JETRO WHITE PAPER ON FOREIGN DIRECT INVESTMENT 2002

GROWTH IN GLOBAL FOREIGN DIRECT INVESTMENT SLOWS

(Summary)

JETRO

JAPAN EXTERNAL TRADE ORGANIZATION

CONTENTS

PART 1. GLOBAL TRENDS

PART 2. FOREIGN DIRECT INVESTMENT BY COUNTRY/REGION

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PART 1. GLOBAL TRENDS

1. Global FDI slows in 2000, enters decline in 2001

Global foreign direct investment (FDI) measured in terms of outflow reached a record high of US$1,149.9 billion in 2000. The rate of growth, however, slowed dramatically to 14.3%, down from 52.8% in 1998 and 41.3% in 1999 (Table 1-1). The slowdown was principally attributable to declines in FDI between the United States and Europe. U.S. investment in the European Union region slipped 0.8%, while EU investment in the U.S. fell 14.2% (Table 1-2). The downward trend in global FDI grew more pronounced in the first half of 2001 (Table 1-3). In East Asia, however, investment inflow soared 43.0% in 2000 (Table 1-4) and continued to grow in many countries of the region in the first half of 2001 on an approvals basis (Table 1-5).

(1) Global FDI (calculated as net flows on a balance of payments basis) in 2000 reached US$1,149.9 billion in terms of outflow and US$1,270.8 billion in terms of inflow, both all-time highs. The growth rate of outflow slowed dramatically to 14.3%, however, down from 52.8% in 1998 and 41.3% in 1999 (Tables 1-1, 1-4). Investment by the top five countries and regions, which had accounted previously for some 60% of global FDI, began to decline from the fourth quarter of 2000. In the second quarter of 2001, outflow and inflow plunged 40.6% and 50.9% respectively from a year earlier (Table 1-3).

(2) Global FDI, after continuing to grow throughout the late nineties, began to slow in the fourth quarter of 2000. The shift was brought on by declines both in mergers and acquisitions (M&As) and investment between the EU and U.S., which had until recently been the main engines of growth. Combined FDI between the EU and U.S., after surging in 1998 and 1999, declined 11.1% in 2000. Particularly marked was the decline in investment between the U.S. and United Kingdom, with investment by the U.K. falling 32.2% and investment by the U.S. dropping 17.3%. But Intra-EU FDI continued to climb, rising 68.8% in 2000 (Table 1-2).

(3) Cross-border M&As measured in terms of completed deals, after hitting an all-time high of US$1,220.9 billion in 2000, totaled only about 30% of this amount in the first half of 2001. M&As in the U.S. and Europe, which had previously fueled FDI growth, declined due to weakening share prices in industrialized countries. Rising share prices encourage M&As based on stock swaps because of anticipated increases in shareholder value, but declining prices tend to have the reverse effect. Nevertheless, M&As declined less in number than in value and the process of global business realignment continued.

(4) The world's leading source of FDI outflow for the second year running was the U.K., although the growth rate of U.K. investment fell sharply from 72.5% the previous year to 25.6%. Investment by France grew 41.8% to make it the world's second largest investor. The U.S. was again the largest recipient of investment, although inflow shrank 4.4% after a 68.9% growth spike in the previous year. Japan was the world's 12th largest investor, accounting for 2.7% of global FDI outflow, a far cry from 1990 when it provided 21.5% of total global outflow as the world's largest investor. Japan was 24th among recipient nations, attracting just 0.6% of global FDI inflow (Table 1-6).

(5) FDI in developing countries (excluding Russia and Central and Eastern Europe) continued the upward trend set in 1999. Outflow surged 71.7% to US$99.5 billion and inflow grew 8.2% to US$240.2 billion. In East Asia, FDI inflow shot up 43.0% to US$129.3 billion, supported by soaring investment

in the Hong Kong Special Administrative Region (hereinafter Hong Kong). East Asia became the leading recipient of FDI inflow among developing regions for the first time in three years, surpassing Latin America, where investment shrank 21.9% to US$86.2 billion. FDI inflow into Russia and Central and Eastern Europe grew 9.5% to US$25.4 billion as a result of heavy foreign investment in privatization, principally in Central and Eastern Europe (Table 1-4).

(6) Hong Kong was the star performer in East Asia. FDI inflow soared 162.1% to US$64.4 billion and outflow skyrocketed 225.7% to US$63.0 billion, making it the world's fifth largest recipient and sixth largest investor. The surges were due in large part to the investment activities of China Mobile's Hong Kong subsidiary, which invested US$33.0 billion in China and elsewhere. This included US$23.0 billion raised by the parent company, which is registered in the British Virgin Islands. Among the ASEAN4 countries, FDI inflow grew in Malaysia and the Philippines; inflow declined in Thailand, however, as the cycle of investment by foreign firms to support their local affiliates following the region's economic crisis came to an end; Indonesia suffered a negative inflow for a third year running. In Latin America, increased inflow into Brazil and Mexico failed to prevent overall region-wide investment from falling sharply due to economic turmoil and decreased privatizations in Argentina (Table 1-4).

(7) The number of bilateral investment treaties (BITs) continued to surge worldwide, totaling 1,941 by the end of 2000. In the Americas, an increasing number of high-standard BITs, as well as free trade agreements (FTAs) that contain BIT-like investment rules, served to guarantee national treatment before/after investment and eliminate a wide range of performance requirements. In Europe, EU countries maintained a high level of investment liberalization and also concluded FTAs with prospective new members of the EU. BITs in East Asia, however, remained rather conventional in scope, focusing on investment-protection issues but rarely on high-standard rules of investment. The ASEAN4 countries and China, both of which have attracted substantial investment by Japanese firms, continued to restrict foreign capital by limiting foreign-capital participation and enforcing performance requirements, such as local-content procurement.

(8) According to an agreement reached at the Fourth Ministerial Conference of the World Trade Organization held in Doha, Qatar in November 2001, negotiations on multilateral investment rules will start after the Fifth Ministerial Conference is held in 2003. During the fifth conference, participants will seek to reach an explicit consensus on the modalities of these negotiations. The declaration issued by the fourth conference implies that the new rules will include provisions for transparency, nondiscrimination and dispute settlement. Also, regarding conditions for pre-establishment commitments, such as most-favored-nation and national treatment, the declaration implies that member countries would need to accord such treatment only where commitments are undertaken. In a concession to developing countries strongly opposed to investment rules, the declaration gives much consideration to addressing the needs of these countries, such as the provision of technical assistance.

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

(Units: US$ million, %)

	1996	1997	1998	1999			2000		
					% change	% share		% change	% share
U.S.	91,880	104,820	142,510	155,410	9.1	15.5	152,440	–1.9	13.3
Canada	13,107	22,521	31,041	17,842	–42.5	1.8	41,499	132.6	3.6
EU	185,195	223,215	410,115	713,832	74.1	71.0	805,317	12.8	70.0
Austria	1,848	1,984	2,794	3,306	18.3	0.3	3,304	–0.1	0.3
Belgium and Luxembourg	8,026	7,252	28,845	119,800	315.3	11.9	82,342	–31.3	7.2
Denmark	2,510	4,355	4,215	13,607	222.8	1.4	27,580	102.7	2.4
Finland	3,583	5,260	18,698	6,739	–64.0	0.7	22,436	232.9	2.0
France	30,362	35,488	45,701	119,494	161.5	11.9	169,481	41.8	14.7
Germany	50,752	42,726	89,678	109,797	22.4	10.9	52,048	–52.6	4.5
Greece	–18	4	262	–555	-	–0.1	–2,141	-	–0.2
Ireland	727	1,008	4,955	6,102	23.1	0.6	3,983	–34.7	0.3
Italy	8,697	10,414	12,407	6,723	–45.8	0.7	12,075	79.6	1.1
Netherlands	31,890	24,498	37,226	58,139	56.2	5.8	74,809	28.7	6.5
Portugal	972	2,187	3,851	2,856	–25.8	0.3	7,139	150.0	0.6
Spain	5,577	12,423	19,065	41,754	119.0	4.2	52,826	26.5	4.6
Sweden	5,112	12,119	22,671	19,554	–13.7	1.9	39,962	104.4	3.5
U.K.	35,157	63,499	119,747	206,518	72.5	20.5	259,472	25.6	22.6
Norway	5,880	5,008	3,263	5,771	76.9	0.6	8,197	42.0	0.7
Switzerland	16,152	17,732	18,767	35,952	91.6	3.6	41,316	14.9	3.6
Australia	7,052	6,368	3,368	–2,989	-	–0.3	5,291	-	0.5
New Zealand	–1,533	–45	928	803	–13.5	0.1	963	19.9	0.1
Japan	23,442	26,059	24,625	22,267	–9.6	2.2	31,534	41.6	2.7
East Asia	49,467	49,542	29,857	35,752	19.7	3.6	83,114	132.5	7.2
China	2,114	2,563	2,634	1,775	–32.6	0.2	916	–48.4	0.1
Asian NIEs	41,872	43,459	26,103	31,978	22.5	3.2	79,247	147.8	6.9
Hong Kong	26,531	24,407	16,973	19,349	14.0	1.9	63,014	225.7	5.5
R.O.K.	4,671	4,449	4,740	4,198	–11.4	0.4	5,256	25.2	0.5
Singapore	6,827	9,360	555	4,011	623.0	0.4	4,276	6.6	0.4
Taiwan	3,843	5,243	3,836	4,420	15.2	0.4	6,701	51.6	0.6
ASEAN4	5,481	3,520	1,119	1,999	78.6	0.2	2,951	47.7	0.3
Indonesia	600	178	44	72	63.6	0.0	150	108.3	0.0
Malaysia	3,768	2,626	785	1,640	108.9	0.2	2,919	78.0	0.3
Philippines	182	136	160	–59	-	–0.0	–95	-	–0.0
Thailand	931	580	130	346	165.7	0.0	–23	-	–0.0
India	239	113	48	79	66.7	0.0	335	322.6	0.0
Vietnam	n.a.	n.a.	n.a.	n.a.	-	-	n.a.	-	-
Latin America	5,549	14,391	8,048	21,753	170.3	2.2	13,442	–38.2	1.2
Argentina	1,600	3,653	2,326	1,354	–41.8	0.1	1,113	–17.8	0.1
Bermuda (U.K.)	–144	1,853	–139	9,737	-	1.0	74	–99.2	0.0
Brazil	–467	1,042	2,721	1,690	– 37.9	0.2	2,280	34.9	0.2
British Virgin Islands	1,639	3,444	–830	1,500	-	0.1	1,371	–8.6	0.1
Cayman Islands (U.K.)	400	1,800	100	100	0.0	0.0	667	566.7	0.1
Chile	1,188	1,865	2,798	4,855	73.5	0.5	4,777	–1.6	0.4
Dutch Antilles	–1,242	–2,434	–2,712	36	-	0.0	1,108	2,977.8	0.1
Mexico	38	1,108	1,363	1,214	–10.9	0.1	1,600	31.8	0.1
Peru	–16	84	64	128	100.0	0.0	n.a.	-	-
Venezuela	507	500	233	518	122.3	0.1	321	–38.0	0.0
Russia, Central and Eastern Europe	1,049	3,417	2,137	2,118	–0.9	0.2	4,022	89.9	0.3
Bulgaria	–29	–2	0	17	16,700.0	0.0	–2	-	–0.0
Czech Republic	155	28	125	90	–28.2	0.0	118	30.8	0.0
Hungary	–4	433	478	252	–47.3	0.0	532	111.3	0.0
Poland	53	45	316	31	–90.2	0.0	17	–45.2	0.0
Romania	n.a.	–9	–9	16	-	0.0	–11	-	–0.0
Russia	922	3,185	1,268	1,963	54.8	0.2	3,208	63.4	0.3
Slovakia	48	95	145	–376	-	–0.0	22	-	0.0
Middle East and Africa	2,301	1,423	–800	1,288	-	0.1	2,028	57.5	0.2
Egypt	5	129	45	38	–16.7	0.0	51	36.0	0.0
Israel	1,042	795	1,063	806	–24.2	0.1	2,802	247.7	0.2
Nigeria	n.a.	n.a.	n.a.	n.a.	-	-	n.a.	-	-
Saudi Arabia	n.a.	n.a.	n.a.	n.a.	-	-	n.a.	-	-
South Africa	1,048	2,324	1,634	1,953	19.5	0.2	577	–70.4	0.1
Turkey	110	251	367	645	75.7	0.1	870	34.9	0.1
World	391,554	466,030	711,914	1,005,782	41.3	100.0	1,149,903	14.3	100.0
Industrialized countries	332,921	396,868	672,027	945,687	40.7	94.0	1,046,335	10.6	91.0
Developing countries	57,584	65,745	37,750	57,978	53.6	5.8	99,546	71.7	8.7
Russia, Central and Eastern Europe	1,049	3,417	2,137	2,118	–0.9	0.2	4,022	89.9	0.3

Notes:
1. Totals for all regions except East Asia are UNCTAD estimates.
2. Figures for the following countries are from *World Investment Report* (UNCTAD): Bermuda (U.K.), British Virgin Islands, Cayman Islands (U.K.), Dutch Antilles, Greece, Hong Kong (1996/7), Malaysia, Mexico, Taiwan, Vietnam. Figures for all other countries are from *International Financial Statistics* (IMF).
3. Middle East and African totals exclude South Africa and Israel.
4. Percentage changes indicate change on previous year.

Sources: Prepared by JETRO from *World Investment Report 2001* (UNCTAD), *International Financial Statistics* (November 2001, IMF) and other sources.

Table 1-2. FDI flows between U.S.—EU and within EU

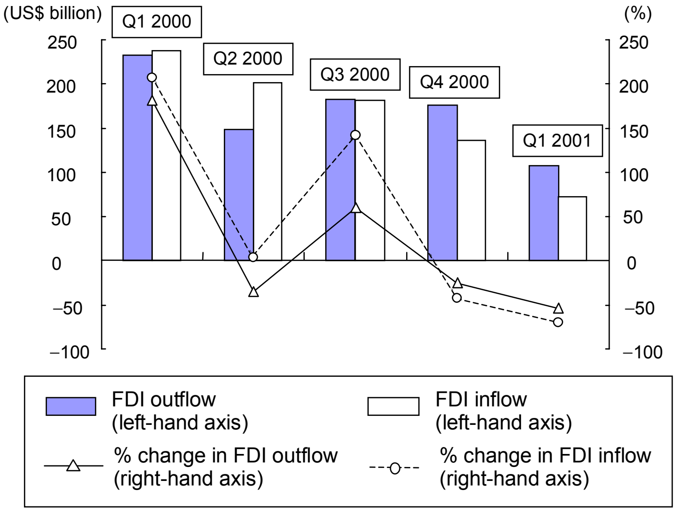
(Units: US$ million, %)

		1996	1997	1998	1999	2000
Value	Total flows between U.S. and EU (A)	89,254	112,718	223,685	303,472	269,652
	U.S. to EU	36,182	46,910	75,771	68,405	67,873
	EU to U.S.	53,072	65,808	147,914	235,067	201,779
	Intra-EU (B)	79,317	85,601	142,823	327,819	553,414
	(A)+(B)	168,571	198,319	366,508	631,291	823,066
	Global FDI (C)	391,554	466,030	711,914	1,005,782	1,149,903
% change	Total flows between U.S. and EU (A)	6.3	26.3	98.4	35.7	–11.1
	U.S. to EU	–25.9	29.7	61.5	–9.7	–0.8
	EU to U.S.	51.1	24.0	124.8	58.9	–14.2
	Intra-EU (B)	13.2	7.9	66.8	129.5	68.8
	(A)+(B)	9.4	17.6	84.8	72.2	30.4
	Global FDI (C)	10.2	19.0	52.8	41.3	14.3
% share	Total flows between U.S. and EU (A)	22.8	24.2	31.4	30.2	23.4
	U.S. to EU	9.2	10.1	10.6	6.8	5.9
	EU to U.S.	13.6	14.1	20.8	23.4	17.5
	Intra-EU (B)	20.3	18.4	20.1	32.6	48.1
	(A)+(B)	43.1	42.6	51.5	62.8	71.6
	Global FDI (C)	100.0	100.0	100.0	100.0	100.0

Note: Intra-EU FDI is based on outflow. Reinvested earnings are not included.

Sources: Prepared by JETRO from sources including:
(A): *Survey of Current Business* (U.S. Department of Commerce)
(B): *European Union Foreign Direct Investment Yearbook 2000* (EUROSTAT)
(C): *World Investment Report 2001* (UNCTAD).

Table 1-3. Quarterly data on top-5 FDI leaders in 2000



Notes: 1. The top-five leaders in Q1 2001 were not the same as those in 2000.
2. The top-five FDI sources in 2000—U.K., France, U.S., Belgium / Luxembourg and Netherlands—accounted for 64.2% of global FDI outflow.
3. The top-five FDI recipients in 2000—U.S., Germany, U.K., Belgium / Luxembourg and Hong Kong—accounted for 59.6% of global FDI inflow.
4. Percentage change indicates the change from the same period of the previous year.

Source: Prepared by JETRO from *International Financial Statistics* (IMF).

Q2 2001 performance by top-5 FDI leaders in Q2 2000

(Units: US$ billion, %)

	Country	Q2 2000	Q2 2001	YoY % change
FDI outflow	1. U.K.*	55.6	12.6	–77.3
	2. France	24.5	18.6	–24.2
	3. U.S.*	35.6	37.7	5.8
	4. Belgium/Luxembourg*	11.9	3.0	–74.9
	5. Netherlands	15.9	13.3	–16.1
	Top five sources	143.5	85.2	–40.6
FDI inflow	1. U.S.*	90.6	67.6	–25.3
	2. Germany	38.0	5.2	–86.3
	3. U.K.*	39.5	17.9	–54.7
	4. Belgium/Luxembourg*	17.9	2.5	–85.8
	5. Hong Kong*	17.6	6.7	–61.9
	Top five recipients	203.5	100.0	–50.9

Notes: 1. *Based on national statistics of each country.
2. The top-five FDI leaders in Q2 2001 were not the same as those in Q2 2000.
3. YoY % change indicates the change from the same period of the previous year.

Sources: Prepared by JETRO from *International Financial Statistics* (IMF) and national statistics.

Table 1-4. FDI inflow into main economies (BOP basis)

(Units: US$ million, %)

	1996	1997	1998	1999			2000		
					% change	% share		% change	% share
U.S.	86,520	105,590	178,200	301,020	68.9	28.0	287,680	–4.4	22.6
Canada	9,635	11,758	21,677	25,129	15.9	2.3	62,216	147.6	4.9
EU	112,435	129,962	248,478	467,592	88.2	43.5	655,782	40.2	51.6
Austria	4,485	2,624	4,661	3,008	–35.5	0.3	9,066	201.4	0.7
Belgium and Luxembourg	14,064	11,998	22,691	117,211	416.6	10.9	86,499	–26.2	6.8
Denmark	773	2,792	6,675	12,112	81.5	1.1	34,146	181.9	2.7
Finland	1,118	2,129	12,029	4,649	–61.3	0.4	8,299	78.5	0.7
France	21,972	23,048	29,518	46,625	58.0	4.3	43,173	–7.4	3.4
Germany	6,429	12,795	23,297	55,790	139.5	5.2	189,178	239.1	14.9
Greece	1,058	984	85	560	557.6	0.1	1,115	99.2	0.1
Ireland	2,618	2,743	11,035	18,615	68.7	1.7	22,778	22.4	1.8
Italy	3,546	3,700	2,635	6,943	163.5	0.6	13,175	89.8	1.0
Netherlands	16,597	10,949	37,685	41,661	10.6	3.9	54,138	30.0	4.3
Portugal	1,703	2,542	3,151	1,015	–67.8	0.1	6,227	513.6	0.5
Spain	6,796	6,384	11,905	15,541	30.5	1.4	36,023	131.8	2.8
Sweden	5,492	10,271	19,413	59,386	205.9	5.5	22,125	–62.7	1.7
U.K.	25,783	37,004	63,701	84,476	32.6	7.9	129,841	53.7	10.2
Norway	3,179	3,572	4,358	7,900	81.3	0.7	5,882	–25.5	0.5
Switzerland	4,373	7,306	9,649	12,013	24.5	1.1	17,902	49.0	1.4
Australia	6,181	7,631	6,046	5,699	–5.7	0.5	11,528	102.3	0.9
New Zealand	2,231	2,624	1,191	1,412	18.5	0.1	3,209	127.3	0.3
Japan	200	3,200	3,268	12,308	276.6	1.1	8,227	–33.2	0.6
East Asia	82,545	89,971	82,423	90,369	9.6	8.4	129,269	43.0	10.2
China	40,180	44,237	43,751	38,753	–11.4	3.6	38,399	–0.9	3.0
Asian NIEs	25,022	29,428	26,726	44,043	64.8	4.1	84,483	91.8	6.6
Hong Kong	10,460	11,368	14,776	24,587	66.4	2.3	64,433	162.1	5.1
R.O.K.	2,326	2,844	5,412	9,333	72.4	0.9	8,732	–6.4	0.7
Singapore	10,372	12,967	6,316	7,197	13.9	0.7	6,390	–11.2	0.5
Taiwan	1,864	2,248	222	2,926	1,218.0	0.3	4,928	68.4	0.4
ASEAN4	17,343	16,307	11,946	7,573	–36.6	0.7	6,387	–15.7	0.5
Indonesia	6,194	4,677	–356	–2,745	-	–0.3	–4,550	-	–0.4
Malaysia	7,296	6,513	2,700	3,532	30.8	0.3	5,542	56.9	0.4
Philippines	1,517	1,222	2,287	573	–74.9	0.1	2,029	254.1	0.2
Thailand	2,336	3,895	7,315	6,213	–15.1	0.6	3,366	–45.8	0.3
India	2,426	3,577	2,635	2,169	–17.7	0.2	2,315	6.8	0.2
Vietnam	2,519	2,824	2,254	1,991	–11.7	0.2	2,081	4.5	0.2
Latin America	51,279	71,152	83,200	110,285	32.6	10.3	86,172	–21.9	6.8
Argentina	6,949	9,161	7,292	23,984	228.9	2.2	11,665	–51.4	0.9
Bermuda (U.K.)	3,971	2,928	5,395	6,443	19.4	0.6	6,648	3.2	0.5
Brazil	11,200	19,650	31,913	28,576	–10.5	2.7	32,779	14.7	2.6
British Virgin Islands	510	500	1,348	3,656	171.2	0.3	1,483	–59.4	0.1
Cayman Islands (U.K.)	1,232	3,151	4,348	6,468	48.8	0.6	4,783	–26.1	0.4
Chile	4,634	5,219	4,638	9,221	98.8	0.9	3,675	–60.1	0.3
Dutch Antilles	2,826	1,038	892	401	–55.1	0.0	777	93.8	0.1
Mexico	9,186	12,831	11,312	11,915	5.3	1.1	13,286	11.5	1.0
Peru	3,226	1,781	1,905	2,390	25.5	0.2	680	–71.5	0.1
Venezuela	2,183	5,536	4,495	3,187	–29.1	0.3	4,110	29.0	0.3
Russia, Central and Eastern Europe	12,730	19,188	21,008	23,222	10.5	2.2	25,419	9.5	2.0
Bulgaria	109	505	537	806	50.1	0.1	1,002	24.2	0.1
Czech Republic	1,435	1,286	3,700	6,313	70.6	0.6	4,583	–27.4	0.4
Hungary	2,274	2,167	2,037	1,977	–3.0	0.2	1,692	–14.4	0.1
Poland	4,498	4,908	6,365	7,270	14.2	0.7	9,342	28.5	0.7
Romania	263	1,215	2,031	1,041	–48.7	0.1	1,025	–1.5	0.1
Russia	2,579	4,864	2,764	3,309	19.7	0.3	2,714	–18.0	0.2
Slovakia	351	174	562	354	–37.0	0.0	2,052	479.3	0.2
Middle East and Africa	8,515	12,641	14,293	9,908	–30.7	0.9	11,625	17.3	0.9
Egypt	636	891	1,076	1,065	–1.0	0.1	1,235	15.9	0.1
Israel	1,387	1,628	1,760	2,889	64.1	0.3	4,392	52.0	0.3
Nigeria	1,593	1,539	1,051	1,005	–4.4	0.1	n.a.	-	-
Saudi Arabia	–1,129	3,044	4,289	–782	-	–0.1	–1,460	-	–0.1
South Africa	816	3,811	550	1,503	173.2	0.1	961	–36.1	0.1
Turkey	722	805	940	783	–16.7	0.1	982	25.4	0.1
World	384,910	477,918	692,544	1,075,049	55.2	100.0	1,270,764	18.2	100.0
Industrialized countries	219,688	271,378	483,165	829,818	71.7	77.2	1,005,178	21.1	79.1
Developing countries	152,493	187,352	188,371	222,010	17.9	20.7	240,167	8.2	18.9
Russia, Central and Eastern Europe	12,730	19,188	21,008	23,222	10.5	2.2	25,419	9.5	2.0

Notes:
1. Totals for all regions, except East Asia, are UNCTAD estimates.
2. Figures for the following countries are from *World Investment Report* (UNCTAD): Bermuda (U.K.), British Virgin Islands, Cayman Islands (U.K.), Dutch Antilles, Greece, Hong Kong (1996/7), Malaysia, Taiwan, Vietnam. Figures for all other countries are from *International Financial Statistics* (IMF).
3. Middle East and African totals do not include South Africa and Israel.
4. Percentage changes indicate change on previous year.

Sources: Prepared by JETRO from *World Investment Report 2001* (UNCTAD), *International Financial Statistics* (November 2001, IMF) and other sources.

Table 1-5. FDI inflow into East Asia (approval basis)

	Value (Unit: US$ million)				**YOY % change** (Unit: %)			
	1998	1999	2000	Jan–Jun 2001	1998	1999	2000	Jan–Jun 2001
China	52,102	41,223	62,380	33,459	2.2	–20.9	51.3	38.4
R.O.K.	8,852	15,541	15,690	6,700	27.0	75.6	1.0	16.8
Taiwan	3,739	4,231	7,608	2,801	–12.4	13.2	79.8	–22.1
Singapore	3,115	3,692	4,197	2,178	–22.4	18.5	13.7	13.6
ASEAN4	27,254	20,450	27,315	10,463	–51.7	–25.0	33.6	83.2
Indonesia	13,563	10,891	14,974	4,965	–59.9	–19.7	37.5	113.5
Malaysia	3,329	3,230	5,216	3,114	–18.4	–3.0	61.5	431.6
Philippines	4,196	2,731	1,819	432	–52.8	–34.9	–33.4	–44.3
Thailand	6,167	3,598	5,307	1,951	–35.9	–41.7	47.5	–3.6

Notes: 1. Figures for Malaysia and Singapore show FDI in manufacturing only.
2. Figures for Malaysia, the Philippines and Thailand are converted from local currencies at the average IFS rate during the period.
3. FDI inflow is on a commitment basis for Singapore and contract basis for China.

Source: Prepared by JETRO from national statistics of each country.

Table 1-6. Top 5 sources and recipients of FDI

FDI outflow (Unit: US$ million)

	1990		1997		1998		1999		2000	
1	Japan	50,497	U.S.	104,820	U.S.	142,510	U.K.	206,518	U.K.	259,472
2	U.S.	37,200	U.K.	63,499	U.K.	119,747	U.S.	155,410	France	169,481
3	France	34,824	Germany	42,726	Germany	89,678	Belgium/Luxembourg	119,800	U.S.	152,440
4	Germany	24,195	France	35,488	France	45,701	France	119,494	Belgium/Luxembourg	82,342
5	U.K.	19,506	Japan	26,059	Netherlands	37,226	Germany	109,797	Netherlands	74,809
					Japan (8)	24,625	Japan (9)	22,267	Japan (12)	31,534

FDI inflow

	1990		1997		1998		1999		2000	
1	U.S.	48,490	U.S.	105,590	U.S.	178,200	U.S.	301,020	U.S.	287,680
2	U.K.	32,518	China	44,237	U.K.	63,701	Belgium/Luxembourg	117,211	Germany	189,178
3	Spain	13,984	U.K.	37,004	China	43,751	U.K.	84,476	U.K.	129,841
4	France	13,183	France	23,048	Netherlands	37,685	Sweden	59,386	Belgium/Luxembourg	86,499
5	Netherlands	10,676	Brazil	19,650	Brazil	31,913	Germany	55,790	Hong Kong	64,433
	Japan (23)	1,777	Japan (29)	3,200	Japan (30)	3,268	Japan (15)	12,308	Japan (24)	8,227

Notes: 1. BOP basis.
2. Figures in parenthesis for Japan indicate rank.

Sources: Compiled by JETRO from *International Financial Statistics* (November 2001, IMF), *World Investment Report 2001* (UNCTAD), and other sources.

2. Cross-border M&As decline after hitting record high

> Cross-border M&As in 2000 grew strongly both in number and value, the latter reaching a record high of US$1,220.9 billion. Activity was up sharply in the EU and between the U.S. and EU, and in fields such as telecommunications, finance and insurance. In the first half of 2001, however, M&As took a sharp downward turn and are forecast to continue declining, ending a growth trend that had continued since 1995. Stock swaps had helped to propel a boom in large-scale M&As in the late 1990s, but they went out of favor as share prices weakened worldwide.

(1) Data compiled by Thomson Financial show that cross-border M&As concluded in 2000 grew 45.1% year on year to US$1,220.9 billion and 14.2% in number to 9,245. Both were record highs (Table 2-1). The biggest investor was the U.K., as in 1999. British firms piled up US$398.1 billion worth of acquisitions, a figure bolstered by Vodafone's record US$202.8 billion acquisition of Mannesman in Germany. The second largest investor was France, which accounted for three of the world's top 10 M&As. The world's top 10 investors were all EU companies, except for a U.S. company in third place. As in the previous year, the leading recipient country was the U.S., where five of the world's 10 largest acquisitions took place (Table 2-2).

(2) Both intraregional M&As in the EU and cross-border M&As between the U.S. and EU increased, as in 1999. A total of 115 deals in these two regions each exceeded US$1 billion in value, accounting for 61% of the billion-dollar transactions worldwide. These included 50 deals within the EU and 45 acquisitions of U.S. firms by EU companies (Table 2-3). European firms' growing involvement with M&As was the result of their aggressive consolidation in response to fierce competition brought on by deregulation and integration, as well as expansion into the U.S. by highly competitive EU firms searching for new markets.

(3) Firms in the Asian NIEs were increasingly active in acquisitions. The combined value of cross-border M&As by firms in the Republic of Korea (R.O.K.), Hong Kong, Taiwan and Singapore grew about 150% to US$20.9 billion. Firms in Hong Kong and Singapore were particularly active, producing major deals in the electronic and electrical equipment and energy sectors. On the sale side, out-in deals were up in Poland, the Czech Republic and Hungary due to an increased number of privatization sell-offs. Sales in Poland were especially strong, rising some 900% in three years, from US$940 million in 1997 to US$9.68 billion in 2000. Out-in M&As also continued to grow in East Asia (R.O.K., Hong Kong and China) and Latin America (Brazil, Argentina and Mexico).

(4) Cross-border M&A activity peaked in the second half of 2000 before falling in the first half of 2001. Compared to the whole of 2000, M&As in the 2001 first half amounted to 40% in terms of number and 30% in terms of value. Stock-swap M&As, after driving up the overall value of M&As, declined along with the worldwide weakening of share prices, particularly high-tech shares on the NASDAQ from the beginning of 2000. Stock-swap M&A deals involving U.S. firms in the first half of 2001 amounted to roughly half the level of a year earlier. The EU's share of acquisitions rose in value from 44% in 1995 to 72% in 2000 and in number from 52% in 2000 to 54% in the 2001 first half. At the same time, the number of billion-dollar deals between EU companies fell only slightly from 25 in the 2000 second half to 22 in the 2001 first half. It appears that EU companies will continue to pursue M&As.

(5) Non-manufacturing M&As were concentrated mainly in service industries, such as telecommunications, finance and insurance, and services. Because of growth in M&As in the mining

industry, however, the service sector's share of deals fell from 73.5% in 2000 to 64.9% in the 2001 first half (Table 2-4). M&As in telecommunications grew dramatically in 2000 both in value and number, accounting for 29.7% of the total M&As worldwide. Vodafone, NTT DoCoMo, France Telecom and Deutsche Telekom were all involved in aggressive acquisitions as the global mobile phone market polarized into these four groups. Weakening share prices and the high cost of next-generation mobile phone licenses, however, financially hurt mega-carriers such as AT&T and BT and prompted split-ups and spin-offs from the autumn of 2000. Cross-sector M&A activity increased in the finance and insurance industry, growing 42.1% in value. In manufacturing, M&As by pharmaceuticals makers declined after fierce consolidation in the previous year. In the first half of 2001, however, pharmaceutical M&As had already exceeded the previous year's level before the year-end, making the industry increasingly oligopolistic. Steelmakers consolidated their operations and forged global tie-ups in response to realignment in the auto industry. In the airline industry, which was hit hard by the aftereffects of the terrorist attacks in the U.S., the pace of realignment and restructuring accelerated.

(6) A number of legal and accounting changes introduced in 2001 had a major impact on M&As. Foremost was the increasing number of deals subjected to scrutiny by antimonopoly authorities both in the U.S. and EU (Table 2-5). In May 2001, for example, GE's acquisition of Honeywell was approved by the U.S. Justice Department subject to certain conditions, but in July the European Commission refused to approve the deal, arguing that it was a vertical integration that would force rivals out of the aerospace industry. This was the first time that a merger between two U.S. companies, despite being approved by U.S. antitrust authorities, was not approved by the European Commission, prompting GE to take its case to the European Court of Justice. In October, the EU introduced the European Company Statute under which European companies established in one EU member state will be able to operate throughout the EU without having to reincorporate in each country. The integration of EU-wide rules on takeover bids, however, fell behind schedule when the European Parliament rejected a bill in July. In the U.S., M&A accounting standards were unified under the purchase-accounting method, which allows goodwill to be generated.

Table 2-1. Global cross-border M&A (acquisitions)

(Units: US$ million, %)

	1997		1998		1999		2000				Jan–Jun 2001		
	Value	Number	Value	Number	Value	Number	Value			Number	Value		Number
								% change	% share			% share	
World	340,546	6,047	616,602	7,010	841,677	8,093	1,220,854	45.1	100.0	9,245	361,060	100.0	3,727
U.S.	87,842	1,782	124,813	2,122	61,156	2,090	142,697	–11.5	11.7	2,145	50,028	13.9	784
Canada	20,223	418	54,538	523	15,047	392	40,940	172.1	3.4	464	12,534	3.5	187
EU	154,363	2,481	332,400	3,041	562,708	4,143	881,935	56.7	72.2	4,814	234,254	64.9	2,027
Austria	174	49	1,506	54	1,812	90	2,007	10.8	0.2	124	615	0.2	63
Belgium	2,129	105	2,353	131	17,045	190	21,039	23.4	1.7	233	7,530	2.1	87
Denmark	1,353	80	521	94	6,091	151	5,995	–1.6	0.5	180	2,917	0.8	85
Finland	2,341	71	12,264	101	3,969	129	21,283	436.2	1.7	160	2,677	0.7	73
France	26,501	318	45,114	403	114,006	551	181,578	59.3	14.9	692	37,431	10.4	274
Germany	15,821	306	69,366	430	93,873	746	73,581	–21.6	6.0	810	56,997	15.8	323
Greece	2,355	13	787	12	558	34	4,949	787.2	0.4	60	83	0.0	44
Ireland	3,562	75	3,409	90	4,559	111	6,474	42.0	0.5	148	1,497	0.4	64
Italy	4,983	69	16,921	124	24,080	173	21,631	–10.2	1.8	208	11,955	3.3	108
Luxembourg	2,079	30	609	30	1,778	23	1,095	–38.4	0.1	46	95	0.0	14
Netherlands	21,091	298	31,809	363	46,418	405	57,070	22.9	4.7	418	18,410	5.1	166
Portugal	612	15	6,704	26	1,996	36	5,557	178.5	0.5	49	847	0.2	18
Spain	10,068	84	15,822	110	35,883	138	59,059	64.6	4.8	196	8,595	2.4	69
Sweden	9,767	182	16,427	212	16,221	328	22,547	39.0	1.8	316	4,915	1.4	129
U.K.	51,528	786	108,791	861	194,420	1,038	398,070	104.7	32.6	1,174	79,691	22.1	510
Norway	1,676	63	1,350	81	2,571	79	7,126	177.2	0.6	103	343	0.1	27
Switzerland	12,424	177	50,254	221	28,038	238	61,558	119.6	5.0	317	4,550	1.3	126
Czech Republic	41	8	36	1	14	3	2	–88.5	0.0	6	-	0.0	1
Hungary	25	9	41	8	44	9	368	742.1	0.0	13	5	0.0	3
Poland	-	2	-	2	102	8	6	–94.1	0.0	7	6	0.0	2
Australia	14,172	119	9,171	115	7,588	116	7,264	–4.3	0.6	160	27,615	7.6	68
Japan	5,463	179	9,630	193	15,107	259	21,186	40.2	1.7	226	14,716	4.1	101
East Asia	22,331	433	14,923	328	9,793	296	25,165	157.0	2.1	415	3,861	1.1	151
Asian NIEs	11,257	248	10,910	231	8,188	223	20,946	155.8	1.7	315	2,259	0.6	115
Hong Kong	3,954	94	8,948	99	3,652	103	8,309	127.5	0.7	140	1,311	0.4	46
R.O.K.	2,336	25	118	10	39	12	1,421	3,526.0	0.1	11	35	0.0	13
Singapore	4,416	107	1,199	99	3,828	83	9,930	159.4	0.8	136	603	0.2	49
Taiwan	551	22	645	23	669	25	1,286	92.2	0.1	28	311	0.1	7
ASEAN4	3,265	119	1,147	53	1,167	47	3,443	194.9	0.3	69	847	0.2	27
Indonesia	787	12	76	9	7	6	1,534	21,818.6	0.1	8	5	0.0	2
Malaysia	2,208	96	856	40	788	27	1,825	131.5	0.1	47	624	0.2	18
Philippines	173	7	-	-	267	10	78	–70.8	0.0	7	170	0.0	2
Thailand	97	4	215	4	105	4	6	–94.7	0.0	7	49	0.0	5
China	7,810	66	2,866	44	437	26	776	77.4	0.1	31	755	0.2	9
Argentina	1,785	18	2,491	30	445	14	192	–56.9	0.0	28	10	0.0	2
Bermuda	1,528	33	2,146	19	18,612	32	5,334	–71.3	0.4	28	5,401	1.5	14
Brazil	10	3	1,044	17	492	15	86	–82.5	0.0	23	-	0.0	2
Chile	1,386	8	460	8	346	11	176	–48.9	0.0	9	-	0.0	1
Mexico	841	21	1,030	25	3,535	26	4,514	27.7	0.4	30	970	0.3	11
South Africa	3,920	74	3,211	80	7,435	97	6,909	–7.1	0.6	92	2,072	0.6	31

Source: Prepared by JETRO from Thomson Financial data.

Table 2-2. Top 10 cross-border M&As (2000 and Jan–Jun 2001)

2000

Timing	Acquiring company			Acquired company			
		Home economy	Sector		Home economy	Sector	Value (US$ million)
June 2000	Vodafone AirTouch PLC	U.K.	Telecommunications	Mannesmann AG	Germany	Telecommunications	202,785
August 2000	France Telecom SA	France	Telecommunications	Orange PLC (Mannesmann AG)	U.K.	Telecommunications	45,967
December 2000	Vivendi SA	France	Bottled water and motion picture production and distribution	Seagram Co., Ltd.	Canada	Film production and distribution	40,428
April 2000	BP Amoco PLC	U.K.	Oil	ARCO	U.S.	Oil	27,224
October 2000	Unilever PLC	U.K.	Food	Bestfoods	U.S.	Food	25,065
October 2000	Zurich Allied AG	Switzerland	Insurance	Allied Zurich PLC	U.K.	Insurance	19,399
November 2000	UBS AG	Switzerland	Finance	PaineWebber Group Inc.	U.S.	Finance	16,543
December 2000	Vodafone AirTouch PLC	U.K.	Telecommunications	Airtel SA	Spain	Telecommunications	14,365
November 2000	Credit Suisse First Boston	Switzerland	Finance	Donaldson Lufkin & Jenrette	U.S.	Finance	13,529
May 2000	Cap Gemini SA	France	Services	Ernst & Young Consulting Services	U.S.	Services	11,774

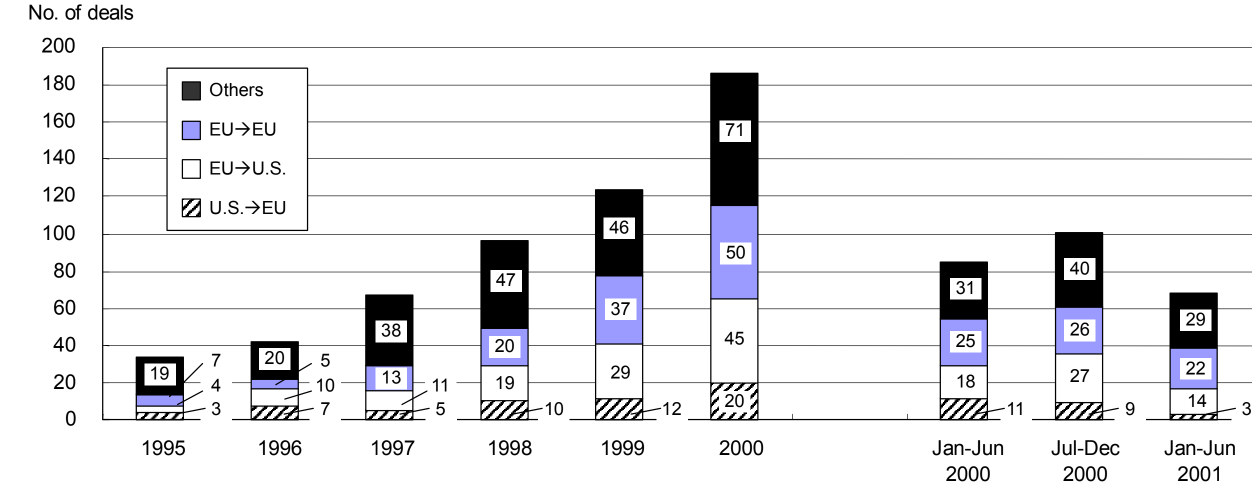
Jan–Jun 2001

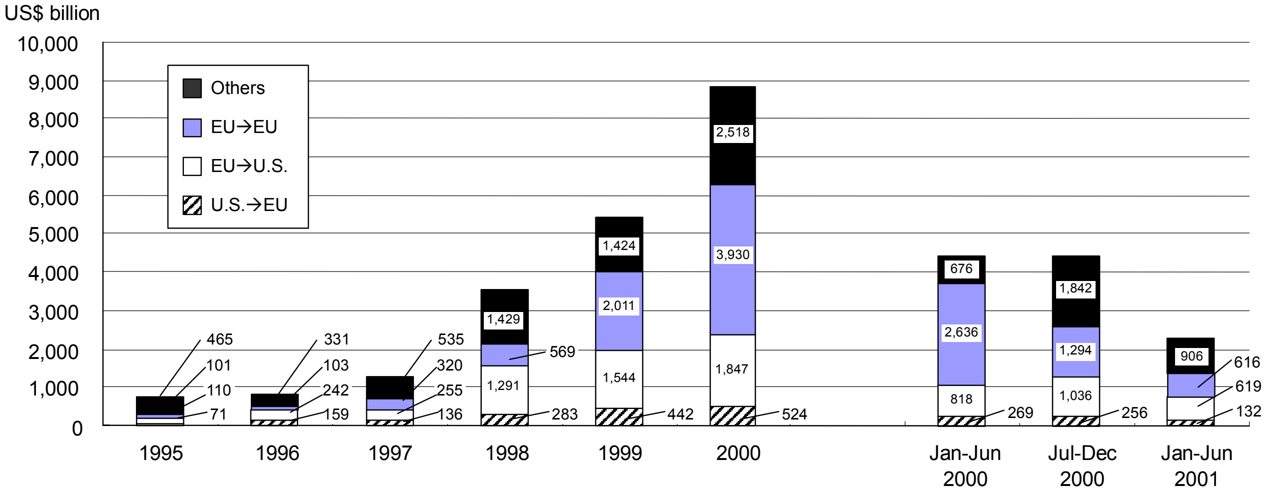
Timing	Acquiring company			Acquired company			
		Home economy	Sector		Home economy	Sector	Value (US$ million)
May 2001	Deutsche Telekom AG	Germany	Telecommunications	VoiceStream Wireless Corp.	U.S.	Telecommunications	29,950
February 2001	British Telecommunications PLC	U.K.	Telecommunications	Viag Interkom GmbH & Co.	Germany	Telecommunications	13,813
June 2001	BHP Ltd.	Australia	Mining	Billiton PLC	U.K.	Mining (metals)	11,511
January 2001	AXA Group (AXA-UAP)	France	Insurance	AXA Financial Inc.	U.S.	Insurance	11,189
June 2001	DB Investments	U.K.	Finance	De Beers Consolidated Mines	S. Africa	Mining	11,078
January 2001	NTT DoCoMo Inc.	Japan	Telecommunications	AT&T Wireless Group	U.S.	Telecommunications	9,805
February 2001	HypoVereinsbank AG	Germany	Finance	Bank Austria AG	Austria	Finance	7,317
March 2001	Abbott Laboratories	U.S.	Chemicals (pharmaceuticals)	Knoll AG (BASF AG)	Germany	Chemicals (pharmaceuticals)	6,900
May 2001	News Corp Ltd.	Australia	Printing and publishing	Gemstar–TV Guide International	U.S.	Printing and publishing	6,531
June 2001	Vodafone Group PLC	U.K.	Telecommunications	Japan Telecom Co., Ltd. and J-Phone Co., Ltd.	Japan	Telecommunications	5,486

Note: Timing indicates when deal was completed.

Source: Prepared by JETRO from Thomson Financial data.

Table 2-3.　Billion-dollar deals between U.S. and Europe





Source:　Prepared by JETRO from Thomson Financial data.

Table 2-4. Global cross-border M&As by sector

(Units: US$ million, %)

	1997	1998	1999		2000				Jan-Jun 2001		
	Value	Value	Value	No.	Value			No.	Value		No.
						% change	% share			% share	
Primary industries	**23,255**	**92,168**	**39,174**	**322**	**64,311**	**64.2**	**5.2**	**373**	**44,306**	**12.3**	**205**
Petroleum and natural gas (oil refining)	13,701	76,112	25,927	175	52,929	104.1	4.3	207	15,121	4.2	105
Agriculture, forestry and fishery	2,045	8,735	688	38	1,219	77.3	0.1	53	215	0.1	26
Mining	7,510	7,322	12,560	109	10,162	–19.1	0.8	113	28,970	8.0	74
Manufacturing	**119,251**	**208,460**	**278,141**	**2,816**	**258,716**	**–7.0**	**21.2**	**3,002**	**81,839**	**22.7**	**1,219**
Food and tobacco	26,220	17,514	32,654	334	50,384	54.3	4.1	346	7,304	2.0	137
Textiles, apparel and leather products	2,157	2,296	6,799	136	2,568	–62.2	0.2	101	1,493	0.5	49
Wood, wood products, paper and paper products	7,513	7,956	10,046	151	28,942	188.1	2.4	197	3,943	1.1	69
Cement and ceramics	6,902	12,820	13,190	176	13,713	4.0	1.1	171	2,915	0.8	63
Chemicals	37,078	36,615	97,181	476	36,537	–62.4	3.1	582	22,340	6.1	263
Chemical products	21,278	16,999	46,633	215	21,527	–53.8	1.8	261	7,676	2.1	123
Pharmaceuticals	12,917	16,117	41,473	131	9,263	–77.7	0.8	147	12,341	3.4	64
Metals and metal products	10,185	9,104	15,213	300	17,135	12.6	1.4	258	8,523	2.4	106
Machinery and equipment	25,363	105,273	90,744	1,007	104,002	14.6	8.5	1,120	33,872	9.4	430
Printing and publishing	3,643	13,127	11,551	189	5,144	–55.5	0.4	180	1,347	0.4	84
Other manufacturing	192	3,756	763	47	291	–61.8	0.0	47	103	0.0	18
Non-manufacturing	**198,040**	**315,975**	**524,259**	**4,952**	**897,827**	**71.3**	**73.5**	**5,868**	**234,916**	**64.9**	**2,303**
Electricity, gas and water distribution	29,130	34,244	42,542	204	53,522	25.8	4.4	220	8,566	2.4	91
Transportation	7,642	16,651	19,813	375	16,404	–17.2	1.3	340	2,784	0.8	171
Telecommunications	19,439	46,637	171,683	242	362,802	111.3	29.7	327	94,627	26.2	123
Construction	689	3,438	3,377	122	5,707	69.0	0.5	129	943	0.3	51
Commerce	20,881	39,490	60,394	828	38,527	–36.2	3.2	741	21,486	5.9	290
Real estate and mortgage banking/brokerage	11,278	20,498	11,776	204	13,724	16.5	1.1	174	8,249	2.3	56
Finance and insurance	55,481	104,645	141,535	824	201,145	42.1	16.4	830	56,985	15.8	367
Hotels (including casinos)	6,000	10,441	4,548	91	3,614	–20.5	0.3	79	3,404	0.9	33
Services	47,500	39,930	68,592	2,062	202,382	195.1	16.6	3,028	37,873	10.3	1,121
Advertising	427	2,184	2,101	116	8,622	310.4	0.7	100	741	0.2	58
Broadcasting (radio and TV)	14,899	5,232	11,725	89	25,131	114.3	2.1	121	3,686	1.0	41
Amusement and recreation services	1,460	3,265	1,109	70	1,719	55.1	0.1	74	354	0.1	36
Motion picture production and distribution	1,510	1,349	920	40	48,837	5206.6	4.0	63	440	0.1	20
Business services	16,570	18,149	33,811	1,169	96,239	184.6	7.9	1,898	27,523	7.6	666
Prepackaged software	1,966	4,737	10,892	391	19,090	75.3	1.6	575	3,240	0.9	208
Total	**340,546**	**616,602**	**841,677**	**8,093**	**1,220,854**	**45.1**	**100.0**	**9,245**	**361,060**	**100.0**	**3,727**

Note: Figures show sales amounts.
Source: Prepared by JETRO from Thomson Financial data.

Table 2-5. Main billion-dollar deals subject to review (2000 and 2001)

◆ Deals investigated by both EU and U.S. authorities

Sector	Acquisition date	Value (US$ billion)	Acquiring company	Acquired company	Investigating authority	Result	Comments
Telecommunications	October 1999 (announced)	129.0 (estimate)	MCI Worldcom (U.S.)	Sprint (U.S.)	U.S. Dept. of Justice (DOJ)	Withdrawn	Both companies abandoned merger before investigation due to DOJ's serious concerns about competition being limited in long-distance telephone and data markets.
					EU	Prohibited	Merged company would have created dominant position in Internet connection service market. Proposed sell-off of Sprint's Internet business insufficient. Also, Concert (BT–AT&T joint venture) and merged company would have gained dominant positions in worldwide business communications market
Aviation equipment	October 2000 (announced)	45.0 (estimate)	GE (U.S.)	Honeywell (U.S.)	U.S. DOJ	Conditionally approved	Had potential to reduce competition in military and civil aircraft engine maintenance markets, so approved on condition that operations in former field be sold off and separate provider be established in latter field.
					EU	Prohibited	Disapproved as vertical integration and for potential to create conglomerate (engines, avionics, etc.).
Oil	October 2000 (announced)	35.1 (estimate)	Chevron (U.S.)	Texaco (U.S.)	U.S. Federal Trade Commission	Conditionally approved	Approved on condition that certain operations be sold off to avoid restriction of competition in local U.S. markets.
					EU	Approved	Expected to result in company with world's fourth largest market share, but no significant increase of share in European Economic Association since most Chevron operations were outside this region. Also, operational overlaps in EEA would be limited.
Consulting	May 2000	11.8	Cap Gemini SA (France)	Ernst & Young Consulting Services (U.S.)	U.S. FTC		Approved in preliminary investigation stage.
					EU	Approved	Competition not expected to reduce because IT consulting operations are based regionally (Cap Gemini in Europe and Ernst & Young in North America), so relationship is complementary. Also, market dominance unlikely due to strong competition in overlapping operations.
Military	June 2001	5.1	Northrop Grumman (U.S.)	Litton Industries (U.S.)	U.S. FTC		Approved in preliminary investigation stage.
					EU	Approved	Complementary relationship in most operations. No reduction of competition due to operational overlap. Not a vertical integration, so no reduction of competition.

Sources: Prepared by JETRO based on data from the websites of the U.S. Department of Justice, Federal Trade Commission and EU, *Antitrust and Trade Regulation* (Bureau of National Affairs), and other sources.

3. M&As achieve only partial success, but remain key strategy

According to a survey conducted by JETRO in the U.S., cross-border M&As have enabled many companies to grow market share, but have not been as effective in helping companies to achieve strategic goals, such as raising shareholder value, creating synergies and reducing costs. Nevertheless, 90% of the survey respondents reported that M&As are an important part of their business strategy and 75% revealed that they have plans for M&As within the next few years, demonstrating the unwavering importance of M&As. East Asia, having moved beyond its economic crisis, attracted additional foreign capital through M&As and thereby realized the benefits of improved managerial efficiency and expanded exports, although there were cases of strikes and other labor-management confrontations. In Latin America, the privatization of electrical power generation and other state-run industries provided further proof of the improved managerial efficiency and other positive effects of foreign capital inflow.

(1) According to a survey of 81 companies that JETRO conducted in the U.S. in 2001, a large proportion of the respondents reported to have successfully entered new markets (73%) and increased market share (64%) through M&As. But in terms of increasing shareholder value—the top priority of European and U.S. firms—only 61% of the respondents said they had achieved their goals through M&As. Even fewer respondents had achieved the secondary goals of increasing corporate synergy (44%) and cutting costs (36%). In many cases, M&As have not generated the desired effects. Despite this, 90% of respondents said M&As form an effective component of their overall strategy and 75% said that they plan to engage in M&As in the next few years. Overall, the view of M&As was still positive.

(2) Thailand, Indonesia and the R.O.K., having moved beyond the Asian economic crisis, attracted new foreign capital through M&As in 2000, as in the previous few years. Case studies in these countries have demonstrated the tangible benefits of M&As. They have, for example, enabled acquired firms to overcome financial difficulties, improve efficiency by introducing Western know-how and technologies, and increase exports by tapping the networks of their foreign partners. But occasional problems were found to have occurred after acquisition, depending on the country of the acquired firm. Although some firms succeeded in cutting their workforces by offering early retirement incentives, restructuring also led to strikes and other labor-management confrontations, even requiring the intercession of local governments in some cases.

(3) In Latin America, foreign investors have played an important role as buyers in the privatization of state-run operations. In 1998, for example, foreign entities invested US$15.6 billion in the privatization of Brazilian telecom carrier Telebras, which amounted to about half the value of total out-in cross-border M&As in the country that year. Privatization in Latin America has helped to strengthen government finances, improve balance of payments and raise the level of managerial efficiency in target companies. Privatization of Argentina's state-run oil company in 1999 led to a 66% increase in the country's oil output and 10% reduction in retail fuel prices compared with 1990.

4. Japanese FDI outflow declines in fiscal 2000

Japanese FDI outflow in fiscal 2000 (April 1, 2000 to March 31, 2001) decreased 27.2% to US$48.58 billion according to Ministry of Finance statistics compiled by JETRO (Table 4-1). This was due primarily to a decline in large-sized investments, which had risen sharply the previous year. Non-manufacturing FDI increased 51.6% to US$36.65 billion, driven by a massive 700% increase in transportation (including telecommunications). Investment in manufacturing declined, however, particularly in electrical machinery and food (Table 4-2). The U.K., especially its telecommunication industry, was the largest recipient of Japanese FDI. Japanese investment in the U.S., however, tumbled 45.6%, with a particularly large decline in electrical machinery. Japanese investment in China, after falling in recent years, rose 32.4%. Investment in Central Europe also grew, led by the auto industry. In the first half of fiscal 2001, Japanese FDI outflow fell 47.4% year on year, with non-manufacturing investment plunging 70%. Japanese investment both in the U.S. and Europe decreased substantially.

(1) According to statistics on investments reported to the Ministry of Finance, in fiscal 2000 FDI outflow from Japan fell 27.2% to US$48.58 billion (Table 4-1). This was due to a decline in large-scale investments, which had risen sharply the previous year. The main causes of the decline were falls in overall investment in the U.S. and in manufacturing worldwide. Japanese FDI in manufacturing sank 72.4% to US$11.68 billion, including particularly sharp declines in food and electrical machinery. In the non-manufacturing sector, however, investment in transport including telecommunications rose some 700% due to aggressive M&A activity by the NTT Group. Overall, non-manufacturing investment grew 51.6% to US$36.65 billion (Table 4-2).

(2) Japanese investment in the U.K. grew 63.4% to US$19.14 billion, propelling the U.K. past the U.S. as the largest recipient of Japanese FDI. The main factor was investment by mobile carrier NTT DoCoMo. Japanese FDI in the U.S. sagged 45.6%, led by a 92% plummet in electrical machinery. Given that NTT DoCoMo's investment in the U.K. was ultimately targeted at the U.S., however, the decline was somewhat deceptive. Japanese investment in East Asia fell 16.3%, though investment in China rose 32.4% to US$995 million, marking the first year of growth since fiscal 1995. Investment also grew in Thailand by 14.2%. The three Central European countries of the Czech Republic, Hungary and Poland attracted increased Japanese FDI, largely in electrical and transport machinery.

(3) FDI outflow in the first half of fiscal 2001 sagged 47.4% from a year earlier to US$13.70 billion, according to the Ministry of Finance. Manufacturing FDI grew 16.9%, led by strong investment in lumber and pulp, as well as increases in transportation and electrical machinery investment. Non-manufacturing FDI tumbled about 70%, however, declining in all sectors except mining, agriculture and forestry. Decreased FDI outflow in telecommunications was the main reason behind the decline. Japanese investment in the U.S., after declining in fiscal 2000, dropped again in the first half of fiscal 2001. Investment in Europe fell sharply despite increased investment in the Netherlands, which attracted Japanese investors with favorable taxation. In East Asia, investment accelerated in China and also grew in Singapore and Thailand.

(4) According to Thomson Financial data on completed M&As, the number of in-out deals by Japanese companies declined by 33 to 226 in 2000 (Table 4-3). The U.S., the most popular target of Japanese M&A activity, was the only major (regional) economy where the number of deals increased. The majority, 136, of these deals was in non-manufacturing; M&As involving business services doubled

to 52. In the ASEAN region, many Japanese firms increased their investments to shore up local affiliates following the region's economic crisis. A number of firms in the transport machinery sector beefed up manufacturing operations prior to the scheduled introduction of a 5% ceiling on tariffs for products in the ASEAN Free Trade Area (AFTA) in 2002.

(5) Although M&As by Japanese firms declined from their peak in 1999, companies in the steel, telecommunications, auto and banking industries were involved with M&As and tie-ups in response to global consolidation within their respective industries. The steel industry witnessed a flurry of tie-ups to produce steel for automobiles following Nippon Steel's tie-up with Usinor of France, while NTT DoCoMo was busy making acquisitions for its mobile phone business. Japanese automakers regained market share lost in Europe. In banking, retail ("city") banks consolidated into five groups and busily reorganized their overseas operations.

(6) According to a questionnaire survey that JETRO conducted in Japan in October 2001 (720 respondents; 28.0% response rate) 34.3% of the respondents had plans to scale up their FDI in fiscal 2001, basically no change from the 34.5% that had actually increased their investments year on year in fiscal 2000. Between fiscal 2002 and 2004, however, 45.9% said they were planning to increase FDI, reflecting a generally positive stance over the medium term. The survey also found that more than 70% of the respondents had been affected in some way by the terrorist attacks on the U.S. in September, with 49.4% citing decreased sales and earnings. Regarding the impact of the attacks on future investment plans, 53.0% said their plans were undecided and 45.1% said their plans were unchanged, while a mere 2.0% said they would be postponing or abandoning their investment plans.

Table 4-1. FDI outflow from Japan by destination (based on reports and notifications)

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

	FY2000 (US$1=¥110.52)				1H FY2000 (US$1=¥107.09)				1H FY2001 (US$1=¥122.20)			
	No.	Value			No.	Value			No.	Value		
			% share	% change			% share	% change			% share	% change
U.S.	272	12,136	25.0	–45.6	136	8,634	33.2	–46.8	115	3,140	22.9	–63.6
Canada	8	134	0.3	–94.6	3	61	0.2	–97.4	2	83	0.6	36.2
North America	280	12,271	25.3	–50.5	139	8,695	33.4	–53.1	117	3,223	23.5	–62.9
Brazil	9	225	0.5	–65.6	5	144	0.6	–41.4	6	828	6.0	475.9
Cayman Islands	54	2,736	5.6	22.0	36	1,774	6.8	23.3	14	762	5.6	–57.1
Chile	2	28	0.1	113.9	2	10	0.0	–7.3	1	31	0.2	202.7
Mexico	5	208	0.4	–86.0	4	209	0.8	–84.1	2	22	0.2	–89.4
Panama	107	1,300	2.7	–7.9	61	700	2.7	–28.3	50	580	4.2	–17.2
Latin America	200	5,232	10.8	–29.6	119	3,088	11.9	–25.9	74	2,245	16.4	–27.3
Hong Kong	51	936	1.9	–3.6	24	318	1.2	–38.3	15	92	0.7	–71.0
R.O.K.	52	813	1.7	–17.0	32	454	1.7	9.1	26	355	2.6	–21.7
Singapore	23	424	0.9	–56.0	10	190	0.7	–72.4	18	418	3.1	119.5
Taiwan	51	510	1.0	78.6	26	191	0.7	62.7	18	146	1.1	–23.9
Asian NIEs	177	2,682	5.5	–16.1	92	1,154	4.4	–33.6	77	1,011	7.4	–12.4
Indonesia	25	414	0.9	–54.9	15	234	0.9	–62.3	24	191	1.4	–18.3
Malaysia	23	232	0.5	–55.9	16	110	0.4	–70.7	11	104	0.8	–5.7
Philippines	41	458	0.9	–25.8	18	330	1.3	–27.9	12	93	0.7	–71.7
Thailand	61	931	1.9	14.2	33	435	1.7	–27.2	28	512	3.7	17.7
ASEAN4	150	2,035	4.2	–29.3	82	1,109	4.3	–46.0	75	901	6.6	–18.8
China	102	995	2.0	32.4	43	402	1.5	33.4	102	752	5.5	87.3
East Asia	429	5,711	11.8	–16.3	217	2,665	10.2	–34.9	254	2,664	19.5	–0.0
Asia	448	5,931	12.2	–17.2	228	2,821	10.8	–33.6	266	2,762	20.2	–2.1
Middle East	6	19	0.0	–83.4	6	16	0.1	–81.2	1	1	0.0	–94.8
Belgium	7	249	0.5	96.8	4	58	0.2	44.5	4	123	0.9	112.0
France	13	325	0.7	–71.1	4	231	0.9	–69.5	6	128	0.9	–44.3
Germany	29	320	0.7	–50.8	10	233	0.9	–41.0	15	120	0.9	–48.3
Italy	4	58	0.1	23.3	2	47	0.2	56.5	3	13	0.1	–72.0
Luxembourg	43	142	0.3	278.3	-	22	0.1	54.6	48	110	0.8	389.3
Netherlands	305	2,757	5.7	–73.4	203	1,896	7.3	–76.5	319	3,535	25.8	86.5
Spain	6	33	0.1	–93.6	4	11	0.0	–97.5	2	5	0.0	–56.2
Sweden	6	835	1.7	30,962.7	3	851	3.3	33,156.2	1	2	0.0	–99.8
U.K.	281	19,142	39.4	63.4	223	7,705	29.6	–0.6	25	840	6.1	–89.1
EU	700	23,909	49.2	–5.1	456	11,079	42.6	–38.0	n.a	n.a	n.a	n.a
Czech Republic	3	52	0.1	1,989.8	2	50	0.2	-	3	9	0.1	–82.1
Hungary	1	234	0.5	272.8	1	1	0.0	–97.9	2	16	0.1	1,565.1
Poland	2	26	0.1	–71.8	1	4	0.0	–92.4	2	14	0.1	272.4
Switzerland	3	37	0.1	–82.3	1	31	0.1	–84.1	1	6	0.0	–81.4
Turkey	2	129	0.3	1,009.6	1	13	0.1	91.7	-	2	0.0	–87.5
Europe	716	24,406	50.2	–5.4	464	11,184	43.0	–39.4	434	4,966	36.3	–55.6
South Africa	1	12	0.0	–92.2	-	4	0.0	–87.8	2	68	0.5	1,718.4
Africa	7	53	0.1	–89.6	-	8	0.0	–97.2	7	123	0.9	1,360.6
Australia	19	514	1.1	–40.1	11	198	0.8	–71.0	8	374	2.7	88.9
New Zealand	4	131	0.3	618.0	1	2	0.0	–75.7	1	4	0.0	119.1
Oceania	27	667	1.4	–25.4	15	221	0.9	–68.4	9	380	2.8	71.6
Total	1,684	48,580	100.0	–27.2	971	26,033	100.0	–44.0	908	13,699	100.0	–47.4

Notes:
1. Figures have been released in yen since fiscal 1996 and are converted to U.S. dollars at the Bank of Japan's interbank average rate for the period.
2. Percentage share indicates the proportion of total FDI in each region/country.
3. Some percentages do not tally due to rounding.
4. Percentage change indicates the change from the previous fiscal year.
5. "-" indicates no FDI.

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

Table 4-2. Japanese FDI outflow by sector (based on reports and notifications)

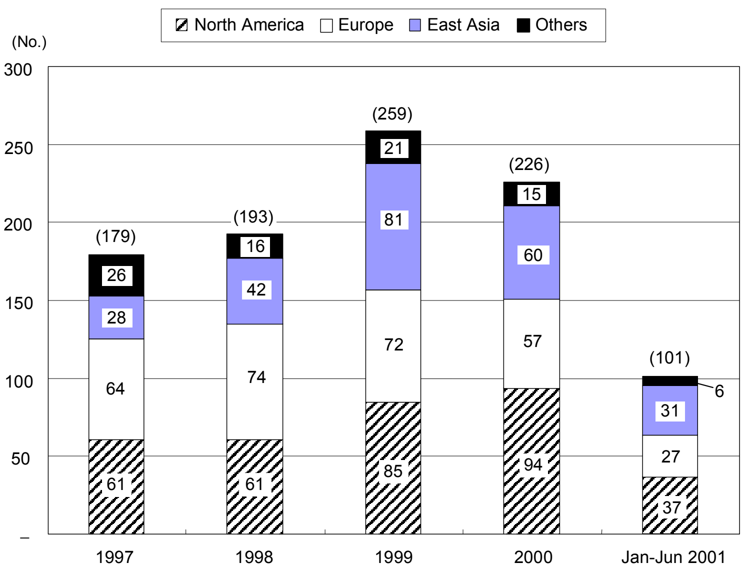
(Units: no. of investments, US$ million, %)

	FY2000 (US$1=¥110.52)				1H FY2000 (US$1=¥107.09)				1H FY2001 (US$1=¥122.20)			
	No.	Value	% share	% change	No.	Value	% share	% change	No.	Value	% share	% change
Transport equipment	79	3,138	6.5	–34.4	37	2,127	8.2	–8.2	51	2,863	20.9	34.6
Electrical equipment	167	3,047	6.3	–81.4	75	1,300	5.0	–90.7	90	1,736	12.7	33.5
Wood and pulp	7	147	0.3	27.5	4	69	0.3	9.5	7	716	5.2	936.2
Chemicals	68	1,916	3.9	13.1	36	1,136	4.4	69.4	29	669	4.9	–41.2
Machinery	52	1,411	2.9	41.8	21	652	2.5	12.2	29	628	4.6	–3.6
Ferrous and non-ferrous metals	47	706	1.5	–51.5	32	425	1.6	–60.1	31	345	2.5	–18.9
Foodstuffs	35	257	0.5	–98.3	20	155	0.6	–98.9	15	81	0.6	–47.7
Textiles	11	222	0.5	–14.5	5	134	0.5	93.3	7	79	0.6	–40.6
Others	62	837	1.7	–52.1	36	328	1.3	–68.7	33	277	2.0	–15.4
Manufacturing	528	11,682	24.0	–72.4	266	6,326	24.3	–81.2	292	7,395	54.0	16.9
Finance and insurance	675	8,405	17.3	–15.0	454	4,996	19.2	9.8	397	2,676	19.5	–46.4
Commerce	146	3,344	6.9	–13.7	74	1,794	6.9	–26.5	62	1,209	8.8	–32.6
Transport	128	21,880	45.0	689.5	63	11,393	43.8	720.3	60	890	6.5	–92.2
Services	157	1,760	3.6	–59.2	88	1,037	4.0	–55.8	73	662	4.8	–36.1
Mining	9	641	1.3	–30.5	5	96	0.4	–83.4	5	348	2.5	261.6
Real estate	18	364	0.8	–82.8	12	228	0.9	–81.6	10	223	1.6	–1.9
Construction	7	91	0.2	–50.1	4	20	0.1	–65.7	2	16	0.1	–20.7
Agriculture and forestry	7	27	0.1	–65.9	1	6	0.0	–90.5	5	10	0.1	75.3
Fishery and marine products	5	132	0.3	406.8	1	3	0.0	–34.3	-	1	0.0	–70.8
Others	1	2	0.0	–75.4	1	2	0.0	–75.7	-	-	-	-
Non-manufacturing	1,153	36,647	75.4	51.6	703	19,574	75.2	54.5	614	6,035	44.1	–69.2
New branch offices	3	251	0.5	22.0	2	134	0.5	–6.8	2	268	2.0	101.0
Total	1,684	48,580	100.0	–27.2	971	26,033	100.0	–44.0	908	13,699	100.0	–47.4

Notes:
1. Figures have been released in yen since fiscal 1996 and are converted to U.S. dollars at the Bank of Japan's interbank average rate for the period.
2. Percentage share indicates the proportion of total FDI in each category.
3. Some percentages do not tally due to rounding.
4. Percentage change indicates the change from the previous fiscal year.
5. "-" indicates no FDI.

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

Table 4-3. Number of in-out M&As in Japan



Source: Prepared by JETRO from Thomson Financial data.

5. Japanese firms accelerate investment in China, maintain operations in ASEAN

In fiscal 2000, Japanese investment in China increased for the first time since fiscal 1996. In a JETRO survey, an overwhelming 95.7% of the 300 respondents that planned to increase FDI within the next three years named China as one of their primary targets and 67.7% named an ASEAN4 country. The extremely small number of firms thinking of transplanting production operations from an ASEAN country to China indicated that while Japanese firms are aggressively entering the Chinese market, they are also eager to maintain their ASEAN bases. Asked to compare investment environments, the respondents placed China ahead of the ASEAN4 countries in terms of market growth potential and low-cost production. Other comparisons of the ASEAN4 and China were varied. China was placed behind Thailand and Malaysia in various categories, including infrastructure and tax systems, but ahead of Indonesia and the Philippines in most areas.

(1) Japanese investment in China peaked in fiscal 1995 and then declined for four years, due in large part to China's revision of preferential measures for foreign investors. It began to increase in fiscal 2000, however, signaling a fresh boom in Japanese investment in China. Although the textile industry had attracted the bulk of FDI in the 1990s, a growing target for investment since 1998 has been electrical machinery. Investment in this industry in fiscal 2000 mushroomed 380% to US$323 million in value and by 21 cases to 33 in number. In terms of both value and number, the electrical machinery industry accounted for around 30% of total Japanese investment in China. Among the wave of major Japanese electrical equipment and electronics manufacturers that unveiled restructuring packages, some announced plans to bolster and/or broaden investment in China. Japanese investment in China continued to accelerate in 2001, growing 87.3% year on year between April and September.

(2) In the Chinese service sector, Japanese firms remained less prominent than their European and American counterparts. In the retail market, for example, whereas Carrefour had 27 stores and Walmart 15, no Japanese firm had yet to make its presence felt. In finance and insurance, while U.S. and European firms actively prepared for China's accession to the WTO and the anticipated increase in foreign capital inflow, only two Japanese firms were operating in China's growing insurance market.

(3) Japanese investment in China is projected to continue to grow. According to a JETRO questionnaire survey that received 720 responses in October 2001, 95.7% of 300 firms that were planning to increase FDI in the next three years named China as an investment target. In addition, 67.7% named an ASEAN4 country and 98.5% answered that they planned to do business in the ASEAN region, indicating that Japanese firms are not targeting China alone. The implication is that Japanese firms, while actively investing in China to tap the country's market-growth potential and low costs, are also maintaining their presence in the ASEAN region to capitalize on market growth expected to be generated by AFTA, as well as to avoid placing all of their East Asian operations in just one country.

(4) The same survey asked companies to compare the investment environments of China and the ASEAN4 countries. They placed China ahead of the ASEAN4 countries in terms of market-growth potential and low-cost production. Thailand and Malaysia were placed ahead of China for economic and political stability, investment law, tax systems, infrastructure and supporting industries, but behind in terms of production costs. Indonesia and the Philippines were behind China in political and economic stability and either equal to or behind in other areas as well.

(5) The survey also asked questions about China's investment rules. About 50% of the respondents identified problems with the country's legal system, such as its impermanent nature, lack of transparency and limited scope of investment law. A large proportion of the respondents also mentioned performance requirements, restrictions on capital remittances and discrimination against foreign companies. Regarding the ASEAN4 countries, many respondents cited problems with the legal system in Indonesia. Thailand and Malaysia, however, were said to have fewer problems in general than China.

6. FDI inflow into Japan continues to grow

FDI inflow into Japan in fiscal 2000 increased 31.5% to reach US$28.28 billion, setting a new record for a third straight year (Table 6-1). The main component of this increase was non-manufacturing investment, especially in the telecommunications and finance/insurance industries, which together increased 66.0% to US$21.12 billion (Table 6-2). Foreign investors helped to pick up the slack in Japan's struggling finance and insurance industry and also benefited from continuing deregulation in the telecommunications industry, which helped to attract increased FDI. Investment inflow in the manufacturing sector fell 18.5% to US$7.16 billion. A spike in FDI inflow the previous year, when Renault made its massive investment in Nissan, however, was the main reason for the falloff. The largest investor in Japan was the U.S., which roughly quadrupled its investment level of the previous year to hit a new high. In the first half of fiscal 2001, FDI inflow in Japan decreased 28.8% year on year. FDI was determined to have held steady, however, considering that telecom investment spiked a year earlier and that investment was actually higher than in the previous fiscal half year.

(1) Ministry of Finance statistics compiled by JETRO show FDI inflow into Japan hit a new high in U.S. dollar terms for a third year running in fiscal 2000, growing 31.5% to US$28.28 billion (Table 6-1). Although growth was more moderate than the 89.4% and 105.4% rates set in fiscal 1998 and fiscal 1999, the number of investments grew by 137 cases from the previous year to 1,842, indicating that FDI inflow into Japan continued to grow steadily. The imbalance in the ratio of FDI inflow to outflow shrank from 1:10 in 1998 to 1:5. Given that the ratio is no more than 1:2 in other major industrialized countries, however, the gap in Japan remains large by international standards.

(2) FDI in Japan's non-manufacturing sector surged 66.0% to US$21.12 billion. FDI in manufacturing, however, shrank 18.5% to US$7.16 billion (Table 6-2). Non-manufacturing's share of FDI inflow rose from 59.2% to 74.7%. The strongest growth was in the telecommunications and finance/insurance industries, which together accounted for two thirds of FDI inflow into Japan. Investments in the finance and insurance industry, supported by foreign companies increasing their stakes in failed Japanese life insurers, rose in value by 103.1% to US$9.31 billion and in number by 208 to 300. In the telecommunications industry, which had attracted just US$131 million worth of investment in fiscal 1998, the establishment of a holding company to manage J-Phone's regional carriers helped investment to surge to US$6.79 billion in fiscal 2000. Although FDI in manufacturing fell, investment increased in the oil and chemical industries. Machinery investment declined to US$3.18 billion, but 59.0% of this decline was due to a spike in fiscal 1999, when Renault made its massive investment in Nissan.

(3) Geographically, investment by U.S. firms surged 310% to a record US$9.14 billion, enabling the U.S. to overtake France and regain its position as the leading foreign investor in Japan. Seventy percent of U.S. investment was concentrated in finance and insurance. The second largest source of FDI was Germany, which invested heavily in the auto and pharmaceutical fields. France's share of FDI in Japan plummeted to 0.9%, down sharply from more than 30% in fiscal 1999. The number of investments increased from 10 to 51, however, indicating that French companies were still interested in Japan. Additional FDI by foreign firms had already invested in Japan soared 610% to US$10.33 billion, principally the result of investment in J-Phone's new holding company by Vodafone.

(4) FDI inflow into Japan in the first half of fiscal 2001 slumped 28.8% from a year earlier to US$12.57 billion. The underlying trends in FDI inflow held steady, however, since the decline largely reflected

the fact that J-Phone attracted heavy investment in the previous year. Moreover, investment in the 2001 first half was substantially higher than the US$10.84 billion invested in the previous half year. By industry, around 80% of the investment was concentrated in telecommunications and finance and insurance, including a large investment in Japan Telecom by the U.K.'s Vodafone. Although FDI in finance and insurance included considerable investment in failed domestic insurers, value nevertheless fell 40% from a year earlier. By far the largest investor was the U.S., which was the main source of investment in finance and insurance. Vodafone's investment was made through a Dutch holding company, so investment from the Netherlands also surged.

(5) According to Thomson Financial, the number of out-in M&As in Japan rose from 107 in 1999 to 151 in 2000. Non-manufacturing M&As, principally in the services sector, rose by 38 to 93, but manufacturing M&As totaled 57, the same number as in the previous year (Table 6-3). Six M&As were valued at more than US$1 billion each, including the US$2.56 billion merger of General Sekiyu and Tonen as part of Exxon Mobil's reorganization of its subsidiaries and GE Capital's US$2.32 billion investment in Toho Mutual Life Insurance. Four more billion-dollar M&As took place in the first half of fiscal 2001, including Vodafone's acquisition of shares in Japan Telecom. The number of M&As fell to 62, however, indicating that the popularity of M&As had begun to wane. There was, however, an upturn in M&A activity by investment funds, such as Ripplewood, which included the acquisition of banks, supermarkets and golf courses in Japan.

(6) Japan's investment environment has become more attractive to foreign investors. New measures take to encourage corporate restructuring have included the introduction of systems for holding companies in 1997, stock swaps and share transfers in 1999 and corporate spin-offs in 2001. On the accounting side, the consolidated and market-value accounting methods have been introduced, bringing Japanese accounting practices more into line with international standards. Japan's complicated cross-shareholdings have been unraveled, the number of foreign shareholders in the country has increased and greater emphasis is being placed on shareholders and investor relations in Japanese corporate governance.

(7) The industries that have been realigned the most by the influx of foreign capital are the telecommunications, retail, electricity-power generation and insurance and consumer finance sectors. In telecommunications and retail, where ongoing deregulation has attracted much attention, a variety of global corporations have entered the Japanese market, including Vodafone (telecommunications) and Carrefour (retail). In the insurance and consumer finance industries, foreign companies such as Prudential and GE Capital have rescued ailing Japanese firms through M&As. Japan's manufacturing sector has attracted heavy foreign investment in the pharmaceuticals, auto and autoparts industries. In the electronics industry, the world's five largest foreign EMS companies are now operating in the Japanese market as a result of Solectron's purchase of plants from Sony.

(8) One of the main benefits of FDI inflow into Japan is the generation of employment. Nevertheless, the ratio of employment by foreign firms is still low compared with other industrialized countries, so there is considerable room for growth in this respect. According to a survey of foreign affiliates in Japan conducted by the Ministry of Economy, Trade and Industry, foreign firms accounted for just 0.7% of total employment in 1999. It should be noted, however, the survey did not include the finance and insurance and real estate industries, and received only slightly more than a 50% response rate. In addition, the lack of common statistical standards makes direct comparisons impossible.

(9) A growing number of foreign firms have been affected by slumping demand in the Japanese market due to the increasingly severe recession. According to a survey of foreign firms in Japan conducted by JETRO in September 2001 (578 respondents; 21.3% response rate), 33.3% of the firms were projecting lower sales in fiscal 2001, up from 23.9% the previous year. Those projecting higher sales declined to 41.9%, although this group was still larger than the group forecasting lower sales. Reasons given for expectations of better sales included strengthened sales forces and introduction of new products. The proportion of companies that had more full-time employees in April 2001 than a year earlier was 42.0%, compared to 22.5% that had fewer employees, another indication that foreign firms have a positive effect on employment.

Table 6-1. Japanese FDI inflow by source (based on reports and notifications)

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

	FY2000 (US$1=¥110.52)				1H FY2000 (US$1=107.09)				1H FY2001 (US$1=122.20)			
	No.	Value			No.	Value			No.	Value		
			% share	% change			% share	% change			% share	% change
U.S.	654	9,141	32.3	310.0	296	6,162	34.9	385.0	233	3,612	28.7	–41.4
Canada	20	610	2.2	–59.7	6	2	0.0	–97.1	6	364	2.9	19,398.8
North America	674	9,751	34.5	160.7	302	6,164	34.9	361.9	239	3,975	31.6	–35.5
Belgium	4	80	0.3	1,098.2	4	82	0.5	2,309.3	6	329	2.6	300.3
Germany	71	2,530	8.9	504.8	33	98	0.6	–67.1	25	65	0.5	–34.1
Netherlands	97	468	1.7	–88.9	44	166	0.9	–93.8	43	5,650	45.0	3,299.1
U.K.	106	506	1.8	–37.2	45	61	0.3	–90.3	45	1,160	9.2	1,811.8
EU	405	4,267	15.1	–65.4	189	656	3.7	–92.5	187	7,322	58.3	1,016.9
Switzerland	25	1,966	7.0	470.8	14	207	1.2	35.1	14	36	0.3	–82.6
Europe	441	6,234	22.0	–50.8	206	863	4.9	–90.3	203	7,373	58.7	754.5
Hong Kong	13	18	0.1	–83.7	10	18	0.1	316.2	12	6	0.0	–67.7
R.O.K.	59	48	0.2	–50.1	34	17	0.1	294.3	18	11	0.1	–36.7
Singapore	54	88	0.3	–86.7	24	21	0.1	–96.6	15	54	0.4	162.9
Taiwan	34	219	0.8	84.9	14	89	0.5	–11.8	12	7	0.1	–92.6
Asian NIEs	160	372	1.3	–62.1	82	144	0.8	–80.0	57	77	0.6	–46.5
Indonesia	-	-	-	-	-	-	-	-	-	-	-	-
Malaysia	3	0	0.0	1,582.0	1	0	0.0	-	1	0	0.0	-
Philippines	1	0	0.0	101.8	1	0	0.0	-	1	0	0.0	-
Thailand	4	0	0.0	– 24.3	2	0	0.0	-	2	1	0.0	-
ASEAN4	8	1	0.0	122.6	4	0	0.0	-	4	1	0.0	-
China	34	5	0.0	79.0	22	4	0.0	338.1	15	2	0.0	–56.2
East Asia	202	378	1.3	–61.7	108	148	0.8	–79.5	76	79	0.6	–46.2
Asia	208	378	1.3	–61.7	111	148	0.8	–79.6	79	79	0.6	–46.2
Bermuda	13	231	0.8	316.7	2	7	0.0	338.1	4	4	0.0	–45.2
British Virgin Islands	25	62	0.2	–70.2	11	16	0.1	–60.4	4	7	0.1	–58.8
Cayman Islands	130	1,193	4.2	–47.1	71	1,187	6.7	1,022.5	68	187	1.5	–84.2
Latin America	174	1,520	5.4	–41.4	86	1,225	6.9	707.2	83	205	1.6	–83.3
Near and Middle East	11	3	0.0	38.9	5	2	0.0	119.0	4	0	0.0	–100.0
Africa	4	3	0.0	–15.8	2	0	0.0	-	1	0	0.0	-
Oceania	15	62	0.2	2.2	9	60	0.3	3,404.5	5	1	0.0	–98.6
Japan	315	10,326	36.5	613.4	132	9,189	52.1	4,044.7	111	934	7.4	–89.8
Total	1,842	28,276	100.0	31.5	853	17,650	100.0	55.7	725	12,568	100.0	–28.8

Notes:
1. Figures have been released in yen since fiscal 1996 and are converted to U.S. dollars at the Bank of Japan's interbank average rate for the period.
2. Percentage share indicates the proportion of total FDI in each country/region.
3. "Japan" indicates investment by foreign affiliates based in Japan.
4. Some percentages do not tally due to rounding.
5. Percentage change indicates the change from the previous fiscal year.
6. "0" indicates an amount of less than US$1 million. "-" indicates no FDI.

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

Table 6-2. Japanese FDI inflow by sector (based on reports and notifications)

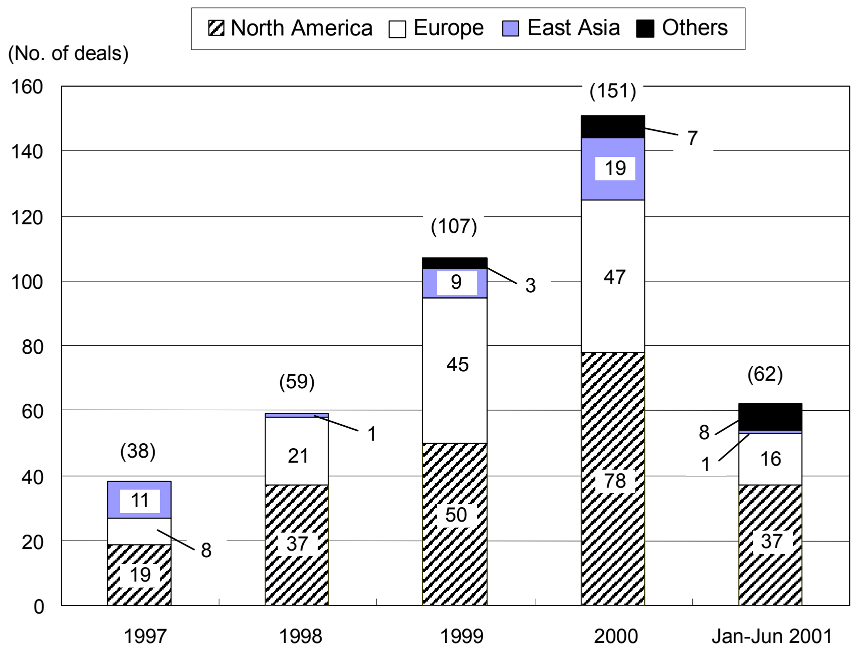
(Units: no. of investments, US$ million, %)

	FY2000 (US$1=¥110.52)				1H FY2000 (US$1=¥107.09)				1H FY2001 (US$1=¥122.20)			
	No.	Value			No.	Value			No.	Value		
			% share	% change			% share	% change			% share	% change
Machinery	60	3,184	11.3	–59.0	27	317	1.8	–94.6	24	610	4.9	92.3
Chemicals	39	1,618	5.7	199.5	17	325	1.8	259.5	15	349	2.8	7.5
Petroleum	25	2,292	8.1	1,792.8	11	1	0.0	–63.5	5	61	0.5	6,385.0
Textiles	3	22	0.1	1,324.8	-	-	-	-	5	8	0.1	-
Glass and ceramic products	1	0	0.0	–99.9	-	-	-	-	5	7	0.1	-
Metals	2	17	0.1	–89.2	2	18	0.1	–62.8	2	1	0.0	–95.4
Foodstuffs	1	0	0.0	–99.3	-	-	-	-	1	0	0.0	-
Rubber and leather products	1	10	0.0	–83.7	1	10	0.1	-	-	-	-	-
Others	9	11	0.0	–85.4	1	0	0.0	-	8	39	0.3	-
Manufacturing	141	7,155	25.3	–18.5	59	671	3.8	–89.0	65	1,076	8.6	60.3
Telecommunications	53	6,793	24.0	129.6	35	6,777	38.4	154.8	21	6,504	51.8	–4.0
Finance and insurance	300	9,313	32.9	103.1	120	7,151	40.5	852.0	147	3,725	29.6	–47.9
Services	788	2,140	7.6	16.0	381	836	4.7	18.1	262	609	4.8	–27.2
Real estate	93	313	1.1	107.7	41	308	1.7	447.6	55	335	2.7	8.6
Trade and commerce	442	2,498	8.8	–20.0	208	1,892	10.7	78.8	164	306	2.4	–83.8
Transport	14	52	0.2	165.5	4	6	0.0	-	4	7	0.1	31.5
Construction	1	0	0.0	–99.2	-	-	-	-	3	0	0.0	-
Others	10	12	0.0	–49.0	5	10	0.1	50.6	4	5	0.0	–52.2
Non-manufacturing	1,701	21,122	74.7	66.0	794	16,979	96.2	222.9	660	11,492	91.4	–32.3
Total	1,842	28,276	100.0	31.5	853	17,650	100.0	55.7	725	12,568	100.0	–28.8

Notes:
1. Figures have been released in yen since fiscal 1996 and are converted to U.S. dollars at the Bank of Japan's interbank average rate for the period.
2. Percentage share indicates the proportion of total FDI in each category.
3. Some percentages do not tally due to rounding.
4. Percentage change indicates the change from the previous fiscal year.
5. "0" indicates an amount of less than the unit. "-" indicates no FDI.

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

Table 6-3. Number of out-in M&As in Japan



Source: Prepared by JETRO from Thomson Financial data.

7. Future issues

(1) Investment rules

Multilateral and bilateral investment rules are needed to encourage FDI and help investors grow their businesses. The countries that attract the most FDI also tend to achieve the highest rates of economic growth, since foreign investment leads to capital formation and the introduction of new business know-how and production technology.

In many developing countries, however, foreign investment is hindered by domestic institutions and policies that lack transparency or change suddenly, restrictions on foreign involvement in certain industries, and performance requirements. These problems arise from a number of factors, most notably inexperienced administrative systems, insufficient legislation, and intervening policies intended to nurture domestic industries, such as local content requirements. These conditions work to the detriment of countries seeking to attract foreign capital, since they make business less predictable and more costly for foreign investors. Since countries compete for FDI, success hinges on how well they improve their investment environments. WTO members in Doha agreed to start negotiating investment rules after the Fifth Ministerial Meeting, marking an important step forward. Ultimate success will depend on not only gaining the understanding and cooperation of developing countries during multilateral negotiation, but also the concurrent formation of high-standard bilateral investment treaties that ensure equal national treatment and eliminate performance requirements.

(2) Free trade agreements

Japan's first free trade agreement (FTA), the Japan-Singapore Economic Agreement for a New Age Partnership, is scheduled to take effect in 2002. In addition, the governments of Mexico and Japan are carrying out a study to consider an FTA between their countries. FTAs encourage FDI because not only do they lay down solid rules for FDI, they also promote market growth and reduce risk by establishing rules for service-sector liberalization, competition policy, intellectual property rights and dispute resolution.

Japan and ASEAN in September 2001 established a group to study how to achieve greater economic cooperation and integration, while China and ASEAN agreed in November 2001 to negotiate the signing of an FTA within a decade. Japan has also looked carefully at potential bilateral FTAs with other trading partners—including the R.O.K., Mexico and Chile—through joint efforts carried out by the Japan External Trade Organization (JETRO) and its counterpart organizations in Mexico and Chile, and the Institute of Developing Economies and its Korean counterpart in the R.O.K.

(3) China's investment environment and cooperation with ASEAN

Japan should help China alleviate problems in its investment environment that are hindering the operations of many locally based Japanese companies, including small and medium-sized firms. Japanese investment in China began to recover in 2000 and many firms announced plans to invest in the country in the first half of 2001. A JETRO survey found that China was the most popular country for investment among Japanese companies with plans for FDI. But the same survey also found that China has the most problems among the leading countries targeted by Japanese investors. It is well known, for example, that Japanese companies have been hurt by counterfeit products made in China. According to the survey, many Japanese firms also have difficulties with investment rules and programs—which tend to be nontransparent and/or subject to sudden change, restrictions on capital remittances, discrimination between local and foreign firms, and export requirements.

China's accession to the WTO will result in the abolition of domestic measures that contravene the Trade-Related Investment Measures (TRIMs) Agreement. It is hoped that Chinese authorities will also deal resolutely with similar problems falling outside of the TRIMs framework. Given the importance of the Chinese market to Japanese firms, Japan should assist China in developing and improving its business environment.

The ASEAN countries are concerned that regional investment will undergo a major shift toward China, so they must take steps to ensure their markets remain attractive to foreign investors. This includes, for example, diligently implementing AFTA to promote growth throughout the regional market and nurturing supporting industries and human resources to ensure that the level of technology continues to rise within the region. Japan can play an important role by helping countries to develop their investment environments and assisting the region's small businesses and supporting industries.

(4) Improving the Japanese investment environment

FDI entering Japan in fiscal 2000 set a record for value for a third consecutive year and also grew steadily in number. These positive trends were encouraged by systemic reforms in the Japanese investment environment, including deregulation, amendment of its antimonopoly and commercial laws, and introduction of international accounting practices. The business environment also improved through reduced infrastructure costs and enhanced access to skilled human resources.

Although FDI inflow in Japan increased, it nevertheless remained low in comparison with other developed countries. Japan ranked 24th in terms of FDI inflow (BOP basis) in fiscal 2000. Moreover, whereas the FDI outflow of most industrialized countries was no more than twice inflow, the difference in Japan was fivefold. The proportion of the workforce employed by foreign firms in Japan was also comparatively low.

Japan must encourage greater FDI inflow to take advantage of its propensity to increase employment, introduce advanced business know-how, promote economic structural reform and revitalize regional economies. But doing so will require a further lowering of business costs, which are still high by international standards, and the enactment of legislation for cross-border stock-swaps between foreign companies in Japan and a broader range of legal services to help firms go public. Investment promotion itself will have to be stepped up, including more proactive efforts by local governments.

PART 2. FOREIGN DIRECT INVESTMENT BY COUNTRY/REGION

1. North America

(1) FDI inflow and outflow both remain strong

U.S. FDI inflow and outflow remained high in 2000, declining only slightly from record highs in 1999 despite the slide in share prices and economic slowdown from the second half of 2000. FDI inflow [net flow measured on a balance of payments (BOP) basis; the same below] declined 4.4% from the previous year to US$287.7 billion, but it was still up 61.4% on 1998. Inflow remained strong throughout the year and was particularly robust in the petroleum, finance and insurance, electrical machinery and business service industries. The largest source of investment was the EU, which accounted for some 80% of total inflow, although this was lower than in the previous year. Investment from Canada, Asia and Oceania increased. Brisk activity in M&As continued from 1999 as U.K. and other European firms put together new billion-dollar deals.

U.S. FDI outflow shrank 1.9% to US$152.4 billion. Much of the investment was in finance (excluding banking) and manufacturing, especially electrical and general machinery. Investment in Europe accounted for more than half of total U.S. FDI outflow, although this was down from the previous year. U.S. FDI rose in Canada and some parts of East Asia, including Japan.

Canadian FDI inflow and outflow both reached all-time highs in 2000. Inflow soared 151.7% to C$94.1 billion, propelled by large-scale M&As involving European firms. FDI outflow also soared 139.1% to C$65.4 billion, due chiefly to sharp growth in Canadian investment in the U.S., particularly M&As by IT manufacturers.

(2) U.S. makes bilateral ties key plank of investment policy

The Bush administration continued with the previous administration's policy of encouraging FDI inflow while pushing for more open global markets and promoting U.S. foreign trade and investment. What changed, however, was the new administration's emphasis on negotiation and cooperation with U.S. trading partners. The U.S.–Japan summit launched a bilateral initiative called the U.S.–Japan Economic Partnership for Growth in June. Japan used the new forum to discuss the high cost of litigation and large punitive damages under product liability law in the U.S., while the U.S. brought up the state of the M&A market, securitization of property and the enhancement of labor mobility in Japan. The U.S. won various concessions before agreeing to China's accession to the WTO, such as the deregulation of investment restrictions in China's service sector. Regarding the establishment of investment rules, the U.S. continued to stress bilateral rather than multilateral treaties, including FTAs and investment agreements.

(3) Japan attracts record U.S. investment, pursues vigorous FDI with Canada

U.S. investment in Japan reached an all-time high in 2000, growing 55.6% on the strength of U.S. takeovers of failed Japanese financial institutions and acquisition of stakes in Japanese automakers. Inflow from Japan shrank 35.2%, due principally to a heavy slump in manufacturing investment by Japanese companies.

Both FDI inflow and outflow between Japan and Canada grew strongly in 2000. Outflow from Japan to Canada shifted from net withdrawal in 1999 to net investment in 2000.

U.S. and Canadian FDI flows

U.S. (Unit: US$ million)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Inflow	23,171	19,823	51,362	46,121	57,776	86,502	105,603	178,209	301,006	287,655
From Japan	12,782	4,245	2,949	5,486	8,118	13,337	10,187	8,024	15,489	10,043
Outflow	37,889	48,266	83,950	80,167	98,750	91,885	104,803	142,516	155,385	152,437
To Japan	–203	683	1,625	1,867	2,336	–280	–339	6,428	5,179	8,060

Canada (Unit: C$ million)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Inflow	7,500	5,708	6,103	11,206	12,703	13,137	15,958	33,489	37,366	94,059
From Japan	644	415	189	608	571	898	563	463	–4,241	901
Outflow	6,200	4,339	7,354	12,694	15,732	17,858	31,937	51,304	27,359	65,415
To Japan	32	265	–40	240	–815	–27	709	–176	897	3,474

Note: Measured on a BOP basis.

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

2. Latin America: Service sector attracts growing share of FDI inflow

(1) FDI inflow into Brazil hits US$30 billion

Latin America's FDI net inflow (inflow minus outflow) went into decline for the first time in seven years in 2000, shrinking 17.3% to US$63.88 billion. The decline reflected the fact that a sharp spike occurred the previous year due to Repsol's purchase of Argentine oil company YPF. Net inflow into Argentina sank 55.3% to US$10.24 billion, which accounted for 94.5% of declined investment in the region.

Net inflow into Brazil—the region's leading recipient of FDI—grew 13.4% to US$30.50 billion, the first time for Brazil to surpass the US$30 billion mark. The next largest recipient was Mexico, where inflow grew 10.5% to US$13.16 billion. Some 80% of FDI in Brazil was concentrated in the service sector, while investment in Mexican financial services grew to more than 30% of the country's FDI inflow. FDI inflows into Colombia and Venezuela recovered strongly after a poor year in 1999, growing 85.7% to US$2.25 billion and 42.0% to US$3.79 billion, respectively. Ecuador, having adopted the U.S. dollar as its legal tender, saw FDI inflow recover 11.3% to US$708 million. In Peru, however, political strife contributed to a 71.8% decline to US$556 million. In Chile, FDI outflow was US$4.78 billion and inflow was US$3.67 billion, yielding a net outflow of US$1.10 billion. The biggest outward investment by a Latin American firm was Cemex's acquisition of Southdown in the U.S., catapulting the Mexican company into the top three among cement makers worldwide.

(2) Concerns about terrorist attacks in U.S. and presidential elections

As Latin America's economic outlook grew increasingly cloudy in 2001, FDI inflows diverged among the region's main economies. In Brazil, inflow fell 38.3% to US$14.53 billion year on year in the first nine months. In the first six months, inflows into Argentina and Venezuela dropped 27.6% to US$3.08 billion and 36.6% to US$1.7 billion, respectively. Investment in the above three countries' service sectors contracted in the first half after growing sharply in 2000. In Mexico, investment fell 7.2% to US$6.77 billion in the first half. The acquisition of Banamex by Citicorp for US$12.5 billion, announced in May 2001, should push second-half investment well over the year-earlier figure. FDI inflow in Chile in the first six months soared 143.2% to US$3.61 billion, propelled by large investments in telecommunications by carriers such as Telecom Italia. Overall investment in 2001 will again depend on large investments in the service sector.

The terrorist attacks on the U.S. are expected to prompt the movement of capital into safer investments and regions, as well as cool consumption in the United States. The former development may discourage investment in both the financial sector and infrastructure, while the latter may hinder investment in export-oriented industries. There are also concerns that investors will be more cautious because of presidential elections in Brazil, Colombia and Ecuador in 2002.

(3) Japanese FDI in Mexico and Brazil shows signs of growth

Japanese FDI in Latin America in fiscal 2000 fell 29.6% to US$5.23 billion, according to Ministry of Finance statistics based on reported investments. The decline was particularly marked in manufacturing, where investment plummeted 74.0% to US$607 million. Investment in the general machinery and transport machinery industries totaled US$315 million and US$190 million, respectively, with most of the latter targeted at Mexico. Japanese firms showed prospects of stepping up their investments in Latin America, judging from announced plans to invest in Mexico's auto and appliance industries and Brazil's auto, resource and energy industries.

Latin American FDI in Japan fell 42.0% to US$1.68 billion. Most, 96.2%, went into non-manufacturing, including US$912 million in trade and commerce and US$320 million in real estate. The largest investment in manufacturing was the establishment of a joint venture by Argentina's Techint Group and NKK to produce and sell seamless pipes. In Japan, Brazilian oil company Petrobras set up an office in 2000 and a Brazilian chamber of commerce and industry was established in 2001.

FDI in Latin America

(Units: US$ million, %)

	1994	1995	1996	1997	1998	1999	2000
Net FDI inflow into Latin America	23,725	24,753	39,788	56,199	59,631	77,278	63,880
(%annual change)	129.3	4.3	60.7	41.2	6.1	29.6	–17.3
Japanese FDI in Latin America	5,231	3,877	4,446	6,336	6,463	7,437	5,232
(% annual change)	55.2	–25.9	14.7	42.5	2.0	15.1	–29.6

Notes: 1. Net FDI inflow is inflow minus outflow measured on a BOP basis. Figures for 2000 are estimates.
2. Figures for Japan are from April to March. Yen figures were converted into U.S. dollars by JETRO.

Sources: Net FDI inflow figures are from United Nations Economic Commission for Latin America and the Caribbean (ECLAC) and Japanese FDI figures are from Japanese Ministry of Finance based on reports and notifications submitted to the ministry.

3. Europe

Western Europe

(1) Billion-dollar deals drive strong FDI

Both FDI inflow and outflow (net flows calculated on a BOP basis, including investments between EU members) reached record highs for the second year running in 2000. Inflow grew 54% to 620.5 billion euros in 2000 and outflow grew 28% to 771.7 billion euros. Vodafone's massive acquisition of Mannesman considerably increased the total value of investment in the region, and also helped to make the U.K. the largest investor and Germany the largest recipient of FDI. Investment in the U.S., though falling to 147.3 billion euros, nevertheless remained high and exceeded U.S. investment in Western Europe.

Investment was fueled by large M&As, both within the region and between the U.S. and Europe. The world's leading investors in M&A were European companies, which accounted for the year's 10 largest cross-border M&As through acquisitions of U.S. and European firms. Reasons included expansion due to Europe's economic and currency union, realignment in the mobile telecommunications industry to acquire next-generation mobile phone licenses, and expansion in the North American finance and business services markets as part of globalization. European telecom carriers also produced the world's biggest deals in the first half of 2001, led by Deutsche Telekom's acquisition of VoiceStream in the U.S. and British Telecom's purchase of Viag Interkom in Germany.

(2) Slowing trend strengthens

Forecasts of growth in 2001 by Germany's top six economic institutes (released in October 2001) averaged 1.5% for the euro zone and 1.6% for the EU. In 2002, they forecast 1.8% growth for the euro zone and 1.9% for the EU, and expected the fallout from the terrorist attacks on the U.S. to delay recovery until the second half of the year.

Euro notes and coins were set to enter circulation on January 1, 2002 and national currencies were to be taken out of circulation by the end of February, completing the process of European currency union. Beginning in 1999, companies started not only to conduct business in euros, but also to pursue M&As and other adjustments in response to anticipated changes in the market due to the currency/economic union plan. By 2001, however, this trend had begun to weaken. In 2002, M&A activity by European firms is expected to slow down to the point where both inward and outward FDI will begin to decline.

(3) FDI channeled through U.K. raises Japanese investment level

Ministry of Finance statistics on reported investments put the value of Japanese FDI in the EU at US$23.9 billion in fiscal 2000. The primary target was the U.K., which received US$19.1 billion, but this inflow was inflated by large-scale investments in the U.S. by NTT DoCoMo, which channeled payments for these investments through its U.K. affiliates. EU statistics show there was a large net withdrawal of investment from the U.K. due to capital transfers between Japanese headquarters and their U.K. affiliates. EU investment in Japan declined by approximately two thirds to US$4.3 billion, but this reflected the spike in FDI in fiscal 1999 when Renault invested heavily in Nissan. DaimlerChrysler's acquisition of a capital stake in Mitsubishi Motors made Germany the largest investor in Japan in fiscal 2000.

EU Investment

(Units: ECU million, euro million)

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total FDI inflow	55,494	55,893	57,735	80,344	77,759	99,984	202,773	404,262	620,495
From EU	32,734	34,389	36,101	43,119	44,509	60,256	105,947	307,166	489,247
From Japan	1,859	1,600	1,454	1,535	468	2,729	1,515	–2,573	101
Total FDI outflow	67,107	64,361	74,687	99,150	110,413	160,645	325,903	605,082	771,677
To EU	49,279	40,204	50,320	53,564	62,554	75,482	127,518	329,321	462,992
To Japan	445	–1,229	272	854	2,159	446	338	10,956	4,569

Notes: 1. BOP basis (net flow).
2. Includes intra-regional investment in EU.
3. Reinvested earnings are not included.
4. Upper rows are in ECUs to 1998 and euros from 1999.

Sources: Prepared by JETRO based on *European Union Direct Investment Yearbook 2000* (Eurostat), etc.

Central and Eastern Europe

(1) FDI inflow achieves sustainable growth

The value of FDI inflow into the 10 Central and Eastern European countries listed in the table below rose 12.5% in 2000 to US$19.96 billion, exceeding the 1999 level to set a new all-time high. The cumulative value of foreign investment in the region between 1989 and 2000 grew to US$92.09 billion. Three countries received 76.2% of the total—Poland (31.5%), Hungary (21.1%) and the Czech Republic (23.5%). Slovakia attracted strong FDI through large-scale privatization of state-owned entities. Regionwide FDI growth comprised not only conventional investment in manufacturing, but also acquisitions of large privatized companies in services industries such as telecommunications and finance.

Japanese FDI included greenfield investment in manufacturing by autoparts makers and additional investment by companies expanding their existing operations in the region.

(2) Preparation for EU membership promotes stability

Central and Eastern Europe countries continued to negotiate accession to the EU. If negotiations are completed by the end of 2002, they could gain membership as early as 2004. Meanwhile, the countries continued to harmonize their legal, social and other systems with those in the EU, thus enhancing their business environments. The European Commission, confident that harmonization with EU standards will enhance macroeconomic stability, forecasts continued growth of FDI inflow in 2002.

FDI inflow into Central and Eastern Europe

(Unit: US$ million)

	1996	1997	1998	1999	2000	2001 (forecast)	1989–2000 (cumulative total)
Central and Eastern Europe	7,585	9,139	15,047	17,748	19,961	20,800	92,087

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

Source: Prepared by JETRO based on *Transition Report 2001* (EBRD).

4. Commonwealth of Independent States (CIS)

(1) Russia: President Putin works to improve investment environment

FDI inflow into Russia grew 4% to US$4.43 billion, continuing to recover from a temporary slump following the country's financial crisis in 1998. In the first half of 2001, the pace of growth increased to 40.5% year on year. There was particularly strong growth in investment by companies entering the Russian market and those investing in local companies in the transport (e.g. oil pipeline), commerce (e.g. large retail stores) and telecommunications (e.g. fiber-optic network and mobile phone) sectors.

President Putin, having obtained the cooperation of the Duma, set about improving the nation's legal environment to stimulate economic activity. The measures, which have won with wide acclaim both at home and abroad, included tax reform (streamlining and lowering personal income and corporate tax rates), lowering and simplifying tariffs, partial deregulation of foreign exchange control, and guaranteed ownership and liberalized trade of non-agricultural property. But the level of investment by foreign firms remained low compared with the Russian economy's potential, so further reforms are required.

FDI by Russian firms grew markedly. According to the United Nations Conference on Trade and Development (UNCTAD), Russian FDI outflow grew 55% in 2000 to US$3.05 billion, eclipsing FDI outflow from China (US$2.32 billion). Some Russian firms started to adopt global strategies, including oil companies that are expanding their oil refining and marketing activities in Central and Eastern Europe, the Baltic States and the U.S., and automakers that have begun production in the CIS, Central and Eastern Europe, and Africa.

Gross FDI inflow (investments implemented)

(Unit: US$ million)

1997	1998	1999	2000	first half 2001
5,333	3,361	4,260	4,429	2,509

Source: Prepared by JETRO based on data from State Committee of Statistics of the Russian Federation.

(2) CIS (excluding Russia): FDI expected to resume growth in 2001

The three CIS economies, apart from Russia, that have attracted the most FDI inflow in recent years are Kazakhstan, Azerbaijan and the Ukraine, which accounted for 41%, 20% and 16% of cumulative FDI inflow between 1992 and 2000, respectively. According to estimates by the European Bank of Reconstruction and Development (EBRD), total FDI inflow into the 11 CIS countries, excluding Russia, shrank 25% to US$2.65 billion in 2000. The declines were largest in Azerbaijan and Kazakhstan, where inflows declined 79% to US$117 million and 21% to US$1.24 billion, respectively. Both declines appear to have been due to a temporary lull in investment in oil development, usually the main target of investors. In Belarus, investment plummeted 80% to US$90 million.

According to the EBRD, FDI inflow into the CIS11 is forecast to grow 43% to US$3.79 billion in 2001, led by growing investment to develop the potentially large oil reserves of Kashagan and other areas of Kazakhstan.

Net FDI inflow into CIS11 (BOP basis)

(Unit: US$ million)

	1997	1998	1999	2000*	2000**	1992–2000 (cumulative total)
CIS 11	4,079	3,971	3,541	2,649	3,792	20,829
European CIS economies	1,002	1,003	956	777	955	5,005
Caucasian economies	1,381	1,466	732	373	554	5,037
Central Asian economies	1,696	1,472	1,853	1,499	2,283	10,787

Notes: *Estimates. **Forecasts.

Source: Prepared by JETRO from *Transition Report 2001* (EBRD).

5. Asia and Oceania

(1) FDI inflow into ASEAN polarizes in 2001

FDI inflows on an approved basis (commitment basis for Singapore) grew in each of the ASEAN5 countries except the Philippines in 2000. In 2001, however, the trends diverged. FDI in Singapore's manufacturing sector, after growing 14.6% to S$9.29 billion in 2000 due to strong investment in electronic products and parts, was again strong in the first half of 2001, rising 37.9% to S$5.94 billion. Because of the worldwide slump in demand, however, investment in the electronics industry was unlikely to register significant growth in the second half. Thailand saw investment surge 56.5% to 212.9 billion bahts in 2000. Locally based foreign firms invested more due to strong export growth and many companies rushed to receive investment approval ahead of new investment rules introduced in August 2000. Between January and September 2001, however, investments slipped dramatically both in value and number. Factors included a large spike the previous year and cautious investors waiting to see the policies of the Thaksin administration. FDI in Malaysian manufacturing grew 61.5% to 19.82 billion ringgits. Between January and August 2001 investment rose 72.8% year on year to 13.79 billion ringgits. Robust growth was supported by eased restrictions on foreign equity participation (extended until the end of 2003) and shifts in corporate strategy prior to the establishment of the ASEAN Free Trade Area (AFTA). In Indonesia, FDI resumed growth after two years of decline, increasing 41.6% to US$15.42 billion. Over the first nine months of 2001, however, FDI sank 50.6% year on year to US$6.05 billion. The fall reflected the country's political instability prior to the establishment of the Megawati administration and ambiguous ceilings on investment approvals imposed by the central and provincial governments. In the Philippines, FDI fell 24.7% to 80.37 billion pesos. Amid the overall decline, however, there was sharp growth in investment in telecommunications and construction. In the first half of 2001, the downward trend continued as investment fell 32.5% year on year to 21.61 billion pesos. There was substantial growth in telecom investment, however, indicating that government policies for attracting IT investment had started to take effect.

Among the new members of ASEAN, approved foreign investment in Vietnam grew 26.9% to US$1.99 billion in 2000. The majority, around US$1.1 billion, was investment in an oil and gas pipeline. Manufacturing investment did not increase. In the first nine months of 2001, investment surged 270% year on year to US$1.95 billion. The value of approved foreign investment in Myanmar in fiscal 2000 (ended March 2001) grew 230% to US$184.30 million and doubled in number to 28. In the first half of fiscal 2001, however, investment plunged to US$8 million in value and three in number, the lowest levels since the country established its foreign investment laws in 1988.

(2) FDI inflow into China exceeds US$40 billion for fifth straight year

FDI inflow into China measured in terms of investments implemented grew just 1.0% to US$40.71 billion in 2000. Investment nevertheless remained above the US$40 billion mark for the fifth year running. Between January and September 2001, investment grew 20.7% year on year to US$32.20 billion, supported by generally stable economic growth and expectations of further deregulation and marketing-opening measures following China's entry to the WTO. Approved FDI inflow into Taiwan climbed 79.8% to reach an all-time high of US$7.68 billion in 2000. In the first half of 2001, however, investment decreased 22.1% year on year to US$2.89 billion, reflecting the worldwide slump in the IT sector. FDI inflow into Hong Kong soared 160% to US$64.4 billion in 2000, led by large-scale investment in the telecommunications industry. FDI inflow (implemented investments) into the R.O.K. shrank 4.1% to US$10.05 billion in 2000 and fell 34.8% year on year to US$3.74 billion in the first half of 2001. Factors included increased labor disputes, economic recession and overcapacity.

In India, approved FDI grew 30.6% to 370.4 billion rupees. If bonds procured in Europe by Indian firms are excluded, however, net investment fell 31.4% to 172.4 billion rupees. In the first half of 2001, FDI fell 3.8% year on year to 140.9 billion rupees as India felt the effects of the downturn in the U.S. and the worldwide slump in IT. Approved FDI in Pakistan in fiscal 2000 (ended June 2001) fell 31.4% to US$322.4 million, the fifth annual fall since fiscal 1996. Turmoil in neighboring Afghanistan dimmed prospects for improved investment in Pakistan. Approved FDI in Sri Lanka slumped 56.3% to 23.89 billion rupees as investor confidence declined amid rising ethnic conflict and the political instability of the October 2000 general election. The downward trend continued in the first nine months of 2001, when FDI fell 10.6% year on year to 13.18 billion. FDI inflow into Bangladesh in fiscal 2000 (ended June 2001) plummeted sharply both in value and number. Investments in large-scale infrastructure projects were delayed due to the general election in October 2001.

FDI inflow into Australia in fiscal 1999 (ended June 2000) rose 16.3% to A$77.96 billion, but the number of investments declined 15.8% to 3,907. In New Zealand, investments declined by 80 to 225 but doubled in value to NZ$12.58 billion as the average size of investment increased.

UNCTAD's *World Investment Report* shows FDI inflow into Asia in 2000 measured on a balance of payments basis grew 42.7% and inflow (also BOP) into Oceania rose 69.4%.

FDI inflow into Asia and Oceania (BOP basis)

(Unit: US$ million)

	1989-'94 (average)	1995	1996	1997	1998	1999	2000
Asia	35,078	73,639	89,406	98,507	86,004	96,224	137,348
Oceania	7,730	15,629	8,341	10,294	7,174	7,765	13,152
Both regions	42,808	89,268	97,747	108,801	93,178	103,989	150,500
World	200,145	331,068	384,910	477,918	692,544	1,075,049	1,270,764

Note: "Asia" is the economies of East, Southeast and South Asia, excluding Japan. "Oceania" is Australia and New Zealand.

Source: World Investment Report (UNCTAD)

(3) FDI flows between ASEAN and China grow

Singapore's cumulative FDI outflow (both local and foreign capital) at the end of 1999 was S$191.03 billion (current value), according to Singaporean government statistics. The biggest recipient of this investment outflow was China, which received S$12.63 billion, as manufacturers shifted production to China in search of lower costs. Thailand saw strong investment in both directions; the CP Group, for example, continued to invest in China, while China's state-owned Worldbest Group invested in textile manufacturing in Thailand. In China, a papermaking joint venture is planned by Malaysia's Sabah state government and the Lion Group, which will put up 40% of the capital, and the Chinese government, which will provide the other 60%. In Indonesia, Changhong began local production of TV sets in 2000 as price competition with foreign-affiliated appliance manufacturers heated up. Investment in Vietnam by China also grew. In the first nine months of 2001, there were 33 approved investments by Chinese firms worth US$45.81 million, an increase of 324.2% from a year earlier. Much of this was concentrated in Vietnam's motorcycle parts manufacturing industry, where there were five Chinese investments. Chinese firms see Vietnam's market of 78 million people as having promising potential for growth and serving as a gateway to ASEAN markets once AFTA gets off the ground. At the ASEAN–China summit in Brunei in November 2001, plans were announced to establish an ASEAN–China free trade area within 10 years. Further growth in investment between ASEAN and China is expected.

(4) Japanese FDI in China grows

Ministry of Finance statistics on reported investments show that Japanese FDI slowed in the Asian NIEs and the ASEAN region but grew in China in the first half of 2001. Japanese investment in China rose 32.5% to US$995 million and 34.2% to 102 cases in fiscal 2000. This was the first increase in value since fiscal 1995. Contributing factors included continued improvement in China's investment environment, such as new FDI legislation enacted in anticipation of the country's entry to the WTO. Japanese firms accelerated their transplantation of production operations to China to cut costs.

Japanese small and medium-sized businesses increasingly expanded into China to meet the growing procurement needs of major Japanese manufacturers operating there. At the same time, however, the IT slump beginning in 2000 and the aftereffects of the terrorist attacks on the U.S. in 2001 took their toll on Japanese investment. In the Philippines, NEC stopped manufacturing hard disk drives and Kenwood closed down its audio parts factory on Cebu island. In Thailand, FDI in the first half of 2001 fell both in terms of number and value, although investment grew in smaller projects valued at 50 million bahts or less. But in Malaysia, eased restrictions on foreign equity led a major Japanese fermented milk drink manufacturer to announce plans to set up operations in the country. Investment in Myanmar was weak because of problems unique to the country, such as a dual exchange rate and export tax. Membership in the Japanese Chamber of Commerce and Industry in Yangon fell by 20 members to 67 as of October 2001. In Australia, Daimaru pulled out of the country due to a corporate consolidation and ANA abandoned its Australian air routes but continued operating hotels.

6. Middle East and Africa

(1) Middle East and North Africa: FDI grows in Israel and Saudi Arabia

According to UNCTAD, FDI inflow into the Middle East in 2000 surged 96.5% to US$11.33 billion as a result of rapid growth in investment in Israel and Saudi Arabia. Investment was strong in Saudi Arabia's petrochemical and natural gas sectors, a result of new legislation encouraging foreign capital and the establishment of an investment authority. In Israel, the largest recipient of FDI in the Eastern Mediterranean, companies from the U.S. and other countries continued investing in large-scale projects, chiefly in IT. In the United Arab Emirates, a new free-trade zone stimulated foreign investment in the IT sector. Iran continued to open up its economy to attract foreign investment in the oil and gas sectors. The enactment of an important new foreign investment law was in the near future. FDI in Egypt was sustained by investment in privatizations. Investment in Turkey's telecommunications sector remained active. North African countries such as Tunisia and Morocco sought to attract FDI, particularly in manufacturing, through free trade agreements with the EU. Libya and Sudan were also keen to attract investment in their oil and natural gas sectors to help reconstruct domestic economies battered by U.S. and UN sanctions.

FDI outflow from the region surged 140% to US$4.27 billion in 2000, the result of increasing M&As in Europe and the U.S., as well as the establishment of corporations and transfer of headquarters overseas by Israeli companies, especially in the high-tech sector.

According to Ministry of Finance statistics on reported investments, Japanese FDI in the Middle East increased from one investment worth US$134 million in fiscal 1999 to eight investments worth US$148 million in fiscal 2000. Japanese investment the Turkish auto industry contributed to this growth.

FDI in the Middle East

(Unit: US$ million)

	1996	1997	1998	1999	2000
FDI inflow	5,448	9,409	10,577	5,765	11,328
FDI outflow	3,380	917	–409	1,805	4,268

Notes: 1. "Middle East" includes Turkey and North Africa.
2. Figures for 2000 are estimates.
3. Net flow is measured on a BOP basis.

Source: Prepared by JETRO from *World Investment Report 2001* (UNCTAD).

(2) Sub-Saharan Africa: Large-scale FDI declines in oil countries and South Africa

UNCTAD figures show FDI inflow into sub-Saharan Africa in 2000 declined 18.7% to US$6.46 billion, the result of a decline in large investments in Angola's oil industry and South Africa. Nigeria attracted strong investment in the development and commercialization of natural gas, while new oil producers such as Equatorial Guinea and Chad received more investment for the development of oil and gas. FDI inflow rose in the Southern African Development Community (SADC), excluding South Africa, due to investment by firms from Europe, United States, South Africa, and Asia. This growth was stimulated by the development of business outside the region by South African firms, growing privatization in the region, and passage of the African Growth and Opportunity Act in the United States. Zimbabwe and Cote d'Ivoire, formerly leading recipients of FDI, saw new investment slump heavily due to political turmoil. Uganda and Tanzania, having achieved economic reforms amid political stability, saw FDI inflow grow steadily. China increased its level of investment in sub-Saharan Africa to 47 investments worth US$222.9 million.

FDI net outflow from sub-Saharan Africa in 2000 declined 59.7% to US$926 million. The biggest investor was South Africa. Much of the decrease was for the disposal of foreign shareholdings and the transfer of head offices outside the region.

Japanese firms made seven investments worth US$53.38 million in sub-Saharan Africa in fiscal 2000, according to Ministry of Finance statistics on investments reported. This was down significantly from 24 investments worth US$505 million in the previous year. The decline reflected both spikes in investment in South Africa and Tanzania the previous year and a slump in investment Liberian flags of convenience.

FDI in sub-Saharan Africa

(Unit: US$ million)

	1996	1997	1998	1999	2000
FDI inflow	5,221	8,609	5,976	7,942	6,457
FDI outflow	971	3,626	2,305	2,297	926

Notes: 1. Figures for 2000 are estimates.
2. Net flow is measured on a BOP basis.

Source: Prepared by JETRO from *World Investment Report 2001* (UNCTAD).

JAPAN EXTERNAL TRADE ORGANIZATION

International Communication Dept.
2-2-5 Toranomon, Minato-ku, Tokyo, Japan, 105-8466

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