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NOTE

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In all tables, the unavailability of data for an entire line results in the suppression of that line. As a result, the size of the tables varies between countries.

A slash (/) between dates indicates a financial year, for example, 1998/1999.

The use of hyphen between dates indicates the full period involved, including the beginning- and end-years.

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PREFACE

Foreign direct investment (FDI) continues to gain in importance as a form of international economic transaction and as an instrument of international economic integration. The world FDI stock reached over $7 trillion in 2002, ten times the level of 1985. The rate of growth of worldwide FDI outflows since the mid-1980s has substantially exceeded that of worldwide gross domestic product, worldwide exports and domestic investment. The number of transnational corporations (TNCs) has increased significantly, to some 65,000 parent companies (with 850,000 foreign affiliates). The sales of these affiliates amounted to about $18 trillion in 2001, compared to world exports of goods and non-factor services of $7 trillion, of which approximately one third took the form of intra-firm trade.

Unfortunately, despite the increasing importance of FDI in the world economy, published sources or readily accessible databases that provide comparable and accurate data on these investments and other activities of TNCs are scarce. The *World Investment Directory* series of UNCTAD is an attempt to centralize within the United Nations data-gathering efforts to measure systematically FDI, the activities of TNCs and related variables in the world economy. Accordingly, the purpose of the *World Investment Directory* and its database is to assemble comprehensive data and information on FDI, operations of TNCs, basic financial data on the largest TNCs, the legal framework within which such investment takes place and selected bibliographic information pertaining to FDI and TNCs in individual countries.

The present publication covers 19 countries of Central and Eastern Europe. Profiles on all these countries are contained in this volume, based on data available to the secretariat. Data are presented on both inward and outward flows and stocks of FDI, operations of TNCs, basic information on the largest TNCs in and from these countries, and information on the regulatory framework affecting FDI, organized by country. The data on inward and outward FDI flows and stocks are based on information as of December 2002. It is UNCTAD's intention to update the *World Investment Directory* series regularly, and it is hoped that as work progresses in this area increasing feedback from Governments and researchers will make it possible to enhance the data and information provided.

It is a widely recognized problem in research on FDI and TNCs that statistics suffer from a lack of comparability. The user is therefore strongly advised to read the technical note, as well as definitions and sources in each country profile and the explanatory notes at the end of each table. In presenting the national data on FDI, it is hoped that the need to harmonize these statistics in accordance with internationally accepted definitions will become more evident and inspire efforts at the national, regional and international levels to meet this difficult, although necessary, objective.

The *World Investment Directory* aims at becoming a standard reference book for policy-makers, especially in developing countries, as well as for researchers in academia, governmental, intergovernmental and non-governmental organizations and the private sector, who need to gain an understanding of the character, pattern and trends of FDI and require reliable information as the basis for the formulation and monitoring of policies relating to FDI and TNCs.

This series could not have been prepared without the collaborative efforts of a project team led by Masataka Fujita under the supervision of Karl P. Sauvant. The principal officer responsible for the production of this volume was Sam Chan Tung, working in collaboration with Mohamed Chiraz Baly, Bradley Boicourt, John Bolmer, Lizanne Martinez and Frank Roger. The section on the regulatory framework was prepared by Abraham Negash. The Overview was prepared by Gabor Hunya, Kalman Kalotay and Victoria Aranda. Comments were received from Christian Bellak, Anh-Nga Tran-Nguyen, Hilary Nwokeabia and Marjan Svetlicic. Production assistance was given by Chris Corbet and desktop published by Teresita Sabico. Numerous officials in central banks, statistical offices, investment promotion agencies and other government offices in Central and Eastern Europe contributed to the volume through the provision of data.

R Ricupero

Geneva, March 2003

Rubens Ricupero
Secretary-General of UNCTAD

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I. OVERVIEW

A. Inward FDI

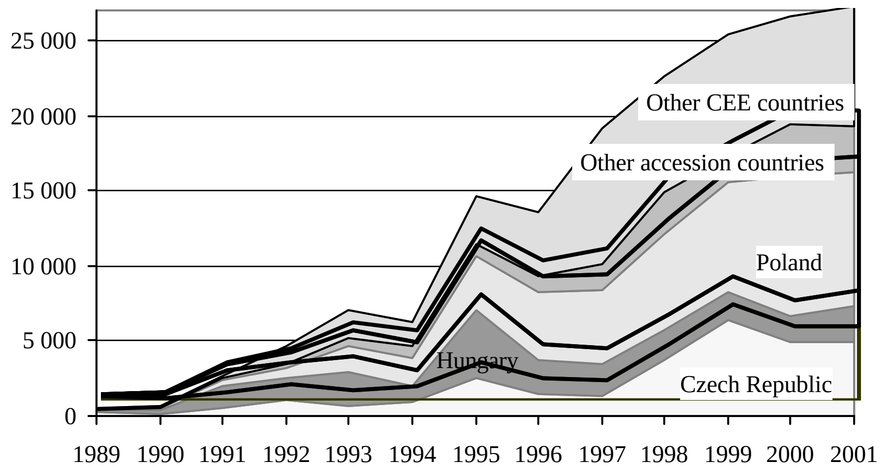
1. Inward FDI trends

Central and Eastern Europe's (CEE)[1] reintegration into the world economy is a long and difficult process, propelled by the crumbling of the Berlin Wall in 1989 and entering a new phase with the entry of eight of these countries into the European Union (EU), envisaged for 2004.[2]

Immediately after transition had started – and independence had been gained, in many cases – liberalization in trade and capital flows became the first vehicles of that reintegration (EBRD, 1999). In most CEE countries, trade liberalization not only tended to be radical, but it was also accompanied by the elimination of the State monopoly of international trade. A major reorientation of trade, both in terms of partners and products, followed.

From the mid-1990s onwards, inward foreign direct investment (FDI) has gained importance in an increasing number of CEE countries, reinforcing a successful reintegration of these countries into the world economy. Data show a major boom in inward FDI: until 1990, the FDI inflows of the region remained under $1billion; by 1995, they exceeded $14 billion in 1995 and $27 billion by 2001 (figure 1). As a result, from 1995 to 2001, the region's inward FDI stock quadrupled, from $40 billion to $160 billion.

Figure 1. CEE: FDI inflows, 1989-2001
(Millions of dollars)



Source: UNCTAD, FDI/TNC database.

[1] Central and Eastern Europe consists of the 19 economies in transition located on the European continent: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, the former Yugoslav Republic of Macedonia, Republic of Moldova, Poland, Romania, Russian Federation, Serbia and Montenegro, Slovakia, Slovenia and Ukraine.

[2] On 12 and 13 December 2002, the Heads of State or Government of the European Union convened for a meeting of the European Council in Copenhagen, Denmark. The meeting agreed on the enlargement of the European Union by admitting the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia.

The region's share in global FDI inflows remained under 1 per cent until 1990. In the early 1990s, that share increased almost every year, and exceeded 4 per cent by 1995. By 2000, it declined to 1.8 per cent, just to climb again to 3.7 per cent in 2001. This fluctuation was due to the more rapid increase of FDI between developed countries until 2000 and the subsequent decline thereafter against a steadier but more constant increase in the region. As some large countries like the Russian Federation and Ukraine have attracted little FDI compared to their size, the share of CEE countries in global FDI is much smaller than the relative size of the region in terms of territory or population (5.2 per cent).

After opening up, FDI inflows of CEE were not only low but started to grow first only in a handful of countries that were ahead of others in terms of market reforms, liberalization and privatization (mostly the Czech Republic, Hungary and Poland; figure 1), though, with time passing, FDI inflows among CEE countries became more evenly spread.

In the first half of the 1990s, Hungary was the most important recipient of FDI in the region. Annual inflows to this country were (at times) higher than inflows to much larger economies like Poland and the Russian Federation. Hungary opened up its economy to foreign investors ahead of others and implemented privatization through mainly foreign take-overs from the very beginning, while other Governments preferred domestic investors. In terms of per capita FDI, Estonia came close to Hungary. The very liberal economic policy course in this country made foreign investment easy. In the second half of the 1990s, other countries caught up: Poland surpassed Hungary[3] in terms of the amount of FDI inflows in 1996 and the Czech Republic in 1998. The larger size of these economies, the start of privatization by sale to foreigners and a more friendly FDI policy framework contributed to high FDI inflows in the past few years. Further countries with a change in privatization and FDI policy in the late 1990s were Slovakia and Croatia. As a result, in 2000 and 2001 the largest recipients of FDI in absolute terms were Poland, Czech Republic, Russian Federation, Hungary and Slovakia. In per capita terms, the Czech Republic, Estonia, Slovakia and Croatia stood out.

In the western Balkans, political insecurity, the fragmentation of markets and hesitant market reforms hindered economic development and kept away foreign investors during most of the 1990s. Many countries became aid dependent once peace was restored. Consumption increased while production stagnated; the current account gap was financed by foreign aid. FDI came in the form of smaller ventures mainly supporting the import and distribution of consumer goods.

Initially, there were wide differences between countries in terms of the share of FDI in fixed capital formation. In the early 1990s, only small open economies like the Baltic States and Hungary received FDI of the order of 20 per cent of gross fixed capital formation (GFCF). Other countries such as Bulgaria, Czech Republic, Poland and Slovakia followed suit later. The importance of FDI has been especially large for countries with very low domestic capital formation (Albania, Bulgaria). Large amounts of FDI are often related to the foreign acquisition of state-owned enterprises.

[3] It must be noted that FDI data for Hungary are underestimated as reinvested earnings are not included. National accounts statistics reveal that reinvested profits amounted to $1.5-2 billion each year between 1997-2000.

Back in 1995, the ratio of the inward FDI stock to gross domestic product, 5 per cent, was only half of the world average, 10 per cent (table 1). Within five years, by 2000, CEE had almost completely caught up with the rest of the world: 19 per cent, as compared with 20 per cent for the world. Moreover, some CEE countries exhibited higher ratios: 50 per cent for Estonia and 40 per cent for Czech Republic and Hungary. (In contrast, it was only 8 per cent for the Russian Federation.)

Table 1. Inward FDI stock as a percentage of GDP in CEE, 1995 and 2000

(Percentage)

Country/region	1995	2000
World average	10.0	20.0
CEE average	5.4	18.9
Estonia	14.1	53.2
Hungary	26.7	43.4
Czech Republic	14.1	42.6
Moldova, Republic of	6.5	35.7
Latvia	12.5	29.1
Croatia	2.5	27.1
Bulgaria	3.4	26.4
Slovakia	4.4	24.2
Poland	6.2	21.3
Lithuania	5.8	20.6
Romania	3.2	17.7
Serbia and Montenegro	2.7	15.6
Slovenia	9.4	15.5
Albania	8.7	15.4
Ukraine	2.5	12.1
Belarus	0.5	11.9
TFYR Macedonia	0.7	10.9
Bosnia and Herzegovina	1.1	8.1
Russian Federation	1.6	7.7

Source: UNCTAD, FDI/TNC database.

The distribution of FDI by economic activity reflects the modest endowment of CEE countries with natural resources (tables 2 and 3). The only exception in this respect is the Russian Federation, where more than 15 per cent of FDI is in mining. Agriculture was mostly closed to foreign investment. CEE countries that will become members of the EU have received derogations for liberalizing their land markets.

FDI in the manufacturing sector was higher than in services, until the privatization of banks, telecommunications and utilities opened the door to foreign investors. In the late 1990s, the services sector saw FDI increase more rapidly than manufacturing, except in Bulgaria and Slovakia. FDI in the manufacturing sector represented more than one third of the invested capital in 2000 in the Czech Republic, Hungary, Poland, Slovakia and Slovenia (tables 2 and 3). Most of these countries have attracted export-oriented greenfield investments. The production of motor vehicles and transport equipment is the most important manufacturing FDI target in the Czech Republic, the third in Hungary and Poland. In Croatia, it was chemical products; in Bulgaria, non-metallic minerals; in the Russian Federation and Slovenia, wood products. Only Hungary features the high-technology segment of electrical and electronic equipment as a main investment target.

Most FDI in CEE comes from EU members and the United States.[4] The importance of EU investors depends on the proximity of a particular CEE country with the EU member, its (small) size, and the date of its accession to the EU: the share of EU in total FDI is above 80 per cent for the Czech Republic, Estonia, Hungary, Poland and Slovenia; and close to 80 per cent in Slovakia (tables 4 and 5). But in most south-east European countries, the EU share is only 60 per cent or less, and as small as 30 per cent in the Russian Federation.

FDI from the United States is most important in larger countries, like the Russian Federation (34 per cent in 2000) (table 4). In 2000, Croatia also attracted mostly United States FDI, followed and later overtaken by Germany. In Poland, Lithuania and Hungary, the share of United States FDI declined to less than 10 per cent in the second half of the 1990s, but increased in Estonia. United States foreign affiliates are usually interested in the distribution of their own

[4] A significant share of FDI in CEE is indirect FDI. It is carried out through regional holding companies whose ultimate owner is located in a third country. This may bias the home country distribution of investors in CEE.

Table 2. FDI inflows in CEE, by industry, mid-1990s and 2000
(Percentage shares in total)

	Bulgaria		Czech Republic		Estonia		Hungary		Lithuania		Poland		Russian Federation		TFYR Macedonia	
	1998	2000	1993	2000	1994	2001	1999	2000	1997	2000	1996	2000	1998	2000	1997	2000
PRIMARY SECTOR	0.1	1.8	2.4	1.7	1.3	0.0	1.4	0.7	2.4	2.6	0.3	0.4	8.7	10.7	83.7	5.3
Agriculture, hunting, forestry and fishing	0.0	1.1	0.3	0.2	1.3	-0.4	1.3	0.4	0.3	0.4	0.1	0.1	0.3	0.7	-	-
Mining, quarrying and petroleum	0.0	0.7	2.1	1.5	0.0	0.4	0.1	0.3	2.0	2.2	0.2	0.3	8.4	10.0	83.7	5.3
SECONDARY SECTOR	53.0	20.5	55.8	41.1	52.5	14.6	20.4	29.7	33.2	12.5	40.4	22.3	49.8	31.6	-	16.0
Food, beverages and tobacco	8.0	4.0	35.0	3.5	-	-	4.2	9.3	12.0	8.8	13.3	4.4	35.5	18.5	-	3.1
Textiles, clothing and leather	0.7	2.7	0.2	1.4	-	-	0.3	1.1	3.7	6.1	0.7	0.0	-	-	-	0.8
Wood and wood products	4.4	2.5	-	1.0	-	-	-	-	0.8	1.9	0.2	3.0	3.3	3.2	-	1.5
Publishing, printing and reproduction of recorded media	0.0	-0.3	-	-	-	-	-	0.1	-	-	-	-	-	-	-	0.0
Coke, petroleum products and nuclear fuel	-	3.2	2.9	6.0	-	-	2.2	4.3	-	-	-	-	0.7	0.0	-	5.6
Chemicals and chemical products	4.9	1.4	-	-	-	-	12.3	0.3	3.5	2.1	-0.1	0.1	1.5	1.1	-	0.1
Rubber and plastic products	-	0.1	-	-	-	-	12.3	-	-	-	2.9	1.9	-	-	-	0.2
Non-metallic mineral products	27.4	0.5	7.5	2.3	-	-	-	-	-	-	2.9	1.4	1.2	0.9	-	0.0
Metal and metal products	3.4	3.1	-	5.0	-	-	-2.0	-	-	-	1.2	1.0	1.7	0.7	-	3.0
Machinery and equipment	2.6	0.6	10.2	2.7	-	-	0.1	-	-	-	1.8	0.7	3.8	5.1	-	0.1
Electrical and electronic equipment	1.5	2.3	-	2.5	-	-	3.4	14.8	-	-	1.0	1.2	-	-	-	0.0
Precision instruments	-	-	-	1.1	-	-	-	-	-	-	-	-	-	-	-	-
Motor vehicles and other transport equipment	-0.2	0.0	-	15.4	-	-	0.5	-	6.3	-2.5	0.2	0.2	-	-	-	-
Other manufacturing	0.3	0.2	-	0.8	-	-	2.6	-	-	-	8.6	5.4	2.2	2.1	-	1.5
Recycling	-	0.1	-	0.0	-	-	-	-	-	-	-	-	-	-	-	-
TERTIARY SECTOR	47.0	74.7	41.7	57.2	41.8	85.3	72.3	61.3	64.5	85.0	35.0	77.3	36.9	-	16.3	63.8
Electricity, gas and water	-	3.1	3.7	4.1	-	21.5	4.5	0.0	0.0	2.9	0.1	3.7	1.0	-	-	-
Construction	5.2	5.7	9.9	2.0	0.6	2.2	0.8	1.2	0.3	0.5	1.1	1.7	3.2	-	0.1	10.8
Trade	22.4	7.0	6.1	11.2	15.5	14.6	19.4	21.6	30.9	8.4	13.6	8.0	15.3	19.5	10.8	1.5
Hotels and restaurants	4.5	1.2	-	-0.2	1.4	0.8	0.0	1.0	4.5	1.7	0.1	0.9	-	-	-	0.2
Transport, storage and communications	-1.6	6.6	0.5	5.1	18.4	11.9	7.3	8.9	8.5	0.9	3.3	36.6	7.4	29.9	4.0	1.3
Finance	15.1	44.9	21.6	18.7	3.1	24.0	17.2	10.9	8.5	57.4	13.5	21.1	2.0	0.6	0.5	48.8
Business activities	1.3	4.5	-	15.0	2.6	7.2	21.6	14.8	9.7	12.2	3.5	4.8	7.7	3.4	-	1.3
Education	-	0.0	-	-	0.0	0.1	-	-	-	-	-	-	-	-	-	-
Health and social services	0.1	0.0	-	-	-	0.2	-	-	-	-	-	-	-	-	-	-
Community, social and personal service activities	-	0.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recreational, cultural and sporting activities	0.1	1.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other services	-	0.1	-	1.2	-	-	1.5	3.0	2.0	1.0	-0.2	0.5	0.3	-	0.9	0.0
Unspecified	0.0	3.0	-	-	4.4	0.1	5.9	8.3	0.0	0.0	24.4	0.0	4.6	3.2	0.0	14.9
For reference :																
TOTAL (millions of dollars)	537	1 002	654	4 986	217	533	1 997	1 693	355	379	4 498	9 342	3 361	4 429	31	178

Source : UNCTAD, based on country table 5.

Table 3. FDI inward stocks in CEE, by industry, mid-1990s and 2000

	Bulgaria	Croatia	Czech Republic		Estonia		Hungary		Latvia	Lithuania		Poland		Russian Federation		Slovakia		Slovenia	
	1999	2000	1997	2000	1998	2000	1997	2000	2000	1996	2000	1996	2000	1998	2000	1996	2000	1994	2000
PRIMARY SECTOR	1.4	3.5	0.9	2.0	1.7	0.9	2.0	1.5	1.7	2.5	1.6	0.6	0.8	9.0	15.6	1.7	1.2	0.1	-
Agriculture, hunting, forestry and fishing	0.2	-	0.1	0.2	1.3	0.6	0.9	1.1	1.3	0.7	0.5	0.2	0.5	0.2	0.5	0.1	0.1	-	-
Mining, quarrying and petroleum	1.2	3.5	0.9	1.9	0.4	0.3	1.1	0.4	0.4	1.8	1.1	0.4	0.4	8.7	15.1	1.6	1.1	-	-
SECONDARY SECTOR	51.9	27.0	55.5	38.1	32.9	20.0	39.3	36.8	16.6	41.2	28.8	45.0	39.3	41.2	15.0	50.4	53.2	45.3	40.6
Food, beverages and tobacco	16.8	2.5	9.7	4.8	-	-	10.3	8.9	4.8	16.1	11.5	11.0	8.5	20.3	33.6	-	-	3.5	1.4
Textiles, clothing and leather	1.0	-	1.5	1.3	-	-	1.8	1.6	1.6	7.0	4.7	1.3	0.7	0.0	0.0	-	-	1.0	0.9
Wood and wood products	2.0	-	4.5	3.1	-	-	2.5	1.9	3.3	4.2	2.5	4.6	4.5	4.9	19.1	-	-	9.1	6.6
Publishing, printing and reproduction of recorded media	0.1	-	-	-	-	-	-	-	0.3	-	-	-	-	-	-	-	-	0.5	0.5
Coke, petroleum products and nuclear fuel	5.8	-	-	-	-	-	-	1.8	-	-	-	-	0.1	2.0	0.5	-	-	0.5	-
Chemicals and chemical products	4.7	19.5	-	-	-	-	8.3	3.3	1.8	2.3	1.9	4.4	4.2	-	-	-	-	6.1	6.2
Rubber and plastic products	0.6	-	-	-	-	-	-	1.7	0.5	-	-	3.4	2.4	-	-	-	-	1.1	5.0
Non-metallic mineral products	7.3	5.0	-	5.9	-	-	2.5	2.3	1.1	-	-	-	-	0.6	0.8	-	-	2.0	2.6
Metal and metal products	3.0	-	4.1	3.6	-	-	2.9	2.2	1.2	-	-	2.4	2.0	3.1	1.6	-	-	0.9	3.2
Machinery and equipment	7.3	-	1.5	1.7	-	-	10.5	1.9	1.0	-	-	1.7	1.3	4.7	4.0	-	-	6.2	5.2
Electrical and electronic equipment	2.3	-	0.6	3.3	-	-	-	7.2	0.2	-	-	0.9	1.2	-	-	-	-	2.7	3.2
Precision instruments	0.1	-	-	0.7	-	-	-	-	0.1	-	-	-	-	-	-	-	-	0.6	1.2
Motor vehicles and other transport equipment	0.6	-	8.7	6.5	-	-	-	3.6	0.1	0.7	2.0	7.2	6.5	-	-	-	-	10.7	4.8
Other manufacturing	0.4	-	-	0.6	-	-	0.4	0.4	0.3	-	-	8.1	7.9	-	-	-	-	0.3	0.2
Recycling	-	-	-	0.1	-	-	-	-	0.1	-	-	-	-	-	-	-	-	-	-
Unspecified secondary	-	-	24.8	6.5	-	-	-	-	-	-	-	-	-	5.6	3.7	-	-	-	-
TERTIARY SECTOR	45.7	47.9	43.5	59.8	64.6	78.9	58.6	61.7	80.4	56.4	69.7	30.2	59.9	44.6	46.2	47.9	45.6	54.7	56.9
Electricity, gas and water supply	-	-	4.3	6.6	0.8	4.7	13.7	-	5.1	-	2.5	0.1	1.2	0.3	0.1	0.5	0.2	22.4	0.6
Construction	1.9	-	2.0	1.5	1.4	1.2	2.5	1.2	0.7	0.4	0.7	1.6	4.3	2.6	2.3	2.3	1.2	0.2	0.2
Trade	19.2	1.9	12.1	15.0	23.0	13.6	12.6	12.4	20.4	32.5	22.7	11.6	16.9	11.5	10.7	19.4	11.5	14.9	14.0
Hotels and restaurants	2.0	1.8	0.8	0.3	1.4	1.6	2.5	-	1.7	3.1	2.3	0.4	0.5	-	-	1.4	0.7	0.6	0.6
Transport, storage and communications	12.3	23.5	9.4	11.2	7.5	22.7	7.7	7.7	19.1	11.8	18.8	1.5	9.9	21.0	27.5	3.5	16.8	1.4	1.6
Finance	7.3	20.7	11.3	14.7	21.9	24.2	10.6	27.1	22.6	5.4	16.2	11.1	20.3	2.3	1.3	17.4	12.0	7.4	25.8
Business activities	2.8	-	3.4	9.2	7.9	9.6	8.3	-	9.7	2.2	5.2	2.9	6.3	6.1	4.2	2.7	2.8	7.5	13.3
Education	0.3	-	-	-	-	0.1	-	-	0.1	-	-	-	-	-	-	-	-	-	-
Health and social services	-	-	-	-	0.6	1.2	0.1	-	0.3	-	-	-	-	-	-	-	-	-	-
Sewage and waste disposal, sanitation activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.2	0.1
Recreational, cultural and sporting activities	-	-	-	-	-	-	-	-	0.6	-	-	-	-	-	-	-	-	-	0.7
Other services	-	-	-	1.2	-	-	0.7	13.3	0.1	1.0	1.2	0.2	0.5	0.8	-	0.7	0.3	0.1	0.0
Unspecified	0.9	21.6	0.1	-	0.8	0.2	-	-	1.4	-	-	24.2	-	5.2	4.6	-	-	-	2.4
For reference :																			
TOTAL (millions of dollars)	2 160	3 770	9 234	21 644	1 822	3 319	10 055	10 310	2 061	700	2 334	11 463	33 603	11 769	16 125	1 439	3 692	1 326	2 809

Source : UNCTAD, based on country table 11.

Table 4 . Geographical distribution of FDI inward stocks in CEE, mid-1990s and 2000
(Percentage shares in world total)

	Bulgaria	Croatia	Czech Republic		Estonia		Hungary		Latvia	Lithuania		Poland		Russian Federation		Slovakia		Slovenia	
	1999	2000	1997	2000	1998	2001	1992	2000	2000	1996	2000	1996	2000	1998	2000	1996	2000	1994	2000
Developed countries	74.5	93.4	96.0	96.3	90.6	94.8	92.7	93.3	70.1	91.6	83.9	91.9	94.9	57.2	64.7	84.9	83.9	68.0	92.8
Western Europe	62.0	68.4	88.8	88.9	86.4	85.1	75.0	82.8	60.3	62.3	73.4	76.4	84.6	28.0	29.3	78.1	77.1	66.9	88.5
European Union	57.9	64.9	866.1	84.1	79.3	80.3	70.6	80.3	50.5	58.2	64.3	72.0	81.4	25.8	27.9	76.3	77.1	62.0	84.0
Austria	5.6	20.0	9.5	11.1	2.7	0.2	25.1	12.2	0.5	2.1	0.7	4.0	3.3	-	-	23.5	14.5	22.4	45.6
Belgium / Luxembourg	6.2	7.7	2.0	5.4	0.3	0.3	3.0	5.3	-	4.7	4.1	2.4	2.5	-	-	-	1.6	0.4	1.3
Belgium	4.1	0.6	-	4.8	0.2	0.2	-	-	-	0.3	0.7	-	-	-	-	-	1.6	0.4	0.3
Luxembourg	2.1	7.1	-	0.6	0.1	0.1	-	-	-	4.3	3.4	-	-	-	-	-	-	-	1.1
Denmark	0.1	0.7	0.3	1.2	5.8	3.4	0.3	0.5	10.5	5.6	18.3	3.0	2.5	-	-	-	-	1.2	1.5
Finland	-	-	-	0.6	27.0	25.4	0.3	1.6	6.2	4.7	6.0	0.6	0.6	3.1	1.5	-	-	-	-
France	2.7	1.9	6.0	4.3	0.0	0.9	5.0	6.5	-	1.3	1.1	9.0	12.5	1.1	1.6	7.4	3.2	11.6	10.7
Germany	19.3	23.3	31.0	25.5	3.4	2.6	18.5	25.8	11.1	13.0	7.4	21.4	19.0	7.4	7.8	23.6	28.7	14.8	12.5
Greece	4.4	-	-	-	-	-	0.1	0.0	-	-	-	0.1	-	-	-	-	-	-	-
Ireland	0.2	-	0.1	-	0.5	-	0.2	0.7	1.6	4.3	1.2	0.9	1.1	-	-	-	-	-	-
Italy	1.7	2.6	1.8	0.8	1.2	0.6	3.2	2.7	0.1	0.4	0.2	6.2	4.4	-	-	2.2	1.5	10.3	5.4
Netherlands	3.7	3.9	27.8	30.1	2.0	4.0	8.9	22.5	2.8	1.2	1.1	18.9	26.1	4.9	7.1	7.4	24.4	0.8	3.0
Portugal	0.1	-	-	-	-	-	-	0.1	-	-	0.1	0.1	0.5	-	-	-	-	-	-
Spain	2.6	-	-	0.2	-	-	0.0	0.4	0.1	0.1	-	0.3	1.9	-	-	-	-	-	-
Sweden	0.3	2.5	2.9	1.4	32.5	39.5	1.1	0.9	12.6	12.0	17.3	2.4	3.5	1.8	3.8	1.4	-	-	0.5
United Kingdom	11.0	2.2	5.0	3.5	4.1	3.2	4.9	1.1	5.0	8.9	6.7	2.9	3.3	7.5	6.1	10.8	3.2	0.4	3.6
Other Western Europe	4.1	3.5	2.2	4.8	7.2	4.9	4.3	2.4	9.8	4.1	9.1	4.4	3.2	2.1	1.4	1.8	-	4.9	4.4
Andorra	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gibraltar	-	-	-	-	0.2	0.2	-	-	-	-	-	-	-	-	-	-	-	-	0.3
Guernesey	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Iceland	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-	-	-
Jersey	-	-	-	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Lichtenstein	0.4	1.9	0.0	0.2	2.8	1.0	-	-	0.8	-	-	-	-	-	-	-	-	0.1	0.5
Man Island	-	-	-	-	-	-	-	-	1.2	-	-	-	-	-	-	-	-	-	-
Norway	0.1	0.0	0.5	0.5	2.3	2.9	-	0.3	5.5	2.5	4.3	0.5	0.4	-	-	-	-	-	-
San Marino	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Switzerland	3.5	1.7	1.6	4.0	1.9	0.6	4.3	2.1	2.1	1.6	4.8	3.9	2.6	2.1	1.4	1.8	-	4.7	3.6
North America	12.0	24.1	6.7	6.9	4.0	95.6	13.0	8.4	9.7	29.2	10.5	14.0	9.8	27.3	34.0	6.8	6.8	1.0	3.9
Canada	-	0.5	0.2	0.4	0.1	0.1	0.6	0.2	0.3	0.7	0.6	0.4	0.2	-	-	-	-	-	-
United States	12.0	23.6	6.5	6.5	3.9	9.5	12.4	8.2	9.4	28.5	9.8	13.6	9.6	27.3	34.0	6.8	6.8	0.9	3.9
Other developed countries	0.5	0.9	0.6	0.5	0.2	9.5	4.7	2.1	0.1	-	-	1.5	0.5	1.9	1.3	-	-	0.2	0.5
Australia	-	0.9	-	-	-	0.1	1.8	-	-	-	-	1.2	-	-	-	-	-	-	0.3
Israel	0.1	-	-	-	-	-	0.2	-	0.1	-	-	0.1	-	-	-	-	-	-	-

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Table 4 . Geographical distribution of FDI inward stocks in CEE, mid-1990s and 2000 (continued)

(Percentage shares in world total)

	Bulgaria	Croatia	Czech Republic		Estonia		Hungary		Latvia	Lithuania		Poland		Russian Federation		Slovakia		Slovenia	
	1999	2000	1997	2000	1998	2001	1992	2000	2000	1996	2000	1996	2000	1998	2000	1996	2000	1994	2000
Japan	0.4	-	0.5	0.5	0.2	-	2.6	2.1	-	-	-	0.2	0.4	1.9	1.3	-	-	0.2	0.2
New Zealand	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
South Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Developing countries /economies	17.2	3.5	0.8	2.3	7.6	4.8	1.2	2.1	5.3	-	0.1	3.8	2.1	24.8	20.0	-	-	31.8	3.1
Africa	-	-	0.1	-	-	-	-	-	1.0	-	-	-	-	-	-	-	-	-	-
North Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Egypt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Libyan Arab Jamahiriya	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Morocco	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tunisia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unspecified North Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Africa	-	-	0.1	-	-	-	-	-	1.0	-	-	-	-	-	-	-	-	-	-
Congo	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gambia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Liberia	-	-	-	-	-	-	-	-	1.0	-	-	-	-	-	-	-	-	-	-
Mauritius	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sao Tome and Principe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Seychelles	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unspecified Other Africa	-	-	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unspecified Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America and the Caribbean	3.8	1.1	0.4	0.4	-	-	-	0.2	1.9	-	-	0.5	0.2	-	-	-	-	0.2	0.4
South America	-	-	-	-	-	-	-	-	0.3	-	-	0.1	0.0	-	-	-	-	-	-
Argentina	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Brazil	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Chile	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Colombia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Suriname	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Uruguay	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Venezuela	-	-	-	-	-	-	-	-	0.3	-	-	-	-	-	-	-	-	-	-
Unspecified South America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Latin America and the Caribbean	3.8	1.1	0.4	0.4	1.7	1.2	-	0.2	1.6	-	-	0.4	0.1	-	-	-	-	0.2	0.4
Anguilla	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Antigua and Barbuda	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.2	-
Bahamas	3.6	-	-	-	1.1	0.3	-	-	0.4	-	-	-	-	-	-	-	-	-	-
Barbados	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Belize	0.1	-	-	-	0.1	0.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Bermuda	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-	-	0.2

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Table 4 . Geographical distribution of FDI inward stocks in CEE, mid-1990s and 2000 (continued)
(Percentage shares in world total)

	Bulgaria	Croatia	Czech Republic		Estonia		Hungary		Latvia	Lithuania		Poland		Russian Federation		Slovakia		Slovenia	
	1999	2000	1997	2000	1998	2001	1992	2000	2000	1996	2000	1996	2000	1998	2000	1996	2000	1994	2000
British Indian Ocean Territory	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Brithish Virgin Islands	-	0.1	-	0.1	0.3	0.3	-	-	0.4	-	-	-	-	-	-	-	-	-	-
Cayman Islands	-	0.9	-	0.2	0.2	-	-	-	0.6	-	-	-	-	-	-	-	-	-	-
Dominica	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mexico	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Netherlands Antilles	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Panama	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Saint Vincent and the Grenadines	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Saint Kitts and Nevis	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Turks and Caicos Islands	-	-	-	-	-	0.4	-	-	-	-	-	-	-	-	-	-	-	-	-
US Virgin Islands	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-	-	0.1
Unspecified Other Latin America and the Caribbean	-	-	0.4	-	-	-	-	0.2	-	-	-	0.4	0.1	-	-	-	-	-	-
Developing Europe	0.2	2.3	-	0.6	-	-	-	-	-	-	-	0.0	0.3	-	-	-	-	31.3	2.0
Bosnia and Herzegovina	-	0.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.2	0.3
Croatia	-	-	-	-	-	-	-	-	-	-	-	0.0	0.3	-	-	-	-	30.9	1.7
Malta	0.1	-	-	0.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Slovenia	-	2.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TFYR Macedonia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.2	0.0
Yugoslavia	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Asia	13.2	0.1	0.3	1.3	3.5	1.4	1.1	1.8	2.4	-	0.1	3.3	1.7	24.8	20.0	-	-	0.3	0.6
West Asia	12.6	0.1	-	1.0	-0.1	0.2	-	0.4	0.1	-	-	0.5	0.2	24.8	20.0	-	-	0.1	0.6
Cyprus	9.6	-	-	1.0	-0.1	0.2	-	-	-	-	-	-	-	24.8	20.0	-	-	-	0.5
Iran, Islamic Republic of	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Iraq	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jordan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Lebanon	0.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Saudi Arabia	-	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Syrian Arab Republic	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Turkey	1.9	-	-	-	-	-	-	0.4	-	-	-	0.1	0.2	-	-	-	-	0.1	0.0
Unspecified West Asia	-	-	-	-	-	-	-	-	-	-	-	0.4	0.0	-	-	-	-	-	-
Central Asia	0.2	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-	-	-
Armenia	0.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Georgia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Kazakhstan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Uzbekistan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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Table 4 . Geographical distribution of FDI inward stocks in CEE, mid-1990s and 2000 (concluded)
(Percentage shares in world total)

	Bulgaria	Croatia	Czech Republic		Estonia		Hungary		Latvia	Lithuania		Poland		Russian Federation		Slovakia		Slovenia	
	1999	2000	1997	2000	1998	2001	1992	2000	2000	1996	2000	1996	2000	1998	2000	1996	2000	1994	2000
South, East and South-East Asia	0.4	-	0.3	0.2	3.5	1.2	1.1	1.5	2.2	-	0.1	2.8	1.5	-	-	-	-	0.2	0.1
Afghanistan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bangladesh	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	0.1	-	0.1	-	-	-	0.1	-	-	-	-	-	-	-	-
Hong Kong, China	-	-	-	-	0.1	-	-	-	0.9	-	-	0.1	0.0	-	-	-	-	-	-
India	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Indonesia	-	-	-	-	-	0.3	-	-	-	-	-	-	-	-	-	-	-	-	-
Malaysia	-	-	0.2	0.1	-	-	-	0.1	-	-	-	0.6	-	-	-	-	-	-	-
Philippines	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-	-	-	-
Republic of Korea	0.3	-	-	-	-	-	1.0	1.0	-	-	-	2.0	1.4	-	-	-	-	-	-
Singapore	-	-	-	-	3.2	0.9	-	0.2	1.3	-	-	0.1	0.0	-	-	-	-	0.2	-
Taiwan Province of China	-	-	0.2	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Thailand	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Viet Nam	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unspecified South, East and South-East Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
The Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Marshall Islands	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Niue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Central and Eastern Europe	8.2	0.9	3.1	1.4	2.4	2.2	5.6	0.8	18.1	4.4	10.9	1.4	2.6	-	-	15.1	16.1	0.1	4.0
Belarus	-	-	-	-	-	-	-	-	0.1	0.1	-	-	-	-	-	-	-	-	-
Bulgaria	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-	-	-
Czech Republic	0.7	0.5	-	-	-	-	-	0.3	-	-	-	0.2	0.1	-	-	9.8	5.7	-	3.7
Estonia	-	-	-	-	-	-	-	-	11.2	0.9	6.4	-	-	-	-	-	-	-	-
Hungary	0.4	-	0.1	0.3	-	-	-	-	-	-	-	-	-	-	-	-	4.9	-	0.2
Latvia	-	-	-	-	0.3	0.2	-	-	-	0.5	1.2	-	-	-	-	-	-	-	-
Lithuania	-	-	-	-	-0.1	0.5	-	-	0.4	0.0	0.0	-	-	-	-	-	-	-	-
Poland	0.1	0.2	-	0.2	-	-	-	-	0.1	1.0	2.2	-	-	-	-	-	-	-	-
Republic of Moldova	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Romania	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-	-	-	-
Russian Federation	6.7	0.2	0.1	0.1	2.1	1.4	5.2	0.4	6.0	1.8	1.0	0.3	1.5	-	-	-	-	0.1	0.0
Slovakia	0.3	-	2.1	0.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ukraine	0.1	-	-	-	0.1	0.1	-	-	0.2	0.1	0.1	0.1	-	-	-	-	-	-	-
Unspecified Central and Eastern Europe	-	-	0.8	-	-	-	0.4	0.1	-	-	-	0.8	0.8	-	-	5.3	5.5	-	-
Unspecified	-	2.3	0.0	-	1.8	0.4	0.6	3.8	6.5	3.9	5.1	2.9	0.4	18.0	15.3	-	-	-	-
For reference :																			
Total world (in millions of dollars)	2 160	4 712	9 234	21 644	1 822	3 319	4 460	10 308	2 061	700	2 334	11 463	33 603	11 769	16 125	1 239	3 692	1 326	2 809

Source : UNCTAD, based on country table 12.

products, and less in building local production networks. They are also not active in providing financial services: all the major banking investors in CEE countries are Europeans. Asian investors are under-represented in CEE countries. Japan has the highest share in Hungary with 2.1 per cent of the FDI stock in 2000, the Republic of Korea has 1.4 per cent of FDI in Poland and a somewhat higher share in Romania (table 5). These characteristics can be also observed at the affiliate level. Many of the largest foreign affiliates operating in CEE are owned by transnational corporations (TNCs) from the United States, some EU countries and the Republic of Korea (table 6).

In terms of employment and value added, Hungary has an especially high degree of foreign penetration, similar to that of Ireland (table 7). In Poland and Slovenia, two countries for which comparative data have been published, the degree of foreign penetration is significantly smaller but also increasing.

The *motivations of investors* differ between countries, and over time. Russian oilfields and other natural resources are monopolized by a few domestic owners, and access for foreign investors is limited. In most CEE countries, FDI was first attracted by the opening of formerly closed markets. Domestic market-oriented FDI was initially mainly in the form of the acquisition of privatized firms or of joint ventures with local firms. Later on, export-oriented efficiency-seeking investment appeared in some countries. Export-oriented greenfield investment is almost exclusively confined to countries close to the EU: Hungary, Poland, Czech Republic, Slovakia, and more recently also along Romania's western border. These are the areas that provide the best transport facilities and lowest transaction costs for companies, while investors enjoy relatively low labour costs. A new wave of domestic market-oriented investment recently appeared in services and public utilities. Another recent development is the increase of FDI in domestically privatized firms mostly in the Czech Republic, Romania and Bulgaria. Companies sold to domestic investors lacked the resources for further development and searched for foreign partners.

With the accession of eight CEE countries envisaged for 2004 (and two others for 2007), the integration of operations by EU TNCs will most likely accelerate. There are, however, some differences in the type of FDI that accession and non-accession countries may attract in the future, depending on the level of development. All *accession* countries but Bulgaria and Romania are upper-middle income or high-income (Slovenia) countries; all *non-accession* countries but Croatia are lower-middle income countries (table 8). This could result in an increasing concentration in services FDI and higher corporate functions (regional headquarters, R&D, shared services etc.) in accession countries, attracted from current EU members and third countries. But EU enlargement offers opportunities to non-accession CEE countries too, as assembly-type manufacturing might shift these from higher-cost accession countries.

2. Inward FDI and development

Beyond its contribution to financial resources, investment, technology and providing access to markets, inward FDI in CEE also plays a role in the strengthening of the private sector and the emergence of market-economy behaviour, as well as the elimination of macroeconomic distortions inherited from earlier centrally planned systems.

From the mid-1990s onward, high GDP growth tended to go hand in hand with increasing FDI in some countries, notably in Poland and Croatia. Higher growth subsequently attracts FDI and, at the same time, FDI as part of capital formation leads growth. In some other countries, FDI

Table 5. Geographical distribution of FDI inflows in CEE, mid-1990s and 2000

(Percentage shares in world total)

Region/economy	Bulgaria 1996	Bulgaria 2000	Czech Republic 1993	Czech Republic 2000	Estonia 1994	Estonia 2001	Hungary 1999	Hungary 2000	Republic of Moldova 1996	Republic of Moldova 2000	Lithuania 1997	Lithuania 2000	Poland 1996	Poland 2000	Russian Federation 1998	Russian Federation 2000	TFYR Macedonia 1997	TFYR Macedonia 2000
Developed countries	69.5	77.7	83.8	94.4	66.4	92.3	89.0	82.7	0.0	5.5	82.3	77.9	91.3	102.1	74.1	98.0	96.3	87.0
Western Europe	58.0	70.9	41.7	84.2	60.7	77.8	68.5	70.7	0.0	5.5	56.9	81.8	80.0	98.1	37.8	57.9	90.3	85.4
European Union	55.2	67.9	44.5	79.5	60.2	79.9	67.6	72.5	0.0	5.5	51.7	69.8	78.0	94.5	36.5	46.6	36.3	83.5
Austria	4.3	7.0	8.4	14.8	2.0	-2.1	3.1	4.2	-	-	1.3	-0.8	2.4	2.9	-	-	14.0	1.2
Belgium / Luxembourg	7.7	10.0	4.9	2.9	0.2	0.5	-	-	-	-	3.0	2.2	2.3	3.1	-	-	-	1.6
Belgium	0.2	8.7	4.9	1.1	0.0	0.5	-	-	-	-	0.2	2.1	-	-	-	-	-	1.6
Luxembourg	7.5	1.3	-	1.9	0.2	0.0	-	-	-	-	2.7	0.2	-	-	-	-	-	-
Denmark	1.0	0.2	0.3	2.1	1.2	0.7	0.2	1.5	-	-	7.0	15.1	4.9	1.4	-	-	0.1	-
Finland	-	-	-	-	22.6	26.3	0.7	6.9	-	-	4.0	7.3	0.5	1.1	-	-	-	-
France	0.2	3.7	5.2	4.7	0.0	3.5	3.1	3.5	-	-	2.3	1.6	8.2	37.8	0.4	2.9	0.1	0.2
Germany	9.7	3.9	12.5	26.5	1.3	1.2	27.1	5.2	0.0	5.5	7.6	0.2	24.3	10.1	9.8	10.1	6.2	16.7
Greece	1.9	9.9	-	0.0	-	-1.1	0.1	0.3	-	-	0.0	0.0	-0.2	0.0	-	-	14.2	57.5
Ireland	-	0.3	-	0.3	3.3	-0.2	-1.8	3.9	-	-	5.4	-5.0	2.2	0.4	-	-	-	-
Italy	0.5	33.8	1.8	0.7	0.5	0.5	2.7	-0.2	-	-	3.2	0.2	2.8	3.9	-	-	0.5	1.4
Netherlands	24.1	-1.0	4.6	20.8	7.0	18.6	30.4	30.4	-	-	0.3	1.5	25.3	21.1	18.1	18.1	0.0	0.3
Portugal	0.4	0.1	-	-	-	-	-	-	-	-	-	0.2	0.1	0.7	-	-	-	-
Spain	-	0.1	-	0.6	-	-	0.3	0.1	-	-	0.4	0.2	0.1	3.8	-	-	-	-
Sweden	0.8	0.2	1.8	3.0	18.9	24.4	0.3	3.7	-	-	12.0	43.3	2.1	6.4	2.1	7.8	1.3	0.2
United Kingdom	4.6	-0.3	0.0	3.2	3.1	7.6	1.6	13.0	-	-	5.3	3.8	2.9	1.8	6.1	11.3	0.0	4.4
Other Western Europe	2.9	3.0	2.1	4.7	0.6	-2.1	0.9	-1.8	-	-	5.3	11.9	2.0	3.6	1.3	11.3	54.0	1.9
Andorra	-	-	-	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gibraltar	-	-	-	0.2	-	-	-	-	-	-	-	-	-	-	0.1	7.9	-	-
Iceland	-	-	-	-	-	-	-	-	-	-	-	-	0.0	0.0	-	-	-	-
Jersey	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-	-	-	-	-
Liechtenstein	-	0.4	-	0.2	-	0.0	0.1	-3.9	-	-	-	-	0.0	0.1	-	-	52.4	0.2
Man Island	-	0.1	-	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Norway	-	0.0	-	-0.3	0.1	-1.9	0.1	0.0	-	-	4.5	6.0	-0.2	0.0	-	-	-	-
San Marino	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Switzerland	2.9	2.5	2.1	4.6	0.4	-0.8	19.7	11.4	-	-	0.7	5.9	2.1	3.5	1.2	3.4	1.6	1.7
North America	11.5	5.8	42.0	9.2	5.4	14.4	19.7	11.4	-	-	25.3	-3.8	10.6	3.6	34.8	36.9	5.6	1.3
Canada	0.1	0.0	3.1	3.1	0.1	0.1	1.3	0.2	-	-	0.6	0.7	0.5	0.1	0.0	0.0	-	-
United States	11.4	5.8	39.0	6.1	5.3	14.3	18.4	11.1	-	-	24.6	-4.5	10.2	3.5	34.8	36.9	5.6	1.3

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Table 5. Geographical distribution of FDI inflows in CEE, mid-1990s and 2000 (continued)
(Percentage shares in world total)

Region/economy	Bulgaria		Czech Republic		Estonia		Hungary		Republic of Moldova		Lithuania		Poland		Russian Federation		TFYR Macedonia	
	1996	2000	1993	2000	1994	2001	1999	2000	1996	2000	1997	2000	1996	2000	1998	2000	1997	2000
Other developed countries	-	1.0	0.0	1.0	0.2	0.1	0.8	0.7	-	-	0.1	0.0	0.8	0.4	1.5	3.2	0.3	0.3
Australia	-	-	-	0.1	0.1	-	-0.3	0.0	-	-	-	-	0.5	0.0	-	-	0.3	-
Israel	-	0.8	-	0.0	-	-	-	0.2	-	-	-	-	0.1	0.0	-	-	-	0.1
Japan	-	0.2	0.0	0.9	0.1	0.1	1.0	0.5	-	-	0.1	0.0	0.2	0.4	1.5	3.2	-	0.2
New Zealand	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
South Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Developing countries /economies	28.3	18.9	0.0	3.5	17.1	8.0	-	-	-	-	-	-	6.0	-1.9	12.0	20.2	3.6	10.7
Africa	0.1	0.0	-	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1
North Africa	-	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1
Egypt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1
Libyan Arab Jamahiriya	-	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Morocco	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unspecified North Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Africa	0.1	0.0	-	0.0	-	-	0.1	0.1	-	-	-	-	-	-	-	-	-	-
Congo	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Liberia	0.1	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Nigeria	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Seychelles	-	-	-	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sierra Leone	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unspecified Other Africa	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latin America and the Caribbean	5.8	8.3	-	0.3	1.1	2.2	0.0	0.0	-	-	-	-	0.1	0.0	-	-	-	0.1
South America	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.0	-	-	-	-
Argentina	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Brazil	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Chile	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Suriname	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Uruguay	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unspecified South America	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.0	-	-	-	-
Other Latin America and the Caribbean	5.8	8.3	-	0.3	1.1	2.2	-	0.0	-	-	-	-	-	-	-	-	-	0.1
Bahamas	-	3.8	-	0.0	1.1	0.1	-	-	-	-	-	-	-	-	-	-	-	-
Barbados	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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Table 5. Geographical distribution of FDI inflows in CEE, mid-1990s and 2000 (continued)

(Percentage shares in world total)

Region/economy	Bulgaria 1996	Bulgaria 2000	Czech Republic 1993	Czech Republic 2000	Estonia 1994	Estonia 2001	Hungary 1999	Hungary 2000	Republic of Moldova 1996	Republic of Moldova 2000	Lithuania 1997	Lithuania 2000	Poland 1996	Poland 2000	Russian Federation 1998	Russian Federation 2000	TFYR Macedonia 1997	TFYR Macedonia 2000
Belize	-	-	-	-	-	0.3	-	-	-	-	-	-	-	-	-	-	-	-
Bermuda	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
British Virgin Islands	5.8	1.3	-	0.1	0.0	1.3	-	-	-	-	-	-	-	-	-	-	-	0.1
Cayman Islands	-	0.7	-	0.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mexico	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Netherlands Antilles	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Panama	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Saint Kitts and Nevis	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Turks and Caicos Islands	-	-	-	-	-	0.5	-	-	-	-	-	-	-	-	-	-	-	-
US Virgin Islands	-	2.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unspecified Other Latin America and the Caribbean	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Developing Europe	0.1	0.1	-	0.7	-	-	0.1	-	-	-	-	-	0.0	0.1	-	-	3.3	7.0
Bosnia and Herzegovina	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Croatia	0.1	-	-	0.0	-	-	-	-	-	-	-	-	0.0	0.1	-	-	1.4	-
Malta	-	0.1	-	0.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Serbia and Montenegro	-	-	-	-	-	-	0.1	0.0	-	-	-	-	-	-	-	-	1.5	0.4
Slovenia	-	0.0	-	0.1	-	-	-	-	-	-	-	-	-	-	-	-	0.3	6.5
TFYR Macedonia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Asia	22.3	10.5	-	2.5	0.6	1.5	2.1	1.5	-	-	-	-	5.9	-2.0	12.0	20.2	0.4	3.6
West Asia	1.8	10.1	-	2.5	0.1	1.4	1.8	0.1	-	-	-	-	1.0	0.2	12.0	20.2	0.4	2.8
Cyprus	1.5	7.5	-	2.5	0.1	1.4	-	-	-	-	-	-	-	-	12.0	20.2	-	2.7
Iran, Islamic Republic of	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Lebanon	0.3	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Saudi Arabia	-	-	-	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Seylan Arab Republic	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Turkey	-	-	-	-	-	-	1.8	0.1	-	-	-	-	0.2	0.2	-	-	0.4	0.1
Unspecified West America	-	-	-	-	-	-	-	-	-	-	-	-	0.8	0.0	-	-	-	-
Central Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Kazakhstan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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Table 5. Geographical distribution of FDI inflows in CEE, mid-1990s and 2000 (concluded)
(Percentage shares in world total)

Region/economy	Bulgaria		Czech Republic		Estonia		Hungary		Republic of Moldova		Lithuania		Poland		Russian Federation		TFYR Macedonia	
	1996	2000	1993	2000	1994	2001	1999	2000	1996	2000	1997	2000	1996	2000	1998	2000	1997	2000
South, East and South-East Asia	20.5	0.4	-	-	0.4	0.0	0.2	1.4	-	-	-	-	4.9	-2.2	-	-	-	0.6
China	-	-	-	-	0.2	-	-	-	-	-	-	-	0.0	0.1	-	-	-	-
Hong Kong, China	-	-	-	-	0.2	-0.8	0.1	0.0	-	-	-	-	0.1	0.0	-	-	-	-
India	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Indonesia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Malaysia	-	-	-	-	-	-	-	-	-	-	-	-	0.4	-0.1	-	-	-	-
Philippines	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Republic of Korea	20.5	0.4	-	-	-	-	-0.1	1.1	-	-	-	-	4.5	-2.1	-	-	-	-
Singapore	-	-	-	-	-	0.8	-	-	-	-	-	-	-	-	-	-	-	-
Taiwan Province of China	-	-	-	-	-	-	0.2	0.2	-	-	-	-	-	-	-	-	-	0.6
Thailand	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Viet Nam	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unspecified South, East and South-East Asia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
The Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.2
Solomon Islands	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.2
Central and Eastern Europe	1.4	2.6	16.2	2.0	15.5	4.3	-	0.3	8.9	4.0	13.4	18.6	1.7	0.3	-	-	0.1	2.3
Belarus	-	-	-	-	-	-	-	-	-	-	0.1	-0.2	-	-	-	-	-	-
Bulgaria	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-
Czech Republic	0.1	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1
Estonia	-	-	-	-	-	-	-	-	-	-	10.7	15.3	-	-	-	-	-	-
Hungary	0.1	0.2	-	0.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Latvia	-	-	-	-	-	1.7	-	-	-	-	0.1	2.6	-	-	-	-	-	-
Lithuania	-	-	-	-	-	1.8	-	-	-	-	-	-	-	-	-	-	-	0.1
Poland	1.2	-	-	0.4	-	-	-	-	-	-	0.9	3.3	-	-	-	-	-	-
Romania	-	-	-	-	-	-	-	0.1	-	-	-	-	-	-	-	-	-	0.4
Russian Federation	-	2.1	-	-0.1	15.0	0.6	-	0.1	3.8	0.6	1.4	-1.7	0.1	-0.2	-	-	-	1.6
Slovakia	-	0.2	-	0.8	0.0	0.0	0.1	0.1	-	-	-	-	-	-	-	-	-	-
Ukraine	-	0.0	-	0.0	0.4	0.2	0.0	0.0	5.1	0.1	0.2	-0.6	-	-	-	-	-	-
Unspecified Central and Eastern Europe	-	-	-	-	-	-	-	-	-	-	-	-	1.1	0.5	-	-	-	-
Unspecified	0.8	1.0	16.2	0.1	16.5	-0.3	8.7	15.4	91.1	90.5	4.2	3.4	1.0	-0.5	13.9	13.6	-	-
For reference :																		
Total world (millions of dollars)	109	1 002	654	4 986	217	533	1 997	1 693	24	138	355	379	4 498	9 342	3 361	4 429	31	178

Source : UNCTAD, based on country table 6.

Table 6 . The 40 largest foreign affiliates in the industrial and tertiary sectors and 20 largest foreign affiliates in finance and insurance in CEE, 2000
(Millions of dollars)

Company	Host country	Home economy	Industry	Sales/Assets
A. Industrial and tertiary				**(Sales)**
Telecomunikacja Polska	Poland	France	Telecommunications	3 662
Skoda Automobilova AS	Czech Republic	Germany	Motor vehicles	3 293
Audi Hungaria Motor Kft.	Hungary	Germany	Motor vehicles	3 191
Philips Magyarorszag Kft.	Hungary	Netherlands	Electronic equipment	2 266
IBM Storage Products Kft.	Hungary	United States	Electronic equipment	2 240
Fiat Auto Poland SA	Poland	Italy	Motor vehicles	1 765
MATAV	Hungary	Germany	Telecommunications	1 585
Cesky Telecom	Czech Republic	Netherlands/ Switzerland	Telecommunications	1 499 [a]
Makro Cash and Carry Poland SA	Poland	Germany	Distributive trade	1 478
Personnal Communications Systems	Russian Federation	Sweden	Electronic equipment	1 145
Lucent Technologies ZAO	Russian Federation	United States	Electronic equipment	1 077
Sartogosm ZAO	Russian Federation	Germany	Machinery	1 068
Slovnaft	Slovakia	Hungary	Petroleum products	1 058
Centrum Daewoo Sp ZOO	Poland	Republic of Korea	Motor vehicles	877
Flextronics International Kft.	Hungary	United States	Electronic equipment	868
Technip CIS ZAO	Russian Federation	France	Electronic equipment	828
AWT International ZAO	Russian Federation	Germany	Distributive trade	801
BAT Saratov Tobacco Factory OAO	Russian Federation	United Kingdom	Tobacco	780
Lukoil Neftochim AD	Bulgaria	Russian Federation	Petroleum products	772
Berg Montana Fittings OOD	Bulgaria	Spain	Metal products	737
Makro Cash Spol SRO	Czech Republic	Germany	Distributive trade	737
GE Hungary Rt.	Hungary	United States	Electronic equipment	658
Bavaria Brewery OAO	Russian Federation	Netherlands	Beverages	636
Volkswagen Poznan Sp ZOO	Poland	Germany	Motor vehicles	633
Opel Magyarorszag Jarmugyarto Kft.	Hungary	United States	Motor vehicles	630
Kromberg Es Schubert Kabeleket	Hungary	Austria	Basic metals	628 [a]
Nevamash ZAO	Russian Federation	United States	Machinery	600
Hunter Douglas CIS ZAO	Russian Federation	Netherlands	Metal products	593
Vogel and Noot Mezogepgyar Kft.	Hungary	Austria	Basic metals	584 [a]
Mazeikiu Nafta	Lithuania	Russian Federation/ United States	Petroleum products	575 [a]
Reemtsma Polska SA	Poland	Germany	Tobacco	570
Kone Lifts ZAO	Russian Federation	Finland	Machinery	533
Rewe Spol. SRO	Czech Republic	Germany	Machinery and equipment	509
Volkswagen Slovakia AS	Slovakia	Germany	Motor vehicles	497
Budapesti Elektromos Muvek(ELMU)	Hungary	Germany	Electricity	485
Suzuki Rt.	Hungary	Japan	Motor vehicles	446
Thompson Polkolor Sp ZOO	Poland	France	Electrical equipment	420
Tabak AS	Czech Republic	United States	Tobacco	416
General Motors Poland Sp ZOO	Poland	United States	Motor vehicles	394
Borsod Chem	Hungary	Austria	Chemicals	393
Total above				41 929
B. Finance and insurance				**(Assets)**
Privredna Banka Zagreb DD	Croatia	Italy	Banking	2 699 [a]
Splitska Banka DD	Croatia	Italy	Banking	1 050
Rijecka Banka DD	Croatia	Germany	Banking	1 037
RaiffeisenBank, Austria DD	Croatia	Austria	Banking	669
Bank Austria Creditanstaldt Croatia	Croatia	Austria	Banking	241
Central European International Bank Rt. (CIB)	Hungary	Italy	Banking	193

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Table 6 . The 40 largest foreign affiliates in the industrial and tertiary sectors and 20 largest foreign affiliates in finance and insurance in CEE, 2000 (concluded)
(Millions of dollars)

Company	Host country	Home economy	Industry	Sales/Assets
ABN Amro Bank Rt.	Hungary	Netherlands	Banking	154
Amplico Life Pierwsze Amerykansko Polskie	Poland	United States	Insurance	148 [a]
Raiffeisen Bank Rt.	Hungary	Austria	Banking	115 [a]
General Banking and Trust Rt.	Hungary	Russian Federation	Banking	114 [a]
Volksbank	Croatia	Austria	Banking	114
Budapest Bank Ltd.	Hungary	United States	Banking	108
Bank Austria Creditanstalt Rt.	Hungary	Austria	Banking	103
Allianz Hungaria Biztosito Rt.	Hungary	Germany	Insurance	90
Citibank Rt.	Hungary	United States	Banking	88
AB-Aegon Altalanos Biztosito Rt.	Hungary	Netherlands	Insurance	82
Vagus AS	Slovakia	Czech Republic	Finance	78
Dresdner Bank Croatia DD	Croatia	Germany	Banking	66
Cassa di Risparmio di Treste Banca	Croatia	Italy	Banking	46
Bayerische Hypo und VereinBank	Croatia	Germany	Banking	42
Total above				7 237

Source : UNCTAD, based on country table 88.
Note : Includes only foreign affiliates whose data on sales/assets are available.
[a] Refers to 1999.

Table 7. The role of foreign affiliates in the economic performance of selected CEE countries, 1999
(Percentage)

Economy	Value added of foreign affiliates as a percentage of GDP	Employment of foreign affiliates as a percentage of total employment
Hungary	24	27.4
Estonia	8.4	9.4
Latvia	5.5	10.4
Czech Republic	10.2	4.2
Bulgaria	1.7	5.4
Croatia	5.2	8.1
Lithuania	3.8	5.9
Moldova, Republic of	0.6	0.9
Poland	6.6	3.5
Romania	1.6	1.4
Slovenia	3.5	8.8
Serbia and Montenegro	1.1	1.7
Slovakia	4.4	3.6
Albania	0.9	1.4
Belarus	0.6	0.3
TFYR Macedonia	0.8	2.8
Ukraine	0.5	0.7
Russian Federation	0.8	1.6
Bosnia and Herzegovina	0.2	0.2

Source: UNCTAD, 2002, p. 275.

Table 8. The matrix of specialization between accession and non-accession countries of CEE

Countries	FDI patterns	FDI policies and measures
Accession countries	Issue of upgrading	How to best adjust FDI promotion to EU instruments (regional and cohesion funds etc.)
Non-accession countries	"New frontier" for efficiency-seeking FDI	How to adjust policies/ measures to the status of new frontier, question of business environment

Source: UNCTAD.

increased although GDP growth was relatively low (e.g. Belarus, Hungary, Latvia and Romania) or even negative (Bulgaria, Republic of Moldova, Russian Federation and Ukraine).

The decisions of foreign investors tend to be less influenced by short-term changes in GDP under early conditions of economic transition. Foreign investors might be strongly attracted to countries embarking on far-reaching and consistent reforms underpinning long-term growth, especially when privatization programmes facilitate entry, even though the required structural change is likely to result in declining GDP in the short run.

It should also be noted that, especially in economies just beginning the transition process, FDI may stimulate subsequent GDP growth, rather than being attracted by existing GDP growth. For example, FDI boomed in Hungary in 1995, while GDP growth picked up only in 1997. Likewise, in the Russian Federation, FDI inflows increased steadily from 1994, while GDP did not recover until 1997.

Industrial restructuring accelerated when privatization involving FDI was stepped up. Output and employment suffered setbacks in the first stage, but firms became more efficient and resistant to subsequent competitive pressure. The economic recessions of the second half of the 1990s in the Bulgaria, Czech Republic and Romania could have hardly been overcome without a restructuring of the enterprise sector with the help of foreign investors. These countries needed both massive capital investment and the integrating force of foreign capital to improve access to knowledge and international networking. The resumption of economic growth and exports in the past few years has partially been the result of the activity of TNCs. The 1990 per capita GDP was reached in the year 2000 only in six countries out of 18: Belarus, the Czech Republic, Hungary, Poland, Slovak Republic and Slovenia. Among these countries, only Belarus and Slovenia did not rely on massive FDI inflows; the other four did.

As shown by the increase of the share of the private sector in value-added over the period 1990-1998 (table 9), the rate at which the change of ownership took place has been remarkable. Although FDI was just one element in the rise of the private sector in CEE, given the absence or weakness of local investors, whenever a state-owned asset beyond a certain size was sold or auctioned, the majority of bidders were foreign. Nevertheless, except in the case of one or two countries, the share of FDI in privatization sales has been limited (Kalotay and Hunya, 2000). Except in Hungary, Estonia and, to a certain degree, Poland, other methods favouring residents over foreigners (such as the distribution of vouchers and subsidized sales to domestic investors) prevailed in the early stages of privatization. That picture started to change in the late 1990s only.

The change in privatization policy is reflected in higher inward FDI in, for example, Czech Republic, Slovakia, Poland and Romania. In Poland, privatization has been slow, but sales to foreign investors accelerated after 1997, when the current account turned into deficit. In Bulgaria and Romania, privatization had been delayed for years, and has picked up only lately. In both countries, external financial pressure (default in Bulgaria in 1997 and high current-account deficit in Romania in 1996-1998) induced the Governments to put an end to giving preference to domestic investors in the privatization policy.

Table 9. Share of the private sector in the generation of GDP in selected CEE countries
(Percentage)

	GDP		Manufacturing	
Country	1990	1998	1990	1998
Albania	5.0 [a]	75.0 [a]	..	..
Belarus	5.0 [a]	20.0 [a]	..	..
Bulgaria	9.1	56.7	0.8	39.3
Croatia	15.0 [a]	55.0 [a]	..	..
Czech Republic	12.3	77.6	.. [b]	66.6
Estonia	10.0 [a]	74.8	..	..
Hungary	32.0 [c]	77.0	40.1 [c]	95.1
Latvia	10.0 [a]	65.0	.. [d]	96.0
Lithuania	10.0 [a]	70.0	..	..
TFYR Macedonia	15.0 [a]	60.0 [a]	..	..
Moldova, Republic of	10.0 [a]	50.0 [a]	..	..
Poland	30.9	60.9	18.3	69.1
Romania	16.4	58.3	..	29.8
Russian Federation	5.0 [a]	70.0 [a]	..	..
Slovakia	10.0 [a]	80.2	..	..
Slovenia	15.0 [a]	50.0 [a]	..	..
Ukraine	10.0 [a]	55.0 [a]	..	..
Average	13.0	62.1	..	..

Source: UNCTAD, based on Kalotay, 2001, p. 271.
Note: Private sector denotes firms with majority private ownership.
[a] EBRD estimates.
[b] The Czech Statistical Office reported 48.1 per cent in 1994.
[c] Figure is for 1992.
[d] The Central Statistical Bureau of Latvia reported 71 per cent in 1995.

Transition involves not only more private enterprises and markets but also the elimination of inefficiencies, as well as the restructuring of the production base and its integration into the international economy, especially through more competitive exports. The latter has been more difficult and complicated in CEE than in other economies that have switched from closed, import-substituting economies to open ones, as the level of autarky in the region was exacerbated for political reasons. The role of FDI in carrying out necessary improvements proved to be of central importance in this aspect of the transition.

Data on labour productivity suggest that there is a relationship between foreign participation in privatization and efficiency gains: increases in labour productivity were high in countries with a significant amount of FDI and negative in countries where FDI was low. The lead of foreign affiliates in terms of labour productivity is not specific to CEE, but is exceptionally large there. In transition economies, foreign affiliates usually possess advanced technology, management and marketing skills as compared with domestic, especially state-owned, enterprises. Labour productivity of foreign affiliates was twice the level reached by domestic enterprises (Hunya, 2000), and with little difference among CEE countries in the 1990s, except Poland before 1998. However, spill-over effects of high labour productivity of foreign affiliates to the domestic sector are not necessarily large as the absorptive capacity of the local firms tend to be low. (In this context, strengthening linkages between foreign affiliates and domestic firms is crucial; for details see UNCTAD, 2001 and Bellak, 2003).

Countries diverged in terms of productivity dynamics during the 1994-1999 period. The gap between foreign affiliates and domestic enterprises increased fast in Hungary until 1996, then it stabilized for two years and increased again in 1999. In 1999, foreign affiliates were 3.1 times more productive than domestic enterprises. This is due to the impact of especially productive new foreign-owned greenfield assembly lines. In Poland, the productivity gap increased from 1.5 to 2.3

during the 1994-1999 period, while this gap stabilized at around 1.9 in the Czech Republic during 1995-1998. The productivity gap is now similar in the Czech Republic, Poland and Slovenia.

FDI is also more concentrated in manufacturing industries with high capital intensity. Capital productivity (sales per assets) is higher in foreign affiliates than in domestic enterprises in the Czech Republic, Poland and Slovenia.

Productivity indicators in general reveal significant differences among companies due to foreign penetration. The duality of performance in the manufacturing sector appears in two respects:

- A dichotomy between modern, foreign-dominated industries on the one hand, and traditional industries with both domestic and foreign companies, on the other. This duality appears in all countries examined here, and has grown over time. The extreme case is Hungary, where nine foreign-dominated industries represent half of manufacturing sales.
- A dichotomy of performance between foreign and domestically-owned companies in the same industry. The foreign sector is more efficient and more export-oriented than the domestic sector, especially in Hungary and less so in Slovenia.

There seems to be a link between inward FDI and gains in export competitiveness in several CEE countries. Long-term (1985-2000) structural changes in the world economy have favoured, in descending order, Hungary, Poland and the Czech Republic in the region (especially in non-resource-based manufacturing; see UNCTAD, 2002, Part Two). With the exception of the Russian Federation (which logically figures among the winners in resource-based manufacturing) and Slovakia (an exceptional winner in medium-technology manufactures), however, the other countries of CEE have failed to replicate the success of Hungary, the Czech Republic and Poland, or even have lost export market shares (UNCTAD, 2002, p. 150).

In the winner countries, the share of foreign affiliates in exports tends to be high and increasing (table 10; for Romania, see Hunya, 2002). The share of foreign affiliates in manufacturing exports in 1998 exceeded 80 per cent in Hungary, and 40 per cent in the Czech Republic and Poland. Moreover, even when compared to local firms of equal size in the same industry, foreign affiliates tend to be more export-oriented than their local peers (Rojec, Damijan and Majcen, 2001).

Table 10. Share of foreign affiliates in exports in CEE, 1993-2000
(Percentage)

Country / year	1993	1998	1999	2000
Czech Republic, manufacturing exports	14.8	47.1	..	..
Estonia, manufacturing exports	25.5 [a]	35.3	..	..
Estonia, total exports	..	..	..	60
Hungary, manufacturing exports	52.2	85.8	..	..
Hungary, total exports	..	77.1	80	..
Poland, manufacturing exports	34.6	52.2	..	..
Poland, total exports	..	47.9	51.6	56.2
Romania, total exports	..	..	..	20.6
Slovenia, manufacturing exports	21.1 [b]	32.9	..	..

Source: UNCTAD, based on Éltetö, 2000, and national sources.
[a] 1995.
[b] 1994.

A similar qualitative impact relates to the role of foreign affiliates in local service industries after decades of neglect. It needs to be recalled that, in various CEE countries, service industries received a greater percentage of FDI than did manufacturing and, in a number of these countries, privatization-related FDI has been a major avenue for upgrading such a service industry as telecommunications. In banking, it is estimated that, in the four-year period from 1994 to 1997, the share of foreign ownership in the region increased from 5 to 25 per cent (*The Banker*, 2000, p. 57). Foreign banks account for a majority of assets in Estonia, Hungary and Latvia, and are approaching 50 per cent in Lithuania. The foreign banks' share is also growing rapidly in the Czech Republic and Poland. Many large banking affiliates are established in Croatia and Hungary (table 6). Foreign bankers are seen as bringing in new products and services for corporate and individual customers, contributing to technological upgrading in banking services (*The Banker*, 2000).

Improvements in productivity and business services increasingly help privatized firms to be incorporated into the regional and global networks of TNCs. Local companies that become part of international production networks can better meet international quality requirements (Kurtz and Wittke, 1998). As integration into a global network is a difficult process, however, it is not surprising that, as shown in a study on the Czech Republic, Hungary, Poland and Slovenia done in the mid-1990s, this integration was less than half-completed: only one third of the foreign-owned firms reviewed were integrated into the investing company's network at that time (Rojec, 1995).

Inward FDI has contributed to the elimination of some macroeconomic and structural imbalances inherited from the socialist economies. In the initial phase of transition, CEE countries were characterized by severe macroeconomic imbalances – hyperinflation, monetary overhang, high budget deficits, high current account deficits, and debt problems. FDI contributed to an increase in the supply of goods and services and contributed to a strengthening of market-based pricing systems. Other contributions are of a more financial nature: FDI was a welcome source of capital, either as foreign exchange or as budget revenue (in the case of privatizations), or both. However, this financial contribution may be reduced over time by repatriated profit earnings. There are also negative effects of FDI (such as the crowding out of domestic firms). Hence the issue is that the policy framework should be geared towards maximizing the benefits of FDI and minimizing its negative impacts.

3. Regulatory framework

National treatment of foreign affiliates is the basic rule of law in CEE countries. Membership in the Organisation for Economic Co-operation and Development (four countries[5]) and EU association (ten countries) restrict the space for discriminatory policies and require that equal rights be given to domestic and foreign firms. Nevertheless, until recently Slovakia has had special incentives only for foreign investors, and some incentives provided to large investors on a case-by-case basis may not always have complied fully with EU regulation. Hungary also has recently restricted the benefit of ten-year tax holidays to large investors. Both countries have recently changed their investment incentives policy, making efforts to conform to new EU rules, but investors often seek some compensation. Poland adjusted its investment incentive scheme in 2001 by decreasing the amount of subsidies and incorporating them into regional development policy tools. Countries with no binding international treaties (like former Soviet republics) can apply policies more freely. They have usually less transparent rules (see Russian Federation below).

Still, most CEE countries have an investment incentive system in place. This is partly a sign of the more intense competition for foreign investment among the countries of the region.

[5] Czech Republic, Hungary, Poland and Slovakia.

Estonia competes on the basis of a very low overall tax rate. In recent years especially, the Czech Republic and Slovakia have put more generous incentive schemes in place. In addition to national level subsidies, local municipalities offer further incentives, which are not recorded or co-ordinated centrally and seem to be negotiated on a case-by-case basis. In compliance with EU regulation, investment incentives are more and more integrated into labour market, regional development and R&D policies.

Most South-East European countries not invited to join the EU are careful not to introduce policies that do not conform to EU practices. International agencies within the framework of the Investment Compact under the Stability Pact for South-Eastern Europe provide active help to recipients to set up investment promotion schemes, but application is still uneven. The integration of segmented markets through mutual free trade agreements can be seen as a further support to establishing an investor friendly environment.

In several transition economies, the main target of economic policy shifted in the late 1990s from stabilization to growth promotion. Policy tools included more investment incentives. The corporate tax rate, which was lowered in Hungary in 1998, was reduced more recently in Bulgaria, the Czech Republic, Poland and Romania, and completely abolished in Estonia. Countries long having low FDI levels, such as Romania and Slovenia, have introduced new incentives. Incentives are either subject to special legislation or scattered across a number of laws. In Croatia, incentives are listed in a special investment promotion law (2000), in Macedonia they are part of the government programme (1999), in Romania they appear in the annual budget, and in Bulgaria in the Foreign Investment Act. Romania introduced in 2001 a new incentive scheme and set up an investment promotion agency in 2002 similar to those long functioning in other countries. Despite the increasing range of incentive schemes offered in various countries, the efficiency of these policy tools has yet to be properly investigated. Hungary has the most complex incentive scheme, ranging from tax and customs allowances to R&D and infrastructure-related subsidies; but, as yet, it is far from clear what the impact of these arrangements has been. It is difficult to separate the effects of incentives from other locational factors.

Investment incentives can be given without or with certain conditions related to the size or the target of investment. A preference appears to be given to large investors. This can lead to a hidden bias in favour of foreign investors, who are more often able to launch larger ventures than domestic companies. Small and medium-sized domestic firms often cannot meet the minimum investment and employment requirements to become eligible for tax breaks or to receive direct investment incentives. In the Hungarian manufacturing sector, foreign affiliates produced 86 per cent of pre-tax profits but pay only 59 per cent of corporate tax revenue in 1998. This is partly the result of the preferences provided to large investors and partly the result of tax holidays provided to foreign investors before 1996.

In the Russian Federation, the 1999 law on Foreign Investment in the Russian Federation specifically confirmed national treatment for foreign investors, and the right to engage in investment activity in the country in any form and manner authorized by law. The list of restricted areas includes lines of activity ranging from airlines to bakeries where the foreign capital share is limited to a maximum of 25 per cent. Restrictions on the activities of foreign banks in the Russian Federation had been imposed in 1993 as a 12 per cent limit on the share of foreign capital in the total capital of the banking industry. In natural resources, production sharing agreements are used to provide a special legal framework for foreign investors in mining, oil, gas and other industries requiring substantial long-term investment, based on the Federal Law on Production Sharing

Agreements, adopted in 1996 and amended in 1998. According to this legislation, every oilfield or other site for natural resource extraction is subject to a special law. Current production sharing agreement legislation requires a 70 per cent local content over the life of a project.

Legislation on foreign investment in the Russian Federation provides a basis for the introduction of incentives at the federal level by presidential decree and government acts. Most incentives are of a fiscal nature and target small enterprises (max. 150 employees), employers of handicapped persons and R&D expenditure or specific industries such as banking, film production and distribution, mineral resource industries or automobiles. Aside from fiscal incentives, the Russian Federation promotes FDI through free economic zones; two federal laws provide for their creation in different parts of the country, offering tax, duty and VAT exemptions under certain conditions. The first of these were established in the second half of the 1980s, and several more were created in the 1990s by government decree.

In particular, the transformation of FDI regimes has made most progress in the context of the EU accession, in terms of the harmonization of the legal systems with that of the EU (box 1). As part of the Association Agreements signed by the eight CEE countries with the EU and its member countries – which in the case of the eight CEE countries represented a transition to full membership – the parties undertook, among other things, to grant national and most-favoured-nation treatment with respect to the establishment and operation of companies from the other party, except for industries included in an annex. Moreover, during the transition period, the CEE countries agreed not to introduce any new discriminatory measures. Commitments were also extended to allow companies to employ as key personnel nationals of the other party; to authorize any payments or transfers on the current account of the balance of payments and the free movement of capital relating to direct investment and portfolio transactions; to avoid restrictive business practices; to avoid granting any public aid that distorts competition; and to cooperate with a view to maintain and improve the investment climate, mainly by establishing a favourable legal framework, exchanging information on investment opportunities and concluding bilateral investment treaties (BITs).

Box 1. Legal FDI framework in the eight CEE countries acceding to EU membership in 2004

By the mid-1990s, the eight CEE countries acceding to EU membership in 2004 had put in place welcoming FDI national regimes that allow foreign investors in most fields of activity on the basis of national treatment. The general regimes were progressively complemented with laws regulating specific activities (banking, insurance, securities exchange, intellectual property rights, free economic zones and industrial parks, etc.) that brought them further in line with FDI norms in advanced market economies.

With respect to FDI *entry and establishment*, admission is currently free in most industries and activities. For example, in Estonia government approval or licensing is required in the field of banking, mining, power engineering, gas and water supply, transportation-related public works, telecommunications, retail sales and pharmaceuticals. Licensing is also required for banking, financial services, insurance, defence and broadcasting in the Czech Republic. In Poland, FDI from non-OECD countries is not allowed in the management of airports and seaports and defence production; licensing is required for banking, insurance and brokerage activities, telecommunications and courrier, radio and TV broadcasting, pharmaceuticals and medical materials, air, road, rail and maritime transport construction, mineral extraction, and security services.

/…

(Box 1, concluded)

There are also few restrictions with respect to *ownership and control* of investments by foreign investors. The main restrictions on foreign ownership relate to land and buildings. For example, ownership of real estate by foreign companies is limited in the Czech Republic and in Lithuania. In such countries as Czech Republic, Hungary and Poland, ownership of agricultural land is restricted. In Slovenia, only EU companies are allowed to own land, while in Slovakia only EU and OECD companies are allowed to own real state. However, leasing of real property is generally permitted in these countries (for up to 99 years in Latvia and Poland, for example). Besides land, other ownership and control restrictions apply in certain industries or activities of strategic importance. For example, there is a minimum 50 per cent domestic ownership requirement in defence and in the national airline in Hungary. In Latvia, foreigners are not allowed to own a controlling share in security services, air transport, radio and television broadcasting. In Slovenia, ownership restrictions apply in military supply, insurance, reinsurance, management of investment funds, auditing, publishing and broadcasting. In Slovakia, ownership is restricted in broadcasting services.

Performance requirements and other operational conditions are generally not imposed specifically on foreign investors. However, some performance requirements are sometimes attached to incentives (e.g. in Czech Republic, Estonia, Hungary, Slovenia). They are also special requirements for companies operating in free economic zones. Certain performance requirements are sometimes imposed upon privatization (e.g. in Latvia), typically to maintain employment levels and to undertake sequential investment. In Poland, there is a 50 per cent domestic material and labour content minimum requirement for all bids in government procurement.

As a general rule, there are no restrictions on the *transfer or conversion of currency* for current operations or for FDI. The absence of restrictions does not necessarily extent however to portfolio investment. Foreign companies may freely convert or transfer currency to make payments abroad and may also transfer their profits after payment of tax obligations. Capital may be freely repatriated after liquidation. Usually there are no limitations on borrowing locally or abroad.

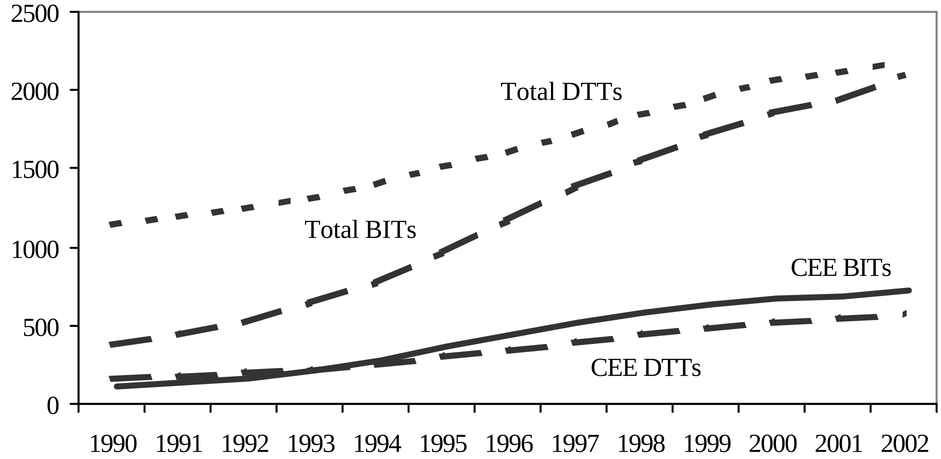
The eight CEE countries have sought to attract FDI through *proactive promotion activities*. They have set up investment promotion agencies and entrusted them with a range of responsibilities aimed at facilitating the investment process, including the provision of information on investment opportunities, matchmaking with suppliers, and pre- and after- investment services. Seven out of eight (except Slovak Republic) are already members of the World Association of Investment Promotion Agencies. A number of free trade zones and industrial parks have been created that target specific types of investments.

Source: UNCTAD.

Apart from the special relationship of the eight CEE countries with the EU and its member States, efforts to create a favourable investment climate at the national level have been complemented with the conclusion of international agreements aimed at providing additional guarantees of liberalization and legal protection for foreign investments.

CEE countries have concluded an increasing number of BITs and double taxation treaties (DTTs) with most of their important partner countries. CEE countries had concluded a total of 693 BITs as of 1 January 2002 (figure 2), a ninefold increase (from 74) since 1990. Of these, 116 (12 per cent) were concluded between themselves, 297 (31 per cent) with the developed countries, mostly with members of the EU, and 280 (29 per cent) with developing countries (table 11). The very low number of investment treaties in the cases of Albania and the Baltic countries reflects the geographically limited international activity of these small countries. Romania stands out as another extreme, with the highest number of BITs, reflecting the importance this country gives to attracting FDI.

Figure 2. Cumulative number of BITs and DTTs concluded by CEE countries and the world, 1990-2002[a]



Source: UNCTAD, BIT/DTT database.
[a] Refers to 1 January of each year.

CEE countries concluded about 400 DTTs between 1990 and 2002, bringing the total number to 574 at the beginning of 2002 (figure 2). Most of these (304) were signed with developed countries, mainly members of the EU. CEE countries signed 85 DTTs among themselves (table 12). The remaining 185 DTTs were signed with developing countries. DTTs were concluded more widely by countries that are the largest FDI recipients, Czech Republic, Hungary and Poland. Romania, for similar reasons as in the case of BITs, also signed many DTTs. Post-Yugoslav and post-Soviet republics concluded a low number of such treaties.

Furthermore, all CEE countries except one have acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (CREFAA) and have ratified the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID). The ICSID Convention provides an arbitration mechanism specifically designed for the resolution of investment disputes between host countries and foreign investors, thus significantly expanding the range of choices available for foreign investors in the critical area of dispute settlement. All CEE countries are also members of MIGA, thereby allowing access to a multilateral mechanism for insurance against non-commercial risks in these countries. Finally, many CEE countries have become members of WTO. Consequently, they are parties to the three main WTO investment-related agreements, the General Agreement on Trade in Services (GATS), the Agreement on Trade-related Investment Measures (TRIMs) and the Agreement on Trade-related aspects of Intellectual Property Rights (TRIPS) (table 13).

Table 11. BITs concluded by CEE, end-2002

Region / economy[a]	Albania	Belarus	Bosnia and Herzegovina	Bulgaria	Croatia	Czech Republic	Czechoslovakia	Estonia	Hungary	Latvia	Lithuania	Poland	Moldova, Republic of	Macedonia, the Former Yugoslav Republic of	Romania	Russian Federation	Slovakia	Slovenia	Ukraine	Yugoslavia (former)	**Central and Eastern Europe**
Developed countries	15	11	7	20	19	5	17	16	18	19	18	20	12	9	27	21	2	17	16	8	297
Western Europe	13	9	7	18	16	3	14	14	15	16	15	16	10	9	22	18	2	16	13	7	253
European Union	12	8	7	16	14	3	12	12	13	13	13	14	9	8	20	16	2	14	12	7	225
Austria	1	1	1	1	1	0	1	1	1	1	1	1	1	1	2	1	0	1	1	2	20
Belgium / Luxembourg	1	0	0	1	1	0	1	1	1	1	1	1	1	1	2	1	0	1	1	0	16
Denmark	1	0	0	1	1	0	1	1	1	1	1	1	0	0	2	2	0	1	1	0	15
Finland	1	1	1	2	1	0	1	1	1	1	1	2	1	1	1	1	0	1	1	0	19
France	1	1	0	1	1	0	1	1	1	1	1	1	1	1	2	1	0	1	1	1	18
Germany	1	1	1	1	1	0	1	1	1	1	1	1	1	1	2	1	0	1	1	1	19
Greece	1	0	1	1	1	0	1	1	1	1	1	1	1	0	2	1	0	1	1	1	17
Ireland	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
Italy	1	1	1	2	1	1	1	1	1	1	1	1	1	1	2	3	1	1	1	0	23
Netherlands	1	1	1	2	1	0	1	1	1	1	1	1	1	1	1	1	0	1	1	1	19
Portugal	1	0	0	1	1	1	0	0	1	1	1	1	0	0	1	1	1	1	0	0	12
Spain	0	0	0	1	1	0	1	1	1	1	1	1	0	0	1	1	0	1	1	0	12
Sweden	1	1	1	1	2	0	1	1	1	1	1	1	0	1	0	1	0	2	1	1	18
United Kingdom	1	1	0	1	1	0	1	1	1	1	1	1	1	0	2	1	0	1	1	0	16
Other Western Europe	1	1	0	2	2	0	2	2	2	3	2	2	1	1	2	2	0	2	1	0	28
Iceland	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	1
Malta	0	0	0	1	1	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	3
Norway	0	0	0	0	0	0	1	1	1	1	1	1	0	0	1	1	0	0	0	0	8
Switzerland	1	1	0	1	1	0	1	1	1	1	1	1	1	1	1	1	0	1	1	0	16
North America	1	1	0	1	2	0	2	1	1	2	1	2	1	0	2	2	0	0	2	1	22
Canada	0	0	0	0	1	0	1	0	1	1	0	1	0	0	1	1	0	0	1	0	8
United States	1	1	0	1	1	0	1	1	0	1	1	1	1	0	1	1	0	0	1	1	14
Other developed countries	1	1	0	1	1	2	1	1	2	1	2	2	1	0	3	1	0	1	1	0	22
Australia	0	0	0	0	0	1	1	0	1	0	1	1	0	0	1	0	0	0	0	0	6
Israel	1	1	0	1	1	1	0	1	1	1	1	1	1	0	2	0	0	1	1	0	15
Japan	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	1
Developing economies	5	13	7	19	14	34	4	2	21	8	8	25	6	5	50	19	8	4	21	7	280
Africa	2	1	1	4	1	7	0	0	2	1	0	3	0	0	13	1	1	1	1	3	42
North Africa	2	1	1	3	1	4	0	0	2	1	0	3	0	0	7	1	1	1	1	1	30
Algeria	0	0	0	1	0	1	0	0	0	0	0	0	0	0	1	0	0	0	0	0	3
Egypt	1	1	1	1	1	1	0	0	1	1	0	1	0	0	1	1	1	1	1	1	15
Morocco	0	0	0	1	0	1	0	0	1	0	0	1	0	0	2	0	0	0	0	0	6
Sudan	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	1
Tunisia	1	0	0	0	0	1	0	0	0	0	0	1	0	0	2	0	0	0	0	0	5

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Table 11. BITs concluded by CEE, end-2002 (continued)

Region / economy [a]	Albania	Belarus	Bosnia and Herzegovina	Bulgaria	Croatia	Czech Republic	Czechoslovakia	Estonia	Hungary	Latvia	Lithuania	Poland	Moldova, Republic of	Macedonia, the Former Yugoslav Republic of	Romania	Russian Federation	Slovakia	Slovenia	Ukraine	Yugoslavia (former)	**Central and Eastern Europe**
Other Africa	0	0	0	1	0	3	0	0	0	0	0	0	0	0	6	0	0	0	0	2	12
Cameroon	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	1
Gabon	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	1
Ghana	0	0	0	1	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	2
Guinea	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1
Mauritania	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	1
Mauritius	0	0	0	0	0	1	0	0	0	0	0	0	0	0	1	0	0	0	0	0	2
Senegal	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	1
South Africa	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
Zimbabwe	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	1	2
Latin America and the Carribean	0	0	0	2	3	9	0	0	5	0	2	3	0	0	8	3	1	0	3	1	40
LATIN AMERICA	0	0	0	1	2	9	0	0	4	0	2	3	0	0	7	2	0	0	2	0	32
Argentina	0	0	0	1	1	1	0	0	1	0	1	1	0	0	1	1	0	0	1	0	9
Bolivia	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	1
Chile	0	0	0	0	1	1	0	0	1	0	0	1	0	0	1	0	0	0	1	0	6
Costa Rica	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
Ecuador	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0	0	0	0	2
El Salvador	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
Panama	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
Paraguay	0	0	0	0	0	1	0	0	1	0	0	0	0	0	1	0	0	0	0	0	3
Peru	0	0	0	0	0	1	0	0	0	0	0	0	0	0	1	0	0	0	0	0	2
Uruguay	0	0	0	0	0	1	0	0	1	0	0	1	0	0	1	0	0	0	0	0	4
Venezuela	0	0	0	0	0	1	0	0	0	0	1	0	0	0	0	0	0	0	0	0	2
THE CARIBBEAN	0	0	0	1	1	0	0	0	1	0	0	0	0	0	1	1	1	0	1	1	8
Cuba	0	0	0	1	1	0	0	0	1	0	0	0	0	0	1	1	1	0	1	1	8
Asia and the Pacific	3	12	6	13	10	18	4	2	14	7	6	19	6	5	29	15	6	3	17	3	198
West Asia	1	4	4	5	5	5	1	1	5	2	2	6	3	2	8	5	1	0	4	1	65
Cyprus	0	1	0	1	0	1	0	0	1	0	0	1	0	0	1	1	0	0	0	0	7
Iran, Islamic Republic of	0	1	1	1	1	0	0	0	0	0	0	1	1	1	0	0	0	0	1	0	8
Jordan	0	0	0	0	1	1	0	0	0	0	0	1	0	0	1	0	0	0	0	0	4
Kuwait	0	0	1	1	1	1	0	0	1	1	1	1	1	0	1	1	0	0	0	0	11
Lebanon	0	1	0	1	0	1	0	0	1	0	0	0	0	0	1	1	0	0	1	0	7
Qatar	0	0	1	0	1	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	3
Turkey	1	1	1	1	1	0	1	1	1	1	1	1	1	1	1	2	1	0	1	1	19
United Arab Emirates	0	0	0	0	0	1	0	0	0	0	0	1	0	0	1	0	0	0	0	0	3
Yemen	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	1	0	2
Central Asia	0	2	0	4	0	3	0	0	1	1	1	3	2	0	5	2	3	0	7	0	34
Armenia	0	1	0	1	0	0	0	0	0	0	0	0	0	0	1	1	0	0	1	0	5
Azerbaijan	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	1	0	2
Georgia	0	0	0	1	0	0	0	0	0	0	0	0	1	0	1	0	0	0	1	0	4
Kazakhstan	0	0	0	1	0	1	0	0	1	0	1	1	0	0	1	0	0	0	1	0	7
Kyrgyzstan	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	2
Tajikistan	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	1	0	0	0	2

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Table 11. BITs concluded by CEE, end-2002 (concluded)

Region / economy [a]	Albania	Belarus	Bosnia and Herzegovina	Bulgaria	Croatia	Czech Republic	Czechoslovakia	Estonia	Hungary	Latvia	Lithuania	Poland	Moldova, Republic of	Macedonia, the Former Yugoslav Republic of	Romania	Russian Federation	Slovakia	Slovenia	Ukraine	Yugoslavia (former)	**Central and Eastern Europe**
Turkmenistan	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1	0	1	0	3
Uzbekistan	0	0	0	1	0	1	0	0	0	1	0	1	1	0	1	1	1	0	1	0	9
South. East and South-East Asia	2	6	2	4	5	10	3	1	8	4	3	10	1	3	16	8	2	3	6	2	99
Bangladesh	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1	0	0	0	0	0	2
China	1	1	0	1	1	0	1	1	1	0	1	1	1	1	2	1	0	1	1	1	17
India	0	0	0	1	1	1	0	0	0	0	0	1	0	0	1	1	0	0	1	0	7
Indonesia	0	0	0	0	0	1	0	0	1	0	0	1	0	0	1	0	1	0	1	0	6
Korea, Democratic People's Republic of	0	0	0	1	0	1	0	0	0	0	0	0	0	1	1	1	1	0	0	0	6
Korea, Republic of	0	1	0	0	0	0	1	0	1	1	1	1	0	0	1	1	0	0	1	1	10
Lao People's Democratic Republic	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	1
Malaysia	1	0	1	0	1	1	0	0	1	0	0	1	0	1	2	0	0	0	0	0	9
Mongolia	0	1	0	0	0	1	0	0	1	0	0	1	0	0	1	1	0	0	1	0	7
Pakistan	0	1	1	0	0	1	0	0	0	0	0	0	0	0	2	0	0	0	0	0	5
Philippines	0	0	0	0	0	1	0	0	0	0	0	0	0	0	1	1	0	0	0	0	3
Singapore	0	1	0	0	0	1	0	0	1	1	0	1	0	0	0	0	0	1	0	0	6
Sri Lanka	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	1
Taiwan Province of China	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	1
Thailand	0	0	0	0	1	1	1	0	1	0	0	1	0	0	1	0	0	1	0	0	7
Viet Nam	0	1	0	1	0	1	0	0	1	1	1	1	0	0	1	1	0	0	1	0	10
Central and Eastern Europe	9	10	5	14	15	17	0	5	14	10	11	17	11	11	17	14	11	13	16	12	116
Albania	0	0	0	1	1	1	0	0	1	0	0	1	0	1	1	1	0	1	0	0	9
Belarus	0	0	0	1	1	1	0	0	0	1	1	1	1	0	1	0	0	0	1	1	10
Bosnia and Herzegovina	0	0	0	0	1	0	0	0	0	0	0	0	0	1	1	0	0	1	0	1	5
Bulgaria	1	1	0	0	1	1	0	0	1	0	0	1	1	1	1	1	1	1	1	1	14
Croatia	1	1	1	1	0	1	0	0	1	0	0	1	1	1	1	1	1	1	1	1	15
Czech Republic	1	1	0	1	1	0	0	1	1	1	1	1	1	1	1	1	1	1	1	1	17
Estonia	0	0	0	0	0	1	0	0	0	1	1	1	0	0	0	0	0	0	1	0	5
Hungary	1	0	0	1	1	1	0	0	0	1	1	1	1	0	1	1	1	1	1	1	14
Latvia	0	1	0	0	0	1	0	1	1	0	1	1	1	0	1	0	1	0	1	0	10
Lithuania	0	1	0	0	0	1	0	1	1	1	0	1	1	0	1	1	0	1	1	0	11
Poland	1	1	0	1	1	1	0	1	1	1	1	0	1	1	1	1	1	1	1	1	17
Romania	1	1	1	1	1	1	0	0	1	1	1	1	1	1	0	1	1	1	1	1	17
Russian Federation	1	0	0	1	1	1	0	0	1	0	1	1	1	1	1	0	1	1	1	1	14
Slovakia	0	0	0	1	1	1	0	0	1	1	0	1	0	0	1	1	0	1	1	1	11
Slovenia	1	0	1	1	1	1	0	0	1	0	1	1	0	1	1	1	1	0	1	0	13
Ukraine	0	1	0	1	1	1	0	1	1	1	1	1	1	1	1	1	1	1	0	1	16
Yugoslavia (former)	0	1	1	1	1	1	0	0	1	0	0	1	0	1	1	1	1	0	1	0	12
Macedonia, the Former Yugoslav Republic of	1	0	1	1	1	1	0	0	1	0	0	1	0	0	1	1	0	1	1	1	12
Moldova, Republic of	0	1	0	1	1	1	0	0	1	1	1	1	0	0	1	1	0	0	1	0	11
TOTAL WORLD	29	34	19	53	48	56	21	23	53	37	37	62	29	25	94	54	21	34	53	27	693

Source: UNCTAD BIT/DTT database.

[a] Listing only those regions/ economies with which CEE countries have concluded treaties.

[b] Because of the involvement of two parties in each treaty, this figure reflects double-counting. The actual number of BITs between CEE countries is 116.

[c] Because of the involvement of two parties in each treaty within the CEE countries, this figure reflects some double-counting. The actual number of BITs is 693.

Table 12. DTTs concluded by CEE, end-2002

Region / economy[a]	Albania	Belarus	Bulgaria	Croatia	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Russian Federation	Slovakia	Slovenia	Ukraine	Yugoslavia (former)	**Central and Eastern Europe**
Developed Countries	5	6	21	7	28	19	24	19	17	27	25	35	27	1	13	11	34
Western Europe	5	6	19	6	23	16	19	16	14	22	21	28	22	8	11	11	257
European Union	3	5	16	4	18	13	16	13	11	17	18	22	18	7	1	1	28
Austria	0	0	1	0	1	1	1	0	0	1	1	1	1	1	1	0	1
Belgium / Luxembourg	0	0	2	1	2	2	2	2	1	3	2	2	3	2	1	1	26
Denmark	0	0	2	0	2	1	1	1	1	2	1	2	1	1	1	1	18
Finland	0	0	1	0	2	1	1	1	1	1	2	2	2	0	1	1	17
France	0	0	1	0	1	1	1	1	1	1	1	1	1	0	0	1	12
Germany	0	0	1	0	1	1	1	1	1	1	2	2	1	0	1	1	14
Greece	1	0	1	1	1	0	1	0	0	1	1		1	1	0	1	1
Ireland	0	0	1	0	1	1	1	1	1	1	1	1	1	0	0	0	1
Italy	0	0	1	0	1	1	1	1	1	1	1	2	1	0	0	1	13
Netherlands	1	3	1	2	1	2	1	2	2	1	2	2	1	1	2	1	27
Portugal	0	0	1	0	2	0	1	1	0	1	1	1	2	0	1	0	11
Spain	0	0	1	0	1	0	1	0	0	1	1	1	1	1	0	0	8
Sweden	1	1	1	0	1	1	2	1	1	1	1	2	1	0	1	1	17
United Kingdom	0	1	1	0	1	1	1	1	1	1	1	3	1	0	1	1	15
Other Western Europe	2	1	3	2	5	3	3	3	3	5	3	6	4	1	1	1	49
Iceland	0	0	0	0	1	1		1	1	1	0	1	0	0	0	0	6
Malta	1	0	1	1	1	1	1	1	1	1	1	1	1	0	0	0	12
Norway	0	0	1	0	1	1	1	1	1	1	1	2	1	0	1	1	13
Switzerland	1	1	1	1	2	0	1	0	0	2	1	2	2	1	0	0	18
North America	0	0	1	1	2	3	2	3	3	2	2	5	2	2	2	0	3
Canada	0	0	1	1	1	1	1	1	1	1	1	2	1	1	1	0	14
United States	0	0	0	0	1	2	1	2	2	1	1	3	1	1	1	0	16
Other Developed Countries	0	0	1	0	3	0	3	0	0	3	2	2	3	0	0	0	17
Australia	0	0	0	0	1	0	1	0	0	1	1	0	1	0	0	0	5
Israel	0	0	0	0	1	0	1	0	0	1	0	1	1	0	0	0	5
Japan	0	0	1	0	1	0	1	0	0	1	1	1	1	0	0	0	7
Developing Countries	2	5	15	3	24	4	19	5	4	28	33	16	7	2	2	1	185
Africa	0	0	3	1	4	0	3	0	0	7	6	2	2	0	0	3	32
North Africa	0	0	2	0	2	0	2	0	0	4	4	1	0	0	0	1	17
Algeria	0	0	1	0	0	0	0	0	0	1	1	0	0	0	0	0	3
Egypt	0	0		0	1	0	1	0	0	1	1	0	0	0	0	1	6
Morocco	0	0	1	0	0	0	1	0	0	1	1	1	0	0	0	0	5
Tunisia	0	0	0	0	1	0	0	0	0	1	1	0	0	0	0	0	3
Other Africa	0	0	1	1	2	0	1	0	0	3	2	1	2	0	0	2	15
Mauritius	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	1
Nigeria	0	0	0	0	1	0	0	0	0	0	1	0	1	0	0	0	3
South Africa	0	0	0	1	1	0	1	0	0	1	1	0	1	0	0	0	6
Zambia	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	1
Zimbabwe	0	0	1	0	0	0	0	0	0	1	0	0	0	0	0	1	3
Latin America and the Carribean	0	0	0	0	2	0	2	0	0	2	3	0	1	0	0	0	1
LATIN AMERICA	0	0	0	0	2	0	2	0	0	2	3	0	1	0	0	0	1
Brazil	0	0	0	0	1	0	1	0	0	0	0	0	1	0	0	0	3
Ecuador	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	1
Uruguay	0	0	0	0	0	0	1	0	0	1	0	0	0	0	0	0	2
Venezuela	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	1
Asia and the Pacific	2	5	12	2	18	4	14	5	4	19	24	14	4	2	2	7	143
West Asia	1	2	3	1	4	0	3	1	1	5	8	4	1	1	0	1	38
Cyprus	0	1	2	0	1	0	0	0	0	1	1	2	1	0	0	1	11
Iran, Islamic Republic of	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	2
Jordan	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	1
Kuwait	0	0	0	0	0	0	1	0	0	0	1	0	0	0	0	0	2
Lebanon	0	0	0	0	1	0	0	0	0	0	1	1	0	0	0	0	3
Turkey	1	0	0	1	1	0	1	1	1	1	2	1	0	1	0	0	12
United Arab Emirates	0	0	0	0	1	0	0	0	0	1	0	0	0	0	0	0	2
Central Asia	0	0	3	0	2	2	1	2	2	1	4	1	0	0	2	0	2
Armenia	0	0	1	0	0	1	0	1	1	1	1	0	0	0	0	0	6
Georgia	0	0	1	0	0	0	0	0	0	0	1	0	0	0	1	0	3
Kazakhstan	0	0	1	0	1	1	1	1	1	0	1	0	0	0	0	0	7
Kyrgyzstan	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1
Turkmenistan	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	1
Uzbekistan	0	0	0	0	1	0	0	0	0	0	1	0	0	0	0	0	2
South, East and South-East Asia	1	3	6	1	12	2	1	2	1	13	12	9	3	1	0	6	85
Bangladesh	0	0	0	0	0	0	0	0	0	1	1	0	0	0	0	0	2
China	0	1	1	1	1	1	1	1	1	1	1	0	1	1	0	2	16
India	0	1	1	0	2	0	1	0	0	1	1	1	1	0	0	0	9
Indonesia	0	0	1	0	1	0	1	0	0	1	1	1	0	0	0	0	6
Malaysia	1	0	0	0	1	0	1	0	0	1	1	1	0	0	0	1	7
Mongolia	0	1	0	0	1	0	1	0	0	0	0	1	0	0	0	0	4
Pakistan	0	0	0	0	0	0	1	0	0	1	2	0	0	0	0	0	4

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Table 12. DTTs concluded by CEE, end-2002 (concluded)

Region / economy	Albania	Belarus	Bulgaria	Croatia	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Russian Federation	Slovakia	Slovenia	Ukraine	Yugoslavia (former)	**Central and Eastern Europe**
Philippines	0	0	0	0	1	0	1	0	0	1	1	1	0	0	0	1	6
Singapore	0	0	0	0	1	1	0	1	0	1	0	0	0	0	0	0	4
Sri Lanka	0	0	0	0	1	0	0	0	0	1	1	0	1	0	0	1	5
Thailand	0	0	1	0	1	0	1	0	0	1	1	1	0	0	0	0	6
Viet Nam	0	0	0	0	1	0	1	0	0	1	0	0	0	0	0	0	3
Central and Eastern Europe	6	5	9	12	15	7	13	9	13	15	12	6	1	3	8	15	85
Albania	0	0	0	1	1	0	1	0	0	1	1	0	0	0	0	0	6
Belarus	0	0	0	0	0	1	0	1	1	0	1	0	0	0	0	1	5
Bulgaria	0	0	0	1	1	0	1	0	0	1	1	0	1	0	0	1	9
Croatia	1	0	1	0	1	0	1	1	1	1	1	0	1	0	1	1	12
Czech Republic	1	0	1	1	0	1	1	1	1	1	1	1	1	1	1	1	15
Estonia	0	1	0	0	1	0	0	1	1	1	0	0	0	0	1	0	7
Hungary	1	0	1	1	1	0	0	0	0	2	1	1	1	0	1	2	13
Latvia	0	1	0	1	1	1	0	0	1	1	0	0	1	0	1	0	9
Lithuania	0	1	0	1	1	1	0	1	0	1	1	2	1	1	1	0	13
Poland	1	0	1	1	1	1	2	1	1	0	1	1	1	1	0	2	15
Romania	1	1	1	1	1	0	1	0	1	1	0	0	1	0	0	2	12
Russian Federation	0	0	0	0	1	0	1	0	2	1	0	0	0	0	0	1	6
Slovakia	0	0	1	1	1	0	1	1	1	1	1	0	0	0	0	2	1
Slovenia	0	0	0	0	1	0	0	0	1	1	0	0	0	0	0	0	3
Ukraine	0	0	0	1	1	1	1	1	1	0	0	0	0	0	0	1	8
Yugoslavia (former)	0	1	1	1	1	0	2	0	0	2	2	1	2	0	1	0	15
TOTAL WORLD	13	16	45	22	67	30	56	33	34	70	70	57	44	15	23	36	574

Source: UNCTAD FDI/TNC database.

[a] Listing only those regions/ economieswith which CEE countries have concluded treaties.

[b] Because of the involvement of two parties in each treaty, this figure reflects double-counting. The actual number of DTTs between CEE countries is 85.

[c] Because of the involvement of two parties in each treaty within the CEE countries, this figure reflects some double-counting. The actual number of DTTs is 574.

Table 13. CEE parties to main international investment-related instruments, as of October 2002

Country	CREFAA[a]	ICSID[b]	MIGA[c]	TRIMS[d]	GATS[e]	TRIPS[f]
Albania	v	v	v	v	v	v
Belarus	v	v	v	g	g	g
Bosnia and Herzegovina	v	v	v	g	g	g
Bulgaria	v	v	v	v	v	v
Croatia	v	v	v	v	v	v
Czech Republic	v	v	v	v	v	v
Estonia	v	v	v	v	v	v
Hungary	v	v	v	v	v	v
Latvia	v	v	v	v	v	v
Lithuania	v	v	v	v	v	v
Macedonia, The Former Yugoslav Republic of	v	v	v	g	g	g
Moldova, Republic of		v	v	v	v	v
Poland	v		v	v	v	v
Romania	v	v	v	v	v	v
Russian Federation	v	v	v	g	g	g
Serbia and Montenegro	v	v	v	g	g	g
Slovak Republic	v	v	v	v	v	v
Slovenia	v	v	v	v	v	v
Ukraine	v	v	v	g	g	g

Source: UNCTAD.

a Convention on the Recognition and Enforcement of Foreign Arbitral Awards.
b Convention on the Settlement of Investment Disputes between States and Nationals of other States.
c Convention Establishing the Multilateral Investment Guarantee Agency.
d Agreement on Trade-related Investment Measures.
e General Agreement on Trade in Services.
f Agreement on Trade-related Aspects of Intellectual Property Rights.
g Observer status in the WTO.
h Countries in the process of fulfilling membership requirements to MIGA.

B. Outward FDI

1. The setting

(a) Outward FDI: How big it is?

Outward FDI has not yet reached a level similar to that of inward FDI. In 2001, based in part on international investment position statistics and in part on the cumulative values of FDI outflows derived from balance-of-payments data, the outward FDI stock of the region was estimated to reach $24 billion only (i.e. 15 per cent of the inward stock; UNCTAD, 2002, p. 17). Relative to GDP, Estonia is the only country in which the share of the outward stock exceeded 5 per cent in 2000. Estonia was followed by the Russian Federation, Hungary and Slovenia, each of which had values of over 4 per cent.

Outward FDI of CEE countries is highly concentrated. In 2001, of the estimated stock of $24 billion of *registered* outward FDI, the Russian Federation alone accounted for more than $14 billion. That represented more than 60 per cent of the total volume. The remaining 40 per cent, too, were distributed unevenly. Hungary was second, with a stock of more than $4 billion, far ahead of the others. It was followed by Poland ($1 billion), Slovenia, Croatia, the Czech Republic (with values of over $800 million each) and Estonia (with more than $400 million). The remaining 12 countries together accounted for less than $1.2 billion (less than 5 per cent of the region's outward FDI stock).

It is to be noted that, according to some sources of information (see below), official statistics on FDI may underestimate the real size of outward FDI. In the Russian Federation, for example, officially reported FDI may be ten times less than real outbound FDI. The registered outflows of the Russian Federation do not include investment hidden behind capital flight, estimated to exceed $20 billion per year in the 1990s (UNCTAD, 2002, p. 84). The outward FDI stock of the Russian Federation reported on a balance-of-payments basis ($14 billion in 2001) is also much less than the estimated assets of Russian firms abroad. It has been suggested that a figure of $20 to $30 billion would correspond to a more realistic estimate for Russian FDI outward stocks in 1997 (Bulatov, 1998). Two studies suggested that the stock of Russian investment abroad – direct, portfolio and other – was of the order of $130 billion at the beginning of 1995 (Rybkin, 1995; Gorshenin, 1995). Another study concluded that the volume of Russian investment abroad in 1996 was more than $300 billion, of which direct and portfolio investments each represented $30 to $40 billion, while the "other" category accounted for roughly $230 billion (Khaldin and Andrianov, 1996).

Why do such big differences exist between balance-of-payments data and other estimates of outward FDI stock? There may be various reasons:

- The balance-of-payments data do not capture fully the value of assets accumulated by the former Soviet Union abroad. The book value of Soviet companies abroad was considered to be $2 billion at the beginning of the 1990s (Sokolov, 1991) and the market value $10 billion (Gorshenin, 1995). The market value of outward FDI may have increased over time.
- The balance-of-payments data do not account for the assets that the Russian Federation inherited in other former Soviet Republics. These investments had in fact been registered as domestic investment by the Union of Soviet Socialist Republics and became foreign assets once these republics gained independence.

- Finally, at least a part of the outward flows are unregistered.

The above-mentioned studies suggest that the registration of FDI and other outflows was far less advanced than the reporting of FDI inflows.

Outward FDI of CEE countries still lacks dynamism. With the exception of Hungary, the inward FDI stock of CEE countries grew faster than their outward FDI stock (table 14). Slovenia and the Czech Republic experienced the smallest difference between the growth rates of inward and outward stocks.

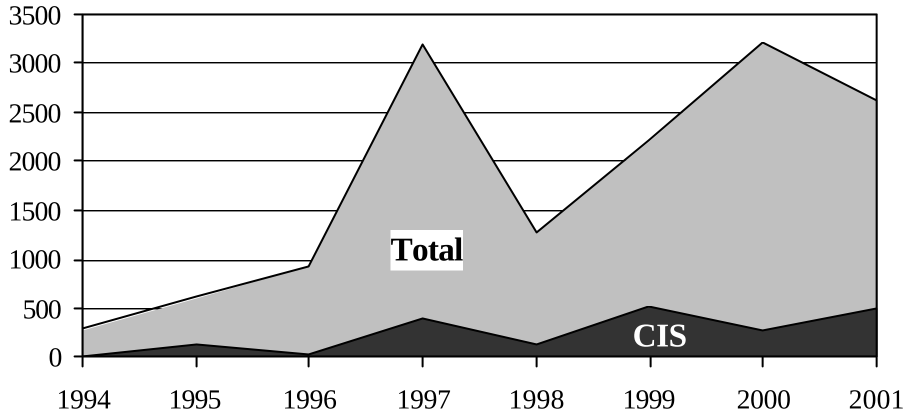
Table 14. CEE: Compound growth of outward versus inward FDI stock, 1993-2000
(Percentage)

Country	Outward per inward	Outward FDI	Inward FDI
Albania	0.4	204	562
Bulgaria	0	-22	1 264
Croatia	0	52	1 907
Czech Republic	0.6	332	516
Estonia	0.6	582	1 001
Hungary	3.1	790	256
Latvia	0	-33	838
Poland	0.5	653	1 292
Romania	0	18	500
Russian Federation	0.6	376	643
Slovakia	0	-9	1 123
Slovenia	0.7	133	200
Ukraine	0.1	34	694

(b) Main features of outward FDI from CEE

Information on the structural patterns (industries, countries of destination) of outward FDI from CEE is scattered (and sometimes has to be interpreted with care). What is available usually confirms the nascent status of those investments. In terms of countries of destination, while developed countries still figure prominently among the recipients of outward FDI, more recent data show a changing geographical pattern, especially regarding FDI from various countries due to join the EU in 2004. The Russian Federation is still a major exception to those trends. While Russian firms have non-negligible investments in CEE (especially in Poland), they mostly target developed economies. The share of the Commonwealth of Independent States (CIS) in Russian outward FDI *flows* (figure 3) has been consistently low since 1994. It reached its highest share in 1999 (24 per cent) – still less than a quarter of outflows. In 1994, 1996 and 2000, that share remained under 10 per cent.

Figure 3. Russian Federation: total FDI outflows and FDI outflows to CIS, 1994-2001
(Millions of dollars)



Source: UNCTAD, based on the balance-of-payments data of the Bank of Russia.

Firms from other CEE countries more often than not target other CEE economies (tables 15 and 16) with which they have traditionally close business links (for example, Slovenian firms target former Yugoslavia). Within that general pattern, there are major country-by-country differences: an overwhelming majority of FDI outflows and outward stocks from Croatia, Estonia and Slovenia are intra-regional. CEE is also a dominant destination for Slovak and Czech firms.

Table 15. Geographical distribution of FDI outflows in CEE, mid-1990s and 2000/2001
(Percentage shares in world total)

	Bulgaria		Czech Republic		Estonia		Hungary		Lithuania		Poland		TFYR Macedonia
Region/economy	1999	2000	1999	2000	1994	2001	1999	2000	1997	2000	1996	2000	2000
Developed countries	-18.7	-58.1	31.5	47.8	-	1.1	59.6	36.0	2.3	0.7	84.4	-76.2	73.3
Western Europe	-18.7	-74.2	20.9	43.8	-	1.1	41.9	36.6	0.7	6.8	84.4	-116.9	73.3
European Union	-18.7	-112.9	16.9	-50.8	-	1.1	41.4	37.5	0.7	6.8	82.2	-119.8	73.3
Austria	-	-	-	-	-	-	-	6.9	-	-	-	-	47.8
Belgium / Luxembourg	0.6	32.3	2.0	0.0	-	-	-	-	-	-	4.4	-220.9	-
Belgium	-	-	1.2	0.0	-	-	-	-	-	-	-	-	-
Luxembourg	0.6	32.3	0.8	0.0	-	-	-	-	-	-	-	-	-
Denmark	-	-	0.1	0.2	-	-	-	22.4	0.1	-2.7	-	-4.1	-
Finland	-	-	-	-	-	-	0.0	0.0	-	-	-	-	-
France	-1.8	-6.5	-	-1.6	-	-	0.3	0.4	-	-	-11.1	0.0	-
Germany	-7.0	-122.6	1.7	-8.9	-	-	3.2	8.5	0.2	25.7	73.3	-15.1	25.6
Greece	-	-	-	-	-	-	-	-	-	-	-	-	-
Ireland	-	-	-	1.6	-	-	1.7	0.0	-	-	-	-2.3	-
Italy	-8.2	-	-	-0.5	-	0.4	0.3	0.1	0.0	-15.5	-	1.2	-
Netherlands	-	-	3.9	-40.8	-	0.0	17.9	-2.0	0.0	3.4	-	33.7	-
Portugal	-	-	-	-	-	-	-	-	-	-	-	-	-
Spain	-	-	0.2	-0.9	-	0.3	0.3	0.3	-	-	2.2	16.9	-
Sweden	-	-	-	-2.6	-	0.1	0.0	0.0	-	-	-	-2.9	-
United Kingdom	-2.3	-16.1	10.8	-3.7	-	-	9.6	0.9	-	-	13.3	27.3	-
Unspecified European Union	-	-	-	-	-	-	-	-	0.5	-4.1	-	-	-
Other Western Europe	-	38.7	4.0	94.6	-	-	0.5	-0.8	-	-	2.2	2.9	-
Liechtenstein	-	-	0.1	102.1	-	-	0.1	0.1	-	-	2.2	0.0	-
Norway	-	-	0.8	-4.9	-	-	-	0.0	-	-	-	0.6	-
Switzerland	-	-	-	-	-	-	-	-	-	-	-	-	-
North America	-	16.1	10.8	7.2	-	-	17.7	-0.7	1.6	-6.1	11.1	9.9	-
Canada	-	-	6.3	-10.7	-	-	0.0	0.1	1.6	-6.1	-	-6.4	-
United States	-	16.1	4.5	17.9	-	-	17.7	-0.8	-	-	11.1	16.3	-
Other developed countries	-	-	-0.2	-3.3	-	-	0.0	0.1	-	-	-11.1	30.8	-
Australia	-	-	-0.2	-3.3	-	-	0.0	0.0	-	-	-	-2.3	-
Israel	-	-	-	-	-	-	0.0	0.0	-	-	-11.1	35.5	-
Japan	-	-	-	-	-	-	0.0	0.1	-	-	-	-1.7	-
New Zealand	-	-	-	-	-	-	-	-	-	-	-	-	-
Developing countries /economies	2.3	-12.9	-50.2	-38.0	-	-	8.0	-1.3	-	-	0.0	152.3	13.3
Africa	-	3.2	-2.9	-	-	-	0.0	-	-	-	0.0	46.5	-
North Africa	-	-	0.0	-	-	-	-	-	-	-	0.0	1.2	-
Egypt	-	-	0.0	-	-	-	-	-	-	-	-	-	-
Unspecified North Africa	-	-	0.0	-	-	-	-	-	-	-	-	1.2	-
Other Africa	-	3.2	-2.9	-	-	-	-	-	-	-	0.0	45.3	-
Nigeria	-	3.2	0.0	-	-	-	-	-	-	-	-	-	-
Seychelles	0.0	0.0	-2.9	-	-	-	-	-	-	-	0.0	0.0	-
Unspecified Other Africa	-	-	0.0	-	-	-	-	-	-	-	-	45.3	-
South America	0.0	0.0	0.8	-6.1	-	-	0.0	0.0	-	-	0.0	0.0	-
Argentina	0.0	0.0	-	0.2	-	-	-	-	-	-	0.0	0.0	-
Brazil	0.0	0.0	1.0	-6.3	-	-	-	-	-	-	0.0	0.0	-
Chile	0.0	0.0	-0.2	-	-	-	-	-	-	-	0.0	0.0	-
Colombia	0.0	0.0	0.0	0.0	-	-	-	0.0	-	-	0.0	0.0	-

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Table 15. Geographical distribution of FDI outflows in CEE, mid-1990s and 2000/2001 (concluded)
(Percentage shares in world total)

Region/economy	Bulgaria		Czech Republic		Estonia		Hungary		Lithuania		Poland		TFYR Macedonia
	1999	2000	1999	2000	1994	2001	1999	2000	1997	2000	1996	2000	2000
Other Latin America and the Caribean	-	-	36.7	1.2	-	-	-	-	-	-	0.0	37.8	-
British Virgin Islands	0.0	0.0	32.1	1.2	-	-	-	-	-	-	0.0	0.0	-
Mexico	-	-	2.0	-	-	-	-	-	-	-	-	-	-
Netherlands Antilles	0.0	0.0	2.6	-	-	-	-	-	-	-	0.0	0.0	-
Turks and Caicos Islands	0.0	0.0	0.1	-	-	-	-	-	-	-	0.0	0.0	-
Unspecified Other Latin America and the Caribbean	-	-	-	0.0	-	-	-	-	-	-	-	37.8	-
Developing Europe	1.2	-35.5	-92.4	-49.2	-	-	3.0	0.6	-	-	0.0	18.0	13.3
Bosnia and Herzegovina	-	-	0.1	0.2	-	-	-	-	-	-	-	-	-
Croatia	0.0	-	1.3	-2.3	-	-	2.6	0.6	-	-	-	9.3	-
Slovenia	-	-	-94.8	-47.1	-	-	0.4	0.1	-	-	-	-	-
TFYR Macedonia	0.6	-	-	0.0	-	-	-	-	-	-	-	-	-
Yugoslavia	0.6	-35.5	0.9	0.0	-	-	-	0.0	-	-	-	8.7	13.3
Asia	1.2	19.4	7.6	16.1	-	-	5.0	-1.9	-	-	0.0	50.0	-
West Asia	1.2	19.4	2.0	-8.4	-	-	-	-	-	-	0.0	23.3	-
Cyprus	1.2	16.1	1.9	-9.1	-	-	-	-	-	-	0.0	0.0	-
Turkey	-	3.2	0.0	0.0	-	-	-	-	-	-	-	23.3	-
United Arab Emirates	-	-	0.1	0.7	-	-	-	-	-	-	-	-	-
Central Asia	-	-	5.1	6.5	-	-	-	-	-	-	-	-	-
Azerbaijan	-	-	-	0.2	-	-	-	-	-	-	-	-	-
Georgia	-	-	2.1	-	-	-	-	-	-	-	-	-	-
Kazakhstan	-	-	2.8	6.3	-	-	-	-	-	-	-	-	-
Uzbekistan	-	-	0.2	-	-	-	-	-	-	-	-	-	-
South, East and South-East Asia	-	-	0.4	17.9	-	-	5.0	-1.9	-	-	0.0	26.7	-
China	-	-	-1.2	1.9	-	-	-	-	-	-	2.2	1.7	-
Hong Kong, China	-	-	-	16.1	-	-	-	-	-	-	-	-	-
India	-	-	1.8	-	-	-	-	-	-	-	-	-	-
Malaysia	-	-	-0.1	-	-	-	-	-	-	-	-	-	-
Republic of Korea	-	-	0.0	0.0	-	-	4.8	-1.9	-	-	-	-	-
Singapore	-	-	-	-	-	-	-	-	-	-	-	1.7	-
Thailand	-	-	-	-	-	-	-	-	-	-	-2.2	-	-
Unspecified South, East and South-East Asia	-	-	-	-	-	-	-	-	-	-	-	23.3	-
Central and Eastern Europe	116.4	167.7	30.3	43.1	12.1	92.9	21.4	62.3	94.4	41.9	15.6	36.6	13.3
Albania	-	-	-	-	-	-	-	-	-	-	-	-	-
Belarus	-	-	0.1	-2.6	0.0	0.0	-	-	19.0	29.1	-	4.1	-
Bulgaria	-	-	1.3	5.8	-	-	0.4	0.1	-	-	2.2	-0.6	13.3
Czech Republic	0.6	-3.2	-	-	-	-	1.5	7.6	-	-	-2.2	47.1	-
Estonia	-	0.0	0.1	-	-	-	-	-	50.2	56.8	-	-	-
Hungary	-	-3.2	6.0	14.2	-	-	-	-	-	-	-4.4	7.0	-
Latvia	-	-	4.2	0.0	0.0	17.8	-	-	9.4	25.7	-	-0.6	-
Lithuania	-	-	-	-	-	-	-	-	-	-	-	-	-
Poland	0.6	-32.3	15.9	44.3	0.0	2.2	4.4	0.8	0.0	-9.5	0.0	0.0	-
Romania	3.5	48.4	0.1	-18.2	0.0	0.0	9.8	1.6	-	-	2.2	5.2	-
Russian Federation	52.0	3.2	2.4	-0.5	12.1	0.0	1.4	1.8	12.3	-63.5	2.2	0.0	-
Slovakia	-	-	-	-	-	-	-	-	-	-	-	-	-
Ukraine	-	-	-0.1	0.5	0.0	1.2	0.6	0.4	3.5	3.4	17.8	-1.7	-
Unspecified Central and Eastern Europe	-	-	-	-	-	-	-	-	-	-	-2.2	-25.0	-
Unspecified	-	-	-	-7.0	87.9	6.0	11.0	3.0	3.2	57.4	-	-12.8	-
For reference :													
Total world (millions of dollars)	17.1	3.1	89.8	42.9	2.3	184.8	254.3	563.7	27.0	3.7	45.0	17.2	0.1

Source : UNCTAD, based on country table 9.

Table 16. Geographical distribution of FDI outward stocks in CEE, mid-1990s and 2000/2001
(Percentages shares in world total)

Region/economy	Bulgaria		Croatia	Czech Republic		Estonia		Lithuania		Poland		Slovakia		Slovenia	
	1999	2000	2000	1997	2000	1998	2001	1996	2000	1996	2000	1996	2000	1994	2000
Developed countries	37.8	37.7	-8.5	30.7	39.5	1.1	5.1	20.5	12.3	49.0	56.5	10.3	23.7	18.9	19.8
Western Europe	30.8	30.0	8.2	27.5	37.2	1.1	5.1	20.5	9.5	39.9	46.0	10.3	23.7	15.0	17.1
European Union	31.0	27.2	7.6	25.8	16.6	1.1	5.6	20.5	9.5	39.3	39.8	9.3	23.7	11.6	15.8
Austria	-	-	2.0	2.3	2.3	-	-	-	-	2.0	3.8	5.2	2.3	2.7	3.5
Belgium / Luxembourg	0.1	1.3	-0.1	-0.3	0.3	-	-	-	-	5.4	13.0	-	-	-2.6	-1.2
Belgium	-	-	-	-	0.3	-	-	-	-	-	-	-	-	-2.7	-1.3
Luxembourg	0.1	1.3	-0.1	-	-	-	-	-	-	-	-	-	-	0.1	-
Denmark	-	-	-	-	-	-	-	1.8	0.2	0.1	-	-	-	-	1.0
Finland	-	-	-	0.7	0.2	0.3	-1.6	-	-	-	-	-	-	-	-
France	2.1	2.3	-	0.5	0.6	-	-	-	-	8.2	2.8	0.0	0.0	-0.2	1.0
Germany	14.2	9.8	2.1	12.0	5.0	-	-	-	6.4	12.7	7.0	4.1	2.1	8.6	8.9
Greece	0.3	0.2	-	0.2	-	-	-	-	-	-	-	-	-	-	-
Ireland	-	-	-	0.3	1.7	-	-	-	-	-	-	-	-	-	0.1
Italy	3.3	3.5	0.9	0.1	2.5	-	6.9	-	0.2	0.3	0.2	-	-	1.8	1.0
Netherlands	-	-	0.2	3.8	-	-	-0.1	-	0.5	0.0	0.8	-	-	1.0	-0.1
Portugal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Spain	-	-	-	0.3	0.1	-	0.2	-	-	-	0.5	-	-	-	0.1
Sweden	-	-	-	0.5	0.2	0.8	0.2	-	-	0.3	-	-	-	0.2	0.2
United Kingdom	11.0	10.1	2.4	5.5	3.4	-	-	-	-	10.3	11.5	-	19.2	0.1	1.3
Unspecified European Union	-	-	-	-	-	-	-	18.8	2.3	-	-	-	-	0.0	0.0
Other Western Europe	-0.2	2.8	0.7	1.7	20.6	-	-0.5	-	-	0.5	6.1	0.9	-	3.4	1.3
Gibraltar	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guernesey	-	-	-	-	1.0	-	-	-	-	-	-	-	-	-	-
Liechtenstein	-	-	-	-	17.8	-	-	-	-	-	-	-	-	-	0.2
Norway	-0.1	-0.1	0.0	-0.7	-0.3	-	-0.5	-	-	-	-	-	-	-	-
Switzerland	-0.1	2.9	0.7	2.4	2.2	-	-	-	-	0.5	6.1	0.9	-	3.3	1.1
North America	7.0	7.6	-16.8	3.0	2.3	-	-	-	2.7	7.1	9.4	-	-	3.9	2.7
Canada	-	-	-	1.5	0.3	-	-	-	2.7	0.3	-	-	-	-	-0.1
United States	7.0	7.6	-16.8	1.5	2.0	-	-	-	-	6.8	9.3	-	-	3.9	2.8
Other developed countries	-	-	-	0.2	-0.1	-	-	-	-	2.0	1.2	-	-	-	-
Australia	-	-	-	0.2	-0.1	-	-	-	-	-	-0.1	-	-	-	-
Israel	-	-	-	-	-	-	-	-	-	1.9	1.3	-	-	-	-
Japan	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-
New Zealand	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Developing countries /economies	27.7	20.9	57.7	24.0	17.8	92.7	83.1	-	-	26.5	24.0	0.6	2.0	72.4	66.8
Africa	7.1	6.5	1.1	8.8	-	-	-	-	-	2.3	2.0	-	-	5.4	3.1
North Africa	4.3	3.8	0.0	0.7	-	-	-	-	-	0.5	0.2	-	-	-	-
Egypt	-	-	-	-	-	-	-	-	-	0.5	-	-	-	-	-
Morocco	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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Table 16. Geographical distribution of FDI outward stocks in CEE, mid-1990s and 2000/2001 (continued)
(Percentages shares in world total)

Region/economy	Bulgaria		Croatia	Czech Republic		Estonia		Lithuania		Poland		Slovakia		Slovenia	
	1999	2000	2000	1997	2000	1998	2001	1996	2000	1996	2000	1996	2000	1994	2000
Libyan Arab Jamahiriya	3.7	3.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Sudan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tunisia	0.7	0.7	-	-	-	-	-	-	-	-	-	-	-	-	-
Unspecified North Africa	-	-	-	0.7	-	-	-	-	-	-	0.2	-	-	-	-
Other Africa	2.7	2.7	1.1	8.1	-	-	-	-	-	1.8	1.7	-	-	5.4	3.1
Eritrea	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guinea	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Kenya	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.1
Liberia	-	-	1.1	-	-	-	-	-	-	-	-	-	-	4.7	3.0
Nigeria	2.7	2.7	-	-	-	-	-	-	-	-	-	-	-	0.6	-
Seychelles	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unspecified Other Africa	-	-	-	8.1	-	-	-	-	-	1.8	1.7	-	-	-	-
Latin America and the Caribbean	0.3	0.5	11.6	9.8	7.6	-	-	-	-	-	0.8	-	-	0.3	0.2
South America	-	-	-	2.1	0.4	-	-	-	-	-0.1	-	-	-	0.3	0.2
Argentina	-	-	-	0.5	-0.1	-	-	-	-	-	-	-	-	-	-
Brazil	-	-	-	1.2	0.3	-	-	-	-	-	-	-	-	-	-
Chile	-	-	-	0.2	0.1	-	-	-	-	-	-	-	-	-	-
Ecuador	-	-	-	-	-	-	-	-	-	-	-	-	-	0.3	0.2
Peru	-	-	-	-	0.1	-	-	-	-	-	-	-	-	-	-
Suriname	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Venezuela	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unspecified South America	-	-	-	0.2	-	-	-	-	-	-0.1	0.0	-	-	-	-
Other Latin America and the Caribbean	0.3	0.5	11.6	7.8	7.2	-	-	-	-	0.1	0.8	-	-	-	-
Antigua and Barbuda	-	-	4.1	-	-	-	-	-	-	-	-	-	-	-	-
Bahamas	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
British Virgin Islands	-	-	1.2	-	6.2	-	-	-	-	-	-	-	-	-	-
Costa Rica	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mexico	0.3	0.5	0.0	1.0	0.8	-	-	-	-	-	-	-	-	-	-
Netherlands Antilles	-	-	-	-	0.1	-	-	-	-	-	-	-	-	-	-
Panama	-	-	2.8	-	-	-	-	-	-	-	-	-	-	-	-
Saint Vincent and the Grenadines	-	-	3.4	-	0.1	-	-	-	-	-	-	-	-	-	-
Unspecified Other Latin America and the Caribbean	-	-	-	6.7	-	-	-	-	-	0.1	0.9	-	-	-	-
Developing Europe	1.0	-0.1	45.1	4.3	-0.3	-	-	-	-	0.3	0.4	-	-	71.2	64.6
Bosnia and Herzegovina	-	-	34.5	-	-	-	-	-	-	-	-	-	-	4.2	7.8
Croatia	-	-	-	0.4	0.1	-	-	-	-	0.3	0.2	-	-	54.5	45.1
Malta	-	-	-3.6	-	-1.9	-	-	-	-	-	-	-	-	0.1	0.1
Serbia and Montenegro	1.0	-0.2	0.4	0.1	0.6	-	-	-	-	-	0.3	-	-	7.9	3.4
Slovenia	-	-	10.2	3.8	0.9	-	-	-	-	-	-	-	-	-	-
TFYR Macedonia	-	0.1	3.7	-	-	-	-	-	-	-	-	-	-	4.5	8.3
Asia	19.2	14.0	-0.1	1.0	10.5	13.3	-	-	-	23.9	20.8	0.6	2.0	-4.4	-1.1
West Asia	13.0	7.6	-0.1	-	4.7	13.3	-	-	-	-0.3	5.7	-	2.0	-4.5	-1.8
Cyprus	11.9	6.4	-0.1	-	4.2	13.3	-	-	-	-	-	-	2.0	4.6	-3.1
Iran, Islamic Republic of	-	-	-	-	0.1	-	-	-	-	-	-	-	-	-	-
Iraq	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.2
Lebanon	1.1	1.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Turkey	-	0.1	-	-	-	-	-	-	-	-0.3	5.6	-	-	-0.1	-
United Arab Emirates	-	-	-	-	0.4	-	-	-	-	-	0.0	-	-	0.1	0.1
Unspecified West Asia	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-

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Table 16. Geographical distribution of FDI outward stocks in CEE, mid-1990s and 2000/2001 (concluded)
(Percentages shares in world total)

Region/economy	Bulgaria		Croatia	Czech Republic		Estonia		Lithuania		Poland		Slovakia		Slovenia	
	1999	2000	2000	1997	2000	1998	2001	1996	2000	1996	2000	1996	2000	1994	2000
Central Asia	-	-	-	-	1.2	-	-	-	-	-	-	-	-	-	-
Azerbadjan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Georgia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Kazakhstan	-	-	-	-	0.6	-	-	-	-	-	-	-	-	-	-
Uzbekistan	-	-	-	-	0.6	-	-	-	-	-	-	-	-	-	-
Turkmenistan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
South, East and South-East Asia	6.2	6.4	-	1.0	4.6	-	-	-	-	24.2	15.1	0.6	-	0.1	0.7
China	-	-	-	0.7	0.4	-	-	-	-	23.1	13.6	0.6	-	-	-
Hong Kong, China	-	-	-	-	3.7	-	-	-	-	-	-	-	-	-	-
India	-	-	-	0.1	0.3	-	-	-	-	-	-	-	-	0.1	-
Indonesia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Malaysia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.3
Mongolia	2.2	2.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Myanmar	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Republic of Korea	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.4
Singapore	4.0	4.2	-	-	0.3	-	-	-	-	0.7	0.6	-	-	0.1	-
Vietnam	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unspecified South, East and South-East Asia	-	-	-	0.2	-	-	-	-	-	0.4	0.9	-	-	-	-
Central and Eastern Europe	34.3	41.1	50.8	45.4	43.1	79.5	83.1	58.9	72.1	21.8	11.0	89.1	74.3	8.7	13.4
Albania	5.0	10.9	0.1	-	-	-	-	-	-	0.4	0.4	-	-	-	-
Baltic countries	-	-	-	0.5	-	-	-	-	-	-	-	-	-	-	-
Belarus	-	-	-	0.2	-	0.1	-	28.6	3.5	0.3	0.6	-	-	-	0.2
Bulgaria	-	-	-	0.2	0.5	-	-	-	-	-	-	-	3.0	0.1	0.1
Czech Republic	0.1	0.1	-	-	-	-	-	-	-	0.4	3.2	72.1	39.5	0.7	1.3
Estonia	0.5	0.2	-	-	-	-	-	27.7	25.4	-	-	-	-	-	-
Hungary	2.1	1.7	1.0	0.5	5.1	-	-	-	-	0.1	0.2	3.9	8.3	1.3	0.6
Latvia	-	-	-	-	0.5	52.7	34.3	-17.9	27.8	-	-	-	-	-	-
Lithuania	-	-	-	-	-	23.0	44.8	-	-	0.5	1.2	0.8	-	-	-
Poland	1.6	1.5	46.5	4.0	5.9	-	1.2	-	-	-	-	0.9	3.0	3.8	7.0
Republic of Moldova	-	-	-	-	-	-	-	-	1.2	-	-	-	-	0.0	-0.1
Romania	0.8	-0.3	-	0.5	-	-	-	-	-	-	0.4	-	-	0.1	0.7
Russian Federation	24.1	26.9	2.4	1.0	0.6	0.5	1.5	15.2	11.1	14.6	-0.1	6.1	3.8	1.4	2.0
Slovakia	-	-	0.8	30.6	30.1	-	-	-	-	-	-	-	-	0.1	0.7
Ukraine	0.1	0.1	-	2.5	0.4	3.0	1.4	5.4	3.2	2.9	1.5	2.9	12.5	1.4	0.9
Unspecified Central and Eastern Europe	-	-	-	5.4	-	-	-	-	-	2.6	3.6	2.4	4.2	-	-
Unspecified	0.2	0.3	-	-	-	6.2	11.8	20.5	15.6	2.7	8.4	-	-	-	-
For reference :															
Total world (millions of dollars)	87	86	407	548	738	198	451	3	29	735	1 025	158	313	354	794

Source : UNCTAD, based on country table 15.

In countries such as Estonia, Hungary and Poland, an important part of outward FDI is carried out by foreign affiliates in these countries. The leading outward investing Estonian banks, for example, are foreign owned: Hansapank is owned by Sweden's Swedbank and Ühispank by Sweden's SEB (Kilvits and Purju, 2001, p. 255). In Hungary, the most salient example is the investment of Matáv, majority controlled by Deutsche Telekom, into Maktelekom (TFYR Macedonia), carried out at the end of 2000. Another case is an investment by German-Austrian controlled Dunapack (Hungary) into Romania. Similarly, the Czech affiliate of Germany's RWE Entsorgung has invested in Romania, and Swedish-owned Czech Pramet in Bulgaria, while United States-owned Europharm Brasov has invested from Romania in the Republic of Moldova (UNCTAD, 2001, p. 119). As part of restructuring foreign affiliates in CEE also invest in other CEE countries.

In some countries (Czech Republic, Estonia and Poland) services industries (especially trading and banking) dominate (tables 17 and 18). This is apparently different from the sequence of outward FDI from developed countries where manufacturing firms are usually the first outward investors (Stare, 2002).

2. The role of corporate strategies

(a) The largest TNCs of CEE

The *World Investment Report 1999* (UNCTAD, 1999a) published a list of the top 25 non-financial TNCs headquartered in Central Europe, ranked on the basis of their foreign assets. In the *World Investment Report 2001* (UNCTAD, 2001), the largest TNCs of the Russian Federation were, for the first time, shown together with those from the rest of CEE. With the exception of Gazprom, most of the leading outward investors of the Russian Federation were included in that list. With its annual sales above $10 billion in 1999 (as reported in the top 500 list of the *Financial Times*, <http://specials.ft.com/ft500/may2001/eastern.html>) and its extensive international network (table 19), Gazprom would likely be one of the top CEE TNCs. However, it was not possible to gather consolidated information on its international activities.

For the rest of the TNC universe in CEE, according to the most recent data published in the *World Investment Report 2002* (UNCTAD, 2002) most of the non-financial TNCs on the top 25 list (table 20) continued to grow in 2000, expanding more abroad than at home. They achieved double-digit growth rates of their foreign assets, foreign sales and foreign employment. However, their domestic assets and domestic sales increased only moderately (confirming previous trends), while their domestic employment contracted.

Data for the top 25 for 2000 also confirm that Russian TNCs for which data are available are much larger and more globally spread than their non-Russian counterparts. Lukoil Oil Company, the largest with foreign assets of more than $4 billion, compares with the largest 10 TNCs from developing countries (see box 2 on Lukoil). Concerning foreign assets, foreign sales and foreign employment, the average for Russian firms on the list is more than 10 times higher than the average for other firms. They are also more transnationalized and have a wider geographical reach. These large differences may partly be due to differences in the industry composition as all Russian firms in the sample are involved either in natural resources or in transport, activities that are more capital-intensive than most manufacturing activities.

Table 17. FDI outflows in CEE, by industry, mid-1990s and 2000/2001

(Percentage shares in total)

	Bulgaria		Czech Republic		Estonia		Hungary		Poland		TFYR Macedonia	
Sector/industry	1999	2000	1999	2000	1994	2001	1999	2000	1996	2000	1997	2000
PRIMARY SECTOR	-	-	-	-31.2	-	-	0.1	0.0	-	7.6	83.7	-
Agriculture, hunting, forestry and fishing	-	-	-	1.4	-	-	0.0	0.0	-	-	-	-
Mining, quarrying and petroleum	-	-	-	-32.6	-	-	0.1	0.0	-	7.6	83.7	-
SECONDARY SECTOR	42.7	-29.0	35.5	83.4	-	19.0	56.6	62.1	13.2	66.9	-	5.6
Food, beverages and tobacco	55.6	6.5	8.0	28.2	-	-	0.0	2.2	5.7	1.2	-	-
Textiles, clothing and leather	-	-	-0.2	0.5	-	-	0.3	0.0	-	-	-	-
Wood and wood products	-	-	6.7	4.2	-	-	2.8	0.9	-	7.6	-	-
Coke, petroleum products and nuclear fuel	-	-	3.0	6.3	-	-	17.9	52.9	-	-	-	-
Chemicals and chemical products	55.6	19.4	-	-	-	-	8.7	8.4	-	41.3	-	3.3
Rubber and plastic products	-	-	-	-	-	-	1.8	0.3	-	-	-	-
Non-metallic mineral products	-	-	4.3	20.5	-	-	-	-	-	-	-	-
Metal and metal products	-	-	-13.3	-4.9	-	-	0.1	0.0	7.5	20.3	-	-
Machinery and equipment	-	-	-1.0	21.0	-	-	0.1	0.0	-	2.9	-	-
Electrical and electronic equipment	-	-	0.4	3.5	-	-	0.5	-3.5	-	-5.8	-	2.2
Precision instruments	-	-	0.2	0.7	-	-	-	-	-	-	-	-
Motor vehicles and other transport equipment	-12.9	-38.7	26.2	-4.2	-	-	0.8	-0.3	-	7.0	-	-
Other manufacturing	-	-	1.1	-0.7	-	-	23.7	1.1	-	-7.6	-	-
TERTIARY SECTOR	57.3	129.0	64.5	47.8	22.1	80.6	32.8	31.1	49.1	25.6	16.3	61.1
Electricity, gas and water	-	-	0.9	-1.2	-	-	-	4.1	-	-	-	-
Construction	-	-	0.1	1.4	-	0.9	3.5	0.0	3.8	17.4	0.1	-
Trade	-1.2	100.0	114.4	-3.3	22.1	1.0	8.1	20.3	28.3	37.2	10.8	60.0
Hotels and restaurants	-	-	-1.0	-4.4	-	0.1	2.4	4.1	-	1.2	-	-
Transport, storage and communications	-2.9	51.6	0.8	-15.2	-	14.6	0.3	0.1	3.8	68.6	4.0	-
Finance	61.4	-51.6	-75.7	111.4	-	52.8	14.0	-1.2	13.2	-159.3	0.5	-
Business activities	-	29.0	24.4	-42.2	-	10.7	4.6	1.7	-	62.2	0.0	1.1
Other services	-	-	0.7	1.2	-	-	0.0	0.1	-	-1.7	0.9	-
Unspecified	-	-	-	-	77.9	0.4	10.5	6.8	37.7	-	-	33.3
For reference :												
TOTAL (millions of dollars)	17.1	3.1	89.8	42.9	2.3	184.8	254.3	563.7	53.0	17.2	30.9	0.1

Source : UNCTAD, based on country table 8.

Table 18. FDI outward stocks in CEE, by industry, mid-1990s and 2000/2001

(Percentage shares in total)

	Bulgaria		Croatia	Czech Republic		Estonia		Poland		Russian Federation		Slovakia		Slovenia	
Sector/industry	**1999**	**2000**	**2000**	**1997**	**2000**	**1998**	**2001**	**1996**	**2000**	**1998**	**2000**	**1996**	**2000**	**1994**	**2000**
PRIMARY SECTOR	-	-	-	-	0.4	-	0.1	-	2.6	1.8	-	0.5	7.7	0.7	0.3
Agriculture, hunting, forestry and fishing	-	-	-	-	0.3	-	0.1	-	-	-	-	-	0.1	0.6	0.3
Mining, quarrying and petroleum	-	-	-	-	-	-	-	-	2.6	1.8	-	0.5	7.6	-	-
SECONDARY SECTOR	57.6	58.6	58.1	14.9	13.3	7.2	17.6	2.3	11.1	4.5	0.3	40.2	32.2	41.7	54.4
Food, beverages and tobacco	10.6	13.0	5.6	0.7	3.0	-	-	0.5	0.1	-	-	-	-	10.8	8.0
Textiles, clothing and leather	-	-	-	0.1	0.4	-	-	0.1	0.1	-	-	-	-	7.1	3.3
Wood and wood products	-	-	6.6	0.9	1.3	-	-	-	0.4	-	-	-	-	5.4	2.1
Publishing, printing and reproduction of recorded media	-	-	-	-	-	-	-	-	-	-	-	-	-	1.2	0.8
Coke, petroleum products and nuclear fuel	-	-	-	0.2	0.5	-	-	-	-	0.9	0.3	-	-	-	-
Chemicals and chemical products	-	0.1	45.9	-	-	-	-	0.1	2.6	-	-	-	-	12.2	15.4
Rubber and plastic products	-	-	-	-	-	-	-	-	0.3	-	-	-	-	1.1	0.2
Non-metallic mineral products	-	-	-	-	2.8	-	-	-	-	-	-	-	-	-0.6	2.4
Metal and metal products	-	-	-	2.6	1.8	-	-	0.7	1.0	0.9	-	-	-	0.6	5.9
Machinery and equipment	-	-	-	0.1	0.7	-	-	0.1	-	2.7	-	-	-	4.0	10.2
Electrical and electronic equipment	-	-	-	-	0.2	-	-	-	-0.1	-	-	-	-	0.6	3.0
Precision instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	1.7	1.4
Motor vehicles and other transport equipment	46.9	45.5	-	8.4	2.0	-	-	0.0	6.0	-	-	-	-	-2.7	2.1
Other manufacturing	-	-	-	-	0.5	-	-	0.7	0.6	-	-	-	-	0.2	-0.2
Recycling	-	-	-	-	-	-	-	-	-	-	-	-	-	0.2	-
Unspecified secondary	-	-	-	1.9	-	-	-	-	-	-	-	-	-	-	-
TERTIARY SECTOR	42.4	41.4	29.4	84.8	86.3	91.5	81.9	95.0	86.3	93.8	99.7	59.3	60.1	57.5	40.4
Electricity, gas and water supply	-	-	-	0.2	-	-	-	0.5	-	-	-	0.9	10.0	14.1	5.3
Construction	0.1	0.1	-	0.0	0.9	0.8	0.9	4.5	2.3	-	-	0.6	3.9	2.5	2.0
Trade	8.0	12.3	3.4	51.5	30.1	7.0	4.2	15.9	14.7	0.9	0.3	12.3	9.1	11.4	8.6
Hotels and restaurants	-	-	-	0.2	-0.2	-	-	-	0.1	-	-	0.2	-	0.1	-
Transport, storage and communications	5.6	7.1	6.5	0.2	2.0	19.1	17.0	27.6	24.3	-	1.3	3.3	1.1	8.1	3.0
Finance	25.5	17.4	10.5	11.5	41.0	57.1	40.8	45.7	44.1	-	-	41.5	31.5	12.8	15.0
Business activities	3.2	4.5	6.9	17.0	6.9	7.5	18.6	0.5	1.6	-	-	0.4	3.4	8.5	6.3
Education	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Health and social services	-	-	-	-	-	-	0.3	-	-	-	-	0.1	0.2	-	-
Sewage and waste disposal, sanitation activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recreational, cultural and sporting activities	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-
Other services	-	-	2.1	4.1	5.7	-	-	0.1	-0.7	92.9	98.2	-	0.9	-	-
Unspecified	-	-	12.4	0.3	-	1.3	0.4	2.7	-	-	-	-	-	0.1	4.9
For reference :															
Total (millions of dollars)	87.4	86.3	376.7	548.2	737.8	198.4	451.0	735.0	1024.8	112.0	382.0	158.3	313.3	354.0	794.0

Source: *A7* UNCTAD, based on country table 14.

Table 19. Gazprom: selected equity investments outside the Russian Federation by 2001

Foreign affiliate	Host country	Share	Activity
GHW	Austria	50	Gas trading
Belgazprombank	Belarus	34.99	Banking
Brestgazoapparat	Belarus	51	Gas equipment manufacturing
Topenergo	Bulgaria	50	Gas trading and transport
Eesti Gaas	Estonia	30.6	Gas trading and transport
Gasum Oy	Finland	25	Gas distribution and transportation
North Transgas Oy	Finland	50	Construction of a pipeline beneath the Baltic Sea
FRAgaz	France	50	Gas trading
Ditgaz	Germany	49	Gas trading
Verbundnetz Gas	Germany	5.3	Gas transportation and marketing
Wingas	Germany	35	Gas transportation and storage
Wintershall Erdgas Handelshaus	Germany	50	Exclusive trader until 2012 for all the gas exported by Gazeksport (Russian Federation)
Zarubezgas Erdgashandel	Germany	100	Gas trading
Prometheus Gaz	Greece	50	Marketing and construction
Borsodchem	Hungary	25 [a]	Petrochemicals
DKG-EAST Co. Inc.	Hungary	38.1	Oil and gas equipment manufacturing
General Banking and Trust Co. Ltd.	Hungary	25.5	Banking
Panrusgas	Hungary	40	Gas trading and transport
TVK	Hungary	13.5 [b]	Petrochemicals
Promgaz	Italy	50	Gas trading and marketing
Volta	Italy	49	Gas trading and transport
Latvijas Gaze	Latvia	16.25	Gas trading and transport
Stella-Vitae	Lithuania	30	Gas trading
Gazsnabtransit	Moldova	50	Gas trading and transport
Peter-Gaz	Netherlands	51	Gas trading
Europol Gaz	Poland	48	Gas transport
Gas Trading	Poland	35	Gas trading
WIROM	Romania	25 [b]	Gas trading
Slovrusgaz	Slovakia	50	Gas trading and transport
Tagdem	Slovenia	7.6	Gas trading
Gamma Gazprom	Turkey	45	Gas trading
Druzhkovskiy zavod gazovoi apparatury	Ukraine	51	Gas equipment manufacturing
Institut Yuzhnfigiprogaz	Ukraine	40	...
Interconnector	United Kingdom	10	Bacton (United Kingdom)-Zeebrugge (Belgium) pipeline
JugoRosGaz	Serbia and Montene	50	Gas trading and transport
Progress Gas Trading	Serbia and Montene	50	Gas trading

Source: UNCTAD, 2001, p. 116.

[a] Financial investment through Milford Holdings Ltd. (Ireland).

[b] Controlled through Wintershall Erdgas Handelshaus.

However, not all top TNCs in the region are on a growth path. While most Russian and Slovene firms, for example, are growing, some Czech, Slovak and Polish firms are undergoing major restructuring, involving withdrawal from foreign activities. As a result, four firms left the top 25 list in 2000: Motokov (Czech Republic), Slovnaft (Slovakia), Croatian Airlines (Croatia) and Elektrim (Poland) – the latter one was also obliged to file bankruptcy in 2002.

Table 20. The top 25 non-financial TNCs based in CEE,[a] ranked by foreign assets, 2000
(Million dollars and number of employees)

Ranking by foreign assets	TNI[b]	Corporation	Country	Industry	Foreign assets	TNI[b] (Per cent)
1	11	Lukoil	Russian Federation	Petroleum and natural gas	4 189.0	34.7
2	6	Novoship	Russian Federation	Transport	963.8	53.7
3	1	Latvian Shipping [c]	Latvia	Transport	459	87.3
4	5	Primorsk Shipping	Russian Federation	Transport	256.4	59.4
5	24	Hrvatska Elektroprivreda	Croatia	Energy	296	4.3
6	7	Gorenje Group	Slovenia	Domestic appliances	236.3	46.9
7	10	Far Eastern Shipping	Russian Federation	Transport	236	38.8
8	13	Podravka Group	Croatia	Food and beverages/ pharmaceuticals	.. [e]	31.6
9	9	Pliva Group	Croatia	Pharmaceuticals	181.9	39.7
10	3	Atlantska Plovidba [c]	Croatia	Transport	138	63.2
11	8	Krka	Slovenia	Pharmaceuticals	129.2	40
12	20	MOL Hungarian Oil and Gas	Hungary	Petroleum and natural gas	102.7	9.6
13	14	Tiszai Vegyi Kombinát	Hungary	Chemicals	101.2	25.4
14	2	Adria Airways [c]	Slovenia	Transport	116.3	64
15	19	Petrol Group	Slovenia	Petroleum and natural gas	98.8	10.6
16	22	Mercator	Slovenia	Retail trade	65.1	4.5
17	4	Zalakerámia	Hungary	Clay product and refractory	60	60.8
18	15	Skoda Group Plzen	Czech Republic	Diversified	.. [e]	26.2
19	12	Malév Hungarian Airlines	Hungary	Transport	41.4	33.9
20	18	Matador	Slovakia	Rubber and plastics	.. [e]	13.1
21	21	Merkur	Slovenia	Trade	37.3	7.5
22	25	KGHM Polska Miedz	Poland	Mining and quarrying	32.3	2.7
23	23	Petrom	Romania	Petroleum and natural gas	28	4.5
24	16	Iskraemeco	Slovenia	Electrical machinery	25.8	24.4
25	17	Intereuropa	Slovenia	Trade	23	16.7

Source: UNCTAD, 2002, p. 112.

[a] Based on survey responses.

[b] The Transnationality Index (TNI) is calculated as the average of three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

[c] 1999 data.

[d] Including export sales by the parent firm.

[e] Data not revealed by the firm; estimates have been made using secondary sources of information.

Note: In some companies foreign investors may hold a minority share of more than 10 per cent.

Box 2. Lukoil

Lukoil has sustained its growth even in the middle of the Russian financial crisis. It can be assumed that, indeed, assets abroad have acted as an effective cushion against domestic economic disturbances. Indeed, in 1998, in sharp contrast with the decline in domestic activities, the overseas activities of Lukoil soared, seemingly unaffected by the Russian crisis. While the 71 per cent devaluation of the rouble caused a 53 per cent drop in the dollar value of total assets, foreign assets rose by almost half in 1998, to $2.3 billion. A similar contrast prevailed in sales and employment: total sales declined by 10 per cent, while foreign sales swelled by no less than 400 per cent; and total employment decreased by two per cent while foreign employment soared by 400 per cent. As a result, Lukoil leads over all Central European firms in terms of foreign sales and foreign employment, and its transnationality index rose from less than six per cent to more than 23 per cent.

/…

(Box 2, concluded)

The expansion of Lukoil abroad was not only rapid but was also efficient in terms of entering competitive developed markets such as the United States. The expansion into the United States took place through the acquisition of Getty Petroleum Marketing Inc. for $71 million at the end of 2000. Given the important costs of establishing greenfield presence, and the informal barriers to such entry by the structure of the United States market for the distribution of petroleum products, that was the only possible avenue for Lukoil's effective entry there. The First Vice President of Lukoil stressed in this respect that "This is the first acquisition of a publicly held American company by a Russian corporation, and it is the first step in our expected expansion into the U.S. market. It is an excellent opportunity for LUKOIL because it gives us entree into the vast American market in partnership with a highly regarded brand. In the future, we may seek to supply the Getty stations with our own petroleum products" (Lukoil, 2000, p. 1). The managers of both Lukoil and Getty argued that the transaction created major synergies. "The combination of Getty's strong presence in the American market with LUKOIL's capabilities as a world class integrated oil company is going to create a formidable new company," said the chairperson and chief executive officer of Getty Petroleum Marketing (Lukoil, 2000, p. 2).

Source: UNCTAD, 1999a, p. 89 and UNCTAD, 2001, p. 119.

Preliminary data suggest that changes in the top 25 list would continue in 2001. For example, Tiszai Vegyi Kombinát (Hungary) and KGHM Polska Miedz (Poland) substantially rolled back their foreign presence in 2001. In the case of the former, a major share was bought by MOL Hungarian Oil & Gas Plc., another Hungarian TNC, in 2002 (see also box 3 on MOL). In addition, Skoda Group Plzen (Czech Republic) underwent a bankruptcy procedure (Kirkland and Kuchar, 2002), resulting in a further shrinking of assets both at home and abroad. Their place may be taken by firms fast expanding abroad in 2001, such as the Russian oil firm Yukos, and the Hungarian pharmaceutical TNC Richter Gedeon (Csonka, 2002).

Compared with previous years, the country concentration of the top 25 was high in 2000. With eight firms, Slovenia is the most represented country on the list, followed by Croatia, Hungary and the Russian Federation (4 firms each). The remaining five entries are shared among five countries (Czech Republic, Latvia, Poland, Romania and Slovakia). This country composition reflects the fact that the outward FDI of the Russian Federation and Slovenia was carried out mainly by locally owned firms – hence these firms are shown prominently on the list of the 25 largest TNCs. In other countries, however, as mentioned above, an important part of outward FDI was carried out by foreign affiliates, which do not figure on the top 25 list.

Box 3. MOL

MOL is a downstream oil firm, with regional, rather than global, aspirations, specializing in refining and distribution. It is still Hungary's largest company and its second biggest exporter. It is the largest Hungarian firm on the top 25 list. The company has expanded its network of petroleum distribution in neighbouring countries. Under production-sharing schemes, it also has participated in oil exploration and drilling in the Commonwealth of Independent States, as well as in other oil-endowed countries in other regions. Its path of expansion is similar to Lukoil's, with a major emphasis on foreign acquisitions as an avenue a fast market entry. The difference between the two companies is that, given MOL's more limited intra-regional aspirations, its acquisitions, too, focus on intra-regional assets.

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(Box 3, concluded)

In March 2000, MOL acquired a 36 per cent stake in Slovnaft, a Slovakian oil company, for $262 million (MOL, 2000a). This deal illustrates the fact that, after a decade of transition, some advanced Central European firms have developed sufficient managerial skills and financial strength to carry out major cross-border acquisitions. Prior to the Slovnaft acquisition, MOL had changed both its management style and its strategic directions. It decided to stop high-cost exploration, and concentrate on refining and marketing (MOL, 1999). In 1999, MOL was in merger talks with the Croatian oil firm INA. But that deal did not materialize.

The two companies together are expected to consolidate their market lead in Hungary (with an estimated 36 per cent retail market share in oil products) and Slovakia (38 per cent), and strengthen their position in Romania and the Czech Republic. In qualitative terms, MOL and Slovnaft together would control some of the most complex and modern refining assets in the region (MOL, 2000). They would also match the size of major competitors.

The MOL-Slovnaft deal may also signal a change in national attitudes towards the downstream oil industry, which had been seen as too sensitive to qualify for foreign strategic investments. Still, the MOL deal is not yet a majority acquisition. Two years after the initial acquisition, however, MOL would have the option to buy a majority stake in Slovnaft.

It seems that, in the longer term, MOL intends to pursue a strategy of consolidation in the downstream oil industry of Central Europe. At the press conference on the Slovnaft deal, this acquisition was presented as "the first in a series of initiatives that position MOL as a driving force in the future regional consolidation" (Central Europe Online, 2000). This, in turn, reflects a major consideration: size. Compared with the leading Russian oil firms, the size of Central European competitors is small. Without major mergers in this area, that situation may not change radically. And, in this context, the best pre-emptive strategy is to initiate those mergers, instead of waiting for becoming a target. Indeed, in November 2002, MOL bought an additional 31.6 per cent of Slovnaft shares, becoming the majority owner of that company. Part of the transaction was paid in cash, another part in the form of a share swap (making Slovintegra, a.s and Slovbena, a.s. – the former owners of Slovnaft shares – 9.9 shareholders in MOL proper).

Source: Based on UNCTAD, 2000, p. 92.

The Network Spread Index[6] of the 25 largest TNCs of CEE is significantly lower than that of the world's largest TNCs. This index compares the number of countries in which a firm is present with the number of countries that are potentially open for inward FDI. The latter is usually proxied by the number of countries that have a positive inward FDI stock. At the end of 2001, there were 187 such countries.

Table 21. The Network Spread Index of the 25 largest non-financial TNCs based in CEE
(Percentage)

By country of origin	NSI	By industry	NSI
Russian Federation	5.08	Petroleum and natural gas	5.21
Slovenia	4.55	Transport	2.22
Croatia	4.68	Pharmaceuticals	7.31
Hungary	2.54	Machinery	8.82
Other countries	1.82	Trade	2.85
Average NSI	3.79	Other industries	1.52

Source: UNCTAD estimates.

In 2001, the Network Spread Index of the 25 largest TNCs of CEE stood at less than 4 per cent, indicating that most of the leading

[6] This index measures the extent to which companies locate their activities in foreign companies. It is calculated as a ratio of the number of foreign countries in which a TNC locates its activities as a percentage of the number of foreign countries in which it could potentially have located. For details, see UNCTAD, 2001, pp. 103-104.

TNCs in CEE are at an early stage of transnational expansion (table 21). There are, however, some differences by origin and industry. The index of Russian, Croatian and Slovene firms, for example, is above average. In machinery and pharmaceuticals as well, the network spread is relatively wide.

Even for Russian TNCs, on average, the index values (5.08) are only a third of those for the top exporters of the country. While the average Russian TNC is present in less than 10 foreign markets, the average lead exporter sells in 27 countries. (For data on the top exporters, see *Expert* (Moscow), No. 27 (287), 16 July 2001.) In petroleum and natural gas, the spread of markets through exports (NSI=8.57) is twice as frequent as the spread of firms through outward FDI. It should be noted, however, that some of the top Russian oil and gas exporters are also leading outward investors. In such cases, the differences in the network spreads reflect corporate choices between serving markets through trade or through FDI.

(b) Are CEE firms different?

In most CEE countries, outward FDI seems to be hampered by relatively nascent firm-specific ownership advantages, management skills and know-how necessary to undertake investments abroad and to run a foreign business venture successfully (UNCTAD, 1996, p. 102), when compared to those of Western firms. Before transition, with the exception of former Yugoslavia (and to a lesser degree Hungary), commercial skills (including the proficiency and competence required for world-market operations and the management of foreign affiliates) were limited to a handful of State-owned trading companies. No wonder outward FDI had a difficult start.

A specificity of CEE in the area of outward FDI is relative the discontinuity of past factors influencing the behaviour of such investment. In fact, the accumulation of historical experience and expertise in this area was interrupted twice: once when communist parties took over power, and again when they lost it. Hence the patterns of outward FDI are determined more by present-day and future-oriented considerations than in other regions.

The collapse of the former trading, supply and management systems following the demise of the Council for Mutual Economic Assistance necessitated the emergence of new structures for CEE companies formerly dependent on markets in (and inputs originating from) other CEE countries. This fact, combined with newly found possibilities for investing, led these companies to undertake new investments abroad as soon as the political climate changed.

The cases of Hungary, Estonia and Slovenia (see box 4 for the latter) prove that, when transition is sufficiently advanced, some basic firm-specific ownership advantages tend to develop. This improves the chances of investing abroad, especially in order to overcome the profit constraints of small domestic markets and to maintain corporate competitiveness.

In Hungary and Slovenia (much less in Estonia) manufacturing firms are the engines of outward FDI (see also table 4), although only part of it has been so far led by production motives. It is noticeable, nevertheless, that in the case of Hungary, outward FDI in CEE countries is concentrated in manufacturing (see also box 3 on MOL), whereas the country's FDI in Western countries appears to be more geared towards establishing a trading presence (UNCTAD, 1997, p. 99).

Box 4. Outward FDI from Slovenia

For *Slovenia*, particularly detailed information is available on the link between local TNC strategies and outward FDI processes. This is so because, so far, the role of foreign affiliates in Slovenian outward FDI has been more limited than in Estonia and Hungary. Before independence in 1991, driven by "system-escape" motivations (the need to circumvent the restrictions of the socialist economy), most of the outward FDI of Slovene companies had been directed at developed markets (Svetlicic, Rojec and Lebar, 1994). When independence came in 1991, with the consequent transition to a full market economy, the temporary loss of former Yugoslav markets, uncertainties related to privatization, legal barriers and a skeptical public opinion, many Slovene firms discontinued outward FDI. Outward FDI really resumed in 1995 only.

A survey of major Slovenian enterprises (Krašovec, 1996) revealed that the motives for outward FDI had changed radically. (The survey, undertaken in 1996, was based on interviews with 120 managers of leading Slovenian firms; these firms accounted for more than half of Slovenia's exports in 1996.) The new motive of outward FDI was the search for new markets, bringing new firms into the FDI arena. Establishing and strengthening market shares and accessing cheaper labour abroad became the main purposes of these investments. In respect to the latter, it is notable that wages in Slovenia have been substantially higher than in any other CEE country, putting an early premium on cost-effective outward FDI.

As much as 83 per cent of the respondents of that early survey saw CEE as the most important destination for potential outward FDI. Indeed, after 1993, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia and Serbia and Montenegro began rapidly to gain importance, with Slovenia becoming one of the most important hubs for investment flows into the reconstruction of South-Eastern Europe. Since 1994, according to data from the Bank of Slovenia, all these other countries together account for two-thirds of Slovenia's total outward stock (see also table 2).

Internationalization was largely helped by the traditional ownership advantages of Slovene firms. Some of them had their origins in large and old, but restructured and privatized, companies, although some new and smaller firms also started investing abroad in the 1990s. The fact that "old" firms, which had already started to internationalize in the 1960s and 1970s, are the most transnationalized demonstrates that such early internationalization proved to be instrumental in the subsequent tide of outward FDI. These firms appear to have gained self-confidence from their early experience, which helped them prepare themselves for more demanding forms of international competition. Case studies also demonstrate that these firms have successfully combined knowledge of foreign markets with their own R&D efforts (Jaklic and Svetlicic, 2002). They typically have above-average and fast-growing R&D expenditures and high-skilled labour intensity. Outward investors represent less than 2 per cent of the total corporate sector in terms of number of firms; they, nevertheless, provide 30 per cent of employment and produce 40 per cent of exports (Jaklic and Svetlicic, 2002).

The internationalization of Slovene firms is driven today by market-seeking and first-mover motives. Apart from technological advantages, they possess specific know-how about how to do business in the other countries of former Yugoslavia. Slovenian firms can easily re-establish their previous business networks and build on the fact that their products and brand names are well known there. They are also aware that such advantages risk erosion over time if they do not move (back) into those markets fast enough. In turn, labour-cost motives have played only a minimal role in the expansion of Slovene firms into countries of former Yugoslavia. This may be because so far few of them have located manufacturing capacities there. Their affiliates focus, instead, on downstream services such as marketing and distribution. For many Slovene firms, other countries formerly part of Serbia and Montenegro serve as a springboard for wider transnationalization. The average outward investing Slovene firm has 4.4 affiliates, a number already slightly higher than that of firms in a number of those countries. The most transnationalized firms have over 20 affiliates worldwide (Jaklic and Svetlicic, 2002).

Source: UNCTAD, 1998, p. 279 and UNCTAD, 2002, p. 73.

Croatia presents a case somewhat similar to that of the most advanced group (Estonia, Hungary and Slovenia) but based on less progress with transition. As a result, the leading outward investing corporations such as the pharmaceutical firm Pliva, have to operate as path breakers, fairly separated from the rest of the Croatian corporate sector, which is less advanced with transformation. In turn, the push of Croatian outward investors into Poland, in particular, but also into other accession and current EU member countries, is evidence that EU enlargements prompts firms headquartered outside the accession area to gain a foothold inside.

In the longer run, especially after the eastern enlargement of the EU envisaged for 2004, outward FDI from CEE is likely to gain in importance as accession countries are expected to lose comparative advantage in simple manufacturing (assembly) operations based on low wages. This may be particularly true for industries such as textiles, footwear and other labour-intensive industries. It may prompt firms to invest more in non-accession countries where not only wages are significantly lower but also the upward pressure of wages may be smaller. That would then apparently result in a CEE version of the Asian flying-geese phenomenon in labour-intensive industries (UNCTAD, 1998, p. 278).

EU enlargement may also prompt additional investment flows from CEE countries, both accession and non-accession ones. The motivations here may be similar. For firms from accession countries, the issue would be to strengthen their competitive position with local presence around the single economic area in which they have to operate. In the case of firms from non-accession countries, the aim would be to gain (more) foothold on the enlarged EU area.

This is mostly to be taken as an indication of directions, and not of the exact degrees of processes. As mentioned, the hypotheses surrounding on the real and full impact of EU enlargement are too uncertain to warrant more dire conclusions.

The case of the Russian Federation is different from all the rest of the region, whether EU accession countries or others. First of all, some outward investors from the Russian Federation immediately aim at establishing a global presence. It is to be recalled that the share of other CIS countries, where Russian enterprises might have been expected to be in the best position to use their ownership advantages, is low in registered outward FDI flows (figure 1). An important part of FDI outflows appears to be motivated by the desire of investors to diversify assets as a safeguard against domestic instability. This is then linked with the phenomenon of "round tripping". (Round tripping refers to the transfer of funds abroad in order to bring some or all of the investment back as FDI and claim the tax and other benefits offered to foreign investors; see UNCTAD, 1998, p. 290.) One indication of the existence of round tripping in the Russian Federation, especially before the financial crisis of 1998, was a fast parallel increase of inflows and outflows itself. Another proof was the persistent high share of offshore Cyprus in both inflows and outflows – a small island that otherwise has few locational advantages (UNCTAD, 2000, p. 65). Finally, the discrepancy of home and host country statistics is also pointing towards the existence of round tripping. A large part of Russian investment into developed countries is not reflected in host country statistics either because the individual transactions are too small to be registered, or are transferred through third countries, typically outside the OECD area (Sheets, 1996).

As mentioned, the patterns of outward FDI from the Russian Federation are largely determined by the behaviour of leading firms, such as Gazprom and Lukoil. (In the final analysis, all corporate strategies are individual and corporation-specific.)

3. Government policies

Policies on outward FDI have three levels. The first one is capital account liberalization. The second one is passive promotion, usually through bilateral investment treaties and double taxation treaties. The third level is active promotion. In the last area, it should be noted that, even in the largest developed home countries (United States, United Kingdom, Japan, Germany etc.), outward FDI requires and receives active public assistance, going beyond a simple liberalization of capital account transactions (UNCTAD, 1999b). The institutional setting comes either in the form of an outward investment promotion agency, a development finance institution, or an investment guarantee scheme. Their services cover a wide range of areas, including information and promotional services, feasibility studies, project development, financing and guarantees.

If this is the case with the leading outward investing countries, probably the nascent outward investors of the economies in transition, too, require help. Some economies in transition already do it. In 1999, the Czech Export Import Bank reported having an investment guarantee scheme (UNCTAD; 1999b). In Hungary, it is the Hungarian Export Credit Guarantee Corporation (MEHIB) that has developed a political risk insurance scheme for Hungarian outward investors. Investment locations are ranked on the basis of four risk categories that are revised twice a year. A fifth category applies to countries on an ad hoc basis (UNCTAD, 1997, p. 99). In Slovenia, the Slovene Export Corporation provides long-term (3-15 year) investment insurance (up to 90 per cent) against both commercial and non-commercial risks (including war and civil disturbances, expropriation including regulatory expropriation, currency conversion and transfer restrictions, denial of justice and natural catastrophes).

So far, there is only one scheme, Corvine International Ltd. in Hungary, which provides a menu of services, including finance (in the form of participation in the share capital, loans or guarantees) and advisory services (consulting on firm strategy, matchmaking and partner search, and valuation and credit rating) to potential outward investors. The typical clients of Corvine are medium-sized Hungarian manufacturing enterprises, although the scheme is open, in principle, to all firms and industries. Thus, this scheme facilitates the transnationalization of small and medium-sized enterprises.

C. Concluding remarks

CEE countries started to attract FDI in the early 1990s. Those inflows were first very modest, and concentrated in a few countries. Over time, however, they have gained momentum, and an increasing number of CEE countries has attracted significant amounts of FDI (with the members of the CIS being still in a latecomer status in the early 21st century).

Inward FDI has made a contribution to transition from centrally planned to market economies in a number of CEE countries. The next important event having a major impact on inward FDI from CEE will be the enlargement of the EU to include a number of CEE countries beginning with 2004. This event is likely to prompt a major increase of inward FDI, especially investment by firms that wish to gain a foothold in the enlarged EU.

Although heavily influenced by the specific circumstances of transition, outward FDI from CEE countries seems to follow the path of “normal” outward FDI from other regions of the world. Reflecting the relatively latecomer status of CEE on the global outward FDI scene and the impact of the ruptures with the past caused by the transition shock, the outward FDI of most of the CEE countries has been so far fairly small. It is noted, however, that foreign affiliates in CEE step up their investments in other CEE countries. In this context, there is a double shift of FDI to south and east of the region: FDI from EU countries to the first-tier countries of CEE and FDI from the fist tier to the second-tier countries in CEE.

The Russian Federation is an outlier, where quite important amounts of unregistered FDI are prompted by a combination of system-escape motives and global corporate aspirations in natural resources (especially oil and gas). It is hence more difficult to provide policy answers to the dilemmas of the Russian Federation than to those of other countries, where the promotion of outward FDI may be entering the government policy agenda.

II. TECHNICAL NOTE

This technical note briefly describes the contents of the country data and information provided in the *World Investment Directory* series, the main sources of information used and the geographical coverage and sectoral classification. It also describes the definitions applied and addresses the limitations of the data.

A. Scope

Each country profile begins with a discussion of the sources and definitions underlying foreign direct investment (FDI) data provided by national compilers. The extent to which a country applies internationally-recommended guidelines is discussed, and attention is drawn to the shortcomings of the data for the country in question. That information is provided so that the reader will be aware of the differences between the data presented in this volume and those presented by other data-gathering agencies, including the International Monetary Fund (IMF), the Organisation for Economic Cooperation and Development (OECD), Eurostat and the European Central Bank (ECB). Recommended definitions are discussed in section E.

It is followed by 88 country tables that provide extensive coverage of data on both FDI and the operations of transnational corporations (TNCs), classified by economic activity and by region, together with listings of the major TNCs in each economy, along with selected financial data. These tables are categorized by 20 groups of variables. The third part of each country profiles provides information regarding the legal framework relating to FDI in each of the economies covered. The legal information is divided into national laws and regulations and multilateral, regional and bilateral treaties. Lastly, there is a bibliography of official and secondary sources which throw light on various aspects of FDI in the economy in question. Thus, the following information is contained in the country tables:

A. Definitions and sources of data

B. Statistics on FDI and the operations of TNCs

I. Summary tables
Table 1. Summary of FDI
Table 2. Summary of international production

II. FDI by type of investment
Table 3. FDI flows, by type of investment
Table 4. FDI stocks, by type of investment

III. FDI flows in the host economy
Table 5. FDI flows in the host economy, by industry
Table 6. FDI flows in the host economy, by geographical origin
Table 7. FDI flows in the host economy, by industry and geographical origin

IV. FDI flows abroad
Table 8. FDI flows abroad, by industry
Table 9. FDI flows abroad, by geographical destination
Table 10. FDI flows abroad, by industry and geographical destination

V. FDI stocks in the host economy
Table 11. FDI stocks in the host economy, by industry
Table 12. FDI stocks in the host economy, by geographical origin
Table 13. FDI stocks in the host economy, by industry and geographical origin

VI. FDI stocks abroad

Table 14. FDI stocks abroad, by industry
Table 15. FDI stocks abroad, by geographical destination
Table 16. FDI stocks abroad, by industry and geographical destination

VII. Distribution of foreign affiliates and FDI by percentage ownership of parents
Table 17. Distribution of foreign affiliates and FDI in the host economy, by percentage ownership of parents
Table 18. Distribution of foreign affiliates and FDI abroad, by percentage ownership of parents

VIII. The number of TNCs
Table 19. The number of home-based TNCs, by industry in the home economy
Table 20. The number of foreign affiliates of home-based TNCs, by industry in the foreign economy
Table 21. The number of foreign affiliates of home-based TNCs, by geographical location abroad
Table 22. The number of affiliates of foreign TNCs in the host economy, by industry
Table 23. The number of affiliates of foreign TNCs in the host economy, by geographical origin
Table 24. The number of foreign affiliates of home-based TNCs and FDI, by percentage ownership of parents
Table 25. The number of affiliates of foreign TNCs in the host economy and FDI, by percentage ownership of parents

IX. Assets of TNCs
Table 26. Assets of home-based TNCs, by industry in the home economy
Table 27. Assets of foreign affiliates of home-based TNCs, by industry in the foreign economy
Table 28. Assets of foreign affiliates of home-based TNCs, by geographical location abroad
Table 29. Assets of affiliates of foreign TNCs in the host economy, by industry
Table 30. Assets of affiliates of foreign TNCs in the host economy, by geographical origin

X. Employment of TNCs
Table 31. Employment of home-based TNCs, by industry in the home economy
Table 32. Employment of foreign affiliates of home-based TNCs, by industry in the foreign economy
Table 33. Employment of foreign affiliates of home-based TNCs, by geographical location abroad
Table 34. Employment of affiliates of foreign TNCs in the host economy, by industry
Table 35. Employment of affiliates of foreign TNCs in the host economy, by geographical origin

XI. Wages and salaries of TNCs
Table 36. Wages and salaries of home-based TNCs, by industry in the home economy
Table 37. Wages and salaries of foreign affiliates of home-based TNCs, by industry in the foreign economy
Table 38. Wages and salaries of foreign affiliates of home-based TNCs, by geographical location abroad
Table 39. Wages and salaries of affiliates of foreign TNCs in the host economy, by industry in the foreign economy
Table 40. Wages and salaries of affiliates of foreign TNCs in the host economy, by geographical origin

XII. Sales of TNCs
Table 41. Sales of home-based TNCs, by industry in the home economy
Table 42. Sales of foreign affiliates of home-based TNCs, by industry in the foreign economy
Table 43. Sales of foreign affiliates of home-based TNCs, by geographical location abroad
Table 44. Sales of affiliates of foreign TNCs in the host economy, by industry
Table 45. Sales of affiliates of foreign TNCs in the host economy, by geographical origin

XIII. Value Added of TNCs
Table 46. Value added of home-based TNCs, by industry in the home economy
Table 47. Value added of foreign affiliates of home-based TNCs, by industry in the foreign economy
Table 48. Value added of foreign affiliates of home-based TNCs, by geographical location abroad
Table 49. Value added of affiliates of foreign TNCs in host economy, by industry
Table 50. Value added of affiliates of foreign TNCs in the host economy, by geographical origin

XIV. Profits of TNCs

Table 51. Profits of home-based TNCs, by industry in the home economy
Table 52. Profits of foreign affiliates of home-based TNCs, by industry in the foreign economy
Table 53. Profits of foreign affiliates of home-based TNCs, by geographical location abroad
Table 54. Profits of affiliates of foreign TNCs in the host economy, by industry
Table 55. Profits of affiliates of foreign TNCs in the host economy, by geographical origin

XV. Exports of TNCs
Table 56. Exports of home-based TNCs, by industry in the home economy
Table 57. Exports of foreign affiliates of home-based TNCs, by industry in the foreign economy
Table 58. Exports of foreign affiliates of home-based TNCs, by geographical location abroad
Table 59. Exports of affiliates of foreign TNCs in the host economy, by industry
Table 60. Exports of affiliates of foreign TNCs in the host economy, by geographical origin

XVI. Imports of TNCs
Table 61. Imports of home-based TNCs, by industry in the home economy
Table 62. Imports of foreign affiliates of home-based TNCs, by industry in the foreign economy
Table 63. Imports of foreign affiliates of home-based TNCs, by geographical location abroad
Table 64. Imports of affiliates of foreign TNCs in the host economy, by industry
Table 65. Imports of affiliates of foreign TNCs in the host economy, by geographical origin

XVII. Research and Development of TNCs
Table 66. Research and development expenditures of home-based TNCs, by industry in the home economy
Table 67. Research and development expenditures of foreign affiliates of home-based TNCs, by industry in the foreign economy
Table 68. Research and development expenditures of foreign affiliates of home-based TNCs, by geographical location abroad
Table 69. Research and development expenditures of affiliates of foreign TNCs in the host economy, by industry
Table 70. Research and development expenditures of affiliates of foreign TNCs in the host economy, by geographical origin
Table 71. Employment in research and development of home-based TNCs, by industry in the home economy
Table 72. Employment in research and development of foreign affiliates of home-based TNCs, by industry in the foreign economy
Table 73. Employment in research and development of foreign affiliates of home-based TNCs, by geographical location abroad
Table 74. Employment in research and development of affiliates of foreign TNCs in the host economy, by industry
Table 75. Employment in research and development of affiliates of foreign TNCs in the host economy, by geographical origin

XVIII. Royalty receipts of TNCs
Table 76. Royalty receipts of home-based TNCs, by industry in the home economy
Table 77. Royalty receipts of foreign affiliates of home-based TNCs, by industry in the foreign economy
Table 78. Royalty receipts of foreign affiliates of home-based TNCs, by geographical location abroad
Table 79. Royalty receipts of affiliates of foreign TNCs in the host economy, by industry
Table 80. Royalty receipts of affiliates of foreign TNCs in the host economy, by geographical origin

XIX. Royalty payments of TNCs
Table 81. Royalty payments of home-based TNCs, by industry in the home economy
Table 82. Royalty payments of foreign affiliates of home-based TNCs, by industry in the foreign economy
Table 83. Royalty payments of foreign affiliates of home-based TNCs, by geographical location abroad
Table 84. Royalty payments of affiliates of foreign TNCs in the host economy, by industry
Table 85. Royalty payments of affiliates of foreign TNCs in the host economy, by geographical origin

XX. The largest TNCs
Table 86. Largest home-based TNCs

Table 87. Largest foreign affiliates of home-based TNCs
Table 88. Largest affiliates of foreign TNCs in the host economy

C. Legal framework for FDI

1. **National policy framework**
2. **International framework**
   a. Multilateral instruments
   b. Regional instruments
   c. Bilateral treaties

D. Sources of information

1. **Official**
2. **Secondary**

This volume of the *World Investment Directory* covers 19 economies of Central and Eastern Europe: Albania, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Republic of Moldova, Serbia and Montenegro, Slovakia, Slovenia, The former Yugoslav Republic of Macedonia and Ukraine. Availability of tables in each country is indicated in table 1.

Table 1. Tables on statistics of FDI and the operations of TNCs presented in this volume

Economy	Table numbers (as above)
Albania	1, 3, 88
Belarus	1, 3, 86, 88
Bosnia and Herzegovina	1, 3, 86, 88
Bulgaria	1, 2, 3, 4, 5, 6, 8, 9, 11, 12, 14, 15, 20, 88
Croatia	1, 3, 11, 12, 14, 15, 86, 88
Czech Republic	1, 2, 3, 4, 5, 6, 8, 9, 11, 12, 14, 15, 32, 33, 34, 35, 42, 43, 44, 45, 57, 59, 62, 64, 86, 88
Estonia	3, 5, 6, 7, 8, 9, 10, 11, 12, 55, 56
Hungary	1, 2, 3, 4, 5, 6, 8, 9, 11, 12, 22, 29, 34, 44, 49, 60, 65, 86, 88
Latvia	1, 3, 4, 11, 12, 86, 88
Lithuania	1, 3, 4, 5, 6, 9, 11, 12, 15, 86, 88
Poland	1, 2, 3, 4, 5, 6, 8, 9, 11, 12, 14, 15, 18, 22, 23, 29, 30, 34, 35, 44, 45, 54, 55, 59, 60, 64, 65, 69, 70, 86, 88
Republic of Moldova	1, 3, 4, 6, 86, 88
Romania	1, 2, 3, 4, 17, 21, 22, 86, 88
Russian Federation	1, 3, 4, 5, 6, 11, 12, 14, 86, 88
Serbia and Montenegro	1, 3, 86, 88
Slovakia	1, 3, 4, 11, 12, 14, 15, 86, 88
Slovenia	1, 2, 3, 4, 11, 12, 14, 16, 19, 21, 22, 23, 26, 29, 31, 34, 41, 46, 44, 51, 54, 56, 59, 86, 88
TFYR Macedonia	1, 2, 3, 5, 6, 8, 9, 54, 88
Ukraine	1, 3, 88

B. Sources of data

The data on FDI and the operations of TNCs and foreign affiliates (tables 3-85) are reported largely as they were reported by national official sources, both published and unpublished. International sources (such as Eurostat, the IMF and the OECD) were also used where no national data were available, as were secondary sources. Some countries have more than one official source of investment statistics, and judgement was exercised in choosing among them. While data are reported as they were published or transferred to UNCTAD, efforts are undertaken to reclassify the data according to the geographical and industrial classification adopted by the United Nations (see section C). Any deviations from internationally-agreed recommendations are explained for each individual country under section A. Definitions and Sources of Data in the country profile.

The corporate data (tables 86-88) are based on official national sources, both published and unpublished, business directories and periodicals, company financial statements and secondary sources. TNCs are usually ranked by sales or assets. Sales were preferred for non-financial entities and assets for financial entities. Where no data were available, TNCs are listed alphabetically. These tables are intended to give the reader a sense of the relative importance of individual TNCs in the home and host economy.

The national legal framework contains a listing of laws, regulations, official policy declarations and guides in the area of FDI as well as related fields. Those related fields have been selected with a view towards their importance to FDI. They are collusive and restrictive trade practices; corporate law, including accounting and reporting regulations; incentives for, and restrictions on, FDI; mergers and acquisitions; securities; taxation; transfer of technology; industrial/intellectual property; labour relations and employment; and environmental protection. Official government gazettes and law collections were used where possible, as well as official investment guides. Secondary sources include the International Centre for Settlement of Investment Disputes, *Investment Laws of the World* (Dobbs Ferry, New York, Oceana, various years), professional journals, investment promotion agencies and the web sites of the Economist Intelligence Unit, the United States Commercial Service and the Investment Promotion Network.

The international legal framework for FDI comprises a wide variety of multilateral, regional and bilateral instruments. This volume contains information on four multilateral conventions that deal with issues of importance to FDI, namely, the settlement of disputes, the recognition and enforcement of foreign arbitral awards, industrial property rights and investment guarantees. Information on those multilateral instruments was obtained from documents made available by the international organizations or agencies that are depositories of the original conventions (World Bank, World Intellectual Property Organization, United Nations) and from the United Nations *Treaty Series*. There is also a listing of bilateral treaties for the promotion and protection of foreign investment or for the avoidance of double taxation. Both of these types of treaties are considered to be important elements of a favourable investment climate. Information on bilateral treaties was obtained from the ministries of foreign affairs of the countries concerned and from international sources, including the United Nations *Treaty Series, Investment Laws of the World* (Dobbs Ferry, New York, Oceana, various years), and Oceana's *International Tax Treaties of the World* (Dobbs Ferry, New York, Oceana, various years).

The bibliographic information has been taken from the United Nations Bibliographic Information System and other commercial bibliographic databases, including material by UNCTAD.

C. Industrial and geographical breakdown

The industrial and geographical breakdown are provided for FDI and operations data. The industrial breakdown used in the tables follows closely the third revision of the *United Nations International Standard Industrial Classification of All Economic Activities* (ISIC) (New York, United Nations, ST/ESA/STAT/SER.M/4/Rev.3, 1989). National data are not always reported in accordance with that code, however, and, in some cases, adjustments have been made to follow the ISIC. In the interest of space, the names of certain ISIC industries have been shortened. Following is a list of all the industries (in the broad structure) referred to and their respective ISIC codes.

Primary	
Agriculture, hunting, forestry and fishing	01, 02, 05
Agriculture and hunting	01
Forestry	02
Fishing	05
Mining, quarrying and petroleum	10,11,12,13,14
Mining and quarrying	10,12,13,14
Petroleum	11
Secondary	
Food, beverages and tobacco	15,16
Food products and beverages	15
Tobacco products	16
Textiles, clothing and leather	17,18,19
Textiles	17
Clothing	18
Leather and leather products	19
Wood and wood products	20,21
Manufacture of wood and wood products	20
Paper and paper products	21
Publishing, printing and reproduction of recorded media	22
Coke, petroleum products and nuclear fuel	23
Chemicals and chemical products	24
Rubber and plastic products	25
Non-metallic mineral products	26
Metal and metal products	27,28
Basic metals	27
Fabricated metal products	28
Machinery and equipment	29
Electrical and electronic equipment	30,31,32
Office, accounting and computing machinery	30
Electrical machinery and apparatus	31
Radio, television and communication apparatus	32
Precision instruments	33
Motor vehicles and other transport equipment	34,35
Motor vehicles, trailers and semi-trailers	34
Other transport equipment	35
Other manufacturing	36
Recycling	37

Tertiary	
Electricity, gas and water	40,41
Construction	45
Trade	50,51,52
Automotive trade and repair	50
Wholesale trade	51
Distributive trade	52
Hotels and restaurants	55
Transport, storage and communications	60,61,62,63,64
Transport and storage	60,61,62,63
Land transport including pipelines	60
Water transport	61
Air transport	62
Supporting and auxiliary transport activities	63
Post and communications	64
Finance	65,66,67
Financial intermediation	65
Insurance and pension funding	66
Activities auxiliary to financial intermediation	67
Business activities	70,71,72,73,74
Real estate	70
Rental activities	71
Computer and related activities	72
Research and development	73
Other business activities	74
Public administration and defense	75
Education	80
Health and social services	85
Community, social and personal service activities	90,91,92
Sewage and waste disposal, sanitation activities	90
Membership Organizations N.E.C.	91
Recreational, cultural and sporting activities	92
Other services	1120,93,95,99
Service activities incidental to oil and gas extraction excluding surveying	1120
Other service activities	93
Private households with employed persons	95
Extra-territorial organizations and bodies	99
Private buying and selling of property	
Unspecified	

For the geographical and regional breakdowns, the classification of countries and economies as either developing, developed or Central and Eastern Europe is employed only as a matter of statistical and analytical convenience, and follows the breakdown outlined below, which follows closely United Nations practice. Those countries or economies reported by national sources under the heading "other countries", and which are not elsewhere classified, have been placed under the unallocated category. The unallocated component reported in the geographical breakdown may reflect investments by international organizations (for example, the International Finance Corporation) or other countries not available separately. The classification of developed and developing areas and economies is as follows:

Developed areas:

- Western Europe
- North America
- Other developed (Australia, Israel, Japan, New Zealand, South Africa, Turkey)

Developing areas and territories:

- Africa
- East, South and South-East Asia (excluding Japan)
- West Asia (excluding Israel)
- Central Asia
- Developing Europe (Malta and former Yugoslavia)
- Latin America and the Caribbean
- The Pacific (excluding Australia and New Zealand)

Central and Eastern Europe

D. Reporting currency and exchange rates

For most countries in the Central and Eastern European region, data are reported in United States dollars. Exchange rate conversion employed in this volume is presented in table 2.

Table 2. Exchange rates of countries in Central and Eastern Europe, 1990-2001
National currency per United States dollar

Country [a]	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Albania												
End-of-period	..	..	102.9000	98.7000	95.5900	94.2400	103.0700	149.1400	140.5800	135.1200	142.6400	141.6500
Average period	..	..	*75.0325*	*102.0620*	*94.6233*	*92.6975*	*104.4990*	*148.9330*	*150.6330*	*137.6910*	*143.7090*	*142.6700*
Belarus												
End-of-period	..	..	0.0150	0.6990	10.6000	11.5000	15.5000	30.7400	106.0000	320.0000	1180.0000	1477.0000
Average period	..	..	..	..	..	*11.5209*	*13.2299*	*26.0199*	*46.1272*	*248.7950*	*876.7500*	*1471.0000*
Bosnia and Herzegovina												
End-of-period	..	..	..	..	0.0155	0.0143	0.0155	1.7921	1.6730	1.9469	2.1019	2.1630
Average period	..	..	..	..	..	*0.0143*	*0.0150*	*1.7341*	*1.7597*	*1.8371*	*2.1244*	*2.1610*
Bulgaria												
End-of-period	0.0028	0.0218	0.0245	0.0327	0.0660	0.0707	0.4874	1.7765	1.6751	1.9469	2.1019	2.2193
Average period	*0.0022*	*0.0178*	*0.0233*	*0.0276*	*0.0541*	*0.0672*	*0.1779*	*1.6819*	*1.7604*	*1.8364*	*2.1233*	*2.1847*
Croatia												
End-of-period	..	..	0.7982	6.5619	5.6287	5.3161	5.5396	6.3031	6.2475	7.6477	8.1553	8.3560
Average period	..	..	..	*3.5774*	*5.9961*	*5.2300*	*5.4338*	*6.1007*	*6.3623*	*7.1124*	*8.2766*	*8.3400*
Czech Republic												
End-of-period	..	..	..	29.9550	28.0490	26.6020	27.3320	34.6360	29.8550	35.9790	37.8130	36.2590
Average period	..	..	..	*29.1528*	*28.7851*	*26.5407*	*27.1449*	*31.6984*	*32.2812*	*34.5692*	*38.5984*	*38.0353*
Estonia												
End-of-period	..	..	12.9120	13.8780	12.3900	11.4620	12.4400	14.3360	13.4100	15.5620	16.8198	17.6920
Average period	..	..	..	*13.2227*	*12.9912*	*11.4647*	*12.0337*	*13.8817*	*14.0747*	*14.6776*	*16.9686*	*17.5382*
Hungary												
End-of-period	61.4492	75.6200	83.9700	100.7000	110.6900	139.4700	164.9300	203.5000	219.0300	252.5200	284.7300	279.0300
Average period	*63.2059*	*74.7354*	*78.9884*	*91.9332*	*105.1600*	*125.6810*	*152.6470*	*186.7890*	*214.4020*	*237.1460*	*282.1790*	*286.4900*
Latvia												
End-of-period	..	..	0.8350	0.5950	0.5480	0.5370	0.5560	0.5900	0.5690	0.5830	0.6130	0.6380
Average period	..	..	*0.7365*	*0.6753*	*0.5598*	*0.5276*	*0.5508*	*0.5809*	*0.5898*	*0.5852*	*0.6065*	*0.6279*
Lithuania												
End-of-period	..	..	3.7900	3.9000	4.0000	4.0000	4.0000	4.0000	4.0000	4.0000	4.0000	4.0000
Average period			*1.7728*	*4.3441*	*3.9778*	*4.0000*	*4.0000*	*4.0000*	*4.0000*	*4.0000*	*4.0000*	*4.0000*

/...

Table 2. Exchange rates of countries in Central and Eastern Europe, 1990-2001 (concluded)
National currency per United States dollar

Country [a]	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
End-of-period	..	0.0017	0.4144	3.6400	4.2700	4.4990	4.6743	4.6605	8.3226	11.5902	12.3833	12.8604
Average period	*..*	*..*	*..*	*..*	*..*	*4.4958*	*4.6045*	*4.6236*	*5.3707*	*10.5158*	*12.4342*	*12.8579*
Poland												
End-of-period	0.9500	1.0957	1.5767	2.1344	2.4372	2.4680	2.8755	3.5180	3.5040	4.1483	4.1432	3.9863
Average period	*0.9500*	*1.0576*	*1.3626*	*1.8115*	*2.2723*	*2.4250*	*2.6961*	*3.2793*	*3.4754*	*3.9671*	*4.3461*	*4.0939*
Romania												
End-of-period	34.71	189.00	460.00	1276.00	1767.00	2578.00	4035.00	8023.00	10951.00	18255.00	25926.00	31597.00
Average period	*22.4321*	*76.3872*	*307.9530*	*760.0510*	*1655.09*	*2033.28*	*3084.22*	*7167.94*	*8875.58*	*15332.80*	*21708.70*	*29060.80*
Russian Federation												
End-of-period	..	..	0.4150	1.2470	3.5500	4.6400	5.5600	5.9600	20.6500	27.0000	28.1600	30.1400
Average period	*..*	*..*	*..*	*0.9917*	*2.1908*	*4.5592*	*5.1208*	*5.7848*	*9.7051*	*24.6199*	*28.1292*	*29.1685*
Slovakia												
End-of-period	..	..	..	33.2020	31.2770	29.5690	31.8950	34.7820	36.9130	42.2660	47.3890	47.3310
Average period	*..*	*..*	*..*	*30.7696*	*32.0448*	*29.7134*	*30.6537*	*33.6162*	*35.2334*	*41.3628*	*46.0352*	*47.7920*
Slovenia												
End-of-period	..	56.6927	98.7005	131.8420	126.4580	125.9900	141.4800	169.1800	161.2000	196.7700	227.3770	250.9460
Average period	*..*	*27.5712*	*81.2870*	*113.2420*	*128.8090*	*118.5180*	*135.3640*	*159.6880*	*166.1340*	*181.7690*	*222.6560*	*242.7490*
TFYR Macedonia												
End-of-period	..	..	..	44.4556	40.5962	37.9796	41.4106	55.4206	51.8361	60.3391	66.3281	67.2470
Average period	*..*	*..*	*..*	*..*	*43.2632*	*37.8818*	*39.9811*	*50.0035*	*54.4617*	*56.9018*	*65.9039*	*67.2330*
Ukraine												
End-of-period	..	..	0.0064	0.1261	1.0420	1.7940	1.8890	1.8990	3.4270	5.2163	5.4345	5.2985
Average period				*0.0453*	*0.3275*	*1.4731*	*1.8295*	*1.8617*	*2.4495*	*4.1304*	*5.4402*	*5.3722*

Source: IMF, International Financial Statistics CD-ROM, June 2002.
[a] Exchange rates for Serbia and Montenegro are not available.

E. Definitions, descriptions and discrepancies in the data

1. FDI statistics

Definitions of FDI are contained in the *Balance of Payments Manual: Fifth Edition* (BPM5) (Washington, D.C., International Monetary Fund, 1993) and the *Detailed Benchmark Definition of Foreign Direct Investment: Third Edition* (BD3) (Paris, Organisation for Economic Co-operation and Development, 1996).

According to the BPM5, FDI refers to investment made to acquire lasting interest in enterprises operating outside of the economy of the investor. Further, in cases of FDI, the investor's purpose is to gain an effective voice in the management of the enterprise. The foreign entity or group of associated entities that makes the investment is termed the "direct investor". The unincorporated or incorporated enterprise–a branch or subsidiary, respectively, in which direct investment is made–is referred to as a "direct investment enterprise". Some degree of equity ownership is almost always considered to be associated with an effective voice in the management of an enterprise; the BPM5 suggests a threshold of 10 per cent of equity ownership to qualify an investor as a foreign direct investor.

Once a direct investment enterprise has been identified, it is necessary to define which capital flows between the enterprise and entities in other economies should be classified as FDI. Since the main feature of FDI is taken to be the lasting interest of a direct investor in an enterprise, only capital that is provided by the direct investor–either directly or through other enterprises related to the investor–should be classified as FDI. The forms of investment by the direct investor which are classified as FDI are equity capital, the reinvestment of earnings and the provision of long- and short-term intra-company loans (between parent and affiliate enterprises).

According to the BD3 of the OECD, a direct investment enterprise is an incorporated or unincorporated enterprise in which a single foreign investor either owns 10 per cent or more of the ordinary shares or voting power of an enterprise (unless it can be proven that the 10 per cent ownership does not allow the investor an effective voice in the management) or owns less than 10 per cent of the ordinary shares or voting power of an enterprise, yet still maintains an effective voice in management. An effective voice in management only implies that direct investors are able to influence the management of an enterprise and does not imply that they have absolute control. The most important characteristic of FDI, which distinguishes it from foreign portfolio investment, is that it is undertaken with the intention of exercising control over an enterprise.

There is a notorious lack of comparability of the FDI data reported by different countries. This lack of comparability usually results in discrepancies between total outflows and total inflows or between outward stocks and inward stocks. There are two main causes for the lack of comparability and discrepancies. First, not all countries comply with all components of internationally-recommended guidelines. Corporate accounting practices and valuation methods differ between countries. Each of those groups of issues is discussed in turn below.

(a) Definitions of FDI

(i) Components of FDI

As stated above, the components of FDI are equity capital, reinvested earnings and other capital. As countries do not always collect data for each of those components, reported data on FDI are not fully comparable across countries. In particular, data on reinvested earnings, the collection of which depends on company surveys, are often unreported by many countries.

(ii) The threshold equity ownership

Countries differ in the threshold value for foreign equity ownership which they take as evidence of a direct investment relationship. This is the level of participation at or above which the direct investor is normally regarded as having an effective say in the management of the enterprise involved. The threshold value usually applied for FDI is 10 per cent, for data on the operations of TNCs, it involves chosen ranges of between 10 and 50 per cent. Some countries do not specify a threshold point, but rely entirely on other evidence, including companies' own assessments as to whether the investing company has an effective voice in the management of the foreign firm in which it has an equity stake. The quantitative impact of differences in the threshold value used is relatively small, owing to the large proportion of FDI which is directed to majority-owned foreign affiliates.

(iii) Defining a controlling interest and treatment of non-equity forms of investment

Other than having an equity stake in an enterprise, there are many other ways in which foreign investors may acquire an effective voice. Those include subcontracting, management contracts, turnkey arrangements, franchising, leasing, licensing and production-sharing. A franchise (a firm to which business is subcontracted) or a company which sells most of its production to a foreign firm through means other than an equity stake are not usually collected, some countries have begun to contemplate doing so. For example, the OECD treats financial leases between direct investors and their branches, subsidiaries or associates as if they were conventional loans; such relationships will therefore be included in its revised definition of FDI.

(b) Methods of data collection and national practices in the treatment of FDI

(i) Foreign exchange records versus company surveys

Very often it is difficult for a country to comply with the recommended definitions and report on all three components of FDI because it relies exclusively on foreign exchange records of the central bank. Thus it is only able to account for capital which crosses its borders and not reinvested earnings. Another approach taken by some countries involves a requirement by the central bank of additional information from foreign investors.

Data on FDI flows are collected primarily for balance-of-payments purposes. However, the data are usually based on the exchange records of the central bank in the framework of the International Transactions Reporting System (ITRS) and are extremely limited in details. Some countries supplement their exchange records data with company surveys or secondary sources. In most cases, that involves a request for information on components of FDI not properly covered in the recording of foreign exchange transactions, the most important of which is reinvested earnings. This generally entails an annual company survey. In some countries, there is also a periodic census or benchmark survey which covers all aspects of FDI and may extend to other related variables. In several cases–such as Australia, Canada and the United States–surveys are the main source of FDI information.

Very often, however, stock data are not available for countries because of their reliance on the exchange records. Stock data may also be obtained from company surveys. If FDI flows were also obtained on the same basis, then cumulative FDI flows would equal FDI stocks because it would include, for example, changes in valuation due to depreciation. However, where FDI flow data are collected from exchange records and FDI stock data are derived from company surveys, cumulative FDI flows do not generally match stocks. Once again, one major source of discrepancies is that reinvested earnings are excluded from FDI flow data.

Another difficulty is that equity capital, as well as changes in intra-company loans between parents and affiliates, and reinvested earnings tend to fluctuate considerably between years and can be substantially revised. Although there may be attempts to revise the FDI flow-data series accordingly, it can be difficult to attribute revisions to particular previous years. For that reason, proper adjustments are normally made only at the time of comprehensive surveys. Surveys also allow for a revaluation of assets which helps to ensure a more accurate assessment of investment stocks.

(ii) Ultimate beneficial owner

As stated above, FDI flow data are likely to be organized on the basis of the immediate host country and immediate investing country, rather than the ultimate host and ultimate investing country. Where funds are channelled through holding companies, major problems may be created in the compilation of an accurate geographical or industrial distribution of FDI. That often leads to an overstatement of investments, particularly in the financial sector, in or from financial centres. The ultimate investment's origins or intentions of the parent companies are lost as a consequence.

Some countries, however, have made efforts to reduce that problem. Surveys to collect data on FDI stocks can be drawn up in terms of either immediate or ultimate owners. A version of this appears in the German FDI data, where there is a distinction between primary and secondary FDI. Other countries have paid particular attention to trying to resolve the problem of ultimate beneficial ownership, which arises in the case of offshore companies or banks. Those are firms incorporated in countries which are typically offshore banking centres (such as the Netherlands Antilles, Panama, Bermuda or the Cayman Islands) that are not active in the country of incorporation and have their management offices in other countries, generally that of the parent company.

Similar difficulties are encountered in cases of takeovers of firms. If a direct investor is taken over by a foreign firm from a different country, the host country will not always record the change in ownership. If an inward direct investment enterprise owned by a firm in country A is taken over by a firm in country B, the host country should record this as a disinvestment by A and as a direct investment by B; it is recognized, however, that countries do not always have the data to implement that recommendation.

Further problems sometimes arise where takeovers proceed in incremental stages. Early acquisitions are treated as portfolio investment and, consequently, are not included in FDI flows until such time that threshold level is reached. The flow data are not subsequently revised once the threshold level is reached; only the investment which takes the firm over the critical threshold and its following investments are recorded in FDI flows.

(iii) Variety of sources for FDI data

Many countries have a variety of sources for FDI data, including those collected by the central bank for balance-of-payments purposes and those collected by the board of investment or a similar institution for monitoring and investment promotion purposes.

Owing to the lack of comprehensive FDI data, especially in some developing economies, it is necessary to draw upon the data provided by institutions responsible for the regulation or promotion of FDI. Allowances must then be made for the regulatory framework within which the data were gathered. For example, not all FDI may have to be registered with the authorities in question; it is possible that reinvested earnings or investments in ventures in which the foreign equity stake is below a certain percentage are excluded.

A typical occurrence is that data provided by those institutions are on approved FDI investments rather than on the investments actually implemented. Sometimes, geographical and sectoral disaggregations of FDI are available only for approved investments. In such cases, data on approved investments provide crucial information, but their limitations must be acknowledged. Normally, approved investments are larger than those actually implemented.

(iv) Industrial coverage and classification

Sometimes, the industrial coverage of FDI reporting is limited, or the classification used by national bodies is incompatible with the second revision of the United Nations *International Standard Industrial Classification of All Economic Activities*. For a few countries, FDI data are highly aggregated in very broad categories. In addition, the industrial classification used may be based on either the primary economic activity of the parent company, or the primary activity of the affiliate. Exceptions are found in the German and United States FDI data, which are compiled in accordance with both of those criteria. In most countries, outward FDI is classified according to the industry of the parent company, while inward FDI is attributed to the industry of the affiliate.

(v) The treatment of banks and other financial institutions

There are particular problems relating to the measurement of FDI in the finance sector. The level of banking activity by local branches may bear little relationship to the assets owned by the parent banks. FDI data sometimes mistakenly include the deposits made by a parent bank in its foreign affiliates. This can give rise to a substantial overestimation of FDI, as the motivation for such deposits may be a response to interest-rate differentials, fiscal changes or political uncertainty. Thus, it is recommended that deposits made by a parent bank in its branches or subsidiaries abroad not be classified as FDI. Similarly, the intra-company flows between affiliated entities engaged in financial intermediation should be excluded from FDI.

(c) Accounting practices

(i) Historical valuation of FDI

A serious problem stems from the fact that data on FDI stocks usually represent the book value or historical costs of assets. This means that all assets are valued at the prices and exchange rates which prevailed at the time of acquisition. In a company's book of accounts, investments are recorded in terms of the prices paid at the time they were made and usually expressed in local currency units converted at the then prevailing exchange rate.

This creates major difficulties if inflation or movements of exchange rates become significant. For economies with a significant inward or outward FDI stock established before 1970, the effect of high inflation in the 1970s has been complicated by the impact of dramatic exchange-rate fluctuations in the 1980s. It is not possible to allow for these effects through the normal techniques of price indexing in a given currency, as the FDI data are neither at current nor constant prices and do not reflect a single exchange rate. This implies that cross-country comparisons of FDI data must be treated with caution. The United Nations System of National Accounts, the IMF BPM5 and the Benchmark Definition of OECD recommend market values as the conceptual basis for valuation of stocks. Nevertheless, for practical purposes, OECD recognizes book values from the balance sheets of direct investment enterprises as the only widely available value for the estimation of stocks.

(ii) Methods of consolidation

Country rules differ as to how the transactions of the members of an enterprises group are to be consolidated. Foreign affiliates are divided into three categories: subsidiaries, associates and branches. Parent companies in most economies consolidate the accounts of subsidiaries, associates and branches in accordance with national accounting regulations. Such rules may differ from those of the recommended definitions which suggest full consolidation. The reported FDI position of countries which do not adopt the fully consolidated system may be considerably understated.

(iii) Capital gains and losses

Some countries include realized capital gains and losses as affiliate income and, consequently, such figures may be represented in their FDI data under the category of reinvested earnings. Until recently, the United States had also included unrealized capital gains and losses in reinvested earnings. That was a major source of difficulty during the 1980s, when substantial exchange-rate fluctuations generated large unrealized capital gains and losses, which led to dramatic fluctuations in the United States FDI flow data. Such movements should be excluded from FDI figures as the changes in the investment position which they bring about are of a portfolio, or purely financial kind, rather than a change in FDI itself.

2. Corporate data

A transnational corporation (TNC) is generally regarded as an enterprise comprising entities in more than one country which operate under a system of decision-making that permits coherent policies and a common strategy. The entities are so linked, by ownership or otherwise, that one or more of them may be able to exercise a significant influence over the others and, in particular, to share knowledge, resources and responsibilities with the others.

Once a TNC has been identified, it may be necessary to select the most important parent company for any given associate enterprise. Because the definition of a TNC does not specify majority control, it is possible for an enterprise to be an associate of more than one TNC. In such cases in the tables covering corporate data, enterprises have been treated as associates only of the parent with the highest percentage ownership.

Similarly, some TNCs are active in more than one industrial sector. Such TNCs are listed in the tables containing corporate data as being active only in the sector which is most predominant among its activities. In certain cases where a predominant activity could not be identified, the activities of TNCs have been listed as "diversified".

One of the most complex problems in the compilation of the data on TNCs is the identification of holding companies. In identifying such companies, attention was paid to the strategy of each holding company, including their definition of product or service offerings. If a holding company maintains a purely financial relationship with the companies that it holds, treating the companies themselves as its product, such a holding company would be classified as a financial institution. Alternatively, if a holding company actively involves itself in the management of the companies it holds, thereby treating the goods or services produced by those held companies as its own goods or services, such a holding company would be classified as being involved in the industrial sector of the companies it holds, and ranked accordingly.

Another problem with the corporate data presented in the tables arises from the fact that requirements for the consolidation of financial data differ between countries. Because TNCs, by their very nature, cross borders, the degree to which the financial data of any given TNC are consolidated is often uncertain. Therefore, the data on sales or assets of a foreign affiliate in the host country are not always compiled using the fully consolidated sales or assets of all foreign affiliates of its parent company. In most cases when data are reported on assets or sales of foreign affiliates or of domestically-based TNCs, the extent of consolidation is not known.

3. Legal information

(a) National framework

The regulatory framework for FDI in a country or economy consists of laws, regulations, official policy declarations and guidelines that are relevant to FDI and related fields. Naturally, the regulatory framework for FDI differs considerably between countries. Some countries have specific legal frameworks regulating FDI. Others, like the United States, have very few or no laws specifically dealing with FDI. Many developing countries regulate FDI explicitly by enacting investment codes, or by passing laws that deal with the establishment of public investment boards or similar institutions. Others have not enacted FDI-related legislation. Instead, they have enacted industry-specific laws which regulate FDI. Since investment flows are often concentrated in specific industries, the investment laws and regulations that cover these industries have been included in the table relating to the legal framework for TNCs, in addition to basic FDI laws when they were available.

In the country profiles prepared for this volume, the laws and regulations have been selected to cover, *inter alia:*

- corporate law, including accounting and reporting regulations;
- incentives for, and restrictions on, FDI;
- mergers and acquisitions;
- securities;
- taxation (mainly corporate and individual income tax);
- transfer of technology;
- industrial/intellectual property;
- labour relations and employment;
- environmental protection.

Foreign exchange laws have been expressly omitted since this topic is fully covered in other specialized publication.[1] Similarly, customs law has also been omitted–in view of the space limitations–since, compared to the other areas mentioned, it bears only on one aspect of FDI.

To the extent available, the laws and regulations are listed in chronological sequence. They are not presented according to the subject matter of the instrument because the diversity and complexity of the national legal systems prevent such a classification. Laws and regulations that cover two or more legal areas are not unusual.

The citation of laws and regulations includes their title, year of enactment, date of enforcement and source. Where possible, the official source has been cited. In cases where the source is presented in a language other than English, French or Spanish, another source containing the English (official or unofficial) translation has sometimes been added. It should be mentioned, however, that due to considerable difficulties in tracing, updating and, last but not least, translating the relevant national legal instruments, the legal information presented in the individual country profiles compiled for this volume should be considered as a best-effort attempt to cover the vast area of FDI-related legislation in the region.

(b) International framework

The present volume contains information on four major legally-binding multilateral instruments. Each of those instruments deals with a specific issue that is considered to be of importance for relations between foreign direct investors and host countries, namely, the settlement of disputes between States and investors from other States; the recognition and enforcement of foreign arbitral awards; industrial property rights; and investment guarantees for non-commercial risks (that is, expropriation).

There are, of course, many more multilateral instruments dealing with FDI matters, but due to space limitations, the instruments selected for inclusion in the country profiles had to be narrowed to a few representative ones. The overview of this volume, however, provides an analysis of the instruments at the multilateral, regional and bilateral levels concluded by or applying to countries of the region. A brief summary of the main types of FDI instruments follows.

Unlike in the case of international trade, for which World Trade Organization provides a broad multilateral framework, no comprehensive framework for FDI exists. Instead, the international legal framework for FDI, as it exists today, embraces a wide variety of separate multilateral, regional and bilateral instruments that have been concluded over a long period of time and deal with a broad range of issues. Some of those instruments are legally binding, meaning that they impose firm obligations on the signatory Governments, and–when duly incorporated into the internal legislative system–they also imply rights and obligations of individuals and companies that are directly enforceable. There is also another group of international instruments on FDI, particularly at the regional and multilateral levels, which consists of guidelines, recommendations etc. Those are voluntary in nature and are not directly enforceable in a court of law by either the Governments involved or their nationals. Voluntary instruments, however, can produce some legal effects under certain circumstances; indeed, inasmuch as they reflect the *opinion juris* of the community of countries, they may become sources of international law.[2]

[1] See for example, International Monetary Fund, *Yearbook on Foreign Exchange Regulations* (Washington, D.C., International Monetary Fund, various issues).

[2] See also A. Fatouros, ed., *United Nations Library on Transnational Corporations: Transnational Corporations: The International Legal Framework* (London, Routledge, 1995).

At the multilateral level, within the United Nations system, a number of voluntary instruments, namely, the Tripartite Declaration of Principles on Multinational Enterprises and Social Policy (ILO, 1977); the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices (UNCTAD, 1980); the International Code of Marketing of Breast-milk Substitute (WHO, 1981); the International Guidelines for Consumer Protection (United Nations, 1985); the International Code on Distribution of Pesticides (United Nations, 1985); and the Draft Code on the Transfer of Technology (UNCTAD, under negotiation).[3] Almost invariably, those instruments have been adopted as consensus resolutions by the relevant United Nations organs. It should be noted that United Nations resolutions do not require explicit signature, ratification or adherence formalities to become operative. At the regional level, the OECD Guidelines for Multinational Enterprises and related decisions, and the Andean Investment Code (in the context of the Cartagena Agreement) contain general standards for FDI.

With respect to bilateral treaties, this volume provides information on two types of treaties, namely, bilateral treaties for the promotion and protection of foreign investment and bilateral treaties for the avoidance of double taxation. The former deal exclusively with investment issues and prescribe general standards for the treatment of investors, as well as specific rules on a number of particularly sensitive issues. The latter deal with a very significant aspect of foreign investment management, namely, the harmonization of tax rules on income and capital distribution between home and host countries and territories. Both types of treaties have been concluded in large numbers between countries from all regions of the world and are considered to be important policy instruments for the promotion of investment flows to countries and territories. Other types of bilateral treaties concerning FDI include bilateral guarantee agreements (signed in connection with insurance schemes provided by home countries of investors); and treaties of friendship, commerce and navigation, concluded mainly during the 1960s between market economies, which deal with a broad range of economic issues, including FDI. Several bilateral trade agreements concluded in the past few years have also included provisions on investment.

F. Glossary

1. FDI

An investment involving a long-term relationship and reflecting a lasting interest of a resident entity in one economy (direct investor) in an entity resident in an economy other than of the investor. The direct investor's purpose is to exert a significant degree of influence on the management of the enterprise resident in the other economy. FDI involves both the initial transaction between the two entities and all subsequent transactions between them and among affiliated enterprises, both incorporated and unincorporated. FDI may be undertaken by individuals, as well as business entities.

FDI flows

For associates and subsidiaries, FDI flows consist of the net sales of shares and loans (including non-cash acquisitions made against equipment, manufacturing rights, etc.) to the parent company plus the parent firm's share of the affiliate's reinvested earnings plus total net intra-company loans (short- and long-term) provided by the parent company.

For branches, FDI flows consist of the increase in reinvested earnings plus the net increase in funds received from the foreign direct investor.

[3] The instruments mentioned here are contained in a series of UNCTAD's *International Investment Instruments: A Compendium* (Geneva, United Nations, various years).

FDI flows with a negative sign (reverse flows) indicate that at least one of the components in the above definition is negative and not offset by positive amounts of the remaining components.

Equity capital

The foreign direct investor's net purchase of the shares and loans of an enterprise in a country other than its own.

Reinvested earnings

The part of an affiliate's earnings accruing to the foreign investor that is reinvested in that enterprise.

Other capital (intra-company loans)

Short- or long-term loans from parent firms to affiliate enterprises or vice versa. In the case of banks, deposits, bills and short-term loans are excluded. Also included are trade credits, bonds and money-market instruments, financial leases and financial derivatives.

FDI stock

For associate and subsidiary enterprises, it is the value of the share of their capital and reserves (including retained profits) attributable to the parent enterprise (this is equal to total assets minus total liabilities), plus the net indebtedness of the associate or subsidiary to the parent firm.

For branches, it is the value of fixed assets and the value of current assets and investments, excluding amounts due from the parent, less liabilities to third parties.

2. The structure of TNCs

A TNC is an enterprise, which is irrespective of its country of origin and its ownership, including private, public or mixed, which comprises entities located in two or more countries which are linked, by ownership or otherwise, such that one or more of them may be able to exercise significant influence over the activities of others and, in particular, to share knowledge, resources and responsibilities with the others. TNCs operate under a system of decision making which permits coherent policies and a common strategy through one or more decision-making centres. This definition does not regard the legal form and fields of activity of these entities.

In the above definition, the term "entities" refers to both parent enterprises, defined below, and other enterprises.

For working purposes, the UNCTAD considers a "transnational corporation" to be an entity controlling assets abroad.

Parent enterprise

An incorporated or unincorporated enterprise, or group of enterprises, which has a direct investment enterprise operating in a country other than that of the parent enterprise.

Affiliate enterprise

An incorporated or unincorporated enterprise in which a foreign investor has an effective voice in management. Such an enterprise may be a subsidiary, associate or branch (defined below).

Subsidiary enterprise

An incorporated enterprise in the host country in which another entity directly owns more than half of the shareholders' voting power, or is a shareholder in the enterprise, and has the right to appoint or remove a majority of the members of the administrative, management or supervisory body.

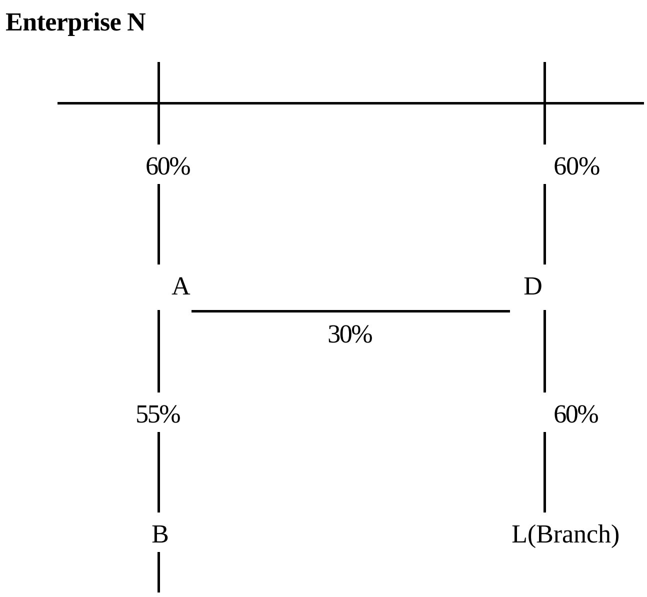
Associate enterprise

An incorporated enterprise in the host country in which an investor, together with its subsidiaries and associates, owns a total of at least 10 per cent, but not more than half, of the shareholders' voting power (the figure may be less than 10 per cent if there is evidence of an effective voice in management).

Branch

An unincorporated enterprise in the host country which is one of the following: (i) a permanent establishment or office of the foreign investor; (ii) an unincorporated partnership or joint venture (defined below) between the foreign direct investor and one or more third parties; (iii) land, structures (except structures owned by government entities), and/or immovable equipment and objects directly owned by a foreign resident; (iv) mobile equipment (such as ships, aircraft, gas or oil-drilling rigs) operating within a country other than that of the foreign investor for at least one year.

Under the fully consolidated system:



12%

C

- A is a subsidiary of N;
- B is indirectly a subsidiary of N;
- C is an associate of B and hence of N, provided that B has an effective voice in the management of C;
- D is a subsidiary of N and an affiliate of A;
- L is a branch of D and hence of N.

Joint venture

A joint venture involves share-holding in a business entity having the following characteristics; (i) the entity was established by a contractual arrangement (usually in writing) whereby two or more parties have contributed resources towards the business undertaking; (ii) the parties have joint control over one or more activities carried out according to the terms of the arrangements and none of the individual investors is in a position to control the venture unilaterally.

A joint venture may take one of the following three forms.

(i) Jointly controlled entity; the joining together of two or more enterprises resulting in the creation of a third enterprise in order to undertake a specific business venture. It is not a continuing relationship like a partnership. A jointly controlled entity is established under contractual agreement whereby the parties to the agreement contribute resources towards the business undertaking. Both parties have control over the activities carried out according to the terms of the agreement and no party can control the joint venture unilaterally.

(ii) Jointly controlled assets: the coordinated use of parts of the investors' enterprises in order to work on a common project which does not form separate entity, and which operates with a loose organizational structure. The assets and expertise of each partner remain under the direct control of that partner.

(iii) Jointly controlled operation: the contribution of resources by investors to a joint venture project which is managed by either one of the investors or by a joint management team. In such a venture, a joint venture agreement defines the terms of the project, and each investor possesses an undivided interest in the assets of the project.

Holding company

A corporation that owns voting stock in another corporation and is able to influence its board of directors, and therefore control its policies and management. A holding company need not own a majority of the shares of the corporation or be involved in activities similar to those of the company it holds.

3. Operations of TNCs

Total assets

Everything that an incorporated or unincorporated enterprise owns which has a monetary value. The characteristics of assets are their control by the enterprise, the expectation that they will provide future benefits to the enterprise and that they are the outcome of a prior event or transaction. Total assets may be tangible (with physical substance, such as land and buildings) or intangible (without physical substance, such as patents and rights granted by a Government). The assets of a direct investment enterprise cover all the assets of the enterprise carried on its balance sheet, regardless of how they are financed; whether they are financed by the direct investors, or from other non-resident or resident sources.

Fixed assets are regarded as tangible assets with a useful life in excess of one year, which are used in the operation of a business enterprise and subject to depreciation. Current assets, on the other hand are regarded as tangible assets with a life of one year or less which can be readily turned into cash, for example, bank deposits, bills receivable and securities.

Employment

The figures reported for employment should include the number of full- and part-time employees on the payroll. The figures should not include contract and temporary employees who are not listed in the enterprise's payroll. Ideally, figures for part-time employees should be reported on a full-time equivalent basis (FTE). However, where data on a FTE basis are difficult to obtain, countries should use the number of persons employed.

Wages and salaries

"Wages and salaries include the value of any social contributions, income taxes, etc., payable by the employee even if they are actually withheld by the employer … and paid directly to social insurance schemes, tax authorities, etc., on behalf of the employee" (United Nations, *The System of National Accounts*, 1993, paragraphs 7.31-7.32).

Sales

Sales and turnover are used *interchangeably* to mean the same thing. "*Sales* measures gross operating revenues, less rebates, discounts and returns. *Sales* should be measured exclusive of consumption and sales taxes on consumers and value added taxes" (UN, European Commission, IMF, OECD, UNCTAD and WTO, *Manual on Statistics of International Trade in Services*, ST/ESA/STAT/SER.M/86, Statistical Papers, Series M, No. 86, Geneva, Luxembourg, New York, Paris, Washington D.C., 2002, paragraph 4.50). Sales consist of all goods and services invoiced by an establishment or enterprise during the reporting period. They also include all other charges passed on to the customer, for transportation, packaging etc. The figure used for sales should be after any price reductions, discounts and rebates and credits for returned packaging. Other operating income, financial income and extraordinary income should not be included in sales.

Value added

The difference at each stage of production between the cost of a product and the cost of all capital and labour input or any other input used to make this product. It "measures the value created by production". In essence, it is obtained by subtracting the value of inputs (the cost of materials, fuel and other supplies otherwise called intermediate consumption) from the value of an enterprise's gross output. "Gross valued added is an unduplicated measure of output in which the value of the goods and services used as intermediate inputs are eliminated from the value of output" (United Nations, *The System of National Accounts*, 1993, paragraphs 6.222 and 6.223).

Profits

Gross profit refers to total sales revenue less payments of wages, salaries, rents, costs of raw materials and other costs incurred in carrying out the operations of the enterprise. Net profit, on the other hand, refers to gross profit less interest on loans and depreciation.

Exports and imports

Exports should represent the value of the enterprise's (or enterprise group's) total exports of goods and services, including its exports to its foreign affiliates. Imports should similarly cover total imports of goods and services, including those from foreign affiliates.

Merchandise exports should include general merchandise, goods exported for processing, repairs on moveable goods owned by non-residents such as ships, aircraft etc., goods procured in ports (goods sold to non-resident carriers – ships, aircraft etc.), and non-monetary gold. (Repairs on goods are valued at the prices – the fees paid for the repairs and not the gross value of the goods.) Merchandise exports should be valued free on board (f.o.b.) at the frontier of the exporting country (IMF, *Balance of Payments Manual,* chapter X). Merchandise imports should also include general merchandise, goods imported for processing, repairs on the enterprise's moveable goods performed by non-residents, goods procured in foreign ports by those enterprises which are international carriers, and imports of non-monetary gold. Merchandise imports should also be valued f.o.b. at the frontier of the exporting country (IMF, *Balance of Payments Manual*, chapter X).

Exports and imports of services cover the enterprise's exports and imports of transportation and travel services, communications, construction, insurance, financial, computer and information services, royalties and license fees, and other business, personal, cultural and recreational services. Exports should also include any sales which the enterprise makes to foreign embassies and international institutions located in its country (IMF, *Balance of Payments Manual*, chapters XI, XII, and XIII).

R&D expenditures

"Research and development by a market producer is an activity undertaken for the purpose of discovering or developing new products, including improved versions or qualities of existing products, or discovering or developing new or more efficient processes of production" (United Nations, *The System of National Accounts*, 1993, paragraph 6.142). In the case of inward investment, direct investment enterprises should be asked to report total R&D spending within the host economy during the reporting period.

R&D employment

Data for the number of researchers are on the same basis as data for total employment. The data include all employees engaged in R&D.

Royalty payments

Monetary payments for the use of copyrighted or patented materials and production processes, or payments for the right of extraction of natural resources to the owner of these materials, processes or resources. These may be payments to a Government or to another business enterprise.

Royalty receipts

Receipts of monies for allowing the use of copyrighted or patented materials and production processes, or receipts from providing the right of extraction of natural resources by the owner of these materials, processes or resources. The owner may be a Government or another business enterprise.

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E-mail: natalia.guerra@unctad.org
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