CHAPTER II

REGIONAL TRENDS

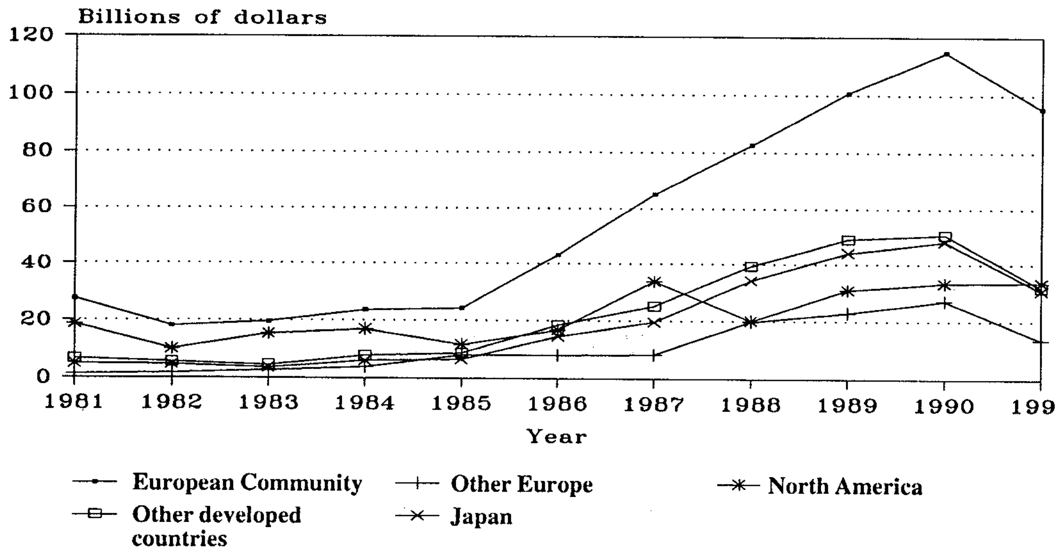
While chapter I dealt with overall trends, this chapter examines in greater detail recent trends in FDI within regions, focusing on issues of particular importance to each region.

A. Developed countries

Outflows of foreign direct investment (FDI) from the developed countries declined in 1991 and 1992 (figure II.1). The economic slow-down and financial system weaknesses in a number of countries prompted transnational corporations (TNCs) to concentrate on improving the efficiency of their existing investments, rather than investing heavily in new assets. As mentioned in chapter I, the decline in outflows was accounted for largely by Japan and Western Europe. Despite the recent decline in their outflows, developed countries continue to account for over 97 per cent of world-wide outflows of FDI.

One reason for the fall in outflows in 1991 in the developed countries was the significant reduction in cross-border mergers and acquisitions. For example, in the United States, takeover activities in 1991 have further declined and those of a large-scale nature have been undertaken essentially by domestic firms.[1] Even French companies, which had made substantial overseas acquisitions between 1987 and 1990, have slowed down these activities sharply between 1990 and 1991.[2] The factors that had stimulated mergers and acquisitions earlier in the 1980s became less powerful at the turn of the decade. Tighter monetary policies, higher interest rates in most developed countries and higher stock-market valuations made acquisitions more costly. Slower economic growth contributed to some well-publicized corporate failures of TNCs, such as the Campeau Corporation (Canada). And any wave of regional restructuring is liable to be followed by consolidation, as TNCs concentrate on managing their newly re-organized networks.

Figure II.1. Outflows of foreign direct investment from developed regions and country, 1981-1991
(Billions of dollars)



Source: United Nations, Transnational Corporations and Management Division, 1993c.

As mentioned, it was Japan that did the most to make 1991 a sluggish year for outflows. Its outward investment declined for the first time since 1983, and preliminary estimates show that the decline continued in 1992. Domestic economic slowdown, declining profitability and difficulties in financial markets left Japanese companies with less capital to invest abroad; indeed, some were obliged to sell foreign assets to cover losses at home. In addition, the drive of Japanese TNCs to set up manufacturing bases in North America and the European Community in automobiles, steel and electronics abated, at least for the time being.[3] Outflows from most of Western Europe also declined in 1991 and 1992. Less favourable prospects for economic growth, together with the need to consolidate and streamline investments after a period of large-scale FDI, reduced the incentive for firms to keep expanding their investments abroad so rapidly (Rutter, 1992). Only Denmark, Norway, Portugal and Spain showed a growth of outflows in 1991.

Similarly, investment *inflows* to the developed countries fell in 1991 and 1992. This was mainly owing to the United States (where inflows declined by 75 per cent in 1991 and turned negative at $4 billion in 1992, representing net capital outflows) and, to a lesser extent, the European Community (EC) (table II.1). The share of intra-regional investment in total FDI in EC continued to increase, with the level estimated to have reached at least $300 billion in 1991, up from a level of $220 billion in 1989. The members of the European Free Trade Association (EFTA) also experienced a decline in inflows. Inflows in Japan remained small. Several factors were clearly at work in the case of the United States: sluggish economic growth; declining profitability; and poor business performance in banking, finance and real estate industries, where FDI has been significant (Rutter, 1992). Even TNCs from Japan, the most dynamic source of new inflows into the United States, have recently become cautious.[4]

The 1991 inflows to Western Europe declined below their 1989 level, owing both to reduced FDI in EC (particularly in Germany, Italy, the Netherlands, Spain and the United Kingdom) and, to a lesser extent, in EFTA; in the case of EFTA, the decline continued sharply in 1992. Again, there were several reasons for this: sagging business confidence in the face of recession, uncertainties over plans for European integration and the fact that many foreign companies (particularly Japanese firms) had already established a foothold within EC.[5] However, the general EC trend towards liberalization of FDI policies facilitated many ground-breaking alliances with foreign firms in previously protected state industries, such as in France.[6] Privatization as an instrument of economic liberalization has also attracted foreign participation in several Western European countries (for example, Italy),[7] though others (e.g., Greece and Portugal) had less foreign participation in privatized industries.[8]

Although FDI in EFTA declined in 1991, the prospects of the European Economic Area—with most EFTA countries (Austria, Finland, Norway and Sweden) planning to join EC—continue to attract TNCs. In particular, FDI inflows to Sweden more than trebled in 1991 as a result of significant acquisitions by foreign companies and the growth of joint ventures and strategic alliances between domestic and foreign companies. The adoption of a free market strategy in 1992, including privatization and the lifting of legal restrictions that hamper new FDI, is likely further to increase FDI in Sweden.[9] The liberalizing trend was apparent in Switzerland also, with increasing amounts of foreign capital being needed to bolster the weakened Swiss capital market. It remains to be seen how far the rejection of the European Economic Area agreement in December 1992 will influence the attractiveness of Switzerland as an investment location.

Table II.1. Inflows of foreign direct investment to the developed countries, by region, 1987-1992, and shares, 1981-1985, 1986-1990, 1991 and 1992

(Billions of dollars and percentage)

	1987	*1988*	*1989*	*1990*	*1991*	*1992*[a]	*1981-1985*	*1986-1990*	*1991*	*1992*
Region	*(Billions of dollars)*						*Share in total (Percentage)*			
Western Europe of which:	41	60	88	109	84	77	42	50	78	90
European Community	38	57	81	99	75	76	38	46	70	88
EFTA[b]	4	3	7	10	9	1	4	5	8	1
North America	62	63	71	52	16	.002	50	44	15	.002
of which: United States	58	59	68	45	11	-4	51	41	11	-5
Other developed regions	6	8	8	11	8	9	8	6	7	10
of which: Japan	1	-0.5	-1.1	1.8	1.4	1.4	3	0.2	1	2
Total, above	109	132	167	172	108	86	100	100	100	100

Source: UNCTAD, Programme on Transnational Corporations, based on TCMD, 1993c; International Monetary Fund, balance-of-payments tape, retrieved on 17 February 1993; and Organisation for Economic Co-operation and Development estimates.

a Estimated.
b Including some other Western Europe.

The low level of FDI in Japan continued in the early 1990s for several reasons. At the macro level, the factors inhibiting inward investment include government preference of licensing over FDI, an ineffective liberalization process, difficulties in acquisitions and keiretsu relationships. There are also various problems facing individual companies in doing business in Japan, some of which are uniquely rooted in Japanese business practices and some of which are common problems in doing business in a foreign environment (box II.1).

Despite the decline in FDI inflows in the developed countries, they made up almost three quarters of world-wide inflows in 1991. The Triad—consisting of EC, Japan and the United States—accounted for approximately three fifths of world-wide inflows, a proportion well below the 70 per cent of the 1980s, and 86 per cent of outflows, compared with 81 per cent in the 1980s. As a host region of FDI in 1991, the Triad diminished; as a home region, it became more important. But the expanded Triad—consisting of Japan, North America and Western Europe—accounted for 70 per cent of global inflows and 96 per cent of outflows in 1991. Cross-holdings of stocks of FDI within the expanded Triad amounted to $640 billion in 1990 (figure II.2).

Box II.1. Why is foreign direct investment in Japan so low?

In 1990, Japan's stock of inward FDI was the fourteenth largest in the world, up from its position as twenty-first largest in 1980. Despite this rise, Japan's share in still very low. Moreover, the level of inward stock in Japan was still only one fifteenth of Japan's outward stock of FDI as of March 1992.

Historically, the Government of Japan has aimed to promote indigenous technical and managerial strengths by importing foreign technology, primarily in the form of licensing. As recently as 1987-1991, the value of Japan's technological imports (defined as payments of royalties and licence fees to foreign owners of patents, copyrights and other non-financial intangible assets) was nearly ten times greater than inflows of FDI.[a] The value of those technological imports was two or three times that of other major developed countries, such as France, Germany, the United Kingdom and the United States, indicating a sustained preference for licensing over FDI for technology acquisition in Japan.

The liberalization of inward FDI policies starting in 1967 has not led to any significant growth of such investment in Japan because of the slow implementation process. For example, only industries that have achieved international competitiveness have been gradually liberalized for foreign competition. Although full liberalization was achieved in principle in 1976, FDI remains closed in four industry groups—agriculture, forestry and fisheries, mining, oil exploration and leather and leather products. Until 1990, the Foreign Exchange and Foreign Trade Control Law enabled the Government to restrict inward FDI on the grounds that the investment might adversely affect similar domestic business activities or the smooth performance of the Japanese economy. The restrictions also played a part in retarding FDI inflows.

Difficulties faced by foreign firms in merger-and-acquisition activities in Japan also constitute another reason for the low level of inward FDI (Lawrence, 1992). Hostile take-overs (take-over bid system) were institutionally difficult until 1990, as prior notification was required. Thus, targeted companies could prepare in time to defend themselves from an impending take-over. Apart from this factor, the practice of shareholdings owned by financial companies and *keiretsu* firms, lifetime employment and the seniority system may have made mergers and acquisitions difficult for foreign firms.

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B. Developing countries

Except for 1989, *inflows* of FDI to developing countries increased steadily between 1984 and 1992. Most remarkably, while inflows to the developed countries declined in 1991, they grew by more than 20 per cent to the developing countries, to $39 billion. As mentioned in the preceding chapter, developing countries made up more than one quarter of global inflows in 1991, a much larger share than in 1986-1991, and equal to their share in the first half of the 1980s. In 1992, FDI into developing countries increased further to at least $40 billion.

The growth of inflows has affected all developing regions and is associated with continued strong economic expansion in Asia and the Pacific, recovery in some Latin American countries (Argentina, Chile and Venezuela), and the trend towards liberalization. Although East, South and South-East Asia continues to account for over half of the inflows to developing countries, the region's share fell in 1991. On the other hand, inflows to Latin America and the Caribbean grew significantly in 1991, and those to Africa were up by more than 20 per cent. Even flows to the least developed countries rose marginally, though they accounted for just 0.5 per cent of the developing countries' total inflows. A large proportion of that total is still going to a small number of countries (table II.2), although the share obtained by the ten largest host countries fell from over 70 per cent during the period 1981-1985 to 64 per cent during the period 1986-1990.

(Box II.1, cont'd.)

Certain aspects of *keiretsu* relationships promote preferential group trade and negatively affect FDI in Japan (Lawrence, 1992). Anti-competitive and exclusive business practices decrease the transparency of business transactions and place non-*keiretsu* firms and, in particular, foreign firms in a disadvantageous position. Other problems inhibiting inward FDI at a company level include, among others, high costs of doing business and staffing problems, as well as the complex, multi-layered distribution system.[b] Those problems are more profound in Japan than in other countries as they are related to the uniqueness of Japanese business practices.

Even so, FDI into Japan is increasing. Inflows in the first half of 1992 were almost double those in the same period in 1991.[c] It also seems that mergers and acquisitions by foreign firms are behind the increase in inflows, prompted by the lower acquisition cost of Japanese firms,[d] some of which can be bought at less than half the cost of acquisition in 1990. The decline in Japanese real estate and stock prices over the past two years and the restructuring of Japanese industries have provided foreign firms with their best opportunity in years to set up, expand or acquire business in Japan. Moreover, the Government of Japan has recently committed itself to boost inward investment, and this is likely to change the attitude of foreign investors.[e]

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a Data on payments of royalties and fees are from the International Monetary Fund, balance-of-payments tape, retrieved in November 1992. They include payments to both affiliated and non-affiliated foreigners by domestic firms and TNCs.

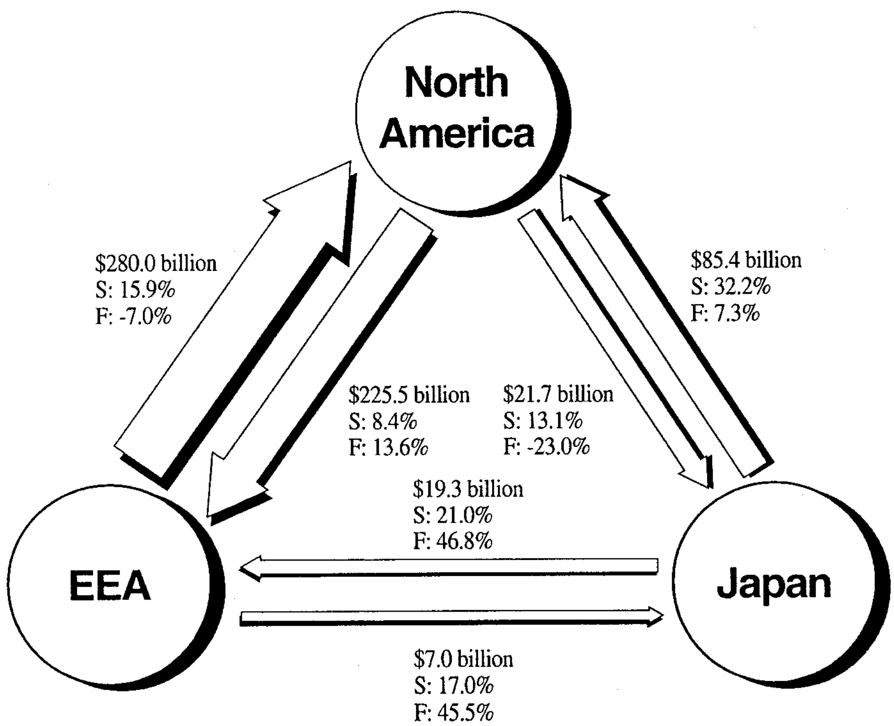
b Quoted in "Trade and investment in Japan: the current environment", *Center for Industrial and Technological Cooperation (CITEC) News* (Tokyo, Japan, External Trade Organization, September 1992), p. 1; Japan, Ministry of International Trade and Industry, 1992c, table 60, pp. 166-167.

c *Nihon Keizai Shimbun*, 19 August 1992, p. 5. Data on inward FDI here are formulated on the notification basis (*ex post facto* reports since April 1991) reported by the Ministry of Finance. As the data exclude withdrawals and cancellations of FDI after reporting, they are normally larger than the data on inflows reported in the balance of payments.

d In the first half of 1992, the number of mergers and acquisitions of Japanese companies by overseas corporations more than doubled to 16 transactions, compared to the previous year. The number of acquisitions by United States companies rose to 10 from three in the same period last year, while those from Europe halved to two deals. The value of the transactions, however, fell 43 per cent to $105 million in the first half of 1992. See also Emiko Terazono, "Foreigners find Japanese companies attractive", *Financial Times*, 2 July 1992.

e "Japan's trade surpluses: the long-term solution", *The Economist*, 13 June 1992; and "Japan mulls tax incentives for foreign-based firms", *The Wall Street Journal*, 9 September 1991.

Figure II.2. Intra-Triad foreign direct investment, 1990
(Billions of dollars)



Source: UNCTAD, Programme on Transnational Corporations, foreign-direct-investment database.

Note: Dollar figures show estimated values of stock of FDI based on data on inward and outward investment from North America and the European Economic Area (EEA), excluding Iceland and Liechtenstein. Intra-North American investment and intra-EEA investment have been netted out. Percentages show average annual growth rates for stocks (1980-1990) and flows (1985-1991). North America includes Canada and the United States. The European Economic Area includes the European Community (EC) and the European Free Trade Association, excluding Iceland and Liechtenstein.

Although they fell in 1991, *outflows* from developing countries grew almost twice as fast as those from the developed countries during the period 1986-1990. Their share of world-wide investment outflows remains small, and comes largely from a few countries in the Asia-Pacific region.

The 1992 programme for the single EC market may have a bearing on FDI and trade in developing countries in the 1990s. For example, although it is primarily intended to remove internal non-tariff barriers, its effect may be to increase the competitiveness of European-based firms, and thus influence adversely less-efficient producers in developing countries. Moreover, many developing countries are anxious that the implementation of the programme may cause EC to become more protectionist. In addition, any EC tendency to tighten European sourcing policies and rules of origin could divert trade and investment to EC and away from developing countries. Similarly, EC technical, health and safety standards might serve to exclude some developing countries from exporting to the European market. More generally, the expectation that EC integration would promote faster economic growth could increase the attractiveness of EC to foreign investors, diverting FDI away from developing countries (TCMD, 1993a; UNCTC, 1990).

Some of those concerns are exaggerated or unfounded. The single market programme is unlikely to divert much trade and investment from developing countries, largely because they are determined by the availability of natural resources, large and rapidly growing domestic markets and lower production costs for exports. In particular, export-oriented FDI in developing countries is not likely to be affected, since few of those investments are intended to serve EC.[10] More importantly, the single market is geared more to improving the competitiveness of EC in world markets than to increasing protectionism from outside competition. Indeed, FDI inflows into developing countries since the mid-1980s, when the single market programme was announced, continued to rise.[11]

Table II.2. Inflows of foreign direct investment to developing economies, by region, 1981-1985, 1986-1990 and 1991

(Billions of dollars and percentage)

	Average (Billions of dollars)				*Share in total (Percentage)*				*Growth rate (Percentage)*			
Country/economy	*1981-1985*	*1986-1990*	*1991*	*1992[a]*	*1981-1985*	*1986-1990*	*1991*	*1992*	*1981-1985*	*1986-1990*	*1991*	*1992*
All countries	50	155	149	126	100	100	100	100	-1	22	-27	-15
Developing countries	14	26	39	40	26	17	26	32	-4	14	24	3
Africa	2	3	3	2	3	2	2	2	12	6	21	-33
East, South and South-East Asia	5	13	20	21	10	9	13	17	-3	21	8	5
Latin America and the Caribbean	6	9	15	16	12	6	10	13	-10	9	53	7
Oceania	0.1	0.2	0.1	0.5	0.3	0.1	0.1	0.4	-2	27	-57	400
West Asia	0.4	0.4	0.8	0.8	1	0.3	0.5	0.6	7	27	61	0
Other[b]	0.03	0.05	0.1	0.1	0.1	0.03	0.1	0.08	-10	103	35	0
Least developed countries	0.2	0.1	0.2	..	0.3	0.1	0.1	..	-0.4	1	12	..
Ten largest host developing economies	9[c]	17[d]	25[e]	26[e]	18[b]	11[c]	16[d]	21[e]	-9[b]	18[c]	44[d]	4

Source: UNCTAD, Programme on Transnational Corporations, based on UNCTAD, 1993c, 1993d; UNCTC 1992b; TCMD, 1993c; TCMD and ECE, 1992; International Monetary Fund, balance-of-payments tape, retrieved on 17 February 1993; and Organisation for Economic Co-operation and Development estimates.

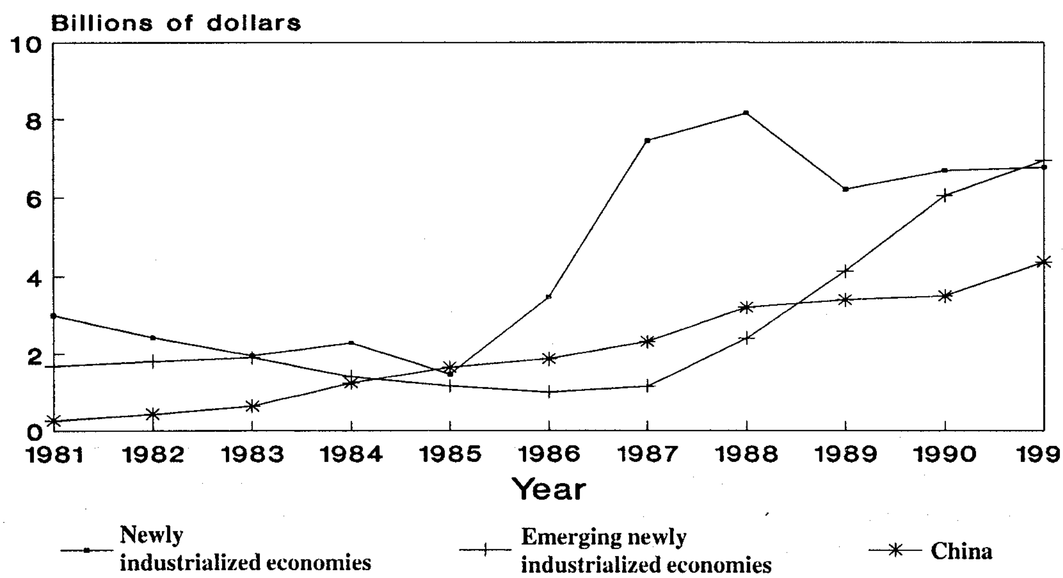
a Estimated.
b Malta and Yugoslavia.
c Argentina, Brazil, China, Colombia, Egypt, Hong Kong, Malaysia, Mexico, Nigeria and Singapore.
d Argentina, Brazil, China, Egypt, Hong Kong, Mexico, Nigeria, Singapore, Taiwan Province of China and Thailand.
e Argentina, Brazil, China, Indonesia, Malaysia, Mexico, Republic of Korea, Taiwan Province of China, Thailand and Venezuela.

This finding confirms recent studies, which concluded that, given all the factors that drive FDI in developing countries, the potential effects of the single market are relatively unimportant.[12] On the contrary, if the single market speeds up EC economic growth, it would increase the resources to finance outward FDI from Europe, and increase European demand for goods produced in developing countries. It would also mean that certain types of industry, involving less skill, capital and technology, would be transferred to developing countries from EC. The precise impact will have to depend on external trade policies of the EC which will greatly influence its economic relations with the developing world.

1. Asia and the Pacific

Investment *inflows* to Asia and the Pacific rose by 8 per cent in 1991, to reach $20 billion (table II.2). In 1992, inflows to the region reached at least $21 billion. They were attracted by strong economic growth, especially in the newly industrializing economies and Indonesia, Malaysia and Thailand. That group accounted for about three quarters of FDI inflows to the region in 1991. However, the two biggest countries in the region are now making their presence felt. India liberalized its FDI regime and obtained a notable increase in inflows, while China became the region's single largest recipient of FDI (figure II.3). Some countries, such as Malaysia and

Figure II.3. Foreign-direct-investment inflows to Asia, 1981-1991
(Billions of dollars)



Source: UNCTAD, Programme on Transnational Corporations, based on UNCTC, 1992b; and foreign-direct-investment database.

a Indonesia, Malaysia, Thailand.

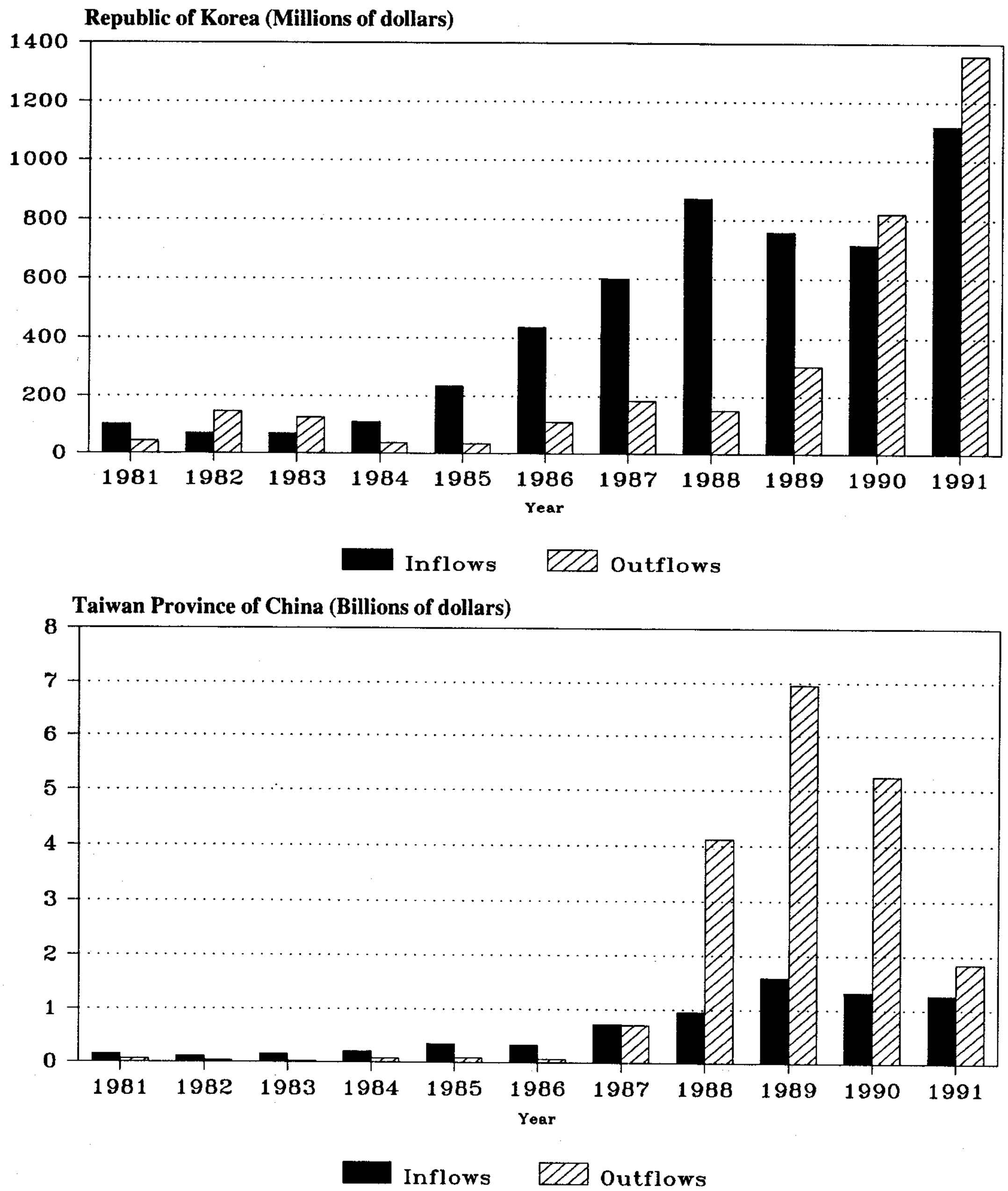
Thailand, have been seeking to raise the quality of FDI, so as to increase domestic linkages and promote technologically-advanced industries. And the natural-resource industries of some newly opening economies in Asia (Viet Nam and, to a lesser extent, Cambodia) have attracted investments from several TNCs from Japan and the newly industrializing economies.[13] Japan continues to be a major source of FDI in Asia and the Pacific, although its outflows there fell in 1991. Its investments in Asia remain very profitable, which is likely to ensure that growth will resume.[14] Faced with the rising cost of capital at home, however, Japanese TNCs may increasingly rely on local finance for their investments.[15]

Although the newly industrializing economies continue to be significant recipients of investment flows, their rising labour costs have led some TNCs to relocate to China and South Asia, where production costs are lower and the FDI climate is improving. For example, India's liberalization of its FDI regime has resulted in a significant increase in investments there; the value of foreign equity in joint ventures approved in the first seven months of 1992, at slightly over $1 billion, was almost three times greater than in the whole of 1991.[16] As for China, in 1991, it became the second largest recipient of inflows among *all* developing countries, exceeded only by Mexico. There are signs that this trend will continue: investment in China on a *contract* basis during the first half of 1992 was about $15 billion, compared to $12 billion in the whole of 1991.[17] The principal reasons for the increase in inflows to China are the same as those for many countries in the region as a whole: rapid economic growth, low costs, a large domestic market and rising per capita incomes.[18] However, some factors particular to China have also been at work: it has improved its relationship with some of its neighbours (Indonesia, Singapore and Taiwan Province of China), and its most- favoured-nation status with the United States has been renewed. All in all, it seems that the effect of the Tiananmen Square incident on corporate decisions on investing in China is diminishing.[19] For example, Motorola has revived plans for a manufacturing plant of semiconductors and communications equipment that would supply mostly the domestic market, a project that was suspended in 1989.[20]

The industrial composition of FDI inflows may also change as countries seek to upgrade the quality of their inward investment. Malaysia, for example, wants to broaden and deepen its industrial base; promote capital-intensive and technologically sophisticated industries; develop intermediate and capital-goods industries; and promote linkages between foreign and domestic companies. In order to achieve those objectives, it has revised its tax-incentive system to encourage FDI in higher value-added industries and services, and has included proposals to offer incentives to affiliates to increase linkages with domestic producers via local procurement, staff training and the transfer of technology.[21] In Thailand, a similar pattern is occurring: some industrial upgrading towards more technologically intensive investments is already being undertaken by foreign oil and gas companies and some computer firms.

Investment *outflows* from East, South and South-East Asia fell by a third in 1991. This reflected a decline of about 65 per cent in outflows from Taiwan Province of China between 1990 and 1991, with a further decline registered for 1992.[22] Even then, its outflows were more than 30 times their annual average during the first half of the 1980s. Together with the Republic of Korea, it remains a net exporter of FDI (figure II.4). The burst of outward investment during the period 1988-1990 by TNCs from Taiwan Province of China was mainly in response to rising production costs and labour shortages at home, and was concentrated largely in manufacturing plants in member states of ASEAN and China. In the future, investment outflows from Taiwan Province of China

Figure II.4. The Republic of Korea and Taiwan Province of China: foreign-direct-investment flows, 1981-1991
(Millions and billions of dollars)



Source: UNCTAD, Programme on Transnational Corporations, based on UNCTC, 1992b; and UNCTAD, Programme on Transnational Corporations, foreign-direct-investment database.

are likely to grow again, driven by the desire to acquire technology, establish marketing and distribution channels in developed countries, and take advantage of expanding consumer markets and lower production costs in developing countries.

Outflows from the Republic of Korea and Singapore continued to grow in 1991.[23] In addition, TNCs from some other Asian countries, such as Thailand (which only a few years ago had very little investment abroad), are shifting assembly and other labour-intensive operations to neighbouring countries with lower labour costs.[24] Therefore, in spite of the overall decline in investment outflows in 1991 and 1992, several Asian economies are building up a network of investment in manufactured goods within the region. This is particularly true of Malaysia, Singapore, Taiwan Province of China and Thailand (table II.3), while South Asia has yet to play a major intraregional role.

Table II.3. Selected host economies in Asia: Intra- and extraregional investment inflows, 1985-1987 and 1988-1990[a]
(Percentage share of total)

	Intraregional					
	Total		*Of which: Japan*		*Extraregional*	
Host economy	*1985-1987*	*1988-1990*	*1985-1987*	*1988-1990*	*1985-1987*	*1988-1990*
Bangladesh	10	11	6	4	90	89
China	77	72	12	12	23	28
India[b]	11	8	10	5	89	92
Indonesia	51	50	31	18	49	50
Republic of Korea	58	52	53	49	29	48
Malaysia	38	67	19	25	62	33
Pakistan	1	2	1	2	99	98
Philippines	21	23	14	14	79	77
Singapore[c]	10	47[d]	22	35[d]	90	53[d]
Taiwan Province of China	40	47	29	32	60	53
Thailand	55	77	38	45	45	23

Sources: UNCTAD, Programme on Transnational Corporations, based on UNCTC, 1992b; and UNCTAD, Programme on Transnational Corporations, foreign-direct-investment database.

a Intraregional investment inflows refers to investment from the entire Asia-Pacific region, including Japan. Extraregional invesstment inflows refers to investment from sources other than the Asia-Pacific region.
b Excludes FDI by non-resident Indians.
c Flows estimated as the difference in year-end values of foreign direct equity investments in two consecutive years.
d For 1988-1989.

2. Latin America and the Caribbean

In Latin America and the Caribbean region, FDI inflows have risen in every year since 1988 (UNCTAD, 1993c). The main reasons seem to have been a recovery in several economies as a result of fiscal discipline, the restructuring of the external debt with private sector creditors, and the continuing trend towards economic liberalization. Furthermore, specific measures such as debt-equity swaps and, recently, privatization helped to stimulate investment inflows by expanding the range of profitable investment opportunities in the region. Even though reforms have occurred throughout the region, inflows continue to be concentrated in a handful of countries: Argentina, Brazil, Chile, Mexico and, as of 1991, Venezuela (Aspe, Bianchi and Cavallo, 1992).

In 1992, the chief policy development affecting FDI in this region was the signing of the North American Free Trade Agreement (NAFTA) by Canada, Mexico and the United States. It is expected that NAFTA will take effect on 1 January 1994 and create the largest free trade zone on the American continent and the second largest in the world (after the European Economic Area). NAFTA is also remarkable because it involves both a developing country and developed countries; other integration efforts have joined only countries at a similar level of development. It will also most likely increase the volume of FDI flows, both within the integrating area and as regards flows from outside the area; in addition, the sectoral composition of FDI flows, especially into Mexico, is likely to change as new industries are opened to foreign competition.

The North American Free Trade Agreement introduces liberalization to several interrelated areas: trade barriers (tariffs and non-tariffs) for goods; technical barriers to trade; government procurement; investment, services and related matters (that is, competition policy and temporary entry of business persons); and intellectual property. It also contains special rules for some strategic industries (financial services, transportation, telecommunications) and pays attention to regulatory aspects, such as environmental protection, product standards and industrial policies. Key aspects of the investment regime include a considerable broadening of the definition of investment; the right of establishment and commercial presence on a non-discriminatory basis, and of temporary entry for executive staff; freedom from restrictions on monetary movements; abolition of the main types of performance requirements; national and most-favoured-nation treatment for FDI operations; and guarantees for the protection of FDI against non-commercial risks (notably expropriation and state contracts), including provisions for arbitration (see box II.2). The approach of NAFTA is to lay down generic rules, to which specific exceptions and reservations are appended in separate schedules. As with other instruments of economic integration, its commitments are legally binding.

The establishment of NAFTA reinforces moves to liberalize FDI policies in other parts of Latin America. This trend, evident since the late 1980s, has enabled TNCs to engage in new activities in the region, with the pattern varying from country to country. In Mexico, for example, much recent FDI has gone into restructuring the motor industry, although TNCs have also entered various service industries, such as tourism and telecommunications (Mortimore and Huss, 1991; Perez, 1990; UNCTC, 1992a; Unger, 1990; de Maria y Campo, 1992; Secretaria de Comercio y Fomento Industrial, UNCTAD and UNDP, 1991). Chile has had FDI across much of its economy: new exporters in natural resources (forestry, fish products, gold mining etc.), substantial expansion of traditional mining activities (copper), and liberalized services industries (finance, airlines, telecommunications etc.) (Behrens, 1992; Rozas, 1992; Ffrench-Davis, Leiva and Madrid, 1991). Recent increases in investment

Box II.2. The provisions on foreign direct investment of the North American Free Trade Agreement

The main objectives of the North American Free Trade Agreement (NAFTA) include increased investment opportunities and the promotion of fair competition within the North American region. The Agreement dedicates much of its provisions to the regulation of investment, services and related matters (part five). In fact, NAFTA introduces substantial changes to the approach taken on these issues in its predecessor agreement, the Free Trade Agreement between Canada and the United States, in a way that underlines the growing importance of FDI and services in the process of international economic integration (Gestrin and Rugman, 1993).

The investments covered under NAFTA include portfolio investments (e.g., equity and debt securities), certain loans, intangible property and property interests, and contracts where the remuneration depends substantially on the production, revenues or profits of an enterprise (chapter 11). Companies in a NAFTA country owned by non-party nationals are generally entitled to protections under the Agreement when investing in another NAFTA country. However, a party may deny the benefits of NAFTA to enterprises or investments of another party if they are owned or controlled by investors of a non-party and the enterprise has no substantial business in the territory of the party under whose laws it is constituted or organized.

National treatment is an important principle of NAFTA: it stipulates that each party shall grant investors and investments of another party treatment no less favourable than that it accords, in like circumstances, to its own investors. In addition, NAFTA prescribes most-favoured-nation treatment among the parties and in relation to third countries. The standard of treatment to be granted to investors and their investments under NAFTA is whichever is the better of those two. These standards are complemented by the "minimum standard" for FDI prescribed by international law, typically including fair and equitable treatment and full protection under the law. All three standards apply in principle to all aspects of investment operations (including the entry of the company and the establishment of foreign affiliates), and they cover measures imposed at the federal, state, provincial and local levels. On the other hand, where NAFTA permits investments to be denied admission, the decision cannot be reviewed by an arbitration panel. The general non-discrimination standards are subject to reservations included in some annexes to the Agreement (see below).

The Agreement also prohibits the imposition or enforcement of performance requirements on TNCs upon establishment and throughout the life of an investment. It lists the measures considered to be performance requirements (e.g., export and/or import requirements, local content, domestic purchasing, trade balancing, licensing of technology, exclusive sales, exchange control requirements), including some that do not appear in the Draft Final Act of the Uruguay Round (see TCMD 1992a). In addition, some performance requirements (e.g., local content, domestic purchasing, exchange and trade balancing) are not allowed as conditions for granting subsidies or other incentives. However, the agreement does allow the granting of incentives or advantages tied to the compliance with certain specific requirements, such as training or employment of workers, construction or expansion of facilities and research and development. Furthermore, countries of host Governments may lay down requirements for the organization of an investment according to their own laws and regulations, provided those do not impair the substance of the protection offered by the Agreement. Likewise, the parties are able to request from TNCs information on their investment for statistical and general information purposes.

The Agreement does not allow restrictions on the nationality of the senior management of NAFTA investments. However, the parties are entitled to require that a majority of the board of directors or any board committee be of a particular nationality or reside in the territory of the party, so long as this does not undermine the investors' capabilities to control their investments.

The Agreement provides that all transfers of payments shall be made freely and without delay. Transfers are defined broadly to include profits, dividends, interests, royalties and management fees, technical assistance, as well as the proceeds from the sale of all or any part of an investment, or from its partial or complete liquidation. Moreover, transfers are to be permitted in freely usable currencies at the market rate of exchange prevailing on the date of transfer. Such transfers may be prevented through the application, in good faith, of insolvency laws, securities regulations, the enforcement of judgements in adjudicatory proceedings and similar situations.

The Agreement also deals with expropriation, which is defined broadly to include any measures that are tantamount to nationalization or expropriation of an investment. The parties are permitted to expropriate or nationalize only for a public purpose, on a non-discriminatory basis, in accordance with due process of law and with payment of prompt, adequate and effective compensation. The standards for compensation are laid out in detail; in addition to prescribing the valuation criteria to be used, the Agreement provides that compensation is to be paid without delay, and the payment is to be fully realizable and freely transferable.

/.....

(Box II.2, cont'd.)

The North American Free Trade Agreement stipulates that all investment in the territories of its parties should be undertaken in a manner sensitive to environmental concerns. Thus, nothing in the Agreement is to be interpreted as preventing the parties from maintaining or enforcing any measure consistent with the Agreement that is considered appropriate in the area of environmental, health and safety laws.

The Agreement includes detailed provisions on the settlement of disputes between private investors and any of the NAFTA parties. An attempt should be made first to settle those disputes through consultation and negotiation; if those options fail, the Agreement establishes the conditions under which arbitration may proceed, in order to ensure equal treatment among investors in accordance with the principle of international reciprocity and due process before an impartial tribunal. The dispute-settlement procedures may be based on the Rules of the International Convention for the Settlement of Investment Disputes (ICSID) or its Additional Facility, or on the Arbitration Rules of the United Nations International Commission on Trade Law (UNCITRAL).

Other aspects of NAFTA closely related to investment issues are those dealing with cross-border trade in services (chapter 12). The provisions of NAFTA in this area apply to all aspects of services operations (e.g., the production, distribution, marketing, purchase, use, sale and delivery of services, and access to, and use of, distribution and transportation systems in connection with the provision of services) and to the presence in a party's territory of a service provider of another party. In all of these respects, each party is obliged to provide the better of national treatment and most-favoured-nation treatment. Moreover, under NAFTA, local establishment of services firms cannot be imposed as a condition for the cross-border provision of services. Those basic principles are developed in annexes dealing with specific industries—e.g., professional services and transportation. To ensure that licensing or certification requirements do not constitute unnecessary barriers to trade, the annex prescribes for professional services a set of criteria, emphasizing mutual recognition and transparency. In addition, some indivudual service industries are dealt with in separate chapters of the Agreement (i.e., telecommunications, in chapter 13, and financial services, in chapter 14).

Chapter 15 of NAFTA sets out disciplines on the operations of State-sanctioned monopolies and state enterprises in general. For those entities, all sales must be made on a non-discriminatory basis. In addition, there are limits on anti-competitive practices (such as cross-subsidiarization).

Another important aspect of NAFTA is the regulation of temporary entry of people pursuing business and investment opportunities. Under certain conditions, citizens of each party are allowed to enter the other countries on a temporary basis without the need to meet labour market requirements, for which the respective countries retain regulatory authority; so those provisions do not create a free movement of labour. The four categories of people eligible for temporary entry are visitors engaged in international business activities set out in appendix 1603.A.1 (including international transit and international services providers); traders and investors carrying out substantial operations between the relevant countries; intra-company transferees engaged in managerial, executive or specialized expert activities; and professionals listed in Appendix 1603.D.1 entering the country to provide professional services on a temporary basis. However, temporary entry for professionals does not entail the recognition of licences and certificates.

The North American Free Trade Agreement allows reservations to be lodged against some of the core obligations contained in its investment and various services chapters. These reservations are set out in seven annexes. Annex 1 lists existing measures that derogate from the obligations relating to national treatment, most-favoured-nation treatment, local presence and performance and nationality requirements. These are subject to stand-still obligations. Annex 2 relates to the same chapters and provisions, but includes a list of sectors in which the federal Governments of the parties are allowed to maintain existing measures, as well as to adopt new ones or make them more restrictive. Annex 3 contains a list of 11 sectors reserved for Mexicans by virtue of the country's constitution. Annex 4 deals with areas in which the Governments reserve the right to negotiate bilateral or multilateral agreements that run counter to the most-favoured-nation standard. (It should be noted also that bilateral double taxation treaties take precedence over NAFTA, so there is a possibility of discriminatory treatment for income and capital taxes.) Annex 5 deals with non-discriminatory quantitative restrictions for transparency (e.g., telecommunications, media, transportation). Annex 6 contains a list of non-discriminatory measures on the provision of services which the parties undertake to liberalize (e.g., performance requirements, licensing requirements). Annex 7 deals with reservations on financial services.

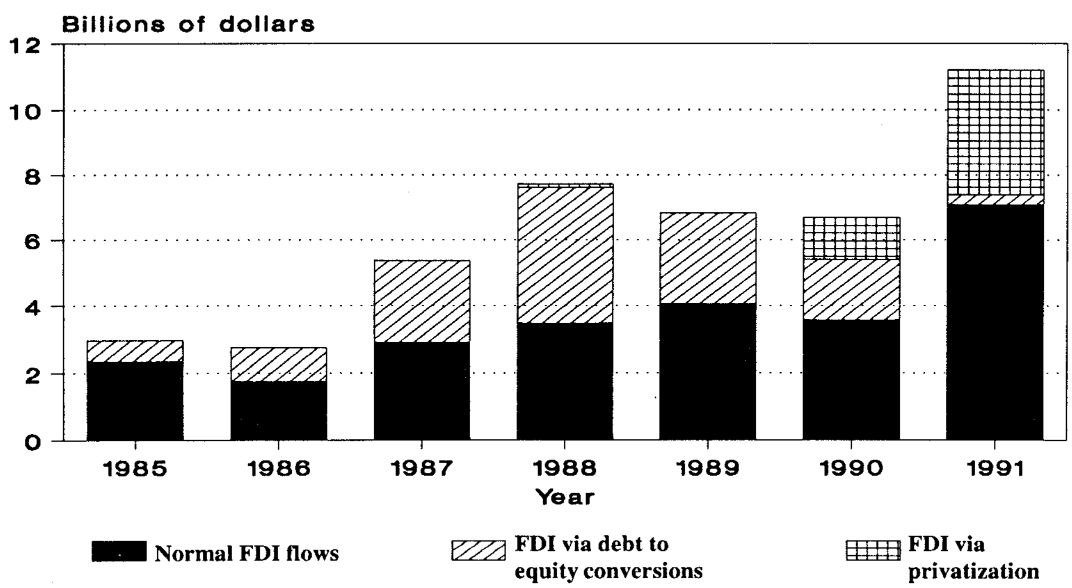
The North American Free Trade Agreement represents a major step forward in the liberalization of sectoral restrictions, and a significant strengthening of the international regime for the treatment of FDI. Its adoption is likely to give impetus to further integration and liberalization efforts throughout the world.

inflows to Argentina and Venezuela have also been concentrated in liberalized services (telecommunications, air transport) (Herrera, 1992). By contrast, Brazil's limited inflows in recent years have been geared towards modernizing the manufacturing operations of foreign affiliates already in the country (Bielschowsky, 1992; Fritsch and Franco, 1991).

Across the region, FDI regimes have continued to be liberalized by simplifying authorization and registration procedures, easing sectoral restrictions, relaxing limits on profit remittances, capital repatriation and technology payments and improving the protection of intellectual property. The larger countries have also done much to encourage FDI through their programmes of external debt conversion (Mortimore, 1991; TCMD, 1993d) and (more recently) of privatization (figure II.5). In Jamaica, for example, 90 per cent of the state-owned enterprises have been subject to privatization (the largest proportion in any developing country), of which almost one quarter involved foreign participation. That process may have accounted for as much as 40 per cent of FDI inflows into Jamaica (Odle, 1993). It is noteworthy that virtually all the region's privatizations of telecommunications and air transport involved foreign capital from Spain, particularly from the state-owned Telefónica de España and Iberia.

In spite of these developments, it is worth noting that Latin Amarica and the Caribbean have benefited very little from the growth of FDI from Japan and the Asian newly industrializing economies. As of fiscal year 1991, only 7 per cent of FDI by Japanese manufacturers, and less than 13 per cent total FDI by all Japanese TNCs had gone to Latin America. Furthermore, although sales by Japanese manufacturing affiliates operating in Latin

Figure II.5. Foreign-direct-investment inflows in Latin America, 1985-1991[a]
(Billions of dollars)



Source: UNCTAD, Programme on Transnational Corporations, based on UNCTAD, 1993c.

a Includes Argentina, Brazil, Chile, Mexico and Venezuela, which accounted for three quarters of total FDI in the region in 1991.

America rose from $2 billion to over $6 billion between 1982 and 1990, the region's share of their global sales fell from 8 per cent to just over 3 percent (Japan, MITI, 1986, 1992b). Recent Japanese investment in the region has been concentrated in a few special activities, such as the *maquiladora* and motor industries in Mexico, and some mining, forestry and fishing projects in Chile and Venezuela. While Japanese TNCs have traditionally been active in Brazilian manufacturing, they have recently tended to rationalize their operations or to withdraw slowly. Similarly, only modest amounts of FDI from the Asian newly industrializing economies have gone into the region. In the past few years, almost 100 Korean textile companies have invested about $100 million in Central America, to take advantage of its unused quotas for the United States market under the Caribbean Basin Initiative. Taiwanese investors have also set up shops in the industrial parks bordering the Canal in Panama.[25]

The region's future pattern of FDI will depend on several factors. One is how far Brazil, once the largest recipient of FDI in the region, manages to stabilize its economy. Another is the effect of NAFTA: Mexico has become more attractive as a low-cost sourcing base for United States TNCs and as a location for third-country investors seeking access to the North American market (United States, International Trade Commission, 1991; Erzan and Yeats, 1992). A third factor could be the growth of intra-regional investments, which are already a force in some Asia-Pacific countries, but are still negligible in Latin America and the Caribbean. This contrast shows up in the level of FDI *outflows* from the region which, during the period 1981-1991, totalled only $4.1 billion, some 13 per cent of the outflows from the Asia-Pacific region.[26]

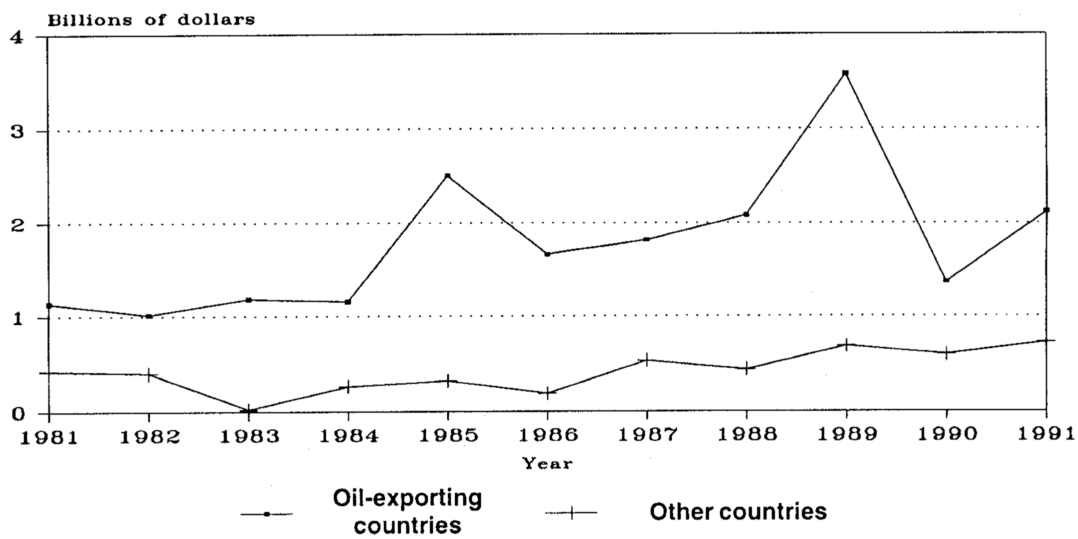
3. Africa

Investment *inflows* to Africa rose to $2.5 billion in 1991, an increase of 21 per cent from 1990 (figure II.6) (UNCTAD, 1993d). The 1991 total, however, was still below the annual average for the period 1985-1990, which was about $2.7 billion. The bulk of FDI has been in oil-exporting countries, although the share of non-oil producing countries has risen from 20 per cent during the period 1986-1988 to 28 per cent during the period 1989-1991 (figure II.6). That change reflects primarily a sharp rise in inflows to Morocco, where economic growth has been robust, FDI legislation has been liberal and the country has enjoyed duty-free access to the European Community for manufacturing goods produced with a minimum of 40 per cent local content.[27]

Africa's main attraction for foreign investors is still its natural resources. In Angola, for example, investment flows in 1991 exceeded $660 million (more than it had received in total during the period 1985-1990), with the bulk going into petroleum exploration and mining.[28] Africa has considerable potential for oil exploration, and several countries now offer more favourable terms to oil companies than in the past.[29] Some countries have also encouraged FDI in services: Mauritius, for example, has sought foreign investors in banking and finance in recent years, with a view to becoming an offshore banking centre. Given slow economic growth and the small size of the domestic markets in most of sub-Saharan Africa, FDI in manufacturing remains limited. This is despite a liberalization of the regulatory framework, and the establishment of "one-stop" investment centres in several countries.

Investment *outflows* from Africa are negligible. However, increased investment outflows from South Africa in 1992 could bring benefits to the southern African region[30] in a fashion similar to that of Japanese investments

Figure II.6. Foreign-direct-investment inflows to Africa, 1981-1991
(Billions of dollars)



Source: UNCTAD, Programme on Transnational Corporations, based on UNCTAD, 1993d.

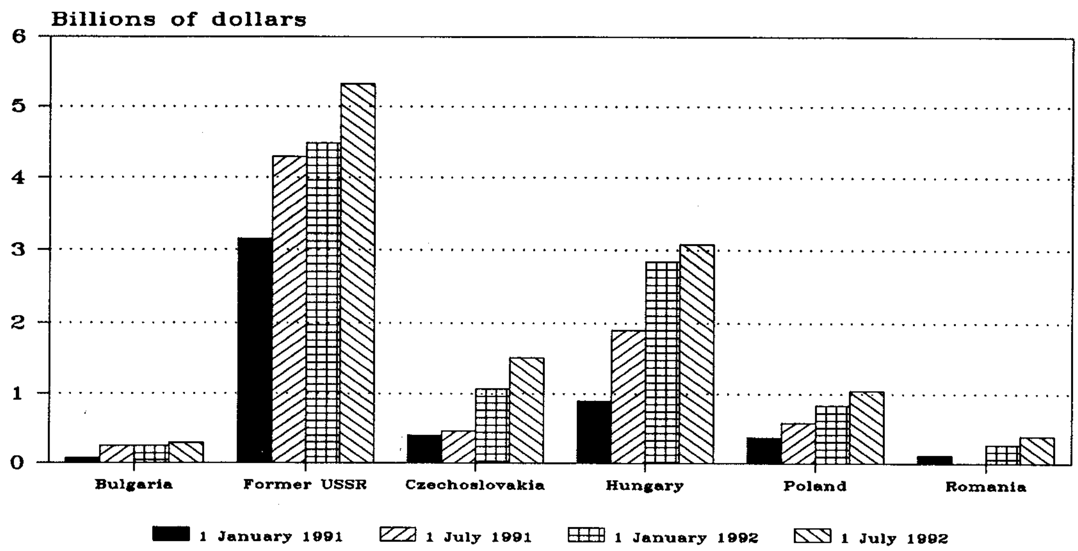
in Asia (Vascianne, 1992). However, there are significant differences between the two. For example, the inherent attractions of most southern African countries are their natural resources and cheap labour—and South Africa, unlike Japan, has plenty of both. Economic relations between South Africa and its neighbours have also been cramped by the long years of apartheid, but are almost certain to grow once political relations are fully normalized.

C. Central and Eastern Europe

The number of foreign investment registrations and the amount of foreign capital committed to Central and Eastern Europe continued to grow in 1991 and the first half of 1992 (figure II.7), with Western Europe remaining the main source of investment (TCMD and ECE, 1992). As a result, the region's share of world-wide FDI has risen. The pace of FDI seems to be slowing down, however, and its distribution across the region remains very uneven. Every country in Central and Eastern Europe puts great emphasis on the role of FDI in the transition from central planning to a market economy; since actual inflows of FDI have been small, however, those expectations may be unreasonably high. Apart from some well-publicized cases of investments by large TNCs,[31] most investment projects in the region range from $45,000 to $1.5 million.

During the first half of 1992, the number of FDI registrations in the countries of Central and Eastern Europe (excluding the former Yugoslavia) increased by 50 per cent, reaching some 46,000 foreign affiliates with an estimated $11.7 billion of capital committed (table II.4). According to data from OECD, by the end of 1992 the

Figure II.7. Cumulative foreign direct investment in Central and Eastern Europe, 1991 and 1992
(Billions of dollars)



Source: UNCTAD, Programme on Transnational Corporations, based on TCMD and ECE, 1992.

Table II.4. Cumulative number of foreign investment registrations in Central and Eastern Europe, by host country, 1 January and 1 July 1992

Host country	*1 January 1992*	*1 July 1992*
Albania	55[a]	70[b]
Bulgaria	900	1 080
Czechoslovakia	4 000	4 800
Hungary	9 117	11 196
Poland	4 796	7 648
Romania	8 022	13 432
Former Union of Soviet Socialist Republic	4 208	7 792
of which: Commonwealth of Independent States[c]	2 593	4 632
Total	31 098	46 018

Sources: UNCTAD, Programme on Transnational Corporations, based on TCMD and ECE, 1992; and Alter, 1993.

a As of 1 April 1992.
b As of 1 October 1992.
c Excludes Estonia, Latvia, Lithuania and Georgia.

number had risen to 60,000, with a total capital commitment of $14 billion (Alter, 1993). Western European investors provided the largest share of FDI in the region, particularly in Hungary, Romania, Poland and the former USSR. Within the latter, investment continues to be concentrated in the Russian Federation, but figures for Estonia, Latvia and Lithuania are also increasing (World Bank Group, 1992a). This is partly because the Russian Federation (and, to a much lesser extent, Ukraine) has become a significant investor in the Baltic States and the other republics of the former USSR, usually through joint-venture agreements that preserve old supplier and customer links (TCMD and ECE, 1992, p. 20).[32] In the former USSR, it was predominantly enterprises from Russia that had (limited) investments abroad (TCMD, 1992b). They are still investing abroad, especially in Western Europe, and their investments would appear to be increasing.[33]

Within the region, the pattern of FDI inflows still strongly favours a few countries. The Czech and Slovak Republic, Hungary and Poland have made progress with economic reform; they are close to the EC, with which they have concluded association agreements.[34] All of those factors have helped them to attract FDI. Within the former USSR, the Asian republics lag behind the European republics in attracting FDI. Putting all the figures together, Hungary and the republics of the former USSR have accounted for 72 per cent of the foreign capital commitments to the economies of Central and Eastern Europe (excluding the former Yugoslavia) and 41 per cent of the number of registered foreign affiliates.

For the region as a whole, it is instructive to note that, although the number of registrations of foreign affiliates has increased rapidly, the value of capital commitments has grown much more slowly. This may be because some foreign investors hold back in the face of continuing political and economic instability, or because the registered foreign investment projects serve merely as devices to benefit from favourable tax treatment granted to foreign affiliates (World Bank Group, 1992a). By 1991, the ratio of operational to registered joint ventures was estimated to be 41 per cent for Hungary and 35 per cent for the former USSR (Marton, 1993; World Bank Group, 1992a). In 1992, however, the ratio increased to 40 per cent in the former USSR, so the number of projects actually realized may be starting to pick up (World Bank Group, 1992a).

Despite the small amount of FDI thus far, it is beginning to contribute to structural changes. The performance of joint ventures between foreign and domestic firms has been particularly remarkable: their record of sales, profits and foreign-currency earnings per employee has been well above that of domestically-owned enterprises.[35] The sectoral distribution of FDI in the region illustrates the role of TNCs in triggering structural changes. Manufacturing is the single largest type of FDI in most countries. Investment in high-technology industries involving computer and computer-related technologies and telecommunications, where some local expertise exists, has been particularly important (TCMD and ECE, 1992). Although the primary sector has attracted relatively little foreign investment thus far, several TNCs are interested in the potential for petroleum exploration and exploitation in the former USSR, which is expected to be a major source of foreign-currency earnings for the new republics.[36] As for services, they were traditionally neglected in centrally planned economies, but are now considered to be central to the success of the transition process. They are attracting a lot of interest from TNCs, particularly in Hungary (TCMD and ECE, 1992).

The contribution of TNCs to economic reform is also apparent from the way they are clustered in export industries. This is helping to integrate the region into the world economy and to increase foreign exchange earnings. In Hungary, for example, foreign affiliates account for more than 16 per cent of non-rouble exports

(Marton, 1993). It is through TNCs that host countries obtain speedy access to marketing and distribution facilities, particularly in Western Europe; and it is through the perception of closer association with the European Community (including possible membership) that more TNCs are then encouraged to invest in the region.[37] Only through such a virtuous circle will FDI play its part in providing the amount of foreign finance that the region requires.[38]

Notes

1 Takeover activities in the United States amounted to $116.7 billion in 1991, representing a decline from $169.4 billion in 1990 and the $263.8 billion record in 1988. See Martin Dickson, "Mergers and acquisitions: steady stream of smaller deals", *Financial Times*, 11 June 1992.

2 The value of foreign takeovers by the largest 50 French firms declined by 24 per cent to 80 billion French francs by 1991, putting an end to four years of straight growth. See William Dawkins, "Exports revival", *Financial Times*, 22 June 1992.

3 "Japanese capital flows: inward bound", *The Economist*, 8 February 1992; "Japan's direct investment slows", *The Wall Street Journal*, 8 June 1992.

4 The United States affiliates of Japanese companies are cautious about re-investment in plant and equipment and long-term plans, because of low profitability. Sixty-three per cent of 264 Japanese affiliates in the United States cited earnings as their biggest concern; and half plan no change in future capital spending, while 19 per cent plan cuts. See James Sterngold, "Japanese shifting their investments back toward home", *The New York Times*, 22 March 1992, and "Japanese wary on U.S. operations", *The Wall Street Journal*, 9 June 1992.

5 See Lionel Barber, "Big stake in EC's future", *Financial Times Survey: Japan and The European Community*, 13 November 1992; Michiyo Nakamoto, "Investment in manufacturing: time for rigorous assessment", *Financial Times Survey*, op. cit.; Daniel Green, "Fears over long-term impact", *Financial Times Survey*, op. cit.

6 Some examples of new alliances established are those between Renault, a state-owned automobile company, and Volvo, the Swedish car maker; the stakes taken in Bull, the state-owned French computer group, by Nippon Electric Corporation of Japan and International Business Machine (IBM) of the United States; and the share swap being negotiated between Banque Nationale de Paris and Dresdner Bank of Germany. See William Dawkins, "Revising the borders", *Financial Times*, 22 June 1992.

7 See Robert Graham, "The Italian auction begins", *Financial Times*, 20 July 1992; Heig Simonian, "Privatization encounters barriers", *Financial Times*, 7 July 1992; Tim Carrington, "Italy braces for privatization measures", *The Wall Street Journal*, 12 June 1992.

8 The slow pace in which the privatization programme has been implemented in Greece has resulted in limited investments by foreign entities. The exception was Heracles General Cement, Europe's biggest cement exporter, sold for 124 billion drachmas to a joint venture between Calcestruzzi (52.5 per cent), the construction arm of Italy's Feruzzi group, and the National Bank of Greece. In addition, although the Government of Portugal has pursued an ambitious programme of economic liberalization and privatization (with the dismantling of state monopolies and the liberalization of financial markets), the state continues to play a dominant role in the economy. Foreign control of privatized companies is not generally authorized, while foreign participation cannot exceed 40 per cent of the voting capital. Hence, in all but two privatizations, foreign participation has been limited to between 2 and 35 per cent. See Kerin Hope, "Privatization: quickening pace of sales", *Financial Times*, 15 June 1992, and Andrew Jack, "Privatization: the state prevails", *Financial Times*, 4 March 1992.

9 The number of Swedes employed by foreign companies has tripled. An estimated 135 Swedish companies employing 40,000 workers were acquired by foreign concerns since the late 1980s. See Robert Taylor, "Sweden to launch strategy to attract foreign investors", *Financial Times*, 18 February 1992.

10 Of 18 FDI cases by companies engaged in the production of automobiles, engineering products, chemicals and pharmaceuticals, only three cases were concerned with exporting from the domestic market, and in only one was the investment motivated by exports to the EC (and Latin America). For 17 of the 18 cases, the main objective of FDI was import-substituting, made in response to the imposition of high tariffs and import quotas (Buckley and Artisien, 1987).

11 Even export-oriented FDI in developing countries that could have been negatively affected by the single EC market, owing to possible investment diversion to the southern members of the EC (Greece, Portugal and Spain), did not suffer because of the rising costs of labour and stricter pollution standards in the latter (Agarwal, 1992).

12 However, although the overall effect of the single market is very small, its specific effect on some developing countries like Cyprus, Malta, Mauritius and Tunisia may be substantial (TCMD, 1993a and Cable, 1988).

13 "Japanese prepare for the Vietnam gold rush", *The Wall Street Journal*, 21 February 1992. As of 31 August 1992, Taiwan Province of China was the largest foreign investor in Viet Nam. See Alexander Nicoll, "Vietnam looks for gains from US election", *Financial Times*, 3 November 1992, and Victor Mallet, "Cambodians rush headlong to market", *Financial Times*, 28 November 1991.

14 "Japanese investment in Asia: the second wave", *The Economist*, 7 November 1992, pp. 87-88.

15 These would not be reflected in FDI data compiled for the balance of payments.

16 Consulate General of India, unpublished data. See also "Foreign investment: more, but still not enough", *Financial Times*, 26 June 1992.

17 Foreign direct investment on a contract basis differs from investment actually made. In 1991, for example, FDI totalling $4.4 billion was actually made from the $12 billion contracted.

18 James McGregor, "Foreign firms in China are preparing for expected consumer spending surge", *The Asian Wall Street Journal Weekly*, 23 March 1992; Robert Thomson, "Honda announced first motorcycle venture in China", *Financial Times*, 27 May 1992.

19 It should also be noted that investment inflows did not decline in the aftermath of the Tiananmen Square incident in 1989, which might suggest that these investments would have increased sooner, were it not for the incident.

20 Michiyo Nakamoto, "Motorola builds semiconductor plant in China", *Financial Times*, 19 May 1992.

21 "Bank Negara signals shift in foreign investment focus", *East Asian Executive Reports*, May 1992, pp. 13-14; Jon Liden, "Foreign investment: a more selective approach", *Euromoney* (Malaysia supplement), August 1992, pp. 51-53, 56-57.

22 Outflows of FDI from Taiwan Province of China to China and Viet Nam, however, continued to grow in 1992 despite the overall decline in their total outflows in 1992.

23 Urban C. Lehner, "With Japan's backing, Indonesia gains a larger role in regional economy", *The Wall Street Journal*, 10 January 1992.

24 "Thai group invests $1 billion in China", *Financial Times*, 7/8 November 1992. Thai firms have also begun to invest in Laos and other neighbouring countries.

25 See "Asian tigers leap into Central America", *Business Latin America*, 16 December 1991, pp. 401-402; and "Bienvenidos, invasores", *America Economia*, No. 65 (September 1992), p. 77.

26 Data do not include outflows from Mexico which are not available.

27 Claude Clement, "U.S. and Morocco expand commercial ties: Morocco gives priority to tourism development", *Business America*, 112 (4 November 1991), pp. 2-8; and "Morocco's investment rules", *Middle East Executive Reports*, 113 (November 1990), pp. 16-21.

28 Caroline Southey, "The oil industry: key to Angola's survival since independence", *Financial Times*, 12 May 1992; Griffin (1991); "Industry poised to boost production on Angola/Cabinda acreage", *Oil and Gas Journal*, 90 (10 February 1992), pp. 36-37. A record level of petroleum exploration activity in Angola was recorded in 1991. Several transnational petroleum corporations (e.g., Chevron, Elf, Texaco, Petrofina and Agip) have been active in this country.

29 Martin Quinlan, "Energy finance: Africa woos the energy giants", *Euromoney*, Energy Finance Supplement (June-July 1990), pp. 63-64.

30 Philip Gawith, "South Africa investment up—but so are the outflows", *Financial Times*, 26 November 1992; and Patti Waldmeir, "Pretoria acts on exchange control curbs", *Financial Times*, 1 December 1992. Some of the South African TNCs that have recently invested abroad include Sappi, Mondi and First National Bank. There is also a proposed takeover of Del Monte Foods International by the Royal Group and Anglo American.

31 For example, in terms of capital committed, Volkswagen AG is investing $6.6 billion in the Czech and Slovak Federal Republic, Fiat is investing $2 billion in Poland, Chevron is investing $1.5 billion in Kazakhstan, General Motors is investing $289 million in Hungary and Pilkington is investing $140 million in Poland. See TCMD and ECE (1992) as well as Steve Levine, "Kazakhs move slowly to negotiate deals that will unlock their riches", *Financial Times*, 8 April 1993.

32 According to the national statistics of Latvia and Lithuania, the Russian Federation's share of registered foreign affiliates was 32 per cent in both countries. The share of registered foreign affiliates of corporations headquartered in Ukraine was 4 per cent in Lithuania and 3 per cent in Latvia.

33 For example, a Moscow-based firm recently purchased part of the German company, United Cellulose Works of Pirna (Saxony). See German Information Center, "First Russian firm buys Eastern German company", *The Week in Germany*, 16 October 1992, p. 5.

34 The flow of FDI to the Czech and Slovak Federal Republic will probably be affected by the break-up of the country. According to the Czech Republic Industry Minister, approximately 20 per cent of foreign firms had canceled ongoing negotiations with Czech firms and about 40 per cent had put talks on hold because of the political uncertainties (see Bureau of National Affairs, *Eastern Europe Reporter*, 2 (20 July 1992), p. 592. The agreement on the dissolution of the Czech and Slovak Federal Republic concluded on 20 July 1992 stipulates, however, that the two states will maintain close cooperation in foreign policy, defense and trade, including the creation of a free-trade zone ensuring the free flow of labour and capital. For the time being, Slovakia has received less than 20 per cent of total FDI in the Czech and Slovak Federal Republic (see Bureau of National Affairs, *Eastern Europe Reporter*, 2 (3 August 1992), p. 650).

35 See Nicolas Denton, "A kiss of life from across the border", *Financial Times*, 4 December 1992.

36 See Leyla Boulton, "The lure of oil's final frontier", *Financial Times*, 6 March 1992.

37 For example, the global rivalry between Coca-Cola and Pepsi Cola and between Ford and General Motors seems to have been carried over into the Hungarian market. See Bureau of National Affairs, *Eastern Europe Reporter, Special Report: Hungary*, 2 (20 July 1992), pp. 613-616.

38 The capital needed for privatizations in Latin America, South-East Asia and Central and Eastern Europe has recently been estimated at $500 billion. A similar amount is required for the former Soviet Union. See William B. Rhodes, Vice Chairperson of Citibank, in *The Economist*, 12 September 1992, p. 21.