JETRO WHITE PAPER ON FOREIGN DIRECT INVESTMENT 2001

ACCELERATED CORPORATE REALIGNMENT THROUGH MERGERS AND ACQUISITIONS

(Summary)

JETRO

JAPAN EXTERNAL TRADE ORGANIZATION

CONTENTS

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

1. U.K. leads world in FDI outflow for the first time in 11 years

Global foreign direct investment (FDI) led by companies in the European Union and the United States surged in 1999, with FDI outflow expanding 16.4% to US$799.9 billion and FDI inflow rising 27.3% to US$865.5 billion, according to estimates from the United Nations Conference on Trade and Development (UNCTAD). The United Kingdom overtook the U.S. to become the world's leading source of FDI for the first time in 11 years (Table 1). Measured on a balance of payments (net flow) basis, U.K. firms invested US$202.1 billion, up 68.7% due to a sharp rise in large-scale cross-border mergers and acquisitions (M&As). France also saw its FDI outflow climb sharply by some 130% to more than US$100 billion. Overall, there was a substantial expansion of European FDI outflow centered on cross-border M&As. The U.S. saw its FDI inflow rise 46.1% to US$282.5, making it the largest recipient of FDI for the seventh straight year (Table 2).

(1) The surge in global FDI that began in the late nineties gathered pace in 1998 and 1999. Average annual investment rose from US$93.8 billion in the 1980s to US$388.3 billion in the 1990s, and averaged US$541.5 billion in the latter half of the decade. Behind this growth has been the high level of investment by industrialized countries. In 1999, industrialized countries' FDI outflow rose 12.3% to US$731.8 billion, and inflow expanded 32.4% to US$636.4 billion. Although the rate of growth slowed from the previous year, the industrialized countries' share rose to 91.5% of FDI outflow and 73.5% of inflow (Tables 1, 2), and five countries, the U.S., U.K., France, Germany and the Netherlands alone accounted for 75.3% of global FDI outflow (1999).

(2) FDI outflow from the U.K. rose sharply by 68.7% to US$202.1 billion in 1999. This was due in large part to British involvement in the two most expensive mega deals of the year: the acquisition of AirTouch Communications Inc. of the U.S. by Vodafone Group PLC for US$60.3 billion, and Zeneca Group PLC US$34.6 billion acquisition of Astra AB of Sweden. As a result, the U.K. overtook the U.S., the largest source of FDI for the previous eight years, to lead all countries in FDI outflow for the first time since 1988 (Table 3). FDI outflow from the U.S. rose 3.3% to US$150.9 billion, putting it in second place, followed by France, where FDI outflow rose 130% to US$106.8 billion. Not quite reaching the US$100 billion mark was Germany, where outflow rose 7.0% to US$98.8 billion, and in fifth place was the Netherlands, up 10.9% to US$43.5 billion. The top five sources of FDI thus consisted of the same five countries as in the previous year. Japan, which was the leading investor in 1989 and 1990, was ninth with FDI outflow of US$22.3 billion.

(3) The U.S. saw its FDI inflow rise 46.1% to US$282.5 billion, making it the biggest recipient of investment for the seventh year running. Next came the U.K., where FDI inflow rose 33.1% to US$84.8 billion. Sweden moved up from tenth place to third, thanks to a 200% increase to US$59.4 billion. Germany (up 160% to US$52.2 billion) and France (up 31.5% to US$38.8 billion) rose from ninth to fourth and from sixth to fifth, respectively. China, which was the third largest recipient of FDI in 1998, fell to sixth place as a result of an 11.4% decline in inflow. Japan, despite a 280% increase, was fourteenth.

(4) Total FDI between the U.S. and EU rose 21.3% to US$286.3 billion, accounting for 33.1% of global FDI (Table 4). EU FDI outflow to the U.S. rose 150% in 1998 and 48.5% in 1999 to reach US$228.1 billion (equivalent to 26.4% of global FDI), and some have argued that the depreciation of the euro has been due to the high level of investment by European firms in the United States. Intra-regional FDI in the EU (excluding reinvested earnings) doubled to US$237.9 billion in 1999 as EU companies continued to invest aggressively. Behind the overall rise of investment was the use of M&As by EU companies seeking to expand into the U.S., with its high potential for market growth and abundance of competitive companies in the financial and information technology (IT) sectors, so as to bolster their international presence. Adding further grist to the M&A mill, the EU currency union made it possible for EU companies to issue large amounts of euro bonds and thereby increasing their ability to raise financing.

(5) The increase in cross-border M&As by U.S. and European companies has continued in 2000, causing FDI to continue to rise. In the first half of the year 2000, the upward trend in FDI flow to and from the leading five—the U.S., U.K., France, Germany and the Netherlands—continued unabated. FDI outflow reached US$436.3 billion (up 72.9% on the previous six months and up 24.7% on a year earlier), and FDI inflow reached US$412.1 billion (up 83.6% on the previous six months and up 57.8% on a year earlier). FDI is estimated to have increased dramatically in 2000, exceeding the trillion dollar mark according to UNCTAD figures.

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

(Units: US$ million, %)

	1995	1996	1997		1998		1999	
				% change		% change		% change
U.S.	98,750	91,883	105,017	14.3	146,053	39.1	150,900	3.3
Canada	11,490	13,107	22,521	71.8	31,041	37.8	17,842	– 42.5
EU	161,001	185,015	222,421	20.2	413,588	85.9	571,983	38.3
U.K.	44,464	35,157	63,499	80.6	119,747	88.6	202,069	68.7
France	15,824	30,362	35,488	16.9	45,701	28.8	106,833	133.8
Germany	39,100	50,752	41,675	– 17.9	92,398	121.7	98,843	7.0
Netherlands	20,210	31,905	25,016	– 21.6	39,227	56.8	43,497	10.9
Spain	4,206	5,577	12,423	122.7	19,065	53.5	35,249	84.9
Belgium and Luxembourg	11,603	8,026	7,252	– 9.6	28,845	297.7	33,864	17.4
Sweden	11,399	5,112	12,119	137.1	22,671	87.1	19,554	– 13.7
Switzerland	12,210	16,152	17,732	9.8	16,628	– 6.2	34,511	107.5
Australia	3,796	5,988	6,424	7.3	2,329	– 63.8	– 2,876	–
Japan	22,508	23,442	26,059	11.2	24,625	– 5.5	22,267	– 9.6
East Asia	19,192	23,043	24,634	6.9	10,804	– 56.1	16,334	51.2
Latin America	7,305	5,823	15,050	158.5	9,405	– 37.5	27,325	190.5
World	357,537	390,776	471,906	20.8	687,111	45.6	799,928	16.4
(Reference data)								
Industrialized countries	306,822	331,963	404,153	21.7	651,873	61.3	731,765	12.3
Developing countries	50,259	57,763	64,335	11.4	33,045	– 48.6	65,638	98.6

Notes:
1. Totals for world, industrialized countries (including Israel and South Africa), developing countries and Latin America are UNCTAD estimates.
2. Figures for individual countries are from *International Financial Statistics* (*IFS)*.
3. Totals for the EU15 and East Asia (comprising eight economies and excluding Hong Kong Special Administrative Region (SAR)) are prepared by JETRO from *IFS*, *World Investment Report* (*WIR*) and local statistics.
4. Percentage change indicates change on previous year.
5. The figures for global FDI outflow and inflow do not tally due primarily to:
   1) Differences in each country's definition and method of assessing of direct investment, and treatment of reinvestment and repatriation of profits and transactions with offshore firms.
   2) Differences in the number of economies included under each total (e.g. UNCTAD's *WIR 2000* includes data on 127 economies for global FDI outflow and data on 181 economies for inflow in 1999).

Sources: Prepared by JETRO from *IFS* (IMF), *WIR 2000* (UNCTAD) and other sources.

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

(Units: US$ million, %)

	1995	1996	1997	% change	1998	% change	1999	% change
U.S.	59,644	88,978	109,263	22.8	193,373	77.0	282,511	46.1
Canada	9,319	9,635	11,758	22.0	21,677	84.4	25,129	15.9
EU	115,266	111,677	129,653	16.1	245,479	89.3	359,245	46.3
U.K.	20,318	25,783	37,004	43.5	63,701	72.1	84,812	33.1
Sweden	14,939	5,492	10,271	87.0	19,413	89.0	59,386	205.9
Germany	11,986	6,429	11,663	81.4	20,145	72.7	52,232	159.3
France	23,733	21,972	23,048	4.9	29,518	28.1	38,824	31.5
Netherlands	12,194	16,176	11,780	– 27.2	37,217	215.9	34,154	– 8.2
Belgium and Luxembourg	10,689	14,064	11,998	– 14.7	22,691	89.1	38,391	69.2
Ireland	1,447	2,618	2,743	4.8	11,035	302.3	19,091	73.0
Switzerland	3,599	4,373	7,306	67.1	7,903	8.2	9,944	–
Australia	12,432	6,200	7,717	24.5	6,176	– 20.0	5,655	– 8.4
Japan	39	200	3,200	1,496.7	3,268	2.1	12,308	276.6
East Asia	58,461	68,479	72,345	5.6	66,287	– 8.4	63,591	– 4.1
Latin America	32,816	45,890	69,172	50.7	73,767	6.6	90,485	22.7
World	331,844	377,516	473,052	25.3	680,082	43.8	865,487	27.3
(Reference data)								
Industrialized countries	205,693	219,789	275,229	25.2	480,638	74.6	636,449	32.4
Developing countries	111,884	145,030	178,789	23.3	179,481	0.4	207,619	15.7

Notes and sources: Same as Table 1.

Table 3. Top five sources and recipients of FDI (BOP basis)

1. FDI outflow (Unit: US$ million)

	1995		1996		1997		1998		1999	
1st	U.S.	98,750	U.S.	91,883	U.S.	105,017	U.S.	146,053	U.K.	202,069
2nd	U.K.	44,464	Germany	50,752	U.K.	63,499	U.K.	119,747	U.S.	150,900
3rd	Germany	39,100	U.K.	35,157	Germany	41,675	Germany	92,398	France	106,833
4th	Japan	22,508	Netherlands	31,905	France	35,488	France	45,701	Germany	98,843
5th	Netherlands	20,210	France	30,362	Japan	26,059	Netherlands	39,227	Netherlands	43,497

2. FDI inflow

	1995		1996		1997		1998		1999	
1st	U.S.	59,644	U.S.	88,978	U.S.	109,263	U.S.	193,373	U.S.	282,511
2nd	China	35,849	China	40,180	China	44,237	U.K.	63,701	U.K.	84,812
3rd	France	23,733	U.K.	25,783	U.K.	37,004	China	43,751	Sweden	59,386
4th	U.K.	20,318	France	21,972	France	23,048	Netherlands	37,217	Germany	52,232
5th	Sweden	14,939	Netherlands	16,176	Brazil	19,650	Brazil	31,913	France	38,824

Note: In terms of FDI outflow, Japan was 6th in 1996 (US$23.4 billion), 8th in 1998 (US$24.6 billion) and 9th in 1999 (US$22.3 billion).

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

Table 4. FDI flow between the U.S. and EU (BOP basis)

(Units: US$ million, %)

	1995	1996	1997	1998	1999
U.S. to EU	48,834	36,181	46,910	82,498	58,212
% change on a year earlier	56.4	– 25.9	29.7	75.9	– 29.4
EU to U.S.	35,131	53,071	62,452	153,573	228,078
% change on a year earlier	52.6	51.1	17.7	145.9	48.5
Total flow between U.S. and EU	83,965	89,252	109,362	236,071	286,290
% change on a year earlier	54.8	6.3	22.5	115.9	21.3
Global FDI inflow	331,844	377,516	473,052	680,082	865,487
U.S.-EU FDI as % of global FDI	25.3	23.6	23.1	34.7	33.1
of which, U.S. to EU	14.7	9.6	9.9	12.1	6.7
of which, EU to U.S.	10.6	14.1	13.2	22.6	26.4

Note: Figures on FDI flow between the U.S. and EU are based on U.S. Department of Commerce figures. Figures on global FDI are from UNCTAD.

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

2. Recovery of FDI in developing countries

FDI in developing countries (excluding Central and Eastern Europe) recovered from the previous year's slump to reach a record high in 1999. Both inflow and outflow hit the US$200 billion mark for the first time ever, with outflow doubling to US$65.6 billion and inflow rising 15.7% to US$207.6 billion (Tables 1, 2). Underpinning the upturn was strong growth in FDI inflow into Latin America due especially to investment in the privatization of public corporations, enabling investment in the region to exceed that in East Asia[*1] in 1998 and 1999 for two years running (Table 5). FDI results differed widely among East Asian economies, however, where varying investment conditions, such as eased restrictions on the movement of foreign capital and political unrest, were reflected in foreign capital inflow levels. While the Republic of Korea (R.O.K.) achieved its best year ever in terms of investment inflow, for example, Indonesia experienced disinvestment of foreign capital.

*1 "East Asia" here refers to eight economies: China, ASEAN4 (Malaysia, Thailand, Indonesia and Philippines), and Asian NIEs (Taiwan, Singapore and the R.O.K., but not the Hong kong Special Administrative Region (hereinafter "Hong Kong")).

(1) Increased investment in the privatization of public corporations enabled FDI inflow into Latin America to grow 22.7% to US$90.5 billion, exceeding investment in East Asia for the two years running (Table 5). FDI inflow into Brazil, the main recipient of investment in Latin America, rose 2.3% to US$32.7 billion, again passing the US$30 billion mark achieved in 1998 when state-owned telecom carrier Telebras was privatized. Investment in Mexico too remained high as the previous year, growing 2.3% to US$11.6 billion. Argentina registered 250% growth to US$23.6 billion as a result of the US$15.2 billion privatization of the state-owned oil company YPF. The large-scale privatization of state-owned enterprises in Argentina and elsewhere in the region of Latin America were the target of strong M&A activity by Spanish companies.

(2) Although total FDI inflow into East Asia, here meaning eight economies excluding the Hong Kong, shrank for the second consecutive year, dropping 4.1% to US$63.6 billion, inflow varied widely. Inflow remained high or grew in the case of the R.O.K. and Thailand, which relaxed restrictions on foreign equity ownership, while their own political instability caused FDI inflow into certain other countries to stagnate. FDI inflow into ASEAN as a whole shrank 23.6% in 1998 and 51.0% in 1999, indicating the need to improve investment conditions by restoring political stability, steadily liberalizing trade and investment, and reinforce measures to attract foreign investment.

(3) The R.O.K., where strong M&A activity caused FDI inflow to rise 72.4% to US$9.3 billion, is a prime example of a country that has relaxed controls on foreign capital and seen investment increase as a consequence. Due to a short lull in investment in equity capital to affiliates after a period of its growth in 1998, investment in Thailand shrank 15.1% to US$6.2 billion, but nevertheless remained high level in comparison with the inflow of US$3.9 billion registered in 1997. In Taiwan, a rise in roundabout investment from Latin America caused inflow to reach a best-ever US$2.9 billion. Inflow into Singapore also grew, rising 27.1% to US$7.0 billion as European and U.S. companies increased investment in response to the economic recovery in East Asia.

(4) In Indonesia, government efforts to attract investment by relaxing controls on foreign capital did little to assuage investors' concerns about the political situation. Consequently, disinvestment of foreign capital rose from US$400 million in 1998 to US$2.7 billion in 1999, and the trend continued during the first quarter of 2000. In the Philippines, the withdrawal of U.S. corporations that suffered downturns due to weak domestic demand caused inflow to slump 74.9% to US$600 million. In Malaysia, the slump in inflow in 1998 was followed by another decline of 28.2% to US$1.6 billion in 1999. China, which is the largest recipient of FDI among developing countries, saw inflow fall for the two years running by 11.4% to US$38.8 billion. This was due to a decline in investment from Japan and other economies in East Asia, such as Hong Kong and Singapore.

(5) Measured on an approvals basis, the upward trend in FDI into East Asia continued in the first half of 2000. The value of approved investments was up on the same period a year earlier in the R.O.K., Taiwan and Singapore, and inflow into Thailand, though down slightly on a year earlier, equaled almost 60% of approved investments in the whole of 1999 (Table 6). Among the ASEAN4 economies excluding Thailand, investment approvals declined on a year earlier in Malaysia, grew in Indonesia and the Philippines, though still only coming to about 20% of the 1999 values. In Malaysia and Indonesia, however, large-scale investments starting in July pointed to a recovery. In China, investment as measured on a contract basis recovered to grow by 24.6% as a result of active movement of IT-related investment by U.S. and European firms and further investment by foreign companies already in China in anticipation of the country's accession to the WTO. The results of a questionnaire survey conducted by JETRO indicated that a large number of Japanese firms are considering expanding their sales operations and establishing or expanding their production bases in China for the same reason.

Note: Unless otherwise noted, the Asian Newly Industrialized Economies (Asian NIEs) comprise of the R.O.K., Singapore, Taiwan and the Hong Kong. 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 5. FDI inflow into main developing economies (BOP basis)

(Units: US$ million, %)

	1995	1996	1997		1998		1999	
				% change		% change		% change
East Asia	**58,461**	**68,479**	**72,345**	**5.6**	**66,287**	**- 8.4**	**63,591**	**- 4.1**
Asian NIEs	10,541	13,174	13,177	0.0	11,127	– 15.6	19,244	72.9
R.O.K.	1,776	2,326	2,844	22.3	5,412	90.3	9,333	72.4
Taiwan	1,559	1,864	2,248	20.6	222	– 90.1	2,926	1,218.0
Singapore	7,206	8,984	8,085	– 10.0	5,493	– 32.1	6,984	27.1
ASEAN4	12,070	15,125	14,930	– 1.3	11,409	– 23.6	5,594	– 51.0
Thailand	2,068	2,336	3,895	66.7	7,315	87.8	6,213	– 15.1
Malaysia	4,178	5,078	5,137	1.1	2,163	– 57.9	1,553	– 28.2
Philippines	1,478	1,517	1,222	– 19.4	2,287	87.2	573	– 74.9
Indonesia	4,346	6,194	4,677	– 24.5	– 356	–	– 2,745	–
China	35,849	40,180	44,237	10.1	43,751	– 1.1	38,753	– 11.4
(reference) Hong Kong	n.a.	n.a.	n.a.	n.a.	14,776	–	23,068	56.1
Latin America	**32,816**	**45,890**	**69,172**	**50.7**	**73,767**	**6.6**	**90,485**	**22.7**
Brazil	4,859	11,200	19,650	75.4	31,913	62.4	32,659	2.3
Argentina	5,315	6,522	8,755	34.2	6,670	– 23.8	23,579	253.5
Mexico	9,526	9,186	12,831	39.7	11,312	– 11.8	11,567	2.3
Chile	2,957	4,634	5,219	12.6	4,638	– 11.1	9,221	98.8
Venezuela	985	2,183	5,536	153.6	4,435	– 19.9	2,607	– 41.2
Russia and Central/Eastern Europe	**14,267**	**12,697**	**19,034**	**49.9**	**19,963**	**4.9**	**21,420**	**7.3**
Poland	3,659	4,498	4,908	9.1	6,365	29.7	7,270	14.2
Czech Republic	2,568	1,435	1,286	– 10.4	2,734	112.5	5,093	86.3
Russia	2,016	2,478	6,638	167.9	2,764	– 58.4	3,309	19.7
Hungary	4,519	2,274	2,167	– 4.7	2,037	– 6.0	1,951	– 4.2
Romania	419	263	1,215	362.0	2,031	67.2	1,041	– 48.7
Slovakia	236	351	174	– 50.5	562	223.5	354	– 37.0
Middle East and Africa	**4,699**	**5,522**	**6,896**	**24.9**	**7,519**	**9.0**	**8,949**	**19.0**
Israel	1,349	1,387	1,628	17.4	1,754	7.8	2,363	34.7
South Africa	1,248	816	3,811	366.8	550	– 85.6	1,376	150.1
Egypt	598	636	891	40.0	1,076	20.8	1,065	– 1.0
Nigeria	1,079	1,593	1,539	– 3.4	1,051	– 31.7	1,005	– 4.4
Turkey	885	722	805	11.5	940	16.8	783	– 16.7

Notes:
1. Figures for individual economies are from *IFS* (IMF). Local statistics are used for Taiwan. Totals for Latin America, Russia, Central and Eastern Europe, and Middle East and Africa are from *WIR 2000*.
2. Figures for the Asian NIEs and East Asia exclude Hong Kong.
3. Middle East and Africa exclude South Africa and Israel.
4. Percentage change indicates change on previous year.

Sources: Prepared by JETRO from *IFS* (IMF) and *WIR 2000* (UNCTAD).

Table 6. FDI inflow into East Asia (approval basis)

Value (Unit: US$ million) | % change (Unit: %)

Country	1998	1999	Jan-Sep 2000	1998	1999	Jan-Sep 2000
ASEAN4	27,254	20,447	n.a.	– 52.5	– 25.0	n.a.
Thailand	6,167	3,595	4,334	– 42.0	– 41.7	48.2
Malaysia	3,329	3,230	2,496	– 18.4	– 3.0	13.5
Philippines	4,196	2,731	763	– 52.8	– 34.9	– 63.2*
Indonesia	13,563	10,891	6,087	– 59.9	– 19.7	187.6*
Singapore	3,115	3,692	2,946	– 22.4	18.5	– 0.4
R.O.K.	8,852	15,541	10,422	27.0	75.6	23.1
Taiwan	3,739	4,231	5,021	– 12.4	13.2	109.9*
China	52,102	41,223	37,850	2.2	– 20.9	27.9

Notes:
1. Asterisked figures are for January to June for the Philippines, January to July for Indonesia, and January to August for Taiwan.
2. Figures for Thailand, Malaysia and the Philippines are converted from local currencies at the average *IFS* rate during the period.
3. The Thai Board of Investment's definition of FDI was changed from "at least one share held by foreign investors" to "at least 10% foreign equity participation" in July 1999. The percentage change in 1998 is therefore the change from the old definition.
4. Commitment basis is used for Singapore. Contract basis is used for China.
5. Percentage change indicates the change on the same period one year earlier.

Source: Prepared by JETRO from local statistics for each country.

3. European and U.S. companies lead cross-border M&A activity

Global cross-border M&As as measured in terms of completed deals jumped 41.0% to US$852.8 billion in 1999 (Table 7). The U.K. surpassed the U.S. as the leading acquiring nation, accounting for acquisitions worth a record US$224.1 billion which approximately doubled the previous year's figure. Cross-border M&A activity by French and German companies also grew strongly. U.S. companies, the leading target of European acquirers continued to lead all other regions on the M&A seller side (Table 8). In just the first three quarters of 2000, M&As came to US$892.5 billion, which was more than the total for the whole of 1999, pushed up by "mega deals" including one worth more than US$200 billion. And also, among developing countries in Asia, where investment has generally taken the form of new investment in the past, there was an increase in M&As triggered by the effects of the currency and economic crisis in the region.

(1) Cross-border M&A activity in 1999 was led by U.S. and EU companies, which accounted for 82.7% of acquisitions and 78.0% of sales in the aggregate (Tables 7, 8). The U.K. overtook the U.S. to become the leading acquiring nation. Acquisitions by U.K. companies increased 103.2% to a record US$224.1 billion, which included three of the year's 10 largest acquisitions. There was also record growth in Europe, where acquisitions by French companies rose 174.8% to US$107.5 billion and acquisitions by German companies rose 31.1% to US$91.5 billion. On the seller side the leader was the U.S., where strong buying activity by European firms caused the value of M&As on a sales basis to grow 18.2% to US$265.8 billion.

(2) Underlying the growth in European acquisitions of U.S. firms were the expanding the EU internal market and increasing competition due to deepening market integration, and the increased ability of European firms to raise capital as a result of the currency union. These factors encouraged European firms to expand not only elsewhere in the EU, but also into the buoyant U.S. market. European companies thus sought to strengthen their international operations by acquiring highly competitive U.S. firms, especially in the financial and telecommunications sectors.

(3) M&A activity also grew in developing countries. Measured in terms of sales, M&As in East Asia increased 83.1%. Growth was particularly strong in the R.O.K., where growth of 360% in 1998 was followed by growth of 180%, worth US$11.5 billion, in 1999 due to the deregulation on M&As. Growth was also robust in Taiwan (2,550%) and Singapore (560%). Among the ASEAN economies, M&As increased 173.3% in Indonesia and 38.9% in Malaysia. Overall, however, M&As in the ASEAN4 dropped 1.8% almost as same as the previous year due to declines in Thailand and the Philippines. In Latin America, the large-scale privatization of public enterprises caused the value of M&As in Argentina to double.

(4) Non-manufacturing industries accounted for 60.7% of M&As, a reflection of privatization and deregulation. The largest proportion of M&As, 19.8%, were in telecommunications, where mega deals pushed up M&A value by 270%, followed by 16.2% in finance / insurance, 7.0% in commerce, and 5.4% in utilities (electricity, gas and water) (Table 9). In manufacturing, there was strong growth in both the value and rate of growth of M&As in chemicals and pharmaceuticals (11.3%), electronic / electrical equipment (4.6%), and food, beverage and tobacco (3.8%).

(5) The upward trend continued in 2000, and cross-border M&As in the first three quarters alone came to US$892.5 billion, more than the total for the whole of 1999. Reflecting fierce M&As, five of the 10 biggest deals, including the US$202.8 billion acquisition of Mannesman AG by Vodafone AirTouch PLC were in telecommunications, which accounted for 39.8% of the total (Table 10). There was also continued strong M&A activity in finance/insurance, business services, utilities (electricity, gas and water), causing non-manufacturing's share of M&As to expand to 73.3%.

Table 7. Global cross-border M&As (acquisitions; completed deals)

(Units: US$ million, %)

	1996	1997	1998	1999	% change	Share	Jan-Sep 2000	Share
World	251,129	333,929	604,620	852,768	41.0	100.0	892,476	100.0
U.S.	65,115	85,321	146,655	134,306	– 8.4	15.7	115,330	12.9
Canada	9,412	16,644	38,085	20,429	– 46.4	2.4	29,145	3.3
EU	110,330	150,784	321,167	570,781	77.7	66.9	664,617	74.5
U.K.	44,825	62,971	110,287	224,065	103.2	26.3	341,288	38.2
France	15,852	23,023	39,097	107,456	174.8	12.6	119,582	13.4
Germany	20,015	13,640	69,787	91,507	31.1	10.7	45,227	5.1
Netherlands	13,036	17,010	25,559	52,191	104.2	6.1	37,656	4.2
Spain	3,506	9,367	16,875	31,139	84.5	3.7	43,626	4.9
Belgium	3,314	2,119	2,633	15,791	499.9	1.9	21,843	2.4
Italy	1,820	5,010	15,852	15,032	– 5.2	1.8	8,084	0.9
Sweden	2,212	8,101	16,757	11,739	– 29.9	1.4	20,164	2.3
Norway	4,553	1,279	1,160	1,069	– 7.8	0.1	6,400	0.7
Switzerland	9,731	11,423	41,918	24,177	– 42.3	2.8	9,933	1.1
Australia	11,387	14,148	8,358	10,469	25.2	1.2	3,794	0.4
Japan	6,254	3,583	3,742	11,220	199.8	1.3	18,536	2.1
East Asia	18,503	23,276	13,919	13,164	– 5.4	1.5	21,522	2.4
Asian NIEs	7,862	17,924	10,975	10,721	– 2.3	1.3	18,801	2.1
R.O.K.	1,895	2,425	187	1,845	885.9	0.2	1,412	0.2
Taiwan	53	513	644	536	– 16.9	0.1	1,181	0.1
Hong Kong	3,695	10,652	9,147	3,839	– 58.0	0.5	7,260	0.8
Singapore	2,218	4,335	997	4,503	351.4	0.5	8,947	1.0
ASEAN4	10,350	2,633	1,579	2,232	41.3	0.3	1,992	0.2
Thailand	209	86	280	159	– 43.4	0.0	30	0.0
Malaysia	9,622	1,448	1,183	1,447	22.4	0.2	1,839	0.2
Philippines	197	325	70	349	396.4	0.0	65	0.0
Indonesia	322	775	46	278	498.5	0.0	58	0.0
China	291	2,719	1,364	211	– 84.6	0.0	729	0.1
Argentina	557	2,054	3,791	1,375	– 63.7	0.2	132	0.0
Bermuda	1,709	4,043	9,727	35,955	269.6	4.2	5,794	0.6
Brazil	1,167	2,357	3,531	5,274	49.4	0.6	38	0.0
Mexico	880	3,353	815	2,904	256.2	0.3	1,318	0.1
South Africa	1,293	2,818	3,437	9,659	181.0	1.1	2,830	0.3

Note: Percentage change indicates change on the previous year.

Source: Prepared by JETRO from Thomson Financial IB/CM Group Data.

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

(Units: US$ million, %)

	1996	1997	1998	1999	% change	Share	Jan-Sep 2000	Share
World	251,129	333,929	604,620	852,768	41.0	100.0	892,476	100.0
U.S.	78,125	89,555	224,800	265,750	18.2	31.2	200,662	22.5
Canada	11,215	9,572	17,743	32,063	80.7	3.8	29,823	3.3
EU	89,026	127,207	227,200	399,100	75.7	46.8	519,114	58.2
U.K.	33,234	48,956	101,869	140,205	37.6	16.4	149,236	16.7
Sweden	4,140	3,896	13,657	60,504	343.0	7.1	20,677	2.3
Germany	12,018	12,547	20,562	54,889	166.9	6.4	230,369	25.8
Netherlands	3,478	17,117	21,247	42,756	101.2	5.0	24,195	2.7
Belgium	8,633	6,369	13,039	29,100	123.2	3.4	2,966	0.3
France	14,941	19,091	27,101	27,523	1.6	3.2	28,433	3.2
Italy	3,567	4,114	5,431	12,257	125.7	1.4	10,931	1.2
Norway	2,430	2,936	1,524	9,343	512.9	1.1	8,911	1.0
Switzerland	4,408	3,937	5,385	4,265	– 20.8	0.5	11,592	1.3
Australia	14,935	15,744	15,631	12,692	– 18.8	1.5	16,687	1.9
Japan	2,465	449	4,583	17,014	271.2	2.0	13,333	1.5
East Asia	9,001	22,509	17,390	31,849	83.1	3.7	18,876	2.1
Asian NIEs	4,496	13,649	8,480	21,579	154.5	2.5	13,294	1.5
R.O.K.	565	900	4,155	11,469	176.0	1.3	5,874	0.7
Taiwan	64	894	66	1,752	2,546.4	0.2	752	0.1
Hong Kong	2,941	10,839	3,696	4,672	26.4	0.5	4,968	0.6
Singapore	926	1,016	562	3,686	555.8	0.4	1,699	0.2
ASEAN4	2,489	6,636	7,819	7,680	– 1.8	0.9	3,680	0.4
Malaysia	1,113	491	1,132	1,572	38.9	0.2	511	0.1
Thailand	267	776	3,938	2,385	– 39.4	0.3	1,416	0.2
Philippines	516	4,380	2,038	1,781	– 12.6	0.2	1,006	0.1
Indonesia	593	990	711	1,942	173.3	0.2	747	0.1
China	2,016	2,224	1,091	2,590	137.4	0.3	1,902	0.2
Mexico	1,489	8,514	3,488	834	– 76.1	0.1	3,804	0.4
Argentina	3,738	6,345	12,001	24,535	104.4	2.9	12,642	1.4
Brazil	6,664	12,553	30,870	13,178	– 57.3	1.5	24,465	2.7
Chile	2,184	2,770	1,984	8,996	353.5	1.1	1,746	0.2

Note and source: Same as Table 7.

Table 9. Cross-border M&As by sector

(Units: US$ million, %)

	1996	1997	1998	1999	% change	Share	Jan-Sep 2000	Share
Primary industry	**23,416**	**21,922**	**90,565**	**40,042**	**- 55.8**	**4.7**	**52,530**	**5.9**
Petroleum and natural gas (oil refining)	15,428	12,214	75,381	25,428	– 66.3	3.0	48,960	5.5
Agricultural, forestry and fishery products	514	2,127	8,715	645	– 92.6	0.1	348	0.0
Mining	7,474	7,581	6,470	13,969	115.9	1.6	3,222	0.4
Manufacturing	**79,563**	**115,314**	**205,967**	**295,314**	**43.4**	**34.6**	**186,112**	**20.9**
Food and tobacco	7,469	23,408	17,496	32,213	84.1	3.8	28,129	3.2
Textiles/textile products and leather products	928	2,098	2,288	6,607	188.8	0.8	2,335	0.3
Wood/wood products and paper/paper products	5,873	7,880	8,314	12,818	54.2	1.5	26,504	3.0
Ceramics and cement	3,146	3,300	9,039	12,539	38.7	1.5	9,104	1.0
Chemicals and pharmaceuticals	20,437	37,273	35,881	96,072	167.8	11.3	28,309	3.2
Metals/metal products	9,041	11,614	9,196	14,597	58.7	1.7	11,282	1.3
Machinery and equipment	21,051	26,267	107,057	108,631	1.5	12.7	77,303	8.7
Electronic/electrical equipment	3,982	4,448	18,019	38,852	115.6	4.6	14,739	1.7
Computers and office equipment	2,830	2,872	11,188	6,151	– 45.0	0.7	6,972	0.8
Communications equipment	2,002	2,469	8,851	11,969	35.2	1.4	17,887	2.0
Transport equipment	4,474	4,526	49,948	18,442	– 63.1	2.2	15,508	1.7
Publishing and printing	11,306	3,274	13,120	11,074	– 15.6	1.3	2,872	0.3
Other manufacturing	314	201	3,575	763	– 78.7	0.1	273	0.0
Non-manufacturing	**147,817**	**196,694**	**308,088**	**517,311**	**67.9**	**60.7**	**653,834**	**73.3**
Electricity, gas and water	19,573	31,922	34,086	46,097	35.2	5.4	37,352	4.2
Transport	5,766	7,557	16,208	19,508	20.4	2.3	13,137	1.5
Telecommunications	12,659	18,548	45,049	168,466	274.0	19.8	354,798	39.8
Construction	4,906	687	3,309	3,362	1.6	0.4	3,514	0.4
Commerce	32,687	20,207	40,878	59,482	45.5	7.0	23,121	2.6
Real estate and agency services	2,404	10,953	20,149	11,132	– 44.8	1.3	11,678	1.3
Finance/insurance	46,814	58,743	101,069	137,850	36.4	16.2	93,014	10.4
Hotels (including casinos)	2,461	5,923	10,484	4,979	– 52.5	0.6	2,928	0.3
Services	20,548	42,139	36,858	66,435	80.2	7.8	114,226	12.8
Advertising	1,659	425	1,979	2,086	5.4	0.2	3,251	0.4
Broadcasting (radio, TV)	2,697	14,919	4,735	11,149	135.5	1.3	24,863	2.8
Entertainment	609	1,460	1,095	877	– 19.9	0.1	1,393	0.2
Films	182	1,510	1,007	720	– 28.5	0.1	5,861	0.7
Business services	8,798	11,039	18,861	32,893	74.4	3.9	65,124	7.3
Software	1,931	1,764	4,538	10,679	135.3	1.3	11,559	1.3
Total	**251,129**	**333,929**	**604,620**	**852,768**	**41.0**	**100.0**	**892,476**	**100.0**

Notes: 1. Completed deals are measured in terms of sales.
2. The total for all industries also includes deals that could not be classified.

Source: Same as Table 7.

Table 10. Top 10 cross-border M&As (1999 and Jan.-Sep. 2000)

1999

(Unit: US$ million)

Date of completion	Sector	Acquiring company	Home economy	Acquired company	Host economy	Value
June 1999	Telecommunications	Vodafone Group PLC	U.K.	AirTouch Communications Inc.	U.S	60,287
April 1999	Chemicals and pharmaceuticals	ZENECA Group PLC	U.K.	Astra AB	Sweden	34,637
November 1999	Telecommunications	Mannesman AG	Germany	Orange PLC	U.K.	32,595
December 1999	Chemicals and pharmaceuticals	Rhone-Poulenc SA	France	Hoechst AG	Germany	21,918
June 1999	Petroleum	Repsol SA	Spain	YPF SA	Argentina	15,164
October 1999	Telecommunications	Deutsche Telekom AG	Germany	One 2 One	U.K.	13,629
June 1999	Petroleum	Total SA	France	Petrofina SA	Belgium	12,769
November 1999	Electricity	Scottish Power PLC	U.K.	PacifiCorp	U.S.	12,600
August 1999	Commerce	Wal-Mart Stores (UK) Ltd.	U.S.	ASDA Group PLC	U.K.	10,805
July 1999	Finance/insurance	Aegon NV	Netherlands	TransAmerica Corp.	U.S.	10,791

Jan-Sep 2000

Date of completion	Sector	Acquiring company	Home economy	Acquired company	Host economy	Value
April 2000	Telecommunications	Vodafone AirTouch PLC	U.K.	Mannesman AG	Germany	202,785
August 2000	Telecommunications	France Telecom SA	France	Orange PLC (Mannesman AG)	U.K.	45,967
April 2000	Petroleum	BP Amoco PLC	U.K.	ARCO	U.S.	27,224
July 2000	Telecommunications	Vodafone AirTouch PLC	U.K.	Airtel SA	Spain	14,841
May 2000	Business services	Cap Gemini SA	France	Ernst & Young's consulting business	U.S.	11,774
July 2000	Finance/insurance	HSBC Holdings PLC	U.K.	Credit Commercial de France	France	11,100
May 2000	Broadcasting	NTL Inc.	U.S.	CWC ConsumerCo	U.K.	11,004
July 2000	Telecommunications	Telefonica SA	Spain	Telecommunicacoes de Sao Paulo	Brazil	10,213
February 2000	Telecommunications	Bell South GmbH (BellSouth,KPN)	U.S. and Netherlands	E-Plus Mobilfunk GmbH (Otelo)	Germany	9,400
August 2000	Finance/insurance	Chase Manhattan Corp.	U.S.	Robert Fleming Holdings Ltd.	U.K.	7,698

Note: Home economies of Wal-Mart Stores (U.K.) Ltd. and Bell South GmbH are given as those of the parent companies.

Source: Same as Table 7.

4. Surge in M&As seen as survival strategy in age of global competition

Cross-border M&As have become the leading mode of FDI by European and U.S. companies, exerting a decisive impact on trends in global FDI. The major reason is that multinational companies have been increasingly using M&As as their primary strategy for surviving global-scale competition. As global competition intensified market acquisition and the development of products / technology—due to trends including trade and investment liberalization, deregulation and privatization, and advances in IT—speed has become a crucial factor in corporate efforts to strengthen competitiveness. Consequently, corporations have come to rely on M&As to expand their scale and thereby reduce costs or increase market strength, or to immediately acquire essential corporate resources.

In East Asian economies, on the other hand, where many companies were hurt by the region's financial crises, the absence of suitable domestic buyers and the relaxation of controls on foreign capital has stimulated cross-border M&As.

(1) In fields of rapid technological improvements, such as pharmaceuticals and telecommunications, M&As are being actively pursued as a means of cutting ballooning research and development expenses and the cost of capital investment. In the petroleum industry, M&As have been prompted by the deterioration of earnings between 1998 and 1999 due to the decline in crude oil prices and the growth in oil field development costs. In industries such as the petroleum and automobile where there has been a slowdown in demand, M&As have been undertaken to increase production efficiency and maintain market share in developed countries, and to develop new markets in developing countries. In the electricity and telecommunications sectors, deregulation and privatization have driven growth in M&As.

(2) In East Asia countries affected by the region's financial crisis, the performance of local financial institutions and corporations deteriorated across the board, making it difficult for domestic corporations and banks to bail out failed companies. This, combined with the sharp decline in the firm values due to slides in local currencies, the emergence of European and U.S. investment banks and accounting firms brokering M&As, and the relaxation of controls on foreign capital, stimulated M&A activity in the region.

(3) The growth in mega deals between companies in industrialized countries led to an increase in the number of M&As coming under the purview of competition laws in more than one country. In the telecommunications sector, there were several instances of M&As being investigated by the antimonopoly authorities in both the U.S. and Europe, and a proposed merger between two U.S. companies even was blocked by the EU authority for the first time. Among industrialized countries, the extraterritorial application of antimonopoly law needs to be harmonized through bilateral antimonopoly cooperation agreements, while in developing countries competition law needs to be enacted and properly enforced.

(4) A JETRO survey of 15 large M&As since 1995 found that cost cutting was realized in many cases. In eight of the 15 cases, however, stock prices were found to have subsequently fallen. The conclusion to be drawn is that, despite original intentions, many M&As have not resulted in increases in sales and / or market share or the strengthening of previously weak corporate activities.

5. Wave of large-scale M&As in Japanese FDI outflow

According to figures from Japan's Ministry of Finance, Japanese FDI outflow on a dollar basis in fiscal 1999 (April 1999 to March 2000) grew 63.7% to US66.7 billion, a dramatic turnaround from the decline recorded the previous year (Table 11). The trend was fueled by several large-scale Japanese M&As, which included mega deals in the electrical machinery industry in the U.S. and major acquisitions by Japan Tabacco Inc. in the EU.

Japan's FDI outflow to East Asia rose 10.6%. Japanese investment grew in the Asian NIEs, rebounding from the crisis-induced decline seen in fiscal 1998. There were very few cases of Japanese manufacturing affiliates shutting down production in crisis-hit Asian economies, while there were many examples of Japanese parent companies providing their foreign subsidiaries with additional capital (Table 12). This trend, coupled with cooperation between Japanese companies and local Asian firms to develop exports, played a key role in helping Asian economies to recover from the region's financial crisis.

(1) Japanese FDI outflow surged in fiscal 1999, pushed up by growth in the U.S. and EU. FDI outflow to the EU enjoyed double-digit growth for the third consecutive year, rising 81.9% to US$25.2 billion (Table 11). There was particularly strong growth in investment in the U.K. (up 19.8% to US$11.7 billion) and the Netherlands (up 390% to US$10.4 billion) as a result of M&As in the food sector involving Japan Tabacco, and these two countries accounted for 90% of Japanese investment in the EU. Investment in the U.S., growing for the first time since 1996, rose 116.1% to US$22.3 billion as a result of strong investment in the electrical machinery sector and the acquisition of IT-related firms by companies such as Kyocera.

(2) Japan's FDI outflow to East Asia recovered from the crisis-induced decline in fiscal 1998 to grow by 10.6% to US$6.8 billion in fiscal 1999, due in part to an 81.2% surge to US$3.2 billion in investment in the Asian NIEs. As a result of a 220% increase in Japanese investment to US$980 million, driven mainly by large-scale M&As, FDI inflow into the R.O.K. grew dramatically. Japanese FDI outflow to ASEAN and China continued to decline, though to a smaller extent than in the previous year. In the crisis-hit economies of the region, there was a rise in capital increases funded by Japanese parents to bolster their subsidiaries in the region. This was especially evident in manufacturing, and in the Thai auto industry in particular (Table 12). There were very few instances of Japanese manufacturing affiliates shutting down production following the financial crisis, and many companies boosted exports. Measures such as these taken by Japanese affiliates have helped to underpin the recovery of the economies of the region. Investment in Latin America grew strongly by 15.1% to US$7.4 billion.

(3) Following a trend started in the previous year, Japanese FDI outflow in non-manufacturing declined by 14.1% to US$24.2 billion in fiscal 1999 (Table 13). Investment in finance/insurance slumped 39.6% due largely to declines in investment in the U.K. and Latin America, which had grown in double-digit figures since fiscal 1996. There was, however, growth in investment in services (up 110.1% to US$4.3 billion) and transport and communications (up 46.0% to US$2.8 billion). Growth in services was due to overseas expansion by advertising agencies, electric power utilities and trading companies.

(4) Fiscal 1999 saw a rise in large-scale investments routed through the Netherlands. These were investments made through holding companies in the Netherlands to acquire stakes in companies in third countries. One of the reasons for doing so was to take advantage of the tax breaks gained by establishing a holding company in the Netherlands. The attractions of operating in the Netherlands include, besides the excellent infrastructure, an exemption on dividends earned from capital gains tax and the advance tax ruling (ATR) regime enabling investing companies to sign tax agreements in advance with the tax authorities.

(5) According to statistics on M&A deals from Thomson Financial Securities Data, the number of acquisitions of foreign firms by Japanese firms (in-out M&As) shot up from 175 in 1998 to 238 in 1999. The upward trend continued in the first three quarters of 2000, when there were 169 in-out M&As (Table 14). Increased investment in business services and investing companies in 1999 caused the number of non-manufacturing M&As to rise by 37 to 124, overtaking manufacturing, where there were 104. In manufacturing, the largest proportion of M&As (12) was in chemicals. North American firms were the most popular target, accounting for 78 M&As by Japanese companies. In East Asia, the number of deals doubled to 72, putting these two regions ahead of Europe.

(6) Japan Tabacco's US$7.8 billion acquisition of RJR Nabisco's overseas tobacco business, RJ Reynolds International, accounted for some 60% of the total value of in-out M&As in 1999. The number of deals in excess of US$1 billion rose to five in 2000, including the US$5.7 billion acquisition of Verio of the U.S. by NTT Communications and the US$3.6 billion investment in KPN Mobile of the Netherlands by NTT DoCoMo. The scope of M&A activity expanded to include the telecommunications, transport equipment and electronic / electrical equipment sectors. In particular a wave of large-scale M&As is taking place in the telecommunications sector, such as the acquisition of a US$9.8 billion stake in AT&T by NTT DoCoMo announced in November.

(7) According to a questionnaire survey of manufacturers in Japan conducted by JETRO, more than 40% of the respondents expected to expand their overseas investment in 2002, compared with only 2% that expected to scale down their investments. This is indicative of the growing interest in overseas investment in manufacturing, especially in the general machinery, electronic / electrical equipment sectors, where a particularly large proportion of companies said they would be increasing their investments. Asked about where they planned to invest in new or expanded capacity over the next five years, the largest number of firms said China, followed in descending order by Thailand, the R.O.K. and Taiwan. The commonest reason given for investing in East Asia was "development and expansion of markets in the region and host countries."

Table 11. FDI outflow from Japan by destination (based on reports and notifications)

Value (Unit: US$ million) / % change on year earlier (Unit: %)

	FY1997	FY1998	FY1999	1H FY2000	FY1997	FY1998	FY1999	1H FY2000
World	53,972	40,747	66,694	26,033	12.4	– 24.5	63.7	– 44.0
North America	21,389	10,943	24,770	8,695	– 7.1	– 48.8	126.3	– 53.1
U.S.	20,769	10,316	22,296	8,634	– 5.6	– 50.3	116.1	– 46.8
Europe	11,204	14,010	25,804	11,184	52.0	25.0	84.2	– 39.4
EU	10,963	13,850	25,191	11,079	53.4	26.3	81.9	– 38.0
U.K.	4,118	9,780	11,718	7,705	19.8	137.5	19.8	– 0.6
Netherlands	3,295	2,118	10,361	1,896	199.9	– 35.7	389.3	– 76.5
Germany	732	553	649	233	28.2	– 24.5	17.4	– 41.0
France	1,736	521	1,127	231	245.3	– 70.0	116.5	– 69.5
Asia	12,181	6,528	7,162	2,821	4.9	– 46.4	9.7	– 33.6
East Asia	11,094	6,169	6,825	2,665	0.9	– 44.4	10.6	– 34.9
Asian NIEs	3,411	1,765	3,198	1,154	– 3.6	– 48.3	81.2	– 33.6
R.O.K.	442	303	980	454	6.4	– 31.6	223.7	9.1
Taiwan	450	224	285	191	– 13.7	– 50.2	27.4	62.7
Hong Kong	695	602	971	318	– 53.2	– 13.4	61.3	– 38.3
Singapore	1,824	636	962	190	63.5	– 65.1	51.2	– 72.4
ASEAN4	5,696	3,340	2,876	1,109	15.1	– 41.4	– 13.9	– 46.0
Malaysia	791	514	526	110	38.4	– 35.0	2.2	– 70.7
Thailand	1,867	1,371	816	435	33.1	– 26.6	– 40.5	– 27.2
Indonesia	2,514	1,076	918	234	4.1	– 57.2	– 14.7	– 62.3
Philippines	524	379	617	330	– 6.3	– 27.7	62.8	– 27.9
China	1,987	1,065	751	402	– 20.8	– 46.4	– 29.5	33.4
Latin America	6,336	6,463	7,437	3,088	42.5	2.0	15.1	– 25.9
Middle East	471	146	113	16	98.0	– 69.0	– 22.7	– 81.2
Africa	332	444	515	8	– 22.9	33.8	15.8	– 97.2
Oceania	2,058	2,213	894	221	129.4	7.5	– 59.6	– 68.4

Notes: 1. Some percentages do not tally due to rounding.
2. Figures released in yen converted to U.S. dollars at the Bank of Japan's interbank average rate for the period.
3. Percentage change indicates the change on the same period one year earlier.

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

Table 12. Capital increases in Japanese affiliates in East Asia

(1) Automotives

Date	Acquiring company	Acquired company	Sector	Market	Change in equity (%)
1/13/1998	NSK Ltd.	Hanwha HSK Precision Corp.	Manufacture of auto parts	R.O.K.	Unknown to 100
3/12/1998	Suzuki Motor Corp.	Thai Suzuki Motor Co., Ltd.	Manufacture of motorcycles	Thailand	48.9 to 50.8
3/17/1998	Hirata Technical Co., Ltd.	Hirata Parts (Thailand) Co., Ltd.	Manufacture of auto parts	Thailand	49 to 83
3/24/1998	Keihin Corp.	Keihin (Thailand) Co., Ltd.	Manufacture of motorcycle parts	Thailand	44 to 57
4/10/1998	Toyo Roki MFG. Co., Ltd.	Toyo Roki (Thailand) Co., Ltd.	Manufacture of auto parts	Thailand	49 to 56
5/25/1998	Showa Corp.	Summit Showa Manufacturing	Manufacture of auto parts	Thailand	49 to 53
6/3/1998	Toyoda Gosei Co., Ltd.	TG Pompara	Manufacture of auto parts	Thailand	43 to 78.5
6/17/1998	Nippon Seiki Co., Ltd.	Thai Nipponseiki Co., Ltd.	Manufacture of motorcycle parts	Thailand	40 to 52.5
7/28/1998	Atsumitec Co., Ltd.	Atsumitec (Thailand) Co., Ltd.	Manufacture of auto parts	Thailand	49 to 59
7/29/1998	Koito MFG. Co., Ltd.	Thai Koito Co., Ltd.	Manufacture of auto parts	Thailand	49 to 61.75
9/3/1998	Honda Motor Co., Ltd.	Honda Astra Engine Manufacturing	Manufacture of motorcycle parts	Indonesia	49 to 51
9/3/1998	Honda Motor Co., Ltd.	Honda Cars Manufacturing	Manufacture of vehicles	Thailand	49 to 97
2/28/1999	Stanley Electric Co., Ltd.	San Lip Electric Co., Ltd.	Manufacture and sale of auto parts	R.O.K.	9.1 to 20
4/15/1999	Mazda Motor Corp.	Sukosol and Mazda Co., Ltd.	Sale of autos	Thailand	20 to 93
5/30/1999	Toyota Motor Thailand Co., Ltd.	Siam Toyota Manufacturing	Manufacture of auto parts	Thailand	40 to 80
6/17/1999	Ashimori Industry Co., Ltd.	KPN Ashimori	Manufacture of auto parts	Thailand	40 to 81
6/23/1999	Toyota Motor Corp.	UMW Toyota Motor Corp.	Sale of autos	Malaysia	18 to 39
7/7/1999	Aisin Takaoka Co., Ltd.	Siam AT Industry	Manufacture of auto parts	Thailand	39 to 60.1
7/7/1999	Aisin Takaoka Co., Ltd.	Nawaloha Industry Co.	Manufacture of auto parts	Thailand	39 to 60.1
8/13/1999	Okaya & Co., Ltd.	Union Auto Parts Manufacturing	Manufacture and sale of auto parts	Thailand	49 to 98
12/16/1999	Mitsubishi Corp.	Tri Petch Isuzu Sales Co.	Sale of autos	Thailand	45 to 98.68
2/28/2000	NSK Ltd.	Siam Nastech	Manufacture of auto parts	Thailand	50 to 100
9/30/2000	Honda Motor Co., Ltd.	P.T. Federal Motor	Manufacture of motorcycle parts	Indonesia	7.5 to 50

(2) Electrical Machinery

Date	Acquiring company	Acquired company	Sector	Market	Change in equity (%)
2/25/1998	Fuji Xerox Co., Ltd.	Korea Xerox Co., Ltd.	Manufacture and sale of copiers	R.O.K.	50 to 100
3/11/1998	Nittan Valve Co., Ltd.	Shin Hwa Precision Co., Ltd.	Manufacture of valve lifters	R.O.K.	Unknown to 60
3/27/1998	Seiko Epson Corporation	Trigem Computer	Printer business	R.O.K.	Unknown to 100
5/8/1998	Daihen Corp.	Ecarat Daihen Transforma	Manufacture of transformers	Thailand	36.7 to 100
5/28/1998	Kasuga Electric Works Corp.	Siam Orient Electronics	Manufacture of electronic parts	Thailand	49 to 80
6/22/1998	Yokogawa Electric Corp.	Yokogawa Electric Korea Co., Ltd.	Manufacture of control units	R.O.K.	49 to 100
9/21/1998	Sumitomo Electric Industries, Ltd.	P.T.IKI Indah Kabel Indonesia	Manufacture of cables	Indonesia	Unknown to 93
11/11/1998	Sumitomo Electric Industries, Ltd.	Siam Electric	Manufacture of coiled wire	Thailand	Unknown to 75
12/3/1999	Richo Co., Ltd.	Inchcape NRG (Thailand)	Manufacture of office equipment	Thailand	50 to 100

Table 12. Capital increases in Japanese affiliates in East Asia (continued)

(3) Other manufacturing

Date	Acquiring company	Acquired company	Sector	Market	Change in equity (%)
7/30/1999	Nissho Iwai Corp.	Kaltim Methanol Industry PT	Manufacture of methanol	Indonesia	25 to 85
8/31/1999	Mandom Corp.	Tancho Indonesia	Manufacture of cosmetics	Indonesia	Unknown to 54.84
12/10/1999	Toppan Printing Co., Ltd.	Siam Printing and Packaging	Manufacture of packaging	Thailand	10 to 49
12/30/1999	Mitsubishi Rayon Co., Ltd.	TPI Polyacrylate	Manufacture of molded acrylic resin materials	Thailand	35 to 100
2/11/2000	Tokai Carbon Co., Ltd.	Thai Carbon Product	Manufacture and sale of carbon black	Thailand	25 to 58.33

(4) Non-manufacturing

Date	Acquiring company	Acquired company	Sector	Market	Change in equity (%)
3/30/1999	JAFCO	Nomura JAFCO Investment Asia	Venture capital	Singapore	Unknown to 100
5/7/1999	Mitsui Trust and Banking Co., Ltd.	Dah-Shin Bank Ltd.	Comprehensive financial services	Hong Kong	10.23 to 12.33
1/14/2000	Softbank Corp.	Softbank Korea Corp.	Internet services	R.O.K.	46 to 80
2/3/2000	Tanabe Seiyaku Co., Ltd.	Tianjin Tanabe Seiyaku Co., Ltd.	Manufacture of pharmaceutical	China	50 to 66.7
6/13/2000	Seino Transportation Co., Ltd.	United-Seino Transportation (Malaysia) SDN.BHD.	Shipping, warehousing and logistics services	Malaysia	50 to 100
7/3/2000	Hitachi, Ltd.	LD Hitachi, Ltd.	Software development	R.O.K.	1.76 to 51
9/21/2000	Dentsu Inc.	Dentsu Mandate Malaysia	Advertising services	Malaysia	58.5 to 100

Note: Date indicates date of announcement or completion of deal.

Sources: Prepared by JETRO based on data from Thomson Financial IB/CM Group Data and interviews with companies.

Table 13. Japanese FDI outflow by industry (based on reports and notifications)

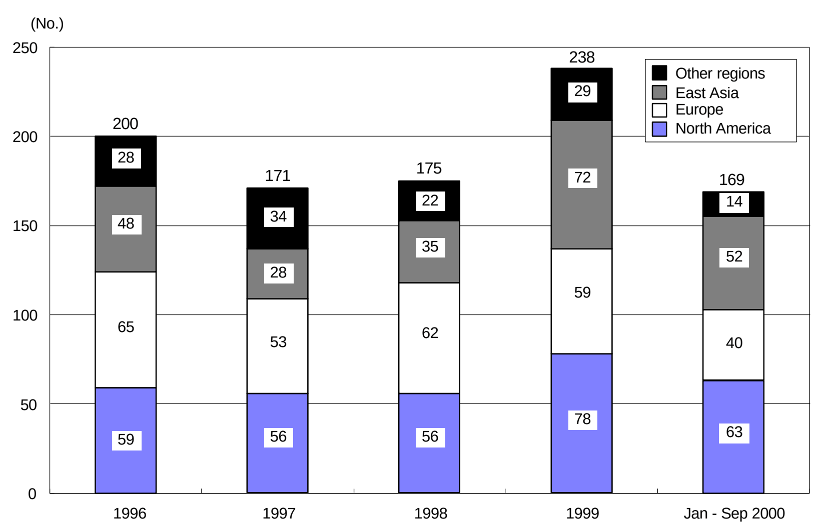
(Units: US$ million, %)

	FY1997	FY1998	FY1999 (US$1 = ¥111.54)				1H FY2000 (US$1 = ¥107.09)			
	Value	Value	No.	Value	% share	% change	No.	Value	% share	% change
Electrical machinery	6,689	3,418	140	16,350	24.5	378.3	75	1,300	5.0	– 90.7
Food stuffs	572	1,270	59	14,908	22.4	1073.5	20	155	0.6	– 98.9
Transport equipment	2,908	1,607	85	4,781	7.2	197.5	37	2,127	8.2	– 8.2
Chemicals	3,013	2,246	94	1,694	2.5	– 24.6	36	1,136	4.4	69.4
Ferrous and non-ferrous metals	1,413	1,223	64	1,458	2.2	19.2	32	425	1.6	– 60.1
Machinery	1,284	795	74	995	1.5	25.1	21	652	2.5	12.2
Textiles	958	341	15	260	0.4	– 23.8	5	134	0.5	93.3
Wood and pulp	352	677	16	115	0.2	– 83.0	4	69	0.3	9.5
Others	2,151	673	67	1,749	2.6	159.8	36	328	1.3	– 68.7
Manufacturing	19,339	12,252	614	42,310	63.4	245.3	266	6,326	24.3	– 81.2
Finance/insurance	11,969	16,374	431	9,885	14.8	– 39.6	454	4,996	19.2	9.8
Services	6,479	2,053	175	4,314	6.5	110.1	88	1,037	4.0	– 55.8
Commerce	4,375	3,777	193	3,876	5.8	2.6	74	1,794	6.9	– 26.5
Transport	2,341	1,898	156	2,772	4.2	46.0	63	11,393	43.8	720.3
Real estate	5,533	2,810	61	2,114	3.2	– 24.8	12	228	0.9	– 81.6
Mining	2,686	874	45	921	1.4	5.4	5	96	0.4	– 83.4
Construction	456	294	17	182	0.3	– 38.2	4	20	0.1	– 65.7
Agriculture and forestry	56	33	9	80	0.1	145.5	1	6	0.0	– 90.5
Fishery and marine products	109	20	6	26	0.0	33.7	1	3	0.0	– 34.3
Others	53	7	–	8	0.0	19.3	1	2	0.0	– 75.7
Non-manufacturing	34,059	28,138	1,093	24,178	36.3	– 14.1	703	19,574	75.2	54.5
Branches	574	357	6	206	0.3	– 42.4	2	134	0.5	– 6.8
Total	53,972	40,747	1,713	66,694	100.0	63.7	971	26,033	100.0	– 44.0

Notes: 1. Some percentages do not tally due to rounding.
2. Figures released in yen are converted to U.S. dollars at the Bank of Japan's interbank average rate for the period.
3. Percentage change indicates change on the previous fiscal year or the same period a year earlier.
4. "0" indicates an amount of less then US$1 million. "-" indicates no information available.
5. Percentage share indicates the proportion of the total amount of FDI in all sectors.

Source: Same as Table 11.

Table 14. In-out M&As deals in Japan, 1996-2000 (completed deals)



Source: Prepared by JETRO from Thomson Financial IB/CM Group Data.

6. France overtakes U.S. to become top investor to Japan and FDI in Japanese manufacturing increases

According to figures from Japan's Ministry of Finance, FDI inflow into Japan grew for a second straight year, soaring 105.5% to US$21.5 billion, an all-time high (Table 15). The major force behind this growth was the EU, particularly French firms, which saw their investments rise 51-fold over 1998 to overtake U.S. firms as the leading foreign investors in Japan. French companies made large acquisitions in Japan's automobile, auto parts, finance / insurance industries.

Targets of FDI inflow expanded beyond the finance / insurance industries to newly include the manufacturing sector, where Japanese firms have been particularly strong. Investment in Japanese manufacturing centered on machinery makers, and grew significantly both in value and number. Acquisitions of Japanese factories also increased, including the purchase of a Sony plant by Solectron Corporation of the U.S., a world leader in electronics manufacturing services (EMS)[*2] (Table 16).

[*2] "EMS companies are companies without their own brand that specialize in providing a comprehensive package of services—from the design to the manufacture and physical distribution of equipment—under contract to a number of electronic equipment manufacturers."

(1) US$6.7 billion inflow from French firms made France the biggest investor in Japan in fiscal 1999, ahead of the U.S. (Table 15). Investment by leading French firms was up in manufacturing, such as, automobiles, auto parts, and finance / insurance. Combined with a 322.6% surge in investment by Dutch companies, this caused investment from the EU to grow 505.8% to a record US$12.3 billion, increasing the region's overall share of inflow into Japan from 19.4% the previous year to 57.3%. U.S. investment slumped 64.7% to US$2.2 billion, though the decline was somewhat misleading as investment from the Netherlands and Canada also included investment by U.S.-affiliated firms including holding companies. Investment by foreign-affiliated firms in Japan grew for the second year, and the trend continued in fiscal 2000, when investment in the first half of the year grew 55.7% to US$17.7 billion. Due to the increase in investment in Japan, the proportion of FDI inflow to outflow increased from 1 to 9.8 in 1997 to 1 to 3.1 in 1999, and 1 to 1.5 in the first half of 2000.

(2) FDI inflow increased also in the manufacturing sector, where Japanese firms have been traditionally strong. Continuing the pattern set in fiscal 1998, manufacturing investment rose in both terms of value (up 259.8% to US$8.8 billion) and number (up 77 to 305 cases) (Table 17). There was particularly strong growth in investment in machinery manufacturers, up 366.5% to US$7.8 billion, as a result of Renault's acquisition of a stake in Nissan.

Foreign investors also eagerly snapped up Japanese factories in the IT-related sector. Motorola of the U.S. acquired Tohoku Semiconductor, and Solectron of the U.S., the world leader in EMS, acquired Sony's Nakaniida plant (Table 16). Acquisition of plants by contract equipment manufacturers such as Solectron is growing increasingly commonplace in the U.S. and Europe, and Solectron's deal with Sony shows that Japanese firms too are now starting to make full use of foreign EMS firms to outsource and consolidate their operations.

(3) According to figures from Thomson Financial, the number of acquisitions of Japanese companies by foreign companies (out-in M&As) almost doubled in 1999 from 54 to 104 (Table 18). The U.S. was the biggest acquiring nation, accounting for 41 (an increase of 16), followed by the U.K. with 13 (up 9

cases) and France with 7 (up 5). The number of deals in the first nine months of 2000 alone came to 112, exceeding the 12-month total in 1999. M&As in manufacturing doubled to 47, driven up by a surge in acquisitions of machinery and equipment manufacturers from 11 to 32. Non-manufacturing, too, witnessed a strong increase from 33 the previous year to 55, with the number of out-in M&As in telecommunications going from zero to 14. In 2000, the first three quarters alone saw more deals in non-manufacturing (64) than in the whole of 1999, with firms in the business services sector proving particularly popular targets (up 8 to 26).

(4) Three sectors—finance, transport equipment and telecommunications—accounted for some 90% of the total value of confirmed out-in M&As in 1999. This was due to large deals in finance (such as the US$6.6 billion acquisition of Japan Leasing Corp. by GE Capital), transport equipment (such as Renault's US$4.9 billion acquisition of a stake in Nissan), and telecommunications (such the acquisition of a US$1.8 billion stake in Japan Telecom by BT of the U.K. and AT&T of the U.S.). Value rose sharply in 2000, when there were five deals in excess of US$1 billion during the first three quarters compared with just three the previous year. Further large deals, such as DaimlerChrysler's purchase of a stake in Mitsubishi Motors in October 2000, suggest the trend is set to continue.

(5) According to a JETRO questionnaire survey conducted in 2000, many foreign-affiliated companies in Japan increased their sales since fiscal 1999, and their workforces have grown since their establishment. More than half the companies surveyed reported growth in sales in fiscal 1999, and 60% said they expected sales to rise in fiscal 2000. Just under 80% said that they had increased the size of their workforce since their establishment, and some 70% said they either were considering or planning for fresh recruitment from the next fiscal year. Asked about the business environment in Japan, more improvement than deterioration was reported in all categories, such as land prices, office rents and telecom charges. Regarding the measures they wanted to see adopted in the future, a large proportion cited the mandatory disclosure of corporate financial data in line with international accounting standards (IAS) and the introduction of consolidated tax payment system.

Table 15. Japanese FDI inflow by source (based on reports and notifications)

(Units: no. of projects, US$ million, %)

	FY1997	FY1998	FY1999 (US$1 = ¥111.54)					1H FY2000 (US$1 = ¥107.09)				
	Value	Value	Number		Value			Number		Value		
				Change on a year earlier		% share	% change		Change on a year earlier		% share	% change
U.S.	1,237	6,309	622	– 2	2,230	10.4	– 64.7	296	13	6,162	34.9	385.0
Canada	2	14	12	1	1,511	7.0	11090.1	6	2	2	0.0	– 97.1
North America	1,239	6,323	634	– 1	3,741	17.4	– 40.8	302	15	6,164	34.9	361.9
Netherlands	1,192	1,000	104	18	4,225	19.6	322.6	44	– 13	166	0.9	– 93.8
France	76	131	49	13	6,686	31.1	4997.7	29	12	146	0.8	– 97.1
Germany	450	262	82	– 24	418	1.9	59.7	33	– 5	98	0.6	– 67.1
U.K.	364	289	65	5	806	3.7	178.5	45	13	61	0.3	– 90.3
Other EU countries	242	353	64	– 9	193	0.9	– 45.4	38	15	185	1	218.9
EU	2,324	2,035	364	3	12,327	57.3	505.8	189	22	656	3.7	– 92.5
Switzerland	156	225	52	17	344	1.6	53.2	14	– 8	207	1.2	35.1
Europe	2,508	2,361	423	20	12,675	58.9	436.7	206	13	863	4.9	– 90.3
Taiwan	40	44	42	– 3	119	0.6	169.5	14	– 16	89	0.5	– 11.8
Singapore	156	57	27	– 3	660	3.1	1050.7	24	11	21	0.1	– 96.6
Hong Kong	334	37	34	5	108	0.5	194.0	10	– 5	18	0.1	316.2
R.O.K	69	16	49	18	95	0.4	498.6	34	21	17	0.1	294.3
Asian NIEs	598	154	152	17	982	4.6	537.7	82	11	144	0.8	– 80.0
Thailand	0	0	1	0	0	0.0	665.2	2	1	0	0.0	n.a.
Malaysia	0	0	1	0	0	0.0	– 88.5	1	1	0	0.0	n.a.
Philippines	0	3	1	– 1	0	0.0	– 98.7	1	0	0	0.0	n.a.
Indonesia	0	0	1	0	0	0.0	– 1.6	–	– 1	–	–	–
ASEAN4	0	4	3	– 2	0	0.0	– 91.7	4	1	0	0.0	n.a.
China	5	2	36	– 4	3	0.0	28.4	22	5	4	0.0	338.1
East Asia	604	160	191	11	985	4.6	516.8	108	17	148	0.8	– 79.5
Asia	605	164	208	3	986	4.6	499.5	111	8	148	0.8	– 79.6
Latin America	482	268	154	92	2,595	12.1	868.3	86	36	1,225	6.9	707.2
Middle East	1	1	19	12	2	0.0	104.3	5	– 2	2	0.0	119.0
Africa	0	0	3	2	3	0.0	4124.0	2	1	0	0.0	n.a.
Oceania	5	1	15	3	61	0.3	10841.7	9	4	60	0.3	3,404.5
Japan	687	1,351	249	32	1,448	6.7	7.2	132	55	9,189	52.1	4,044.7
Total	5,527	10,469	1,705	163	21,510	100.0	105.5	853	130	17,650	100.0	55.7

Notes: 1. Some percentages do not tally due to rounding.
2. Figures released in yen are converted to U.S. dollars at the Bank of Japan's interbank average rate for the period.
3. Percentage change indicates change on the previous fiscal year or the same period a year earlier.
4. "0" indicates an amount of less than US$1 million. "-" indicates no information available.
5. Percentage share indicates the proportion of the total amount of FDI in each sectors.
6. "Japan" indicates investments by foreign-affiliated companies in Japan.

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

Table 16. Recent investments outside major cities in Japan

Manufacturing

Location	Date of establishment	Investing company	Home economy	Form of investment	Sector
Koriyama, Fukushima Pref.	April 1998 (plant completed)	Novo Nordisk Pharma Ltd.	Denmark	Wholly owned plant established	Manufacture of pharmaceutical
Miyazaki-gun, Miyazaki Pref.	September 1998 (entered operation)	Boston Scientific Corp.	U.S.	Wholly owned plant established	Manufacture of medical supplies and equipment
Inabe-gun, Mie Pref.	October 1999 (entered operation)	Van Leer	Finland	Wholly owned plant established	Manufacture of industrial steel drums
Aki-gun, Mie Pref.	January 1999 (plant completed)	Cabot Corp.	U.S.	Wholly owned plant established	Manufacture of tire reinforcer and polishing agent for manufacturing of semiconductors
Yokkaichi, Mie Pref.	May 1999 (entered operation)	Saint-Gobain	France	Wholly owned plant established	Assembly of automobile glass
Kami-gun, Miyazaki Pref.	2000	Solectron Corporation	U.S.	Purchase of assets of Sony's Nakaniida manufacturing operations	Electronics manufacturing services
Sendai, Miyagi Pref.	End 2000	Motorola Inc.	U.S.	100% takeover of Tohoku Semiconductor (joint venture with 50-50 capital participation)	Manufacture of general-purpose MCUs, flash MCUs, DSPs, etc.
Kitakami, Iwate Pref.	Early November 2000 (planned)	Amkor Electronics Inc.	U.S.	Jointly established a company located at Iwate Toshiba Electronics and later sold off	Semiconductor post-processing specialist
Aizuwakamatsu, Fukushima Pref.	End February 2001 (plant scheduled to be completed)	Advanced Micro Device (AMD)	U.S.	Construction of third plant for Fujitsu AMT Semiconductor (joint venture with AMT)	Pre-processing manufacture of flash memory
Nishiwaki, Hyogo Pref.	End March 2001 (planned)	Micron Technology	U.S.	Takeover through assignment of shares in Micron shares held by Kobe Steel	Manufacture of advanced DRAM
Kobe, Hyogo Pref.	2001 (planned)	Henkel KGaA	Germany	Establishment of wholly-owned International Business Support Center Kobe (planned)	Manufacture and sale of chemicals

Table 16. Recent investments outside major cities in Japan (continued)

Non-manufacturing

Location	Date of establishment	Investing company	Home economy	Form of investment	Sector
Sagamihara, Kanagawa Pref.	November 1998	American Malls International	U.S.	Launch of Excite World Marketplace	Commercial developer, outlet mall development
Utsunomiya, Tochigi Pref.	May 1999	Fidelity Group	U.S.	Establishment of wholly owned call center	Asset management services
Okinawa Pref.	October 1999	Citibank, N.A.	U.S.	Establishment of wholly owned call center	Personal and corporate finance, banking
Okinawa Pref.	December 1999	Club Med	France	Wholly owned operation of facilities	Running of resort facilities
Kasuya-gun, Fukuoka Pref.	April 1999	Costco Wholesale International Inc.	U.S.	Launch of wholly owned membership wholesale club	Wholesale club
Makuhari, Chiba City, Chiba Pref.	December 2000	Costco Wholesale International Inc.	U.S.	Launch of wholly owned membership wholesale club	Wholesale club
Gotenba, Shizuoka Pref.	July 2000	Chelsea GCA Co., Ltd.	U.S.	Establishment of joint venture with Nissho Iwai Corp. and Mitsubishi Estate to launch Premium Outlet outlet mall	Specialist outlet developer
Izumisano, Osaka Pref.	November 2000	Chelsea GCA Co., Ltd.	U.S.	Opening of Rinku Premium Outlet outlet mall	Specialist outlet developer
Makuhari, Chiba City, Chiba Pref.	December 2000	Carrefour	France	Launch of wholly owned large retail store	Retail
Machida, Tokyo	January 2001 (planned)	Carrefour	France	Launch of wholly owned large retail store	Retail
Izumi, Osaka Pref.	January 2001 (planned)	Carrefour	France	Launch of wholly owned large retail store	Retail
Kobe, Hyogo Pref.	January 2001 (planned)	Iscar Ltd.	Israel	Establishment of International Business Support Center Kobe (planned)	Import and sale of super-hard cutting tools, technical services
Kobe, Hyogo Pref.	January 2001 (planned)	Molecular Devices Corp.	U.S.	Establishment of International Business Support Center Kobe (planned)	Import and sale of lab, physics, chemistry and medical equipment
Kobe, Hyogo Pref.	January 2001 (planned)	ILME S.P.A.	Italy	Establishment of International Business Support Center Kobe (planned)	Import, export and wholesale of electronic components

Sources: Prepared by JETRO from materials released by companies, interviews with companies, *JETRO Sensor* (February 1999, February 2000), *The 2000 Compendium of Foreign-Affiliated Firms* (Toyo Keizai Shinposha) and press releases.

Table 17. Japanese FDI inflow by sector (based on reports and notifications)

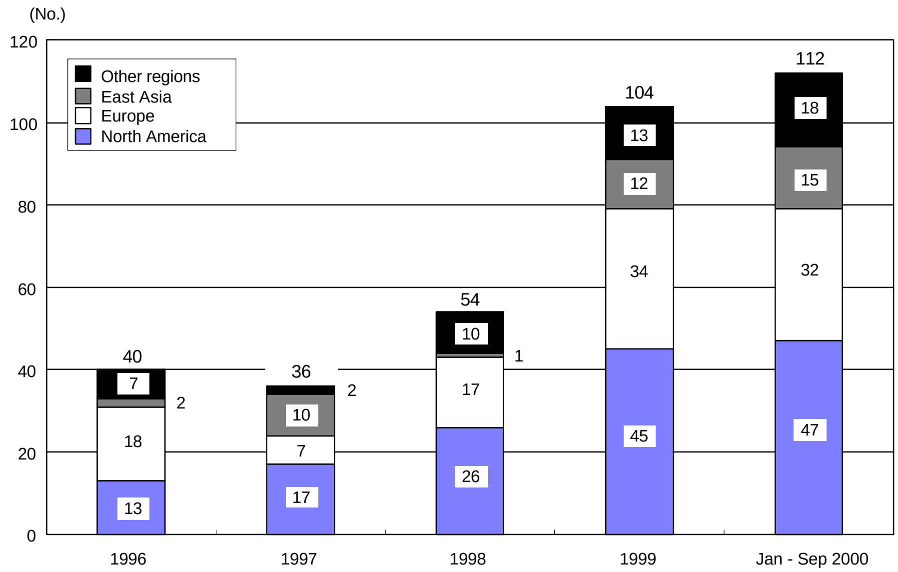
(Units: no. of projects, US$ million, %)

	FY1997	FY1998	FY1999 (US$1 = ¥111.54)					1H FY2000 (US$1 = ¥107.09)				
	Value	Value	Number		Value			Number		Value		
				Change on a year earlier		% share	% change		Change on a year earlier		% share	% change
Machinery	1,184	1,663	126	– 6	7,757	36.1	366.5	27	– 51	317	1.8	– 94.6
Chemicals	603	310	98	72	540	2.5	74.0	17	– 6	325	1.8	259.5
Metals	2	16	16	13	160	0.7	906.6	2	– 6	18	0.1	– 62.8
Petroleum	47	65	34	5	121	0.6	85.0	11	2	1	0.0	– 63.5
Rubber and leather products	153	38	1	– 6	63	0.3	67.3	1	1	10	0.1	n.a.
Glass, earth and stone products	6	–	3	3	51	0.2	–	–	– 1	–	–	–
Food stuffs	18	201	8	1	13	0.1	– 93.4	–	– 3	–	–	–
Textiles	15	28	4	– 5	2	0.0	– 94.6	–	– 3	–	–	–
Others	151	120	15	0	76	0.4	– 36.4	1	– 12	0	0.0	n.a.
Manufacturing total	2,179	2,441	305	77	8,783	40.8	259.8	59	– 79	671	3.8	– 89.0
Finance and insurance	1,317	3,568	208	8	4,586	21.3	28.5	120	22	7,151	40.5	852.0
Trade and Commerce	812	1,374	477	– 48	3,124	14.5	127.4	208	8	1,892	10.7	78.8
Telecommunications	27	131	52	11	2,959	13.8	2159.0	35	13	6,777	38.4	154.8
Services	723	2,484	539	116	1,845	8.6	– 25.7	381	176	836	4.7	18.1
Real estate	392	325	104	23	151	0.7	– 53.6	41	– 8	308	1.7	447.6
Construction	3	11	5	3	20	0.1	85.5	–	– 5	–	–	–
Transport	3	48	8	– 9	19	0.1	– 59.1	4	1	6	0.0	n.a.
Others	71	87	7	– 18	23	0.1	– 73.9	5	2	10	0.1	50.6
Non-manufacturing total	3,348	8,028	1,400	86	12,727	59.2	58.5	794	209	16,979	96.2	222.9
Total	5,527	10,469	1,705	163	21,510	100.0	105.5	853	130	17,650	100.0	55.7

Notes:
1. Some percentages do not tally due to rounding.
2. Figures released in yen are converted to U.S. dollars at the Bank of Japan's interbank average rate for the period.
3. Percentage change indicates change on the previous fiscal year or the same period a year earlier.
4. "0" indicates an amount of less then US$1 million. "-" indicates no information available.

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

Table 18. Out-in M&As in Japan, 1996-2000 (completed deals)



Source: Prepared by JETRO from Thomson Financial IB/CM Group Data.

7. Future issues

Foreign direct investment accelerates economic growth in recipient countries, and not only because it leads to capital formation, but also because it brings with it intangible business resources such as new management techniques, know-how, new technology, and access to new export markets. Countries with high levels of FDI inflow generally achieve high levels of economic growth. While funds for portfolio investment and bank financing have flowed out of Asia since the financial crisis, FDI in the form of capital increases and M&As has flowed in and provided the bedrock for recovery. The following outlines issues required to encourage FDI in developing countries and in Japan, where foreign firms are expected to play an important role in the creation of new employment and economic revitalization.

(1) Promotion of bilateral and WTO multilateral investment agreements

In developing countries, the instability and opacity of investment-related legislation, limitations on foreign equity participation, industry regulation, and performance requirements, such as the need to meet export ratios and employ a certain proportion of host country nationals, are often cited as problems unfavorable to attracting inflow of foreign investment. Such laws and regulations have, moreover, not always acted to the advantage of the recipient countries. What is desired is the establishment of clear investment rules, which increase predictability for investors and stimulate foreign direct investment, thereby benefiting developing countries. In the absence of comprehensive multilateral investment rules, it is desirable that the members of APEC, where a large proportion of Japanese companies have targeted their investment, sign bilateral investment agreements. Such agreements should cover not only investment protection, most favored nation status and transparency, but also incorporate strict provisions concerning, for example, national treatment, the restriction of performance requirements, and dispute settlement. In order to encourage new investment, it is important to have rules to provide for national treatment of foreign investors prior to making their investment. At the same time, multilateral agreement on investment should be included on the agenda for the next round of WTO negotiations.

(2) Capacity building in developing countries to stimulate FDI

Global FDI grew rapidly in the late nineties, but the main source of growth was investment between the U.S. and Europe. East Asia's share of global FDI inflow dropped from around 20% in the early nineties to 10% in 1998 and 1999. There is a growing tendency for FDI in developing countries to be concentrated in certain economies, as seen in the emerging divide among ASEAN countries where FDI is growing and those where FDI is declining. Unlike during the period of import-substituting industrialization, countries no longer choose their investors, but rather investors choose their countries to invest due to growing liberalization and globalization. Surveys by JETRO have shown that companies do not always attach the highest priority to foreign direct investment incentives, such as tax exemptions. Instead, they tend to place greater emphasis on a country's macroeconomic stability, infrastructure and low production costs, and on intangible factors such as the level of development of business legislation, foreign investment policies that are transparent and do not discriminate between domestic and foreign corporations, the quality of human resources, and the strength of supporting industries. In order to stimulate FDI in the Asia-Pacific region, therefore, it is necessary to give assistance to developing countries in upgrading their potential by formulating and implementing policies to develop their intangible infrastructures and supporting industries. Foreign capital can be attracted in other ways, too, such as by introducing advance tax ruling schemes whereby prior consultation on taxation is possible between investing companies and local tax authorities.

(3) International rules concerning competition law

M&As are the engine of growth in global FDI and in the medium to longer term they have much the same impact on recipient countries as greenfield investment. What is problematic, however, is their impact on competition. The acquisition of market share through the purchase of local companies and the merger of subsidiaries in recipient countries resulting from the merger of their parent companies can hinder competition. Globalization also means that anti-competitive practices in one country can have an impact on another country's trade and economy. With a growing number of M&As coming under the scrutiny of the antimonopoly authorities, industrialized countries are taking steps to harmonize their extraterritorial application of antimonopoly laws. In developing countries, however, competition law is often nonexistent or ineffective due to lack of experience in its application. In order to develop international rules concerning competition law, therefore, developing countries in the APEC region, where investment by many Japanese firms is targeted, need to be provided with assistance, such as with the training of officials. Also, as in the case of investment rules, multilateral agreement on competition should be included on the agenda for the next round of WTO negotiations.

(4) Development of business environment to encourage foreign investment in Japan

FDI inflow in Japan has increased substantially in recent years, but nevertheless remains low in comparison with levels in other developed countries. Investment by foreign companies in Japan helps maintain and create further employment, and brings with it business know-how that altogether makes companies more efficient and competitive. Macroeconomically, investment by foreign companies also contributes both to economic revitalization in local areas and to the structural reform of the Japanese economy. Foreign-affiliated companies in Japan welcome the fact that infrastructure-related costs, such as telecommunications charges and office rents, have fallen, and that changes such as deregulation have brought about an improvement in the business environment. Problems remain, however, such as foreign firms not being allowed to qualify for the deferment of capital gains taxes in stock-for-stock exchanges and the absence of consolidated tax returns. Local governments also need to take more strategic approaches to courting foreign firms, such as by providing detailed, comprehensive information in English and publicizing the attractions of their localities, such as the presence of research institutes.

PART 2. FOREIGN DIRECT INVESTMENT BY COUNTRY/REGION

1. North America

(1) FDI inflow and outflow of the U.S. reach record high

Both FDI inflow and outflow of the U.S. were strong in 1999. Net FDI inflow (FDI inflow minus FDI outflow measured on a BOP basis) rose 48% to a record of US$275.5 billion. This was due to continued inflow of capital from abroad attracted by the buoyant state of the U.S. economy. There were some particularly large acquisitions in the IT sector by European, especially U.K., firms in 1999. At the same time, net FDI outflow from the U.S. rose 3.3% to US$150.9 billion. While there was a decline from the high level of investment in Europe in the previous year, this was offset by growth in investment in Canada and Japan.

FDI inflow into Canada also registered a new high of C$37.2 billion, an increase of 15.6% on the previous year, driven by investment from the United States. Canadian FDI outflow dropped by 43.0% overall to C$26.5 billion due to a net withdrawal from the EU and a 37.3% downturn in investment in the U.S., which had grown for two years running prior to 1999.

(2) Hopes of improved economic ties with China

After the U.S. and China came to an agreement in November 1999 on China's accession to the WTO, the U.S. passed the China Permanent Normal Trade Relations (PNTR) Bill in October 2000, which is to take effect once China joins the WTO. Hopes are rising that China's membership will lead to a more open domestic market. The U.S., however, has voiced concerns about the progress regarding key issues that China agreed (in negotiation with the U.S.) to address, such as raising its ceiling on foreign equity participation in IT and telecommunications companies and authorizing renminbi transactions between foreign banks and Chinese firms. Expectations of China's greater market access encouraged U.S. firms to continue investing in China in 2000 to expand their production bases and set up research and development facilities. September 2000 also saw the signing of a trade agreement between the U.S. and Vietnam. The agreement, which incorporates liberalized investment in communications, financial services, retailing and distribution, was not ratified by the 106th Congress due to a tight schedule. The agreement remains to be approved by the 107th Congress beginning in 2001.

(3) Record U.S. investment in Japan

FDI flow between Japan and the U.S. was marked by a 600% increase in inflow into Japan in 1999. The surge in investment was mainly in the finance (excluding banking) sector. Japanese FDI in the U.S. grew 116% from the previous year, pushed up by growth in investment in IT-related firms.

In March 2000, at the Investment-in-Japan Symposium 2000 held in Tokyo under the auspices of the Japan-U.S. Investment Working Group, participants agreed on the beneficial impact of increasing investment inflow into Japan in recent years and put forward recommendations for further regulatory reforms.

Regarding investment between Japan and Canada, there was a net withdrawal of Japanese investment from Canada. Canadian investment in Japan, however, grew strongly, a sharp turnaround from the previous year when there was a net withdrawal of Canadian investment from

Japan. Growth was due in the main to heavier investment by Canadian life insurers. At the 23rd Japan-Canada Business Conference in Tokyo in May 2000, agreement was reached on studying a possible Japan-Canada free trade agreement (FTA) to expand trade and investment between the two countries.

Trends in U.S. and Canadian FDI Flow

U.S. (Unit: US$ million)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Inflow	48,494	23,171	19,823	51,362	46,121	57,776	86,502	106,032	186,316	275,533
of which, Japan	18,754	11,421	4,186	1,058	5,486	8,118	13,337	10,559	7,563	9,529
Outflow	37,183	37,889	48,266	83,950	80,167	98,750	91,885	105,016	146,052	150,901
of which, Japan	844	244	683	1,625	1,867	2,336	– 280	– 339	1,394	10,616

Canada (Unit: C$ million)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Inflow	6,820	7,500	5,708	6,103	11,206	12,703	13,137	16,283	32,197	37,232
of which, Japan	713	644	415	189	608	571	898	572	294	– 4,033
Outflow	5,100	6,200	4,339	7,354	12,694	15,732	17,858	31,174	46,410	26,469
of which, Japan	231	32	265	– 40	240	– 815	– 27	740	– 145	1,019

Note: U.S. and Canadian inflow and outflow are measured on a BOP basis. Japanese FDI inflow and outflow are measured on a book value basis.

Sources: *Survey of Current Business* (U.S. Department of Commerce), *Canada's Balance of International Payments* (Statistics Canada).

2. Latin America: Net FDI inflow reaches record high for sixth year running

(1) Strong growth in FDI inflow into South America

Economic growth in Latin America in 1999 was the lowest of the nineties at just 0.4%. Nevertheless, net FDI inflow grew 27.2% to US$77.5 billion. Net inflow into Colombia, Ecuador and Venezuela, where the economic downturn was most pronounced, dropped by 67.3%, 23.5% and 52.1%, respectively. The Brazilian economy, which had been expected to run into difficulties following the devaluation of the real in January 1999, quickly stabilized, and net inflow grew a steady 6.0% to US$30.3 billion. Although the Argentine economy experienced negative growth, acquisitions such as that of the oil firm YPF by Repsol SA of Spain caused net inflow to rocket 430% to US$22.0 billion. Chile too registered negative growth, but net inflow nevertheless rose 140% to US$4.4 billion. Mexico, on the other hand, which attained 3.7% economic growth thanks in large part to the robust state of the neighboring U.S. economy, saw net inflow increase by just 2.3% to US$11.6 billion.

The economies of the region began to recover in 2000, but growth in net inflow was weak compared with the previous year. The downturns were particularly sharp in the cases of Argentina and Chile. First-quarter net inflow into Mexico grew a steady 27.5% for the whole of 1999. In Brazil, net inflow rose 41.9% on the previous year in the first six months of the year, and further growth in the latter half of the year was expected to result in total inflow of almost US$30 billion for the year.

The reason for this apparent negative correlation between business conditions and FDI inflow is due to the impact of large-scale M&As targeted at firms in the infrastructure sector.

(2) Latin America receives 43.6% of FDI destined for developing countries

According to figures from UNCTAD, net FDI inflow into Latin America measured on a BOP basis rose 22.7% in 1999 to US$90.5 billion, accounting for 10.5% of global FDI inflow and 43.6% of the inflow into developing countries. Cross-border M&As in the region, however, fell 41.9% to US$37.2 billion due to the impact of a slowdown in the privatization of state-owned enterprises throughout the region.

Net FDI outflow from Latin America, on the other hand, surged 190% to US$27.3 billion in 1999. A large proportion of this was accounted for by the British dependency of Bermuda, which exceeded US$15.1 billion. However, there was also strong growth in FDI outflow from Chile (US$4.9 billion), Brazil (US$1.4 billion) and Argentina (US$1.2 billion).

(3) Surge in Japanese FDI in Mexican auto sector

Japanese FDI in Latin America in fiscal 1999 (measured in terms of reports and notifications submitted to the Japanese Ministry of Finance) grew 15.1% to US$7.4 billion. Investment in manufacturing surged from US$342 million the previous fiscal year to US$2.3 billion. US$1.4 billion was invested in the automobile industry, of which US$1.3 billion went into Mexico due to Nissan's heavy capital increase in its Mexican subsidiary. At the same time, Japanese FDI inflow from Latin America grew some 900% in fiscal 1999 to US$2.6 billion. Firms in non-manufacturing industries such as commerce, trade and finance / insurance accounted for 93.0% of the total. Meanwhile, FDI in Japan's manufacturing sector, such as the formation of a joint venture by Sidelca of Argentina with NKK to manufacture and market seamless pipes, was brisk in 2000.

Trends in Net FDI inflow into Latin America and Japanese FDI outflow to Latin America

(Units: US$ million, %)

	1993	1994	1995	1996	1997	1998	1999
Net FDI inflow into Latin America	10,362	23,076	24,856	39,489	55,620	60,974	77,543
(% change on previous year)	– 17.1	128.8	4.9	58.9	40.8	9.6	27.2
Japanese FDI into Latin America	3,370	5,231	3,877	4,446	6,336	6,463	7,437
(% change on previous year)	23.6	55.2	– 25.9	14.7	42.5	2.0	15.1

Notes: 1. Net FDI inflow into Latin America is FDI inflow minus FDI outflow measured on a BOP basis. Figures for 1999 are estimates.
2. Statistics on Japanese FDI in Latin America are based on the Japanese fiscal year (April-March).

Sources: 1. Figures on net FDI inflow into Latin America from the United Nation's Economic Commission for Latin America and the Caribbean (ECLAC).
2. Figures on Japanese FDI in Latin America from Japanese Ministry of Finance statistics (based on reports and notifications submitted to the Ministry of Finance).

3. Europe: Record FDI inflow and outflow

Western Europe

(1) Accelerated growth in M&As and increased investment in EU and U.S.

Measured on a BOP basis, net EU FDI inflow increased 50% from the previous year to 304.3 billion euros, and net FDI outflow increased 47% to 479.4 billion euros, both record highs in 1999. This was due principally to the increase in the number and scale of M&As within the EU, which was in turn accelerated by the launch of the single currency in January 1999 and the fact that firms could begin to raise the financing for such deals through large-scale bond issues on the Eurobond market. There was also a rise in the number of companies transferring or consolidating their financial operations in subsidiaries in the Netherlands or Belgium to take advantage of these countries' more attractive tax regimes. The ever-increasing cross-border flow of funds between these subsidiaries and their parent and sister companies was another factor contributing to increased investment. Investment in the U.S., which experienced an unprecedented run of prosperity, also expanded dramatically by 34% to 163.5 billion euros. This was a result of the growth in the number and scale of M&As targeted at U.S. corporations. FDI inflow into the EU from the U.S., on the other hand, grew just 26% to 66.2 billion euros. The net outflow of funds from Europe to the U.S. contributed to the depreciation of the euro.

(2) Economic boom fuels increasing size of M&As

The economic recovery in Europe gathered pace from the second half of 1999. Driven by strong personal consumption and growth in exports due to the depreciation of the euro, the EU is expected to have attained real GDP growth of 3.4% in 2000. The trend is expected to continue in 2001, with growth of 3.1% forecast. As a result of the buoyant economic situation in the EU and the effects of the currency union, European firms have been pursuing a strategy of globalizing their operations through M&As targeted at foreign companies, which enables them to expand their scale and concentrate their resources in promising fields, thereby boosting their competitiveness. In doing so, their eyes have turned to the U.S., where economic conditions remain better than those in the EU. Meanwhile the price of acquisitions in the telecom sector soared, so concern started to grow regarding the increased funding burden placed on companies.

(3) Large-scale deals push up EU investment in Japan

Japanese FDI in the EU in fiscal 1999 (based on reports and notifications to the Japanese Ministry of Finance) increased 82% from the previous year to a record US$25.2 billion. The United Kingdom, where Japanese investment (centered on firms in the food and finance / insurance sectors) rose 20% to US$11.7 billion, remained the largest recipient of Japanese investment in 1999. The next largest recipient of investment was the Netherlands, where investment surged 389.2% to US$10.4 billion. In the meantime, Japan's FDI inflow from the EU rose 505.7% to an unprecedented US$12.3 billion. Leading the way were French firms, which invested US$6.7 billion in total. A large proportion of this was due to Renault's acquisition of a stake in Nissan. Next came Dutch firms, which invested US$4.2 billion, base on large-scale investments made by European and the U.S. firms through establishing holding companies in the Netherlands to take advantage of attractive taxation.

Central and Eastern Europe

(1) Increased investment in finance and communications

1999 FDI inflow into eight countries in Central and Eastern Europe ("Central and Eastern Europe" comprises Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Slovenia and Croatia) rose 29.3% from the previous year to a record US$16.9 billion. Large deals in finance and telecom continued with the establishment of a telecom carrier joint venture between Vivendi of France and Elektrim of Poland, and the acquisition of the Ceskoslovenska Obchodni Banka (CSOB) in the Czech Republic by KBC Bank of Belgium. Total FDI inflow between 1989 and 1999 came to US$67.5 billion, of which 29.7% went to Poland, 26.3% to Hungary, and 22.1% to the Czech Republic, which together accounted for just under 80% of the total. Heavy investment in the privatization of state-owned enterprises, such as Deutsche Telekom's purchase of 51% of Slovak Telecom for 1 billion euros, continued in 2000.

Japanese FDI in Central and Eastern Europe consisted not only of new investment, but also additional investment in the expansion of production capacity in the region. Mid-2000 onwards saw a flurry of investment announcements in the Czech Republic. Although in the past the bulk of investment in Central and Eastern Europe was by large firms, there was an increase in investment by small and medium-sized parts manufacturers and this trend is expected to continue in the future.

(2) Future EU members revise preferential treatment for investment

Ten countries in Central and Eastern Europe (above definition, excluding Croatia, but including Lithuania, Latvia and Estonia) are currently negotiating the entry to the EU and are harmonizing their laws, regulations and other aspects of their nations with those of the EU in the progress. Some of these countries are having to revise their preferential measures for foreign investors, such as Poland, which in 2001 is to scrap the 10-year exemption from corporation tax for foreign subsidiaries based in certain local special economic zones.

EU FDI Trends

(Units: million ECU/euro, US$ million)

	1992	1993	1994	1995	1996	1997	1998	1999
FDI inflow	55,494	55,893	57,735	80,344	77,759	101,986	202,842	304,309
(US$)	(71,965)	(65,523)	(68,624)	(105,098)	(98,598)	(115,662)	(227,183)	(324,637)
Japan	1,859	1,600	1,454	1,535	468	2,562	1,515	3,272
(US$)	(2,411)	(1,876)	(1,728)	(2,008)	(593)	(2,906)	(1,697)	(3,491)
FDI outflow	67,107	64,361	74,687	99,150	110,413	162,426	325,967	479,396
(US$)	(87,024)	(75,450)	(88,773)	(129,698)	(140,004)	(184,207)	(365,083)	(511,420)
Japan	445	– 1,229	272	854	2,159	525	338	8,289
(US$)	(577)	(– 1,441)	(323)	(1,117)	(2,738)	(595)	(379)	(8,843)

Notes: 1. Figures include investment between EU members.
2. Reinvested earnings are not included.
3. Figures in ECU are up to 1998, and in euro from 1999.
4. Figures for 1998 and 1999 are from Eurostat (latest figures as of November 2000).
5. BOP basis (net flow).

Source: Prepared by JETRO based on sources including *European Union Direct Investment Data 1999* (Eurostat).

Trends in FDI inflow into Central and Eastern Europe

(Unit: US$ million)

	1995	1996	1997	1998	1999	2000 (forecast)	Aggregate totall 1989-99
Central and Eastern Europe	9,058	7,453	8,469	13,081	16,918	20,650	67,465

Notes: 1. "Central and Eastern Europe" comprises Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Slovenia and Croatia.
2. BOP basis (net flow).

Source: Prepared by JETRO based on *Transition Report 2000* (EBRD).

4. Russia and CIS

(1) FDI into Russia recovers to pre-crisis level, but no clear growth

Gross FDI inflow into Russia (measured in terms of investments implemented) recovered in 1999 from the temporary slump induced by the financial crisis in 1998 to increase by 58% from the previous year. There were particularly conspicuous increases in FDI in the natural resources and energy, telecommunications, and food industries. However, in the first six months of 2000, FDI inflow slumped by 22% from the same period of the previous year and there was still no clear sign that FDI in Russia had really turned to growth.

Political stability was achieved in Russia with the inauguration of President Putin in May 2000. In July, the new government unveiled its economic program and began to introduce a series of measures designed to encourage investment in the real economy. The economy achieved a high level of growth due to the stimulation of export-oriented and import-substituting industries as a result of the devaluation of the ruble. Also achieved were increases in budget revenues and foreign reserves due to the soaring price of crude oil in the world market. In addition, domestic investment grew for the first time since the collapse of the Soviet Union. However, a number of restraints on large-scale investment in the medium to long term still remain, including the tardy pace of restructuring financial institutions and the lack of protection for investors.

There were conspicuous investments overseas by various large Russian enterprises. For example, LUKoil, a major oil firm, invested widely in various countries of the CIS, Central and Eastern Europe, and even in the U.S. in 1999 and 2000.

FDI Inflow into Russia

(Unit: US$ million)

1996	1997	1998	1999	1H 2000	Balance at end 1999
2,090	3,897	2,178	3,435	1,456	11,700

Note: Based on investments implemented. Gross inflow.

Source: Complied by JETRO from the database of the State Committee of Statistics of the Russian Federation (September, 2000).

(2) CIS: FDI inflow falls in all but three countries

According to estimates by the European Bank for Reconstruction and Development (EBRD), net FDI inflow into 11 countries of the CIS, excluding Russia, declined by 15% in 1999. While FDI inflow into Kazakhstan grew by 39% due to heavy investment in oil field development and construction of pipelines, inflow slumped sharply by 33% in Azerbaijan and by 35% in the Ukraine. FDI inflow also fell in other countries, with the exception of Belarus and Turkmenistan. The declines were mainly due to the closure of various oil-field development projects, following unsuccessful exploratory drilling in the Caspian Sea, as well as the impact of the Russian financial crisis in 1998.

According to forecasts by the EBRD, FDI inflow in 2000 was seen remaining around the previous year’s level of US$3.4 billion.

FDI inflow into 11 CIS Economies

(Unit: US$ million)

	1996	1997	1998	1999*	2000**	Aggregate total 1989-99
CIS11	2,762	3,943	4,005	3,414	3,386	17,926
European CIS economies	622	854	975	747	950	3,771
Caucasian economies	733	1,381	1,466	737	533	4,669
Central Asian economies	1,407	1,708	1,564	1,930	1,903	9,486

Notes: 1. *Estimates. **Forecasts.
2. BOP basis (net flow).

Source: Prepared by JETRO from *Transition Report 2000* (EBRD).

5. Asia and Oceania

(1) FDI inflow into ASEAN grows in early 2000

FDI inflow into the ASEAN5 measured on an approvals basis (commitment basis in the case of Singapore) declined in all countries except Singapore in 1999. In 2000, however, there was in most cases a recovery. FDI inflow grew 20.0% in the first six months of 2000 in Singapore, 53.7% in the first nine months in Thailand, 6.3% in the first eight months in Malaysia, and 190% in the first seven months in Indonesia as well. The loss of confidence in Philippine President Joseph Estrada, however, resulted in FDI inflow into the Philippines slumping 60.4% in the first six months of the year. BOP-based inflow figures for the region also showed continued M&A activity, led in the main by European and U.S. firms.

FDI inflow in the new members of ASEAN declined sharply, including declines of 57.1% in Vietnam and 64.9% in Cambodia, due to the lack of a full-fledged recovery in investment by the Asian NIEs and ASEAN, the leading investors in these countries. Inflow into Laos grew 15.0% and Myanmar registered strong inflow growth of 88.8% in fiscal 1999 (April to March), but the scale of investment was still very small in both countries.

FDI inflow into the R.O.K. doubled on a BOP basis, taking investment past the US$10 billion mark for the first time ever, and there was particularly strong investment by European and U.S. firms in the finance and electronics industries. Continuing the upward trend, FDI inflow rose 18.9% in the first two quarters of 2000.

With foreign investors discouraged by China’s increasing domestic inventories due to excessive capital investment, FDI inflow into China (measured in terms of investments implemented) declined 11.3% in 1999 and 8.7% in the first three quarters of 2000. The latent strength of China’s IT market and hopes that it would further open up its market following accession to the WTO stimulated FDI inflow into China, however, and the value of contracts increased 27.9% in the first three quarters of 2000. FDI inflow into Taiwan in 1999, meanwhile, was the second only to that in 1997, indicating the impact of the earthquake was limited in this sense.

In Southwest Asia, FDI inflow measured in terms of approvals shrank 7.9% in India in 1999 and 0.5% in Pakistan in fiscal 1999 (July to June), continuing the sharp decline that started in 1998 due to nuclear tests by the two countries. FDI inflow into Sri Lanka plummeted 49.6% because of political instability in 1999. Investment in Bangladesh rose 5.2%, however, as a result of large-scale investment in natural gas development in fiscal 1999 (July to June). In India, there was strong investment in IT, which started growing strongly in 1999.

Approved FDI inflow into Australia went into decline in fiscal 1998 (July to June), falling 15.7% due to weakened investment from the U.S. and Japan. Because of the decline in large-scale investment, inflow into New Zealand on an approval basis dropped in 1999, and fell another 33.8% in the first six months of 2000.

According to UNCTAD figures on global FDI (measured on a BOP basis), FDI inflow into Asia rose 10.3% and FDI inflow into Oceania fell 38.5% in 1999.

(2) Relaxation of controls on foreign capital centering on services

Governments in Asia have relaxed controls on foreign capital in order to rebuild their economies since the financial crisis. Since 1999, deregulation has centered on the services sector, including communications, finance and retailing. For example, Singapore abolished the ceilings on foreign equity participation in life and nonlife insurance and communications, Indonesia revised its "negative list" of sectors closed to foreign firms, the Philippines opened its retail and banking sectors to foreign capital, Thailand reduced the number of industries closed to foreign capital and abolished export ratio requirements for foreign equity participation and Vietnam introduced a business registration system that does away with the need for government approval.

At the regional level, amid growing awareness of the importance of attracting foreign capital, progress was made toward the goal of reducing tariffs on all goods in the inclusion lists covered by the ASEAN Free Trade Area (AFTA) framework of common preferential tariffs to a maximum of 5% by January 1, 2002. The growing wave of bilateral trade agreement activities centered around Singapore, including plans for a Japan-Singapore FTA.

In China, moves toward conformance with WTO rules, such as the revision of legislation concerning foreign capital, ahead of the country's accession to the WTO, gained pace. Continued reform in China is expected to result in more liberal market and greater transparency in the application of laws.

(3) FDI outflow rebound

In 1999, economic recovery in Asia caused FDI outflow from the main ASEAN economies (measured on a BOP basis) to rebound from a decline in 1998. There was especially strong growth in outflow from Singapore, where government-affiliated corporations such as Singapore Telecom led the way with large-scale foreign investments. In Malaysia, outflow rose 23.3% due, for example, to investment in the development of overseas oil fields by Petronas. Outflow from Thailand more than doubled to grow by 116.6%, due in the main to investment in Hong Kong and the United States. Outflow from the R.O.K. was just two thirds of the level of the previous year as a result of a fall in investment by the powerful *chaebol* groups. Foreign investment by Chinese firms increased, with leading consumer electronics maker setting up large TV assembly plant in Indonesia.

(4) Recovery in investment by Japan

Japan's FDI outflow (measured on an approvals basis) into the ASEAN5, which had been severely depressed since the Asian financial crisis, generally began to recover in 2000. The overall total was, however, inflated to a certain extent by a few large-scale investments, suggesting that a genuine recovery in investment is yet to take place. Japanese FDI in China also turned around to grow by

37.6% (on a contract basis) in the first nine months of the year due to hopes of future market growth following China's projected accession to the WTO.

Japanese firms faced growing competition in Asia, including the Japanese market, due to the liberalization of trade and investment ushered in by the WTO and AFTA, the rapid emergence of Chinese firms ahead of China's accession into the WTO, the continuing development of information technology, and the growing presence of European and U.S. firms in the region. Japanese firms, especially electrical and electronic firms, sought to cut costs further and increasingly shift production bases to countries in, for example, the ASEAN region.

FDI inflow into Asia and Oceania

(Unit: US$ million)

	1988-93 (average)	1994	1995	1996	1997	1998	1999
Asia	27,113	65,954	71,654	87,952	93,518	87,158	96,148
Oceania	7,907	7,143	16,035	8,358	10,355	7,090	4,359
Total	35,020	73,097	87,689	96,310	103,873	94,248	100,507

Notes: 1. "Asia" is the economies of East, Southeast and South Asia, excluding Japan. "Oceania" is Australia and New Zealand.
2. Net flow is measured on a BOP basis.

Source: *WIR 2000* (UNCTAD).

6. Middle East and Africa

(1) Middle East (including North Africa): Expansion in investment in Morocco and Saudi Arabia

According to UNCTAD, net FDI inflow into the Middle East increased strongly for the second year to grow by 15.5% to US$12.0 billion in 1999. This was due to expansion in inflow into Morocco, Saudi Arabia, Egypt and Israel. Broken down by country, there was large inflow into Saudi Arabia (US$4.8 billion), Israel (US$2.3 billion), Egypt (US$1.5 billion) and Turkey (US$800 million). In addition to strong expansion in investment in Morocco in the field of telecommunications and tourism, there was also impressive expansion in investment in Saudi Arabia's petrochemical industry. Investment in privatization and tourism in Egypt and the acquisition in Israel of high-tech firms by U.S. firms and investment in promising ventures also contributed to growth in inflow.

Net FDI outflow from the Middle East was negative in 1998 due to withdrawals from overseas investments mainly by Kuwaiti, Lebanese and Saudi Arabian firms. Net outflow in 1999 was positive, however, as a result of declined withdrawals in these countries.

Japanese FDI in the Middle East in fiscal 1999 (based on reports and notifications to the Japanese Ministry of Finance) consisted of one new investment worth US$134 million, which represented a decline both in number and value from four investments worth accumulative US$151 million of the previous fiscal year. The decline in value was due to a decrease in investment in the former neutral zone of Kuwait and Saudi Arabia and the end of investment in natural gas projects in Qatar.

Trends in FDI in the Middle East

(Unit: US$ million)

	1994	1995	1996	1997	1998	1999
FDI inflow	4,500	2,558	5,026	8,957	10,356	11,959
FDI outflow	– 380	48	3,512	911	– 3,138	2,188

Notes: 1. "Middle East" includes Turkey and North Africa.
2. Estimates are for 1999.
3. Net flow is measured on a BOP basis.

Source: Prepared by JETRO from *WIR 2000* (UNCTAD).

(2) Africa: Increased FDI inflow centers on South Africa

According to UNCTAD, net FDI inflow into sub-Saharan Africa increased by 26.9% from the previous year in 1999 due largely to expanded investment in South Africa, Angola and Nigeria. In South Africa the greater part of investment went into the privatization of state-owned enterprises and manufacturing industries. In Angola and Nigeria, investment targeted conspicuously energy-related industries, such as petroleum and gas development. Net FDI outflow declined, though South African companies were nevertheless active in investing in Africa, accounting for over 60% of total FDI in the region.

Japanese FDI in sub-Saharan Africa in fiscal 1999 (based on reports and notifications to the Japanese Ministry of Finance) consisted of 24 investments worth a total of US$505 million. Although there was a decline in the number of new investments, the total value of investment was greater than that of 31 investments worth US$444 million in the previous fiscal year. Of this, 40% went into the flag-of-convenience state of Liberia, and there were also increases in investment in South Africa and Tanzania.

Trends in FDI in Africa

(Unit: US$ million)

	1994	1995	1996	1997	1998	1999
FDI inflow	3,700	4,733	5,125	8,357	5,780	7,333
FDI outflow	1,661	2,479	900	3,539	2,008	1,732

Notes: 1. "Africa" means sub-Saharan Africa.
2. Estimates are for 1999.
3. Net flow is measured on a BOP basis.

Source: Prepared by JETRO from *WIR 2000* (UNCTAD).

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