140.5	54.7	31.1	29.0	7.0
outward	*17.1*	*59.7*	*50.6*	*95.8*	*16.7*	*26.6*	*36.7*
United Kingdom							
inward	10.4	29.7	35.1	48.7	21.9	10.9	5.0
outward	*19.3*	*49.1*	*80.4*	*95.7*	*24.5*	*13.8*	*19.0*
Other Western Europe							
inward	**5.5**	**14.2**	**23.1**	**30.9**	**13.8**	**7.2**	**16.6**
outward	***16.8***	***22.7***	***44.2***	***63.6***	***21.7***	***15.4***	***14.7***
Iceland							
inward	2.4	7.4	3.6	8.6	10.4	7.9	6.5
outward	*2.3*	*3.6*	*6.4*	*19.2*	*20.3*	*13.6*	*7.4*
Malta							
inward	14.2	31.1	96.5	66.5	33.3	-53.0	34.2
outward	*0.7*[a]	*1.7*	*5.3*	*2.8*	*2.8*	*-0.5*	*2.1*
Norway							
inward	7.1	10.3	23.1	18.8	6.6	2.6	6.3
outward	*9.2*	*6.1*	*17.5*	*26.4*	*-2.4*	*16.4*	*5.8*
Switzerland							
inward	4.7	17.1	22.6	38.7	18.1	11.2	24.4
outward	*21.3*	*35.8*	*64.0*	*89.7*	*37.2*	*15.0*	*21.9*
North America							
inward	**5.5**	**10.8**	**15.6**	**17.9**	**8.9**	**4.1**	**1.7**
outward	***7.4***	***9.1***	***11.5***	***8.8***	***7.7***	***6.9***	***8.0***
Canada							
inward	7.3	18.6	19.0	47.2	19.4	14.5	4.6
outward	*9.8*	*28.1*	*13.2*	*31.6*	*25.4*	*18.2*	*15.1*
United States							
inward	5.4	10.3	15.4	15.8	8.1	3.3	1.5
outward	*7.1*	*7.7*	*11.3*	*7.2*	*6.4*	*6.0*	*7.5*
Other developed countries							
inward	**0.8**	**1.0**	**1.6**	**2.2**	**1.3**	**2.4**	**1.6**
outward	***1.8***	***2.5***	***1.8***	***2.7***	***4.2***	***3.8***	***3.7***
Australia							
inward	8.7	7.1	3.1	15.1	5.1	14.8	6.3
outward	*5.7*	*3.9*	*-0.7*	*1.0*	*15.7*	*8.0*	*12.0*
Israel							
inward	4.9	8.4	14.0	22.0	16.7	9.3	20.1
outward	*3.3*	*5.2*	*4.3*	*15.2*	*3.0*	*6.1*	*9.5*
Japan							
inward	0.1	0.3	1.1	0.7	0.6	1.0	0.6
outward	*1.6*	*2.3*	*1.9*	*2.5*	*3.6*	*3.4*	*2.6*
New Zealand							
inward	24.5	11.3	12.7	34.2	19.4	7.0	12.5
outward	*1.1*	*8.8*	*7.2*	*13.3*	*-11.3*	*3.2*	*1.2*
Developing economies							
inward	**7.9**	**12.3**	**14.7**	**14.9**	**13.1**	**9.9**	**10.0**
outward	***3.4***	***3.3***	***3.8***	***6.1***	***3.6***	***3.0***	***2.1***
Africa							
inward	**6.5**	**8.3**	**11.6**	**8.8**	**20.7**	**12.3**	**13.9**
outward	***2.5***	***2.6***	***2.3***	***0.8***	***-2.6***	***0.2***	***1.1***

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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, 1992-2003 (continued)

(Per cent)

Region/economy	1992-1997 (Annual average)	1998	1999	2000	2001	2002	2003
North Africa							
inward	**5.0**	**6.1**	**6.2**	**5.9**	**11.7**	**7.8**	**11.7**
outward	***0.1***	***0.8***	***0.7***	***0.5***	***0.5***	***0.6***	***0.3***
Algeria							
inward	0.8	4.0	4.3	3.7	9.6	7.7	3.9
outward	*0.1*	-	*0.4*	*0.2*	*0.1*	*0.7*	*0.1*
Egypt							
inward	8.9	5.9	5.7	6.7	3.2	4.3	2.0
outward	*0.4*	*0.3*	*0.2*	*0.3*	*0.1*	*0.2*	*0.2*
Libyan Arab Jamahiriya							
inward	-0.9	-4.3	-3.9	-3.3	-2.8	-3.6	19.9
outward	*-0.2*	*10.0*	*6.3*	*2.3*	*2.3*	*4.2*	*2.8*
Morocco							
inward	8.3	5.3	10.2	2.7	37.4	5.8	22.2
outward	*0.3*	*0.3*	*0.2*	*0.7*	*1.3*	*0.3*	*0.1*
Sudan							
inward	2.2	29.3	30.2	27.8	27.7	45.4	80.1
outward	..	..	..	..	..	..	..
Tunisia							
inward	10.6	13.6	7.0	15.2	9.3	15.5	9.6
outward	*0.1*	-	-	-	-	-	-
Other Africa							
inward	**7.5**	**10.1**	**16.7**	**11.6**	**29.6**	**16.6**	**15.8**
outward	***4.5***	***4.1***	***4.0***	***1.0***	***-5.6***	***-0.2***	***1.8***
Angola							
inward	41.8	48.6	86.8	28.0	66.7	49.7	43.9
outward	-	-	-	-	-	-	-
Benin							
inward	6.8	7.7	8.5	13.2	9.1	7.5	10.8
outward	*2.1*[b]	*0.5*	*5.2*	*1.9*	*0.5*	-	*0.7*
Botswana							
inward	-1.1	7.8	2.7	4.3	2.6	33.1	6.9
outward	*1.1*	*0.3*	*0.1*	*0.2*	*32.3*	*3.5*	*3.2*
Burkina Faso							
inward	2.0	0.7	1.2	4.0	1.3	1.3	1.4
outward	*0.4*	*0.8*	*0.7*	-	*0.1*	*0.2*	*0.1*
Burundi							
inward	0.4	3.7	0.3	21.8	-	-	-
outward	*0.1*	*0.7*	*1.3*	-	-	-	-
Cameroon							
inward	1.2	3.3	2.3	2.1	4.9	10.5	13.8
outward	*0.8*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*
Cape Verde							
inward	8.4	8.2	43.4	31.1	9.0	10.5	12.8
outward	*0.4*	-	*0.3*	*1.3*	*0.5*	-	*0.6*
Central African Republic							
inward	3.1	5.6	2.3	0.9	3.8	4.1	2.8
outward	*3.2*	*0.2*	-	-	-	*1.0*	-
Chad							
inward	17.5	9.3	9.9	48.5	68.0	97.4	127.9
outward	*4.2*	*-0.1*	*-0.8*	-	-	-	-
Comoros							
inward	0.4	1.2	1.0	0.4	4.9	1.2	3.8
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, 1992-2003 (continued)

(Per cent)

Region/economy	1992-1997 (Annual average)	1998	1999	2000	2001	2002	2003
Congo							
inward	15.6	3.6	59.0	22.3	9.6	17.7	37.5
outward	*0.1*	*-0.9*	*0.2*	*0.5*	*0.7*	*0.8*	*-0.1*
Congo, Democratic Republic of							
inward	-1.5	13.5	1.2	1.8	25.6	29.0	23.6
outward	..	..	..	..	..	..	..
Côte d'Ivoire							
inward	17.0	19.2	17.7	20.3	26.3	18.8	34.2
outward	*8.3*	*1.8*	*3.1*	-	*0.2*	*0.2*	*0.1*
Djibouti							
inward	6.7[b]	4.4	8.9	4.6	5.2	5.7	17.2
outward	..	..	..	..	..	..	..
Equatorial Guinea							
inward	33.1	73.3	49.8	21.7	199.8	67.1	295.9
outward	-	-	*0.3*	*-0.7*	*0.9*	-	-
Eritrea							
inward	16.5[d]	56.4	27.7	12.5	5.0	7.4	8.9
outward	..	..	..	..	..	..	..
Ethiopia							
inward	5.2	24.1	7.1	13.8	1.9	5.6	5.4
outward	*19.9*	*23.4*	*-4.7*	*-0.1*	*6.7*	*0.5*	*2.3*
Gabon							
inward	-16.9	7.3	-16.8	-3.3	-6.6	17.8	4.0
outward	*1.2*	*-1.0*	*1.0*	*2.0*	*0.3*	-	-
Gambia							
inward	19.2	30.9	64.4	60.7	50.8	58.1	83.6
outward	*6.9*	*7.3*	*5.8*	*6.6*	*7.3*	*6.5*	*9.4*
Ghana							
inward	8.6	3.3	16.1	9.6	7.1	4.3	10.7
outward	*6.8[d]*	*1.8*	*4.6*	*4.4*	*4.2*	*4.4*	*4.3*
Guinea							
inward	1.7	2.8	8.3	1.5	0.3	3.7	1.1
outward	*0.1[d]*	*0.2*	*0.4*	*0.3*	*0.3*	*0.3*	*0.3*
Guinea-Bissau							
inward	7.1	18.8	22.9	2.0	1.6	5.6	6.5
outward	..	..	..	-	-	-	-
Kenya							
inward	1.0	0.6	0.9	7.3	0.3	1.7	5.2
outward	*0.1*	-	-	-	-	*0.5*	*0.1*
Lesotho							
inward	4.8	6.1	7.5	8.2	8.6	8.8	9.6
outward	*0.1[e]*	..	..	..	..	-	-
Madagascar							
inward	3.4	3.3	10.9	11.0	10.3	1.4	5.3
outward	*0.1*	*0.2*	-	*0.2*	-	-	-
Malawi							
inward	4.1	6.2	26.1	11.4	10.1	4.3	12.4
outward	*0.6[d]*	*2.9*	*1.3*	*1.4*	*2.1*	*2.5*	*1.9*
Mali							
inward	6.3	1.7	0.3	15.4	17.7	16.2	22.4
outward	*0.3*	*5.2*	*9.8*	*0.8*	*2.9*	*3.0*	*2.3*
Mauritania							
inward	4.0	0.1	0.5	13.5	34.3	48.4	79.5
outward	..	..	..	..	..	..	..
Mauritius							
inward	2.6	1.3	4.2	25.9	3.1	3.1	5.5
outward	*1.6*	*1.4*	*0.5*	*1.2*	*0.3*	*0.9*	*3.2*

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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, 1992-2003 (continued)

(Per cent)

Region/economy	1992-1997 (Annual average)	1998	1999	2000	2001	2002	2003
Mozambique							
inward	8.8	33.1	47.9	7.5	33.1	20.8	29.9
outward	-	-	-	-	-	-	-
Namibia							
inward	15.3	9.9	2.5	29.0	53.0	26.0	12.3
outward	*-0.5*	*-0.2*	*-0.1*	*0.4*	*-1.8*	*-0.7*	*-0.9*
Niger							
inward	6.1	-0.4	0.2	4.4	13.3	3.1	14.3
outward	*5.6*	*3.3*	*0.1*	*-0.3*	*-1.8*	-	*-0.6*
Nigeria							
inward	28.4	11.9	52.1	49.4	31.3	37.8	36.0
outward	*4.3*	*1.2*	*4.7*	*4.5*	*2.6*	*3.0*	*2.8*
Rwanda							
inward	1.2	2.4	0.5	2.6	1.3	2.4	1.6
outward	*0.1*	*0.1*	*0.3*	*0.2*	*0.2*	*0.3*	*0.2*
São Tomé and Principe							
inward	-0.2	28.7	16.2	18.8	14.8	13.8	45.7
outward	..	..	..	..	..	..	..
Senegal							
inward	8.0	7.8	15.4	8.2	4.8	5.2	9.0
outward	*1.6*	*1.3*	*0.6*	*0.1*	*-0.9*	*3.7*	*1.3*
Seychelles							
inward	20.6	26.3	31.7	30.9	30.7	23.0	28.9
outward	*6.1*	*1.4*	*4.8*	*4.0*	*4.3*	*4.3*	*4.0*
Sierra Leone							
inward	1.7	-25.9	21.0	12.2	4.9	7.1	5.7
outward	*0.3*	*-0.1*	-	-	-	-	-
South Africa							
inward	4.4	2.5	7.5	4.7	40.9	4.8	3.0
outward	*6.9*	*7.8*	*7.9*	*1.4*	*-19.1*	*-2.5*	*2.9*
Swaziland							
inward	18.5	36.1	38.8	32.8	22.3	22.4	18.2
outward	*5.5*	*7.6*	*4.8*	*6.0*	*-8.0*	*-4.4*	*-0.3*
Togo							
inward	5.9	9.0	14.7	21.5	33.8	20.3	9.0
outward	*3.9*	*10.3*	*20.9*	*0.3*	*-3.4*	-	*-1.0*
Uganda							
inward	10.6	18.2	18.7	25.5	20.2	20.2	20.9
outward	*5.8*	*1.7*	*-0.7*	*-2.6*	*-0.5*	*-1.1*	*-1.1*
United Republic of Tanzania							
inward	8.3	12.8	40.8	17.8	29.8	14.9	15.6
outward	-[f]	-	-	*0.1*	-	-	-
Zambia							
inward	10.8	41.3	32.5	21.8	10.5	13.4	16.2
outward	..	..	..	..	..	..	..
Zimbabwe							
inward	4.6	33.8	6.7	2.5	0.5	3.5	2.5
outward	*1.3*	*0.7*	*1.0*	*0.8*	*0.6*	*0.4*	*0.6*
Latin America and the Caribbean							
inward	**10.1**	**17.4**	**25.6**	**21.1**	**19.8**	**14.9**	**11.2**
outward	***1.6***	***3.2***	***2.8***	***2.2***	***1.8***	***2.3***	***2.3***
South America							
inward	**8.7**	**17.7**	**32.2**	**25.7**	**19.0**	**17.2**	**12.0**
outward	***1.6***	***2.9***	***3.3***	***3.6***	***-0.1***	***2.6***	***2.6***

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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, 1992-2003 (continued)

(Per cent)

Region/economy	1992-1997 (Annual average)	1998	1999	2000	2001	2002	2003
Argentina							
inward	11.2	12.2	46.9	22.6	5.7	6.4	1.9
outward	*3.3*	*3.9*	*3.4*	*2.0*	*0.4*	*-5.1*	*3.1*
Bolivia							
inward	28.2	52.0	63.8	54.7	71.5	84.2	15.4
outward	*0.2*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*	*0.3*
Brazil							
inward	4.7	18.6	28.2	28.2	22.7	19.6	11.4
outward	*0.4*	*1.8*	*1.7*	*2.0*	*-2.3*	*2.9*	*0.3*
Chile							
inward	17.5	22.3	57.6	31.2	28.4	13.2	19.6
outward	*5.4*	*7.2*	*16.8*	*25.6*	*10.9*	*2.1*	*9.1*
Colombia							
inward	12.3	15.2	13.2	22.8	21.8	17.7	15.5
outward	*1.6*	*4.3*	*1.0*	*3.1*	*0.1*	*7.2*	*8.2*
Ecuador							
inward	13.8	18.8	22.9	22.1	29.3	23.0	25.1
outward	*1.7*	*-1.8*	-	-	-	-	-
Guyana							
inward	36.1	22.5	29.7	41.6	36.7	27.4	16.5
outward	*-0.1*[f]	*-0.2*	*-1.2*	*1.2*	*-0.1*	-	*0.4*
Paraguay							
inward	7.1	18.0	5.5	6.4	6.6	1.1	6.3
outward	*0.5*	*0.3*	*0.3*	*0.4*	*0.4*	*-0.2*	*0.4*
Peru							
inward	18.0	12.3	17.3	7.5	11.5	21.6	13.5
outward	*0.1*	*0.5*	*1.1*	-	*0.7*	-	*0.6*
Suriname							
inward	-669.6	14.5	-12.8	-73.5	-22.2	-49.9	-69.3
outward	..	..	..	..	..	..	..
Uruguay							
inward	4.3	4.8	7.8	10.3	13.8	14.1	24.3
outward	*0.1*	*0.3*	*-0.1*	-	*0.3*	*4.3*	*0.3*
Venezuela							
inward	13.4	27.3	17.8	27.3	17.8	5.7	14.7
outward	*3.4*	*5.7*	*5.4*	*3.0*	*1.0*	*7.4*	*6.6*
Other Latin America and the Caribbean							
inward	**14.0**	**16.7**	**14.2**	**14.3**	**20.8**	**12.6**	**10.2**
outward	***1.6***	***4.3***	***1.9***	***0.2***	***4.2***	***2.0***	***1.9***
Anguilla							
inward	94.3[g]	101.6	109.3	110.0	101.0	107.6	83.6
outward	*4.5*	*3.6*	*2.9*	*2.9*	*3.1*	*2.9*	*2.9*
Antigua and Barbuda							
inward	12.6	8.5	10.4	8.8	23.6	17.9	22.3
outward	*0.4*[f]	*-0.4*	*-0.3*	*0.3*	*-0.2*	-	*0.1*
Aruba							
inward	45.3	17.6	-84.7	26.5	-62.8	67.5	38.5
outward	*-0.4*	*0.3*	*0.8*	*3.0*	*-3.7*	*0.6*	*2.8*
Bahamas							
inward	11.9	22.6	23.5	38.9	15.7	31.2	22.6
outward	-	*0.2*	-	-	-	-	-
Barbados							
inward	5.6	3.6	3.6	3.8	3.5	3.4	24.0
outward	*0.9*	*0.2*	*0.3*	*0.2*	*0.2*	*0.1*	*0.2*

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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, 1992-2003 (continued)

(Per cent)

Region/economy	1992-1997 (Annual average)	1998	1999	2000	2001	2002	2003
Belize							
inward	12.3	14.7	33.2	12.4	27.4	11.8	18.0
outward	*2.0*	*4.2*	-	*2.6*	-	-	*0.9*
Costa Rica							
inward	15.7	21.3	21.8	14.4	15.1	20.8	19.5
outward	*0.2*	*0.2*	*0.2*	*0.3*	*0.3*	*1.1*	*1.6*
Dominica							
inward	39.4	9.2	24.3	14.2	18.7	25.3	23.6
outward	..	..	..	..	..	..	..
Dominican Republic							
inward	10.7	19.1	32.2	20.5	22.1	18.8	6.5
outward	*0.4*[f]	*0.1*	*0.1*	*1.3*	*-0.7*	-	..
El Salvador							
inward	1.4	55.2	10.8	7.8	12.3	8.9	6.9
outward	-	*0.1*	*2.7*	*-0.2*	*-0.4*	*-1.1*	*0.8*
Grenada							
inward	24.2	38.2	27.5	22.3	46.1	38.7	40.1
outward	*0.1*	*0.2*	*0.3*	*-0.2*	*0.1*	-	*-0.1*
Guatemala							
inward	4.6	20.8	4.7	7.4	14.0	3.0	2.9
outward	*-0.1*	*0.2*	*-0.1*	*0.5*	-	*0.1*	*0.2*
Haiti							
inward	-0.9	1.1	2.6	1.3	0.5	0.7	0.9
outward	*-1.9*	*0.1*	*-0.1*	*0.1*	-	-	*0.1*
Honduras							
inward	7.2	6.7	14.6	17.9	12.7	12.0	12.2
outward	-	-	-	-	-	-	-
Jamaica							
inward	11.1	18.6	27.8	22.2	26.1	17.7	21.8
outward	*4.1*	*4.1*	*5.0*	*3.5*	*3.8*	*2.7*	*3.3*
Mexico							
inward	14.4	14.0	13.0	13.4	21.5	11.8	8.9
outward	*0.5*	*1.5*	*1.4*	*0.8*	*3.5*	*0.7*	*1.1*
Montserrat							
inward	13.4[g]	10.4	37.7	19.7	4.5	10.3	10.7
outward	..	..	..	..	..	..	..
Nicaragua							
inward	16.0	28.2	31.5	31.2	17.9	22.8	23.3
outward	*-0.4*[a]	*1.0*	*0.3*	*0.5*	*0.6*	*0.5*	*0.5*
Panama							
inward	22.2	49.4	22.4	22.9	13.0	2.4	27.5
outward	*48.1*	*125.3*	*12.2*	*-31.8*	*61.2*	*58.1*	*33.8*
Saint Kitts and Nevis							
inward	19.6	25.9	53.1	58.9	45.0	52.4	30.7
outward	-	*0.1*	*0.2*	*-0.1*	-	-	-
Saint Lucia							
inward	24.5	52.0	44.7	30.2	13.1	20.4	19.0
outward	*0.1*	*-0.2*	-	-	*-0.1*	-	-
Saint Vincent and the Grenadines							
inward	56.6	78.5	49.1	31.9	20.5	30.0	37.3
outward	..	..	..	..	..	..	..
Trinidad and Tobago							
inward	41.8	38.5	45.9	42.3	41.7	47.4	36.9
outward	*-0.1*	*0.1*	*26.0*	*1.6*	*2.9*	*6.4*	*13.5*

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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, 1992-2003 (continued)

(Per cent)

Region/economy	1992-1997 (Annual average)	1998	1999	2000	2001	2002	2003
Asia and the Pacific							
inward	**7.4**	**10.6**	**11.3**	**13.3**	**10.2**	**8.3**	**9.3**
outward	***4.1***	***3.4***	***4.3***	***7.9***	***4.7***	***3.4***	***2.1***
Asia							
inward	**7.3**	**10.6**	**11.3**	**13.3**	**10.2**	**8.3**	**9.3**
outward	***4.1***	***3.4***	***4.3***	***7.9***	***4.7***	***3.4***	***2.1***
West Asia							
inward	**1.7**	**4.6**	**0.7**	**1.0**	**4.6**	**2.7**	**2.9**
outward	***0.2***	***-0.7***	***1.7***	***2.8***	***4.0***	***2.0***	***-0.5***
Bahrain							
inward	72.9	20.7	50.5	33.8	7.7	23.0	50.4
outward	*11.9*	*20.8*	*18.2*	*0.9*	*20.4*	*20.1*	*72.2*
Cyprus							
inward	9.0	14.8	39.7	51.0	40.4	32.1	48.8
outward	*1.4*	*3.9*	*8.5*	*12.8*	*13.5*	*15.6*	*20.3*
Iran, Islamic Republic of							
inward	0.3	0.1	0.2	0.1	0.2	0.8	0.4
outward	-	-	*3.8*	*1.3*	*8.1*	*4.0*	*4.7*
Iraq							
inward	-[h]	..	..	..	..	..	..
outward	..	..	..	..	..	..	..
Jordan							
inward	3.6	18.5	8.3	44.2	5.7	2.3	19.2
outward	*-1.3*	*0.1*	*0.2*	*0.3*	*0.5*	*1.0*	*0.1*
Kuwait							
inward	1.7	1.2	1.6	0.6	-5.0	0.2	2.2
outward	*-0.8*	*-39.3*	*0.5*	*-10.7*	*12.3*	*-4.8*	*-166.0*
Lebanon							
inward	1.5	4.2	7.0	10.0	8.9	8.3	12.1
outward	*0.4*	-	*0.1*	*4.2*	*3.3*	*2.4*	*3.3*
Oman							
inward	3.7	3.0	1.7	0.7	3.3	0.9	5.5
outward	*0.2*	*-0.1*	*0.1*	*-0.1*	-	-	-
Occupied Palestinian Territory							
inward	11.8[d]	14.5	11.2	4.3	1.3	..	..
outward	*10.8*	*10.7*	*10.0*	*15.0*	*24.6*	..	..
Qatar							
inward	6.8	11.0	5.0	7.3	7.6	19.7	11.4
outward	*1.0*[b]	*0.6*	*1.3*	*1.2*	*2.9*	*1.9*	*2.0*
Saudi Arabia							
inward	1.0	14.2	-2.5	-5.7	0.1	-1.9	0.6
outward	*0.6*	*0.2*	*0.2*	*0.5*	*-0.1*	*0.2*	*0.2*
Syrian Arab Republic							
inward	0.9	0.6	1.9	1.9	2.7	2.2	1.9
outward	..	..	..	..	..	..	..
Turkey							
inward	1.8	1.9	1.9	2.2	12.4	3.4	1.6
outward	*0.2*	*0.7*	*1.6*	*2.0*	*1.9*	*0.6*	*1.3*
United Arab Emirates							
inward	2.4	1.9	-7.8	-3.9	9.1	6.5	3.7
outward	*0.4*	*-0.2*	*0.9*	*16.0*	*3.4*	*3.4*	*7.6*
Yemen							
inward	4.8	-11.1	-18.0	0.4	8.7	6.4	-5.7
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, 1992-2003 (continued)

(Per cent)

Region/economy	1992-1997 (Annual average)	1998	1999	2000	2001	2002	2003
Central Asia							
inward	**14.9**	**30.6**	**26.1**	**19.8**	**29.0**	**34.6**	**42.5**
outward	***-[g]***	***3.2***	***7.1***	***0.3***	***2.0***	***8.2***	***8.0***
Armenia							
inward	7.1	77.2	44.6	35.2	23.4	29.8	22.9
outward	..	*3.8*	*4.3*	*2.3*	*2.9*	*2.1*	*-0.1*
Azerbaijan							
inward	49.4	64.8	39.1	10.7	18.7	54.2	197.0
outward	..	*8.7*	*25.7*	*0.1*	*13.0*	*12.7*	*56.0*
Georgia							
inward	22.2	65.8	16.2	25.5	19.8	29.6	62.2
outward	..	..	*0.2*	*-0.1*	-	*0.7*	*0.7*
Kazakhstan							
inward	22.2	33.1	53.9	40.5	53.9	46.9	29.1
outward	*-[g]*	*0.2*	*0.1*	*0.1*	*-0.5*	*7.7*	*-1.7*
Kyrgyzstan							
inward	24.7[a]	51.7	22.6	-1.0	2.3	1.7	10.0
outward	..	*10.7*	*3.1*	*1.8*	*2.8*	*2.0*	*2.2*
Tajikistan							
inward	6.2	28.4	21.2	25.8	11.6	73.6	42.4
outward	..	..	..	..	..	..	..
Turkmenistan							
inward	10.7	4.9	8.4	7.4	7.9	5.6	5.3
outward	..	..	..	..	..	..	..
Uzbekistan							
inward	1.7[f]	5.6	4.0	3.3	3.6	3.7	3.3
outward	..	..	..	..	..	..	..
South, East and South-East Asia							
inward	**8.5**	**11.5**	**12.9**	**15.2**	**10.8**	**8.7**	**9.7**
outward	***4.9***	***4.2***	***4.7***	***8.7***	***4.8***	***3.6***	***2.4***
Bangladesh							
inward	0.4	2.1	1.8	2.7	0.7	0.5	1.1
outward	-	-	-	-	*0.2*	-	*0.1*
Bhutan							
inward	0.2	0.2	0.2	-	0.1	0.1	0.1
outward	..	..	..	..	..	..	..
Cambodia							
inward	35.0	65.7	48.3	29.1	21.0	16.0	12.3
outward	*0.8[i]*	*5.4*	*1.9*	*1.3*	*1.0*	*0.7*	*1.4*
China							
inward	13.7	13.6	11.3	10.3	10.5	11.5	12.4
outward	*1.3*	*0.8*	*0.5*	*0.2*	*1.5*	*0.5*	*0.4*
Hong Kong, China							
inward	18.4	29.4	58.6	138.9	55.7	25.8	38.4
outward	*48.7*	*33.8*	*46.2*	*133.2*	*26.6*	*46.5*	*10.7*
India							
inward	2.0	2.9	2.2	2.3	3.2	3.0	4.0
outward	*0.1*	*0.1*	*0.1*	*0.5*	*1.3*	*1.0*	*0.8*
Indonesia							
inward	6.4	-1.0	-6.6	-13.9	-9.7	0.4	-1.8
outward	*2.2*	*0.2*	*0.3*	*0.5*	*0.4*	*0.3*	*0.4*
Korea, Republic of							
inward	0.8	4.8	7.1	5.4	2.6	1.8	2.1
outward	*1.7*	*4.5*	*3.2*	*3.1*	*1.7*	*1.6*	*1.9*

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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, 1992-2003 (continued)

(Per cent)

Region/economy	1992-1997 (Annual average)	1998	1999	2000	2001	2002	2003
Lao People's Democratic Republic							
inward	26.7[b]	14.4	15.7	9.1	6.2	6.9	5.2
outward	-[b]	-	-	*45.0*	*0.8*	*15.7*	*20.3*
Macao, China							
inward	-0.1	-1.5	0.9	-0.1	25.0	55.0	33.4
outward	..	..	..	..	*1.7*	*8.9*	*2.3*
Malaysia							
inward	18.0	14.0	22.5	16.4	2.5	14.5	10.8
outward	*5.6*	*4.5*	*8.2*	*8.8*	*1.2*	*8.6*	*6.0*
Maldives							
inward	8.1	7.1	6.7	9.8	8.6	7.8	8.6
outward	..	..	..	..	..	..	..
Mongolia							
inward	5.5[a]	6.8	11.8	18.4	13.7	27.0	44.2
outward	..	..	..	..	..	..	..
Nepal							
inward	1.2	1.2	0.5	-	2.0	0.2	2.7
outward	..	..	..	..	..	..	..
Pakistan							
inward	6.0	5.7	6.4	3.6	5.0	10.3	15.4
outward	*-0.1*	*0.1*	-	*0.1*	*0.4*	*0.4*	*0.2*
Philippines							
inward	8.5	16.0	11.9	8.4	6.9	11.9	2.2
outward	*1.3*	*1.2*	*-0.2*	*-0.7*	*-1.1*	*0.4*	*1.1*
Singapore							
inward	29.3	25.0	57.8	62.8	60.1	25.6	45.7
outward	*18.1*	*9.7*	*27.0*	*19.3*	*68.2*	*16.5*	*22.2*
Sri Lanka							
inward	6.0	3.8	4.7	3.8	2.4	5.7	6.0
outward	*0.2*	*0.3*	*0.6*	-	-	*0.3*	*0.1*
Taiwan Province of China							
inward	2.4	0.4	4.4	6.8	7.8	2.9	0.9
outward	*5.3*	*6.1*	*6.7*	*9.2*	*10.4*	*9.8*	*11.3*
Thailand							
inward	4.1	29.9	23.8	12.4	14.4	3.7	5.2
outward	*0.9*	*0.5*	*1.4*	*-0.1*	*0.6*	*0.4*	*1.6*
Viet Nam							
inward	34.5	23.1	20.1	15.0	13.6	11.4	15.2
outward	..	..	..	..	..	..	..
The Pacific							
inward	**30.2**	**25.2**	**34.5**	**11.6**	**12.5**	**7.1**	**16.0**
outward	***4.9***	***-7.2***	***-3.5***	***8.9***	***16.0***	***0.1***	***4.0***
Fiji							
inward	20.3	42.4	-1.4	-8.3	18.4	11.4	8.9
outward	*-7.2*	*-23.1*	*-22.6*	*36.5*	*3.2*	-	*11.3*
Kiribati							
inward	1.7	2.4	2.4	3.2	2.6	2.4	2.7
outward	*0.1*[j]	..	..	..	..	..	..
Papua New Guinea							
inward	33.3	20.9	71.7	17.0	12.5	4.3	20.6
outward	*8.1*	*0.1*	*8.4*	*-0.4*	*21.8*	*0.2*	*0.6*
Solomon Islands							
inward	20.9	2.8	-28.5	2.1	-17.8	-2.2	-3.1
outward	*-0.3*[k]	..	..	..	..	..	..

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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, 1992-2003 (continued)

(Per cent)

Region/economy	1992-1997 (Annual average)	1998	1999	2000	2001	2002	2003
Tonga							
inward	8.8	9.3	9.3	21.8	4.7	11.2	12.6
outward	..	..	..	..	..	..	..
Vanuatu							
inward	50.5	31.3	21.4	31.9	28.2	23.7	30.0
outward	..	..	..	..	..	..	..
Central and Eastern Europe							
inward	**6.9**	**15.2**	**19.3**	**18.3**	**15.4**	**16.8**	**9.5**
outward	***0.7***	***1.5***	***1.8***	***2.7***	***2.1***	***2.6***	***3.2***
Albania							
inward	25.9[f]	9.2	6.7	20.5	25.9	15.1	22.7
outward	*11.5[f]*	*0.2*	*1.1*	*0.9*	-	*0.5*	*0.4*
Belarus							
inward	2.4[f]	5.1	13.9	4.5	3.4	7.7	5.9
outward	*0.1*	*0.1*	-	-	-	*-6.4*	*0.1*
Bosnia and Herzegovina							
inward	-[b]	4.2	16.5	16.4	12.3	24.1	37.4
outward	*2.1[b]*	..	..	..	..	..	..
Bulgaria							
inward	11.8	32.4	41.8	50.6	32.8	31.8	36.5
outward	*-0.7[f]*	-	*0.9*	*0.2*	*0.4*	*1.0*	*0.6*
Croatia							
inward	6.9[a]	18.5	31.6	27.1	35.0	20.3	21.8
outward	*1.2[a]*	*1.9*	*1.0*	*0.1*	*3.5*	*9.6*	*0.8*
Czech Republic							
inward	9.5	22.3	41.3	32.7	33.6	44.5	11.6
outward	*0.6[f]*	*0.8*	*0.6*	*0.3*	*1.0*	*1.1*	*1.0*
Estonia							
inward	23.3[f]	37.6	23.5	29.6	36.6	15.3	35.2
outward	*2.7[f]*	*0.4*	*6.4*	*4.8*	*13.5*	*7.1*	*5.9*
Hungary							
inward	33.0	34.4	28.8	24.5	32.1	19.1	13.5
outward	*1.0*	*2.9*	*2.2*	*5.5*	*3.0*	*1.8*	*8.7*
Latvia							
inward	27.8[f]	21.5	20.7	21.6	7.9	17.3	13.7
outward	*-3.5[f]*	*3.3*	*1.0*	*0.5*	*0.6*	*0.4*	*1.2*
Lithuania							
inward	5.8[f]	34.5	20.2	17.7	18.2	25.5	4.7
outward	*0.4[b]*	*0.2*	*0.4*	*0.2*	*0.3*	*0.6*	*1.0*
Moldova, Republic of							
inward	8.1[f]	20.2	17.5	67.6	73.0	49.8	27.7
outward	*0.9*	[g]	*-0.2*	-	*0.1*	-	*0.2-*
Poland							
inward	12.2	15.9	18.4	23.8	14.9	11.4	11.1
outward	*0.1*	*0.8*	*0.1*	-	*-0.2*	*0.6*	*1.0*
Romania							
inward	5.8	26.5	16.5	14.8	13.9	11.7	12.2
outward	-	*-0.1*	*0.3*	*-0.2*	*-0.2*	*0.2*	*0.4*
Russian Federation							
inward	2.7[f]	6.3	11.7	6.2	4.3	5.6	1.5
outward	*1.4[a]*	*2.9*	*7.8*	*7.3*	*4.4*	*5.7*	*5.2*
Serbia and Montenegro							
inward	..	..	8.7	2.0	11.5	20.3	81.1
outward	..	..	..	..	..	*0.2*	..

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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, 1992-2003 (concluded)

(Per cent)

Region/economy	1992-1997 (Annual average)	1998	1999	2000	2001	2002	2003
Slovakia							
inward	4.6	8.8	7.1	36.6	26.3	62.2	6.8
outward	*0.7*[f]	*1.8*	*-6.1*	*0.4*	*0.6*	*0.1*	*0.3*
Slovenia							
inward	4.9	4.5	1.9	2.8	7.9	32.3	2.9
outward	-[f]	*-0.1*	*0.9*	*1.4*	*3.1*	*1.9*	*4.8*
TFYR Macedonia							
inward	2.0[g]	20.5	5.3	30.0	86.5	12.4	16.5
outward	-[d]	-	-	*-0.1*	*0.2*	-	*0.1*
Ukraine							
inward	3.3[f]	9.0	8.1	9.6	10.6	8.2	19.3
outward	*0.1*[g]	-	*0.1*	-	*0.3*	*-0.1*	*0.2*
Memorandum							
Least developed countries [l]							
inward	6.1	12.3	16.8	10.5	18.5	15.8	20.5
outward	*0.9*	*1.7*	*0.4*	*0.6*	*0.4*	*0.5*	*0.5*
Oil-exporting countries [m]							
inward	4.5	7.9	3.0	0.9	4.4	4.5	5.0
outward	*1.1*	*-0.1*	*2.0*	*2.1*	*2.6*	*2.1*	-
All developing economies, excluding China							
inward	6.8	12.0	15.9	16.4	14.1	9.2	9.1
outward	*3.9*	*4.1*	*4.9*	*8.1*	*4.5*	*4.1*	*2.8*

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

[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. Timor-Leste is not included due to unavailability of data.
[m] Oil-exporting countries include: Algeria, Angola, Bahrain, Brunei Darussalam, Congo, Gabon, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates, Venezuela and Yemen.

Annex table B.6. Inward and outward FDI stocks as a percentage of gross domestic product, by region and economy, 1980, 1985, 1990, 1995, 2000, 2002, 2003

(Per cent)

Region/economy	1980	1985	1990	1995	2000	2002	2003
World							
inward	**6.6**	**8.3**	**9.3**	**10.2**	**19.3**	**23.0**	**22.9**
outward	***5.8***	***6.6***	***8.6***	***10.0***	***19.1***	***22.6***	***23.0***
Developed countries							
inward	**4.9**	**6.2**	**8.2**	**8.9**	**16.6**	**20.5**	**20.7**
outward	***6.2***	***7.3***	***9.6***	***11.3***	***21.4***	***25.8***	***26.4***
Western Europe							
inward	**6.2**	**9.3**	**11.0**	**13.3**	**28.5**	**34.6**	**33.0**
outward	***6.4***	***10.8***	***12.1***	***16.1***	***38.9***	***43.2***	***41.2***
European Union							
inward	**6.1**	**9.2**	**10.9**	**13.2**	**28.5**	**34.6**	**32.8**
outward	***6.1***	***10.5***	***11.6***	***15.0***	***37.5***	***41.7***	***39.6***
Austria							
inward	4.0	5.6	6.1	7.4	15.9	21.1	23.7
outward	*0.7*	*2.0*	*2.6*	*5.0*	*13.0*	*20.6*	*23.3*
Belgium and Luxembourg							
inward	5.8	21.2	27.8	38.3	78.6	..	..
outward	*4.8*	*11.0*	*19.4*	*27.4*	*72.4*	..	..
Denmark							
inward	6.1	6.0	6.9	13.2	42.2	42.7	36.1
outward	*3.0*	*3.0*	*5.5*	*13.7*	*41.9*	*44.0*	*36.6*
Finland							
inward	1.0	2.5	3.8	6.5	20.2	25.8	28.6
outward	*1.4*	*3.4*	*8.2*	*11.5*	*43.3*	*48.4*	*42.4*
France							
inward	3.8	6.9	7.1	12.3	19.8	26.9	24.7
outward	*3.6*	*7.1*	*9.1*	*13.1*	*33.9*	*40.7*	*36.7*
Germany							
inward	3.9	5.1	7.1	7.8	25.1	26.7	22.6
outward	*4.6*	*8.4*	*8.8*	*10.5*	*25.8*	*31.1*	*25.8*
Greece							
inward	9.3	20.2	6.7	9.3	11.0	11.7	9.8
outward	*6.0*	*7.1*	*3.5*	*2.6*	*5.1*	*6.7*	*5.7*
Ireland							
inward	149.9	157.7	71.5	60.2	144.1	137.5	129.7
outward	..	*42.2*	*24.0*	*19.9*	*33.9*	*25.9*	*22.5*
Italy							
inward	2.0	4.5	5.3	5.8	10.5	10.6	11.8
outward	*1.6*	*3.9*	*5.2*	*8.8*	*16.7*	*16.3*	*16.2*
Netherlands							
inward	10.8	18.8	23.3	28.0	64.9	75.4	65.6
outward	*23.7*	*36.1*	*36.3*	*41.6*	*81.4*	*83.0*	*75.0*
Portugal							
inward	12.3	18.7	14.8	17.1	27.2	35.4	36.3
outward	*1.7*	*2.4*	*1.3*	*3.0*	*16.1*	*26.1*	*26.1*
Spain							
inward	2.3	5.2	12.8	18.7	25.7	35.9	27.4
outward	*0.9*	*2.6*	*3.0*	*6.2*	*28.4*	*34.3*	*24.7*
Sweden							
inward	2.2	4.2	5.3	12.5	39.2	48.9	47.5
outward	*2.8*	*10.4*	*21.3*	*29.5*	*51.4*	*59.9*	*62.7*
United Kingdom							
inward	11.8	14.1	20.6	17.6	30.4	36.3	37.4
outward	*15.0*	*22.0*	*23.2*	*26.9*	*62.3*	*58.9*	*62.7*

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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, 2002, 2003 (continued)

(Per cent)

Region/economy	1980	1985	1990	1995	2000	2002	2003
Other Western Europe							
inward	**8.7**	**10.9**	**13.4**	**16.5**	**28.6**	**36.3**	**37.1**
outward	***12.7***	***16.1***	***22.0***	***35.5***	***63.9***	***71.2***	***70.9***
Iceland							
inward	..[a]	2.4	2.3	1.9	5.9	9.2	8.3
outward	*1.7*	*2.0*	*1.2*	*2.6*	*7.9*	*13.1*	*13.1*
Malta							
inward	13.8	28.1	20.1	17.3	66.5	54.4	63.5
outward	..	..	..	*1.0*	*5.7*	*6.3*	*6.9*
Norway							
inward	10.4	11.7	10.7	12.7	18.1	22.4	20.4
outward	*0.9*	*1.7*	*9.4*	*15.2*	*20.2*	*20.2*	*18.4*
Switzerland							
inward	7.9	10.4	15.0	18.6	36.1	46.7	49.7
outward	*20.0*	*26.0*	*28.9*	*46.4*	*97.1*	*110.3*	*111.2*
North America							
inward	**4.5**	**5.5**	**8.0**	**8.2**	**13.5**	**15.4**	**15.4**
outward	***7.9***	***6.2***	***8.1***	***10.2***	***14.5***	***18.8***	***20.1***
Canada							
inward	20.4	18.4	19.6	20.9	29.4	30.1	31.8
outward	*8.9*	*12.3*	*14.7*	*20.0*	*32.8*	*37.0*	*35.5*
United States							
inward	3.0	4.4	6.9	7.2	12.4	14.4	14.1
outward	*7.8*	*5.7*	*7.5*	*9.4*	*13.2*	*17.6*	*18.8*
Other developed countries							
inward	**1.7**	**2.2**	**2.8**	**2.8**	**3.9**	**5.6**	**6.7**
outward	***1.8***	***3.3***	***6.9***	***5.2***	***7.4***	***9.1***	***9.5***
Australia							
inward	7.9	14.5	23.7	26.7	28.7	30.5	34.3
outward	*1.4*	*3.8*	*9.8*	*14.7*	*26.1*	*22.5*	*23.0*
Israel							
inward	14.6	14.9	8.5	6.5	21.2	23.9	29.3
outward	*0.6*	*2.6*	*2.3*	*3.8*	*8.1*	*10.2*	*11.2*
Japan							
inward	0.3	0.3	0.3	0.7	1.1	2.0	2.1
outward	*1.8*	*3.2*	*6.6*	*4.5*	*5.9*	*7.7*	*7.8*
New Zealand							
inward	10.3	8.9	18.2	42.7	45.0	47.1	49.1
outward	*2.3*	*6.6*	*14.7*	*12.7*	*14.1*	*11.8*	*11.3*
Developing economies							
inward	**12.4**	**16.3**	**14.7**	**16.3**	**29.3**	**31.9**	**31.4**
outward	***3.6***	***3.6***	***3.8***	***5.7***	***12.4***	***12.6***	***12.2***
Africa							
inward	**8.2**	**9.8**	**10.9**	**15.4**	**24.6**	**27.0**	**25.3**
outward	***2.2***	***4.1***	***5.3***	***7.3***	***8.6***	***7.6***	***6.6***
North Africa							
inward	**3.2**	**5.3**	**9.1**	**13.8**	**14.8**	**20.5**	**21.6**
outward	***0.4***	***0.6***	***0.9***	***0.8***	***1.2***	***1.6***	***1.5***
Algeria							
inward	3.1	2.2	2.2	3.5	6.3	10.2	9.6
outward	*0.2*	*0.3*	*0.3*	*0.6*	*0.6*	*0.8*	*0.7*

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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, 2002, 2003 (continued)

(Per cent)

Region/economy	1980	1985	1990	1995	2000	2002	2003
Egypt							
inward	9.9	16.4	25.6	24.3	19.8	24.3	26.2
outward	*0.2*	*0.3*	*0.4*	*0.6*	*0.7*	*0.8*	*0.9*
Libyan Arab Jamahiriya							
inward	..[a]	..[a]	..[a]	..[a]	..[a]	..[a]	..[a]
outward	*0.4*	*1.0*	*2.2*	*0.9*	*3.5*	*7.3*	*6.6*
Morocco							
inward	1.0	3.4	3.5	9.2	18.1	25.8	26.0
outward	*0.8*	*2.6*	*1.9*	*1.8*	*2.2*	*2.4*	*2.0*
Sudan							
inward	0.4	0.6	0.4	2.3	11.5	17.6	23.1
outward	..	..	..	..	..	..	..
Tunisia							
inward	38.2	58.5	62.0	60.8	59.3	66.9	66.0
outward	*0.1*	*0.1*	*0.1*	*0.2*	*0.2*	*0.2*	*0.2*
Other Africa							
inward	**10.9**	**13.5**	**12.0**	**16.5**	**32.4**	**31.7**	**27.7**
outward	***3.6***	***8.2***	***8.6***	***11.7***	***14.8***	***12.1***	***9.9***
Angola							
inward	1.8	9.9	10.0	57.7	90.0	105.0	100.0
outward	..	..	..	..	..	..	..
Benin							
inward	2.2	3.2	8.6	18.9	23.5	22.8	19.1
outward	-	*0.2*	*0.1*	*0.1*	*2.6*	*2.3*	*1.9*
Botswana							
inward	61.8	79.5	34.8	23.6	34.6	16.1	14.6
outward	*38.7*	*36.8*	*11.9*	*13.6*	*9.8*	*23.7*	*17.6*
Burkina Faso							
inward	1.0	1.7	1.4	2.8	5.1	4.7	3.9
outward	*0.2*	*0.2*	*0.1*	*0.5*	*0.9*	*0.8*	*0.6*
Burundi							
inward	0.7	2.1	2.7	3.4	6.7	7.6	7.9
outward	..	..	-	*0.1*	*0.3*	*0.3*	*0.3*
Cameroon							
inward	4.9	13.8	9.4	13.3	14.3	15.4	13.9
outward	*0.3*	*0.6*	*1.3*	*2.9*	*2.9*	*2.6*	*2.1*
Cape Verde							
inward	..	..	1.1	7.7	32.2	30.2	25.1
outward	..	..	*0.4*	*0.9*	*1.2*	*1.1*	*0.9*
Central African Republic							
inward	6.2	8.9	6.4	7.1	10.9	11.0	9.8
outward	..[a]	*0.1*	*1.2*	*3.6*	*4.4*	*4.2*	*3.6*
Chad							
inward	11.7	17.8	14.3	23.0	41.5	102.8	109.3
outward	*0.1*	*0.1*	*2.7*	*5.6*	*5.8*	*4.0*	*3.0*
Comoros							
inward	1.6	1.8	6.8	8.3	10.1	9.2	7.4
outward	..	..	*0.4*	*0.7*	*0.8*	*0.7*	*0.5*
Congo							
inward	18.5	22.4	20.6	48.4	57.9	69.4	71.3
outward	..	..	..	..	..	..	..
Congo, Democratic Republic of							
inward	4.9	8.6	5.8	9.6	14.3	14.7	17.4
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, 2002, 2003 (continued)

(Per cent)

Region/economy	1980	1985	1990	1995	2000	2002	2003
Côte d'Ivoire							
inward	5.2	10.0	9.0	14.2	30.0	31.5	29.7
outward	..	..	*0.3*	*4.7*	*6.4*	*5.8*	*5.0*
Djibouti							
inward	1.2	1.1	1.5	3.4	6.1	6.8	8.3
outward	..	..	..	..	..	..	..
Equatorial Guinea							
inward	..	7.0	19.2	107.6	87.2	109.3	127.7
outward	..	..	*0.2*	*0.2*	..[a]	*0.1*	*0.1*
Eritrea							
inward	..	..	..	..	46.9	51.7	45.4
outward	..	..	..	..	..	..	..
Ethiopia							
inward	2.7	1.7	1.8	2.9	14.8	17.1	16.5
outward	..	..	..	..	*6.8*	*8.4*	*8.1*
Gabon							
inward	12.0	24.9	20.3	15.0	..[a]	..[a]	0.3
outward	*1.8*	*3.1*	*2.7*	*5.1*	*5.6*	*5.8*	*4.7*
Gambia							
inward	52.7	56.3	49.4	50.2	51.3	71.3	88.0
outward	..	..	*6.9*	*9.7*	*10.4*	*12.5*	*14.4*
Ghana							
inward	5.2	6.0	5.4	12.7	29.2	26.2	23.2
outward	..	..	..	..	*7.2*	*7.7*	*7.0*
Guinea							
inward	0.1	0.1	2.4	3.5	8.5	9.2	8.4
outward	..	..	..	..	*0.2*	*0.4*	*0.4*
Guinea-Bissau							
inward	0.1	2.7	3.3	7.7	21.3	23.4	21.0
outward	..	..	..	..	..	..	..
Kenya							
inward	5.3	7.8	7.8	8.1	8.9	7.8	7.5
outward	*0.2*	*1.0*	*1.2*	*1.3*	*1.1*	*1.0*	*0.9*
Lesotho							
inward	1.2	8.5	13.5	18.6	39.3	48.8	38.0
outward	..	..	-	-	-	*0.1*	-
Liberia							
inward	77.7	115.1	194.9	1794.8	521.2	487.8	478.3
outward	*4.3*	*33.0*	*36.0*	*825.7*	*290.0*	*231.8*	*249.9*
Madagascar							
inward	1.0	1.8	3.5	5.5	8.8	9.5	8.8
outward	..	..	-	*0.1*	*0.1*	*0.1*	*0.1*
Malawi							
inward	9.2	13.3	10.5	14.1	19.2	18.6	21.6
outward	..	..	..	..	*0.9*	*1.1*	*1.5*
Mali							
inward	0.9	2.8	1.7	5.5	13.3	17.1	16.1
outward	*1.2*	*1.7*	*0.9*	*0.8*	*4.2*	*4.5*	*3.8*
Mauritania							
inward	..[a]	5.7	5.6	8.6	14.5	35.2	51.1
outward	..	..	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*
Mauritius							
inward	2.3	4.0	6.4	6.8	15.6	16.5	16.1
outward	..	-	*0.1*	*2.5*	*3.0*	*3.2*	*3.7*
Mozambique							
inward	0.4	0.4	1.7	8.7	30.2	41.8	42.6
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, 2002, 2003 (continued)

(Per cent)

Region/economy	1980	1985	1990	1995	2000	2002	2003
Namibia							
inward	86.4	134.2	80.9	48.8	36.0	39.0	39.1
outward	..	..	*3.1*	*0.4*	*1.3*	*0.7*	*1.0*
Niger							
inward	7.6	14.3	11.5	19.2	21.6	19.4	16.6
outward	*0.1*	*0.6*	*2.2*	*5.8*	*8.0*	*6.5*	*5.1*
Nigeria							
inward	3.7	15.5	28.3	50.7	42.4	49.0	42.6
outward	-	..[a]	*9.1*	*14.3*	*9.2*	*9.9*	*8.3*
Rwanda							
inward	4.6	7.8	8.2	17.8	14.1	15.2	15.9
outward	..	..	-	..[a]	*0.2*	*0.3*	*0.3*
São Tomé and Principe							
inward	..	..	0.7	..[a]	24.3	33.2	47.4
outward	..	..	..	..	..	..	..
Senegal							
inward	5.0	7.3	4.5	8.3	18.7	18.1	15.3
outward	*0.2*	*1.7*	*0.9*	*2.1*	*2.6*	*2.9*	*2.4*
Seychelles							
inward	36.8	62.1	55.4	63.3	93.0	98.8	103.9
outward	*9.4*	*25.9*	*16.6*	*18.5*	*22.0*	*22.1*	*22.5*
Sierra Leone							
inward	6.8	5.7	..[a]	..[a]	2.9	3.2	4.1
outward	..	..	..	..	..	..	..
Somalia							
inward	5.6	1.1	..[a]	0.2	0.2	0.2	0.3
outward	..	..	..	..	..	..	..
South Africa							
inward	20.5	15.8	8.2	9.9	33.9	27.8	18.5
outward	*7.1*	*15.7*	*13.4*	*15.4*	*25.2*	*22.0*	*14.8*
Swaziland							
inward	41.8	29.1	39.9	39.2	38.5	48.9	40.0
outward	*3.3*	*2.4*	*4.5*	*9.9*	*6.8*	*4.5*	*3.2*
Togo							
inward	15.5	27.5	16.5	19.5	31.8	37.0	30.8
outward	*0.9*	*1.3*	*1.0*	*2.9*	*9.4*	*8.0*	*6.3*
Uganda							
inward	0.8	0.2	0.1	4.9	21.8	30.3	32.9
outward	..	..	..	*4.5*	*4.5*	*4.2*	*3.7*
United Republic of Tanzania							
inward	0.9	1.4	2.2	5.8	17.9	24.8	26.8
outward	..	..	..	..	..	..	..
Zambia							
inward	9.1	20.0	30.8	36.9	64.5	59.4	55.2
outward	..	..	..	..	..	..	..
Zimbabwe							
inward	2.8	3.3	1.4	4.8	15.4	5.8	15.5
outward	..	*0.2*	*1.0*	*1.9*	*3.4*	*1.3*	*3.5*
Latin America and the Caribbean							
inward	**6.5**	**11.0**	**10.4**	**11.7**	**25.6**	**34.4**	**36.8**
outward	***6.5***	***7.7***	***5.5***	***5.2***	***7.9***	***10.5***	***10.7***
South America							
inward	**5.9**	**8.9**	**8.5**	**8.5**	**22.1**	**29.0**	**30.4**
outward	***9.4***	***10.2***	***6.5***	***4.8***	***7.4***	***11.1***	***10.5***
Argentina							
inward	6.9	7.4	6.2	10.8	23.8	37.2	27.1
outward	*7.8*	*6.7*	*4.3*	*4.1*	*7.4*	*22.1*	*16.4*

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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, 2002, 2003 (continued)

(Per cent)

Region/economy	1980	1985	1990	1995	2000	2002	2003
Bolivia							
inward	15.1	19.0	21.1	23.1	62.1	80.1	78.5
outward	-	-	*0.2*	*0.3*	*0.4*	*0.4*	*0.4*
Brazil							
inward	7.4	11.5	8.0	5.9	17.2	22.3	25.8
outward	*16.4*	*17.7*	*8.8*	*6.3*	*8.7*	*12.0*	*11.0*
Chile							
inward	3.2	14.1	33.2	21.6	60.7	65.1	65.0
outward	*0.2*	*0.6*	*0.6*	*3.4*	*14.9*	*18.4*	*19.1*
Colombia							
inward	3.2	6.4	8.7	6.9	13.0	21.7	24.5
outward	*0.4*	*0.9*	*1.0*	*1.1*	*3.6*	*4.4*	*4.5*
Ecuador							
inward	6.1	6.2	15.2	17.9	44.4	39.9	41.4
outward	..	..	..	*0.4*	*1.7*	*1.1*	*1.0*
Guyana							
inward	4.2	8.6	10.6	71.6	106.6	121.1	125.9
outward	..	..	..	*0.3*	-	-	*0.1*
Paraguay							
inward	4.6	9.5	7.6	7.9	17.1	14.3	15.3
outward	*2.5*	*4.0*	*2.6*	*2.0*	*2.8*	*2.6*	*2.6*
Peru							
inward	4.3	6.1	5.1	10.3	21.0	22.1	21.0
outward	-	*0.2*	*0.4*	*1.1*	*1.0*	*1.2*	*1.3*
Suriname							
inward	..[a]	5.3	..[a]	..[a]	..[a]	..[a]	..[a]
outward	..	..	..	..	..	..	..
Uruguay							
inward	7.2	16.2	10.5	7.4	10.4	10.5	13.9
outward	*1.7*	*3.8*	*2.0*	*1.0*	*1.0*	*2.2*	*2.4*
Venezuela							
inward	2.3	2.5	4.7	9.0	22.2	33.6	40.3
outward	-	*0.3*	*4.6*	*5.1*	*4.8*	*7.2*	*9.4*
Other Latin America and the Caribbean							
inward	**7.4**	**14.7**	**14.7**	**22.4**	**31.7**	**40.5**	**44.8**
outward	***0.8***	***2.2***	***2.8***	***6.4***	***8.8***	***9.8***	***10.8***
Anguilla							
inward	..	..	19.8	90.0	226.2	333.0	357.9
outward	..	..	..	..	..	..	..
Antigua and Barbuda							
inward	21.3	46.5	74.5	88.6	84.4	90.6	94.4
outward	..	..	..	..	..	..	..
Aruba							
inward	..	..	15.2	15.8	14.0	15.0	23.2
outward	..	..	..	*0.8*	*1.5*	*0.8*	*1.4*
Bahamas							
inward	41.0	23.4	18.9	21.2	32.3	37.3	39.2
outward	*21.3*	*6.6*	*19.8*	*36.7*	*28.2*	*27.4*	*26.7*
Barbados							
inward	12.1	10.5	10.0	12.5	12.3	14.1	18.4
outward	*0.7*	*1.1*	*1.4*	*1.8*	*1.6*	*1.7*	*1.7*
Belize							
inward	6.4	9.4	22.1	26.5	38.1	41.6	43.5
outward	..	*5.2*	*5.0*	*4.3*	*6.1*	*5.2*	*5.2*
Bermuda							
inward	836.7	774.7	869.7	1181.6	2265.8	2785.7	3051.5
outward	*118.5*	*162.7*	*97.3*	*129.3*	*600.3*	*296.5*	*230.3*

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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, 2002, 2003 (continued)

(Per cent)

Region/economy	1980	1985	1990	1995	2000	2002	2003
Cayman Islands							
inward	242.8	680.1	353.3	357.5	2398.5	2813.8	3157.2
outward	*5.6*	*39.0*	*140.3*	*258.4*	*1560.5*	*1769.9*	*1896.2*
Costa Rica							
inward	13.9	24.4	25.3	23.3	32.6	37.5	39.3
outward	*0.1*	*0.7*	*0.8*	*0.6*	*0.5*	*0.7*	*1.0*
Cuba							
inward	..[a]	-	-	0.2	0.3	0.3	0.3
outward	..	..	..	..	..	..	..
Dominica							
inward	0.1	10.7	42.9	89.9	100.4	117.0	123.1
outward	..	..	..	..	-	-	-
Dominican Republic							
inward	3.6	5.2	8.1	14.1	26.2	33.9	47.1
outward	..	..	..	*0.3*	*0.6*	*0.4*	*0.6*
El Salvador							
inward	4.3	4.8	4.4	3.5	17.3	19.6	20.0
outward	..	..	*1.1*	*0.6*	*0.6*	*0.3*	*1.1*
Grenada							
inward	1.5	9.8	31.7	60.7	85.0	111.6	124.5
outward	..	..	*0.1*	-	*0.2*	*0.2*	*0.2*
Guatemala							
inward	8.9	10.8	22.7	15.0	18.1	21.1	21.8
outward	..	..	..	..	*0.2*	*0.2*	*0.2*
Haiti							
inward	5.4	5.6	5.0	5.4	5.5	6.3	6.0
outward	..	..	..	-	*0.1*	*0.1*	*0.1*
Honduras							
inward	3.6	4.7	12.6	16.5	24.7	28.2	30.1
outward	..	..	..	..	..	..	..
Jamaica							
inward	21.3	25.0	18.6	29.8	45.0	57.3	62.4
outward	*0.2*	*0.2*	*1.0*	*5.9*	*9.6*	*11.3*	*12.0*
Mexico							
inward	3.6	10.2	8.5	14.4	16.7	24.3	26.5
outward	-	*0.2*	*0.4*	*0.9*	*1.3*	*1.9*	*2.2*
Montserrat							
inward	..	..	55.7	105.2	359.8	267.8	268.9
outward	..	..	..	..	..	..	..
Netherlands Antilles							
inward	88.9	24.1	22.4	15.4	2.9	3.0	-
outward	*1.1*	*0.9*	*1.2*	*1.0*	*0.4*	*0.5*	*0.4*
Nicaragua							
inward	5.4	4.5	12.4	19.3	57.9	67.1	74.7
outward	..	..	..	-	*0.3*	*0.7*	*0.8*
Panama							
inward	64.6	58.2	41.4	41.0	56.5	59.5	62.6
outward	*21.3*	*40.8*	*78.8*	*62.5*	*33.5*	*63.2*	*67.5*
Saint Kitts and Nevis							
inward	2.1	40.5	100.6	105.5	147.2	183.8	189.0
outward	..	..	*0.1*	..[a]	..[a]	-	..[a]
Saint Lucia							
inward	70.1	104.2	80.2	92.1	116.5	126.7	125.7
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	145.4	150.2	155.4
outward	..	..	*0.3*	*0.2*	*0.2*	*0.2*	*0.2*

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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, 2002, 2003 (continued)

(Per cent)

Region/economy	1980	1985	1990	1995	2000	2002	2003
Trinidad and Tobago							
inward	15.7	23.3	41.3	68.8	85.8	92.5	92.4
outward	..	*0.2*	*0.4*	*0.5*	*4.8*	*6.0*	*7.8*
Virgin Islands (British)							
inward	0.2	3.9	8.0	170.0	1779.7	1763.9	1788.3
outward	..	..	..	*1906.3*	*2442.8*	*3571.0*	*3956.8*
Asia and the Pacific							
inward	**17.6**	**20.7**	**17.8**	**18.7**	**31.7**	**31.5**	**30.3**
outward	***1.0***	***1.1***	***2.6***	***5.8***	***15.1***	***14.0***	***13.6***
Asia							
inward	**17.5**	**20.7**	**17.8**	**18.7**	**31.7**	**31.5**	**30.3**
outward	***1.0***	***1.1***	***2.6***	***5.8***	***15.1***	***14.0***	***13.6***
West Asia							
inward	**1.5**	**10.0**	**8.2**	**9.1**	**9.7**	**10.2**	**9.2**
outward	***0.9***	***1.7***	***2.3***	***1.4***	***2.0***	***3.1***	***3.2***
Bahrain							
inward	2.0	10.9	13.0	41.1	74.1	73.7	72.4
outward	*19.5*	*16.4*	*17.0*	*17.9*	*22.0*	*25.6*	*31.3*
Cyprus							
inward	8.0	20.8	15.4	14.5	40.5	47.9	44.2
outward	..	*5.5*	*2.5*	*2.4*	*8.1*	*12.1*	*12.3*
Iran, Islamic Republic of							
inward	3.2	3.7	2.2	2.5	2.5	2.5	2.2
outward	..	..	..	..[a]	*1.2*	*4.7*	*5.1*
Iraq							
inward	..[a]	..[a]	..[a]	..[a]	..[a]	..	..[a]
outward	..	..	..	..	..	..	..
Jordan							
inward	3.9	9.6	15.3	9.3	26.7	25.7	28.3
outward	*0.9*	*0.7*	*0.7*	..[a]	..[a]	..[a]	..[a]
Kuwait							
inward	0.1	0.2	0.2	0.3	1.6	1.3	1.2
outward	*3.7*	*6.6*	*19.9*	*10.3*	*3.9*	*4.6*	*3.7*
Lebanon							
inward	0.5	1.5	1.9	1.2	6.8	9.4	11.0
outward	..	*2.0*	*1.7*	*0.8*	*1.5*	*2.4*	*2.8*
Oman							
inward	8.1	12.0	16.4	16.0	12.5	12.9	12.6
outward	..	-	*0.1*	*0.2*	*0.1*	*0.1*	*0.1*
Occupied Palestinian Territory							
inward	..	..	..	..	18.6	27.5	21.9
outward	..	..	..	..	..	..	..
Qatar							
inward	1.1	1.5	1.0	5.5	10.8	16.3	16.0
outward	..	..	..	*0.4*	*1.0*	*2.0*	*2.1*
Saudi Arabia							
inward	..[a]	25.2	21.5	17.5	13.8	13.5	12.1
outward	*0.2*	*0.6*	*1.8*	*1.3*	*1.1*	*1.1*	*1.0*
Syrian Arab Republic							
inward	-	0.2	3.0	5.5	9.0	9.5	9.5
outward	..	..	..	..	..	..	..
Turkey							
inward	12.9	13.8	7.4	8.6	9.4	9.5	7.6
outward	..	..	*0.8*	*0.8*	*1.8*	*2.7*	*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, 2002, 2003 (continued)

(Per cent)

Region/economy	1980	1985	1990	1995	2000	2002	2003
United Arab Emirates							
inward	1.4	1.8	2.2	4.1	1.5	4.3	4.4
outward	-	*0.1*	*0.3*	*0.2*	*3.2*	*4.4*	*5.1*
Yemen							
inward	3.7	4.5	3.7	14.7	14.0	13.4	11.0
outward	..	*0.1*	*0.1*	-	*0.1*	-	-
Central Asia							
inward	**..**	**..**	**..**	**9.9**	**34.3**	**44.0**	**49.3**
outward	**..**	**..**	**..**	**-**	***2.1***	***4.2***	***4.1***
Armenia							
inward	..	..	..	2.6	26.8	29.0	31.9
outward	..	..	..	..	*1.7*	*2.3*	*2.1*
Azerbaijan							
inward	..	..	..	13.7	70.8	84.3	117.7
outward	..	..	..	..	*9.0*	*15.1*	*17.2*
Georgia							
inward	..	..	..	1.7	13.9	20.6	26.3
outward	..	..	..	..	..	..	..
Kazakhstan							
inward	..	..	..	17.4	55.1	63.4	60.1
outward	..	..	..	-	*0.1*	*1.7*	*1.0*
Kyrgyzstan							
inward	..	..	..	9.7	32.1	29.5	28.6
outward	..	..	..	..	*2.4*	*2.4*	*2.6*
Tajikistan							
inward	..	..	..	7.6	14.7	15.9	14.1
outward	..	..	..	..	..	..	..
Turkmenistan							
inward	..	..	..	7.1	19.1	15.8	16.8
outward	..	..	..	..	..	..	..
Uzbekistan							
inward	..	..	..	1.0	5.1	8.8	10.6
outward	..	..	..	..	..	..	..
South, East and South-East Asia							
inward	**27.4**	**24.6**	**20.8**	**20.8**	**36.6**	**35.6**	**34.6**
outward	***1.0***	***1.0***	***2.6***	***6.7***	***18.1***	***16.2***	***15.9***
Afghanistan							
inward	0.3	0.2	0.1	0.1	0.1	0.2	0.2
outward	..	..	..	..	..	..	..
Bangladesh							
inward	1.7	1.5	1.1	0.9	5.2	5.2	5.0
outward	..	..	-	-	*0.1*	*0.1*	*0.1*
Bhutan							
inward	..	..	0.6	0.8	0.7	0.7	0.7
outward	..	..	..	..	..	..	..
Brunei Darussalam							
inward	0.4	0.8	0.7	12.1	89.4	126.6	156.0
outward	..	..	..	*1.4*	*3.4*	*3.8*	*3.6*
Cambodia							
inward	2.4	2.0	3.4	10.8	43.3	46.2	46.4
outward	..	..	..	*4.2*	*5.4*	*5.7*	*5.7*
China							
inward	0.5	2.0	5.8	19.3	32.2	35.4	35.6
outward	..	-	*0.7*	*2.3*	*2.4*	*2.8*	*2.6*

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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, 2002, 2003 (continued)

(Per cent)

Region/economy	1980	1985	1990	1995	2000	2002	2003
Hong Kong, China							
inward	623.8	525.5	269.6	160.6	275.4	226.8	236.5
outward	*0.5*	*6.7*	*15.9*	*55.6*	*234.9*	*191.6*	*211.9*
India							
inward	0.2	0.3	0.5	1.6	3.8	5.2	5.4
outward	-	-	-	*0.1*	*0.4*	*0.8*	*0.9*
Indonesia							
inward	13.2	28.2	34.0	25.0	40.4	33.3	27.5
outward	..	*0.1*	*0.1*	*0.6*	*1.6*	*1.5*	*1.3*
Korea, Democratic People's Republic of							
inward	..	..	3.4	13.7	10.0	9.5	9.2
outward	..	..	..	..	..	..	..
Korea, Republic of							
inward	2.1	2.3	2.1	1.8	7.3	8.0	7.8
outward	*0.2*	*0.5*	*0.9*	*2.0*	*5.2*	*5.7*	*5.7*
Lao People's Democratic Republic							
inward	0.3	-	1.5	11.4	31.6	32.9	30.1
outward	..	..	..	-	*9.7*	*12.6*	*14.9*
Macao, China							
inward	..	203.7	86.4	40.3	45.2	50.1	54.2
outward	..	..	..	..	..	*6.9*	*7.1*
Malaysia							
inward	20.7	23.3	23.4	32.3	58.5	59.5	57.2
outward	*0.8*	*4.3*	*6.1*	*12.4*	*23.6*	*29.8*	*28.8*
Maldives							
inward	11.4	2.8	12.6	15.3	19.0	22.2	23.0
outward	..	..	-	-	-	-	-
Mongolia							
inward	..	..	-	3.1	19.2	27.7	36.6
outward	..	..	..	-	-	-	-
Myanmar							
inward	..[a]	..[a]	..[a]	..	..	..	..
outward	..	..	..	..	..	..	..
Nepal							
inward	0.1	0.1	0.3	0.9	1.8	2.0	2.5
outward	..	..	..	..	..	..	..
Pakistan							
inward	2.9	3.5	4.8	8.8	11.3	10.0	10.7
outward	*0.2*	*0.4*	*0.6*	*0.6*	*0.9*	*1.0*	*0.9*
Philippines							
inward	3.9	8.5	7.4	8.1	17.1	14.5	14.5
outward	*0.5*	*0.6*	*0.3*	*1.6*	*2.1*	*1.1*	*1.2*
Singapore							
inward	52.9	73.6	83.1	78.2	121.5	153.9	161.3
outward	*31.7*	*24.8*	*21.3*	*41.8*	*61.3*	*96.7*	*99.5*
Sri Lanka							
inward	5.7	8.6	8.5	10.0	14.4	16.1	15.6
outward	..	-	*0.1*	*0.3*	*0.5*	*0.6*	*0.6*
Taiwan Province of China							
inward	5.8	4.7	6.1	5.9	9.0	11.9	11.9
outward	*0.2*	*0.3*	*8.0*	*9.5*	*15.9*	*21.1*	*22.8*
Thailand							
inward	3.0	5.1	9.7	10.5	24.5	27.7	25.8
outward	-	-	*0.5*	*1.4*	*2.1*	*2.2*	*2.3*
Viet Nam							
inward	0.2	1.1	4.0	27.8	48.2	50.2	50.6
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, 2002, 2003 (continued)

(Per cent)

Region/economy	1980	1985	1990	1995	2000	2002	2003
The Pacific							
inward	**22.5**	**24.8**	**28.9**	**25.1**	**38.2**	**42.1**	**40.6**
outward	***0.3***	***1.0***	***1.7***	***5.9***	***7.8***	***10.9***	***10.2***
Fiji							
inward	29.7	34.4	28.5	31.5	45.8	44.9	47.1
outward	*0.2*	*1.3*	*5.1*	*2.2*	*..*[a]	*..*[a]	*..*[a]
Kiribati							
inward	..	..[a]	1.2	2.6	9.5	10.4	9.4
outward	..	..	..	*0.1*	*0.1*	*0.1*	-
New Caledonia							
inward	2.4	4.1	3.0	3.0	4.8	4.6	4.7
outward	..	..	..	..	..	..	..
Papua New Guinea							
inward	29.4	28.2	49.1	36.1	58.2	75.3	65.0
outward	*0.4*	*0.9*	*0.5*	*8.3*	*15.1*	*22.6*	*18.7*
Samoa							
inward	1.1	2.2	8.1	14.4	22.5	20.6	18.2
outward	..	..	..	..	..	..	..
Solomon Islands							
inward	24.2	20.3	33.0	35.3	46.8	42.8	37.1
outward	..	..	..[a]	..[a]	..[a]	..[a]	..[a]
Tonga							
inward	0.2	0.4	0.8	4.9	13.3	18.1	19.8
outward	..	..	*0.1*	*0.1*	*0.1*	*0.1*	*0.1*
Tuvalu							
inward	..	..	..	2.7	8.8	189.4	246.4
outward	..	..	..	..	..	..	..
Vanuatu							
inward	29.0	52.3	71.8	109.0	158.9	174.8	176.9
outward	..	..	..	..	..	..	..
Central and Eastern Europe							
inward	**..**	**0.2**	**1.3**	**5.4**	**19.2**	**24.8**	**23.7**
outward	**..**	**..**	***0.4***	***0.9***	***3.7***	***6.4***	***6.0***
Albania							
inward	..	..	..	7.4	15.4	18.8	18.1
outward	..	..	..	*1.8*	*2.2*	*1.8*	*1.5*
Belarus							
inward	..	..	..	0.5	10.2	11.2	10.8
outward	..	..	..	..	-	-	-
Bosnia and Herzegovina							
inward	..	..	..	1.0	7.9	13.8	16.4
outward	..	..	..	*0.6*	*0.8*	*0.7*	*0.6*
Bulgaria							
inward	..	..	0.5	3.4	17.9	22.6	29.1
outward	..	..	..	*0.8*	*0.7*	*0.8*	*0.8*
Croatia							
inward	..	..	..	2.5	19.3	31.6	49.6
outward	..	..	..	*3.7*	*4.7*	*8.5*	*10.0*
Czech Republic							
inward	..	..	3.9	14.1	42.1	55.3	48.0
outward	..	..	..	*0.7*	*1.4*	*2.2*	*2.0*
Estonia							
inward	..	..	..	19.3	51.4	65.0	77.6
outward	..	..	..	*1.9*	*5.0*	*10.4*	*12.2*

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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, 2002, 2003 (concluded)
(Per cent)

Region/economy	1980	1985	1990	1995	2000	2002	2003
Hungary							
inward	..	0.2	1.7	25.3	49.3	55.3	51.8
outward	..	..	*0.6*	*0.6*	*2.8*	*3.3*	*4.7*
Latvia							
inward	..	..	..	13.9	29.1	32.8	35.1
outward	..	..	..	*5.2*	*3.4*	*0.8*	*1.1*
Lithuania							
inward	..	..	..	5.7	20.9	28.1	27.2
outward	..	..	..	-	*0.3*	*0.4*	*0.7*
Moldova, Republic of							
inward	..	..	..	6.5	35.6	43.7	40.5
outward	..	..	..	*1.3*	*1.8*	*1.4*	*1.2*
Poland							
inward	..	..	0.2	5.8	20.6	25.0	24.9
outward	..	..	*0.2*	*0.4*	*0.6*	*0.8*	*0.9*
Romania							
inward	..	..	-	2.3	17.5	19.4	23.4
outward	..	..	*0.2*	*0.3*	*0.4*	*0.3*	*0.4*
Russian Federation							
inward	..	..	..	1.7	9.7	14.9	12.1
outward	..	..	..	*1.0*	*7.8*	*13.8*	*11.9*
Serbia and Montenegro							
inward	..	..	..	2.7	15.3	12.5	16.2
outward	..	..	..	..	..	..	..
Slovakia							
inward	..	..	0.5	4.2	18.5	32.2	31.5
outward	..	..	..	*0.4*	*1.6*	*2.0*	*1.7*
Slovenia							
inward	..	..	3.4	8.9	15.3	18.7	15.6
outward	..	..	*1.5*	*2.5*	*4.0*	*6.8*	*6.5*
TFYR Macedonia							
inward	..	..	..	0.8	11.4	24.7	22.1
outward	..	..	..	..	..[a]	-	-
Ukraine							
inward	..	..	..	2.5	12.4	13.0	14.1
outward	..	..	..	*0.3*	*0.5*	*0.3*	*0.3*
Memorandum							
Least developed countries [b]							
inward	4.0	4.9	5.5	9.3	19.1	23.6	24.5
outward	*0.6*	*2.6*	*1.1*	*2.1*	*2.9*	*2.8*	*2.7*
Oil-exporting countries [c]							
inward	1.8	10.1	12.3	14.6	18.5	20.4	19.0
outward	*0.5*	*0.8*	*2.6*	*2.2*	*2.7*	*3.6*	*3.7*
All developing economies, excluding China							
inward	13.5	18.3	15.6	15.9	28.7	31.0	30.5
outward	..	*4.2*	*4.2*	*6.2*	*14.4*	*15.0*	*14.7*

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

[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. Timor-Leste is not included due to unavailability of data.

[c] Oil-exporting countries include: Algeria, Angola, Bahrain, Brunei Darussalam, Congo, Gabon, Indonesia, Islamic Republic of Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates, Venezuela and Yemen.

Annex table B.7. Cross-border M&A sales, by region/economy of seller, 1988-2003

(Millions of dollars)

Region/economy	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
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	296 988
Developed countries	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	240 419
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	138 144
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	121 977
Austria	253	32	189	244	107	417	540	609	856	2 259	3 551	380	574	9 175	38	2 115
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	3 182
Denmark	218	225	496	272	99	590	570	199	459	566	3 802	4 615	9 122	2 461	2 014	1 384
Finland	80	229	51	463	209	391	550	1 726	1 199	735	4 780	3 144	6 896	490	8 206	3 557
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	17 495
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	25 158
Greece	22	-	115	70	413	52	15	50	493	99	21	191	245	1 854	65	943
Ireland	205	735	595	282	81	1 453	242	587	724	2 282	729	4 739	5 246	6 151	5 241	185
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	15 259
Luxembourg	5	-	531	82	-	254	380	280	506	3 492	35	7 360	4 210	2 681	2 952	958
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	9 180
Portugal	11	768	213	194	668	356	63	144	793	86	427	211	2 980	409	1 132	1 732
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	5 110
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	4 321
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	31 397
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	16 168
Andorra	-	-	-	-	-	-	-	-	-	-	-	-	6	-	-	-
Gibraltar	-	-	-	4	-	-	-	-	9	-	-	8	16	2	-	-
Guernsey	-	-	-	-	-	-	-	-	-	-	-	26	88	157	136	17
Iceland	-	-	-	1	-	-	-	-	4	-	-	-	-	-	229	142
Jersey	-	-	-	-	-	-	-	-	-	-	-	31	14	181	225	43
Liechtenstein	-	-	-	-	-	-	-	-	-	-	9	-	-	-	-	-
Malta	-	-	-	-	-	-	-	-	-	-	3	250	-	-	134	34
Man Island	-	-	-	-	-	-	-	-	-	-	-	-	36	85	52	-
Monaco	669	21	-	-	-	-	-	8	-	752	-	276	19	22	8	382
Norway	239	601	668	843	487	1 887	397	271	2 198	2 660	1 182	8 703	10 613	3 080	2 162	5 579
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	9 970
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	74 827
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	5 157
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	69 670
Other developed countries	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	29 011
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	9 713
Israel	106	134	44	58	293	18	235	303	541	1 097	1 754	2 854	2 346	4 452	466	808
Japan	29	1 612	148	178	230	93	750	541	1 719	3 083	4 022	16 431	15 541	15 183	5 689	10 948
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	5 979

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Annex table B.7. Cross-border M&A sales, by region/economy of seller, 1988-2003 (continued)
(Millions of dollars)

Region/economy	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
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	42 130
Africa	-	1 039	485	47	388	1 806	342	840	1 805	4 346	2 607	3 117	3 199	15 524	4 684	6 427
North Africa	-	24	-	1	139	242	100	10	211	680	456	914	956	2 916	598	4 594
Algeria	-	-	-	1	-	-	-	-	-	-	-	42	127	-	-	3
Egypt	-	24	-	-	131	177	17	10	171	102	48	738	528	660	335	2 200
Morocco	-	-	-	-	-	64	83	-	40	578	5	123	-	2 211	47	1 624
Sudan	-	-	-	-	8	-	-	-	-	-	-	-	-	-	25	768
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	1 832
Angola	-	-	-	-	-	-	-	-	-	-	-	-	-	19	-	-
Botswana	-	-	-	-	-	-	-	4	11	4	-	-	-	-	78	20
Cameroon	-	-	-	-	-	-	-	4	-	-	-	-	-	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	55
Guinea	-	-	-	-	-	-	-	39	50	-	-	-	-	-	-	1
Kenya	-	15	-	-	-	-	-	-	25	-	-	-	18	300	-	-
Madagascar	-	-	-	-	-	-	-	-	58	-	-	4	-	-	-	5
Malawi	-	-	-	-	-	-	-	-	60	-	10	-	-	14	6	-
Mali	-	-	-	-	-	-	-	18	1	-	-	-	132	-	2	-
Mauritania	-	-	-	-	-	-	-	-	-	-	-	-	-	48	-	-
Mauritius	-	-	-	-	-	-	-	-	-	10	-	-	261	30	-	32
Mozambique	-	-	-	-	-	-	40	14	11	-	13	1	-	10	-	88
Namibia	-	-	-	36	-	-	-	-	-	3	-	-	-	8	-	67
Nigeria	-	1 000	-	-	-	-	-	-	-	-	12	18	15	1	-	-
Rwanda	-	-	-	-	-	-	-	-	-	-	-	2	-	2	-	-
Senegal	-	-	-	-	-	-	-	-	-	107	-	66	6	-	-	-
Sierra Leone	-	-	-	-	-	34	-	-	0	-	-	-	-	13	-	-
South Africa	-	-	-	10	211	1 506	187	640	1 106	2 664	1 932	1 902	1 171	11 916	2 933	1 563
Swaziland	-	-	37	-	-	-	-	-	-	387	-	-	-	4	-	-
Uganda	-	-	-	-	-	-	-	-	55	29	11	-	32	-	20	-
United Rep. of Tanzania	-	-	-	-	-	21	12	2	17	1	23	-	415	120	1	2

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Annex table B.7. Cross-border M&A sales, by region/economy of seller, 1988-2003 (continued)

(Millions of dollars)

Region/economy	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
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	12 085
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	8 566
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	2 467
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	5 271
Chile	38	260	434	338	517	276	891	717	2 044	2 427	1 595	8 361	2 929	2 830	3 783	95
Colombia	764	-	341	49	31	8	1 248	67	2 399	2 516	1 780	302	1 589	170	830	37
Ecuador	-	-	-	-	49	-	44	35	105	27	79	214	153	6	70	273
Guyana	-	-	17	7	-	-	-	-	-	1	-	23	-	-	-	0
Paraguay	-	-	-	-	-	-	-	-	27	2	11	-	65	67	-	-
Peru	-	-	-	15	174	62	3 082	945	844	911	162	861	107	555	461	247
Suriname	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-	-
Uruguay	-	18	-	-	-	5	40	19	-	-	36	-	27	36	56	12
Venezuela	-	-	11	2 032	-	62	337	278	1 072	1 946	3 220	276	2 409	73	10	164
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	3 519
Antigua and Barbuda	-	-	-	-	-	-	-	-	-	-	24	-	5	13	-	47
Aruba	-	-	-	-	3	-	-	-	-	23	-	-	-	-	-	-
Bahamas	83	27	120	210	915	79	214	2	104	32	28	-	25	198	28	55
Barbados	-	-	-	189	-	-	4	6	64	-	-	-	-	1	814	44
Belize	-	-	-	-	-	-	-	-	-	-	62	-	3	62	-	-
Bermuda	-	214	1 296	50	4	52	50	251	1 277	5 601	11 635	924	3 596	683	241	1 414
British Virgin Islands	-	-	143	6	-	-	89	412	254	19	4	13	284	34	230	150
Cayman Islands	5	374	170	138	41	-	-	-	245	-	-	122	54	8	-	126
Costa Rica	-	64	3	-	-	1	17	96	27	28	2	71	21	-	229	23
Cuba	-	-	-	-	-	-	-	299	-	300	38	-	477	8	-	-
Dominican Republic	-	-	-	-	-	-	-	-	46	-	28	673	464	-	-	-
El Salvador	-	-	-	-	-	-	-	40	-	41	978	-	-	168	-	417
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	1 155
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	-

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Annex table B.7. Cross-border M&A sales, by region/economy of seller, 1989-2003 (continued)

(Millions of dollars)

Region/economy	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Trinidad and Tobago	-	-	-	17	22	177	2	-	-	205	-	-	-	-	40	87
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	23 536
West Asia	59	60	113	131	203	71	49	222	403	368	82	335	970	1 323	458	1 423
Abu Dhabi	-	-	-	-	58	-	-	-	-	-	-	-	-	-	-	-
Bahrain	-	-	-	-	-	4	-	-	-	-	-	36	161	2	-	9
Cyprus	-	-	-	-	-	-	-	-	-	-	-	-	-	43	-	19
Jordan	-	-	-	-	-	-	-	26	-	-	-	-	567	20	-	990
Kuwait	-	-	-	-	-	6	-	-	-	-	-	-	-	163	-	-
Lebanon	-	-	-	-	-	-	-	-	-	168	11	-	54	-	-	98
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	282
United Arab Emirates	-	-	-	-	-	-	-	-	-	56	-	200	4	76	9	26
Yemen	-	-	-	-	5	-	-	-	-	-	-	-	-	-	-	-
Central Asia	-	-	-	-	-	9	-	450	3 221	2 340	174	73	107	15	122	1 945
Armenia	-	-	-	-	-	-	-	-	-	-	173	29	-	-	52	25
Azerbaijan	-	-	-	-	-	-	-	-	1	-	-	-	36	-	52	1 387
Georgia	-	-	-	-	-	-	-	-	-	3	1	40	1	-	-	1
Kazakhstan	-	-	-	-	-	-	-	450	3 216	2 337	-	-	70	13	1	507
Uzbekistan	-	-	-	-	-	9	-	-	4	-	-	4	-	2	11	21
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	20 167
Bangladesh	-	-	-	-	-	-	-	-	-	-	33	-	-	-	-	437
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	3 820
Democratic People's Republic of Korea	-	-	-	-	-	-	-	-	-	-	-	2	-	-	90	-
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	6 098
India	-	-	5	-	35	96	385	276	206	1 520	361	1 044	1 219	1 037	1 698	949
Indonesia	100	150	-	149	233	169	206	809	530	332	683	1 164	819	3 529	2 790	2 031
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	84
Mongolia	-	-	-	-	-	-	1	-	-	-	-	1	-	-	-	7
Myanmar	-	-	-	-	-	10	-	9	-	260	-	-	-	-	-	417
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	230

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Annex table B.7. Cross-border M&A sales, by region/economy of seller, 1989-2003 (concluded)

(Millions of dollars)

Region/economy	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Republic of Korea	-	68	-	673	-	2	1	192	564	836	3 973	10 062	6 448	3 648	5 375	3 757
Singapore	262	114	1 143	237	276	362	355	1 238	593	294	468	2 958	1 532	4 871	556	1 766
Sri Lanka	-	-	1	-	-	30	10	126	35	275	96	22	2	-	3	76
Taiwan Province of China	38	9	11	-	3	16	16	42	50	601	24	1 837	644	2 493	480	422
Thailand	-	-	70	79	498	42	89	161	234	633	3 209	2 011	2 569	957	247	55
Viet Nam	-	-	-	-	-	-	2	1	6	63	-	59	19	4	6	18
The Pacific	-	-	-	28	-	2	37	67	46	257	41	110	5	-	28	83
Cook Islands	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-
Fiji	-	-	-	-	-	-	-	-	5	-	-	4	-	-	-	1
French Polynesia	-	-	-	-	-	-	-	-	2	-	-	-	-	-	-	-
Marshall Islands	-	-	-	-	-	-	-	16	-	-	-	-	-	-	-	-
Papua New Guinea	-	-	-	28	-	2	36	51	39	257	41	106	-	-	28	82
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	14 438
Albania	-	-	-	-	-	-	-	1	-	-	-	4	16	-	-	2
Bosnia and Herzegovina	-	-	-	-	-	-	-	-	-	-	-	-	45	25	19	0
Bulgaria	-	-	-	-	-	20	90	32	71	497	61	1 133	582	11	138	383
Croatia	-	-	-	-	43	23	45	94	48	61	16	1 164	146	676	875	613
Czech Republic	-	-	-	-	-	226	408	2 366	507	671	362	2 402	1 924	1 968	5 204	1 756
Former Czechoslovakia	-	-	-	477	780	-	-	-	-	-	-	-	-	-	-	-
Estonia	-	-	-	-	-	-	-	28	23	64	149	114	131	88	15	14
Hungary	-	24	226	267	392	382	139	2 106	1 594	298	612	537	1 117	1 370	1 278	1 109
Latvia	-	-	-	-	-	-	3	23	57	63	11	20	342	39	4	12
Lithuania	-	-	-	-	-	-	9	-	-	12	632	427	173	193	225	135
TFYR of Macedonia	-	-	-	-	-	-	-	-	-	-	-	45	34	328	5	0
Republic of Moldova	-	-	-	-	-	-	-	-	-	2	-	-	27	-	-	19
Poland	-	4	-	74	1 396	197	357	983	993	808	1 789	3 707	9 316	3 493	3 131	802
Romania	-	-	-	-	-	-	181	229	94	391	1 284	447	536	66	124	493
Russian Federation	-	-	59	-	33	309	63	100	95	2 681	147	180	758	2 039	1 252	7 880
Slovakia	-	-	-	-	-	21	83	4	138	38	54	41	1 849	1 194	3 350	160
Slovenia	-	-	-	-	-	-	41	18	30	133	-	14	-	381	1 502	1
Ukraine	-	-	-	-	-	-	-	66	30	1	-	136	151	116	74	194
Serbia and Montenegro	-	-	-	-	-	-	-	-	-	45	-	-	-	2	268	863
Yugoslavia (former)	-	-	-	62	88	-	-	-	-	-	-	-	-	-	-	-
Multinational[a]	-	-	-	-	-	-	30	100	-	-	665	2 162	-	-	-	-

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

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, 1988-2003

(Millions of dollars)

Region/economy	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
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	296 988
Developed countries	113 389	135 781	143 070	77 435	72 995	72 153	112 401	173 139	196 735	269 276	508 916	700 808	1087 638	534 151	341 116	255 286
Western Europe	49 690	74 265	92 567	42 473	49 753	43 016	75 943	92 539	110 628	154 036	324 658	539 246	852 735	348 738	230 852	127 722
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	119 559
Austria	-	21	236	208	62	169	23	157	4	242	302	1 771	2 254	1 171	1 848	1 744
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	3 166
Denmark	63	261	767	573	258	372	172	152	638	1 492	1 250	5 654	4 590	4 163	2 012	2 724
Finland	172	979	1 136	568	8	98	417	471	1 464	1 847	7 333	2 236	20 192	7 573	5 304	600
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	8 777
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	19 669
Greece	-	100	3	16	19	127	21	-	2	2 018	1 439	287	3 937	1 267	139	371
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	1 702
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	4 662
Luxembourg	80	-	734	1 023	415	1 555	244	51	1 037	973	891	2 847	6 040	4 537	3 683	613
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	8 506
Portugal	-	14	17	181	502	14	144	329	96	612	4 522	1 434	2 657	668	1 481	107
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	5 538
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	4 428
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	56 953
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	8 163
Gibraltar	-	-	-	3	-	-	-	-	-	-	-	-	18	-	-	-
Iceland	-	-	-	-	7	-	-	-	-	-	-	-	49	160	358	289
Jersey	-	-	-	-	-	-	-	-	-	-	-	6	-	730	236	-
Liechtenstein	-	-	160	-	-	-	62	10	-	142	-	8	-	-	-	159
Malta	-	-	-	-	-	7	-	-	-	-	-	4	-	43	-	-
Man Island	-	-	-	-	-	-	-	-	-	-	-	-	-	50	..	3
Monaco	-	-	-	35	113	-	4	-	-	-	-	-	318	102	..	77
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	303
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	6 993
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	98 436
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	16 041
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	82 395
Other developed countries	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	29 128
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	14 549
Israel	-	-	28	28	61	393	143	106	484	254	791	605	2 361	781	544	1 357
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	8 442
New Zealand	2 253	569	1 854	883	923	252	44	573	1 180	785	997	1 421	1 913	976	840	4 780

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Annex table B.8. Cross-border M&A purchases, by region/economy of purchaser, 1988-2003 (continued)

(Millions of dollars)

Region/economy	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
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	31 234
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	1 067
North Africa	-	-	-	-	309	54	9	11	8	-	3	40	213	117	5	433
Egypt	-	-	-	-	-	18	-	-	-	-	-	7	213	-	-	3
Libyan Arab Jamahiriya	-	-	-	-	309	-	5	-	-	-	3	-	-	45	-	430
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	634
Botswana	-	-	-	-	-	-	-	4	-	-	-	-	-	-	-	20
Central African Republic	-	-	-	-	-	-	-	-	63	-	-	-	-	-	-	-
Gabon	-	-	-	229	-	-	-	-	-	-	-	-	-	-	-	-
Ghana	-	-	-	-	-	-	-	35	506	-	137	-	4	-	-	-
Kenya	-	-	-	-	-	-	-	-	-	-	-	-	3	9	-	2
Liberia	-	-	-	-	-	-	-	-	15	-	-	-	-	-	-	37
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	568
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	11 460
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	3 879
Argentina	-	-	10	181	-	71	62	1 984	321	1 170	3 545	1 313	675	343	4	679
Bolivia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4	-
Brazil	2	2	-	45	63	439	158	379	1 167	2 357	3 517	1 908	429	2 774	1 302	3 065
Chile	-	-	-	-	443	828	293	794	3 827	1 497	591	322	507	133	1 744	39
Colombia	-	-	-	-	-	11	10	91	272	157	436	102	203	19	530	2
Ecuador	-	-	-	-	-	-	22	50	45	-	-	-	-	-	-	-
Peru	-	-	-	-	-	-	7	62	237	44	47	220	62	28	59	91
Suriname	-	-	-	2	-	-	-	-	-	-	-	-	-	-	-	-
Uruguay	-	-	-	-	8	-	120	3	-	-	25	-	1	-	-	3
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	7 581
Bahamas	83	-	1	-	17	-	9	142	344	23	51	459	-	748	44	825
Barbados	-	-	-	-	-	-	-	-	-	15	2	-	49	-	671	-

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Annex table B.8. Cross-border M&A purchases, by region/economy of purchaser, 1988-2003 (continued)

(Millions of dollars)

Region/economy	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
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	428
British Virgin Islands	-	-	-	-	-	4	44	62	260	56	-	40	489	473	464	127
Cayman Islands	-	-	-	-	-	24	530	-	207	99	99	77	24	1 539	83	156
Costa Rica	-	-	-	-	-	-	-	2	7	3	-	-	-	-	-	13
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	5 282
Netherlands Antilles	8	16	288	-	11	33	-	99	7	7	-	308	2	-	-	624
Panama	-	-	-	-	-	-	-	-	17	89	100	2 215	5	33	249	120
Puerto Rico	-	-	-	-	-	-	-	-	-	-	-	-	125	-	133	7
Trinidad and Tobago	-	24	-	-	245	175	-	-	-	-	5	-	5	-	-	-
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	18 708
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	1 560
Abu Dhabi	-	-	528	-	-	-	-	-	-	-	-	-	-	-	201	-
Bahrain	-	168	1 537	-	-	811	300	-	-	1 472	45	563	79	274	646	432
Cyprus	-	-	-	-	-	-	-	-	41	1 881	-	73	15	32	36	5
Iran, Islamic Republic of	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jordan	-	-	-	-	-	-	-	-	-	-	-	-	22	-	-	-
Kuwait	-	83	-	112	-	-	-	4	648	-	-	119	32	105	114	441
Lebanon	-	-	-	-	-	21	-	3	-	58	-	-	-	-	-	-
Oman	-	-	-	-	-	-	-	-	-	8	55	-	-	-	9	125
Qatar	-	-	-	-	-	-	-	-	42	-	-	-	2	-	-	15
Saudi Arabia	-	-	-	-	100	182	630	1 671	350	334	217	3	1 550	39	2 020	473
Turkey	-	2	-	-	-	-	11	19	356	43	4	88	48	-	38	7
United Arab Emirates	124	-	48	1	-	-	257	-	153	2	77	655	2	4	10	62
Yemen	-	-	-	-	5	-	-	-	-	-	-	37	-	-	-	-
Central Asia	-	-	-	-	-	-	-	450	-	-	-	-	6	-	-	170
Kazakhstan	-	-	-	-	-	-	-	450	-	-	-	-	6	-	-	170
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	16 978
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	1 647
Democratic People's Republic of Korea	-	-	-	-	-	-	-	-	-	-	-	-	2	-	-	-

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Annex table B.8. Cross-border M&A purchases, by region/economy of purchaser, 1988-2003 (concluded)

(Millions of dollars)

Region/economy	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
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	4 168
India	22	11	-	1	3	219	109	29	80	1 287	11	126	910	2 195	270	1 362
Indonesia	260	-	49	3	16	50	32	163	218	676	39	243	1 445	-	197	2
Malaysia	-	27	144	149	148	774	812	1 122	9 635	894	1 059	1 377	761	1 375	930	3 685
Macao,China	-	-	-	-	-	-	-	-	-	-	-	450	-	-	-	-
Philippines	-	-	-	14	-	25	42	153	190	54	1	330	75	254	2	1
Pakistan	-	-	-	-	-	-	-	-	-	-	-	-	6	4	63	-
Republic of Korea	-	235	33	187	72	74	500	1 392	1 659	2 379	187	1 097	1 712	175	98	662
Singapore	8	764	438	570	294	849	1 174	892	2 018	2 888	530	4 720	8 847	16 516	2 946	5 018
Sri Lanka	-	-	-	-	-	-	2	-	-	-	26	8	-	-	3	-
Taiwan Province of China	-	464	1 385	-	131	-	30	122	4	433	628	408	1 138	161	74	253
Thailand	-	269	18	59	1	38	12	144	180	55	43	154	5	699	87	176
Viet Nam	-	-	-	-	6	-	1	-	11	27	-	-	-	-	-	4
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	10 467
Bulgaria	-	-	-	-	-	-	-	-	3	60	-	797	8	-	8	-
Croatia	-	-	-	-	-	-	-	-	1	100	1	3	22	43	42	32
Czech Republic	-	6	-	-	-	19	51	48	176	60	142	13	775	-	30	141
Former Czechoslovakia	-	-	-	-	4	-	-	-	-	-	-	-	-	-	-	-
Estonia	-	-	-	-	-	-	22	-	15	1	12	5	2	41	-	11
Hungary	-	-	-	-	-	62	-	2	-	6	64	118	379	1 331	242	949
Latvia	-	-	-	-	-	18	-	-	-	-	-	-	-	-	..	-
Lithuania	-	-	-	-	-	-	-	-	-	-	-	1	-	-	..	-
TFYR of Macedonia	-	-	-	-	-	-	-	-	2	-	-	-	-	-	16	-
Poland	-	-	-	14	-	8	11	8	23	45	465	132	118	324	58	529
Romania	-	-	-	-	-	-	-	-	-	0	-	-	-	10	19	1
Russian Federation	-	-	-	-	18	6	245	-	242	2	301	52	225	371	606	8 763
Serbia and Montenegro	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	23
Slovakia	-	-	-	-	-	-	1	2	42	1	-	424	24	91	4	-
Slovenia	-	-	-	-	-	-	-	-	-	-	-	4	10	14	63	15
Ukraine	-	-	-	-	-	-	-	-	-	-	23	-	130	1	-	3
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 (www.unctad.org/fdistatistics).

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.9. Cross-border M&As, by sector and industry of seller, 1988-2003

(Millions of dollars)

Sector/industry	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
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**	**296 988**
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**	**7 714**
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	1 350
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	6 363
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**	**129 713**
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	29 597
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	676
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	2 765
Publishing and printing	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	11 886
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	24 267
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	22 927
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	1 582
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	2 688
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	8 083
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	4 332
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	5 409
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	8 046
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	5 760
Other manufacturing	4	1 556	666	261	360	680	522	575	308	158	1 958	696	186	1 266	479	1 694
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**	**159 561**
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		61 572	15 909
Construction	295	813	533	279	651	331	838	1 738	4 410	602	1 434	3 205	5 170	2 167	1 465	1 089
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	13 411
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	3 914
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	34 724
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	54 790
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	23 565
Public administration and defence	-	-	-	-	-	-	-	605	-	111	395	1 769	8	329	76	55
Education	-	7	5	33	-	421	18	-	4	179	42	66	219	438	7	77
Health and social services	86	460	469	84	237	261	2 463	946	336	3 396	641	724	751	1 875	781	1 115
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	10 911
Other services	3	30	66	33	44	110	520	3 588	-	19	69	42	73	136	7	2
Unknown[a]	-	-	-	76	37	10	1	-	334	-	-	101	5	-	-	-

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

a Includes non-classified establishments.

Annex table B.10. Cross-border M&As, by sector and industry of purchaser, 1988-2003

(Millions of dollars)

Sector/industry	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
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**	**296 988**
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**	**4 227**
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	228
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	4 000
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**	**112 758**
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	23 307
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	681
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	2 671
Publishing and printing	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	11 370
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	20 260
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	16 927
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	893
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	1 867
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	11 390
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	1 932
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	7 817
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	7 072
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	6 322
Other manufacturing	3	74	143	113	214	88	497	528	633	5 527	280	672	1 007	263	432	250
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**	**180 002**
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	13 440
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	1 048
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	15 184
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	1 073
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	21 598
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	114 150
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	9 090
Public administration and defence	1 952	13	667	-	-	81	-	31	-	102	-	310	17	13	318	604
Education	-	216	-	4	-	420	-	-	1	98	30	54	107	110	-	41
Health and social services	14	155	530	41	221	203	154	263	265	321	738	35	513	1 472	710	541
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	3 231
Other services	3	5	66	27	88	69	500	986	20	534	1 426	8	7	37	-	2
Unknown[a]	258	-	114	187	50	45	10	34	104	38	488	24	38	110	1 248	-

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

[a] Includes non-classified establishments.

Selected UNCTAD Publications on TNCs and FDI

I. TRENDS IN FDI AND THE ACTIVITIES OF TNCs

A. World Investment Reports

UNCTAD, ***World Investment Report 2003. FDI Policies for Development: National and International Perspectives*** (New York and Geneva, 2003). 303 pages. Sales No. E.03.II.D.8.

UNCTAD, ***World Investment Report 2003. FDI Policies for Development: National and International Perspectives. Overview***. 42 pages (A, C, E, F, R, S). Document symbol: UNCTAD/WIR/2003 (Overview). Available free to charge.

UNCTAD, ***World Investment Report 2002: Transnational Corporations and Export Competitiveness*** (New York and Geneva, 2002). 350 pages. Sales No. E.02.II.D.4.

UNCTAD, ***World Investment Report 2002: Transnational Corporations and Export Competitiveness. Overview***. 66 pages (A, C, E, F, R, S). Document symbol: UNCTAD/WIR/2002 (Overview). Available free of charge.

UNCTAD, ***World Investment Report 2001: Promoting Linkages*** (New York and Geneva, 2001). 354 pages. Sales No. E.01.II.D.12.

UNCTAD, ***World Investment Report 2001: Promoting Linkages. Overview***. 63 pages (A, C, E, F, R, S). Document symbol: UNCTAD/WIR/2001 (Overview). Available free of charge.

UNCTAD, ***World Investment Report 2000: Cross-border Mergers and Acquisitions and Development*** (New York and Geneva, 2000). 337 pages. Sales No. E.00.II.D.20.

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UNCTAD, ***World Investment Report 1999: Foreign Direct Investment and the Challenge of Development*** (New York and Geneva, 1999). 541 pages. Sales No. E.99.II.D.3.

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UNCTAD, ***World Investment Report 1998: Trends and Determinants*** (New York and Geneva, 1998). 463 pages. Sales No. E.98.II.D.5.

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UNCTAD, ***World Investment Report 1997: Transnational Corporations, Market Structure and Competition Policy*** (New York and Geneva, 1997). 416 pages. Sales No. E.97.II.D. 10.

UNCTAD, ***World Investment Report 1997: Transnational Corporations, Market Structure and Competition Policy. Overview***. 76 pages (A, C, E, F, R, S). Document symbol: UNCTAD/ITE/IIT/5 (Overview). Available free of charge.

UNCTAD, ***World Investment Report 1996: Investment, Trade and International Policy Arrangements*** (New York and Geneva, 1996). 364 pages. Sales No. E.96.11.A. 14.

UNCTAD, ***World Investment Report 1996: Investment, Trade and International Policy Arrangements. Overview***. 22 pages (A, C, E, F, R, S). Document symbol: UNCTAD/DTCI/32 (Overview). Available free of charge.

UNCTAD, ***World Investment Report 1995: Transnational Corporations and Competitiveness*** (New York and Geneva, 1995). 491 pages. Sales No. E.95.II.A.9.

UNCTAD, ***World Investment Report 1995: Transnational Corporations and Competitiveness. Overview***. 68 pages (A, C, E, F, R, S). Document symbol: UNCTAD/DTCI/26 (Overview). Available free of charge.

UNCTAD, ***World Investment Report 1994: Transnational Corporations, Employment and the Workplace*** (New York and Geneva, 1994). 482 pages. Sales No.E.94.11.A.14.

UNCTAD, ***World Investment Report 1994: Transnational Corporations, Employment and the Workplace. An Executive Summary***. 34 pages (C, E, also available in Japanese). Document symbol: UNCTAD/DTCI/10 (Overview). Available free of charge.

UNCTAD, ***World Investment Report 1993: Transnational Corporations and Integrated International Production*** (New York and Geneva, 1993). 290 pages. Sales No. E.93.II.A.14.

UNCTAD, ***World Investment Report 1993: Transnational Corporations and Integrated International Production. An Executive Summary***. 31 pages (C, E). Document symbol: ST/CTC/159 (Executive Summary). Available free of charge.

DESD/TCMD, ***World Investment Report 1992: Transnational Corporations as Engines of Growth*** (New York, 1992). 356 pages. Sales No. E.92.II.A.24.

DESD/TCMD, ***World Investment Report 1992: Transnational Corporations as Engines of Growth: An Executive Summary***. 26 pages. Document symbol: ST/CTC/143 (Executive Summary). Available free of charge.

UNCTC, ***World Investment Report 1991: The Triad in Foreign Direct Investment*** (New York, 1991). 108 pages. Sales No. E.9 1.II.A. 12. $25.

B. Other Studies

UNCTAD, ***FDI in Landlocked Developing Countries at a Glance*** (Geneva, 2003). Document symbol: UNCTAD/ITE/IIA/2003/5. Available free of charge.

UNCTAD, ***Foreign Direct Investment in the World and Poland: Trends, Determinants and Economic Impact***. (Warsaw, 2002). ISBN 83-918182-0-9.

UNCTAD, ***FDI in Least Developed Countries at a glance: 2002*** (Geneva, 2002). Document symbol: UNCTAD/ITE/IIA/6. 150 pages. Available free of charge.

UNCTAD, ***Tax incentives and FDI: A Global Survey*** (Geneva, 2001). Sales No. E.01.II.D.5.

UNCTAD, ***FDI in Least Developed Countries at a glance: 2001*** (Geneva, 2001). Document symbol: UNCTAD/ITE/IIA/3. 150 pages. Available free of charge.

UNCTAD, Invest in France Mission, DATAR and Arthur Andersen, ***International Investment: Towards the Year 2002*** (Paris, 1998). 167 pages (E,F). Sales No. GV.E.98.0.15. $29.

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UNCTAD, ***Sharing Asia's Dynamism: Asian Direct Investment in the European Union*** (Geneva, 1997). 143 pages. Sales No. E.97.II.D. 1. $26.

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UNCTAD, ***Foreign Direct Investment in Africa***. Current Studies, Series A, No. 28 (Geneva, 1996). 115 pages (E, F). Sales No. E.95.II.A.6. $20.

John H. Dunning and Khalil A. Hamdani (eds.), ***The New Globalism and Developing Countries*** (United Nations University Press, on behalf of UNCTAD, DITE, 1996). 336 pages (E). ISBN 92-808-0944-X. $25.

Karl P. Sauvant, Persephone Economou and Fiorina Mugione (eds.), ***Companies without Borders: Transnational Corporations in the 1990s*** (Published by International Thomson Business Press, for and on behalf of UNCTAD DITE, 1996). 224 pages. ISBN 0-415-12526-X. E47.50.

UNCTAD, ***Transnational Corporations and World Development*** (Published by International Thomson Business Press, for and on behalf of UNCTAD DITE, 1996). 656 pages. ISBN 0-415-08560-8 (hardback), 0-415-08561-6 (paperback). £65.00 (hardback), £20.99 (paperback).

UNCTC, ***TNCs in South Africa: List of Companies with Investments and Disinvestments, 1990*** (New York, 1991). 282 pages. Sales No. E.91.II.A.9. $22.

UNCTC, ***Transnational Corporations in World Development: Trends and Prospects*** (New York, 1988). 630 pages (A, C, E, F, R, S). Sales No. E.88.II.A.7. Out of print. Available on microfiche. Paper copy from microfiche: $650.

UNCTC, ***Transnational Corporations in World Development: Trends and Prospects. Executive Summary*** (New York, 1988). 63 pages. Sales No. E.88.II.A.15. Out of print. Available on microfiche.

UNCTC, ***Foreign Direct Investment in Latin America: Recent Trends, Prospects and Policy Issues***. Current Studies, Series A, No. 3. (New York, 1986). 28 pages. Sales No. E.86.II.A. 14. Out of print. Available on microfiche. Paper copy from microfiche: $40.

UNCTC, ***Trends and Issues in Foreign Direct Investment and Related Flows:*** **A Technical Paper** (New York, 1985). 96 pages. Sales No. E.85.II.A.15. Out of print. Available on microfiche. Paper copy from microfiche: $110.

UNCTC, ***Transnational Corporations in World Development: Third Survey*** (New York, 1983). (Also published by Grahain and Trotman, London, 1985). 386 pages (A, C, E, F, R, S). Sales No. E.83.II.A. 14 and Corrigendum. Out of print. Available on microfiche. Paper copy from microfiche: $400.

UNCTC, ***Salient Features and Trends in Foreign Direct Investment*** (New York, 1983). 71 pages (A, C, E, F, R, S). Sales No. E.83.II.A.8. Out of print. Available on microfiche. Paper copy from microfiche: $82.

UNCTC, ***Transnational Corporations in World Development: A Re-examination*** (New York, 1978). 346 pages (E, F, S). Sales No. E.78.1I.A.5. Out of print. Available on microfiche. Paper copy from microfiche: $360.

United Nations Department of Economic and Social Affairs, ***Multinational Corporations in World Development*** (New York, 1973). (Also published by Praeger, New York, 1974, 200 pages). 196 pages (E, F, R, S). Sales No. E.73.II.A. 11. Out of print. Available on microfiche. Paper copy from microfiche: $204.

United Nations Department of Economic and Social Affairs, ***Summary of the Hearings Before the Group of Eminent Persons to Study the Impact of Multinational Corporations on Development and on International Relations*** (New York, 1974). 455 pages. Sales No. E.74.II.A.9. Out of print. Available on microfiche. Paper copy from microfiche: $450.

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The United Nations Library on Transnational Corporations. (The original, hardback version was published by Routledge, for and on behalf of UNCTAD, 1994). Twenty volumes, in five boxed sets of four volumes per set, ISBN 0-415-08559-4, £1,750 (£350 per set), can be ordered in the U.S.A. and Canada from Routledge, Inc., 29 West 35th Street, New York, NY 1000 1, U. S.A. (U.S.A. Tel.: ++ 1212 244 6412 and Fax: ++ 1212 268 9964; Canada Tel.: ++ 1 800 248 4724). In the U.K., by contacting: Routledge Customer Services Department, FREEPOST, ITPS, Cheriton House, North Way, Andover, Hants SP 10 5BR, U.K. (Tel.: ++44 1264 342811/342939; Fax: ++44 1264 364418).

Volume 1: Dunning, John H. (ed.). ***The Theory of Transnational Corporations***. 464 pages. Also available in paperback version (published by International Thomson Business Press, for and on behalf of UNCTAD DITE). ISBN 0-415-14106-0. £20.99.

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Volume 3: Lall, Sanjaya (ed.). ***Transnational Corporations and Economic Development***. 448 pages. Also available in paperback version (published by International Thomson Business Press, for and on behalf of UNCTAD DITE). ISBN 0-415-14110-9. $29.95.

Volume 4: Lecraw, Donald J. and Allen J. Morrison (eds.). ***Transnational Corporations and Business Strategy***. 416 pages. Also available in paperback version (published by International Thomson Business Press, for and on behalf of UNCTAD DITE). ISBN 0-415-14109-5. $29.95.

Volume 5: Stonehill, Arthur I. and Michael H. Moffet (eds.). ***International Financial Management***. 400 pages. Also available in paperback version (published by International Thomson Business Press, for and on behalf of UNCTAD DITE). ISBN 0-415-14107-9.; £19.95.

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Volume 20: Fatouros, Arghyrios (ed.). ***Transnational Corporations. The International Legal Framework***. 545 pages.

II. DEVELOPMENT ISSUES AND FDI

Transnational Corporations. A refereed journal published three times a year. (Supersedes the *CTC Reporter* as of February 1992). Annual subscription (3 issues): $45. Single issue: $20.

UNCTAD, ***Investment and Technology Policies for Competitiveness: Review of Successful Country Experiences*** (Geneva, 2003). Document symbol: UNCTAD/ITE/ICP/2003/2.

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UNCTAD, ***Foreign Direct Investment in Africa: Performance and Potential*** (Geneva, 1999). Document symbol: UNCTAD/ITE/IIT/Misc.15. Available free of charge.

UNCTAD, ***The Financial Crisis in Asia and Foreign Direct Investment An Assessment*** (Geneva, 1998). 110 pages. Sales No. GV.E.98.0.29. $20.

UNCTAD, ***Handbook on Foreign Direct Investment by Small and Medium-sized Enterprises: Lessons from Asia*** (New York and Geneva, 1998). 202 pages. Sales No. E.98.II.D.4. $48.

UNCTAD, ***Handbook on Foreign Direct Investment by Small and Medium-sized Enterprises: Lessons from Asia. Executive Summary and Report on the Kunming Conference.*** 70 pages. Document symbol: UNCTAD/ITE/IIT/6 (Summary). Available free of charge.

UNCTAD, ***Survey of Best Practices in Investment Promotion*** (New York and Geneva, 1997). 81 pages. Sales No. E.97.II.D.11. $35.

UNCTAD, ***Incentives and Foreign Direct Investment*** (New York and Geneva, 1996). Current Studies, Series A, No. 30. 98 pages. Sales No. E.96.II.A.6. $25.

UNCTC, ***Foreign Direct Investment in the People's Republic of China*** (New York, 1988). 110 pages. Sales No. E.88.II.A.3. Out of print. Available on microfiche. Paper copy from microfiche: $122.

UNCTAD, ***Foreign Direct Investment, Trade, Aid and Migration*** Current Studies, Series A, No. 29. (A joint publication with the International Organization for Migration, Geneva, 1996). 90 pages. Sales No. E.96M.A.8. $25.

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DESD/TCMD, ***From the Common Market to EC 92: Regional Economic Integration in the European Community and Transnational Corporations*** (New York, 1993). 134 pages. Sales No. E.93.1l.A.2. $25.

DESD/TCMD, ***Debt-Equity Swaps and Development*** (New York, 1993). 150 pages. Sales No. E.93.1l.A.7. $35.

DESD/TCMD, ***Transnational Corporations from Developing Countries: Impact on Their Home Countries*** (New York, 1993). 116 pages. Sales No. E.93.1l.A.8. $15.

DESD/TCMD, ***Foreign Investment and Trade Linkages in Developing Countries*** (New York, 1993). 108 pages. Sales No. E.93.II.A. 12. Out of print.

UNCTC, ***Foreign Direct Investment and Industrial Restructuring in Mexico***. Current Studies, Series A, No. 18. (New York, 1992). 114 pages. Sales No. E.92.1l.A.9. $12.50.

UNCTC, ***The Determinants of Foreign Direct Investment: A Survey of the Evidence*** (New York, 1992). 84 pages. Sales No. E.92.1l.A.2. $12.50.

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UNCTC, ***The Challenge of Free Economic Zones in Central and Eastern Europe: International Perspective*** (New York, 1991). 442 pages. Sales No. E.90.1l.A.27. $75.

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UNCTC, ***Foreign Direct Investment, Debt and Home Country Policies***. Current Studies, Series A, No. 20. (New York, 1990). 50 pages. Sales No. E.90.II.A. 16. $12.50.

UNCTC, ***News Issues in the Uruguay Round of Multilateral Trade Negotiations***. Current Studies, Series A, No. 19. (New York, 1990). 52 pages. Sales No. E.90.II.A. 15. $12.50.

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UNCTC, ***The Process of Transnationalization and Transnational Mergers.*** **Current Studies**, Series A, No. 8. (New York, 1989). 91 pages. Sales No. E.89.1l.A.4. Out of print. Available on microfiche. Paper copy from microfiche: $106.

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UNCTC, ***Measures Strengthening the Negotiating Capacity of Governments in Their Relations with Transnational Corporations: Regional Integration cum/versus Corporate Integration. A Technical Paper*** (New York, 1982). 63 pages. Sales No. E..82.II.A.6. Out of print. Available on microfiche. Paper copy from microfiche: $71.

III. SECTORAL STUDIES

A. TNCs in the Manufacturing and Extractive Sectors

UNCTC, ***New Approaches to Best-Practice Manufacturing: The Role of Transnational Corporations and Implications for Developing Countries***. Current Studies, Series A, No. 12. (New York, 1990). 76 pages. Sales No. E.90.II.A. 13. $20.

Blomström, Magnus, ***Transnational Corporations and Manufacturing Exports from Developing Countries*** (New York, 1990). 124 pages. Sales No. E.90.II.A.21. $25.

UNCTC, ***Transnational Corporations in the Plastics Industry*** (New York, 1990). 167 pages. Sales No. 90.II.A. 1. $20.

Hoffman, Kurt and Raphael Kaplinsky, ***Driving Force: The Global*** pages. ISBN: 0-8133-7502-9. $32.50.

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UNCTC and ESCAP Joint Unit, ***Transnational Corporations and the Electronics Industries ofASEAN Economies***. Current Studies, Series A, No. 5. (New York, 1987). 55 pages. Sales No. E.87.II.A. 13. $7.50.

UNCTC, ***Transnational Corporations in the Man-made Fibre, Textile and Clothing Industries*** (New York, 1987). 154 pages. Sales No. E.87.II.A. 11. $19.

UNCTC, ***Transnational Corporations in the International Semiconductor Industry*** (New York, 1986). 471 pages. Sales No. E.86.II.A. 1. $41.

UNCTC, ***Transnational Corporations in the Pharmaceutical Industry of Developing Countries*** (New York, 1984). 223 pages. Sales No. E. 84.II.A. 10. Out of print. Available on microfiche. Paper copy from microfiche: $238.

UNCTC, ***Transnational Corporations in the International Auto Industry*** (New York, 1983). 223 pages. Sales No. E.83.II.A.6. Out of print. Available on microfiche. Paper copy from microfiche: $242.

UNCTC, ***Transnational Corporations in the Agricultural Machinery and Equipment Industry*** (New York, 1983). 134 pages. Sales No. E.83.II.A.4. Out of print. Available on microfiche. Paper copy from microfiche: $148.

UNCTC, ***Transnational Corporations in the Power Equipment Industry*** (New York, 1982). 95 pages (E, F, S). Sales No.E.82.II.A.1 1. Out of print. Available on microfiche. Paper copy from microfiche: $108.

UNCTC, ***Transnational Corporations in the Fertilizer Industry*** (New York, 1982). 69 pages (E, F, S). Sales No. E.82.H.A.10. Out of print. Available on microfiche. Paper copy from microfiche: $80.

UNCTC, ***Transnational Corporations in Food and Beverage Processing*** (New York, 1981). 242 pages. Sales No. E.8 I.II.A. 12. Out of print. Available on microfiche. Paper copy from microfiche: $26 1.

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UNCTC, ***Transnational Corporation Linkages in Developing Countries: The Case of Backward Linkages via Subcontracting*** (New York, 1981). 75 pages. Sales No. E.8 1.II.A.4. Out of print. Available on microfiche. Paper copy from microfiche:

UNCTC, ***Transnational Corporations in the Copper Industry*** (New York, 1981). 80 pages (E, F, S). Sales No. E.81.II.A.3. Out of print. Available on microfiche. Paper copy from microfiche: $92.

UNCTC, ***Transnational Corporations and the Pharmaceutical Industry*** (New York, 1979). 163 pages. Sales No. E.79.II.A.3. Out of print. Available on microfiche. Paper copy from microfiche: $160.

B. TNCs in the Services Sector and Transborder Data Flows

UNCTAD, ***Tradability of Consulting Services and Its Implications for Developing Countries*** (New York and Geneva, 2002).189 pages. UNCTAD/ITE/IPC/Misc.8.

UNCTAD and the World Bank, ***Liberalizing International Transactions in Services: A Handbook*** (New York and Geneva, 1994). 182 pages. Sales No. E.94.II.A. 11. $45.

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UNCTAD, ***Management Consulting: A Survey of the Industry and Its Largest Firms*** (New York, 1993). 100 pages. Sales No. E.93.II.A. 17. $25.

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UNCTAD, ***The Transnationalization of Service Industries: An Empirical Analysis of the Determinants of Foreign Direct Investment by Transnational Service Corporations***. Current Studies, Series A, No. 23. (New York, 1993). 62 pages. Sales No. E.93.II.A.3. $15.

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UNCTC, ***Transnational Banks and the International Debt Crisis*** (New York, 1991). 148 pages. Sales No. E.90.II.A. 19. $22.50.

UNCTC, ***Transborder Data Flows and Mexico*** (New York, 1991). 194 pages. Sales No. E.90.II.A.17. $27.50.

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Vol. I (Part One) (New York, 1978). 302 pages (E, F, S). Sales No. E.78.II.A.3 and corrigendum. Out of print. Available on microfiche. Paper copy from microfiche: $300.

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IX. DATA AND INFORMATION SOURCES

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Subject Index/Index des Matiéres. Volume II (New York, 1988). 458 pages (E, F). Sales No. E/F.88.II.A.10. Two-volume set. Out of print. Available on microfiche. Paper copy from microfiche: $170.

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UNCTC, ***Publication Reviews: 1975-1987*** (New York, 1988). 101 pages. Free of charge.

UNCTC, ***List of Company Directories and Summary of Their Contents/List d'Annuaires de Sociétés et Résumé de Leurs Données,*** *Second ed.* (New York, 1983). 160 pages (E, F). Sales No. E/E83.II.A. 10. Out of print. Available on microfiche. Paper copy from microfiche: $170.

UNCTC, ***Users Guide to the Info~tion System on Transnational Corporations: A Technical Paper*** (New York, 1980). 30 pages (E, F, R, S). Sales No. E.80.II.A.6. Out of print. Available on microfiche. Paper copy from microfiche: $35.

UNCTC, ***International Directory of Data Bases Relating to Companies*** (New York, 1979). 246 pages. Sales No. E.79.II.A. 1. Out of print. Available on microfiche. Paper copy from microfiche: $260.

UNCTC, ***Bibliography on Transnational Corporations*** (New York, 1979). 426 pages (E, F). Sales No. E/E78.II.A.4. Out of print. Available on microfiche. Paper copy from microfiche: $430.

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