JETRO WHITE PAPER ON FOREIGN DIRECT INVESTMENT 2000

FDI INFLOWS TO JAPAN DOUBLE

(Summary)

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JAPAN EXTERNAL TRADE ORGANIZATION

CONTENTS

PART 1. TRENDS IN GLOBAL FOREIGN DIRECT INVESTMENT (FDI)

1. Industrialized countries drive FDI growth in 1998

Total world outflows of foreign direct investment (FDI) measured on a balance of payments basis came to US$648.9 billion in 1998, a year-on-year increase of 36.6%, while global FDI inflows rose 38.7% to US$643.9 billion, according to estimates from the United Nations Conference on Trade and Development (UNCTAD). FDI thus continued to surge upward at the close of the nineties, breaking through the US$400 billion mark for the first time in 1997 and jumping past US$600 billion in 1998 (Tables 1, 2). The main reason behind the big increase in 1998 was the size of investment flows to and from industrialized countries, particularly the United States and European Union nations.

(1) The industrialized countries registered year-on-year growth rates of over 20% in both investment inflows and outflows in 1997, and the upward trend accelerated in 1998 as FDI outflows climbed 46.2% to US$594.7 billion and FDI inflows rose 68.5% to US$460.4 billion. Already accounting for the greater part of global FDI, the industrialized countries' share of investment outflows rose from 85.6% in the previous year to 91.6%, and their share of investment inflows, which had hovered around 60% since 1993, grew to 71.5%.

(2) A breakdown of FDI outflows by country in 1998 reveals the U.S. to be the world's biggest investor for the eighth year running, its investment having increased 20.8% on the previous year's record of US$110 billion to US$132.8 billion. The other major investors were the United Kingdom (up 68.1% to US$106.7 billion), Germany (up 112.8% to US$87.7 billion), France (up 15.0% to US$40.8 billion), and the Netherlands (up 37.6% to US$39.8 billion) (Table 3).

(3) As in the case of FDI inflows, the U.S. registered strong growth of 77.0% on the previous year to US$193.4 billion, making it the largest recipient of FDI for the sixth consecutive year. It was followed by the U.K. (up 82.4% to US$67.5 billion), China (down 1.1% to US$43.8 billion), the Netherlands (up 163.1% to US$33.3 billion), and Brazil (up 62.4% to US$31.9 billion) (Table 4). With the exception of China and Brazil, the top five recipients and sources of FDI were industrialized countries, as in the previous year.

(4) FDI between the U.S. and EU jumped sharply, more than doubling from US$109.6 billion in 1997 to US$224.5 billion in 1998 and accounting for 34.6% of global FDI. EU investment in the U.S. has exceeded U.S. investment in the EU every year since 1996, and the large number and scale of mergers and acquisitions (M&As) in the U.S. by EU firms caused this trend to grow more pronounced in 1998, when EU investment in the U.S. exceeded U.S. investment in the EU by a factor of 2.4 (Table 5).

(5) The expansion in global FDI, driven by investment between the U.S. and EU, continued in 1999. FDI outflows in the first half of the year were high among all the top investors—the U.S. (US$81.2 billion), U.K. (US$149.0 billion), Germany (US$50.1 billion), and France (US$31.7 billion)—and outflows from the U.K. in the first six months alone exceeded those in all of 1998. Total investment by these four countries came to US$312.0 billion, almost twice the US$159.0 billion for the same period of the previous year. The rapid growth in FDI, powered by the spread of cross-border M&As between the U.S. and EU, looks set to continue.

Table 1. FDI outflow from major economies (BOP basis)

(Units: US$ million, %)

	1993	1994	1995	1996		1997		1998		
					% change		% change		% change	Contribution
U.S.	84,413	80,697	99,481	92,692	– 6.8	109,954	18.6	132,829	20.8	4.8
Canada	5,711	9,303	11,490	12,890	12.2	22,057	71.1	26,411	19.7	0.9
EU15	95,410	121,054	160,364	184,280	14.9	223,961	21.5	382,136	70.6	33.3
U.K.	26,811	34,149	44,464	35,157	– 20.9	63,499	80.6	106,734	68.1	9.1
Germany	15,263	17,258	39,100	50,773	29.9	41,211	– 18.8	87,693	112.8	9.8
France	20,605	24,438	15,824	30,362	91.9	35,484	16.9	40,796	15.0	1.1
Netherlands	12,062	17,676	20,129	31,518	56.6	28,943	– 8.2	39,812	37.6	2.3
Belgium and Luxembourg	4,904	1,371	11,603	8,026	– 30.8	7,713	– 3.9	23,272	201.7	3.3
Sweden	1,471	6,685	11,399	5,112	– 55.2	12,119	137.1	22,671	87.1	2.2
Finland	1,401	4,354	1,494	3,583	139.8	5,260	46.8	19,392	268.7	3.0
Spain	2,652	3,831	3,650	5,208	42.7	10,042	92.8	18,509	84.3	1.8
Switzerland	8,764	10,793	12,210	16,152	32.3	18,005	11.5	14,226	– 21.0	– 0.8
Australia	2,499	2,472	3,842	5,851	52.3	6,220	6.3	2,464	– 60.4	– 0.8
Japan	13,834	18,089	22,508	23,442	4.2	26,059	11.2	24,625	– 5.5	– 0.3
Asian NIEs	6,103	9,678	12,816	14,788	15.4	14,414	– 2.5	11,743	– 18.5	– 0.6
R.O.K.	1,340	2,461	3,552	4,671	31.5	4,449	– 4.7	4,799	7.9	0.1
Taiwan	2,611	2,640	2,983	3,843	28.8	5,243	36.4	3,836	– 26.8	– 0.3
Singapore	2,152	4,577	6,281	6,274	– 0.1	4,722	– 24.7	3,108	– 34.2	– 0.3
Thailand	233	493	886	931	5.2	390	– 58.1	130	– 66.6	– 0.1
China	4,400	2,000	2,000	2,114	5.7	2,563	21.2	2,634	2.8	0.0
Latin America	7,575	6,255	7,510	7,202	– 4.1	15,598	116.6	15,455	– 0.9	– 0.0
Mexico	– 110	1,058	– 263	38	—	1,108	2,815.8	1,363	23.0	0.1
Brazil	491	1,037	1,384	– 467	—	1,042	—	2,721	161.1	0.4
World	247,425	284,915	358,573	379,872	5.9	475,125	25.1	648,920	36.6	36.6
Industrialized countries	207,378	242,029	306,025	319,820	4.5	406,668	27.2	594,699	46.2	39.6
Developing countries	39,756	42,600	52,089	58,947	13.2	65,031	10.3	52,318	– 19.5	– 2.7

Notes:
1. Totals for world, industrialized countries, developing countries and Latin America are UNCTAD estimates.
2. Figures for Taiwan based on local statistics. Figures for Mexico from *World Investment Report (WIR),* UNCTAD. Other figures for individual countries from *International Financial Statistics (IFS),* IMF.
3. Totals for EU and Asian NIEs prepared by JETRO from *IFS*, *WIR* and local statistics.
4. Asian NIEs exclude Hong Kong SAR.
5. Percentage change indicates change on previous year.
6. R.O.K. stands for Republic of Korea.

Sources: Prepared by JETRO from *IFS* (November 1999), *WIR* 1999 (UNCTAD) and local statistics.

Table 2. FDI inflow to major economies (BOP basis)

(Units: US$ million, %)

	1993	1994	1995	1996		1997		1998		
					% change		% change		% change	Contribution
U.S.	52,553	47,438	59,644	88,978	49.2	109,263	22.8	193,373	77.0	18.1
Canada	4,749	8,224	9,319	9,408	1.0	11,466	21.9	16,515	44.0	1.1
EU15	80,484	72,200	115,058	108,800	– 5.4	128,575	18.2	230,608	79.4	22.0
U.K.	15,586	9,208	20,318	25,783	26.9	37,004	43.5	67,481	82.4	6.6
Netherlands	8,513	7,209	12,082	14,564	20.5	12,675	– 13.0	33,346	163.1	4.5
France	20,754	15,799	23,733	21,972	– 7.4	23,045	4.9	27,998	21.5	1.1
Belgium and Luxembourg	10,750	8,514	10,689	14,064	31.6	12,352	– 12.2	20,824	68.6	1.8
Sweden	3,705	6,269	14,939	5,492	– 63.2	10,271	87.0	19,413	89.0	2.0
Germany	1,946	1,936	11,986	5,506	– 54.1	10,167	84.7	18,712	84.0	1.8
Spain	8,144	9,359	6,201	6,454	4.1	5,556	– 13.9	11,392	105.0	1.3
Finland	864	1,496	1,044	1,118	7.1	2,128	90.3	10,793	407.1	1.9
Switzerland	899	4,104	3,599	4,373	21.5	5,693	30.2	5,488	– 3.6	– 0.0
Australia	4,032	4,579	12,801	5,227	– 59.2	7,513	43.7	6,255	– 16.7	– 0.3
Japan	119	912	39	200	409.6	3,200	1,496.7	3,268	2.1	0.0
East Asia	43,759	53,931	58,461	67,447	15.4	73,789	9.4	68,632	– 7.0	– 1.1
Asian NIEs	6,192	10,735	10,541	12,141	15.2	14,802	21.9	12,856	– 13.1	– 0.4
R.O.K.	589	810	1,776	2,326	31.0	2,844	22.3	5,416	90.4	0.6
Taiwan	917	1,375	1,559	1,932	23.9	2,248	16.4	222	– 90.1	– 0.4
Singapore	4,686	8,550	7,206	7,883	9.4	9,710	23.2	7,218	– 25.7	– 0.5
ASEAN4	10,052	9,408	12,070	15,125	25.3	14,751	– 2.5	12,025	– 18.5	– 0.6
Thailand	1,804	1,366	2,068	2,336	13.0	3,746	60.4	6,941	85.3	0.7
Malaysia	5,006	4,342	4,178	5,078	21.5	5,106	0.5	3,727	– 27.0	– 0.3
Philippines	1,238	1,591	1,478	1,517	2.6	1,222	– 19.4	1,713	40.2	0.1
Indonesia	2,004	2,109	4,346	6,194	42.5	4,677	– 24.5	– 356	—	– 1.1
China	27,515	33,787	35,849	40,180	12.1	44,236	10.1	43,751	– 1.1	– 0.1
Latin America	20,009	31,451	32,921	46,162	40.2	68,255	47.9	71,652	5.0	0.7
Mexico	4,389	10,973	9,526	9,186	– 3.6	12,831	39.7	10,238	– 20.2	– 0.6
Brazil	1,292	3,072	4,859	11,200	130.5	19,650	75.4	31,913	62.4	2.6
World	219,421	253,506	328,862	358,869	9.1	464,340	29.4	643,887	38.7	38.7
Industrialized countries	133,850	146,379	208,372	211,120	1.3	273,276	29.4	460,431	68.5	40.3
Developing countries	78,813	101,196	106,224	135,343	27.4	172,532	27.5	165,944	– 3.8	– 1.4

Notes and sources: Same as Table 1, except that all figures for Mexico are from *IFS* (IMF), and 1998 figure for Malaysia is from *WIR* (UNCTAD).

Table 3. Top five sources of FDI

(Units: US$ billion, %)

	1994		1995		1996		1997		1998		% change
1st	U.S.	80.7	U.S.	99.5	U.S.	92.7	U.S.	110.0	U.S.	132.8	20.8
2nd	U.K.	34.1	U.K.	44.5	Germany	50.8	U.K.	63.5	U.K.	106.7	68.1
3rd	France	24.4	Germany	39.1	U.K.	35.2	Germany	41.2	Germany	87.7	112.8
4th	Japan	18.1	Japan	22.5	Netherlands	31.5	France	35.5	France	40.8	15.0
5th	Netherlands	17.7	Netherlands	20.1	France	30.4	Netherlands	28.9	Netherlands	39.8	37.6

Notes:
1. BOP basis (flow).
2. Percentage change indicates change on previous year.
3. Japan was 6th in 1996 (US$23.4 billion), 6th in 1997 (US$26.1 billion) and 7th in 1998 (US$24.6 billion).

Source: Prepared by JETRO from *IFS* (IMF).

Table 4. Top five recipients of FDI

(Units: US$ billion, %)

	1994		1995		1996		1997		1998		% change
1st	U.S.	47.4	U.S.	59.6	U.S.	89.0	U.S.	109.3	U.S.	193.4	77.0
2nd	China	33.8	China	35.8	China	40.2	China	44.2	U.K.	67.5	82.4
3rd	France	15.8	France	23.7	U.K.	25.8	U.K.	37.0	China	43.8	– 1.1
4th	Mexico	11.0	U.K.	20.3	France	22.0	France	23.0	Netherlands	33.3	163.1
5th	Spain	9.4	Sweden	14.9	Netherlands	14.6	Brazil	19.7	Brazil	31.9	62.4

Notes and source: Same as Table 3.

Table 5. FDI flows between the U.S. and EU, 1990 ~ 1998

(Units: US$ million, %)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
U.S. to EU	4,230	17,738	15,300	37,401	31,228	48,834	36,181	48,217	66,460
% change on year earlier	_	319.3	– 13.7	144.5	– 16.5	56.4	– 25.9	33.3	37.8
EU to U.S.	20,836	11,581	4,274	36,596	23,015	35,131	53,071	61,390	158,029
% change on year earlier	_	– 44.4	– 63.1	756.2	– 37.1	52.6	51.1	15.7	157.4
Total flows between U.S. and EU	25,066	29,319	19,574	73,997	54,243	83,965	89,252	109,607	224,489
% change on year earlier	_	17.0	– 33.2	278.0	– 26.7	54.8	6.3	22.8	104.8
Global FDI outflows	242,389	198,488	200,918	247,425	284,915	358,573	379,872	475,125	648,920
U.S.-EU FDI flows as % of world total	10.3	14.8	9.7	29.9	19.0	23.4	23.5	23.1	34.6

Notes:
1. FDI measured on BOP basis.
2. Figures on U.S.-EU FDI flows from *Survey of Current Business* (*SCB*) data. Figures on global FDI outflows from *WIR* data.
3. EU figures are EU12 up to 1994 and EU15 from 1995.

Sources: Prepared by JETRO from *SCB* (U.S. Department of Commerce) and *WIR* (UNCTAD).

2. Fall in developing countries' FDI due to slumps in parts of Asia

FDI outflows from developing countries, excluding Russia and Central and Eastern Europe, came to US$52.3 billion, a year-on-year decrease of 19.5%, and FDI inflows into these countries came to US$165.9 billion, a decrease of 3.8%. The declines marked a reversal of the expansionary trend seen up to 1997. Declines in developing countries' FDI outflows and inflows were last recorded seven and 13 years ago, respectively. The decreases were attributable to a few Asian countries, however, and did not indicate that FDI into all developing countries declined.

(1) Asia and Latin America are major sources of FDI outflows from developing countries. In Asia, FDI outflows from the Republic of Korea (R.O.K.) declined on a quarter-to-quarter basis from the last quarter of 1997 due to the impact of the Asian currency and economic crises, but recovered after bottoming out in the second quarter of 1998 to register 7.9% year-on-year growth for the year. Chinese FDI outflows grew 2.8%, marking the fourth consecutive year of growth. The increases in FDI from these countries, however, were offset by declining outflows from economies such as Singapore (down 34.2% from the previous year) and Taiwan (down 26.8%) (Table 6).

(2) FDI outflows from Latin America, which doubled between 1996 and 1997, nudged down 0.9% to US$15.5 billion in 1998. By country, FDI outflows from the leading investors, such as Chile, Brazil and Mexico, continued to grow in 1998. Outflows from Chile and Brazil grew particularly strongly, increasing 50.0% to US$2.8 billion and 160% to US$2.7 billion, respectively, due in the main to active investment by firms based in these two countries to expand operations in the U.S. and Latin America.

(3) Declines in FDI inflows were not seen in all developing countries (Table 7). In Latin America, one of the main recipients of FDI, growth failed to reach the 40%-plus rates achieved in 1996 and 1997, but inflows nevertheless grew 5.0% on a year earlier to reach US$71.7 billion. The bulk of FDI inflows into Latin America came in the form of foreign capital attracted by privatizations. Over 80% of the US$19.0 billion sale of TELEBRAS, Brazil's state-owned telecom carrier, in 1998, for example, was acquired by foreign-affiliated groups.

(4) The economies of East Asia, excluding the Hong Kong Special Administrative Region (Hong Kong SAR), fell into two groups: those where FDI inflows reached new record highs and those where inflows declined. In the first group were Thailand (where inflows rose 85.3% on the previous year to US$6.9 billion), R.O.K. (up 90.4% to US$5.4 billion), and the Philippines (up 40.2% to US$1.7 billion), while at the top of the second group was Indonesia (which suffered a US$400 million net withdrawal of FDI), followed by Taiwan (down 90.1% to US$200 million), Singapore (down 25.7% to US$7.2 billion) and Malaysia (down 27.0% to US$3.7 billion). Inflows into China remained almost unchanged, falling slightly by 1.1% to US$43.8 billion. As a consequence, total FDI inflows into the eight economies of East Asia (excepting Hong Kong SAR) fell for the first time since 1983, which caused total FDI in developing countries as a whole to fall. It may be noted that although FDI inflows into Thailand reached record levels measured on a balance of payments basis, Thai Board of Investment (BOI) statistics on approved investments indicate a year-on-year decline. This discrepancy appears to be due to investment in the financial sector and additional investments not associated with expansion of plant not being included in the BOI's statistics.

(5) The strong growth in FDI entering Thailand was a result of the relaxation of restrictions on foreign

capital and the BOI's active efforts to attract foreign investment and encourage M&A deals with local firms. In the R.O.K., the increase resulted from the relaxation of restrictions on out-in M&A deals with foreign companies in all but a few sectors in April 1998 and the enactment of the Foreign Investor Promotion Law in September, which served to encourage FDI in the form of M&As.

Note: Unless otherwise noted, the Asian Newly Industrialized Economies (Asian NIEs) comprise of the Republic of Korea (R.O.K.), Singapore, Taiwan and the Hong Kong Special Administrative Region (SAR). The four members of the Association of Southeast Asian Nations (ASEAN 4) are Malaysia, Thailand, the Philippines and Indonesia. East Asia refers to the nine economies of Asian NIEs, ASEAN 4, and China.

Table 6. FDI outflows from main developing countries and regions (BOP basis)

(Units: US$ million, %)

	1993	1994	1995	1996		1997		1998	
					% change		% change		% change
East Asia	11,466	13,082	16,704	18,615	11.4	17,681	– 5.0	14,712	– 16.8
Asian NIEs	6,103	9,678	12,816	14,788	15.4	14,414	– 2.5	11,743	– 18.5
R.O.K.	1,340	2,461	3,552	4,671	31.5	4,449	– 4.7	4,799	7.9
Taiwan	2,611	2,640	2,983	3,843	28.8	5,243	36.4	3,836	– 26.8
Singapore	2,152	4,577	6,281	6,274	– 0.1	4,722	– 24.7	3,108	– 34.2
ASEAN3	963	1,404	1,888	1,713	– 9.2	704	– 58.9	334	– 52.5
Thailand	233	493	886	931	5.2	390	– 58.1	130	– 66.6
Philippines	374	302	399	182	– 54.4	136	– 25.3	160	17.6
Indonesia	356	609	603	600	– 0.5	178	– 70.3	44	– 75.3
China	4,400	2,000	2,000	2,114	5.7	2,563	21.2	2,634	2.8
Latin America	7,575	6,255	7,510	7,202	– 4.1	15,598	116.6	15,455	– 0.9
Chile	434	911	752	1,188	58.0	1,865	57.0	2,798	50.0
Brazil	491	1,037	1,384	– 467	n.a.	1,042	n.a.	2,721	161.1
Argentina	704	952	1,523	1,576	3.5	3,170	101.1	1,973	– 37.8
Mexico	– 110	1,058	– 263	38	n.a.	1,108	2,815.8	1,363	23.0
Venezuela	886	358	91	507	457.1	500	– 1.4	267	– 46.6
Russia, Central and Eastern Europe	292	286	460	1,105	140.4	3,425	210.0	1,903	– 44.4
Russia	n.a	101	357	770	115.7	2,604	238.2	1,025	– 60.6
Hungary	11	49	43	– 4	n.a.	433	n.a.	478	10.3
Poland	18	29	42	53	26.2	45	– 15.1	316	602.2
Slovakia	61	14	10	48	372.5	95	99.9	134	40.6
Czech Republic	90	116	37	155	323.3	28	– 82.2	55	98.9
Romania	7	n.a	2	n.a	n.a.	– 9	n.a.	– 9	n.a.
Middle East and Africa	1,431	– 862	– 430	2,088	n.a.	3,504	67.8	2,372	– 32.3
Republic of South Africa	292	1,261	2,494	1,048	– 58.0	2,324	121.8	1,590	– 31.6
Israel	615	742	733	1,042	42.1	834	– 20.0	830	– 0.5
Turkey	14	49	113	110	– 2.7	251	128.2	367	46.2
Nigeria	436	178	335	134	– 59.9	195	45.1	114	– 41.5
Egypt	n.a	43	93	5	– 94.6	129	2,484.0	45	– 65.2
Saudi Arabia	– 53	81	13	180	1,284.6	195	8.3	– 472	n.a.

Notes:
1. Hong Kong SAR not included among Asian NIEs. East Asia defined as the other three Asian NIEs (R.O.K., Singapore and Taiwan), ASEAN3 and China.
2. Totals for Latin America, Russia, Central and Eastern Europe, Middle East and Africa compiled by JETRO from *WIR* 1999 (UNCTAD).
3. Republic of South Africa and Israel not included in Middle East and Africa.
4. Figures for Taiwan based on local statistics. Figures for Mexico, Nigeria and Saudi Arabia from *WIR* 1999 (UNCTAD). Figures for other countries from *IFS*.
5. Percentage change indicates change on previous year.

Sources: Prepared by JETRO from *IFS* (IMF) and *WIR* (UNCTAD).

Table 7. FDI inflows into main developing economies (BOP basis)

(Units: US$ million, %)

	1993	1994	1995	1996		1997		1998	
					% change		% change		% change
East Asia	43,759	53,931	58,461	67,447	15.4	73,789	9.4	68,632	– 7.0
Asian NIEs	6,192	10,735	10,541	12,141	15.2	14,802	21.9	12,856	– 13.1
R.O.K.	589	810	1,776	2,326	31.0	2,844	22.3	5,416	90.4
Taiwan	917	1,375	1,559	1,932	23.9	2,248	16.4	222	– 90.1
Singapore	4,686	8,550	7,206	7,883	9.4	9,710	23.2	7,218	– 25.7
ASEAN4	10,052	9,408	12,070	15,125	25.3	14,751	– 2.5	12,025	– 18.5
Thailand	1,804	1,366	2,068	2,336	13.0	3,746	60.4	6,941	85.3
Malaysia	5,006	4,342	4,178	5,078	21.5	5,106	0.5	3,727	– 27.0
Philippines	1,238	1,591	1,478	1,517	2.6	1,222	– 19.4	1,713	40.2
Indonesia	2,004	2,109	4,346	6,194	42.5	4,677	– 24.5	– 356	n.a.
China	27,515	33,787	35,849	40,180	12.1	44,236	10.1	43,751	– 1.1
Latin America	20,009	31,451	32,921	46,162	40.2	68,255	47.9	71,652	5.0
Brazil	1,292	3,072	4,859	11,200	130.5	19,650	75.4	31,913	62.4
Mexico	4,389	10,973	9,526	9,186	– 3.6	12,831	39.7	10,238	– 20.2
Argentina	2,763	3,432	5,279	6,513	23.4	8,094	24.3	6,150	– 24.0
Chile	1,034	2,583	2,957	4,634	56.7	5,219	12.6	4,638	– 11.1
Venezuela	372	813	985	2,183	121.6	5,536	153.6	4,435	– 19.9
Russia, and Central and Eastern Europe	6,757	5,932	14,266	12,406	– 13.0	18,532	49.4	17,513	– 5.5
Poland	1,715	1,875	3,659	4,498	22.9	4,908	9.1	6,365	29.7
Czech Republic	654	878	2,568	1,435	– 44.1	1,286	– 10.4	2,552	98.4
Russia	n.a.	638	2,016	2,478	22.9	6,243	151.9	2,200	– 64.8
Romania	94	341	419	263	– 37.2	1,215	362.0	2,031	67.2
Hungary	2,350	1,144	4,519	1,982	– 56.1	2,079	4.9	1,936	– 6.9
Slovakia	199	270	236	351	48.6	174	– 50.5	562	223.5
Middle East and Africa	7,178	6,875	3,727	6,528	75.2	12,295	88.3	12,511	1.8
Saudi Arabia	1,369	350	– 1,877	– 1,129	n.a.	2,575	n.a.	4,646	80.4
Israel	596	432	1,337	1,382	3.4	1,622	17.4	1,850	14.1
Egypt	493	1,256	598	636	6.4	891	40.0	1,076	20.8
Nigeria	1,345	1,959	1,079	1,593	47.6	1,539	– 3.4	1,051	– 31.7
Turkey	636	608	885	722	– 18.4	805	11.5	940	16.8
Republic of South Africa	11	374	1,248	816	– 34.6	3,811	367.0	550	– 85.6

Notes and sources: Same as Table 6.
East Asia defined as the three Asian NIEs other than Hong Kong SAR, the ASEAN4 and China. Data on all economies except Taiwan are from *IFS* (IMF), and 1998 figure for Malaysia is from *WIR* (UNCTAD).

3. Continued growth in cross-border M&As

The main reason for the record increase in global FDI in 1998 was the rapid increase in the number and also scale of cross-border M&A deals. According to Thomson Financial Securities Data, global cross-border M&As, measured in terms of completed deals with an equity participation ratio of at least 5%, increased 75.5% from the record set the previous year to US$586.8 billion. This figure looks set to be even higher in 1999, given that cross-border M&As in the first nine months of the year came to US$498.2 billion. Cross-border M&As' share of global FDI outflows has grown year after year, from 55.5% in 1995 to 64.0% in 1996, 70.4% in 1997 and 90.4% in 1998.

(1) North American and European companies have traditionally been most actively involved in cross-border M&As, and this trend has grown even more pronounced in recent years. A breakdown of cross-border M&As in 1998 by region shows the biggest buyers were companies in the U.S., where the total value of acquisitions rose 63.0% on the previous year to US$145.9 billion. Acquisitions by EU companies doubled to US$317 billion, the strongest growth being in acquisitions by U.K. firms (up 73.2% to US$108.6 billion) and German firms (up 400% to US$70 billion). Sales, meanwhile, grew 160% to US$217.5 billion in the U.S. and 73.6% to US$222.4 billion in the EU. The U.K. again came top in the EU with sales worth US$101 billion, twice the previous year's figure (Tables 8, 9).

(2) M&As also grew increasingly common in developing countries. In Latin America, the value of M&As in Brazil, which saw the privatization of the state-owned telecom carrier, grew about 150% to US$30.9 billion, and Argentina also saw the value of M&As increase 110% to US$11.8 billion. In East Asia, sell-offs in the R.O.K. and Thailand, which had drastically cut back restrictions on foreign equity ownership, came to US$4.1 billion and US$3.8 billion, respectively, up about 300% and about 400% on the previous year. However, M&As in East Asia as a whole fell 26.0% to US$16.6 billion due to the fall in value of out-in M&As in Hong Kong SAR, where sell-offs came to US$11.5 billion in 1997, falling to US$3.3 billion in 1998.

(3) A feature of recent cross-border M&As is their increasing size. There were 92 mega-deals worth more than US$1 billion in 1998, compared with 51 in 1997. 1998 marked the beginning of mega-deals worth more than US$10 billion. Six super mega-deals worth more than the previous record, an US$8.0 billion acquisition of Quest, Unilever's Dutch speciality chemicals business, by ICI of the U.K. in 1997. Among them was Vodafone Group PLC's US$60.3 billion acquisition of AirTouch Communications Inc., a record for a cross-border M&A (Table 10).

(4) Cross-border M&As in the late nineties have tended to be concentrated in certain industries. For five consecutive years since 1995, five particular industries—telecom, insurance, banking, utilities (electricity, gas and water), and business services (such as consultancies)—have been in the top ten for cross-border M&As (Table 11). All are in the service sector, and were traditionally heavily regulated. Although the manufacturing sector’s share of cross-border M&As is declining, the value of M&As in manufacturing is increasing. Pushed up by Daimler-Benz's acquisition of Chrysler, the transport equipment category of manufacturing was second in terms of the value of cross-border M&A deals in 1998.

Table 8. Global cross-border M&As (sales)

(Units: US$ million, %)

	1995	1996	1997	1998			Jan ~ Sep 1999	
					% change	Share		Share
World	199,116	242,965	334,435	586,773	75.5	100.0	498,203	100.0
U.S.	61,796	64,604	89,467	145,861	63.0	24.9	93,068	18.7
Canada	12,812	9,066	18,929	36,031	90.4	6.1	14,236	2.9
EU	86,744	103,659	151,337	316,962	109.4	54.0	327,059	65.6
U.K.	32,045	37,713	62,746	108,648	73.2	18.5	139,930	28.1
France	10,200	15,866	22,363	38,705	73.1	6.6	52,241	10.5
Germany	18,548	19,875	13,539	69,998	417.0	11.9	45,457	9.1
Netherlands	7,456	13,268	19,085	25,543	33.8	4.4	34,029	6.8
Spain	1,089	3,506	9,360	17,474	86.7	3.0	25,681	5.2
Belgium	4,644	3,500	2,137	2,707	26.7	0.5	7,206	1.4
Italy	4,895	1,668	4,547	14,155	211.3	2.4	7,000	1.4
Sweden	5,531	2,342	8,093	16,685	106.2	2.8	4,160	0.8
Denmark	160	730	1,565	1,259	– 19.6	0.2	2,880	0.6
Ireland	1,157	2,245	1,875	3,335	77.9	0.6	1,984	0.4
Switzerland	10,420	9,731	11,423	41,808	266.0	7.1	10,665	2.1
Australia	6,368	11,123	13,657	8,144	– 40.4	1.4	4,448	0.9
Japan	4,190	6,256	3,578	3,403	– 4.9	0.6	9,905	2.0
East Asia	7,345	18,459	22,749	13,182	– 42.1	2.2	6,253	1.3
Asian NIEs	5,414	7,829	17,852	10,440	– 41.5	1.8	4,925	1.0
R.O.K.	1,506	1,873	2,425	102	– 95.8	0.0	1,080	0.2
Taiwan	122	53	513	644	25.7	0.1	398	0.1
Hong Kong	2,371	3,689	10,546	8,701	– 17.5	1.5	1,765	0.4
Singapore	1,416	2,214	4,370	992	– 77.3	0.2	1,683	0.3
ASEAN4	1,751	10,340	2,347	1,350	– 42.5	0.2	848	0.2
Thailand	152	209	86	89	4.0	0.0	115	0.0
Malaysia	1,254	9,582	1,358	1,144	– 15.8	0.2	147	0.0
Philippines	159	227	122	70	– 42.2	0.0	309	0.1
Indonesia	187	322	781	46	– 94.1	0.0	278	0.1
China	179	289	2,550	1,393	– 45.4	0.2	480	0.1
Mexico	216	880	3,214	791	– 75.4	0.1	877	0.2
Brazil	385	1,167	2,357	3,531	49.8	0.6	2,110	0.4
Argentina	1,723	557	1,485	3,743	152.1	0.6	827	0.2

Notes: Completed deals.

Source: Thomson Financial Securities Data.

Table 9. Global cross-border M&As (acquisitions)

(Units: US$ million, %)

	1995	1996	1997	1998			Jan ~ Sep 1999	
					% change	Share		Share
World	199,116	242,965	334,435	586,773	75.5	100.0	498,203	100.0
U.S.	55,442	70,081	85,263	217,491	155.1	37.1	184,536	37.0
Canada	11,933	11,048	9,195	15,603	69.7	2.7	20,251	4.1
EU	78,121	89,081	128,108	222,364	73.6	37.9	187,963	37.7
U.K.	36,997	33,726	48,542	101,033	108.1	17.2	61,087	12.3
Netherlands	3,839	3,645	19,264	20,107	4.4	3.4	26,194	5.3
Sweden	9,613	4,140	3,386	13,582	301.2	2.3	23,269	4.7
Belgium	1,716	8,687	6,392	13,426	110.0	2.3	22,283	4.5
Germany	8,081	11,988	12,507	19,535	56.2	3.3	14,440	2.9
France	7,984	14,827	18,747	26,027	38.8	4.4	11,796	2.4
Italy	4,203	3,442	4,113	5,431	32.0	0.9	10,891	2.2
Luxembourg	482	510	4,805	35	– 99.3	0.0	5,388	1.1
Spain	1,700	1,684	4,857	6,183	27.3	1.1	4,940	1.0
Ireland	657	732	2,414	943	– 60.9	0.2	2,500	0.5
Switzerland	3,754	4,299	3,932	5,166	31.4	0.9	2,796	0.6
Australia	21,435	14,928	15,594	15,562	– 0.2	2.7	7,836	1.6
Japan	541	2,468	3,107	4,428	42.5	0.8	17,417	3.5
East Asia	6,873	8,958	22,357	16,550	– 26.0	2.8	18,419	3.7
Asian NIEs	3,820	4,498	13,800	8,010	– 42.0	1.4	11,520	2.3
R.O.K.	192	565	964	4,059	321.2	0.7	5,656	1.1
Taiwan	57	64	856	66	– 92.3	0.0	624	0.1
Hong Kong	1,835	2,941	11,468	3,339	– 70.9	0.6	3,043	0.6
Singapore	1,736	928	512	546	6.6	0.1	2,197	0.4
ASEAN4	2,637	2,445	6,352	7,621	20.0	1.3	5,002	1.0
Thailand	191	267	726	3,776	420.5	0.6	1,626	0.3
Malaysia	325	1,069	473	1,133	139.3	0.2	422	0.1
Philippines	1,261	516	4,164	2,028	– 51.3	0.3	1,140	0.2
Indonesia	861	593	990	685	– 30.8	0.1	1,814	0.4
China	416	2,014	2,205	918	– 58.4	0.2	1,897	0.4
Mexico	1,202	1,489	8,559	3,290	– 61.6	0.6	665	0.1
Brazil	1,802	6,664	12,536	30,924	146.7	5.3	6,162	1.2
Argentina	1,948	3,708	5,592	11,823	111.4	2.0	23,051	4.6

Notes and source: Same as Table 8.

Table 10. Super mega-deals in 1998~1999

1998 (Unit: US$ million)

Date acquired	Buyer	Country	Acquisition	Country	Value
Dec 98	British Petroleum Co PLC (BP)	U.K.	Amoco Corp	U.S.	48,174
Nov 98	Daimler-Benz AG	Germany	Chrysler Corp	U.S.	40,467
Sep 98	Zurich Versicherungs GmbH	Switzerland	BAT Industries PLC-Financial	U.K.	18,355
Aug 98	Texas Utilities Co	U.S.	Energy Group PLC	U.K.	10,947
Dec 98	Universal Studios Inc	U.S.	PolyGram NV (Philips Electrn)	Netherlands	10,236
Mar 98	Roche Holding AG	Switzerland	Corange Ltd	Bermuda Islands	10,200

Jan ~ Sep 1999

Date acquired	Buyer	Country	Acquisition	Country	Value
Jun 99	Vodafone Group PLC	U.K.	AirTouch Communications	U.S.	60,287
Jun 99	Repsol SA	Spain	YPF SA	Argentina	13,152
Jun 99	Total SA	France	Petrofina SA	Belgium	12,923
Jul 99	Aegon NV	Netherlands	TransAmerica Corp	U.S.	10,814
Sep 99	Global Crossing Ltd	Bermuda Islands	Frontier Corp	U.S.	10,063

Source: Same as Table 8.

Table 11. Top 10 industries for cross-border M&As, 1995~1999 (sales)

(Unit: US$ million)

	1995				1996				1997		
Rank	Industry	Value	Share	Rank	Industry	Value	Share	Rank	Industry	Value	Share
1	Pharmaceuticals	21,316	10.7%	1	Electricity, gas, water	22,192	9.1%	1	Electricity, gas, water	32,022	9.6%
2	Foodstuffs	16,611	8.3%	2	Oil and natural gas (oil refining)	15,913	6.5%	2	Chemical products	23,419	7.0%
3	Electricity, gas, water	12,846	6.5%	3	Telecommunications	12,659	5.2%	3	Investment and foreign exchange	22,464	6.7%
4	Banking and bank holding companies	11,835	5.9%	4	Insurance	12,002	4.9%	4	Foodstuffs	20,900	6.2%
5	Mining	9,678	4.9%	5	Printing and publishing	11,521	4.7%	5	Banking and bank holding companies	18,523	5.5%
6	Investment and foreign exchange	8,943	4.5%	6	Wholesaling (consumer durables)	10,633	4.4%	6	Business services	16,714	5.0%
7	Insurance	8,391	4.2%	7	Investment and foreign exchange	10,203	4.2%	7	Insurance	14,934	4.5%
8	Business services	6,980	3.5%	8	Banking and bank holding companies	9,413	3.9%	8	Broadcasting (TV, radio)	14,621	4.4%
9	Telecommunications	6,720	3.4%	9	Metals and metal products	8,948	3.7%	9	Telecommunications	14,400	4.3%
10	Motion pictures	6,439	3.2%	10	Business services	8,853	3.6%	10	Pharmaceuticals	12,900	3.9%

	1998				Jan ~ Sep 1999		
Rank	Industry	Value	Share	Rank	Industry	Value	Share
1	Oil and natural gas (oil refining)	74,753	12.7%	1	Telecommunications	109,818	22.0%
2	Transport equipment	49,547	8.4%	2	Oil and natural gas (oil refining)	39,950	8.0%
3	Insurance	44,561	7.6%	3	Insurance	33,051	6.6%
4	Telecommunications	43,358	7.4%	4	Banking and bank holding companies	28,679	5.8%
5	Banking and bank holding companies	33,966	5.8%	5	Business services	21,138	4.2%
6	Electricity, gas, water	33,610	5.7%	6	Electricity, gas, water	20,278	4.1%
7	Business services	23,606	4.0%	7	General machinery	17,879	3.6%
8	Electronic and electrical equipment	17,814	3.0%	8	Tobacco	17,860	3.6%
9	Foodstuffs	17,406	3.0%	9	Electronic and electrical equipment	17,514	3.5%
10	Chemical products	16,603	2.8%	10	Retailing (foodstuffs)	15,302	3.1%

Source: Same as Table 8.

4. Changes to systems and conditions encouraging M&As

The sharp growth in the number and scale of cross-border M&As basically reflect the rising need to respond to international competition due to the globalization of corporate activities, as well as the increased acceptance of M&As as a means of responding to this situation. At the same time, systems have continued to change in favor of M&As, such as the shift toward accounting standards that enable corporations to be compared on an international basis. While general trends such as privatization and deregulation have created opportunities for M&As in a broad range of fields, conditions unique to each industry, especially the service industries in which M&As are heavily concentrated, have paved the way for more deals.

(1) Following U.K.-based British Petroleum Co. PLC (BP)’s takeover of Amoco Corp. of the U.S., consolidation in the oil industry gathered pace with the announcement of four mega-deals in less than six months: Exxon Corp.’s acquisition of Mobil Corp. in the U.S., BP's acquisition of Arco of the U.S., the acquisition of Belgium's Petrofina SA by Total SA of France, and Totalfina's acquisition of France's Elf Aquitaine SA. The purpose behind these deals was to boost competitiveness in order to cope with the problems of oversupply and the prolonged downward trend in oil prices, and to quickly raise capital for further growth.

(2) Telecom markets around the world have been undergoing deregulation since the 1980s, and this has resulted in a number of new entrants. At the same time, the spread of mobile phone networks and the Internet have further increased the importance of telecommunications. In the U.S., the federal Telecommunications Act was drastically revised in 1996 to provide a legal framework enabling long-distance, local and cable service providers to enter each other's markets, allowing a wave of high-tech companies to newly enter these fields and encouraging takeovers of existing domestic providers. In Europe, where the U.K. paved the way for deregulation, EU-wide telecom deregulation in 1998 has encouraged the emergence of new alliances spanning the continent (Table 12).

(3) Leading banks in the U.S. and EU and other developed economies have been actively involved in cross-border as well as domestic M&As (Table 13). Behind the recent growth of M&As in the banking industry has been the desire to achieve economies of scale to cope with deregulation and advances in information technology. In the U.S., five of the country's top 10 banks announced mergers in the week from April 6 to 13, 1998, including leading commercial bank Citicorp's merger with Travelers Group Inc. and its securities and insurance affiliates, top regional bank NationsBank Corp.’s merger with BankAmerica Corp., and regional bank Banc One Corp.’s merger with First Chicago NBD Corp. In Europe, the reforms accompanying the launch of the euro accelerated consolidation, while leading financial services groups, such as Deutsche Bank AG and HSBC Holdings Plc. of the U.K., also targeted firms outside the EU.

(4) Europe served as center stage for a number of big M&A deals in the insurance industry, including the acquisition of AGF (France) by Allianz AG (Germany) in May 1998 for US$5.1 billion, and Zurich Versicherungs GmbH’s (Switzerland) acquisition of BAT Industries PLC's (U.K.) financial division in September 1998 for US$18.4 billion. Aegon NV, a general Dutch insurance company, acquired U.S. insurer TransAmerica Corp. for US$10.8 billion in July 1999, and the de facto abolition of the Glass-Steagall Act in November 1999 is expected to lead to more M&As in the future. In the insurance

industry, another factor apart from deregulation encouraging M&A activity is population aging, which is increasing the demand for retirement savings and investment products. This is encouraging M&As, because in order to provide attractive pension products that meet this demand, firms need to manage funds on a larger scale and have access to greater asset management capabilities.

(5) More M&As are taking place among utilities—water, gas and electricity especially—and this has been triggered by deregulation. The deregulation of electricity markets in the U.S. and EU, led by the U.K., has created opportunities for new entrants. As the U.S. and European markets are already mature and there is no prospect of any sudden expansion in demand, some firms have sought to improve operating efficiency by expanding through M&As. In the U.K., all 12 electricity retailers serving England and Wales were taken over between 1995 and 1998. One of these deals, the takeover of the Energy Group PLC by Texas Utilities (TU) of the U.S., set a new record for a cross-border M&A in the electricity industry of US$10.9 billion.

Table 12. Big M&A deals in telecoms

(Unit: US$ million)

Date of completion	Buyer	Country	Acquisition	Country	Value
Jan 1998	Kreditanstalt für Wiederaufbau	Germany	Deutsche Telekom AG	Germany	5,479
Jan 1998	Newcourt Credit Group Inc	Canada	AT&T Capital Corp	U.S.	1,693
Jan 1998	Cie Financiere de Paribas SA	France	Cetelem SA(Cie Financiere)	France	1,898
Jan 1998	Ameritech Corp	U.S.	TeleDanmark A/S(Denmark)	Denmark	3,160
Feb 1998	China Telecom Hong Kong Ltd	Hong Kong	HK Telecomm	Hong Kong	1,660
Mar 1998	Cablevision Systems Corp	U.S.	Tele-Commun-New York Area	U.S.	1,091
Jul 1998	AT&T Corp	U.S.	Teleport Communications Group	U.S.	11,188
Jul 1998	Andrade Gutierrez Group	Brazil	Tele Norte Leste (Telebras)	Brazil	2,950
Jul 1998	Investor Group	Spain	Telesudeste Celular(Telebras)	Brazil	1,170
Jul 1998	Investor Group	Spain	Telesp (Telebras/Brazil)	Brazil	4,973
Jul 1998	Investor Group	Italy	Telecentro Sul (Telebras)	Brazil	1,781
Jul 1998	Investor Group	Portugal	Telesp Celular Participacoes	Brazil	3,087
Nov 1998	AT&T Wireless Svcs(AT&T Corp)	U.S.	JV-AT&T Wireless,BellSouth	U.S.	1,000
Nov 1998	Shareholders	U.S.	Sprint PCS	U.S.	6,033
Dec 1998	Deutsche Telekom AG	Germany	France Telecom SA(France)	France	1,688
Dec 1998	Telecom Italia(IT Treasury)	Italy	Telekom Austria	Austria	2,355
Jun 1999	AT&T Canada Inc	Canada	MetroNet Communications Corp	Canada	2,394
Jun 1999	Vodafone Group PLC	U.K.	AirTouch Communications	U.S.	60,287
Mar 1999	Kensington Acquisition Sub Inc	U.S.	Cellular Communications Intl	U.S.	1,688
Jun 1999	Mannesmann AG	Germany	Ing C Olivetti-Telecom Int	Italy	8,404

Note: Deals completed between January 1998 and September 1999 inclusive.

Source: Same as Table 8.

Table 13. Big M&A deals in banking

(Unit: US$ million)

Date of completion	Buyer	Country	Acquisition	Country	Value
Jan 1998	NationsBank Corp, Charlotte,NC	U.S.	Barnett Banks, Jacksonville, FL	U.S.	14,822
Apr 1998	Nordbanken (Venantius/Sweden)	Sweden	Merita Oy	Finland	4,292
Apr 1998	Banco de Santander SA	Spain	Banesto	Spain	3,850
Jun 1998	Kredietbank NV	Belgium	Almanij-Banking and Insurance	Belgium	7,655
Jun 1998	Union Bank of Switzerland	Switzerland	Swiss Bank Corporation	Switzerland	23,009
Jun 1998	Fortis AG	Belgium	Generale de Banque SA	Belgium	12,299
Sep 1998	NationsBank Corp, Charlotte, NC	U.S.	BankAmerica Corp	U.S.	61,633
Oct 1998	BANC ONE Corp, Columbus, Ohio	U.S.	First Chicago NBD Corp	U.S.	29,616
Oct 1998	Travelers Group Inc	U.S.	Citicorp	U.S.	72,558
Oct 1998	Credito Italiano SpA	Italy	Unicredito SpA	Italy	10,959
Nov 1998	Norwest Corp, Minneapolis, MN	U.S.	Wells Fargo & Co, California	U.S.	34,353
Nov 1998	Istituto Bancario San Paolo di Trino	Italy	Istituto Mobiliare Italiano	Italy	9,492
Dec 1998	SunTrust Banks Inc, Atlanta, GA	U.S.	Crestar Finl Corp, Richmond, VA	U.S.	9,603
Jun 1999	Deutsche Bank AG	Germany	Bankers Trust New York Corp	U.S.	9,082

Note: Same as Table 12.

Source: Same as Table 8.

5. Recovery in Japanese FDI outflows in fiscal 1999

Figures released by Japan's Ministry of Finance show that Japanese FDI outflows on a dollar basis in fiscal 1998 (April 1998 to March 1999) came to US$40.75 billion, down 24.5% from fiscal 1997. FDI outflows also dropped sharply in terms of the number of new investments, falling from 2,489 in fiscal 1997 to 1,597. The number of new investments has fallen continuously since fiscal 1996. Japanese FDI outflows shot up 177.0% year on year to US$46.49 billion in the first half of fiscal 1999, which was more than the value of outflows in the whole of fiscal 1998. Behind this was the purchase of RJR Nabisco's non-U.S. tobacco operations by Japan Tobacco Inc. (JT), a major acquisition worth US$7.8 billion.

(1) A breakdown of Japanese FDI outflows in fiscal 1998 by country and region shows outflows to the U.S. fell 50.3% to US$10.32 billion, indicating the downward trend that began in fiscal 1996 continued to accelerate. At the same time, outflows to the EU registered a second year of growth, increasing 26.3% to US$13.85 billion (Table 14). As a result, the EU became the biggest recipient of Japanese FDI ahead of the U.S. for the first time ever in fiscal 1998, with the region's share of total FDI outflows from Japan increased from 20.3% in fiscal 1997 to 34.0%. Japanese FDI in the EU was driven by the 137.5% surge in outflows to the U.K. to US$9.78 billion.

(2) After edging up slightly year on year in fiscal 1997, the effects of the currency and economic crises in East Asia caused Japan's FDI outflows to the region to plummet 44.4% to US$6.17 billion. East Asia's share of total Japanese FDI outflows also shrank from 20.6% the previous year to 15.1%. Individually, all countries in the region registered double-digit negative growth.

(3) A breakdown of FDI outflows by industry in fiscal 1998 reveals that investment in manufacturing shrank by 36.6% from the previous year to US$12.25 billion, the second consecutive year of decline (Tables 15, 16). The declines were particularly sharp among those areas of manufacturing that usually account for most FDI, such as the electrical machinery, chemicals and transport equipment categories. Drops were most pronounced in the two categories that had underpinned growth in fiscal 1997, electrical machinery and chemicals, in which FDI fell 48.9% to US$3.42 billion and 25.4% to US$2.25 billion, respectively. In both industries, this was because of the heavy falls in investment in the U.S. and Asia, which were the main recipients of Japanese FDI the previous year.

(4) Nonmanufacturing investment also fell sharply in fiscal 1998, declining 17.4% year on year to US$28.14 billion. The only sector to enjoy strong growth was finance and insurance, which saw investment jump 36.8% to US$16.37 billion, the third consecutive year of double-digit growth. Within this field, outflows to the EU and Latin America grew the strongest. The greater part of investment in the EU appears to have taken the form of investment to enhance the capital bases and bolster the operations of financial subsidiaries in the U.K., while the increase in investment in Latin America was due to the expansion of investment in the tax haven of the Cayman Islands.

(5) According to statistics on M&As compiled by Thomson Financial Securities Data, Japanese firms conducted 103 in-out M&As targeting foreign firms in 1998, down slightly from 113 in 1997 (Table 17). Given that there were 108 in-out M&As in the first nine months of the 1999, this number looks set to be exceeded. Of these, 10 were in the electrical and electronic equipment industry, followed by nine each in general machinery, business services and chemicals. In 1999, 12 in-out M&As involved investment and commodity firms, followed by nine in business services, seven in the electrical and

electronics equipment industries, and five in the transport equipment industry.

(6) Broken down by region, the number of in-out M&As in 1998 in East Asia increased from seven the previous year to 31, which exceeded the figure of 26 in North America. The upward trend continued in 1999, when there were 44 such deals in East Asia and 27 in North America. M&As in Asia by Japanese firms largely took the form of capital increases designed to bolster local auto and consumer electronics operations. Japanese firms' M&A activities in Asia were thus qualitatively different from those of North American and European firms, which tended instead to invest in new acquisitions.

(7) The largest of the in-out M&A deals in 1998 was the acquisition of a US$840 million equity stake in PolyGram NV of the Netherlands by Matsushita Electric Industrial Co., Ltd. in December, followed by Kirin Brewery Company, Ltd.'s acquisition of New Zealand's Lion Nathan Ltd. for US$743 million in April, and Softbank Corp.'s acquisitions of a US$399 million stake in E*TRADE Group, Inc. and US$250 million stake in Yahoo! Inc., both of the U.S., in August. In 1999, JT's US$7.83 billion acquisition of RJR Nabisco's non-U.S. operations attracted big headlines.

Table 14. Japanese FDI outflows by source, FY1995~1998 (based on reports and notifications)

Value in dollar terms (Unit: US$ million) | % change on a year earlier (Unit: %)

	FY1995	FY1996	FY1997	FY1998	FY1995	FY1996	FY1997	FY1998
World	50,694	48,019	53,972	40,747	23.5	– 5.3	12.4	– 24.5
North America	22,761	23,021	21,389	10,943	27.7	1.1	– 7.1	– 48.8
U.S.	22,193	22,005	20,769	10,316	28.1	– 0.8	– 5.6	– 50.3
Europe	8,470	7,372	11,204	14,010	36.0	– 13.0	52.0	25.0
EU	8,124	7,149	10,963	13,850	34.8	– 12.0	53.4	26.3
U.K.	3,445	3,438	4,118	9,781	58.8	– 0.2	19.8	137.5
Germany	547	571	732	553	– 24.8	4.4	28.2	– 24.5
France	1,524	503	1,736	521	264.9	– 67.0	245.3	– 70.0
Asia	12,264	11,614	12,181	6,528	26.4	– 5.3	4.9	– 46.4
East Asia	11,763	10,997	11,094	6,169	26.3	– 6.5	0.9	– 44.4
Asian NIEs	3,179	3,538	3,411	1,765	11.0	11.3	– 3.6	– 48.3
R.O.K.	445	416	442	303	11.4	– 6.6	6.4	– 31.6
Taiwan	457	521	450	224	64.5	14.1	– 13.7	– 50.2
Hong Kong	1,125	1,487	695	602	– 0.7	32.1	– 53.2	– 13.4
Singapore	1,152	1,115	1,824	636	9.3	– 3.2	63.5	– 65.1
ASEAN4	4,110	4,949	5,696	3,340	5.7	20.4	15.1	– 41.4
Malaysia	573	572	791	514	– 22.8	– 0.2	38.4	– 35.0
Thailand	1,224	1,403	1,867	1,371	70.1	14.7	33.1	– 26.6
Indonesia	1,596	2,414	2,514	1,076	– 9.3	51.3	4.1	– 57.2
Philippines	718	559	524	379	7.5	– 22.1	– 6.3	– 27.7
China	4,473	2,510	1,987	1,065	74.4	– 43.9	– 20.8	– 46.4
Latin America	3,877	4,446	6,336	6,463	– 25.9	14.7	42.5	2.0
Middle East	148	238	471	146	– 48.8	60.2	98.0	– 69.0
Africa	379	431	332	444	9.3	13.8	– 22.9	33.8
Oceania	2,795	897	2,058	2,213	95.2	– 67.9	129.4	7.5

Notes: 1. Statistics from fiscal 1996 onwards have been released only in yen, and are converted to U.S. dollars by JETRO at the interbank period average rate from the Bank of Japan.
2. Percentage change indicates change on previous fiscal year.

Source: Prepared by JETRO from *Statistics on Japanese Foreign Direct Investment* (Japanese Ministry of Finance).

Table 15. Japanese FDI outflows by region and industry, FY1998 (based on reports and notifications)

(Units: US$ million, %)

		North America		Latin America		Asia		Near and Middle East		Europe		Africa		Oceania		Total	
		Value	% change	Value	% change	Value	% change	Value	% change	Value	% change	Value	% change	Value	% change	Value	% change
Manufacturing	Electrical machinery	1,623	– 58.6	42	1,029.3	666	– 63.3	3	–	1,079	13.9	–	–	6	–	3,418	– 48.9
	Chemicals	615	– 42.9	55	320.3	593	– 55.1	1	–	980	74.8	2	–	–	–	2,246	– 25.4
	Transport equipment	358	– 69.0	139	– 57.8	797	– 6.5	–	–	233	– 45.7	31	– 63.1	48	– 15.0	1,607	– 44.7
	Foodstuffs	258	– 16.9	35	43.2	126	– 28.0	–	–	59	45.3	–	–	793	3,546.6	1,270	122.2
	Ferrous and non-ferrous metals	473	94.1	27	– 83.7	550	– 30.1	–	–	115	338.5	3	– 82.7	54	– 68.1	1,223	– 13.5
	Machinery	306	– 30.3	16	– 68.7	284	– 46.1	–	–	189	– 25.8	–	–	–	–	795	– 38.1
	Wood and pulp	455	169.2	–	–	134	1.3	–	–	83	7,241.8	–	–	6	– 86.4	677	92.7
	Textiles	45	– 89.0	26	– 18.1	222	– 47.6	3	–	44	– 48.1	–	–	–	–	341	– 64.4
	Others	246	– 51.2	1	– 97.2	324	– 74.8	–	–	92	– 11.4	–	–	11	92.7	673	– 68.7
	Sub-total	4,379	– 46.8	342	– 48.4	3,696	– 49.5	7	– 96.1	2,873	17.4	36	– 74.4	919	156.4	12,252	– 36.6
Non-manufacturing	Finance and insurance	1,980	– 19.2	4,603	36.0	428	– 25.6	–	–	9,363	68.8	–	–	–	–	16,374	36.8
	Commerce	1,751	– 9.1	229	– 36.6	1,134	45.4	–	–	599	– 41.6	2	– 85.4	61	– 72.9	3,777	– 13.7
	Real estate	1,433	– 49.6	69	34.8	132	– 85.1	–	–	221	– 79.1	–	–	954	37.1	2,810	– 49.2
	Services	923	– 82.8	100	29.4	380	– 31.0	2	–	633	131.4	–	–	14	– 93.6	2,053	– 68.3
	Transport	191	– 20.0	1,038	– 17.6	208	– 47.4	–	–	38	– 84.4	386	126.1	37	8.2	1,898	– 18.9
	Mining	121	5.4	51	– 89.6	293	– 71.7	20	– 86.0	152	– 62.4	19	–	218	– 56.1	874	– 67.5
	Construction	155	– 22.8	6	– 77.8	133	– 39.1	–	–	–	–	–	–	–	–	294	– 35.6
	Agriculture and forestry	9	– 62.9	11	– 16.8	3	– 45.0	–	–	1	–	–	–	9	– 32.1	33	– 41.5
	Fishing and marine products	–	–	14	110.3	4	– 96.1	–	–	0	– 100.0	2	– 64.5	–	–	20	– 82.2
	Others	–	–	–	–	7	– 87.1	–	–	–	–	–	–	–	–	7	– 87.3
	Sub-total	6,564	– 50.1	6,120	7.9	2,721	– 40.8	22	– 88.0	11,007	28.6	409	112.3	1,294	– 23.9	28,138	– 17.4
Branches		–	–	–	–	110	– 58.9	117	8.9	130	– 33.9	–	–	–	–	357	– 37.8
Total		10,943	– 48.8	6,463	2.0	6,528	– 46.4	146	– 69.0	14,010	25.0	444	33.8	2,213	7.5	40,747	– 24.5

Notes and source: Same as Table 14.

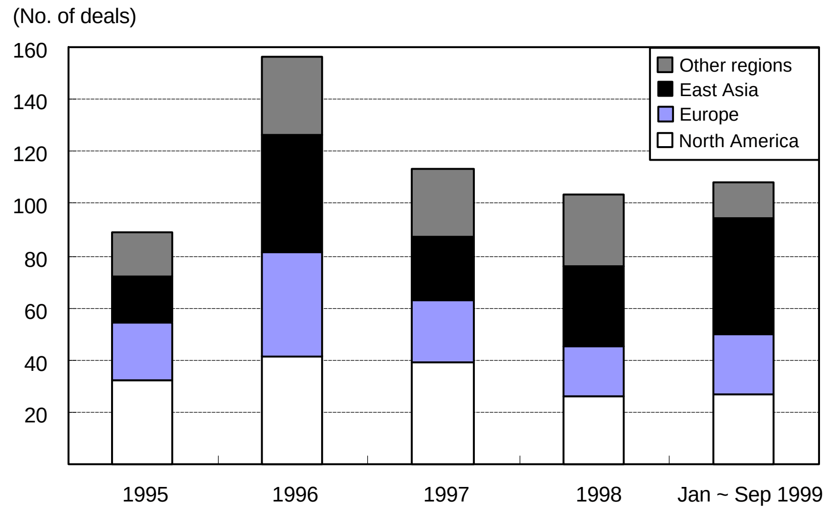
Table 16. Trends in Japanese FDI outflows by industry (based on reports and notifications)

(Units: US$ million, %)

	FY1996			FY1997			FY1998			Total for FY1951 ~ 98	
	Value	% share	% change	Value	% share	% change	Value	% share	% change	Total value	% share
Foodstuffs	729	1.5	– 13.6	572	1.1	– 21.6	1,270	3.1	122.2	10,799	1.6
Textiles	606	1.3	– 41.9	958	1.8	58.2	341	0.8	– 64.4	9,130	1.4
Wood and pulp	619	1.3	73.6	352	0.7	– 43.2	677	1.7	92.7	6,202	0.9
Chemicals	2,059	4.3	– 2.6	3,013	5.6	46.3	2,246	5.5	– 25.4	28,333	4.3
Ferrous and non-ferrous metals	2,446	5.1	57.3	1,413	2.6	– 42.2	1,223	3.0	– 13.5	20,470	3.1
Machinery	1,438	3.0	– 23.1	1,284	2.4	– 10.7	795	2.0	– 38.1	18,500	2.8
Electrical machinery	6,513	13.6	23.2	6,689	12.4	2.7	3,418	8.4	– 48.9	51,777	7.9
Transport equipment	3,873	8.1	94.7	2,908	5.4	– 24.9	1,607	3.9	– 44.7	27,405	4.2
Others	1,974	4.1	– 44.6	2,151	4.0	8.9	673	1.7	– 68.7	26,753	4.1
Manufacturing sub-total	20,258	42.2	8.8	19,339	35.8	– 4.5	12,252	30.1	– 36.6	199,368	30.3
Agriculture and forestry	139	0.3	– 0.1	56	0.1	– 59.8	33	0.1	– 41.5	2,369	0.4
Fishing and marine products	98	0.2	75.8	109	0.2	11.9	20	0.0	– 82.2	1,451	0.2
Mining	1,570	3.3	50.1	2,686	5.0	71.1	874	2.1	– 67.5	26,410	4.0
Construction	321	0.7	– 19.2	456	0.8	42.2	294	0.7	– 35.6	5,452	0.8
Commerce	4,782	10.0	– 9.8	4,375	8.1	– 8.5	3,777	9.3	– 13.7	67,987	10.3
Finance and insurance	7,776	16.2	42.1	11,969	22.2	53.9	16,374	40.2	36.8	129,360	19.7
Services	4,046	8.4	– 61.4	6,479	12.0	60.1	2,053	5.0	– 68.3	80,287	12.2
Transport	1,799	3.7	– 20.8	2,341	4.3	30.1	1,898	4.7	– 18.9	34,721	5.3
Real estate	6,210	12.9	4.4	5,533	10.3	– 10.9	2,810	6.9	– 49.2	91,588	13.9
Others	—	—	—	53	—	—	7	0	– 87.3	7,603	1.2
Non-manufacturing sub-total	26,741	55.7	– 14.1	34,059	63.1	27.4	28,138	69.1	– 17.4	447,229	68.1
Branches	1,020	2.1	7.3	574	1.1	– 43.7	357	0.9	– 37.8	9,847	1.5
Total	48,019	100.0	– 5.3	53,972	100.0	12.4	40,747	100.0	– 24.5	657,039	100.0

Notes and source: Same as Table 14.

Table 17. In-out M&A deals, 1995~1999



	1995	1996	1997	1998	Jan ~ Sep 1999
North America	32	41	39	26	27
Europe	22	40	24	19	23
East Asia	18	45	24	31	44
Others	17	30	26	27	14
Total	89	156	113	103	108

Source: Same as Table 8.

6. Foreign entrants surge into Japanese market

According to figures from Japan's Ministry of Finance, FDI entering Japan in fiscal 1998 climbed 89.4% on the previous year to US$10.47 billion in dollar terms, the first time it had exceeded US$10 billion (Table 19). FDI inflows remained robust in the first half of fiscal 1999, soaring 166.0% year on year to US$11.34 billion, which surpassed the amount for all of fiscal 1998.

The gap between Japanese FDI inflows and outflows, after widening from a ratio of 1:7.0 in fiscal 1996 to 1:9.8 in fiscal 1997, narrowed to 1:3.9 in fiscal 1998. The ratio was 1:4.1 in the first six months of fiscal 1999, and is expected to be somewhere around 1:4.0 for the year (Table 20).

(1) A breakdown by source reveals an increase in FDI inflows into Japan from the U.S. in fiscal 1998 (Table 19). FDI from the U.S. slumped 41.7% to US$1.24 billion in fiscal 1997 due to a sharp decline in investment in manufacturing, but grew 409.9% to a record US$6.39 billion in fiscal 1998, lifting the U.S.'s share of total Japanese FDI inflows from 22.4% the previous year to 60.3%. As in fiscal 1997, growth was strongest in finance and insurance, where investment rose 727.5% to US$2.53 billion in fiscal 1998, accounting for 40% of total FDI inflows from the U.S. (Table 21). Inflows into Japan from the EU, on the other hand, dropped 12.4% in fiscal 1998 to US$2.04 billion.

(2) Looking at Japanese FDI inflows in fiscal 1998 by industry, investment in manufacturing picked up again after declining both in terms of value and number of investments in fiscal 1997, the former growing 12.0% to US$2.44 billion and the latter by 39 to 228 (Table 22). In the general machinery category, which accounts for around 70% of FDI in manufacturing, there was particularly strong growth in investment in transport equipment (up 272.7% to US$875 million), the greater part of which came from the U.S. Investment in non-manufacturing outperformed that in manufacturing, growing 139.8% on the previous year. As a result, non-manufacturing's share of total FDI inflows into Japan rose from 60.6% in fiscal 1997 to 76.7% in fiscal 1998. FDI in finance and insurance, the fastest growing areas of investment in non-manufacturing since fiscal 1997, grew 170.9% on the previous year to a record US$3.57 billion in fiscal 1998. The number of investments also rose 114 to hit a new high of 200.

(3) According to statistics on M&A deals from Thomson Financial Securities Data, the number of out-in M&As targeting Japanese firms rose strongly from 33 in 1997 to 54 in 1998 (Table 18). Of these, 26 were investments by U.S. firms, followed by six by German firms, and two each by French and British firms. There were 71 out-in M&As in the first nine months of 1999, more than in the whole of 1998. As in 1998, the largest number (30) were by U.S. firms, followed by British (7), French (5) and German (4) firms.

(4) A breakdown of out-in M&As by industry in 1998 reveals the number in manufacturing increased from 19 the previous year to 22, of which the majority (13) were in the general machinery category. The number of such deals in non-manufacturing also rose from 14 a year earlier to 32, including 15 in finance, seven of which involved investment companies and foreign exchange banks. Seventeen of the 26 out-in M&As in manufacturing in the first nine months of 1999 were in the general machinery category (more than in the previous year), the largest number (6) being in transport equipment. In non-manufacturing, where there were 41 deals, the number of M&As in the finance industry increased on the previous year to 16. Also noticeable were the eight deals in business services and six

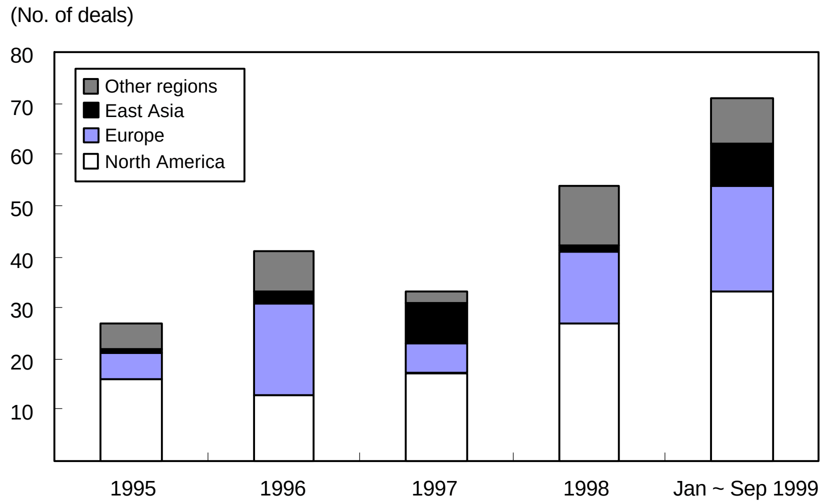
in telecom. The number of industries that saw out-in M&A activity has also risen from 13 in 1995 to 27 in the first nine months of 1999, reflecting the fact that M&As are gradually becoming more accepted.

(5) The biggest out-in M&A deals in Japan in 1998 in terms of value (confirmed deals only) were in finance. Topping the list were a series of deals between Travelers Group and The Nikko Securities Co. Ltd., which included Travelers acquiring a US$1.58 billion stake in Nikko in August, mutual capital participation between the two, and the creation of a joint venture by Nikko and Salomon Smith Barney. Large M&A deals of this kind were mainly acquisitions (or rescues from the Japanese perspective) of domestic financial institutions in dire business straits.

(6) Out-in M&A activity in finance continued during the first nine months of 1999, and large sums were also invested in transport equipment and telecom. The rash of multi-billion dollar deals included the acquisition of Japan Leasing Corporation by GE Capital for US$6.57 billion in March, Renault's acquisition of a US$5.39 billion stake in Nissan Motor Co., Ltd. in June, and British Telecom (BT) and AT&T's acquisition of a US$1.83 billion stake in Japan Telecom in September (Table 23). International Digital Communications Inc. (IDC) was acquired by U.K.-based Cable & Wireless Plc. through a takeover bid (TOB) in June.

(7) Thus although the Japanese economy had still not fully recovered, Japanese FDI inflows grew strongly. Respondents to a questionnaire survey of foreign-affiliated firms in Japan conducted by JETRO in October 1999 were relatively appreciative of the fall in land prices, office rents, telecom charges and other infrastructure costs in the wake of the collapse of the bubble economy, and deregulation in non-manufacturing in particular. The survey also revealed hopes for further improvement of investment environments, such as a reduction in the effective rate of corporation tax, and greater corporate financial disclosure to meet internationally accepted accounting standards. Respondents also suggested measures to attract foreign capital would be improved by offering tax breaks for creating employment and providing more comprehensive information provision by local governments.

Table 18. Out-in M&A deals, 1995~1999



	1995	1996	1997	1998	Jan ~ Sep 1999
North America	16	13	17	27	33
Europe	5	18	6	14	21
East Asia	1	2	8	1	8
Others	5	8	2	12	9
Total	27	41	33	54	71

Source: Same as Table 8.

Table 19. Japanese FDI inflows by source (based on reports and notifications)

(Units: No. of investments, US$ million, %)

	FY1996 (US$ = ¥112.65)				FY1997 (US$ = ¥122.71)				FY1998 (US$ = ¥128.03)				Total for FY1950 ~ 98	
	No. of investments	Value	% share	% change	No. of investments	Value	% share	% change	No. of investments	Value	% share	% change	Value	% share
U.S.	411	2,122	31.0	15.2	445	1,237	22.4	– 41.7	624	6,309	60.3	409.9	25,281	41.6
Canada	20	49	0.7	244.0	9	2	0.0	– 96.4	11	14	0.1	667.2	1,727	2.8
North America	431	2,171	31.7	16.9	454	1,239	22.4	– 42.9	635	6,323	60.4	410.2	27,009	44.4
Netherlands	62	713	10.4	27.2	60	1,192	21.6	67.1	86	1,000	9.5	– 16.2	6,267	10.3
Germany	60	423	6.2	152.9	70	450	8.1	6.3	106	262	2.5	– 41.8	3,161	5.2
U.K.	59	360	5.3	206.1	44	364	6.6	1.2	60	289	2.8	– 20.5	2,656	4.4
France	46	93	1.4	– 18.0	47	76	1.4	– 18.5	36	131	1.3	72.9	1,077	1.8
Other EU members	57	109	1.6	– 54.7	57	242	4.4	123.4	73	353	3.4	45.5	n.a.	–
EU	284	1,698	24.8	41.6	278	2,324	42.1	36.9	361	2,035	19.4	– 12.4	n.a.	–
Switzerland	51	222	3.2	119.9	41	156	2.8	– 29.8	35	225	2.1	44.3	2,852	4.7
Europe	353	1,954	28.6	48.3	329	2,508	45.4	28.4	403	2,361	22.6	– 5.9	n.a.	–
Taiwan	90	19	0.3	– 81.2	81	40	0.7	104.9	45	44	0.4	10.2	n.a.	–
R.O.K.	25	71	1.0	– 24.5	44	69	1.2	– 3.7	31	16	0.2	– 76.8	n.a.	–
Hong Kong	61	155	2.3	490.2	55	334	6.0	115.3	29	37	0.4	– 89.0	1,273	2.1
Singapore	31	954	13.9	15,171.5	39	156	2.8	– 83.6	30	57	0.5	– 63.3	n.a.	–
Malaysia	3	9	0.1	40,734.4	2	0	0.0	– 98.1	1	0	0.0	43.8	n.a.	–
Thailand	4	0	0.0	–	1	0	0.0	– 8.2	0	0	0.0	– 71.2	n.a.	–
Indonesia	2	0	0.0	– 96.7	2	0	0.0	114.2	0	0	0.0	– 68.1	n.a.	–
Philippines	4	2	0.0	2,453.5	1	0	0.0	– 96.1	2	3	0.0	3,733.8	n.a.	–
Asian NIEs	207	1,200	17.5	420.4	219	598	10.8	– 50.1	135	154	1.5	– 74.3	n.a.	–
ASEAN4	13	11	0.2	327.7	6	0	0.0	– 95.4	3	3	0.0	591.3	n.a.	–
China	42	5	0.1	– 60.9	39	5	0.1	1.1	40	2	0.0	– 59.6	n.a.	–
East Asia	262	1,215	17.8	394.4	264	604	10.9	– 50.3	178	159	1.5	– 73.6	n.a.	–
Other Asian countries	35	2	0.0	– 81.4	16	1	0.0	– 68.3	27	5	0.0	677.8	n.a.	–
Asia	297	1,217	17.8	374.4	280	605	10.9	– 50.3	205	164	1.6	– 72.8	n.a.	–
Latin America	51	582	8.5	294.8	60	482	8.7	– 17.2	62	268	2.6	– 44.3	n.a.	–
Near and Middle East	7	17	0.3	6,207.2	7	1	0.0	– 96.9	7	1	0.0	84.4	n.a.	–
Africa	–	–	–	–	3	0	0.0	–	1	0	0.0	– 43.6	n.a.	–
Oceania	14	12	0.2	108.9	9	5	0.1	– 55.7	12	1	0.0	– 89.6	n.a.	–
Japan	151	887	13.0	266.7	159	687	12.4	– 22.6	217	1,351	12.9	96.6	6,876	11.3
Total FDI in Japan	1,304	6,841	100.0	78.3	1,301	5,527	100.0	– 19.2	1,542	10,469	100.0	89.4	60,763	100.0

Notes:
1. Percentage share indicates the share of total FDI in Japan of individual countries/regions.
2. The figures for “Other Asian countries” equal “Asia” minus “East Asia.”
3. “Japan” indicates investments by foreign affiliates in Japan.
4. Percentages may not match totals due to rounding of fractions.
5. Statistics from fiscal 1996 onwards have been released only in yen, and are converted to U.S. dollars by JETRO at the interbank period average rate from the Bank of Japan.
6. Percentage change indicates change on previous fiscal year (same period).
7. "0" indicates amounts less than US$1 million. "-" indicates no actual results available.

Source: Same as Table 14.

Table 20. Ratio of Japanese FDI outflows to inflows (based on reports and notifications)

(Unit: US$ million)

Fiscal Year	1993	1994	1995	1996	1997	1998	1st half 1999
FDI outflows	36,025	41,051	50,694	48,019	53,972	40,747	46,492
FDI inflows	3,078	4,155	3,837	6,841	5,527	10,469	11,338
Outflows to inflows	11.7	9.9	13.2	7.0	9.8	3.9	4.1

Source: Same as Table 14.

Table 21. Japanese FDI inflows by source and industry, FY1998 (based on reports and notifications)

(Units: US$ million, %)

		North America		Latin America		Asia (excluding Japan)		Europe		Japan		Total	
		Value	% change	Value	% change	Value	% change	Value	% change	Value	% change	Value	% change
Manufacturing	Foodstuffs	200	1,242.2	–	–	–	–	1	70.4	–	–	201	1,013.2
	Textiles	12	–	–	–	17	29.3	–	–	–	–	28	83.6
	Rubber and leather products	–	–	–	–	0	– 100.0	31	27.8	6	–	38	– 75.5
	Chemicals	15	– 85.8	0	–	–	–	278	– 33.9	17	– 76.8	310	– 48.5
	Petroleum	–	–	–	–	–	–	63	9,621.6	3	– 86.5	65	39.4
	Glass, earth and stone products	–	–	–	–	–	–	–	–	–	–	–	–
	Metals	–	–	–	–	0	– 52.1	16	–	–	–	16	636.4
	Machinery	1,033	715.0	70	1,068.2	11	– 96.3	261	– 45.0	283	– 2.5	1,663	40.5
	General machinery	66	672.0	1	– 44.6	1	326.0	73	3.5	1	– 94.8	143	34.6
	Electrical machinery	99	– 16.0	69	1,556.3	5	– 98.4	185	9.3	287	8.2	646	– 23.4
	Transport equipment	867	–	–	–	5	–	2	– 99.0	–	–	875	272.7
	Others	40	476.4	–	–	0	– 100.0	57	– 57.5	22	252.3	120	– 20.7
	Sub-total	1,300	356.8	70	448.6	27	– 93.6	707	– 33.3	337	– 14.4	2,441	12.0
Non-manufacturing	Construction	11	16,481.1	–	–	–	–	–	–	–	–	11	282.3
	Real estate	249	6,376.9	0	– 100.0	11	– 55.0	64	3,161.5	0	– 90.5	325	– 17.2
	Trade and commerce	371	19.0	124	374.7	52	– 55.3	775	174.7	51	– 27.4	1,374	69.3
	Services	1,762	449.6	1	– 98.7	20	– 36.1	453	99.8	248	289.2	2,484	243.5
	Transport	5	20,410.8	0	– 84.3	39	6,605.1	3	738.6	0	–	48	1,504.6
	Telecommunications	18	37.3	19	3,829.6	3	1,519.8	66	407.3	25	–	131	393.2
	Finance and insurance	2,540	730.2	52	1,354.0	10	192.4	287	– 68.9	680	715.0	3,568	170.9
	Others	69	–	1	–	2	1,890.6	6	1,594.0	9	– 87.0	87	22.4
	Sub-total	5,023	426.2	198	– 57.8	137	– 22.6	1,654	14.2	1,014	245.9	8,028	139.8
Total		6,323	410.2	268	– 44.3	164	– 72.8	2,361	– 5.9	1,351	96.6	10,469	89.4

Notes:
1. "Japan" indicates investments by foreign affiliates in Japan.
2. Statistics from fiscal 1996 onwards have been released only in yen, and are converted to U.S. dollars by JETRO at the interbank period average rate from the Bank of Japan.
3. Percentage change indicates change on previous fiscal year (same period).
4. "0" indicates amounts less than US$1 million. "-" indicates no actual results available.

Source: Same as Table 14.

Table 22. Trends in Japanese FDI inflows by industry (based on reports and notifications)

(Units: No. of investments, US$ million, %)

	FY1996				FY1997				FY1998				Total for FY1950 ~ 98	
	No. of investments	Value			No. of investments	Value			No. of investments	Value			Value	
			% share	% change			% share	% change			% share	% change		% share
Foodstuffs	3	3	0.0	– 93.1	7	18	0.3	506.3	7	201	1.9	1,013.2	828	1.4
Textiles	3	8	0.1	– 65.6	12	15	0.3	82.8	9	28	0.3	83.6	167	0.3
Rubber and leather products	7	95	1.4	323.6	3	153	2.8	61.5	7	38	0.4	– 75.5	597	1.0
Chemicals	59	617	9.0	– 45.5	54	603	10.9	– 2.2	26	310	3.0	– 48.5	8,113	13.4
Petroleum	34	73	1.1	257.8	31	47	0.8	– 35.7	29	65	0.6	39.4	1,344	2.2
Glass, earth and stone products	1	0	0.0	1,068.0	3	6	0.1	2,580.6	–	–	–	–	180	0.3
Metals	10	468	6.8	86,797.9	3	2	0.0	– 99.5	3	16	0.2	636.4	1,587	2.6
Machinery	73	1,383	20.2	624.0	56	1,184	21.4	– 14.4	132	1,663	15.9	40.5	13,640	22.4
General machinery	33	174	2.5	156.9	26	106	1.9	– 39.3	41	143	1.4	34.6	423	0.7
Electrical machinery	38	744	10.9	526.7	29	843	15.3	13.4	82	646	6.2	– 23.4	2,232	3.7
Transport equipment	2	465	6.8	10,379.9	1	235	4.2	– 49.5	9	875	8.4	272.7	1,574	2.6
Others	21	115	1.7	274.6	20	151	2.7	31.5	15	120	1.1	– 20.7	1,195	2.0
Manufacturing	211	2,762	40.4	88.7	189	2,179	39.4	– 21.1	228	2,441	23.3	12.0	27,651	45.5
Construction	4	0	0.0	– 22.4	6	3	0.1	577.8	2	11	0.1	282.3	133	0.2
Real estate	44	235	3.4	1,343.5	33	392	7.1	67.0	81	325	3.1	– 17.2	2,208	3.6
Trade and commerce	610	1,477	21.6	109.1	588	812	14.7	– 45.1	525	1,374	13.1	69.3	11,256	18.5
Services	341	2,095	30.6	316.5	357	723	13.1	– 65.5	423	2,484	23.7	243.5	8,800	14.5
Transport	10	9	0.1	– 29.6	10	3	0.1	– 66.4	17	48	0.5	1,504.6	307	0.5
Telecommunications	29	19	0.3	– 66.6	25	27	0.5	43.0	41	131	1.3	393.2	584	1.0
Finance and insurance	50	243	3.5	– 76.8	86	1,317	23.8	442.6	200	3,568	34.1	170.9	8,596	14.1
Others	5	1	0.0	– 95.9	7	71	1.3	4,919.1	25	87	0.8	22.4	1,228	2.0
Non-Manufacturing	1,093	4,079	59.6	71.9	1,112	3,348	60.6	– 17.9	1,314	8,028	76.7	139.8	33,111	54.5
Total FDI in Japan	1,304	6,841	100.0	78.3	1,301	5,527	100.0	– 19.2	1,542	10,469	100.0	89.4	60,763	100.0

Notes:
1. Percentages may not match totals due to rounding of fractions.
2. Statistics from fiscal 1996 onwards have been released only in yen, and are converted to U.S. dollars by JETRO at the interbank period average rate from the Bank of Japan.
3. Percentage change indicates change on previous fiscal year (same period).
4. "0" indicates amounts less than US$1 million. "-" indicates no actual results available.

Source: Same as Table 14.

Table 23. Main out-in cross-border M&A deals in Japan, 1998~1999

(Unit: US$ million)

Date of completion	Buyer	Acquisition	Country	Value
Mar 1998	Crown Leasing	Bankers Trust, etc	U.S.	220
Mar 1998	J-COM Company, Ltd.	Nextel Communications Inc	U.S.	32
Apr 1998	Toho Mutual Life Insurance Company	GE Financial Assurance	U.S.	594
Apr 1998	Yamato Mutual Life Insurance	Goldman Sachs & Co	U.S.	455
Aug 1998	DIC Finance	Associates First Capital Corp	U.S.	995
Aug 1998	The Nikko Securities Co., Ltd.	Salomon Smith Barney Holdings	U.S.	1,584
Nov 1998	Tokyo Biso Kogyo Corporation	Johnson Controls Inc	U.S.	33
Mar 1999	Japan Leasing Corporation	General Electric Capital Corp	U.S.	6,566
Apr 1999	Daihyaku Mutual Life Insurance Company	Manufacturers Life Ins Co	Canada	698
Jun 1999	Nissan Motor Co., Ltd.	Renault SA	France	5,391
Jun 1999	International Digital Communications (IDC)	Cable & Wireless PLC	U.K.	699
Jun 1999	Sumitomo Rubber Industries, Ltd.	Goodyear Tire & Rubber Co	U.S.	110
Jul 1999	Nissan Diesel Motor Co., Ltd.	Renault SA	France	104
Aug 1999	Mazda Credit Corporation	Ford Motor Credit Co	U.S.	70
Sep 1999	Japan Telecom	AT&T, British Telecom	U.S., U.K.	1,834

Note: Acquisitions include capital tie-ups and joint ventures.

Source: Same as Table 8.

7. Future issues

(1) Following the currency and economic crises in Asia, recognition of the importance of FDI to developing countries has grown. Although in recent years the bulk of global FDI flows have been between industrialized countries, it is essential that developing countries receive more FDI if they are to modernize their economies and increase their competitiveness. Many developing countries are therefore taking steps to improve investment conditions by relaxing or scrapping controls on foreign capital, and such moves are to be commended. Attracting the small businesses that form the core of supporting industries, however, requires not only traditional investment protection treaties concerning mainly compensation in the event of expropriation, but also the elimination of performance requirements (such as export requirements and conditions concerning the nationality of corporate officers) that place a burden on firms entering foreign markets, and the introduction of investment rules guaranteeing equal national treatment from before an investment is made. Investment rules need to be developed within a multilateral international framework, but at present, individual countries hold different views on the subject. At the World Trade Organization talks in Seattle in December 1999, there was no consensus on the need for a framework of rules despite the proposals put forward by the EU and Japan. It would therefore appear more realistic for the time being to press ahead with those bilateral agreements that are possible; such agreements would have the effect of internationalizing Japan's small businesses, as well as strengthening industries in developing countries.

(2) Since cross-border M&As comprise the bulk of global FDI flows at present, it is essential that obstacles to such deals be removed if Japanese FDI inflows are to be encouraged. This will expand the range of strategic choices open to Japanese firms, and stimulate corporate business activity. Among the reforms that have been taken or are in the process of being taken by the Japanese government are the lifting of the ban on true holding companies (December 1997), streamlining of merger procedures (October 1997), relaxation of notification requirements for mergers and acquisitions (January 1999), establishment of a stock-swap transaction system (October 1999), and introduction of new current value and consolidated accounting standards (accounting period ending in March 2000). Of these, stock-swap deals have seen particularly wide use by Japanese firms as a means of group consolidation. Now what is needed is swift action to introduce a consolidated tax return system and legislation on dividing companies up, and to develop and improve bankruptcy legislation.

(3) Global FDI is increasing, especially in non-manufacturing areas such as service industries. Traditionally tightly regulated, it is deregulation of services that has in many instances triggered entry by foreign firms. In Japan, fields such as telecom, finance and distribution have been steadily deregulated since the “Programme for Promoting Deregulation” was first unveiled by the government in March 1995, and there are plans to liberalize electricity retail sales to large consumers in March 2000 and abolish the Large-Scale Retail Store Law in June of the same year. At the same time, moves such as the establishment of Mothers (the "market of high-growth and emerging stocks") by the Tokyo Stock Exchange designed to expand the range of financing options open to venture businesses are expected to improve investment conditions for smaller foreign businesses in the medium to longer term. Nevertheless, more measures and further deregulation in particular are needed to improve the business environment in the future.

(4) FDI inflows into Japan are essential if the Japanese economy is to regain its vitality and new

employment opportunities are to be created. To date, however, foreign firms have not exactly had a high opinion of the incentives to invest in Japan and the efforts by local governments to attract foreign investment. According to a questionnaire survey of foreign firms conducted by JETRO, foreign firms entering the Japanese market would like preferential tax measures for creating employment, and small foreign businesses in particular want more comprehensive information to be provided by public agencies. Despite the fact that a foreign firm's decision whether to locate outside the Tokyo metropolitan region depends on the existence of a market, local governments generally fail to provide potentially interested companies with detailed information on the sizes of their local markets. Based on these wishes of foreign firms, the means of attracting investment, including fresh measures, need to be considered.

PART 2. FOREIGN DIRECT INVESTMENT BY COUNTRY/REGION

1. North America

(1) Record U.S. and Canadian FDI flows

North American FDI inflows and outflows grew strongly in 1998. U.S. firms' greater inclination to invest because of the stronger dollar helped lift U.S. FDI outflows by 21% on the previous year to US$132.8 billion. U.S. FDI inflows rose 77% to US$193.4 billion, because with many economies performing sluggishly, the still-buoyant U.S. market attracted increased inflows of foreign capital from other countries. There was a marked increase in large M&A deals between the U.S. and EU in 1998, with particularly strong growth in acquisitions of U.S. firms by European firms.

Canadian FDI outflows grew 29% on the year earlier to C$39.4 billion, and inflows rose 54% to C$24.5 billion. There was particularly strong growth in FDI outflows to the U.S., and a wave of big M&A deals taking the form of acquisitions in the U.S. by Canadian firms.

(2) Agreement on China's accession to the WTO

Negotiations between the U.S. and China on the latter's accession to the WTO ended in agreement in November 1999. The agreement concerned mainly investment-related matters, and included an increase on the ceiling on foreign equity participation in IT and telecom companies, and authorization of renminbi transactions between foreign banks and Chinese firms. An agreement was also reached with Vietnam to begin negotiating a trade agreement incorporating provisions on investment.

The long-awaited banking reform bill was passed by Congress on November 4. If it becomes law, it should result in deregulation in the financial sector and allow, for example, banks, brokerages and insurers to enter each other's markets.

(3) Record U.S. FDI outflows to Japan

FDI flows between the U.S. and Japan in 1998 were distinguished by falling Japanese investment in the U.S. and a steep increase in U.S. investment in Japan. This was due to a wave of big out-in M&As in Japan, such as the acquisition of a leading consumer credit company by GE Capital Services.

In May 1999, a working committee on investment and inter-company relations set up by the Japanese and U.S. governments under the Japan-U.S. Framework for a New Economic Partnership reported on current investment conditions in the context of land and labor policy and M&As, in which the U.S. government had expressed interest.

FDI flows between Japan and Canada were depressed in 1998. However, using as a springboard the visit to Japan in September 1999 by Team Canada, an ambitious government-private sector trade and investment mission led by Prime Minister Jean Chrétien, the Canadian government hopes to expand business in Japan.

Trends in U.S. and Canadian FDI Inflows and Outflows

U.S. (Unit: US$ million)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Outflow	43,726	37,519	38,233	48,733	84,412	80,697	99,481	92,694	109,955	132,829
of which, Japan	299	844	244	683	1,625	1,867	2,336	– 280	– 371	3,844
Inflow	68,653	48,951	23,695	20,975	52,552	47,438	59,644	88,977	109,264	193,375
of which, Japan	18,653	18,754	11,421	4,186	1,058	5,486	6,591	13,337	9,275	7,101

Note: U.S. FDI outflows and inflows measured on a BOP basis. Japanese FDI outflows and inflows measured on a book value basis.

Source: *Survey of Current Business*, U.S. Department of Commerce.

Canada (Unit: C$ million)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Outflow	5,290	5,100	6,200	4,339	7,354	12,694	15,732	17,562	30,531	39,414
of which, Japan	– 48	231	32	265	– 40	240	– 815	–125	695	– 108
Inflow	4,200	6,820	7,500	5,708	6,103	11,206	12,703	12,827	15,879	24,470
of which, Japan	991	713	644	415	189	608	571	906	635	294

Source: *Canada's Balance of International Payments*, Canadian Bureau of Statistics.

2. Latin America: FDI receipts in Latin America continues to increase

(1) Record FDI receipts in 1998

Due in the main to a 56.7% surge in FDI in Brazil to US$29.17 billion, net FDI receipts in Latin America (inflows minus outflows in terms of investments implemented) grew 7.9% on a year earlier to a record US$59.99 billion in 1998. M&A activity in Brazil soared as a result of investment by U.S. and European multinationals lured by the privatization of utilities, such as the US$19.0 billion breakup and privatization of state telecom carrier TELEBRAS, and the opportunities offered by the Mercado Común del Sur (MERCOSUR). Though down 20% from 1997 to US$10.24 billion, investment in Mexico, the second largest recipient of FDI, remained above the average for 1995~97. The main reason for the strong inflow of FDI into Mexico was heavy investment in maquiladoras and other U.S.-oriented export companies, which was encouraged by the buoyant state of the U.S. economy.

(2) Growth in 1999 driven by inflows into MERCOSUR

The spread of global financial turmoil from Asia to Russia caused the economies of Latin America to enter a sharp recession from the latter half of 1998, with economic growth falling from 5.4% in 1997 to 2.3%. Although a recovery is expected in the second half of 1999, growth for the year as a whole will still be slightly negative. With regard to the balance of payments, current account deficits grew and the burden of foreign debt remained. The growth in FDI inflows seen in 1998 nevertheless continued in 1999. In Brazil, where the real was sharply devalued during the currency crisis following the switch to a floating exchange rate regime in January 1999, FDI inflows in the first half of 1999 look set to exceed inflows in 1998 due to continued high levels of investment in privatizations along with capital increases in local subsidiaries undertaken by foreign parent companies taking advantage of the opportunities for cheaper capital investment created by the fall in the real. In Chile, the surge in Spanish investment in electricity, gas and water utilities caused FDI received in the first half of 1999 to equal that received in the whole of 1998. FDI amounts received by Argentina and Mexico are also expected to equal or exceed those received the previous year.

(3) Japanese FDI concentrated in finance and insurance

Japanese FDI outflows to Latin America in fiscal 1998 (based on notifications to the Japanese Ministry of Finance) increased 2.0% on the previous year to US$6.46 billion, and the region's share of Japanese FDI outflows rose from 11.7% in fiscal 1997 to 15.9%. Broken down by industry, investment in finance and insurance accounted for the vast majority (71.2%) of total outflows to the region, rising 36.0% on the previous year to US$4.60 billion. This was due to the high level of investment in the tax haven of the Cayman Islands. Next at 16.1% was the transport sector, where investment (which mainly went into flags of convenience in Panama) fell 7.1% to US$1.04 billion. Investment in manufacturing approximately halved to US$342 million. This was due to the pause in auto-related investment in Mexico after sharp growth in 1997, and the decline in investment in the Brazilian steel and machinery industries.

Trends in FDI in Latin America (Units: US$ million, %)

	1992	1993	1994	1995	1996	1997	1998
FDI received by Latin America	12,484	10,327	23,657	24,922	37,827	55,603	59,991
(% change)	13.5	– 17.3	129.1	5.3	51.8	47.0	7.9
Japanese FDI in Latin America	2,726	3,370	5,231	3,877	4,446	6,336	6,463
(% change)	– 18.3	23.6	55.2	– 25.9	14.7	42.5	2.0

Notes: 1. Figures on FDI received are net, based on BOP statistics from the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). Figures for 1998 are estimates.
2. Statistics for Japan are based on fiscal year and converted to dollars.

Sources: ECLAC statistics and statistics on investments notified to Ministry of Finance (MOF), Japan.

3. Western Europe: FDI inflows and outflows reach record levels

(1) Investment growth driven by boom in M&A deals

Factors such as the launch of the euro, greater investment in Eastern Europe and the increasing pace of globalization caused European FDI flows to grow in 1998. Eurostat figures indicate that EU FDI outflows (measured in ECU and excluding intra-regional flows) grew 150%, while inflows grew 160%. The trend toward consolidation accelerated, fueled by growing competition and firms' aggressive expansion of cross-border operations, and there was an increase in M&A activity both within the EU and between the EU and U.S.

A breakdown of inflows into individual countries based on national statistics indicates that German FDI inflows from the EU grew 160%, and those from the U.S. grew 800%. Inflows into France from the EU grew 38%, and those from the U.S. grew 68%. (U.S. investment in EU manufacturing tripled.) Dutch inflows from the EU and U.S. grew 60% and 560%, respectively. With regard to outward FDI, German outflows to the EU grew 120% and to the U.S. 340%, and Dutch outflows to the EU grew 80% and to the U.S. 18%. Investment in Central and Eastern Europe remained robust. There was also noticeable growth in FDI outflows to Latin America from Spain and Portugal, and a recovery in investment in Asia among countries such as France and the Netherlands. The wave of large M&A deals continued in 1999.

(2) Mega-deals among a wide range of industries

1998 was characterized by a number of mega-deals, including the merger of Daimler-Benz and Chrysler, and the acquisition of Amoco (U.S.) by BP. There was also considerable growth in M&As within Europe, as well as between European and U.S. firms. German firms played an active role, such as in the acquisition of Rolls Royce by Volkswagen and the merger of Hoechst and Rhône-Poulenc's biotechnology arms. French acquisitions of foreign firms grew 85% from the previous year, and foreign acquisitions of French firms also rose 39%. U.K. in-out M&As increased 40% in terms of number and 143% in terms of value, both records, and there was particularly conspicuous growth in the value of acquisitions of U.S. firms. Foreign acquisitions of U.K. firms also rose markedly, increasing 47% in terms of number and 40% in terms of value. Dutch in-out M&As doubled from the previous year, and out-in M&As also increased. M&As took place in a wide range of fields—automobiles, chemicals, foodstuffs, machinery, communications, finance and distribution—and M&A activity continued in 1999.

(3) Increase in Japanese FDI driven by investment in the U.K.

Statistics from individual countries indicate that with the exception of countries such as the U.K., Italy and Spain, European receipts of FDI from Japan were generally sluggish in 1998. This was a result of firms streamlining their overseas operations and cutting back on investment due to poor business conditions and weak business performances in Japan. According to statistics on investments reported to the Japanese Ministry of Finance in fiscal 1998 (dollar terms), however, FDI outflows to the U.K. grew 140%, pushing up FDI outflows to the EU as a whole by 25%. Strong growth is also apparent from Eurostat statistics. The growth in Japanese investment in the U.K. resulted from investment in the establishment of new automobile and autoparts plants and the centralization of European operations in the U.K. by financial institutions and trading companies. Investment in the automobile industry stood out in other countries as well, although investment also went into other fields, such as agrichemicals, pharmaceuticals, chemicals and machinery. As in the case of the Netherlands, investment in head office functions and logistics centers remained strong despite a fall in the value of investment from the previous fiscal year.

European FDI outflows to Japan recovered strongly from 1997 levels, but were still a long way below levels in 1996. In 1999, however, foreign firms have made considerable inroads into Japan. These have included not only investments in telecom by U.K.-based Cable & Wireless and BT, but also areas such as automobiles and auto parts (e.g. French-based Renault’s acquisition of a stake in Nissan), machinery, finance and insurance, IT software, and fashionwear.

Trends in FDI Inflows and Outflows of the EU (Excluding Intra-Regional Investment)

(Unit: ECU million)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Outflow (excluding intra-regional FDI)	31,680	33,282	20,527	26,732	17,828	24,157	24,129	45,580	42,766	77,671	191,640
of which, Japan	247	682	911	341	445	– 1,229	272	854	1,822	248	1,010
Inflow (excluding intra-regional FDI)	18,141	27,943	32,753	20,933	22,760	21,504	21,814	37,220	28,420	35,970	94,300
of which, Japan	2,584	4,354	5,406	1,682	1,859	1,600	1,454	1,535	958	995	2,420

Notes: 1. Figures for EU12 up to 1991 and EU15 from 1992.
2. Preliminary estimates for 1998.
3. Reinvested earnings not included.

Sources: *European Union Direct Investment Data 1998*; Eurostat News Release No. 60/99, *Foreign Direct Investment 1998* (July 1, 1999).

4. Central and Eastern Europe, CIS

(1) Central and Eastern Europe: Aggregate FDI inflows exceed US$50 billion

A decade has passed since the countries of Central and Eastern Europe made the transition to market-based economies. During this time, foreign capital flows, mainly from Europe and the U.S., into eight countries in the region (Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Slovenia and Croatia) reached an aggregate total of some US$52.3 billion as of the end of 1998, and plants formerly operated under Communist control are now being transformed into centers of production for Western Europe. Countries in the region have grown increasingly aware that inflows of foreign capital are essential to their economic development, and are concentrating on offering increased incentives to attract leading companies in industrialized countries. Competition within the region to lure FDI is intensifying. Although varying in scope and state of progress, activities to privatize their biggest enterprises and sell off large quantities of government-held shares are starting to take place in each country, and this is encouraging leading firms in the U.S. and Europe to invest energetically in the region to build up their positions in what they now see as new markets with considerable growth potential.

Central and Eastern European FDI inflows rose steeply by 70.4% on the previous year to US$14.50 billion in 1998, the first time that annual inflows exceeded the US$10 billion mark since the transition to market-based economies. This figure is expected to be surpassed in 1999, when inflows are projected to reach around US$15 billion. A breakdown of the US$52.3 billion in foreign capital invested in the region up to the end of 1998 reveals that 79% was concentrated in three countries: Hungary (31%), Poland (29%) and the Czech Republic (19%). The biggest investor in five of the eight countries was Germany, which has strong historical and geographical ties. The next biggest investor was the U.S., followed by Austria and the Netherlands. By industry, investment in manufacturing comprised around half or more of the total in Poland (58.3%), the Czech Republic (55.5%), Slovenia (51.0%) and Slovakia (49.2%).

Now that Central and Eastern European countries' membership in the EU is a distinct possibility, leading U.S. and European companies in fields such as auto/autoparts, finance, communications, aviation and energy are rushing to enhance their market positions in the region, and FDI inflows are expected to continue to grow in 2000.

(2) CIS: One year after the financial turmoil - limited recovery in Russian FDI inflows is evident

An examination of Russian FDI inflows up to the first half of 1999 measured on a BOP basis reveals a slump to US$411 million in the third quarter of 1998, when the country was in financial turmoil, but recovery to US$722 million in the second quarter of 1999. The upward trend is expected to continue in the second half of 1999. At US$1.36 billion, however, the value of investment received in the first half of 1999 was still a long way below pre-crisis levels; total investment in 1997, for example, came to US$6.24 billion.

The massive devaluation of the ruble in the second half of 1998 made domestic production more profitable than importing, encouraging foreign firms in certain sectors, such as the food industry, to produce locally. There nevertheless remains no prospect of any dramatic improvement in inflows of foreign capital due to the facts that 1) although the Russian economy is recovering rapidly, personal consumption and capital investment remain weak and a question mark hangs over the sustainability of recovery; 2) consumer purchasing power is weak and domestic markets are too small to accommodate a wave of foreign entrants; and 3) the capital flight (i.e. Russian capital sent abroad) since the outbreak of the crisis has yet to abate. More than anything else, many foreign firms are holding off on making new investments pending the election of a new president scheduled for March 2000.

According to the European Bank for Reconstruction and Development (EBRD) data on estimated total FDI inflows into the 11 countries of the Commonwealth of Independent States (CIS) excluding Russia, inflows edged up 0.3% from the previous year to US$3.96 billion despite all 11 being severely affected by the financial turmoil in Russia. The three biggest recipients of FDI in value terms were Kazakhstan, Azerbaijan and Ukraine. Year-on-year growth was most marked in the case of Armenia, where inflows rocketed 346.2% as a result of the aggressive sale of major state-owned enterprises to foreign investors.

Inflows of FDI into Central and Eastern Europe and the CIS, 1995~1999 (BOP basis)

(Unit: US$ million)

	1995	1996	1997	1998 (estimated)	1999 (forecast)	Aggregate total 1989~98
Central and Eastern Europe	9,067	7,464	8,507	14,495	15,055	52,269
CIS	3,684	4,520	7,703	5,104	6,703	23,687

Note: Central and Eastern Europe is Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Slovenia and Croatia. (Baltic States not included.)

Sources: Prepared by JETRO based on *Transition Report 1999*, EBRD.

5. Asia and Oceania

(1) General decline in FDI inflows (approval basis) due to economic crisis

In 1998, the effects of the currency and economic crises caused FDI received by each of the ASEAN5 nations (Singapore, Thailand, Malaysia, Indonesia and the Philippines) except Malaysia to fall on an approvals basis (FDI in Singapore based on commitments; figures for all economies differ from BOP based statistics). Malaysian FDI receipts continued to grow in 1999, and Singapore's also recovered, but inflows into Thailand, Indonesia and the Philippines remained on a downward trend. The period since the outbreak of turmoil in the region has been characterized by 1) declines in FDI from Japan in 1998 and 1999 due to the sluggish state of the Japanese economy, and 2) a decline in new and expanded investment and an increase in capital increases and financial assistance injected by Japanese firms, and increased M&A activity in the case of U.S. and European firms as part of moves to expand capacity following recovery from the economic crisis. The R.O.K.'s receipts of FDI (including FDI from Japan) are expected to continue to grow for a second year on an approvals basis in 1999.

Investment conditions in Indonesia are expected to improve, in view of upward-trading worldwide investment in the booming electronics industry, the June 1999 general election and October presidential and vice-presidential elections passing without incident, and stabilizing social and political conditions in the country. Since 1999, however, FDI inflows into Vietnam, Laos and Cambodia have all fallen on an approvals basis due to the depressed economic state of leading investor countries, including the R.O.K. and Thailand.

FDI inflows into China measured in terms of implemented investments nudged up slightly in 1998, but the slowdown evident since 1997 caused by the Asian slump continues. Inflows shrank 6.8% year on year in the first nine months of 1999, and it looks likely that annual inflows will fail to reach the previous year's level. In Southwest Asia, FDI received by India and Pakistan shrank on an approvals basis as a result of economic sanctions imposed by the U.S., Japan and other industrialized countries following the nuclear tests conducted by the two countries in May 1998, and it is feared that the reimposition of sanctions following the military takeover in Pakistan in October 1999 could cause FDI to decline again. In Australia, robust growth in investment in manufacturing contributed to the fourth consecutive year of growth in FDI on an approvals basis in fiscal 1997 (July to June). FDI in New Zealand continued to grow on an approval basis in the first six months of 1999 as a result of an increase in foreign capital entering the economy as a result of the privatization of public corporations.

(2) Continued relaxation of controls on foreign capital

In order to recover from the effects of the currency and economic crises, ASEAN governments rushed to relax controls on foreign capital in the second half of 1997 and 1998, and with inflows still sluggish, they continued to deregulate in 1999. In Thailand, an amendment to the Foreign Enterprise Control Law, scheduled to go into effect in March 2000, was passed by the Thai Parliament in October 1999 to allow the entry of foreign firms in over 20 sectors of the economy, including the retail sector. The Philippines is pursuing similar measures, and aims to pass a bill to liberalize retail sales. In Indonesia, new tax holidays were announced in January 1999, the ceiling on foreign equity participation in banks was raised in May, the establishment of holding companies was permitted from June, and it became possible for investment applications to be processed and approved through diplomatic missions overseas in September. In Singapore, banking was liberalized and restrictions on foreign equity participation in local banks were lifted in May of the same year. In Malaysia, capital controls were introduced on September 1, 1998, but some controls were relaxed with the introduction of a remittance tax system (exit levy) in February 1999, and on September 1, restrictions on the removal of short-term capital from the country were scrapped as scheduled. The liberalization of intra-regional trade and investment is also proceeding, making the ASEAN region an increasingly attractive location for investment. Progress was made regarding the ASEAN Free Trade Area (AFTA) at ASEAN meetings such as the ASEAN summit in Hanoi in December 1998 and the meeting of finance ministers in Singapore in September 1999, for example, and the conditions that must be met for ASEAN Industrial Cooperation (AICO) schemes to be approved are being relaxed. Plans are also emerging for the creation of free trade zones involving other regional economic blocs, such as the agreement reached in October between ASEAN and CER (Australia -New Zealand Closer Economic Relationship Treaty Agreement) to establish a free trade zone by 2010.

Following the bilateral agreement reached with Japan in July, China and the U.S. at last came to an agreement in November concerning China's entry to the WTO. When finally achieved, China's accession should open up service sectors such as finance, distribution and telecommunications. At the same time, however, there are concerns that China’s entry could deal a severe blow to its domestic industries and cause unemployment to surge.

(3) Sharp drop in FDI outflows in 1998

FDI outflows from the main ASEAN economies dropped sharply in 1998 as a result of the depressed state of neighboring economies. According to statistics from recipients of Singaporean FDI, investment in Malaysia and Indonesia fell 24.4% and 44.9%, respectively from a year earlier on an approval basis, and investment in China slumped 32.8% in terms of contract value. FDI from Thailand slumped 40.6% on a BOP basis in 1998, though this was more the result of reluctance to invest because of the domestic slump and the difficulty of raising funds for investment. FDI from Malaysia fell 21.8% on a BOP basis in 1998 due to the impact of the economic crisis. Although not yet back to the level achieved in 1996, FDI from the R.O.K. nevertheless rose 18.8% on the previous year in 1998 in terms of investments implemented.

Chinese FDI outflows measured on an approvals basis (Chinese investment only) fell 23.6% in 1998.

(4) FDI from Japan still depressed

According to national statistics on investments approved, Japanese FDI outflows to all ASEAN5 nations fell again in 1999. This is explained in large part by the sluggish state of the Japanese economy and weak demand among industries in the ASEAN region that depend on domestic demand.

Since the outbreak of the currency and economic crises, there has been a noticeable increase in the number of companies—especially Japanese companies—boosting the capital of their local affiliates to strengthen their business foundations. Viewing countries such as Thailand and Malaysia as bases for future export operations, Japanese manufacturers in export industries such as the electronics industry have also begun to transplant production offshore and invest in increased production capacity in the region. At the same time, there is a growing trend among Japanese automakers in Thailand to take on production transferred from Japan and switch to exporting to markets outside the region, such as Australia, in order to maintain operating levels.

In finance and other fields where Japanese parent companies face harsh business conditions, there have been cases of branch closures in countries such as the Philippines, R.O.K., Indonesia and Singapore.

Trends in FDI Received by ASEAN5 and R.O.K.

(Units: upper rows – value of investments approved, lower rows – percentage change on previous year or same period of previous year)

Country	Units	1998				January 1999 to latest month				Remarks
		Total	of which, Japan	of which, U.S.	of which, EU	Total	of which, Japan	of which, U.S.	of which, EU	
Thailand [1]	million baht	272,528	67,960	23,020	139,009	110,124	21,786	34,165	29,682	Jan ~ Sep ’99
		– 18.2%	– 58.5%	– 74.3%	72.2%	– 26.6%	– 30.2%	89.1%	– 45.7%	(approvals)
Malaysia	million ringgit	13,063	1,868	6,433	1,449	6,992	759	2,807	828	Jan ~ Jun ’99
		13.9%	– 13.7%	168.4%	– 33.0%	23.0%	– 44.4%	12.1%	298.6%	(approvals)
Indonesia	US$ million	13,563	1,331	568	5,311	9,385	422	128	527	Jan ~ Sep ’99
		– 59.9%	– 75.5%	– 44.2%	– 54.8%	– 25.7%	– 62.4%	– 77.3%	– 89.9%	(approvals)
PEZA	million peso	36,913	25,050	8,902	863	13,532	3,764	972	6,992	Jan ~ Jun ’99
Philippines		– 27.5%	– 2.0%	– 40.8%	– 71.5%	– 51.6%	– 82.3%	– 84.0%	2,295.0%	(approvals)
BOI	million peso	37,299	2,785	6,009	11,968	18,890	1,664	12,945	1,836	Jan ~ Aug ’99
		– 36.5%	– 25.2%	– 42.3%	– 63.0%	– 18.1%	– 38.8%	6,673.7%	– 56.3%	(approvals)
Singapore	S$ million	5,214	1,822	2,293	881	2,928	620	1,271	798	Jan ~ Jun ’99
		– 12.6%	– 10.3%	– 5.3%	– 37.0%	32.7%	– 17.9%	10.5%	691.9%	(commitments)
R.O.K.	US$ million	8,852	503	2,976	2,889	10,249	1,073	2,038	5,121	Jan ~ Oct ’99
		27.0%	89.1%	– 6.7%	25.3%	85.3%	127.3%	18.1%	99.5%	(approvals)

Notes 1: Investments made jointly by firms from more than one country are counted more than once in Thai BOI statistics. EU is U.K., Germany, France, Belgium, Italy and the Netherlands.

2: The Thai BOI's definition of FDI was changed from "at least one share held by foreign investors" to "at least 10% foreign equity participation" in July 1997. The figures for January-September 1999 were calculated based on the new definition, while the old definition was used for the 1998 figures.

Sources: R.O.K. Department of Industrial Resources (formerly the R.O.K. Department of Finance and Economy until 1998), Thai BOI, Malaysian Industrial Development Authority, Indonesian Investment Coordinating Board, Philippine BOI, Philippine Economic Zone Authority (PEZA) and Singapore Economic Development Board (EDB).

6. Middle East and Africa

(1) Middle East (including North Africa): Increase in FDI inflows into Israel and Egypt

FDI inflows into the Middle East exceeded US$9.0 billion in 1998, staying on a par with levels in 1997, when investment grew rapidly due to increased inflows into Saudi Arabia and Morocco.

According to UNCTAD, the biggest recipients of FDI were Saudi Arabia (US$2.4 billion), Israel (US$1.8 billion), Egypt (US$1.1 billion), and Turkey (US$800 million). FDI inflows grew particularly strongly in Israel, due to aggressive acquisition of high-tech companies and small businesses with high growth potential, and in Egypt, thanks to the buoyant state of the economy and improving investment conditions. Turkey experienced a sharp slowdown in growth due to the effects of the economic crisis in Russia and the currency crisis in Asia, and Saudi Arabia's economy too floundered due to a substantial downturn in oil revenues resulting from the fall in oil prices. FDI inflows into both countries nevertheless continued to grow strongly as in the previous year. FDI inflows into Morocco, which increased to US$1.1 billion in 1997 fueled mainly by investment in privatizations, fell far below the annual average to just US$300 million due to a pause in privatization programs.

Japanese FDI outflows to the Middle East (based on notifications to the Japanese Ministry of Finance) in fiscal 1998 consisted of five investments worth US$151 million, a mere third of the US$530 million value of the eight investments the previous year. This was due to the total lack of investment in the United Arab Emirates, where investment in manufacturing had pushed up investment the previous fiscal year, and the pause in investment in natural gas projects in Qatar.

(2) Africa: Sharp drop in investment in South Africa

A precipitous decline in investment in the Republic of South Africa to a fifth of the level in the previous year caused FDI inflows into sub-Saharan Africa in 1998 to fall 10%. This was due to a temporary absence of large investments (including investments in privatized enterprises in South Africa), the rand’s fall in value, and the subsequent instability due to the Asian currency crisis and financial turmoil in Russia. South Africa's share of sub-Saharan FDI inflows slumped from 27% in 1997 to 7% in 1998. FDI inflows into sub-Saharan Africa excluding South Africa, however, grew a healthy 15% on the previous year as a result of investment in energy resource development and continued high levels of investment in privatizations over the past few years. According to UNCTAD, investment was particularly marked in Nigeria, Angola and Gabon, all oil-producing countries; Zimbabwe, Zambia and Tanzania, major state enterprises were privatized; and Côte d'Ivoire and Mozambique, mineral resources development attracted inflows.

Governments in the region have succeeded in attracting foreign capital by privatizing and pursuing structural reforms such as deregulation. In countries where privatization has already run its course, efforts are now focusing on attracting investment in fields such as agriculture and mineral resources where the potential for development is high. Countries in the region are also streamlining their investment procedures and developing the infrastructure to enable them to function as centers for exporting to neighboring markets.

In fiscal 1998, there were 31 investments by Japanese companies in sub-Saharan Africa worth a total of US$434 million (based on notifications to the Japanese Ministry of Finance), compared to the 24 investments worth US$317 million the previous year. By far the greatest share of this was accounted for by investment in Liberian flags of convenience, which grew 150% from the previous year. Excluding FDI in Liberia leaves only five investments amounting to US$57 million (worth 52% less than in fiscal 1998, when there were nine investments).

Trends in FDI receipts in the Middle East and Africa (BOP basis) (Unit: US$ million)

	1993	1994	1995	1996	1997	1998
Middle East	5,657	4,247	2,068	3,896	9,141	9,061
Africa	1,933	3,318	3,958	4,781	6,314	5,659

Notes: 1. Middle East includes North Africa. Africa means sub-Saharan Africa.
2. Figures for 1998 are estimates.

Source: Prepared by JETRO from *World Investment Report 1999,* UNCTAD.

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