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TRENDS AND RECENT DEVELOPMENTS IN FOREIGN DIRECT INVESTMENT*

June 2006

The global environment for foreign direct investment (FDI) improved in 2005. Macroeconomic growth, traditionally one of the main drivers of direct investment, held up in North America and gained momentum in several other OECD countries. At the same time corporate profitability was generally strong, interest rates were low and equity valuation in most countries firm, all of which imply that ample liquidity was available to those companies wanting to invest abroad. In a separate development, real estate prices also reached peak levels in many countries, which seems to have spurred a wave of cross-border investment in property and in businesses involved in property administration.

Outside the OECD area, economic developments have moved even faster. The Chinese economy, now firmly established as one of the world's foremost destinations for FDI, continues to grow at official annual rates close to 10 per cent. After many years of chronically low growth, assisted by a process of regulatory reform and liberalisation the Indian economy now enjoys growth rates approaching Chinese rates, and is quickly becoming a magnet for international direct investment. Countries that were weighed down by financial and macroeconomic crises in the late 1990s and around 2000, including in South East Asia and South America, have also been in the process of recovering and attracting renewed interest from international direct investors.

The outlook for FDI in the coming years is positive overall, as the expectation is for macroeconomic conditions to firm in most OECD countries, and structural reform efforts to continue in emerging economies. However, some risks cloud the horizon. One is macroeconomic, relating to the fact that interest rates may rise, taking equity prices down and contributing to more cautious corporate investment strategies.

Another risk factor is political in nature. While many developing and emerging economies continue to take steps to open their economies to international participation, the international security situation and fears of negative consequences of globalisation have prompted the governments of several OECD countries to review their FDI regulations. Citing legitimate concerns about national security and other essential public interests, authorities have reviewed and in some cases sought to discourage foreign participation in sectors perceived as being of strategic interest. A few countries have tightened their legislation in this respect, and in several others there are discussions about doing likewise (Section 4 below).

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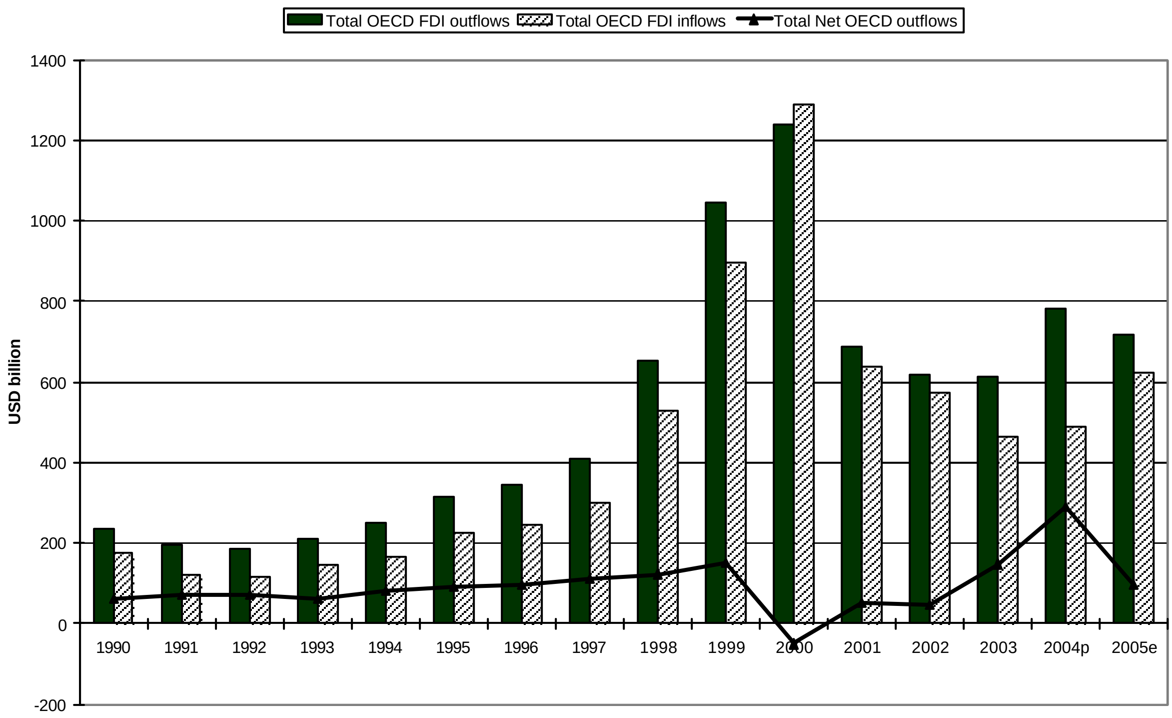
* This article was prepared by Hans Christiansen and Ayse Bertrand of the Investment Division, OECD. Thanks are due to Céline Schwarz, likewise of the Investment Division, for statistical inputs.

Without contesting sovereign nations' right to regulate, there is a risk that regulatory action may sometimes exceed what is needed to safeguard essential interests and be motivated by protectionist motives. The challenge for policy makers is to find ways of safeguarding essential interests while at the same time keeping their investment regimes transparent and non-discriminatory. Failure to do so may impose considerable economic costs on the host economy. In the broader international context it could compromise efforts to proceed towards a mutually beneficial open investment environment.

1. Foreign direct investment in OECD countries etched up in 2005

Direct investment into OECD countries picked up in 2005 and reached an estimated 622 billion US dollars (USD). This represents a 27 per cent increase over 2004 and is the highest level of inflows since the previous investment boom petered out in 2001. In consequence, 2005 became the fourth-highest year on record in terms of inward FDI flows to OECD countries. The country distribution of inflows (reviewed in more details below) is consistent with past trends, the United States and United Kingdom being the main destinations for FDI, followed by some of the largest continental European economies. The business sectors of some countries – notably the Benelux countries – have experienced large amounts of pass-through investment via holding companies, and the respective national data must therefore be interpreted with caution.

Figure 1. FDI flows to and from OECD



Source: OECD International Direct Investment Database.

Total OECD outflows dropped slightly, by around 8 per cent, to reach an estimated USD 716 billion in 2005. However, as indicated below, the 2005 outflows are influenced in a one-off drop in US figures estimated at at least USD 100 billion, in the absence of which aggregated OECD figures would have shown continued growth[1]. Consequently, the United States temporarily lost its role as the world's foremost outward investor. This role was assumed by France (leaving aside the Netherlands, for reasons explained below), whose domestic enterprises undertook massive acquisitions abroad in 2005, followed by the United Kingdom, which was very active on the investment scene, both as an outward investor and as a recipient.

In consequence of large inflows and even larger outflows, the OECD area as a whole continued to act as a major net outward direct investor. The estimated net outflows in 2005 were USD 95 billion – less than in the immediately preceding years, but quite high by historic standards.

1.1 Developments in selected countries

In the *United Sates* the net FDI inflows were USD 110 billion in 2005. This represents an 18 per cent decrease from 2004 (USD 133 billion) and is way below the levels of investment that were recorded around 2000, but is still relatively high in a longer perspective (Table 1 and Figure 2). US inflows increasingly reflect inter-company loans and reinvested earnings, whereas equity capital inflows actually decreased in 2005.

US outward direct investment in 2005 fell from its habitually high levels to almost zero. However, this appears to be a temporary effect, triggered by changes in tax legislation. The American Jobs Creation Act of 2004 reduces the rate of taxation on US multinational enterprises' qualifying dividends from abroad for a period of one year. In consequence, the 2005 distributions of earnings from foreign affiliates to parents in the United States were elevated, and earnings reinvested in affiliates abroad were reduced by a like amount. For this reason the reinvested earnings component of US direct investment abroad became sharply negative, particularly in the last quarters of 2005.[2]

Total FDI outflows from *Japan* in 2005 were USD 46 billion, up from USD 31 billion in 2004. This is a spectacular increase. Even as the Japanese economy is traditionally one of the world's most important outward investors, the 2005 figure is the highest on record since 1990. However, most of the rise does not derive from "new projects" (equity capital investment, in statistical parlance), but from reinvested earnings in existing projects.[3] Japanese outward investors benefited from a high profitability of their overseas assets in 2005 and kept much of the money in the host economies. Conversely, inward direct investment in 2005, at USD 3 billion, was low by past standards and in comparison with other large economies.

German FDI inflows and outflows recovered briskly in 2005 from levels in previous years that were unusually low due to the one-off effects of a corporate tax reform. Outflows totalled USD 46 billion, mostly in the form of equity capital. According to a recent analysis the outflows were somewhat concentrated on the "old" EU countries (members prior to the latest enlargement) together with Switzerland, whereas Central and Eastern Europe received relatively little and there was disinvestment of German-owned assets in the United States[4]. Inward direct investment in 2005, at USD 33 billion, was high compared with the recent past, but less impressive in a longer historical

1 Additional one-off occurrences in the data for the Australia and the Netherlands largely offset each other.

2 For more information, see the Bureau of Economic Analysis news archive at www.bea.gov.

3 Japanese Ministry of Finance, http://www.mof.go.jp/bpoffice/ebpfdi.htm.

4 Deutsche Bundesbank, *Monatsbericht*, März 2006.

perspective. The figures were influenced by a few very large transactions, especially in the financial and pharmaceutical sectors.

Table 1. Direct investment flows to and from OECD countries: 2002-2005

USD billion

	Outflows				Inflows			
	2002	2003	2004p	2005e	2002	2003	2004p	2005e
Australia	8.0	15.5	17.5	-39.8	17.7	9.7	42.0	-36.8
Austria	5.8	7.1	7.4	9.4	0.4	7.2	3.7	8.9
Belgium	12.7	36.9	33.5	22.9	15.6	32.1	42.1	23.7
Luxembourg	125.8	99.9	81.7	52.4	115.2	90.3	77.3	43.7
Canada	26.8	21.5	43.2	34.1	22.1	7.6	1.5	33.8
Czech Republic	0.2	0.2	1.0	0.9	8.5	2.1	5.0	11.0
Denmark	5.7	1.1	-10.4	8.1	6.6	2.6	-10.7	5.0
Finland	7.6	-2.3	-1.1	2.7	7.9	3.3	3.5	4.6
France	50.5	53.2	57.0	115.6	49.1	42.5	31.4	63.5
Germany	19.0	6.2	1.9	45.6	53.6	29.2	-15.1	32.6
Greece	0.7	0.4	1.0	1.5	0.1	1.3	2.1	0.6
Hungary	0.3	1.6	1.1	1.3	3.0	2.1	4.7	6.7
Iceland	0.3	0.4	2.6	6.7	0.1	0.3	0.7	2.3
Ireland	11.0	5.6	15.8	12.9	29.4	22.8	11.2	-22.8
Italy	17.1	9.1	19.3	41.5	14.6	16.4	16.8	19.5
Japan	32.3	28.8	31.0	45.8	9.2	6.3	7.8	2.8
Korea	2.6	3.4	4.7	4.3	2.4	3.5	9.2	4.3
Mexico	0.9	1.3	4.4	6.2	18.3	14.2	18.7	18.1
Netherlands	32.0	44.2	17.3	119.4	25.1	21.8	0.4	43.6
New Zealand	-1.1	0.2	1.1	-0.3	-0.3	2.0	4.4	2.8
Norway	4.2	2.1	3.5	3.4	0.7	3.8	2.5	14.5
Poland	0.2	0.3	0.8	1.5	4.1	4.9	12.4	7.7
Portugal	-0.1	8.0	8.0	1.1	1.8	8.6	2.4	3.1
Slovak Republic	0.0	0.0	0.2	0.1	4.1	0.6	1.1	1.9
Spain	32.7	27.6	60.6	38.7	39.2	26.0	24.8	23.0
Sweden	10.6	21.3	11.9	26.0	11.7	1.3	-1.9	13.7
Switzerland	8.2	15.4	26.9	42.8	6.3	16.5	0.8	5.8
Turkey	0.2	0.5	0.9	1.0	1.1	1.8	2.8	9.7
United Kingdom	50.3	62.4	94.9	101.1	24.1	16.8	56.3	164.5
United States	154.5	140.6	244.1	9.1	80.8	67.1	133.2	109.8
Total OECD	619.1	612.6	781.8	716.1	572.5	464.8	490.9	621.7

Notes: Data are converted to US dollars using average exchange rates; p: preliminary; e: estimate.

Source: OECD International direct investment database.

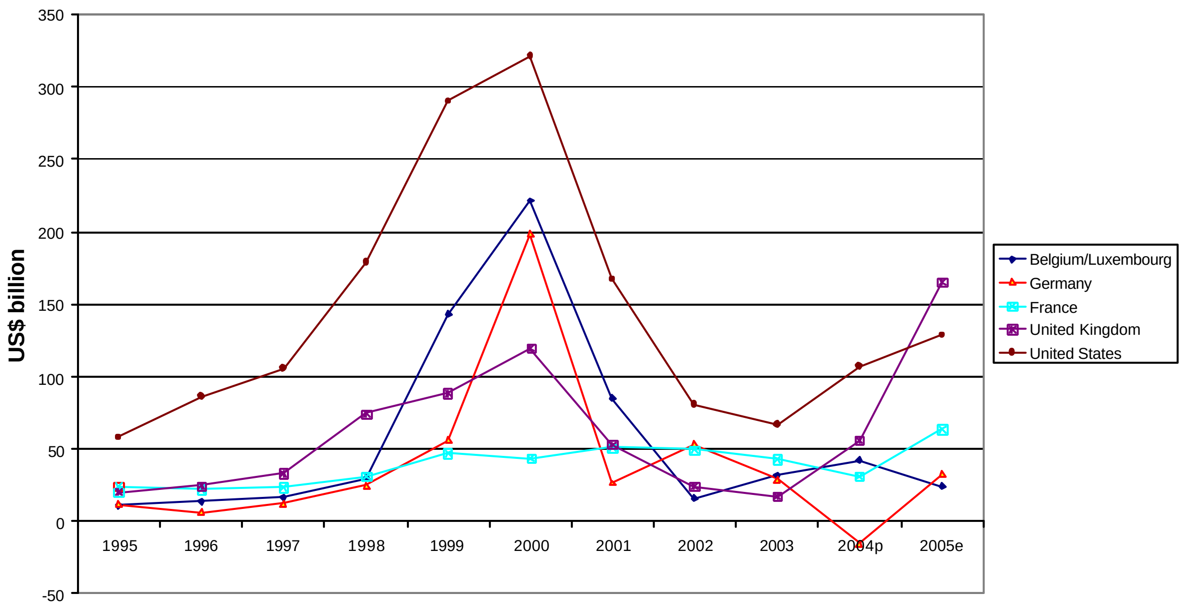
With inflows of USD 165 billion, the *United Kingdom* was the world's largest recipient of inward FDI in 2005. This is the largest inward direct investment flow ever recorded in the United Kingdom, and it represents a tripling of the already internationally high inflows in 2004. The high figure reflects, in part, the fact that many of the world's largest cross-border takeovers in 2005 targeted UK-based companies. It is also influenced by large flows in connection with the restructuring of a large hydrocarbons producer. Outward FDI likewise grew, from USD 95 billion in 2004 to USD 101 billion in 2005. In consequence, the United Kingdom, traditionally a net exporter of direct investment, in 2005 recorded large net inflows for the first time since 1990.

France continued to attract large direct investment inflows. FDI into France more than doubled from USD 31 billion in 2004 to USD 64 billion in 2005. As in previous years, one of the factors underpinning foreign direct investment in France was the acquisition by foreign companies of corporate and residential real estate. Moreover, France was the world's largest outward direct investor in 2005 (apart from the Netherlands, which was influenced by certain statistical peculiarities – see below). Total outflows for the year as a whole were estimated at close to USD 116 billion. This is mostly attributed to a few very large foreign corporate takeovers by companies domiciled in France. The largest four such transactions (described in more detail in the following section) were valued at a total USD 48 billion.

FDI inflows to Canada *bounced* back in 2005 from historically low levels in the previous years. Total inward FDI, at USD 34 billion, reached its second-highest level ever, which has so far only been exceeded in the boom year 2000. One of the main factors at play seems to have been that the investment by large US-based enterprises in Canada has regained momentum. Several large corporate takeovers took place across the US-Canadian border in the course of 2005.

Among the relatively new OECD member countries, the *Czech Republic* was very successful in attracting FDI in 2005. Total inflows reached USD 11 billion, which is the highest level ever recorded in this country and well above what small and medium-sized economies normally attract. Close to half of this amount is accounted for by a cross-border takeover in the telecom sector, but it also reflects a process of continued build-up of productive capacity with the support of foreign capital.

Figure 2. Inward FDI in selected countries



Source: OECD International Direct Investment Database.

FDI inflows into *Mexico* remained strong in 2005, remaining close to the level of around USD 18 billion around which they have fluctuated in recent years (at just above USD 18 billion in 2005). The manufacturing sector received the majority of the inflows, much of which via the "maquila" free economic zones. The implication of this is that the high inflows may reflect the continued strength of the business cycle of the United States where most of the investors into this segment of the Mexican economy are located. According to a recent study, the fastest growing sub-sector is the automobile industry where established foreign companies have extended their operations and new investors, including from Japan, are in the process of entering the market[5]. At the same time, Mexico's role as an outward investor has also gathered pace, with outward FDI reaching an all-time-high of USD 6 billion in 2005.

The figures from two other countries should be interpreted with considerable caution because of statistical peculiarities. (See also Box 1 for a definition of foreign direct investment.) For instance, inflows as well as outflows in *Australia* turned sharply negative in 2005 because of corporate restructuring that triggered disinvestment in both directions. The *Netherlands'* 2005 outflows were huge, mostly because of a corporate restructuring that gave rise to outward direct investment and inward portfolio flows. The inflows and outflows of *Luxembourg* were, like in previous years, very big reflecting large amounts of pass-through investment via holding companies domiciled in the country.

Box 1. Foreign Direct Investment statistics: Main concepts

Direct investment is a category of cross-border investment made by a resident entity in one economy (the "direct investor") with the objective of establishing a "lasting interest" in an enterprise resident in an economy other than that of the investor (the "direct investment enterprise").

The *lasting interest* is evidenced when the direct investor owns 10 per cent of the voting power of the direct investment enterprise.

A *foreign direct investor* is an entity that has a direct investment enterprise operating in a country other than the economy of residence of the foreign direct investor. A direct investor could be: an individual (or a group of related individuals; an incorporated or unincorporated enterprise; public or private enterprise (or a group of related enterprises); a government; estates, or trusts or other organisations that own enterprises.

A *direct investment enterprise* is as an incorporated or unincorporated enterprise (including a branch) in which a non-resident investor owns 10 per cent or more of the voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise.

Direct investment is composed of: equity capital, reinvested earning and other capital.

Equity capital comprises: (i) equity in branches; (ii) all shares in subsidiaries and associates (except non-participating, preferred shares that are treated as debt securities and included under direct investment, other capital); and (iii) other capital contributions.

Reinvested earnings of a direct investment enterprise reflect earnings on equity accruing to direct investors less distributed earnings; they are income to the direct investor. However, reinvested earnings are not actually distributed to the direct investor but rather increase direct investor's investment in its affiliate.

Other capital (or inter-company debt transactions) borrowing and lending of funds between direct investors and subsidiaries, associates and branches.

5 United National Economic Commission for Latin American and the Caribbean (2006), *Foreign Investment in Latin America and the Caribbean, 2005.*

1.2 *Taking the longer perspective*

Over the last decade the role of OECD countries as the world's foremost provider of direct investment funds has been firmly established. Net outflows from OECD countries reached USD 1062 billion over the last decade (1996 to 2005 – see Table 2). France, the United Kingdom, Japan, the Netherlands, Switzerland and Spain have been the OECD's main next exporters of FDI over this period. Some of the wealthiest non-OECD economies (e.g. in the Middle East) have also been active net outward investors.

Table 2. Cumulative FDI flows in OECD countries 1996-2005

USD billion

Inflows		Outflows		Net outflows	
United States	1539.7	United States	1414.1	France	379.1
Belgium/Luxembourg	948.8	United Kingdom	1021.1	United Kingdom	368.0
United Kingdom	653.1	Belgium/Luxembourg	962.0	Japan	244.0
Germany	424.5	France	782.1	Netherlands	177.3
France	402.9	Netherlands	489.9	Switzerland	154.4
Netherlands	312.6	Germany	459.0	Spain	107.8
Canada	228.3	Spain	332.4	Canada	65.8
Spain	224.6	Japan	304.1	Italy	47.1
Mexico	164.2	Canada	294.1	Germany	34.5
Sweden	157.2	Switzerland	242.2	Sweden	23.7
Italy	115.2	Sweden	180.9	Finland	21.6
Ireland	108.4	Italy	162.3	Belgium/Luxembourg	13.2
Switzerland	87.8	Finland	73.5	Iceland	6.8
Australia	77.8	Denmark	68.6	Portugal	4.8
Denmark	72.3	Ireland	65.8	Austria	-0.9
Poland	67.2	Austria	48.6	Greece	-3.1
Japan	60.1	Portugal	41.4	Denmark	-3.7
Korea	52.2	Korea	40.5	Norway	-9.8
Finland	51.9	Norway	39.2	Korea	-11.7
Czech Republic	50.0	Australia	32.8	Slovak Republic	-13.1
Austria	49.5	Mexico	17.2	Turkey	-17.7
Norway	48.9	Iceland	11.0	New Zealand	-24.0
Hungary	37.3	Greece	6.6	Hungary	-30.9
Portugal	36.6	Hungary	6.4	Ireland	-42.6
New Zealand	23.5	Turkey	5.3	Australia	-45.0
Turkey	23.0	Poland	3.1	Czech Republic	-47.1
Slovak Republic	13.5	Czech Republic	2.9	Poland	-64.0
Greece	9.7	Slovak Republic	0.3	United States	-125.7
Iceland	4.2	New Zealand	-0.5	Mexico	-147.1
TOTAL OECD	**6045.2**	**TOTAL OECD**	**7106.9**	**TOTAL OECD**	**1061.7**

Source: OECD International Direct Investment Database.

By contrast, the United States was among the largest net recipients of direct investment over the last decade. This may appear paradoxical since it puts the US economy in the same league as countries like the Czech Republic, Poland and Mexico[6], all of which have relied on direct investment to fund a build-up of domestic productive capacity. Rapidly growing economies outside the OECD area (e.g. China, India and emerging economies) have for similar reasons been net importers of direct investment as well.

Several factors seem to be influencing countries' relative roles as net importers or exporters of direct investment. Direct investors are basically motivated by risk-adjusted expected returns on their investments, meaning that particularly large or fast-growing markets exert a pull on investment, as do low production costs and an improving valuation of corporate assets (e.g. a booming stock market). The same applies to countries perceived to be relatively risk-free investment locations, whereas counties whose investment climates are dogged by political insecurity and poor public and corporate governance are unlikely to attract much investment.

It is in this light that the United States' role as a net recipient of direct investment should be seen. The country's role as the world's richest economy and home to the largest number of multinational enterprises on Earth would normally militate towards outward direct investment, but the pull that the US economy has exerted on foreign corporate investors has been even greater. All of the above factors may at some point have been at play. The US economy has outgrown most other OECD economies in recent years, and equity prices have been mostly firm, which has contributed to attract investment from other, less fast-growing, industrialised economies. At the same time, the widespread perception of the United States as being perhaps the world's lowest-risk investment location has helped attract investment from outside the OECD area.

The outward investors have in some cases been countries with large current account surpluses. Japan, Switzerland and some of the oil producing countries outside OECD have all been induced to place large sums of money in internationally denominated assets. While this need not be done by private sector investors – let alone in the form of foreign direct investment – it is a factor that generally contributes to lower domestic returns on capital encouraging private investors to look abroad for more profitable opportunities.

Among other of the largest net outward investors other factors have been at play. The fact that the Netherlands and the United Kingdom are home to many of Europe's largest multinational enterprises naturally has an impact on their FDI flows. Many of the large French enterprises appear to have, at least in the last 6-8 years, pursued strategies of cross-border acquisitions, not least in other European economies.

2. Robust activity in non-OECD economies

International investors' interest in non-OECD countries held up strongly in 2005. Without over-interpreting the figures which, as in most small or medium-sized economies, are affected by year-to-year fluctuations reflecting large individual transactions, a few general trends nevertheless suggest themselves.

Among the ***non-member adherents*** to OECD's investment instruments, Brazil confirmed its position as the world's foremost destination for direct investment to developing and emerging economies outside Asia (Table 3). Inflows of USD 15 billion to this country in 2005 were not vast by historical standards, but easily the largest in South America. Investment was down a bit from the year before, but this reflects the one-off effect of a large investment in the brewery sector in 2004. In 2005,

6 The Mexican figures are incomplete in the sense that FDI outflows are available only since 2001. However, it is assumed that gross outflows in the 1990s were of a limited size.

investment seems to have focused more strongly on new activities and extensions of capital, including in the manufacturing sector.

Inward FDI in Argentina was close to USD 5 billion. This figure is low compared with the inflows of around USD 10 billion per year that were recorded prior to the Argentine financial crisis (and USD 23 billion in the peak year), but it is nevertheless a rebound from the depressed levels of 2001 to 2003. It is apparently linked with the macroeconomic recovery – especially as it includes capacity expansions in the manufacturing sector – and a gradual return of business confidence. However, a large number of unresolved investor/state arbitration cases continue to dog investor sentiment, as does the announcement of several international service companies that they will withdraw from the Argentine economy.

Direct investment into Chile, at USD 7 billion, was almost unchanged in 2005. With an already large foreign corporate presence in the country, much of the inflows represent reinvested earnings. In addition to mining, some of the main foreign-invested sectors in Chile are related to infrastructure, especially transport, communication and electricity. According to recent estimates by the Chilean authorities, utilities concessions have also brought in around USD 1 billion of foreign investment annually in recent years.[7]

Direct investment in Israel jumped in 2005 to reach USD 6 billion, or more than three times the levels recorded in 2004. In the main this reflects foreign participation in a number of large-scale privatisations, including some in the financial sector. Israel is also one of the most active outward investors among the smaller non-member economies, including in technology-intensive sectors. For the last three years, total annual outflows have exceeded USD 2 billion and the indications are that levels in 2006 will be even higher.

Inward investment in Romania in 2005 remained high at around USD 6½ billion for the second year in a row. Inflows continue to be influenced by an ongoing process of privatisation. However, the high 2005 figure also includes considerable greenfield investment and extensions of previous investment projects, particularly in the automotive industry and the service sectors.

Among the largest ***other non-member economies***, as a destination for FDI China remains in a class of its own. Total inflows in 2005 are estimated at USD 72 billion. Even when taking into account that some of this money is commonly considered to be "round-tripping" of intra-China investment via Hong Kong (China), China is among the world's foremost recipients of direct investment. According to Chinese official pronouncements the sectoral balance of inward FDI, which was previously tilted toward manufacturing investment, is beginning to swing toward the service sectors. In 2005, the banking, insurance and securities sectors alone are estimated to have received investments of USD 12 billion.

China's increasingly active role as an outward investor – in the 1980s and 1990s mainly in natural resources, but now increasingly also in high-tech sectors – is not yet fully reflected in internationally comparable FDI statistics. There is evidence of widespread evasion of the burdensome approval and registration procedures by Chinese enterprises, particularly in the non-state-owned sector, using funds parked abroad in subsidiaries and special purpose entities in low-tax jurisdictions as well as retained foreign earnings. China's Ministry of Commerce has announced that total outward FDI in 2005 approached USD 7 billion. This figure is almost certainly an underestimate, Very large projected outflows of capital to the developing world, particularly Africa, are raising concern in some

7 United National Economic Commission for Latin American and the Caribbean, *op. cit.* and Chile Investment Review, February 2006.

countries over competition for scarce energy resources and over possible undermining of internationally-recognised standards of corporate conduct, including in weak governance zones.

FDI into India apparently continues to grow. National sources estimate inward direct investment in 2005 at an all-time high USD 6½ billion. This is likely to be an underestimate, as recent sectoral liberalisation measures have ensured that an increasing proportion of inward FDI now arrives unscreened via the "automatic route", requiring only notification to the central bank—an obligation that is not enforced and therefore widely ignored. Although manufacturing is generally open to foreign investment and there has recently been substantial liberalisation of the FDI regime in some sectors, such as telecommunications, others, notably the retail industry, remain closed to foreign investors.

Direct investment in India is in public debate often linked with offshore outsourcing, especially in the information technology sector (though it should be noted that this is also an area of major domestic as well as foreign investment), but the real picture is more mixed. For instance, two of the sectors that received large amounts of inward FDI in 2005 were automobile manufacturing and mining. It should however be noted that a large number of international information technology and communication companies have in the last year announced plans to increase their corporate presence in India. If borne out by the facts this could push up inward FDI further in the coming years and lead to an even stronger concentration in the service sectors.

Table 3. Foreign direct investment flows in selected non-member economies: 2001-2005

USD billion

	Inward FDI					Outward FDI				
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005
Adherent countries:[1]										
Argentina	2.2	2.2	1.7	4.3	4.7	0.2	-0.6	0.8	0.4	1.2
Brazil	22.5	16.6	10.1	18.1	15.1	-2.3	2.5	0.2	9.8	2.5
Chile	4.2	2.5	4.3	7.2	7.2	1.6	0.3	1.6	1.5	2.4
Estonia	0.5	0.3	0.9	1.0	2.9	0.2	0.1	0.2	0.3	0.6
Latvia	0.1	0.3	0.3	0.7	0.6	0.0	0.0	0.0	0.1	0.1
Lithuania	0.4	0.7	0.2	0.8	1.0	0.0	0.0	0.0	0.3	0.3
Israel	3.6	1.8	3.9	1.7	6.1	0.7	1.0	2.1	3.4	2.3
Romania	1.2	1.1	2.2	6.5	6.4	0.0	0.0	0.0	0.1	0.0
Slovenia	0.5	1.6	0.3	0.8	0.5	0.1	0.2	0.5	0.6	0.6
Others:										
China	46.9	52.7	53.5	60.6	72.4	6.9	2.5	-0.2	1.8	..[2]
Hong Kong, China	23.8	9.7	13.6	34.0	35.9	11.3	17.5	5.5	45.7	32.6
India	5.5	5.6	4.6	5.3	6.6	1.4	1.7	1.3	2.3	1.4
Russia	2.7	3.5	8.0	15.4	14.6	2.5	3.5	9.7	13.8	13.1
Singapore	15.0	5.7	9.3	24.0	33.4	17.1	3.7	3.7	14.3	9.2
South Africa	6.8	0.8	0.7	0.8	6.4	-3.2	-0.4	0.6	1.4	0.1

[1] Non-member adherents to the OECD Declaration on International Investment and Multinational Enterprises.

[2] According to the Chinese Ministry of Commerce, 2005 outflows were US$ 6.9 billion. However, the figures released by the Ministry have generally not been consistent with the data reported elsewhere in the table.

Source: IMF Balance of Payments Statistics and national sources consistent with this database.

Also, while international direct investment in India is only recorded at about one-tenth of that in China, it should be noted that India receives far more equity investment than China in its more developed capital markets. India's outward FDI is starting to become significant, though this may not yet be apparent from official statistics, possibly because of some under-recording. Much Indian outward FDI in 2005 was in the form of cross-border mergers and acquisitions, mainly in telecommunications, energy and pharmaceuticals, though these remained small by international standards. Larger M&A transactions on the part of Indian multinationals are likely to follow in future years. Some large Indian services companies specialising in offshore outsourcing have in recent years also been active in investing in a large number of developed countries.

Russian inward investment, estimated at USD 14½ billion in 2005, remains at a high level following a sharp pick-up in 2004. However, the high figures appear to include non-trivial amounts of concurrent in- and outflows in the context of corporate restructuring. The main sectors of investment were manufacturing (including large amounts flowing into the production of automobiles) and the energy sector, which accounted for 45% and 32% respectively of total inflows.[8] According to recent announcements by the Russian government, increasing foreign participation in large-scale projects will be invited in the coming years, notably in the infrastructure sectors.

A final observation from Table 3 regards South Africa, which is active in direct investment by African standards but usually not comparable with the larger OECD economies. South Africa experienced massive FDI inflows in 2005 of close to USD 6½ billion. However, much of this amount is ascribed to one major takeover in the financial sector.

3. Mergers and acquisitions: trends and individual transactions

While mergers and acquisitions (M&A) are only one element in total FDI flows, in many OECD countries they account for more than half of total direct investment. This is especially the case in times of strong investment activity, as they tend to be the component of FDI that responds most strongly, or most immediately, to changes in the business climate, financial conditions and macroeconomic performance.

Table 4. Cross-border M&As to and from OECD countries, total

USD billion

	Outward	Inward
1995	134.1	146.5
2000	1 166.4	1 135.8
2003	321.3	337.8
2004	418.8	441.3
2005	670.8	626.9
January-May 2006	217.3	212.5
Estimate 2006	566.9	554.3

Source: Dealogic and OECD Secretariat.

Overall data for cross-border M&As in 2005 and early 2006 may hence provide additional guidance on where FDI is heading. Some caution is, however, called for: privately collected M&A data tend to be more inclusive than official FDI statistics. FDI data include only the value of corporate assets actually transferred, whereas published M&A data tend to take as their starting point the market value of the enterprises acquired. Moreover, in overall FDI figures, disinvestment is subtracted from

8 Further details are provided in OECD (2006), *OECD Investment Policy Review of the Russian Federation: Enhancing Policy Transparency*.

the totals, whereas the M&A data used in this article concerns gross cross-border flows. The data used in the reminder of this section was kindly provided by Dealogic.

True to their volatile nature, cross-border M&As have recovered much more briskly than FDI flows over the last few years. Since the trough in 2003, the value of both inward and outward M&As in OECD countries has doubled. Cross-border M&As with the acquirer located in the OECD area were valued at USD 671 billion in 2005 (Table 4). M&As targeting companies in OECD countries were a bit lower at USD 627 billion. This confirms a trend that the M&A component shares with the overall FDI figures: OECD countries as a whole are usually net outward investors.

In the first five months of 2006 (data end on 19 May 2006) total outward M&As worth USD 217 billion were recorded and the inflows amounted to USD 213 billion. If these numbers are taken to be indicative for 2006 as a whole then, by an admittedly rough estimate, total 2006 outward flows could amount to around USD 565 billion and inflows to some USD 555 billion. If borne out by the facts, this will represent a slight decline in M&A activity since 2005, but still be high compared with the previous years.

Based on historic patterns of co-variation between cross-border M&As and FDI this can be translated into a projection of FDI flows. On current trends, both inward and outward FDI in the OECD area could stay unchanged or decline slightly in 2006.[9]

3.1 Recent sectoral trends and individual transactions

The largest mergers and acquisitions in the last 1½ years (2005 through 19 May 2006) display some interesting national and sectoral patterns. There has been a significant change since the last time cross-border M&A activity was at comparable levels (a the beginning of the decade) – at which time the largest transactions were mostly related with the high-tech euphoria of those days, as well as a wave of utilities privatisation in many countries. Recent large international M&As have been much more evenly distributed across sectors, albeit with notable differences across countries (Table 5 – which defines "large" cross-border M&As as transactions valued at no less than USD 1.5 billion).

Consistent with aggregate FDI figures, the two largest target countries for M&A were the United States and United Kingdom, both of which experienced 21 cross-border takeovers of large enterprises, or equity stakes, in the period under review. Other important targets for foreign takeovers were the small economies of Northern Europe and the Asian economy. The large continental European economies, South Europe and the rest of the world saw relatively less activity in 2005 and early 2006.

Table 5 makes special reference to certain sectors that have been identified and recently publicly debated in OECD and other countries in the context of protecting national security and other essential interests: energy and natural resources; chemicals, pharmaceuticals and medical equipment; defence and heavy industries; information and communication; and the financial sector. The following sub-sections summarise some of the main trends, but do not extend to discussing each of the individual 125 transactions.[10]

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9 The prediction of unchanged FDI despite the receding M&A is due to the fact that, based on the historic pattern of co-variation, FDI was unusually low in 2005. If that abnormality corrects itself in 2006 the estimated decline in M&A will be commensurable with a broadly constant FDI.

10 In actual fact, close to 130 individual acquisitions have been recorded. However, transactions such as augmentations of an equity stake through sequential acquisitions have been discarded in Table 5.

3.1.1 United States

Three of the large takeovers of US-based enterprises affected companies in the *energy and natural resource sectors*. The largest (which was also the sixth-largest cross-border M&A in the period under review) was the takeover of Innovene, BP's North American olefins, derivatives and refining subsidiary, by fellow UK company INEOS for USD 9.0 billion. Another large transaction was the USD 2.4 billion acquisition of the oil producer Spinnaker Exploration by Norsk Hydro of Norway. The third acquisition on record was the Norwegian Statoil's purchase of EnCana Corp's deepwater US oil portfolio in the Gulf of Mexico for USD 2.0 billion.

Table 5. Inward cross-border M&As valued at more than USD 1.5 billion in 2005 and May 2006

(number of transactions)

	Energy and resources	Chemicals and medical	Heavy industry and defence[1]	Other manufacturing	Information and communication	Finance	Other services	Total
United States	3	4	2	3	2	2	5	21
Other America	6		2	3	2	1	1	15
United Kingdom	4		1	5	3	2	6	21
Germany	1	1		1	1	1	4	9
France		1		2			1	4
Other North Europe[2]	2	1		5	4	3	4	19
South Europe[3]			1		3	4		8
Other Europe		1	1		3	1	2	8
Asia	1			2	1	8	2	14
Rest of world	2				2	1	1	6
Total	19	8	8	21	21	23	25	125

[1] Metals, cement and defence equipment other than information and communication.

[2] BeNeLux, Scandinavia, Poland and the Baltic Countries

[3] Italy, Greece, Portugal, Spain, Turkey and the Balkans.

Source: Dealogic

Early 2006 saw several large foreign acquisitions in the US *pharmaceutical and medical* industry. The generic drugs maker IVAX Corp was acquired by Teva Pharmaceutical Industries of Israel in a friendly takeover valued at USD 8.7 billion. Novartis of Switzerland paid USD 5.9 billion for a 56 per cent stake in Chiron Corporation. Likewise in 2006, the provider of dialysis services and products Renal Care Group was taken over by Fresenius Medical Care of Germany for USD 4.0 billion. In 2005, one comparatively smaller transaction took place, namely the purchase of 65.4 per cent of the equity on the drugs maker Eon Labs by Novartis of Switzerland.

In the US *defence industry*, one foreign takeover attracted considerable public attention in 2005, namely the acquisition United Defense Industries, a maker of heavy combat equipment, for USD 4.0 billion by BAE Industries of the United Kingdom. A notable acquisition in the *heavy industries* was the takeover of the steelmaker International Steel Group by Mittal Steel of the Netherlands for an estimated USD 4.8 billion.

3.1.2 Other America

Recent large-scale foreign takeovers in American countries "other than the United States" have frequently targeted Canada. However, there have been a few notable exceptions, including Mexico and a couple of large economies in South America – as well as Bermuda, where some of the information and communication companies that have been targeted recently were domiciled.

In the *energy and natural resource sectors* on the American continent the acquirers have mostly been domiciled in the United States. The largest acquisition of a Canadian company in this sector was the USD 5.7 billion takeover of the gas distributor Terasen by the US-based company Kinder Morgan. The Canadian oilfield services company Precision Drilling's energy services & international contract drilling division was acquired by Weatherford International of the United States for USD 2.7 billion, and the oil producer Northrock Resources was sold by Unocal of the United States to Pogo Producing Company, likewise of the United States, for USD 1.8 billion. A couple of non-US investors were also involved in this sector of the Canadian economy. The Canadian arm of Nelson Resources was taken over by Lukoil OAO of Russia for USD 2.0 billion, and Xstrata of Switzerland paid USD 1.7 billion for 19.9 per cent of the nickel maker Falconbridge. In Mexico, Southern Peru Copper Corporation of the United States acquired the mining company Minera Mexico for an estimated USD 4.1 billion.

A few high-profile takeovers took place elsewhere in the economies of the Americas. For instance, the Luxembourg-based steel maker Arcelor, itself the target of a recent cross-border bid, acquired the Canadian steelmaker Dofasco for an estimated USD 5.1 billion in 2006. Finally, and illustrating that not all large M&As are in particularly "strategic" sectors, three of the biggest cross-border takeovers in the western hemisphere in 2005-2006 targeted beer producers.

3.1.3 United Kingdom

The United Kingdom was the target country for two of the largest three cross-border M&As in 2005 and early 2006. The largest of these, in one of the sectors that are considered as "sensitive" in many countries, was the takeover of the telephone operator O2 by Telefonica of Spain for USD 31.7 billion in the beginning of 2006. (The other top-three transaction was the USD 17.8 billion acquisition of the distiller Allied Domecq by Pernod Ricard of France.) Another very sizable acquisition of a UK company was the takeover of the Peninsular & Oriental Steam Navigation Company by Dubai Ports World of the United Arab Emirates for USD 8.2 billion. The latter transaction gave rise to security concerns in the United States owing to P&O's North American port operation services (further details in the following section).

The United Kingdom experienced several cross-border takeovers in the *energy and natural resource sector*. The largest such transaction was the restructuring of electricity provider British Energy plc with the participation of an international group of creditors for USD 2.9 billion. National Grid Transco sold its gas distribution networks in Northern England to corporate investors in Hong Kong (China) for USD 2.5 billion, and its gas distribution networks in Wales and Western England to a group of Australian investors for USD 2.2 billion. A strategic stake in the uranium mining company Paladin Resource was acquired for USD 2.4 billion by Talisman Energy of Canada.

In addition to the O2-Telefonica linkup, a couple of other notable mergers and acquisitions took place in the *information and communications sector*. NTL sold its broadcasting and television transmission business for USD 2.4 billion to an Australian group of investors. And, Marconi Corporation sold its interests in telecommunications equipment and international service business to Ericsson of Sweden for USD 2.1 billion.

3.1.4 France and Germany

Relatively few cross-border mergers and acquisitions targeted France and Germany in 2005 and early 2006 (13 in total), but one of them was the second-largest during the period under review. The purchase of Bayrische Hypo- und Vereinsbank (HVB Group) for USD 22.3 billion by UniCredito Italiano of Italy was a very large transaction – even by the past standards of international investment in the financial sector. In fact, the banks involved were so large as to trigger competition concerns in an OECD country other than the two directly involved (further details in the following section). Confirming a trend from previous years, several of the other large transactions in both France and Germany were cross-border acquisitions of property administration companies or real estate portfolios.

Within the *medical sector* there was one transaction in each country, namely the USD 5.7 billion acquisition of the German drugs maker Hexal by Novartis of Switzerland, and the takeover of the French Laboratoires Fournier by Solvay of Belgium for an estimated USD 1.9 billion. In the *energy sector* one large takeover was recorded, namely the purchase of the German gas provider Ruhrgas Industries by CVC Capital Partners of the United Kingdom for USD 1.8 billion.

3.1.5 North Europe

North Europe – for the present purpose defined broadly to include the Benelux, the Nordic countries, Poland and the Baltic countries – was the target of 19 large cross-border acquisitions in 2005 and early 2006. The number of transactions is relatively big given the size of the area's economy. Many of the M&As, however, took place outside the sectors that usually generate a lot of public interest. Among the largest individual transactions were Old Mutual of the United Kingdom's takeover of the Swedish insurer Skandia Forsäkrings AB for USD 7.0 billion, and the acquisition of the Dutch plastic maker Basell by Access Industries of the United States for USD 5.7 billion.

The largest individual acquisition was in the *energy sector* where French utilities company Suez paid USD 13.9 billion for control over the Belgian power generator Electrabel. At the same time the Dutch power generator InterGen divested of substantially all assets to a group of US-based investors in return for USD 4.5 billion.

The *information and communications* sectors accounted for four of the inward investment projects. The Dutch mobile telephony activities of ClearWave were sold to Vodafone Group of the United Kingdom for USD 4.5 billion, and France Telecom acquired 13.6 per cent of the Policy telecom company Telekomunikacja Polska for USD 3.4 billion. On the internet side, the Luxembourg-based company Skype Technologies was acquired by eBay of the United States for USD 4.1 billion and European Directories of Australia bought the Dutch directory provider Yellow Brick Road for USD 2.3 billion.

3.1.6 Asia

Out of a total 14 large-scale international investment projects in Asia during the period under review, more than half were in the *financial sector*. Two somewhat related factors have influenced this, namely the fact that a number of international investors have taken minority shares in Chinese commercial banks, and a bout of outward investment by the Singapore-based investment fund Temasek in 2005 and 2006. For instance, a UK-based investor group has acquired 10 per cent of the Bank of China for USD 3.1 billion, and Temasek bought another 5 per cent for USD 1.6 billion. Likewise, Bank of America paid USD 3.0 billion for 9 per cent of the equity in China Construction Bank, and Temasek bought another 5 per cent for USD 2.5 billion. In a separate transaction, Goldman

Sachs of the United States took a 7 per cent stake in Industrial & Commercial Bank of China for USD 2.6 billion.

Transactions outside China included the USD 4.0 billion takeover of Shin Corporation of Thailand by Temasek and Siam Commercial Bank. The Korea First Bank was sold by a consortium of Newbridge Capital and the Korean authorities to Standard Chartered of the United Kingdom for USD 3.2 billion. And, Deutsche Bank (Germany) and Capital Group Companies (United States) took large minority stakes in Softbank Corporation of Japan for a combined price of USD 4.7 billion.

4. Rising concerns about national security and 'strategic' interests

Issues of security and other strategic concerns have moved to the forefront of domestic and international investment policy making. A number of OECD and other countries have taken recent steps to review, and in some cases tighten, national practices toward cross-border mergers and acquisitions with potential national security ramifications (examples of recent or prospective changes are provided in Annex 2). There are several reasons for this. Perhaps most importantly, security priorities in many countries have been realigned since 11 September 2001. An actual and potential scarcity of raw materials has also led countries to reconsider their perceptions of sectors of strategic importance.

Additional factors have also been at play. For instance, the growing role of non-OECD countries as outward investors appears to have heightened concerns that all countries and their companies may not play by common rules or promote high standards of business conduct. The public and press in many OECD countries have also demanded that policy makers take action to block individual attempted takeovers by foreign enterprises, mostly based on fears over long-term job losses. This is not a novel phenomenon, but it has arguably intensified in recent years, not least in countries plagued by a prolonged period of sluggish growth and high unemployment.

The European Union has been the scene of particular controversy. A cross-border consolidation in industries where economies of scale prevail could be a logical consequence of the European single market, but in some cases governmental spokespersons, legislators, regulators and others have expressed hostility to takeovers even by companies domiciled in other EU countries. Where a proposed merger or acquisition was previously cleared with the EU competition authorities, national resistance to let it proceed has led to disciplinary action by the EU Commission. National authorities have sometimes justified their stance on grounds of national security and related strategic concerns, sometimes by a need to protect "national champions" in areas where the nationality of ownership is perceived as being of great societal interest. In North America, issues debated ranged from essential infrastructure, to control with natural resources, to cross-border takeovers by government-controlled or subsidised enterprises.

4.1 A few illustrative examples

The most widely publicised recent case of a cross-border takeover being questioned on grounds of ***national security*** was, as mentioned earlier, the acquisition of the UK company Peninsular and Oriental Steam Navigation Co. by Dubai Ports World. The takeover, which would have brought six US ports under the control of the Emirates-based acquirer, gave rise to great concerns in the United States regarding port security in the post-9/11 world. It was opposed by Congress on the formal grounds that the transaction had been approved without the Committee on Foreign Investment in the United States (CFIUS) exercising its right to undertake an extended "investigation". The dispute was resolved when Dubai Ports World agreed to divest the merged company of its US port interests.

A couple of examples relate to Indian reservations about the investment of Chinese companies. In 2005, Indian authorities reportedly put on hold the plans of Huawei Technologies to extend the capital in its software development operation in Bangalore. According to newspaper reports this was partly triggered by concerns over Huawei's links with the Chinese military. In a case reminiscent of the ports debate in the United States a bid by Hutchinson Port Holdings of Hong Kong, China to construct and operate container terminals in Mumbai and Chennai was deferred by the Cabinet Committee on Security over the issue of security clearance of the bidder.

On the issue of ***access to resources***, another recent high-profile case occurred in the United States. A takeover bid by the state-owned Chinese oil company CNOOC for the American oil company Unocal met with strong political resistance. The formal objections to the deal were based partly on concerns about the long-term energy security of the United States, despite the concentration of Unocal's activities on supplying oil within Asia, and partly on the fact that the bidder is state owned and apparently enjoys financial support from Chinese state banks. Faced with the uncertainties of whether a deal would be allowed to proceed, CNOOC withdrew its bid.

Natural resources also figure prominently in the investment policy of Russia. Inward investment in the hydrocarbons sector, while not discouraged, nevertheless seems held back by a political reorientation that has been described as "resource nationalism". One example is the government's decision to re-tender the oil concession Sakhalin-3, which ExxonMobil had previously won in 1993, following which the Ministry for National Resources capped the foreign capital participation in bidders for oil and mineral concessions at 49%. Another example was the 2004 attempt by Total to acquire a 25% blocking minority in the independent gas producer Novatek. The transaction was temporarily halted by antitrust investigations; in the meantime Novatek effectively prevented the investment and announced a co-operation with the state-owned company Gazprom. An arguably even stronger preoccupation with national control over hydrocarbons has been seen in several South American countries, some of which have reneged on earlier agreements, imposed additional conditions on foreign oil companies and, in one case, nationalised foreign-owned assets.

Russian hydrocarbons producers are at the same time active outward investors. Gazprom's attempts to gain a better downstream representation, including in the distribution of gas, in Western Europe has led to security-related concerns in some of the affected countries. In the United Kingdom, government officials have recently cited "political" issues concerning the potential takeover of the British energy group Centrica by Gazprom of Russia. However, following early reports of plans to revise UK legislation on mergers and acquisitions to counter Gazprom's bid, the UK government has lately ruled out any attempt to block the takeover.

The control over ***public utilities*** is increasingly also seen as a strategic issue. Over the last 1½ years several European governments have, if not directly blocked cross-border takeovers, then at least played an active role in searching for alternative solutions. One example is the German company E.ON's bid for the Spanish electricity group Endesa in early 2006. Spanish government officials, quoted as saying that a domestic alternative to the merger was in the "strategic national interest", boosted the powers of the energy regulator CNE a few days after E.ON's bid. An alternative linkup between Endesa and the Spanish group Gas Natural was mooted, but opposed by Endesa and blocked by a court order in April 2006.

Likewise, an intervention by the French government was widely suspected when the energy companies Suez and state-controlled Gaz de France announced a merger in February 2006 (the implementation of which has been since postponed). The merger followed announcements by the Italian electricity group ENEL that it was preparing a bid for Suez. The perception that the deal was forged to foil an Italian entry into the French electricity market drew high-level political comments in both countries. (At almost the same time, Suez itself orchestrated one of the world's largest cross-border takeovers in 2005 when it took control of the Belgian electricity provider Electrabel.)

A case in Chinese manufacturing was also somewhat related with the utilities sector. Siemens of Germany considered acquiring one of the largest Chinese state-owned electrical equipment manufacturers to facilitate supply to a large hydro-electric engineering project. The deal was ultimately prevented by a decision of the State Council (China's cabinet) on the grounds that the targeted enterprise was a strategic asset of China.

Other "strategic" concerns have also been cited as reasons for opposing cross-border takeovers in recent years, including in the banking sectors of European countries. The issue came to the forefront in 2005 when the Dutch bank ABM Amro launched a bid for the Italian lender Antonveneta. The Italian bank regulator was accused of trying to foil the bid and actively promote a linkup between Antonveneta and a domestic competitor. More recently controversy has arisen in Poland, including in the context of the successful takeover of the German bank HVB Group by UniCredito of Italy. The Polish government voiced strong concerns regarding the control over HVB's Polish operations, triggering, among other things, a challenge by the EU Commission.

In recent months a case attracting considerable public interest was the bid for the Luxembourg-based steel maker Arcelor by its competitor Mittal Steel. While ultimately successful, the bid was at first trumped by a "white knight", the Russian steel maker Severstal. The case could be a straightforward corporate takeover battle, except for the fact that concerns were repeatedly voiced over the Indian nationality of the main owners of Mittal. At any rate, given that Mittal is domiciled in the Netherlands and listed in New York, resistance to its bid for Arcelor did not seem rooted in concerns about the quality of regulation and supervision.

ANNEX

INTERNATIONAL DIRECT INVESTMENT STATISTICS

Table A.1 OECD direct investment abroad: outflows

USD million

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004p	2005e
Australia	992.3	1199.4	5266.9	1947.0	2816.5	3281.8	7087.6	6427.9	3344.8	-420.7	3158.5	11962.0	8034.5	15525.8	17488.4	-39787.5
Austria	1627.2	1285.3	1697.5	1190.5	1257.2	1130.6	1935.0	1988.2	2745.2	3300.7	5740.9	3137.9	5812.0	7143.0	7392.2	9382.3
Belgium/Luxembourg	5956.0	6066.2	10955.9	3850.5	1205.4	11728.4	7811.3	7884.5	29107.8	132325.8	218364.4	100624.7	..	..	..	..
Belgium	..	..	..	..	..	..	..	..	..	..	..	..	12705.4	36932.9	33544.5	22945.6
Luxembourg	..	..	..	..	..	..	..	..	..	..	..	..	125823.9	99851.7	81711.3	52368.0
Canada	5235.2	5832.3	3589.2	5699.9	9293.5	11462.3	13094.3	23059.2	34349.2	17250.1	44678.5	36037.2	26761.1	21526.0	43247.8	34084.3
Czech Republic	..	..	..	90.2	119.6	36.6	152.9	25.2	127.1	89.8	42.8	165.4	206.5	206.7	1014.4	855.8
Denmark	1618.2	2051.8	2236.0	1260.5	3955.1	3063.5	2519.1	4206.6	4476.6	16433.9	23093.2	13376.1	5694.9	1123.9	-10370.7	8071.9
Finland	2708.5	-124.0	-751.7	1407.1	4297.8	1497.3	3596.5	5291.7	18641.5	6615.5	24034.7	8372.0	7629.1	-2281.6	-1075.9	2703.5
France	36228.4	25137.6	30407.1	19736.1	24372.3	15758.1	30419.5	35580.9	48612.7	126859.2	177481.6	86783.3	50486.1	53197.0	57044.4	115606.5
Germany	24231.9	22947.0	18595.1	17196.1	18857.8	39051.6	50806.3	41794.1	88837.2	108691.6	56567.5	39691.1	18963.5	6179.5	1884.0	45606.1
Greece	..	..	..	..	..	..	..	..	-275.6	552.1	2136.5	616.1	655.3	412.6	1029.7	1450.0
Hungary	..	..	..	10.6	48.3	59.1	-3.6	461.9	278.3	250.1	620.2	368.1	278.1	1644.0	1122.3	1346.3
Iceland	11.5	28.6	6.3	14.3	23.7	24.8	63.4	56.0	74.1	123.1	392.6	341.8	320.0	373.2	2553.1	6692.9
Ireland	364.7	192.6	214.4	217.8	436.3	819.8	727.9	1013.7	3902.1	6109.1	4629.6	4066.1	11035.2	5554.7	15813.1	12930.6
Italy	7611.7	7325.9	5948.5	7230.6	5108.8	5731.4	6464.9	12244.7	16077.6	6721.7	12318.5	21475.9	17138.3	9079.3	19273.2	41536.2
Japan	50772.1	31687.0	17301.6	13915.3	18117.0	22627.8	23417.6	25991.7	24153.9	22748.3	31537.6	38348.7	32280.1	28797.7	30961.6	45830.2
Korea	1051.6	1488.6	1161.5	1340.0	2461.1	3552.0	4670.1	4449.4	4739.5	4197.8	4998.9	2420.1	2616.5	3425.5	4657.9	4312.3
Mexico	..	..	..	..	..	..	..	..	..	..	..	4404.0	890.8	1253.5	4431.9	6170.7
Netherlands	13660.6	12825.9	12697.1	10063.3	17553.8	20175.5	32098.1	24522.1	36475.1	57611.3	75648.7	50602.3	32046.0	44222.8	17291.6	119382.3
New Zealand	2360.7	1472.4	391.4	-1388.7	2008.2	1783.5	-1239.7	-1565.5	401.4	1072.5	608.7	407.7	-1133.5	195.0	1074.2	-318.1
Norway	1431.5	1823.6	394.2	933.0	2172.5	2856.2	5892.5	5015.3	3200.7	5503.6	7613.8	-1322.7	4200.7	2139.9	3526.0	3413.5
Poland	0.0	0.0	13.0	18.0	29.0	42.0	53.0	45.0	316.0	31.0	16.0	-90.0	230.0	300.0	778.0	1455.0
Portugal	164.8	473.6	684.2	107.3	282.5	684.6	728.8	2092.0	4028.5	3191.4	8133.6	6262.7	-149.2	8035.2	7962.6	1145.8
Slovak Republic	..	..	..	12.8	17.7	43.0	62.9	95.1	146.6	-377.2	28.7	64.5	11.2	13.3	152.1	146.4
Spain	3441.7	4424.4	2171.0	3173.6	4110.8	4157.8	5590.1	12546.8	18937.7	44383.5	58224.0	33112.6	32744.0	27555.4	60566.5	38748.4
Sweden	14748.2	7057.6	408.7	1357.7	6701.1	11214.3	5024.8	12647.5	24379.4	21928.6	40667.3	6374.9	10630.0	21259.8	11947.2	26028.8
Switzerland	6708.4	6211.6	6049.2	8764.5	10797.2	12214.0	16150.4	17747.7	18768.8	33264.3	44698.0	18326.1	8212.4	15443.4	26850.5	42753.9
Turkey	-16.0	27.0	65.0	14.0	49.0	113.0	110.0	251.0	367.0	645.0	870.0	497.0	175.0	499.0	859.0	1048.0
United Kingdom	17953.8	16412.1	17740.9	26063.1	32205.7	43560.0	34055.9	61620.0	122861.2	201436.7	233487.7	58885.2	50346.5	62439.3	94928.5	101079.8
United States	37183.0	37889.0	48266.0	83950.0	80167.0	98750.0	91885.0	104803.0	142644.0	224934.0	159212.0	142349.0	154460.0	140579.0	244128.0	9072.0
Total OECD FDI	236046.2	193735.4	185509.2	208175.1	248465.0	315419.0	343174.4	410295.8	651718.4	1045472.7	1239004.3	687659.9	619104.3	612627.3	781787.3	716061.5

Notes: Data are converted to US dollars using average exchange rates; p: preliminary; e: estimate.

Source: OECD International direct investment database.

Table A.2 OECD direct investment from abroad: inflows

USD million

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004p	2005e
Australia	8115.8	4302.1	5719.8	4281.7	5024.6	11963.2	6111.0	7633.4	6002.6	3268.4	13949.9	8297.1	17674.5	9675.0	42036.3	-36809.9
Austria	650.9	351.3	1432.7	1136.5	2102.9	1904.2	4428.6	2655.6	4534.1	2974.6	8841.7	5920.5	357.0	7150.9	3687.4	8905.0
Belgium/Luxembourg	7516.0	8919.4	10957.3	10467.8	8313.2	10894.2	13924.4	16510.1	30146.9	142512.3	220987.8	84717.6	..	..	..	..
Belgium	..	..	..	..	..	..	..	..	..	..	..	..	15640.5	32127.2	42063.6	23709.9
Luxembourg	..	..	..	..	..	..	..	..	..	..	..	..	115175.4	90317.6	77259.8	43729.0
Canada	7580.3	2880.0	4721.6	4730.3	8204.1	9255.4	9632.6	11522.0	22802.8	24747.2	66795.5	27669.9	22145.9	7618.5	1533.2	33823.6
Czech Republic	..	..	..	653.4	868.3	2561.9	1428.2	1301.1	3716.4	6326.2	4980.2	5644.6	8483.5	2108.7	4975.0	10987.5
Denmark	1206.7	1459.9	1014.7	1669.0	4897.6	4179.8	768.0	2798.6	7725.7	14657.1	31305.8	11525.3	6633.4	2597.1	-10721.4	5019.9
Finland	787.5	-246.6	406.2	864.4	1577.7	1062.9	1109.0	2115.8	12140.7	4610.2	8835.6	3732.2	7926.7	3322.1	3538.8	4557.8
France	15612.6	15170.9	17849.2	16442.7	15574.0	23679.1	21959.5	23171.5	30984.5	46545.9	43258.4	50485.1	49078.7	42538.4	31387.8	63539.6
Germany	2962.0	4729.3	-2088.9	368.3	7133.9	12025.4	6572.8	12243.4	24596.7	56077.3	198313.0	26419.0	53570.8	29228.2	-15122.9	32642.9
Greece	1688.4	1718.1	1588.6	1243.6	1166.1	1197.7	1196.4	1088.6	72.1	561.5	1108.1	1589.4	50.3	1276.4	2102.6	606.1
Hungary	312.1	1474.4	1477.2	2446.2	1143.5	5101.9	3300.4	4170.9	3337.1	3313.1	2763.0	3936.0	2993.6	2137.5	4657.0	6700.4
Iceland	22.0	18.2	-12.7	0.4	-1.5	9.2	83.1	147.9	147.8	66.6	170.5	172.6	90.9	327.9	653.8	2329.3
Ireland	622.6	1360.8	1458.1	1068.5	856.2	1441.5	2615.7	2709.6	8856.3	18211.2	25784.2	9652.7	29350.0	22802.8	11165.4	-22759.1
Italy	6343.4	2481.5	3210.8	3751.4	2235.6	4816.2	3534.9	4962.5	4279.8	6911.4	13377.3	14873.4	14558.2	16430.2	16824.5	19497.9
Japan	1805.9	1286.2	2755.2	210.5	888.2	41.5	227.9	3224.8	3192.8	12743.9	8317.7	6245.5	9240.0	6324.0	7818.8	2778.4
Korea	788.5	1179.8	728.3	588.1	809.0	1775.8	2325.4	2844.2	5412.3	9333.4	9283.4	3527.7	2392.3	3525.5	9246.2	4338.6
Mexico	2633.0	4761.5	4393.0	4389.0	15069.1	9678.8	10086.7	14164.8	12408.6	13631.2	17587.8	27150.9	18274.7	14183.8	18674.3	18054.8
Netherlands	10516.2	5778.9	6169.4	6443.1	7158.4	12306.8	16660.1	11136.5	36924.9	41206.1	63865.6	51936.8	25060.3	21760.1	442.3	43604.3
New Zealand	1683.1	1695.6	1089.2	2211.6	2615.7	2849.7	3922.0	1917.2	1825.5	940.4	1344.4	4591.3	-275.0	2049.3	4370.8	2834.3
Norway	1176.7	-48.9	810.4	1460.7	2777.6	2408.0	3168.5	3946.4	4353.7	7061.7	6907.7	2009.3	679.0	3802.8	2546.6	14463.6
Poland	88.0	359.0	678.0	1715.0	1875.0	3659.0	4498.0	4908.2	6365.0	7270.0	9343.0	5714.0	4131.0	4870.0	12355.0	7724.0
Portugal	2255.4	2291.6	1903.8	1516.2	1254.6	660.1	1343.8	2361.7	3004.7	1156.8	6636.5	6231.8	1800.8	8600.9	2368.1	3111.6
Slovak Republic	..	..	..	179.1	272.9	241.4	395.7	230.6	706.8	428.5	2383.1	1584.1	4126.5	593.8	1107.5	1907.2
Spain	13838.6	12445.2	13350.7	9571.6	9275.8	6285.1	6820.6	6387.8	11798.4	18743.9	39582.4	28347.0	39248.7	25950.4	24774.5	22972.9
Sweden	1971.4	6355.8	41.0	3845.1	6349.7	14446.9	5436.6	10967.4	19842.7	60929.1	23245.5	11900.1	11734.1	1285.3	-1852.2	13691.5
Switzerland	5484.6	2643.3	411.4	-83.1	3367.7	2224.0	3078.4	6641.9	8942.1	11714.4	19266.0	8859.0	6283.8	16505.3	750.0	5781.3
Turkey	684.0	810.0	844.0	636.0	608.0	885.0	722.0	805.0	940.0	783.0	982.0	3352.0	1137.0	1752.0	2837.0	9686.0
United Kingdom	30470.7	14849.2	15474.8	14821.3	9254.6	19968.4	24441.3	33244.9	74348.9	87972.8	118823.8	52650.2	24051.9	16845.9	56253.2	164499.2
United States	48494.0	23171.0	19823.0	51362.0	46121.0	57776.0	86502.0	105603.0	179045.0	289444.0	321274.0	167021.0	80841.0	67091.0	133162.0	109754.0
Total OECD FDI	175310.5	122197.5	116206.7	147990.4	166793.3	225299.3	246293.7	301415.3	528454.9	894142.1	1289314.0	635756.1	572455.5	464798.6	490895.1	621681.7

Notes: Data are converted to US dollars using average exchange rates; p: preliminary; e: estimate.

Source: OECD International direct investment database.

Table A.3 OECD direct investment abroad: outward position

USD million

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004p	2005e
Australia	30494.9	30897.0	34559.6	40503.6	47786.3	53009.0	66857.9	71968.4	78647.9	89583.6	85385.3	109688.2	108848.6	150732.8	197631.5	159990.5
Austria	4746.9	5993.6	6584.5	7974.2	9514.1	11832.0	13059.8	14011.4	17468.4	19127.3	24819.9	28510.6	42483.2	55961.0	67832.6	67007.0
Belgium	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Canada	84812.7	94387.4	87867.3	92469.1	104308.0	118106.1	132321.9	152959.3	171784.7	201446.8	237646.9	250691.0	275711.3	318718.2	375054.7	399362.8
Czech Republic	..	..	..	181.4	300.4	345.5	498.0	548.2	804.1	697.9	737.9	1135.6	1473.1	2283.5	3758.9	4239.3
Denmark	0.0	15612.0	16305.7	15799.2	19613.7	24702.5	27601.6	28127.7	38836.8	51376.0	73074.2	78236.2	86696.8	102586.9	118702.1	..
Finland	11227.3	10845.3	8564.6	9178.2	12534.0	14993.2	17666.0	20297.5	29405.9	33850.3	52108.7	52224.4	63920.9	76049.7	82556.3	74415.8
France	110120.6	129900.5	156326.6	158750.3	182331.8	204430.3	231112.8	237248.9	288035.9	334102.9	445087.0	508842.0	586306.6	724445.4	829309.7	851743.5
Germany	130760.3	150517.4	154741.3	162365.0	194523.4	233107.4	248634.1	296274.9	365195.7	412881.3	486749.8	551083.1	602690.9	727201.3	754618.9	..
Greece	..	..	..	..	..	..	..	..	2792.2	3935.0	6094.0	7020.4	9000.6	12337.0	13791.3	13344.8
Hungary	..	..	223.6	224.6	291.2	278.1	265.3	646.6	785.1	924.2	1279.1	1554.5	2165.8	3509.4	6030.9	6604.3
Iceland	75.2	101.1	98.1	113.5	148.5	177.2	240.1	275.0	360.5	451.8	662.9	840.2	1255.0	1733.4	4024.6	9429.9
Ireland	..	..	..	..	..	..	..	..	20314.4	25232.1	27925.0	40818.7	54024.7	64457.2	..	..
Italy	60195.3	70419.3	70382.3	81086.6	89688.3	106318.6	117278.0	139437.2	176985.2	181855.5	180273.6	182373.3	194488.3	238887.6	280481.1	293475.2
Japan	201440.0	231790.0	248060.0	259800.0	275570.0	238452.0	258612.4	271905.7	270034.0	248776.0	278441.5	300115.7	304237.5	335499.5	37054.4	386581.3
Korea	..	..	..	..	..	..	..	..	..	..	..	19967.0	20734.5	24986.4	..	..
Luxembourg	..	..	..	..	..	4703.3	4695.4	5022.3	7982.8	8467.8	7927.0	8810.2	16006.7	17386.3	..	..
Mexico	..	..	..	..	..	..	..	..	..	..	..	12077.5	12868.7	16587.0	22218.8	28040.1
Netherlands	106896.1	117262.8	121052.5	120116.2	142944.0	172675.1	194015.6	198539.0	228983.2	263761.3	305459.2	332151.2	396514.3	531150.9	595360.7	641257.9
New Zealand	..	..	5899.0	4430.7	5896.2	7675.6	9293.1	5646.0	5490.8	7006.2	6065.1	8807.8	9162.2	11458.3	12509.5	12935.7
Norway	10889.2	12149.1	11794.4	12717.7	17648.0	22520.7	25439.1	27494.5	31609.4	42452.9	46301.5	55403.2	72487.3	82787.7	..	..
Poland	..	..	101.0	198.0	461.0	539.0	735.0	678.0	1165.0	1024.1	1018.0	1156.0	1457.0	2147.0	3221.0	..
Portugal	..	..	..	..	..	4406.3	3834.3	5395.4	9894.5	11184.4	19551.5	22086.0	21147.2	35883.1	48335.5	44457.0
Slovak Republic	..	..	..	..	166.4	138.5	185.0	236.4	408.2	346.0	379.1	506.6	485.6	633.2	692.1	..
Spain	..	..	22046.8	24014.3	30044.8	36547.3	41999.6	53035.2	74109.4	118042.9	167717.9	191648.9	233937.3	292464.3	371154.4	381161.1
Sweden	50719.5	54797.6	48844.6	45522.5	60309.0	73142.5	72187.8	78201.2	93533.7	106273.8	123234.0	123268.1	146509.8	183768.9	204084.7	202797.9
Switzerland	66086.5	75880.9	74411.8	91570.3	112588.0	142481.4	141586.8	165354.1	184237.3	194598.3	229756.4	249265.0	288949.4	338408.5	396442.1	394753.9
Turkey	..	..	..	..	..	..	..	..	..	..	3668.0	4581.0	5847.0	6138.0	7060.0	..
United Kingdom	229306.7	232140.8	221678.9	245628.9	276743.8	304864.9	330432.5	360796.3	488372.0	686420.4	897844.8	869700.5	994135.7	1187045.0	1268532.3	1237997.5
United States	616655.0	643364.0	663830.0	723526.0	786565.0	885506.0	989810.0	1068063.0	1196021.0	1414355.0	1531607.0	1693131.0	1860418.0	2062551.0	2367386.0	..
Total OECD FDI	1714426.2	1876058.6	1953372.6	2096170.2	2369976.0	2660952.5	2928362.1	3202162.3	3783258.2	4458173.8	5240815.2	5705693.6	6413963.8	7607798.4	8067844.0	..

Notes: Data are converted to US dollars using average exchange rates; p: preliminary; e: estimate.

Source: OECD International direct investment database.

Table A.4 OECD direct investment from abroad: inward position

USD million

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003p	2004e	2005
Australia	73615.1	77077.7	75821.7	82877.7	95543.8	104074.3	116797.2	101089.0	105961.7	120625.7	111138.5	111826.7	141549.2	199880.3	267419.8	210651.2
Austria	10971.8	11510.1	12040.8	12105.5	14636.0	19721.0	19629.2	19522.2	23564.8	23471.6	30430.8	34328.0	43506.7	53844.2	61703.2	61344.4
Belgium	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Canada	112850.3	117031.5	108500.1	106869.7	110210.1	123182.3	132970.2	135935.6	143348.8	175000.9	212722.7	213755.4	225902.1	282211.1	316494.1	356857.9
Czech Republic	..	..	..	3422.8	4546.6	7349.8	8573.1	9233.2	14377.1	17549.5	21647.0	27092.8	38672.3	49917.5	65354.3	..
Denmark	..	14747.0	14387.3	14617.9	17846.3	23800.9	22337.0	22267.8	35704.8	47725.6	73573.0	75382.6	82743.2	100236.3	108093.9	..
Finland	5132.4	4220.5	3688.9	4216.7	6714.1	8464.5	8797.5	9529.8	16454.8	18320.4	24272.3	24069.8	34005.9	50256.5	55661.6	52823.1
France	84930.9	97450.5	127881.4	135077.8	163451.4	191433.0	200095.8	195913.0	246215.9	244672.5	259773.0	295308.0	385186.7	527624.6	619578.8	599995.5
Germany	74066.8	77927.8	74730.1	71095.4	87338.1	104367.2	104658.1	190732.9	252392.5	290457.1	462529.1	416826.5	529322.6	655586.7	675629.3	..
Greece	..	..	..	..	..	..	..	..	13084.0	15890.0	14113.0	13941.0	15560.0	22453.6	28481.5	29312.0
Hungary	568.8	2106.7	3424.1	5575.6	7083.5	11303.5	13274.9	17953.6	20752.9	23259.7	22856.2	27377.5	36213.4	48344.9	62725.8	61220.6
Iceland	147.1	165.6	123.8	116.5	127.5	148.7	197.4	331.9	468.7	478.4	491.4	676.5	797.4	1189.7	1998.0	3842.6
Ireland	..	..	..	..	..	..	..	..	62453.1	72817.0	127087.6	134051.3	178566.5	217164.0	..	..
Italy	60008.5	61592.3	49972.7	53961.9	60416.0	65347.2	74599.9	85401.8	108835.3	108640.7	121168.7	113433.5	130813.8	180890.6	220720.3	219866.6
Japan	9850.0	12290.0	15510.0	16890.0	19170.0	33507.7	29939.7	27079.8	26064.0	46115.3	50321.9	50319.0	78140.3	89729.2	96984.2	100898.5
Korea	..	..	..	..	..	..	..	..	..	..	..	53207.5	62658.3	66069.7	..	..
Luxembourg	..	..	..	..	..	18503.4	18232.7	17279.7	20766.1	20362.0	23491.7	26346.5	34970.2	41750.0	..	..
Mexico	22424.4	30790.0	35680.0	40600.4	33197.7	41129.6	46912.0	55810.0	63610.4	78060.0	97170.2	140376.0	158650.7	172834.5	191508.8	209563.6
Netherlands	68728.8	72479.6	74434.3	74474.2	93402.9	116051.2	126536.4	122183.1	164461.1	192591.9	243730.3	282879.2	349954.9	457984.0	1104212.3	1021229.2
New Zealand	..	..	11779.5	15539.1	22062.2	25727.6	34743.7	31365.3	33169.9	32860.8	28069.8	23640.7	30519.6	39389.8	51950.4	52619.6
Norway	12403.8	15865.2	13644.9	13642.5	17018.0	19835.9	20623.8	20704.4	26081.4	29433.0	30261.4	32589.6	42649.2	48966.9	..	..
Poland	109.0	425.0	1370.0	2307.0	3789.0	7843.0	11463.4	14587.2	22461.0	26075.3	34227.0	41247.0	48320.0	57851.0	85509.0	..
Portugal	..	..	..	..	..	18973.4	21103.2	22413.7	30089.6	26910.8	32043.4	36022.7	44635.1	62200.2	70566.4	64516.6
Slovak Republic	..	..	..	..	897.0	1297.1	1899.8	2103.4	2919.6	3227.6	4679.4	5729.8	8530.6	11283.9	14503.7	15795.5
Spain	..	..	85989.4	80295.6	96302.3	110290.5	111532.2	105265.6	126018.5	125363.6	156346.8	177252.0	257095.4	339652.0	395189.1	367656.2
Sweden	12636.0	18085.0	14057.0	13126.9	22649.4	31089.3	34784.1	41512.7	50984.6	73312.5	93972.5	91584.0	119315.4	157028.7	197983.2	171496.0
Switzerland	34244.6	35747.2	32989.3	38713.3	48668.4	57063.7	53916.7	59515.2	71997.1	76000.2	86809.9	88766.3	124811.9	161988.7	195928.5	172488.7
Turkey	..	..	..	..	..	..	..	..	..	..	19209.0	19677.0	18791.0	33533.0	32489.0	..
United Kingdom	203905.3	208345.5	172986.4	179232.6	189587.5	199771.8	228642.5	252958.6	337386.1	385146.1	438630.7	506685.6	523319.2	606157.3	707924.0	816715.9
United States	505346.0	533404.0	540270.0	593313.0	617982.0	680066.0	745619.0	824136.0	920044.0	1101709.0	1421017.0	1518473.0	1517403.0	1585898.0	1708877.0	..
Total OECD FDI	1291939.6	1391261.1	1469281.9	1558071.8	1732639.6	2020342.9	2187879.2	2384825.4	2939667.4	3376077.2	4241784.1	4582865.5	5262604.5	6321916.9	7337486.2	..

Notes: Data are converted to US dollars using average exchange rates; p: preliminary; e: estimate.

Source: OECD International direct investment database.

ANNEX 2. NATIONAL SECURITY AND STRATEGIC SECTORS: REGULATORY CHANGE

1 Recent developments

In ***Germany***, the rules for foreign ownership of defence-related enterprises were tightened in 2004 and again in 2005. Following controversy over a foreign acquisition of the submarine builder Howaldtswerk-Deutsche Werft, parliament amended the Foreign Trade Act and Foreign Trade and Payments Regulation. The Act and the Regulation, previously concerned mainly with export and import of sensitive products and payments in relation therewith, were amended to stipulate that the acquisition of more than 25 per cent of the voting rights in a German company producing armaments, ammunition or cryptographic programmes has to be reported to the Federal Ministry of Economics and Labour. The Ministry has the right, within one month after receiving all relevant information, to prevent the investment if this is needed to safeguard "important security interests". In 2005, following renewed controversy over a prospective takeover, the list of activities covered by the provision was extended to include companies producing and developing engines and gear systems for tanks and similar armoured military vehicles. (Foreign Trade and Payments Regulation §52)

In comparison with many other countries, the measures the German government has put in place to limit foreign participation in its defence industry do not appear particularly problematic. However, controversy has arisen over the country's protection over one of its carmakers, which is shielded from hostile takeovers through specific legislation passed in 1960. The so-called "Volkswagen Law" forbids individual shareholders from holding more than 20 per cent of the carmaker's voting rights, and establishes that important decisions on Volkswagen's future require the approval of at least 80 per cent of shareholders. The EU Commission has referred the matter to the European Court of Justice, claiming that the Law impedes the free movement of capital.

The government of ***France*** has been rethinking its foreign investment regulations in recent years, the starting point apparently being the March 2000 ruling by the European Court of Justice in the "Church of Scientology" case. The Court set aside the French argument that its foreign investment rules were justified to safeguard public order, holding that while restrictions on the free movement of capital may be imposed for reasons of public order or public safety, they must be narrowly tailored to the public interest at issue.

In December 2004 the French parliament enacted a law reforming its foreign investment rules (the "Reform Law"[11]). The Reform Law requires the government to issue a Ministerial Decree setting out the types of conditions that may be imposed on foreign investment. The law also modifies the scope of French foreign investment regulations. Under the new rules, prior authorisation is needed for investment not only in arms manufacturing but all companies operating in "the interest of national defence".

The detailed list of sectors concerned was set out by the French government on 31 December 2005 in Decree No. 2005-1739. According to the Decree, investment in the following activities can be subject to authorisation: (1) money gambling; (2) private security services; (3) research and development or manufacture of means of fighting the illegal use of pathogens or toxic substances; (4) wire tapping and mail interception equipment; (5) auditing and certifying services relative to the security of information

11. Article 30 of Law No. 2004-1343, dated 9 December 2004.

technology systems and products; (6) the security of information systems of companies managing critical infrastructure; (7) businesses relating to certain dual-use items and technology; (8) cryptology services; (9) business involving companies privy to classified information; (10) weapons, munitions and explosive substances for military purposes; and (11) activities involving design or equipment supply contracts with the French Defence Ministry.

2 Prospective change

In ***Canada***, investment legislation is currently under consideration. Prior to the recent parliamentary elections that had as a result the replacement of the previous government, a draft piece of legislation dubbed Bill C-99 "An Act to amend the Investment Canada Act" was presented to parliament. It is not yet clear whether the new government will want to re-table the Bill in its old form, draft a new Bill or let the issue rest.

The main purpose of the Bill is to provide authorities with new powers to review foreign investments that might compromise Canada's national security, independent of existing reviews and not subject to sectoral or asset value thresholds. On completion of the review, the Governor in Council could order further action, including modifying or disallowing the investment.

As existing screening mechanisms provide the authorities with relatively broad powers to block undesired investment, the main outcome of the Bill would be ensuring that investment beneath the current review thresholds (in most cases C$ 250 million) could be made subject to a national security review. As the Bill proposes no notification requirements or mandatory reviews, it is commonly perceived as tool for use in exceptional circumstances.

The government of ***Russia*** is in the process of drafting new legislation regarding the protection of "strategic sectors" from foreign ownership. In the view of the Russian authorities, the proposed law should be seen as an attempt to make the current situation – where limitations of foreign ownership is often stipulated for individual companies – more transparent and predictable, and to put the Russian procedures in line with similar legislation adopted in other countries. The new law is expected to be submitted to the Duma by the end of 2006.

According to the Russian authorities, the proposed law on strategic sectors as currently discussed within the government would cover a few closed sectors and contain a list of approximately 39 sectors, including in particular arms and defence-related sectors as well as nuclear energy and aerospace industries, in which foreign investors would need the governmental authorisation to acquire more than 50 per cent ownership. As for gas and oil sectors, prior authorisation for majority foreign ownership would concern only a limited number of large extraction sites and would be determined by a proposed subsoil law. A special commission composed by representatives of the main ministries and federal agencies, will be in charge to deliver relevant authorisations and notify them to the applicants within a specified time period (30-60 days in the government's current draft).

Legislators in the ***United States*** have introduced a number of bills to amend the Exon-Florio statute, which provides for a process to review of the national security implications of certain foreign investments. Exon-Florio (an amendment to the Defense Production Act) gives the President authority to suspend or prohibit any acquisition by foreign entities of an enterprise engaged in interstate commerce in the United States so that such control will not threaten to impair the national security. The law also authorises the President to seek relief, including divestment, in order to enforce his authority in this matter. The government body charged with carrying out the Exon-Florio provisions is the Committee on Foreign Investment in the United States.

The law provides for a two-stage review and investigation procedure before action may be taken by the President. The "review" phase is to be completed within 30 days from the receipt of written notification of a proposed acquisition. During this phase, a decision will be taken on whether the proposed investment raises any national security concerns or whether any national security implications should be explored further by investigation. In the event that the acquisition is made by an entity controlled by a foreign government, an investigation is obligatory if CFIUS determines that the acquisition could affect national security. At the conclusion of the "investigation" phase, which must not exceed 45 days, a final administrative determination will be made. If the conclusion is that the President should take action against the foreign investment in question, such action must be initiated within 15 days. The president must, in each case, submit to Congress a written report concerning his intentions, the findings of the investigation and the factors that he took into account.

The two principal bills aimed at amending Exon-Florio are the proposed "Foreign Investment and National Security Act of 2006", put forward by Chairman of the Banking, Housing and Urban Affairs Committee Senator Richard Shelby, and H.R. 5337 "Reform of National Security Reviews of Foreign Direct Investment Act," introduced by House Majority Whip Rep. Roy Blunt. Among the main proposed changes are: mandatory investigations of transactions involving entities owned or controlled by a foreign government; reporting or notification requirements on CFIUS *vis-à-vis* the US Congress; and changes in the management of CFIUS to assign a greater role to the government departments charged with national security.