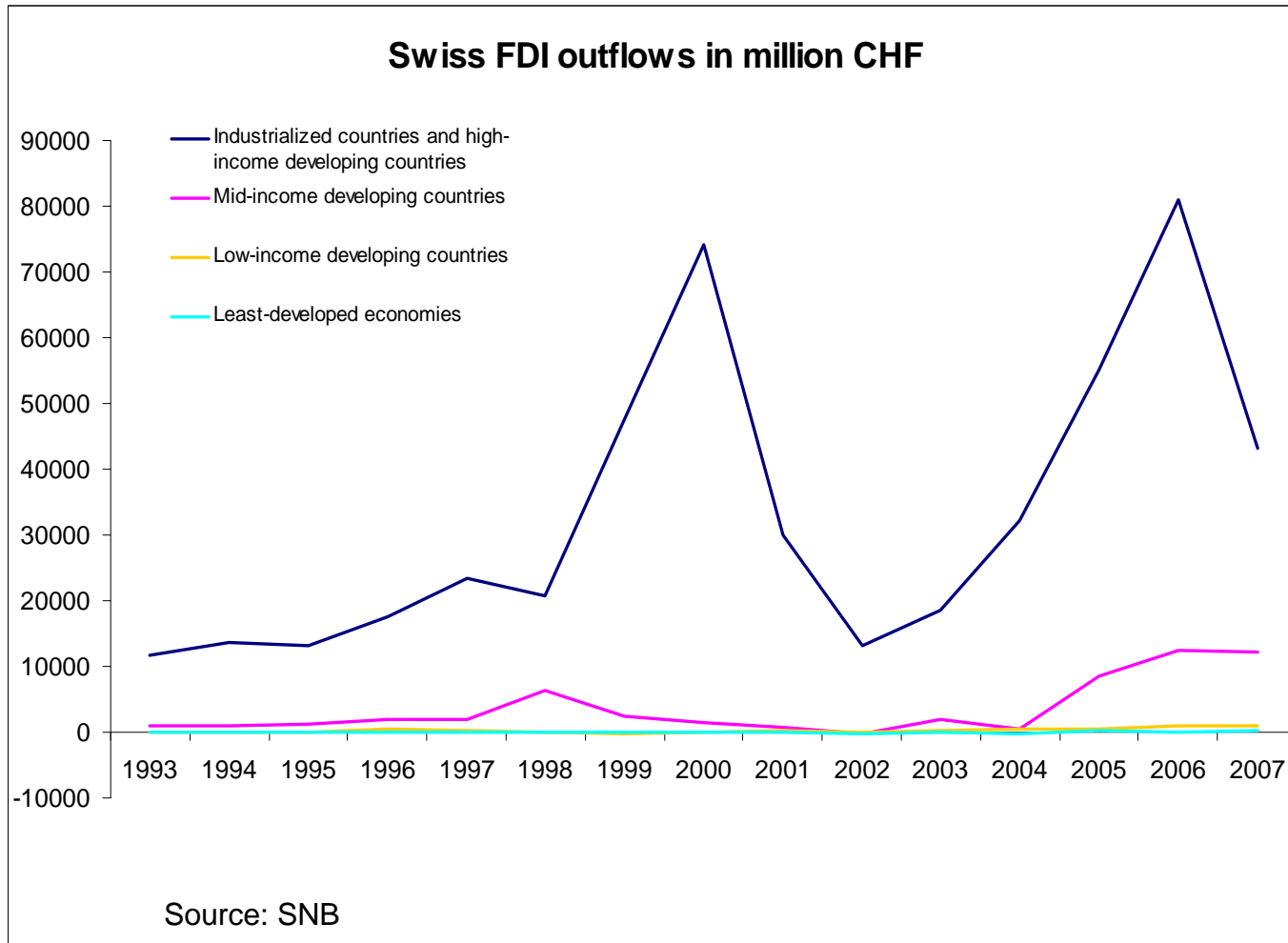


# International Economics

## 5. Movement of Capital and Labor between Countries: additional FDI empirics

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# FDI flows: some examples



# FDI flows: some examples

FDI <sup>a</sup> into the Czech Republic by Country, 2003–2005						
	2003		2004		2005	
	\$	%	\$	%	\$	%
<b>WORLD</b>	<b>2101.2</b>	<b>100.0</b>	<b>4974.5</b>	<b>100.0</b>	<b>10989.8</b>	<b>100.0</b>
Europe	1200.4	57.1	4353.3	87.5	10665.3	97.0
EU 15	837.3	39.8	3675.0	73.9	9561.5	87.0
Belgium	−252.9	−12.0	−51.5	−1.0	184.5	1.7
France	679.8	32.4	−175.7	−3.5	219.9	2.0
Italy	72.6	3.5	51.0	1.0	29.1	0.3
Germany	162.7	7.7	757.7	15.2	1114.5	10.1
The Netherlands	−1056.0	−50.3	2002.0	40.2	1984.7	18.1
Austria	484.0	23.0	439.1	8.8	459.4	4.2
United Kingdom	635.4	30.2	18.8	0.4	231.1	2.1
Sweden	−49.2	−2.3	−32.1	−0.6	290.8	2.6
EFTA	259.5	12.4	239.5	4.8	285.5	2.6
Switzerland	136.2	6.5	184.2	3.7	257.6	2.3
Asia	339.5	4.9	69.1	1.4	166.3	1.5
Japan	328.0	15.6	38.9	0.8	138.1	1.3
America	552.5	26.3	501.5	10.1	154.5	1.4
Canada	131.1	6.2	−123.5	−2.5	−0.5	0.0
United States	153.6	7.3	505.3	10.2	106.8	1.0

<sup>a</sup>In millions, U.S. dollars.

Source: Czech National Bank, <http://www.czso.cz/eng/redakce.nsf/i/yearbooks>

# FDI flows: some examples

FDI<sup>a</sup> into the Czech Republic by Sector, 2003–2005

Sectors	2003		2004		2005	
	\$	%	\$	%	\$	%
<b>Total</b>	<b>2101.2</b>	<b>100.0</b>	<b>4974.5</b>	<b>100.0</b>	<b>10989.8</b>	<b>100.0</b>
Agriculture, hunting and forestry, fishing	1.9	0.1	83.4	1.7	5.0	0.0
Mining and quarrying	31.0	1.5	132.0	2.7	52.5	0.5
Manufacturing	2615.1	124.5	1011.7	20.3	1848.0	16.8
Electricity, gas, and water	249.3	11.9	289.5	5.8	147.0	1.3
Construction	153.1	7.3	11.9	0.2	92.7	0.8
Wholesale and retail trade	550.1	26.2	804.5	16.2	630.8	5.7
Hotels and restaurants	103.4	4.9	−65.1	−1.3	−57.2	−0.5
Transportation, storage, and communication	−2911.0	−138.5	269.8	5.4	4961.4	45.1
Financial intermediation	891.0	42.4	764.0	15.4	1301.9	11.8
Real estate	439.6	20.9	1643.7	33.0	1942.0	17.7

<sup>a</sup>In millions, U.S. dollars.

Source: Czech National Bank, <http://www.czso.cz/eng/redakce.nsf/i/yearbooks>

# FDI flows during the financial crisis

## The fallout from the financial crisis: implications for FDI to developing countries

*(from OECD Policy Insights, December 2008)*

- With capital account liberalization, FDI has become major source of capital inflow for many developing countries, for example in Africa (Chad, Mauritania, Sudan, Zambia, ...).
- FDI generally viewed as more stable source of external financing than private debt and portfolio equity flows.
  - Less vulnerability of current account deficits (i.e. when country is net borrower) to external financing difficulties because FDI more long-term.

# FDI flows during the financial crisis

However:

- Around 30-35 percent of current FDI flows due to mergers & acquisitions (M&A) → likely to dry up as firms face credit difficulties („fire sale“ FDI aside). Example: recently cancelled takeover of South African mining company by Swiss mining group Xstrata.
- Profit remittances by parent companies can be „expensive“, especially for developing countries: in 2005 profit remittances higher than new FDI inflows for low-income countries. Example: in Chile remittances in 2007 equal to \$21.7 billion or 13.3 percent of GDP.

# FDI flows during the financial crisis

- Some components of FDI more easily changed or reversed than others. Example: reinvested earnings and intra-company loans.
- FDI tends to be pro-cyclical (though less so than other private capital flows): FDI outflows from OECD countries correlated with economic growth in home and destination countries.

Positive note:

- FDI usually picks up faster after a crisis than other forms of cross-border capital flows.