Policy Implications of the Changing Sources and Forms of International Investment: An Overview

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Attestation of Authorship

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.

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ABBREVIATIONS

Bn – (US) Billions

BRICs – Brazil, Russia, India, China

CIS – Commonwealth of Independent States

EMs – Emerging Markets

FDI – Foreign Direct Investment

GDP – Gross Domestic Product

IFDI – Inward Foreign Direct Investment

MNCs – Multinational Corporations

MNEs – Multinational Enterprises

Mn – (US) Millions

OECD – Organisation for Economic Co-operation and Development

OFDI – Outward Foreign Direct Investment

SCEs – State Controlled Enterprises

SOEs – State Owned Enterprises

SWFs – Sovereign Wealth Funds

TNCs – Transnational Corporations

UNCTAD – United Nations Conference on Trade and Development

WTO – World Trade Organization

DEFINITIONS:

1. **Foreign Direct Investment (FDI)** is an investment that involves a long-term and lasting relationship and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). This means that the investor (enterprise) exerts a significant degree of influence on the management of the enterprise resident in the other economy (OECD, 2013).
2. **Sovereign Wealth Funds (SWFs)** are investment funds owned by a government. They are used for a wide range of economic and financial purposes over a range of sectors and industries. They are usually funded or accumulated through the foreign exchange assets, but have recently been largely funded by oil exporting countries due to high oil prices and financial globalization, as in cases such as Kuwait and United Arab Emirates (UNCTAD, 2011).
3. **Developed Countries**: Australia, Austria, Belgium, Canada, Cyprus, The Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, the United Kingdom, The United States (UNCTAD, 2012).
4. **European Union Countries**: 15 countries (EU15) up until 2003, 25 countries in 2004-2006 (EU25) and 27 countries (EU27) from 2007; Austria, Belgium, Czech Republic (from 2004), Cyprus (from 2004), Denmark, Estonia (from 2004), Finland, France, Germany, Greece, Hungary (from 2004), Ireland, Italy, Latvia (from 2004), Lithuania (from 2004), Luxembourg, Malta (from 2004), The Netherlands, Poland (from 2004), Portugal, Slovak Republic (from 2004), Slovenia (from 2004), Spain, Sweden, The United Kingdom (OECD, 2013)
5. **OECD Countries**: Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, The Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, The United Kingdom, The United States (OECD, 2013).

ABSTRACT

Investment, whether domestic or international, plays a significant role in the sustainable growth and development of an economy. It is even more important when the domestic resources of a nation are insufficient to achieve the objectives of long term potential growth. Foreign direct investment (FDI) has been an integral part of the international investment landscape since the second half of the last century. These investments have been proven to play an important and crucial part of the economic and financial growth and development of a nation. Developed and industrialized countries such as the European Union (countries), the US and Japan have historically been the drivers and sources of FDI to the less developed countries. The investments were led by large multinational enterprises venturing into foreign markets to access resources and markets. There have been a lot of changes in the economic and investment backgrounds of the world economies in the past few years, and FDI has remained an integral part. The support and positive attitude towards FDI is commendable. In the last two decades, there have been striking features in the international investment landscape which were not witnessed in the early years. FDI from developing countries, particularly the countries of Brazil, Russia, India and China has grown tremendously. Their share in the global economy as sources of FDI may not be as big as that of the traditional developed countries of Europe and the US, but their share and growth cannot be marginalised. This research project focuses on the changes seen in the global investment climate in the last two decades and the growing significance and influence of the BRIC nations on the global economy. A study of the existing literature and present policies implemented in countries such as Australia, Germany and the United States is undertaken done to determine the concerns and responses to these changing investment patterns at the international level.

CHAPTER 1: INTRODUCTION and STRUCTURE

1.1 Research Background: The growth of BRICs

Foreign Direct Investment (FDI) is governed by a variety of factors. These vary depending on the financial, legal, political and economic conditions of a particular economy and its international trade and business relations with other countries. A profitable and viable opportunity in another country will encourage foreign investments, while unstable political, economic or political conditions will negatively affect the decision to invest (Travis, 2007). The primary motives to invest in a foreign economy may be reduction of costs such as production, transportation or logistics, hence increasing the profitability from the planned operations. FDI can emerge as a strong way to protect and increase sales revenue and may be driven by significant strategic and market considerations. It may be governed by intentions to diversify or reduce market or financial risks and to capitalize and gain from the overseas market opportunities (Franco, 2013). Foreign Direct Investment (FDI) is also a major source of external finance which traditionally has flowed from developed countries to support the economic growth of less developed countries. In the last decade, the investments from the emerging BRIC (Brazil, Russia, India, China) economies have transformed patterns of international investment (Dierk & Heidi, 2012). Some forms of these investments do not fit the conventional pattern of privately owned firms' investments. The current forms are more likely to be state-owned, or conglomerate family owned business groups and sovereign wealth funds. This dissertation aims to review the reasons behind and effects of these changes in both form and source of outward FDI and their likely impact on the host and home country policies and economic development.

UNCTAD 2011 states that out of the 200 largest multi-national companies, 49 are SOEs and over half of these SOEs are based in emerging markets. Brazil has 1.4%, Russia 2.1%, India 3.1% and China 7.7% of these state owned enterprises (UNCTAD, 2011). This shows the extent of growth and influence that enterprises from the BRIC economies have in the international investment landscape.

The flow of outward foreign direct investment (OFDI) from the BRIC countries is not only towards developing countries, but is also towards developed countries (Dierk, 2010). The world stock of FDI has increased by more than $11 trillion between 2000 and 2010. The OFDI share of the BRIC economies in the same time period has increased from 3.1% to

10.7% (UNCTAD, 2011). This has helped to improve the global competitive position and performance of these economies (Dierk & Heidi, 2012).

Brazil, Russia, India and China are a group of countries that share common characteristics for potential financial and investment expansion. These four countries are big economies with high rates of economic growth over the last ten years. Their strength and stability came to the limelight during the 2007-2008 financial crisis, when developed countries struggled to maintain their financial reserves, while these four countries showed steady performance. They took a place among the top 10 economies with the highest foreign exchange reserves. China topped the list with US $2,454 billion, the equivalent of 31% of the total world's foreign exchange reserves, followed by Russia in third place with US $453 billion in foreign reserves. India occupies fifth place with US $277 billion and Brazil eighth place with US $255 billion (Akbar & Samii, 2005). While Brazil and Russia have a combination of private and state control on their capital flows, India and China's governments maintain a much tighter control on the flow of capital, therefore providing a very strong regulatory framework (Shapiro & Globerman, 2002).

The BRIC countries are essentially the new sources of international investment and their investment in the form of state controlled enterprises are the new forms of investment (Tarzi, 1999). Extensive literature is available on investment flows from the developed countries to the BRIC countries, but more research on the new patterns of international investment is required. In this dissertation, an analysis of the increasing and changing trend of flows of FDI from the emerging (BRIC) countries will be provided. The aim is to analyse the 'reverse investment flow' which refers to the outward FDI from these BRIC countries to other developing and developed countries. This will be done by examining past and current trends of OFDI. A discussion on the causes and effects of the new trends will be undertaken by analysing the contribution and support from the respective governments of these BRIC countries on the changed investment patterns. This will entail a discussion of the similarities among BRICs and the differences in their individual support and growth patterns. The concerns and opportunities these new sources and forms of investments have created and their likely impact on the national and international policy landscape will also be discussed.

1.2 Organisation of the Dissertation

This dissertation is divided into four chapters:

Chapter one will provide the background and the objectives of the dissertation. It will explain the wider context and the rationale of this study: the growing number and forms of non-traditional investments from the BRIC countries. The first chapter will also provide the outline (structure) of the dissertation and the research methodology used.

In chapter two, the theoretical framework of the dissertation will be discussed. It will evaluate the contemporary, as well as the traditional forms and sources of investment. This will be studied along with the new, non-traditional forms and sources of investment, particularly from the BRIC nations. This chapter will also highlight the importance of outward FDI from these countries and their increasing influence on developing and developed countries in recent years. Details on the new forms of investment in the form of sovereign wealth funds and state owned enterprises will also be discussed with respect to each of the BRIC nations.

Chapter three will discuss policy concerns that have arisen due to the increasing influence of these new forms and sources of investment on international trade and business agreements with other developed and developing countries. A critical analysis of the literature and prevailing issues will also be discussed. This chapter will focus on the policy measures that have been adopted by countries such as Australia, Germany and the United States in order to reduce the concerns that have arisen. This will help in the overall assessment of the impact, importance, concerns and possible policy responses to these new investments.

Chapter four provides the conclusions of the study. This will analyse and evaluate the academic literature available on all components of this project and the actual policies currently implemented or required to be introduced in the economies involved. This will help provide an understanding of the wider contextual issues and the data and trends analysed in the previous chapter. Areas for future research will also be outlined. This will help to understand past trends, present challenges to the environment, and future prospects of acceptance (by the public, government, and business community), growth and sustainability of these international investments.

1.3 Rationale of the Study: New forms and sources of investments

Whether investments are made within a country or across national borders, it is an important catalyst for economic growth and development for a country. Where domestic resources and investments are insufficient to meet a country's economic growth and development needs, foreign direct investment can play a critical role (Jain, 2006).

The evolving BRIC economies can offer a tremendous opportunity for growth and development in the world economy. The rapid transformation and development of these nations in the past decade emphasize a need for revised and competent policies and strategies for them to compete in the international business environment (Gammeltoft, 2007). In the 1980s, the motive for investments abroad by the emerging economies was to establish trade networks and enter into new markets. Difficult trade and bureaucratic restrictions at home were the other main reason. Most companies that engaged in outward investments were state owned, and investment in developed countries, which were very limited, was only in the less competitive, sunset industries such as the analogue recording replaced with digital recording technologies (Akbar & Samii, 2005). Private companies actively engaged in more investments abroad. This was a result of the relaxation of trade policy barriers, increased liberalization and active government support. The focus also shifted from sunset industries to the more active and dynamic financial and business services sector. The main reason behind investment shifted from simply establishing trade networks to acquiring operational, technological and managerial efficiencies and advancements (Andrea & Fazia, 2010).

In conclusion, it can be said that the outward FDI trend in the last 40 years has shifted:

- from developing countries within the same region to developing countries and developed countries in different regions, especially by the BRIC economies;
- from Latin American countries to Asian countries to a combination of both regions;
- from primary small scale manufacturing sectors to the business and service sectors;
- from resource and market seeking motives to asset seeking motives.

1.4 Aim and Research Objectives

The aim of this research project is to understand the new trend of outward foreign investment by the BRIC nations. This new trend is different from the traditional forms and sources of international investment and therefore is subject to concerns regarding the impact on the recipient (host) countries and may lead to possible policy effects and changes that may be required. Three research objectives have been formulated to understand these changes on the international investment landscape. These are:

1. To examine the significance of new forms of OFDI - Sovereign Wealth Funds (SWFs) and State Owned Enterprises (SOEs), within total FDI flows and the role that the BRIC economies now play in OFDI.
2. To critically examine the concerns in the academic and policy literature in regard to the new forms and sources of FDI.
3. To examine policy responses to these issues through both a review of the relevant literature as well as recent cases and policy developments within countries such as Australia, Germany and the US.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

Foreign Direct Investment takes place when a firm from one country invests in new facilities, markets, products or services in a foreign country outside its national borders. The trend of outward foreign direct investments (OFDI) from emerging economies has increased in the last decade, with the BRIC countries being economically and politically influential on other economies (London & Hart, 2004). These economies have not only directed FDI towards other developing countries, but also towards developed countries such as European Union countries and the United States. While the OFDI from BRIC countries as compared to developed countries is quite low, there has been a marked increase in the last ten years (Shapiro & Globerman, 2002).

FDI constitutes only a part of the total capital formation of a country, but the impact of FDI inflows and outflows on a country's economic growth, development and welfare is of paramount significance. Traditionally, most FDI has flowed from developed countries to developing or emerging countries (Luo & Tung, 2007). But with the recent contribution and increased outflows from developing countries, this trend has seen a change. This was further highlighted in the 2013 OECD Report by the fact that the outward FDI stock from the four BRIC countries increased from US$610.3 billion in 2008 to US$1,038.4 billion in 2011, as shown in Table 2.1 below:

Country / Year	**2008**	**2009**	**2010**	**2011**
Brazil	155.7	164.5	188.6	202.6
Russia	205.6	302.5	366.3	362.1
India	63.3	80.9	96.9	109.5
China	185.7	245.8	310.8	364.2
TOTAL	**610.3**	**793.7**	**962.6**	**1038.4**

Table 2.1: FDI Outflows by BRICS - 2008 to 2011 (US $billion)

(Source: OECD, 2013)

2.1.1 Outward FDI flows from the BRIC countries

The table below shows a comparison of the FDI outflows from the developed, developing and BRIC countries for the five year period 2005 - 2010.

FDI Outflows 2005 - 2010 (US$ million)						
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
World	882 132	1 405 389	2 174 803	1 910 509	1 170 527	1 323 337
Developed Countries	745 679	1 154 983	1 829 044	1 541 232	850 975	935 190
Developing Countries	122 143	226 683	294 177	308 891	270 750	327 564
FDI Outflows 2005 - 2010 (US$ million)						
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
Brazil	2517	28 202	7067	20 457	(-10 084)	11 519
Russia	12 767	23 151	45 916	55 594	43 665	51 697
India	2985	14 285	17 234	19 397	15 929	14 626
China	12 261	21 160	22 469	52 150	56 530	68 000
Total BRICs	**30 530**	**86 798**	**92 686**	**1 47 598**	**1 06 040**	**1 45 842**

Table 2.2: FDI Outflows 2005 - 2010 (US$ million)

(Source: UNCTAD, 2011)

FDI outflows have increased over this period, with the total FDI flows from the four BRIC economies increasing from US $30,530 million in the year 2005 to US $145,842 million in the year 2010. While the BRICs' OFDI from 2005 increased by almost five times by 2010, the FDI outflows from the developed countries increased only about 2.5 times. China continued to dominate the list of outward FDI source countries with a continuous growth pattern over this five year period. Russia has followed behind with a steady growth, with a high in 2007, followed by a slight decline in 2009, but again gaining strong momentum in 2010. India's growth pattern shows the highest peak in 2006, then a steady growth followed by a slight dip in 2009 and then again appears to be on the road to recovery and growth. Brazil ranks fourth place among the four countries, with its growth pattern seeing frequent highs and lows. The year 2009 witnessed a negative outflow, indicating that there may have been more FDI inflows than outflows from Brazil. However, the situation seems to have improved in 2010.

Figure 2.1 below highlights the inward and outward FDI share and contribution of the BRIC countries between the years 2006 and 2011. The FDI inflows and outflows have continued to increase steadily from 2006 to 2011, with the exceptional decline in outward FDI from 16.6% in 2010 to 13.4% in 2011.

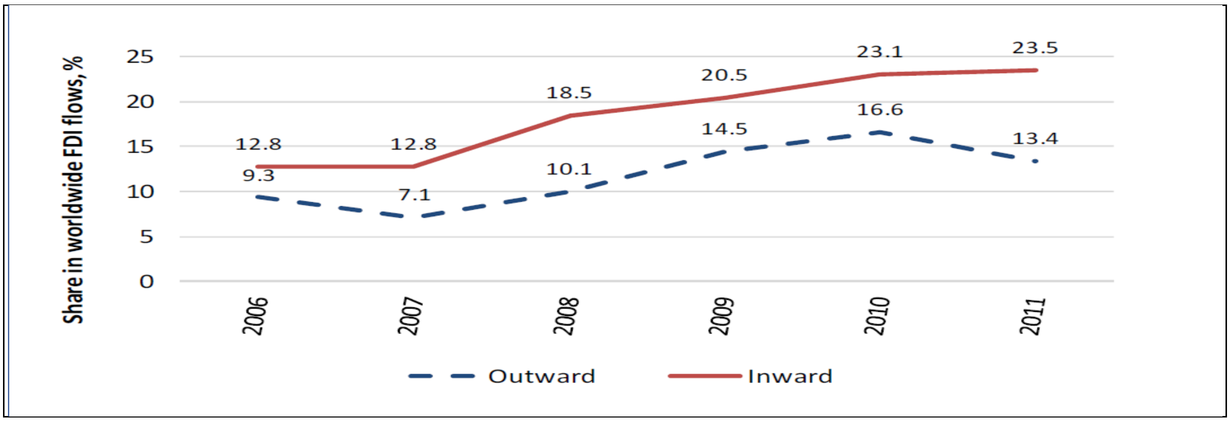


Figure 2.1: Share of FDI inflows and outflows by BRICs between 2006 and 2011 (in %) (Source: UNCTAD, 2012)

On comparing the FDI inflows and outflows by the BRIC nations for the same five year period as shown in figure 2.2 and figure 2.3, China maintains its dominance in the inward FDI flows as well as the outward FDI flows from and to the other BRIC countries.

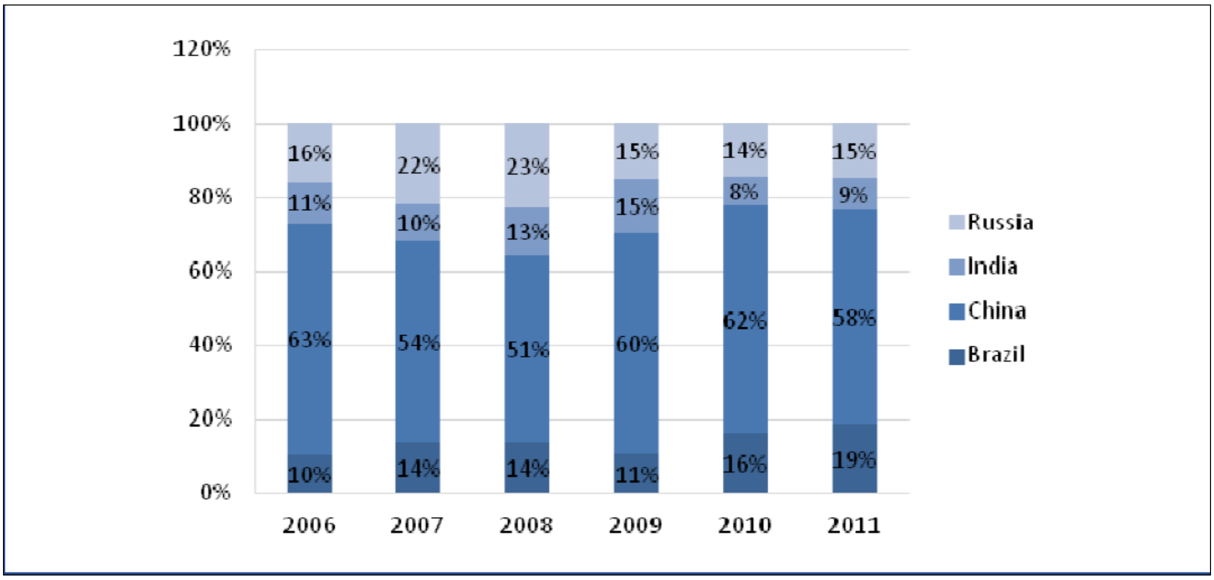


Figure 2.2: Share of FDI inflows between the BRICs 2006-2011 (in %)

(Source: UNCTAD, 2012)

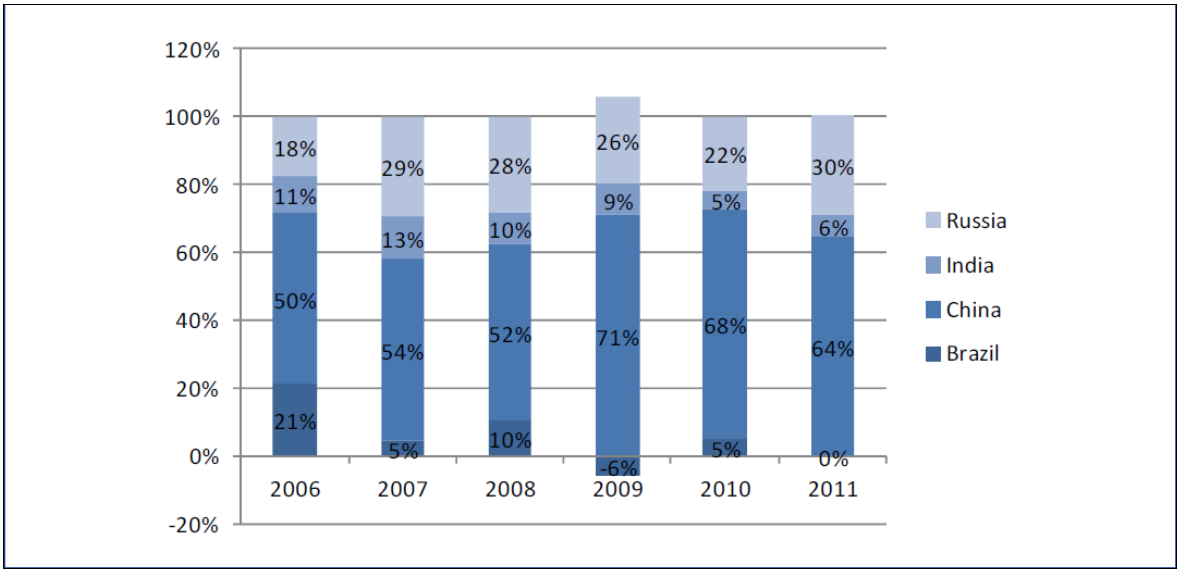


Figure 2.3: Share of FDI outflows between the BRICs 2006 - 2011 (in %)

(Source: UNCTAD, 2012)

Analysis of figure 2.4 of the BRICs outward FDI stocks and flows, shows that China remains the most important source country (with 49.2%), followed by Russia with 12.6% , Brazil with 7.1% share and India's 3.9% contribution. China's share in investment flows has almost doubled since the global financial crisis, while outflows from Brazil and India remained quite stable.

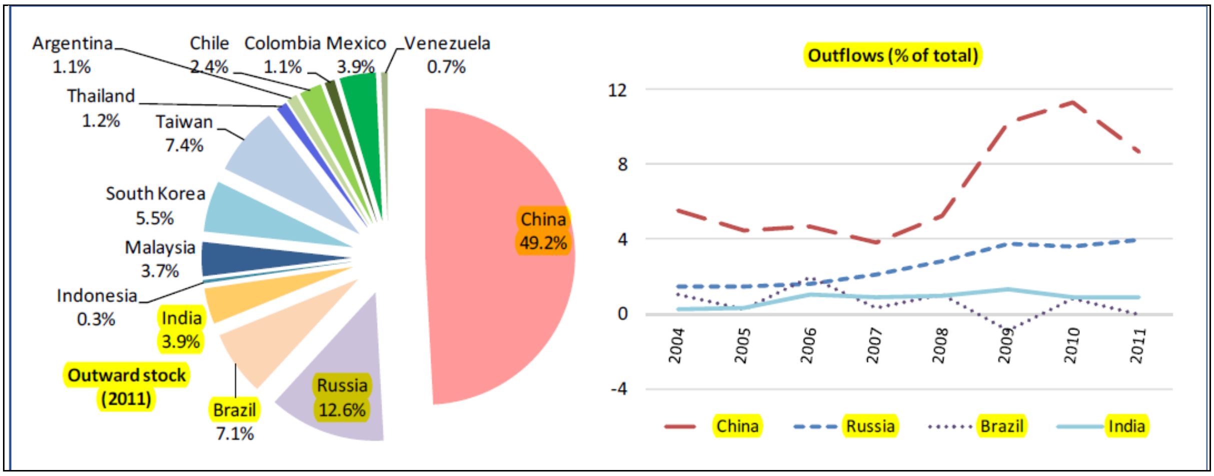


Figure 2.4: Share of BRIC nations in FDI stocks and flows between 2004 and 2011 (in %)

(Source: UNCTAD, 2012)

It is also interesting to note that the motivation for outward investment for each BRIC country differs. The reasons for outward investments may be resource seeking, asset seeking or market seeking (Lee, 2010), meaning accessing new resources (natural, technological, operational, managerial), developing and capitalizing on foreign assets, which may include physical and financial assets or focussing on targeting and expanding into new markets. Mergers and acquisitions are a popular mode of entry for companies from India and China (Vernon, 1979). Most companies went through the traditional stages of exporting, establishing trade links and then investing directly (Yao & Wei, 2007). However in the last two decades, the scenario has changed quite a bit. Companies now look for areas and markets for direct investment abroad in order to exploit ownership advantages, gather technical and managerial knowledge and exploit bigger markets (Amighini & Rabellotti, 2010). Support by government for the companies wanting to invest abroad varies among the four BRIC countries. Brazil is in the process of strengthening its economic and trade policies and rules (London & Hart, 2004). Russia is also in the process of promoting policies and support for companies wanting to go abroad, particularly in the natural resources sector (Kalotay, 2008). India has seen massive support by the government since liberalization and relaxation of trade barriers and restrictions since the 1990s. The Chinese government has reduced its strict legislation and barriers around foreign direct investment abroad and is now actively promoting and encouraging the possibilities and opportunities of going global (Wei, 2010).

2.1.2 Rise of Outward FDI from BRICs

Most of the FDI flows are between countries that have close proximity on geographical, cultural, ethnic, political and / or legal grounds. It was estimated that during the 1990s and 2000s, most FDI in developing countries was from other developing countries. This trend is now towards the developed countries becoming target destinations of OFDI from developing countries, particularly the BRICs. In UNCTAD's special edition of the Global Investment Trends Monitor in March 2013 (UNCTAD 2013b), the FDI inflows to the BRIC nations reached almost 20% in 2012 from less than 6% in 2000. The BRIC nations' share as foreign investors was almost 9% of world flows, up from US $7 billion in 2000 to US $126 billion in 2012. Overseas investments were mainly in the quest for large markets or the development of close regional value chains. The following figure 2.5 shows the pattern of outward FDI from the BRIC nations.

($ US billion) (%)

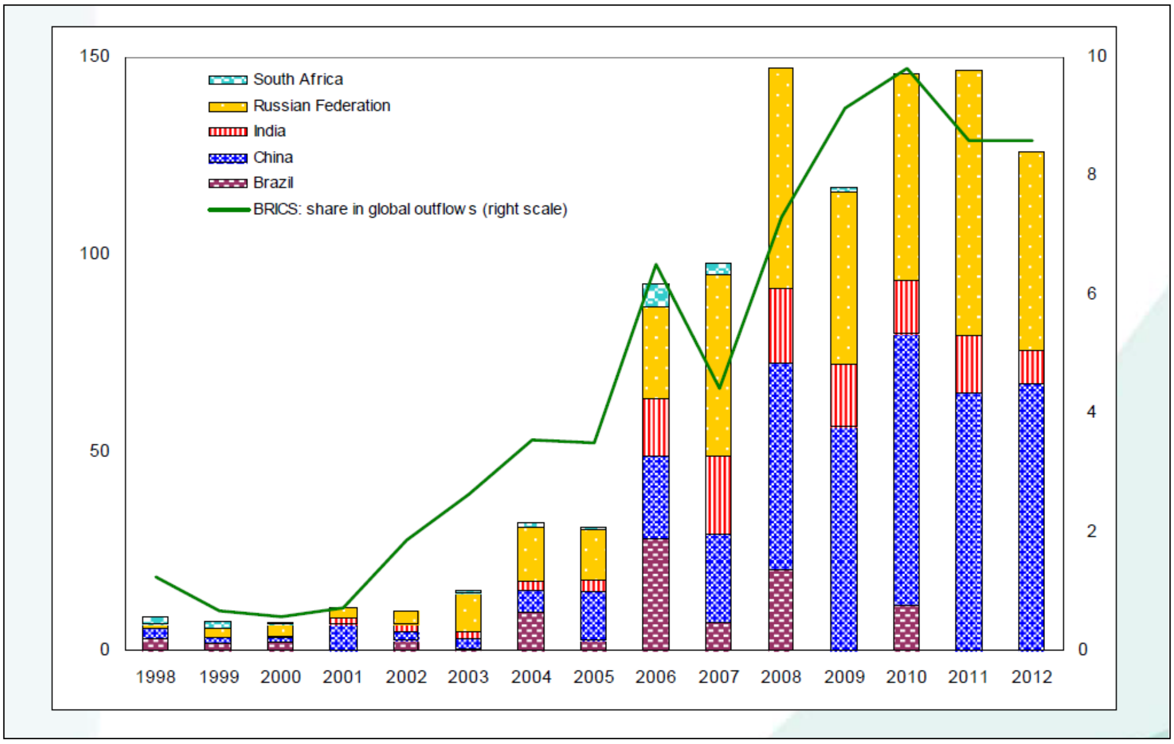


Figure 2.5: BRICs share in the global FDI Outflows, 1998 – 2012 (in US $billion and %)

(Source: UNCTAD 2013b)

The figure (UNCTAD, 2013b) shows a steady increase of OFDI from around 1% in 1998 to almost 4% in 2005. The year 2007 witnessed a decline of almost 2%, but steadily grew from just over 4% in 2007 to almost 10% in 2010, followed by again by a decline in 2011. It is also estimated that almost 42% of the BRICs' OFDI share goes to developed countries for market-seeking objectives with mergers and acquisitions as the commonest mode of entry.

Considering the BRIC economies,

- Brazil has targeted other Latin American countries and the US as destinations for its OFDI, with Chile and Venezuela are the prime destinations. The underlying reason behind the increase in the OFDI from Brazil is attributed to the involvement of capital flows to seek shelter from its government's taxation policies. The western economies, particularly the US and Mexico are targeted for resource and market seeking investments (UNCTAD, 2011).
- Russia's outward FDI is mainly targeted at its immediate regional group including the Commonwealth of Independent States (CIS) and Europe. However, FDI towards non-

regional countries like Australia, Africa and the United States is also increasing (Kalotay & Sulstarova, 2010).

- India's OFDI is particularly targeted at the financial and IT service sectors in the western countries. The basic reason for an increase the OFDI from India was to escape from the restrictive trade barriers within its home country and the opportunity to target foreign markets. There was a shift in the trend of destination for OFDI, changing from other developing countries in Asia to the developed, industrialized countries including the US in the services sector (Pradhan, 2010).
- Chinese outward FDI is targeted mostly at developing countries in both the immediate Asian region and other developing countries in Africa and Latin America. There has been a diversity of investment in the natural resources sector as well as in some consumer goods, although investment in the consumer goods sector was relatively slow (Wei, 2010).

Although investments are more likely to be directed at local, regional geographical areas, investments are also focussed on developed countries such as the US, Germany and Australia. Almost 42% of total global investments from the BRIC countries were in developed countries (OECD, 2013). With these economies expanding rapidly, their share of investments in developed countries is very likely to increase. Concerns have arisen among developed countries because of a lack of transparency and accountability in some investments. Recent cases such as the intended Chinese investment in New Zealand's Crafar dairy farms (Enderwick & Nagar, 2012), investments in the Australian mining sector and other investments in North America have highlighted the potential risks that these governments have felt are posed by the Chinese government's or state's influence and control in these investments (Scissors, 2011).

2.1.3 Intra-BRICs FDI Outflows

Analysis of figure 2.2 shows that out of the four BRIC economies, China has been the leading source of outward FDI to the other three economies with its share ranging between 50% and 64% over the five year period. China has throughout maintained the dominant position with a contribution of 50% and above throughout this time period. Russia follows China next on the list, with its share ranging between 18% in 2006 to almost double (30%) in 2011. India occupies the third place, with its share staying below 20%. It is notable that India's share has declined gradually since 2008 (UNCTAD, 2012). Brazil witnessed negative FDI outflows in

2009, meaning that the net inflows from the other BRIC economies were higher than its outflows.

There have been a lot of factors contributing to the significantly increased OFDI from the BRIC nations. An increase in supportive and encouraging trade and policy reforms, privatization and industrialization along with country-specific and firm-specific advantages has contributed towards this trend. For example, the government's support in the internationalization of domestic firms especially in Russia, India and China has made a huge difference to these countries' economic improvement and hence the increased OFDI flows (Sauvant & Ortino, 2013). This is in contradiction to the conventional facts that emerging and developing countries are the destinations for FDI from other countries and not the sources of FDI. This in turn may be a disadvantageous situation for companies from these countries as they are expected to be capital seeking countries, not capital-exporting countries. It must be noted that the experience these firms gain in their home country, in their domestic market helps them to be more adaptable with the other developing countries. As these companies have operated in their own environment at lower operational costs and have managed to be successful, this may provide them with a leading edge to establish a strong base in other developing countries. They can target huge untapped markets, and they have the experience and expertise to operate successfully in similar conditions in the other developing countries. Other advantages in the form of close geographic proximity, cultural and ethnic similarities make the prospects of business ventures more positive. There is also an advantage in their understanding of and adaptability to regulatory and political risks that may be associated with developing countries. By achieving success in these new markets, with returns to the home country, the possibility of a higher OFDI becomes more possible (Das, 2013).

2.2 Traditional Sources and Forms of International Investments

International business and international investment undertaken by the developed and industrialized nations is not a new process or activity. For many decades, multinational companies from developed countries have been investing in overseas markets. The economic and financial activities and position of the global economy was greatly influenced by overseas business activities in the form of foreign direct investment, mergers, acquisitions, joint venture and strategic alliances (Mathur & Dasgupta, 2013). Most of these activities were undertaken by large multinational corporations (MNCs) from developed countries and were largely the result of the industrial revolution in western economies (Dunning, 1988). Market-seeking and resource strengthening were the most common motives for FDI. The volume of FDI increased substantially over time and the scope of investments widened from primary sectors to knowledge based products.

2.2.1 Traditional Sources: Developed Countries

Traditionally, foreign direct investment to other countries has been the exclusive preserve of the developed and industrialized countries. Up until the 1990s and early 2000s, developed and industrialised countries such as the United States, Japan and countries from Europe such as Germany and France were the main sources of FDI (Aykut & Ratha, 2004). Together, these countries accounted for 56% of all FDI outflows from 1998 – 2006, and almost 61% of the total FDI stock in 2007 (Jain, 2006). The investments were made in manufacturing and service sectors in other developed countries and also in less developed countries. Because of their strong currencies and strong hold on international markets, companies from these countries were able to make investments in the form of mergers, acquisitions, joint ventures and green field projects in other countries (Nunnenkamp, 2004). Since there has been a perceptible rise in investments from the emerging countries, particularly the BRICs; however, outward FDI is still dominated by a few developed countries, although they are not as dominant as they were a couple of decades ago (Jain, 2006).

2.2.2 Traditional Forms: Multinational Enterprises

The traditional form of investment came through multinational enterprises from the developed countries. National companies from industrialized countries ventured into foreign markets looking for access and control over markets and resources and were therefore required to make investments. FDI flowed from the developed, industrialized, capital rich countries to the less developed, less industrialised and capital scarce countries. This flow of investment from the multinational enterprises of the developed countries was sometimes seen as unfair and threatening by some countries, due to their past colonial experiences with some of the developed countries (Hoskisson, Eden, Lau, & Wright, 2000).

In the last few decades the pattern of investment from the developed countries to the developing countries has seen significant change. This change may be called a reverse flow of FDI from less developed to more developed countries (Yao & Wei, 2007). While most FDI still comes from the developed nations, it is interesting to see the rise of the emerging countries contributing to the increase in FDI as well. Firms from developed, industrialized countries investing in overseas operations were termed multinational enterprises, multinational corporations, global or international firms and corporations. The two most popular forms of investments were either portfolio investment or direct investments. Portfolio investments were the investments made in stocks, shares, bonds or other instruments offered by the foreign countries with the aim of earning higher returns on these instruments. Direct investments were aimed at gaining control of an enterprise abroad. This form of investment usually helps in the access and control of the natural resources or the strengthening of resources and abilities which the enterprise lacks or wishes to gain and strengthen its control of. The growth in international trade and investment has also led to an increase in cooperation between countries, the establishment of laws, rules and regulations, and policy frameworks that aim at the protection of and prevention of negative impacts of FDI on the host and home countries (Luo, Xue, & Han, 2010).

2.2.3 Current Status of Traditional Sources and Forms of International Investments

The rate of investment by multinational enterprises from the developed / industrialised economies such as the UK, the US and Japan into other developed and developing countries has slowed down in the last few years (UNCTAD, 2012). The global financial crisis in 2007 - 2008 in particular damaged the financial markets of these countries quite badly, affecting their investments within their own country and overseas. Charts 6 and 7 in the Appendix show the FDI inflows and outflows to and from various countries. The statistics for flows from the EU, the US and Japan between 2008 and the first quarter of 2012 (Sauvant & Ortino, 2013) show that in:

a) United States – FDI inflows decreased from US $310.0 billion to US$ 174.7 billion. FDI outflows to other countries increased slightly from US $329.1 billion to US $ 351.4 billion.

b) United Kingdom – FDI inflows decreased from US $88.7 billion to US $62.7 billion. FDI outflows to other countries rose dropped considerably from US $182.4 billion to almost half, US$ 71.8 billion.

c) Germany – FDI inflows decreased from US $8.1 billion to US $6.6 billion. FDI outflows to other countries decreased from US $72.6 billion to US$66.8 billion.

d) Japan – FDI inflows decreased massively from US $24.1 billion to US $2.1 billion. FDI outflows to other countries decreased from US $128 billion to US$122.5 billion.

Overall, there was a fall in FDI inflows among the European Union countries (as shown in Appendix A.1) from US $538.4 billion in 2008 to US $323.8 billion by the first quarter of 2012 (as shown in Appendix A.2). In respect to the FDI outflows to other countries, the figure dropped from US $977.8 billion in 2008 to almost half, US $418 billion in the first quarter of 2012. There has been a significant reduction in FDI flows from and to the EU countries following the global financial crisis, for example, the disinvestments in equity by foreign investors. The EU countries still recorded a high amount and stocks of FDI flows as compared to the other groups of countries, like the BRICs, but the fall in the figures over the last few years cannot be overlooked.

2.3 Non- Traditional / New Sources and Forms of International Investments

In the last decade, there has been a tremendous growth and development in investment that some of the emerging countries have made overseas. The investments are made not only within other BRIC or emerging countries, but also with the more developed and industrialised countries (Andrea & Fazia, 2010). Developed countries are expected to regain their economic strength in overseas investment projects, but the growing importance of the developing and BRIC countries cannot be denied or underestimated.

2.3.1 New Sources of International Investments (BRICs)

Developed and industrialized countries remain the strongest and leading source of outward FDI. A trend in investments from developing and emerging economies was seen in the 1970s from countries such as Singapore, and Hong Kong and this trend has gained momentum with the four BRIC countries undertaking major investments in foreign countries (UNCTAD, 2013b) . Outward FDI no longer remains in the hands of the powerful developed economies alone. The last decade has seen a lot of investments coming from the emerging BRIC countries. Although their share together may not be as big and comprehensive as that of the advanced developed countries, it has, however been steadily growing. Most of the outward FDI is from countries which were previously big recipients of FDI from developed countries. Countries such as Brazil, Russia, India and China have seen an increase in their volumes of outward FDI to other developing countries and also to the developed countries with positive acceptance of these investments in some countries, and concerns in others (Dunning 1988).

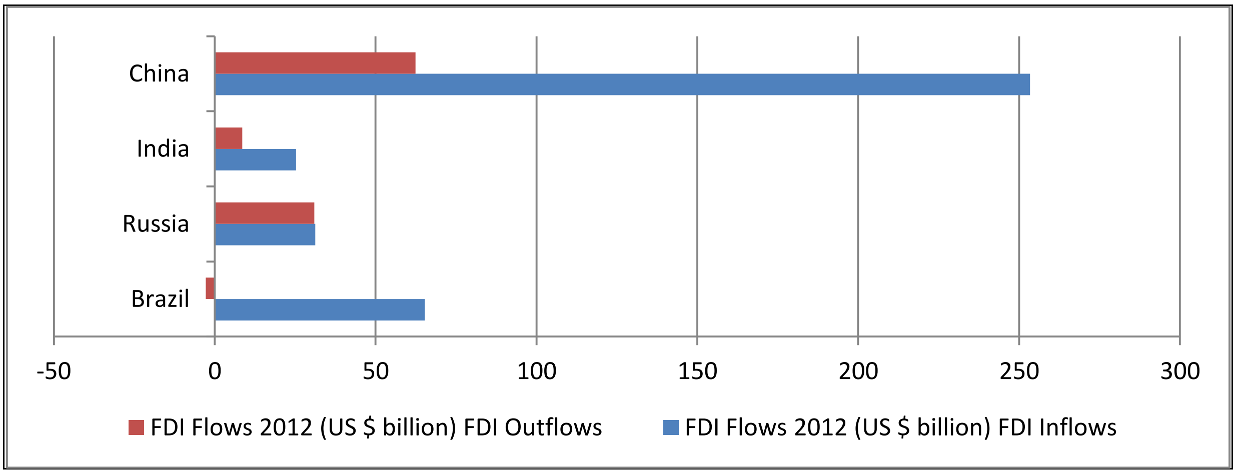


Figure 2.6: FDI Inflows and FDI Outflows by BRICS in 2012
(Source: OECD, 2013)

The above figure 2.6 shows a comparison of FDI inflows and outflows of the BRIC countries. The proportion of FDI inflows in BRICs is far more that the FDI outflows from these countries except Russia. China leads the list, followed by Russia and India. Brazil's OFDI was not as positive as it has been in the years before 2012.

2.3.2 New Forms of International Investments (SOEs, SWFs)

The operations and scale of investment by the BRIC nations in the form of private equity funds, sovereign wealth funds and state owned enterprises are focused on new investment opportunities. These enterprises are looking towards gaining exposure and entry in their portfolios with the aim of achieving greater expansion and diversification objectives along with higher returns on their investments (Hoskisson et al., 2000). Reasons for the investments focus on acquiring market share, expanding investment portfolios, to taking advantage of low cost resources. It is not only the geographical location or proximity that guides their investment decisions. The capital returns generated from these funds accumulated through trade and investment activities or other windfall gains, are recycled back into the investment channels in the form of various investment tools and instruments. The funds' operating agreement and terms may govern the amount and scale of allocation, depending on market returns and investment climate of the world economy. The state sector plays an important role in the four BRIC economies (Akbar & Samii, 2005). Enterprises may be completely owned and controlled by the state or the state has a majority interest and influence on the firms. These can act as commercial or non-commercial considerations. These firms may be present in various sectors such as agriculture, mineral resources, nuclear energy, transportation, electricity and health services (Vernon, 1979). This reflects the government's policy and strategic objectives in enterprises providing public services. The state's presence in these economies remains significant and a majority of the large SOEs of these countries are very active in international trade and operations. State enterprises are regarded as important for an economy where the private sector capital contribution may be insufficient for the economy. These SOEs may also be a more reliable way of generating and increasing government revenue and therefore regarded as a positive form of market intervention.

2.3.2a. State Owned Enterprises

State owned transnational corporations (TNCs) have been a popular and emerging source of FDI. The state sector has traditionally been oriented toward domestic markets within its national borders. State owned enterprises have evolved from traditional government owned and controlled enterprises within national boundaries, protected from international competition to enterprises with increased foreign operations and integration in international markets in the form of trade and investment (Byrd, 1983). The number of SOEs world-wide has increased from 650 in 2010 to 845 in 2012 (UNCTAD, 2013b). Most of the state owned enterprises in the BRIC economies have strong influence and control of the state in their operations. While this control and influence has provided them with immense benefits and opportunities; it has also led to widespread concerns within the global investment climate.

SOEs from the BRIC countries in the Forbes Global 2000 companies of 2011			
Country	**Forbes 2000 firms**	**SOEs**	**Share of SOEs**
Brazil	37	7	19%
Russia	23	9	39%
India	57	30	53%
China	117	70	60%
TOTAL	**234**	**116**	**49.57%**

Table 2.3: SOEs from the BRIC countries in the Forbes Global 2000 companies of 2011 (Source: OECD, 2013)

Table 2.3, derived from tables in Appendix A.3 and Appendix A.4 shows the number and share of SOEs in the Forbes list of 2000 firms in 2011. It is clear from the table that China leads the list again with a total of 70 SOEs out of the 117 Forbes listed Chinese firms. India has 30 out of a total of 57 firms, followed by Russia with 9 out of 23 and Brazil with 7 SOEs out of the 37 Forbes listed companies. Overall, almost 50% of the BRICs Forbes 2000 firms are clearly categorized as SOEs for the year 2011. These numbers are quite indicative of the extent and influence of the control and influence that the government may have on the objectives and motives of the investments.

State owned TNCs have caused a lot of concern in host countries regarding their operational and functional value and motives (Mathur & Dasgupta, 2013). These concerns typically revolve around issues of transparency, accountability, national (and strategic assets) security and fair competition between these foreign TNCs and the domestic enterprises in the host countries (UNCTAD, 2012).

2.3.2b. Sovereign Wealth Funds

Sovereign Wealth Funds (SWFs) are reserves of assets managed by a country's government directly or indirectly. The main purpose behind the creation and operation of these funds is usually governed by national and strategic objectives. These objectives may be to expand and diversify national and foreign reserves and assets (example in China and Singapore), earn and increase the return on investments or support and establish a strong reserve for future generations, especially for countries that rely extensively on natural resources (example, Russia and Kuwait). The objectives may also include a government's efforts to promote strategic and national political objectives, improve price stabilisation and industrialization (Das, 2013). Depending on the economic status and strength of an economy, the SWFs may be funded by a single or a combination of sources (Hoskisson et al., 2000). These include excess foreign exchange reserves, sale proceeds of natural resources such as oil, and other tax or revenue sources. There are almost 70 SWFs in over 40 countries, the value of which has increased from US $0.5 trillion in 2003 to over US $5 trillion in 2012 (Truman 2010; SWF Institute 2012). Analysis of the SWF rankings by assets from the SWF Institute until June 2013 (Table in Appendix A.5) show that China tops the list with US $974.3 billion (a total of the Chinese investments) in just four SWFs, followed by United Arab Emirates (UAE) with US $816.6 billion in seven SWFs, followed by US$77billion in two investments by Russia and US $5.3 billion in one SWF investment by Brazil. India is yet to introduce the funds into their economy (SWF Institute, 2013).

Despite the numerous beneficial objectives that the SWFs have, there has been increasing concern among policy makers regarding the role and motivation of SWFs in the last few years. These concerns broadly revolve around issues of financial stability, transparency and accountability, corporate governance and the role of the government (in terms of political interference and protectionism). These concerns have been widespread because a growing number of SWF investments are not just from developed countries, but increasingly from non-traditional countries such as China and Russia, in the last decade.

2.3.3 A Collective Outlook

Improved performance of the BRIC countries in their outward foreign investment patterns has led to an increase and accumulation of foreign exchange reserves in these countries (Figure 2.7).

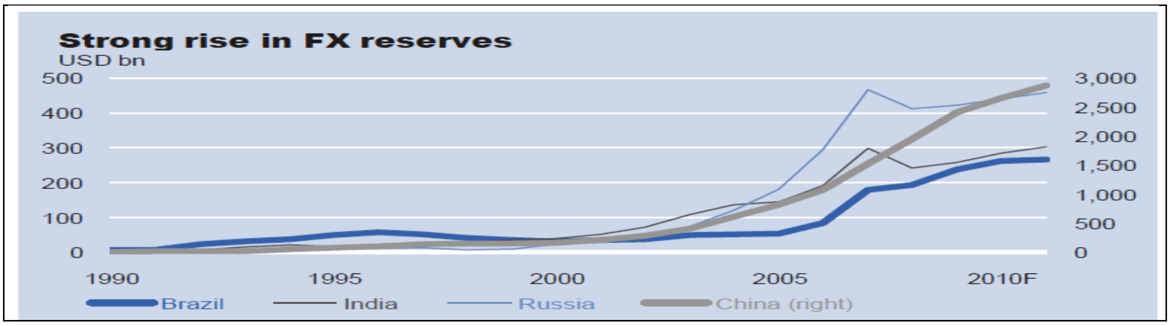
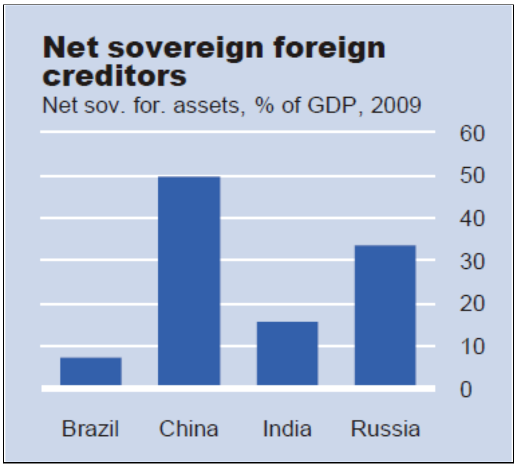


Figure 2.7: Foreign Exchange Reserves for the BRICs

Source: Deustche Bank Research (Jaeger, 2009)



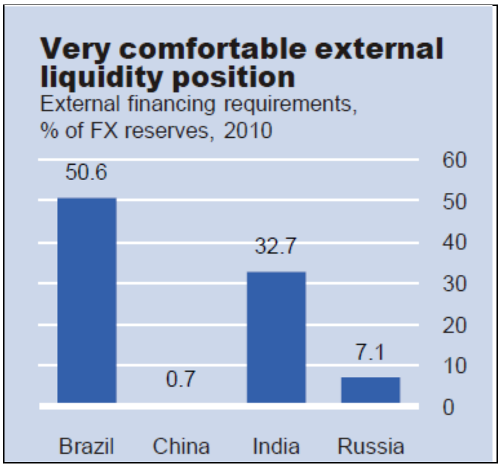


Figure 2.8: BRICs - Sovereign Assets

Figure 2.9: BRICs – Liquidity Position

Source: Jaeger, 2009 - Deustche Bank Research 2009

This situation of surplus may indicate good economic development and performance, but may cause considerable tangible financial opportunity costs in the long term. The scale and value of the SWFs in these economies vary considerably and are therefore affected differently by the economic, financial and political situations of respective economies. According to Deustche Bank Research 2009 (Jaeger, 2009), figures 2.8 and figure 2.9 show that all four BRIC countries have been net foreign (currency) creditors which give the governments of these countries a good solvency and liquidity position in their balance sheets.

The main objectives of setting up the SWFs in the BRICs have been to limit volatility in exchange rate fluctuations and therefore they actively engage in the investments of excess surpluses. However, it has been calculated that 10.1% of Brazil's GDP and 5.4% of India's GDP were lost as a result of carrying excess foreign reserves in 2009 – 2010 (Mistry, 2004). The losses could have been avoided or reduced if alternative investment options were considered. It is in cases like these, that 'excess reserves' must be invested with the likelihood of getting higher returns which to a great extent explains the setting up of the SWFs in the BRICs (except in India) with high reserve surpluses in the past few years.

Out of the four BRIC economies, Brazil, Russia and China have established proper sovereign wealth funds (SWFs), while India still continues to debate the creation and benefits of SWFs. China holds the largest foreign exchange reserves with strong and substantial investments through SWFs. The scale, size, sectors and investment strategies of the SWFs in the three economies differ from each other.

These are discussed with respect to the individual BRIC economies as follows:

2.3.3.a. Brazil: Brazil's sovereign fund was a non-commodity fund established in 2009. The main purpose of this fund is to support companies in their export activities and in the investment in projects with strategic importance within and outside Brazil. The decision on which assets to invest in is made after an evaluation of the investment grades that the assets receive from rating agencies. Compared to Russia and China, the amount of surplus for Brazil has been relatively lower in volume and value. Brazil's government created the Fundo Soberano do Brasil (FSB) in 2008 with a value of US $9 billion (Gaige, 2012). This fund will be financed with the fiscal revenues which are in excess of the primary surplus and the government is flexible on its composition. The PERVI Pension Fund (Pension Bank for Banko do Brasil staff), was established for employees working in the Bank of Brazil. Being the largest bank in the country makes this fund the largest pension fund, with the aim of providing social security benefits to employees and their dependants.

2.3.3.b. Russia: Russia is highly dependent on its natural resources and also invests in other countries' natural resource sector. This implies that Russia is highly dependent on exports of and outward investment in non-renewable and volatile (natural resource) commodities. This has led to the creation of a Stabilization Fund and a Savings Fund. Accumulating and investing foreign reserves in the stabilization fund helps when dealing with volatile commodities such as natural resources which are highly price, location and availability sensitive (Jaeger, 2009) As a result of the volatility associated with the investments, the Oil Stabilisation Fund was created in 2004 and in 2008 it was split into a Reserve Fund and National Welfare Fund. The purpose of the Reserve Fund (set up at 10% of the country's GDP) is to create and provide funds to the government in case of future fiscal deficits in the country. The National Welfare Fund was established to invest in government bonds or high risk domestic and foreign assets. The amount in this fund was reduced in 2004 from US $143 billion to US $39 in 2008, due in particular to the financial crisis. This scenario highlights the volatility of investments and the damage it can cause to a country's financial and economic growth and performance (Kalotay & Sulstarova, 2010). The Reserve Fund of the Russian federation, created in 2008 is a part of the federal budget and is aimed at managing investments and use of capital in the event of a drop in prices or insufficient availability of revenues from the oil and gas industries. This reserve will then be used to provide and maintain economic and financial support to the financial and economic systems. The main purpose of the National Wealth Fund is to co-finance the pension savings of Russian citizens in order to cover any deficits that exist or may arise in the Pension Fund of Russia. If the reserves exceed the 10% GDP limit, the excess is transferred to this fund. The SWFs in Russia do not hold any domestic or foreign state owned equity investments. The owners are big oil and gas companies like Gazprom and Roseneft. Following the recession, the tax revenue of the economy fell and the SWFs were then used to improve the country's financial system. This has led to the fast depletion of these funds to cover the budget deficits and questions have also been raised regarding the source and extent of confidence and dependability of investments in these funds (Kumar, 2007). Thus, it can be said that these funds have very successfully provided support and maintenance to Russia's financial and economic systems during the global financial crisis. It will be interesting to see the future use, regulation and maintenance of these funds in the economy.

2.3.3.c. India: Regarding the establishment of a sovereign fund for wealth accumulation, there are continuing discussions on the possibilities, future advantages and uses (Hattari & Rajan, 2010). The main argument that favours the establishment of a SWF in India is the necessity and importance of diversification of risk-adjusted portfolio management. But the argument against the establishment of the SWF is the potential inflationary pressures that will be exerted by volatility in foreign currency reserves (Sauvant, Pradhan, & Palgrave, 2010).

The Employees Provident Fund is the largest sovereign pension fund in India. There are limits set on the contribution by employees from their salaries towards these funds. The main investments by these funds are made in domestic government bonds and in meeting the debt obligations of state owned enterprises. Regarding the contribution by the employees towards this fund, it was decided to reduce the percentage contribution from 11% to 8% of salary in 2008. This is expected to increase consumer purchasing power and consumption levels which will stabilize and / or improve the economic activities in the country in times of economic crisis (Weii, 2010). In the last ten years, the economic growth of India has been averaging around 7%. This helped the government in its decision to relax and modify the economic policy in a way that would boost outward investments (Pradhan, 2010). This led to an increase in exports and high investment inflows and outflows. The Reserve Bank of India does not have the right to use the funds in foreign currency to invest in any foreign financial instruments.

2.3.3.d. China: China leads the list of countries with the highest number and volume of SWFs established among the BRIC countries. There are four main sovereign wealth funds established by the Chinese government with identifiable objectives.

- The Investment Company of State Foreign Exchange Management (SAFE) was established in 1997 and is responsible for managing the foreign reserves of China. In 2010, SAFE was ranked fourth on the list of the world's largest sovereign funds. SAFE has so far diversified its portfolio and is actively engaged in buying shares and bonds in oil companies of western countries, particularly in the form of direct investment (Kolstad & Wiig, 2012).
- The China Investment Corporation (CIC) was established in 2010 and occupies the fifth place behind China's SAFE on the list of the world's largest sovereign funds. The main source of capital for the CIC is the treasury bonds and its main purpose is to focus on efforts aimed at improving the governance of the major state-owned financial institutions, which in turn will help and support Chinese enterprises wanting to invest abroad (He & Lyles, 2008). The CIC has diversified into a lot of sectors and industries like mining, agriculture and construction, over a wide geographical area including other Asian countries, Australia, etc. CIC also acquired a 45% stake in the Russian Nobel Oil Group and more than 2% stake in the UK's private equity fund, Apax Partners. During the financial crisis, the investments were diverted away from the volatile financial sectors of the west to the natural resources sectors in Asian, other BRIC and Middle Eastern economies (Donghyun & Gemma, 2009).
- The National Social Security Fund (NSSF) is a strategic pension fund established in 2000 by the central Committee of the Communist Party and State Council (Goldstein & Pusterla,

2010). It is aimed at the providing solutions to the costs and issues relating to the aging population of China (Dierk, 2010).

- The China-Africa Development fund was established in 2007 and makes equity investments in about 27 projects in Africa with a combined value of almost US $540 million. The fund is therefore, able to make investments in stocks, convertible bonds.

China has continued to have large foreign reserve surpluses. Two main companies, SAFE Investment Company and CIC (China Investment Corporation) have been responsible for managing the foreign reserve holdings and assets. The Chinese government controls SAFE, CIC, The National Social Security Fund and other public and private sector controlled assets (Collins, 2013).

In conclusion, it can be said that out of the four BRIC economies, China has been the most important financial player, both in terms of the volume and the value of foreign reserves and asset accumulation. China’s CIC and SAFE Investment Company control a massive US $600 billion worth of outward investments made in foreign assets. The four BRIC countries have aimed at utilizing their finances and recent strong foreign reserves for socially useful economic activities. While pension funds remain the main investment in Brazil, China and Russia are operating sovereign wealth funds to manage their sovereign assets and liabilities along with broader macroeconomic objectives and requirements.

2.4 Role and Importance of BRICs (as non-traditional sources) in the new forms of international investments in outward FDI

There have been new and diverse industrial patterns of outward FDI from the emerging countries. New investors including conglomerates such as the CITIC (China), and the Reliance Group (India) have emerged as powerful new players in the extractive industries sector. The China Investment Corporation (CIC) is a good example of the scale of operations of SWFs in the BRIC countries. Outward investments by almost all four countries are governed chiefly by the state, with interest and concern shown in the natural resources sector (UNCTAD, 2011).

Examples of TNCs from BRICs:

- Over 1000 Brazilian firms invested in foreign companies in the 1990s, mostly through exports rather than direct investments. Lately, Brazil is seen to be an important source of OFDI, especially with encouragement from the Brazilian government. Companies such as Petrobras in petroleum and natural gas, Companhia Vale de Rio Doce in mining and quarrying, have been some prominent companies (Mathur & Dasgupta, 2013).
- Russia’s investments have mainly been led by large firms. Small scale enterprises generally have preferred to operate and invest in immediate regions and while large scale companies have ventured into broad and distant markets, particularly in the natural resource sector. Major investments have been undertaken by companies such as Lukoil and Gazprom in the oil and gas industries, JSC Novoship and Primorsk Shipping Corporation in shipping and Norilsk in non-ferrous metals.
- Indian software and IT firms have been the main source of investments abroad. Wipro and Infosys in the IT sector, Tata in manufacturing, Ranbaxy in pharmaceutical and ONGC-Videsh in natural resources. These are the major large companies, however small companies are opening up to invest abroad (OECD, 2013).
- China has invested abroad through its large companies, like Haier and Huawei in IT and electronics. These companies have also invested in research and development activities in India, Singapore, and the United States.

The role and importance of each of the four BRIC nations is discussed in detail in the following sections:

2.4.1 Role and Importance of Brazil

Brazil had an increase in its inward FDI stock from US $669.7 billion in 2011 to US$ 696 billion in 2012 and an increase in its outward FDI stock from US$ 202.6 billion in 2011 to US $232.8 billion in 2012 (OECD, 2013). Despite the rise in the inward and outward stock values, actual FDI inflows and outflows dropped in 2012. The Latin American region, especially Chile and Venezuela remain the most important destinations for Brazil's OFDI. Both green field investments and mergers and acquisitions are the main forms of investments. This also highlights the fact that Brazil has played a major role in the regional integration process, by linking together regional areas through investment. Brazilian firms have invested a lot in the services sector, particularly finance and business services. There have also been active investments in primary industries. For example, Petrobas leads energy investment companies and Ambev has invested in market seeking areas in the food and drink industries. The main motivation behind Brazil's firms towards outward FDI is to gain financial strength by channelling investments into a variety of locations, both regional and non-regional. The main sectors and industries are food and beverage, services and natural resource products rather than the manufacturing sector. Gaining access to foreign markets, strengthening trade and distribution networks have been the other major motives (Sauvant & Ortino, 2013).

Support is quite substantial in sectors and industries that aim at long term growth, sustainability, international competitiveness and other objectives as set up by the government in its Multiyear Plans. There are restrictions on foreign investments in sectors such as the natural resources like hydraulic power generation, rural real estate, telecommunications, media and broadcasting, telegraph and postal services (Mathur & Dasgupta, 2013)

Examples: Ambev acquired the Canadian food and drinks company John Labatt for US $7.8 billion in 2004. Quinsa acquired Argentina's Quilmes International for US $346 million in 2003. Petrobras acquired the gas service chain from Perez Compnac S.S. of Argentina for US $1 billion. The Brazilian government has been actively supporting the Brazilian firms to invest abroad, especially since the 2000s. The firms are encouraged to invest, but no major changes have been seen in the trade policy or regulations which would make the process easier. This implies that although the investment climate is changing and firms are being encouraged to invest abroad, the government has not actively promoted strong measures. The firms have been investing abroad on their own financial and operational capabilities, not relying on the government for support and guidance. Therefore an active support and growth programme by the government would facilitate and accelerate the process for the benefit of the firms as well as the economy.

2.4.2 Role and Importance of Russia

Outward FDI from Russia has been steadily rising since the 2000s. By the year 2003, the OFDI from Russia reached US $9billion dollars, showing Russia to be a strong source of investment. It was the third largest investor during 2003-2004 of the emerging economies. Among the BRIC countries, Russia's OFDI stock in the above period was 1.7 times that of China, 1.3 times that of Brazil and 11 times that of India (Mathur & Dasgupta, 2013). OFDI has been on a steady increase since then and is expected to increase with the increasing support of the government to trans nationalize and expand their operations in the overseas markets. Being a natural resource rich country, Russia's main investments are also in the natural resource sector, particularly in the energy and mining industries. Russian companies such as Lukoil, Novoship, and the Primorsk Shipping Corporation are some of the companies with a global operational network overseas. However, the value of FDI inflows to Russia and FDI outflows from Russia both fell from 2011 to 2012. The FDI inflows dropped from US $36.9 billion to US $31.3 billion; while outward FDI fell from US $48.6 billion to US $31 billion (OECD, 2013). Russian companies have usually invested in the gas, oil and petroleum industries in its immediate region of the CIS. There have also been some significant investments made in the US. But there is an emerging investment trend in services such as telecommunications in the form of green field investments. However the number of cross-border mergers and acquisitions, especially in the natural resources industries, in both developing and developed countries, are much more significant in financial and operational terms (Kalotay & Sulstarova, 2010).

The main motivation for the Russian companies to invest overseas is to escape from the bureaucratic restrictions and formalities at home. In order to be less affected by high tax rates and tough regulatory constraints, companies look toward other opportunities. Due to the high value of their natural resources, the companies are likely to improve their financial position. Increasing support from the government, privatization especially, has been welcomed by most of the business community, as this provides them the opportunity to acquire overseas assets and assist in the financial improvement of the company as well as the country.

Russian outward direct investment is largely by large companies in the natural resources sector like the oil, gas and metals sectors. In the 1990s, most of the overseas investments were made by private transnational enterprises with the aim of protecting themselves from domestic competition, price fluctuations and other business related uncertainties. This trend has changed and now more state-owned or influenced transnational companies have started to show their dominant position in Russia's outward investment with the aim of capturing and controlling markets rather than escaping domestic conditions. Natural resources sectors and industries have always been the backbone of both the inward and outward investment of Russia's private and state controlled enterprises.

The Russian government encourages but does not actively support OFDI. There are no particular policies or framework that helps the companies in their investment projects. It is because investments of such nature are not always trusted. Countries like Russia, along with the other BRIC countries, have always been considered as capital importing rather than capital exporting economies. There is a high level of capital control, in order to escape from the risk of capital flight. There are also restrictions on making investments over a set limit. For example, an approval from the Central Bank is mandatory before any inward investment above US $10 million dollars is made (Sauvant & Ortino, 2013).

Overall, the prospects of increased outward FDI from Russia are very promising. The need and desire to diversify products, operational and distribution networks, escape restrictive practices at home and improve the financial and economic structure of the country remain the prime motivators. The need to escape competition at home and target foreign markets also encourages these investments. Russian OFDI will survive and thrive largely on its natural resource sector and industries.

2.4.3 Role and Importance of India

Foreign investment transactions started in India in the 1990s with the liberalization and privatisation policies introduced by the government. India's outward FDI stock has been gradually increasing since 1999. There was a dramatic increase in investment from US $50 million dollars in 1990 to a huge US $6.6 billion by the year 2004. Most of the OFDI from India flowed to other developing and transition economies. But a large part of that investment was also targeted at Russian and the United States (Hattari & Rajan, 2010).

The main motives to invest overseas have been the desire to gain the technological, operational and managerial efficiencies in business and procedures. In the early stages, the period between 1999 and 2005, a majority of the investments were made in the manufacturing sector such as fertilizers and pharmaceuticals, etc. This trend changed around

2004 – 2005, with more investments being made in the IT and business services sector (Mathur & Dasgupta, 2013). The number and scale of investments in non – financial services (IT, software, business process services) were larger than in the manufacturing sector. This was also a strong indication of the structural shift of the Indian firms towards the services sector. Companies such as Wipro, Tata, Infosys, Daksh eservices, expanded their markets with great success in the UK and the US especially through customised business and technology services. Small scale business and IT services also started their ventures abroad, inspired by the success and achievements of large companies such as Infosys and Wipro (Sauvant et al., 2010).

During 2011 and 2012, India's FDI inflows dropped from US $36.5 billion to US $25.3 billion; outward FDI dropped from US $12.6 billion to US $8.6 billion. Despite the fall in FDI flows, the value of inward and outward FDI stocks rose. The value of FDI inward stock rose from US $206.5 billion to US$ 226.4 billion and the value of outward FDI stock rose from US $109.5 billion to US $118.2 billion (OECD, 2013).

In terms of the forms of investments, both green field investments and cross-border mergers and acquisitions have been quite popular. However, with the success of the IT and service sector companies, the number and scale of cross-border mergers and acquisitions has increased. Mergers and acquisitions are especially popular and successful for Indian companies in well-developed countries because of the financial and operational success derived from them. These transactions are not limited to a particular sector or industry. The trend is across a wide variety of industries where the focus and preference is the acquisition of majority owned foreign affiliates. Also, with an increase in the reinvested earnings forming a part of the OFDI, reliance on the home country is much less; therefore more financial strength and opportunity for expansion by the company in the overseas markets.
Competition in the domestic market and increased support and cooperation from the government has been the two prime motivators for the trans nationalization of Indian firms. In addition, the desire to and importance of accessing technological, managerial and operational knowledge and efficiency have been the other prime reasons (Kedia, Gaffney, & Clampit, 2012). Apart from the business and IT services sector, there has also been an increase in investment in the natural resources sector in Russia, Australia and other parts of Central and West Asia. The focus on natural resources is also to meet demand at home. With liberalization policies introduced in the 1990s, the onus is on the firms themselves to

establish their own portfolio of assets overseas instead of relying on the government or policies to support them directly. The increase in the number of mergers and acquisitions also signifies the importance of establishing and strengthening their research and developmental activities and brand names overseas. For example, Tata Tea's acquisition of UK's Tetley Tea, Wipro's acquisition of Nerve Wire of the US and other similar acquisitions also highlight that these kinds of transactions are spread across a variety of industries and sectors.

The distinguishing feature of Indian multinational companies venturing abroad is that they are led by private entrepreneurs (Gammeltoft, 2007) to achieve their vision of growing and strengthening their strategic assets, competencies and capabilities globally. The Indian economy's growth, led by the Indian multi-national enterprises, strongly demonstrates that increasing and building on a firms' capabilities and competencies takes the utmost priority, before any major plans and steps are taken towards increasing the size and scale of operations in the international markets (Kumar, 2007).

The government of India has been actively encouraging and supporting Indian firms to establish and strengthen their operations abroad. There have been a large number of policy and structural changes introduced by the government to support outward investments by Indian companies. For example, there has been a reduction in the number and scale of regulatory requirements that limit overseas investments made abroad. There has been a reduction in the trade and operational barriers between India and investment countries (Sauvant et al., 2010). An increase in the number and flexibility of special economic zones and other trade agreements have been vital and immensely successful for the success of the companies abroad, a success and support to the pharmaceutical industry especially (Bhaumik & Driffield, 2011). It is worth noting that agricultural investments and investments in joint ventures or wholly-owned subsidiaries have emerged since 2003-2004. OFDI from India has very strong prospects for growth in the future. The desire of Indian enterprises to develop and excel in terms of competitiveness, profitability and market share has encouraged a high number of firms to venture into foreign markets and trans nationalize their activities. Active encouragement and support from the government is a prime factor in the high performance of outward FDI from India.

2.4.4 Role and Importance of China

China has been the most prominent investor, particularly in developing countries in the last decade. China's OFDI flows rose from US $2.9 billion in 2003 to US $62.4 billion in 2012

(OECD, 2013). More than 2000 Chinese firms have invested in almost 150 countries with over 5000 foreign affiliates. Most of this investment has gone into developing countries across a variety of sectors. The investments are made in the natural resources, service, mining and energy-related industries. The investments are mostly within the Asia region, most likely due to similarities and close relationships between Asian countries (Kolstad & Wiig, 2012). Investments are also increasing in developed countries, particularly the US and Australia. Mergers and acquisitions seem to be preferred to green field investments, particularly in the oil and mining sector. There has been an increase in cross border mergers and acquisitions in the manufacturing and services sector as well, especially in the immediate Asia region. The main reasons for Chinese companies to invest abroad are growing competition in the home market and strong financial reserves. Like India, China is also concentrating on acquiring technological and managerial knowledge, and also strengthening its distribution channels and increasing market share. For example, IBM's personal computer division, acquired by Lenovo worth US $1.75 billion, has been one of the most significant and major acquisition made. There is also an increasing number of joint ventures taking place between China and countries like Germany, France, India, Thailand, etc. It is worth noting that most of the investments in the natural resources sector in other countries have been led by state owned enterprises. The main targets are markets like Africa, Asia, Latin America and Australia. The investment is in a broad range of products including oil, gas, minerals, etc. For example, firms such as China National Cereals and Oils and Foodstuffs Corporation (COFCO) have invested in countries such as the African continent, Sudan, Russia, and Venezuela (Lian & Ma, 2011). There has been an increase in the demand for these resources due to the increasing demand at home. Tough and competitive market conditions at home are also a strong motivator for these companies to invest abroad (He & Lyles, 2008). Chinese companies are also transferring operations and activities of some mature industries and low-tech industries to cheaper locations such as bicycle production set up in Ghana. China's government has been actively supporting and encouraging companies to expand their operations in the international market. Outward FDI from China started in the early 1980s and was very slow and limited. It received a major boost in 2000 with China's 'Go Global Policy', encouraging companies to venture abroad. Efforts were made to increase both inward and outward OFDI to increase and enhance international competitiveness. There were a lot of significant policy changes and improvements targeting increased overseas investments. For example, strengthening investment cooperation in terms of resource development, engineering and agricultural projects, labour services and research and development with other countries has been the prime focus of the policies. There have been a number of changes resulting in relaxed, less stringent and more favourable trade and foreign exchange controls. The provincial authorities have been allocated more power to approve a higher ceiling of investments in the natural resources and the non-natural resources sectors. For example, the number of investment destinations requiring the Ministry of Commerce's approval reduced from 30 to just seven, and commercial banks now provide preferential interest rates to firms investing abroad (Mathur & Dasgupta, 2013). Various seminars and information provision services have been actively provided by the government to help companies conduct their feasibility and profitability studies in their preferred country of investment. This helps the interested companies to analyse recent trends and potential opportunities and risks that they may encounter both in their home country (if any, and to what extent) and in the destination country.

China was successful in accumulating over US $2.65 trillion worth of foreign reserves by 2010 and the amount continues to grow by as much as US $500 billion every year. The Chinese government has made efforts to invest in high-yielding assets. The initial investments made by the CIC, particularly in the developed European markets, led to high losses due to the financial crisis.

With such support from the government, an increasing number of large and small scale companies, in the private and public sector and in a diverse range of industries are getting involved in overseas investments. It is important to note that the Chinese government has signed a number of bilateral treaties and other trade agreements with developing and developed countries. China has been the only country among BRIC group of nations whose FDI inflows and outflows increased between 2011 and 2012. Outward FDI increased from US $43 billion in 2011 to US $62.4 billion in 2012 (OECD, 2013). Therefore, it does not come as a surprise that a large number of investment promotion agencies consider China as the most lucrative and preferred source (and destination) for investment (UNCTAD, 2011).

2.5 Summary of OFDI pattern from BRICs

The above discussion of outward FDI and of BRIC countries shows the changing trends in investment over the last few decades. Contribution in the form of OFDI has significantly increased with a trend visible in different sectors, composition and destination from these four countries. The table 2.4 below summarises the main characteristics of the outward FDI from each of the BRIC countries. Across the four countries, the common thread that binds the pattern of outward FDI from the BRIC countries is the desire and motivation to expand and excel in international operations and markets. Competition in the domestic market is also encouraging these countries and their companies to explore and invest overseas. This helps to improve the international competitiveness of the national firms leading to better economic performance. Increased OFDI from these economies over the past years has definitely made their integration into the wider world easier and more successful.

The investments are not limited to a particular sector of industries or a particular form of investment. Both private and state owned enterprises are increasingly engaging in overseas investments both as green field investment projects and cross-border mergers and acquisitions. The governments, especially those of China and India, realizing the massive potential that companies have provided are giving adequate support and encouragement. Lessons from the developed world can be learnt and implemented so as to capitalize on the opportunities that can be targeted and used from increasing and enhancing improvements to companies as well as the overall financial and economic improvement of the economy.

Summary of Investment Trends from BRICs				
Characteristics	**Brazil**	**Russia**	**India**	**China**
2011 Inward Stock	US$669.7 billion	US$457.5 billion	US$206.5 billion	US $1804.2 billion
2011 Outward Stock	US$202.6 billion	US$362.1 billion	US$109.5 billion	US $364.2 billion
2011 FDI Inflows	US $66.7 billion	US $36.9 billion	US $36.5 billion	US $28.6 billion
2011 FDI Outflows	US $-1.0 billion	$48.6 billion	US $12.6 billion	US $43.0 billion
Sectors	Energy, Mining, Services	Resource Extraction (oil, gas, metal), Manufacturing, Telecom	Pharmaceuticals, Agricultural Inputs, Manufacturing, Software & IT Services, Broadcasting	Trade, Services, Manufacturing, IT, Resource Extraction (oil, gas, minerals)
Main Recipients	Latin America, US, UK, Portugal	European Union, CIS, US	US, Russia, Southeast Asia, Sri Lanka, UK	US, Hong Kong, Japan, Australia, Germany
Example TNCs	Petrobras, Odebrecht, Embraer	Lukoil, JSC, Norilsk, Nickel, Novoship Co.	Ranbaxy, Wipro, Infosys, Videsh	China Ocean Shipping Group, CNOOC, Oil & foodstuffs Corporation, Lenovo
GDP Growth Rate p.a. (2005-2011)	4%	4.2%	8.1%	11%
State of the New Forms of Investments	SWFs more popular	SWFs and SOEs more popular	SOEs popular	SOEs highly popular, followed by SWFs
Established Funds	PERVI Pension Fund, Fundo Soberano do Brasil	National Welfare Fund, Reserve Fund, Oil Stabilisation Fund	Employee Provident Fund, SWFs have not been established yet	National Social Security Fund, China-Africa Development Fund (SAFE and CIC – companies)
No. of SOEs & share (%) in the Forbes Global 2000 list in 2011	7 SOEs with 19% share	9 SOEs with 39% share	30 SOEs with 53% share	70 SOEs with 60% share
Regulations on Foreign Entry / Ownership (Yongchang, 2013)	Agriculture, Broadcasting and Media, Defence, Financial Services, Real estate, Telecom, Air Transport	Agriculture, Broadcasting and Media, Defence, Financial Services, Natural Resources, Telecom, Air Transport	Agriculture, Broadcasting and Media, Defence, Financial Services, Natural Resources, Real estate, Telecom, Air Transport	Agriculture, Broadcasting and Media, Energy, Financial Services, Natural Resources, Legal Services, Real estate, Telecom, Air Transport
Policy Responses between 2008 and 2011	Restrictions in agriculture, liberalization in telecom	More restrictions in the Media and Broadcasting sectors	Liberalisation in transportation and telecommunications sector	Media and Broadcasting sectors liberalized, real estate (excluding agriculture) restricted

Table 2.4: Summary of Investment Trends from BRICs

CHAPTER 3: CONCERNS AND POLICY RESPONSES

3.1 Concerns relating to new International Investments

State owned enterprises have been an important and integral element of most advanced economies, and now of the emerging economies. For example, the influence and control exercised by the Chinese state in their operations has attracted considerable interest and concern in the business and investment community worldwide. The SOEs are among the largest and fastest expanding multinational companies, especially in countries such as China and Russia (Goldstein & Pusterla, 2010). They compete with the host countries' domestic firms for access and control over resources, market share, technical, managerial and operational competencies. This has necessitated the need for implementation of negotiations and stricter national and international policies and mechanisms in regard to investment and the accounting practices used to provide more clarity of intention behind the intended investments.

State Controlled Enterprises (SCEs) comprising both Sovereign Wealth Funds (SWFs) and State Owned Enterprises (SOEs). The concern regarding the SCEs arises from the issues relating to accountability, transparency, preferential treatment and competitive advantage. The state controlled enterprises have gained significance because of high economic growth rates and strong trade balances in these economies over the past few years. These enterprises operate as separate entities established and run by the government to meet goals set up by the government (Wang, Hong, Kafouros, & Wright, 2012). The China Investment Corporation (CIC) is a very good example of this scenario. Due to the involvement of the state government, the state controlled enterprises are believed to enjoy benefits and preferential treatment that may be unavailable to the private enterprises and so the degree to which they benefit the host country and not the home country alone has been questioned (Morck, Yeung, & Zhao, 2008)

3.1.1 Concerns in Academic Literature

The new forms of investments from the emerging BRIC economies, particularly in the form of SWFs and SOEs have been widely researched and have pointed up concerns and criticism from host countries and the business, policy and political fraternity. Concerns get deeper and invite policy changes and reforms when potential investment fails to satisfy the general economic framework of the host country or provide a clear and transparent process for its motives and objectives (Travis, 2007). Both forms of investment are believed to have a negative influence by the home country (investor) conditions (Porter, 1990). There is evidence that the characteristics of host country businesses are an outgrowth of the home country economic environment. Investments are considered to be influenced and shaped by home country values and objectives (Nachum, 2003). Issues such as an absence of a market economy, low environmental standards, and poor human rights have been pointed to in the emerging and transition economies. Concerns such as poor public accountability, lack of political democracy, excessive reliance on state / government support measures and policies have been considered as distortionary concerns by developed countries (Waldkirch, 2011). However, it must be kept in mind that in case of market seeking investments, the priority will be on the host country values. It is likely that the emphasis of resource seeking investments will be on the home country values and objectives. The amount of information made available by the SWFs and the SOEs has been always an area of concern. Issues relating to investment objectives, investment strategies, and the degree of control exercised in the operation of the particular firm need to be transparent and clearly stated so as to avoid confusion and speculation regarding the credibility of the investment project (Truman, 2007). Concerns have also been raised regarding the involvement of the state controlled enterprises in particular, in holding shares and unprofitable positions in overseas ventures over a long period of time. This increases the likelihood of the enterprises enjoying economies of scale and gaining returns on the investments in the long run, but with little or no consideration to the short term goals of the investment projects (Shapiro & Globerman, 2002). The link between the investment projects and the state or the government raises questions about the investment's real objectives. The concern is that the state controlled enterprises may aim at pursuing and gaining political and strategic controls and not pursuing the stated goal of wealth maximization for these host countries. For example, the Chinese telecom company Huawei was denied access to a project because of suspected links and close relations with the Chinese state with potentially undisclosed objectives.

3.1.2 Concerns in Policy Literature

There have been several concerns raised in regard to the new forms of investments. These concerns cannot be overlooked and appropriate policy measures and action must be taken to resolve them and increase the confidence of both the home and the host country towards the intended investment. These concerns can lead to complex situations in the financial and investment markets because earnings from portfolio investments are quite likely to be related with the macro economic and financial indicators of an economy. For example, the amount of foreign reserves held, the amount of investment made, the particular sectors and industries in which investments are made, exchange rates, and interest rates are likely to be affected (Donghyun & Gemma, 2009). High levels of foreign exchange may provide a suitable credit solvency position and subsequent investments in the forms of sovereign wealth funds, but does not guarantee against financial losses in the markets.

The concerns specific to the SWFs and the SOEs are discussed as follows:

3.1.2.a SWFs: In the case of SWFs, concerns in regard to the kind and level of interest in the host country's assets expressed through these investments are quite high. For example, countries with strong natural resources feel threatened by excessive investments through SWFs because of the risk of losing control of their strategic assets. For example, the attempted acquisition of the Auckland International Airport by the Canada Pension Plan Investment Board in 2008 led to concerns regarding the value, credibility and state involvement and support in acquiring a nation's (New Zealand's) asset of strategic importance (Enderwick & Nagar, 2012). Another concern related to the kind of firms that are targeted by SWFs and the level and kind of technical, managerial and operational experience that these SWFs possess. If there is inadequate knowledge in the above areas, the investment may prove to be risky and non-profitable. Excessive influence of the home country's government may lead the investment being governed by the home country's investment objectives, which may be of little or no significant benefit to the host country. There are also concerns regarding their stability in extreme economic and financial conditions such as the global financial crisis in 2007, their operation and management in countries such as Vietnam and Papua New Guinea under conditions of weak governance and mismanagement practices (Truman, 2011).

It can therefore be said that the overall concerns relating to SWF investments can be broadly seen as the mismanagement of SWF investments with economic and / or financial losses to the host country, political or economic power objectives (or both) by the source of the SWF investment, concerns relating to financial protectionism, the uncertainties and the potential of market performance risks associated with SWF activities and conflicts relating to regulatory treatment and behaviour between the home countries (countries with SWFs) and the host countries in which they invest (Wang et al., 2012).

3.1.2.b. SOEs: In regards to the state owned enterprises, they are closely linked to strong government control and management. This leads to the worry that they are being operated for non-commercial goals, with limited or no benefit to the host country. There is also evidence that operations in the host country are influenced by the operations, features and processes of their home countries (Porter 1990; Nachum 2003). For example, China's 'Go Global' policy in 2000 led to a number of governments considering this as a potential Chinese instrument seeking control of the markets and supplies of (natural) resource sectors such as oil, gas, minerals, etc. This has also been considered a strategic move by the Chinese government to control foreign resources to strengthen their asset value. The rejection of Chinese investment offers by Australia and North America also point toward the potential threat that these governments felt from strategically-driven Chinese governments' objectives (Scissors, 2011).

It must, however, be noted that governments may support and facilitate overseas entry by their SOE's to attract investments into high risk activities and projects by reducing the political risks and offering extra subsidies to the interested enterprises. The SOEs are considered to enjoy advantages and benefits exclusively due to their ownership status. As they are state controlled, their probability of being successful in international markets to achieve their home country's government objectives becomes more likely. This is the basis for the argument for 'competitive neutrality' within the public sector (Mathur & Dasgupta, 2013). The term 'competitive neutrality' refers to the design and creation of a legal and regulatory environment to ensure all public and private enterprises are subject to the same rules and regulations, and that no one sector gets any unjustified advantages or preferential treatment. It was reported that Chinese firms with state affiliation possessed stronger technical knowledge and capabilities as compared to purely domestic enterprises (Wang et al., 2012). A stronger affiliation also made the internationalization process for the firms much easier.

3.1.2.c. Other concerns relate to the state's support of the SOEs having a significant impact on the the firms' competitiveness. There are incentives and benefits in the form of low credit and finance options, more subsidies with capital costs lower than market rates and the provision of state guarantees. Different taxation rules between state and private businesses may enable SOEs to extend and carry their losses for a longer period of time, thereby increasing the chances of higher profitability and survival in the long run (Pradhan, 2010). Moreover, there may be favourable provisions of critical infrastructure and other resources to the state owned enterprises which help them lower their costs, increase profitability and beat competition (Waldkirch, 2011). There may be a provision or arrangement to access and provide commercially valuable information relating to risk and opportunity environments and assessments of the domestic and overseas markets which may help them make potentially profitable decisions.

With the equity of an SOE in government control, the firm receives a structural advantage in the form of reduced threat of takeover or transfer of ownership or control in case of adverse financial condition. Lack of direct competition and advantages in the form of several subsidies and preferential provisions may lead these enterprises to enter into anti-competitive practices with less fear of falling market share values (Goldstein, 2007). These enterprises may also aim at non-commercial objectives since wealth maximization may not always be the prime objective of the state in running these firms. Because of the level of government control in the ownership and management structure of these firms, there may be preferential or biased selections in the composition of the management. The existence of the 'third agency problem' further complicates and brings into question the transparency, accountability and credibility of the operations. This is because the public, the ultimate owners of the SOEs, can only vote for a change indirectly through national elections, which may not be very transparent and effective (Topal, 2012).

In the BRIC economies, the focus of the SOEs is to promote and enhance economic developmental objectives and activities. SOEs are used as instruments for industrial and developmental policies, particularly for technologies and capabilities which are deemed to be of major and significant national interest. These may be supported by government funded initiatives focussing on economic growth and development such as in South Korea and Taiwan (Juan & Fernando, 2001). Furthermore, issues such as incomplete, weak or underdeveloped market structures lead to the development of distinct conglomerate or multi-product forms and therefore even further reliance on government support and incentives (Khanna & Yafeh, 2007).

On the positive front, SOEs may be considered strong and powerful tools which foster economic growth and financial improvement when private firms struggle or are unable or unwilling to support the objectives of economic growth.

3.2 Policy Responses to Concerns

Due to the concerns and controversies regarding the economic and financial benefits of overseas investments in the form of SWFs and SOEs, policymakers of individual countries as well as overall governing bodies seek multilateral solutions to address these concerns (Kolstad & Wiig, 2012). This involves participation and decision making of multilateral institutions such as the IMF (International Monetary Fund), World Bank, and OECD. For example, in 2007, Truman's 'SWF scoreboard' suggested the development and implementation of standard rules governing SWF investments. This included a voluntary set of international best practices in accountability and transparency for the SWFs. This led to the formulation of the Santiago Principles for SWFs, agreed by the International Working Group (IWG) on SWFs. The International Forum of Sovereign Wealth Funds (IFSWF) is the successor body of the IWG, working on implementation of the Santiago Principles (Rasiah, Gammeltoft, & Jiang, 2010).

Overseas investment liberalization and promotion have been a strong element in the investment policies of many countries in the last five to ten years. The FDI policies need to be synchronized and work along with national and international industrial policies (UNCTAD, 2010). The ultimate aim in the interaction of the policies is for them to work in coordination with each other, so as to focus on the objective of an economy's growth and development. The investment landscape, particularly foreign investments, is largely affected by the corporate social responsibility guidelines and standards. National and international policies can aim and achieve maximum benefit for the countries' economies by harmonizing and integrating standards, practices and policies that aim at developmental objectives (UNCTAD, 2011).

3.2.1 Policy Responses in Literature

The amount and level of international investment by state controlled enterprises have increased significantly in the last few years and is likely to increase in the future as well. These investments are important for the home country and hold greater significance for the host country, (whether in developed or developing countries). It is therefore important for the participants involved, especially the host country, to review, meet and adopt policy measures that are in the best interests for their economy but do not hinder investment projects from other countries (Dunning & Narula, 2004). Similarly, a home country enterprise may feel a lot of resistance from a country that is potentially a great investment destination. The policies and actions in the host and the home countries, therefore, must provide for the concerns and challenges raised and supply an appropriate course of action that is mutually beneficial but not harmful or threatening to the economy of any country (Lian & Ma, 2011). These policy responses by the host and the home countries are discussed as follows:

3.2.1.a Policy Responses by the Host Country: The following policy measures implemented in combination with each other will provide significant support and encouragement to the host countries in dealing with state controlled investments:

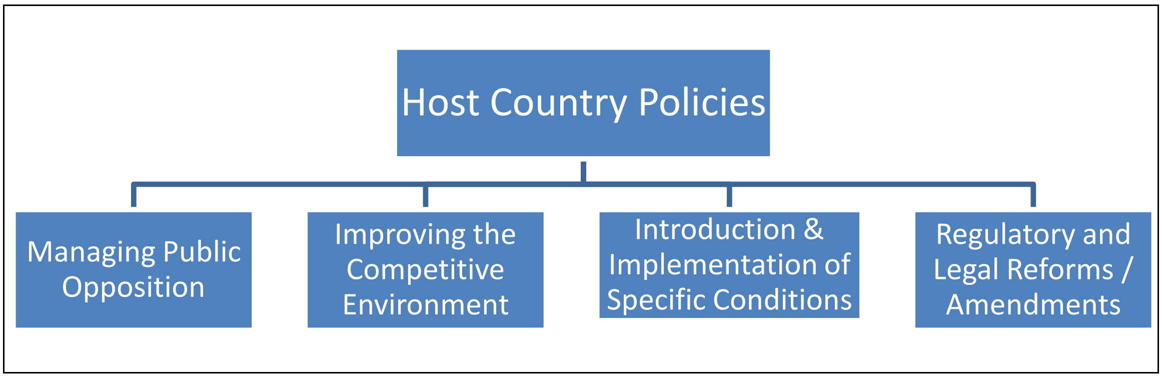


Figure 3.1: Policy Responses by Host Countries

1. *Managing Public Opposition* –The state controlled enterprises are a non-traditional / new form of investment, especially from non-traditional BRIC or other emerging economies. This leads to the debate on the credibility and the effectiveness of these investments (Aykut & Ratha, 2004). A public relations project or campaign aimed at showing the advantages and significance of investments from these sources and in these forms may help in combatting a certain level of opposition. The aim is not to favour one form of control (state control) over another (private control) (Mathur &

Dasgupta, 2013), rather it is to explain and emphasize that mixed types of controls are mutually beneficial – for the firm and the economy in the long run (Jain, 2006). For example, the Brazilian Development Bank managed its comprehensive privatisation programme and its minority stakes in a lot of companies very successfully. This helped to tackle public opposition because of the effectiveness of running two different models with a mix of private, state and foreign ownership (Mathur & Dasgupta, 2013) and reducing concerns about the ill effects of just one form of ownership model.

2. *Improving the Competitive Environment*–The host country may implement policies to accept the entry of state controlled enterprises and create an open competitive environment which aims at minimizing any competitive advantages that these SCEs may possess (Das, 2013). This implies that the SCEs will behave in the same way as a private enterprise and therefore be unable to take any advantage bestowed on them by their own state government. This will make market competition fair and open, and improve the levels of trust and transparency in these enterprises. For example, the dominant market position and advantages enjoyed by Gazprom, the Russian state controlled oil company, were responded to in the US by developing countervailing advantages through shale gas production (Kalotay & Sulstarova, 2010).
3. *Introduction of Specific Conditions* – This policy measure aims at introducing a specific set of conditions that the SCEs must meet before an approval for investment in the host country is granted. This means that, along with the criteria of meeting the set conditions to obtain approval, there will be additional conditions related to the standard conditions. This may help in the fulfilment of certain procedures or criteria that may make the SCEs more transparent and accountable in their operations. For example, the approval for investment by a Chinese company in New Zealand dairy farms (Crafar farms) in 2011 was subject to the normal conditions and process plus an additional 27 conditions (Enderwick & Nagar, 2012).
4. *Regulatory and Legal Amendments* – The existing regulatory and legal framework may not be adequate to maintain the security of the enterprises and the host economy from the SCE investments. This calls for additional, stronger and tighter regulations. For instance, in the case of Germany and the US, investment frameworks, guidelines, trade and policy laws and regulations have been tightened (Gaige, 2012).

3.2.1.b Policy Responses by the Home Country: It is important to focus on the policy changes and reforms implemented by the home country, as fair, clear and credible investment policies in the home country help to reduce concerns that host countries may have (UNCTAD, 2011). This is important as these host countries are potential investment destinations by SCEs from these home countries.

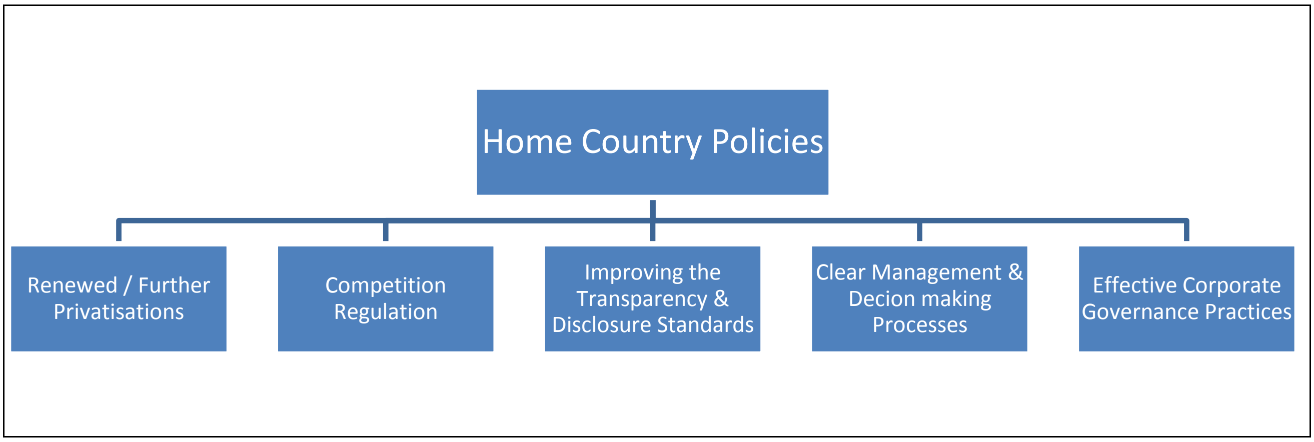


Figure 3.2: Policy Responses by the Home Country

1. *Privatisation*– Efforts towards partial privatisation of the enterprises interested in international investments from the emerging countries may boost the host country's confidence. Renewed privatisation measures would make the state controlled enterprises move closer to the private sector profile (Wang et al., 2012). This may be a difficult process and may face some degree of resistance from countries such as China, where the state maintains a strong control over the enterprises, but an enhanced effort and measures towards this objective can lead to a reduced, if not a complete removal of some unique advantages the SCEs otherwise enjoy. It must however be noted that it does not guarantee complete elimination of state control. For example, in the BRIC countries, particularly China and Russia, there is a strong ideological commitment towards the involvement of the state / government (Rasiah, et al., 2010).
2. *Competition Regulation*–This strategy will aim to ensure that the SCEs operate within the same policies and regulations and competitive environment as do other private firms in that particular sector or industry. It is therefore essential that the home country has procedures and policies that regulate the competitive environment for firms wanting to invest in other countries (UNCTAD, 2010). The challenge to introducing effective regulation is that competition regulation policies may conflict

with a particular sector or industry. Most of the SCEs are found in strategic sectors like natural resources (in China, Russia and Brazil) with a focus on social goals such as employment generation, income distribution and economic development (Hoskisson et al., 2000). Pushing these enterprises and goals closer to the profile of private enterprises may mean that the social goals may have to be compromised to attain profit maximization and wealth maximisation objectives. Therefore a strict enforcement of competition policy is likely to cause some conflicts with the real objectives of the state controlled enterprises. For example, during the global financial crisis in 2007, most developed world governments felt that the social welfare advantages in bailing out banks and some financial institutions outweighed the advantages of adhering to strict competitive regulation practices (Topal, 2012). It is situations like these where an evaluation of whether to stay state controlled and the degree of competition regulation in a sector needs to be decided and implemented.

3. *Transparency & Disclosure*–Another response that the home country can provide is to improve and strengthen the standards and policies on accuracy, fairness and transparency of the workings of the SCEs. SCEs do not always pursue commercial profit-governed objectives (UNCTAD, 2011). It is essential therefore for these enterprises to clearly state their non – commercial objectives and any special benefits (such as subsidies, financing benefits, etc.) that they may be entitled to or are enjoying. The state should be careful in its role of managing its share of the SCEs and playing its political role in running the economy, independent of these SCEs.
4. *Management & Decision making* – There should be an open, clear and competitive market for the selection and hiring of the managerial personnel for the SCEs. The same will apply when deciding on the appointment of an independent and accountable board of directors and other stakeholders to the enterprises (Scissors, 2011). By moving the recruitment, management and decision making process away from the structure of a public sector model, by the employment of independent accountable management positions, the public will have a different image of the working and running of the enterprise.
5. *Corporate Governance* –As pointed out above, it is very important for the state controlled enterprises to identify and state the differences between their commercial and non-commercial objectives. The non-commercial objectives should not be compromised in favour of goals like profit maximization, but following sound corporate governance practices such as clear management structures, appointment of

independent professional managers, etc. will ensure that these SCEs do not enjoy any unjustifiable or extreme benefits or advantages. When the goals are governed by principles of information disclosure and fair practice, confidence in the working and operations of the enterprises is likely to rise (Sauvant & Ortino, 2013.

It is important to note that reforms and policies implemented by the host country or the home country cannot be carried out in isolation from each other (UNCTAD 2012). These will need to be used in combination with the other policy measures so that these may be more meaningful and effective than using or implementing just one measure by itself.

In conclusion, it can be said that the increase in the role, significance, importance and influence that SCEs as new forms of international investments have in their home country are likely to generate distrust in the host country and this cannot be undermined. The state controlled enterprises are playing an increasingly important role in international investment. As discussed above, the activities of the SCEs do create concerns and challenges in both the host and the home country. Effective reforms and policy responses are therefore essential in mitigating these concerns and assuring the involved enterprises and economies that operations carried out across their borders are for mutual benefit. These reforms and policy changes cannot be created or implemented independently. They have to take into account the conditions in the other countries involved and a combination of national, international, financial and economic policy measures may be used to ensure this.

3.2.2 Overview of Policy Responses by Different Countries

Between 2008 and 2013, there have been many rules, regulations, policies, barriers and restrictions that have either been introduced, increased or reduced by various countries (OECD, 2013). With concerns relating to the new forms and sources of international investments, some countries have directly engaged and implemented policies that actively support or restrict these new investments. Both, the advanced and developing countries have modified, removed or implemented policies relating to investments in light of the impact and repercussions of the global financial crisis. For example, while India and China have amended their policies concentrating on further liberalisation, Brazil and Argentina have concentrated on protecting their home economies and have therefore increased restrictions in the policies. Also, while some countries have made these changes in restriction or liberalisation in some sectors or industries, others have implemented the changes over all industries.

Some examples of the changes, implemented in particular sectors are as follows:

Sector	Country	Restricted	Liberalized
Real Estate(excluding agricultural land)	Australia, China	✔	
	Korea, Mexico, Turkey		✔
Agriculture	Argentina, Brazil	✔	
	India, New Zealand		✔
Natural Resources	Argentina, Canada, Indonesia	✔	
	Iceland		✔
Media & Broadcasting	Russia	✔	
	China, India, Turkey		✔
Transport	Australia, Canada, India		
Tele-communications	Brazil, Canada, India		✔

Table 3.1: Policy Responses in regards to different sectors
(Source: OECD, 2013)

An overall evaluation of the policy changes made (restricted or liberalized) among some major countries shows that liberalisation has been the major trend across countries (developing and advanced). The natural resources sector considered by most countries as of strategic and immense national importance has invited stricter regulations for investments while telecommunications, media and real estate (excluding agricultural land) has invited and welcomed liberalized policies.

Policy measures relating to national security, assets of strategic national, financial and economic importance received considerable attention and concern following the global financial crisis. Countries such as Finland and Italy replaced their existing policy mechanisms for screening inward investments, while Germany introduced additional guidelines and criteria. New Zealand, France and Russia modified the scope of the policies applicable to investments by foreign firms, including stricter evaluation checklists (UNCTAD, 2011).

3.2.3 Policy Responses by BRIC countries

The policy responses by the four BRIC nations have been quite different from each other. India and China have encouraged enterprises to venture into foreign operations, with considerable impact and influence on the domestic and international policy framework (UNCTAD, 2012). For example, the Chinese government has strongly encouraged and implemented the 'Go Global' policy to take advantage of global resources, technology and know-how. It is important to note the impact that stricter FDI regulations (sometimes these regulations are not very welcome) have on the state controlled enterprises especially in big countries like China. The increase in FDI protectionism makes it difficult for the MNEs or alternative investment instruments to expand their international operations and in some cases may even discourage them (OECD, 2013).

The policies implemented in the four BRIC countries relating to foreign direct investment are discussed as follows:

- **Brazil** – Brazil and some other countries of Latin America have concentrated on the implementation of tighter and restrictive policies towards capital flows (Amighini & Rabellotti, 2010). This implies that some aspects of foreign investment to and from Brazil involve a higher level of restriction. In September 2009, the limit on foreign investment in the state owned Banco do Brasil was raised from 12.5% to 20%. On 19th October 2009, a 2% levy was imposed on portfolio investments by non-residents in stocks and other investment instruments. This measure was taken after the global financial crisis with the objective of preventing strong capital inflows that may cause price bubbles in the price of assets (OECD, 2013).
- **Russia** – In November 2011, investment in the media and broadcasting sector was made more restrictive and difficult for foreign investors. Foreign controlled entities could neither establish nor own over 50% of media or broadcasting in a territory with major population occupancy. In December 2011, the amendments to the Federal Law relaxed and simplified foreign ownership in certain sectors, also including some strategic sectors such as exploration and extraction of minerals. In order to broaden the areas and industries where foreign investment will be allowed or increased, certain sectors were no longer in the classified as strategic industries (Kalotay & Sulstarova, 2010).

- **India** – India has implemented a lot of policies relating to foreign investment. The main aim has been to liberalise sectors and industries to the maximum extent possible. Efforts were also directed toward improving accountability and transparency issues relating to capital flows (Sauvant et al., 2010). In May 2010, FDI in the tobacco industry and its related sub-industries and substitutes was completely prohibited in order to protect exploitation of the local market. In April 2011, further liberalisation policy measures, allowing foreign companies operating through joint ventures or other agreements to set up new units in the same business without seeking approval from the government or the local partner were introduced. In July 2011, FDI investment level in the radio broadcasting services was increased from 20% to 26%. On 28th March 2012, the Reserve Bank of India made amendments to the policies governing outward FDI by Indian enterprises to grant more flexibility for their operations in foreign markets (in both the developed and developing countries) (OECD, 2013).

- **China**–There have been concerns for investments made by Chinese state owned enterprises in other economies. In March 2009, the authority for decisions relating to the review, analysis and evaluation of investment proposals was delegated to even lower levels of the government (Lian & Ma, 2011). A circular announced by SAFE and the People's Bank of China endeavours to expand the settlement of outward FDI not just by Chinese MNEs, but also by individuals in other economies.

The challenges for home country policies in these BRIC economies is the creation of a policy framework that supports domestic firms and protects them from excessive competition. This will help firms to increase their competitiveness and knowledge, enabling them to successfully compete in the global market. The scope of the policies and action plans by the governments of these economies should not be constrained on grounds of limited resources or limited foreign reserves or limited capital for investments (Duanmu & Guney, 2009). A strong supportive policy is needed to build a comprehensive and extensive framework that helps in the improvement of the countries' economic situation. For example, China's outward FDI policies shifted from being completely governed by restriction to active promotion and support by the government itself. Also, the governments have the power and capacity to reduce or eliminate the impact that political risk has on an economy (Kolstad & Wiig, 2012). FDI must be adequately promoted with proper financial incentives. The promotion of FDI and the financial and fiscal incentives offered must be actively monitored and measured.

3.2.4 Policy Responses by Australia, the United States and Germany

Countries such as the United States, Germany, Australia and Russia have adopted new or amended regulations to emphasise and increase the security measures. For example, the US strengthened its foreign investment review process in 2007 through the Foreign Investment and National Security Act (FINSA) (Mathur & Dasgupta, 2013). The aim was to improve and strengthen the investment approval conditions and processes for foreign SCEs, thereby placing a lot of importance on concerns of national security. By strengthening the review process, it was also able to enforce any conditions that may be considered important for reducing concerns in regards to national security. These legislative changes helped to reduce the extent of political uncertainty surrounding such foreign international investment transactions (Truman, 2011).

Policies implemented by some of the developed countries are discussed as follows: -

- **Australia** – Like other countries, foreign investment (both inward and outward) is important for the economic and financial benefit to the country. The Australian Foreign Investment Review Board oversees investment operations and foreign proposals involving Australian shares and assets. The laws and policies are strict, but once approved, the foreign investors are treated the same as domestic investors. Australia's Foreign Investment Policy provides critical guidance in assessing the impact of a prospective investment on the national, competitive, economic and financial interest of the country, other related trade, tax and environmental policies. The foreign investment business screening proposal (especially in the real estate and natural resource sectors) was revised and tightened in various stages between 2009 -2010 (OECD, 2013).
- **United States** – The US has always been the strongest contributor of FDI flows toward other developed and developing countries. The first major foreign investment policy developments were seen in the 1980s, when there was an increase in FDI by Japan (Lee, 2010). The Committee on Foreign Investment in the United States (CFIUS) had the responsibility for the establishment and review of foreign investments in the US. This was a step towards maintaining policy guidelines and a framework for its own national companies (Ghosh & Wang, 2011). In 2007, owing to the global financial crisis, the disappointing performance of the US financial markets, the stability and growth of investments by emerging economies, particularly the BRICs, CFIUS was once again involved in making cautious policy amendments with minimum or no financial negative implications. Issues such as fair labour standards, tightening the regulations and framework surrounding the form, limit and sectors

in which foreign investment will be allowed were addressed. These have been particularly important in screening foreign investments coming from the state-owned enterprises of China. The stricter and tighter policies and investment review processes are vital to the national economy, and therefore they demand clear, fair, non-discriminatory and transparent processes (Gaige, 2012).

- **Germany** – Germany has enjoyed a relatively stable economic and political system, before and after German unification. The financial crisis slowed the growth rate of investments to and from Europe in 2008-09. In April 2009, Germany tightened the previously open investment framework under its Foreign Trade and Payments Act witnessing an increase in SWFs as important international investors (Mathur & Dasgupta, 2013). In recent years, the German government has been instrumental in providing a strong legal framework for companies wishing to invest abroad in outward FDI. Most German MNE operations have been in the immediate European Union region, and therefore the role of treaties with the European member states cannot be undermined. The United States is the most important target for German OFDI. 127 out of the 138 Bilateral Treaties signed with other countries ratified. These treaties are extremely important as a tool for protecting their investments in foreign markets. It must be noted that the German government provides active support for outward FDI in developing countries (OECD, 2013). For example, there is a guarantee by the government to the host country against any political risks that may take place and the provision of advisory services to make the FDI in other countries (especially the developing countries) successful. The rate of growth and development in the future will depend on Germany's closely related economies.

The four BRIC countries contributed to almost 10% of the world's total FDI outflows, an increase from US $7 billion in 2000 to almost US$145 billion in 2012 with China occupying third place, just behind the United States and Japan in the world (UNCTAD, 2013a). Figure 3.3 below shows the top 20 investor economies in 2012, with China in 3rd place and Russia in 8th place among some of the most powerful industrialized economies such as the United States, the United Kingdom and Japan.

Source: UNCTAD, *World Investment Report 2013*.

Figure 3.3: Top 20 investor economies in 2012 (billions of US dollars)

It is also worth noting that the overall number of state owned enterprises has increased from 650 in 2010 to 845 in 2012 with their FDI flows reaching almost $145 billion dollars. Many of the SOEs were from developing countries with motives such as the acquisition or development of strategic assets such as technology, brand names and natural resources. In regard to sovereign wealth funds, investments reached US $20 billion, in sectors such as real estate, finance and construction projects particularly.

It is therefore vital that the home and the host countries focus on issues that are fair, transparent and reliable (UNCTAD, 2012). National policies regarding investments outside the national borders must be aimed at sustainable development, taking various factors into consideration. The regulatory and legal environment regarding foreign investments, industrial, national and international policies in strategic sectors, investment screening and monitoring procedures must be taken into account when designing policies that will govern international investment sources and forms. Factors such as disinvestments, restructuring, relocation of assets and business operation by developed and developing countries in response to the macro economic conditions, global financial and investment policy climate must be taken into account. In the year 2012, 53 economies worldwide adopted 86 policy measures in areas of liberalization, privatisation, trade investment and promotion (UNCTADa, 2013). There has been an increase in the level and use of industrial policies, tighter monitoring and screening procedures and guidelines for foreign investments, especially in the strategic and natural resource sectors and industries. The academic literature and specific country policies do not focus on the specific means of controlling or reducing the investments from these new forms and sources of foreign investments. There have been general restrictions and policy implementation in the international trade and policy framework, but no particular steps towards the regulations of SOEs and SWFs. As mentioned above, these forms of investment are expected to increase in the near future and policy personnel and the respective governments need to think about the potential implications of their effects on the national and international environment. While designing appropriate measures, it needs to be remembered that these policies and steps implemented at the national level within an economy have not attracted much criticism or concern (when implemented nationally) as much they have (when the influence and growth of SOEs and SWFs increases) in the international business environment. Foreign policy developments and considerations must not be ignored, and should be analysed and researched in an effort to improve national and international economic reforms and policies.

CHAPTER 4: RESEARCH METHODOLOGY

Qualitative research is best suited to the research phenomenon in this study. The underlying philosophical paradigm of positivism has been used for this research. Qualitative research helps to provide strong insights into and support for the conceptual framework of the research issues. It can be used as an inductive or interpretive mechanism. According to Myers (2009), qualitative data helps to maintain a chronological flow in the information, helping to understand the flow of events and trends. This also helps to understand the cause and effect relationship between events and their occurrence. Qualitative research and data also helps in understanding the overlaps that may exist in various forms of literature and publication. At the same time there is flexibility to alter and adjust the research through self-reflection and inquiry about the information and explanations being provided (Bryman & Bell, 2011). Existing literature, data and information have been gathered from the existing published literature and other government publications (like OECD publications, UNCTAD Reports, BRIC countries economic reports, press releases, academic journals) on the basis of their authenticity, credibility, representativeness and meaning. This has formed the basis of the (secondary) data collection and analysis.

CHAPTER 5: RESULTS, ANALYSIS AND CONCLUSION

5.1 Results and Analysis

The analysis of academic literature and practical examples in the international environment indicates growing trade and foreign direct investment by the BRIC countries. Their share of FDI cannot be underestimated or ignored (Yongchang, 2013). It is also interesting to see that while some new forms of investments such as the state owned enterprises are quite common among the four BRIC countries, especially in China, their significance is not equally rated among the countries. For example, Chinese SOEs have been quite widely discussed in the international policy structures of various countries, but SOEs from Brazil are not that popular. Similarly SWFs are an extremely popular mechanism for investment by China and Russia, but there is not even one SWF in India. Private equity funds as another new form of investment are actually the least important and probably the least preferred form of investment (Truman, 2011). Therefore, to generalize and say that these are equally important and significant forms of investment across all the BRIC economies would be an over-exaggeration and a misleading statement.

5.2 Limitations of the Research

This research has been based on secondary sources of data and information. Existing literature and official publications have been used as the data for this project. Actual policies and changes implemented by only three advanced countries, the US, Germany and Australia and the policy framework of the BRIC countries have been discussed. The relevance and growth of three investment instruments have been studied in this dissertation. The study of three instruments and policy responses of four nations may not be a perfect representation of the actual environment, but can serve as a reference tool for conducting similar research spread over various countries according to their levels of development.

5.3 Ideas for future research

Future research could be aimed and directed at the inclusion of a practical component to this research. This may involve studying the policies of selected countries along with the interviews of surveys or officials dealing with the practical policy implications of a particular economy. Moreover, it would be interesting to apply this study on a broader level, incorporating more countries at the developed and the developing ends of the spectrum. This would enable a better understanding and analysis of the concerns relating to these forms in a broader segment of industries and countries. A further, broader study and analysis of other countries of the European Union could provide a broader understanding of the applicability of these concerns and issues relating to the new forms of investments. Including South Africa and some other, rapidly emerging countries such as Thailand, Vietnam and Turkey would provide another dimension to the understanding of these issues with a wider global perspective.

5.4 Conclusion

This research has dealt with the forms and sources of FDI flows, particularly FDI outflows. The share, contribution and the current trends in these sources and forms have been studied with evidence based on academic literature and various countries policies. Although the share of traditional advanced economies in FDI flows is much higher than the non-traditional, emerging BRIC economies, their share is not as strong as it was a few decades ago (Wang, et al., 2012). While the share of FDI outflows of both the advanced and the BRIC economies are on an upward trend, it is interesting to see how the four BRIC economies have so greatly contributed in the past few years with their increased share in the world economy. China leads the group of the four BRIC nations with the highest inflows and outflows (OECD, 2013). The new forms of investments by these BRIC countries are in the form of sovereign wealth funds and state owned enterprises. Pension funds do not seem to be as popular as SWFs and SOEs. Because of the state's involvement in the ownership and operational structure of these new forms of investments, considerable issues have regarding the actual, commercial and non-commercial motives of these investments. The investments by SOEs and SWFs have been quite successful, especially during and after the global financial crisis, because these were not like traditional financial instruments with increased risk of a price bubble bursting (Sauvant & Ortino, 2013). Undoubtedly, their success invited much stronger interest and made the global business and political community aware of them.

The new forms of investment, particularly the SWFs, offer huge scope for growth and influence in the international investment mix. It is even more interesting because these are an emerging and increasing form of investment by some of the fastest developing countries, such as the four BRIC nations. The likely impact of these investments on sustainable future policies and development cannot be undermined. This however, will include overcoming the challenges faced by the SWF investments involving considerable investment sums, such as those from China.

As mentioned above, there are numerous benefits from the international investment mix, not just for the investing country but also for the country in which the investment is being made, which is equally important for the host and the home country. However, if there are differences in the investment motives of the two countries, the investment will not yield the results or benefits that should ideally be achieved. The sustainable and developmental benefits of inward and outward investment depend on the countries' economic, financial, trade and investment policies. There has to be a common platform and mutually agreeable and beneficial objectives between the countries. This implies that the regulatory and policy framework within a country and between countries hold significant importance. In order to derive the maximum mutual benefit, it is imperative that the investment and policy measures contribute efficiently and effectively to sustainable growth and development objectives. The policies and regulations that aim at increasing FDI flows, both inward and outward must be balanced appropriately, so that the environment is inviting and attractive to the foreign investors as well as the country towards which it is targeted. It also means that the framework must not allow for undue advantages and benefits to one country over the other. When there is an imbalance, concerns arise. These concerns lead to issues of mistrust, credibility and faith in the investment tools. For example, it is important for governments to keep the growth of transnational enterprises under control and stop them from undue interference and control, harming domestic industries or local businesses. Similarly, it is important for governments to exercise control and caution when it comes to investments from foreign state owned enterprises. It may be important to identify industries and sectors that do not allow it only any foreign investment or to allow to a limited extent.

The global investment climate is becoming increasingly complex because of the range of investment options and the increase in the diversity of investment patterns. It is important for countries to be proactive in the investments that they make outside and the investments they allow inside their national borders. It is important to address the interaction between national policies, industrial policies and global investment policies. To be successful and attain positive growth and a sustainable economy, the different policies must work in synchronization with each other. The framework must in a way focus on global investment policy making along with national investment policy making. Therefore, it is important to consider and formulate policies and regulations that are beneficial to a variety of economic diversities, from advanced to developing to the less developed countries. Of course, the goals and the particular means directed at achieving these common platforms will vary depending on the state of a particular economy, but they should endeavour to produce the same beneficial results and outcomes on a long term basis. The need is to continue supporting international investment, particularly in the poorest economies, such as the least developed countries where its impact can be significant. This will help in the maintenance of a fair and transparent investment regime (Topal, 2012). Appropriate policies and support for international investment helps in the stimulation of stable, sustained growth, especially in times of economic crisis or financial turbulence in the markets.

In conclusion, it can be said that the challenges in the international investment landscape, both national and international along with the industrial and trade policies are quite profound. When investments are made within the national boundaries of a country by government, state owned enterprise; it may be regarded as a beneficial and welcome policy measure. But when the investments are made at the international level, the investments may be suspected to have some undisclosed potential harmful concerns. The issues relate to the diverse sectors and industries open for investment, the players / actors involved in the creation and implementation of the investment framework and the policy issues and concerns relating to investment flows. The traditional and non-traditional sources and forms of investment, whether dealt and responded to with appreciation or concern, must aim for the provision of wide and mutual developmental and social benefits in accordance with international corporate, social and environmental responsibility guidelines and benchmarks.

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APPENDIX

last update: 08/04/2013	2008	2009	2010	2011	2012P
Australia[1]	46.8	26.7	35.2	65.3	56.7
Austria(*)	6.8	9.3	0.8	11.4	6.3
Belgium	193.6	61.0	85.7	103.4	-1.6
Canada	57.1	21.4	23.4	41.7	45.3
Chile	15.1	12.9	14.2	22.1	29.3
Czech Republic	6.4	2.9	6.1	2.3	10.6
Denmark	1.8	3.9	-11.5	12.7	1.1
Estonia	1.7	1.8	1.6	0.3	1.5
Finland	-1.1	0.7	6.5	2.7	-1.8
France	64.1	24.2	30.6	41.0	62.2
Germany	8.1	22.5	57.4	49.0	6.6
Greece	4.5	2.4	0.3	1.1	2.9
Hungary(*)	6.3	2.0	2.2	5.8	13.5
Iceland	0.9	0.1	0.2	1.1	0.5
Ireland	-16.4	25.7	42.8	11.5	29.3
Israel[2]	10.9	4.4	5.5	11.1	10.4
Italy	-10.8	20.1	9.2	29.1	8.8
Japan	24.4	11.9	-1.3	-1.8	2.1
Korea	3.3	2.2	1.1	4.7	5.0
Luxembourg(*)	11.2	20.7	27.7	14.4	58.5
Mexico	27.9	16.6	21.4	21.5	12.7
Netherlands(*)	4.5	38.6	-7.4	17.2	-0.2
New Zealand	5.0	-1.3	0.6	4.3	2.9
Norway	10.2	16.6	16.8	18.2	12.8
Poland	14.8	12.9	13.9	18.9	3.4
Portugal	4.7	2.7	2.6	11.2	8.9
Slovak Republic	4.7	0.0	0.5	2.1	3.2
Slovenia	1.9	-0.7	0.4	1.0	0.1
Spain	76.8	10.4	39.9	26.8	27.7
Sweden	36.9	10.0	-0.1	9.3	13.7
Switzerland	15.1	28.9	32.6	11.8	3.6
Turkey	19.5	8.4	9.0	16.0	12.4
United Kingdom	88.7	76.4	50.6	51.1	62.7
United States	310.1	150.4	205.8	234.0	174.7
OECD[3]	**1 055.7**	**647.1**	**724.7**	**872.3**	**685.6**
Memo items:					
EUROPEAN UNION[3,4]	***538.4***	***359.8***	***367.3***	***430.6***	***323.8***
TOTAL WORLD[3,5]	***1 765.3***	***1 142.7***	***1 389.1***	***1 664.0***	***1 414.0***
G-20 countries	***1 045.2***	***644.2***	***786.4***	***970.5***	***873.4***
OECD G-20 countries	*639.1*	*380.9*	*442.6*	*551.6*	*449.1*
Other G-20 countries	*406.1*	*263.3*	*343.9*	*418.9*	*424.3*
Argentina	*9.7*	*4.0*	*7.1*	*8.7*	*10.8*
Brazil	*45.1*	*25.9*	*48.5*	*66.7*	*65.3*
China	*175.1*	*114.2*	*185.0*	*228.6*	*253.4*
India	*43.4*	*35.6*	*27.4*	*36.5*	*25.3*
Indonesia	*9.3*	*4.9*	*13.8*	*19.2*	*19.9*
Russia	*75.0*	*36.5*	*31.7*	*36.9*	*31.3*
Saudi Arabia	*39.5*	*36.5*	*29.2*	*16.3*	*13.7*
South Africa[1]	9.0	5.7	1.2	6.0	4.6

Table A.1: Annual FDI Inflows between 2008 and April 2012

(Source: OECD, 2013)

last update: 08/04/2013	2008	2009	2010	2011	2012P
Australia[1]	33.5	16.7	27.3	14.3	16.1
Austria(*)	29.4	10.0	10.0	24.8	16.6
Belgium	220.6	7.5	43.9	82.6	85.3
Canada	79.8	41.7	38.6	49.8	53.9
Chile	8.0	7.3	8.3	19.5	20.1
Czech Republic	4.3	1.0	1.2	-0.3	1.3
Denmark	13.3	6.3	-0.1	13.3	5.2
Estonia	1.1	1.5	0.1	-1.5	0.9
Finland	9.3	5.7	10.2	4.9	4.5
France	154.7	107.1	76.9	90.2	62.2
Germany	72.6	69.6	121.5	52.2	66.8
Greece	2.4	2.1	1.6	1.8	0.0
Hungary(*)	2.2	1.9	1.1	4.7	10.6
Iceland	-4.2	2.3	-2.4	0.0	-3.3
Ireland	18.9	26.6	22.3	-4.3	18.9
Israel[2]	7.2	1.7	9.1	3.3	3.2
Italy	66.9	21.3	32.7	47.3	30.6
Japan	128.0	74.7	56.3	114.3	122.5
Korea	20.3	17.2	23.3	20.4	23.6
Luxembourg(*)	11.7	6.7	21.1	9.0	17.0
Mexico	1.2	8.5	15.0	12.1	25.6
Netherlands(*)	68.2	34.5	68.3	40.9	-3.5
New Zealand	-0.2	-0.3	0.6	2.5	-0.5
Norway	20.4	19.2	23.3	25.4	20.9
Poland	4.4	4.7	7.2	7.2	-0.9
Portugal	2.7	0.8	-7.5	14.9	1.9
Slovak Republic	0.5	0.4	0.3	0.5	0.1
Slovenia	1.5	0.3	-0.2	0.1	-0.1
Spain	74.6	13.1	37.8	36.6	-4.9
Sweden	31.3	25.9	20.2	28.2	33.5
Switzerland	45.3	26.4	79.3	47.3	44.2
Turkey	2.5	1.6	1.5	2.5	4.1
United Kingdom	182.4	39.3	39.5	106.7	71.8
United States	329.1	289.5	327.9	419.3	351.4
OECD[3]	**1 643.9**	**892.7**	**1 116.2**	**1 290.6**	**1 099.6**
Memo items:					
EUROPEAN UNION[3,4]	***977.8***	***386.8***	***509.2***	***558.3***	***418.0***
TOTAL WORLD[3,5]	***1 911.2***	***1 107.1***	***1 445.1***	***1 619.0***	***1 422.7***
G-20 countries	***1 227.4***	***786.9***	***896.0***	***1 047.7***	***942.0***
OECD G-20 countries	*1 070.9*	*687.2*	*760.3*	*929.1*	*828.5*
Other G-20 countries	*156.5*	*99.7*	*135.6*	*118.6*	*113.4*
Argentina	*1.4*	*0.7*	*1.0*	*1.5*	*1.2*
Brazil	*20.5*	*-10.1*	*11.6*	*-1.0*	*-2.8*
China	*53.5*	*43.9*	*60.1*	*43.0*	*62.4*
India	*19.3*	*15.9*	*15.3*	*12.6*	*8.6*
Indonesia	*5.9*	*2.2*	*2.7*	*7.7*	*5.4*
Russia	*55.6*	*43.7*	*41.1*	*48.6*	*31.0*
Saudi Arabia	*3.5*	*2.2*	*3.9*	*3.4*	*3.3*
South Africa[1]	-3.1	1.2	-0.1	2.8	4.4

Table A.2: Annual FDI Outflows between 2008 and April 2012

(Source: OECD, 2013)

Country	Forbes Global 2000 firms, by country	SOEs:	SOEs as share of each country's Global 2000 listed companies
Australia	40	0	0%
Austria	10	1	10%
Belgium	15	2	13%
Canada	68	0	0%
Chile	9	0	0%
Czech Republic	1	1	100%
Denmark	10	0	0%
Estonia	0	0	n.a.
Finland	12	1	8%
France	63	5	8%
Germany	52	1	2%
Greece	12	3	25%
Hungary	2	0	0%
Iceland	0	0	n.a.
Ireland	15	1	7%
Israel	12	0	0%
Italy	35	1	3%
Japan	260	1	0%
Korea	60	4	7%
Luxembourg	9	0	0%
Mexico	18	0	0%
Netherlands	28	0	0%
New Zealand	0	0	n.a.
Norway	10	2	20%
Poland	6	6	100%
Portugal	8	0	0%
Slovak Republic	0	0	n.a.
Slovenia	0	0	n.a.
Spain	29	0	0%
Sweden	27	1	4%
Switzerland	43	6	14%
Turkey	10	1	10%
United Kingdom	93	1	1%
United States	543	3	1%
Total (OECD):	1500	41	3%

Table A.3: Figure A.5: SOEs from the OECD countries in the Forbes Global 2000 companies of 2011
(Source: Capobianco & Christiansen, 2011)

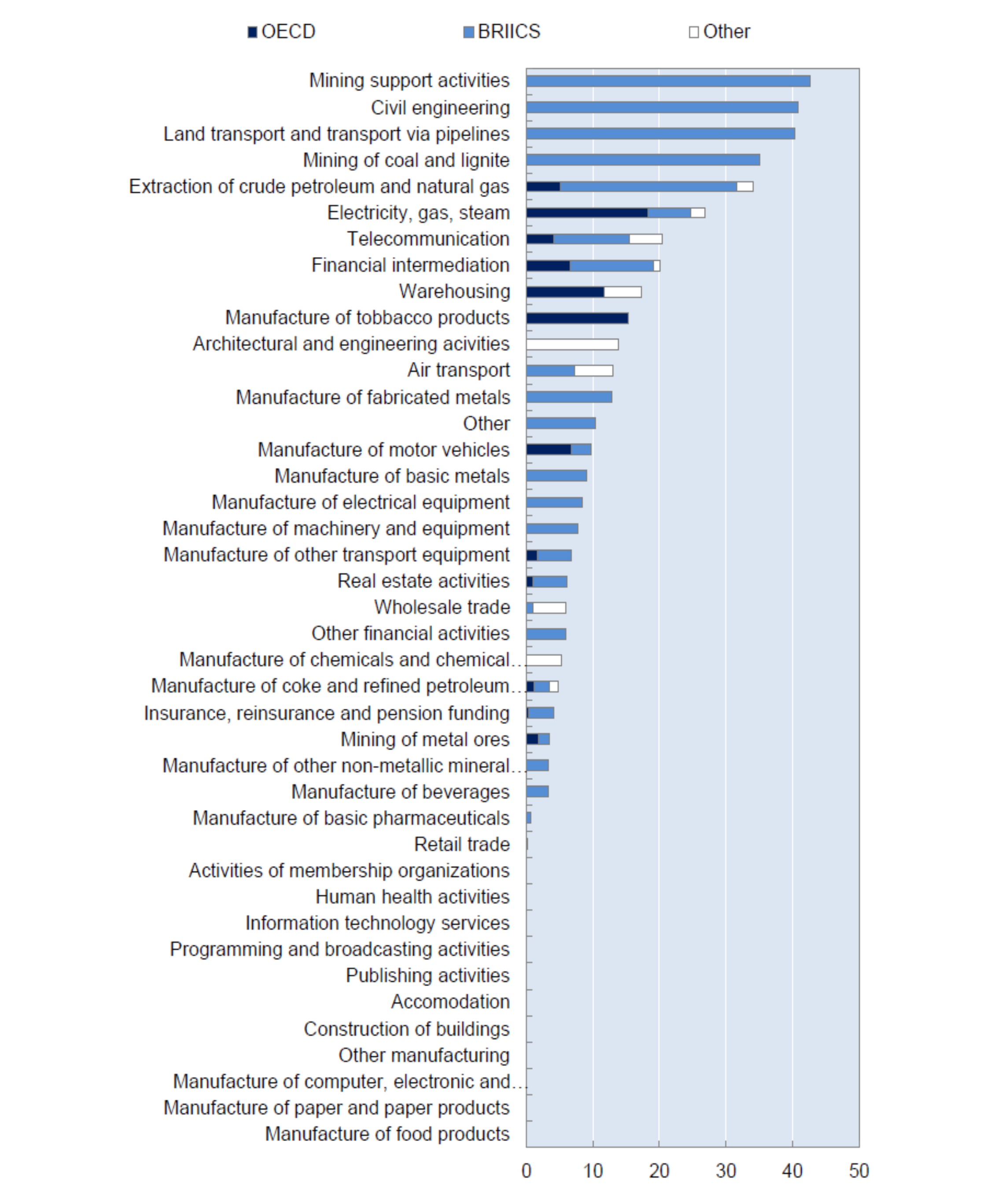

Figure A.4: Sector-wise shares of SOEs

(Source: Capobianco & Christiansen, 2011)

Sovereign Wealth Fund Rankings

Largest Sovereign Wealth Funds by Assets Under Management

Country	Sovereign Wealth Fund Name	Assets $Billion	Inception	Origin	*Linaburg-Maduell Transparency Index*
Norway	Government Pension Fund – Global	$737.2	1990	Oil	10
UAE – Abu Dhabi	Abu Dhabi Investment Authority	$627	1976	Oil	5
China	SAFE Investment Company	$567.9**	1997	Non-Commodity	4
Saudi Arabia	SAMA Foreign Holdings	$532.8	n/a	Oil	4
China	China Investment Corporation	$482	2007	Non-Commodity	7
Kuwait	Kuwait Investment Authority	$342	1953	Oil	6
China – Hong Kong	Hong Kong Monetary Authority Investment Portfolio	$326.7	1993	Non-Commodity	8
Singapore	Government of Singapore Investment Corporation	$247.5	1981	Non-Commodity	6
Russia	National Welfare Fund	$175.5*	2008	Oil	5
China	National Social Security Fund	$160.6	2000	Non-Commodity	5
Singapore	Temasek Holdings	$157.5	1974	Non-Commodity	10
Qatar	Qatar Investment Authority	$115	2005	Oil	5
Australia	Australian Future Fund	$88.7	2006	Non-Commodity	10
Algeria	Revenue Regulation Fund	$77.2	2000	Oil & Gas	1
UAE – Dubai	Investment Corporation of Dubai	$70	2006	Oil	4
UAE – Abu Dhabi	International Petroleum Investment Company	$65.3	1984	Oil	9
Libya	Libyan Investment Authority	$65	2006	Oil	1
Kazakhstan	Kazakhstan National Fund	$61.8	2000	Oil	8
South Korea	Korea Investment Corporation	$56.6	2005	Non-Commodity	9
UAE – Abu Dhabi	Mubadala Development Company	$53.1	2002	Oil	10
Iran	National Development Fund of Iran	$49.6	2011	Oil & Gas	5
Brunei	Brunei Investment Agency	$30	1983	Oil	1
France	Strategic Investment Fund	$25.5	2008	Non-Commodity	9
US – Texas	Texas Permanent School Fund	$25.5	1854	Oil & Other	9
Kazakhstan	National Investment Corporation	$20	2012	Oil	n/a
Ireland	National Pensions Reserve Fund	$19.4	2001	Non-Commodity	10
New Zealand	New Zealand Superannuation Fund	$18.5	2003	Non-Commodity	10
Canada	Alberta's Heritage Fund	$16.4	1976	Oil	9
US – New Mexico	New Mexico State Investment Council	$16.3	1958	Non-Commodity	9
Chile	Social and Economic Stabilization Fund	$15	2007	Copper	10
East Timor	Timor-Leste Petroleum Fund	$13.6	2005	Oil & Gas	8
Russia	Russian Direct Investment Fund	$11.5	2011	Non-Commodity	n/a
Oman	State General Reserve Fund	$8.2	1980	Oil & Gas	4
Bahrain	Mumtalakat Holding Company	$7.1	2006	Non-Commodity	9
Peru	Fiscal Stabilization Fund	$7.1	1999	Non-Commodity	n/a
Botswana	Pula Fund	$6.9	1994	Diamonds & Minerals	6
Mexico	Oil Revenues Stabilization Fund of Mexico	$6.0	2000	Oil	n/a
Chile	Pension Reserve Fund	$5.9	2006	Copper	10
US – Wyoming	Permanent Wyoming Mineral Trust Fund	$5.6	1974	Minerals	9
Brazil	Sovereign Fund of Brazil	$5.3	2008	Non-Commodity	9
Saudi Arabia	Public Investment Fund	$5.3	2008	Oil	4
China	China-Africa Development Fund	$5.0	2007	Non-Commodity	4
Angola	Fundo Soberano de Angola	$5.0	2012	Oil	n/a
Trinidad & Tobago	Heritage and Stabilization Fund	$4.7	2000	Oil	8
US – Alabama	Alabama Trust Fund	$2.5	1985	Oil & Gas	n/a
Italy	Italian Strategic Fund	$1.4	2011	Non-Commodity	n/a
UAE – Ras Al Khaimah	RAK Investment Authority	$1.2	2005	Oil	3
US – North Dakota	North Dakota Legacy Fund	$1.0	2011	Oil & Gas	n/a
Nigeria	Nigerian Sovereign Investment Authority	$1.0	2011	Oil	n/a
Palestine	Palestine Investment Fund	$0.8	2003	Non-Commodity	n/a
Venezuela	FEM	$0.8	1998	Oil	1

Indonesia	Government Investment Unit	$0.3	2006	Non-Commodity	n/a
Mauritania	National Fund for Hydrocarbon Reserves	$0.3	2006	Oil & Gas	1
Australia	Western Australian Future Fund	$0.3	2012	Minerals	n/a
Panama	Fondo de Ahorro de Panamá	$0.3	2012	Non-Commodity	n/a
Mongolia	Fiscal Stability Fund	$0.3	2011	Minerals	n/a
Equatorial Guinea	Fund for Future Generations	$0.08	2002	Oil	n/a
Ghana	Ghana Petroleum Funds	$0.07	2011	Oil	n/a
UAE – Federal	Emirates Investment Authority	n/a	2007	Oil	3
Oman	Oman Investment Fund	n/a	2006	Oil	n/a
UAE – Abu Dhabi	Abu Dhabi Investment Council	n/a	2007	Oil	n/a
Papua New Guinea	Papua New Guinea Sovereign Wealth Fund	n/a	2011	Gas	n/a
	Total Oil & Gas Related	$3,193.1			
	Total Other	$2,280.2			
	TOTAL	**$5,473.3**			

*This includes the oil stabilization fund of Russia.

**This number is a best guess estimation.

***All figures quoted are from official sources, or, where the institutions concerned do not issue statistics of their assets, from other publicly available sources. Some of these figures are best estimates as market values change day to day.

Updated June 2013

Table A.5: Sovereign Wealth Fund Size, 2013

(Source: www.swfinstitute.org/fund-rankings/)